

A surreal photograph of a garage. On the left, the front of a blue classic car is visible, with 'GTO' on the grille. In the center, a person's legs in a dark suit and white socks are visible, sitting on the floor. To the right of the person's legs, a white duck with an orange beak and feet stands on the floor. The background is filled with various garage items, including red fire extinguishers and tools. The lighting is dramatic, with strong highlights and shadows.

ASK ABOUT IT AT WORK. ●



Annual Report
for 2001

The Cover

In the last two years, the AFLAC duck has made its way from a park to a sauna, to a roller coaster and to an ice skating rink. In 2002, the AFLAC duck will be found in new locations, including an automotive garage, which is featured on this year's annual report cover. Although our advertising takes a humorous approach to insurance, it also sends a

serious message about the need for products that provide cash when it is needed most. And millions of consumers in the United States and Japan have learned that the best way to find out about AFLAC and its products is to simply "Ask About it at Work."



ASK ABOUT IT AT WORK.

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For the Year:

(In millions)

Total revenues	\$ 9,598	\$ 9,703	\$ 8,640	(1.1)%
Pretax earnings	1,081	1,012	778	6.7
Net earnings	687	687	571	—

At Year-End:

(In millions)

Total investments and cash	\$ 32,793	\$ 32,167	\$ 32,024	1.9%
Total assets	37,860	37,231	37,041	1.7
Shareholders' equity	5,425	4,694	3,868	15.6

Per Common Share:

Net earnings (basic)	\$ 1.31	\$ 1.30	\$ 1.07	.8%
Net earnings (diluted)	1.28	1.26	1.04	1.6
Shareholders' equity	10.40	8.87	7.28	17.2
Cash dividends	.193	.167	.147	15.6

Supplemental Data:

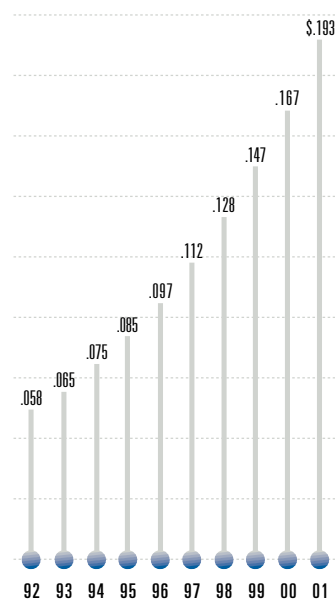
Operating earnings* (In millions)	\$ 720	\$ 657	\$ 550	9.7%
Operating earnings per share* (basic)	1.37	1.24	1.03	10.5
Operating earnings per share* (diluted)	1.34	1.20	1.00	11.7
Number of common shares outstanding	521,615,350	529,209,956	531,481,632	
Number of registered common shareholders	70,383	67,995	69,899	
Approximate number of common shareholders	182,700	143,400	148,600	
Number of full-time employees	5,739	5,026	4,673	

* Excludes realized investment gains/losses and the impact of SFAS 133, the benefit of a Japanese tax rate reduction in 1999, a provision for the policyholder protection fund in 1999, and a benefit from the termination of a retirement liability in 2000

Financial Highlights

For 19 consecutive years, AFLAC has increased its annual dividend. In 2001, we paid annual cash dividends per share that were 15.6% higher than in 2000.

Annual Cash Dividends Per Share



AFLAC insures more than 40 million people in the United States and Japan. We are a leading provider of individual insurance policies at the worksite in the United States. We are also the largest foreign life insurance company in Japan in terms of profits. AFLAC insures one out of every four Japanese households.

via payroll deduction. That's why many employees in the United States and Japan ask about AFLAC at work.

AFLAC Incorporated, a Fortune 500 company, is traded on the New York Stock Exchange under the symbol "AFL" and is included in the Standard & Poor's 500 Index. In January 2002, AFLAC was the number one insurance

AFLAC's Mission

Our mission is to provide the best supplemental insurance value in the marketplace. AFLAC's products are designed to help consumers pay out-of-pocket expenses associated with illnesses or injuries. Such expenses could include copayments, deductibles, and other medical expenses. In addition, our policies help pay nonmedical expenses such as child care, travel, and lost wages.

Marketing at the worksite provides AFLAC with an effective and efficient way to sell its products. Employers like being able to offer additional benefits to their workers. And employees like the convenience of paying premiums

company in *Fortune* magazine's annual listing of "The 100 Best Places to Work for in America" and was included in the overall listing for the fourth year in a row. In February 2002, *Forbes* ranked AFLAC 112th in its "Platinum 400" list of "America's Best Big Companies." We were also included in *Fortune*'s March 2002 list of the most admired insurance companies. AFLAC is rated "AA" by Standard & Poor's and "Aa3" by Moody's for financial strength. Fitch Ratings also rates AFLAC "AA" for financial strength. A.M. Best assigns AFLAC an "A+, Superior" rating for financial strength and operating performance.

The Composition of AFLAC's Market

What We Sell

Supplemental insurance products, including:

- Cancer life
- Care
- Living benefit life
- Medical
- Accident

Supplemental insurance riders, including:

- Living benefit life
- Rider MAX
- Rider PACK

Ordinary life insurance products, including:

- Term life
- Whole life
- Fixed annuity

Who Buys It

At the worksite:

Employees at 47,000 payroll accounts representing 95% of the companies listed on the Tokyo Stock Exchange, including workers at Fujitsu, Hitachi, Kirin Brewery, Canon, Toyota, and Takashimaya, as well as employees of 243,400 small businesses

At the home:

Individuals seeking specific insurance coverages

Who Sells It For Us

More than 52,000 licensed sales associates, representing 2,950 affiliated and independent corporate agencies, 6,890 individual agencies, and the sales force of Dai-ichi Mutual Life

Who Else Sells It

American International Group
AXA
Daido
Fukoku
GE Edison
Mitsui Sumitomo Marine
ING
Nippon
Orix
Prudential
Sony
Taiyo
Tokio Marine
Yasuda Fire Himawari
Zurich

Supplemental insurance products, including:

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

Life insurance products, including:

- Payroll life

At the worksite:

Employees at more than 200,000 payroll accounts, including businesses of all sizes, credit unions, hospitals, school districts, and city and state governments. Customer groups include the city of Atlanta, U.S. Office Products, Winnebago Industries, United Rentals, Genesis Health Ventures, United Parcel Service, the state of Florida, Wal-Mart, and Memorial Hermann Healthcare in Houston

At the home:

Individuals seeking specific insurance coverages

More than 43,000 licensed sales associates, including approximately 13,000 who, on average, produce business every month

Aegon N.V.
The Allstate Corporation
American Fidelity
American International Group
Aon Corporation
Conseco, Inc.
GE Capital
National Travelers
Protective Life Corporation
Torchmark Corporation
UnumProvident Corporation
Several regional carriers



AFLAC sales associates Trip Reynolds, Lisa Miller and Cameron Michels (in front) work each day with AFLAC employees (several of whom are pictured in the background) to provide the best possible service to our customers. AFLAC has more than 43,000 sales associates in the United States and more than 52,000 sales associates in Japan. Our workforce, meanwhile, has grown from 4,200 full-time employees in 1995 to more than 5,700 at the end of 2001.

AFLAC – Ask About it at Work

2001 was full of challenges for most companies. That was also true for us. But in the end, AFLAC had another strong year. AFLAC Japan emerged from a deregulated market as the undisputed leader of “third sector” insurance products. AFLAC U.S. again produced record sales results. And for the 12th consecutive year, we achieved our operating earnings per share target. Like previous years, our success resulted from addressing consumers’ needs for affordable insurance coverage that can be conveniently purchased at the worksite.

Below are some highlights from last year.

- *Excluding the effect of foreign currency translation, operating earnings per share increased 17.5% on a diluted basis, in line with our target of 15% to 17% growth.*
- *Operating return on average shareholders’ equity was 21.3% for the year.*
- *We purchased 12.2 million shares of our stock during the year.*
- *Our board of directors increased the quarterly cash dividend by 16.3% in 2001, marking the 19th consecutive year we have increased the dividend.*

Message from

Our policies provide consumers in the United States and Japan with valuable protection and peace of mind. As health care costs have escalated, so has the demand for AFLAC’s products. To meet that need, we have continued to develop new insurance products and to enhance existing policies. At the same time, we have expanded our distribution system of agencies and sales associates. We have also aggressively promoted the AFLAC brand through effective advertising. Today, AFLAC provides coverage to workers at more than 290,000 payroll accounts in Japan and more than 200,000 accounts in the United States. And with the need for AFLAC’s products on the rise, we know that more people will be asking about us at work.

2001 – Producing Strong Results

We faced continued economic weakness in Japan last year and the deregulation of that country’s vast insurance market. But in that challenging market, we actually performed quite well. Although AFLAC Japan’s sales did not meet our expectations, the persistency of our business was strong and stable, and our financial performance again met our targets. The challenge for AFLAC U.S. was to extend its tremendous sales momentum in the weakening U.S. economy. We not only extended that momentum, our sales growth actually accelerated, and we again produced record financial results. Due to the resilience of AFLAC Japan and the rapid growth of AFLAC U.S., 2001 was another strong year for AFLAC Incorporated.

AFLAC Japan – Adapting to Change

2001 was a year of change for AFLAC Japan. On January 1, 2001, the third sector of the Japanese insurance industry – the sector in which AFLAC Japan primarily operates – was deregulated. As we anticipated, deregulation brought more competition to the market as many insurance companies or their subsidiaries began selling third-sector products, specifically cancer life insurance. However, the first year of deregulation ended the same way it began – we were the number one seller of cancer life insurance in Japan.

We believe that our operating efficiency is a key reason why we have maintained our leadership in a more competitive environment. Our expense structure in Japan allows us to offer the best products at the best price and to pay the highest commissions to our sales force. Simply put, AFLAC Japan’s products offer the best supplemental insurance value in the market. With that value proposition so important to our ongoing success, we continued to improve our product line in 2001.

One highlight of the year was the introduction of 21st Century Cancer Life. This dramatically redesigned product offers consumers a wide range of benefit choices. Introduction of this product marked the first time that consumers could customize the type of cancer life coverage they wanted to purchase. Although we had some initial difficulty selling the product due to its complexity, we streamlined its design and packaging, and our sales results showed improvement. We believe 21st Century Cancer Life is the best cancer insurance product in the market, and independent research shows that

others agree with us. A special report on life insurers in the July 9, 2001, issue of *Toyo Keizai Weekly* ranked AFLAC's 21st Century Cancer Life as the best cancer insurance product available. Equally impressive, our cancer life policy was identified as the second-best product in the entire Japanese life insurance market. The same report also ranked AFLAC as the number one company consumers would turn to if they needed to replace an existing product.

We also took action in other product areas. In the second quarter of the year, we discontinued selling a product in our annuity line, which had been sold as

business insurance. We stopped selling that product because its profitability did not meet our targets, and we did not want to sacrifice profitability for sales. In July, we became the first life insurer to introduce an accident policy in Japan. And late in the year, we revised our popular Rider MAX product by improving its benefits. As we look ahead, we believe we will retain our outstanding reputation for product innovation. In fact, AFLAC Japan was again ranked as the number one life insurance company in terms of product development in Japan, according to a survey published in January 2002 by the *Nikkei Kinyu*, a daily financial newspaper.

Management.

*Daniel P. Amos, Chairman
and Chief Executive Officer*



In addition to product development, we also focused on further enhancing our already strong distribution system. Overall, our ongoing objective is to gain better access into the huge market of small to medium-size businesses in Japan. To accomplish that objective, we continued to recruit new agencies, especially individual agencies. We also worked very closely with our marketing alliance partner, Dai-ichi Mutual Life, Japan's second largest life insurance company. In April 2001, Dai-ichi Life's sales force began selling our newest cancer life policy. As the year progressed, Dai-ichi Life's sales gained significant momentum. We believe Dai-ichi Life's interest in selling our product, rather than developing its own policy, indicates the strength of AFLAC's market position and reputation. And Dai-ichi Life's success at selling our policy clearly points to the need for and quality of 21st Century Cancer Life.

To help us better prepare for future growth, we also made key changes within AFLAC Japan's executive

management. Charles D. Lake II was promoted to deputy president of AFLAC Japan. Before joining AFLAC in early 1999, Charles worked in the Washington, D.C. law offices of Dewey Ballantine LLP. Prior to that, he was director of Japan Affairs and special counsel in the office of the United States Trade Representative. We also hired a new marketing director, Atsushi Yagai, who began working with us in September 2001. Atsushi is the former chief executive of Barilla Japan. Previously, he was a marketing consultant with McKinsey & Co., and prior to that was employed at Dentsu, Japan's top advertising agency. I believe these two executives, in addition to the other men and women who manage AFLAC Japan's

operations, will enable us to maintain our strong market position.

We expect to continue making the best of a challenging market. Clearly, Japan's economy remains very weak, and that has impacted business confidence and consumer spending. Yet, Japan is the second largest economy and the second largest insurance market in the world. More importantly, we believe Japan's insurance market is perfectly suited to the types of products we sell. And above all, we believe we are positioned with the best people, the best products, and the best service in Japan.

AFLAC U.S. – Another Incredible Year

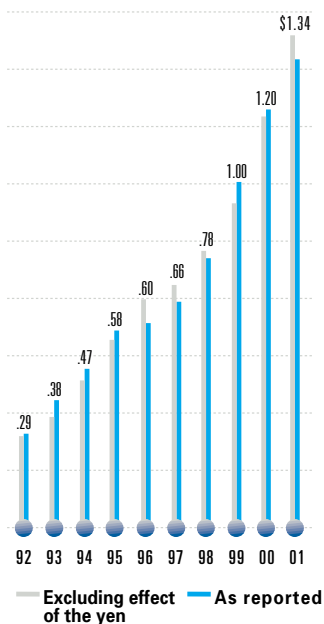
There are a lot of words that could be used to describe the year AFLAC U.S. had in 2001. Incredible is a good one! Following our tremendous sales growth in 2000, we set what we thought was a reasonable sales objective for 2001. We upwardly revised the sales target three times during the year. Yet, we still significantly exceeded the revised target. But sales growth was only one facet of our success last year. Our advertising awareness climbed to 91% on the wings of the AFLAC duck. We also experienced a dramatic increase in the size of our sales force. And we produced our fastest rate of revenue growth in decades.

The highlight of last year for AFLAC U.S. was clearly the dramatic growth of new annualized premium sales. With such strong sales momentum recently, our U.S. sales in 2001 were almost triple our sales level in 1996. Like the preceding seven years, accident/disability was again our number one product. But other products, from our founding cancer expense policy to our new fixed-benefit dental insurance coverage, also contributed to our record sales. In fact, our dental policy has already become our third-best-selling product category even though 2001 was its first full year of sales.

And like previous years, we generated nearly all of our new premium sales at the worksite. Historically, small businesses have made up the majority of our payroll deduction accounts. That's still the case today. However, we have also been cultivating the large account market. During 2001, we began offering our products to employees at Wal-Mart, which is the largest non-government employer in the United States.

Our sales grew rapidly in 2001 in great part because our sales force grew rapidly. Our recruiting was at an all-time high, and we saw a substantial increase in the monthly average number of producing sales associates.

**Operating Earnings
Per Share**
(Diluted basis)



**AFLAC achieved its
primary financial
objective in 2001 by
increasing operating
earnings per share
17.5% excluding the
impact of the yen.**

We believe our successful advertising campaign has contributed to increasing our sales force. The AFLAC duck ads, which we launched at the start of 2000, grew in popularity throughout 2001. As a result, our name recognition is greater than at any time in our history. For 2002 we will be airing at least three new commercials featuring the AFLAC duck.

We remain very optimistic about the outlook for our U.S. business. The United States is a sizable, underpenetrated market in terms of the products we sell. With an attractive product line, expanded distribution system, and increased name recognition, we believe we will see continued strong gains for AFLAC U.S.

Outlook – Continued Growth Ahead

We are proud of our accomplishments in 2001. Our ability to meet our overall corporate financial targets during economic downturns in both the United States and Japan points to the underlying strength of our business. But at the same time, we know we can do better. Our challenge in 2002 is to restore the growth of AFLAC Japan's sales. With the introduction of new products, the benefit of our marketing partner and the strengthening of our management team, we expect improvements in sales. And as was the case in 2001, our challenge in the United States is to extend the sales momentum we established several years ago.

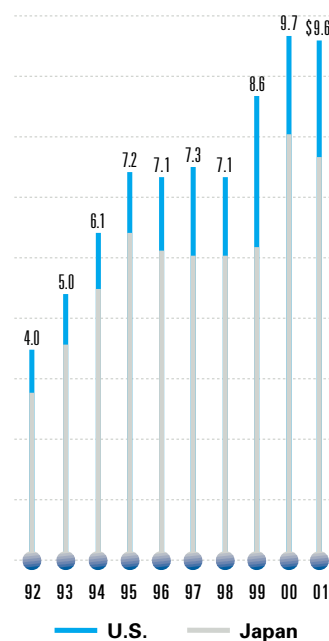
For the next two years, we expect to again produce above-average growth in our industry. Our objective for 2002 and 2003 is to increase operating earnings per share 15% to 17% before currency translation. We are optimistic we will achieve the target each year. Our optimism is based on AFLAC's strong position in the two largest insurance markets in the world. We believe there is great potential for growth in both markets. And with our expertise at the worksite, our valuable but affordable products, and our outstanding customer service, we are confident that employees in both countries will continue to ask about AFLAC at work.



Daniel P. Amos, Chairman
and Chief Executive Officer

Total Revenues

(In billions)



Total revenues declined 1.1% for the year reflecting the weaker yen/dollar exchange rate.

ASK ABOUT IT AT WORK.



More than 98% of the policies issued by AFLAC U.S. in 2001 were issued on a payroll-deduction basis at worksites.

Why should people ask about AFLAC at work?

Most people get their health insurance at work. As the importance of employee benefits continues to grow, employers and employees are becoming increasingly aware of the value of our products. Our research shows that workers are asking their employers about AFLAC, which means there is a much stronger likelihood that the employer will offer our products.

AFLAC U.S. is coming off a record year marked by increased rates of revenue and earnings growth. How can you maintain that kind of momentum?

I think we have to continue what we have been doing,

The AFLAC duck commercials have been tremendously successful. Our U.S. sales were up 29% in 2001, following a 28% increase in 2000, and our advertising awareness is 91%. But great ads don't make a great company. You also need great products and great distribution, and we have both. The AFLAC duck is also becoming closely identified with our philanthropic work at the AFLAC Cancer Center. The sale of toy ducks at aflac.com raises money for the AFLAC Cancer Center. In that respect, the AFLAC duck benefits our overall corporate image by tying together our business and philanthropic endeavors. As for how long the duck will continue to benefit us, our research suggests that people

Interview

which means recruiting new sales associates and promoting AFLAC through advertising. Because of our ads featuring the AFLAC duck, people know who we are and what we offer. We will continue to aggressively market our company and continue to offer the best products with the best service at the best price. I believe strong growth is possible for several years to come.

You now insure workers at some of the smallest and some of the largest businesses in the United States. Why have you had recent success at selling at large worksites, and do you see your focus changing from the small-business to the large-business market?

I think we have had success at large accounts for the same reason we've had success at small accounts – we offer great products at affordable prices with great service, and we enroll employees very efficiently. However, even though we have enrolled some very large accounts recently, we are still oriented toward small businesses. Most Americans work at companies with fewer than 500 employees. And typically, company-paid health care plans at small businesses are not as rich as those of larger employers. That makes it a very large and attractive market for our products, so I think penetrating the small-business market will continue to be our strength.

How has the AFLAC duck benefited your business, and how long do you anticipate using the AFLAC duck?

won't tire of the AFLAC duck as long as it is going new places and doing new things. So I think the AFLAC duck will be with us for a long time.

Talk about your relationship with the AFLAC Cancer Center and how it fits your business.

Our relationship with the AFLAC Cancer Center is a very special one, and a very personal one for our employees and our sales associates. They have taken a personal interest by raising money for the center and by visiting the young patients. Part of what we try to do with the AFLAC Cancer Center is to show we aren't just a company with a duck. We are a company that cares. For example, last year we announced a \$10 million donation to the AFLAC Cancer Center because we wanted to and because it was the right thing to do.

How was your business affected by September 11?

Immediately after the tragic events of September 11, our agents didn't want to sell insurance and consumers didn't want to buy. So from a sales standpoint, we saw an abrupt, but very short-term impact on our business. Everyone was just stunned. But as time passed, I believe people began to ask themselves questions about the adequacy of their insurance coverage. And as a result, people probably have a much better understanding of why they need certain types of insurance products, like accident insurance, for instance. I think that's one reason our sales recovered so quickly in October and put us right back on track.

Japan's economy has remained very weak. How do you continue to operate successfully in such a difficult environment?

We have been successful because our products are among the best in the Japanese market. And, we have built a very strong reputation as being one of the most financially sound companies in Japan. Because of the continued deterioration in Japan's economy, my sense is that consumer confidence has dropped quite a bit, and people are much tighter with their money now than they were even a year ago. I think they are examining a company's strengths more closely before they purchase a product, and that works to our advantage because of our

In light of disappointing new premium sales in Japan last year, what changes have you made to your operations to improve results in the future?

We have made changes to our products, distribution and advertising. We have also made several key personnel changes at AFLAC Japan, including the hiring of a new marketing director. He has been analyzing our marketing activities and determining the best ways to improve our sales results. Going forward, we should continue to see changes in the areas of our product line, distribution system, agent training, advertising, and sales force incentives. I should point out that our sales through individual agents actually did pretty well in 2001. Our sales

with the CEO



excellent reputation for financial strength and claims payment.

The final step of deregulating Japan's insurance market occurred in 2001. How did this affect AFLAC Japan and its results?

I believe that deregulation, from the standpoint of direct competition, did not hurt us. Prior to deregulation, I said that I expected our new competitors' sales to spike and then go back down, and that is exactly what happened. I think the reason that new competitors didn't make significant inroads to our business is that we still have the best products at the best prices, and we still pay the highest commissions. I don't think anybody argues with that. However, deregulation has brought a lot of choice to consumers, and that has probably slowed down the decision-making process for those who are looking to buy insurance. But overall, I feel AFLAC is in the strongest position in Japan, and I wouldn't trade places with anybody.

were particularly weak in the large corporate market in part because their direct mail solicitations are less effective than face-to-face presentations in a weak economy. Our corporate agents should be able to better penetrate large accounts by focusing more on group sales presentations, one-on-one sales, or sales through a payroll account's intranet.

How would you characterize your marketing alliance with Dai-ichi Mutual Life?

It has been enormously successful for us and is one way that deregulation benefited AFLAC Japan. Although deregulation has increased competition, it also brought us the opportunity to form this alliance. We believe our relationship with Dai-ichi Life will play a key role in growing our sales in 2002.

95% of the company

AFLAC Japan – Signs of Strength in a Difficult Market

2001 proved to be a challenging year for AFLAC Japan. We entered the year prepared for a more competitive, deregulated insurance market. And we again faced a troubled economy, with Japan entering its third recession in the last 10 years. To maintain our strong market position, we developed new products, forged a strategic marketing alliance with a leading Japanese insurer, maintained our expense advantages, and emphasized our financial strength to Japan's insurance consumers.

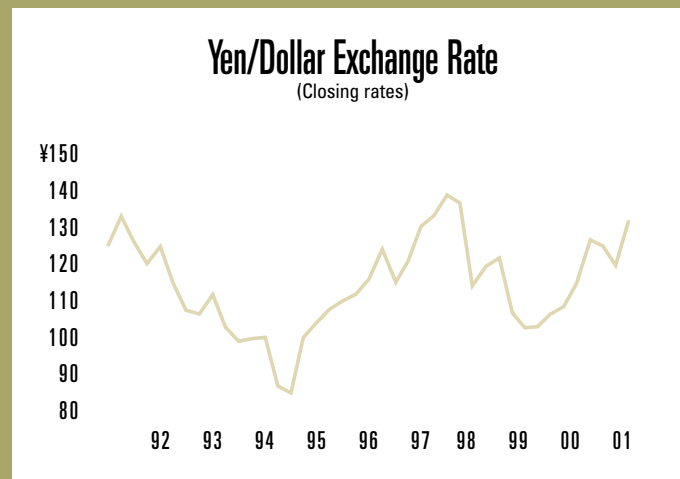
Despite our many competitive strengths, we did not achieve the sales objectives we had set early in the year. However, we significantly outsold our competitors – both new and old – in our core cancer life product line. As a result, when 2001 ended, AFLAC remained in exactly the same position as when the year started – the number one provider of supplemental insurance products sold at the worksite. And our products continued to be regarded as the best in the market. More importantly, due to our strong persistency rates, our revenues and earnings grew and met our expectations. Here are some results for the year in yen terms.

- *New annualized premium sales declined 7.9% to ¥91.9 billion, compared with ¥99.8 billion in 2000.*
- *Premium income was ¥755.6 billion, up 5.1% from ¥719.0 billion in 2000.*
- *Net investment income grew 10.5% to ¥149.9 billion, compared with ¥135.7 billion in 2000.*
- *Total revenues were up 5.9% to ¥905.7 billion, compared with ¥855.5 billion in 2000.*
- *Pretax operating earnings increased 20.6% to ¥100.0 billion, compared with ¥82.9 billion in 2000.*

The Impact of Currency Changes

Due to the size of AFLAC Japan, our financial statements are affected by fluctuations in currency values.

However, it's important to note that when we prepare financial statements for our shareholders, we do not actually **convert** currencies from Japanese yen to U.S. dollars. Instead, we **translate** AFLAC Japan's yen-based income statement into dollars using the average exchange rate for the reporting period.



The average yen/dollar exchange rate was 11.3% weaker during 2001, which suppressed AFLAC Japan's growth rates in dollar terms.

For this reason, AFLAC is generally unaffected in economic terms by changes in the yen's value. However, the yen's relative strength or weakness can distort our reported results. When the average yen/dollar exchange rate is stronger than in the preceding year, AFLAC Japan's growth rates are magnified in dollar terms. When the average yen/dollar exchange rate is weaker than in the preceding year, our growth rates in dollar terms are less than in yen terms. In 2001, the yen averaged ¥121.54 to the dollar, compared with an average of ¥107.83 in 2000. The 11.3% weakening of the yen in 2001 suppressed our reported results in dollars, which can be seen in the results below.

- *New annualized premium sales decreased 18.0% to \$755 million in 2001, compared with \$921 million in 2000.*
- *Premium income declined 6.8% to \$6.2 billion, compared with \$6.7 billion in 2000.*

es on the Tokyo



Katsutoshi Higashiizumi is one of the employees at the Toshiba Nasu Factory in Otawara City who helps build scanners that are used in the detection of cancer and other illnesses. Toshiba is one of many companies that has a subsidiary agency that sells AFLAC's policies to its employees and other companies.

- Net investment income was \$1.2 billion, down 2.2% from \$1.3 billion the previous year.
- Total revenues were down 6.1% to \$7.5 billion, compared with \$7.9 billion in 2000.
- Pretax operating earnings were up 6.7% to \$823 million, compared with \$771 million in 2000.

Japan's Consumers Ask About AFLAC at Work

We have had great success at marketing cancer life and other products at the worksite. In fact, through our extensive distribution network, we insure workers at 95% of the companies listed on the Tokyo Stock Exchange. AFLAC Japan was founded in 1974 with a unique cancer

Stock Exchange ma

Yuichi Mori is one of 65 employees at Tokyo-based Tonegawa Printing, which provides design, printing, and problem-solving services to small and large corporate clients. The company has made AFLAC products available to its employees since 1999.



life policy that provided cash to consumers when they were diagnosed with and treated for cancer. Today, cancer life insurance remains a core product for AFLAC, and it is also one of the most popular insurance products in Japan.

To maintain our strong position in what is known as the “third sector” of Japan’s insurance market, we developed and introduced the most sophisticated cancer life insurance product in the marketplace in 2001. This

we redesigned the product and intensified our advertising efforts late in the year to improve its sales.

In July 2001, AFLAC became the first life insurer to introduce an accident insurance policy in Japan. We believe accident insurance is a natural extension of our business, especially considering our success at selling the product in the United States. We were also pleased with the continued sales growth of our ordinary life products.

ke AFLAC available

new policy, called 21st Century Cancer Life, offers consumers a wide variety of benefit choices. However, many of our agents had difficulty in marketing the product early in the year because of the dramatic change in policy benefit combinations. To improve the marketability of our new cancer life policy, we streamlined the benefit options and redesigned the policy’s sales literature and application. As a result, cancer life sales improved toward the end of 2001. We sold more than 825,000 cancer life policies during the year. Cancer life was our top-selling product in 2001, accounting for more than ¥47 billion in premium for the year and representing about 52% of our total sales in Japan.

Broadened Product Line Meets Consumer Needs

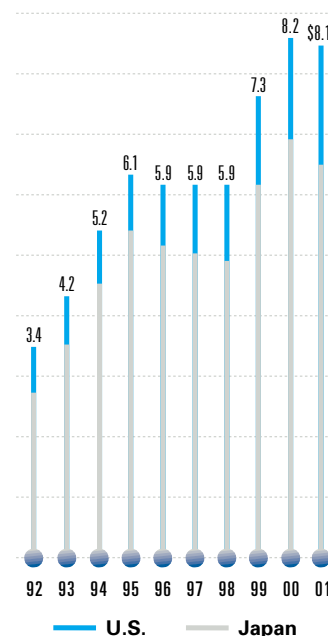
In addition to cancer life insurance, AFLAC Japan offers a variety of products that supplement Japan’s national health care system. Actually, adding new policies to our product portfolio has been a central part of our growth strategy in the last 10 years. It was also one of the tactics we used to prepare for a deregulated market. Our products provide valuable protection because they help consumers pay for the additional costs that arise as a result of illnesses or accidents.

Rider MAX, which provides accident and medical/sickness benefits as a rider to our cancer life plan, continues to be an important product in our lineup. Although Rider MAX sales declined throughout the year,

Ordinary life sales, which are made primarily through individual agencies, were up 39.3% for the year and accounted for 14% of sales.

Japan’s market for health-related insurance products continues to change rapidly, and we expect consumers will be required to shoulder a larger portion of health care expenses in the future. In 2001 for instance, the Ministry of Health, Labor and Welfare promoted a health care reform plan that would increase workers’ copayments from 20% of costs to 30%. It was also recommended that the eligible age for special medical benefits for the elderly be increased from the current age of 70 to 75. We believe that if health care reform occurs, it should increase the need for our products.

Premium Income
(In billions)



Premium income declined 2.0% for the year due to the weaker yen, despite rapid U.S. sales growth and strong persistency in Japan.

Making a Strong Distribution System Even Better

In addition to expanding our product line, we remain dedicated to improving a distribution system that we believe is already the best in the industry. The number of agencies representing AFLAC increased 10.1% by the end of 2001, compared with 2000, while the number of licensed sales associates rose 20.6% to more than 52,000. In 2001, 42% of our sales came from agencies that are affiliated with the largest companies in Japan. And while sales to workers at large employers will continue to play an important role at AFLAC, we are also expanding our reach by recruiting individual agencies. We believe

AFLAC Japan Sales Results

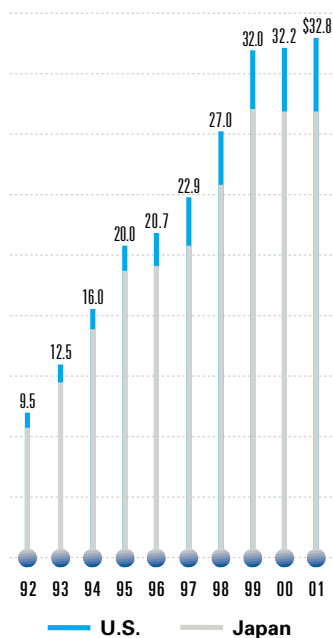
	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Total Number of Agencies
2001	20,802	¥ 782,249	¥ 91,865	9,839
2000	19,674	740,445	99,755	8,938
1999	18,510	696,622	87,043	8,283
1998	16,963	640,796	75,425	7,010
1997	15,800	597,823	62,884	5,427
1996	15,088	568,067	79,242	5,166
1995	13,188	506,436	72,608	5,224
1994	12,640	471,170	69,628	4,961
1993	11,635	411,331	63,312	4,539
1992	10,859	363,429	68,424	4,065

* In thousands

** In millions

to their employees

Total Investments and Cash
(In billions)



AFLAC's investment portfolio, which consists primarily of high quality debt securities, rose slightly despite the 13.0% weakening in the year-end exchange rate.

growing this segment of our distribution system will allow us to better penetrate the vast market of small to medium-size businesses in Japan.

Another way we have expanded our distribution system is through our strategic marketing alliance with Dai-ichi Mutual Life. Dai-ichi Life is Japan's second largest life insurance company in terms of assets and has a sales force of more than 50,000 agents. In April 2001, Dai-ichi Life's sales force began selling our cancer life policy. Based on last year's sales, it's clear that the alliance has been a tremendous success. For the year, Dai-ichi Life sold more than 265,000 AFLAC cancer life

policies, accounting for approximately 11% of new annualized premium sales for the year.

Efficiency Benefits Customers and Agencies

Operating efficiency is perhaps our greatest competitive strength in Japan. It enables us to offer the best products at the best prices to consumers, while also providing the best compensation to our sales force. Quite simply, we believe we are the low-cost producer in Japan. Based on Financial Services Agency (FSA) data for instance, an AFLAC employee services about six times the number of policies compared with an employee at Japan's largest life insurers. And our general operating expenses per policy are significantly lower than those of other life insurers in Japan.

One key to our efficient operation is our use of technology. We pioneered the use of a system called Cyclone, which is the Japanese version of our SmartApp system. Our individual agencies use Cyclone to transmit policy applications to our headquarters in Tokyo. We have also started using imaging technology whereby we convert paper policy applications to electronic files. Customer service employees can retrieve electronic files more quickly and efficiently than they can retrieve paper files. Also, storing applications as computer files rather than paper files reduces costs by saving storage space.

Conservative Portfolio Provides Solid Investment Returns


AFLAC Japan is not just known for its operational efficiency. We are also recognized as one of Japan's safest insurers, which is due in great part to our conservative investment portfolio. In fact, in the December 18, 2001, edition of *The Weekly Economist*, a leading Japanese business publication, AFLAC was number one in its list of Japan's most reliable insurers. In addition, according to FSA data as of March 31, 2001, our investment yield was higher than any other life insurer in Japan with assets of more than ¥2 trillion.

We are not significant investors in the investment real estate and equity sectors. Instead, we concentrate on buying long-dated, investment-grade securities. These types of investments allow us to better match asset and liability durations and to increase investment income at a strong and steady rate. We believe our conservative investment orientation has benefited our customers and shareholders during Japan's extended economic downturn.

Targeting Renewed Sales Growth in 2002

Although its economic outlook remains uncertain, Japan is the second largest insurance market in the world

where they work.

A photograph showing two men in white hard hats and safety vests standing on a construction site. The man on the left, wearing a light blue shirt and pants, is gesturing with his right hand towards the background. The man on the right, wearing a grey suit and an orange safety vest, is gesturing with both hands. They are standing near a body of water with several large, dark, circular objects (possibly pipes or containers) in the foreground. In the background, there are construction cranes and buildings.

Ryuji Shishikura, at right, owner of Shishikura Construction company in Tokyo, talks to his nephew and co-worker, Koichi Shishikura, about the river construction project his company is handling. All 15 employees of Shishikura Construction are AFLAC policyholders. There are more than 40 million employees at small businesses throughout Japan who could benefit from AFLAC products.



AFLAC policyholder Katsuji Kamei talks with AFLAC sales agent Reiko Fujiwara and agency employees Shoko Yoshida (left) and Tomoko Shibata in Ms. Fujiwara's office in Tokyo. Mr. Kamei, who has had an AFLAC cancer policy since the mid-1980s, said the policy helped him cope with his medical expenses after he was diagnosed with lung cancer in 1998. AFLAC sold more than 825,000 cancer life policies in Japan during 2001, making it AFLAC Japan's top-selling product.

and one we believe is perfectly suited to the products we sell. And while we found our sales results to be disappointing in 2001, we believe we can improve on them in 2002 and beyond. AFLAC's product line, distribution system, operating efficiency, and strong financial position are key competitive advantages that should continue to serve us well.

In Japan, there are more than 51 million workers at businesses with fewer than 300 employees. Our penetration in this market, however, is only about 16%. To tap into that potential and extend our leadership position in the Japanese market, we will:

- **Expand our product line.** *We will continue to develop new products and modify existing policies to meet the changing needs of Japanese consumers.*
- **Grow our sales force.** *We will continue to recruit more sales agencies, especially to penetrate the small-business and individual markets.*
- **Improve operational efficiency.** *We will continue to invest in new technologies and work processes to extend our cost advantages.*
- **Emphasize our financial strength.** *We will continue to promote our financial strength and the reliability of our brand to consumers and potential agencies.*

AFLAC U.S. insures

AFLAC U.S. – A Year of Record Success

2001 was a record year for AFLAC U.S. by every measure. Our sales soared to an all-time high. We recruited a record number of sales associates. And our name recognition climbed to new heights. Those records reflect our success at marketing our products at worksites throughout the United States. Most important, our financial results kept pace with our marketing success, setting records as well. Following are some highlights for the year.

- New annualized premium sales increased 29.1% to \$919 million, compared with \$712 million in 2000.
- Premium income rose 18.6% to \$1.8 billion, up from \$1.6 billion in 2000.
- Net investment income increased 9.6% to \$303 million, compared with \$277 million in 2000.
- Total revenues were up 17.4%, rising from \$1.8 billion in 2000 to \$2.2 billion in 2001.
- Pretax operating earnings grew 18.7% to \$345 million, compared with \$290 million in 2000.

Cincinnati Sub-Zero employees Amanda Meadors and Sheila Reed pack disposable medical hyper/hypothermia blankets at the company's Cincinnati plant. The blankets help maintain a patient's body temperature during surgical procedures. Cincinnati Sub-Zero, an AFLAC payroll account with 220 employees, began as a distributor of DeepFreeze brand freezers in 1940. It now offers a variety of medical and industrial products, and it also recently acquired a new company that designs and manufactures products for the postal and food industries. Cincinnati Sub-Zero is just one of the worksites that is part of the vast small-business market in the United States.



CITY FIRE STATION NO. 2

employees at

Products Provide Foundation for Success

AFLAC policies are designed to provide coverage that helps consumers pay out-of-pocket expenses. These expenses may be medically related such as hospital care, physician services, dental services, home health care, prescription drugs or nursing care. They may also be nonmedical expenses, including lodging and travel expenses and lost wages. The Health Care Financing Administration estimates that medically related out-of-pocket expenses alone were \$200 billion in 1998.

To help consumers cope with an increasingly large financial burden caused by out-of-pocket expenses, AFLAC offers a variety of products. Since the mid-1980s, we have dramatically broadened our product line, and that strategy has been extremely successful. Although our founding product was a pioneering cancer expense policy, newer products have propelled our recent growth. In fact, accident/disability coverage has been our best-selling product category for eight consecutive years. It is also our number one product category in terms of premiums in force.

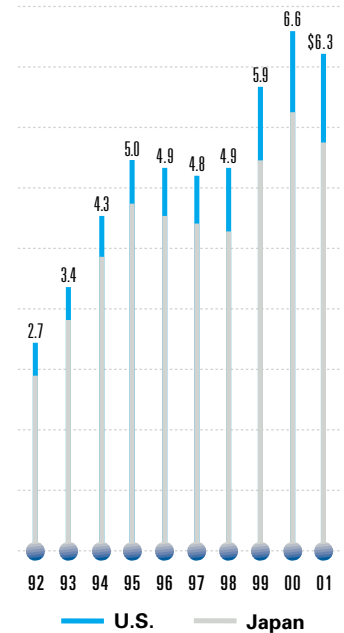
In addition to accident/disability and cancer expense insurance, other products have added greatly to the success of AFLAC's U.S. business. In 1998 we began selling payroll life insurance, which fills an important need for many of our payroll accounts. Payroll life sales jumped by more than 23% in 2001, compared with the year before and represented about 5% of sales last year. In 1999 we introduced a specified event policy that has also sold well, with sales in 2001 increasing by nearly 26%, compared with 2000. But without a doubt, the most successful new product launch was our fixed-benefit dental product. Introduced in July 2000, this product has already become

our third-best-selling product category, with sales of \$60 million during 2001.

Rapidly Growing Our Sales Force

We complement our strong focus on product development with an aggressive plan to expand our distribution system by recruiting new sales associates. The expansion of our sales force is crucial to our company's growth. And during 2001 our recruiting remained very strong. We recruited a record 18,000 new sales associates during the year, an increase of more than 25% compared with 2000. The average number of sales associates who produce business each month rose 21.5% to more than 13,000, compared with about 10,800 in 2000. By year-end 2001, AFLAC was represented by more than 43,000 licensed independent sales associates and insurance brokers.

Benefits and Claims
(In billions)



AFLAC paid or provided for \$6.3 billion in benefits for policyholders in 2001.

more than 200,000

AFLAC policyholders and firefighters Lt. Rick Shropshire, Jeff Juett and Josh Thiel, are among the 370 city and county employees in Nicholasville and Jessamine County, Kentucky who have access to AFLAC products. Our products are becoming more important to city and county employees across the nation as tight budgets make it difficult for governments to offer their employees rich benefit packages. AFLAC has more than 8,600 municipal government payroll accounts and nearly 850 payroll accounts within state governments.

Advertising Benefits Sales, Recruiting

One of AFLAC's many strengths has been the effectiveness of its advertising campaign. Our unique advertisements, featuring the popular AFLAC duck, have produced a dramatic increase in AFLAC's visibility. As a result, our sales and recruiting have benefited from advertising, as has the general awareness of AFLAC and its products.

More people than ever before now know of AFLAC. Independent research conducted in 2001 revealed that 91% of Americans were aware of AFLAC's advertising. We believe the new AFLAC duck commercials that will air in 2002 will improve awareness of AFLAC even more. In addition, the AFLAC duck has been increasingly recognized as a symbol of our philanthropic efforts.

Our Commitment to Giving

AFLAC has long understood that, as a leader in the insurance industry, it is in a unique position to help with health-related issues. And because we have a long history of success with our founding product, cancer expense insurance, it's perhaps understandable that our charitable efforts focus on cancer research and treatment. We intensified those efforts in 1995 when we became the naming sponsor of what is known today as the AFLAC Cancer Center and Blood Disorders Service at Children's Healthcare of Atlanta.

AFLAC's employees and sales associates are very generous with their time and money when it comes to the AFLAC Cancer Center, which specializes in treating pediatric cancer and blood disorders, including sickle cell anemia. In addition, the proceeds from all the toy AFLAC ducks sold through aflac.com go to the AFLAC Cancer Center. From 1995 through 2001, we raised more than \$8 million for the center. Additionally, we announced our largest philanthropic commitment ever to the AFLAC

Employing Technology to Accommodate Rapid Growth

Our explosive sales growth has triggered a new emphasis on using technology to efficiently handle an increasingly large block of business. Clearly, our most recognizable technological achievement to date is SmartApp. This laptop computer software allows our sales associates to electronically transmit policy applications to our headquarters. SmartApp improves service to our customers and saves time by reducing paperwork and speeding up the application process. In many cases, an application processed on SmartApp can be jet-issued, meaning no human intervention is required to process the application. In 2001, we processed about 84% of all payroll applications on SmartApp. Of those applications, more than half were jet-issued. We are in the process of upgrading SmartApp so that it can handle administrative functions in addition to electronically transmitting policy applications. Among other things, SmartApp will be able to electronically transfer policies from one payroll account to another.

By the end of 2001, one of our newest systems initiatives, Internet billing, became available to payroll accounts in virtually every state. Designed for payroll accounts with fewer than 200 policies in force, Internet billing allows those payroll accounts to pay their invoices online or to electronically submit policy changes such as a change of address, employment status, and more. This software should help ease the administrative burden for many small businesses and benefit AFLAC's operations as well.

We are also making greater use of the Internet to provide improved service to our sales associates and customers. Our sales associates can now get online updates on the status of their customers' claims and policy applications. This saves time for our associates and our

worksites in the

Cancer Center through a gift of \$10 million. We feel very fortunate that we are in a position to help improve the lives of young cancer patients and their families, and hope that one day childhood cancer will be cured.

customer service representatives. And for the first time ever, we used a company's intranet to enroll its workers at a large payroll account. In the fourth quarter of 2001, we offered our cancer expense product to Wal-Mart employees, who signed up for coverage at computer



Robert Cotrell, left, Sonja Feters and Rodney Hill are among the employees of Bill Heard Enterprises who are AFLAC policyholders. They work at the Bill Heard Chevrolet dealership in Union City, Georgia. More than 3,500 Bill Heard employees at 16 dealerships in seven states have access to AFLAC policies.

terminals at Wal-Mart and Sam's Club stores throughout the country. There is no doubt that technology will play a greater role than ever before in helping us improve work processes and service to our ever-growing customer base.

Investing Wisely in a Volatile Market

The impact of a weakening economy and the events of September 11 resulted in volatile capital markets that made investing a challenge in 2001. Yet our investment approach required little change. We continued to invest conservatively because our financial assets back the promises we have made to our policyholders. At the same time, our conservative posture helps produce a predictable

AFLAC U.S. Sales Results

	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Average Number of Producing Associates
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
1993	4,050	803	229	5,110
1992	3,994	730	206	4,543

* In thousands

** In millions

United States.

source of investment income for the company and its shareholders.

We continued to avoid the junk bond market, as well as the investment real estate and mortgage sectors. Our holdings continue to include mostly investment-grade debt securities, which make up about 95% of investments and cash. At the end of the year, more than 72% of our debt securities were rated "A" or better.

Potential for Continued Growth Remains Strong

Despite the incredible sales growth we have produced over the last several years, we believe we have merely scratched the surface of the market. With consumers becoming responsible for an increasing portion of their health care expenses, the need for our products should continue to grow. At the same time, the overall market for potential payroll accounts is enormous. The Small Business Administration estimates that there are more than 5.5 million businesses in the United States with fewer than 500 workers. This means that with 200,000 payroll accounts, AFLAC's penetration of the small to medium-size business market is less than 4%. We believe this greatly illustrates the vast opportunity that awaits us. More importantly, we believe we are well-positioned to tap into that potential. To do that, we will:

- **Enhance our product line.** *Our focus on an expanding product line is crucial to our continued success. We will work to explore new product opportunities, while also enhancing our existing products to ensure they offer the best value in the market of supplemental coverage.*
- **Increase our distribution.** *We know that the adage "success breeds success" applies to a growing commission-based sales force. We believe that our products, commissions, advertising, and reputation will continue to attract top salespeople.*
- **Improve efficiency.** *Controlling expenses is critical to managing a large and growing policy base. It also allows us to continue to offer the best products and the best service at the best prices to our customers, while also providing our sales associates with competitive compensation.*
- **Expand brand awareness.** *Although our advertising awareness is already at 91%, we believe we can continue to build on our branding efforts through our popular advertising campaign. Ultimately, we believe our advertising will have more consumers asking about AFLAC at work.*



According to the Health Insurance Association of America, approximately 91 million people in the United States are insured at their places of employment.

● **ASK ABOUT IT AT WORK.**

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

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

Results of Operations

The results of operations by business segment, together with nonoperating items, for the three-year period ended December 31, 2001, appear in the table below.

Per-share amounts presented in the following discussion are based on the diluted number of average outstanding shares unless otherwise indicated. The table to the right presents a reconciliation of operating earnings per share to net earnings per share for the three-year period ended December 31, 2001.

	2001	2000	1999
Operating earnings per diluted share	\$ 1.34	\$ 1.20	\$ 1.00
Nonoperating items:			
Realized investment gains (losses), net of tax	(.06)	(.12)	(.01)
Termination of retirement liability, net of tax	—	.18	—
Deferred income tax benefit from Japanese tax rate reduction	—	—	.12
Provision for the policyholder protection fund, net of tax	—	—	(.07)
Net earnings per diluted share	\$ 1.28	\$ 1.26	\$ 1.04

Nonoperating Items

In March 2001, we recognized a pretax impairment loss of \$42 million on the corporate debt securities of a U.S. issuer when it experienced a credit rating downgrade. We also executed several bond sale and purchase transactions during the first quarter in an effort to increase investment income. The sales of these debt securities resulted in pretax realized investment gains of \$21 million. Also in the first quarter of 2001, we realized a pretax investment gain of \$18 million related to the sale of a portion of our U.S. equity

securities portfolio in connection with a change in outside investment managers. In September 2001, we recognized a pretax impairment loss of \$28 million related to the Company's investment in two human resource service companies. We also recognized in December 2001 a pretax impairment loss of \$13 million on the debt securities of a European issuer when it experienced a credit rating downgrade. These gains and losses, when included with other investment transactions in the normal course of business, decreased 2001 net earnings \$34 million (\$.06 per diluted share).

During the first half of 2000, the North American issuers of two debt securities held in our portfolio experienced credit rating downgrades. In the second quarter, we sold one security at a pretax loss of \$34 million and recorded a pretax impairment loss of \$57 million on the other security. These losses, when included with other investment transactions in the normal course of business,

Summary of Operating Results by Business Segment

(In millions, except for per-share amounts)

	Percentage change over previous year		Years ended December 31,		
	2001	2000	2001	2000	1999
Operating earnings:					
AFLAC Japan	6.7%	18.6%	\$ 823	\$ 771	\$ 651
AFLAC U.S.	18.7	13.3	345	290	256
Other business segments			(8)	(6)	(4)
Total business segments	10.0	16.8	1,160	1,055	903
Interest expense, noninsurance operations	(1.7)	(9.3)	(16)	(16)	(15)
Corporate and eliminations	(28.4)	19.9	(33)	(26)	(32)
Pretax operating earnings	9.6	18.3	1,111	1,013	856
Income taxes	9.5	16.4	391	356	306
Operating earnings	9.7	19.4	720	657	550
Nonoperating items:					
Realized investment gains (losses), net of tax			(34)	(69)	(5)
Change in fair value of the interest rate component of the cross-currency swaps, net of tax			1	—	—
Termination of retirement liability, net of tax			—	99	—
Deferred income tax benefit from Japanese tax rate reduction			—	—	67
Provision for the policyholder protection fund, net of tax			—	—	(41)
Net earnings	—	20.3%	\$ 687	\$ 687	\$ 571
Operating earnings per basic share	10.5%	20.4%	\$ 1.37	\$ 1.24	\$ 1.03
Operating earnings per diluted share	11.7	20.0	1.34	1.20	1.00
Net earnings per basic share	.8%	21.5%	\$ 1.31	\$ 1.30	\$ 1.07
Net earnings per diluted share	1.6	21.2	1.28	1.26	1.04

decreased 2000 net earnings \$69 million (\$.12 per diluted share).

For the year ended December 31, 2001, we recognized a \$1 million gain in connection with the change in fair value of the interest rate component of the cross-currency swaps related to our senior notes payable. This gain was included in other income in the consolidated statement of earnings. (See Notes 1 and 4 of the Notes to the Consolidated Financial Statements.)

For the year ended December 31, 2000, the termination of an accrued unfunded liability for projected retirement payments increased net earnings by \$99 million (\$.18 per diluted share). (See Note 10 of the Notes to the Consolidated Financial Statements.)

In 1999, the Japanese statutory income tax rate for AFLAC Japan declined from 41.7% to 36.2%. This tax rate change reduced our deferred income tax liability and increased net earnings by \$67 million (\$.12 per diluted share).

The Japanese government and the life insurance industry agreed to legislation in 1999 that increased the life insurance industry's obligation to the Japanese policyholder protection fund. Our estimated share of the industry's obligation decreased net earnings in 1999 by \$41 million (\$.07 per diluted share).

The following discussion of earnings comparisons focuses on operating earnings and therefore excludes realized investment gains/losses, the change in fair value of the interest rate component of cross-currency swaps in 2001, the gain from the termination of the retirement accrual in 2000, the deferred income tax benefit from the Japanese income tax rate reduction in 1999, and the charge for the Japanese policyholder protection fund in 1999.

Foreign Currency Translation

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 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. Our business, in functional currency terms, continued to be strong, and we believe it is more appropriate to measure our performance excluding the effect of fluctuations in the yen/dollar exchange rate in order to understand the basic operating results of the business. (See Note 2 of the Notes to the Consolidated Financial Statements.)

The table at the top of the page illustrates the effect of foreign currency translation by comparing our reported operating results with those that would have been

reported had foreign currency exchange rates remained unchanged from the previous year.

Foreign Currency Translation Effect on Operating Results

(Years ended December 31)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes*		
	2001	2000	1999	2001	2000	1999
Premium income	(2.0)%	13.4%	22.2%	7.6%	8.5%	9.4%
Net investment income	—	13.2	20.3	7.2	9.6	10.7
Operating revenues	(1.8)	13.5	21.8	7.4	8.8	9.5
Total benefits and expenses	(3.1)	13.0	21.0	6.4	8.0	8.3
Operating earnings	9.7	19.4	28.1	15.4	16.5	20.6
Operating earnings per share	11.7	20.0	28.2	17.5	18.0	20.5

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

Overall exchange rates for 2001 remained at levels significantly weaker than those experienced in 2000 and the last half of 1999. The average yen/dollar exchange rates were 121.54 in 2001, 107.83 in 2000 and 113.96 in 1999. The weaker yen in 2001 compared with 2000, decreased reported operating earnings by approximately \$.07 per share for the year. The stronger yen in 2000 and 1999 increased reported operating earnings per share by \$.02 in 2000 compared with 1999 and by \$.06 in 1999 compared with 1998. Reported operating earnings per share increased 11.7% to \$1.34 in 2001, 20.0% to \$1.20 in 2000 and 28.2% to \$1.00 in 1999.

Our primary financial objective is the growth of operating earnings per share, excluding the effect of foreign currency fluctuations. Our goal for 2001 was to grow at the high end of a 15% to 17% range, which we achieved. Excluding the effect of foreign currency fluctuations, operating earnings per share increased 17.5% in 2001 compared with 2000, 18.0% in 2000 compared with 1999, and 20.5% in 1999 compared with 1998.

Our specific target for 2002 is to increase operating earnings per share by 14.9%, excluding the impact of currency translation. If we achieve that objective, the following table shows the likely results for 2002 operating earnings per share, including the impact of

2002 Operating EPS Scenarios

Annual Average Yen Exchange Rate	Annual Operating Diluted EPS	% Growth Over 2001	Yen Impact on EPS
115.00	\$1.58	17.9%	\$.04
120.00	1.55	15.7	.01
121.54*	1.54	14.9	—
125.00	1.52	13.4	(.02)
130.00	1.49	11.2	(.05)
135.00	1.47	9.7	(.07)
140.00	1.44	7.5	(.10)

* Actual 2001 average exchange rate

foreign currency translation using various yen/dollar exchange rate scenarios.

Share Repurchase Program

During 2001 we acquired approximately 12 million shares of AFLAC stock. At December 31, 2001, we had approximately four million shares remaining for purchase under authorization from the board of directors. In February 2002, the board of directors authorized the purchase of up to an additional 25 million shares of our common stock, bringing the total number of shares available for purchase to approximately 29 million. We anticipate that the repurchase of shares will be conducted from time to time in open market or negotiated transactions, depending upon market conditions.

The difference between the percentage changes in operating earnings and operating earnings per share primarily reflects the impact of the share repurchase program and treasury stock reissued.

Income Taxes

Our combined U.S. and Japanese effective income tax rates on operating earnings were 35.2% in both 2001 and 2000 and 35.8% in 1999. Japanese income taxes on AFLAC Japan's operating results accounted for most of our income tax expense.

AFLAC Japan Summary of Operating Results

(In millions)	2001	2000	1999
Premium income	\$ 6,217	\$ 6,668	\$ 5,906
Investment income	1,234	1,261	1,111
Other income	1	7	4
Total revenues	7,452	7,936	7,021
Benefits and claims	5,170	5,632	5,039
Operating expenses	1,459	1,533	1,331
Total benefits and expenses	6,629	7,165	6,370
Pretax operating earnings	\$ 823	\$ 771	\$ 651
Average yen/dollar exchange rates	121.54	107.83	113.96

	In Dollars			In Yen		
Percentage changes over previous year:	2001	2000	1999	2001	2000	1999
Premium income	(6.8)%	12.9%	24.6%	5.1%	6.8%	8.5%
Investment income	(2.2)	13.5	21.2	10.5	7.4	5.2
Total revenues	(6.1)	13.0	24.1	5.9	7.0	8.0
Pretax operating earnings	6.7	18.6	29.6	20.6	12.3	12.3
Ratios to total revenues in dollars:	2001	2000	1999			
Benefits and claims	69.4%		71.0%			71.8%
Operating expenses	19.6		19.3			18.9
Pretax operating earnings	11.0		9.7			9.3

Insurance Operations, AFLAC Japan

AFLAC Japan, a branch of AFLAC and the principal contributor to our earnings, ranks number one in terms of profits among all foreign life insurance companies operating in Japan. Among all life insurance companies operating in Japan, AFLAC Japan ranked 12th in terms of assets, according to Financial Services Agency (FSA) data as of September 30, 2001.

Japanese Economy

During 2001, Japan continued to struggle with a broad economic deterioration. As business sentiment worsened, capital investment and hours worked declined, creating additional unemployment. Consumers are increasingly cautious amid concerns over unemployment and the viability of social security programs. As we have indicated in years past, Japan's weak economy has created a challenging environment for AFLAC Japan. The time required for a full economic recovery remains uncertain as Japan continues to search for the catalyst that will lay the foundation for the turnaround.

The table below presents a summary of AFLAC Japan's operating results.

In 2001, the weakening of the average yen/dollar exchange rate inflated AFLAC Japan's rates of growth in yen terms due to its holdings of dollar-denominated assets and reverse-dual currency securities (yen-denominated fixed-maturity securities with dollar coupon payments).

Dollar-denominated investment income accounts for approximately one-third of AFLAC Japan's investment income. Therefore, translating AFLAC Japan's dollar-denominated investment income into yen magnifies the increases for total revenues, net investment income and pretax operating earnings.

The table on the following page illustrates the impact on AFLAC Japan's yen operating results of translating its dollar-denominated items by comparing certain operating results in yen with those that would have been reported had yen/dollar exchange rates remained unchanged from the previous year.

AFLAC Japan Pretax Operating Earnings

Changes in AFLAC Japan's pretax operating earnings and profit margins are affected by investment yields, morbidity/mortality, persistency and

AFLAC Japan Percentage Changes Over Prior Year

(Yen Operating Results)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes*		
	2001	2000	1999	2001	2000	1999
Net investment income	10.5%	7.4%	5.2%	6.9%	9.3%	9.2%
Total revenues	5.9	7.0	8.0	5.3	7.3	8.7
Pretax operating earnings	20.6	12.3	12.3	15.2	15.3	19.1

* 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.

expense levels. The aggregate benefit ratio has declined primarily due to the mix of business shifting to newer products and riders, which have a lower benefit ratio than previously issued products and riders. The aggregate benefit ratio has also improved as a result of favorable morbidity experience. We expect the aggregate benefit ratio to continue to decline in future years, along with the shift to newer products and riders. Our persistency has declined only slightly over the last three years. The higher operating expense ratios in 2001 and 2000 were primarily due to increased expenditures for sales promotion, marketing and advertising. We expect that the operating expense ratio will be relatively stable in the future. The expansion of the profit margins in 2001 and 2000 was largely due to the declining benefit ratio. Our profit margins are also affected by the spread between investment yields and required interest on policy reserves (see table and discussion on page 30).

AFLAC Japan Sales

In 2001, AFLAC Japan's sales growth reflected lower production of Rider MAX and lower response rates to sales campaigns primarily at large corporate worksites. New annualized premium sales were: \$755 million in 2001, down 18.0%; \$921 million in 2000, up 20.4%; and \$765 million in 1999, up 32.2%. New annualized premium sales in yen were: ¥91.9 billion in 2001, down 7.9%; ¥99.8 billion in 2000, up 14.6%; and ¥87.0 billion in 1999, up 15.4%.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 5.6% in 2001, 6.3% in 2000 and 8.7% in 1999 reflect the high persistency of AFLAC Japan's business and the sales of new policies. Annualized premiums in force were: ¥782.2 billion, ¥740.4 billion and ¥696.6 billion at December 31, 2001, 2000 and 1999, respectively. As a result of fluctuations in year-end exchange rates, annualized premiums in force, as measured in dollars, were: \$5.9 billion, \$6.5 billion and \$6.8 billion at December 31, 2001, 2000 and 1999, respectively.

We have taken certain actions, which are outlined below, to improve our sales in Japan. However, there is no

assurance that these actions will ultimately prove to be effective.

In order to improve sales, we introduced a revised version of our Rider MAX product late in the third quarter and restarted television advertising for this product. We believe that with these actions and continued enhancement of the product, Rider MAX will continue to be a strong contributor to sales. In mid 2001, we refined our latest

cancer life product, 21st Century Cancer Life, to improve its marketability by simplifying the sales literature and application. This new product, when first introduced, was marketed with a significant number of benefit options. We believe the streamlined version of 21st Century Cancer Life should result in better response rates to sales campaigns.

We have also taken action within our management team to improve AFLAC Japan's sales. In April 2001, we hired a new marketing director who began work in September. Since then, the creation of a strategic planning division within the marketing department, the incorporation of the product development and advertising divisions in the marketing department, and the evaluation and reorganization of our sales offices are all actions that we believe will benefit Japan sales. Further, we believe that these steps will provide us with a more sophisticated and aggressive marketing management that is better able to develop strategies for competing in Japan's economic environment.

We also continued to grow our distribution system in Japan. During 2001, the number of licensed sales associates rose 20.6% over 2000. We believe that new agencies will continue to be attracted to AFLAC Japan's high commissions, superior products, customer service and brand image.

In July 2001, we introduced the AFLAC Injury Policy. The policy, which is the first accident product to be marketed by a life insurer in Japan, provides benefits for inpatient and outpatient treatment and surgery due to injuries.

We are extremely pleased with the results of our alliance with Dai-ichi Mutual Life. In 2001, Dai-ichi Life sold approximately 265,000 of our cancer life policies, accounting for 11% of new annualized premium sales. Dai-ichi Life sales of our cancer life policy increased 36% in the fourth quarter, compared with its third quarter results.

During the second quarter of 2001, we analyzed our annuity business and concluded that our best-selling annuity product, sold as business insurance beginning in late 2000, was profitable but did not meet our profit objectives. As a result, we stopped selling that type of annuity product.

AFLAC Japan's sales mix as measured in yen has changed during the last few years. Cancer life sales accounted for 51.7% of total sales in 2001, 40.3% in 2000, and 46.7% in 1999. Rider MAX accounted for 25.0% of sales in 2001, 41.2% in 2000, and 39.6% in 1999. Ordinary life and annuities accounted for 19.1% of sales in 2001 compared with 13.6% in 2000 and 7.8% in 1999.

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. In 2001, the weaker yen increased dollar-denominated investment income as reported in yen. Investment income in yen increased 10.5% in 2001, compared with 7.4% in 2000 and 5.2% in 1999.

Reflecting the continued weakness in Japan's economy, investment yields on yen-denominated debt securities remained low in 2001. For instance, the yield of a composite index of 20-year Japanese government bonds fluctuated from a high of 2.16% in January 2001 to a low of 1.45% in March 2001, and closed the year at 2.02%. However, we purchased yen-denominated securities at an average yield of 3.58% by focusing on selected sectors of the fixed-maturity market.

At December 31, 2001, the yield on AFLAC Japan's fixed-maturity portfolio (including dollar-denominated investments) was 4.89%, compared with 5.02% in 2000 and 5.19% in 1999. The return on average invested assets, net of investment expenses, was 4.81% for 2001, compared with 4.82% in 2000 and 5.01% in 1999. AFLAC Japan's new money rates for investments in debt securities were 3.86% for 2001, 3.78% for 2000 and 4.74% for 1999.

AFLAC Japan has invested in reverse-dual currency securities and other privately issued securities to secure higher yields than Japanese government bonds would have provided, while still adhering to prudent standards for credit quality. We believe that we can invest new money in the near term at an adequate spread over policy premium pricing assumptions and assumed interest rates for policy liabilities on new business. To compensate for lower investment yields, we have implemented premium rate increases over the last several years, which should contribute to stability of our profit margins.

Insurance Deregulation in Japan

Trade talks in 1994 and 1996 between the governments of the United States and Japan, and Japan's 1996 plan for a financial "Big Bang," produced a framework for the deregulation of the Japanese insurance industry. These measures called for the gradual

liberalization of the industry through the year 2001 and included provisions to avoid "radical change" in the "third sector" of the insurance industry.

The final phase of the deregulation of Japan's insurance industry began in 2001 when the third sector was deregulated. The third sector is the segment in which AFLAC Japan primarily operates. As expected, new competitors emerged in 2001, with some offering stand-alone cancer policies. We do not believe that our market position was significantly impacted by deregulation as evidenced by the growth of our policyholders and agents.

AFLAC Japan - Other

Although the timing of any economic recovery in Japan remains uncertain, we are committed to growing our business in Japan, which is the world's second largest economy and the second largest life insurance market. We believe that we are strongly positioned in the best segment of Japan's insurance industry. As the need for our products continues, we remain optimistic about improving response rates within existing groups, opening new accounts and selling additional products in the Japanese market. Additionally, we believe we successfully weathered the deregulation of the third sector and maintained our position as the leading supplemental insurer in Japan. Our objective for 2002 is to increase sales in yen by 5% to 10% compared with 2001.

Insurance Operations, AFLAC U.S.

The table on the following page presents a summary of AFLAC U.S. operating results.

AFLAC U.S. Pretax Operating Earnings

Changes in AFLAC U.S. pretax operating earnings and profit margins are affected by investment yields, morbidity/mortality, persistency and expense levels. The aggregate benefit ratio has been relatively stable as the mix of business has shifted toward accident/disability policies, which have lower benefit ratios than other products. We expect future benefit ratios for some of our products to increase slightly due to our ongoing efforts to enhance policyholder benefits and improve policy persistency. Our overall policy persistency has remained relatively stable over the last three years. We expect the operating expense ratio, excluding discretionary advertising expenses, to remain relatively level in the future. We also expect the profit margins to remain approximately the same in 2002. Our profit margins are also affected by the spread between investment yields and required interest on policy reserves (see table and discussion on page 30).

AFLAC U.S. Summary of Operating Results

(In millions)	2001	2000	1999
Premium income	\$ 1,844	\$ 1,554	\$ 1,358
Investment income	303	277	245
Other income	8	5	3
Total revenues	2,155	1,836	1,606
Benefits and claims	1,132	969	845
Operating expenses	678	577	505
Total benefits and expenses	1,810	1,546	1,350
Pretax operating earnings	\$ 345	\$ 290	\$ 256

Percentage changes over previous year:

Premium income	18.6%	14.4%	13.4%
Investment income	9.6	13.2	13.1
Total revenues	17.4	14.3	13.2
Pretax operating earnings	18.7	13.3	11.4

Ratios to total revenues:

Benefits and claims	52.5%	52.8%	52.6%
Operating expenses	31.5	31.4	31.4
Pretax operating earnings	16.0	15.8	16.0

AFLAC U.S. Sales

As expected, new annualized premium sales continued to grow at a strong rate in 2001. New annualized premium sales were: \$919 million in 2001, up 29.1%; \$712 million in 2000, up 28.3%; and \$555 million in 1999, up 15.1%. Accident/disability coverage continued to be our best-selling product, accounting for 52%, 55% and 56% of total sales in 2001, 2000 and 1999, respectively. Cancer expense insurance continued to produce strong results, accounting for 24% of sales in 2001, 23% of sales in 2000 and 25% of sales in 1999. Introduced in July 2000, fixed-benefit dental coverage continued to sell extremely well, accounting for 7% and 3% of total sales for 2001 and 2000, respectively. Our objective for 2002 is to increase sales by approximately 15%.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force of 20.3% in 2001, 16.9% in 2000 and 14.3% in 1999 were favorably affected by increased sales at the worksite primarily through cafeteria plans and an improvement in the persistency of several products. Annualized premiums in force were: \$2.2 billion at December 31, 2001; \$1.9 billion at December 31, 2000; and \$1.6 billion at December 31, 1999.

AFLAC U.S. continued to rapidly expand its sales force. During 2001, the average number of associates producing business on a monthly basis increased 21.5% to more than 13,000 agents. We believe the rapid growth of our distribution system is due in part to the ongoing popularity of our current advertising campaign, which has dramatically increased awareness of AFLAC and its products.

We also believe that our advertising and sales promotion efforts will continue to benefit us. In 2001, we began providing our insurance products to employees of larger businesses, which reinforces our opinion that AFLAC continues to be the leading supplemental insurance provider in the United States.

We view the United States as a vast and underpenetrated market for the sale of our insurance products. Further, we continue to believe that we are strongly positioned to continue our record of growth by marketing high-quality affordable insurance products at the worksite.

AFLAC U.S. Investments

Investment income increased 9.6% in 2001, compared with 13.2% in 2000 and 13.1% in 1999. During 2001, available cash flow was invested at an average yield of 7.80%, compared with 8.22% during 2000 and 7.93% during 1999. At December 31, 2001, the yield on the fixed-maturity portfolio of AFLAC U.S. was 8.02%, compared with 8.01% in 2000 and 7.96% in 1999. The overall return on average invested assets, net of investment expenses, was 7.67% for 2001, compared with 7.62% for 2000 and 7.51% for 1999.

Other Operations

Corporate expenses are reported net of investment income of \$13 million in 2001, \$12 million in 2000 and \$13 million in 1999. Corporate operating expenses consist primarily of salary and facilities expenses. Corporate expenses, excluding investment income, were \$47 million in 2001, \$38 million in 2000 and \$45 million in 1999. The changes in corporate expenses between years primarily reflect changes in retirement expense.

Financial Accounting Standards Board Statements

We adopted Statement of Financial Accounting Standard (SFAS) No. 133 effective January 1, 2001. Under this standard, we are required to record the fair value of derivatives as assets or liabilities on the balance sheet. Changes in fair value are required to be reported in net earnings or other comprehensive income depending on the derivative instrument and its intended use. The fair value of derivatives increases or decreases as exchange rates, interest rates and general economic conditions change. The adoption of this accounting standard introduced volatility into reported net earnings and other comprehensive income, which may continue depending on market conditions and our hedging activities. However, the changes required by SFAS No. 133 affect only the timing of noncash gains and losses. For additional information, see Notes 1 and 4 of the Notes to the Consolidated Financial Statements.

The Financial Accounting Standards Board issued four new accounting standards in 2001. SFAS No. 141, SFAS No. 142, SFAS No. 143 and SFAS No. 144 primarily address the accounting for goodwill, business combinations, and the impairment and disposition of long-lived assets. The adoption of these standards in 2002 is not expected to have a material impact on our financial condition, earnings or cash flows.

Analysis of Financial Condition Balance Sheet

During the last two years, our financial condition has remained strong in the functional currencies of our operations. The investment portfolios of AFLAC Japan and AFLAC U.S. have continued to grow, with 98.8% of debt securities rated as investment grade.

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, 2001, was 131.95 yen to one U.S. dollar, or 13.0% weaker than the December 31, 2000, exchange rate of 114.75. The weaker yen decreased reported investments and cash by \$3.9 billion, total assets by \$4.4 billion, and total liabilities by \$4.3 billion, compared with the amounts that would have been reported for 2001 if the exchange rate had remained unchanged from year-end 2000 (see Note 2 of the Notes to the Consolidated Financial Statements).

Market Risks Of Financial Instruments

Our financial instruments are exposed to primarily three types of market risks. They are interest rate risk, equity price risk, and foreign currency exchange rate risk.

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 provides a measure of price percentage volatility, to estimate the amount of sensitivity to interest rate changes in our debt securities. 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 security investments, notes payable and cross-currency swaps follows:

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

(December 31)

(In millions)	2001		2000	
	Market Value	+100 Basis Points	Market Value	+100 Basis Points
Debt securities:				
Fixed-maturity securities:				
Yen-denominated	\$ 19,711	\$ 17,856	\$ 20,615	\$ 18,760
Dollar-denominated	5,951	5,497	5,259	4,879
Perpetual debentures:				
Yen-denominated	5,477	4,909	5,035	4,550
Dollar-denominated	344	302	334	313
Total debt securities	\$ 31,483	\$ 28,564	\$ 31,243	\$ 28,502
Notes payable*	\$ 1,181	\$ 1,135	\$ 1,043	\$ 1,004
Cross-currency swaps assets/(liabilities)	\$ 33	\$ 36	\$ (30)	\$ (21)

* Excludes capitalized leases

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 securities to maturity.

The table on the following page shows a comparison of average assumed interest rates for policy reserves and investment yields, based on amortized cost, for the years ended December 31.

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

Comparison of Interest Rates for Policy Reserves and Investment Yields

(Net of investment expenses)

	2001		2000		1999	
	U.S.	Japan*	U.S.	Japan*	U.S.	Japan*
Policies issued during year:						
Required interest on policy reserves	6.43%	2.99%	6.48%	3.00%	6.59%	3.42%
New money yield on investments	7.73	3.51	8.15	3.51	7.85	4.48
Policies in force during year:						
Required interest on policy reserves	6.41	5.12	6.42	5.21	6.42	5.29
Net investment yield	7.67	4.40	7.62	4.55	7.51	4.83

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

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 2001 and 2000. The average duration of the yen-denominated debt securities was approximately 10 years in both 2001 and 2000. The average duration of premiums to be received in the future was approximately nine years in both 2001 and 2000. Over the next five years, \$2.2 billion at amortized cost (with an average yield of 5.63%) of AFLAC Japan's yen-denominated debt securities are scheduled to mature. 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 exceeds 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 investment yields available. Despite the shortfall in investment yields, adequate overall profit margins still exist in AFLAC Japan's aggregate block of business.

We have interest rate swaps on our variable-interest-rate yen-denominated bank borrowings. As of December 31, 2001, we had outstanding interest rate swaps with a notional amount of ¥3.9 billion (\$29 million). These swaps reduce the impact of fluctuations in interest rates on borrowing costs and effectively change our interest rates from variable to a fixed interest rate of 1.24%. Therefore, movements in market interest rates should have no material effect on earnings.

At December 31, 2001, we also had yen-denominated bank borrowings in the amount of ¥21.9 billion (\$166 million) with a variable interest rate of .29%. The effect on earnings in 2001 due to changes in market interest rates was immaterial. For further information on our notes payable, see Note 6 of the Notes to the Consolidated Financial Statements.

Equity Price Risk

Equity securities at December 31, 2001, totaled \$245 million, or .7% of total investments and cash on a consolidated basis. We use beta analysis to measure the sensitivity of our equity securities portfolio to fluctuations in the broad market. The beta of our equity securities portfolio was .98 at December 31, 2001. For example, if the overall stock market value changed by 10%, the value of AFLAC's equity securities would be expected to change by approximately 9.8%, or \$24 million.

Currency Risk

Most of AFLAC Japan's investments and cash are yen-denominated. When yen-denominated financial instruments mature or are sold, the proceeds are generally reinvested in yen-denominated securities and are held to fund yen-denominated policy obligations.

In addition to the yen-denominated financial instruments held by AFLAC Japan, AFLAC Incorporated has yen-denominated notes payable that have been designated as a hedge of our investment in AFLAC Japan. The unrealized foreign currency translation gains and losses related to these borrowings were reported in accumulated other comprehensive income.

AFLAC Incorporated has outstanding cross-currency swaps to convert the dollar-denominated principal and interest into yen-denominated obligations on its \$450 million senior notes that were issued in 1999. The cross-currency swaps have a notional amount of \$450 million (¥55.6 billion). These swaps have also been designated as a hedge of our investment in AFLAC Japan. The unrealized foreign currency translation gains and losses related to these swaps were reported in accumulated other comprehensive income.

We attempt to match yen-denominated assets to yen-denominated liabilities on a consolidated basis in order to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations. The table at the top of the following page compares the dollar values of yen-denominated assets and liabilities at various exchange rates.

For information regarding the effect of foreign currency translation on operating earnings per share, see Foreign Currency Translation on pages 24 and 25 and Note 2 of the Notes to the Consolidated Financial Statements.

Investments and Cash

The continued growth in investments and cash reflects the substantial cash flows in the functional currencies of our operations. Net unrealized gains of \$2.2 billion on investment securities at December 31, 2001, consisted of \$3.1 billion in gross unrealized gains and \$869 million in gross unrealized losses.

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

(December 31)

	2001			2000		
(In millions)	116.95 Yen	131.95* Yen	146.95 Yen	99.75 Yen	114.75* Yen	129.75 Yen
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	\$ 16,303	\$ 14,450	\$ 12,975	\$ 19,457	\$ 16,913	\$ 14,958
Perpetual debentures	2,493	2,210	1,984	1,969	1,712	1,514
Equity securities	116	103	92	79	68	61
Securities held to maturity:						
Fixed maturities	6,112	5,417	4,864	4,193	3,645	3,223
Perpetual debentures	3,730	3,306	2,969	3,960	3,442	3,044
Cash and cash equivalents	799	708	636	618	537	475
Other financial instruments	6	5	4	3	4	3
Subtotal	29,559	26,199	23,524	30,279	26,321	23,278
Liabilities:						
Notes payable	855	758	680	689	598	530
Cross-currency swaps	475	421	378	557	484	428
Subtotal	1,330	1,179	1,058	1,246	1,082	958
Net yen-denominated financial instruments	28,229	25,020	22,466	29,033	25,239	22,320
Other yen-denominated assets	3,756	3,329	2,989	4,118	3,580	3,166
Other yen-denominated liabilities	(31,099)	(27,564)	(24,750)	(32,470)	(28,227)	(24,962)
Consolidated yen-denominated net assets subject to foreign currency fluctuation	\$ 886	\$ 785	\$ 705	\$ 681	\$ 592	\$ 524

* Actual year-end rates

The table below presents an analysis of investment securities at December 31:

	AFLAC Japan		AFLAC U.S.	
(In millions)	2001	2000	2001	2000
Securities available for sale:				
Fixed maturities	\$ 16,342	\$ 18,616	\$ 4,058*	\$ 3,556*
Perpetual debentures	2,399	1,877	155	169
Equity securities	103	68	142	168
Total available for sale	18,844	20,561	4,355	3,893
Securities held to maturity:				
Fixed maturities	5,417	3,645	—	—
Perpetual debentures	3,306	3,442	—	—
Total held to maturity	8,723	7,087	—	—
Total investment securities	\$ 27,567	\$ 27,648	\$ 4,355	\$ 3,893

* Includes securities held by the parent company of \$243 in 2001 and \$262 in 2000

Privately issued securities, at amortized cost, accounted for \$16.7 billion, or 57.1%, and \$15.4 billion, or 51.5%, of our total debt securities as of December 31, 2001 and 2000, respectively. Of the total privately issued securities, reverse-dual currency debt securities accounted for \$4.2 billion, or 25.2%, and \$4.8 billion, or 31.5%, of total privately issued securities as of December 31, 2001 and 2000, respectively. AFLAC Japan has invested in yen-denominated privately issued securities to secure higher yields than those available from Japanese government bonds. At the same time, we have adhered to prudent standards for credit quality. Most of AFLAC's privately issued securities are issued under medium-term note programs and have standard covenants commensurate with credit ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

AFLAC invests primarily within the debt securities markets. We are exposed to credit risk in our investment activity. Credit risk is a consequence of extending credit and/or carrying investment positions. We require that all securities have an initial rating of Class 1 or 2 as determined by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC). We use specific criteria to judge the credit quality and liquidity of our investments and use a variety of credit rating services to monitor these criteria. Applying those various credit ratings to a standardized rating system based on the categories of a nationally recognized rating service, the percentages of our debt securities, at amortized cost, as of December 31 were as follows:

	2001	2000
AAA	2.4%	25.0%
AA	39.9	22.4
A	36.2	36.8
BBB	20.3	15.1
BB	1.2	.7
	100.0%	100.0%

The decrease in AAA-rated debt securities is primarily due to a credit rating change on Japanese government bonds during the first quarter of 2001. The increase in BBB-rated securities is primarily due to purchases in 2001. At December 31, 2001, we owned debt securities rated below investment grade in the amount of \$355 million at amortized cost (\$348 million at fair value), or 1.2% of total debt securities. The below investment-grade securities

were investment grade at the time of purchase and were subsequently downgraded by credit rating agencies.

As of March 31, 2001, new Japanese accounting principles and regulatory requirements became effective, impacting investment classifications and solvency margin calculations on a Japanese accounting basis. As a result of these new regulatory requirements, we re-evaluated AFLAC Japan's investment portfolio and our holding-period intent related to certain investment securities. In order to minimize potentially unfavorable solvency margin results under the new Japanese accounting methods, 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. 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.

Mortgage loans on real estate and other long-term investments remained immaterial at both December 31, 2001 and 2000. Cash, cash equivalents and short-term investments totaled \$853 million, or 2.6% of total investments and cash, as of December 31, 2001, compared with \$610 million, or 1.9% of total investments and cash, at December 31, 2000.

For additional information concerning investments and fair values, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

Policy Liabilities

Policy liabilities totaled \$27.6 billion at December 31, 2001, a decrease of \$972 million, or 3.4% for the year. AFLAC Japan's policy liabilities were \$24.7 billion (¥3.3 trillion) at December 31, 2001, a decrease of \$1.3 billion, or 5.0% (9.3% increase in yen). At December 31, 2001, policy liabilities of AFLAC U.S. were \$2.9 billion, an increase of \$323 million, or 12.6%. The weakening of the yen in 2001 decreased reported policy liabilities by \$3.7 billion. Increases from new business and the aging of policies in force partially offset the effect of the weaker yen on policy liabilities (see Note 3 of the Notes to the Consolidated Financial Statements).

Debt

In September 2000, 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 are not for sale to U.S. residents or entities. In October 2000, we issued ¥30 billion of 1.55% Samurai notes due October 2005 (\$227

million using the December 31, 2001 exchange rate). In June 2001, we issued ¥40 billion of .87% Samurai notes due June 2006 (\$303 million using the December 31, 2001 exchange rate). Both 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 premium. The proceeds were used for various corporate purposes.

In April 1999, we issued \$450 million of senior notes with a 6.50% coupon, payable semiannually, due April 2009. At December 31, 2001, the outstanding principal, less unamortized discount, was \$449 million. 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 amount. The proceeds were used for various corporate purposes. We entered into cross-currency swaps that have the effect of converting 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% in yen. At December 31, 2001, we recorded an asset in the amount of \$33 million for the fair value of the swaps.

AFLAC Incorporated also has an unsecured revolving credit agreement that provides for bank borrowings through November 2002 in either U.S. dollars or Japanese yen. At December 31, 2001, ¥25.8 billion (\$196 million) were outstanding. We have entered into interest rate swaps that effectively change the interest rates on a portion of these borrowings from variable to a fixed rate of 1.24%. We make interest payments to the banks based on variable interest rates, and we pay to, or receive from, the swap counterparties an amount necessary to equal the fixed rate.

When any portion of these loans or notes is denominated in yen, the principal amounts as stated in dollars will fluctuate due to changes in the yen/dollar exchange rate. We have designated these yen-denominated borrowings and the cross-currency swaps as a hedge of our net investment in AFLAC Japan. We translated the outstanding principal and related accrued interest payable of these yen-denominated obligations into dollars at end-of-period exchange rates. Foreign currency translation gains/losses were included in accumulated other comprehensive income.

The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains on investment securities) was 25.4% as of December 31, 2001 and 25.1% as of December 31, 2000.

The table on the following page presents the distribution of payments of our long-term debt and lease obligations as of December 31, 2001.

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	\$ 1,174	\$ 195	—	\$ 530	\$ 449
Capitalized lease obligations	33	12	18	3	—
Operating lease obligations	154	34	26	17	77
Total debt and lease obligations	\$ 1,361	\$ 241	\$ 44	\$ 550	\$ 526

As of December 31, 2001, we had no material unconditional purchase obligations that are 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

AFLAC Japan uses 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.

Policyholder Protection Fund and State Guaranty Associations

In 1998, the Japanese government established the Life Insurance Policyholders Protection Corporation. Funding by the life insurance industry, as determined by government legislation, is made over a ten-year period. We recognized charges for our estimated share of the assessment when funding legislation was enacted. We periodically review our estimated liability for policyholder protection fund assessments based on updated information and any adjustments are reflected in net earnings.

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 the consolidated financial statements.

Shareholders' Equity and Capital Resources

Our insurance operations continue to provide the primary sources of liquidity. Capital needs are also supplemented by borrowed funds. AFLAC Incorporated received \$332 million in June 2001 and \$277 million in October 2000 from the issuance of Samurai notes in Japan. In April 1999, AFLAC Incorporated received net proceeds of \$446 million from the issuance of senior notes. We believe outside sources for additional debt and

equity capital, if needed, will continue to be available for capital expenditures, business expansion, and the funding of our share repurchase program.

The principal sources of cash from insurance operations are premiums and investment income. The primary uses of cash for insurance operations are policy claims, commissions, operating expenses, income taxes and payments

to AFLAC Incorporated for management fees and dividends. Both the sources and uses of cash are reasonably predictable. Our investment objectives provide for liquidity through the ownership 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 our policies provide indemnity benefits rather than reimbursement for actual medical costs and therefore generally are not subject to the risks of medical-cost inflation.

The achievement of continued long-term growth will require growth in AFLAC's statutory capital and surplus. We may secure additional statutory capital through various sources, such as internally generated statutory earnings or equity contributions by AFLAC Incorporated from funds generated through debt or equity offerings.

American Family Life Assurance Company of Columbus (AFLAC) is the principal operating company in the AFLAC group. In 2001, AFLAC changed its domiciliary state for insurance regulatory purposes from Georgia to Nebraska. The change was driven by the premium tax burden incurred by AFLAC as a result of Georgia's high premium tax rate. The insurance departments of both Georgia and Nebraska approved the change. The change had no impact on AFLAC other than to reduce the premium tax burden because the insurance statutes and regulations of the two states are very similar.

AFLAC Incorporated capital resources are largely dependent upon the ability of AFLAC to pay management fees and dividends. The Nebraska insurance department imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances by AFLAC to AFLAC Incorporated. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of statutory earnings for the previous year, 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 AFLAC Incorporated. A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the

insurance department in the insurance company's state of domicile. Statutory accounting rules are different from generally accepted accounting principles and are intended to emphasize policyholder protection and company solvency.

The NAIC has recodified statutory accounting principles to promote standardization throughout the industry. These new accounting principles were adopted January 1, 2001. AFLAC recorded the transition adjustments to reflect the prior years' effects of the new accounting principles which increased its statutory capital and surplus by approximately \$130 million as of January 1, 2001.

The NAIC uses a risk-based capital formula relating to insurance risk, business risk, asset risk and interest rate risk to facilitate identification by insurance regulators of inadequately capitalized insurance companies based upon 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. Also, there are various ongoing regulatory initiatives by the NAIC relating to insurance products, investments, revisions to the risk-based capital formula and other actuarial and accounting matters.

In addition to restrictions by U.S. insurance regulators, the Japanese Financial Services Agency (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 significantly exceeds regulatory minimums. Payments are made from AFLAC Japan to AFLAC Incorporated for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. Total funds received from AFLAC Japan were \$228 million in 2001, \$199 million in 2000 and \$282 million in 1999. These amounts include annual profit transfers from AFLAC Japan of \$185 million in 2001, \$157 million in 2000 and \$243 million in 1999. In light of deregulation in the insurance market, we elected to repatriate less than the maximum amounts in 2001 and 2000 in order to maintain a strong solvency margin in Japan. The maximum amount we could have repatriated was \$290 million in 2001 and \$351 million in 2000. 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 ending March 31, 2002, AFLAC Japan was required to adopt 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 insurance companies operating in Japan are required to record debt securities in four categories: at fair value in an

available-for-sale category, at amortized cost in a held-to-maturity category, at amortized cost in a special category for policy-reserve-matching bonds, or at fair value in a trading category. We have classified AFLAC Japan's debt securities as either available-for-sale or held-to-maturity.

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 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.

Rating Agencies

AFLAC is rated "AA" by both Standard & Poor's and Fitch Ratings, and "Aa3" by Moody's for financial strength. 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

AFLAC Japan is developing a new computerized policy administration system at an estimated cost of \$150 million. The project is scheduled to be completed in 2003. AFLAC U.S. is investing in information technology over the next three years at an estimated cost of \$60 million. These projects will be financed with operating cash flow. Management believes that these efforts will lower the cost of policy administration and customer service.

For information regarding pending litigation, see Note 11 of the Notes to the Consolidated Financial Statements.

Cash Flow

We translate operating cash flows for AFLAC Japan's yen-denominated items into U.S. dollars using 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.

For additional information, see the Consolidated Statements of Cash Flows on page 41.

Operating Activities

In 2001 consolidated cash flow from operations decreased 12.2% to \$2.8 billion, compared with \$3.2 billion in 2000 and \$2.8 billion in 1999. Net cash flow from operations for AFLAC U.S. increased 35.0% in 2001 to \$470 million, compared with \$348 million in 2000 and \$335 million in 1999. Net cash flow from operations for AFLAC Japan decreased 17.9% in 2001 to \$2.4 billion, compared with \$2.9 billion in 2000 and \$2.5 billion in 1999.

The decrease in cash flows in 2001 is primarily attributable to the effect of the weaker yen/dollar exchange rate, an increase in tax payments in Japan and increased expenditures for the new computerized policy administration system for AFLAC Japan. The weakening of the yen in 2001 decreased AFLAC Japan's cash flows by \$303 million. In 2000 and 1999, the strengthening of the yen increased AFLAC Japan's cash flows by \$156 million and \$319 million, respectively. Excluding the effect of foreign currency translation, AFLAC Japan's cash flows decreased 7.4% in 2001, compared with an increase of 11.0% in 2000, and a decrease of 2.9% in 1999. AFLAC Japan contributed 84% of the consolidated net cash flow from operations in 2001, 89% in 2000 and 88% in 1999.

Investing Activities

Consolidated cash flow used by investing activities decreased 19.1% to \$2.5 billion in 2001, compared with \$3.1 billion in 2000 and \$2.7 billion in 1999. AFLAC Japan accounted for 83% of the consolidated net cash used by investing activities in 2001, compared with 90% in 2000 and 74% in 1999.

Operating cash flow is primarily used to purchase debt securities. When market opportunities arise, we dispose of selected debt securities 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 3% and 8% of the annual average investment portfolio of debt securities available for sale during the three years ended December 31, 2001.

Net additions to property and equipment were \$62 million in 2001 (\$45 million paid in cash; \$17 million for capitalized lease obligations). Net additions to property and equipment in 2000 were \$51 million (\$26 million paid in cash; \$25 million for capitalized lease obligations). Net additions to property and equipment were \$18 million in 1999 (\$14 million in cash; \$4 million for capitalized lease obligations).

Financing Activities

In 2001 net cash used by financing activities was \$42 million, compared with net cash used by financing activities of \$130 million in 2000 and net cash provided by financing activities of \$117 million in 1999. In 2001, we received net proceeds of \$332 million in connection with the issuance in Japan of .87% Samurai bonds due in 2006. We also paid \$103 million in connection with the scheduled maturity of our yen-denominated unsecured credit agreement. In 2000, we received net proceeds of \$277 million in connection with the issuance in Japan of 1.55% Samurai bonds due in 2005. In 1999, we received net proceeds of \$446 million in connection with the issuance of 6.50% senior notes due in 2009. Treasury

stock purchases of \$350 million, \$239 million and \$224 million were made in 2001, 2000 and 1999, respectively. We issued treasury shares for certain AFLAC stock option exercises, additional stock purchases by shareholders in the dividend reinvestment plan and stock purchases by associates under the stock bonus plan (see Note 10 of the Notes to the Consolidated Financial Statements).

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). Dividends to shareholders in 2000 were \$87 million (\$82 million paid in cash; \$5 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 1999 were \$77 million (\$72 million paid in cash; \$5 million through issuance of treasury shares under the dividend reinvestment plan). The 2001 dividend of \$.193 per share increased 15.6% over 2000. The 2000 dividend of \$.167 per share represented an increase of 13.6% over the 1999 dividend of \$.147 per share.

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. In particular, statements containing words such as "expect," "anticipate," "believe," "goal," "objective," 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: regulatory developments, assessments for insurance company insolvencies, competitive conditions, new products, ability to repatriate profits from Japan, general economic conditions in the United States and Japan, changes in U.S. and/or Japanese tax laws or accounting requirements, adequacy of reserves, credit and other risks associated with AFLAC's investment activities, significant changes in interest rates and fluctuations in foreign currency exchange rates.

Selected Financial Data

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

AFLAC Incorporated and Subsidiaries

For the Year	2001	2000	1999	1998
Revenues:				
Premiums, principally supplemental health insurance	\$ 8,061	\$ 8,222	\$ 7,264	\$ 5,943
Net investment income	1,550	1,550	1,369	1,138
Realized investment gains (losses)	(31)	(102)	(13)	(2)
Gain on sale of television business	—	—	—	—
Other income	18	33	20	25
Total revenues	9,598	9,703	8,640	7,104
Benefits and expenses:				
Benefits and claims	6,303	6,601	5,885	4,877
Expenses	2,214	2,090	1,977	1,676
Total benefits and expenses	8,517	8,691	7,862	6,553
Pretax earnings	1,081	1,012	778	551
Income taxes	394	325	207	64
Net earnings	\$ 687	\$ 687 ⁽¹⁾	\$ 571 ⁽²⁾	\$ 487 ⁽³⁾

Per Common Share

Net earnings (basic)	\$ 1.31	\$ 1.30 ⁽¹⁾	\$ 1.07 ⁽²⁾	\$.91 ⁽³⁾
Net earnings (diluted)	1.28	1.26 ⁽¹⁾	1.04 ⁽²⁾	.88 ⁽³⁾
Cash dividends	.193	.167	.147	.128
Shareholders' equity	10.40	8.87	7.28	7.09
Price range:				
High	36.10	37.47	28.38	22.66
Low	23.00	16.78	19.50	11.35
Close	24.56	36.10	23.60	21.94
Price/earnings ratio:*				
High	26.9x	31.2x	28.4x	29.1x
Low	17.2	14.0	19.5	14.6
Common shares used for basic EPS (In thousands)	525,098	530,607	531,737	532,609
Common shares used for diluted EPS (In thousands)	537,383	544,906	550,845	551,745

At Year-End

Assets:				
Investments and cash	\$ 32,793	\$ 32,167	\$ 32,024	\$ 26,994
Other	5,067	5,064	5,017	4,228
Total assets	\$ 37,860	\$ 37,231	\$ 37,041	\$ 31,222
Liabilities and shareholders' equity:				
Policy liabilities	\$ 27,592	\$ 28,565	\$ 29,604	\$ 24,034
Notes payable	1,207	1,079	1,018	596
Income taxes	2,091	1,894	1,511	1,865
Other liabilities	1,545	999	1,040	957
Shareholders' equity	5,425	4,694	3,868	3,770
Total liabilities and shareholders' equity	\$ 37,860	\$ 37,231	\$ 37,041	\$ 31,222

Supplemental Data

Operating earnings**	\$ 720	\$ 657	\$ 550	\$ 429
Operating earnings per share (basic)**	1.37	1.24	1.03	.81
Operating earnings per share (diluted)**	1.34	1.20	1.00	.78
Pretax profit margin***	11.5%	10.3%	9.9%	9.3%
After-tax profit margin***	7.5%	6.7%	6.4%	6.0%
Operating return on equity****	21.3%	21.7%	20.9%	18.7%
Yen/dollar exchange rate at year-end	¥ 131.95	¥ 114.75	¥ 102.40	¥ 115.70
Average yen/dollar exchange rate	121.54	107.83	113.96	130.89

(1) Includes a benefit of \$99 (\$.19 per basic share, \$.18 per diluted share) from the termination of a retirement liability; (2) Includes gain of \$67 (\$.13 per basic share, \$.12 per diluted share) due to a reduction in deferred tax liabilities from a tax rate cut in Japan and a charge of \$41 (\$.08 per basic share, \$.07 per diluted share) for the policyholder protection fund in 1999 in Japan; (3) Includes gain of \$121 (\$.23 per basic share, \$.22 per diluted share) due to a reduction in deferred income tax liabilities from a tax rate cut in Japan and a charge of \$65 (\$.12 per basic and diluted share) for the policyholder protection fund in Japan in 1998; (4) Includes gain of \$211 (\$.39 per basic share, \$.38 per diluted share) from the sale of the broadcast business in 1997; (5) Includes gain of \$48 (\$.09 per basic share, \$.08 per diluted share) from the sale of the broadcast business in 1996; (6) Excludes gain of \$11 (\$.02 per basic and diluted share) from cumulative effect of accounting changes in 1993. Certain reclassifications have been made to prior year amounts to conform to current reporting classifications. These reclassifications had no impact on net earnings.

1997	1996	1995	1994	1993	1992	1991
\$ 5,874	\$ 5,910	\$ 6,071	\$ 5,181	\$ 4,225	\$ 3,369	\$ 2,765
1,078	1,022	1,025	839	689	533	431
(5)	2	—	—	3	(3)	(1)
267	60	—	—	—	—	—
37	106	95	91	84	87	88
7,251	7,100	7,191	6,111	5,001	3,986	3,283
4,833	4,896	5,034	4,257	3,423	2,692	2,189
1,553	1,554	1,556	1,350	1,150	970	829
6,386	6,450	6,590	5,607	4,573	3,662	3,018
865	650	601	504	428	324	265
280	256	252	211	184	141	116
\$ 585 ⁽⁴⁾	\$ 394 ⁽⁵⁾	\$ 349	\$ 293	\$ 244 ⁽⁶⁾	\$ 183	\$ 149
\$ 1.07 ⁽⁴⁾	\$.70 ⁽⁵⁾	\$.60	\$.48	\$.39 ⁽⁶⁾	\$.30	\$.24
1.04 ⁽⁴⁾	.68 ⁽⁵⁾	.58	.47	.39 ⁽⁶⁾	.29	.24
.112	.097	.085	.075	.065	.058	.05
6.44	3.85	3.76	2.93	2.20	1.75	1.51
14.47	11.00	7.46	6.02	5.67	4.65	4.15
9.38	7.07	5.32	4.21	4.13	3.20	2.39
12.78	10.69	7.25	5.34	4.75	4.60	3.99
21.9x	18.3x	12.9x	12.8x	14.9x	16.0x	17.3x
14.2	11.8	9.2	9.0	10.9	11.0	10.0
544,220	560,704	582,710	605,783	619,502	615,261	611,883
563,192	577,843	597,967	618,594	631,428	628,931	625,354
\$ 22,880	\$ 20,744	\$ 20,045	\$ 15,994	\$ 12,469	\$ 9,461	\$ 8,057
6,590	4,286	5,172	4,293	2,974	2,440	2,088
\$ 29,470	\$ 25,030	\$ 25,217	\$ 20,287	\$ 15,443	\$ 11,901	\$ 10,145
\$ 19,885	\$ 20,234	\$ 19,514	\$ 16,007	\$ 12,065	\$ 9,350	\$ 7,878
523	354	327	185	122	126	139
1,827	1,181	1,398	1,392	950	849	769
3,805	1,135	1,844	951	940	494	436
3,430	2,126	2,134	1,752	1,366	1,082	923
\$ 29,470	\$ 25,030	\$ 25,217	\$ 20,287	\$ 15,443	\$ 11,901	\$ 10,145
\$ 374	\$ 347	\$ 349	\$ 293	\$ 242 ⁽⁶⁾	\$ 183	\$ 148
.69	.62	.60	.48	.39 ⁽⁶⁾	.30	.24
.66	.60	.58	.47	.38 ⁽⁶⁾	.29	.24
8.6%	8.4%	8.4%	8.3%	8.5%	8.2%	8.1%
5.4%	4.9%	4.8%	4.8%	4.8% ⁽⁶⁾	4.6%	4.5%
18.8%	19.9%	22.0%	20.4%	19.9% ⁽⁶⁾	18.4%	17.3%
¥ 130.10	¥ 116.10	¥ 102.95	¥ 99.85	¥ 112.00	¥ 124.70	¥ 125.25
121.07	108.84	94.10	102.26	111.21	126.67	134.52

(*) Based on diluted operating earnings per share; (**) Excludes realized investment gains/losses; gains from the sale of the television business in 1996 and 1997; charges for the policyholder protection fund in 1998 and 1999; benefits of tax rate reductions in 1998 and 1999; the gain from the termination of a retirement liability in 2000; the impact of SFAS No. 133 in 2001; (***) Operating basis; (****) Based on operating earnings and excluding unrealized gains on investment securities, net

Consolidated Statements of Earnings

AFLAC Incorporated and Subsidiaries

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

	2001	2000	1999
Revenues:			
Premiums, principally supplemental health insurance	\$ 8,061	\$ 8,222	\$ 7,264
Net investment income	1,550	1,550	1,369
Realized investment losses	(31)	(102)	(13)
Other income	18	33	20
Total revenues	9,598	9,703	8,640
Benefits and expenses:			
Benefits and claims	6,303	6,601	5,885
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	328	302	257
Insurance commissions	1,006	1,040	931
Insurance expenses	793	758	641
Interest expense	19	19	18
Termination of retirement liability	—	(101)	—
Provision for Japanese policyholder protection fund	—	—	64
Other operating expenses	68	72	66
Total acquisition and operating expenses	2,214	2,090	1,977
Total benefits and expenses	8,517	8,691	7,862
Earnings before income taxes	1,081	1,012	778
Income tax expense (benefit):			
Current	338	338	230
Deferred — operations	56	(13)	44
Deferred tax benefit from Japanese tax rate reduction	—	—	(67)
Total income taxes	394	325	207
Net earnings	\$ 687	\$ 687	\$ 571
Net earnings per share:			
Basic	\$ 1.31	\$ 1.30	\$ 1.07
Diluted	1.28	1.26	1.04
Common shares used in computing earnings per share (In thousands):			
Basic	525,098	530,607	531,737
Diluted	537,383	544,906	550,845

See the accompanying Notes to the Consolidated Financial Statements.

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

ASK ABOUT IT AT WORK.



The number of
AFLAC's U.S. payroll
accounts has
increased by more
than 80% in the
past five years.

Consolidated Balance Sheets

AFLAC Incorporated and Subsidiaries

(In millions, except for share amounts) December 31,

2001

2000

Assets:

Investments and cash:

Securities available for sale, at fair value:

Fixed maturities (amortized cost \$18,048 in 2001 and \$20,405 in 2000)

\$ 20,400

\$ 22,172

Perpetual debentures (amortized cost \$2,497 in 2001 and \$2,347 in 2000)

2,554

2,046

Equity securities (cost \$215 in 2001 and \$161 in 2000)

245

236

Securities held to maturity, at amortized cost:

Fixed maturities (fair value \$5,262 in 2001 and \$3,702 in 2000)

5,417

3,645

Perpetual debentures (fair value \$3,267 in 2001 and \$3,323 in 2000)

3,306

3,442

Other investments

19

17

Cash and cash equivalents

852

609

Total investments and cash

32,793

32,167

Receivables, primarily premiums

347

300

Accrued investment income

381

380

Deferred policy acquisition costs

3,645

3,685

Property and equipment, at cost less accumulated depreciation

455

481

Other

239

218

Total assets

\$ 37,860

\$ 37,231

Liabilities and shareholders' equity:

Liabilities:

Policy liabilities:

Future policy benefits

\$ 25,106

\$ 26,101

Unpaid policy claims

1,615

1,745

Unearned premiums

352

355

Other policyholders' funds

519

364

Total policy liabilities

27,592

28,565

Notes payable

1,207

1,079

Income taxes

2,091

1,894

Payables for security transactions

271

—

Payables for return of cash collateral on loaned securities

494

127

Other

780

872

Commitments and contingencies (Notes 10 and 11)

Total liabilities

32,435

32,537

Shareholders' equity:

Common stock of \$.10 par value. In thousands: authorized 1,000,000 shares; issued 646,559 shares in 2001 and 644,813 shares in 2000

65

32

Additional paid-in capital

338

336

Retained earnings

4,542

3,956

Accumulated other comprehensive income:

Unrealized foreign currency translation gains

213

194

Unrealized gains on investment securities

1,878

1,474

Treasury stock, at average cost

(1,611)

(1,298)

Total shareholders' equity

5,425

4,694

Total liabilities and shareholders' equity

\$ 37,860

\$ 37,231

See the accompanying Notes to the Consolidated Financial Statements.

Certain reclassifications have been made to prior year amounts to conform to current reporting classifications.

Consolidated Statements of Shareholders' Equity

AFLAC Incorporated and Subsidiaries

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

	2001	2000	1999
Common stock:			
Balance at beginning of year	\$ 32	\$ 32	\$ 32
Exercise of stock options	1	—	—
Two-for-one stock split	32	—	—
Balance at end of year	65	32	32
Additional paid-in capital:			
Balance at beginning of year	336	310	235
Exercise of stock options, including income tax benefits	10	18	17
Gain on treasury stock reissued	24	8	58
Two-for-one stock split	(32)	—	—
Balance at end of year	338	336	310
Retained earnings:			
Balance at beginning of year	3,956	3,356	2,862
Net earnings	687	687	571
Dividends to shareholders (\$.193 per share in 2001, \$.167 in 2000, and \$.147 in 1999)	(101)	(87)	(77)
Balance at end of year	4,542	3,956	3,356
Accumulated other comprehensive income:			
Balance at beginning of year	1,668	1,264	1,551
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	19	(38)	13
Change in unrealized gains (losses) on investment securities during year, net of income taxes	404	442	(300)
Balance at end of year	2,091	1,668	1,264
Treasury stock:			
Balance at beginning of year	(1,298)	(1,094)	(910)
Purchases of treasury stock	(350)	(239)	(224)
Cost of shares issued	37	35	40
Balance at end of year	(1,611)	(1,298)	(1,094)
Total shareholders' equity	\$ 5,425	\$ 4,694	\$ 3,868

See the accompanying Notes to the Consolidated Financial Statements.

Certain reclassifications have been made to prior year amounts to conform to current reporting classifications.

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More than 51 million
members of Japan's
workforce are
employed at businesses
with 300 or fewer
people.

Consolidated Statements of Cash Flows

AFLAC Incorporated and Subsidiaries

(In millions) Years Ended December 31,

2001

2000

1999

Cash flows from operating activities:

Net earnings	\$ 687	\$ 687	\$ 571
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	(45)	(35)	(8)
Increase in deferred policy acquisition costs	(323)	(310)	(299)
Increase in policy liabilities	2,380	2,719	2,569
Deferred income taxes	56	(13)	(23)
Change in income taxes payable	(10)	308	(364)
Realized investment losses	31	102	13
Termination of retirement liability	—	(101)	—
Provision for policyholder protection fund	—	—	64
Other, net	73	(112)	280
Net cash provided by operating activities	2,849	3,245	2,803

Cash flows from investing activities:

Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	1,799	795	1,071
Fixed maturities matured	700	454	404
Equity securities and other	92	35	87
Fixed maturity securities held to maturity or called	128	18	36
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	(2,441)	(4,360)	(3,322)
Perpetual debentures	(495)	(26)	(862)
Equity securities	(152)	(67)	(82)
Securities held to maturity:			
Fixed maturities	(2,040)	—	(43)
Perpetual debentures	(416)	—	—
Cash received as collateral on loaned securities, net	416	127	—
Additions to property and equipment, net	(45)	(26)	(14)
Other, net	(19)	(9)	(13)
Net cash used by investing activities	(2,473)	(3,059)	(2,738)

Cash flows from financing activities:

Proceeds from borrowings	333	294	446
Principal payments under debt obligations	(116)	(187)	(94)
Change in annuity deposit funds, net	138	38	5
Dividends paid to shareholders	(95)	(82)	(72)
Purchases of treasury stock	(350)	(239)	(224)
Treasury stock reissued	38	31	39
Other, net	10	15	17
Net cash provided (used) by financing activities	(42)	(130)	117
Effect of exchange rate changes on cash and cash equivalents	(91)	(63)	60
Net change in cash and cash equivalents	243	(7)	242
Cash and cash equivalents, beginning of year	609	616	374
Cash and cash equivalents, end of year	\$ 852	\$ 609	\$ 616

Supplemental disclosures of cash flow information — See Note 12

See the accompanying Notes to the Consolidated Financial Statements.

Certain reclassifications have been made to prior year amounts to conform to current reporting classifications.

Consolidated Statements of Comprehensive Income

(In millions) Years Ended December 31,

2001

AFLAC Incorporated and Subsidiaries

2000

1999

Net earnings	\$ 687	\$ 687	\$ 571
Other comprehensive income, before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	119	97	(128)
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	509	521	(379)
Reclassification adjustment for realized (gains) losses included in net earnings	3	101	13
Total other comprehensive income (loss), before income taxes	631	719	(494)
Income tax expense (benefit) related to items of other comprehensive income	207	315	(207)
Other comprehensive income (loss), net of income taxes	424	404	(287)
Total comprehensive income	\$ 1,111	\$ 1,091	\$ 284

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 Japan and the United States. 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 our insurance 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 77% of the Company's total revenues for 2001 and 81% for both 2000 and 1999, and 84% and 86% of total assets at December 31, 2001 and 2000, respectively.

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 information currently available. 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 deferred policy acquisition costs and liabilities for future policy benefits and unpaid policy claims. The estimates and actuarial determinations are sensitive to investment yields, mortality and 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 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 1999 through 2001.

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 net investment in AFLAC Japan (see the section in this note titled, "Derivatives"). Outstanding principal and related accrued interest payable on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are reported 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 as earned income ratably over the premium payment periods of the policies. When revenues are recorded, 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. We charge against earnings costs that are not recoverable.

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 fixed-maturity securities and perpetual debentures (debt securities) 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 ending March 31, 2002, new Japanese accounting principles and regulations are effective which impact investment classifications and solvency margin calculations on a Japanese accounting basis. 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 potential fluctuations in solvency margin results in the future, we made certain reclassifications of debt securities between held-to-maturity and available-for-sale categories as of March 31, 2001.

The net unrealized gains and losses on securities available for sale, plus the unamortized unrealized gains and losses resulting from the reclassifications of debt securities, less deferred income taxes are reported 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 purchased at a discount will equal the face or par value at maturity. Debt securities we purchased at a premium will have an amortized cost equal to face or par value at maturity or the call date, if applicable. Interest is recorded as income when earned and is adjusted for amortization of any premium or discount.

For the collateralized mortgage obligations held in our fixed-maturity securities portfolio, we recognize income using a constant effective yield 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 the 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 record the realized gain or loss in the consolidated statements of earnings.

Our portfolio managers periodically 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 management monitoring. If, after monitoring and analysis, management believes that the decline in fair value is other than temporary, we adjust the amortized cost of the security and record a realized loss in the consolidated statement 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 recorded as sales. We receive cash or other securities as collateral for such loans. For loans involving unrestricted cash collateral, the collateral is recorded as an asset with a corresponding liability for the return of the collateral. For loans collateralized by securities, the collateral is not recorded 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 withdrawal assumptions used in computing liabilities for future policy benefits. In this manner, the related acquisition expenses are matched with revenues. Costs deferred include first-year commissions in excess of 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.

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

Unpaid policy claims are estimates computed on an undiscounted basis using statistical analyses of historical claim 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.

We record provisions for possible future adverse deviations in experience for both the liabilities for future policy benefits and unpaid policy claims.

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. We currently have contracts for cross-currency swaps and interest rate swaps. Effective January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities (see the section in this note titled, "Accounting Changes Adopted").

The adoption of SFAS No. 133 changed the accounting and disclosure requirements of our derivative instruments. In accordance with SFAS No. 133, we are now required to recognize all derivatives at fair value as either assets or liabilities on the balance sheet. 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 all 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 or cash flows of the hedged items.

The assessment of hedge effectiveness determines the noncash accounting treatment of changes in fair value. Our accounting for changes in the fair value of derivatives is as follows:

Nature of Hedge Designation	Derivative's Change in Fair Value Reflected in:
Cash flow	Other comprehensive income, with subsequent reclassifications to earnings when the hedged transaction impacts earnings
Net investment in foreign operations	Other comprehensive income as part of the cumulative translation adjustment; other income for the portions of the hedge that do not qualify for hedge accounting

We have cross-currency swaps outstanding related to the \$450 million of senior notes (see Notes 4 and 6). These swaps have been designated as a hedge of our net investment in AFLAC Japan. The fair value of the cross-currency swaps is affected by changes in the yen/dollar exchange rate and changes in yen and dollar interest rates.

Prior to 2001, we recorded the fair value of the currency portion of the cross-currency swaps on the balance sheet and the change in fair value was included in accumulated other comprehensive income. The change in the swaps' accrued interest receivable and the cash settlements of interest amounts were recorded as interest expense. The portion of the swaps' fair value related to the interest rate component was not recorded in the financial statements.

We began accounting for the cross-currency swaps in accordance with SFAS No. 133 in 2001. This standard requires that we record the total fair value of the swaps on the balance sheet. We record the currency portion as an asset or liability with changes in fair value recorded in other comprehensive income. We also record the fair value of the accrued interest portion and the interest rate component of the swaps on the balance sheet. The fair value of the accrued interest portion of the swaps is the net of the yen-denominated interest payable, translated at the respective period-end exchange rate, and the dollar-denominated interest receivable. The change in the swaps' accrued interest receivable and the cash settlements of interest amounts are recorded as interest expense. In accordance with the requirements for hedge accounting under SFAS No. 133, the change in fair value of the interest rate component of the swaps must be reflected in earnings and is therefore included in other income.

We also use interest rate swaps in connection with our variable-interest-rate yen-denominated bank borrowings. These interest rate swaps reduce the impact of changes in interest rates on our borrowing costs and effectively change our interest exposure from variable to fixed.

Prior to 2001, we used the accrual method to account for these interest rate swaps. The difference between the amounts paid and received under these contracts was reported in interest expense. Changes in the fair value of the swap agreements were not recognized in the financial statements.

In 2001, we began accounting for these interest rate swaps in accordance with SFAS No. 133. We now record the total fair value of the interest rate swaps as either an asset or liability. These swap agreements have been designated as cash flow hedges and the change in fair value is recorded in accumulated other comprehensive income. The difference between the amounts paid and received is recorded in interest expense in the consolidated statement of earnings.

Policyholder Protection Fund and State Guaranty

Associations: In Japan, the government enacts funding legislation to determine the insurance industry's contribution to the policyholder protection fund. We recognize a charge for our estimated share of any assessment upon enactment. We review the estimated liability for policyholder protection fund assessments on an annual basis and report any adjustments in the consolidated statement of earnings.

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: Our stock option plan requires that the exercise price of stock options be equal to the fair market value of our stock at the date of grant; therefore, we do not recognize compensation expense.

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

Earnings Per Share: We present two earnings per share (EPS) calculations: basic EPS and diluted EPS. Basic EPS is computed 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.

Accounting Changes Adopted: We adopted SFAS No. 133 as amended, Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in investment securities and other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative is included in either earnings or other comprehensive income depending on the intended use of the derivative instrument and the nature of any hedge designation thereon.

SFAS No. 133 did not affect the way we recognize the change in fair value of the accrued interest component or the currency portion of the cross-currency swaps. However, in accordance with SFAS No. 133, we now recognize in

other income the change in fair value of the interest rate component of our cross-currency swaps. The change in fair value of the interest rate swaps is included in accumulated other comprehensive income as an unrealized gain or loss until the hedged transaction terminates. The changes described above affect only the timing of noncash gains and losses. Prior to January 1, 2001, the fair value and changes therein for these swap components were not recognized in the financial statements.

The cumulative transition effect recorded on January 1, 2001, for this new accounting standard was a gain of approximately \$293,000. The effect of recording the fair value of the interest rate component of the cross-currency swaps increased net earnings by \$1 million for the year ended December 31, 2001. See Note 4 for additional information on our derivative and nonderivative financial instruments.

The FASB issued four new accounting standards in 2001. SFAS No. 141, SFAS No. 142, SFAS No. 143 and SFAS No. 144 primarily address the accounting for goodwill, business combinations, and the impairment and disposition of long-lived assets. The adoption of these standards in 2002 is not expected to have a material impact on the Company's financial position or results of operations.

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 INFORMATION AND BUSINESS SEGMENT INFORMATION

The Company consists of two reportable business segments: AFLAC Japan insurance and AFLAC U.S. insurance. We sell supplemental health and life insurance through our AFLAC Japan and AFLAC U.S. operations. 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 evaluate our business segments based on pretax operating earnings. We do not allocate corporate overhead expenses to business segments.

Information regarding components of operations and lines of business for the years ended December 31 follows:

(In millions)	2001	2000	1999
Revenues:			
AFLAC Japan:			
Earned premiums:			
Cancer life	\$ 4,508	\$ 4,976	\$ 4,583
Other accident and health	1,075	1,037	730
Life insurance	634	655	593
Net investment income	1,234	1,261	1,111
Other income	1	7	4
Total AFLAC Japan	7,452	7,936	7,021
AFLAC U.S.:			
Earned premiums:			
Cancer expense	654	585	535
Accident/disability	713	565	447
Other health	416	360	344
Life insurance	61	44	32
Net investment income	303	277	245
Other income	8	5	3
Total AFLAC U.S.	2,155	1,836	1,606
Other business segments	32	31	23
Total business segments	9,639	9,803	8,650
Realized investment losses	(31)	(102)	(13)
Corporate*	31	32	39
Intercompany eliminations	(41)	(30)	(36)
Total revenues	\$ 9,598	\$ 9,703	\$ 8,640
Earnings before income taxes:			
AFLAC Japan	\$ 823	\$ 771	\$ 651
AFLAC U.S.	345	290	256
Other business segments	(8)	(6)	(4)
Total business segments	1,160	1,055	903
Realized investment losses	(31)	(102)	(13)
Termination of retirement liability	—	101	—
Provision for the policyholder protection fund	—	—	(64)
Interest expense, noninsurance operations	(16)	(16)	(15)
Corporate*	(32)	(26)	(33)
Total earnings before income taxes	\$ 1,081	\$ 1,012	\$ 778
Advertising expense:			
AFLAC Japan	\$ 60	\$ 62	\$ 46
AFLAC U.S.	45	38	33
Total advertising expense	\$ 105	\$ 100	\$ 79

* Includes investment income of \$13 in 2001, \$12 in 2000, and \$13 in 1999. In 2001 includes a gain of \$1 related to the change in fair value of the interest rate component of the cross-currency swaps.

Assets at December 31 were as follows:

(In millions)	2001	2000
Assets:		
AFLAC Japan	\$ 31,729	\$ 31,881
AFLAC U.S.	5,729	4,964
Other business segments	43	46
Total business segments	37,501	36,891
Corporate	6,830	5,993
Intercompany eliminations	(6,471)	(5,653)
Total assets	\$ 37,860	\$ 37,231

Total depreciation and amortization expense was \$37 million in 2001, and \$33 million in both 2000 and 1999. AFLAC Japan accounted for \$21 million in 2001, and \$20 million in both 2000 and 1999.

Advertising and depreciation expenses are included in insurance expenses in the consolidated statements of earnings.

Net additions to property and equipment were \$62 million in 2001, \$51 million in 2000 and \$18 million in 1999.

Receivables consisted primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2001, \$171 million, or 49.2% of total receivables were related to AFLAC Japan's operations (\$149 million, or 49.6%, at December 31, 2000).

Yen-Translation Effects: The following table shows the yen/dollar exchange rates used for the three-year period ended December 31, 2001, and their effect on selected financial data.

	2001	2000	1999
Balance Sheets:			
Yen/dollar exchange rate at December 31	131.95	114.75	102.40
Yen percent weakening (strengthening)	13.0%	10.8%	(13.0)%
Exchange effect on total assets (billions)*	\$ (4.4)	\$ (3.6)	\$ 3.5
Exchange effect on total liabilities (billions)*	\$ (4.3)	\$ (3.5)	\$ 3.5
Statements of Earnings:			
Average exchange rate for the year	121.54	107.83	113.96
Yen percent weakening (strengthening)	11.3%	(5.7)%	(14.9)%
Exchange effect on net earnings (millions)*	\$ (39)	\$ 11	\$ 54
Exchange effect on diluted net EPS*	\$ (.07)	\$.02	\$.10

* Exchange effect amounts were determined using the same yen/dollar exchange rate for the current year as each respective prior year.

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 subject to foreign currency translation fluctuations for financial reporting purposes are summarized as follows at December 31 (translated at end-of-year exchange rates):

(In millions)	2001	2000
AFLAC Japan net assets	\$ 4,128	\$ 3,648
Less:		
AFLAC Japan dollar-denominated net assets	2,193	1,969
Parent Company yen-denominated net liabilities	1,150	1,087
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	\$ 785	\$ 592

Remittances From AFLAC Japan: Payments are made from AFLAC Japan to the Parent Company for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. These payments totaled \$228 million in 2001, \$199 million in 2000 and \$282 million in 1999. See Note 9 for information concerning restrictions on remittances from AFLAC Japan.

Policyholder Protection Fund: In 1999, the Japanese government and the life insurance industry agreed to legislation that increased the life insurance industry's obligation to the policyholder protection fund. Our share of this obligation was recognized in 1999 and decreased pretax earnings by \$64 million (\$41 million after taxes, or \$.08 per basic share and \$.07 per diluted share). The total liability accrued for our remaining obligations to the Japanese policyholder protection fund was \$186 million (¥24.5 billion) and \$227 million (¥26.0 billion) at December 31, 2001 and 2000, respectively.



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With approximately 5.5 million businesses with fewer than 500 workers, the United States is a vast potential market for AFLAC's products.

(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:

	December 31, 2001				December 31, 2000			
(In millions)	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	\$ 5,412	\$ 1,621	\$ 2	\$ 7,031	\$ 6,554	\$ 1,722	\$ 52	\$ 8,224
Municipalities	75	6	—	81	342	28	—	370
Public utilities	2,953	320	3	3,270	3,572	337	28	3,881
Sovereign and supranational	49	10	—	59	56	2	—	58
Banks/financial institutions	2,632	302	33	2,901	3,045	45	180	2,910
Other corporate	1,081	66	40	1,107	1,471	40	41	1,470
Total yen-denominated	12,202	2,325	78	14,449	15,040	2,174	301	16,913
Dollar-denominated:								
Government	130	8	—	138	260	7	1	266
Municipalities	42	3	—	45	41	2	—	43
Mortgage-backed securities	138	5	—	143	429	9	—	438
Public utilities	439	16	8	447	325	4	13	316
Sovereign and supranational	123	12	—	135	139	7	—	146
Banks/financial institutions	2,260	92	58	2,294	2,072	41	74	2,039
Other corporate	2,714	110	75	2,749	2,099	50	138	2,011
Total dollar-denominated	5,846	246	141	5,951	5,365	120	226	5,259
Total fixed maturities	18,048	2,571	219	20,400	20,405	2,294	527	22,172
Perpetual debentures:								
Yen-denominated:								
Primarily banks/financial institutions	2,167	137	94	2,210	2,010	1	299	1,712
Dollar-denominated:								
Banks/financial institutions	330	15	1	344	337	9	12	334
Total perpetual debentures	2,497	152	95	2,554	2,347	10	311	2,046
Equity securities	215	49	19	245	161	93	18	236
Total securities available for sale	\$ 20,760	\$ 2,772	\$ 333	\$ 23,199	\$ 22,913	\$ 2,397	\$ 856	\$ 24,454
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Government	\$ 1,280	\$ 20	\$ 70	\$ 1,230	\$ 705	\$ 28	\$ 2	\$ 731
Municipalities	237	12	1	248	328	38	—	366
Public utilities	630	17	27	620	584	5	59	530
Banks/financial institutions	1,915	102	153	1,864	1,115	43	17	1,141
Other corporate	1,355	58	113	1,300	913	36	15	934
Total fixed maturities	5,417	209	364	5,262	3,645	150	93	3,702
Perpetual debentures:								
Yen-denominated:								
Banks/financial institutions	3,306	133	172	3,267	3,442	83	202	3,323
Total perpetual debentures	3,306	133	172	3,267	3,442	83	202	3,323
Total securities held to maturity	\$ 8,723	\$ 342	\$ 536	\$ 8,529	\$ 7,087	\$ 233	\$ 295	\$ 7,025

Fair values of debt securities were determined using quotations provided by outside securities pricing sources and/or compiled using data provided by external debt market sources. The data used in estimating fair value includes credit spreads of comparably credit-rated securities and market quotations of securities with similar characteristics of maturity and call structure. 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 verified 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 equity securities were determined using market quotations on principal public exchange markets.

The amortized cost and fair values of our investments in fixed maturities at December 31, 2001, by contractual maturity are shown below:

(In millions)	AFLAC Japan		AFLAC U.S.	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	\$ 811	\$ 839	\$ 34	\$ 34
Due after one year through five years	1,311	1,421	396	410
Due after five years through 10 years	3,231	4,322	433	451
Due after 10 years	8,598	9,675	3,097	3,106
U.S. mortgage-backed securities	81	85	56	57
Total fixed maturities available for sale	\$14,032	\$16,342	\$4,016	\$4,058
Held to maturity:				
Due after five years through 10 years	\$ 491	\$ 549	\$ –	\$ –
Due after 10 years	4,926	4,713	–	–
Total fixed maturities held to maturity	\$ 5,417	\$ 5,262	\$ –	\$ –

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 issue-date fixed-rate interest coupons 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 the perpetual debentures owned at December 31, 2001, 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	\$ 138	\$ 151	\$ –	\$ –
Due after five years through 10 years	456	538	71	77
Due after 10 years through 15 years	227	271	–	–
Due after 15 years	1,532	1,439	73	78
Total perpetual debentures available for sale	\$ 2,353	\$ 2,399	\$ 144	\$ 155
Held to maturity:				
Due after five years through 10 years	\$ 704	\$ 724	\$ –	\$ –
Due after 10 years through 15 years	1,568	1,609	–	–
Due after 15 years	1,034	934	–	–
Total perpetual debentures held to maturity	\$ 3,306	\$ 3,267	\$ –	\$ –

Privately issued securities held by AFLAC Japan at amortized cost accounted for \$15.4 billion, or 52.5%, and \$14.3 billion, or 48.0%, of total debt securities at December 31, 2001 and 2000, respectively. Of the total privately issued securities, reverse-dual currency debt securities (principal payments in yen, interest payments in dollars) accounted for \$4.2 billion and \$4.8 billion at amortized cost as of December 31, 2001 and 2000, respectively.

The following debt securities individually exceeded 10% of shareholders' equity at December 31:

(In millions)	2001		2000	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Japan National Government	\$ 4,915	\$ 6,452	\$ 5,755	\$ 7,448
The Tokyo Electric Power Co., Inc.	744	844	857	979
The Israel Electric Corporation Limited	649	632	528	456
Credit Suisse First Boston	579	570	*	*
HBOS PLC	576	548	*	*
Chubu Electric Power Co., Inc.	*	*	655	712
Dai-ichi Kangyo Bank	*	*	457	487

* Less than 10%

At December 31, 2001, we owned debt securities rated below investment grade in the amount of \$355 million at amortized cost (\$348 million at fair value), or 1.2% of total debt securities. The below investment-grade securities were investment grade at the time of purchase and were subsequently downgraded by credit rating agencies.

In March 2001, we recognized a pretax impairment loss of \$42 million on the corporate debt securities of a U.S. issuer when it experienced a credit rating downgrade. We also executed several bond sale and purchase transactions during the first quarter in an effort to increase investment income. The sales of these debt securities resulted in pretax realized gains of \$21 million. Also in the first quarter, we realized a

pretax gain of \$18 million related to the sale of a portion of our U.S. equity securities portfolio in connection with a change in outside investment managers. In September 2001, we recognized a pretax impairment loss of \$28 million related to the Company's investment in two human resource service companies. We also recognized in December 2001, a pretax impairment loss of \$13 million on the debt securities of a European issuer when it experienced a credit rating downgrade. These gains and losses, when included with other investment transactions in the normal course of business, decreased net earnings \$34 million.

During the first half of 2000, the North American issuers of two debt securities held in our portfolio experienced credit rating downgrades. In the second quarter, we sold one security reported as available for sale at a pretax loss of \$34 million. We also recorded a pretax impairment loss of \$57 million on the other security which was carried in the held-to-maturity category. These losses, when included with other investment transactions in the normal course of business, decreased net earnings \$69 million.

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

(In millions)	2001	2000	1999
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	\$ 66	\$ 9	\$ 12
Gross losses from sales	(23)	(53)	(39)
Impairment losses	(55)	—	—
Net gains (losses) from redemptions	1	—	(8)
Held to maturity:			
Impairment losses	—	(57)	—
Gross gains from redemptions	—	—	1
Total debt securities	(11)	(101)	(34)
Equity securities:			
Gross gains from sales	29	9	27
Gross losses from sales	(18)	(10)	(6)
Impairment losses	(31)	—	—
Total equity securities	(20)	(1)	21
Net realized losses	\$ (31)	\$ (102)	\$ (13)
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	\$ 944	\$ 43	\$ (447)
Held to maturity	(387)	(257)	34
Equity securities	(46)	(3)	2
Net change in unrealized losses	\$ 511	\$ (217)	\$ (411)

The impairment losses on equity securities of \$31 million include \$3 million of impairment losses on Japanese securities and a \$28 million loss related to our investment in two human resource service companies.

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

(In millions)	2001	2000
Unrealized gains on securities available for sale	\$ 2,439	\$ 1,541
Unamortized unrealized gains on securities transferred to held to maturity	614	1,001
Deferred income taxes	(1,175)	(1,068)
Shareholders' equity, net unrealized gains on investment securities	\$ 1,878	\$ 1,474

For the Japanese reporting fiscal year ending March 31, 2002, new Japanese accounting principles and regulations are effective, which impact investment classifications and solvency margin calculations on a Japanese accounting basis. 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 potential fluctuations in solvency margin results in the future, 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 established in 1998 when we reclassified \$6.4 billion of debt securities from the held-to-maturity category to the available-for-sale 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 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 yen-denominated long-duration securities. The average duration of policy benefits and related expenses to be paid in future years was approximately 12 years for both 2001 and 2000. The average duration of the yen-denominated debt securities was approximately 10 years in both 2001 and 2000. The average duration of premiums to be received in the future was approximately nine years in both 2001 and 2000. Over the next five years, \$2.2 billion at amortized cost (with an

average yield of 5.63%) of AFLAC Japan's yen-denominated debt securities are scheduled to mature. 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 exceeds 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 investment yields. Despite the shortfall in investment yields, adequate overall profit margins still exist in AFLAC Japan's aggregate block of business.

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

(In millions)	2001	2000	1999
Fixed-maturity securities	\$ 1,281	\$ 1,280	\$ 1,129
Perpetual debentures	277	278	248
Short-term investments and cash equivalents	9	7	7
Equity securities and other	2	4	2
Gross investment income	1,569	1,569	1,386
Less investment expenses	19	19	17
Net investment income	\$ 1,550	\$ 1,550	\$ 1,369

At December 31, 2001, debt securities with a fair value of \$9 million were on deposit with regulatory authorities. As of December 31, 2001, \$161 million, at fair value, of AFLAC Japan's debt securities had been pledged to Japan's policyholder protection fund. We retain ownership of all securities on deposit and receive the related 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 recorded 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, 2001 and 2000, we had security loans outstanding in the amounts of \$480 million and \$123 million at fair value, respectively. At December 31, 2001 and 2000, we held cash in the amount of \$494 million and \$127 million, respectively, as collateral for 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 as of the date the securities are loaned and not less than 100% thereafter.

(4) FINANCIAL INSTRUMENTS

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

	2001		2000	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Fixed-maturity securities	\$ 25,817	\$ 25,662	\$ 25,817	\$ 25,874
Perpetual debentures	5,860	5,821	5,488	5,369
Equity securities	245	245	236	236
Liabilities:				
Notes payable (excl. capitalized leases)	1,174	1,181	1,048	1,043
Derivatives:				
Cross-currency swaps:				
Currency portion	(27)	(27)	34	34
Accrued interest	(5)	(5)	(4)	(4)
Interest rate component*	(1)	(1)	—	—
Interest rate swaps*	—	—	—	2

* Prior to January 1, 2001, these amounts were not recorded on the balance sheet.

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 above table excludes liabilities for future policy benefits of \$25.1 billion and \$26.1 billion at December 31, 2001 and 2000, respectively, as these liabilities are not considered financial instruments.

As of December 31, 2001, we have outstanding cross-currency swap agreements related to the \$450 million senior notes (Note 6). These cross-currency swaps effectively convert the dollar-denominated principal and interest into yen-denominated obligations. The notional amounts and terms of the swaps match the principal amount and terms of the senior notes. These cross-currency swaps have been designated as a hedge of the foreign currency exposure of our net investment in AFLAC Japan.

Our risk management objectives are to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations and also reduce our interest expense by converting the dollar-denominated principal and interest into yen-denominated obligations. In this instance, our interest expense is reduced from 6.50% in dollars to 1.67% in yen. We are subject to minimal foreign currency risk as the yen-denominated interest and principal payments are serviced by AFLAC Incorporated with yen-denominated profit repatriations received from AFLAC Japan. (See Note 1 for information on the accounting policy for cross-currency swaps.)

The components of the fair value of the cross-currency swaps as reflected as an asset or (liability) in the financial statements as of December 31 were as follows:

(In millions)	2001	2000	1999
Interest rate component*	\$ 1	\$ -	\$ (19)
Foreign currency component	27	(34)	(93)
Accrued interest component	5	4	4
Total fair value of cross-currency swaps	\$ 33	\$ (30)	\$ (108)

*Amounts not recorded in financial statements prior to January 1, 2001.

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

(In millions)	2001	2000	1999
Balance at beginning of year	\$ (34)	\$ (93)	\$ -
Increase (decrease) in fair value of cross-currency swaps	62	59	(93)
Interest rate component not qualifying for hedge accounting reclassified to net earnings*	(1)	-	-
Balance at end of year	\$ 27	\$ (34)	\$ (93)

*Amounts not recorded in financial statements prior to January 1, 2001.

At December 31, 2001, we had outstanding interest rate swaps on ¥3.9 billion (\$29 million) of our variable-interest-rate yen-denominated bank borrowings (Note 6). We have designated these interest rate swaps as a cash flow hedge of our exposure to the variability in future cash flows attributable to the variable interest payments of the borrowings. Our risk management objective is to fix the net interest cash outflows on a portion of the debt obligations. These swap agreements expire in July 2002 and reduce the impact of changes in interest rates on our borrowing costs by effectively changing the interest rate from variable to fixed. We make fixed-rate payments at 1.24% and receive floating-rate payments (.08% at December 31, 2001, plus loan costs of 20 basis points) based on three-month Japanese yen LIBOR. The fair value of the interest rates swaps, included in other liabilities, was immaterial at December 31, 2001. (See Note 1 for information on the accounting policy for interest rate swaps.)

The fair values of the cross-currency and interest rate swaps are the estimated amounts that we would receive or pay to terminate the swap agreements as of that date. We are exposed to credit risk in the event of nonperformance by counterparties to these contracts. The counterparties to the swap agreements are U.S. and Japanese financial institutions with the following credit ratings as of December 31, 2001:

Counterparty Credit Rating	Notional Amount of Swaps (In millions)
AA	\$ 300
A	167
BBB	12
Total	\$ 479

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

(5) POLICY LIABILITIES

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

		Liability Amounts		Interest Rates	
(In millions)	Policy Issue Year	2001	2000	Year of Issue	In 20 Years
Health insurance:					
Japan:	1999-01	\$ 559	\$ 242	3.0%	3.0%
	1997-99	1,412	1,298	3.5	3.5
	1994-96	2,486	2,590	4.0-4.5	4.0-4.5
	1974-94	16,126	17,755	5.25-7.0	5.0-5.65
U.S.:	1998-01	297	190	7.0	7.0
	1986-00	1,586	1,448	6.0-8.0	6.0
	1981-86	272	276	6.5-7.0	5.5-6.5
	Other	155	157		
Life insurance:					
Japan:	1999-01	120	44	1.85-3.0	1.85-3.0
	1997-99	313	292	3.5	3.5
	1994-96	573	580	4.0	4.0
	1985-93	1,159	1,188	5.25-5.65	5.25-5.65
U.S.:	1956-01	48	41	4.0-6.0	4.0-6.0
Total		\$ 25,106	\$ 26,101		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 5.1% in 2001, 5.2% in 2000, and 5.3% in 1999; and for U.S. policies, 6.4% for each year in the three-year period ended December 31, 2001.

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

(In millions)	2001	2000	1999
Unpaid supplemental health claims – beginning of year	\$ 1,670	\$ 1,558	\$ 1,222
Add claims incurred during the year related to:			
Current year	3,454	3,663	3,081
Prior years	(304)	(285)	(212)
Total incurred	3,150	3,378	2,869
Less claims paid during the year:			
On claims incurred during current year	2,285	2,303	1,969
On claims incurred during prior years	821	813	709
Total paid	3,106	3,116	2,678
Effect of foreign exchange rate changes on unpaid claims	(174)	(150)	145
Unpaid supplemental health claims – end of year	1,540	1,670	1,558
Unpaid life claims – end of year	75	75	60
Total liability for unpaid policy claims	\$ 1,615	\$ 1,745	\$ 1,618

Amounts shown for prior-year claims incurred during the year primarily result from actual claim settlements at less than the original estimates, which included a provision for adverse deviation.

(6) NOTES PAYABLE

A summary of notes payable at December 31 follows:

(In millions)	2001	2000
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)	227	261
.87% notes due June 2006 (principal amount ¥40 billion)	303	–
Unsecured, yen-denominated notes payable to banks:		
Revolving credit agreement due November 2002 (principal amount of ¥25.8 billion):		
1.24% fixed interest rate	29	68
Variable interest rate (.29% at December 31, 2001)	166	157
Reducing revolving credit agreement:		
2.29% fixed interest rate	–	99
Variable interest rate	–	14
Obligations under capitalized leases, payable monthly through 2006, secured by computer equipment in Japan	33	31
Total notes payable	\$ 1,207	\$ 1,079

In April 1999, we issued \$450 million of 6.50% senior notes due April 15, 2009. The current outstanding balance after unamortized loan discount is \$449 million. 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 amount. We have entered into cross-currency swaps that have the effect of converting the dollar-denominated principal and interest of these notes into yen-denominated obligations (see Note 4).

For the yen-denominated loans, the principal amount as stated in dollar terms will fluctuate from period to period due to changes in the yen/dollar exchange rate.

In September 2000, we filed a shelf registration statement with Japanese regulatory authorities to issue up to ¥100 billion of yen-denominated Samurai notes. These securities are not for sale to U.S. residents or entities. In October 2000, we issued in Japan ¥30 billion (\$227 million using the December 31, 2001, exchange rate) of 1.55% Samurai notes due October 2005. In June 2001, we issued in Japan ¥40 billion (\$303 million using the December 31, 2001, exchange rate) of .87% Samurai notes due June 2006. Both 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 premium.

We also have an unsecured revolving credit agreement that provides for bank borrowings through November 2002 in either U.S. dollars or Japanese yen. The borrowing limit is \$250 million. The current outstanding balance is ¥25.8 billion. At December 31, 2001, ¥21.9 billion (\$166 million) of the unsecured revolving credit agreement were outstanding at a variable interest rate and ¥3.9 billion (\$29 million) were outstanding at a fixed rate. The swaps related to the ¥3.9 billion fixed-rate portion of the credit agreement are scheduled to expire in July 2002 (see Note 4).

The aggregate contractual maturities of notes payable during each of the years after December 31, 2001, are: 2002, \$207 million; 2003, \$11 million; 2004, \$7 million; 2005, \$229 million; 2006, \$304 million; and 2009, \$449 million.

We were in compliance with all of the covenants of the credit agreements at December 31, 2001. No events of default or defaults occurred during 2001 and 2000.

(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
2001:			
Current	\$ 313	\$ 25	\$ 338
Deferred	(14)	70	56
Total income tax expense	\$ 299	\$ 95	\$ 394
2000:			
Current	\$ 319	\$ 19	\$ 338
Deferred	(73)	60	(13)
Total income tax expense	\$ 246	\$ 79	\$ 325
1999:			
Current	\$ 211	\$ 19	\$ 230
Deferred – operations	(1)	45	44
Deferred tax benefit from Japanese tax rate reduction	(185)	118	(67)
Total income tax expense	\$ 25	\$ 182	\$ 207

Income tax expense in the accompanying consolidated financial statements 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)	2001	2000	1999
Income taxes based on U.S. statutory rates	\$ 378	\$ 354	\$ 272
Deferred tax benefit from Japanese tax rate reduction	–	–	(67)
Utilization of foreign tax credit carryforwards	(21)	(22)	(20)
Termination of retirement liability	–	(33)	–
Noninsurance losses generating no current tax benefit	12	–	3
Nondeductible expenses	11	14	12
Other, net	14	12	7
Income tax expense	\$ 394	\$ 325	\$ 207

Income tax expense (benefit) for the years ended December 31 was allocated as follows:

(In millions)	2001	2000	1999
Statements of earnings	\$ 394	\$ 325	\$ 207
Other comprehensive income:			
Changes in unrealized foreign currency translation gains	99	135	(141)
Unrealized gains on investment securities:			
Unrealized holding gains (losses) arising during the year	110	146	(75)
Reclassification adjustment for realized (gains) losses included in net earnings	(2)	34	9
Total income taxes allocated to other comprehensive income	207	315	(207)
Additional paid-in capital (exercise of stock options)	(1)	(2)	(2)
Total income taxes	\$ 600	\$ 638	\$ (2)

Changes in unrealized foreign currency translation gains/losses included deferred income tax expense of \$98 million in 2001 and \$76 million in 2000 and a deferred

income tax benefit of \$80 million in 1999 that 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.

In March 1999, the Japanese government reduced the statutory corporate income tax rate, which lowered AFLAC Japan's rate from 41.7% to 36.2%, reducing the consolidated liability for deferred income taxes. The reduction was the net effect of applying the new tax rates to the temporary differences that existed between the Japanese tax basis and financial reporting basis of assets and liabilities, and the limitations imposed by the U.S. foreign tax credit provisions.

The reduction of the consolidated deferred income tax liability from the 1999 tax rate reduction increased net earnings in 1999 by \$67 million (\$.13 per basic share and \$.12 per diluted share). The 1999 reduction in the Japanese corporate income tax rate did not significantly change our combined U.S./Japan effective tax rate due to the operation of the U.S. foreign tax credit provisions.

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)	2001	2000
Deferred income tax liabilities:		
Deferred acquisition costs	\$ 1,072	\$ 1,077
Unrealized gains on investment securities	699	455
Difference in tax basis of investment in AFLAC Japan	308	82
Other basis differences in investment securities	167	256
Premiums receivable	103	92
Unrealized exchange gain on yen-denominated notes payable	16	6
Other	10	3
Total deferred income tax liabilities	2,375	1,971
Deferred income tax assets:		
Policy benefit reserves	126	63
Policyholder protection fund	36	28
Unfunded retirement benefits	35	34
Other accrued expenses	132	74
Tax credit carryforwards	83	112
Other	257	187
Total gross deferred income tax assets	669	498
Less valuation allowance	126	149
Total deferred income tax assets	543	349
Net deferred income tax liability	1,832	1,622
Current income tax liability	259	272
Total income tax liability	\$ 2,091	\$ 1,894

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 foreign 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 2001, the valuation allowance for deferred tax assets decreased by \$23 million (decreased by \$8 million in 2000) due to changes in carryforwards of foreign tax credits, alternative minimum tax credits and noninsurance losses. For current U.S. income tax purposes, alternative minimum tax credits of \$83 million were available at December 31, 2001.

(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)	2001	2000	1999
Common stock - issued:			
Balance at beginning of year	644,813	640,698	635,941
Exercise of stock options	1,746	4,115	4,757
Balance at end of year	646,559	644,813	640,698
Treasury stock:			
Balance at beginning of year	115,603	109,216	104,573
Purchases of treasury stock:			
Open market	12,219	9,657	8,633
Other	168	269	375
Shares issued to sales associate stock bonus plan and AFL Stock Plan	(1,830)	(1,182)	(1,664)
Exercise of stock options	(1,216)	(2,357)	(2,701)
Balance at end of year	124,944	115,603	109,216
Shares outstanding at end of year	521,615	529,210	531,482

Share Repurchase Program: As of December 31, 2001, we had approximately four million shares available for purchase under the share repurchase program authorized by the board of directors. On February 12, 2002, the board of directors authorized the purchase of up to an additional 25 million shares of our common stock, bringing the total number of shares available for purchase to approximately 29 million.

Stock Split: On February 13, 2001, the board of directors declared a two-for-one stock split, consisting of 323 million shares, payable to shareholders of record at the close of business on February 27, 2001. The stock split was distributed on March 16, 2001. Share and per-share amounts retroactively reflect this split. After the stock split, the par value remained at \$.10 per share. The adjustment to increase the common stock account was recorded on March 16, 2001.

Stock Options: The Company's stock option plan allows grants for both incentive stock options (ISO) 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 options are

exercisable immediately unless they are subject to a vesting schedule as determined by the board of directors. At December 31, 2001, 11.1 million shares were available for future grants.

For the years ended December 31, 2001 and 2000, there were approximately 1,057,900 and 937,400 weighted average shares, respectively, 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.

The following table summarizes stock option activity:

(In thousands of shares)	Option Shares	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 1998	32,500	\$ 7.16
Granted in 1999	2,479	23.39
Canceled in 1999	(155)	15.21
Exercised in 1999	(7,665)	4.67
Outstanding at December 31, 1999	27,159	9.30
Granted in 2000	5,619	22.85
Canceled in 2000	(161)	14.39
Exercised in 2000	(6,636)	5.12
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

(In thousands of shares)	2001	2000	1999
Shares exercisable at end of year	16,329	16,782	22,168

The following table summarizes information about stock options outstanding at December 31, 2001:

(In thousands of shares)		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Wgt'd.-Avg. Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 4.03 - \$ 4.71	3,796	1.4	\$ 4.67	3,796	\$ 4.67
4.80 - 7.92	4,185	3.7	7.39	4,185	7.39
8.48 - 13.31	3,512	5.2	11.35	3,512	11.35
13.66 - 15.05	3,396	6.4	14.86	3,396	14.86
15.22 - 22.92	2,574	7.9	21.77	841	22.32
23.23 - 23.23	3,878	8.5	23.23	507	23.23
23.41 - 34.48	3,916	8.8	26.77	92	24.99
\$ 4.03 - \$ 34.48	25,257	5.9	\$ 15.44	16,329	\$ 10.53

We grant stock options at market value; therefore, we do not recognize compensation cost in the consolidated statements of earnings for employee stock options. If we were required to record compensation expense related to stock options granted, the effect on our net earnings and net earnings per share would approximate the following pro forma amounts:

(In millions, except for per-share amounts)	2001	2000	1999
Net earnings:			
As reported	\$ 687	\$ 687	\$ 571
Effect of stock options	(33)	(27)	(13)
Pro forma net earnings	\$ 654	\$ 660	\$ 558
Net earnings per share - diluted:			
As reported	\$ 1.28	\$ 1.26	\$ 1.04
Effect of stock options	(.06)	(.05)	(.02)
Pro forma net earnings per share	\$ 1.22	\$ 1.21	\$ 1.02

The pro forma information presented above should not be considered indicative of future effects.

For the above pro forma information, the fair value of each option granted after 1994 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, 2001:

	2001	2000	1999
Expected life from vesting date (years)	4.4 - 5.6	4.2 - 5.8	3.7 - 4.7
Dividend yield	.8%	.5%	.6%
Expected volatility	32.4%	32.0%	30.3%
Risk-free interest rate	5.0%	6.0%	6.0%

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

Net assets of the insurance subsidiaries aggregated \$6.4 billion at December 31, 2001, on a GAAP basis. AFLAC Japan accounted for \$4.1 billion, or 64.5%, of these net assets.

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 to the Japanese Financial Services Agency (FSA).

As determined on a U.S. statutory accounting basis, AFLAC's net income, which includes realized investment gains and losses, was \$370 million in 2001, \$210 million in 2000 and \$344 million in 1999. Capital and surplus was \$2.2 billion and \$1.7 billion at December 31, 2001 and 2000, respectively.

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

(In millions)	2001	2000
Net assets on GAAP basis	\$ 6,380	\$ 5,572
Adjustment of carrying values of investment securities	(3,023)	(2,113)
Elimination of deferred policy acquisition costs	(3,611)	(3,663)
Adjustment to policy liabilities	685	796
Adjustment to deferred income taxes	2,063	1,678
Other, net	(332)	(597)
Net assets on U.S. statutory accounting basis	\$ 2,162	\$ 1,673

The National Association of Insurance Commissioners has recodified statutory accounting principles to promote standardization throughout the industry. These new accounting principles were adopted January 1, 2001. We recorded the transition adjustments to reflect the prior years' effects, which increased AFLAC statutory capital and surplus by approximately \$130 million as of January 1, 2001.

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 realized investment gains and losses, 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 2002 in excess of \$409 million would require such approval. Dividends paid by AFLAC during 2001 were \$204 million.

A portion of AFLAC Japan annual 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. Earnings were remitted from AFLAC Japan to AFLAC U.S. in the amount of \$185 million in 2001, \$157 million in 2000 and \$243 million in 1999. In light of the deregulation of the insurance market, we elected to repatriate less than the maximum amounts in both 2001 and 2000 in order to maintain a strong solvency margin in Japan. The maximum amount we could have repatriated was \$290 million and \$351 million in 2001 and 2000, respectively. We repatriated the maximum amount in 1999.

Net assets (unaudited) of AFLAC Japan, based on Japanese statutory accounting practices, aggregated \$2.6 billion and \$777 million at December 31, 2001 and 2000, respectively. Japanese statutory accounting practices differ in many respects from U.S. GAAP. Under Japanese statutory accounting practices, 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.

For the Japanese reporting fiscal year ending 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 two categories: in an available-for-sale category at fair value and in a held-to-maturity category at amortized cost. Unrealized gains and losses on investment securities available for sale are reported in FSA 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

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:

	2001		2000	
(In thousands)	Japan	U.S.	Japan	U.S.
Projected benefit obligation:				
Benefit obligation at beginning of year	\$ 72,929	\$ 73,409	\$ 74,186	\$ 62,358
Service cost	4,132	3,583	4,458	2,891
Interest cost	1,784	5,072	2,093	4,314
Actuarial loss (gain)	1,468	(1,727)	1,647	5,172
Benefits paid	(1,118)	(1,290)	(1,039)	(1,326)
Effect of foreign exchange rate changes	(10,001)	—	(8,416)	—
Benefit obligation at end of year	69,194	79,047	72,929	73,409
Plan assets:				
Fair value of plan assets at beginning of year	48,669	63,307	49,830	56,425
Actual return on plan assets	(7,815)	(14,520)	(628)	8,208
Employer contribution	5,778	1,264	6,138	—
Benefits paid	(1,118)	(1,290)	(1,039)	(1,326)
Effect of foreign exchange rate changes	(6,095)	—	(5,632)	—
Fair value of plan assets at end of year	39,419	48,761	48,669	63,307
Funded status	(29,775)	(30,286)	(24,260)	(10,102)
Unrecognized net actuarial loss (gain)	15,228	19,677	8,455	1,273
Unrecognized transition obligation (asset)	3,009	(475)	3,772	(597)
Unrecognized prior service cost	654	1,616	828	1,754
Accrued benefit cost	\$ (10,884)	\$ (9,468)	\$ (11,205)	\$ (7,672)

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

	2001		2000		1999	
(In thousands)	Japan	U.S.	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	\$ 4,132	\$ 3,583	\$ 4,458	\$ 2,891	\$ 4,675	\$ 2,938
Interest cost	1,784	5,072	2,093	4,314	1,658	4,311
Expected return on plan assets	(1,152)	(5,612)	(1,470)	(5,013)	(1,516)	(4,313)
Recognized net actuarial loss	225	—	202	—	363	265
Amortization of transition obligation (asset)	295	(122)	333	(121)	258	(122)
Amortization of prior service cost	72	138	81	138	77	138
Net periodic benefit cost	\$ 5,356	\$ 3,059	\$ 5,697	\$ 2,209	\$ 5,515	\$ 3,217
Weighted-average actuarial assumptions used in the calculations:						
Discount rate – net periodic benefit cost	2.5%	7.0%	3.0%	7.0%	3.0%	6.5%
Discount rate – benefit obligations	2.5	7.0	3.0	7.0	3.0	7.0
Expected long-term return on plan assets	2.5	9.0	2.5	9.0	4.5	9.0
Rate of compensation increase	3.5	4.0	3.5	4.0	3.5	4.0

Plan assets consist of a diverse portfolio of debt and equity securities. Our U.S. plan included \$1 million (or 3% of plan assets) and \$2 million (or 4% of plan assets) of AFLAC Incorporated common stock at December 31, 2001 and 2000, respectively. The substantial decrease in the fair value of assets of both plans during 2001 was primarily attributable to general market conditions. We do not expect

pension expense to increase substantially in 2002 as a result of the decline in fair value of plan assets during 2001.

In addition to the benefit obligations for funded employee plans, we also maintain unfunded supplemental retirement plans for certain officers and beneficiaries. In May 2000, the surviving spouse of John B. Amos, former chairman of the board, unexpectedly passed away. We had accrued an unfunded liability under a shareholder-approved employment contract for projected retirement payments based on a normal life expectancy. The release of the remaining accrued liability increased net earnings by \$99 million (\$.19 per basic share and \$.18 per diluted share) for the year ended December 31, 2000.

Retirement expense for the supplemental unfunded plans, excluding the termination of the retirement liability in 2000, was \$15 million in 2001, \$5 million in 2000, and \$39 million in 1999. The accrued retirement liability for the unfunded supplemental retirement plans at December 31, 2001 and 2000, was \$157 million and \$151 million, respectively. The actuarial present value of projected benefit obligations was \$162 million and \$150 million at December 31, 2001 and 2000, respectively. The discount rates used 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)	2001	2000
Benefit obligation:		
Benefit obligation at beginning of year	\$ 14,565	\$ 12,488
Service cost	522	408
Interest cost	1,020	874
Actuarial loss (gain)	(88)	1,610
Benefits paid	(1,009)	(815)
Unfunded benefit obligation at end of year	15,010	14,565
Unrecognized net actuarial gain (loss)	(993)	(1,080)
Unrecognized prior service cost	(316)	(342)
Accrued benefit cost	\$ 13,701	\$ 13,143

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

(In thousands)	2001	2000	1999
Service cost	\$ 522	\$ 408	\$ 361
Interest cost	1,020	874	752
Amortization of prior service cost	25	25	26
Net periodic benefit cost	\$ 1,567	\$ 1,307	\$ 1,139
Discount rate:			
Net periodic cost	7.0%	7.0%	6.5%
Benefit obligations	7.0	7.0	7.0
Effect of 1-percentage point increase in health care cost trend rate:			
On total of service and interest cost components	\$ 168	\$ 136	\$ 119
On postretirement benefit obligation	1,070	1,180	991
Effect of 1-percentage point decrease in health care cost trend rate:			
On total of service and interest cost components	(143)	(116)	(101)
On postretirement benefit obligation	(919)	(1,010)	(846)

The projected health care cost trend rate used in 2001 was 12%, graded to 6% over five 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 sales and persistency of substantially all insurance policies. The cost of these shares, which is included in deferred policy acquisition costs, amounted to \$24 million in 2001, and \$18 million in both 2000 and 1999. Prior to July 1999, participants received the shares of stock after satisfying various vesting requirements and other conditions. This stock bonus program was revised effective July 1, 1999, to substantially eliminate the vesting requirements and to make various other modifications. As a result of this change, plan participants became 100% vested in their accumulated shares under the original program, and the related shares of stock held in a trust were distributed. The market value of the distributed shares was charged against a liability for accrued stock compensation and the excess of market value over share cost (\$42 million) was recognized as additional paid-in capital.

(11) COMMITMENTS AND CONTINGENCIES

Commitments: 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, 2001, were as follows: 2002, \$34 million; 2003, \$16 million; 2004, \$10 million; 2005, \$9 million; 2006, \$8 million; and thereafter, \$77 million.

Litigation: We are a defendant in various litigation 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

	2001	2000	1999
Weighted-average shares used in calculating earnings per share (in thousands):			
Average outstanding shares used for calculating basic EPS	525,098	530,607	531,737
Dilutive effect of stock options	12,285	14,299	19,108
Average outstanding shares used for calculating diluted EPS	537,383	544,906	550,845
Other:			
Policy acquisition costs deferred during the year (in millions)	\$ 651	\$ 612	\$ 556
Commissions deferred as a percentage of total acquisition costs deferred	71%	71%	72%
Personnel compensation and benefits as a percentage of insurance expenses	44%	42%	40%

	2001	2000	1999
Supplemental disclosures of cash flow information (in millions):			
Income taxes paid	\$ 347	\$ 215	\$ 411
Interest paid	23	21	17
Impairment losses included in realized investment losses	88	57	—
Noncash financing activities:			
Capitalized lease obligations	17	25	4
Treasury shares issued to AFL Stock Plan for:			
Shareholder dividend reinvestment	6	5	5
Associate stock bonus	17	7	54
Property and equipment (in millions):			
Land	\$ 138	\$ 132	\$ 147
Buildings	317	355	374
Equipment	186	169	156
	641	656	677
Less accumulated depreciation	186	175	168
Net property and equipment	\$ 455	\$ 481	\$ 509

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 generally accepted accounting principles 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 on the following page.

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Atlanta, Georgia

January 31, 2002, except as to Note 8, which is as of February 12, 2002

Unaudited Consolidated Quarterly Financial Data

(In millions, except for per-share amounts)

Three Months ended,	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Total revenues	\$ 2,401	\$ 2,348	\$ 2,446	\$ 2,404
Net earnings	178⁽¹⁾	153⁽²⁾	193⁽³⁾	163⁽⁴⁾
Net earnings per basic share	\$.34⁽¹⁾	\$.29⁽²⁾	\$.37⁽³⁾	\$.31⁽⁴⁾
Net earnings per diluted share	.33⁽¹⁾	.28⁽²⁾	.36⁽³⁾	.31⁽⁴⁾
Cash dividends per share	.043	.05	.05	.05

Three Months ended,	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Total revenues	\$ 2,398	\$ 2,355	\$ 2,472	\$ 2,480
Net earnings	156	202 ⁽⁵⁾	163	166
Net earnings per basic share	\$.29	\$.38 ⁽⁵⁾	\$.31	\$.31
Net earnings per diluted share	.29	.37 ⁽⁵⁾	.30	.30
Cash dividends per share	.038	.043	.043	.043

(1) Includes a gain of \$3 (\$.01 per diluted share) related to the change in fair value of the interest rate component of the cross-currency swaps, an impairment loss of approximately \$36 (\$.07 per diluted share) related to an investment in corporate debt securities, and gain of approximately \$39 (\$.07 per diluted share) related to portfolio repositioning; (2) Includes a loss of \$21 (\$.04 per diluted share) related to the change in fair value of the interest rate component of the cross-currency swaps; (3) Includes a gain of \$37 (\$.07 per diluted share) related to the change in fair value of the interest rate component of the cross-currency swaps and an impairment loss of approximately \$28 (\$.05 per diluted share) related to investments in two human resource service companies; (4) Includes a loss of \$18 (\$.03 per diluted share) related to the change in fair value of the interest rate component of the cross-currency swaps and an impairment loss of approximately \$13 (\$.02 per diluted share) related to an investment in corporate debt securities; (5) Includes a loss of \$69 (\$.12 per diluted share) related to an impairment in corporate debt securities and a gain of \$99 (\$.18 per diluted share) related to the termination of a retirement liability.

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

Glossary

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

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

Corporate Agency – The marketing system we use in Japan comprises affiliated corporate, independent corporate, and individual 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 Acquisition Costs (DAC) – Generally accepted accounting principles call for the matching of revenues and expenses. Therefore, the costs of acquiring new business, principally agents' commissions in excess of 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 period of the related policies in approximate proportion of annual premium income to the total premium income anticipated.

Diluted Earnings Per Share – Net or operating earnings divided by the weighted-average number of shares outstanding for the period plus the 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 sold 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 claim liability.

Lapse Ratio – The percentage of premiums that are terminated due to the policyholder's failure to continue premium payments as a percent of total amount exposed for payment (beginning-of-period premiums in force, plus premiums from new sales, conversions and rate increases).

Net Earnings – Profits, including net realized investment gains or losses, after taxes.

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

Operating Earnings – Profits after taxes but before realized investment gains or losses and beginning in 2001, the impact of SFAS 133. In 1996 and 1997, operating earnings excluded the gain from the sale of our television business. In 1998 and 1999, operating earnings also excluded contributions to the policyholder protection fund in Japan and the releases of deferred taxes following Japanese income tax rate reductions. In 2000, operating earnings excluded the gain from the termination of a retirement liability.

Operating Expense Ratio – Total operating expenses including amortization of DAC, total administrative costs, and commissions as a percent of total revenues.

Operating Return on Average Shareholders' Equity – Operating earnings as a percentage of the average of shareholders' equity at the beginning of the period and at the end of the period, excluding the shareholders' equity component of unrealized gains on investment securities.

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.

Price/Earnings Ratio – Market price of shares divided by annual operating earnings per diluted share. The investment community standard is to compute the price/earnings ratio using operating earnings per share rather than net earnings per share.

Profit Margin – Operating earnings either before taxes or after taxes as a percent of total revenues.

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

2001 was a volatile year for stocks. With increased investor concern about the weakening U.S. economy, major stock market indices declined for the second year in a row. 2001 was also a volatile and disappointing year for AFLAC's shares. Following a year of exceptional performance in 2000, investors focused heavily on AFLAC Japan's slower-than-expected sales growth in 2001 and as a result, our shares declined sharply for the year.

2001 Market Performance

AFLAC closed the year at \$24.56, down 32.0% from our 2000 closing price of \$36.10. By comparison, the Standard & Poor's 500 Index was down 13.0% and the Dow Jones Industrial Average declined 7.1% for the year. Insurance stocks, as measured by the Standard & Poor's Life and Health Insurance Index, also had a tough year. The S&P Life and Health Insurance Index dropped 9.1% for the year. Our

shares. 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, 2001, those shares were worth more than \$4.6 million. In addition, those early investors received approximately \$36,200 in cash dividends last year, which was nearly 33 times the acquisition price of those original 100 shares.

AFLAC has historically sold at a discount price/earnings ratio to the S&P 500 Index. For the last five years, our price/earnings ratio has averaged about 80% of the price/earnings ratio for the S&P 500 Index. However, when comparing our price/earnings ratio to our peer companies, we have typically traded at a premium price/earnings ratio. For example, our price/earnings ratio has averaged about 125% of the price/earnings ratio of the S&P Life and Health Insurance Index over the last five years.

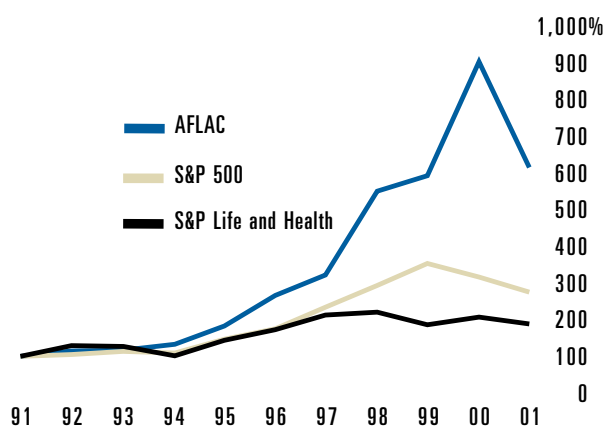
AFLAC's Stock Mar

shares' performance in 2001 followed a very strong performance in 2000, during which our shares were up 53.0%. For the two-year period, our shares increased in value by 4.1%, compared with a 21.8% decline for the S&P 500 and a 12.8% drop in the Dow Jones Industrial Average. The S&P Life and Health Insurance Index rose 1.4% over the last two years.

Although our shares underperformed the insurance industry and broader market indices in 2001, they have outperformed the market over the long run. In fact, since AFLAC was listed on the New York Stock Exchange in 1974, our shares have outperformed the S&P 500 Index in 20 of the last 27 years. Including reinvested cash dividends, AFLAC's total return to shareholders was a negative 31.3% in 2001. However, AFLAC's total return has compounded annually at 19.0% over the last five years and 21.1% during the past 10 years.

AFLAC's earliest shareholders have been especially rewarded. Investors who purchased 100 shares when AFLAC was founded in 1955 paid \$1,110 for those

Comparative Market Performance
(1991 closing prices = 100)



Since 1991, AFLAC shares have appreciated 515.5%, compared with a 175.3% return for the S&P 500 Index and an increase of 88.5% for the S&P Life and Health Insurance Index.

A Stable Owner Base

At the end of the year, approximately 182,700 investors owned AFLAC shares. The mix of our shareholder base has remained fairly constant over the last few years. A little more than half of our shares are held by institutional investors, with the balance owned by individual investors. Directors, employees and agents owned approximately 7% of the company's shares at the end of 2001. According to the National Association of Investors Corporation (NAIC), AFLAC was again the most popular stock among its 480,000 members in terms of number of shares held and the market value of those shares. NAIC members owned approximately 32.4 million shares of AFLAC, exceeding \$795 million in market value at year-end 2001.

Serving Our Shareholders

We remain committed to providing excellent services for our shareholders. In addition to our

Peer Company Comparison					
(S&P Life and Health Insurance Index Companies)					
	Symbol	Year-end Market Value (In billions)	2001 Return*	Five-Year Returns*	
				Total	Annual
AFLAC	AFL	\$ 12.8	(31.3)%	138.3%	19.0%
Conseco	CNC	1.5	(66.0)	(85.2)	(31.7)
Jefferson-Pilot	JP	6.9	(4.9)	104.3	15.3
John Hancock	JHF	12.3	10.5	**	**
Lincoln National	LNC	9.1	5.3	111.5	16.2
Metlife	MET	23.0	(8.9)	**	**
Torchmark	TMK	4.9	3.2	92.4	14.0
UnumProvident	UNM	6.4	.7	(20.0)	(4.4)

* Includes reinvested cash dividends
 ** Not applicable

up for an e-mail alert notification service. This service automatically sends investors an e-mail message whenever news is made public about AFLAC and provides a convenient link to the news at aflac.com. In

ket Performance

Shareholder Services Department, which conducts stock transfers and administers our dividend reinvestment plan, we also offer many services through aflac.com. In 2000 for example, we introduced *aflinc*, which is accessed through aflac.com. *aflinc* allows shareholders secure Internet access to their investment accounts with the ability to view account balances, complete investment transactions, change home and e-mail addresses, and view, download, and print dividend-related tax forms. Shareholders can also request electronic delivery of certain documents such as reinvestment statements, proxy statements, and annual and quarterly reports through *aflinc*. By the end of 2001, more than 7,200 shareholders had signed up for *aflinc*.

We also offer other informational services through our Web site. The quarterly earnings release conference calls we conduct are webcast at aflac.com and are archived for two weeks following the release. To find out when the earnings releases occur, investors can view and print a shareholder calendar of important dates on our Web site, or they can also sign

addition, investors will find a lot of financial information at our Web site. Annual and quarterly reports, SEC filings, and quarterly statistical financial supplements can all be easily downloaded and printed on the Investor Relations page.

Quarterly Common Stock Prices

	High	Low	Close
2001			
4th Quarter	\$29.30	\$23.58	\$24.56
3rd Quarter	32.60	23.00	27.00
2nd Quarter	35.24	26.80	31.49
1st Quarter	36.10	23.38	27.54
2000			
4th Quarter	\$37.47	\$29.19	\$36.10
3rd Quarter	33.75	22.53	32.03
2nd Quarter	26.97	21.88	22.97
1st Quarter	23.57	16.78	22.78
1999			
4th Quarter	\$27.13	\$20.94	\$23.60
3rd Quarter	24.69	20.41	20.94
2nd Quarter	28.38	22.25	23.94
1st Quarter	27.25	19.50	27.22

Board of Directors



Daniel P. Amos, 50, is chairman and chief executive officer of AFLAC and AFLAC Incorporated. He has been with the company full-time since 1973 in a variety of sales and management positions. He has been chief executive officer since 1990, and he was named chairman in May 2001. He has been a member of AFLAC Incorporated's board since 1983.



John Shelby Amos II, 49, is the Alabama/West Florida state sales coordinator for AFLAC U.S. For the past 29 years, he has served in a variety of sales positions within the company, including Louisiana state sales coordinator. He was first elected to the board in 1983.



Michael H. Armacost, 64, is president of the Brookings Institution, a private, nonpartisan organization devoted to public policy research on domestic and foreign issues. A former undersecretary of state for political affairs, Mr. Armacost was U.S. ambassador to Japan from 1989 to 1993. Mr. Armacost joined the board in 1994.



Kriss Cloninger III, 54, 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.



M. Delmar Edwards, M.D., 75, is retired vice president and assistant to the chairman of the Columbus Regional Healthcare System, Inc. Formerly a physician in private practice, he is a retired trustee of the Morehouse School of Medicine. He is a retired director of the First Union National Bank of Georgia. He was first elected to AFLAC Incorporated's board in 1990.



Joe Frank Harris, 66, is a distinguished executive fellow at Georgia State University and a lecturer in its School of Policy Studies. Mr. Harris was governor of Georgia from 1983 to 1991. He also serves as chairman of the board of Harris Georgia Corporation, an industrial development firm, and as vice chairman of the Board of Regents of the University System of Georgia. He joined AFLAC Incorporated's board in 1991.



Elizabeth Hudson, 52, is senior vice president of communications for the National Geographic Society. She has 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., 67, is chairman and chief executive officer 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.



Charles B. Knapp, 55, is a partner with Heidrick & Struggles Inc. He was president of the University of Georgia from 1987-1997. He joined AFLAC Incorporated's board in 1990.



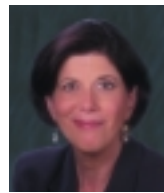
Takatsugu Murai, 58, is senior managing director of Dai-ichi Kangyo Bank and is in charge of Dai-ichi's International Banking Company. He joined the bank in 1967 and served in a variety of positions before becoming senior managing director in 1998. He was elected to AFLAC Incorporated's board in 2000.



Yoshiki Otake, 62, is chairman of AFLAC Japan. Mr. Otake served on the committee that helped AFLAC Japan obtain its original operating license in the early 1970s and has been with the company ever since in a variety of leadership positions. He previously served as president of AFLAC Japan. He joined AFLAC Incorporated's board in 1986.



E. Stephen Purdom, 54, is a former executive vice president of insurance operations for AFLAC U.S. Prior to assuming that position, he served as AFLAC's senior vice president and medical director. He is currently on the board of advisors for Emory University Medical School, and he is chairman of the board of Science Regents, Inc. He was first elected to AFLAC Incorporated's board in 1987.



Barbara Rimer, Ph.D., 53, is director of the Division of Cancer Control and Population Sciences at the National Cancer Institute. She is the 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, 64, is chairman of Schuster Enterprises Inc., which operates Burger King restaurants throughout the Southeast. He is on the boards of Synovus Trust Company and Columbus Bank & Trust. He was elected to AFLAC Incorporated's board in 2000.



Henry C. Schwob, 74, has been president of Schwob Realty Company, a private real estate firm, for the past 44 years. He also serves as a director of First Union National Bank of Georgia. He joined AFLAC Incorporated's board in 1965.



J. Kyle Spencer, 75, is president of Spencer Investment Company, a private investment firm, and is president of Sugar Hill Angus Farm Inc., and Sugar Hill Nurseries, both family companies. He has served on AFLAC Incorporated's board since 1968.



Glenn Vaughn Jr., 72, is a retired chairman and publisher of the *Columbus (GA) Ledger-Enquirer*, a Knight-Ridder newspaper, where he worked up 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 the AFLAC Board since 1990.



Robert L. Wright, 64, is founder, chairman and chief executive officer of Dimensions International, an international information technology company. He is 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)
Yoshiki Otake (see facing page)



Norman P. Foster, 66, is executive vice president of corporate finance. Before joining AFLAC in 1986, he was a partner with KPMG LLP in Minneapolis, where he provided accounting, audit, and management consulting services for the insurance industry for more than 25 years. He currently serves on the boards of directors of state life/health guaranty associations in Georgia, South Dakota and New Mexico.



Akitoshi Kan, 54, is executive vice president, internal operations for AFLAC U.S. He joined AFLAC Japan in 1980, and 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, 48, is executive vice president, general counsel and corporate secretary. He joined AFLAC in 1983 as head of the newly formed 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, 44, 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.



Hidefumi Matsui, 57, is president of AFLAC Japan. He has been with AFLAC Japan since its inception, serving on the committee that helped AFLAC Japan obtain its original operating license. Before assuming his current position, he served as AFLAC Japan's executive vice president and director of marketing.



Charles D. Lake II, 40, is deputy president for AFLAC Japan. 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.



Minoru Nakai, 60, is chairman of AFLAC International, Inc., and he has been with the company since 1977. He is also chairman of AFLAC Insurance Services Co., Ltd., AFLAC Payment Services Co., Ltd., and aflacdirect.com.



Allan O'Bryant, 43, is president of AFLAC International Inc., deputy chief financial officer of AFLAC Incorporated, and president 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.

Senior Management

AFLAC Incorporated

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

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

Mark E. Shaw, Senior Vice President, Corporate Risk Management

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

Gary L. Stegman, Senior Vice President, Financial Operations

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

AFLAC U.S.

Kermitt L. Cox, Senior Vice President; Corporate Actuary

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

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

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

Diane P. Orr, Senior Vice President, Claims, Flex, Administrative Systems

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

AFLAC Japan

Atsushi Yagai, First Senior Vice President; Director of Marketing and Sales

Hiroshi Yamauchi, First Senior Vice President; Director of Customer Service

Shigehiko Akimoto, Senior Vice President, Alliance Management

Tomomichi Itoh, Senior Vice President, Government Affairs, Research, and Risk Management

Hideo Kikuchi, Senior Vice President, Underwriting, Claims, Medical

Yutaka Ogawa, Senior Vice President, Bank Set Department, Sales Development Training



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AFLAC Incorporated

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Independent Certified Public Accountants

KPMG LLP
303 Peachtree Street, N.E.
Suite 2000
Atlanta, Georgia 30308

Legal Counsel

Skadden, Arps, Slate,
Meagher and Flom LLP
New York, New York 10036

Annual Meeting

AFLAC Incorporated's annual meeting of shareholders will be held at 10 a.m. on May 6, 2002, at the Columbus Museum, 1251 Wynnnton 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 1.

For more information concerning the company, please contact:

Kenneth S. Janke Jr.
Sr. V.P., Investor Relations
(800) 235-2667 - option 3
or (706) 596-3264
Fax: (706) 324-6330

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Tokyo, 163-0456, Japan
011-81-3-3344-2701

Registrar

Columbus Bank & Trust Co.
Trust Department
P.O. Box 120
Columbus, Georgia 31902-0120

Stock Transfer Agent

AFLAC Incorporated
Shareholder Services Dept.
Columbus, Georgia 31999
(800) 235-2667 - option 1
or (706) 596-3278
Fax: (706) 596-3488

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.

In Japan contact:

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Investor Relations Support Office
Shinjuku Mitsui Bldg.,
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