

Consolidated Statements of Earnings

Aflac Incorporated and Subsidiaries

(In millions, except for share and per-share amounts)	Years Ended December 31, 2005	2004	2003
Revenues:			
Premiums, principally supplemental health insurance	\$ 11,990	\$11,302	\$ 9,921
Net investment income	2,071	1,957	1,787
Realized investment gains (losses)	262	(12)	(301)
Other income	40	34	40
Total revenues	14,363	13,281	11,447
Benefits and expenses:			
Benefits and claims	8,890	8,482	7,529
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	542	519	464
Insurance commissions	1,302	1,252	1,146
Insurance expenses	1,281	1,128	1,006
Interest expense	23	23	22
Other operating expenses	99	104	82
Total acquisition and operating expenses	3,247	3,026	2,720
Total benefits and expenses	12,137	11,508	10,249
Earnings before income taxes	2,226	1,773	1,198
Income tax expense:			
Current	499	391	212
Deferred	278	244	218
Release of valuation allowance on deferred tax assets	(34)	(128)	—
Total income taxes	743	507	430
Net earnings	\$ 1,483	\$ 1,266	\$ 768
Net earnings per share:			
Basic	\$ 2.96	\$ 2.49	\$ 1.50
Diluted	2.92	2.45	1.47
Common shares used in computing earnings per share (In thousands):			
Basic	500,939	507,333	513,220
Diluted	507,704	516,421	522,138

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.
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,

2005

2004

Assets:

Investments and cash:

Securities available for sale, at fair value:

Fixed maturities (amortized cost \$25,860 in 2005 and \$26,138 in 2004)

\$ 28,142 \$ 29,166

Perpetual debentures (amortized cost \$4,255 in 2005 and \$3,952 in 2004)

4,370 4,019

Equity securities (cost \$30 in 2005 and \$34 in 2004)

84 77

Securities held to maturity, at amortized cost:

Fixed maturities (fair value \$10,839 in 2005 and \$10,522 in 2004)

10,867 10,080

Perpetual debentures (fair value \$4,252 in 2005 and \$4,924 in 2004)

4,172 4,759

Other investments

57 41

Cash and cash equivalents

1,297 3,813

Total investments and cash

48,989 51,955

Receivables, primarily premiums

479 417

Receivables for security transactions

105 1

Accrued investment income

484 495

Deferred policy acquisition costs

5,590 5,595

Property and equipment, at cost less accumulated depreciation

448 515

Other

266 348

Total assets

\$ 56,361 \$ 59,326

Liabilities and shareholders' equity:

Liabilities:

Policy liabilities:

Future policy benefits

\$ 37,853 \$ 39,360

Unpaid policy claims

2,504 2,355

Unearned premiums

594 593

Other policyholders' funds

1,378 1,248

Total policy liabilities

42,329 43,556

Notes payable

1,395 1,429

Income taxes

2,577 2,445

Payables for return of cash collateral on loaned securities

622 2,887

Other

1,511 1,433

Commitments and contingent liabilities (Notes 11 and 12)

Total liabilities

48,434 51,750

Shareholders' equity:

Common stock of \$.10 par value. In thousands: authorized 1,000,000 shares; issued 654,522 shares in 2005 and 652,628 shares in 2004

65 65

Additional paid-in capital

791 676

Retained earnings

8,048 6,785

Accumulated other comprehensive income:

Unrealized foreign currency translation gains

77 222

Unrealized gains on investment securities

1,917 2,417

Minimum pension liability adjustment

(37) (28)

Treasury stock, at average cost

(2,934) (2,561)

Total shareholders' equity

7,927 7,576

Total liabilities and shareholders' equity

\$ 56,361 \$ 59,326

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.

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,

2005

2004

2003

Common stock:

Balance, beginning and end of year	\$ 65	\$ 65	\$ 65
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Additional paid-in capital:

Balance, beginning of year	676	592	371
Cumulative effect of change in accounting principle	—	—	148
Exercise of stock options, including income tax benefits	54	14	19
Share-based compensation	32	34	27
Gain on treasury stock reissued	29	36	27
Balance, end of year	791	676	592

Retained earnings:

Balance, beginning of year	6,785	5,712	5,244
Cumulative effect of change in accounting principle	—	—	(146)
Net earnings	1,483	1,266	768
Dividends to shareholders (\$.44 per share in 2005, \$.38 per share in 2004, and \$.30 per share in 2003)	(220)	(193)	(154)
Balance, end of year	8,048	6,785	5,712

Accumulated other comprehensive income:

Balance, beginning of year	2,611	2,493	2,630
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	(145)	9	(9)
Change in unrealized gains (losses) on investment securities during year, net of income taxes	(500)	101	(100)
Minimum pension liability adjustment during year, net of income taxes	(9)	8	(28)
Balance, end of year	1,957	2,611	2,493

Treasury stock:

Balance, beginning of year	(2,561)	(2,214)	(1,916)
Purchases of treasury stock	(438)	(392)	(343)
Cost of shares issued	65	45	45
Balance, end of year	(2,934)	(2,561)	(2,214)
Total shareholders' equity	\$ 7,927	\$ 7,576	\$ 6,648

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Aflac Incorporated and Subsidiaries

(In millions) Years Ended December 31,	2005	2004	2003
Cash flows from operating activities:			
Net earnings	\$ 1,483	\$ 1,266	\$ 768
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	(43)	159	(86)
Increase in deferred policy acquisition costs	(461)	(443)	(408)
Increase in policy liabilities	3,311	3,023	2,641
Change in income tax liabilities	351	347	83
Realized investment losses (gains)	(262)	12	301
Other, net	54	122	90
Net cash provided by operating activities	4,433	4,486	3,389
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	3,465	1,481	1,908
Fixed maturities matured	743	820	1,458
Perpetual debentures sold	35	—	131
Equity securities	—	—	223
Securities held to maturity:			
Fixed maturities matured or called	212	1	1
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	(5,523)	(3,914)	(5,059)
Perpetual debentures	(710)	(464)	(288)
Equity securities	—	(1)	(3)
Securities held to maturity:			
Fixed maturities	(2,661)	(1,468)	(947)
Perpetual debentures	—	(358)	(170)
Cash received as collateral on loaned securities, net	(2,237)	2,512	(727)
Additions to property and equipment, net	(16)	(21)	(21)
Other, net	—	(6)	(6)
Net cash used by investing activities	(6,692)	(1,418)	(3,500)
Cash flows from financing activities:			
Purchases of treasury stock	(438)	(392)	(343)
Proceeds from borrowings	360	—	—
Principal payments under debt obligations	(269)	(12)	(20)
Change in investment-type contracts, net	257	220	159
Dividends paid to shareholders	(209)	(182)	(146)
Treasury stock reissued	50	39	33
Other, net	53	14	19
Net cash used by financing activities	(196)	(313)	(298)
Effect of exchange rate changes on cash and cash equivalents	(61)	6	82
Net change in cash and cash equivalents	(2,516)	2,761	(327)
Cash and cash equivalents, beginning of year	3,813	1,052	1,379
Cash and cash equivalents, end of year	\$ 1,297	\$ 3,813	\$ 1,052

Supplemental disclosures of cash flow information - See Note 13

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.
See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Aflac Incorporated and Subsidiaries

(In millions) Years Ended December 31,	2005	2004	2003
Net earnings	\$ 1,483	\$ 1,266	\$ 768
Other comprehensive income (loss) before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	44	(24)	(121)
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	(538)	143	(604)
Reclassification adjustment for realized (gains) losses included in net earnings	(262)	12	301
Minimum pension liability adjustment during year	(13)	14	(40)
Total other comprehensive income (loss) before income taxes	(769)	145	(464)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(115)	28	(327)
Other comprehensive income (loss) net of income taxes	(654)	117	(137)
Total comprehensive income	\$ 829	\$ 1,383	\$ 631

Prior-year amounts have been adjusted for adoption of SFAS 123R on January 1, 2005.

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 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 through independent agents. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business. Aflac Japan accounted for 74% of the Company's total revenues in 2005, 75% in 2004 and 74% in 2003, and 82% of total assets at December 31, 2005, compared with 80% a year ago.

Basis of Presentation: We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). 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.

The consolidated financial statements include the accounts of the Parent Company, its majority-owned subsidiaries and those entities required to be consolidated under applicable accounting standards. All material intercompany accounts and transactions have been eliminated.

Translation of Foreign Currencies: The functional currency of Aflac Japan's insurance operations is the Japanese yen. We translate our yen-denominated financial statement accounts into U.S. dollars as follows. Assets and liabilities 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