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.

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 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

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. 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. 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. 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** Market Value	**2001** +100 Basis Points	2000 Market Value	2000 +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)

(In millions)	2001 116.95 Yen	2001 131.95* Yen	2001 146.95 Yen	2000 99.75 Yen	2000 114.75* Yen	2000 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:

(In millions)	AFLAC Japan 2001	AFLAC Japan 2000	AFLAC U.S. 2001	AFLAC U.S. 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.