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 of each transaction. Other revenues, expenses and cash flows are translated using weighted-average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions. Realized currency exchange gains and losses were immaterial during the three-year period ended December 31, 2003.

AFLAC Japan maintains an investment portfolio of dollar-denominated securities on behalf of AFLAC U.S. The functional currency for these investments is the U.S. dollar. The related investment income and realized/unrealized investment gains and losses are also denominated in U.S. dollars.

We have designated the cross-currency swaps and the yen-denominated notes payable held by the Parent Company as a hedge of our investment in AFLAC Japan (see the section in this note titled, "Derivatives"). Outstanding principal and related accrued interest on these items are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments are included in accumulated other comprehensive income.

Insurance Revenue and Expense Recognition: The supplemental health and life insurance policies we issue are classified as long-duration contracts. The contract provisions generally cannot be changed or canceled during the contract period; however, we may adjust premiums for supplemental health policies issued in the United States within prescribed guidelines and with the approval of state insurance regulatory authorities.

Insurance premiums for health and life policies are recognized ratably as earned income over the premium payment periods of the policies. When revenues are reported, the related amounts of benefits and expenses are charged against such revenues, so that profits are recognized in proportion to premium revenues during the period the policies are expected to remain in force. This association is accomplished by means of annual additions to the liability for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

The calculation of deferred policy acquisition costs and the liability for future policy benefits requires the use of estimates consistent with sound actuarial valuation techniques. For new policy issues, we review our actuarial assumptions and deferrable acquisition costs each year and revise them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, we evaluate deferred policy acquisition costs by major product groupings to determine that they are recoverable from future revenues. Any resulting adjustment is charged against net earnings.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, money market instruments and other debt instruments with a maturity of 90 days or less when purchased.

Investments: Our debt securities include fixed-maturity securities and perpetual debentures, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other debt securities and our equity securities are classified as available for sale and are carried at fair value. If the fair value is higher than the amortized cost for debt securities, or the purchase cost for equity securities, the excess is an unrealized gain; and if lower than cost, the difference is an unrealized loss.

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulations became effective that impacted investment classifications and solvency margin ratios on a Japanese accounting basis as prescribed by the Financial Services Agency. As a result of these new requirements, we re-evaluated AFLAC Japan's investment portfolio and our intent related to the holding period of certain investment securities. In order to minimize fluctuations in our Japanese solvency margin ratio, we made certain reclassifications of debt securities between the held-to-maturity and available-for-sale categories as of March 31, 2001 (see Note 3).

The net unrealized gains and losses on securities available for sale, plus the unamortized unrealized gains and losses on debt securities transferred to the held-to-maturity portfolio, less related deferred income taxes, are included in accumulated other comprehensive income.

Amortized cost of debt securities is based on our purchase price adjusted for accrual of discount, or amortization of premium. The amortized cost of debt securities we purchase at a discount will equal the face or par value at maturity. Debt securities that we purchase at a premium will have an amortized cost equal to face or par value at maturity or the call date, if applicable. Interest is reported as income when earned and is adjusted for amortization of any premium or discount.

For the collateralized mortgage obligations (CMOs) held in our fixed-maturity securities portfolio, we recognize income using a constant effective yield, which is based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in CMO securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

We use the specific identification method to determine the gain or loss from securities transactions and report the realized gain or loss in the consolidated statements of earnings.

Our portfolio managers and credit research personnel routinely monitor and evaluate the difference between the cost and fair value of our investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary. For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and our evaluation for a potential recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk, which to a certain extent can be controlled, and interest rate risk, which cannot be controlled. Therefore, if an investment's cost exceeds its market value solely due to changes in interest rates, impairment may not be appropriate. If, after monitoring and analysis, management believes that a decline in fair value is other than temporary, we adjust the amortized cost of the security and report a realized loss in the consolidated statements of earnings.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These securities continue to be carried as investment assets on our balance sheet during the terms of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans collateralized by securities, the collateral is not reported as an asset or liability.

Deferred Policy Acquisition Costs: The costs of acquiring new business are deferred and amortized with interest, over the premium payment periods in proportion to the ratio of annual premium income to total anticipated premium income. Anticipated premium income is estimated by using the same mortality and persistency assumptions used for computing liabilities for future policy benefits. In this manner, the related acquisition expenses are matched with revenues. Deferred costs include the excess of current-year commissions over ultimate renewal-year commissions and certain direct and allocated policy issue, underwriting and marketing expenses. All of these costs vary with and are primarily related to the production of new business.

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

Unpaid policy claims are estimates computed on an undiscounted basis using statistical analyses of historical claims experience adjusted for current trends and changed conditions. The ultimate liability may vary significantly from such estimates. We regularly adjust these estimates as new claims experience emerges and reflect the changes in operating results in the year such adjustments are made.

Income Taxes: Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing our income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which we expect the temporary differences to reverse.

Derivatives: We have only limited activity with derivative financial instruments. We do not use them for trading purposes, nor do we engage in leveraged derivative transactions. At December 31, 2003, our only outstanding derivative contracts were cross-currency swaps related to our $450 million senior notes (see Notes 4 and 6).

We document all relationships between hedging instruments and hedged items, as well as our risk-management objectives for undertaking various hedge transactions. This process includes linking derivatives that are designated as hedges to specific assets or liabilities on the balance sheet. We also assess, both at inception and on an ongoing basis, whether the derivatives and nonderivatives used in hedging activities are highly effective in offsetting changes in fair values of the hedged items. The assessment of hedge effectiveness determines the noncash accounting treatment of changes in fair value.

We have designated our cross-currency swaps as a hedge of the foreign currency exposure of our investment in AFLAC Japan.

We recognize the fair value of the cross-currency swaps as either assets or liabilities on the balance sheet. We report the changes in fair value of the foreign currency portion of our cross-currency swaps in other comprehensive income. Changes in the fair value of the interest rate component are reflected in other income in the consolidated statements of earnings.

Policyholder Protection Fund and State Guaranty Association Assessments: In Japan, the government has required the insurance industry to contribute to a policyholder protection fund. We recognize a charge for our estimated share of the industry's obligation once it is determinable. We review the estimated liability for policyholder protection fund contributions on an annual basis and report any adjustments in AFLAC Japan's expenses.

In the United States, each state has a guaranty association that supports insolvent insurers operating in those states. To date, our state guaranty association assessments have not been material.

Employee Stock Options: We apply the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our employee stock option plan, which is described more fully in Note 8. All options granted under our stock option plan have an exercise price equal to the market value of the underlying common stock on the date of grant. Therefore, no compensation expense is reflected in net earnings. The following table illustrates the effect on net earnings and earnings per share, assuming we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

(In millions, except for per-share amounts)	**2003**	2002	2001
Net earnings as reported	**$ 795**	$ 821	$ 687
Deduct compensation expense determined under a fair value method, net of tax	**(27)**	(36)	(33)
Pro forma net earnings	**$ 768**	$ 785	$ 654
Earnings per share:			
Basic - as reported	**$ 1.55**	$ 1.59	$ 1.31
Basic - pro forma	**1.50**	1.52	1.25
Diluted - as reported	**$ 1.52**	$ 1.55	$ 1.28
Diluted - pro forma	**1.47**	1.48	1.22

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

Earnings Per Share: We compute basic earnings per share (EPS) by dividing net earnings by the weighted-average number of shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period plus the shares representing the dilutive effect of stock options.

New Accounting Pronouncements: In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of ARB (Accounting Research Bulletin) No. 51. This interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the expected residual gains, or both, as a result of ownership, contractual or other financial interests in the entity. In October 2003, the FASB delayed the effective date of FIN 46 for variable interest entities (VIEs) or potential VIEs created before February 2003. In December, the FASB issued a revised version of FIN 46, which delayed the effective date of FIN 46 for all VIEs until March 2004. FIN 46 and its various interpretations are not expected to have a material impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure. This standard, which amends the transition and disclosure issues associated with SFAS No. 123, became effective for years ending after December 15, 2002. The requirements of this standard do not impact our financial position or results of operations.

During the last three years, the FASB has issued a number of accounting pronouncements with various effective dates: SFAS No. 141, Business Combinations; SFAS No. 142, Goodwill and Other Intangible Assets; SFAS No. 143, Accounting for Asset Retirement Obligations; SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets; SFAS No. 145, Recision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections; SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities; SFAS No. 147, Acquisitions of Certain Financial Institutions – an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9; SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities; SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity; and Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. These pronouncements do not have a material effect on our financial statements.

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

2. FOREIGN AND BUSINESS SEGMENT INFORMATION

The Company consists of two reportable insurance business segments: AFLAC Japan and AFLAC U.S. We sell supplemental health and life insurance through AFLAC Japan and AFLAC U.S. Most of our policies are individually underwritten and marketed at worksites through independent agents with premiums paid by the employee.

Operating business segments that are not individually reportable are included in the "Other business segments" category. We do not allocate corporate overhead expenses to business segments. We evaluate our business segments using a financial performance measure called pretax operating earnings. Our definition of operating earnings as presented in this report excludes from net earnings the following items on an after-tax basis: realized investment gains/losses, the change in fair value of the interest rate component of cross-currency swaps, and the charge for the Japanese policyholder protection fund in 2002. We then exclude income taxes related to operations to arrive at pretax operating earnings. Information regarding operations by segment and lines of business for the years ended December 31 follows:

(In millions)	**2003**	2002	2001
Revenues:			
AFLAC Japan:			
Earned premiums:			
Cancer life	**$ 4,864**	$ 4,492	$ 4,508
Other accident and health	**1,687**	1,201	1,075
Life insurance	**775**	680	634
Net investment income	**1,421**	1,276	1,234
Other income	**18**	1	1
Total AFLAC Japan	**8,765**	7,650	7,452
AFLAC U.S.:			
Earned premiums:			
Accident/disability	**1,085**	900	713
Cancer expense	**842**	757	654
Other health	**574**	487	416
Life insurance	**93**	77	61
Net investment income	**362**	331	303
Other income	**9**	9	8
Total AFLAC U.S.	**2,965**	2,561	2,155
Other business segments	**43**	48	32
Total business segments	**11,773**	10,259	9,639
Realized investment gains (losses)	**(301)**	(14)	(31)
Corporate*	**39**	78	31
Intercompany eliminations	**(64)**	(66)	(41)
Total revenues	**$ 11,447**	$ 10,257	$ 9,598

* Includes investment income of $5 in 2003, $7 in 2002, and $13 in 2001. Also includes a loss of $3 in 2003, and gains of $37 in 2002 and $1 in 2001 related to the change in fair value of the interest rate component of the cross-currency swaps.

(In millions)	**2003**	2002	2001
Operating Earnings:			
AFLAC Japan	**$ 1,140**	$ 938	$ 823
AFLAC U.S.	**451**	402	345
Other business segments	**(1)**	1	(8)
Total business segments	**1,590**	1,341	1,160
Interest expense, noninsurance operations	**(19)**	(16)	(16)
Corporate and eliminations	**(42)**	(49)	(33)
Pretax operating earnings*	**1,529**	1,276	1,111
Realized investment gains (losses)	**(301)**	(14)	(31)
Change in fair value of the interest rate component of the cross-currency swaps	**(3)**	37	1
Japanese policyholder protection fund provision	**–**	(40)	–
Total earnings before income taxes	**$ 1,225**	$ 1,259	$ 1,081

* Income taxes applicable to pretax operating earnings were $540 in 2003, $452 in 2002 and $391 in 2001. The effect of foreign currency translation increased operating earnings by $39 in 2003, compared with decreases of $10 in 2002 and $37 in 2001.

Assets as of December 31 were as follows:

(In millions)	**2003**	2002	2001
Assets:			
AFLAC Japan	**$ 42,654**	$ 37,983	$ 31,729
AFLAC U.S.	**7,966**	6,672	5,729
Other business segments	**57**	62	43
Total business segments	**50,677**	44,717	37,501
Corporate	**8,276**	7,887	6,830
Intercompany eliminations	**(7,989)**	(7,546)	(6,471)
Total assets	**$ 50,964**	$ 45,058	$ 37,860

Net additions to property and equipment, including capitalized lease obligations, were $35 million in 2003, $33 million in 2002 and $62 million in 2001. Total depreciation and amortization expense, which is included in insurance expenses in the consolidated statements of earnings, was $59 million in 2003, $60 million in 2002, and $37 million in 2001; AFLAC Japan accounted for $33 million in 2003, $29 million in 2002, and $21 million in 2001.

Advertising expense is included in insurance expenses in the consolidated statements of earnings and was as follows for each of the three years ended December 31:

(In millions)	2003	2002	2001
Advertising expense:			
AFLAC Japan	**$ 59**	$ 48	$ 60
AFLAC U.S.	**61**	57	45
Total advertising expense	**$ 120**	$ 105	$ 105

Receivables consisted primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums. At December 31, 2003, $291 million, or 53.2% of total receivables were related to AFLAC Japan's operations, compared with $217 million, or 49.9%, at December 31, 2002.

Yen-Translation Effects: The following table shows the yen/dollar exchange rates used for the three-year period ended December 31, 2003. The exchange effect on selected financial data was calculated using the same yen/dollar exchange rate for the current year as each respective prior year.

	2003	2002	2001
Balance Sheets:			
Yen/dollar exchange rate at December 31	**107.13**	119.90	131.95
Yen percent strengthening (weakening)	**11.9%**	10.1%	(13.0)%
Exchange effect on total assets (billions)	**$ 4.2**	$ 3.2	$ (4.4)
Exchange effect on total liabilities (billions)	**4.2**	3.1	(4.3)
Statements of Earnings:			
Weighted-average yen/dollar exchange rate	**115.95**	125.15	121.54
Yen percent strengthening (weakening)	**7.9%**	(2.9)%	(11.3)%
Exchange effect on net earnings (millions)*	**$ 33**	$ (10)	$ (37)
Exchange effect on diluted net EPS*	**.06**	(.02)	(.07)

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

AFLAC Japan owns U.S. dollar-denominated securities, which serve as an economic currency hedge of a portion of our investment in AFLAC Japan. We have designated the Parent Company's yen-denominated notes payable and cross-currency swaps as a hedge of our investment in AFLAC Japan. The dollar values of our yen-denominated net assets, which are subject to foreign currency translation fluctuations for financial reporting purposes, are summarized as follows at December 31 (translated at end-of-period exchange rates):

(In millions)	2003	2002
AFLAC Japan net assets	**$ 4,661**	$ 4,806
Less:		
AFLAC Japan dollar-denominated net assets	**2,917**	2,518
Parent Company yen-denominated net liabilities	**1,453**	1,297
Consolidated yen-denominated net assets subject to foreign currency translation fluctuations	**$ 291**	$ 991

Remittances from AFLAC Japan: AFLAC Japan makes payments to the Parent Company for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. These payments totaled $433 million in 2003, $429 million in 2002 and $228 million in 2001. See Note 9 for information concerning restrictions on remittances from AFLAC Japan.

Policyholder Protection Fund: In 2002, the Japanese Life Insurance Policyholder Protection Corporation (LIPPC) agreed to increase the life insurance industry's obligation to the Japanese policyholder protection fund. We recognized our estimated share of this additional obligation in 2002 and decreased pretax earnings by $40 million ($26 million after taxes, or $.05 per diluted share). 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. The total liability accrued for our obligations to the policyholder protection fund was $265 million (¥28.4 billion) at December 31, 2003, compared with $227 million (¥27.3 billion) a year ago. The obligation is expected to be payable in semi-annual installments through 2013.

3. INVESTMENTS

The amortized cost for debt securities, cost for equity securities and the fair values of these investments at December 31 are shown in the following table:

	2003				2002			
(In millions)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value:								
Fixed maturities:								
Yen-denominated:								
Government and guaranteed	**$ 7,126**	**$ 1,645**	**$ 6**	**$ 8,765**	$ 6,088	$ 1,860	$ –	$ 7,948
Municipalities	**8**	**–**	**–**	**8**	12	1	–	13
Mortgage-backed securities	**42**	**1**	**–**	**43**	34	1	–	35
Public utilities	**2,428**	**295**	**27**	**2,696**	2,433	379	–	2,812
Sovereign and supranational	**723**	**111**	**1**	**833**	643	119	2	760
Banks/financial institutions	**3,104**	**291**	**221**	**3,174**	2,202	348	23	2,527
Other corporate	**3,023**	**174**	**207**	**2,990**	1,655	163	32	1,786
Total yen-denominated	**16,454**	**2,517**	**462**	**18,509**	13,067	2,871	57	15,881
Dollar-denominated:								
Government	**104**	**7**	**1**	**110**	64	9	–	73
Municipalities	**100**	**10**	**1**	**109**	70	9	–	79
Mortgage-backed securities	**259**	**9**	**3**	**265**	105	10	–	115
Public utilities	**798**	**87**	**1**	**884**	725	47	13	759
Sovereign and supranational	**386**	**54**	**–**	**440**	262	30	5	287
Banks/financial institutions	**2,527**	**267**	**7**	**2,787**	2,098	186	48	2,236
Other corporate	**3,057**	**352**	**18**	**3,391**	3,032	305	108	3,229
Total dollar-denominated	**7,231**	**786**	**31**	**7,986**	6,356	596	174	6,778
Total fixed maturities	**23,685**	**3,303**	**493**	**26,495**	19,423	3,467	231	22,659
Perpetual debentures:								
Yen-denominated:								
Primarily banks/financial institutions	**2,893**	**166**	**148**	**2,911**	2,427	120	183	2,364
Dollar-denominated:								
Banks/financial institutions	**387**	**51**	**–**	**438**	331	37	2	366
Total perpetual debentures	**3,280**	**217**	**148**	**3,349**	2,758	157	185	2,730
Equity securities	**33**	**41**	**1**	**73**	262	28	32	258
Total securities available for sale	**$26,998**	**$ 3,561**	**$ 642**	**$ 29,917**	$22,443	$ 3,652	$ 448	$ 25,647
Securities held to maturity, carried at amortized cost:								
Fixed maturities:								
Yen-denominated:								
Mortgage-backed securities	**$ 52**	**$ –**	**$ 1**	**$ 51**	$ 47	$ 2	$ –	$ 49
Public utilities	**1,065**	**29**	**38**	**1,056**	956	56	26	986
Sovereign and supranational	**2,473**	**150**	**41**	**2,582**	1,660	97	48	1,709
Banks/financial institutions	**2,298**	**222**	**37**	**2,483**	2,401	223	101	2,523
Other corporate	**2,848**	**231**	**4**	**3,075**	3,330	202	200	3,332
Total yen-denominated	**8,736**	**632**	**121**	**9,247**	8,394	580	375	8,599
Dollar-denominated:								
Government	**16**	**–**	**1**	**15**	–	–	–	–
Total dollar-denominated	**16**	**–**	**1**	**15**	–	–	–	–
Total fixed maturities	**8,752**	**632**	**122**	**9,262**	8,394	580	375	8,599
Perpetual debentures:								
Yen-denominated:								
Banks/financial institutions	**4,297**	**225**	**110**	**4,412**	3,700	103	208	3,595
Total perpetual debentures	**4,297**	**225**	**110**	**4,412**	3,700	103	208	3,595
Total securities held to maturity	**$13,049**	**$ 857**	**$ 232**	**$ 13,674**	$12,094	$ 683	$ 583	$ 12,194

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

(In millions)	**2003**	2002	2001
Fixed-maturity securities	**$ 1,486**	$ 1,337	$ 1,281
Perpetual debentures	**314**	289	277
Equity securities and other	**2**	3	2
Short-term investments and cash equivalents	**6**	5	9
Gross investment income	**1,808**	1,634	1,569
Less investment expenses	**21**	20	19
Net investment income	**$ 1,787**	$ 1,614	$ 1,550

Investments in debt securities, which individually exceeded 10% of shareholders' equity as of December 31, were as follows:

	2003			2002		
(In millions)	**Credit Rating**	**Amortized Cost**	**Fair Value**	Credit Rating	Amortized Cost	Fair Value
Japan National Government	AA	$7,051	$8,691	AA	$ 6,023	$ 7,878
HSBC	A	938	1,069		*	*
The Israel Electric Corporation Ltd.**	A/BBB	932	941	A	719	764
Credit Suisse First Boston	A	826	847	A	767	745
Republic of Tunisia	BBB	776	789		*	*
Takefuji Corporation	BBB	737	578	A	676	733
HBOS PLC**	AA/A	697	716		*	*

* Less than 10%

** For this issuer, we own more than one security with different ratings.

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. Total privately issued securities, at amortized cost, accounted for $25.1 billion, or 62.8%, of our total debt securities as of December 31, 2003, compared with $20.6 billion, or 60.2%, at December 31, 2002. Of the total privately issued securities, reverse-dual currency debt securities (principal payments in yen, interest payments in dollars) accounted for $6.5 billion, or 25.7%, and $4.7 billion, or 22.6%, at amortized cost as of December 31, 2003 and 2002, respectively.

At December 31, 2003, we owned debt securities that were rated below investment grade in the amount of $1.1 billion at amortized cost ($1.0 billion at fair value), or 2.8% of total debt securities, compared with $791 million at amortized cost ($635 million at fair value), or 2.3% of total debt securities in 2002. Each of the below-investment-grade securities was investment grade at the time of purchase and was subsequently downgraded by credit rating agencies. These securities are held in the available-for-sale portfolio.

As of December 31, 2003, $154 million, at fair value, of AFLAC Japan's debt securities had been pledged to Japan's policyholder protection fund. At December 31, 2003, debt securities with a fair value of $10 million were on deposit with regulatory authorities in the United States, Japan and Hong Kong. We retain ownership of all securities on deposit and receive the related investment income.

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

(In millions)	**2003**	2002	2001
Realized investment gains (losses) on securities:			
Debt securities:			
Available for sale:			
Gross gains from sales	**$ 72**	$ 97	$ 66
Gross losses from sales	**(366)**	(47)	(23)
Impairment losses	**–**	(37)	(55)
Net gains from redemptions	**8**	–	1
Total debt securities	**(286)**	13	(11)
Equity securities:			
Gross gains from sales	**19**	8	29
Gross losses from sales	**(33)**	(14)	(18)
Impairment losses	**(1)**	(21)	(31)
Total equity securities	**(15)**	(27)	(20)
Total realized investment losses	**$ (301)**	$ (14)	$ (31)
Changes in unrealized gains (losses):			
Debt securities:			
Available for sale	**$ (331)**	$ 798	$ 944
Transferred to held to maturity	**(16)**	11	(387)
Equity securities	**44**	(34)	(46)
Change in unrealized gains (losses)	**$ (303)**	$ 775	$ 511

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 related to the corporate debt security of a Japanese issuer ($37 million) 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. We also recognized pretax impairment losses on equity securities of $31 million, which included a $28 million loss related to our investment in two human resource service companies. In addition, we 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).

Fair values of debt securities and privately issued equity securities were determined using quotations provided by outside securities pricing sources and/or compiled using data provided by external debt and equity market sources. The data used in estimating fair value include credit spreads of comparably credit-rated securities and market quotations of securities with similar maturity and call structure characteristics. Fair values are then computed using standard industry models that provide pricing data based on a wide variety of inputs as noted above. The fair values provided by outside sources are reviewed internally for reasonableness. If a fair value appears unreasonable, the inputs are re-examined and the value is confirmed or revised. The fair values for publicly traded equity securities were determined using market quotations from the public exchange markets where the security is principally traded.

The fair value and unrealized loss for debt and equity securities in an unrealized loss position at December 31, 2003 are shown in the table at the top of the next column:

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

(In millions)	2003	2002
Unrealized gains on securities available for sale	**$ 2,918**	$ 3,204
Unamortized unrealized gains on securities transferred to held to maturity	**608**	625
Deferred income taxes	**(1,210)**	(1,413)
Shareholders' equity, net unrealized gains on investment securities	**$ 2,316**	$ 2,416

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 in the table below 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.

	Total		Less than 12 months		12 months or longer	
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and guaranteed:						
Dollar-denominated	$ 58	$ 2	$ 58	$ 2	$ –	$ –
Yen-denominated	583	6	583	6	–	–
Municipalities:						
Dollar-denominated	11	–	11	–	–	–
Mortgage-backed securities						
Dollar-denominated	53	2	53	2	–	–
Yen-denominated	37	1	37	1	–	–
Public Utilities:						
Dollar-denominated	63	2	63	2	–	–
Yen-denominated	810	66	521	30	289	36
Sovereign and supranational:						
Dollar-denominated	5	–	5	–	–	–
Yen-denominated	635	42	635	42	–	–
Banks/financial institutions and other corporate:						
Dollar-denominated	197	7	197	7	–	–
Yen-denominated	1,336	257	1,336	257	–	–
Other corporate:						
Dollar-denominated	536	20	480	19	56	1
Yen-denominated	1,680	210	1,436	157	244	53
Perpetual debentures:						
Yen-denominated	3,189	258	2,701	182	488	76
Total debt securities	9,193	873	8,116	707	1,077	166
Equity securities	4	–	1	–	3	–
Total temporarily impaired securities	$ 9,197	$ 873	$ 8,117	$ 707	$ 1,080	$ 166

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 investment assets due to the unavailability of acceptable yen-denominated long-duration securities. The average duration of policy benefits and related expenses to be paid in future years was approximately 12 years at both December 31, 2003 and December 31, 2002. The average duration of the yen-denominated debt securities was approximately 11 years at December 31, 2003 and 10 years at December 31, 2002. The average duration of premiums to be received in the future was approximately nine years on policies in force at both December 31, 2003 and December 31, 2002.

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. In spite of the negative investment spreads, overall profit margins in AFLAC Japan's aggregate block of business are adequate because of profits that continue to emerge from changes in mix of business and favorable mortality, morbidity, and expenses.

The contractual maturities of our investments in fixed maturities at December 31, 2003, were as follows:

	AFLAC Japan		AFLAC U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due in one year or less	$ 594	$ 605	$ 98	$ 100
Due after one year through five years	1,479	1,661	131	147
Due after five years through 10 years	5,433	6,911	496	567
Due after 10 years	11,199	11,850	4,119	4,516
U.S. mortgage-backed securities	69	71	67	67
Total fixed maturities available for sale	$ 18,774	$ 21,098	$ 4,911	$ 5,397
Held to maturity:				
Due after one year through five years	$ 52	$ 55	$ –	$ –
Due after five years through 10 years	1,650	1,861	–	–
Due after 10 years	7,034	7,332	16	15
Total fixed maturities held to maturity	$ 8,736	$ 9,248	$ 16	$ 15

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

In recent years we have purchased subordinated perpetual debenture securities. These securities are subordinated to other debt obligations of the issuer, but rank higher than equity securities. Although these securities have no contractual maturity, the interest coupons that were fixed at the issue date subsequently increase to a market interest rate plus 150 to 300 basis points and change to a variable interest rate basis, generally by the 25th year after issuance, thereby creating an economic maturity date. The economic maturities of our investments in perpetual debentures at December 31, 2003, were as follows:

	AFLAC Japan		AFLAC U.S.	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Due after one year through five years	$ 542	$ 631	$ 55	$ 65
Due after five years through 10 years	63	101	–	–
Due after 10 years through 15 years	560	571	–	–
Due after 15 years	1,914	1,818	146	163
Total perpetual debentures available for sale	$ 3,079	$ 3,121	$ 201	$ 228
Held to maturity:				
Due after one year through five years	$ 148	$ 158	$ –	$ –
Due after five years through 10 years	1,111	1,205	–	–
Due after 10 years through 15 years	1,518	1,543	–	–
Due after 15 years	1,520	1,506	–	–
Total perpetual debentures held to maturity	$ 4,297	$ 4,412	$ –	$ –

As part of our investment activities, we own yen-denominated investments in variable interest entities (VIEs) totaling $1.5 billion at amortized cost, or $1.3 billion at fair value. We completed our review of these investments and concluded that we are the primary beneficiary. Therefore, we will consolidate our interests in accordance with FIN 46, Consolidation of Variable Interest Entities, effective March 31, 2004. The activities of these VIEs are limited to holding subordinated notes representing Tier 1 bank capital and utilizing the proceeds from the subordinated notes to service our investments therein. These VIEs are classified as available-for-sale fixed-maturity or perpetual securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The consolidation of these investments will not impact our financial position or results of operations.

We also own investments in fixed-maturity qualified special purpose entities (QSPEs). At December 31, 2003, available-for-sale QSPEs totaled $1.0 billion at fair value ($1.0 billion at amortized cost), compared with $678 million at fair value ($679 million at amortized cost) a year ago. At December 31, 2002, we had one held-to-maturity QSPE totaling $267 million at amortized cost ($230 million at fair value). We reclassified this QSPE to the available-for-sale portfolio in 2003 when it experienced a credit rating downgrade.

The underlying collateral assets of the QSPEs are yen-denominated securities, dollar-denominated securities, or dollar-denominated securities that have been effectively transformed into yen-denominated assets through the use of currency and interest rate swaps. Each QSPE has a default trigger whereby default on any of the underlying notes would force dissolution of the QSPE, distribution of the underlying securities, and termination of the related swaps. We have no equity interests in any of the QSPEs, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment.

For the Japanese reporting fiscal year ended March 31, 2002, new Japanese accounting principles and regulations became effective that impact investment classifications and solvency margin ratios on a Japanese accounting basis. As a result of these new requirements, we reclassified debt securities with amortized cost of $1.8 billion from the held-to-maturity category to the available-for-sale category as of March 31, 2001. Included in accumulated other comprehensive income immediately prior to the transfer was an unamortized unrealized gain of $327 million related to these securities. This gain represented the remaining unamortized portion of a $1.1 billion unrealized gain that was established in 1998 when we reclassified $6.4 billion of debt securities from the available-for-sale category to the held-to-maturity category.

We also reclassified debt securities with a fair value of $2.3 billion from the available-for-sale category to the held-to-maturity category as of March 31, 2001. The related unrealized gain of $118 million is being amortized from accumulated other comprehensive income to investment income over the remaining term of the securities. The related premium in the carrying value of the debt securities that was created when the reclassification occurred is also being amortized as an offsetting charge to investment income.

We lend fixed-maturity securities to financial institutions in short-term security lending transactions. These securities continue to be carried as investment assets on our balance sheet during the term of the loans and are not reported as sales. We receive cash or other securities as collateral for such loans. These short-term security lending arrangements increase investment income with minimal risk. At December 31, 2003 and 2002, we had security loans outstanding with a fair value of $365 million and $1.0 billion, respectively, and we held cash in the amount of $374 million and $1.0 billion, respectively, as collateral for the loaned securities.

Our security lending policy requires that the fair value of the securities received as collateral and cash received as collateral be 102% and 100% or more, respectively, of the fair value of the loaned securities.

4. FINANCIAL INSTRUMENTS

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

	2003		2002	
(In millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Assets:				
Fixed-maturity securities	**$ 35,247**	**$ 35,758**	$ 31,053	$ 31,258
Perpetual debentures	**7,646**	**7,761**	6,430	6,325
Equity securities	**73**	**73**	258	258
Liabilities:				
Notes payable (excl. capitalized leases)	**1,382**	**1,451**	1,283	1,333
Cross-currency swaps	**29**	**29**	(25)	(25)
Obligation to Japanese policyholder protection fund	**265**	**265**	227	227

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximated their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the table presented above.

The methods of determining the fair values of our investments in debt and equity securities are described in Note 3. The fair values for notes payable with fixed interest rates were obtained from an independent financial information service. The fair values for our cross-currency swaps are the expected amounts that we would receive or pay to terminate the swaps, taking into account current interest rates, foreign currency rates and the current creditworthiness of the swap counterparties. The fair value of the Japanese policyholder protection fund is our estimated share of the industry's obligation calculated on a pro rata basis by projecting our percentage of the industry's premiums and reserves and applying that percentage to the total industry obligation payable in future years.

The preceding table excludes liabilities for future policy benefits of $35.6 billion and $29.8 billion at December 31, 2003 and 2002, respectively, as these liabilities are not considered financial instruments.

As of December 31, 2003, we had outstanding cross-currency swap agreements related to the $450 million senior notes (see Note 6). We designated these cross-currency swaps as a hedge of the foreign currency exposure of our investment in AFLAC Japan. The notional amounts and terms of the swaps match the principal amount and terms of the senior notes.

Our risk management objectives related to our cross-currency swaps are to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations and to also reduce our interest expense by converting the dollar-denominated principal and interest on our senior notes into yen-denominated obligations. By entering into these cross-currency swaps, we have effectively converted the dollar-denominated principal and interest into yen-denominated obligations, thereby reducing our interest expense from 6.5% in dollars to 1.67% in yen. See Note 1 for information on the accounting policy for cross-currency swaps.

The components of the fair value of the cross-currency swaps were reflected as an asset or (liability) on the balance sheet as of December 31 as follows:

(In millions)	**2003**	2002
Interest rate component	**$ 36**	$ 38
Foreign currency component	**(69)**	(18)
Accrued interest component	**4**	5
Total fair value of cross-currency swaps	**$ (29)**	$ 25

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

(In millions)	**2003**	2002	2001
Balance, beginning of year	**$ (18)**	$ 27	$ (34)
Increase (decrease) in fair value of cross-currency swaps	**(54)**	(8)	62
Interest rate component not qualifying for hedge accounting reclassified to net earnings	**3**	(37)	(1)
Balance, end of year	**$ (69)**	$ (18)	$ 27

We are exposed to credit risk in the event of nonperformance by counterparties to these contracts. The counterparties to our swap agreements are U.S. and Japanese financial institutions with the following credit ratings as of December 31:

(In millions)	**2003**		2002	
Counterparty Credit Rating	**Fair Value of Swaps**	**Notional Amount of Swaps**	Fair Value of Swaps	Notional Amount of Swaps
AA	**$ (25)**	**$ 375**	$ 20	$ 375
A	**(4)**	**75**	5	75
Total	**$ (29)**	**$ 450**	$ 25	$ 450

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

5. POLICY LIABILITIES

Our policy liabilities primarily include future policy benefits and unpaid policy claims, which accounted for 91% and 5% of total policy liabilities at December 31, 2003, respectively. Future policy benefits represent claims that will occur in the future and are calculated as the present value of expected benefits to be paid less the present value of expected net premiums, including a provision for adverse deviation. These present values are determined at policy issuance. Unpaid policy claims include those claims that have occurred and are in the process of payment as well as an estimate of those claims that have occurred but have not yet been reported to us. We regularly review the adequacy of our policy liabilities in total and by component.

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

		Liability Amounts		Interest Rates	
(In millions)	Policy Issue Year	**2003**	2002	Year of Issue	In 20 Years
Health insurance:					
Japan:	1999 - 2003	**$ 2,046**	$ 1,109	3.0%	3.0%
	1997 - 1999	**2,249**	1,842	3.5	3.5
	1995 - 1996	**240**	199	4.0	4.0
	1994 - 1996	**3,318**	2,780	4.5	4.5
	1985 - 1994	**16,041**	13,816	5.25 - 5.65	5.25 - 5.65
	1978 - 1986	**4,352**	3,848	6.5 - 6.75	5.5
	1974 - 1979	**974**	860	7.0	5.0
U.S.:	1998 - 2003	**587**	433	7.0	7.0
	1988 - 2003	**924**	882	8.0	6.0
	1986 - 2003	**1,099**	965	6.0	6.0
	1985 - 1986	**26**	26	6.5	6.5
	1981 - 1986	**235**	240	7.0	5.5
	Other	**39**	41		
Life insurance:					
Japan:	2001 - 2003	**21**	9	1.85	1.85
	1999 - 2003	**496**	275	3.0	3.0
	1997 - 1999	**511**	411	3.5	3.5
	1994 - 1996	**838**	695	4.0	4.0
	1985 - 1993	**1,526**	1,311	5.25 - 5.65	5.25 - 5.65
U.S.:	1956 - 2003	**66**	55	4.0 - 6.0	4.0 - 6.0
Total		**$ 35,588**	$ 29,797		

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 4.9% in 2003, 5.0% in 2002, and 5.1% in 2001; and for U.S. policies, 6.4% in 2003, 2002 and 2001.

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

(In millions)	**2003**	2002	2001
Unpaid supplemental health claims, beginning of year	**$ 1,678**	$ 1,540	$ 1,670
Add claims incurred during the year related to:			
Current year	**4,237**	3,642	3,454
Prior years	**(275)**	(354)	(304)
Total incurred	**3,962**	3,288	3,150
Less claims paid during the year on claims incurred during:			
Current year	**2,799**	2,402	2,285
Prior years	**982**	866	821
Total paid	**3,781**	3,268	3,106
Effect of foreign exchange rate changes on unpaid claims	**149**	118	(174)
Unpaid supplemental health claims, end of year	**2,008**	1,678	1,540
Unpaid life claims, end of year	**107**	75	75
Total liability for unpaid policy claims	**$ 2,115**	$ 1,753	$ 1,615

Amounts shown for prior-year claims incurred during the year primarily result from actual claim settlements at less than the original estimates.

6. NOTES PAYABLE

A summary of notes payable as of December 31 follows:

(In millions)	**2003**	2002
6.50% senior notes due April 2009 (principal amount $450)	**$ 449**	$ 449
Yen-denominated Samurai notes:		
1.55% notes due October 2005 (principal amount ¥30 billion)	**280**	250
.87% notes due June 2006 (principal amount ¥40 billion)	**373**	334
.96% notes due June 2007 (principal amount ¥30 billion)	**280**	250
Obligations under capitalized leases, payable monthly through 2007, secured by computer equipment in Japan	**27**	29
Total notes payable	**$ 1,409**	$ 1,312

The Parent Company has issued ¥100 billion of yen-denominated Samurai notes in Japan. These securities are not available to U.S. residents or entities. In 2000, we issued ¥30 billion (approximately $277 million at issuance); in 2001, we issued ¥40 billion (approximately $333 million at issuance); and in 2002, we issued ¥30 billion (approximately $254 million at issuance). 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.

For our yen-denominated loans, the principal amount as stated in dollar terms will fluctuate from period to period as the yen/dollar exchange rate fluctuates. We have designated these yen-denominated notes payable as a hedge of the foreign currency exposure of our investment in AFLAC Japan.

In 1999, we issued $450 million of 6.50% senior notes due April 2009. The notes are redeemable at our option at any time with a redemption price equal to the principal amount of the notes being redeemed plus a make-whole premium. We have entered into cross-currency swaps related to these notes (see Note 4).

In December 2003, the Parent Company filed a shelf Registration Statement with Japanese regulatory authorities to issue up to ¥100 billion of yen-denominated Samurai notes in Japan. These securities will not be available to U.S. persons or entities.

The aggregate contractual maturities of notes payable during each of the years after December 31, 2003, are as follows: 2004, $11 million; 2005, $287 million; 2006, $378 million; 2007, $283 million; 2008, $1 million; and 2009, $450 million.

We were in compliance with all of the covenants of our notes payable at December 31, 2003. No events of default or defaults occurred during 2003 and 2002.

7. INCOME TAXES

The components of income tax expense (benefit) applicable to pretax earnings for the years ended December 31 were as follows:

(In millions)	Japan	U.S.	Total
2003:			
Current	**$ 184**	**$ 28**	**$ 212**
Deferred	**118**	**100**	**218**
Total income tax expense	**$ 302**	**$ 128**	**$ 430**
2002:			
Current	$ 327	$ 26	$ 353
Deferred	(4)	89	85
Total income tax expense	$ 323	$ 115	$ 438
2001:			
Current	$ 313	$ 25	$ 338
Deferred	(14)	70	56
Total income tax expense	$ 299	$ 95	$ 394

Income tax expense in the accompanying statements of earnings varies from the amount computed by applying the expected U.S. tax rate of 35% to pretax earnings. The principal reasons for the differences and the related tax effects for the years ended December 31 are summarized as follows:

(In millions)	**2003**	2002	2001
Income taxes based on U.S. statutory rates	**$ 429**	$ 441	$ 378
Utilization of foreign tax credit carryforwards	**(18)**	(21)	(21)
Noninsurance losses generating no current tax benefit	**–**	–	12
Nondeductible expenses	**5**	12	11
Other, net	**14**	6	14
Income tax expense	**$ 430**	$ 438	$ 394

Total income tax expense for the years ended December 31 was allocated as follows:

(In millions)	**2003**	2002	2001
Statements of earnings	**$ 430**	$ 438	$ 394
Other comprehensive income:			
Changes in unrealized foreign currency translation gains	**(112)**	(81)	99
Minimum pension liability adjustment	**(12)**	–	–
Unrealized gains on investment securities:			
Unrealized holding gains (losses) arising during the year	**(313)**	239	110
Reclassification adjustment for realized (gains) losses included in net earnings	**110**	(1)	(2)
Total income tax expense (benefit) allocated to other comprehensive income	**(327)**	157	207
Additional paid-in capital (exercise of stock options)	**(1)**	(1)	(1)
Total income taxes	**$ 102**	$ 594	$ 600

Changes in unrealized foreign currency translation gains/losses included a deferred income tax benefit of $111 million in 2003 and $80 million in 2002, compared with deferred income tax expense of $98 million in 2001, which represented Japanese income taxes on currency translation gains/losses that arose for Japanese tax purposes from the translation of AFLAC Japan's dollar-denominated investments into yen.

The income tax effects of the temporary differences that gave rise to deferred income tax assets and liabilities as of December 31 were as follows:

(In millions)	**2003**	2002
Deferred income tax liabilities:		
Deferred policy acquisition costs	**$ 1,382**	$ 1,144
Unrealized gains on investment securities	**1,117**	1,018
Other basis differences in investment securities	**70**	275
Premiums receivable	**110**	92
Other	**32**	11
Total deferred income tax liabilities	**2,711**	2,540
Deferred income tax assets:		
Policy benefit reserves	**64**	140
Policyholder protection fund obligation	**83**	70
Unfunded retirement benefits	**37**	35
Other accrued expenses	**63**	66
Tax credit carryforwards	**128**	128
Policy and contract claims	**71**	36
Difference in tax basis of investment in AFLAC Japan	**205**	49
Unrealized exchange loss on yen-denominated notes payable	**67**	20
Capital loss carryforwards	**106**	–
Other	**135**	93
Total gross deferred income tax assets	**959**	637
Less valuation allowance	**234**	196
Total deferred income tax assets	**725**	441
Net deferred income tax liability	**1,986**	2,099
Current income tax liability	**203**	265
Total income tax liability	**$ 2,189**	$ 2,364

A valuation allowance is provided when it is more likely than not that deferred tax assets will not be realized. We have established valuation allowances primarily for alternative minimum tax credit and noninsurance loss carryforwards that exceed projected future offsets. Under U.S. income tax rules, only 35% of noninsurance losses can be offset against life insurance taxable income each year. During 2003, the valuation allowance for deferred tax assets increased by $38 million, compared with $70 million in 2002, due to changes in carryforwards of alternative minimum tax credits and noninsurance losses. For current U.S. income tax purposes, alternative minimum tax credit carryforwards of $128 million were available at December 31, 2003.

8. SHAREHOLDERS' EQUITY

The following is a reconciliation of the number of shares of the Company's common stock for the years ended December 31:

(In thousands of shares)	**2003**	2002	2001
Common stock - issued:			
Balance, beginning of year	**648,618**	646,559	644,813
Exercise of stock options	**2,936**	2,059	1,746
Balance, end of year	**651,554**	648,618	646,559
Treasury stock:			
Balance, beginning of year	**134,179**	124,944	115,603
Purchases of treasury stock:			
Open market	**10,188**	12,094	12,219
Other	**215**	195	168
Shares issued to AFL Stock Plan	**(1,766)**	(1,776)	(1,830)
Exercise of stock options	**(1,154)**	(1,278)	(1,216)
Balance, end of year	**141,662**	134,179	124,944
Shares outstanding, end of year	**509,892**	514,439	521,615

Share Repurchase Program: As of December 31, 2003, we had approximately seven million shares available for purchase under the share repurchase program authorized by the board of directors in February 2002. In February 2004, the board of directors authorized the purchase of up to an additional 30 million shares of our common stock.

Stock Split: In 2001, the board of directors declared a two-for-one stock split. Upon distribution of the split, we transferred $32 million from additional paid-in capital to common stock representing the par value of the new shares.

Stock Options: The Company's stock option plan allows grants for both incentive stock options and non-qualifying stock options (NQSO) to employees and NQSO to members of the board of directors. The options have a term of 10 years. The exercise price is equal to the fair market value at the date of grant. The majority of our options generally vest after three years. At December 31, 2003, seven million shares were available for future grants.

We use the intrinsic value method to value stock options in accordance with APB No. 25. Under this method, we do not recognize compensation cost for stock options because the exercise price is equal to the fair market value at the date of grant. See Note 1 for additional information regarding stock options.

The following table summarizes stock option activity:

(In thousands of shares)	Option Shares	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 2000	25,981	$ 13.27
Granted in 2001	2,442	28.29
Canceled in 2001	(123)	23.29
Exercised in 2001	(3,043)	6.89
Outstanding at December 31, 2001	25,257	15.44
Granted in 2002	2,056	27.82
Canceled in 2002	(77)	26.33
Exercised in 2002	(3,476)	7.53
Outstanding at December 31, 2002	**23,760**	**17.64**
Granted in 2003	**2,324**	**31.70**
Canceled in 2003	**(74)**	**29.14**
Exercised in 2003	**(4,374)**	**8.96**
Outstanding at December 31, 2003	**21,636**	**$ 20.87**

(In thousands of shares)	**2003**	2002	2001
Shares exercisable, end of year	**15,325**	15,072	16,329

The following table summarizes information about stock options outstanding at December 31, 2003:

(In thousands of shares)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Wgtd.-Avg. Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 4.92 – $ 7.92	2,394	1.99	$ 7.70	2,394	$ 7.70
8.48 – 13.31	2,480	3.29	11.82	2,480	11.82
13.66 – 15.05	2,862	4.35	14.85	2,862	14.85
15.22 – 22.73	2,237	5.87	21.77	2,237	21.77
22.84 – 23.23	3,798	6.44	23.22	3,798	23.22
23.41 – 25.12	2,443	7.02	24.41	1,184	24.01
25.13 – 30.38	2,192	7.31	28.84	331	27.77
30.57 – 35.85	3,230	9.13	31.43	39	32.76
$ 4.92 – $ 35.85	21,636	5.81	$ 20.87	15,325	$ 17.36

For the pro forma information presented in Note 1, the fair value of each option granted was estimated on the date of grant using the Black-Scholes multiple option approach with the following assumptions for options granted during the three-year period ended December 31, 2003.

	2003	2002	2001
Expected life from vesting date (years)	**2.9 - 3.7**	4.3 - 5.5	4.4 - 5.6
Dividend yield	**.8%**	.8%	.8%
Expected volatility	**26.1%**	31.9%	32.4%
Risk-free interest rate	**4.5%**	5.0%	5.0%

For the year ended December 31, 2003, there were approximately 304,400 weighted-average shares, compared with 987,900 in 2002 and 1,057,900 in 2001, for outstanding stock options that were not included in the calculation of weighted-average shares used in the computation of diluted earnings per share because the exercise price for these options was greater than the average market price during these periods.

Voting Rights: In accordance with the Parent Company's articles of incorporation, shares of common stock are generally entitled to one vote per share until they have been held by the same beneficial owner for a continuous period of 48 months, at which time they become entitled to 10 votes per share.

9. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

Our insurance subsidiary is required to report its results of operations and financial position to state insurance regulatory authorities on the basis of statutory accounting practices prescribed or permitted by such authorities. Our branch in Japan, AFLAC Japan, must report its results of operations and financial position to the Japanese Financial Services Agency (FSA) on a Japanese statutory accounting basis as prescribed by the FSA.

As determined on a U.S. statutory accounting basis, AFLAC's net income was $742 million in 2003, $506 million in 2002 and $370 million in 2001. Capital and surplus was $2.4 billion and $2.1 billion at December 31, 2003 and 2002, respectively.

Net assets of the insurance subsidiaries aggregated $7.9 billion at December 31, 2003, on a GAAP basis, compared with $7.5 billion a year ago. AFLAC Japan accounted for $4.6 billion, or 58.7%, of these net assets, compared with $4.8 billion, or 64.0% at December 31, 2002.

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

(In millions)	**2003**	2002
Net assets on GAAP basis	**$ 7,899**	$ 7,481
Adjustment of carrying values of investments	**(3,482)**	(3,831)
Elimination of deferred policy acquisition costs	**(4,978)**	(4,221)
Adjustment to policy liabilities	**1,049**	769
Adjustment to deferred income taxes	**2,247**	2,336
Other, net	**(382)**	(421)
Net assets on U.S. statutory accounting basis	**$ 2,353**	$ 2,113

Capital and surplus (unaudited) of AFLAC Japan, based on Japanese statutory accounting practices, aggregated $2.6 billion and $3.2 billion at December 31, 2003 and 2002, respectively. Japanese statutory accounting practices differ in many respects from U.S. GAAP. Under Japanese statutory accounting practices, premium income is recognized on a cash basis, policy acquisition costs are charged off immediately, policy benefit and claim reserving methods and assumptions are different, policyholder protection fund obligations are not accrued, and deferred income tax liabilities are recognized on a different basis.

The Parent Company depends on its subsidiaries for cash flow, primarily in the form of dividends and management fees. Consolidated retained earnings in the accompanying financial statements largely represent undistributed earnings of our insurance subsidiary. Amounts available for dividends, management fees and other payments to the Parent Company by its insurance subsidiary may fluctuate due to different accounting methods required by regulatory authorities. These payments are also subject to various regulatory restrictions and approvals related to safeguarding the interests of insurance policyholders. One of the primary considerations is that our insurance subsidiary must maintain adequate risk-based capital for U.S. regulatory authorities and adequate solvency margins for Japanese regulatory authorities. Also, the maximum amount of dividends that can be paid to shareholders by insurance companies domiciled in the state of Nebraska without prior approval of the director of insurance is the greater of the net gain from operations, which excludes 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. Dividend payments by AFLAC during 2004 in excess of $738 million would require such approval. Dividends paid by AFLAC during 2003 were $408 million.

A portion of AFLAC Japan earnings, as determined on a Japanese statutory accounting basis, can be remitted each year to AFLAC U.S. after complying with solvency margin provisions and satisfying various conditions imposed by Japanese regulatory authorities for protecting policyholders. Profit remittances to the United States can fluctuate due to changes in the amounts of Japanese regulatory earnings. Among other items, factors affecting regulatory earnings include Japanese regulatory accounting practices and fluctuations in currency translations of AFLAC Japan's dollar-denominated investments into yen. AFLAC Japan remitted profits of $385 million, or ¥45.6 billion, to AFLAC U.S. during 2003, compared with $383 million, or ¥45.3 billion in 2002, and $185 million, or ¥23.0 billion in 2001. The 2001 profit repatriation was reduced as a result of our decision to retain earnings in Japan in order to enhance our solvency margin.

For the Japanese reporting fiscal year ended March 31, 2002, AFLAC Japan was required to adopt a new Japanese statutory accounting standard regarding fair value accounting for investments. Previously, investment securities were generally reported at amortized cost for FSA purposes. Under the new accounting standard, AFLAC Japan now classifies investment securities in either an available-for-sale category at fair value or a held-to-maturity category at amortized cost. Unrealized gains and losses on investment securities available for sale are reported in capital and surplus and reflected in solvency margin calculations. This new accounting standard may result in significant fluctuations in FSA equity, AFLAC Japan's solvency margin, and amounts available for annual profit repatriation.

10. BENEFIT PLANS

Our basic employee defined-benefit pension plans cover substantially all of our full-time employees. Pension plan assets of our U.S. and Japanese plans consist of diverse portfolios of debt and equity securities. 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. The projected benefit obligation of both our U.S. and Japanese plans significantly exceeded the fair value of plan assets at December 31, 2003 and 2002. The underfunded status of the plans was primarily attributable to steadily increasing pension benefit obligations combined with depressed fair values for the assets of both plans as a result of general market conditions for investment securities during 2003 and 2002. During 2003, market conditions affecting the fair value of U.S. plan assets improved, resulting in a positive return in 2003. Under GAAP, a minimum pension liability is required when the unfunded actuarial present value of the accumulated benefit obligation exceeds plan assets and the accrued pension liability. The change in the minimum pension liability in our U.S. plan included in other comprehensive income was $9 million for the year ended December 31, 2003, compared with $8 million a year ago. The change in the minimum pension liability in the Japanese plan included in other comprehensive income was $27 million for the year ended December 31, 2003. There was no minimum pension liability in the Japanese plan included in other comprehensive income in the prior year.

The measurement date for performing the valuation of our U.S. plan is September 30. Reconciliations of the funded status of the basic employee defined-benefit pension plans with amounts recognized in the consolidated balance sheets as of December 31 were as follows:

	2003		2002	
(In thousands)	**Japan**	**U.S.**	Japan	U.S.
Projected benefit obligation:				
Benefit obligation, beginning of year	**$ 91,305**	**$ 89,040**	$ 69,194	$ 79,047
Service cost	**8,538**	**5,078**	5,491	3,901
Interest cost	**3,352**	**6,268**	1,953	5,505
Plan amendments	**–**	**–**	–	577
Actuarial loss (gain)	**30,627**	**12,699**	8,542	1,583
Benefits paid	**(1,639)**	**(2,046)**	(1,274)	(1,573)
Effect of foreign exchange rate changes	**12,447**	**–**	7,399	–
Benefit obligation transferred to government plan	**(47,824)**	**–**	–	–
Benefit obligation, end of year	**96,806**	**111,039**	91,305	89,040
Plan assets:				
Fair value of plan assets, beginning of year	**45,746**	**45,829**	39,419	48,761
Actual return on plan assets	**1,353**	**4,106**	(2,792)	(4,350)
Employer contribution	**6,445**	**4,165**	6,362	2,991
Benefits paid	**(1,639)**	**(2,046)**	(1,274)	(1,573)
Effect of foreign exchange rate changes	**5,960**	**–**	4,031	–
Assets transferred to government plan	**(26,719)**	**–**	–	–
Fair value of plan assets, end of year	**31,146**	**52,054**	45,746	45,829
Funded status	**(65,660)**	**(58,985)**	(45,559)	(43,211)
Unrecognized net actuarial loss (gain)	**55,595**	**43,090**	21,600	30,769
Unrecognized transition obligation (asset)	**3,148**	**(232)**	3,012	(354)
Unrecognized prior service cost	**670**	**1,842**	647	2,018
Adjustment for minimum pension liability	**(27,189)**	**(16,858)**	–	(8,080)
Liability for accrued benefit cost	**$ (33,436)**	**$ (31,143)**	$ (20,300)	$ (18,858)
Accumulated benefit obligation	**$ 64,582**	**$ 83,196**	$ 63,207	$ 66,705

Equity securities accounted for 59% of U.S. plan assets at December 31, 2003, compared with 54% a year ago. Equity securities for our U.S. plan included $2 million (4% of plan assets) of AFLAC Incorporated common stock at both December 31, 2003 and 2002. Fixed-income securities accounted for 28% of U.S. plan assets at December 31, 2003, compared with 25% a year ago. Cash and cash equivalents accounted for 13% in 2003, compared with 21% a year ago. Target asset allocations for U.S. plan assets are 55% to 60% equity securities, 35% to 40% fixed-income securities and 5% to 10% cash and cash equivalents.

The investment objective of our U.S. plan is to preserve the purchasing power of the plan's assets and earn a reasonable inflation adjusted rate of return over a long-term horizon. Furthermore, we seek to accomplish these objectives in a manner that allows for the adequate funding of plan benefits and expenses. In order to achieve these objectives, our goal is to maintain a conservative, well-diversified and balanced portfolio of high quality equity, fixed-income and money market securities. As a part of our strategy, we have established strict policies covering investment security quality, type and concentration. These policies prohibit investments in derivatives, precious metals, limited partnerships, real estate, venture capital, futures contracts, and foreign securities. We are also prohibited from trading on margin.

We monitor U.S. plan asset performance results over a three to five year period utilizing shorter time frame performance measures to identify trends. We review investment performance and compliance with stated investment policies and practices on a quarterly basis. The specific three to five year investment objectives for the U.S. pension plan are to earn a total rate of return on equity securities which exceeds the rate of return for the Standard & Poor's 500 stock index and to earn a total rate of return on fixed-income securities, which exceeds the Merrill Lynch one-to-ten-year investment grade government/corporate bond index.

Expected future benefits payments for the U.S. plan were as follows: 2004, $3 million; 2005, $3 million; 2006, $3 million; 2007, $3 million; 2008, $4 million; and 2009 through 2013, $25 million. We estimate that contributions to fund the plan will be approximately $6 million in 2004.

Equity securities accounted for 35% of Japanese plan assets at December 31, 2003, compared with 50% a year ago. Fixed-income securities accounted for 65% of Japanese plan assets, compared with 50% a year ago.

Our Japanese pension plan has two distinct components: the corporate portion and the substitutional portion. The corporate portion is based on a plan established by AFLAC Japan. The substitutional portion is based on the pay-related part of old-age pension benefits prescribed by the Japan Welfare Pension Insurance Law (JWPIL) and is similar to Social Security benefits in the United States. Benefits under the substitutional portion are calculated based on a standard remuneration schedule determined by the JWPIL. By maintaining the substitutional portion, AFLAC Japan was exempted from contributions to Japanese Pension Insurance (JPI).

In 2001, the JWPIL was amended to allow employers to transfer the substitutional portion of employer pension plans back to the Japanese government. The transfer process takes place in four distinct phases. In phase one, an agreement of separation and transfer is obtained from covered employees and subsequent application is made to the Japanese government for the transfer. In phase two, the Japanese government either approves or denies the application. Upon receipt of approval, the employer is relieved of the pension obligation related to future employee service under the substitutional portion of the plan. The employer then resumes making contributions to JPI. In phase three, a second application is made to the Japanese government to relieve the employer of the pension obligation related to past employee service. In phase four, the Japanese government gives final approval for the separation. Upon receipt of approval, the employer is relieved of its obligation for past employee service under the substitutional portion. Plan assets related to the substitutional portion are then transferred to the JPI.

During 2003, we made the decision to separate the substitutional portion from the pension plan and transfer the obligation and related plan assets to the Japanese government. As of December 31, 2003, we had completed all four phases outlined above with the exception of the transfer of the related assets to the Japanese government. In January 2004, participants in the substitutional portion of the plan were notified by the Japanese government that it had assumed the liability for past and future service portions of the plan. However, as of December 31, 2003, we no longer had a pension obligation related to the substitutional plan. The Japanese government began making payments to plan participants effective December 1, 2003.

In accordance with EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, following transfer and acceptance of the substitutional plan assets, we will recognize a gain of $7 million in the first quarter of 2004. This gain comprises a settlement loss and related increase in the accrued pension liability in the amount of $17 million for the release of unrecognized losses related to the substitutional plan; a reduction in pension expense and related adjustment to the accrued pension liability in the amount of $15 million for the release of the accrued pension cost related to the substitutional plan; and a subsidy from the Japanese government in the amount of $9 million (other income) in connection with the completion of the transfer process.

In the course of separating the substitutional plan from our pension plan, we updated our covered salary assumptions, and revised withdrawal and payment rate tables and service date information for the corporate portion of the plan to better reflect its provisions. These changes resulted in an actuarial loss of $26 million, which is included in the actuarial loss component of the Japanese plan benefit obligation as of December 31, 2003.

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

	2003		2002		2001	
(In thousands)	**Japan**	**U.S.**	Japan	U.S.	Japan	U.S.
Components of net periodic benefit cost:						
Service cost	**$ 8,538**	**$ 5,078**	$ 5,491	$ 3,901	$ 4,132	$ 3,583
Interest cost	**3,352**	**6,268**	1,953	5,505	1,784	5,072
Expected return on plan assets	**(1,258)**	**(5,044)**	(1,176)	(5,290)	(1,152)	(5,612)
Amortization of:						
Net actuarial loss	**3,331**	**1,316**	685	131	225	–
Transition obligation (asset)	**310**	**(122)**	290	(121)	295	(122)
Prior service cost	**75**	**175**	71	175	72	138
Net periodic benefit cost	**$ 14,348**	**$ 7,671**	$ 7,314	$ 4,301	$ 5,356	$ 3,059
Weighted-average actuarial assumptions used in the calculations:						
Discount rate – net periodic benefit cost	**2.5%**	**6.5%**	2.5%	7.0%	2.5%	7.0%
Discount rate – benefit obligations	**2.5**	**6.5**	2.5	7.0	2.5	7.0
Expected long-term return on plan assets	**2.5**	**9.0**	2.5	9.0	2.5	9.0
Rate of compensation increase	**3.5**	**4.0**	3.5	4.0	3.5	4.0

We base the long-term rate of return on U.S. plan assets on the historical rates of return over the last 15 years and the expectation of similar returns over the long-term investment goals and objectives of U.S. plan assets.

In addition to the benefit obligations for funded employee plans, we also maintain unfunded supplemental retirement plans for certain officers and beneficiaries. Retirement expense for the unfunded supplemental plans was $19 million in 2003, $13 million in 2002, and $15 million in 2001. The accrued retirement liability for the unfunded supplemental retirement plans at December 31, 2003 and 2002, was $180 million and $167 million, respectively. The actuarial present value of projected benefit obligations was $194 million and $172 million at December 31, 2003 and 2002, respectively. The assumptions used in the valuation of these plans were the same as for the funded plans.

Reconciliations of the benefit obligation of the unfunded retiree medical program and other postretirement benefits for U.S. employees with amounts recognized in the accompanying consolidated balance sheets as of December 31 were as follows:

(In thousands)	**2003**	2002
Benefit obligation:		
Benefit obligation, beginning of year	**$ 18,060**	$ 15,010
Service cost	**681**	423
Interest cost	**1,231**	1,051
Actuarial loss (gain)	**1,763**	2,722
Benefits paid	**(1,193)**	(1,146)
Unfunded benefit obligation, end of year	**20,542**	18,060
Unrecognized net actuarial gain (loss)	**(5,195)**	(3,714)
Unrecognized prior service cost	**(266)**	(291)
Accrued benefit cost	**$ 15,081**	$ 14,055

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

(In thousands)	**2003**	2002	2001
Service cost	**$ 681**	$ 423	$ 522
Interest cost	**1,231**	1,051	1,020
Amortization of net (gain) loss	**281**	–	–
Amortization of prior service cost	**26**	25	25
Net periodic benefit cost	**$ 2,219**	$ 1,499	$ 1,567
Discount rate:			
Net periodic cost	**6.5%**	7.0%	7.0%
Benefit obligations	**6.5**	7.0	7.0
Effect of 1-percentage point increase in health care cost trend rate:			
On total of service and interest cost components	**$ 2,331**	$ 183	$ 168
On postretirement benefit obligation	**1,650**	1,279	1,070
Effect of 1-percentage point decrease in health care cost trend rate:			
On total of service and interest cost components	**(1,886)**	(156)	(143)
On postretirement benefit obligation	**(1,437)**	(1,113)	(919)

The projected health care cost trend rate used in 2003 was 11%, graded to 6% over six years.

Stock Bonus Plan: AFLAC U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants receive shares of AFLAC Incorporated common stock based on their new annualized premium sales and persistency of substantially all new insurance policies. The cost of this plan, which is included in deferred policy acquisition costs, amounted to $32 million in 2003, $30 million in 2002, and $24 million in 2001.

11. COMMITMENTS AND CONTINGENT LIABILITIES

We lease office space and equipment under various agreements that expire in various years through 2021. Future minimum lease payments due under non-cancelable operating leases at December 31, 2003, were as follows: 2004, $41 million; 2005, $20 million; 2006, $13 million; 2007, $9 million; and thereafter, $34 million.

A portion of AFLAC Japan's administrative office building is located on leased land. Under the terms of the lease agreement, we are committed to purchase the leased land, at fair value, upon the demand of the owner. As of December 31, 2003, the estimated fair value of the leased land was ¥1.8 billion ($17 million using the year-end exchange rate).

We are a defendant in various lawsuits considered to be in the normal course of business. Some of this litigation is pending in states where large punitive damages bearing little relation to the actual damages sustained by plaintiffs have been awarded against other companies, including insurers, in recent years. Although the final results of any litigation cannot be predicted with certainty, we believe the outcome of pending litigation will not have a material adverse effect on our financial position, results of operations, or cash flows.

12. SUPPLEMENTARY INFORMATION

	2003	2002	2001
Weighted-average shares used in calculating earnings per share (In thousands):			
Average outstanding shares used for calculating basic EPS	**513,220**	517,541	525,098
Dilutive effect of stock options	**8,918**	10,785	12,285
Average outstanding shares used for calculating diluted EPS	**522,138**	528,326	537,383
Other:			
Policy acquisition costs deferred during the year (In millions)	**$ 874**	$ 756	$ 651
Commissions deferred as a percentage of total acquisition costs deferred	**76%**	74%	71%
Personnel compensation and benefits as a percentage of insurance expenses	**45%**	47%	44%
Supplemental disclosures of cash flow information (In millions):			
Income taxes paid	**$ 333**	$ 363	$ 347
Interest paid	**18**	22	23
Impairment losses included in realized investment losses	**1**	58	86
Noncash financing activities:			
Capitalized lease obligations	**14**	8	17
Treasury shares issued to AFL Stock Plan for:			
Shareholder dividend reinvestment	**8**	7	6
Associate stock bonus	**31**	22	17
Property and equipment (In millions):			
Land	**$ 142**	$ 131	$ 117
Buildings	**392**	355	339
Equipment	**243**	219	186
	777	705	642
Less accumulated depreciation	**259**	223	186
Net property and equipment	**$ 518**	$ 482	$ 456

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RESOLUTE \'re-zə-lüt\(adj) marked by firm determination

Management's Responsibility for Financial Statements

Management is responsible for the consolidated financial statements of AFLAC Incorporated and subsidiaries. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based upon management's best estimates and judgments. Informed judgments and estimates are used for those transactions not yet complete or for which the ultimate effects cannot be measured precisely. Financial information elsewhere in this annual report is consistent with the information in the financial statements.

The company's internal controls are designed to reasonably assure that AFLAC Incorporated's books and records reflect the transactions of the company, that assets are safeguarded, and that the company's established policies and procedures are followed. The effectiveness of the controls system is supported by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility, and a comprehensive internal audit program.

The company engages KPMG LLP as independent auditors to audit its financial statements and express their opinion thereon. Their audits include reviews and tests of the company's internal controls to the extent they believe necessary to determine the audit procedures to be performed that will support their opinion. Members of that firm also have the right of full access to each member of management in conducting their audits. The report of KPMG LLP appears below.

The audit committee of the board of directors, which comprises outside directors, serves in an oversight role to assure the integrity and objectivity of the company's financial reporting process. The committee meets periodically with representatives of management, as well as with the independent and internal auditors, to review matters of a material nature related to financial reporting and the planning, results and recommendations of audits. The independent and internal auditors have free access to the audit committee, without management present, to discuss any matter they believe should be brought to the attention of the committee. The committee is also responsible for making recommendations to the board of directors concerning the selection of the independent auditors.

Daniel P. Amos

Daniel P. Amos
Chairman and Chief Executive Officer

Kriss Cloninger III

Kriss Cloninger III
President and Chief Financial Officer

Independent Auditors' Report

The shareholders and board of directors of AFLAC Incorporated:

We have audited the accompanying consolidated balance sheets of AFLAC Incorporated and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFLAC Incorporated and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Atlanta, Georgia
February 2, 2004

Unaudited Consolidated Quarterly Financial Data

(In millions, except for per-share amounts)

Three months ended,	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Premium Income	**$ 2,372**	**$ 2,407**	**$ 2,478**	**$ 2,664**
Net Investment Income	**430**	**436**	**448**	**473**
Realized investment gains (losses)	**(7)**	**(6)**	**(4)**	**(284)**
Other income (loss)	**12**	**24**	**9**	**(6)**
Total revenues	**2,807**	**2,861**	**2,931**	**2,847**
Total benefits and expenses	**2,437**	**2,484**	**2,560**	**2,741**
Earnings before income taxes	**370**	**377**	**371**	**106**
Total income tax	**133**	**129**	**134**	**33**
Net earnings	**$ 237**	**$ 248**	**$ 237**	**$ 73**
Net earnings per basic share	**$ .46**	**$ .48**	**$ .46**	**$ .14**
Net earnings per diluted share	**.45**	**.48**	**.45**	**.14**

Three months ended,	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Premium Income	$ 1,998	$ 2,097	$ 2,253	$ 2,247
Net investment income	381	397	418	418
Realized investment gains (losses)	(8)	(3)	(3)	–
Other income (loss)	–	22	39	1
Total revenues	2,371	2,513	2,707	2,666
Total benefits and expenses	2,086	2,191	2,350	2,371
Earnings before income taxes	285	322	357	295
Total income tax	102	110	117	109
Net earnings	$ 183	$ 212	$ 240	$ 186
Net earnings per basic share	$ .35	$ .41	$ .46	$ .36
Net earnings per diluted share	.34	.40	.45	.35

Quarterly amounts may not agree in total to the corresponding annual amounts due to rounding.

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EDGE

TRANSPARENT

\tran(t)s-'par-ənt\(adj) free from pretense or deceit; readily understood