

Creating Success in a Difficult Market

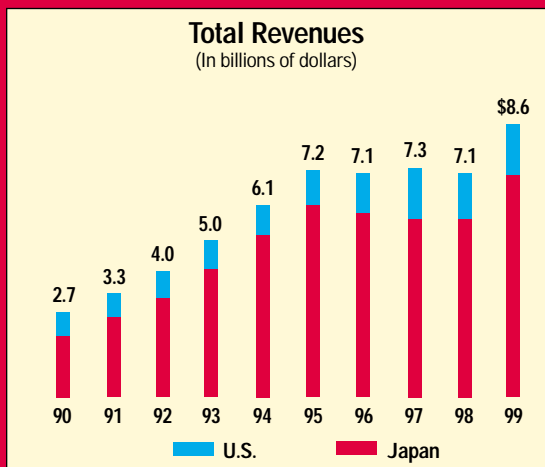
1999 was another difficult year for Japan's life insurance industry. Sales results were weak for many insurers. Several large companies experienced declines in the size of their sales force. Investment yields remained at low levels, further depressing portfolio returns. And consumer confidence in the industry was again strained with the failure of another Japanese life insurance company.

Despite this bleak backdrop, AFLAC Japan's standing in the industry remained solid and its

business prospered. Only Nippon Life, Japan's largest life insurer, has more individual policies in force than AFLAC. In addition, we sold more policies than any other life insurer during the first half of Japan's 1999 fiscal year (April through September 1999) according to The Nikkei Weekly.



Total revenues rose 21.6% in 1999 benefiting from the strong sales growth, steady persistency and the 14.9% strengthening of the yen.



AFLAC Japan has the best distribution system in the insurance industry...



At the same time, AFLAC was ranked the fifth most popular life insurer in Japan according to a survey conducted by *The Nihon Keizai Shimbun*, one of Japan's leading newspapers. Here are some of our results for 1999 on a yen basis.

- ▶ **New annualized premium sales were up 15.6% to ¥86.6 billion, compared with ¥74.9 billion in 1998.**
- ▶ **Premium income rose 8.5% to ¥673.0 billion, compared with ¥620.1 billion in 1998.**
- ▶ **Net investment income grew 5.2% to ¥126.3 billion, compared with ¥120.1 billion in 1998.**

but we made it better by recruiting more than 5,000 new agencies in 1998 and 1999. Hidekichi Tsushima is one of the many new AFLAC Japan sales agents who completed an extensive training and orientation program. Agents recruited in 1998 and 1999 were responsible for more than 10% of AFLAC's new business in 1999.

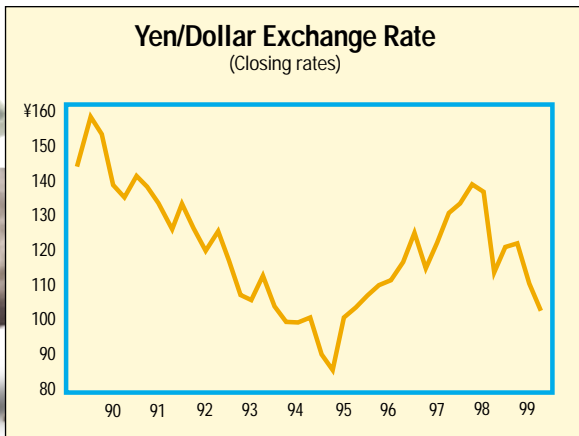
- ▶ **Total revenues were ¥799.8 billion, up 8.0% from ¥740.5 billion a year ago.**
- ▶ **Pretax operating earnings increased 12.3% to ¥73.8 billion, compared with ¥65.7 billion in 1998.**

The Impact of the Yen/Dollar Exchange Rate

Since AFLAC entered the Japanese market 25 years ago, we have had to contend with fluctuations in currency values. However, it's important to distinguish between currency conversion and currency translation when analyzing the impact of foreign exchange rates on AFLAC.

Our annual profit repatriation from AFLAC Japan to AFLAC U.S. represents a cash flow that may be actually converted from yen to dollars. However, when preparing financial reports to shareholders, we do not





After weakening against the dollar from mid-1995 until late 1998, the yen strengthened 13.0% to 102.40 at the end of 1999.

convert currencies. Instead, we translate AFLAC Japan's yen-based income statement into dollars using the average exchange rate for the period. We translate balance sheet items using the period-end exchange rate. Therefore, AFLAC is largely unaffected by changes in the yen's value in economic terms although the yen's relative strength or weakness can magnify or suppress our reported results.

In 1999, the yen averaged 113.96 yen to the dollar, or 14.9% stronger than the comparable rate of 130.89 in 1998. When the average yen/dollar exchange rate is stronger than the preceding year, as it was in 1999, it magnifies AFLAC Japan's rates of growth in dollar terms. Below are some highlights on a dollar basis.

- ▶ **New annualized premium sales increased 32.4% to \$761 million, compared with \$575 million in 1998.**
- ▶ **Premium income increased 24.6% to \$5.9 billion, compared with \$4.7 billion in 1998.**
- ▶ **Net investment income was \$1.1 billion, up 21.2% from \$917 million in 1998.**

- ▶ **Total revenues advanced 24.1% to \$7.0 billion, compared with \$5.7 billion a year ago.**
- ▶ **Pretax operating earnings rose 29.6% to \$651 million, compared with \$502 million in 1998.**

Preparing for Deregulation

In addition to navigating a troubled economy, we intensified our preparation for a deregulated market in Japan. Our approach to deregulation has been first, to identify potential weaknesses and fix them. Second, we took inventory of the competitive strengths that have produced our success during the last 25 years, and we fixed them too. We also hired an independent firm to evaluate our progress and plans for deregulation. That analysis affirmed that our strategies and tactics have put us in a strong position to succeed in a more competitive insurance market beginning in 2001.

AFLAC's Principal Strength – Its Product Line

Central to our strategy for deregulation in Japan is our product line. AFLAC has provided valuable supple-

mental insurance products to help fill the gaps in Japan's national health care system for a quarter of a century. AFLAC's products are particularly important because Japan's society is aging rapidly, and it costs significantly more to provide health care to an older population. Our ability to develop innovative and affordable insurance policies will continue to play an important role in the future.

Our founding product, cancer life, continues to be our top-selling product, accounting for 46% of sales in 1999. Yet, much of our success in recent years has come from our product broadening efforts. Non-cancer-related products represented the other 54% of sales in 1999, compared with just 29% in 1995. One of our newest products, Rider MAX, produced excellent sales results in 1999. This coverage, which provides accident and medical/sickness benefits as a rider to our cancer life policy, was introduced in 1998. In 1999, we sold 1.3 million of these riders.

We were also pleased with the results of our life insurance line. Since 1997, AFLAC Japan has offered low premium, small face amount life insurance policies. Even though we have primarily sold life insurance only on a face-to-face basis, rather than through our large affiliated corporate agencies, it has been a significant success. In 1999, life insurance accounted for approximately 8% of

AFLAC had the highest name recognition of any foreign financial services company in Japan...

but we made our name even stronger by using the popular actor Toshiro Yanagiba in an advertising campaign for our Rider MAX product. We have committed more resources than ever before to promote AFLAC Japan's products.



sales. To make our product line even more complete, we began test marketing a fixed annuity product in July 1999. This new product represents our first foray into savings-related products. We believe it will be a solid addition to our product line in the years to come.

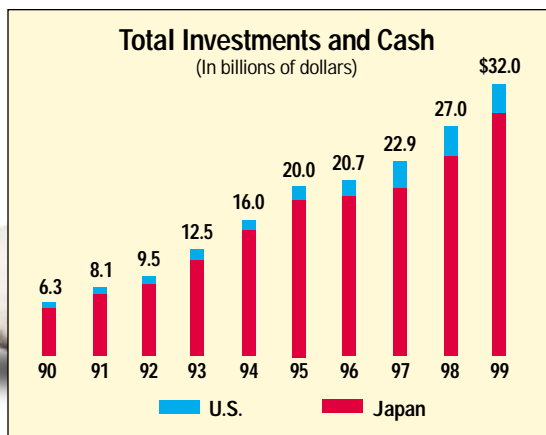
The Best Distribution System in the World – But We're Fixing it Anyway

AFLAC's principal sales network, which we call the corporate agency system, is arguably the best insurance distribution system in the world. Affiliated corporate agencies are set up by companies to provide AFLAC's insurance coverage to their employees

on a payroll deduction basis. Through our extensive system of affiliated and independent corporate agencies, we reach workers at 95% of the companies listed on the Tokyo Stock Exchange.

Even though we have an effective, efficient and expansive sales network,

we've been making it better. After a strong recruiting year in 1998, we again aggressively added to our sales force in 1999. Most of our newly recruited agencies are individuals rather than corporate agencies. As such, they will primarily focus their efforts on the direct and small-business markets. To the direct market, individual sales associates can provide insurance consulting services to consumers on a face-to-face basis. Such contact is critical since insurance consumers are becoming more sophisticated. The weak economy and financial difficulties of some insurance companies have prompted consumers to ask more questions about what they are buying and from whom.



Substantial cash flows and a stronger yen contributed to the 18.6% increase in total investments and cash at the end of the year.

AFLAC has been the low-cost producer in Japan for many years...

but we're still working to extend our expense structure advantages. Shiki Takahashi, from AFLAC Japan's Information Systems Division, holds a recent AFLAC innovation — Cyclone.

Cyclone will allow sales associates to electronically transmit policy applications to our Tokyo headquarters.

Individual sales associates give us access to a vast market. We estimate that 47 million of Japan's workforce are employed at businesses with 100 or fewer people. Since our penetration in this market is less than 20%, we believe there is tremendous potential for expansion. To better penetrate the small business market, AFLAC has developed strong relationships with associations throughout Japan to which many small companies belong. The most notable is Hojinkai, a national taxpayers association for small businesses. An estimated 60% of Japan's 2.1 million businesses are members of Hojinkai, which has endorsed our cancer life product as part of the benefits package it offers.

Technology Improves Productivity, Service

AFLAC's status as the low-cost producer in Japan's life insurance industry is critical to its future success. Our advantageous cost structure allows us to sell at a lower price than our competitors, while also offering agents higher commissions.

Technology is playing a major role in



our efforts to improve our operations and customer service.

In 1999, we introduced a new computerized geographic information system called MAGIC. This system identifies where our policyholders live, which AFLAC products they have purchased and through which distribution channel they bought our products. MAGIC allows us to market by area, enhance the sale of new products to existing policyholders and efficiently find new customers.

In 2000, many of our individual agencies will be using new technology that will help them streamline the sales process. This software, called Cyclone, is the Japanese version of SmartApp, which has revolutionized our business in the United States. Cyclone will allow our associates to send policies electronically to our headquarters in Tokyo. This process will benefit our agencies because it will eliminate the need for them to send paper applications through the mail.

During the next few years, AFLAC Japan will be developing even better technology to improve our customer service, which is already the best in the business. Even though we complete most claims in three working days or less, we are developing a new computer system that should improve our processes even more. The new system will allow us to better handle claims for our wide variety of products.

To improve our customer call center, we will be expanding our staff so we can better serve our customers. We handled an average of 3,700 calls per day in 1999 — a 25% increase compared with the previous year. By the end of 2000, we plan to double our staffing so we will be capable of handling 9,000 to 10,000 calls per day. We will be expanding our interactive voice recognition and Internet capabilities to accept inquiries from customers 24 hours per day.

Strong Portfolio Brings Best Returns in Japan

Financial strength helps AFLAC stand out in an environment where many companies continue to struggle. Our investment portfolio has played a major role in gaining recognition as one of Japan's safest insurers. We purchase only high-quality, investment grade securities. At the same time, we have avoided the real estate and equity

sectors. As a result, AFLAC Japan has one of the strongest investment portfolios in the industry - one that has produced the highest returns among any of Japan's 17 largest life insurance companies.

Outlook: Our Past is Our Future

AFLAC will continue to build on its strengths to prepare for a deregulated market. We have been anticipating deregulation — the most significant event in the recent history of the Japanese insurance industry — for several years as we developed our plan to continue to be the dominant supplemental insurance company.

In addition, we believe that as Japanese citizens are forced to pay a greater percentage of their health care costs, AFLAC products will become even more valuable than they are today. To continue our strong growth, we will:

- Broaden our product line.** We will develop new products and improve existing



ones to keep pace with Japan's rapidly changing market.

- Expand our distribution channels.** We will continue to recruit more agents and agencies to focus on the small-business and individual customer markets. Both markets have a strong potential for growth.
- Increase efficiency.** Through the use of technology such as Cyclone, we will continue efforts to streamline our work to provide better customer service and to control expenses.
- Further tap existing accounts.** Approximately 75% of our 11.5 million policy owners only own an AFLAC cancer life policy. We believe our existing customer base offers tremendous potential for the sale of our other products and riders.

AFLAC Japan Sales Results

| | Policies In Force* | Annualized Premiums In Force** | Total New Annualized Premiums** | Total Number of Agencies |
|-------------|--------------------|--------------------------------|---------------------------------|--------------------------|
| 1999 | 18,510 | ¥696,622 | ¥87,043 | 8,283 |
| 1998 | 16,963 | 640,796 | 75,425 | 7,010 |
| 1997 | 15,800 | 597,823 | 62,884 | 5,427 |
| 1996 | 15,088 | 568,067 | 79,242 | 5,166 |
| 1995 | 13,188 | 506,436 | 72,608 | 5,224 |
| 1994 | 12,640 | 471,170 | 69,628 | 4,961 |
| 1993 | 11,635 | 411,331 | 63,312 | 4,539 |
| 1992 | 10,859 | 363,429 | 68,424 | 4,065 |
| 1991 | 10,020 | 313,563 | 62,027 | 3,572 |
| 1990 | 9,139 | 264,221 | 51,715 | 3,151 |

* In thousands

** In millions