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ANNUAL MEETING

AFLAC Incorporated's annual meeting of shareholders will be held at 10 a.m. on May 3, 2004, at the Columbus Museum, 1251 Wynnton Road, Columbus, Georgia.

SHAREHOLDER INQUIRIES

Communication regarding stock purchase plans, dividends, lost stock certificates, etc., should be directed to the Shareholder Services Department at (800) 235-2667 - option 2.

FOR MORE INFORMATION

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CUSTOMER SERVICE

Policyholders and claimants needing assistance may call (800) 992-3522. Sales associates should call (800) 462-3522.


FORM 10-K

Copies of AFLAC Incorporated's Annual Report to the Securities and Exchange Commission (Form 10-K) can be obtained at no charge by calling the Investor Relations Department at (800) 235-2667 - option 3.


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STRENGTH **H**


FOCUSED



EFFICIENT **N**

INTegrity **T**Y 


ENERGETIC

AGGRESSIVE


INNOVATION **O**


RESOLUTE **U**TE 

TRANSparent **R**


INTENSE **E**

DYNAMIC

LEADING **G**

VALUE **E** 



ANNUAL REPORT FOR 2003

Our Mission

AFLAC's mission is to provide affordable products that help consumers pay out-of-pocket expenses that arise from illnesses or accidents. When policyholders become claimants, we process their claims quickly and fairly. And we pay cash directly to claimants regardless of any other coverage they may have. By offering the best products with the best service at the best price, we have gained an edge in the marketplace. Yet, we hone that edge each year by improving our products, expanding our sales force, and using technology to better serve our customers.

We sell our products in the United States and Japan, the two largest insurance markets in the world. We are a leading writer of insurance products marketed at the worksite in the United States. In Japan AFLAC products cover one of every four households. And AFLAC Japan is the number one life insurer in Japan in terms of individual insurance policies in force. Our combined

distribution systems in the United States and Japan exceed 121,400 licensed sales associates.

AFLAC Incorporated, a Fortune 500 company, is traded under the symbol "AFL" on the New York Stock Exchange and is included in the Standard & Poor's 500 Index. In January 2004, AFLAC was included in *Fortune* magazine's listing of "The 100 Best Companies to Work for" for the sixth consecutive year. We were included in *Fortune's* March 2004 list of "America's Most Admired Companies," and in July 2003, *Fortune* also included AFLAC in its list of "America's 50 Best Companies for Minorities."

AFLAC is rated "AA" by Standard & Poor's, "Aa2" by Moody's, and "AA" by Fitch Ratings for financial strength. A.M. Best rates AFLAC as "A+, Superior" for financial strength and operating performance.

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AFLAC Incorporated achieved its primary financial objective in 2003. AFLAC Japan continued its strong sales momentum during the year, while AFLAC U.S. maintained its market leadership.		This section analyzes AFLAC's overall financial condition and reviews the company's financial and operational performance in Japan and in the United States during the last three years.	
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AFLAC Japan strengthened its brand and posted a strong increase in sales for the year.		This section provides additional information about the company's consolidated financial statements and accounting policies.	
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THE COMPOSITION OF AFLAC'S MARKET IN JAPAN

What We Sell	Who Buys It	Who Sells It For Us	Who Else Sells It
Supplemental insurance products, including: Cancer life Medical Care Living benefit life Accident Supplemental insurance riders, including: Living benefit life Rider MAX Rider PACK Ordinary life insurance products, including: Term life Whole life Fixed annuity	At the worksite: Employees at more than 41,600 payroll accounts representing 93% of the companies listed on the Tokyo Stock Exchange, including workers at Fujitsu, Hitachi, Kirin Brewery, Canon, Ricoh, Toyota and Takashimaya, as well as employees at 238,000 small businesses At the home: Individuals seeking specific insurance coverage	More than 64,000 licensed sales associates representing about 2,100 affiliated corporate agencies, more than 12,500 individual or individual corporate agencies, and the sales force of Dai-ichi Mutual Life Insurance Co.	Alico Japan Asahi AXA Daido Fukoku Mitsui Sumitomo Marine ING Nippon Orix Sony Sompo Japan Himawari Tokio Marine

FINANCIAL HIGHLIGHTS

AFLAC INCORPORATED AND SUBSIDIARIES

	2003	2002	2001	% Change 2003 – 2002
For the Year:				
(In millions)				
Total revenues	\$ 11,447	\$ 10,257	\$ 9,598	11.6%
Pretax earnings	1,225	1,259	1,081	(2.7)
Net earnings	795	821	687	(3.1)
At Year-end:				
(In millions)				
Total investments and cash	\$ 44,051	\$ 39,147	\$ 32,792	12.5%
Total assets	50,964	45,058	37,860	13.1
Shareholders' equity	6,646	6,394	5,425	3.9
Per Common Share:				
Net earnings (basic)	\$ 1.55	\$ 1.59	\$ 1.31	(2.5)%
Net earnings (diluted)	1.52	1.55	1.28	(1.9)
Shareholders' equity	13.03	12.43	10.40	4.8
Cash dividends	.30	.23	.193	30.4
Supplemental Data:				
Number of common shares outstanding	509,891,778	514,439,276	521,615,350	
Number of registered common shareholders	78,579	73,887	70,383	
Number of full-time employees	6,473	6,086	5,739	

About the Cover



Many words apply to AFLAC and the way we approach our business. Value, energetic, integrity and efficient are just a few of the words on the cover of this year's annual report. Those words point to the character of our company. And they also indicate how we continually hone our edge to maintain a leading market position. Through an ongoing process of improving our products, distribution and operations, we believe we are well-positioned to enhance the value of AFLAC to our customers, sales associates, employees and shareholders.

**HONING
OUR
EDGE**

H O N I N G

\ 'hōn-ing \ (vt) the act of
making something more
acute, intense or effective

AND THE UNITED STATES

What We Sell

Supplemental insurance products, including:

- Accident/disability
- Cancer expense
- Short-term disability
- Intensive care
- Hospital indemnity
- Personal sickness indemnity
- Long-term care
- Specified health event
- Fixed-benefit dental

Life insurance products, including:

- Payroll life
- Direct life

Who Buys It

At the worksite:

Employees at 288,100 payroll accounts, including businesses of all sizes, banks, hospitals, school districts, and city and state governments. Payroll accounts include the City of Atlanta, American Express, Winnebago Industries, United Rentals, Genesis Health Ventures, United Parcel Service, the State of Florida, Wal-Mart and Winn Dixie Stores

At the home:

Individuals seeking specific insurance coverage

Who Sells It For Us

More than 57,400 licensed sales associates, including approximately 17,200 who, on average, produce business every month

Who Else Sells It

Aegon N.V.
The Allstate Corporation
American Fidelity Assurance Company
American International Group
Aon Corporation
Conseco, Inc.
GE Capital
Protective Life Corporation
Torchmark Corporation
UnumProvident Corporation
Several Regional Carriers

HONING OUR EDGE

AGGRESSIVE \e-'gre-siv\'(adj) marked by driving, forceful energy; initiative

Message From Management

2003 – A Year of Honing Our Edge

AFLAC's focus was sharp in 2003. Although we faced challenges that required decisive action last year, we never lost sight of our mission – helping consumers pay out-of-pocket expenses arising from illnesses and accidents.

Staying focused on that mission is critical to executing our growth strategy of product broadening and distribution expansion. In 2003 we enhanced our product line to meet consumers' needs. We increased the size of our sales management in the United States and grew the number of sales agencies representing AFLAC Japan. We implemented new technology to improve customer service and efficiency. And we continued to vigorously enhance awareness of our brand. All of these efforts helped us hone the edge that we have in the Japanese and U.S. insurance markets.

AFLAC Addresses Challenges in Both of Its Markets

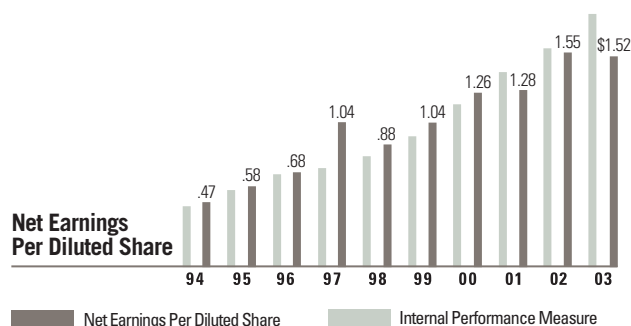
As in most every year, AFLAC faced challenges in 2003. In Japan, our challenges were to invest effectively and prudently in a low-interest rate environment and to maintain sales momentum as the economy continued to struggle. In the United States, our primary challenge was to implement a plan that would revitalize new annualized premium sales growth, which did not meet our expectations in 2003. Despite facing those challenges, the internal performance measure we use to assess the growth of our business and effectiveness of management was consistent with our expectations for the year.

In terms of net earnings, however, that financial performance was masked by our decision to sell investment securities late in the year at a significant loss. Following disturbing financial developments at Parmalat and several credit ratings downgrades of its debt, we conducted an extensive analysis of our investment in the Italian dairy company. Based on that analysis, we sold all of our holdings in Parmalat at a pretax loss of \$257 million. Shortly after that sale, allegations of massive fraud at Parmalat emerged. We also sold our investment in Levi Strauss at a pretax loss of \$38 million. In both cases, we concluded these companies no longer fit the profile of investments we want

to retain in our portfolio. The after-tax investment losses on Parmalat and Levi Strauss, combined with other investment transactions, reduced net earnings by \$191 million in 2003.

Fortunately, our strong capital base was able to withstand sizable investment losses without any impact on our ratings, share repurchase activity, or dividend policy. We purchased 10.2 million shares of our stock last year. And in February 2004, the board of directors authorized the repurchase of up to an additional 30 million shares. That same strong capital base allowed us to increase the cash dividend twice in 2003. Last year was the 21st consecutive year we increased the cash dividend. And cash dividends paid per share in 2003 were 30.4% higher than in 2002.

Net earnings per diluted share declined in 2003 due to realized investment losses arising from the sale of our Parmalat investment. However, based on the internal financial measure we use to assess management's performance, which excludes items that are either out of management's control or that are inherently unpredictable, we once again achieved our primary financial target for the year.



AFLAC Japan Thrives Despite Struggling Economy

Although Japan's economy showed signs of improvement in 2003, it remained relatively weak overall. And while investment yields improved in the second half of 2003, they also remained low. Consumer spending failed to significantly improve as worries about job security persisted. But amid these concerns, AFLAC Japan produced strong results. New annualized premium sales once again exceeded our expectations. We produced solid top-line growth in yen terms and our margins continued to improve.



The AFLAC Duck teamed up with popular LOONEY TUNES™ characters in the first new AFLAC television commercial released in 2004. The development of innovative commercials such as this one is the major reason AFLAC's brand awareness and name recognition remain tremendously high.

HONING OUR EDGE

INTEGRITY

\in-'te-grə-tē\ (n) firm adherence to a strict moral or spiritual code

Daniel P. Amos, Chairman and CEO

We attribute our success directly to providing products that meet the needs of consumers. Japan's weak economy and an aging population have stressed its national health care system. As part of a health care reform plan, the government increased copayments for most Japanese citizens in 2003. This move, along with increasing health care treatment costs, is forcing individuals to bear more out-of-pocket expenses. It is also prompting them to re-evaluate their present coverages. We believe the higher copayments and consumers' assessment of their own financial situations lead many consumers to purchase AFLAC products.

AFLAC Japan has developed products that provide valuable benefits to help consumers cope with additional medical and nonmedical expenses. Our newest medical product, EVER, experienced tremendous growth last year. EVER is the best-selling stand-alone medical product among life insurers in Japan. At the same time, Rider MAX, a medical rider to our cancer life policy, continues to be popular with consumers. And our 21st Century Cancer Life policy remains our signature product, as demand for it is also strong.

We believe the need for all of our products will remain high because the issues that are currently driving demand aren't likely to change soon. Japan's population will continue to age, and it's likely that Japan's national health care system will continue to experience financial stress. Given Japan's demographics and economic condition, we expect that our products will continue to be a valuable component of consumers' health care coverage.

One of the keys to AFLAC Japan's growth in 2003 was the continued strengthening of its distribution system. We have always felt that we have the best distribution system in Japan, but we enhanced that advantage in 2003 by adding more than 4,000 agencies for the year, which exceeded our recruiting target. We have emphasized recruitment of individual agencies in particular because they are more effective in marketing to workers at the vast number of small businesses in Japan. And we remain very pleased with Dai-ichi Mutual Life's contributions to our sales. The combination of our leading cancer life policy

and Dai-ichi Life's extensive distribution network of more than 48,000 salespeople has produced a tremendously successful marketing alliance. Since the alliance was initiated in 2001, Dai-ichi Life has sold more than 930,000 of our cancer life policies.

Although AFLAC was already the best-known foreign insurance company in Japan, we sharpened that competitive edge by introducing AFLAC Duck commercials designed specifically for the Japanese market. During 2003 we released several AFLAC Duck commercials to promote specific products and further position AFLAC as the market leader. We also produced a special AFLAC Duck commercial to draw attention to a significant achievement. Based on March 31, 2003, data, AFLAC became the number one life insurance company in Japan in terms of individual insurance policies in force. That's an accomplishment we are all quite proud of.

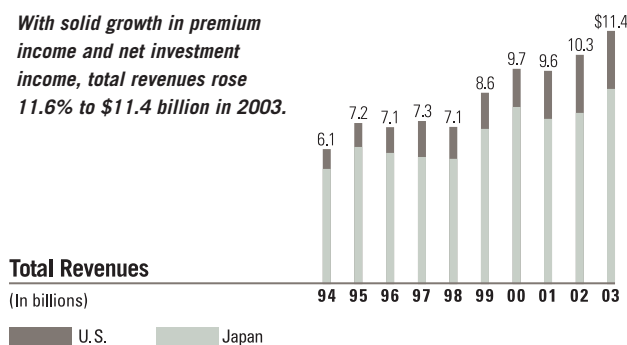
Our new commercials were an immediate hit with consumers, sales agencies, and the media. CM Data Bank, an independent market research firm that specializes in rating commercials, identified two of the Japanese AFLAC Duck commercials as the top commercials in our industry. And after AFLAC Japan created a small toy AFLAC Duck, sales agencies bought more than one million of these promotional items in 2003 for distribution to their customers. In 2004 we will release more AFLAC Duck commercials in Japan. And we believe the popularity of the AFLAC Duck will continue and will prove to be an effective means for further solidifying our strong brand and reputation.

Maintaining a strong reputation for financial strength and high-quality products is critical in the current Japanese insurance market. After several years of a weak economy, accompanied by the failure of seven insurance companies since 1997, consumers are taking more care than ever when choosing an insurance company. Consumers are looking for transparent, energetic, well-branded companies that have strong balance sheets and a solid reputation for paying claims promptly and fairly. There is no doubt in our minds that AFLAC is that company.

AFLAC U.S. – Honing Our Edge for Future Growth

AFLAC's U.S. business remained strong in 2003, even though we were disappointed in our new sales growth. We recorded solid growth in total revenues and pretax earnings. Even though our new annualized premium sales topped \$1.1 billion for the year, which was a record for AFLAC U.S., we believe our sales should have grown faster. For that reason we made several changes in 2003 that we believe will strengthen our sales for years to come.

With solid growth in premium income and net investment income, total revenues rose 11.6% to \$11.4 billion in 2003.



In recognition of our company's enormous growth over the last several years, we decided to divide the responsibilities for U.S. sales and marketing into two positions. We promoted Brad Jones to the newly created position of senior vice president and director of U.S. sales. Brad joined AFLAC as a sales associate in 1984 and has excelled at every level of sales force management. Most recently he was vice president, territory director of the Northeast Territory, which had produced strong growth for the last four years under Brad's leadership.

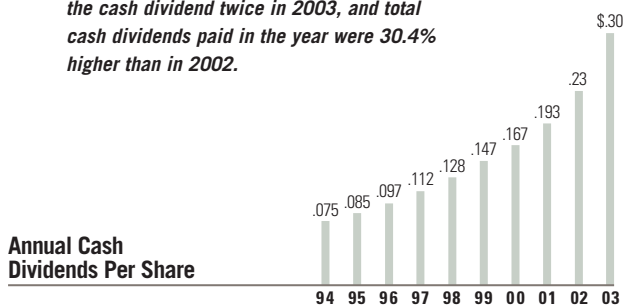
At the same time, Joe Kuechenmeister will continue to play a valuable role as senior vice president and director of marketing. Joe has been with AFLAC since 1970 and has made significant contributions to our business in his more than 13 years as director of sales and marketing. We believe the experience and enthusiasm of Brad and Joe together will enhance the fundamentals of our distribution system – expanding our coordinator base, opening up new accounts, recruiting and training.

Splitting the marketing and sales director functions was just one of the many actions we took last year to improve future sales growth. We also increased the number of our sales territories from five to seven, and throughout the year, we added to our number of state, regional and district coordinators. By expanding our marketing and sales force management, we believe we will be able to more effectively recruit and train new sales associates. That, in turn, should help us better penetrate the vast U.S. market.

Just as we expanded our sales management team, we also continued broadening our product line. In 2003, we introduced a new generation of accident, short-term disability and cancer products. Combined, the accident/disability category and cancer expense products accounted for approximately 70% of our annual sales. We view the continual process of revising and enhancing our products as a vital aspect of our leading market position.

One constant in the last several years has been the popularity of our advertising campaign featuring the AFLAC Duck. Our new annualized premium sales have doubled since 1999, the year before the AFLAC Duck began appearing in our commercials. We don't think that's a coincidence. The AFLAC Duck has steadily propelled our name recognition and brand awareness to new heights. We are convinced that our recruiting and sales have benefited in the last four years from the improved awareness of AFLAC. And we intend to protect our brand.

AFLAC has increased its annual dividend for the last 21 consecutive years. We increased the cash dividend twice in 2003, and total cash dividends paid in the year were 30.4% higher than in 2002.



In looking at the U.S. market, we believe there is great opportunity for growth. AFLAC products are well-suited, both in quality and price, for the needs of U.S. consumers. Furthermore, the market for our products remains significant and underpenetrated. We also believe that our continued focus on product broadening and sales force expansion will enable us to further tap into that market.

Outlook for AFLAC Remains Bright

As we look to 2004, we expect to see improved sales growth at AFLAC U.S., compared with last year. We are optimistic that the changes we made to our sales force infrastructure will improve recruiting and training, and ultimately, new sales. In Japan, we believe our leading cancer life and medical products will continue to serve as the two pillars of our product line. We know there is a large potential customer base remaining in the Japanese and U.S. insurance markets. And we believe we are well-positioned to tap into that potential.

AFLAC has flourished over the years even though the economies in both the United States and Japan have been volatile. We believe our ability to improve profitability and generate strong growth regardless of the economic environment reflects the underlying strength and resilience of our business. And that strength comes from a carefully constructed business strategy that has provided us with an edge in the marketplace. By continually honing that edge, we believe we will continue to provide valued products and service to our customers, and solid growth for our shareholders.

Daniel P. Amos
Chairman and Chief Executive Officer

Interview With the CEO



Dan Amos, Chairman and CEO

AFLAC U.S. sales did not meet your expectations in 2003. Why did the sales growth slow down, and what have you done to turn it around?

Over the past several years, our recruiting was so strong and our sales force grew so rapidly that our sales management infrastructure couldn't keep up. Sales growth began to

slow in 2003 because our coordinator base had not expanded enough to keep up with the training needs of our new recruits. Our response was to take aggressive steps to expand the number of state, regional and district coordinators. This will improve our training and recruiting, which will ultimately lead to stronger sales for years to come.

Do you see any changes in the market that have forced you to change AFLAC's business model?

Absolutely not. Our business model, which is driven by product and distribution, has been tremendously successful for many years. And while we continually refine our approach to the market, the basics of our business model have remained unchanged. Actually, the strong sales gains of AFLAC's Northeast Territory in 2003, along with several individual states in other areas of the country, indicate to me that our business model is still effective. Our challenge now is to strengthen sales in all territories. We believe there is great potential for growth in the United States. Our 288,100 payroll accounts represent only about 5% of the small businesses in this country. Given this backdrop, we believe our products will continue to be valuable to consumers.

Do you see any parallels between sales issues at AFLAC U.S. in 2003 and AFLAC Japan in 2001?

In terms of the cause of the sales slowdowns in 2001 and 2003, there really wasn't much commonality. However, there were clear parallels in how we dealt with the sales issues. In both cases, we took quick, decisive steps to identify why our sales slowed and implemented plans to turn sales around. And in both cases, we made significant personnel changes. It's important to understand that we aren't afraid to make sweeping changes when they are necessary. I have no doubt that the changes we made in both markets strengthened our sales and our company.

Sales in Japan were stronger than your target in 2003. Do you expect that success to continue and why?

Yes, I believe our success will continue. I expect to achieve our 2004 sales target for AFLAC Japan of a 5% to 10% increase in yen terms. Over the longer term, I think demand for AFLAC's products will continue to increase because of the trends we see in Japan. Their national health care system has been under financial strain, and that will likely increase as Japan's population continues to age. Our products provide the security that consumers need in the wake of rising health care costs and the reforms in Japan's national health care system. That tells me that AFLAC Japan's products perfectly position us for continued growth.

You have said previously that investing in Japan remains one of AFLAC's major challenges. Is that still the case? And has the loss from the Parmalat investment caused AFLAC to change the way in which it invests?

Investing in Japan remains our greatest challenge because interest rates, and therefore available investment yields, are still very low. When Japanese interest rates began declining in the early '90s, we refocused our approach to ensure that our investment purchases were consistent with the assumptions we use to price our products. That's the same approach we use today. As a result, we tend to purchase longer duration, yen-denominated fixed-maturity securities. And our investment policy prohibits us from purchasing junk bonds.

As far as Parmalat is concerned, I am convinced that our investment policy served us well. When we invested in the dairy company, it was an investment-grade credit. And based on audited financial statements, their financial condition appeared to be sound. When Parmalat was downgraded to junk last December, we followed a standardized process that we use to reassess the credit analysis of any security we own that is lowered to below investment grade. Based on that analysis, we concluded that Parmalat was no longer a suitable investment for us and we sold our entire investment, although it was at a significant loss. Not long after that sale, massive fraud was alleged and newspapers began referring to Parmalat as "Europe's Enron." It's clear that by acting as quickly as we did, we avoided an even greater loss. Don't get me wrong. I am not at all happy that we realized such a substantial loss on Parmalat. However, I am pleased that our investment process quickly brought us to the correct decision, and I don't anticipate any major change in our investment approach.

Your stand-alone medical product called EVER has been very successful for AFLAC in Japan. Why has it been so popular?

The reason for its success is very simple – we gave consumers exactly what they wanted. Before introducing EVER, we conducted extensive research and it became clear that consumers were interested in a stand-alone medical product with premiums that remained level for life. Following the launch of EVER in early 2002, we have been the number one seller of stand-alone medical insurance among all life insurance companies in Japan. And I absolutely believe we earned that distinction by offering the best medical product at the best price. But EVER is not only bringing us new sales, it's bringing us new customers. Approximately 60% of people who purchased EVER last year were first-time buyers of an AFLAC product. And those new customers may prove to be a good market for other AFLAC products in the future.

Last year you introduced Japanese AFLAC Duck commercials. Did they get the same reaction as the U.S. commercials and what do you expect from the ads?

Like the AFLAC Duck commercials we air in the United States, the Japanese commercials have been very popular with consumers. In fact, the AFLAC Duck commercials in Japan were rated by a market research firm as the best in Japan among commercials from financial services companies. They are successful because they are humorous and they catch people off guard. But the purpose of the commercials is a bit different in Japan. For many years, we have had very high name recognition in Japan. And because of different regulations governing advertising content, the AFLAC Duck commercials in Japan were designed to support specific products we offer, such as EVER and Rider MAX. By comparison, we have used the AFLAC Duck in the United States to build our brand. And as a result, our brand recognition is now at a level that is equal with some of the best-known brands in the United States.

You have talked a great deal about the “AFLAC Brand.” What do you mean by that and why is defending the company's brand important?

Awareness of the AFLAC brand is far more than just knowing our name. It's about people understanding who AFLAC is and what we do. We have created strong brand awareness with our advertising campaign featuring the AFLAC Duck in both the United States and Japan. It's critical that we do not let our brand or our image become tarnished in any way. Because consumers expect more from a well-known company, we will work even harder to protect our brand through continued improvement in our products and service.

The AFLAC Cancer Center is AFLAC's primary U.S. philanthropic effort and you have had a successful initiative in Japan with the Parents House. Explain why it's important for a company to be involved in such efforts.

It's important because we are giving back to the communities in which we operate. Although we sell a variety of products, cancer insurance built our company. And we have never lost sight of the fact that cancer is a terrible disease and that it's very important for us to help the children who suffer from it as well as their families. Many of our employees and sales associates have given their time and money to help the AFLAC Cancer Center, and several have talked about how they have been touched by the children there. We have been successful as a company, and I think we have a responsibility to share our good fortune in a way that helps people.

How would you describe AFLAC's corporate culture?

We have a diverse, people-oriented culture. Like any people-driven business, we have many different constituencies with overlapping, but different, needs. For instance, we attempt to take actions that equitably impact policyholders, sales associates, employees and shareholders. Our goal is to provide the best relative product value and service to our policyholders, competitive compensation and rewards to our sales associates, a great place to work for our employees, and solid investment returns to our shareholders.

HONING OUR EDGE DYNAMIC

**\di-'na-mik'\(adj) marked by
unusual, continuous and
productive activity or change**

AFLAC Japan

Offering Products Consumers Need: The Key to AFLAC Japan's Success

AFLAC Japan built on its many competitive strengths in 2003. We expanded our sales force and strengthened our brand. We also implemented new technology to better serve our customers and agencies. And we offered products that Japanese consumers wanted and needed, which led AFLAC Japan to another strong year.

Providing consumers with products they need is the key reason for our success. And our approach in developing those products gives us an edge in the Japanese market. We remain convinced that Japan's consumers desire affordable products that provide "living" rather than death benefits. They also prefer premium rates that are level throughout a lifetime. And they want products from financially strong companies. That clearly describes our business in Japan. By continually honing our edge in Japan, we have produced an enviable record of success.

Below are some of AFLAC Japan's financial highlights in yen terms for 2003.

Total new annualized premium sales increased 11.9% to ¥121.2 billion, compared with ¥108.3 billion in 2002.

Premium income was ¥848.1 billion, up 6.4% from ¥797.0 billion in 2002.

Total revenues were up 6.1% to ¥1.0 trillion, compared with ¥956.7 billion the previous year.

Pretax operating earnings rose 12.6% from ¥117.4 billion in 2002 to ¥132.2 billion in 2003.

The Impact of Foreign Currency on Reported Results

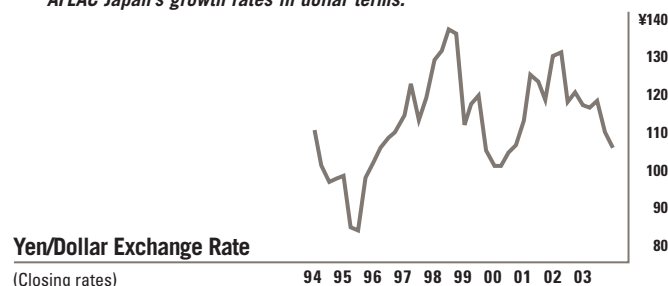
Because AFLAC Japan generates a significant percentage of our company's revenues and earnings, the fluctuations in the value of the yen can affect our results as reported in dollars. It's important to note that AFLAC Japan collects premiums in yen and pays benefits and expenses in yen. In addition, we hold yen-denominated assets to support yen-denominated liabilities. And except for a limited number of transactions, we do not convert yen into dollars. Therefore, currency changes do not affect AFLAC in economic terms. However, we are required to translate AFLAC Japan's income statement for financial reporting purposes from yen into dollars using an average exchange rate. And we translate the balance sheet using an end-of-period rate. Consequently, the translation of yen into dollars impacts the results we report in dollar terms.

HONING OUR EDGE EFFICIENT

\i-fi'-shənt (adj) productive
of desired effects;
productive, without waste

AFLAC Japan's growth rates are magnified in dollar terms when the average yen/dollar exchange rate is stronger than in the preceding year. On the other hand, growth rates in dollar terms are suppressed when the yen is weaker to the dollar than in the preceding year.

The average yen/dollar exchange rate strengthened 7.9% in 2003, which magnified AFLAC Japan's growth rates in dollar terms.



In 2003 the yen averaged ¥115.95 to the dollar, or 7.9% stronger than the average of ¥125.15 in 2002. The stronger yen enhanced our reported results as reflected below in dollar terms.

Total new annualized premium sales increased 20.8% to \$1.0 billion, up from \$867 million in 2002.

Premium income rose 15.0% to \$7.3 billion, up from \$6.4 billion in 2002.

Total revenues were up 14.6% to \$8.8 billion, compared with \$7.6 billion in 2002.

Pretax operating earnings increased 21.6% to \$1.1 billion, up from \$938 million in 2002.

For more than 10 years, AFLAC has successfully faced the challenge of operating in a weak economy in Japan. Although there were some signs of economic improvement in 2003, the country's economy continues to struggle. Economic weakness combined with the country's aging population and continued increases in health

AFLAC sales agent Megumi Tanabe, right, talks with AFLAC policyholders Kiyoko and Hideo Sakamaki at their farm in Koshigaya City, Japan. Ms. Tanabe, who has sold AFLAC products for more than eight years, is showing off the laptop-based application transmission software called e-App. Sales agents use e-App to transmit applications electronically to AFLAC's headquarters in Tokyo. E-App is particularly convenient because sales agents can, if necessary, use cell phones to transmit applications. The Sakamakis, who have farmed their land for more than 30 years, have AFLAC's cancer life, EVER, and ordinary life policies. They were attracted to AFLAC products because of our strong reputation as a company that offers good service.



care costs have forced changes in the life insurance industry and in the health care system. In 2003 the Japanese government increased copayments for participants in its national health care system, placing a greater burden on consumers.

In response to a changing environment, AFLAC has developed products that can help ease those cost burdens. One of our newer products, called EVER, was designed to meet consumer demand for living benefits. It is the number one selling stand-alone medical product offered by a life insurer in Japan. Stand-alone medical sales accounted for 28% of total new sales in 2003. Another of our products, a whole-life version of our popular Rider MAX coverage, also offers consumers medical benefits with a level premium for as long as they keep the rider in force. We developed these products in response to research that indicated the vast majority of Japanese consumers want premium rates that remain level over time.

Even with the many changes in Japan's market, our 21st Century Cancer Life product has been a constant. It continues to be a pillar of our product line and is the standard by which all other cancer policies are measured in Japan. In 2003, cancer life sales accounted for 27% of our total new annualized premium sales.

Distribution Remains an AFLAC Strength

Our distribution system continues to be one of the best in Japan. In 2003, we honed that edge by recruiting more than 4,000 new sales agencies, which exceeded our target of 3,500. We have set a goal for 2004 to recruit at least 4,000 agencies. Our focus has been to recruit individual agencies to better reach workers at the vast number of small to medium-sized businesses in Japan. We estimate that there are more than 38 million potential customers in this segment of the market.

Our relationship with Hojinkai, an association that includes more than 1.2 million small to medium-sized businesses, has helped us tap into that market. This relationship facilitates our sales associates' access to a very large market. Hojinkai has endorsed EVER, Rider MAX and 21st Century Cancer Life to its member firms.

Another important element of our distribution system is our strategic marketing alliance with Dai-ichi Mutual Life Insurance Co. Dai-ichi Life, through its more than 48,000 salespeople in Japan, offers 21st Century Cancer Life to its customers. We continue to be very pleased with the sales results of the Dai-ichi Life alliance. We have benefited from the extensive distribution network of Dai-ichi Life. At the same time, Dai-ichi is able to offer its customers the best cancer product on the market. In 2003 alone, Dai-ichi Life sold more than 305,000 AFLAC policies to their customers.

HONING OUR EDGE STRENGTH

\ 'stren(k)th \ (n) quality
or state of being strong

We believe new sales agencies and customers are attracted to AFLAC in part because of our integrity and solid reputation. In light of the failure of seven insurance companies since 1997, they are also attracted to our financial strength. In its June 17, 2003, issue, Japan's *Economist* magazine ranked AFLAC as the number one life insurer for financial strength in Japan. The magazine came to the same conclusion in its December 16, 2003, issue. In addition, the November 28, 2003, issue of the *Nikkei Kinyu*, a leading daily financial newspaper in Japan, identified AFLAC as the best life insurer in Japan. We also believe that our effective advertising campaign has helped attract new agencies. In 2003, we further strengthened our branding efforts by producing AFLAC Duck commercials specifically for the Japanese market.

Because AFLAC's name recognition in Japan already exceeds 90%, the AFLAC Duck commercials in Japan focus on promoting specific products rather than building name awareness. One of the commercials promoted the EVER product, while another supported the sales of Rider MAX. A third commercial, featuring a well-known Japanese celebrity, was

AFLAC Japan's total new annualized premium sales were led by the strong consumer demand for EVER, our stand-alone medical policy. Total sales increased 11.9% in yen in 2003, surpassing our annual sales expectations.

AFLAC Japan Sales Results

	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Total Number of Agencies
2003	23,097	¥900,251	¥121,170	14,643
2002	21,867	834,424	108,320	12,056
2001	20,802	782,249	91,865	9,839
2000	19,674	740,445	99,755	8,938
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

* In thousands

** In millions

Somenosuke Ebiichi, a popular performer in Japan, was featured in an AFLAC Duck commercial that was produced specifically for the Japanese market. Mr. Ebiichi, who regularly appears at civic and cultural celebrations in Japan, performed tricks with his parasol in an AFLAC Duck commercial that celebrated our becoming the number one life insurance company in Japan in terms of individual insurance policies in force. Mr. Ebiichi is holding one of the more than one million promotional AFLAC Ducks that our agencies ordered last year.



HONING OUR EDGE

LEADING \ 'lē-dīŋ\ (adj) coming or ranking first; providing direction or guidance

produced to let consumers know that AFLAC became Japan's number one life insurance company in terms of individual insurance policies in force in 2003.

Technology Improves Efficiency and Customer Service

AFLAC Japan's operating efficiency may be its most important competitive strength. Because our operating costs are among the lowest in Japan's life insurance industry, we are able to offer the best products at the lowest possible price. We have honed our efficiency edge by using new technology to help us handle our growing business more quickly and efficiently.

Our newest initiative is called e-App, which is an updated form of our groundbreaking Cyclone software. With e-App, our sales force can electronically transmit policy applications to our headquarters in Tokyo. AFLAC Japan's sales associates can e-mail a policy application through the Internet or even transmit it via cell phone. Also, our sales associates can use e-App to access an Internet portal site, which offers them access to a variety of AFLAC Japan agency services. We are confident that e-App will help our employees process policy applications more quickly, which will help us continue improving efficiency.

In 2003, we also continued development of our future computer systems and infrastructure. In July we transferred our claims administration to the new system, and will eventually transfer the administration of our primary products onto this new system as well.

Making the Best of a Weak Investment Environment

Investment yields in Japan improved during the second half of 2003, but still remained historically depressed. However, our investment philosophy remained constant. In fact, that philosophy is the backbone of our investment strength. We work to maximize investment income while minimizing risk. We emphasize liquidity, safety and quality when we invest. We don't own investment real estate, and equities accounted for less than .1% of AFLAC Japan's investments and cash at year-end 2003. Instead, we primarily own longer-dated, yen-denominated debt securities to better match asset and liability durations. For that reason, our portfolio has weathered the low interest-rate-environment fairly well. In fact, our portfolio yield on a Japanese

regulatory reporting basis has been consistently higher than the industry average during the past 10 years. By staying with our straightforward and effective investment philosophy, we continued to produce strong results. Some AFLAC Japan investment highlights are listed below.

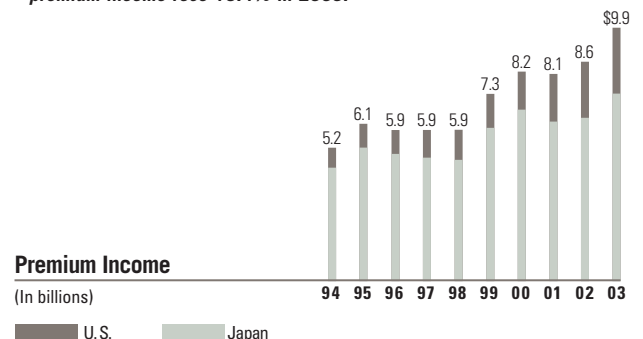
Investments and cash rose 11.5% to \$37.9 billion at year-end. In yen, investments and cash declined .4%.

Net investment income increased 11.3% to \$1.4 billion. In yen, net investment income rose 3.1%.

The average yield on new investments was 3.61% in 2003, compared with 3.93% in 2002.

AFLAC Japan's overall credit quality remained high. We believe that our conservative investment focus, which precludes us from buying junk bonds, is in the best interest of our policyholders and shareholders. However, one of the companies in which we had invested, Parmalat, experienced significant rating agency downgrades in a very short period of time in late 2003. We immediately revisited our credit analysis of Parmalat and concluded we should sell our investment in the company. On December 17, 2003, we sold our entire investment in Parmalat at a pretax loss of \$257 million. Following the sale of Parmalat, we reviewed our top 30 holdings to reassess their creditworthiness and the size of each holding relative to the total portfolio. We concluded that our top 30 investments were still appropriate in terms of credit and size. We are also confident that our overall investment approach is sound and well-suited to our business.

Due to strong sales and persistency in Japan and the benefit of a stronger yen, premium income rose 15.4% in 2003.

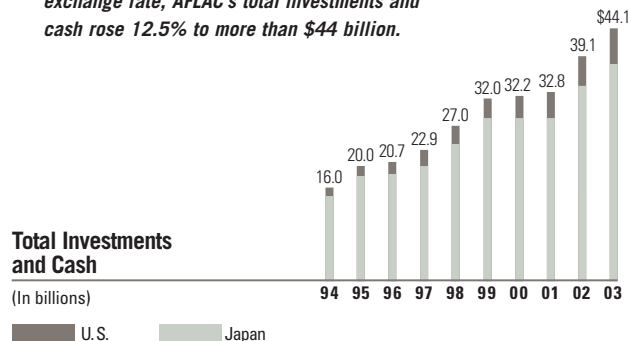




Atsuko Yoshikawa, an employee at the Ricoh plant in Gotemba City, Japan, tests color printers near the end of the manufacturing process. Ricoh, which has approximately 1,300 employees at the plant, is an AFLAC corporate agent and payroll group. Ms. Yoshikawa, who has worked at the Ricoh plant for 10 years, has an AFLAC cancer life policy. The Ricoh plant is the leading plant in Ricoh's global production system and in 1995 was the first plant in Japan to earn the certificate of ISO 14001, which is an international recognition of its strong commitment to the environment.

Based on amortized cost, 68.2% of our holdings were rated “A” or better, and only 2.8% were rated below investment grade at the end of 2003. Our sound investment policies have helped us maintain solid financial strength ratings. And our solvency margin remains one of the highest in Japan.

Benefiting from a stronger end-of-period exchange rate, AFLAC’s total investments and cash rose 12.5% to more than \$44 billion.



Outlook: Demographic Trends Point to Continued Success

Although Japan’s economic outlook remains unclear, we believe AFLAC products are perfectly suited to the Japanese market. We believe the need for our products will continue to benefit from demographic trends in Japan. It was estimated that nearly 20% of the population was over age 65 in 2003; by 2025, that figure is expected to be closer to 30%. Although overall household spending in Japan has declined for several years, health care spending per household has increased for four consecutive years. This is another indication of the increasing health care cost burden consumers must bear. As this burden continues to increase, we believe our products will remain a valuable element of Japanese consumers’ insurance coverage.

And it is possible that there could be future increases in copayments for participants in Japan’s national health care system.

Given these trends, we believe AFLAC Japan’s future remains bright, and we will pursue the following objectives to further hone our edge in the vast Japanese market.

Broaden our product line: We will add new products and update existing ones to ensure that our product line continues to meet consumers’ needs.

Grow our distribution system: We will continue to aggressively recruit new sales agencies, particularly individual agencies, to better tap into the vast small to medium-sized business market in Japan.

Improve our operational efficiency: We will continue to invest in technology to help make work processes more efficient and to provide our policyholders and payroll accounts with superior customer service.

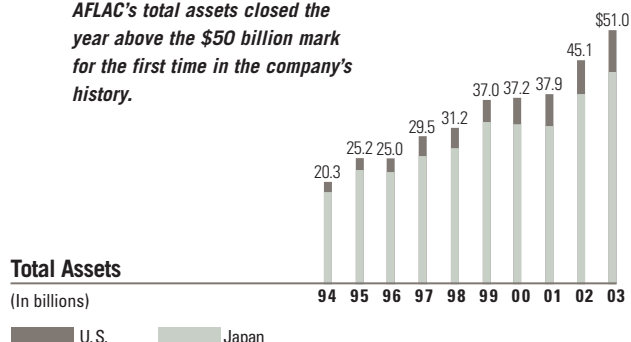
Emphasize our strengths: We believe our financial strength and the strength of our brand are keys to attracting new sales agencies and new customers.

HONING OUR EDGE

ENERGETIC

\e-nər-'jē-tik\ (adj)
operating with, or
marked by, vigor or
effect

AFLAC’s total assets closed the year above the \$50 billion mark for the first time in the company’s history.





Shinichi Enomoto, a watch designer at Citizen Watch Co., Ltd.'s Tanashi plant in Tokyo, plays a key role in developing styles and designs for new watches the company produces. Citizen, an AFLAC payroll account in Japan, is a leading company worldwide in watch production and sales. In addition, Citizen manufactures information and electronic equipment, industrial machinery, jewelry, and eyeglasses.

AFLAC U.S.

AFLAC U.S. Takes Aggressive Action in 2003

2003 was a year of aggressive action at AFLAC U.S. We made significant changes in our sales infrastructure. We enhanced our product line and unveiled new technology that is improving service to our customers and sales associates. We also introduced new commercials featuring the popular AFLAC Duck.

We combined these efforts with discipline and a determination to achieve one major goal – providing the best products with the best service at the best price. We have always believed that our intense focus on developing valuable products provided us with an edge over our competition. And we believe that our efforts in the product, distribution, technology and branding areas have helped us hone that edge. Below are some highlights for the year.

Total new annualized premium sales increased 5.4% to more than \$1.1 billion, compared with slightly less than \$1.1 billion in 2002.

Premium income rose 16.8% to \$2.6 billion, up from \$2.2 billion in 2002.

Total revenues were up 15.8% to \$3.0 billion, increasing from \$2.6 billion in 2002.

Pretax operating earnings increased 12.0% to \$451 million, compared with \$402 million in 2002.

Sales Management Changes Expected to Improve Sales

Even though AFLAC U.S. produced record sales, the growth of new annualized premium sales in 2003 did not meet our initial expectation of a 15% increase. We concluded that our tremendous growth over the last several years had stressed our sales management infrastructure. To improve future sales growth, we embarked on an aggressive initiative to expand our sales force infrastructure, thereby enhancing our recruiting and training capacity.

Experience tells us that expanding our coordinator base ultimately leads to better recruiting and sales. And that was certainly the case in the Northeast. Our Northeast Territory had a strong year in terms of coordinator expansion, and it led the company with a sales increase of more than 21%.

In May 2003, we increased the number of sales territories from five to seven. In turn, we increased the number of state coordinators from 63 at year-end 2002 to 85 at the start of 2004. We also increased the number of regional coordinators, who are primarily responsible for recruiting, by 10.9%. At the same time, we increased the number of district coordinators, who have training responsibilities for new sales associates, by 12.9%.

HONING OUR EDGE

FOCUSED

\'fō-kəst\'(vb) to concentrate
attention or effort

We recognize that it takes time for newly promoted sales coordinators to adjust to their new responsibilities and territories. And with our intense focus on building the sales coordinator base, recruiting slowed in the year, increasing by 2.2% over 2002. However, the growth in the average number of monthly producing sales associates for the year was 8.3%. Furthermore, as sales coordinators concentrate on building their sales teams, we believe recruiting and sales will pick up.

Product Development Remains a Key AFLAC Strength

AFLAC's products are designed to provide consumers with cash as quickly as possible following an illness, accident or other health-related problem. Our products provide fixed-benefit amounts rather than open-ended payments. Policyholders can use that money to help offset deductibles and copayments, other medical expenses, and nonmedical expenses such as travel, lodging and lost wages.

In 2003 we improved our product line by introducing new versions of our accident, short-term disability, and cancer products. These products were already our best sellers, but we made them even better in 2003 by upgrading or expanding benefits. Accident/disability was again our top-selling product category for the year, accounting for 51% of sales.

The growth of AFLAC U.S. sales was disappointing and below expectations for the year. However, sales growth accelerated in the last three months of the year, setting a new quarterly record for sales.

AFLAC U.S. Sales Results

	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Average Number of Producing Associates
2003	8,805	\$3,043	\$1,128	17,180
2002	8,077	2,674	1,070	15,869
2001	7,031	2,238	919	13,069
2000	6,119	1,861	712	10,757
1999	5,480	1,592	555	8,807
1998	5,056	1,393	482	7,918
1997	4,693	1,216	401	7,376
1996	4,389	1,060	327	6,665
1995	4,230	954	279	6,121
1994	4,119	877	246	5,489

* In thousands
** In millions

Patrick Jorgensen (left) and Phil Santos work on a submersible in dry dock at Harbor Branch Oceanographic Institution in Fort Pierce, Florida. Harbor Branch, an AFLAC payroll account, employs more than 250 scientists, engineers, mariners and support personnel. Harbor Branch directs ocean exploration for many purposes such as searching for marine animals that produce chemicals with the potential to fight diseases such as cancer. The institution also works in other areas in marine science, engineering, and education as it attempts to raise awareness of the world's oceans and their impact on our planet.



Cancer product sales accounted for about 20% of sales in 2003. Sales in our hospital indemnity category grew by 16.5% during the year, the largest percentage increase of any of our major products. It was our third-best-selling product category behind accident/disability and cancer. And for the second year in a row, sales in this product category were driven by the personal sickness indemnity product we introduced in 2002.

Technology Drives AFLAC's Efficiency

We continually evaluate and enhance the administration of our business in order to improve operating efficiency. That in turn allows us to offer the best products with the best service at the best price, while maintaining stable profit margins. We have adopted new technology that is helping us improve our policy application process, customer service, and training of sales associates.

Our best-known technology, SmartApp, is used by our sales associates to electronically transmit policy applications to company headquarters. SmartApp is critical for us to accommodate an ever-growing number of producing sales associates. Last year, approximately 85% of our new policy applications were submitted via SmartApp.

The benefits from SmartApp have been tremendous. Nonetheless, we were convinced we could do even better. In late 2003, we completed the testing of an updated version of SmartApp, called SmartApp Next Generation, or SmartApp NG. This new software is more user-friendly for sales associates and requires less processing work on the part of headquarters' personnel. In early 2004, we began a rollout of SmartApp NG. We expect it will take 12 to 18 months for all associates to begin using the new software.

In March 2003 we introduced an interactive voice response system (IVR) for our policyholders and payroll accounts. And in November we rolled out an upgraded IVR system for our sales associates. These new IVR systems offer callers the convenience of having access to information about their accounts at any time, day or night and improve the overall efficiency of our call center.

Another new technological improvement is our new Network Operations Center (NOC). This high-tech center is a centralized monitoring point for the entire information technology infrastructure at AFLAC U.S. Approximately 5,000 components, such as servers, mainframes, networks and optical applications are monitored by automated NOC systems. This important center allows our associates and employees to better serve our payroll accounts and customers.

Technology is also playing an important role in our training. In August 2003, we launched a comprehensive web-based sales

HONING OUR EDGE

INNOVATION

\i-nə-vā-shən(n) the introduction of something new; a new idea, method or device

training initiative called *AFLAC UniversitySM*. At *AFLAC University*, associates may take online courses about products, sales tools and technology. In addition, they may participate in courses on career and personal development. *AFLAC University* has certified training coordinators in every state operation who lead more than 3,000 workshops each year.

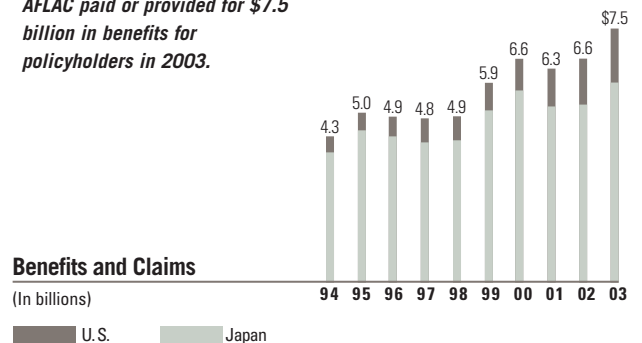
AFLAC Duck Commercials Strengthen Brand Awareness

Although AFLAC U.S. sales growth slowed in 2003, we don't believe it is a sign that our advertising campaign featuring the AFLAC Duck is any less successful. To the contrary, our brand awareness reached a record 89% in 2003, putting us on par with some of the best-branded companies in the United States.

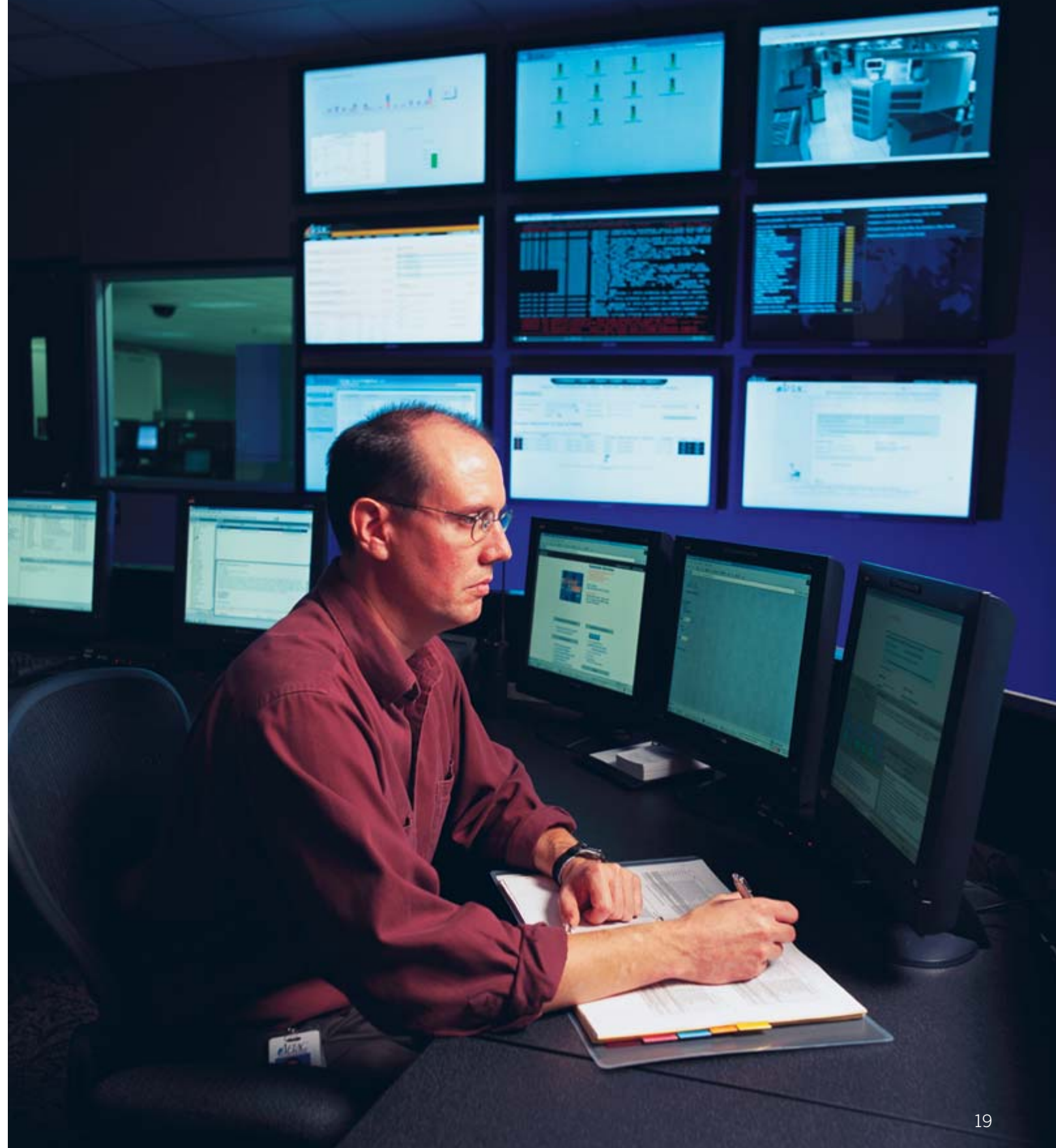
In the spring of 2003, we released a commercial featuring the AFLAC Duck and comedian Chevy Chase. And in January 2004, we launched an animated AFLAC Duck commercial, featuring famous LOONEY TUNESTM characters. It was the first of several new AFLAC Duck commercials to debut in 2004.

Just as the AFLAC Duck is the symbol of our advertising campaign, it has also become a symbol of our company's philanthropic efforts. We take seriously our commitment to the AFLAC Cancer Center and Blood Disorders Service of Children's Healthcare of Atlanta. AFLAC's employees and sales associates have embraced the center's efforts to find a cure for blood disorders and childhood cancers. Over the years, the AFLAC

AFLAC paid or provided for \$7.5 billion in benefits for policyholders in 2003.



Brad Hobbs, a systems administrator in AFLAC's Strategic Projects division, monitors systems at the company's Network Operations Center (NOC). The center, which opened in April 2003, is a centralized monitoring point for supporting AFLAC's U.S. information technology infrastructure. NOC's goal is to detect and solve problems before they impact the company's technology users.



family has pledged approximately \$20 million to the center. As one of the largest pediatric cancer centers in the United States, it treats more than 300 newly diagnosed cancer and 1,000 sickle cell patients annually.

Proceeds from sales of toy AFLAC Ducks, which are sold primarily over aflac.com, go to the AFLAC Cancer Center. During the 2003 holiday season, AFLAC again partnered with Federated Department Stores to sell special limited-edition AFLAC Holiday Ducks. As in previous years, the sale was a tremendous success. More than 60,000 AFLAC Holiday Ducks were sold during a three-week period, raising \$375,000 for eight children's hospitals nationwide.

Conservative Investing Builds Trust

AFLAC's conservative investment philosophy has helped our company build trust among customers and associates alike. We believe that adhering to this philosophy is the best, most responsible way to handle our financial assets so we can honor the promises we have made to our policyholders. It also allows us to earn a stable source of investment income. Some investing highlights from 2003 include:

Investments and cash reached \$5.9 billion at the end of 2003, an increase of 21.6%, compared with 2002.

Net investment income increased 9.3%, from \$331 million in 2002 to \$362 million in 2003.

The average yield on new investments was 6.52% in 2003, compared with 7.58% the previous year.

Corporate debt securities again accounted for the majority of our investments in 2003. At year-end, we owned no real estate or mortgage loans. Based on amortized cost, 66.4% of our holdings were rated "A" or better, and only 3.2% were rated below investment grade.

AFLAC U.S. Poised for Growth

Even with our slower sales growth in 2003, we still do not believe there is anything to suggest that the AFLAC business model is broken. In addition to tremendous sales success in previous years, many states produced strong sales growth last year, which we believe illustrates that our model is still effective.

Also, we have not seen any changes in the U.S. marketplace that would cause us to alter our strategy. In a recent study conducted by the Washington Business Group on Health, which

represents nearly 200 major employers in the United States, 57% of employers said they plan to increase copayments in 2004. And according to the Kaiser Family Foundation, a nonpartisan group that tracks health care spending, health care costs rank among Americans' top concerns. The study found that 36% of Americans said they were very worried that the amount they pay for health care services or health insurance would increase. That was more than twice the percentage of people who were very worried about not being able to pay their mortgages, losing money in the stock market, or losing their jobs. In short, health care costs for businesses and consumers are still rising and should lead to an even greater need for our products.

Against this backdrop of consumer concern about health care costs, we believe AFLAC products are perfectly suited for the U.S. market because they offer a measure of financial security. Also, despite our strong growth over the past 10 years, there remains a vast, untapped market of potential payroll accounts. Our 288,100 payroll accounts at year-end represent only about 5% of the roughly 5.6 million small businesses in the United States. Given the need for our products and their low penetration in the marketplace, we anticipate stronger sales in the coming years. To accomplish that, we will focus on achieving the following objectives.

Enhance our product line: We will continue to concentrate on offering the best products with the best service at the best price. This means developing new products and revising existing ones, even those that are the most popular.

Expand our distribution system: The expansion of our coordinator base is critical to our success and will continue in future years. This expansion should improve recruiting and training of new AFLAC sales associates.

Continue strengthening brand awareness: Our new AFLAC Duck television commercials in 2004 will continue strengthening our brand awareness. We believe our advertising campaign is an important way for us to demonstrate to consumers how our products can provide them an extra measure of financial security.

Improve efficiency through technology: We will continue to employ technology to control operating expenses. New technological initiatives will enable us to efficiently handle an ever-growing business while maintaining superior service levels to our customers and sales associates.

**HONING
OUR EDGE**

INTENSE \in-'ten(t)s\ (adj) marked by or expressive of great zeal, energy, determination or concentration

A.J. Avello, 10, and Bridget Koontz, 3, are among the young patients receiving treatment at the AFLAC Cancer Center and Blood Disorders Service of Children's Healthcare of Atlanta where Dr. William Woods is chief medical officer. Over the years, AFLAC has pledged approximately \$20 million to the AFLAC Cancer Center, which is one of the largest pediatric cancer centers in the United States. It treats more than 300 newly diagnosed cancer and 1,000 sickle cell patients each year. AFLAC and its employees share the hope that some day cures will be found for cancer and life-threatening blood disorders.



SELECTED FINANCIAL DATA

(In millions, except for share and per-share amounts)

AFLAC INCORPORATED AND SUBSIDIARIES

For the Year	2003	2002	2001	2000
Revenues:				
Premiums, principally supplemental health insurance	\$ 9,921	\$ 8,595	\$ 8,061	\$ 8,222
Net investment income	1,787	1,614	1,550	1,550
Realized investment gains (losses)	(301)	(14)	(31)	(102)
Gain on sale of broadcast business	—	—	—	—
Other income	40	62	18	33
Total revenues	11,447	10,257	9,598	9,703
Benefits and expenses:				
Benefits and claims	7,529	6,589	6,303	6,601
Expenses	2,693	2,409	2,214	2,090
Total benefits and expenses	10,222	8,998	8,517	8,691
Pretax earnings	1,225	1,259	1,081	1,012
Income taxes	430	438	394	325
Net earnings	\$ 795	\$ 821	\$ 687	\$ 687

Share and Per-Share Amounts

Net earnings (basic)	\$ 1.55	\$ 1.59	\$ 1.31	\$ 1.30
Net earnings (diluted)	1.52	1.55	1.28	1.26
Items impacting net earnings per diluted share, net of tax:				
Realized investment gains (losses)	\$ (.37)	\$ (.03)	\$ (.06)	\$ (.12)
Impact of SFAS 133	—	.07	—	—
Nonrecurring items	—	(.05)	—	.18
Foreign currency translation*	.06	(.02)	(.07)	.02
Cash dividends	\$.30	\$.23	\$.193	\$.167
Shareholders' equity	13.03	12.43	10.40	8.87
Common shares used to calculate basic EPS (In thousands)	513,220	517,541	525,098	530,607
Common shares used to calculate diluted EPS (In thousands)	522,138	528,326	537,383	544,906

At Year-End

Assets:				
Investments and cash	\$ 44,051	\$ 39,147	\$ 32,792	\$ 32,167
Other	6,913	5,911	5,068	5,064
Total assets	\$ 50,964	\$ 45,058	\$ 37,860	\$ 37,231
Liabilities and shareholders' equity:				
Policy liabilities	\$ 39,240	\$ 32,726	\$ 27,592	\$ 28,565
Notes payable	1,409	1,312	1,207	1,079
Income taxes	2,189	2,364	2,091	1,894
Other liabilities	1,480	2,262	1,545	999
Shareholders' equity	6,646	6,394	5,425	4,694
Total liabilities and shareholders' equity	\$ 50,964	\$ 45,058	\$ 37,860	\$ 37,231

Supplemental Data

Stock price range:	High	\$ 36.91	\$ 33.45	\$ 36.10	\$ 37.47
	Low	28.00	23.10	23.00	16.78
	Close	36.18	30.12	24.56	36.10
Yen/dollar exchange rate at year-end	¥ 107.13	¥ 119.90	¥ 131.95	¥ 114.75	
Weighted-average yen/dollar exchange rate for the year	115.95	125.15	121.54	107.83	

*Translation effect on AFLAC Japan segment and Parent Company yen-denominated interest expense

1999	1998	1997	1996	1995	1994	1993
\$ 7,264	\$ 5,943	\$ 5,874	\$ 5,910	\$ 6,071	\$ 5,181	\$ 4,225
1,369	1,138	1,078	1,022	1,025	839	689
(13)	(2)	(5)	2	—	—	3
—	—	267	60	—	—	—
20	25	37	106	95	91	84
8,640	7,104	7,251	7,100	7,191	6,111	5,001
5,885	4,877	4,833	4,896	5,034	4,257	3,423
1,977	1,676	1,553	1,554	1,556	1,350	1,150
7,862	6,553	6,386	6,450	6,590	5,607	4,573
778	551	865	650	601	504	428
207	64	280	256	252	211	184
\$ 571	\$ 487	\$ 585	\$ 394	\$ 349	\$ 293	\$ 244
\$ 1.07	\$.91	\$ 1.07	\$.70	\$.60	\$.48	\$.39
1.04	.88	1.04	.68	.58	.47	.39
\$ (.01)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—
.05	.10	.38	.08	—	—	—
.06	(.02)	(.05)	(.07)	.03	.03	.04
\$.147	\$.128	\$.112	\$.097	\$.085	\$.075	\$.065
7.28	7.09	6.44	3.85	3.76	2.93	2.20
531,737	532,609	544,220	560,704	582,710	605,783	619,502
550,845	551,745	563,192	577,843	597,967	618,594	631,428
\$ 32,024	\$ 26,994	\$ 22,880	\$ 20,744	\$ 20,045	\$ 15,994	\$ 12,469
5,017	4,228	6,590	4,286	5,172	4,293	2,974
\$ 37,041	\$ 31,222	\$ 29,470	\$ 25,030	\$ 25,217	\$ 20,287	\$ 15,443
\$ 29,604	\$ 24,034	\$ 19,885	\$ 20,234	\$ 19,514	\$ 16,007	\$ 12,065
1,018	596	523	354	327	185	122
1,511	1,865	1,827	1,181	1,398	1,392	950
1,040	957	3,805	1,135	1,844	951	940
3,868	3,770	3,430	2,126	2,134	1,752	1,366
\$ 37,041	\$ 31,222	\$ 29,470	\$ 25,030	\$ 25,217	\$ 20,287	\$ 15,443
\$ 28.38	\$ 22.66	\$ 14.47	\$ 11.00	\$ 7.46	\$ 6.02	\$ 5.67
19.50	11.35	9.38	7.07	5.32	4.21	4.13
23.60	21.94	12.78	10.69	7.25	5.34	4.75
¥ 102.40	¥ 115.70	¥ 130.10	¥ 116.10	¥ 102.95	¥ 99.85	¥ 112.00
113.96	130.89	121.07	108.84	94.10	102.26	111.21

Management's Discussion and Analysis of Financial Condition and Results of Operations

AFLAC Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (AFLAC), which operates in the United States (AFLAC U.S.) and as a branch in Japan (AFLAC Japan). Most of AFLAC's policies are individually underwritten and marketed at worksites through independent agents, with premiums paid by the employee. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of AFLAC Incorporated and its subsidiaries for the three-year period ended December 31, 2003. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes.

This MD&A is divided into five primary sections. In the first section, we discuss our critical accounting estimates. We then follow with a discussion of the results of our operations on a consolidated basis and by segment. The third section presents an analysis of our financial condition as well as a discussion of market risks of financial instruments. In the Capital Resources and Liquidity section, we address the availability of capital and the sources and uses of cash. We then conclude by discussing risk factors that may impact our business in the Forward-Looking Information section.

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The estimates discussed below are critical to an understanding of AFLAC's results of operations and financial condition. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analysis and judgments. The application of these critical accounting estimates determines the values at which 95% of our assets and 85% of our liabilities are reported and thus have a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could result in significantly different results.

Investments

Our investments in debt and equity securities include both publicly issued and privately issued securities. For privately issued securities, we receive pricing data from external sources that take into account each security's credit quality and liquidity characteristics. We also routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, Accounting for Non-Current Marketable Equity Securities; Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities; and related guidance. The identification of distressed investments, the determination of fair value if not publicly traded, and the assessment of whether a decline is other than temporary involve significant management judgment and require evaluation of factors including but not limited to:

- percentage decline in value and the length of time during which the decline has occurred,
- recoverability of principal and interest,
- market conditions,
- ability to hold the investment to maturity,
- a pattern of continuing operating losses of the issuer,
- rating agency actions that affect the issuer's credit status,
- adverse changes in the issuer's availability of production resources, revenue sources, technological conditions, and
- adverse changes in the issuer's economic, regulatory or political environment.

Deferred Policy Acquisition Costs and Policy Liabilities

AFLAC products are generally long-duration fixed-benefit indemnity products. As such, our products are accounted for under the requirements of SFAS No. 60, Accounting and Reporting by Insurance Enterprises. We make estimates of certain factors that affect the profitability of our business in order to match expected policy benefits and expenses with expected policy premiums. These assumptions include persistency, morbidity, mortality, investment yields and expenses. If actual results mirror the assumptions used in establishing policy liabilities and the deferral and amortization of acquisition costs, profits will emerge as a level percentage of premium revenue. However, because actual results will vary

from the assumptions, profits as a percentage of premium revenue will vary from year to year.

We measure the adequacy of our policy reserves and recoverability of deferred policy acquisition costs (DAC) annually by performing gross premium valuations on our business. Our testing indicates that our insurance liabilities are adequate and that our DAC is recoverable.

Deferred Policy Acquisition Costs

Under the requirements of SFAS No. 60, certain costs of acquiring new business are deferred and amortized over the policy's premium payment period in proportion to anticipated premium income. Future amortization of DAC is sensitive to our estimates of persistency, interest and future premium revenue at the time of policy issuance. However, the unamortized balance of DAC reflects the actual persistency to date. As presented in the following table, the ratio of DAC to annualized premium in force has been relatively stable for AFLAC U.S. and has trended down for AFLAC Japan over the last three years.

Deferred Policy Acquisition Cost Ratios

(In millions)	AFLAC Japan			AFLAC U.S.		
	2003	2002	2001	2003	2002	2001
Deferred policy acquisition costs	¥368,535	¥343,845	¥325,960	\$1,604	\$1,410	\$1,181
Annualized premiums in force	900,251	834,424	782,249	3,043	2,674	2,238
Deferred policy acquisition costs as a percentage of annualized premiums in force	40.9%	41.2%	41.7%	52.7%	52.7%	52.8%

Policy Liabilities

Our policy liabilities, which are determined in accordance with SFAS No. 60 and Actuarial Standards of Practice, include two primary components: future policy benefits and unpaid policy claims, which account for 91% and 5% of total policy liabilities as of December 31, 2003, respectively.

The future policy benefit liability provides for claims that will occur in the future and is generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. We calculate future policy benefits based on assumptions of morbidity, mortality, persistency and interest established at the time a policy is sold. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by GAAP, we also include a provision for

adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

Unpaid policy claims include those claims that have been incurred and are in the process of payment as well as an estimate of those claims that have been incurred but have not yet been reported to us. We compute unpaid policy claims on an undiscounted basis using statistical analyses of historical claims payments, adjusted for current trends and changed conditions. Assumptions underlying the estimate of unpaid policy claims are updated regularly and incorporate our historical experience as well as other data that provides information regarding our outstanding liability.

Claims incurred under AFLAC's policies are generally reported and paid in a relatively short timeframe. They are sensitive to frequency and severity of claims. They are not, however, subject to health care inflation, since benefits are based on a fixed indemnity. Our claims experience is primarily related to the demographics of our policyholders.

In computing the estimate of the unpaid policy claim liability, we consider many factors including the benefits and amounts available under the policy, the volume and demographics of the policies exposed to claims, and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period, however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we do not calculate a range of estimates. However, if current period claims were to change by 1%, we would expect the unpaid policy claim liability to change by approximately \$20 million.

Our 2002 claims review indicated that we experienced a decline in the average number of hospital days associated with the typical cancer treatment period in Japan. We believe the average number of days declined primarily due to changes in financial incentives provided to hospitals by the government-sponsored health care system in Japan to shorten the average hospital stay. However, our claims statistics also indicated that the declines in the average number of days per hospitalization were generally offset by an increase in the frequency of hospitalizations associated with the treatment of cancer. This shift reduced current period claims and will increase future period claims.

In recognition of the results of our 2002 claims review, we modified our estimates of unpaid policy claims and future policy benefits. In 2002, we transferred \$291 million from AFLAC Japan's unpaid policy claims to the liability for future policy benefits to reflect the anticipated decrease in the number of days per hospitalization for the current treatment period and the associated increase in the expected number of future hospitalizations. This transfer had no effect on net earnings.

The following table presents an analysis of policy liabilities by segment and in total as of December 31:

Policy Liabilities

(In millions)	2003	2002
U.S. segment:		
Liability for future policy benefits	\$ 2,975	\$ 2,642
Liability for unpaid policy claims	593	497
Other policy liabilities	165	140
Total U.S. policy liabilities	3,733	3,279
Japan segment:		
Liability for future policy benefits	32,612	27,154
Liability for unpaid policy benefits	1,521	1,255
Other policy liabilities	1,373	1,037
Total Japan policy liabilities	35,506	29,446
Total liability for future policy benefits	35,588	29,797
Total liability for unpaid policy claims	2,115	1,753
Total other policy liabilities	1,537	1,176
Total policy liabilities	\$ 39,240	\$ 32,726

New Accounting Pronouncements

During the last three years, the Financial Accounting Standards Board (FASB) has been active in soliciting comments and issuing statements, interpretations and exposure drafts on issues including derivatives, pensions, variable interest entities, special purpose entities, intangible assets, business combinations and equity-based compensation. For additional information on new accounting pronouncements and the impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

The table to the right presents an analysis of net earnings and net earnings per diluted share, as well as items impacting those performance measures, for the years ended December 31.

Realized Investment Gains and Losses

Our investment strategy is to invest in fixed-income securities in order to provide a reliable

stream of investment income, which is one of the drivers of the company's profitability. We do not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers of fixed-maturity securities. The realization of investment gains and losses is independent of the underwriting and administration of our insurance products, which are the principal drivers of our profitability.

The large realized investment losses in 2003 related primarily to the sale of our investment in Parmalat. Following several credit ratings downgrades of its debt, we sold all of our holdings in Parmalat and realized a pretax loss of \$257 million. We also sold our investment in Levi Strauss at a pretax loss of \$38 million. These investment losses and other investment transactions in the normal course of business decreased pretax earnings by \$301 million (after-tax, \$191 million, or \$.37 per diluted share).

In 2002, we recognized pretax impairment losses of \$58 million. These impairment losses were primarily related to the corporate debt security of a Japanese issuer and various equity securities we believe experienced other than temporary declines in fair value. These impairment losses and other investment transactions in the normal course of business decreased pretax earnings by \$14 million (after-tax, \$15 million, or \$.03 per diluted share).

In 2001, we recognized pretax impairment losses of \$86 million. These impairment losses were primarily related to the corporate debt securities of a U.S. issuer and a European issuer, both of which experienced credit rating downgrades, and our investment in two human resource service companies. We also realized investment gains in connection with a change in the outside investment manager of a portion of our U.S. equity securities portfolio. These gains and impairment losses, when included with other investment transactions in the normal course of business, decreased pretax earnings by \$31 million (after-tax, \$34 million, or \$.06 per diluted share).

Analysis of Net Earnings

	In Millions			Per Diluted Share		
	2003	2002	2001	2003	2002	2001
Net earnings	\$ 795	\$ 821	\$ 687	\$ 1.52	\$ 1.55	\$ 1.28
Items impacting net earnings, net of tax:						
Realized investment gains (losses)	(191)	(15)	(34)	(.37)	(.03)	(.06)
Change in fair value of interest rate component of cross-currency swaps	(3)	37	1	—	.07	—
Japanese policyholder protection fund	—	(26)	—	—	(.05)	—
Foreign currency translation*	33	(10)	(37)	.06	(.02)	(.07)

*Translation effect on AFLAC Japan segment and Parent Company yen-denominated interest expense

Cross-Currency Swaps

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior debt obligation, which matures in 2009, into a yen-denominated obligation (see Notes 4 and 6 of the Notes to the Consolidated Financial Statements). The effect of issuing fixed-rate, dollar-denominated debt and swapping it into fixed-rate, yen-denominated debt has the same economic impact on AFLAC as if we had issued straight yen-denominated debt of a like amount. The accounting treatment for cross-currency swaps is different from yen-denominated (Samurai) notes. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, requires that the change in the fair value of the interest rate component of the cross-currency swap be reflected in the income statement. The change in fair value is determined by relative dollar and yen interest rates and has no cash impact on our results of operations. Additionally, we have the ability to retain the cross-currency swaps until their maturity. At maturity, the swaps' fair value and their initial contract fair value will be equal and the cumulative impact of gains and losses from the changes in fair value of the interest component will be zero. The amounts are reported in other income in the consolidated statements of earnings. (See Notes 1 and 4 of the Notes to the Consolidated Financial Statements.)

Nonrecurring Items

In December 2002, the members of the Life Insurance Policyholder Protection Corporation approved the Financial Services Agency's (FSA) proposal, which required the industry to contribute an additional ¥78 billion (approximately \$728 million using the December 31, 2003 exchange rate) to Japan's policyholder protection fund. Our estimated share of the assessment decreased 2002 net earnings by \$26 million (\$.05 per diluted share). This charge is included in acquisition and operating expenses in the consolidated statement of earnings.

Foreign Currency Translation

AFLAC Japan's premiums and most of its investment income are received in yen. Claims and expenses are paid in yen, and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are translated into dollars for financial reporting purposes. We translate AFLAC Japan's income statement from yen into dollars using an average exchange rate for the reporting period, and we translate its balance sheet using an end-of-period exchange rate. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert yen into dollars.

Due to the relative size of AFLAC Japan, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported results. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. Consequently, yen weakening has the effect of suppressing current period results in relation to the comparable prior period, while yen strengthening has the effect of magnifying current period results in relation to the comparable prior period. As a result, we view foreign currency translation as a financial reporting issue for AFLAC and not an economic event to our company or shareholders. Because the effect of translating yen into dollars distorts the rate of growth of our operations, management evaluates AFLAC's financial performance excluding the impact of foreign currency translation.

Income Taxes

Our combined U.S. and Japanese effective income tax rates on net earnings were 35.1% in 2003, 34.8% in 2002 and 36.4% in 2001. Total income taxes were \$430 million in 2003, compared with \$438 million in 2002 and \$394 million in 2001. Japanese income taxes on AFLAC Japan's results accounted for most of our income tax expense. See Note 7 of the Notes to the Consolidated Financial Statements for additional information on income taxes.

Earnings Projections

To comply with the SEC's new reporting requirements, we were required to change the format that we use to communicate earnings guidance. Previously, we communicated earnings guidance on the basis of operating earnings per diluted share growth, excluding the effect of foreign currency translation. We now communicate earnings guidance based on net earnings per diluted share growth.

Our guidance involves projections of net earnings. However, items that cannot be predicted or that are outside of management's control may have a significant impact on actual results. Therefore, our projections of net earnings include certain assumptions to reflect the limitations that are inherent in projections of net earnings.

In the context of a forward-looking discussion, the impact of foreign currency translation on our results of operations is inherently unpredictable. Therefore, our projections of net earnings assume no impact from foreign currency translation for a given period in relation to the comparable prior period.

Furthermore, as discussed previously, we do not purchase securities with the intent of generating capital gains or losses. Therefore, we do not attempt to predict realized investment gains and losses, which include impairment charges, as their ultimate realization will be the result of market conditions that may or may not be predictable. As a result, our projections of net earnings assume no realized investment gains or losses in future periods.

Net earnings are also impacted by the change in the fair value of the interest rate component of our cross-currency swaps, which is determined by relative dollar and yen interest rates. Similar to foreign currency exchange rates, yen and dollar interest rates are also inherently unpredictable. Consequently, our projections of net earnings assume no impact from the change in the fair value of the interest rate component of our cross-currency swaps.

Finally, because nonrecurring items represent the financial impact of items that have not occurred within the past two years and are not expected to occur within the next two years, we do not attempt to predict their occurrence in future periods.

Prior to the required change in disclosure requirements, our upwardly revised objective for 2003 had been to increase operating earnings per diluted share by 17%, excluding the impact of currency translation. The equivalent objective using our new earnings projection format would have been to increase net earnings per diluted share 17%, to \$1.83, utilizing the assumptions discussed above. Based on 2003 net earnings per diluted share of \$1.52, adjusted for realized investment losses (a loss of \$.37 per diluted share), the change in the fair value of the interest rate component of cross-currency swaps (nil per diluted share) and foreign currency translation (a gain of \$.06 per diluted share), we achieved our objective for the year.

Subject to the assumptions set forth above, our objective for 2004 is to achieve net earnings per diluted share of at least \$2.21, an increase of 17%. If we achieve this objective, the table below shows the likely results for 2004 net earnings per diluted share,

2004 Net Earnings Per Share Scenarios*

Weighted-Average Yen/dollar Exchange Rate	Net Earnings Per Share	% Growth Over 2003	Yen Impact on EPS
100.00	\$2.38	25.9%	\$.17
105.00	2.32	22.8	.11
110.00	2.27	20.1	.06
115.95**	2.21	16.9	–
120.00	2.17	14.8	(.04)
125.00	2.13	12.7	(.08)

* Assumes: No realized investment gains/losses, no change in fair value of the interest rate component of cross-currency swaps and no nonrecurring items in 2004 and 2003; and no impact from currency translation in 2004

** Actual 2003 weighted-average exchange rate

including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

Our objective for 2005 is to increase net earnings per diluted share by 15%, on the basis described above.

Insurance Operations

AFLAC's insurance business consists of two segments: AFLAC Japan and AFLAC U.S. GAAP financial reporting requires that an enterprise report financial and descriptive information about operating segments in its annual financial statements. Furthermore, these requirements direct a public business enterprise to report a measure of segment profit or loss, certain revenue and expense items, and segment assets. We measure and evaluate our insurance segments' financial performance using operating earnings on a pretax basis. We define segment operating earnings as the profits we derive from our operations before realized investment gains and losses, the change in the fair value of the interest rate component of cross-currency swaps, and nonrecurring items. We believe that an analysis of segment operating earnings is vitally important to an understanding of the underlying profitability drivers and trends of our insurance business. Furthermore, because a significant portion of our business is conducted in Japan, we believe it is equally important to understand the impact of translating Japanese yen into U.S. dollars.

AFLAC JAPAN

AFLAC Japan, which operates as a branch of AFLAC, is the principal contributor to consolidated earnings. Based on financial results determined in accordance with FSA requirements for the six months ended September 30, 2003, AFLAC Japan ranked first in terms of individual insurance policies in force and 11th in terms of assets among all life insurance companies operating in Japan.

AFLAC Japan Pretax Operating Earnings

Changes in AFLAC Japan's pretax operating earnings and profit margins are primarily affected by investment yields, morbidity, mortality, persistency and expense levels. An ongoing shift in our product mix to products with lower loss ratios and favorable claim trends on some lines of business contributed to the decline in the benefit ratio. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders. Our persistency has declined only slightly over the last three years. The operating expense ratio has declined over the last two years. We expect the operating expense ratio to be relatively stable in the future. The expansion of the profit margins during the past three years was largely attributable to the declining benefit ratio,

which is partially offset by the effect of low investment yields. Lower investment yields affect our profit margins by reducing the spread between investment yields and required interest on policy reserves related to our older blocks of policies in force (see table and discussion on page 33).

The table at the bottom of the page presents a summary of operating results for AFLAC Japan.

AFLAC Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 29% of AFLAC Japan's investment income in each of the last three years. In years when the yen strengthens, translating AFLAC Japan's dollar-denominated investment income into yen lowers comparative rates of growth for net investment income, total operating revenues and pretax operating earnings in yen terms. In years when the yen weakens, translating dollar-denominated investment income into yen magnifies comparative rates of growth for net investment income, total operating revenues and pretax operating earnings in yen terms. The table above illustrates the effect of translating AFLAC Japan's dollar-denominated investment income

and related items by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the previous year.

AFLAC Japan Percentage Changes Over Prior Year

(Yen Operating Results)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes**		
	2003	2002	2001	2003	2002	2001
Net investment income	3.1%	6.5%	10.5%	5.5%	5.6%	6.9%
Total operating revenues	6.1	5.6	5.9	6.5	5.5	5.3
Pretax operating earnings*	12.6	17.4	20.6	15.8	16.1	15.2

* See page 28 for our definition of segment operating earnings.

** Amounts excluding foreign currency changes on dollar-denominated items were determined using the same yen/dollar exchange rate for the current year as each respective prior year.

AFLAC Japan Sales

AFLAC Japan produced another year of better-than-expected total new annualized premium sales. Total new annualized premium sales were: \$1.0 billion in 2003, up 20.8% from 2002; \$867 million in 2002, up 14.8% from 2001; and \$755 million in 2001, down 18.0% from 2000. These strong sales results reflect the continued popularity of our new stand-alone medical policy, EVER. Total new annualized premium sales in yen were: ¥121.2 billion in 2003, up 11.9% compared with 2002; ¥108.3 billion in 2002, up 17.9% compared with 2001; and ¥91.9 billion in 2001, down 7.9% compared with 2000. For 2004, our objective is to increase total new annualized premium sales by 5% to 10% in yen.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 7.9% in 2003, 6.7% in 2002, and 5.6% in 2001 reflect the high persistency of AFLAC Japan's business and the sales of new policies. Annualized premiums in force at December 31 were: ¥900.2 billion in 2003, ¥834.4 billion in 2002, and ¥782.2 billion in 2001. Annualized premiums in force, translated into dollars at respective year-end exchange rates were: \$8.4 billion in 2003, \$7.0 billion in 2002, and \$5.9 billion in 2001.

AFLAC Japan Summary of Operating Results

(In millions)	2003	2002	2001
Premium income	\$ 7,326	\$ 6,373	\$ 6,217
Net investment income	1,421	1,276	1,234
Other income	18	1	1
Total operating revenues	8,765	7,650	7,452
Benefits and claims	5,943	5,231	5,170
Operating expenses	1,682	1,481	1,459
Total benefits and expenses	7,625	6,712	6,629
Pretax operating earnings*	\$ 1,140	\$ 938	\$ 823
Weighted-average yen/dollar exchange rates	115.95	125.15	121.54

Percentage changes over previous year:	In Dollars			In Yen		
	2003	2002	2001	2003	2002	2001
Premium income	15.0%	2.5%	(6.8)%	6.4%	5.5%	5.1%
Net investment income	11.3	3.4	(2.2)	3.1	6.5	10.5
Total operating revenues	14.6	2.7	(6.1)	6.1	5.6	5.9
Pretax operating earnings*	21.6	13.9	6.7	12.6	17.4	20.6
Ratios to total revenues in dollars:	2003			2002		2001
Benefits and claims	67.8%			68.4%		69.4%
Operating expenses	19.2			19.3		19.6
Pretax operating earnings*	13.0			12.3		11.0

* See page 28 for our definition of segment operating earnings.

AFLAC Japan's sales mix has been shifting during the last few years. During 2003, sales of EVER, a whole-life fixed-benefit medical product, which we introduced in early 2002, exceeded sales for Rider MAX. We believe consumer response to EVER has been favorably impacted by health care legislation that increased out-of-pocket costs for most Japanese consumers in April 2003. Stand-alone medical sales accounted for 28% of total sales in 2003, compared with 18% of total new annualized premium sales in 2002. We believe that EVER will continue to be a popular product and a solid contributor to sales.

Rider MAX accounted for 27% of total sales in 2003, 31% in 2002, and 25% in 2001. After a difficult year in 2001, Rider MAX sales improved in 2002, primarily as a result of conversions from the original term policy to the newly introduced whole-life version. Conversions also impacted 2003 total sales results for Rider MAX but not as much as they did in 2002. Conversion activity accounted for approximately 24% of total Rider MAX sales in 2003, compared with 35% in 2002. For policy conversions, new annualized premium sales include only the incremental annualized premium amount over the original term policy. We expect that the effect of conversions on total new annualized sales will continue to decline in future periods.

Cancer life sales accounted for 27% of total sales in 2003, 33% in 2002, and 51% in 2001. Life production accounted for 13% of total sales in both 2003 and 2002 and 15% in 2001.

We continue to be pleased with the results of our marketing alliance with Dai-ichi Mutual Life Insurance Co., which formally began in April 2001. In 2003, Dai-ichi Life sold 305,600 of our cancer life policies, compared with 359,500 in 2002 and 265,200 in 2001. Dai-ichi Life sales of our cancer policies accounted for 10% of total new annualized premium sales in 2003 and 11% of total sales in both 2002 and 2001.

We also continued to focus on the growth of our distribution system in Japan. During 2003, the number of licensed sales associates rose 12% to approximately 64,900, compared with 58,100 at December 31, 2002. The growth in licensed sales associates resulted from agency recruitment. In 2003, we recruited more than 4,000 agencies, which exceeded our goal of 3,500 agencies. We believe that new agencies and sales associates will continue to be attracted to AFLAC Japan's high commissions, superior products, customer service and brand image. Furthermore, we believe that these new agencies and associates will enable us to expand our reach even further within the Japanese market.

AFLAC Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, investment yields achievable on new

investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income.

We purchased yen-denominated securities at an average yield of 3.20% in 2003, compared with 3.65% in 2002 and 3.58% in 2001. Including dollar-denominated investments, our blended new money yield was 3.61% in 2003, compared with 3.93% in 2002 and 3.86% in 2001. At December 31, 2003, the yield on AFLAC Japan's investment portfolio (including dollar-denominated investments) was 4.54%, compared with 4.73% in 2002 and 4.89% in 2001. Our return on average invested assets, net of investment expenses, was 4.50% in 2003, compared with 4.67% in 2002 and 4.81% in 2001.

AFLAC Japan has invested in privately issued securities to secure higher yields than Japanese government or other corporate bonds would have provided, while still adhering to prudent standards for credit quality. All of our privately issued securities are rated investment grade at the time of purchase. These securities are generally issued with standard, medium-term note documentation and have appropriate covenants.

Japanese Economy

The economic situation in Japan exhibited signs of improvement during the last half of 2003. And while recent events appear to indicate that the foundation for a recovery is being laid, the time required for a full economic recovery remains uncertain.

AFLAC U.S.

AFLAC U.S. Pretax Operating Earnings

Changes in AFLAC U.S. pretax operating earnings and profit margins are primarily affected by morbidity, mortality, persistency, investment yields and expense levels. The aggregate benefit ratio and our overall policy persistency have been relatively stable during the last three years. We expect the operating expense ratio, excluding discretionary advertising expenses, and the pretax operating profit margin to remain relatively level in 2004. The table on the following page presents a summary of operating results for AFLAC U.S.

AFLAC U.S. Sales

Total new annualized premium sales were: \$1.13 billion in 2003, up 5.4%; \$1.07 billion in 2002, up 16.4%; and \$919 million in 2001, up 29.1%. The percentage increases in premium income, as shown in the following table, reflect the growth of premiums in force. The increases in annualized premiums in force of 13.8% in 2003, 19.5% in 2002 and 20.3% in 2001 were favorably affected by increased sales at the worksite primarily through cafeteria plans and a slight improvement in the

persistence of several products. Annualized premiums in force at December 31 were: \$3.0 billion in 2003; \$2.7 billion in 2002; and \$2.2 billion in 2001.

We were disappointed with our sales growth in 2003 and have taken several steps to improve future sales growth. Our actions primarily are centered on enhancing our distribution system by expanding the sales management infrastructure that supports our sales force. We increased the number of sales territories from five to seven and we also increased the number of state, regional and district sales coordinators. We anticipate additional coordinator expansion in the future.

The percentage growth in newly recruited agents lagged during 2003, rising 2.2% over 2002, due primarily to our focus on expanding our state, regional and district sales coordinator base. The average number of associates producing business on a monthly basis increased 8.3% to 17,200, compared with 15,800 in 2002. We believe that the number of newly recruited agents and producing associates will improve in future periods as our newly promoted field management becomes more seasoned.

Another aspect of our growth strategy is the enhancement of our product line. During 2003, we introduced new versions of our accident, cancer and short-term disability insurance policies throughout the United States. We believe these changes will benefit sales growth in future periods. Our objective for 2004 is to increase total new annualized premium sales by 10% to 12%.

The sales mix of our products has remained relatively consistent during the last three years. Our best-selling category continued to be accident/disability coverage, which accounted for 51% of total sales in 2003 and 2002 and 52% in 2001. Cancer expense insurance was another solid contributor to sales, accounting for 20% of total sales in 2003, 21% in 2002 and 24% in 2001. Our hospital indemnity product category also contributed strongly to sales in 2003 as a result of the personal sickness indemnity plan we introduced in 2002. Hospital indemnity products accounted for 11% of total sales in 2003, 10% in 2002 and 6% in 2001. Additionally, fixed-benefit dental coverage continued to sell well, accounting for 7% of total sales in 2003, 2002 and 2001.

AFLAC U.S. Investments

During 2003, available cash flow was invested at an average yield of 6.52%, compared with 7.58% during 2002 and 7.80% during 2001. At December 31, 2003, the yield on AFLAC's U.S. portfolio was 7.56%, compared with 7.98% in 2002 and 8.02% in 2001. The overall return on average invested assets, net of investment expenses, was 7.36% in 2003, compared with 7.56% in 2002 and 7.67% in 2001.

Other Operations

Corporate operating expenses consist primarily of personnel compensation, benefits, and facilities expenses. Corporate expenses, excluding investment income, were \$47 million in 2003, \$56 million in 2002 and \$46 million in 2001. Investment income included in reported corporate expenses was \$5 million in 2003, \$7 million in 2002 and \$13 million in 2001. The increase in corporate expenses in 2002 was primarily attributable to the Parent Company's share of the costs to dissolve a human resource service company in which it had invested.

AFLAC U.S. Summary of Operating Results

(In millions)	2003	2002	2001
Premium income	\$ 2,594	\$ 2,221	\$ 1,844
Net investment income	362	331	303
Other income	9	9	8
Total operating revenues	2,965	2,561	2,155
Benefits and claims	1,585	1,359	1,132
Operating expenses	929	800	678
Total benefits and expenses	2,514	2,159	1,810
Pretax operating earnings*	\$ 451	\$ 402	\$ 345
Percentage changes over previous year:			
Premium income	16.8%	20.5%	18.6%
Net investment income	9.3	9.2	9.6
Total operating revenues	15.8	18.8	17.4
Pretax operating earnings*	12.0	16.7	18.7
Ratios to total revenues:			
Benefits and claims	53.5%	53.1%	52.5%
Operating expenses	31.3	31.2	31.5
Pretax operating earnings*	15.2	15.7	16.0

* See page 28 for our definition of segment operating earnings.

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations during the last two years. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes. The

exchange rate at December 31, 2003, was 107.13 yen to one U.S. dollar, or 11.9% stronger than the December 31, 2002, exchange rate of 119.90. The stronger yen increased reported investments and cash by \$3.7 billion, total assets by \$4.2 billion, and total liabilities by \$4.2 billion, compared with the amounts that would have been reported for 2003 if the exchange rate had remained unchanged from year-end 2002.

Market Risks of Financial Instruments

Our financial instruments are exposed primarily to two types of market risks. They are currency risk and interest rate risk. During 2003, we liquidated the majority of our equity investments and therefore no longer consider equity price risk to be material.

Currency Risk

The functional currency of AFLAC Japan's insurance operation is the Japanese yen. All of AFLAC Japan's premiums, claims and commissions are received or paid in yen as are most of its investment income and other expenses. Furthermore, most of AFLAC Japan's investments, cash and liabilities are yen-denominated. When yen-denominated securities mature or are sold, the proceeds are generally reinvested in yen-denominated securities. AFLAC Japan holds these yen-denominated assets to fund its yen-denominated policy obligations. In addition, AFLAC Incorporated has yen-denominated notes payable and cross-currency swaps related to its senior notes.

Although we generally do not convert yen into dollars, we do translate financial statement amounts from yen into dollars for financial reporting purposes. Therefore, the translation of the reported amounts is affected by foreign currency fluctuations. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income.

On a consolidated basis, we attempt to match yen-denominated assets to yen-denominated liabilities in order to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations. We accomplish this by investing a portion of AFLAC Japan's investment portfolio in dollar-denominated securities (see Note 2 of the Notes to the Consolidated Financial Statements) and by the Parent Company's issuance of yen-denominated debt and use of cross-currency swaps (see Notes 4 and 6 of the Notes to the Consolidated Financial Statements). As a result, the effect of currency fluctuations on our net assets is mitigated.

At December 31, consolidated yen-denominated net assets were \$291 million in 2003 and \$991 million in 2002. AFLAC Japan's yen-denominated net assets were \$1.7 billion at December 31, 2003, compared with \$2.3 billion a year ago. AFLAC Incorporated's yen-denominated net liabilities were \$1.5 billion at December 31, 2003, compared with \$1.3 billion a year ago. The table below compares the dollar values of our yen-denominated assets and liabilities and our net yen-denominated asset exposure at selected exchange rates.

We are only exposed to economic currency risk when yen funds are actually converted into dollars. This primarily occurs when we transfer funds from AFLAC Japan to AFLAC U.S., which is done annually. The exchange rates prevailing at the time of transfer will differ from the exchange rates prevailing at the time the yen profits were earned. Generally, these repatriations have

Dollar Value of Yen-Denominated Assets and Liabilities at Selected Exchange Rates

(December 31)

(In millions)	2003			2002		
Yen/dollar exchange rates	92.13	107.13*	122.13	104.90	119.90*	134.90
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	\$ 21,524	\$ 18,510	\$ 16,237	\$ 18,152	\$ 15,881	\$ 14,115
Perpetual debentures	3,386	2,911	2,554	2,703	2,365	2,102
Equity securities	43	37	32	155	136	121
Securities held to maturity:						
Fixed maturities	10,158	8,737	7,663	9,594	8,394	7,460
Perpetual debentures	4,996	4,297	3,769	4,229	3,700	3,289
Cash and cash equivalents	700	602	528	1,260	1,102	979
Other financial instruments	—	—	—	9	8	8
Subtotal	40,807	35,094	30,783	36,102	31,586	28,074
Liabilities:						
Notes payable	1,116	960	842	987	863	767
Cross-currency swaps	603	519	455	529	463	412
Obligation for Japanese policyholder protection fund	308	265	232	260	227	202
Other financial instruments	6	5	5	—	—	—
Subtotal	2,033	1,749	1,534	1,776	1,553	1,381
Net yen-denominated financial instruments	38,774	33,345	29,249	34,326	30,033	26,693
Other yen-denominated assets	5,393	4,637	4,068	4,429	3,874	3,444
Other yen-denominated liabilities	(43,828)	(37,691)	(33,062)	(37,622)	(32,916)	(29,256)
Consolidated yen-denominated net assets subject to foreign currency fluctuation	\$ 339	\$ 291	\$ 255	\$ 1,133	\$ 991	\$ 881

* Actual year-end exchange rates

represented an amount less than 80% of AFLAC Japan's prior year FSA-based earnings. A portion of the repatriation may be used to service AFLAC Incorporated's yen-denominated notes payable and the remainder is converted into dollars.

Interest Rate Risk

Our primary interest rate exposure is a result of the effect of changes in interest rates on the fair value of our investments in debt securities. We use modified duration analysis, which measures price percentage volatility, to estimate the sensitivity of our debt securities' fair values to interest rate changes. For example, if the current duration of a debt security is 10, then the fair value of that security will increase by approximately 10% if market interest rates decrease by 100 basis points, assuming all other factors remain constant. Likewise, the fair value of the debt security will decrease by approximately 10% if market interest rates increase by 100 basis points, assuming all other factors remain constant.

The estimated effect of potential increases in interest rates on the fair values of our debt securities, notes payable, cross-currency swaps and our obligation for the Japanese policyholder protection fund are shown below.

Changes in the interest rate environment have contributed to significant unrealized gains on our debt securities. However, we do not expect to realize a majority of these unrealized gains because we have the intent and ability to hold these securities to maturity. Should significant amounts of unrealized losses occur because of increases in market yields, we would not expect to realize significant losses because we have the ability to hold such

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

(December 31)

(In millions)	2003		2002	
	Market Value	+100 Basis Points	Market Value	+100 Basis Points
Debt securities:				
Fixed-maturity securities:				
Yen-denominated	\$ 27,757	\$ 25,103	\$ 24,480	\$ 22,075
Dollar-denominated	8,001	7,336	6,778	6,261
Perpetual debentures:				
Yen-denominated	7,323	6,616	5,960	5,361
Dollar-denominated	438	416	365	345
Total debt securities	\$ 43,519	\$ 39,471	\$ 37,583	\$ 34,042
Notes payable*	\$ 1,451	\$ 1,405	\$ 1,333	\$ 1,280
Cross-currency swaps assets	\$ (29)	\$ (25)	\$ 25	\$ 27
Obligation for Japanese policyholder protection fund	\$ 265	\$ 265	\$ 227	\$ 227

* Excludes capitalized lease obligations

securities to maturity. For additional information on unrealized losses on debt securities, see Note 3 of the Notes to the Consolidated Financial Statements.

We attempt to match the duration of our assets with the duration of our liabilities. For AFLAC Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related invested assets due to the unavailability of acceptable long-duration yen-denominated securities. The average duration of policy benefits and related expenses to be paid in future years was approximately 12 years in both 2003 and 2002. The average duration of the yen-denominated debt securities was approximately 11 years in 2003 and 10 years in 2002. The average duration of premiums to be received in the future was approximately nine years in both 2003 and 2002. The following table shows a comparison of average required interest rates for future policy benefits and investment yields, based on amortized cost, for the years ended December 31.

Comparison of Interest Rates for Future Policy Benefits and Investment Yields

(Net of investment expenses)

	2003		2002		2001	
	U.S.	Japan*	U.S.	Japan*	U.S.	Japan*
Policies issued during year:						
Required interest on policy reserves	6.40%	2.98%	6.48%	2.98%	6.43%	2.99%
New money yield on investments	6.46	3.14	7.52	3.59	7.73	3.51
Policies in force during year:						
Required interest on policy reserves	6.40	4.91	6.39	5.02	6.41	5.12
Net investment yield	7.36	4.16	7.56	4.40	7.67	4.40

* Represents yen-denominated investments for AFLAC Japan that support policy obligations and therefore excludes AFLAC Japan's dollar-denominated investments and related investment income

Over the next two years, we have several yen-denominated securities that mature with yields in excess of AFLAC Japan's current net investment yield of 4.16%. These securities total \$508 million at amortized cost and have an average yield of 5.13%. These maturities will contribute to a continued decline in our overall portfolio yield. Currently, when our debt securities mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the investment yield on new investments has exceeded interest requirements on policies issued in recent years. Since 1994, premium rates on new business have been increased several times to help offset the lower available investment yields. Also in recent years, our strategy of developing and marketing riders as attachments to

our older policies has helped offset the negative investment spread. And despite the negative investment spreads, adequate overall profit margins still exist in AFLAC Japan's aggregate block of business because of profits that have emerged from changes in mix of business and favorable experience from mortality, morbidity, and expenses.

Investments and Cash

Our investment philosophy is to maximize investment income while emphasizing liquidity, safety and quality. Our investment objective, subject to appropriate risk constraints, is to fund policyholder obligations and other liabilities in a manner that enhances shareholders' equity. We seek to meet this objective through a diversified portfolio of fixed-income investments that reflects the characteristics of the liabilities it supports.

AFLAC invests primarily within the debt securities markets. Our investment activities expose us to credit risk, which is a consequence of extending credit and/or carrying investment positions. However, we continue to adhere to prudent standards for credit quality. We accomplish this by considering our product needs and the overall objectives of AFLAC Incorporated, in addition to credit risk. Our investment policy requires that all securities be rated investment grade at the time of purchase. In evaluating the initial rating, we look at the overall senior issuer rating, the explicit rating for the actual issue or the rating for the security class, and the appropriate NAIC designation from the Securities Valuation Office (SVO). In addition, we perform extensive internal credit reviews to ensure that we are consistent in applying rating criteria for all of our securities.

The table below presents an analysis of investment securities by segment as of December 31.

(In millions)	AFLAC Japan		AFLAC U.S.	
	2003	2002	2003	2002
Securities available for sale, at fair value:				
Fixed maturities	\$ 21,098	\$ 18,036	\$ 5,397*	\$ 4,623*
Perpetual debentures	3,121	2,569	228	161
Equity securities	37	136	36	122
Total available for sale	24,256	20,741	5,661	4,906
Securities held to maturity, at amortized cost:				
Fixed maturities	8,736	8,394	16	—
Perpetual debentures	4,297	3,700	—	—
Total held to maturity	13,033	12,094	16	—
Total investment securities	\$ 37,289	\$ 32,835	\$ 5,677	\$ 4,906

* Includes securities held by the parent company of \$39 in 2003 and \$207 in 2002

The increase in investments and cash during 2003 reflected the effect of a stronger yen/dollar exchange rate and the substantial cash flows in the functional currencies of our operations. See Capital Resources and Liquidity on page 39 for additional information.

We have investments in both publicly issued and privately issued securities. However, the status of issuance should not be viewed as an indicator of liquidity or as a limitation on the determination of fair value. The outstanding amount of a particular issuance, as well as the level of activity in a particular issuance and the state of the market, including credit events and the interest rate environment, affect liquidity regardless of type of issuance. We routinely assess the fair value of all of our investments. This process includes evaluating quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources, as described more fully in Note 3 of the Notes to the Consolidated Financial Statements.

The table at the top of the next page presents an analysis of investment securities by type of issuance as of December 31.

Total privately issued securities accounted for 62.8%, at amortized cost, of total debt securities as of December 31, 2003, compared with 60.2% at December 31, 2002. Privately issued securities held by AFLAC Japan at amortized cost accounted for \$23.3 billion, or 58.1%, and \$19.3 billion, or 56.3%, of total debt securities at December 31, 2003 and 2002, respectively. Of the total privately issued securities, reverse-dual currency debt securities accounted for \$6.5 billion, or 25.7%, of total privately issued securities as of December 31, 2003, compared with \$4.7 billion, or 22.6%, at December 31, 2002. AFLAC Japan has invested in privately issued securities to secure higher yields than those available from Japanese government bonds. AFLAC Japan's investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers, which helps reduce our exposure to Japanese corporate issuers. These non-Japanese issuers are willing to issue yen-denominated securities with longer maturities, thereby allowing us to improve our asset/liability matching and our overall investment returns. Most of our privately issued securities are issued under medium-term note programs and have standard documentation commensurate with credit ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. All of our securities have ratings from either a nationally recognized security rating

Investment Securities by Type of Issuance

(December 31)

(In millions)	2003		2002	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturities	\$ 14,858	\$ 17,307	\$ 13,627	\$ 16,194
Perpetual debentures	36	40	22	25
Equity securities	28	68	258	253
Total publicly issued	14,922	17,415	13,907	16,472
Privately issued securities:				
Fixed maturities	17,579	18,451	14,189	15,064
Perpetual debentures	7,542	7,721	6,436	6,301
Equity securities	4	4	4	4
Total privately issued	25,125	26,176	20,629	21,369
Total investment securities	\$ 40,047	\$ 43,591	\$ 34,536	\$ 37,841

organization or the SVO of the NAIC. The percentage distribution by credit rating of our purchases of debt securities for the years ended December 31, at amortized cost, was as follows:

	2003	2002
AAA	9.0%	1.7%
AA	18.1	21.1
A	32.4	47.5
BBB	40.5	29.7
	100.0%	100.0%

The percentage distribution of our debt securities, at amortized cost and fair value, by credit rating was as follows:

	December 31, 2003		December 31, 2002	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	3.1%	3.1%	2.3%	2.5%
AA	31.0	33.5	34.6	38.3
A	33.9	33.6	36.8	36.0
BBB	29.2	27.4	24.0	21.5
BB or lower	2.8	2.4	2.3	1.7
	100.0%	100.0%	100.0%	100.0%

The overall credit quality of our portfolio remained high in part because our investment policy prohibits us from purchasing below-investment-grade securities. However, our holdings of below-investment-grade securities have increased somewhat in recent years as the overall credit environment has deteriorated.

In the event of a credit rating downgrade to below-investment-grade status, we do not automatically liquidate our position. However, if the security is in the held-to-maturity portfolio, we immediately transfer it to the available-for-sale portfolio so that the security's fair value and its unrealized gain/loss are reflected on the balance sheet.

Once we designate a security as below-investment-grade, we begin a more intensive monitoring of the issuer. We do not automatically recognize an impairment for the difference between fair value and carrying value. Our investment management starts by reviewing its credit analysis. Included in this process are an evaluation of the issuer, its current credit posture and an assessment of the future prospects for the company. We then obtain fair value information from at least three independent pricing sources. Upon determining the fair value, we move

our focus to an analysis of whether or not the decline in fair value, if any, is other than temporary. For securities with a carrying value in excess of fair value, investment management then reviews the issue based on our impairment policy to determine if the investment should be impaired and/or liquidated. The assessment of whether a decline is other than temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section on page 24.

Securities classified as below investment grade as of December 31 were as follows:

Below-Investment-Grade Securities

(In millions)	2003		2002	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Ahold Finance	\$ 348	\$ 294	\$ *	\$ *
KLM Royal Dutch Airlines	280	240	250	158
Royal and Sun Alliance Insurance	233	185	*	*
AMP Japan	56	65	*	*
Asahi Finance Limited	48	83	42	46
LeGrand	46	46	86	66
Tennessee Gas Pipeline	31	31	40	33
SB Treasury Co. LLC	28	32	*	*
Tyco International	18	21	*	*
Ikon Inc.	16	20	*	*
Cerro Negro Finance	12	13	67	40
PDVSA Finance	9	9	32	25
BIL Asia Group	-	-	133	124
Levi Strauss & Co.	-	-	117	117
KDDI	-	-	22	21
Other	-	-	2	5
Total	\$ 1,125	\$ 1,039	\$ 791	\$ 635

* Investment grade at respective reporting date

Occasionally a debt security will be split-rated. This occurs when one rating agency rates the security as investment grade

while another rating agency rates the same security as below investment grade. As a result of the current credit environment, we changed our credit rating classification policy on split-rated securities during 2003. Prior to 2003, our practice was to report split-rated securities based on the higher credit rating. However, our current policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the SVO designation as well as current market pricing and other factors, such as the issuer's or security's inclusion on a credit rating downgrade watch list.

Split-rated securities as of December 31, 2003, represented 2.3% of total debt securities at amortized cost and were as follows:

Split-Rated Securities

(In millions)	Amortized Cost	Moody's Rating	S&P Rating	SVO Class	Investment Grade or Below Investment Grade
Sumitomo Bank	\$ 358	Baa1	BB+	2/P2	Investment Grade
Royal and Sun Alliance Insurance	233	Ba2	BBB	3	Below Investment Grade
Sanwa Finance	103	Baa1	BB+	2/P2	Investment Grade
Fujitsu, Ltd.	69	Baa2	BB+	2	Investment Grade
AMP Japan	56	Ba3	BBB-	3	Below Investment Grade
SB Treasury Company LLC	28	Baa3	B+	P3	Below Investment Grade
Tyco International	18	Ba2	BBB-	3	Below Investment Grade
Fuji Finance	17	Baa1	BB+	2	Investment Grade
Ikon, Inc.	16	Ba1	BBB-	3	Below Investment Grade
Union Carbide Corp.	15	B1	BBB-	4/4Z	Investment Grade

(In millions)	Total Amortized Cost	Total Fair Value	Percent of Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Available-for-sale securities:					
Investment-grade securities	\$ 25,841	\$ 28,805	66.2%	\$ 3,461	\$ 496
Below-investment-grade securities	1,125	1,039	2.4	59	145
Held-to-maturity securities:					
Investment-grade securities	13,048	13,675	31.4	858	232
Total	\$ 40,014	\$ 43,519	100.0%	\$ 4,378	\$ 873

The preceding table presents an analysis of amortized cost, fair value and unrealized gains and losses for our investments in debt securities by investment-grade status as of December 31, 2003.

For an analysis of values and unrealized gains and losses for our investments in debt and equity securities as of December 31, 2003, presented by sector for debt securities, see Note 3 of the Notes to the Consolidated Financial Statements.

Based on our evaluation and analysis of specific issuers in accordance with our impairment policy, we recognized the following impairment charges during the three-year period ended December 31, 2003:

(In millions)	2003	2002	2001
Fixed maturities	\$ –	\$ –	\$ 55
Perpetual debentures	–	37	–
Equity securities	1	21	31
Total impairments	\$ 1	\$ 58	\$ 86

The table on the top of page 37 presents realized losses on debt securities by investment-grade status.

As part of our investment activities, we have investments in variable interest entities (VIEs) and special purpose entities (SPEs). See Notes 1 and 3 of the Notes to the Consolidated Financial Statements for additional information.

The following table presents the ten largest unrealized loss positions in our portfolio as of December 31, 2003.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
Takefuji	BBB	\$ 737	\$ 578	\$ 159
Ahold Finance	BB	348	294	54
Investor AB	AA	280	229	51
Royal and Sun Alliance Insurance	BB	233	184	49
KBC Bancassurance	A	239	197	42
KLM Royal Dutch Airlines	B	280	240	40
CSAV	BBB	224	190	34
Unique Zurich	BBB	345	311	34
First Austrian Bank	A	420	387	33
United Mexican States	BBB	421	390	31

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulatory requirements became effective that impact investment classifications and solvency margin ratios on a Japanese accounting basis as prescribed by the FSA. For additional information, see Notes 3 and 9 of the Notes to the Consolidated Financial Statements.

Cash, cash equivalents and short-term investments totaled \$1.1 billion, or 2.4% of total investments and cash, as of December 31, 2003, compared with \$1.4 billion, or 3.5% of total investments and cash, at December 31, 2002. Mortgage loans on real estate and other long-term investments remained immaterial at both December 31, 2003 and 2002.

The following table presents an aging of securities in an unrealized loss position as of December 31, 2003.

Realized Losses on Debt Securities

(In millions)	Proceeds	Realized Loss
Investment-grade securities, length of consecutive unrealized loss:		
Less than six months	\$ 121	\$ 8
Six months to 12 months	21	1
Over 12 months	11	1
Subtotal	153	10
Below-investment-grade securities, length of consecutive unrealized loss:		
Less than six months	171	257
Six months to 12 months	100	40
Over 12 months	180	58
Subtotal	451	355
Total	\$ 604	\$ 365

Aging of Unrealized Losses

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less than six months		Six months to 12 months		Over 12 months	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	\$ 5,482	\$ 496	\$ 3,131	\$ 249	\$ 2,339	\$ 247	\$ 12	\$ –
Below-investment-grade securities	892	145	–	–	268	51	624	94
Held-to-maturity securities:								
Investment-grade securities	3,694	232	2,193	105	1,289	108	212	19
Total	\$ 10,068	\$ 873	\$ 5,324	\$ 354	\$ 3,896	\$ 406	\$ 848	\$ 113

The following table presents a distribution of unrealized losses by magnitude as of December 31, 2003.

Percentage Decline From Amortized Cost

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less than 20%		20% to 30%	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:						
Investment-grade securities	\$ 5,482	\$ 496	\$ 4,885	\$ 336	\$ 597	\$ 160
Below-investment-grade securities	892	145	659	96	233	49
Held-to-maturity securities:						
Investment-grade securities	3,694	232	3,507	187	187	45
Total	\$ 10,068	\$ 873	\$ 9,051	\$ 619	\$ 1,017	\$ 254

The fair value of our investments in debt securities can fluctuate greatly as a result of changes in interest rates and foreign currency exchange rates. We believe that the declines in fair value noted above primarily resulted from changes in the interest rate and foreign currency environments rather than credit issues. Therefore, we believe that it would be inappropriate to recognize impairment charges for changes in fair value that we believe are temporary.

For additional information concerning investments and fair values, including information on the maturities of our investments in fixed maturities and perpetual debentures presented by segment at cost and fair value, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs totaled \$5.0 billion at December 31, 2003, an increase of \$767 million, or 17.9% for the year. AFLAC Japan's deferred policy acquisition costs were \$3.4 billion at December 31, 2003, an increase of \$572 million, or 20.0% (7.2% increase in yen). The stronger yen at year-end increased reported deferred policy acquisition costs by \$366 million. At December 31, 2003, deferred policy acquisition costs of AFLAC U.S. were \$1.6 billion, an increase of \$195 million, or 13.8%. The increase in deferred policy acquisition costs was primarily driven by increases in total new annualized premium sales.

Policy Liabilities

Policy liabilities totaled \$39.2 billion at December 31, 2003, an increase of \$6.5 billion, or 19.9% for the year. AFLAC Japan's policy liabilities were \$35.5 billion at December 31, 2003, an increase of \$6.1 billion, or 20.6% (7.7% increase in yen). The stronger yen at year-end increased reported policy liabilities by \$3.8 billion. At December 31, 2003, policy liabilities of AFLAC U.S. were \$3.7 billion, an increase of \$454 million, or 13.9%. The increase in policy liabilities is the result of the growth and aging of our in-force business.

Notes Payable

The Parent Company has issued yen-denominated Samurai notes in Japan. In 2000, we issued ¥30 billion of Samurai notes (approximately \$277 million), in 2001, we issued ¥40 billion (approximately \$333 million) and in 2002, we issued ¥30 billion (approximately \$254 million). All three issues are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium. Proceeds were used for various corporate purposes. For our yen-denominated loans, the principal amounts as stated in dollars fluctuate due to changes in the yen/dollar exchange rate.

In 1999, the Parent Company issued \$450 million of senior notes with a 6.50% coupon, payable semiannually, due April 2009. The notes are redeemable at our option at any time at a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium. Proceeds were used for various corporate purposes. We entered into cross-currency swaps that effectively convert the dollar-denominated principal and interest of these notes into yen-denominated obligations. The notional amount of the cross-currency swaps is \$450 million (¥55.6 billion)

with a blended fixed interest rate of 1.67% payable in yen. At December 31, 2003, the fair value of the swaps was a liability of \$29 million, compared with an asset of \$25 million in 2002.

We have designated the Parent Company's yen-denominated liabilities (Samurai notes payable and cross-currency swaps) as a hedge of our yen-denominated net assets, which constitutes our investment in AFLAC Japan. If the total of these yen-denominated liabilities is less than our investment in AFLAC Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of our other comprehensive income. Should these yen-denominated liabilities exceed our investment in AFLAC Japan, the portion of the hedge that exceeds our investment would be deemed ineffective. In that case, GAAP requires the exchange effect on the ineffective portion to be reported in net earnings. We estimate that if the ineffective portion was \$100 million, we would report a foreign exchange gain/loss of approximately \$1 million for every one yen weakening/strengthening in the end-of-period yen/dollar exchange rate. At December 31, 2003 and 2002, our hedge was effective. See Market Risks of Financial Instruments on page 32 for additional information.

The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities) was 24.6% as of December 31, 2003 and 24.8% as of December 31, 2002.

Distribution of Payments by Period

(In millions)	Total	Less than one year	One to three years	Four to five years	After five years
Long-term debt	\$ 1,383	\$ –	\$ 653	\$ 280	\$ 450
Capitalized lease obligations	27	11	12	4	–
Operating lease obligations	117	41	33	17	26
Policyholder protection fund	265	19	52	55	139
Total contractual obligations	\$ 1,792	\$ 71	\$ 750	\$ 356	\$ 615

The table above summarizes our major contractual obligations apart from those arising from our insurance product and investment purchase activities as of December 31, 2003.

Off-Balance Sheet Arrangements

As of December 31, 2003, we had no material unconditional purchase obligations that were not recorded on the balance sheet. Additionally, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations.

Security Lending

We use short-term security lending arrangements to increase investment income with minimal risk. For further information

regarding such arrangements, see Note 3 of the Notes to the Consolidated Financial Statements.

Defined Benefit Pension Plans

AFLAC U.S. and AFLAC Japan have defined benefit pension plans that cover substantially all full-time employees. General market conditions and the actuarial assumptions used to value our plans' assets and liabilities have a significant impact on plan costs and the reported values of plan assets and liabilities. Generally, the plans are funded annually, with minimum contributions required by applicable regulations, including amortization of unfunded prior service cost. In light of the depressed U.S. interest rate environment, we lowered the discount rate used in valuing our U.S. plan from 7.0% to 6.5% during 2003 to more closely conform with prevailing rates. As a result of the lower discount rate, we recognized an additional minimum pension liability of \$9 million during 2003.

During 2003, we elected to return the substitutional portion of AFLAC Japan's pension plan to the government as allowed by the Japan Welfare Pension Insurance Law. We received government approval to complete the transfer in December 2003. For additional information on the transfer and our U.S. and Japanese plans, see Note 10 of the Notes to the Consolidated Financial Statements.

At December 31, 2003, other liabilities included a liability for both plans in the amount of \$65 million, compared with \$39 million a year ago and shareholders' equity reflected a noncash charge of \$17 million for the minimum pension liability associated with our U.S. plan and ¥2.9 billion (\$27 million using the December 31, 2003 exchange rate) for the Japanese plan. In 2003 consolidated pension expense was \$22 million, compared with \$12 million in 2002. Pension expense for 2004 is expected to be approximately \$9 million for the U.S. plan and ¥1.1 billion (\$10 million using the December 31, 2003, exchange rate) for the Japanese plan. We expect to make cash contributions in 2004 of approximately \$6 million for the U.S. plan.

Policyholder Protection Fund and State Guaranty Associations

In 1998, the Japanese government established the Life Insurance Policyholders Protection Corporation (LIPPC). Funding by the life insurance industry is generally made over a ten-year period. We recognize charges for our estimated share of the industry's obligation once it is determinable. Due to their infrequency, we treat these charges as nonrecurring items. We review the estimated liability for policyholder protection fund contributions annually and report any adjustments in AFLAC Japan's expenses.

In 2002, we received a formal proposal regarding additional funding for the LIPPC. The proposal, which was drafted by the FSA, extended the Japanese government's pledge to enact fiscal safety-net measures of up to ¥400 billion until March 2006, and required the industry to contribute an additional ¥78 billion to the LIPPC. These funds will be used to support policyholder obligations of failed life insurance companies. Despite our vote against the proposal, it passed when members of the LIPPC voted in 2002. As a result, we recorded an after-tax charge of \$26 million, or \$.05 per diluted share, for our estimated portion of the additional industry contribution. During 2003, the Japanese government and the insurance industry agreed to extend the time over which the industry's contribution to the LIPPC would be paid. As a result, we accrued an additional ¥2.4 billion, or \$21 million, to reflect our revised estimate of required contributions.

Under insurance guaranty association laws in most U.S. states, insurance companies doing business in those states can be assessed for policyholder losses up to prescribed limits that are incurred by insolvent companies with similar lines of business. Such assessments have not been material to us in the past. We believe that future assessments relating to companies in the United States currently involved in insolvency proceedings will not materially impact our financial position or results of operations.

CAPITAL RESOURCES AND LIQUIDITY

AFLAC continues to provide the primary sources of liquidity to the Parent Company through dividends and management fees. The Parent Company received dividends from AFLAC in the amount of \$408 million in 2003, compared with \$358 million in 2002 and \$204 million in 2001. The increase in dividends resulted from management's decision to remove excess capital from Japan in an effort to achieve better investment returns in the United States. During 2003, AFLAC Japan paid \$26 million to the Parent Company for management fees, compared with \$25 million in 2002 and \$20 million in 2001.

The Parent Company also accesses debt security markets to provide additional sources of capital. Capital is primarily used to fund business expansion, capital expenditures and our share repurchase program. In 2002, we issued ¥30 billion of yen-denominated Samurai notes in Japan (approximately \$254 million at that date). We received ¥40 billion (approximately \$333 million at that date) in 2001 from the issuance of yen-denominated Samurai notes in Japan. In December 2003, we filed a shelf registration statement with Japanese regulatory authorities to issue up to ¥100 billion (approximately \$933 million using the December 31, 2003 exchange rate) of yen-denominated Samurai notes in Japan. These securities will not be available to U.S. persons or entities. For additional information, see discussion on page 38 under notes

payable. We believe outside sources for additional debt and equity capital, if needed, will continue to be available.

The principal sources of cash for our insurance operations are premiums and investment income. The primary uses of cash by our insurance operations are policy claims, commissions, operating expenses, income taxes and payments to the Parent Company for management fees and dividends. Both the sources and uses of cash are reasonably predictable.

Our investment objectives provide for liquidity through the purchase of investment-grade debt securities. AFLAC insurance policies generally are not interest-sensitive and therefore are not subject to unexpected policyholder redemptions due to investment yield changes. Also, the majority of AFLAC's policies provide fixed-benefit amounts rather than reimbursement for actual medical costs and therefore generally are not subject to the risks of medical-cost inflation.

CONSOLIDATED CASH FLOWS

We translate operating cash flows for AFLAC Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In years when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. The following table summarizes consolidated cash flows by activity for the years ended December 31:

Consolidated Cash Flows by Activity

(For the years ended December 31)

(In millions)	2003	2002	2001
Operating activities	\$ 3,389	\$ 3,038	\$ 2,849
Investing activities	(3,500)	(2,274)	(2,473)
Financing activities	(298)	(320)	(42)
Exchange effect on cash and cash equivalents	82	83	(91)
Net change in cash and cash equivalents	\$ (327)	\$ 527	\$ 243

Operating Activities

In 2003 consolidated cash flow from operations increased 11.6% to \$3.4 billion, compared with \$3.0 billion in 2002 and \$2.8 billion in 2001. Net cash flow from operations other than Japan increased 27.3% in 2003 to \$663 million, compared with \$521 million in 2002 and \$470 million in 2001. Net cash flow from operations for AFLAC Japan increased 8.3% in 2003 to \$2.7 billion, compared with \$2.5 billion in 2002 and \$2.4 billion in 2001. The increases in AFLAC Japan cash flows in 2003 and 2002 were primarily attributable to the growth of our business. The stronger yen magnified the growth of AFLAC Japan's

operating cash flow in 2003, while the weaker yen suppressed growth of AFLAC Japan's operating cash flow in 2002.

Investing Activities

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. Consolidated cash flow used by investing activities increased 53.9% to \$3.5 billion in 2003, compared with \$2.3 billion in 2002 and \$2.5 billion in 2001. AFLAC Japan accounted for 89% of the consolidated net cash used by investing activities in 2003, compared with 81% in 2002 and 83% in 2001.

When market opportunities arise, we dispose of selected debt securities that are available for sale to improve future investment yields and/or improve the duration matching of our assets and liabilities. Therefore, dispositions before maturity can vary significantly from year to year. Dispositions before maturity ranged between 5% and 7% of the annual average investment portfolio of debt securities available for sale during the three years ended December 31, 2003.

Net additions to property and equipment, including capitalized lease obligations, were \$35 million in 2003, \$33 million in 2002, and \$62 million in 2001.

Financing Activities

Consolidated cash used by financing activities was \$298 million in 2003, \$320 million in 2002 and \$42 million in 2001. In 2002, we received net proceeds of \$254 million in connection with the issuance in Japan of .96% Samurai notes due in 2007. We also paid in full, \$221 million, our revolving credit agreement. In 2001, we received net proceeds of \$333 million in connection with the issuance in Japan of .87% Samurai notes due in 2006. We also paid \$103 million in connection with the scheduled maturity of our yen-denominated unsecured credit agreement. Treasury stock purchases were \$343 million (10 million shares) in 2003, compared with \$346 million (12 million shares) in 2002 and \$350 million (12 million shares) in 2001. We issued treasury shares for certain AFLAC stock option exercises, additional stock purchases by shareholders in the dividend reinvestment plan and stock issued to sales associates.

Dividends to shareholders in 2003 were \$154 million (\$146 million paid in cash; \$8 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 2002 were \$119 million (\$112 million paid in

cash; \$7 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 2001 were \$101 million (\$95 million paid in cash; \$6 million through issuance of treasury shares under the dividend reinvestment plan). The 2003 dividend of \$.30 per share increased 30.4% over 2002. The 2002 dividend of \$.23 per share increased 19.2% over 2001.

REGULATORY RESTRICTIONS

AFLAC is domiciled in Nebraska and is subject to its regulations. The Nebraska insurance department imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances by AFLAC to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net gain from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group. These regulatory limitations are not expected to affect the level of management fees or dividends paid by AFLAC to the Parent Company. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the National Association of Insurance Commissioners (NAIC), as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from GAAP and are intended to emphasize policyholder protection and company solvency.

The continued long-term growth of our business may require increases in the statutory capital and surplus of our insurance operations. AFLAC's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by the Parent Company from funds generated through debt or equity offerings. The NAIC's risk-based capital formula is used by insurance regulators to facilitate identification of inadequately capitalized insurance companies. The formula evaluates insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations. AFLAC's NAIC risk-based capital ratio remains high and reflects a very strong capital and surplus position. Currently, the NAIC has ongoing regulatory initiatives relating to revisions to the risk-based capital formula as well as numerous initiatives covering insurance products, investments, and other actuarial and accounting matters. We believe that we will continue to maintain a strong

risk-based capital ratio and statutory capital and surplus position in future periods.

In addition to restrictions by U.S. insurance regulators, the FSA may not allow transfers of funds from AFLAC Japan if the transfers would cause AFLAC Japan to lack sufficient financial strength for the protection of policyholders. The FSA maintains its own solvency standards, a version of risk-based capital requirements. AFLAC Japan's solvency margin ratio significantly exceeds regulatory minimums. Payments are made from AFLAC Japan to the Parent Company for management fees (discussed above) and to AFLAC U.S. for allocated expenses and remittances of earnings. In 2003 and 2002, expenses allocated to AFLAC Japan were \$22 million and were \$24 million in 2001. During 2003, AFLAC Japan also remitted profits of \$385 million (¥45.6 billion) to AFLAC U.S., compared with \$383 million (¥45.3 billion) in 2002 and \$185 million (¥23.0 billion) in 2001. For additional information on regulatory restrictions on dividends, profit transfers and other remittances, see Note 9 of the Notes to the Consolidated Financial Statements.

For the Japanese reporting fiscal year ended March 31, 2002, AFLAC Japan adopted a new Japanese statutory accounting standard regarding fair value accounting for investments. Previously, debt securities were generally reported at amortized cost for FSA purposes. Under the new accounting standard, AFLAC Japan's debt securities have been classified as either available for sale or held to maturity, similar to GAAP investment classifications. Under this new regulatory accounting standard, the unrealized gains and losses on debt securities available for sale are reported in FSA capital and surplus and reflected in the solvency margin ratio. This new accounting standard may result in significant fluctuations in FSA equity, AFLAC Japan's solvency margin ratio and amounts available for annual profit repatriation.

Rating Agencies

AFLAC is rated "AA" by both Standard & Poor's and Fitch Ratings for financial strength. During 2002, Moody's upgraded AFLAC's financial strength rating from "Aa3" to "Aa2." A.M. Best assigned AFLAC an "A+, Superior" rating for financial strength and operating performance. AFLAC Incorporated's credit rating for senior debt is "A" by Standard & Poor's, "A+" by Fitch Ratings, and "A2" by Moody's.

Other

For information regarding commitments and contingent liabilities, see Note 11 of the Notes to the Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed. We desire to take advantage of these provisions. This report contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected in this discussion and analysis, and in any other statements made by company officials in oral discussions with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks, and uncertainties. In particular, statements containing words such as “expect,” “anticipate,” “believe,” “goal,” “objective,” “may,” “should,” “estimate,” “intends,” “projects,” or similar words as well as specific projections of future results, generally qualify as forward-looking. AFLAC undertakes no obligation to update such forward-looking statements.

We caution readers that the following factors, in addition to other factors mentioned from time to time in our reports filed with the SEC, could cause actual results to differ materially from those contemplated by the forward-looking statements:

- legislative and regulatory developments,
- assessments for insurance company insolvencies,
- competitive conditions in the United States and Japan,
- new product development,
- ability to attract and retain qualified sales associates,
- ability to repatriate profits from Japan,
- changes in U.S. and/or Japanese tax laws or accounting requirements,
- credit and other risks associated with AFLAC’s investment activities,
- significant changes in investment yield rates,
- fluctuations in foreign currency exchange rates,
- deviations in actual experience from pricing and reserving assumptions,
- level and outcome of litigation,
- downgrades in the company’s credit rating,
- changes in rating agency policies or practices,
- subsidiary’s ability to pay dividends to parent company, and
- general economic conditions in the United States and Japan.

**HONING
OUR
EDGE**

VALUE \ˈval-yü\ (n) relative worth,
utility or importance

CONSOLIDATED STATEMENTS OF EARNINGS

AFLAC INCORPORATED AND SUBSIDIARIES

(In millions, except for share and per-share amounts) Years Ended December 31,

	2003	2002	2001
Revenues:			
Premiums, principally supplemental health insurance	\$ 9,921	\$ 8,595	\$ 8,061
Net investment income	1,787	1,614	1,550
Realized investment gains (losses)	(301)	(14)	(31)
Other income	40	62	18
Total revenues	11,447	10,257	9,598
Benefits and expenses:			
Benefits and claims	7,529	6,589	6,303
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	464	385	328
Insurance commissions	1,146	1,037	1,006
Insurance expenses	982	842	793
Interest expense	22	20	19
Japanese policyholder protection fund provision	—	40	—
Other operating expenses	79	85	68
Total acquisition and operating expenses	2,693	2,409	2,214
Total benefits and expenses	10,222	8,998	8,517
Earnings before income taxes	1,225	1,259	1,081
Income tax expense:			
Current	212	353	338
Deferred	218	85	56
Total income taxes	430	438	394
Net earnings	\$ 795	\$ 821	\$ 687
Net earnings per share:			
Basic	\$ 1.55	\$ 1.59	\$ 1.31
Diluted	1.52	1.55	1.28
Common shares used in computing earnings per share (In thousands):			
Basic	513,220	517,541	525,098
Diluted	522,138	528,326	537,383

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

AFLAC INCORPORATED AND SUBSIDIARIES

(In millions, except for share and per-share amounts) December 31,

2003

2002

Assets:

Investments and cash:

Securities available for sale, at fair value:

Fixed maturities (amortized cost \$23,686 in 2003 and \$19,423 in 2002)

\$ 26,495 \$ 22,659

Perpetual debentures (amortized cost \$3,280 in 2003 and \$2,758 in 2002)

3,349 2,730

Equity securities (cost \$33 in 2003 and \$262 in 2002)

73 258

Securities held to maturity, at amortized cost:

Fixed maturities (fair value \$9,263 in 2003 and \$8,599 in 2002)

8,752 8,394

Perpetual debentures (fair value \$4,412 in 2003 and \$3,595 in 2002)

4,297 3,700

Other investments

33 27

Cash and cash equivalents

1,052 1,379

Total investments and cash

44,051 39,147

Receivables, primarily premiums

547 435

Accrued investment income

456 414

Deferred policy acquisition costs

5,044 4,277

Property and equipment, at cost less accumulated depreciation

518 482

Other

348 303

Total assets

\$ 50,964 \$ 45,058

Liabilities and shareholders' equity:

Liabilities:

Policy liabilities:

Future policy benefits

\$ 35,588 \$ 29,797

Unpaid policy claims

2,115 1,753

Unearned premiums

516 428

Other policyholders' funds

1,021 748

Total policy liabilities

39,240 32,726

Notes payable

1,409 1,312

Income taxes

2,189 2,364

Payables for security transactions

— 274

Payables for return of cash collateral on loaned securities

374 1,049

Other

1,106 939

Commitments and contingent liabilities (Notes 10 and 11)

Total liabilities

44,318 38,664

Shareholders' equity:

Common stock of \$.10 par value. In thousands: authorized 1,000,000 shares; issued 651,554 shares in 2003 and 648,618 shares in 2002

65 65

Additional paid-in capital

417 371

Retained earnings

5,885 5,244

Accumulated other comprehensive income:

Unrealized foreign currency translation gains

213 222

Unrealized gains on investment securities

2,316 2,416

Minimum pension liability adjustment

(36) (8)

Treasury stock, at average cost

(2,214) (1,916)

Total shareholders' equity

6,646 6,394

Total liabilities and shareholders' equity

\$ 50,964 \$ 45,058

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

AFLAC INCORPORATED AND SUBSIDIARIES

(In millions, except for per-share amounts) Years Ended December 31,

	2003	2002	2001
Common stock:			
Balance, beginning of year	\$ 65	\$ 65	\$ 32
Exercise of stock options	—	—	1
Two-for-one stock split	—	—	32
Balance, end of year	65	65	65
Additional paid-in capital:			
Balance, beginning of year	371	338	336
Exercise of stock options, including income tax benefits	19	11	10
Gain on treasury stock reissued	27	22	24
Two-for-one stock split	—	—	(32)
Balance, end of year	417	371	338
Retained earnings:			
Balance, beginning of year	5,244	4,542	3,956
Net earnings	795	821	687
Dividends to shareholders (\$.30 per share in 2003, \$.23 per share in 2002, and \$.193 per share in 2001)	(154)	(119)	(101)
Balance, end of year	5,885	5,244	4,542
Accumulated other comprehensive income:			
Balance, beginning of year	2,630	2,091	1,668
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	(9)	9	19
Change in unrealized gains (losses) on investment securities during year, net of income taxes	(100)	538	404
Minimum pension liability adjustment during year, net of income taxes	(28)	(8)	—
Balance, end of year	2,493	2,630	2,091
Treasury stock:			
Balance, beginning of year	(1,916)	(1,611)	(1,298)
Purchases of treasury stock	(343)	(346)	(350)
Cost of shares issued	45	41	37
Balance, end of year	(2,214)	(1,916)	(1,611)
Total shareholders' equity	\$ 6,646	\$ 6,394	\$ 5,425

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AFLAC INCORPORATED AND SUBSIDIARIES

(In millions) Years Ended December 31,

	2003	2002	2001
Cash flows from operating activities:			
Net earnings	\$ 795	\$ 821	\$ 687
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	(86)	(11)	(44)
Increase in deferred policy acquisition costs	(408)	(372)	(325)
Increase in policy liabilities	2,641	2,385	2,380
Change in income tax liabilities	83	67	46
Realized investment losses	301	14	31
Japanese policyholder protection fund provision	—	40	—
Other, net	63	94	74
Net cash provided by operating activities	3,389	3,038	2,849
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	1,908	1,729	1,799
Fixed maturities matured	1,458	1,188	700
Equity securities and other	354	69	92
Securities held to maturity:			
Fixed maturities matured or called	1	240	128
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	(5,059)	(3,057)	(2,441)
Perpetual debentures	(288)	—	(495)
Equity securities	(3)	(130)	(152)
Securities held to maturity:			
Fixed maturities	(947)	(2,619)	(2,040)
Perpetual debentures	(170)	(136)	(416)
Cash received as collateral on loaned securities, net	(727)	485	416
Additions to property and equipment, net	(21)	(25)	(45)
Other, net	(6)	(18)	(19)
Net cash used by investing activities	(3,500)	(2,274)	(2,473)
Cash flows from financing activities:			
Proceeds from borrowings	—	254	333
Principal payments under debt obligations	(20)	(234)	(116)
Change in investment-type contracts, net	159	74	138
Dividends paid to shareholders	(146)	(112)	(95)
Purchases of treasury stock	(343)	(346)	(350)
Treasury stock reissued	33	35	38
Other, net	19	9	10
Net cash used by financing activities	(298)	(320)	(42)
Effect of exchange rate changes on cash and cash equivalents	82	83	(91)
Net change in cash and cash equivalents	(327)	527	243
Cash and cash equivalents, beginning of year	1,379	852	609
Cash and cash equivalents, end of year	\$ 1,052	\$ 1,379	\$ 852

Supplemental disclosures of cash flow information — See Note 12

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AFLAC INCORPORATED AND SUBSIDIARIES

(In millions) Years Ended December 31,

	2003	2002	2001
Net earnings	\$ 795	\$ 821	\$ 687
Other comprehensive income before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	(121)	(72)	119
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	(604)	763	509
Reclassification adjustment for realized (gains) losses included in net earnings	301	13	3
Minimum pension liability adjustment during year	(40)	(8)	—
Total other comprehensive income (loss) before income taxes	(464)	696	631
Income tax expense (benefit) related to items of other comprehensive income	(327)	157	207
Other comprehensive income (loss) net of income taxes	(137)	539	424
Total comprehensive income	\$ 658	\$ 1,360	\$ 1,111

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: AFLAC Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance operations are conducted through American Family Life Assurance Company of Columbus (AFLAC), which operates in the United States (AFLAC U.S.) and as a branch in Japan (AFLAC Japan). Most of AFLAC's policies are individually underwritten and marketed at worksites through independent agents, with premiums paid by the employee. AFLAC Japan, which conducts its insurance operations in Japanese yen, accounted for 74% of the Company's total revenues in 2003, 75% in 2002 and 78% in 2001, and 84% of total assets at both December 31, 2003 and 2002.

Basis of Presentation: We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants. The preparation of financial statements in conformity with GAAP requires us to make estimates when

recording transactions resulting from business operations based on currently available information. The most significant items on our balance sheet that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the future are the valuation of investments, deferred policy acquisition costs, and liabilities for future policy benefits and unpaid policy claims. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, mortality, morbidity, commission and other acquisition expenses, and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates, we believe the amounts provided are adequate.

Translation of Foreign Currencies: The functional currency of AFLAC Japan's insurance operations is the Japanese yen. We translate financial statement accounts that are maintained in foreign currencies into U.S. dollars as follows. Assets and liabilities denominated in foreign currencies are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date

of each transaction. Other revenues, expenses and cash flows are translated using weighted-average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions. Realized currency exchange gains and losses were immaterial during the three-year period ended December 31, 2003.

AFLAC Japan maintains an investment portfolio of dollar-denominated securities on behalf of AFLAC U.S. The functional currency for these investments is the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars.

We have designated the cross-currency swaps and the yen-denominated notes payable held by the Parent Company as a hedge of our investment in AFLAC Japan (see the section in this note titled, "Derivatives"). Outstanding principal and related accrued interest on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are included in accumulated other comprehensive income.

Insurance Revenue and Expense Recognition: The supplemental health and life insurance policies we issue are classified as long-duration contracts. The contract provisions generally cannot be changed or canceled during the contract period; however, we may adjust premiums for supplemental health policies issued in the United States within prescribed guidelines and with the approval of state insurance regulatory authorities.

Insurance premiums for health and life policies are recognized ratably as earned income over the premium payment periods of the policies. When revenues are reported, the related amounts of benefits and expenses are charged against such revenues, so that profits are recognized in proportion to premium revenues during the period the policies are expected to remain in force. This association is accomplished by means of annual additions to the liability for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

The calculation of deferred policy acquisition costs and the liability for future policy benefits requires the use of estimates consistent with sound actuarial valuation techniques. For new policy issues, we review our actuarial assumptions and deferrable acquisition costs each year and revise them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, we evaluate deferred policy

acquisition costs by major product groupings to determine that they are recoverable from future revenues. Any resulting adjustment is charged against net earnings.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, money market instruments and other debt instruments with a maturity of 90 days or less when purchased.

Investments: Our debt securities include fixed-maturity securities and perpetual debentures, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other debt securities and our equity securities are classified as available for sale and are carried at fair value. If the fair value is higher than the amortized cost for debt securities, or the purchase cost for equity securities, the excess is an unrealized gain; and if lower than cost, the difference is an unrealized loss.

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulations became effective that impacted investment classifications and solvency margin ratios on a Japanese accounting basis as prescribed by the Financial Services Agency. As a result of these new requirements, we re-evaluated AFLAC Japan's investment portfolio and our intent related to the holding period of certain investment securities. In order to minimize fluctuations in our Japanese solvency margin ratio, we made certain reclassifications of debt securities between the held-to-maturity and available-for-sale categories as of March 31, 2001 (see Note 3).

The net unrealized gains and losses on securities available for sale, plus the unamortized unrealized gains and losses on debt securities transferred to the held-to-maturity portfolio, less related deferred income taxes, are included in accumulated other comprehensive income.

Amortized cost of debt securities is based on our purchase price adjusted for accrual of discount, or amortization of premium. The amortized cost of debt securities we purchase at a discount will equal the face or par value at maturity. Debt securities that we purchase at a premium will have an amortized cost equal to face or par value at maturity or the call date, if applicable. Interest is reported as income when earned and is adjusted for amortization of any premium or discount.

For the collateralized mortgage obligations (CMOs) held in our fixed-maturity securities portfolio, we recognize income using a constant effective yield, which is based on anticipated

prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in CMO securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

We use the specific identification method to determine the gain or loss from securities transactions and report the realized gain or loss in the consolidated statements of earnings.

Our portfolio managers and credit research personnel routinely monitor and evaluate the difference between the cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary. For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and our evaluation for a potential recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment's cost exceeds its market value solely due to changes in interest rates, impairment may not be appropriate. If, after monitoring and analysis, management believes that a decline in fair value is other than temporary, we adjust the amortized cost of the security and report a realized loss in the consolidated statements of earnings.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These securities continue to be carried as investment assets on our balance sheet during the terms of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans collateralized by securities, the collateral is not reported as an asset or liability.

Deferred Policy Acquisition Costs: The costs of acquiring new business are deferred and amortized with interest, over the premium payment periods in proportion to the ratio of annual premium income to total anticipated premium income. Anticipated premium income is estimated by using the same mortality and persistency assumptions used for computing liabilities for future policy benefits. In this manner, the related

acquisition expenses are matched with revenues. Deferred costs include the excess of current-year commissions over ultimate renewal-year commissions and certain direct and allocated policy issue, underwriting and marketing expenses. All of these costs vary with and are primarily related to the production of new business.

Policy Liabilities: The liabilities for future policy benefits are computed by a net level premium method using estimated future investment yields, persistency and recognized morbidity and mortality tables modified to reflect our experience, including a provision for adverse deviation.

Unpaid policy claims are estimates computed on an undiscounted basis using statistical analyses of historical claims experience adjusted for current trends and changed conditions. The ultimate liability may vary significantly from such estimates. We regularly adjust these estimates as new claims experience emerges and reflect the changes in operating results in the year such adjustments are made.

Income Taxes: Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse.

Derivatives: We have only limited activity with derivative financial instruments. We do not use them for trading purposes, nor do we engage in leveraged derivative transactions. At December 31, 2003, our only outstanding derivative contracts were cross-currency swaps related to our \$450 million senior notes (see Notes 4 and 6).

We document all relationships between hedging instruments and hedged items, as well as our risk-management objectives for undertaking various hedge transactions. This process includes linking derivatives that are designated as hedges to specific assets or liabilities on the balance sheet. We also assess, both at inception and on an ongoing basis, whether the derivatives and nonderivatives used in hedging activities are highly effective in offsetting changes in fair values of the hedged items. The assessment of hedge effectiveness determines the noncash accounting treatment of changes in fair value.

We have designated our cross-currency swaps as a hedge of the foreign currency exposure of our investment in AFLAC Japan.

We recognize the fair value of the cross-currency swaps as either assets or liabilities on the balance sheet. We report the changes in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income. Changes in the fair value of the interest rate component are reflected in other income in the consolidated statements of earnings.

Policyholder Protection Fund and State Guaranty Association

Assessments: In Japan, the government has required the insurance industry to contribute to a policyholder protection fund. We recognize a charge for our estimated share of the industry's obligation once it is determinable. We review the estimated liability for policyholder protection fund contributions on an annual basis and report any adjustments in AFLAC Japan's expenses.

In the United States, each state has a guaranty association that supports insolvent insurers operating in those states. To date, our state guaranty association assessments have not been material.

Employee Stock Options: We apply the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our employee stock option plan, which is described more fully in Note 8. All options granted under our stock option plan have an exercise price equal to the market value of the underlying common stock on the date of grant. Therefore, no compensation expense is reflected in net earnings. The following table illustrates the effect on net earnings and earnings per share, assuming we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

(In millions, except for per-share amounts)	2003	2002	2001
Net earnings as reported	\$ 795	\$ 821	\$ 687
Deduct compensation expense determined under a fair value method, net of tax	(27)	(36)	(33)
Pro forma net earnings	\$ 768	\$ 785	\$ 654
Earnings per share:			
Basic - as reported	\$ 1.55	\$ 1.59	\$ 1.31
Basic - pro forma	1.50	1.52	1.25
Diluted - as reported	\$ 1.52	\$ 1.55	\$ 1.28
Diluted - pro forma	1.47	1.48	1.22

Treasury Shares: Treasury shares we acquire are reflected as a reduction of shareholders' equity at cost, which is the market value at the time of the transaction. We use the weighted-average purchase cost to determine the cost of treasury shares that are reissued. We include any gains and losses in additional paid-in capital when treasury shares are reissued.

Earnings Per Share: We compute basic earnings per share (EPS) by dividing net earnings by the weighted-average number of shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period plus the shares representing the dilutive effect of stock options.

New Accounting Pronouncements: In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of ARB (Accounting Research Bulletin) No. 51. This interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the expected residual gains, or both, as a result of ownership, contractual or other financial interests in the entity. In October 2003, the FASB delayed the effective date of FIN 46 for variable interest entities (VIEs) or potential VIEs created before February 2003. In December, the FASB issued a revised version of FIN 46, which delayed the effective date of FIN 46 for all VIEs until March 2004. FIN 46 and its various interpretations are not expected to have a material impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure. This standard, which amends the transition and disclosure issues associated with SFAS No. 123, became effective for years ending after December 15, 2002. The requirements of this standard do not impact our financial position or results of operations.

During the last three years, the FASB has issued a number of accounting pronouncements with various effective dates: SFAS No. 141, Business Combinations; SFAS No. 142, Goodwill and Other Intangible Assets; SFAS No. 143, Accounting for Asset Retirement Obligations; SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets; SFAS No. 145, Recision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections; SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities; SFAS No. 147, Acquisitions of Certain Financial Institutions – an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9; SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities; SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity; and Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. These pronouncements do not have a material effect on our financial statements.

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings.

2. FOREIGN AND BUSINESS SEGMENT INFORMATION

The Company consists of two reportable insurance business segments: AFLAC Japan and AFLAC U.S. We sell supplemental health and life insurance through AFLAC Japan and AFLAC U.S. Most of our policies are individually underwritten and marketed at worksites through independent agents with premiums paid by the employee.

Operating business segments that are not individually reportable are included in the "Other business segments" category. We do not allocate corporate overhead expenses to business segments. We evaluate our business segments using a financial performance measure called pretax operating earnings. Our definition of operating earnings as presented in this report excludes from net earnings the following items on an after-tax basis: realized investment gains/losses, the change in fair value of the interest rate component of cross-currency swaps, and the charge for the Japanese policyholder protection fund in 2002. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment and lines of business for the years ended December 31 follows:

(In millions)	2003	2002	2001
Revenues:			
AFLAC Japan:			
Earned premiums:			
Cancer life	\$ 4,864	\$ 4,492	\$ 4,508
Other accident and health	1,687	1,201	1,075
Life insurance	775	680	634
Net investment income	1,421	1,276	1,234
Other income	18	1	1
Total AFLAC Japan	8,765	7,650	7,452
AFLAC U.S.:			
Earned premiums:			
Accident/disability	1,085	900	713
Cancer expense	842	757	654
Other health	574	487	416
Life insurance	93	77	61
Net investment income	362	331	303
Other income	9	9	8
Total AFLAC U.S.	2,965	2,561	2,155
Other business segments	43	48	32
Total business segments	11,773	10,259	9,639
Realized investment gains (losses)	(301)	(14)	(31)
Corporate*	39	78	31
Intercompany eliminations	(64)	(66)	(41)
Total revenues	\$ 11,447	\$ 10,257	\$ 9,598

* Includes investment income of \$5 in 2003, \$7 in 2002, and \$13 in 2001. Also includes a loss of \$3 in 2003, and gains of \$37 in 2002 and \$1 in 2001 related to the change in fair value of the interest rate component of the cross-currency swaps.

(In millions)	2003	2002	2001
Operating Earnings:			
AFLAC Japan	\$ 1,140	\$ 938	\$ 823
AFLAC U.S.	451	402	345
Other business segments	(1)	1	(8)
Total business segments	1,590	1,341	1,160
Interest expense, noninsurance operations	(19)	(16)	(16)
Corporate and eliminations	(42)	(49)	(33)
Pretax operating earnings*	1,529	1,276	1,111
Realized investment gains (losses)	(301)	(14)	(31)
Change in fair value of the interest rate component of the cross-currency swaps	(3)	37	1
Japanese policyholder protection fund provision	-	(40)	-
Total earnings before income taxes	\$ 1,225	\$ 1,259	\$ 1,081

* Income taxes applicable to pretax operating earnings were \$540 in 2003, \$452 in 2002 and \$391 in 2001. The effect of foreign currency translation increased operating earnings by \$39 in 2003, compared with decreases of \$10 in 2002 and \$37 in 2001.

Assets as of December 31 were as follows:

(In millions)	2003	2002	2001
Assets:			
AFLAC Japan	\$ 42,654	\$ 37,983	\$ 31,729
AFLAC U.S.	7,966	6,672	5,729
Other business segments	57	62	43
Total business segments	50,677	44,717	37,501
Corporate	8,276	7,887	6,830
Intercompany eliminations	(7,989)	(7,546)	(6,471)
Total assets	\$ 50,964	\$ 45,058	\$ 37,860

Net additions to property and equipment, including capitalized lease obligations, were \$35 million in 2003, \$33 million in 2002 and \$62 million in 2001. Total depreciation and amortization expense, which is included in insurance expenses in the consolidated statements of earnings, was \$59 million in 2003, \$60 million in 2002, and \$37 million in 2001; AFLAC Japan accounted for \$33 million in 2003, \$29 million in 2002, and \$21 million in 2001.

Advertising expense is included in insurance expenses in the consolidated statements of earnings and was as follows for each of the three years ended December 31:

(In millions)	2003	2002	2001
Advertising expense:			
AFLAC Japan	\$ 59	\$ 48	\$ 60
AFLAC U.S.	61	57	45
Total advertising expense	\$ 120	\$ 105	\$ 105

Receivables consisted primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2003, \$291 million, or 53.2% of total receivables were related to AFLAC Japan's operations, compared with \$217 million, or 49.9%, at December 31, 2002.

Yen-Translation Effects: The following table shows the yen/dollar exchange rates used for the three-year period ended December 31, 2003. The exchange effect on selected financial data was calculated using the same yen/dollar exchange rate for the current year as each respective prior year.

	2003	2002	2001
Balance Sheets:			
Yen/dollar exchange rate at December 31	107.13	119.90	131.95
Yen percent strengthening (weakening)	11.9%	10.1%	(13.0)%
Exchange effect on total assets (billions)	\$ 4.2	\$ 3.2	\$ (4.4)
Exchange effect on total liabilities (billions)	4.2	3.1	(4.3)
Statements of Earnings:			
Weighted-average yen/dollar exchange rate	115.95	125.15	121.54
Yen percent strengthening (weakening)	7.9%	(2.9)%	(11.3)%
Exchange effect on net earnings (millions)*	\$ 33	\$ (10)	\$ (37)
Exchange effect on diluted net EPS*	.06	(.02)	(.07)

* Translation effect on AFLAC Japan segment and Parent Company yen-denominated interest expense

AFLAC Japan owns U.S. dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in AFLAC Japan. We have designated the Parent Company's yen-denominated notes payable and cross-currency swaps as a hedge of our investment in AFLAC Japan. The dollar values of our yen-denominated net assets, which are subject to foreign currency translation fluctuations for financial reporting purposes, are summarized as follows at December 31 (translated at end-of-period exchange rates):

(In millions)	2003	2002
AFLAC Japan net assets	\$ 4,661	\$ 4,806
Less:		
AFLAC Japan dollar-denominated net assets	2,917	2,518
Parent Company yen-denominated net liabilities	1,453	1,297
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	\$ 291	\$ 991

Remittances from AFLAC Japan: AFLAC Japan makes payments to the Parent Company for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. These payments totaled \$433 million in 2003, \$429 million in 2002 and \$228 million in 2001. See Note 9 for information concerning restrictions on remittances from AFLAC Japan.

Policyholder Protection Fund: In 2002, the Japanese Life Insurance Policyholder Protection Corporation (LIPPC) agreed to increase the life insurance industry's obligation to the Japanese policyholder protection fund. We recognized our estimated share of this additional obligation in 2002 and decreased pretax earnings by \$40 million (\$26 million after taxes, or \$.05 per diluted share). During 2003, the Japanese government and the insurance industry agreed to extend the time over which the industry's contribution to the LIPPC would be paid. The total liability accrued for our obligations to the policyholder protection fund was \$265 million (¥28.4 billion) at December 31, 2003, compared with \$227 million (¥27.3 billion) a year ago. The obligation is expected to be payable in semi-annual installments through 2013.

3. INVESTMENTS

The amortized cost for debt securities, cost for equity securities and the fair values of these investments at December 31 are shown in the following table:

(In millions)	2003				2002			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	\$ 7,126	\$ 1,645	\$ 6	\$ 8,765	\$ 6,088	\$ 1,860	\$ –	\$ 7,948
Municipalities	8	–	–	8	12	1	–	13
Mortgage-backed securities	42	1	–	43	34	1	–	35
Public utilities	2,428	295	27	2,696	2,433	379	–	2,812
Sovereign and supranational	723	111	1	833	643	119	2	760
Banks/financial institutions	3,104	291	221	3,174	2,202	348	23	2,527
Other corporate	3,023	174	207	2,990	1,655	163	32	1,786
Total yen-denominated	16,454	2,517	462	18,509	13,067	2,871	57	15,881
Dollar-denominated:								
Government	104	7	1	110	64	9	–	73
Municipalities	100	10	1	109	70	9	–	79
Mortgage-backed securities	259	9	3	265	105	10	–	115
Public utilities	798	87	1	884	725	47	13	759
Sovereign and supranational	386	54	–	440	262	30	5	287
Banks/financial institutions	2,527	267	7	2,787	2,098	186	48	2,236
Other corporate	3,057	352	18	3,391	3,032	305	108	3,229
Total dollar-denominated	7,231	786	31	7,986	6,356	596	174	6,778
Total fixed maturities	23,685	3,303	493	26,495	19,423	3,467	231	22,659
Perpetual debentures:								
Yen-denominated:								
Primarily banks/financial institutions	2,893	166	148	2,911	2,427	120	183	2,364
Dollar-denominated:								
Banks/financial institutions	387	51	–	438	331	37	2	366
Total perpetual debentures	3,280	217	148	3,349	2,758	157	185	2,730
Equity securities	33	41	1	73	262	28	32	258
Total securities available for sale	\$26,998	\$ 3,561	\$ 642	\$ 29,917	\$22,443	\$ 3,652	\$ 448	\$ 25,647
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Mortgage-backed securities	\$ 52	\$ –	\$ 1	\$ 51	\$ 47	\$ 2	\$ –	\$ 49
Public utilities	1,065	29	38	1,056	956	56	26	986
Sovereign and supranational	2,473	150	41	2,582	1,660	97	48	1,709
Banks/financial institutions	2,298	222	37	2,483	2,401	223	101	2,523
Other corporate	2,848	231	4	3,075	3,330	202	200	3,332
Total yen-denominated	8,736	632	121	9,247	8,394	580	375	8,599
Dollar-denominated:								
Government	16	–	1	15	–	–	–	–
Total dollar-denominated	16	–	1	15	–	–	–	–
Total fixed maturities	8,752	632	122	9,262	8,394	580	375	8,599
Perpetual debentures:								
Yen-denominated:								
Banks/financial institutions	4,297	225	110	4,412	3,700	103	208	3,595
Total perpetual debentures	4,297	225	110	4,412	3,700	103	208	3,595
Total securities held to maturity	\$13,049	\$ 857	\$ 232	\$ 13,674	\$12,094	\$ 683	\$ 583	\$ 12,194

The components of net investment income for the years ended December 31 were as follows:

(In millions)	2003	2002	2001
Fixed-maturity securities	\$ 1,486	\$ 1,337	\$ 1,281
Perpetual debentures	314	289	277
Equity securities and other	2	3	2
Short-term investments and cash equivalents	6	5	9
Gross investment income	1,808	1,634	1,569
Less investment expenses	21	20	19
Net investment income	\$ 1,787	\$ 1,614	\$ 1,550

Investments in debt securities, which individually exceeded 10% of shareholders' equity as of December 31, were as follows:

(In millions)	2003			2002		
	Credit Rating	Amortized Cost	Fair Value	Credit Rating	Amortized Cost	Fair Value
Japan National Government	AA	\$7,051	\$8,691	AA	\$6,023	\$7,878
HSBC	A	938	1,069	*	*	*
The Israel Electric Corporation Ltd.**	A/BBB	932	941	A	719	764
Credit Suisse First Boston	A	826	847	A	767	745
Republic of Tunisia	BBB	776	789	*	*	*
Takefuji Corporation	BBB	737	578	A	676	733
HBOS PLC**	AA/A	697	716	*	*	*

* Less than 10%

** For this issuer, we own more than one security with different ratings.

Privately issued securities held by AFLAC Japan at amortized cost accounted for \$23.3 billion, or 58.1%, and \$19.3 billion, or 56.3%, of total debt securities at December 31, 2003 and 2002, respectively. Total privately issued securities, at amortized cost, accounted for \$25.1 billion, or 62.8%, of our total debt securities as of December 31, 2003, compared with \$20.6 billion, or 60.2%, at December 31, 2002. Of the total privately issued securities, reverse-dual currency debt securities (principal payments in yen, interest payments in dollars) accounted for \$6.5 billion, or 25.7%, and \$4.7 billion, or 22.6%, at amortized cost as of December 31, 2003 and 2002, respectively.

At December 31, 2003, we owned debt securities that were rated below investment grade in the amount of \$1.1 billion at amortized cost (\$1.0 billion at fair value), or 2.8% of total debt securities, compared with \$791 million at amortized cost (\$635 million at fair value), or 2.3% of total debt securities in 2002. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies. These securities are held in the available-for-sale portfolio.

As of December 31, 2003, \$154 million, at fair value, of AFLAC Japan's debt securities had been pledged to Japan's

policyholder protection fund. At December 31, 2003, debt securities with a fair value of \$10 million were on deposit with regulatory authorities in the United States, Japan and Hong Kong. We retain ownership of all securities on deposit and receive the related investment income.

Information regarding realized and unrealized gains and losses from investments for the years ended December 31 follows:

(In millions)	2003	2002	2001
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	\$ 72	\$ 97	\$ 66
Gross losses from sales	(366)	(47)	(23)
Impairment losses	-	(37)	(55)
Net gains from redemptions	8	-	1
Total debt securities	(286)	13	(11)
Equity securities:			
Gross gains from sales	19	8	29
Gross losses from sales	(33)	(14)	(18)
Impairment losses	(1)	(21)	(31)
Total equity securities	(15)	(27)	(20)
Total realized investment losses	\$ (301)	\$ (14)	\$ (31)
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	\$ (331)	\$ 798	\$ 944
Transferred to held to maturity	(16)	11	(387)
Equity securities	44	(34)	(46)
Change in unrealized gains (losses)	\$ (303)	\$ 775	\$ 511

The large realized investment losses in 2003 related primarily to the sale of our investment in Parmalat. Following several credit ratings downgrades of its debt, we sold all of our holdings in Parmalat and realized a pretax loss of \$257 million. We also sold our investment in Levi Strauss at a pretax loss of \$38 million. These investment losses and other investment transactions in the normal course of business decreased pretax earnings by \$301 million (after-tax, \$191 million or \$.37 per diluted share).

In 2002, we recognized pretax impairment losses of \$58 million. These impairment losses were related to the corporate debt security of a Japanese issuer (\$37 million) and various equity securities we believe experienced other than temporary declines in fair value. These impairment losses and other investment transactions in the normal course of business decreased pretax earnings by \$14 million (after-tax, \$15 million or \$.03 per diluted share).

In 2001, we recognized pretax impairment losses of \$86 million. These impairment losses were primarily related to the corporate debt securities of a U.S. issuer and a European issuer, both of which experienced credit rating downgrades. We also recognized pretax impairment losses on equity securities of \$31 million, which included a \$28 million loss related to our investment in two human resource service companies. In addition, we realized investment gains in connection with a change in the outside investment manager of a portion of our U.S. equity securities portfolio. These gains and impairment losses, when included with other investment transactions in the normal course of business, decreased pretax earnings by \$31 million (after-tax, \$34 million or \$.06 per diluted share).

Fair values of debt securities and privately issued equity securities were determined using quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources. The data used in estimating fair value include credit spreads of comparably credit-rated securities and market quotations of securities with similar maturity and call structure characteristics. Fair values are then computed using standard industry models that provide pricing data based on a wide variety of inputs as noted above. The fair values provided by outside sources are reviewed internally for reasonableness. If a fair value appears unreasonable, the inputs are re-examined and the value is confirmed or revised. The fair values for publicly traded equity securities were determined using market quotations from the public exchange markets where the security is principally traded.

The fair value and unrealized loss for debt and equity securities in an unrealized loss position at December 31, 2003 are shown in the table at the top of the next column:

The net effect on shareholders' equity of unrealized gains and losses from investment securities at December 31 was as follows:

(In millions)	2003	2002
Unrealized gains on securities available for sale	\$ 2,918	\$ 3,204
Unamortized unrealized gains on securities transferred to held to maturity	608	625
Deferred income taxes	(1,210)	(1,413)
Shareholders' equity, net unrealized gains on investment securities	\$ 2,316	\$ 2,416

The fair value of our investments in debt securities can fluctuate greatly as a result of changes in interest rates and foreign currency exchange rates. We believe that the declines in fair value in the table below primarily resulted from changes in the interest rate and foreign currency environments rather than credit issues. Therefore, we believe that it would be inappropriate to recognize impairment charges for changes in fair value that we believe are temporary.

(In millions)	Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and guaranteed:						
Dollar-denominated	\$ 58	\$ 2	\$ 58	\$ 2	\$ -	\$ -
Yen-denominated	583	6	583	6	-	-
Municipalities:						
Dollar-denominated	11	-	11	-	-	-
Mortgage-backed securities						
Dollar-denominated	53	2	53	2	-	-
Yen-denominated	37	1	37	1	-	-
Public Utilities:						
Dollar-denominated	63	2	63	2	-	-
Yen-denominated	810	66	521	30	289	36
Sovereign and supranational:						
Dollar-denominated	5	-	5	-	-	-
Yen-denominated	635	42	635	42	-	-
Banks/financial institutions and other corporate:						
Dollar-denominated	197	7	197	7	-	-
Yen-denominated	1,336	257	1,336	257	-	-
Other corporate:						
Dollar-denominated	536	20	480	19	56	1
Yen-denominated	1,680	210	1,436	157	244	53
Perpetual debentures:						
Yen-denominated	3,189	258	2,701	182	488	76
Total debt securities	9,193	873	8,116	707	1,077	166
Equity securities	4	-	1	-	3	-
Total temporarily impaired securities	\$ 9,197	\$ 873	\$ 8,117	\$ 707	\$ 1,080	\$ 166

We attempt to match the duration of our assets with the duration of our liabilities. For AFLAC Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related investment assets due to the unavailability of acceptable yen-denominated long-duration securities. The average duration of policy benefits and related expenses to be paid in future years was approximately 12 years at both December 31, 2003 and December 31, 2002. The average duration of the yen-denominated debt securities was approximately 11 years at December 31, 2003 and 10 years at December 31, 2002. The average duration of premiums to be received in the future was approximately nine years on policies in force at both December 31, 2003 and December 31, 2002.

Over the next two years, we have several yen-denominated securities that mature with yields in excess of AFLAC Japan's current net investment yield of 4.16%. These securities total \$508 million at amortized cost and have an average yield of 5.13%. These maturities will contribute to a continued decline in our overall portfolio yield. Currently, when our debt securities mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the investment yield on new investments has exceeded interest requirements on policies issued in recent years. Since 1994, premium rates on new business have been increased several times to help offset the lower available investment yields. Also in recent years, our strategy of developing and marketing riders as attachments to our older policies has helped offset the negative investment spread. In spite of the negative investment spreads, overall profit margins in AFLAC Japan's aggregate block of business are adequate because of profits that continue to emerge from changes in mix of business and favorable mortality, morbidity, and expenses.

The contractual maturities of our investments in fixed maturities at December 31, 2003, were as follows:

(In millions)	AFLAC Japan		AFLAC U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	\$ 594	\$ 605	\$ 98	\$ 100
Due after one year through five years	1,479	1,661	131	147
Due after five years through 10 years	5,433	6,911	496	567
Due after 10 years	11,199	11,850	4,119	4,516
U.S. mortgage-backed securities	69	71	67	67
Total fixed maturities available for sale	\$ 18,774	\$ 21,098	\$ 4,911	\$ 5,397
Held to maturity:				
Due after one year through five years	\$ 52	\$ 55	\$ -	\$ -
Due after five years through 10 years	1,650	1,861	-	-
Due after 10 years	7,034	7,332	16	15
Total fixed maturities held to maturity	\$ 8,736	\$ 9,248	\$ 16	\$ 15

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

In recent years we have purchased subordinated perpetual debenture securities. These securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the interest coupons that were fixed at the issue date

subsequently increase to a market interest rate plus 150 to 300 basis points and change to a variable interest rate basis, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual debentures at December 31, 2003, were as follows:

(In millions)	AFLAC Japan		AFLAC U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due after one year through five years	\$ 542	\$ 631	\$ 55	\$ 65
Due after five years through 10 years	63	101	-	-
Due after 10 years through 15 years	560	571	-	-
Due after 15 years	1,914	1,818	146	163
Total perpetual debentures available for sale	\$ 3,079	\$ 3,121	\$ 201	\$ 228
Held to maturity:				
Due after one year through five years	\$ 148	\$ 158	\$ -	\$ -
Due after five years through 10 years	1,111	1,205	-	-
Due after 10 years through 15 years	1,518	1,543	-	-
Due after 15 years	1,520	1,506	-	-
Total perpetual debentures held to maturity	\$ 4,297	\$ 4,412	\$ -	\$ -

As part of our investment activities, we own yen-denominated investments in variable interest entities (VIEs) totaling \$1.5 billion at amortized cost, or \$1.3 billion at fair value. We completed our review of these investments and concluded that we are the primary beneficiary. Therefore, we will consolidate our interests in accordance with FIN 46, Consolidation of Variable Interest Entities, effective March 31, 2004. The activities of these VIEs are limited to holding subordinated notes representing Tier 1 bank capital and utilizing the proceeds from the subordinated notes to service our investments therein. These VIEs are classified as available-for-sale fixed-maturity or perpetual securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The consolidation of these investments will not impact our financial position or results of operations.

We also own investments in fixed-maturity qualified special purpose entities (QSPEs). At December 31, 2003, available-for-sale QSPEs totaled \$1.0 billion at fair value (\$1.0 billion at amortized cost), compared with \$678 million at fair value (\$679 million at amortized cost) a year ago. At December 31, 2002, we had one held-to-maturity QSPE totaling \$267 million at amortized cost (\$230 million at fair value). We reclassified this QSPE to the available-for-sale portfolio in 2003 when it experienced a credit rating downgrade.

The underlying collateral assets of the QSPEs are yen-denominated securities, dollar-denominated securities, or dollar-

denominated securities that have been effectively transformed into yen-denominated assets through the use of currency and interest rate swaps. Each QSPE has a default trigger whereby default on any of the underlying notes would force dissolution of the QSPE, distribution of the underlying securities, and termination of the related swaps. We have no equity interests in any of the QSPEs, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulations became effective that impact investment classifications and solvency margin ratios on a Japanese accounting basis. As a result of these new requirements, we reclassified debt securities with amortized cost of \$1.8 billion from the held-to-maturity category to the available-for-sale category as of March 31, 2001. Included in accumulated other comprehensive income immediately prior to the transfer was an unamortized unrealized gain of \$327 million related to these securities. This gain represented the remaining unamortized portion of a \$1.1 billion unrealized gain that was established in 1998 when we reclassified \$6.4 billion of debt securities from the available-for-sale category to the held-to-maturity category.

We also reclassified debt securities with a fair value of \$2.3 billion from the available-for-sale category to the held-to-maturity category as of March 31, 2001. The related unrealized gain of \$118 million is being amortized from accumulated other comprehensive income to investment income over the remaining term of the securities. The related premium in the carrying value of the debt securities that was created when the reclassification occurred is also being amortized as an offsetting charge to investment income.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These securities continue to be carried as investment assets on our balance sheet during the term of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. These short-term security lending arrangements increase investment income with minimal risk. At December 31, 2003 and 2002, we had security loans outstanding with a fair value of \$365 million and \$1.0 billion, respectively, and we held cash in the amount of \$374 million and \$1.0 billion, respectively, as collateral for the loaned securities.

Our security lending policy requires that the fair value of the securities received as collateral and cash received as collateral be 102% and 100% or more, respectively, of the fair value of the loaned securities.

4. FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of the Company's financial instruments as of December 31 were as follows:

(In millions)	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Fixed-maturity securities	\$ 35,247	\$ 35,758	\$ 31,053	\$ 31,258
Perpetual debentures	7,646	7,761	6,430	6,325
Equity securities	73	73	258	258
Liabilities:				
Notes payable (excl. capitalized leases)	1,382	1,451	1,283	1,333
Cross-currency swaps	29	29	(25)	(25)
Obligation to Japanese policyholder protection fund	265	265	227	227

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the table presented above.

The methods of determining the fair values of our investments in debt and equity securities are described in Note 3. The fair values for notes payable with fixed interest rates were obtained from an independent financial information service. The fair values for our cross-currency swaps are the expected amounts that we would receive or pay to terminate the swaps, taking into account current interest rates, foreign currency rates and the current creditworthiness of the swap counterparties. The fair value of the Japanese policyholder protection fund is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation payable in future years.

The preceding table excludes liabilities for future policy benefits of \$35.6 billion and \$29.8 billion at December 31, 2003 and 2002, respectively, as these liabilities are not considered financial instruments.

As of December 31, 2003, we had outstanding cross-currency swap agreements related to the \$450 million senior notes (see Note 6). We designated these cross-currency swaps as a hedge of the foreign currency exposure of our investment in AFLAC Japan. The notional amounts and terms of the swaps match the principal amount and terms of the senior notes.

Our risk management objectives related to our cross-currency swaps are to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations and to also reduce our interest expense by converting the dollar-denominated principal and interest on our senior notes into yen-denominated obligations. By entering into these cross-currency swaps, we have effectively converted the dollar-denominated principal and interest into yen-denominated obligations, thereby reducing our interest expense from 6.5% in dollars to 1.67% in yen. See Note 1 for information on the accounting policy for cross-currency swaps.

The components of the fair value of the cross-currency swaps were reflected as an asset or (liability) on the balance sheet as of December 31 as follows:

(In millions)	2003	2002
Interest rate component	\$ 36	\$ 38
Foreign currency component	(69)	(18)
Accrued interest component	4	5
Total fair value of cross-currency swaps	\$ (29)	\$ 25

The following is a reconciliation of the foreign currency component of the cross-currency swaps as included in accumulated other comprehensive income.

(In millions)	2003	2002	2001
Balance, beginning of year	\$ (18)	\$ 27	\$ (34)
Increase (decrease) in fair value of cross-currency swaps	(54)	(8)	62
Interest rate component not qualifying for hedge accounting reclassified to net earnings	3	(37)	(1)
Balance, end of year	\$ (69)	\$ (18)	\$ 27

We are exposed to credit risk in the event of nonperformance by counterparties to these contracts. The counterparties to our swap agreements are U.S. and Japanese financial institutions with the following credit ratings as of December 31:

Counterparty Credit Rating	2003		2002	
	Fair Value of Swaps	Notional Amount of Swaps	Fair Value of Swaps	Notional Amount of Swaps
AA	\$ (25)	\$ 375	\$ 20	\$ 375
A	(4)	75	5	75
Total	\$ (29)	\$ 450	\$ 25	\$ 450

We have also designated our yen-denominated notes payable (see Note 6) as hedges of the foreign currency exposure of our investment in AFLAC Japan.

5. POLICY LIABILITIES

Our policy liabilities primarily include future policy benefits and unpaid policy claims, which accounted for 91% and 5% of total policy liabilities at December 31, 2003, respectively. Future policy benefits represent claims that will occur in the future and are calculated as the present value of expected benefits to be paid less the present value of expected net premiums, including a provision for adverse deviation. These present values are determined at policy issuance. Unpaid policy claims include those claims that have occurred and are in the process of payment as well as an estimate of those claims that have occurred but have not yet been reported to us. We regularly review the adequacy of our policy liabilities in total and by component.

The liability for future policy benefits as of December 31 consisted of the following:

(In millions)	Policy Issue Year	Liability Amounts		Interest Rates	
		2003	2002	Year of Issue	In 20 Years
Health insurance:					
Japan:	1999 - 2003	\$ 2,046	\$ 1,109	3.0%	3.0%
	1997 - 1999	2,249	1,842	3.5	3.5
	1995 - 1996	240	199	4.0	4.0
	1994 - 1996	3,318	2,780	4.5	4.5
	1985 - 1994	16,041	13,816	5.25 - 5.65	5.25 - 5.65
	1978 - 1986	4,352	3,848	6.5 - 6.75	5.5
	1974 - 1979	974	860	7.0	5.0
U.S.:	1998 - 2003	587	433	7.0	7.0
	1988 - 2003	924	882	8.0	6.0
	1986 - 2003	1,099	965	6.0	6.0
	1985 - 1986	26	26	6.5	6.5
	1981 - 1986	235	240	7.0	5.5
	Other	39	41		
Life insurance:					
Japan:	2001 - 2003	21	9	1.85	1.85
	1999 - 2003	496	275	3.0	3.0
	1997 - 1999	511	411	3.5	3.5
	1994 - 1996	838	695	4.0	4.0
	1985 - 1993	1,526	1,311	5.25 - 5.65	5.25 - 5.65
U.S.:	1956 - 2003	66	55	4.0 - 6.0	4.0 - 6.0
Total		\$ 35,588	\$ 29,797		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 4.9% in 2003, 5.0% in 2002, and 5.1% in 2001; and for U.S. policies, 6.4% in 2003, 2002 and 2001.

Changes in the liability for unpaid policy claims are summarized as follows for the years ended December 31:

(In millions)	2003	2002	2001
Unpaid supplemental health claims, beginning of year	\$ 1,678	\$ 1,540	\$ 1,670
Add claims incurred during the year related to:			
Current year	4,237	3,642	3,454
Prior years	(275)	(354)	(304)
Total incurred	3,962	3,288	3,150
Less claims paid during the year on claims incurred during:			
Current year	2,799	2,402	2,285
Prior years	982	866	821
Total paid	3,781	3,268	3,106
Effect of foreign exchange rate changes on unpaid claims	149	118	(174)
Unpaid supplemental health claims, end of year	2,008	1,678	1,540
Unpaid life claims, end of year	107	75	75
Total liability for unpaid policy claims	\$ 2,115	\$ 1,753	\$ 1,615

Amounts shown for prior-year claims incurred during the year primarily result from actual claim settlements at less than the original estimates.

6. NOTES PAYABLE

A summary of notes payable as of December 31 follows:

(In millions)	2003	2002
6.50% senior notes due April 2009 (principal amount \$450)	\$ 449	\$ 449
Yen-denominated Samurai notes:		
1.55% notes due October 2005 (principal amount ¥30 billion)	280	250
.87% notes due June 2006 (principal amount ¥40 billion)	373	334
.96% notes due June 2007 (principal amount ¥30 billion)	280	250
Obligations under capitalized leases, payable monthly through 2007, secured by computer equipment in Japan	27	29
Total notes payable	\$ 1,409	\$ 1,312

The Parent Company has issued ¥100 billion of yen-denominated Samurai notes in Japan. These securities are not available to U.S. residents or entities. In 2000, we issued ¥30 billion (approximately \$277 million at issuance); in 2001, we issued ¥40 billion (approximately \$333 million at issuance); and in 2002, we issued ¥30 billion (approximately \$254 million at issuance). All three issues are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium.

For our yen-denominated loans, the principal amount as stated in dollar terms will fluctuate from period to period as the yen/dollar exchange rate fluctuates. We have designated these yen-denominated notes payable as a hedge of the foreign currency exposure of our investment in AFLAC Japan.

In 1999, we issued \$450 million of 6.50% senior notes due April 2009. The notes are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium. We have entered into cross-currency swaps related to these notes (see Note 4).

In December 2003, the Parent Company filed a shelf Registration Statement with Japanese regulatory authorities to issue up to ¥100 billion of yen-denominated Samurai notes in Japan. These securities will not be available to U.S. persons or entities.

The aggregate contractual maturities of notes payable during each of the years after December 31, 2003, are as follows: 2004, \$11 million; 2005, \$287 million; 2006, \$378 million; 2007, \$283 million; 2008, \$1 million; and 2009, \$450 million.

We were in compliance with all of the covenants of our notes payable at December 31, 2003. No events of default or defaults occurred during 2003 and 2002.

7. INCOME TAXES

The components of income tax expense (benefit) applicable to pretax earnings for the years ended December 31 were as follows:

(In millions)	Japan	U.S.	Total
2003:			
Current	\$ 184	\$ 28	\$ 212
Deferred	118	100	218
Total income tax expense	\$ 302	\$ 128	\$ 430
2002:			
Current	\$ 327	\$ 26	\$ 353
Deferred	(4)	89	85
Total income tax expense	\$ 323	\$ 115	\$ 438
2001:			
Current	\$ 313	\$ 25	\$ 338
Deferred	(14)	70	56
Total income tax expense	\$ 299	\$ 95	\$ 394

Income tax expense in the accompanying statements of earnings varies from the amount computed by applying the expected U.S. tax rate of 35% to pretax earnings. The principal reasons for the differences and the related tax effects for the years ended December 31 are summarized as follows:

(In millions)	2003	2002	2001
Income taxes based on U.S. statutory rates	\$ 429	\$ 441	\$ 378
Utilization of foreign tax credit carryforwards	(18)	(21)	(21)
Noninsurance losses generating no current tax benefit	—	—	12
Nondeductible expenses	5	12	11
Other, net	14	6	14
Income tax expense	\$ 430	\$ 438	\$ 394

Total income tax expense for the years ended December 31 was allocated as follows:

(In millions)	2003	2002	2001
Statements of earnings	\$ 430	\$ 438	\$ 394
Other comprehensive income:			
Changes in unrealized foreign currency translation gains	(112)	(81)	99
Minimum pension liability adjustment	(12)	—	—
Unrealized gains on investment securities:			
Unrealized holding gains (losses) arising during the year	(313)	239	110
Reclassification adjustment for realized (gains) losses included in net earnings	110	(1)	(2)
Total income tax expense (benefit) allocated to other comprehensive income	(327)	157	207
Additional paid-in capital (exercise of stock options)	(1)	(1)	(1)
Total income taxes	\$ 102	\$ 594	\$ 600

Changes in unrealized foreign currency translation gains/losses included a deferred income tax benefit of \$111 million in 2003 and \$80 million in 2002, compared with deferred income tax expense of \$98 million in 2001, which represented Japanese income taxes on currency translation gains/losses that arose for Japanese tax purposes from the translation of AFLAC Japan's dollar-denominated investments into yen.

The income tax effects of the temporary differences that gave rise to deferred income tax assets and liabilities as of December 31 were as follows:

(In millions)	2003	2002
Deferred income tax liabilities:		
Deferred policy acquisition costs	\$ 1,382	\$ 1,144
Unrealized gains on investment securities	1,117	1,018
Other basis differences in investment securities	70	275
Premiums receivable	110	92
Other	32	11
Total deferred income tax liabilities	2,711	2,540
Deferred income tax assets:		
Policy benefit reserves	64	140
Policyholder protection fund obligation	83	70
Unfunded retirement benefits	37	35
Other accrued expenses	63	66
Tax credit carryforwards	128	128
Policy and contract claims	71	36
Difference in tax basis of investment in AFLAC Japan	205	49
Unrealized exchange loss on yen-denominated notes payable	67	20
Capital loss carryforwards	106	—
Other	135	93
Total gross deferred income tax assets	959	637
Less valuation allowance	234	196
Total deferred income tax assets	725	441
Net deferred income tax liability	1,986	2,099
Current income tax liability	203	265
Total income tax liability	\$ 2,189	\$ 2,364

A valuation allowance is provided when it is more likely than not that deferred tax assets will not be realized. We have established valuation allowances primarily for alternative minimum tax credit and noninsurance loss carryforwards that exceed projected future offsets. Under U.S. income tax rules, only 35% of noninsurance losses can be offset against life insurance taxable income each year. During 2003, the valuation allowance for deferred tax assets increased by \$38 million, compared with \$70 million in 2002, due to changes in carryforwards of alternative minimum tax credits and noninsurance losses. For current U.S. income tax purposes, alternative minimum tax credit carryforwards of \$128 million were available at December 31, 2003.

8. SHAREHOLDERS' EQUITY

The following is a reconciliation of the number of shares of the Company's common stock for the years ended December 31:

(In thousands of shares)	2003	2002	2001
Common stock - issued:			
Balance, beginning of year	648,618	646,559	644,813
Exercise of stock options	2,936	2,059	1,746
Balance, end of year	651,554	648,618	646,559
Treasury stock:			
Balance, beginning of year	134,179	124,944	115,603
Purchases of treasury stock:			
Open market	10,188	12,094	12,219
Other	215	195	168
Shares issued to AFL Stock Plan	(1,766)	(1,776)	(1,830)
Exercise of stock options	(1,154)	(1,278)	(1,216)
Balance, end of year	141,662	134,179	124,944
Shares outstanding, end of year	509,892	514,439	521,615

Share Repurchase Program: As of December 31, 2003, we had approximately seven million shares available for purchase under the share repurchase program authorized by the board of directors in February 2002. In February 2004, the board of directors authorized the purchase of up to an additional 30 million shares of our common stock.

Stock Split: In 2001, the board of directors declared a two-for-one stock split. Upon distribution of the split, we transferred \$32 million from additional paid-in capital to common stock representing the par value of the new shares.

Stock Options: The Company's stock option plan allows grants for both incentive stock options and non-qualifying stock options (NQSO) to employees and NQSO to members of the board of directors. The options have a term of 10 years. The exercise price is equal to the fair market value at the date of grant. The majority of our options generally vest after three years. At December 31, 2003, seven million shares were available for future grants.

We use the intrinsic value method to value stock options in accordance with APB No. 25. Under this method, we do not recognize compensation cost for stock options because the exercise price is equal to the fair market value at the date of grant. See Note 1 for additional information regarding stock options.

The following table summarizes stock option activity:

(In thousands of shares)	Option Shares	Weighted-Average Exercise Price Per Share	
Outstanding at December 31, 2000	25,981	\$ 13.27	
Granted in 2001	2,442	28.29	
Canceled in 2001	(123)	23.29	
Exercised in 2001	(3,043)	6.89	
Outstanding at December 31, 2001	25,257	15.44	
Granted in 2002	2,056	27.82	
Canceled in 2002	(77)	26.33	
Exercised in 2002	(3,476)	7.53	
Outstanding at December 31, 2002	23,760	17.64	
Granted in 2003	2,324	31.70	
Canceled in 2003	(74)	29.14	
Exercised in 2003	(4,374)	8.96	
Outstanding at December 31, 2003	21,636	\$ 20.87	
(In thousands of shares)	2003	2002	2001
Shares exercisable, end of year	15,325	15,072	16,329

The following table summarizes information about stock options outstanding at December 31, 2003:

(In thousands of shares)		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Wgtd.-Avg. Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 4.92 - \$ 7.92	2,394	1.99	\$ 7.70	2,394	\$ 7.70
8.48 - 13.31	2,480	3.29	11.82	2,480	11.82
13.66 - 15.05	2,862	4.35	14.85	2,862	14.85
15.22 - 22.73	2,237	5.87	21.77	2,237	21.77
22.84 - 23.23	3,798	6.44	23.22	3,798	23.22
23.41 - 25.12	2,443	7.02	24.41	1,184	24.01
25.13 - 30.38	2,192	7.31	28.84	331	27.77
30.57 - 35.85	3,230	9.13	31.43	39	32.76
\$ 4.92 - \$ 35.85	21,636	5.81	\$ 20.87	15,325	\$ 17.36

For the pro forma information presented in Note 1, the fair value of each option granted was estimated on the date of grant using the Black-Scholes multiple option approach with the following assumptions for options granted during the three-year period ended December 31, 2003.

	2003	2002	2001
Expected life from vesting date (years)	2.9 - 3.7	4.3 - 5.5	4.4 - 5.6
Dividend yield	.8%	.8%	.8%
Expected volatility	26.1%	31.9%	32.4%
Risk-free interest rate	4.5%	5.0%	5.0%

For the year ended December 31, 2003, there were approximately 304,400 weighted-average shares, compared with 987,900 in 2002 and 1,057,900 in 2001, for outstanding stock options that were not included in the calculation of weighted-average shares used in the computation of diluted earnings per share because the exercise price for these options was greater than the average market price during these periods.

Voting Rights: In accordance with the Parent Company's articles of incorporation, shares of common stock are generally entitled to one vote per share until they have been held by the same beneficial owner for a continuous period of 48 months, at which time they become entitled to 10 votes per share.

9. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

Our insurance subsidiary is required to report its results of operations and financial position to state insurance regulatory authorities on the basis of statutory accounting practices prescribed or permitted by such authorities. Our branch in Japan, AFLAC Japan, must report its results of operations and financial position to the Japanese Financial Services Agency (FSA) on a Japanese statutory accounting basis as prescribed by the FSA.

As determined on a U.S. statutory accounting basis, AFLAC's net income was \$742 million in 2003, \$506 million in 2002 and \$370 million in 2001. Capital and surplus was \$2.4 billion and \$2.1 billion at December 31, 2003 and 2002, respectively.

Net assets of the insurance subsidiaries aggregated \$7.9 billion at December 31, 2003, on a GAAP basis, compared with \$7.5 billion a year ago. AFLAC Japan accounted for \$4.6 billion, or 58.7%, of these net assets, compared with \$4.8 billion, or 64.0% at December 31, 2002.

Reconciliations of AFLAC's net assets on a GAAP basis to capital and surplus determined on a U.S. statutory accounting basis as of December 31 were as follows:

(In millions)	2003	2002
Net assets on GAAP basis	\$ 7,899	\$ 7,481
Adjustment of carrying values of investments	(3,482)	(3,831)
Elimination of deferred policy acquisition costs	(4,978)	(4,221)
Adjustment to policy liabilities	1,049	769
Adjustment to deferred income taxes	2,247	2,336
Other, net	(382)	(421)
Net assets on U.S. statutory accounting basis	\$ 2,353	\$ 2,113

Capital and surplus (unaudited) of AFLAC Japan, based on Japanese statutory accounting practices, aggregated \$2.6 billion and \$3.2 billion at December 31, 2003 and 2002, respectively. Japanese statutory accounting practices differ in many respects from U.S. GAAP. Under Japanese statutory accounting practices, premium income is recognized on a cash basis, policy acquisition costs are charged off immediately, policy benefit and claim reserving methods and assumptions are different, policyholder protection fund obligations are not accrued, and deferred income tax liabilities are recognized on a different basis.

The Parent Company depends on its subsidiaries for cash flow, primarily in the form of dividends and management fees. Consolidated retained earnings in the accompanying financial statements largely represent undistributed earnings of our insurance subsidiary. Amounts available for dividends, management fees and other payments to the Parent Company by its insurance subsidiary may fluctuate due to different accounting methods required by regulatory authorities. These payments are also subject to various regulatory restrictions and approvals related to safeguarding the interests of insurance policyholders. One of the primary considerations is that our insurance subsidiary must maintain adequate risk-based capital for U.S. regulatory authorities and adequate solvency margins for Japanese regulatory authorities. Also, the maximum amount of dividends that can be paid to shareholders by insurance companies domiciled in the state of Nebraska without prior approval of the director of insurance is the greater of the net gain from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividend payments by AFLAC during 2004 in excess of \$738 million would require such approval. Dividends paid by AFLAC during 2003 were \$408 million.

A portion of AFLAC Japan earnings, as determined on a Japanese statutory accounting basis, can be remitted each year to AFLAC U.S. after complying with solvency margin provisions and satisfying various conditions imposed by Japanese regulatory authorities for protecting policyholders. Profit remittances to the United States can fluctuate due to changes in the amounts of Japanese regulatory earnings. Among other items, factors affecting regulatory earnings include Japanese regulatory accounting practices and fluctuations in currency translations of AFLAC Japan's dollar-denominated investments into yen. AFLAC Japan remitted profits of \$385 million, or ¥45.6 billion, to AFLAC U.S. during 2003, compared with \$383 million, or ¥45.3 billion in 2002, and \$185 million, or ¥23.0 billion in 2001. The 2001 profit repatriation was reduced as a result of our decision to retain earnings in Japan in order to enhance our solvency margin.

For the Japanese reporting fiscal year ended March 31, 2002, AFLAC Japan was required to adopt a new Japanese statutory accounting standard regarding fair value accounting for investments. Previously, investment securities were generally reported at amortized cost for FSA purposes. Under the new accounting standard, AFLAC Japan now classifies investment securities in either an available-for-sale category at fair value or a held-to-maturity category at amortized cost. Unrealized gains and losses on investment securities available for sale are reported in capital and surplus and reflected in solvency margin calculations. This new accounting standard may result in significant fluctuations in FSA equity, AFLAC Japan's solvency margin, and amounts available for annual profit repatriation.

10. BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees. Pension plan assets of our U.S. and Japanese plans consist of diverse portfolios of debt and equity securities. At December 31, 2003, other liabilities included a liability for both plans in the amount of \$65 million, compared with \$39 million a year ago. The projected benefit obligation of both our U.S. and Japanese plans significantly exceeded the fair value of plan assets at December 31, 2003 and 2002. The underfunded status of the plans was primarily attributable to steadily increasing pension benefit obligations combined with depressed fair values for the assets of both plans as a result of general market conditions for investment securities during 2003 and 2002. During 2003, market conditions affecting the fair value of U.S. plan assets improved, resulting in a positive return in 2003. Under GAAP, a minimum pension liability is required when the unfunded actuarial present value of the accumulated benefit obligation exceeds plan assets and the accrued pension liability. The change in the minimum pension liability in our U.S. plan included in other comprehensive income was \$9 million for the year ended December 31, 2003, compared with \$8 million a year ago. The change in the minimum pension liability in the Japanese plan included in other comprehensive income was \$27 million for the year ended December 31, 2003. There was no minimum pension liability in the Japanese plan included in other comprehensive income in the prior year.

The measurement date for performing the valuation of our U.S. plan is September 30. Reconciliations of the funded status of the basic employee defined-benefit pension plans with amounts recognized in the consolidated balance sheets as of December 31 were as follows:

	2003		2002	
(In thousands)	Japan	U.S.	Japan	U.S.
Projected benefit obligation:				
Benefit obligation, beginning of year	\$ 91,305	\$ 89,040	\$ 69,194	\$ 79,047
Service cost	8,538	5,078	5,491	3,901
Interest cost	3,352	6,268	1,953	5,505
Plan amendments	—	—	—	577
Actuarial loss (gain)	30,627	12,699	8,542	1,583
Benefits paid	(1,639)	(2,046)	(1,274)	(1,573)
Effect of foreign exchange rate changes	12,447	—	7,399	—
Benefit obligation transferred to government plan	(47,824)	—	—	—
Benefit obligation, end of year	96,806	111,039	91,305	89,040
Plan assets:				
Fair value of plan assets, beginning of year	45,746	45,829	39,419	48,761
Actual return on plan assets	1,353	4,106	(2,792)	(4,350)
Employer contribution	6,445	4,165	6,362	2,991
Benefits paid	(1,639)	(2,046)	(1,274)	(1,573)
Effect of foreign exchange rate changes	5,960	—	4,031	—
Assets transferred to government plan	(26,719)	—	—	—
Fair value of plan assets, end of year	31,146	52,054	45,746	45,829
Funded status	(65,660)	(58,985)	(45,559)	(43,211)
Unrecognized net actuarial loss (gain)	55,595	43,090	21,600	30,769
Unrecognized transition obligation (asset)	3,148	(232)	3,012	(354)
Unrecognized prior service cost	670	1,842	647	2,018
Adjustment for minimum pension liability	(27,189)	(16,858)	—	(8,080)
Liability for accrued benefit cost	\$ (33,436)	\$ (31,143)	\$ (20,300)	\$ (18,858)
Accumulated benefit obligation	\$ 64,582	\$ 83,196	\$ 63,207	\$ 66,705

Equity securities accounted for 59% of U.S. plan assets at December 31, 2003, compared with 54% a year ago. Equity securities for our U.S. plan included \$2 million (4% of plan assets) of AFLAC Incorporated common stock at both December 31, 2003 and 2002. Fixed-income securities accounted for 28% of U.S. plan assets at December 31, 2003, compared with 25% a year ago. Cash and cash equivalents accounted for 13% in 2003, compared with 21% a year ago. Target asset allocations for U.S. plan assets are 55% to 60% equity securities, 35% to 40% fixed-income securities and 5% to 10% cash and cash equivalents.

The investment objective of our U.S. plan is to preserve the purchasing power of the plan's assets and earn a reasonable inflation adjusted rate of return over a long-term horizon. Furthermore, we seek to accomplish these objectives in a manner that allows for the adequate funding of plan benefits and expenses. In order to achieve these objectives, our goal is to maintain a conservative, well-diversified and balanced portfolio of high quality equity, fixed-income and money market securities. As a part of our strategy, we have established strict policies covering investment security quality, type and concentration. These policies prohibit investments in derivatives, precious metals, limited partnerships, real estate, venture capital, futures contracts, and foreign securities. We are also prohibited from trading on margin.

We monitor U.S. plan asset performance results over a three to five year period utilizing shorter time frame performance measures to identify trends. We review investment performance and compliance with stated investment policies and practices on a quarterly basis. The specific three to five year investment objectives for the U.S. pension plan are to earn a total rate of return on equity securities which exceeds the rate of return for the Standard & Poor's 500 stock index and to earn a total rate of return on fixed-income securities, which exceeds the Merrill Lynch one-to-ten-year investment grade government/corporate bond index.

Expected future benefits payments for the U.S. plan were as follows: 2004, \$3 million; 2005, \$3 million; 2006, \$3 million; 2007, \$3 million; 2008, \$4 million; and 2009 through 2013, \$25 million. We estimate that contributions to fund the plan will be approximately \$6 million in 2004.

Equity securities accounted for 35% of Japanese plan assets at December 31, 2003, compared with 50% a year ago. Fixed-income securities accounted for 65% of Japanese plan assets, compared with 50% a year ago.

Our Japanese pension plan has two distinct components: the corporate portion and the substitutional portion. The corporate portion is based on a plan established by AFLAC Japan. The substitutional portion is based on the pay-related part of old-age pension benefits prescribed by the Japan Welfare Pension Insurance Law (JWPIL) and is similar to Social Security benefits in the United States. Benefits under the substitutional portion are calculated based on a standard remuneration schedule determined by the JWPIL. By maintaining the substitutional portion, AFLAC Japan was exempted from contributions to Japanese Pension Insurance (JPI).

In 2001, the JWPIL was amended to allow employers to transfer the substitutional portion of employer pension plans back to the Japanese government. The transfer process takes place in four distinct phases. In phase one, an agreement of separation and transfer is obtained from covered employees and subsequent application is made to the Japanese government for the transfer. In phase two, the Japanese government either approves or denies the application. Upon receipt of approval, the employer is relieved of the pension obligation related to future employee service under the substitutional portion of the plan. The employer then resumes making contributions to JPI. In phase three, a second application is made to the Japanese government to relieve the employer of the pension obligation related to past employee service. In phase

four, the Japanese government gives final approval for the separation. Upon receipt of approval, the employer is relieved of its obligation for past employee service under the substitutional portion. Plan assets related to the substitutional portion are then transferred to the JPI.

During 2003, we made the decision to separate the substitutional portion from the pension plan and transfer the obligation and related plan assets to the Japanese government. As of December 31, 2003, we had completed all four phases outlined above with the exception of the transfer of the related assets to the Japanese government. In January 2004, participants in the substitutional portion of the plan were notified by the Japanese government that it had assumed the liability for past and future service portions of the plan. However, as of December 31, 2003, we no longer had a pension obligation related to the substitutional plan. The Japanese government began making payments to plan participants effective December 1, 2003.

In accordance with EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, following transfer and acceptance of the substitutional plan assets, we will recognize a gain of \$7 million in the first quarter of 2004. This gain comprises a settlement loss and related increase in the accrued pension liability in the amount of \$17 million for the release of unrecognized losses related to the substitutional plan; a reduction in pension expense and related adjustment to the accrued pension liability in the amount of \$15 million for the release of the accrued pension cost related to the substitutional plan; and a subsidy from the Japanese government in the amount of \$9 million (other income) in connection with the completion of the transfer process.

In the course of separating the substitutional plan from our pension plan, we updated our covered salary assumptions, and revised withdrawal and payment rate tables and service date information for the corporate portion of the plan to better reflect its provisions. These changes resulted in an actuarial loss of \$26 million, which is included in the actuarial loss component of the Japanese plan benefit obligation as of December 31, 2003.

The components of retirement expense and actuarial assumptions for the pension plans for the years ended December 31 were as follows:

(In thousands)	2003		2002		2001	
	Japan	U.S.	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	\$ 8,538	\$ 5,078	\$ 5,491	\$ 3,901	\$ 4,132	\$ 3,583
Interest cost	3,352	6,268	1,953	5,505	1,784	5,072
Expected return on plan assets	(1,258)	(5,044)	(1,176)	(5,290)	(1,152)	(5,612)
Amortization of:						
Net actuarial loss	3,331	1,316	685	131	225	–
Transition obligation (asset)	310	(122)	290	(121)	295	(122)
Prior service cost	75	175	71	175	72	138
Net periodic benefit cost	\$ 14,348	\$ 7,671	\$ 7,314	\$ 4,301	\$ 5,356	\$ 3,059

Weighted-average actuarial assumptions used in the calculations:

Discount rate – net periodic benefit cost	2.5%	6.5%	2.5%	7.0%	2.5%	7.0%
Discount rate – benefit obligations	2.5	6.5	2.5	7.0	2.5	7.0
Expected long-term return on plan assets	2.5	9.0	2.5	9.0	2.5	9.0
Rate of compensation increase	3.5	4.0	3.5	4.0	3.5	4.0

We base the long-term rate of return on U.S. plan assets on the historical rates of return over the last 15 years and the expectation of similar returns over the long-term investment goals and objectives of U.S. plan assets.

In addition to the benefit obligations for funded employee plans, we also maintain unfunded supplemental retirement plans for certain officers and beneficiaries. Retirement expense for the unfunded supplemental plans was \$19 million in 2003, \$13 million in 2002, and \$15 million in 2001. The accrued retirement liability for the unfunded supplemental retirement plans at December 31, 2003 and 2002, was \$180 million and \$167 million, respectively. The actuarial present value of projected benefit obligations was \$194 million and \$172 million at December 31, 2003 and 2002, respectively. The assumptions used in the valuation of these plans were the same as for the funded plans.

Reconciliations of the benefit obligation of the unfunded retiree medical program and other postretirement benefits for U.S. employees with amounts recognized in the accompanying consolidated balance sheets as of December 31 were as follows:

(In thousands)	2003	2002
Benefit obligation:		
Benefit obligation, beginning of year	\$ 18,060	\$ 15,010
Service cost	681	423
Interest cost	1,231	1,051
Actuarial loss (gain)	1,763	2,722
Benefits paid	(1,193)	(1,146)
Unfunded benefit obligation, end of year	20,542	18,060
Unrecognized net actuarial gain (loss)	(5,195)	(3,714)
Unrecognized prior service cost	(266)	(291)
Accrued benefit cost	\$ 15,081	\$ 14,055

The components of expense for the retiree medical program and other postretirement benefits, along with actuarial assumptions, were as follows for the years ended December 31:

(In thousands)	2003	2002	2001
Service cost	\$ 681	\$ 423	\$ 522
Interest cost	1,231	1,051	1,020
Amortization of net (gain) loss	281	–	–
Amortization of prior service cost	26	25	25
Net periodic benefit cost	\$ 2,219	\$ 1,499	\$ 1,567
Discount rate:			
Net periodic cost	6.5%	7.0%	7.0%
Benefit obligations	6.5	7.0	7.0
Effect of 1-percentage point increase in health care cost trend rate:			
On total of service and interest cost components	\$ 2,331	\$ 183	\$ 168
On postretirement benefit obligation	1,650	1,279	1,070
Effect of 1-percentage point decrease in health care cost trend rate:			
On total of service and interest cost components	(1,886)	(156)	(143)
On postretirement benefit obligation	(1,437)	(1,113)	(919)

The projected health care cost trend rate used in 2003 was 11%, graded to 6% over six years.

Stock Bonus Plan: AFLAC U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants receive shares of AFLAC Incorporated common stock based on their new annualized premium sales and persistency of substantially all new insurance policies. The cost of this plan, which is included in deferred policy acquisition costs, amounted to \$32 million in 2003, \$30 million in 2002, and \$24 million in 2001.

11. COMMITMENTS AND CONTINGENT LIABILITIES

We lease office space and equipment under various agreements that expire in various years through 2021. Future minimum lease payments due under non-cancelable operating leases at December 31, 2003, were as follows: 2004, \$41 million; 2005, \$20 million; 2006, \$13 million; 2007, \$9 million; and thereafter, \$34 million.

A portion of AFLAC Japan's administrative office building is located on leased land. Under the terms of the lease agreement, we are committed to purchase the leased land, at fair value, upon the demand of the owner. As of December 31, 2003, the estimated fair value of the leased land was ¥1.8 billion (\$17 million using the year-end exchange rate).

We are a defendant in various lawsuits considered to be in the normal course of business. Some of this litigation is pending in states where large punitive damages bearing little relation to the actual damages sustained by plaintiffs have been awarded against other companies, including insurers, in recent years. Although the final results of any litigation cannot be predicted with certainty, we believe the outcome of pending litigation will not have a material adverse effect on our financial position, results of operations, or cash flows.

12. SUPPLEMENTARY INFORMATION

	2003	2002	2001
Weighted-average shares used in calculating earnings per share (In thousands):			
Average outstanding shares used for calculating basic EPS	513,220	517,541	525,098
Dilutive effect of stock options	8,918	10,785	12,285
Average outstanding shares used for calculating diluted EPS	522,138	528,326	537,383
Other:			
Policy acquisition costs deferred during the year (In millions)	\$ 874	\$ 756	\$ 651
Commissions deferred as a percentage of total acquisition costs deferred	76%	74%	71%
Personnel compensation and benefits as a percentage of insurance expenses	45%	47%	44%
Supplemental disclosures of cash flow information (In millions):			
Income taxes paid	\$ 333	\$ 363	\$ 347
Interest paid	18	22	23
Impairment losses included in realized investment losses	1	58	86
Noncash financing activities:			
Capitalized lease obligations	14	8	17
Treasury shares issued to AFL Stock Plan for:			
Shareholder dividend reinvestment	8	7	6
Associate stock bonus	31	22	17
Property and equipment (In millions):			
Land	\$ 142	\$ 131	\$ 117
Buildings	392	355	339
Equipment	243	219	186
	777	705	642
Less accumulated depreciation	259	223	186
Net property and equipment	\$ 518	\$ 482	\$ 456

**HONING
OUR
EDGE**

RESOLUTE \ 're-zə-lüt\ (adj) marked
by firm determination

Management's Responsibility for Financial Statements

Management is responsible for the consolidated financial statements of AFLAC Incorporated and subsidiaries. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based upon management's best estimates and judgments. Informed judgments and estimates are used for those transactions not yet complete or for which the ultimate effects cannot be measured precisely. Financial information elsewhere in this annual report is consistent with the information in the financial statements.

The company's internal controls are designed to reasonably assure that AFLAC Incorporated's books and records reflect the transactions of the company, that assets are safeguarded, and that the company's established policies and procedures are followed. The effectiveness of the controls system is supported by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility, and a comprehensive internal audit program.

The company engages KPMG LLP as independent auditors to audit its financial statements and express their opinion thereon. Their audits include reviews and tests of the company's internal controls to the extent they believe necessary to determine the audit procedures to be performed that will support their opinion. Members of that firm also have the right of full access to each

member of management in conducting their audits. The report of KPMG LLP appears below.

The audit committee of the board of directors, which comprises outside directors, serves in an oversight role to assure the integrity and objectivity of the company's financial reporting process. The committee meets periodically with representatives of management, as well as with the independent and internal auditors, to review matters of a material nature related to financial reporting and the planning, results and recommendations of audits. The independent and internal auditors have free access to the audit committee, without management present, to discuss any matter they believe should be brought to the attention of the committee. The committee is also responsible for making recommendations to the board of directors concerning the selection of the independent auditors.



Daniel P. Amos
Chairman and Chief Executive Officer



Kriss Cloninger III
President and Chief Financial Officer

Independent Auditors' Report

The shareholders and board of directors of AFLAC Incorporated:

We have audited the accompanying consolidated balance sheets of AFLAC Incorporated and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant

estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFLAC Incorporated and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.



Atlanta, Georgia
February 2, 2004

UNAUDITED CONSOLIDATED QUARTERLY FINANCIAL DATA

(In millions, except for per-share amounts)

Three months ended,	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Premium Income	\$ 2,372	\$ 2,407	\$ 2,478	\$ 2,664
Net Investment Income	430	436	448	473
Realized investment gains (losses)	(7)	(6)	(4)	(284)
Other income (loss)	12	24	9	(6)
Total revenues	2,807	2,861	2,931	2,847
Total benefits and expenses	2,437	2,484	2,560	2,741
Earnings before income taxes	370	377	371	106
Total income tax	133	129	134	33
Net earnings	\$ 237	\$ 248	\$ 237	\$ 73
Net earnings per basic share	\$.46	\$.48	\$.46	\$.14
Net earnings per diluted share	.45	.48	.45	.14

Three months ended,	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Premium Income	\$ 1,998	\$ 2,097	\$ 2,253	\$ 2,247
Net investment income	381	397	418	418
Realized investment gains (losses)	(8)	(3)	(3)	–
Other income (loss)	–	22	39	1
Total revenues	2,371	2,513	2,707	2,666
Total benefits and expenses	2,086	2,191	2,350	2,371
Earnings before income taxes	285	322	357	295
Total income tax	102	110	117	109
Net earnings	\$ 183	\$ 212	\$ 240	\$ 186
Net earnings per basic share	\$.35	\$.41	\$.46	\$.36
Net earnings per diluted share	.34	.40	.45	.35

Quarterly amounts may not agree in total to the corresponding annual amounts due to rounding.

**HONING
OUR
EDGE**

TRANSPARENT
 \tran(t)s-'par-ənt\\(adj) free
 from pretense or deceit;
 readily understood

Investor Information

Although the stock market began 2003 with a great deal of uncertainty, the year finished with a strong rally. Led by optimism of further economic improvement in the United States, the stock market posted gains for the first year since 1999. AFLAC's shares were also met with uncertainty beginning in April of last year as investors intensely focused on the sluggishness of AFLAC U.S. sales growth. However, our shares ended the year strongly and produced solid returns for our shareholders for the year.

2003 – A Year of Solid Market Performance

AFLAC's share price closed the year at \$36.18, up 20.1% from our 2002 closing price of \$30.12. By comparison, the Standard & Poor's 500 Index was up 26.4% and the Dow Jones Industrial Average rose 25.3% in 2003. Insurance stocks, as measured by the Standard & Poor's Life Insurance Index, also performed well, rising 25.3% in 2003. As a result, our shares modestly underperformed insurance stocks and broader market averages in 2003. However, unlike those market indicators, AFLAC's rise in value last year followed an increase of more than 22% in 2002.

Actually, AFLAC's shares have had a long history of strong market performance, reflecting our record of strong earnings growth. For example, our shares have outperformed the S&P 500 Index in 21 of the last 29 years. Including reinvested cash dividends, AFLAC's total return to shareholders was 21.2% in 2003. For the last five years, AFLAC's total return has compounded annually at 11.3%. And over the last 10 years, our total return to shareholders has compounded at 23.6% annually.

Although our shares underperformed the market in 2003, our total return to shareholders was 21.2% for the year. AFLAC's total return to shareholders has compounded at 11.3% annually over the last five years, which was significantly better than the negative returns of the S&P Life and Health Insurance and S&P 500 indices during the same period.

Peer Company Comparison

(S&P Life and Health Insurance Index Companies)

Symbol	Year-end Market Value (In billions)	2003 Return*	Five-Year Returns*	
			Total	Annual
AFLAC	AFL \$ 18.4	21.2%	70.9%	11.3%
Jefferson-Pilot	JP 7.1	36.9	14.4	2.7
John Hancock	JHF 10.9	35.7	**	**
Lincoln National	LNC 7.3	32.9	15.0	2.8
Metlife	MET 25.4	25.4	**	**
Prudential Financial	PRU 22.5	33.2	**	**
Torchmark	TMK 5.2	25.9	36.0	6.3
UnumProvident	UNM 4.7	(7.3)	(69.5)	(21.1)

* Includes reinvested cash dividends

** Not applicable

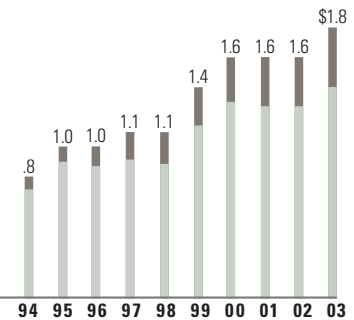
Despite continued low investment yields in Japan, net investment income rose 10.7% to a record \$1.8 billion.

Net Investment Income

(In billions)

U.S.

Japan



AFLAC's earliest shareholders have been extremely well-rewarded. Investors who purchased 100 shares when AFLAC was founded in 1955 paid \$1,110 for their investment. As a result of 28 stock dividends or stock splits, those 100 shares had grown to 187,980 shares at the end of the year, excluding reinvested cash dividends. At December 31, 2003, their original investment was worth more than \$6.8 million. In addition, AFLAC's early investors received approximately \$56,300 in cash dividends last year, or more than 50 times the acquisition price of those original 100 shares!

A Commitment to Serving Our Shareholders

We take our disclosure and service commitments to our shareholders very seriously. Our goal is to provide all members of the investment community with transparent and relevant disclosure of issues that may affect an investor's understanding of our operations. Whether distributing information about AFLAC through regulatory filings, additional financial material on aflac.com, or Internet webcasts, our overriding objective is to provide investors with the information they need to make informed investment decisions.

Our Shareholder Services Department provides stock transfer services and administers our dividend reinvestment plan. It also offers many shareholder services, including *aflinc*, which is accessed through our Web site, aflac.com. Through *aflinc*, shareholders can get secure Internet access to their investment accounts. Shareholders can also view account balances, complete investment transactions, change home and e-mail addresses, as well as view, download, and print dividend-related tax forms. We also provide electronic delivery of certain documents, such as reinvestment statements, proxy statements, and annual and quarterly reports to shareholders through *aflinc*. About 29,000 shareholders have signed up for *aflinc*, which represented nearly 38% of our registered shareholders at year-end. We also offer other informational services on aflac.com. The conference calls we conduct in conjunction with quarterly earnings releases are webcast at aflac.com and are archived for two weeks following the release. In addition, investors can access

webcasts of our company's analyst meetings. Investors can view and print the shareholder calendar of events at aflac.com or sign up for an e-mail alert notification service. This service automatically sends investors an e-mail message whenever news is made public about AFLAC. In addition, investors can find valuable financial information at our Web site. Annual and quarterly reports, SEC filings, and quarterly statistical financial supplements can all be easily downloaded from the Investor Relations page and printed.

A Broad Shareholder Base

Approximately 78,400 registered shareholders owned AFLAC shares at the end of 2003. The mix of our shareholder base has remained fairly stable over the last few years. Institutional investors own about half of our shares, with the balance owned by individual investors. Directors, employees and agents owned approximately 5% of the company's shares at the end of 2003.

AFLAC's shares have outperformed the S&P 500 and the S&P Life and Health Index in five of the last nine years.

Comparative Market Performance

(1994 = 100)



Based on data from the National Association of Investors Corporation (NAIC), AFLAC was again the most popular stock among its nearly 265,000 members in terms of number of shares held and the market value of those shares. According to research conducted by NAIC, its membership owned approximately 23 million shares of AFLAC.

Glossary

Benefit Ratio – Incurred claims plus the increase in reserves for future policy benefits, as a percentage of total revenues.

Corporate Agency – A principal component of the distribution system we use in Japan is affiliated corporate agencies. An affiliated corporate agency is one that is directly affiliated with a specific corporation. A corporation establishes the agency to sell our insurance policies to its employees on payroll deduction. In turn, we pay the agency a commission.

Deferred Policy Acquisition Costs (DAC) – Generally accepted accounting principles call for the matching of revenues and expenses. Therefore, the costs of acquiring new business, principally agents' current-year commissions in excess of ultimate renewal-year commissions, and certain policy issue, underwriting and marketing expenses, have been capitalized and deferred. These deferred policy acquisition costs are being amortized over the premium paying period of the related policies in approximate proportion of annual premium income to the total anticipated premium income.

Earnings Per Basic Share – Net earnings divided by the weighted-average number of shares outstanding for the period.

Earnings Per Diluted Share – Net earnings divided by the weighted-average number of shares outstanding for the period plus the weighted-average shares for the dilutive effect of stock options.

Future Policy Benefits – This is the largest liability on the balance sheet. The company accumulates reserves during the life of a policy to meet expected claim payments covered by the policy. Most policies in force in Japan also have cash value benefits for which reserves are accrued.

Incurred Claims – The amount of claims paid plus the change in the unpaid claims liability, including cash surrender values.

Net Earnings – Profits after taxes.

Persistency – The percentage of premiums remaining in force at the end of a period, usually one year. Example: 95% persistency would mean that 95% of the premiums in force at the beginning of the period were still in force at the end of the period.

Profit Repatriation – Profits of AFLAC Japan that are transferred to AFLAC U.S.

Return on Investments and Cash – Net investment income as a percentage of average investments and cash at amortized cost.

Total New Annualized Premium Sales – The annual premiums on policies sold and additional premiums on policies converted during the reporting period.

Total Return to Shareholders – The appreciation of a shareholder's investment over a period of time, including reinvested cash dividends paid during that time.

Floyd and Ella Adams of Monroe, Georgia are long-time AFLAC shareholders and policyholders. They have owned AFLAC stock for more than 25 years, and they have been AFLAC policyholders since the mid-1950s. AFLAC has more than 78,000 registered shareholders.



Board of Directors



Daniel P. Amos, 52, is chairman and chief executive officer of AFLAC and AFLAC Incorporated. He has been with the company full-time since 1973. He was named president of AFLAC in 1983, chief operating officer in 1987, chief executive officer of AFLAC Incorporated in 1990, and chairman in 2001. He has been a member of AFLAC Incorporated's board since 1983.



John Shelby Amos II, 51, is the Alabama/West Florida state sales coordinator for AFLAC U.S. For the past 30 years, he has served in a variety of sales positions with the company. He was first elected to AFLAC Incorporated's board in 1983.



Michael H. Armacost, 66, is the Shorenstein Distinguished Fellow at Stanford University's Asia-Pacific Research Center. He retired in June 2002 as president and trustee of the Brookings Institution, a private nonpartisan organization devoted to public policy research. A former undersecretary of state for political affairs, Mr. Armacost was U.S. ambassador to Japan from 1989 to 1993. Mr. Armacost joined AFLAC Incorporated's board in 1994.



Kriss Cloninger III, 56, is president and chief financial officer of AFLAC Incorporated. He joined AFLAC in 1992 as senior vice president and CFO after working with AFLAC as a consulting actuary since 1977. He was elected to AFLAC Incorporated's board in 2001.



Joe Frank Harris, 68, is a distinguished executive fellow at Georgia State University and a lecturer in its School of Policy Studies. He serves as chairman of the board of Harris Georgia Corporation, an industrial development firm. He is also chairman of the Board of Regents of the University System of Georgia. Mr. Harris was governor of Georgia from 1983 to 1991, and he joined AFLAC Incorporated's board in 1991.



Elizabeth Hudson, 54, is senior vice president of communications for the National Geographic Society. She previously held similar positions with iVillage, the Reader's Digest Association and NBC. She also was previously a director in Spencer Stuart's Media & Communication Practice. She joined AFLAC Incorporated's board in 1990.



Kenneth S. Janke Sr., 69, is chairman of the National Association of Investors Corporation (NAIC), a nonprofit association dedicated to education for individual investors. He also serves as president and director of the NAIC Growth Fund. He was first elected to AFLAC Incorporated's board in 1989.



Douglas W. Johnson, 60, is a certified public accountant and a retired Ernst & Young audit partner, having spent the majority of his career auditing companies in the life, health and property/casualty segments of the insurance industry. He joined AFLAC Incorporated's board in 2003.



Robert B. Johnson, 59, is chairman and CEO of the One America Foundation, an organization that promotes dialog and solidarity among Americans of all races. Previously, he served in President Clinton's White House as an assistant to the president and director of the president's initiative for One America. He has been on AFLAC Incorporated's board since 2002.



Charles B. Knapp, 57, is a partner with Heidrick & Struggles Inc. He was president of the University of Georgia from 1987 to 1997. He joined AFLAC Incorporated's board in 1990.



Hidefumi Matsui, 59, became chairman of AFLAC Japan in January 2003. He has been with AFLAC Japan since its inception, having served as its president until 2002. He also previously served as the company's executive vice president and director of marketing. He was on the committee that helped AFLAC Japan obtain its original operating license in the early 1970s. He joined AFLAC Incorporated's board in 2003.



Nobuhiro Mori, 59, is deputy president at Mizuho Corporate Bank, Ltd., in Tokyo. He was previously employed at Dai-ichi Kangyo Bank where he served in a variety of positions including senior managing director. He was elected to AFLAC Incorporated's board in 2002.



E. Stephen Purdom, M.D., 56, is a former executive vice president of insurance operations for AFLAC U.S. He is on the board of advisors for Emory University Medical School, and he previously served as chief of staff at Doctors' Hospital in Columbus, Ga. He was first elected to AFLAC Incorporated's board in 1987.



Barbara K. Rimer, Ph.D., 55, is Alumni Distinguished Professor of Health Behavior and Health Education at the University of North Carolina School of Public Health. She is also deputy director of the Lineberger Comprehensive Cancer Center. Previously, she was director of the Division of Cancer Control and Population Sciences at the National Cancer Institute. She is a former director of Cancer Control Research and Professor of Community and Family Medicine at the Duke Comprehensive Cancer Center. She joined AFLAC Incorporated's board in 1995.



Marvin R. Schuster, 66, is chairman of Schuster Enterprises Inc., which operates Burger King restaurants throughout the Southeast. He is on the boards of directors at Synovus Trust Company and Columbus Bank & Trust. He was elected to AFLAC Incorporated's board in 2000.



Glenn Vaughn Jr., 74, is retired chairman and publisher of the *Columbus (GA) Ledger-Enquirer*, a Knight-Ridder newspaper, where he advanced through the news-editorial ranks after stints at *The Albany (GA) Herald*, *The Atlanta Journal* and *The Athens (GA) Daily News*. He has served on AFLAC Incorporated's board since 1990.



Dr. Robert L. Wright, 66, is founder and chairman emeritus of Dimensions International, Inc., an international information technology company. He was formerly an associate administrator for the United States Small Business Administration. He was first elected to AFLAC Incorporated's board in 1999.

Executive Management

Daniel P. Amos (see facing page)

Kriss Cloninger III (see facing page)

Hidefumi Matsui (see facing page)



Akitoshi Kan, 56, is executive vice president, AFLAC U.S., internal operations. He joined AFLAC Japan in 1980. In 1997 he was promoted to executive vice president for internal operations for AFLAC Japan and deputy chief financial officer for AFLAC Incorporated. He relocated to AFLAC Worldwide Headquarters in April 1999.



Joey M. Loudermilk, 50, is executive vice president; general counsel and corporate secretary. He joined AFLAC in 1983 as head of the Legal Department. He is also responsible for AFLAC's Governmental Relations Department and is treasurer of AFLAC Incorporated's political action committee.



Kathelen V. Spencer, 46, is executive vice president; deputy legal counsel; director of corporate communications and assistant secretary for AFLAC. She previously has served in AFLAC's Legal Department as associate counsel and then as deputy counsel. She is also president of the AFLAC Foundation.



Charles D. Lake II, 42, became president of AFLAC Japan in January 2003 after having previously served as deputy president. He joined AFLAC International in February 1999 and AFLAC Japan in June 1999. Previously he was director of Japan Affairs at the office of the U.S. Trade Representative in the executive office of the president, and he practiced law at Dewey Ballantine LLP in Washington, D.C.



Allan O'Bryant, 45, is president of AFLAC International Inc., deputy chief financial officer of AFLAC Incorporated, and chairman of aflacdirect.com. He joined AFLAC in 1993 as a vice president of the AFLAC Broadcast Group. In 1996, he was transferred to AFLAC International to oversee AFLAC Japan's financial operations. Prior to joining AFLAC he was a senior manager with KPMG LLP.



Atsushi Yagai, 40, became executive vice president, director of marketing and sales for AFLAC Japan in January 2004. Before joining AFLAC in 2001 as senior vice president and director of marketing, he was chief executive of Barilla Japan and had worked as a consultant at McKinsey & Co. He also previously worked for Dentsu Inc., the top advertising agency in Japan.

Senior Management

AFLAC Incorporated

Kermitt L. Cox, Senior Vice President; Corporate Actuary

Kenneth S. Janke Jr., Senior Vice President, Investor Relations

Ralph A. Rogers Jr., Senior Vice President, Financial Services; Chief Accounting Officer

Susan B. Rynearson, Senior Vice President; Deputy Corporate Actuary

Joseph W. Smith Jr., Senior Vice President; Chief Investment Officer

Audrey Boone Tillman, Senior Vice President; Director of Human Resources

AFLAC U.S.

Rebecca C. Davis, Senior Vice President; Chief Administrative Officer

Phillip J. Friou, Senior Vice President, Governmental Relations

Kerry W. Hand, Senior Vice President, AFLAC Support Services; President and CEO, Communicorp, Inc.

Angela S. Hart, Senior Vice President, Community Relations

Bradley S. Jones, Senior Vice President; Director of Sales

Joseph P. Kuechenmeister, Senior Vice President; Director of Marketing

James D. Lester III, Senior Vice President; Chief Information Officer

Diane P. Orr, Senior Vice President, Claims, Administrative Services, New York Administration

Warren B. Steele II, Senior Vice President; Assistant Director of Marketing

AFLAC Japan

Hiroshi Yamauchi, First Senior Vice President; Director of Internal Operations

Shigehiko Akimoto, Senior Vice President, Marketing Strategy Planning, Sales Promotion, Associates Development, Training; President of aflacdirect.com

Tomomichi Itoh, Senior Vice President, Government Affairs & Competitive Intelligence, General Affairs

Hiroshi Mori, Senior Vice President; Director of Sales; Hojinkai Promotion

Hisayuki Shinkai, Senior Vice President, Public Relations, Investor Relations