

CONSOLIDATED STATEMENTS OF EARNINGS

AFLAC INCORPORATED AND SUBSIDIARIES

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

	2003	2002	2001
Revenues:			
Premiums, principally supplemental health insurance	\$ 9,921	\$ 8,595	\$ 8,061
Net investment income	1,787	1,614	1,550
Realized investment gains (losses)	(301)	(14)	(31)
Other income	40	62	18
Total revenues	11,447	10,257	9,598
Benefits and expenses:			
Benefits and claims	7,529	6,589	6,303
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	464	385	328
Insurance commissions	1,146	1,037	1,006
Insurance expenses	982	842	793
Interest expense	22	20	19
Japanese policyholder protection fund provision	—	40	—
Other operating expenses	79	85	68
Total acquisition and operating expenses	2,693	2,409	2,214
Total benefits and expenses	10,222	8,998	8,517
Earnings before income taxes	1,225	1,259	1,081
Income tax expense:			
Current	212	353	338
Deferred	218	85	56
Total income taxes	430	438	394
Net earnings	\$ 795	\$ 821	\$ 687
Net earnings per share:			
Basic	\$ 1.55	\$ 1.59	\$ 1.31
Diluted	1.52	1.55	1.28
Common shares used in computing earnings per share (In thousands):			
Basic	513,220	517,541	525,098
Diluted	522,138	528,326	537,383

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

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

AFLAC INCORPORATED AND SUBSIDIARIES

2003

2002

Assets:

Investments and cash:

Securities available for sale, at fair value:

Fixed maturities (amortized cost \$23,686 in 2003 and \$19,423 in 2002)	\$ 26,495	\$ 22,659
Perpetual debentures (amortized cost \$3,280 in 2003 and \$2,758 in 2002)	3,349	2,730
Equity securities (cost \$33 in 2003 and \$262 in 2002)	73	258

Securities held to maturity, at amortized cost:

Fixed maturities (fair value \$9,263 in 2003 and \$8,599 in 2002)	8,752	8,394
Perpetual debentures (fair value \$4,412 in 2003 and \$3,595 in 2002)	4,297	3,700

Other investments

	33	27
--	----	----

Cash and cash equivalents

	1,052	1,379
--	-------	-------

Total investments and cash

	44,051	39,147
--	--------	--------

Receivables, primarily premiums

	547	435
--	-----	-----

Accrued investment income

	456	414
--	-----	-----

Deferred policy acquisition costs

	5,044	4,277
--	-------	-------

Property and equipment, at cost less accumulated depreciation

	518	482
--	-----	-----

Other

	348	303
--	-----	-----

Total assets

	\$ 50,964	\$ 45,058
--	-----------	-----------

Liabilities and shareholders' equity:

Liabilities:

Policy liabilities:

Future policy benefits	\$ 35,588	\$ 29,797
Unpaid policy claims	2,115	1,753
Unearned premiums	516	428
Other policyholders' funds	1,021	748

Total policy liabilities

	39,240	32,726
--	--------	--------

Notes payable

	1,409	1,312
--	-------	-------

Income taxes

	2,189	2,364
--	-------	-------

Payables for security transactions

	—	274
--	---	-----

Payables for return of cash collateral on loaned securities

	374	1,049
--	-----	-------

Other

	1,106	939
--	-------	-----

Commitments and contingent liabilities (Notes 10 and 11)

Total liabilities

	44,318	38,664
--	--------	--------

Shareholders' equity:

Common stock of \$.10 par value. In thousands: authorized 1,000,000 shares; issued 651,554 shares in 2003 and 648,618 shares in 2002

	65	65
--	----	----

Additional paid-in capital

	417	371
--	-----	-----

Retained earnings

	5,885	5,244
--	-------	-------

Accumulated other comprehensive income:

Unrealized foreign currency translation gains	213	222
---	-----	-----

Unrealized gains on investment securities	2,316	2,416
---	-------	-------

Minimum pension liability adjustment	(36)	(8)
--------------------------------------	------	-----

Treasury stock, at average cost

	(2,214)	(1,916)
--	---------	---------

Total shareholders' equity

	6,646	6,394
--	-------	-------

Total liabilities and shareholders' equity

	\$ 50,964	\$ 45,058
--	-----------	-----------

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

AFLAC INCORPORATED AND SUBSIDIARIES

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

2003

2002

2001

Common stock:

Balance, beginning of year	\$ 65	\$ 65	\$ 32
Exercise of stock options	—	—	1
Two-for-one stock split	—	—	32
Balance, end of year	65	65	65

Additional paid-in capital:

Balance, beginning of year	371	338	336
Exercise of stock options, including income tax benefits	19	11	10
Gain on treasury stock reissued	27	22	24
Two-for-one stock split	—	—	(32)
Balance, end of year	417	371	338

Retained earnings:

Balance, beginning of year	5,244	4,542	3,956
Net earnings	795	821	687
Dividends to shareholders (\$.30 per share in 2003, \$.23 per share in 2002, and \$.193 per share in 2001)	(154)	(119)	(101)
Balance, end of year	5,885	5,244	4,542

Accumulated other comprehensive income:

Balance, beginning of year	2,630	2,091	1,668
Change in unrealized foreign currency translation gains (losses) during year, net of income taxes	(9)	9	19
Change in unrealized gains (losses) on investment securities during year, net of income taxes	(100)	538	404
Minimum pension liability adjustment during year, net of income taxes	(28)	(8)	—
Balance, end of year	2,493	2,630	2,091

Treasury stock:

Balance, beginning of year	(1,916)	(1,611)	(1,298)
Purchases of treasury stock	(343)	(346)	(350)
Cost of shares issued	45	41	37
Balance, end of year	(2,214)	(1,916)	(1,611)
Total shareholders' equity	\$ 6,646	\$ 6,394	\$ 5,425

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions) Years Ended December 31,

AFLAC INCORPORATED AND SUBSIDIARIES

	2003	2002	2001
Cash flows from operating activities:			
Net earnings	\$ 795	\$ 821	\$ 687
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Change in receivables and advance premiums	(86)	(11)	(44)
Increase in deferred policy acquisition costs	(408)	(372)	(325)
Increase in policy liabilities	2,641	2,385	2,380
Change in income tax liabilities	83	67	46
Realized investment losses	301	14	31
Japanese policyholder protection fund provision	—	40	—
Other, net	63	94	74
Net cash provided by operating activities	3,389	3,038	2,849
Cash flows from investing activities:			
Proceeds from investments sold or matured:			
Securities available for sale:			
Fixed maturities sold	1,908	1,729	1,799
Fixed maturities matured	1,458	1,188	700
Equity securities and other	354	69	92
Securities held to maturity:			
Fixed maturities matured or called	1	240	128
Costs of investments acquired:			
Securities available for sale:			
Fixed maturities	(5,059)	(3,057)	(2,441)
Perpetual debentures	(288)	—	(495)
Equity securities	(3)	(130)	(152)
Securities held to maturity:			
Fixed maturities	(947)	(2,619)	(2,040)
Perpetual debentures	(170)	(136)	(416)
Cash received as collateral on loaned securities, net	(727)	485	416
Additions to property and equipment, net	(21)	(25)	(45)
Other, net	(6)	(18)	(19)
Net cash used by investing activities	(3,500)	(2,274)	(2,473)
Cash flows from financing activities:			
Proceeds from borrowings	—	254	333
Principal payments under debt obligations	(20)	(234)	(116)
Change in investment-type contracts, net	159	74	138
Dividends paid to shareholders	(146)	(112)	(95)
Purchases of treasury stock	(343)	(346)	(350)
Treasury stock reissued	33	35	38
Other, net	19	9	10
Net cash used by financing activities	(298)	(320)	(42)
Effect of exchange rate changes on cash and cash equivalents	82	83	(91)
Net change in cash and cash equivalents	(327)	527	243
Cash and cash equivalents, beginning of year	1,379	852	609
Cash and cash equivalents, end of year	\$ 1,052	\$ 1,379	\$ 852

Supplemental disclosures of cash flow information — See Note 12

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AFLAC INCORPORATED AND SUBSIDIARIES

(In millions) Years Ended December 31,

	2003	2002	2001
Net earnings	\$ 795	\$ 821	\$ 687
Other comprehensive income before income taxes:			
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses) during year	(121)	(72)	119
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during year	(604)	763	509
Reclassification adjustment for realized (gains) losses included in net earnings	301	13	3
Minimum pension liability adjustment during year	(40)	(8)	—
Total other comprehensive income (loss) before income taxes	(464)	696	631
Income tax expense (benefit) related to items of other comprehensive income	(327)	157	207
Other comprehensive income (loss) net of income taxes	(137)	539	424
Total comprehensive income	\$ 658	\$ 1,360	\$ 1,111

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: AFLAC Incorporated (the Parent Company) and its subsidiaries (the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance operations are conducted through American Family Life Assurance Company of Columbus (AFLAC), which operates in the United States (AFLAC U.S.) and as a branch in Japan (AFLAC Japan). Most of AFLAC's policies are individually underwritten and marketed at worksites through independent agents, with premiums paid by the employee. AFLAC Japan, which conducts its insurance operations in Japanese yen, accounted for 74% of the Company's total revenues in 2003, 75% in 2002 and 78% in 2001, and 84% of total assets at both December 31, 2003 and 2002.

Basis of Presentation: We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants. The preparation of financial statements in conformity with GAAP requires us to make estimates when

recording transactions resulting from business operations based on currently available information. The most significant items on our balance sheet that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the future are the valuation of investments, deferred policy acquisition costs, and liabilities for future policy benefits and unpaid policy claims. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, mortality, morbidity, commission and other acquisition expenses, and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates, we believe the amounts provided are adequate.

Translation of Foreign Currencies: The functional currency of AFLAC Japan's insurance operations is the Japanese yen. We translate financial statement accounts that are maintained in foreign currencies into U.S. dollars as follows. Assets and liabilities denominated in foreign currencies are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date