FORWARD-LOOKING INFORMATION

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

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

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

COMPANY OVERVIEW

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-year period ended December 31, 2004. As a result, the following discussion should be read in conjunction with the related consolidated financial statements and notes.

This MD&A is divided into four primary sections. In the first section, we discuss our critical accounting estimates. We then follow with a discussion of the results of our operations on a consolidated basis and by segment. The third section presents an analysis of our financial condition as well as a discussion of market risks of financial instruments. We then conclude by addressing the availability of capital and the sources and uses of cash in the Capital Resources and Liquidity section.

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The estimates discussed below are critical to an understanding of Aflac's results of operations and financial condition. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 91% of our assets and 81% of our liabilities are reported and thus have a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

Investments

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

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

Deferred Policy Acquisition Costs and Policy Liabilities

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

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

Deferred Policy Acquisition Costs

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

Deferred Policy Acquisition Cost Ratios

	Aflac Japan			Aflac U.S.		
(In millions)	**2004**	2003	2002	**2004**	2003	2002
Deferred policy acquisition costs	**¥ 397,261**	¥ 368,535	¥ 343,845	**$ 1,783**	$1,604	$1,410
Annualized premiums in force	**961,895**	900,251	834,424	**3,374**	3,043	2,674
Deferred policy acquisition costs as a percentage of annualized premiums in force	**41.3%**	40.9%	41.2%	**52.8%**	52.7%	52.7%

Policy Liabilities

Our policy liabilities, which are determined in accordance with SFAS No. 60 and Actuarial Standards of Practice, include two primary components: future policy benefits and unpaid policy claims, which accounted for 90% and 5% of total policy liabilities as of December 31, 2004, respectively.

Future policy benefits provide for claims that will occur in the future and is generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. We calculate future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are established at the time a policy is issued. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by GAAP, we also include a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

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

Claims incurred under Aflac's policies are generally reported and paid in a relatively short time frame. They are sensitive to frequency and severity of claims. They are not, however, subject to medical cost inflation because benefits are based on a fixed indemnity. Our claims experience is primarily related to the demographics of our policyholders.

In computing the estimate of unpaid policy claims, we consider many factors, including the benefits and amounts available under the policy, the volume and demographics of the policies exposed to claims, and internal business practices, such as incurred date assignment and current claim administrative practices. We monitor these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period, however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, we do not calculate a range of estimates. However, if current period claims were to change by 1%, we would expect the unpaid policy claim liability to change by approximately $24 million.

The table at the top right provides details of policy liabilities by segment and in total as of December 31.

Policy Liabilities

(In millions)	2004	2003
U.S. segment:		
Future policy benefits	$ 3,354	$ 2,975
Unpaid policy claims	708	593
Other policy liabilities	136	165
Total U.S. policy liabilities	$ 4,198	$ 3,733
Japan segment:		
Future policy benefits	$ 36,005	$ 32,612
Unpaid policy claims	1,646	1,521
Other policy liabilities	1,705	1,373
Total Japan policy liabilities	$ 39,356	$ 35,506
Consolidated:		
Future policy benefits	$ 39,360	$ 35,588
Unpaid policy claims	2,355	2,115
Other policy liabilities	1,841	1,537
Total consolidated policy liabilities	$ 43,556	$ 39,240

New Accounting Pronouncements

During the last three years, the Financial Accounting Standards Board (FASB) has been active in soliciting comments and issuing statements, interpretations and exposure drafts on issues including equity-based compensation, pensions, variable interest entities, special purpose entities, derivatives, intangible assets and business combinations.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment (SFAS 123R). This standard amends SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes APB Opinion No. 25, Accounting For Stock Issued to Employees, and its related implementation guidance. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, such as granting stock options. It requires that companies use a fair value method to value stock options and other forms of share-based payments and recognize the related compensation expense in net earnings. We plan to adopt SFAS 123R effective January 1, 2005, using the modified-retrospective transition method.

Historically, we have applied the recognition and measurement principles of APB Opinion No. 25, Accounting For Stock Issued to Employees, and related interpretations in accounting for our employee stock option plan. As a result, we have not recognized expense for equity-based compensation in net earnings. Upon adoption of SFAS 123R on January 1, 2005, compensation expense related to equity-based compensation will be recognized in net earnings. See Notes 1 and 8 of the Notes to the Consolidated Financial Statements and Selected Financial Data for additional information.

For additional information on new accounting pronouncements and the impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

The table on the following page is a presentation of items impacting net earnings and net earnings per diluted share for the years ended December 31.

Items Impacting Net Earnings

	In Millions			Per Diluted Share		
	2004	2003	2002	**2004**	2003	2002
Net earnings	**$ 1,299**	$ 795	$ 821	**$ 2.52**	$ 1.52	$ 1.55
Items impacting net earnings, net of tax:						
Realized investment gains (losses)	**(5)**	(191)	(15)	**(.01)**	(.37)	(.03)
Impact from SFAS 133	**(13)**	(3)	37	**(.03)**	–	.07
Release of valuation allowance on deferred tax assets	**128**	–	–	**.25**	–	–
Japanese pension obligation transfer	**3**	–	–	**.01**	–	–
Japanese policyholder protection fund	**–**	–	(26)	**–**	–	(.05)
Foreign currency translation*	**39**	33	(10)	**.08**	.06	(.02)

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

Realized Investment Gains and Losses

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

During the third quarter of 2004, we received an issuer's offer to redeem certain available-for-sale yen-denominated debt securities held by the Company. We accepted the issuer's offer of $205 million for the debt securities and recorded a pretax loss of $23 million. This investment loss and other investment gains and losses in the normal course of business decreased pretax earnings by $12 million (after-tax, $5 million, or $.01 per diluted share).

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

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

Impact from SFAS 133

We entered into cross-currency swap agreements to effectively convert our dollar-denominated senior debt obligation, which matures in 2009, into a yen-denominated obligation (see Notes 4 and 6 of the Notes to the Consolidated Financial Statements). The effect of issuing fixed-rate, dollar-denominated debt and swapping it into fixed-rate, yen-denominated debt has the same economic impact on Aflac as if we had issued straight yen-denominated debt of a like amount. However, the accounting treatment for cross-currency swaps is different from issuing yen-denominated (Samurai) notes. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, requires that the change in the fair value of the interest rate component of the cross-currency swap, which does not qualify for hedge accounting, be reflected in net earnings (other income). This change in fair value is determined by relative dollar and yen interest rates and has no cash impact on our results of operations. At maturity, the swaps' fair value and their initial contract fair value will be equal and the cumulative impact of gains and losses from the changes in fair value of the interest component will be zero. We have the ability to retain the cross-currency swaps until their maturity. The impact from SFAS 133 includes the change in fair value of the interest rate component of the cross-currency swaps, which does not qualify for hedge accounting.

We have also issued yen-denominated debt (Samurai notes). We have designated these notes as a hedge of our investment in Aflac Japan. If the value of these yen-denominated notes exceeds our investment in Aflac Japan, we would be required to recognize the foreign currency effect on the excess, or ineffective portion, in net earnings (other income). The ineffective portion would be included in the impact from SFAS 133. These hedges were effective during the three-year period ended December 31, 2004; therefore, there was no impact on net earnings. See Notes 1 and 4 of the Notes to the Consolidated Financial Statements for additional information.

Nonrecurring Items

The passage of The American Jobs Creation Act of 2004 eliminated the 90% limitation on the utilization of foreign tax credits. As a result of this tax law change, we recognized a benefit of $128 million ($.25 per diluted share) for the release of the valuation allowance associated with certain deferred tax assets. This benefit is included as a reduction to income tax expense in the consolidated statement of earnings.

During 2004, we concluded the process of returning the substitutional portion of Aflac Japan's pension plan to the Japanese government as allowed by the Japan Pension Insurance Law. We recognized a one-time gain (other income) as the result of this transfer to the Japanese government in the amount of $6 million (after-tax, $3 million, or $.01 per diluted share). For additional information on the transfer, see Note 10 of the Notes to the Consolidated Financial Statements.

In December 2002, the members of the Life Insurance Policyholder Protection Corporation approved the Financial Services Agency's (FSA) proposal, which required the industry to contribute an additional ¥78 billion (approximately $638 million) to Japan's policyholder protection fund. Our estimated share of the assessment decreased 2002 net earnings by $26 million ($.05 per diluted share). This charge is included in acquisition and operating expenses in the consolidated statement of earnings.

Foreign Currency Translation

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

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

Income Taxes

Our combined U.S. and Japanese effective income tax rates on net earnings were 28.1% in 2004, 35.1% in 2003 and 34.8% in 2002. Total income taxes were $508 million in 2004, compared with $430 million in 2003 and $438 million in 2002. Our 2004 effective income tax rate and tax expense were impacted by the release of the valuation allowance for deferred tax assets discussed previously. Japanese income taxes on Aflac Japan's results accounted for most of our income tax expense. See Note 7 of the Notes to the Consolidated Financial Statements for additional information on income taxes.

Earnings Projections

We communicate earnings guidance in this report based on the growth in net earnings per diluted share. However, certain items that cannot be predicted or that are outside of management's control may have a significant impact on actual results. Therefore, our projections of net earnings include certain assumptions to reflect the limitations that are inherent in projections of net earnings.

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

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

Net earnings are also affected by the impact from SFAS 133, which is based on relative dollar and yen interest rates. Similar to foreign currency exchange rates, yen and dollar interest rates are also inherently unpredictable. Consequently, our projections of net earnings assume no impact from SFAS 133.

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

Subject to the assumptions set forth above, our objective for 2004 was to achieve net earnings per diluted share of at least $2.21, an increase of 17%. Based on 2004 net earnings per diluted share of $2.52, adjusted for realized investment losses (a loss of $.01 per diluted share), the impact from SFAS 133 (a loss of $.03 per diluted share), the release of the valuation allowance for deferred tax assets (a gain of $.25 per diluted share), the gain related to the Japanese pension obligation transfer (a gain of $.01 per diluted share) and foreign currency translation (a gain of $.08 per diluted share), we exceeded our objective for the year.

Subject to the assumptions set forth above and reflecting adoption of SFAS 123R, our objective for 2005 is to achieve net earnings per diluted share of at least $2.56, an increase of 14.8% over 2004. If we achieve this objective, the following table shows the likely results for 2005 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

2005 Net Earnings Per Share (EPS) Scenarios*

Weighted-Average Yen/Dollar Exchange Rate	Net Earnings Per Share	% Growth Over 2004	Yen Impact on EPS
95.00	$2.75	23.3%	$.19
100.00	2.67	19.7	.11
105.00	2.60	16.6	.04
108.26**	2.56	14.8	–
110.00	2.54	13.9	(.02)
115.00	2.48	11.2	(.08)

* Assumes: No realized investment gains/losses, no impact from SFAS 133 and no nonrecurring items in 2005 and 2004; and no impact from currency translation in 2005

** Actual 2004 weighted-average exchange rate

Our objective for 2006 is to increase net earnings per diluted share by 15%, on the basis described above.

INSURANCE OPERATIONS

Aflac's insurance business consists of two segments: Aflac Japan and Aflac U.S. GAAP financial reporting requires that an enterprise report financial and descriptive information about operating segments in its annual financial statements. Furthermore, these requirements direct a public business enterprise to report a measure of segment profit or loss, certain revenue and expense items, and segment assets. We measure and evaluate our insurance segments' financial performance using operating earnings on a pretax basis. We define segment operating earnings as the profits we derive from our operations before realized investment gains and losses, the impact from SFAS 133, and nonrecurring items. We believe that an analysis of segment pretax operating earnings is vitally important to an understanding of the underlying profitability drivers and trends of our insurance business. Furthermore, because a significant portion of our business is conducted in Japan, we believe it is equally important to understand the impact of translating Japanese yen into U.S. dollars.

We evaluate our sales efforts using new annualized premium sales, an industry operating measure. Total new annualized premium sales, which include new sales and the incremental increase in premiums due to conversions, represent the premiums that we would collect over a 12-month period, assuming the policies remain in force. Premium income, or earned premiums, is a financial performance measure that reflects collected or due premiums that have been earned ratably on policies in force during the reporting period.

Aflac Japan

Aflac Japan, which operates as a branch of Aflac, is the principal contributor to consolidated earnings. Based on financial results determined in accordance with FSA requirements for the six months ended September 30, 2004, Aflac Japan ranked first in terms of individual insurance policies in force and 10th in terms of assets among all life insurance companies operating in Japan.

Aflac Japan Pretax Operating Earnings

Changes in Aflac Japan's pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency, and investment yields. The table on the following page presents a summary of operating results for Aflac Japan.

The benefit ratio has declined over the past several years, reflecting the impact of newer products with lower loss ratios. We have also experienced favorable claim trends in our cancer line and better-than-expected claim experience in our Rider MAX line. The ratio of actual to expected cancer claims has declined about 5% since 2000. Actual to expected Rider MAX claims experience has ranged from 60% to 65%. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders. Following several years of decline, our persistency improved in 2004. The operating expense ratio has declined over the last two years. We expect the operating expense ratio to be relatively stable in the future. The expansion of the profit margin during the past three years was largely attributable to the declining benefit ratio, which is partially offset by the effect of low investment yields. Lower investment yields affect our profit margin by reducing the spread between investment yields and required interest on policy reserves (see table and discussion on page 35).

Aflac Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt

Aflac Japan Summary of Operating Results

(In millions)	2004	2003	2002
Premium income	**$ 8,368**	$ 7,326	$ 6,373
Net investment income	**1,557**	1,421	1,276
Other income	**18**	18	1
Total operating revenues	**9,943**	8,765	7,650
Benefits and claims	**6,679**	5,943	5,231
Operating expenses:			
Amortization of deferred policy acquisition costs	**274**	255	209
Insurance commissions	**881**	812	753
Insurance and other expenses	**705**	615	519
Total operating expenses	**1,860**	1,682	1,481
Total benefits and expenses	**8,539**	7,625	6,712
Pretax operating earnings*	**$ 1,404**	$ 1,140	$ 938
Weighted-average yen/dollar exchange rates	**108.26**	115.95	125.15

	In Dollars			In Yen		
Percentage changes over previous year:	**2004**	2003	2002	**2004**	2003	2002
Premium income	**14.2%**	15.0%	2.5%	**6.7%**	6.4%	5.5%
Net investment income	**9.6**	11.3	3.4	**2.3**	3.1	6.5
Total operating revenues	**13.4**	14.6	2.7	**6.0**	6.1	5.6
Pretax operating earnings*	**23.1**	21.6	13.9	**14.9**	12.6	17.4

Ratios to total revenues in dollars:	2004	2003	2002
Benefits and claims	**67.2%**	67.8%	68.4%
Operating expenses:			
Amortization of deferred policy acquisition costs	**2.8**	2.9	2.7
Insurance commissions	**8.9**	9.3	9.8
Insurance and other expenses	**7.0**	7.0	6.8
Total operating expenses	**18.7**	19.2	19.3
Pretax operating earnings*	**14.1**	13.0	12.3

* See page 29 for our definition of segment operating earnings.

securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 30% of Aflac Japan's investment income in 2004 and 29% of Aflac Japan's investment income in 2003 and 2002. In years when the yen strengthens in relation to the dollar, translating Aflac Japan's dollar-denominated investment income into yen lowers comparative rates of growth for net investment income, total operating revenues and pretax operating earnings in yen terms. In years when the yen weakens, translating dollar-denominated investment income into yen magnifies comparative rates of growth for net investment income, total operating revenues, and pretax operating earnings in yen terms. The table to the right illustrates the effect of translating Aflac Japan's dollar-denominated investment income and related items by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the previous year.

Aflac Japan Percentage Changes Over Prior Year

(Yen Operating Results)

	Including Foreign Currency Changes			Excluding Foreign Currency Changes**		
	2004	2003	2002	**2004**	2003	2002
Net investment income	**2.3%**	3.1%	6.5%	**4.5%**	5.5%	5.6%
Total operating revenues	**6.0**	6.1	5.6	**6.3**	6.5	5.5
Pretax operating earnings*	**14.9**	12.6	17.4	**17.5**	15.8	16.1

* See page 29 for our definition of segment operating earnings.

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

Aflac Japan Sales

Although Aflac Japan's total new annualized premium sales rose in 2004, they were below our expectations for the year. Sales growth was impacted by significant declines in Rider MAX sales, including conversion activity from the original Rider MAX term product to the newer whole-life version, a sharp drop in sales through Dai-ichi Life and lower-than-expected medical sales. The table on the following page presents Aflac Japan's total new annualized premium sales for the years ended December 31.

For 2005, our objective is to increase total new annualized premium sales in yen by 5% to 10%.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force in yen of 6.8% in 2004, 7.9% in 2003, and 6.7% in 2002 reflect the high persistency of Aflac Japan's business and the sales of new policies. Annualized premiums in force at December 31 were ¥961.9 billion in 2004, ¥900.3 billion in 2003, and ¥834.4 billion in 2002. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were $9.2 billion in 2004, $8.4 billion in 2003, and $7.0 billion in 2002.

Aflac Japan's sales mix has been shifting during the last few years. Sales of EVER, a whole-life fixed-benefit medical product, now exceed sales of Rider MAX. We believe consumer response to EVER has been favorably impacted by health care legislation effective April 2003 that increased

(In millions of dollars and billions of yen)	In Dollars 2004	2003	2002	In Yen 2004	2003	2002
Total new annualized premium sales	**$ 1,133**	$ 1,047	$ 867	**¥ 122.5**	¥ 121.2	¥ 108.3
Increase over prior year	**8.2%**	20.8%	14.8%	**1.1%**	11.9%	17.9%

out-of-pocket costs for most Japanese consumers. Stand-alone medical sales accounted for 31% of total sales in 2004, compared with 28% in 2003 and 18% in 2002. We continue to believe that the medical category will be an important part of our product portfolio. As such, we developed two new versions of EVER for introduction in early 2005.

Rider MAX accounted for 20% of total sales in 2004, 27% in 2003, and 31% in 2002. Conversion activity accounted for approximately 25% of total Rider MAX sales in 2004, compared with 24% in 2003 and 35% in 2002. For policy conversions, new annualized premium sales include only the incremental annualized premium amount over the original term policy. We expect that the effect of conversions on total new annualized sales will continue to decline in future periods.

Cancer life sales accounted for 23% of total sales in 2004, 27% in 2003, and 33% in 2002. Ordinary life production accounted for 19% of total sales in 2004, and 13% of total sales in both 2003 and 2002.

We established a marketing alliance with Dai-ichi Life in 2001. In 2004, Dai-ichi Life sold 244,400 of our cancer life policies, compared with 305,600 in 2003 and 359,500 in 2002. Dai-ichi Life sales of our cancer life policies accounted for 7% of total new annualized premium sales in 2004, compared with 10% in 2003 and 11% in 2002. We believe the decline in cancer life policy sales through Dai-ichi Life is attributable to its increased focus on the sale of its life and annuity products.

We continued to focus on the growth of our distribution system in Japan. During 2004, the number of licensed sales associates rose 10% to approximately 71,400, compared with 64,900 at December 31, 2003. The growth of licensed sales associates resulted from agency recruitment. In 2004, we recruited nearly 4,200 agencies, which exceeded our goal of 4,000 agencies. We believe that new agencies and sales associates will continue to be attracted to Aflac Japan's high commissions, superior products, customer service and brand image. Furthermore, we believe that these new agencies and associates will enable us to further expand our reach in the Japanese market.

Aflac Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, investment yields achievable on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income. Aflac Japan has invested in privately issued securities to secure higher yields than Japanese government or other corporate bonds would have provided, while still adhering to prudent standards for credit quality. All of our privately issued securities are rated investment grade at the time of purchase. These securities are generally issued with standard, medium-term note documentation and have appropriate covenants.

We purchased yen-denominated securities at an average yield of 2.94% in 2004, compared with 3.20% in 2003 and 3.65% in 2002. Including dollar-denominated investments, our blended new money yield was 3.13% in 2004, compared with 3.61% in 2003 and 3.93% in 2002. At December 31, 2004, the yield on Aflac Japan's investment portfolio (including dollar-denominated investments) was 4.35%, compared with 4.54% in 2003 and 4.73% in 2002. Our return on average invested assets, net of investment expenses, was 4.23% in 2004, compared with 4.45% in 2003 and 4.67% in 2002. See Investments and Cash on page 35 for additional information.

Japanese Economy

After a period of prolonged weakness in its economy, Japan has shown signs of economic improvement. However, Japan also faces the challenges of an aging population. And while recent events continue to indicate that Japan's economy has begun to recover, the time required for a full economic recovery remains uncertain.

Japan's system of compulsory public health care insurance provides medical coverage to every Japanese citizen. These public medical expenditures are covered by a combination of premiums paid by insureds and their employers, taxes, and copayments from the people who receive medical service. However, given Japan's aging population, the resources available to these publicly funded social insurance programs have come under increasing pressure and as a result, copayments have been rising and affecting more people. In 2003, copayments were raised from 20% to 30% and additional reforms are being considered for 2008. We believe the trend of higher copayments will lead more consumers to purchase private supplemental insurance plans. Many insurance companies have recognized the opportunities for selling supplemental insurance in Japan and have launched new products in recent years. However, we believe our favorable cost structure compared with other insurers makes us a very effective competitor. In addition, we believe our brand, customer service, and financial strength also benefit our market position.

Aflac U.S.

Aflac U.S. Pretax Operating Earnings

Changes in Aflac U.S. pretax operating earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The table below presents a summary of operating results for Aflac U.S.

The benefit ratio has increased over the past several years, primarily due to the impact of declining investment yields on the growth of our investment income and the slowdown in U.S. sales in 2004 and 2003. As a percentage of premium income, the benefit ratio has been fairly stable at 61.4% in 2004, 61.1% in 2003 and 61.2% in 2002. In 2005 we expect the benefit ratio to continue to increase slightly; the operating expense ratio, excluding discretionary advertising expenses, to remain relatively stable; and the pretax operating profit margin to decline slightly.

Aflac U.S. Summary of Operating Results

(In millions)	**2004**	2003	2002
Premium income	**$ 2,935**	$ 2,594	$ 2,221
Net investment income	**396**	362	331
Other income	**9**	9	9
Total operating revenues	**3,340**	2,965	2,561
Benefits and claims	**1,803**	1,585	1,359
Operating expenses:			
Amortization of deferred policy acquisition costs	**245**	209	176
Insurance commissions	**371**	334	283
Insurance and other expenses	**419**	386	341
Total operating expenses	**1,035**	929	800
Total benefits and expenses	**2,838**	2,514	2,159
Pretax operating earnings*	**$ 502**	$ 451	$ 402
Percentage changes over previous year:			
Premium income	**13.1%**	16.8%	20.5%
Net investment income	**9.4**	9.3	9.2
Total operating revenues	**12.6**	15.8	18.8
Pretax operating earnings*	**11.5**	12.0	16.7
Ratios to total revenues:			
Benefits and claims	**54.0%**	53.5%	53.1%
Operating expenses:			
Amortization of deferred policy acquisition costs	**7.3**	7.1	6.9
Insurance commissions	**11.1**	11.3	11.1
Insurance and other expenses	**12.6**	12.9	13.2
Total operating expenses	**31.0**	31.3	31.2
Pretax operating earnings*	**15.0**	15.2	15.7

* See page 29 for our definition of segment operating earnings.

Aflac U.S. Sales

The rate of sales growth in 2004 did not meet our sales objective of a 10% to 12% increase. We believe the lower-than-expected sales growth primarily resulted from the sweeping changes we made to our sales management team in 2003 and at the start of 2004. Those changes are continuing to impact associate recruiting, productivity and consequently, sales. The following table presents Aflac's U.S. total new annualized premium sales for the years ended December 31.

(In millions)	**2004**	2003	2002
Total new annualized premium sales	**$ 1,186**	$ 1,128	$ 1,070
Increase over prior year	**5.1%**	5.4%	16.4%

For 2005, our objective is to increase total new annualized premium sales by 3% to 8%.

The percentage increases in premium income reflect the growth of premiums in force. The increases in annualized premiums in force of 10.9% in 2004, 13.8% in 2003 and 19.5% in 2002 were favorably affected by increased sales at the worksite primarily through cafeteria plans and a slight improvement in the persistency of several products. Annualized premiums in force at December 31 were $3.4 billion in 2004, $3.0 billion in 2003, and $2.7 billion in 2002.

Recruitment of new sales associates declined 2.9% in 2004. However, we expect new associate recruiting in the United States to improve as sales coordinators who were promoted at the start of 2004 become better adjusted to the responsibilities of their new positions. We also believe we can improve retention and productivity of sales associates as we continue to focus on recently adopted training initiatives and introduce new training programs. Ultimately, we believe these actions will lead to better recruiting and faster sales growth in the United States.

Another aspect of our growth strategy is the continued enhancement of our product line. During 2003, we enhanced our accident, short-term disability and cancer expense products, which we believe will benefit sales growth in future periods. Based on consumer feedback, we revised our dental product in November 2004. We also developed a vision care product in 2004 for introduction in mid-2005. Our best-selling category continued to be accident/disability coverage, which accounted for 52% of total sales in 2004, and 51% of total sales in 2003 and 2002. Cancer expense insurance contributed 20% to total sales in 2004 and 2003, and 21% in 2002. Hospital indemnity products accounted for 11% of total sales in 2004 and 2003, and 10% in 2002. Additionally, fixed-benefit dental coverage continued to sell well, accounting for 7% of total sales in 2004, 2003 and 2002.

Aflac U.S. Investments

During 2004, available cash flow was invested at an average yield of 6.30%, compared with 6.52% during 2003 and 7.58% during 2002. At December 31, 2004, the yield on Aflac's U.S. portfolio was 7.39%, compared with 7.56% in 2003 and 7.98% in 2002. The overall return on average invested assets, net of investment expenses, was 6.68% in 2004, compared with 7.36% in 2003 and 7.56% in 2002. See Investments and Cash on page 35 for additional information.

Other Operations

Corporate operating expenses consist primarily of personnel compensation, benefits, and facilities expenses. Corporate expenses, excluding investment income, were $63 million in 2004, $47 million in 2003 and $56 million in 2002. Investment income included in reported corporate expenses was $5 million in both 2004 and 2003, and $7 million in 2002. The increase in the 2004 corporate expenses was primarily the result of a reduction in the discount rate associated with our retirement obligations from 6.5% to 6.0%. Corporate expenses were higher in 2002 primarily as a result of the Parent Company's share of the costs to dissolve a human resource service company in which it had invested.

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations during the last two years. The yen/dollar exchange rate at the end of each year is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes. The exchange rate at December 31, 2004, was 104.21 yen to one dollar, or 2.8% stronger than the December 31, 2003, exchange rate of 107.13. The stronger yen increased reported investments and cash by $1.1 billion, total assets by $1.2 billion, and total liabilities by $1.2 billion, compared with the amounts that would have been reported for 2004 if the exchange rate had remained unchanged from December 31, 2003.

Market Risks of Financial Instruments

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

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

(In millions)		**2004**			2003	
Yen/dollar exchange rates	**89.21**	**104.21***	**119.21**	92.13	107.13*	122.13
Yen-denominated financial instruments:						
Assets:						
Securities available for sale:						
Fixed maturities	**$ 24,201**	**$ 20,718**	**$ 18,111**	$ 21,524	$ 18,510	$ 16,237
Perpetual debentures	**3,924**	**3,358**	**2,937**	3,386	2,911	2,554
Equity securities	**55**	**47**	**41**	43	37	32
Securities held to maturity:						
Fixed maturities	**11,755**	**10,064**	**8,797**	10,158	8,737	7,663
Perpetual debentures	**5,560**	**4,759**	**4,160**	4,996	4,297	3,769
Cash and cash equivalents	**667**	**571**	**499**	700	602	528
Subtotal	**46,162**	**39,517**	**34,545**	40,807	35,094	30,783
Liabilities:						
Notes payable	**1,144**	**980**	**856**	1,116	960	842
Cross-currency swaps	**623**	**533**	**466**	603	519	455
Japanese policyholder protection fund	**308**	**254**	**230**	308	265	232
Other financial instruments	**42**	**36**	**32**	6	5	5
Subtotal	**2,117**	**1,803**	**1,584**	2,033	1,749	1,534
Net yen-denominated financial instruments	**44,045**	**37,714**	**32,961**	38,774	33,345	29,249
Other yen-denominated assets	**5,733**	**4,908**	**4,290**	5,393	4,637	4,068
Other yen-denominated liabilities	**(48,920)**	**(41,887)**	**(36,609)**	(43,828)	(37,691)	(33,062)
Consolidated yen-denominated net assets subject to foreign currency fluctuation	**$ 858**	**$ 735**	**$ 642**	$ 339	$ 291	$ 255

* Actual year-end exchange rates

Currency Risk

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

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

On a consolidated basis, we attempt to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations. We accomplish this by investing a portion of Aflac Japan's investment portfolio in dollar-denominated securities, by the Parent Company's issuance of yen-denominated debt and by the use of cross-currency swaps (see Hedging Activities on page 40 for additional information). As a result, the effect of currency fluctuations on our net assets is mitigated. At December 31, consolidated yen-denominated net assets subject to foreign currency fluctuation were $735 million in 2004 and $291 million in 2003. Aflac Japan's yen-denominated net assets were $2.2 billion at December 31, 2004, compared with $1.7 billion a year ago. Aflac Incorporated's yen-denominated net liabilities were $1.5 billion at both December 31, 2004 and 2003. The table on the preceding page demonstrates the effect of foreign currency fluctuations by presenting the dollar values of our yen-denominated assets and liabilities and our consolidated yen-denominated net asset exposure at selected exchange rates as of December 31.

We are exposed to economic currency risk only when yen funds are actually converted into dollars. This primarily occurs when we transfer funds from Aflac Japan to Aflac U.S., which is done annually. The exchange rates prevailing at the time of transfer will differ from the exchange rates prevailing at the time the yen profits were earned. These repatriations have not been greater than 80% of Aflac Japan's prior year FSA-based earnings. A portion of the repatriation may be used to service Aflac Incorporated's yen-denominated notes payable with the remainder converted into dollars.

Interest Rate Risk

Our primary interest rate exposure is to the effect of changes in interest rates on the fair value of our investments in debt securities. We use modified duration analysis, which measures price percentage volatility, to estimate the sensitivity of fair values to interest rate changes on debt securities we own. 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 debt securities we own, notes payable, cross-currency swaps and our obligation for the Japanese policyholder protection fund as of December 31 follows:

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

(In millions)	**2004** Market Value	**2004** +100 Basis Points	2003 Market Value	2003 +100 Basis Points
Debt securities:				
Fixed-maturity securities:				
Yen-denominated	**$ 31,225**	**$ 28,134**	$ 27,757	$ 25,103
Dollar-denominated	**8,463**	**7,740**	8,001	7,336
Perpetual debentures:				
Yen-denominated	**8,282**	**7,466**	7,323	6,616
Dollar-denominated	**661**	**619**	438	416
Total debt securities	**$ 48,631**	**$ 43,959**	$ 43,519	$ 39,471
Notes payable*	**$ 1,461**	**$ 1,428**	$ 1,451	$ 1,405
Cross-currency swap liabilities	**$ 66**	**$ 64**	$ 29	$ 25
Japanese policyholder protection fund	**$ 254**	**$ 254**	$ 265	$ 265

* Excludes capitalized lease obligations

Changes in the interest rate environment have contributed to significant unrealized gains on debt securities we own. However, we do not expect to realize a majority of these unrealized gains because we have the intent and ability to hold these securities to maturity. Should significant amounts of unrealized losses occur because of increases in market yields, we would not expect to realize significant losses because we have the ability to hold such securities to maturity. For additional information on unrealized losses on debt securities, see Note 3 of the Notes to the Consolidated Financial Statements.

We attempt to match the duration of our assets with the duration of our liabilities. For Aflac Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related invested assets due to the unavailability of acceptable long-duration yen-denominated securities. The average duration of policy benefits and related expenses to be paid in future years was approximately 13 years at December 31, 2004, and 12 years at December 31, 2003. The average duration of the yen-denominated debt securities was approximately 12 years at December 31, 2004, and 11 years at December 31, 2003. The average duration of premiums to be received in the future was approximately 10 years on policies in force at December 31, 2004, and nine years at December 31, 2003. The following table shows a comparison of average required interest rates for future policy benefits and investment yields, based on amortized cost, for the years ended December 31.

Comparison of Interest Rates for Future Policy Benefits and Investment Yields

(Net of investment expenses)

	2004		2003		2002	
	U.S.	**Japan***	U.S.	Japan*	U.S.	Japan*
Policies issued during year:						
Required interest on policy reserves	**6.36%**	**2.97%**	6.40%	2.98%	6.48%	2.98%
New money yield on investments	**6.25**	**3.00**	6.46	3.27	7.52	3.65
Policies in force during year:						
Required interest on policy reserves	**6.40**	**4.87**	6.40	4.93	6.39	5.04
Net investment yield	**6.68**	**3.96**	7.36	4.13	7.56	4.40

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

In 2004, U.S. new money yields were less than the required interest on policy reserves for new business in the United States. If this situation continues, we will re-evaluate our interest assumptions for new business.

The net investment yield of 6.68% in 2004 for Aflac U.S. was reduced by higher-than-usual securities lending at the end of the year. Excluding loaned securities at year-end, and the related investment income earned in 2004 from our securities lending program, the adjusted net investment yield was 7.22%.

Over the next two years, we have several yen-denominated securities that will mature with yields in excess of Aflac Japan's current net investment yield of 3.96%. These securities total $308 million at amortized cost and have an average yield of 5.03%. These maturities will contribute to a continued decline in our overall portfolio yield. Currently, when debt securities we own 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. Also, our strategy of developing and marketing riders to our older policies has helped offset the negative investment spread. And despite negative investment spreads, adequate overall profit margins still exist in Aflac Japan's aggregate block of business because of profits that have emerged from changes in mix of business and favorable experience from mortality, morbidity, and expenses.

Investments and Cash

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

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

The table at the top of page 36 details investment securities by segment as of December 31.

The increase in investments during 2004 reflected the effect of a stronger yen/dollar exchange rate and the substantial cash flows in the functional currencies of our operations. See Capital Resources and Liquidity on page 40 for additional information.

We have investments in both publicly issued and privately issued securities. However, the status of issuance should not be viewed as an indicator of liquidity or as a limitation on the determination of fair value. The outstanding amount of a particular issuance, as well as the level of activity in a particular issuance and the state of the market, including credit events and the interest rate environment, affect liquidity regardless of

Investment Securities by Segment

	Aflac Japan		Aflac U.S.	
(In millions)	**2004**	2003	**2004**	2003
Securities available for sale, at fair value:				
Fixed maturities	**$ 23,485**	$ 21,098	**$ 5,681***	$ 5,397*
Perpetual debentures	**3,580**	3,121	**439**	228
Equity securities	**47**	37	**30**	36
Total available for sale	**27,112**	24,256	**6,150**	5,661
Securities held to maturity, at amortized cost:				
Fixed maturities	**10,064**	8,736	**16**	16
Perpetual debentures	**4,759**	4,297	**–**	–
Total held to maturity	**14,823**	13,033	**16**	16
Total investment securities	**$ 41,935**	$ 37,289	**$ 6,166**	$ 5,677

* Includes securities held by the Parent Company of $39 in 2003; the Parent Company had no investment securities as of December 31, 2004.

type of issuance. We routinely assess the fair value of all of our investments. This process includes evaluating quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources, as described more fully in Note 3 of the Notes to the Consolidated Financial Statements.

The following table details investment securities by type of issuance as of December 31.

Investment Securities by Type of Issuance

	2004		2003	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Publicly issued securities:				
Fixed maturities	**$ 15,737**	**$ 18,122**	$ 14,858	$ 17,307
Perpetual debentures	**109**	**120**	36	40
Equity securities	**15**	**54**	28	68
Total publicly issued	**15,861**	**18,296**	14,922	17,415
Privately issued securities:				
Fixed maturities	**20,481**	**21,566**	17,579	18,451
Perpetual debentures	**8,602**	**8,823**	7,542	7,721
Equity securities	**19**	**23**	4	4
Total privately issued	**29,102**	**30,412**	25,125	26,176
Total investment securities	**$ 44,963**	**$ 48,708**	$ 40,047	$ 43,591

Total privately issued securities accounted for 64.7%, at amortized cost, of total debt securities as of December 31, 2004, compared with 62.8% at December 31, 2003. Privately issued securities held by Aflac Japan at amortized cost accounted for $27.0 billion, or 60.1%, and $23.3 billion, or 58.1%, of total debt securities at December 31, 2004 and 2003, respectively. Reverse-dual currency debt securities accounted for $7.8 billion, or 26.8%, of total privately issued securities as of December 31, 2004, compared with $6.5 billion, or 25.7%, at December 31, 2003. Aflac Japan has invested in privately issued securities to secure higher yields than those available from Japanese government bonds. Aflac Japan's investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers. These non-Japanese issuers are willing to issue yen-denominated securities with longer maturities, thereby allowing us to improve our asset/liability matching and our overall investment returns. Most of our privately issued securities are issued under medium-term note programs and have standard documentation commensurate with credit ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required.

We use specific criteria to judge the credit quality of both existing and prospective investments. Furthermore, we use several methods to monitor these criteria, including credit rating services and internal credit analysis. All of our securities have ratings from either a nationally recognized security rating organization or the SVO of the NAIC. The percentage distribution by credit rating of our purchases of debt securities for the years ended December 31, based on acquisition cost, was as follows:

	2004	2003	2002
AAA	**9.1%**	9.0%	1.7%
AA	**41.2**	18.1	21.1
A	**36.7**	32.4	47.5
BBB	**13.0**	40.5	29.7
Total	**100.0%**	100.0%	100.0%

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

	December 31, 2004		December 31, 2003	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
AAA	**3.5%**	**3.5%**	3.1%	3.1%
AA	**32.7**	**34.3**	31.0	33.5
A	**36.2**	**36.1**	33.9	33.6
BBB	**25.8**	**24.6**	29.2	27.4
BB or lower	**1.8**	**1.5**	2.8	2.4
Total	**100.0%**	**100.0%**	100.0%	100.0%

Below-Investment-Grade Securities

(In millions)	2004 Amortized Cost	2004 Fair Value	2003 Amortized Cost	2003 Fair Value
Ahold Finance	**$ 338**	**$ 300**	$ 348	$ 294
KLM Royal Dutch Airlines	**288**	**239**	280	240
Toys R Us Japan	**96**	**108**	*	*
Royal and Sun Alliance Insurance**	**–**	**–**	233	185
Tyco Electronics (AMP Japan)	*	*	56	65
Asahi Finance Limited	*	*	48	83
LeGrand	**46**	**51**	46	46
Tennessee Gas Pipeline	**31**	**33**	31	31
SB Treasury Company LLC	*	*	28	32
Tyco International	*	*	18	21
Ikon Inc.	**8**	**9**	16	20
Cerro Negro Finance**	**–**	**–**	12	13
PDVSA Finance**	**–**	**–**	9	9
Total	**$ 807**	**$ 740**	$ 1,125	$ 1,039

* Investment grade at respective reporting date
** Security sold during 2004

The overall credit quality of our portfolio remained high in part because our investment policy prohibits us from purchasing below-investment-grade securities. The decline in below-investment-grade securities is attributable to improvements in the credit ratings of several securities and our disposals of other below-investment-grade securities.

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

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

For securities with a carrying value in excess of fair value, investment management then reviews the issue based on our impairment policy to determine if the investment should be impaired and/or liquidated. The assessment of whether a decline is other than temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section on page 24. A table of securities classified as below investment grade as of December 31 appears to the left.

Occasionally a debt security will be split-rated. This occurs when one rating agency rates the security as investment grade while another rating agency rates the same security as below investment grade. Our policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the SVO designation as well as current market pricing and other factors, such as the issuer's or security's inclusion on a credit rating downgrade watch list. Split-rated securities as of December 31, 2004, represented .2% of total debt securities at amortized cost and were as follows:

Split-Rated Securities

(In millions)	Amortized Cost	Moody's Rating	S&P Rating	SVO Class	Investment-Grade Status
Tyco Electronics (AMP Japan)	$58	Ba1	BBB	2	Investment Grade
Union Carbide Corp.	15	B1	BBB-	2FE	Investment Grade

The following table provides details on amortized cost, fair value and unrealized gains and losses for our investments in debt securities by investment-grade status as of December 31, 2004.

(In millions)	Total Amortized Cost	Total Fair Value	Percent of Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Available-for-sale securities:					
Investment-grade securities	$ 29,283	$ 32,444	66.7%	$ 3,538	$ 377
Below-investment-grade securities	807	741	1.5	23	89
Held-to-maturity securities:					
Investment-grade securities	14,839	15,446	31.8	898	291
Total	$ 44,929	$ 48,631	100.0%	$ 4,459	$ 757

For a presentation of values and unrealized gains and losses for our investments in debt and equity securities as of December 31, 2004, see Note 3 of the Notes to the Consolidated Financial Statements.

The following table presents an aging of securities in an unrealized loss position as of December 31, 2004.

Aging of Unrealized Losses

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less Than Six Months		Six Months to 12 Months		Over 12 Months	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:								
Investment-grade securities	$ 5,628	$ 377	$ 962	$ 48	$ 1,564	$ 85	$ 3,102	$ 244
Below-investment-grade securities	595	89	–	–	–	–	595	89
Held-to-maturity securities:								
Investment-grade securities	5,378	291	336	32	2,339	84	2,703	175
Total	$ 11,601	$ 757	$ 1,298	$ 80	$ 3,903	$ 169	$ 6,400	$ 508

The following table presents a distribution of unrealized losses by magnitude as of December 31, 2004.

Percentage Decline From Amortized Cost

(In millions)	Total Amortized Cost	Total Unrealized Loss	Less Than 20%		20% to 35%	
			Amortized Cost	Unrealized Loss	Amortized Cost	Unrealized Loss
Available-for-sale securities:						
Investment-grade securities	$ 5,628	$ 377	$ 5,494	$ 346	$ 134	$ 31
Below-investment-grade securities	595	89	595	89	–	–
Held-to-maturity securities:						
Investment-grade securities	5,378	291	5,186	250	192	41
Total	$ 11,601	$ 757	$ 11,275	$ 685	$ 326	$ 72

The following table presents the 10 largest unrealized loss positions in our portfolio as of December 31, 2004.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
KLM Royal Dutch Airlines	B	$ 288	$ 239	$ 49
Ahold Finance	BB	338	300	38
Kredietbank	A	260	225	35
CSAV	BBB	230	196	34
United Mexican States	BBB	430	402	28
Union Fenosa	BBB	355	328	27
Erste Bank	A	432	407	25
Oman	BBB	336	311	25
Royal Bank of Scotland	AA	300	276	24
Hypo-Vorarlberger Bank	A	105	81	24

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

Based on our evaluation and analysis of specific issuers in accordance with our impairment policy, we recognized the following impairment charges in each of the years ended December 31.

(In millions)	**2004**	2003	2002
Perpetual debentures	**$ –**	$ –	$ 37
Equity securities	**1**	1	21
Total impairments	**$ 1**	$ 1	$ 58

The table at the top of page 39 presents realized losses on debt securities by investment-grade status for the year ended December 31, 2004.

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

Cash, cash equivalents, and short-term investments totaled $3.8 billion, or 7.3% of total investments and cash, as of

Realized Losses on Debt Securities

(In millions)	Proceeds	Realized Loss
Investment-grade securities, length of consecutive unrealized loss:		
Less than six months	$ 202	$ 10
Six months to 12 months	126	9
Over 12 months	4	–
Subtotal	332	19
Below-investment-grade securities, length of consecutive unrealized loss:		
Less than six months	9	12
Over 12 months	205	23
Subtotal	214	35
Total	$ 546	$ 54

December 31, 2004, compared with $1.1 billion, or 2.4% at December 31, 2003. The increase in cash was due to an increase in cash collateral ($2.6 billion) attributable to a higher level of loaned securities at year-end. Mortgage loans on real estate and other long-term investments remained immaterial at both December 31, 2004 and 2003.

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

Deferred Policy Acquisition Costs

Deferred policy acquisition costs totaled $5.6 billion at December 31, 2004, an increase of $550 million, or 10.9% for the year. Aflac Japan's deferred policy acquisition costs were $3.8 billion at December 31, 2004, an increase of $372 million, or 10.8% (7.8% increase in yen). The stronger yen at year-end increased reported deferred policy acquisition costs by $104 million. At December 31, 2004, deferred policy acquisition costs of Aflac U.S. were $1.8 billion, an increase of $178 million, or 11.1%. The increase in deferred policy acquisition costs was primarily driven by increases in total new annualized premium sales.

Policy Liabilities

Policy liabilities totaled $43.6 billion at December 31, 2004, an increase of $4.3 billion, or 11.0% for the year. Aflac Japan's policy liabilities were $39.4 billion at December 31, 2004, an increase of $3.9 billion, or 10.8% (7.8% increase in yen). The stronger yen at year-end increased reported policy liabilities by $1.1 billion. At December 31, 2004, policy liabilities of Aflac U.S. were $4.2 billion, an increase of $465 million, or 12.5%. The increase in policy liabilities is the result of the growth and aging of our in-force business.

Notes Payable

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

In 1999, the Parent Company issued $450 million of senior notes with a 6.50% coupon, due April 2009. The notes are redeemable at our option at any time at a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium. Proceeds were used for various corporate purposes. We entered into cross-currency swaps that effectively convert the dollar-denominated principal and interest of these notes into yen-denominated obligations. The notional amount of the cross-currency swaps is $450 million (¥55.6 billion) with a blended fixed interest rate of 1.67% payable in yen. At December 31, 2004, the fair value of the swaps was a liability of $66 million, compared with $29 million in 2003.

The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains and losses on investment securities) was 21.7% as of December 31, 2004, and 24.6% as of December 31, 2003.

Off-Balance Sheet Arrangements

As of December 31, 2004, we had no material unconditional purchase obligations that were not recorded on the balance sheet. Additionally, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations.

Security Lending

We use short-term security lending arrangements to increase investment income with minimal risk. For further information regarding such arrangements, see Note 3 of the Notes to the Consolidated Financial Statements.

Benefit Plans

Aflac U.S. and Aflac Japan have various benefit plans. For additional information on our U.S. and Japanese plans, see Note 10 of the Notes to the Consolidated Financial Statements.

State Guaranty Associations and Policyholder Protection Fund

The U.S. and Japanese insurance industries each have policyholder protection systems that provide funds for policyholders of insolvent insurers.

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. In the United States, we recognize assessments as they are determined by the state guaranty associations. Such assessments have not been material to us in the past. We believe that future assessments relating to companies in the United States currently involved in insolvency proceedings will not materially impact our financial position or results of operations.

In Japan, we recognize charges for our estimated share of the insurance industry's obligation once it is determinable. In 2002, the Japanese government extended until March 2006 its pledge to enact fiscal safety-net measures for the insurance industry through the Life Insurance Policyholder Protection Corporation (LIPPC). However, as part of this commitment, the insurance industry was required to contribute additional funds to the LIPPC. In 2003, the Japanese government and the insurance industry agreed to extend the time over which the industry's contribution to the LIPPC would be paid. Currently, the LIPPC is reassessing the necessity of future assessments as well as the time period over which current assessments will be funded. As a result, the likelihood and timing of potential future assessments cannot be determined at this time.

Hedging Activities

Aflac has limited hedging activities. Our primary exposure to be hedged is our investment in Aflac Japan, which is affected by changes in the yen/dollar exchange rate. In order to mitigate this exposure, we have taken the following courses of action. First, Aflac Japan owns dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in Aflac Japan. Second, we have designated the Parent Company's yen-denominated liabilities (Samurai notes payable and cross-currency swaps) as a hedge of our investment in Aflac Japan. If the total of these yen-denominated liabilities is equal to or less than our net investment in Aflac Japan, the hedge is deemed to be effective and the related exchange effect is reported in the unrealized foreign currency component of other comprehensive income. Should these yen-denominated liabilities exceed our investment in Aflac Japan, the portion of the hedge that exceeds our investment in Aflac Japan would be deemed ineffective. As required by SFAS No. 133, we would then recognize the foreign exchange effect on the ineffective portion in net earnings (other income). We estimate that if the ineffective portion was $100 million, we would report a foreign exchange gain/loss of approximately $1 million for every one yen weakening/strengthening in the end-of-period yen/dollar exchange rate. At December 31, 2004, and 2003, our hedge was effective with yen-denominated assets exceeding yen-denominated liabilities by ¥76.6 billion and ¥31.3 billion, respectively. The increase in our yen-denominated net asset position is primarily a result of an increased net asset position that we chose not to hedge.

CAPITAL RESOURCES AND LIQUIDITY

Aflac provides the primary sources of liquidity to the Parent Company through dividends and management fees. Aflac declared dividends to the Parent Company in the amount of $643 million in 2004, compared with $408 million in 2003 and $358 million in 2002. During 2004, Aflac Japan paid $24 million to the Parent Company for management fees, compared with $26 million in 2003 and $25 million in 2002. The primary uses of cash by the Parent Company are shareholder dividends and our share repurchase program. The Parent Company's sources and uses of cash are reasonably predictable and are not expected to change materially in the future.

The Parent Company also accesses debt security markets to provide additional sources of capital. Capital is primarily used to fund business expansion, capital expenditures and our share repurchase program. In 2003, we filed a shelf registration statement with Japanese regulatory authorities to issue up to ¥100 billion (approximately $960 million using the December 31, 2004, exchange rate) of Samurai notes in Japan. If issued, these securities will not be available to U.S. persons or entities. In 2002, we issued the final ¥30 billion (approximately $254 million at that date) of a previous Samurai note shelf registration. The securities issued under the earlier shelf registration are not available to U.S. persons or entities. For additional information, see discussion on page 39 under Notes Payable. We believe outside sources for additional debt and equity capital, if needed, will continue to be available.

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

When making an investment decision, our first consideration is based on product needs. Our investment objectives provide for liquidity through the purchase of investment-grade debt securities. These objectives also take into account duration matching, and because of the long-term nature of our business, we have adequate time to react to changing cash flow needs.

In general, our insurance products provide fixed-benefit amounts that are not subject to medical-cost inflation. Furthermore, our business is widely dispersed in both the United States and Japan. This geographic dispersion and the nature of our benefit structure mitigate the risk of a significant unexpected increase in claims payments due to epidemics and events of a catastrophic nature. Additionally, our insurance policies generally are not interest-sensitive and therefore are not subject to unexpected policyholder redemptions due to investment yield changes. As a result of policyholder aging, claims payments are expected to gradually increase over the life of a policy. Therefore, future policy benefit reserves are accumulated in the early years of a policy and are designed to help fund future claims payments. We expect our future cash flows from premiums and our investment portfolio to be sufficient to meet our cash needs for benefits and expenses.

The table below presents the estimated payments by period of our major contractual obligations as of December 31, 2004. We translated our yen-denominated obligations using the December 31, 2004 exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

Distribution of Payments by Period

(In millions)	Total Liability*	Total Payments	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Future policy benefits liability	$ 39,360	$ 202,298	$ 6,195	$ 12,251	$ 12,319	$ 171,533
Unpaid policy claims liability	2,355	2,355	1,800	348	119	88
Long-term debt – principal	1,410	1,410	288	672	450	–
Long-term debt – interest	3	64	19	27	18	–
Policyholder protection fund	254	254	24	64	53	113
Operating lease obligations	–	75	39	23	5	8
Capitalized lease obligations	20	20	8	10	2	–
Total contractual obligations	$ 43,402	$ 206,476	$ 8,373	$ 13,395	$ 12,966	$ 171,742

* Liability amounts are those reported on the consolidated balance sheet as of December 31, 2004.

The distribution of payments for future policy benefits is an estimate of all future benefit payments for policies in force as of December 31, 2004. These projected values contain assumptions for future policy persistency, mortality and morbidity. The distribution of payments for unpaid policy claims includes assumptions as to the timing of policyholders reporting claims for prior periods and the amount of those claims. Actual amounts and timing of both future policy benefits and unpaid policy claims payments may differ significantly from the estimates above. We anticipate that the future policy benefit liability of $39.4 billion at December 31, 2004, along with future net premiums and investment income, will be sufficient to fund future policy benefit payments.

Consolidated Cash Flows

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

Consolidated Cash Flows by Activity

(In millions)	**2004**	2003	2002
Operating activities	**$ 4,486**	$ 3,389	$ 3,038
Investing activities	**(1,418)**	(3,500)	(2,274)
Financing activities	**(313)**	(298)	(320)
Exchange effect on cash and cash equivalents	**6**	82	83
Net change in cash and cash equivalents	**$ 2,761**	$ (327)	$ 527

Operating Activities

In 2004 consolidated cash flow from operations increased 32.4% to $4.5 billion, compared with $3.4 billion in 2003 and $3.0 billion in 2002. Net cash flow from operations other than Japan increased 23.2% in 2004 to $817 million, compared with $663 million in 2003 and $521 million in 2002. Net cash flow from operations for Aflac Japan increased 34.6% in 2004 to $3.7 billion, compared with $2.7 billion in 2003 and $2.5 billion in 2002. The increase in Aflac Japan cash flows in 2004 was primarily attributable to the growth of our business, lower cash surrender values as a result of improved policy persistency, and the stronger yen. The increase in Aflac Japan cash flows in 2003 was primarily attributable to the growth of our business and the stronger yen.

Investing Activities

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. As a result of our securities lending activities at the end of 2004, consolidated cash flow used by investing activities decreased 59.5% to $1.4 billion in 2004, compared with $3.5 billion in 2003 and $2.3 billion in 2002. Aflac Japan had cash outflows from investing activities of $3.7 billion in 2004, compared with cash outflows of $3.1 billion in 2003 and $1.9 billion in 2002.

Prudent portfolio management dictates that we attempt to match the duration of our assets with the duration of our liabilities. For Aflac Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related invested assets due to the unavailability of acceptable long-duration yen-denominated securities. Currently, when debt securities we own mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of our business and our strong cash flows provides us with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. When market opportunities arise, we dispose of selected debt securities that are available for sale to improve the duration matching of our assets and liabilities and/or improve future investment yields. As a result, dispositions before maturity can vary significantly from year to year. Dispositions before maturity were 5% of the annual average investment portfolio of debt securities available for sale during the year ended December 31, 2004, compared with 7% in 2003 and 5% in 2002.

Financing Activities

Consolidated cash used by financing activities was $313 million in 2004, $298 million in 2003 and $320 million in 2002. Cash provided by investment-type contracts increased to $220 million in 2004, compared with $159 million in 2003 and $74 million in 2002. In 2002, we received net proceeds of $254 million in connection with the issuance of Samurai notes due in 2007 and paid in full our revolving credit agreement ($221 million).

The following table presents a summary of treasury stock activity during the years ended December 31.

(In millions)	**2004**	2003	2002
Treasury stock purchases	**$ 392**	$ 343	$ 346
Shares purchased	**10**	10	12
Stock issued from treasury	**$ 39**	$ 33	$ 35
Shares issued	**3**	3	3

The 2004 dividend of $.38 per share increased 26.7% over 2003. The 2003 dividend of $.30 per share increased 30.4% over 2002. The following table presents the sources of dividends paid to shareholders.

(In millions)	**2004**	2003	2002
Dividends paid in cash	**$ 182**	$ 146	$ 112
Dividends through issuance of treasury shares	**10**	8	7
Total dividends to shareholders	**$ 192**	$ 154	$ 119

Regulatory Restrictions

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

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

In addition to restrictions by U.S. insurance regulators, Japan's 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 standard. Aflac Japan's solvency margin ratio significantly exceeds regulatory minimums.

Payments are made from Aflac Japan to the Parent Company for management fees (discussed above) and to Aflac U.S. for allocated expenses and remittances of earnings. In 2004, expenses allocated to Aflac Japan were $26 million and were $22 million in both 2003 and 2002. During 2004, Aflac Japan also remitted profits of $220 million (¥23.9 billion) to Aflac U.S., compared with $385 million (¥45.6 billion) in 2003 and $383 million (¥45.3 billion) in 2002. The decrease in profit repatriation in 2004 was due to the effect of the Parmalat investment loss in the fourth quarter of 2003 and our decision to leave capital in Japan in order to maintain a strong solvency margin. For additional information on regulatory restrictions on dividends, profit transfers and other remittances, see Note 9 of the Notes to the Consolidated Financial Statements.

Rating Agencies

Aflac is rated "AA" by both Standard & Poor's and Fitch Ratings and "Aa2 (Excellent)" 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

In January 2005, the board of directors declared the first quarter cash dividend of $.11 per share. The dividend is payable on March 1, 2005, to shareholders of record at the close of business on February 18, 2005. In 2004, the board of directors authorized the purchase of up to 30 million shares of our common stock. As of December 31, 2004, approximately 27 million shares were available for purchase under our share repurchase program.

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