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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Investments

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

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

Deferred Policy Acquisition Costs and Policy Liabilities

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

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

Deferred Policy Acquisition Costs

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

Deferred Policy Acquisition Cost Ratios

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

Policy Liabilities

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

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

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

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

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

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

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

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

Policy Liabilities

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

New Accounting Pronouncements

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

RESULTS OF OPERATIONS

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

Realized Investment Gains and Losses

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

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

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

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

Analysis of Net Earnings

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

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

Cross-Currency Swaps

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

Nonrecurring Items

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

Foreign Currency Translation

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

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

Income Taxes

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

Earnings Projections

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

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

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

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

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

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

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

Subject to the assumptions set forth above, our objective for 2004 is to achieve net earnings per diluted share of at least $2.21, an increase of 17%. If we achieve this objective, the table below shows the likely results for 2004 net earnings per diluted share, including the impact of foreign currency translation using various yen/dollar exchange rate scenarios.

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

2004 Net Earnings Per Share Scenarios*

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

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

** Actual 2003 weighted-average exchange rate

Insurance Operations

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

AFLAC JAPAN

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

AFLAC Japan Pretax Operating Earnings

Changes in AFLAC Japan's pretax operating earnings and profit margins are primarily affected by investment yields, morbidity, mortality, persistency and expense levels. An ongoing shift in our product mix to products with lower loss ratios and favorable claim trends on some lines of business contributed to the decline in the benefit ratio. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders. Our persistency has declined only slightly over the last three years. The operating expense ratio has declined over the last two years. We expect the operating expense ratio to be relatively stable in the future. The expansion of the profit margins during the past three years was largely attributable to the declining benefit ratio, which is partially offset by the effect of low investment yields. Lower investment yields affect our profit margins by reducing the spread between investment yields and required interest on policy reserves related to our older blocks of policies in force (see table and discussion on page 33).

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

AFLAC Japan maintains a portfolio of dollar-denominated and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). Dollar-denominated investment income from these assets accounted for approximately 29% of AFLAC Japan's investment income in each of the last three years. In years when the yen strengthens, translating AFLAC Japan's dollar-denominated investment income into yen lowers comparative rates of growth for net investment income, total operating revenues and pretax operating earnings in yen terms. In years when the yen weakens, translating dollar-denominated investment income into yen magnifies comparative rates of growth for net investment income, total operating revenues and pretax operating earnings in yen terms. The table above illustrates the effect of translating AFLAC Japan's dollar-denominated investment income and related items by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the previous year.

AFLAC Japan Percentage Changes Over Prior Year

(Yen Operating Results)

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

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

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

AFLAC Japan Sales

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

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

AFLAC Japan Summary of Operating Results

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

	In Dollars			In Yen		
Percentage changes over previous year:	**2003**	2002	2001	**2003**	2002	2001
Premium income	**15.0%**	2.5%	(6.8)%	**6.4%**	5.5%	5.1%
Net investment income	**11.3**	3.4	(2.2)	**3.1**	6.5	10.5
Total operating revenues	**14.6**	2.7	(6.1)	**6.1**	5.6	5.9
Pretax operating earnings*	**21.6**	13.9	6.7	**12.6**	17.4	20.6

Ratios to total revenues in dollars:	**2003**	2002	2001
Benefits and claims	**67.8%**	68.4%	69.4%
Operating expenses	**19.2**	19.3	19.6
Pretax operating earnings*	**13.0**	12.3	11.0

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

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

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

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

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

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

AFLAC Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, investment yields achievable on new investments, and the effect of yen/dollar exchange rates on dollar-denominated investment income.

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

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

Japanese Economy

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

AFLAC U.S.

AFLAC U.S. Pretax Operating Earnings

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

AFLAC U.S. Sales

Total new annualized premium sales were: $1.13 billion in 2003, up 5.4%; $1.07 billion in 2002, up 16.4%; and $919 million in 2001, up 29.1%. The percentage increases in premium income, as shown in the following table, reflect the growth of premiums in force. The increases in annualized premiums in force of 13.8% in 2003, 19.5% in 2002 and 20.3% in 2001 were favorably affected by increased sales at the worksite primarily through cafeteria plans and a slight improvement in the persistency of several products. Annualized premiums in force at December 31 were: $3.0 billion in 2003; $2.7 billion in 2002; and $2.2 billion in 2001.

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

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

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

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

AFLAC U.S. Investments

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

Other Operations

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

AFLAC U.S. Summary of Operating Results

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

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

ANALYSIS OF FINANCIAL CONDITION

Our financial condition has remained strong in the functional currencies of our operations during the last two years. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes. The exchange rate at December 31, 2003, was 107.13 yen to one U.S. dollar, or 11.9% stronger than the December 31, 2002, exchange rate of 119.90. The stronger yen increased reported investments and cash by $3.7 billion, total assets by $4.2 billion, and total liabilities by $4.2 billion, compared with the amounts that would have been reported for 2003 if the exchange rate had remained unchanged from year-end 2002.

Market Risks of Financial Instruments

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

Currency Risk

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

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

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

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

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

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

(December 31)

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

* Actual year-end exchange rates

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

Interest Rate Risk

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

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

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

Sensitivity of Fair Values of Financial Instruments to Interest Rate Changes

(December 31)

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

* Excludes capitalized lease obligations

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

Comparison of Interest Rates for Future Policy Benefits and Investment Yields

(Net of investment expenses)

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

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

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

Investments and Cash

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

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

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

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

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

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

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

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

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

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

Investment Securities by Type of Issuance

(December 31)

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

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

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

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

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

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

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

Once we designate a security as below-investment-grade, we begin a more intensive monitoring of the issuer. We do not automatically recognize an impairment for the difference between fair value and carrying value. Our investment management starts by reviewing its credit analysis. Included in this process are an evaluation of the issuer, its current credit posture and an assessment of the future prospects for the company. We then obtain fair value information from at least three independent pricing sources. Upon determining the fair value, we move our focus to an analysis of whether or not the decline in fair value, if any, is other than temporary. For securities with a carrying value in excess of fair value, investment management then reviews the issue based on our impairment policy to determine if the investment should be impaired and/or liquidated. The assessment of whether a decline is other than temporary requires significant management judgment and is discussed more fully in the Critical Accounting Estimates section on page 24.

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

Below-Investment-Grade Securities

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

* Investment grade at respective reporting date

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

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

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

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

Split-Rated Securities

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

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

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

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

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

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

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

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

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

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

Realized Losses on Debt Securities

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

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

Aging of Unrealized Losses

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

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

Percentage Decline From Amortized Cost

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

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

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

Deferred Policy Acquisition Costs

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

Policy Liabilities

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

Notes Payable

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

In 1999, the Parent Company issued $450 million of senior notes with a 6.50% coupon, payable semiannually, due April 2009. The notes are redeemable at our option at any time at a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium. Proceeds were used for various corporate purposes. We entered into cross-currency swaps that effectively convert the dollar-denominated principal and interest of these notes into yen-denominated obligations. The notional amount of the cross-currency swaps is $450 million (¥55.6 billion) with a blended fixed interest rate of 1.67% payable in yen. At December 31, 2003, the fair value of the swaps was a liability of $29 million, compared with an asset of $25 million in 2002.

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

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

Distribution of Payments by Period

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

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

Off-Balance Sheet Arrangements

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

Security Lending

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

Defined Benefit Pension Plans

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

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

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

Policyholder Protection Fund and State Guaranty Associations

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

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

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

CAPITAL RESOURCES AND LIQUIDITY

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

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

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

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

CONSOLIDATED CASH FLOWS

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

Consolidated Cash Flows by Activity

(For the years ended December 31)

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

Operating Activities

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

Investing Activities

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

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

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

Financing Activities

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

Dividends to shareholders in 2003 were $154 million ($146 million paid in cash; $8 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 2002 were $119 million ($112 million paid in cash; $7 million through issuance of treasury shares under the dividend reinvestment plan). Dividends to shareholders in 2001 were $101 million ($95 million paid in cash; $6 million through issuance of treasury shares under the dividend reinvestment plan). The 2003 dividend of $.30 per share increased 30.4% over 2002. The 2002 dividend of $.23 per share increased 19.2% over 2001.

REGULATORY RESTRICTIONS

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

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

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

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

Rating Agencies

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

Other

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

FORWARD-LOOKING INFORMATION

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

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

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

HONING OUR EDGE

VALUE \'val-yü\(n) **relative worth, utility or importance**