UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003
Commission File No. 1-7434

AFLAC INCORPORATED

AFLAC INCORPORATED

(Exact name of Registrant as specified in its charter)

GEORGIA	**58-1167100**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1932 Wynnton Road, Columbus, Georgia	**31999**
(Address of principal executive offices)	(Zip Code)

706-323-3431
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	November 7, 2003
Common Stock, $.10 Par Value	512,829,941 shares

AFLAC INCORPORATED AND SUBSIDIARIES
Table of Contents

Items other than those listed above are omitted because they are not required or are not applicable.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Balance Sheets
(In millions)

	September 30, 2003 (Unaudited)	December 31, 2002
Assets:		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost $22,322 in 2003 and $19,423 in 2002)	**$ 25,037**	$ 22,659
Perpetual debentures (amortized cost $3,201 in 2003 and $2,758 in 2002)	**3,227**	2,730
Equity securities (cost $32 in 2003 and $262 in 2002)	**66**	258
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value $8,950 in 2003 and $8,599 in 2002)	**9,027**	8,394
Perpetual debentures (fair value $4,202 in 2003 and $3,595 in 2002)	**4,145**	3,700
Other investments	**33**	27
Cash and cash equivalents	**1,176**	1,379
Total investments and cash	**42,711**	39,147
Receivables, primarily premiums	**495**	435
Accrued investment income	**403**	414
Deferred policy acquisition costs	**4,789**	4,277
Property and equipment, at cost less accumulated depreciation	**503**	482
Other	**335**	303
Total assets	**$ 49,236**	$ 45,058

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Balance Sheets (continued)
(In millions, except for share and per-share amounts)

	September 30, 2003 (Unaudited)	December 31, 2002
Liabilities and shareholders' equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	**$ 33,711**	$ 29,797
Unpaid policy claims	**2,008**	1,753
Unearned premiums	**489**	428
Other policyholders' funds	**928**	748
Total policy liabilities	**37,136**	32,726
Notes payable	**1,376**	1,312
Income taxes	**2,312**	2,364
Payables for security transactions	**135**	274
Payables for return of cash collateral on loaned securities	**594**	1,049
Other	**1,016**	939
Commitments and contingent liabilities (Note 8)		
Total liabilities	**42,569**	38,664
Shareholders' equity:		
Common stock of $.10 par value. In thousands: authorized 1,000,000 shares; issued 651,177 shares in 2003 and 648,618 shares in 2002	**65**	65
Additional paid-in capital	**405**	371
Retained earnings	**5,854**	5,244
Accumulated other comprehensive income:		
Unrealized foreign currency translation gains	**216**	222
Unrealized gains on investment securities	**2,236**	2,416
Minimum pension liability adjustment	**(11)**	(8)
Treasury stock, at average cost	**(2,098)**	(1,916)
Total shareholders' equity	**6,667**	6,394
Total liabilities and shareholders' equity	**$ 49,236**	$ 45,058
Shareholders' equity per share	**$ 13.01**	$ 12.43

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Earnings
(In millions, except for share and per-share amounts - Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	**2003**	2002
Revenues:				
Premiums, principally supplemental health insurance	**$ 2,478**	$ 2,253	**$ 7,257**	$ 6,348
Net investment income	**448**	418	**1,314**	1,195
Realized investment gains (losses)	**(4)**	(3)	**(17)**	(14)
Other income	**9**	39	**46**	62
Total revenues	**2,931**	2,707	**8,600**	7,591
Benefits and expenses:				
Benefits and claims	**1,872**	1,735	**5,500**	4,878
Acquisition and operating expenses:				
Amortization of deferred policy acquisition costs	**113**	99	**341**	284
Insurance commissions	**287**	274	**842**	772
Insurance expenses	**264**	218	**724**	612
Interest expense	**6**	5	**16**	14
Other operating expenses	**18**	19	**58**	67
Total acquisition and operating expenses	**688**	615	**1,981**	1,749
Total benefits and expenses	**2,560**	2,350	**7,481**	6,627
Earnings before income taxes	**371**	357	**1,119**	964
Income taxes	**134**	117	**396**	329
Net earnings	**$ 237**	$ 240	**$ 723**	$ 635
Net earnings per share:				
Basic	**$ .46**	$ .46	**$ 1.41**	$ 1.22
Diluted	**.45**	.45	**1.38**	1.20
Common shares used in computing earnings per share (In thousands):				
Basic	**513,385**	516,984	**513,888**	518,169
Diluted	**521,212**	527,908	**522,793**	529,038
Cash dividends per share	**$ .08**	$ .06	**$ .22**	$ .17

See the accompanying Notes to the Consolidated Financial Statements.

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
(In millions, except for per-share amounts - Unaudited)

	Nine Months Ended September 30, **2003**	2002
Common stock:		
Balance, beginning and end of period	**$ 65**	$ 65
Additional paid-in capital:		
Balance, beginning of period	**371**	338
Exercise of stock options, including income tax benefits	**16**	6
Gain on treasury stock reissued	**18**	18
Balance, end of period	**405**	362
Retained earnings:		
Balance, beginning of period	**5,244**	4,542
Net earnings	**723**	635
Dividends to shareholders ($.22 per share in 2003 and $.17 per share in 2002)	**(113)**	(88)
Balance, end of period	**5,854**	5,089
Accumulated other comprehensive income:		
Balance, beginning of period	**2,630**	2,091
Change in unrealized foreign currency translation gains (losses) during period, net of income taxes	**(6)**	13
Change in unrealized gains (losses) on investment securities during period, net of income taxes	**(180)**	333
Minimum pension liability adjustment during period, net of income taxes	**(3)**	-
Balance, end of period	**2,441**	2,437
Treasury stock:		
Balance, beginning of period	**(1,916)**	(1,611)
Purchases of treasury stock	**(216)**	(264)
Cost of shares issued	**34**	26
Balance, end of period	**(2,098)**	(1,849)
Total shareholders' equity	**$ 6,667**	$ 6,104

See the accompanying Notes to the Consolidated Financial Statements.

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In millions - Unaudited)

	Nine Months Ended September 30, **2003**	2002
Cash flows from operating activities:		
Net earnings	**$ 723**	$ 635
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	**(43)**	22
Increase in deferred policy acquisition costs	**(279)**	(254)
Increase in policy liabilities	**1,897**	1,776
Change in income tax liabilities	**229**	131
Realized investment losses	**17**	14
Other, net	**62**	111
Net cash provided by operating activities	**2,606**	2,435
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	**1,195**	1,182
Fixed maturities matured	**945**	860
Perpetual debentures sold	**101**	-
Equity securities and other	**222**	55
Fixed-maturity securities held to maturity	**-**	238
Costs of investments acquired:		
Securities available for sale:		
Fixed maturities	**(3,849)**	(2,559)
Perpetual debentures	**(287)**	-
Equity securities	**(3)**	(102)
Securities held to maturity:		
Fixed maturities	**(328)**	(1,628)
Perpetual debentures	**(169)**	(135)
Change in cash collateral on loaned securities, net	**(499)**	292
Other, net	**(18)**	(24)
Net cash used by investing activities	**$ (2,690)**	$ (1,821)

See the accompanying Notes to the Consolidated Financial Statements.

(continued)

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
(In millions - Unaudited)

	Nine Months Ended September 30, 2003	2002
Cash flows from financing activities:		
Purchases of treasury stock	**$ (216)**	$ (264)
Dividends paid to shareholders	**(107)**	(83)
Change in investment-type contracts, net	**124**	62
Treasury stock reissued	**24**	22
Principal payments under debt obligations	**(11)**	(231)
Proceeds from borrowings	**-**	254
Other, net	**15**	6
Net cash used by financing activities	**(171)**	(234)
Effect of exchange rate changes on cash and cash equivalents	**52**	59
Net change in cash and cash equivalents	**(203)**	439
Cash and cash equivalents, beginning of period	**1,379**	852
Cash and cash equivalents, end of period	**$ 1,176**	$ 1,291
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 164**	$ 196
Interest paid	**9**	17
Impairment losses included in realized investment losses	**-**	48
Noncash financing activities:		
Capitalized lease obligations	**8**	6
Treasury shares issued to AFL Stock Plan for:		
Shareholder dividend reinvestment	**6**	5
Associate stock bonus	**22**	17

See the accompanying Notes to the Consolidated Financial Statements.

AFLAC INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In millions - Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	**2003**	2002
Net earnings	**$ 237**	$ 240	**$ 723**	$ 635
Other comprehensive income before income taxes:				
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses) during period	**(94)**	31	**(80)**	(48)
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during period	**(1,563)**	116	**(445)**	466
Reclassification adjustment for realized (gains) losses included in net earnings	**4**	4	**17**	14
Minimum pension liability adjustment during period	**-**	-	**(3)**	-
Total other comprehensive income (loss) before income taxes	**(1,653)**	151	**(511)**	432
Income tax expense (benefit) related to items of other comprehensive income	**(602)**	17	**(322)**	86
Other comprehensive income (loss) net of income taxes	**(1,051)**	134	**(189)**	346
Total comprehensive income (loss)	**$ (814)**	$ 374	**$ 534**	$ 981

See the accompanying Notes to the Consolidated Financial Statements.

AFLAC INCORPORATED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated financial statements of AFLAC Incorporated and subsidiaries (the "Company") contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheet as of September 30, 2003, and the consolidated statements of earnings and comprehensive income for the three and nine-month periods ended September 30, 2003 and 2002, and consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2003 and 2002. Results of operations for interim periods are not necessarily indicative of results for the entire year.

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 information currently available. 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.

These financial statements should be read in conjunction with the financial statements included in our annual report to shareholders for the year ended December 31, 2002.

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. No compensation expense is reflected in net earnings as 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. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for per-share amounts)	**2003**	2002	**2003**	2002
Net earnings, as reported	**$ 237**	$ 240	**$ 723**	$ 635
Deduct compensation expense determined under a fair value method, net of tax	**6**	10	**21**	27
Pro forma net earnings	**$ 231**	$ 230	**$ 702**	$ 608
Earnings per share:				
Basic - as reported	**$ .46**	$ .46	**$ 1.41**	$ 1.22
Basic - pro forma	**.45**	.44	**1.37**	1.17
Diluted - as reported	**$ .45**	$ .45	**$ 1.38**	$ 1.20
Diluted - pro forma	**.44**	.43	**1.34**	1.15

2. 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.

As part of our investment activities, we have yen-denominated investments in nine VIEs totaling $1.4 billion at amortized cost, or $1.3 billion at fair value. We have completed our review of these investments and have concluded that we are the primary beneficiary. Therefore, we will now consolidate our interests in accordance with FIN 46 effective December 31, 2003. 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 have also invested in eleven yen-denominated fixed-maturity securities issued by three special purpose entities (SPEs) totaling $1.0 billion at amortized cost, or $980 million at fair value. The underlying collateral assets of the SPEs are either yen-denominated or dollar-denominated debt securities that have been effectively transformed into yen-denominated assets through the use of currency and interest rate swaps. Each of the SPEs has a default trigger whereby default on any of the underlying securities would force dissolution of the SPE, distribution of the underlying securities, and termination of the related swaps. We have no equity interests in any of the SPEs, nor do we have control over these entities. Therefore, our loss exposure is limited to the cost of our investment. We have concluded our review of these investments and have determined that these investments are not subject to the consolidation requirements of FIN 46.

During the second quarter of 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The requirements of these standards are not expected to impact our financial position or results of operations.

For additional information on new accounting pronouncements, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2002.

3. 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 and manage our business segments using a non-GAAP financial performance measure called pretax operating earnings. We believe the presentation and evaluation of operating earnings provides information that may enhance an investor's understanding of the Company's underlying profitability and results of operations. 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 and the change in fair value of the interest rate component of cross-currency swaps. We then exclude income taxes related to operations to arrive at pretax operating earnings. The fluctuations in these items are driven by external economic factors that may not reflect the results of our underlying business. Therefore, we believe operating earnings is a useful financial measure because it focuses on the performance of the business and excludes items that are inherently unpredictable. Information regarding operations by segment follows:

Table of Contents

(In millions)	Three Months Ended September 30, **2003**	2002	Nine Months Ended September 30, **2003**	2002
Revenues:				
AFLAC Japan:				
Earned premiums	**$ 1,818**	$ 1,686	**$ 5,336**	$ 4,713
Net investment income	**355**	331	**1,044**	946
Other income	**5**	-	**16**	-
Total AFLAC Japan	**2,178**	2,017	**6,396**	5,659
AFLAC U.S.:				
Earned premiums	**660**	568	**1,921**	1,635
Net investment income	**92**	84	**267**	245
Other income	**3**	2	**7**	7
Total AFLAC U.S.	**755**	654	**2,195**	1,887
Other business segments	**9**	12	**29**	33
Total business segment revenues	**2,942**	2,683	**8,620**	7,579
Realized investment gains (losses)	**(4)**	(3)	**(17)**	(14)
Corporate*	**8**	43	**44**	74
Intercompany eliminations	**(15)**	(16)	**(47)**	(48)
Total revenues	**$ 2,931**	$ 2,707	**$ 8,600**	$ 7,591
Earnings before income taxes:				
AFLAC Japan	**$ 276**	$ 242	**$ 843**	$ 697
AFLAC U.S.	**117**	100	**327**	290
Other business segments	**-**	-	**-**	(1)
Total business segment earnings	**393**	342	**1,170**	986
Realized investment gains (losses)	**(4)**	(3)	**(17)**	(14)
Interest expense, noninsurance operations	**(5)**	(4)	**(14)**	(12)
Corporate*	**(13)**	22	**(20)**	4
Total earnings before income taxes	**$ 371**	$ 357	**$ 1,119**	$ 964

**Includes for the three-month period, investment income of $1 in 2003, compared with $2 in 2002 and $3 for the nine-month period in 2003, compared with $4 in 2002. Also, includes for the three-month period, a loss of $2 in 2003 and a gain of $34 in 2002 related to changes in fair value of the interest rate component of the cross-currency swaps, and for the nine-month period, a gain of $11 in 2003 and $43 in 2002.*

Assets were as follows:

(In millions)	**September 30, 2003**	December 31, 2002
Assets:		
AFLAC Japan	**$ 41,065**	$ 37,983
AFLAC U.S.	**7,723**	6,672
Other business segments	**52**	62
Total business segment assets	**48,840**	44,717
Corporate	**8,240**	7,887
Intercompany eliminations	**(7,844)**	(7,546)
Total assets	**$ 49,236**	$ 45,058

4. INVESTMENTS

Realized Investment Gains and Losses

We realized pretax investment losses of $4 million (after-tax, $.01 per diluted share) for the quarter ended September 30, 2003 and $17 million (after-tax, $.03 per diluted share) for the nine months ended September 30, 2003. These losses resulted from our program to liquidate our equity securities portfolio and other investment transactions in the normal course of business.

For the quarter ended September 30, 2002, we realized pretax investment losses of $3 million (after-tax, $.01 per diluted share), primarily as a result of impairment losses on various equity securities. In the first quarter of 2002, we recognized a pretax impairment loss of $37 million on the corporate debt security of a Japanese issuer we determined to have had an other than temporary decline in fair value. We then transferred this security from the held-to-maturity category to the available-for-sale category as a result of its credit rating downgrade. We also recognized pretax impairment losses of $5 million related to various equity securities we deemed to have had other than temporary declines in fair value. The preceding impairment losses and other investment transactions in the normal course of business decreased pretax earnings by $14 million (after-tax, $.02 per diluted share) for the nine months ended September 30, 2002.

Unrealized Investment Gains and Losses

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

(In millions)	**September 30, 2003**	December 31, 2002
Unrealized gains on securities available for sale	**$ 2,775**	$ 3,204
Unamortized unrealized gains on securities transferred to held to maturity	**625**	625
Deferred income taxes	**(1,164)**	(1,413)
Shareholders' equity, net unrealized gains on investment securities	**$ 2,236**	$ 2,416

During the first quarter of 2003, we reclassified our investments in two issuers, totaling $366 million at amortized cost, from held to maturity to available for sale as a result of the issuers' credit rating downgrades. Included in accumulated other comprehensive income immediately prior to the transfer was an unamortized gain of $4 million related to one of these securities. This gain represented the remaining unamortized portion of a $5 million gain established in 1998 when we reclassified this investment from available for sale to held to maturity.

Security Lending

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 recorded 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 September 30, 2003, we had security loans outstanding with a fair value of $578 million, and we held cash in the amount of $594 million as collateral for these loaned securities. At December 31, 2002, we had security loans outstanding with a fair value of $1.0 billion, and we held cash in the amount of $1.0 billion as collateral for these loaned securities. See Note 3 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2002.

5. FINANCIAL INSTRUMENTS

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.

As of September 30, 2003, and December 31, 2002, we had outstanding cross-currency swap agreements related to our $450 million senior notes (Note 6). We have 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.

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

(In millions)	**September 30, 2003**	December 31, 2002
Interest rate component	**$ 49**	$ 38
Foreign currency component	**(50)**	(18)
Accrued interest component	**10**	5
Total fair value of cross-currency swaps	**$ 9**	$ 25

The following is a reconciliation of the foreign currency component of the cross-currency swaps as included in accumulated other comprehensive income for the nine-month periods ended September 30.

(In millions)	**2003**	2002
Balance, beginning of period	**$ (18)**	$ 27
Increase (decrease) in fair value of cross-currency swaps	**(16)**	14
Interest rate component not qualifying for hedge accounting reclassified to net earnings	**(16)**	(48)
Balance, end of period	**$ (50)**	$ (7)

6. NOTES PAYABLE

A summary of notes payable follows:

(In millions)	**September 30, 2003**	December 31, 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 yen)	**270**	250
.87% notes due June 2006 (principal amount 40 billion yen)	**359**	334
.96% notes due June 2007 (principal amount 30 billion yen)	**270**	250
Obligations under capitalized leases, payable monthly through 2008, secured by computer equipment in Japan	**28**	29
Total notes payable	**$ 1,376**	$ 1,312

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.

We were in compliance with all of the covenants of our notes payable at September 30, 2003. No events of default or defaults occurred during the nine months ended September 30, 2003.

7. SHAREHOLDERS' EQUITY

The following is a reconciliation of the shares of our common stock for the nine months ended September 30:

(In thousands of shares)	**2003**	2002
Common stock - issued:		
Balance, beginning of period	**648,618**	646,559
Exercise of stock options	**2,559**	1,160
Balance, end of period	**651,177**	647,719
Treasury stock:		
Balance, beginning of period	**134,179**	124,944
Purchases of treasury stock:		
Open market	**6,688**	9,538
Other	**166**	54
Shares issued to AFL Stock Plan	**(1,355)**	(1,349)
Exercise of stock options and other	**(919)**	(636)
Balance, end of period	**138,759**	132,551
Shares outstanding, end of period	**512,418**	515,168

As of September 30, 2003, we had approximately 10 million shares available for purchase under the share repurchase program authorized by the board of directors.

For the nine months ended September 30, 2003, there were approximately 402,600 weighted-average shares, compared with 1,178,200 shares in 2002, 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 (approximately 844,500 shares for the three months ended September 30, 2003 and 978,300 shares for the same period in 2002).

8. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments: We have employee benefit plans that provide pension and various post-retirement benefits. For further information regarding our benefit plans, see Note 10 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2002.

We lease office space and equipment under various agreements that expire in various years through 2021. For further information regarding lease commitments, see Note 11 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2002.

Land Purchase Commitment: 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 September 30, 2003, the estimated fair value of the leased land was 1.8 billion yen ($16 million using the September 30, 2003, exchange rate).

Litigation: 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.

REVIEW BY INDEPENDENT ACCOUNTANTS

The September 30, 2003, and 2002, financial statements included in this filing have been reviewed by KPMG LLP, independent accountants, in accordance with established professional standards and procedures for such a review.

The report of KPMG LLP commenting upon its review is included on page 17.

KPMG LLP
Certified Public Accountants
303 Peachtree Street, N.E.
Suite 2000
Atlanta, GA 30308
Telephone: (404) 222-3000
Telefax: (404) 222-3050

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The shareholders and board of directors of AFLAC Incorporated:

We have reviewed the consolidated balance sheet of AFLAC Incorporated and subsidiaries as of September 30, 2003, and the related consolidated statements of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2003 and 2002, and the consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2003, and 2002. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying consolidated balance sheet of AFLAC Incorporated and subsidiaries as of December 31, 2002, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income for the year then ended (not presented herein); and in our report dated January 30, 2003, we expressed an unqualified opinion on those financial statements.

KPMG LLP

Atlanta, Georgia
October 22, 2003

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to update the reader on matters affecting the financial condition and results of operations of AFLAC Incorporated and its subsidiaries for the nine months ended September 30, 2003. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in our annual report to shareholders for the year ended December 31, 2002.

Company Overview

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

Critical Accounting Estimates

There have been no changes in the items that we have identified as critical accounting estimates during the nine months ended September 30, 2003. For additional information, see MD&A Critical Accounting Estimates included in our annual report to shareholders for the year ended December 31, 2002.

RESULTS OF OPERATIONS

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We evaluate and manage our overall operations using a non-GAAP financial performance measure called operating earnings and our business segments using pretax operating earnings. We believe that the combined presentation and analysis of operating earnings, pretax operating earnings, and net earnings determined in accordance with GAAP, provides information that may enhance an investor's understanding of our underlying profitability and results of operations. Our definition of operating earnings as presented in the following discussion starts with net earnings and excludes the following items on an after-tax basis: realized investment gains/losses and the change in fair value of the interest rate component of cross-currency swaps. We then exclude income taxes related to operations to arrive at pretax operating earnings. The fluctuations in these reconciling items are driven by external economic factors that may not reflect the results of our underlying business. Therefore, our discussion of earnings and comparisons thereof is directed toward pretax operating earnings and operating earnings as management believes these measures better represent the performance of the business. References to operating earnings per share are based on the diluted number of average outstanding shares, unless stated otherwise. The difference between the percentage changes in operating earnings and operating earnings per share can be impacted by our share repurchase program, reissued treasury stock, and the dilutive effect of stock options. The following table sets forth the results of operations by business segment for the three and nine-month periods ended September 30.

Summary of Operating Results by Business Segment

(In millions, except for share and per-share amounts)	Three Months Ended September 30, Percentage Change	2003	2002	Nine Months Ended September 30, Percentage Change	2003	2002
Operating earnings:						
AFLAC Japan	**14.1%**	**$ 276**	$ 242	**21.0%**	**$ 843**	$ 697
AFLAC U.S.	**16.5**	**117**	100	**12.7**	**327**	290
Other business segments		**-**	-		**-**	(1)
Total business segments	**14.9**	**393**	342	**18.6**	**1,170**	986
Interest expense, noninsurance operations		**(5)**	(4)		**(14)**	(12)
Corporate and eliminations		**(10)**	(11)		**(31)**	(39)
Pretax operating earnings	**15.6**	**378**	327	**20.3**	**1,125**	935
Income taxes	**14.1**	**133**	117	**20.0**	**397**	331
Operating earnings	**16.5**	**245**	210	**20.5**	**728**	604
Reconciling items, net of tax:						
Realized investment gains (losses)		**(6)**	(3)		**(16)**	(11)
Change in fair value of the interest rate component of the cross-currency swaps		**(2)**	33		**11**	42
Net earnings	**(1.0)%**	**$ 237**	$ 240	**13.9%**	**$ 723**	$ 635
Operating earnings per basic share	**17.1%**	**$ .48**	$ .41	**21.4%**	**$ 1.42**	$ 1.17
Operating earnings per diluted share	**17.5**	**.47**	.40	**21.9**	**1.39**	1.14
Net earnings per basic share	**-%**	**$ .46**	$ .46	**15.6%**	**$ 1.41**	$ 1.22
Net earnings per diluted share	**-**	**.45**	.45	**15.0**	**1.38**	1.20
Weighted-average shares outstanding - basic (In thousands)	**(.7)%**	**513,385**	516,984	**(.8)%**	**513,888**	518,169
Weighted-average shares outstanding - diluted (In thousands)	**(1.3)**	**521,212**	527,908	**(1.2)**	**522,793**	529,038

The following table presents a reconciliation of operating earnings per share to net earnings per share for the three and nine-month periods ended September 30.

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Operating earnings per diluted share	**$ .47**	$ .40	**$ 1.39**	$ 1.14
Reconciling items, net of tax:				
Realized investment gains (losses)	**(.01)**	(.01)	**(.03)**	(.02)
Change in fair value of the interest rate component of the cross-currency swaps	**(.01)**	.06	**.02**	.08
Net earnings per diluted share	**$ .45**	$ .45	**$ 1.38**	$ 1.20

We realized after-tax investment losses of $6 million ($.01 per diluted share) for the quarter ended September 30, 2003 and $16 million ($.03 per diluted share) for the nine months ended September 30, 2003. These losses resulted from our program to liquidate our equity securities portfolio and other investment transactions in the normal course of business.

For the quarter ended September 30, 2002, we recognized after-tax investment losses of $3 million ($.01 per diluted share), primarily attributable to impairment losses on various equity securities. During the nine months ended September 30, 2002, we recognized after-tax investment losses of $11 million ($.02 per diluted share), which included impairment losses on various debt and equity securities as well as gains from the sale of various debt securities and other investment transactions in the normal course of business. See Note 4 of the Notes to the Consolidated Financial Statements for additional information.

For the three months ended September 30, 2003, we recognized an after-tax loss of $2 million ($.01 per diluted share) in connection with the change in fair value of the interest rate component of the cross-currency swaps on our senior notes payable, compared with an after-tax gain of $33 million ($.06 per diluted share) for the same period in 2002. For the nine months ended September 30, 2003, we recognized an after-tax gain of $11 million ($.02 per diluted share), compared with $42 million ($.08 per diluted share) for the same period in 2002. These amounts are included in other income in the consolidated statements of earnings.

Foreign Currency Translation

Due to the relative size of AFLAC Japan, fluctuations in the yen/dollar exchange rate can have a significant effect on our reported results. In years when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. Our business, in functional currency terms, continued to be strong, and we believe it is more appropriate to measure our performance excluding the effect of fluctuations in the yen/dollar exchange rate in order to understand the basic operating results of the business.

The following table illustrates the effect of foreign currency translation by comparing selected percentage changes of our actual consolidated operating results with those that would have been reported had foreign currency exchange rates remained unchanged from the comparable period in the prior year.

Foreign Currency Translation Effect on Operating Results

For the Periods Ended September 30,

	Including Foreign Currency Changes				Excluding Foreign Currency Changes**			
	Three Months Operating Results		Nine Months Operating Results		Three Months Operating Results		Nine Months Operating Results	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Premium income	**10.0%**	10.8%	**14.3%**	5.4%	**8.8%**	9.1%	**9.2%**	8.7%
Net investment income	**7.4**	6.5	**9.9**	3.4	**6.6**	5.2	**6.2**	5.9
Total benefits and expenses	**8.9**	9.2	**12.9**	3.9	**7.7**	7.6	**7.8**	7.2
Operating earnings*	**16.5**	14.2	**20.5**	12.3	**16.2**	13.0	**17.1**	14.3
Operating earnings per diluted share*	**17.5**	17.6	**21.9**	14.0	**17.5**	14.7	**18.4**	16.0

**See page 18 for our definition of operating earnings.*

***Amounts excluding foreign currency changes were determined using the same yen/dollar exchange rate for the current period as the comparable period in the prior year.*

Operating earnings per diluted share increased 17.5% to $.47 for the three months ended September 30, 2003, compared with the same period in 2002 and increased 21.9% to $1.39 for the nine months ended September 30, 2003, compared with the same period in 2002. The weighted-average yen/dollar exchange rate was 117.76 for the three months ended September 30, 2003, or 1.3% stronger than the weighted-average yen/dollar exchange rate of 119.24 in the third quarter of 2002. The weighted-average yen/dollar exchange rate was 118.39 for the nine months ended September 30, 2003, or 6.5% stronger than the weighted-average yen/dollar exchange rate of 126.03 for the same period in 2002. The slightly stronger weighted-average yen/dollar exchange rate did not impact earnings on a per-share basis for the third quarter. For the nine months ended September 30, 2003, the effect of foreign currency translation increased operating earnings by approximately $.04 per diluted share. Operating earnings per diluted share, excluding the effect of foreign currency translation, increased 17.5%, to $.47 for the third quarter and 18.4% to $1.35 for the nine months ended September 30, 2003, compared with the same periods in 2002.

Our primary financial objective is the growth of operating earnings per diluted share, excluding the effect of foreign currency fluctuations. We establish objectives for operating earnings growth excluding foreign currency translation rather than establishing growth objectives for net earnings because foreign currency translation, in addition to our reconciling items of realized gains and losses and the impact of SFAS No. 133, is inherently unpredictable.

For 2003, our objective had been to increase operating earnings per diluted share by 15% to 17%, excluding the impact of currency translation. We now expect that we will generate 17% growth in operating earnings per diluted share and have increased our specific objective for 2003 to $1.83, excluding the impact of currency translation. If we achieve that objective, the following table shows the likely results for 2003 operating earnings per share, including the impact of foreign currency translation, using various yen/dollar exchange rate scenarios.

2003 Operating EPS Scenarios

Weighted-Average Yen/dollar Exchange Rate	Operating Diluted EPS	% Growth Over 2002	Yen Impact on EPS
110.00	$ 1.95	25.0%	$ .12
115.00	1.90	21.8	.07
120.00	1.87	19.9	.04
125.15*	1.83	17.3	-
130.00	1.80	15.4	(.03)
135.00	1.78	14.1	(.05)

**Actual 2002 weighted-average exchange rate*

During the third quarter, we also increased our objective for 2004 from 15% to 17% growth in operating earnings per diluted share, excluding the impact of currency translation. For 2005, our objective is to increase operating earnings per diluted share by 15%, excluding the impact of currency translation.

Share Repurchase Program

During the third quarter, we acquired 2.2 million shares of our stock, bringing the total number of shares purchased since year-end 2002 to 6.7 million. As of September 30, 2003, we had approximately 10 million shares available for purchase under the share repurchase program authorized by the board of directors. We anticipate that the repurchase of shares will be conducted from time to time in open market or negotiated transactions, depending upon market conditions.

Income Taxes

Our combined U.S. and Japanese effective income tax rate on operating earnings was 35.3% for the nine-month period ended September 30, 2003, compared with 35.4% for the same period in 2002.

INSURANCE OPERATIONS, AFLAC JAPAN SEGMENT

AFLAC Japan, which operates as a branch of AFLAC, is the primary component of the AFLAC Japan segment, which is the principal contributor to consolidated earnings. Based on financial results determined in accordance with Financial Services Agency (FSA) requirements for the Japanese fiscal year ended March 31, 2003, AFLAC Japan ranked first in terms of individual life and health policies in force and 11th in terms of assets among all life insurance companies operating in Japan. AFLAC Japan also ranked first in profitability among all foreign life insurance companies operating in Japan.

Japanese Economy

The economic situation in Japan exhibited signs of improvement during the third quarter, after being virtually flat during the first half of 2003. Although recent events appear to indicate that the foundation for a recovery is being laid, the time required for a full economic recovery remains uncertain.

AFLAC Japan Segment Pretax Operating Earnings

Changes in AFLAC Japan's pretax operating earnings and profit margins are primarily affected by investment yields, morbidity, mortality, persistency and expense levels. An ongoing shift in our product mix to lower loss ratio products and favorable claim trends on some lines of business contributed to the decline in the benefit ratio. We expect the benefit ratio to continue to decline in future years primarily reflecting the shift to newer products and riders. The current quarter's operating expense ratio reflects the impact of a 2.4 billion yen ($21 million) charge to adjust our policyholder protection fund liability. We revised our liability for existing assessments as a result of the recent agreement between the Japanese government and the insurance industry to extend the time over which the industry's liability will be funded. We expect that our share of the liability will increase due to the extension of the funding period. We also expect the operating expense ratio to be relatively stable in the future. The profit margin increased primarily due to the declining benefit ratio, which was partially offset by the effect of low investment yields. The following table presents a summary of operating results for the AFLAC Japan segment.

Table of Contents

AFLAC Japan Summary of Operating Results

(In millions)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Premium income	**$ 1,818**	$ 1,686	**$ 5,336**	$ 4,713
Investment income	**355**	331	**1,044**	946
Other income	**5**	-	**16**	-
Total revenues	**2,178**	2,017	**6,396**	5,659
Benefits and claims	**1,469**	1,385	**4,324**	3,873
Operating expenses	**433**	390	**1,229**	1,089
Total benefits and expenses	**1,902**	1,775	**5,553**	4,962
Pretax operating earnings*	**$ 276**	$ 242	**$ 843**	$ 697
Average yen/dollar exchange rates	**117.76**	119.24	**118.39**	126.03

	In Dollars				In Yen			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Percentage changes over previous period:								
Premium income	**7.8%**	7.8%	**13.2%**	1.1%	**6.3%**	5.6%	**6.4%**	5.3%
Net investment income	**7.1**	6.4	**10.4**	2.8	**5.7**	4.2	**3.7**	7.2
Total operating revenues	**8.0**	7.6	**13.0**	1.3	**6.5**	5.4	**6.2**	5.6
Pretax operating earnings*	**14.1**	14.7	**21.0**	13.1	**12.8**	12.2	**13.7**	18.0

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Ratios to total revenues, in dollars:				
Benefits and claims	**67.4%**	68.7%	**67.6%**	68.4%
Operating expenses	**19.9**	19.3	**19.2**	19.3
Pretax operating earnings*	**12.7**	12.0	**13.2**	12.3

**See page 18 for our definition of operating earnings.*

The 1.3% strengthening of the weighted-average yen/dollar exchange rate for the third quarter and 6.5% strengthening for the nine months lowered AFLAC Japan's comparative rates of growth of certain items in yen terms due to dollar-denominated investment income from holdings of dollar-denominated assets and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). For the nine months, dollar-denominated investment income accounted for approximately 29% of AFLAC Japan's investment income. As a result, translating AFLAC Japan's dollar-denominated investment income into yen suppresses the increases in net investment income, total operating revenues and pretax operating earnings in yen terms when the yen strengthens. The following table illustrates the impact on AFLAC Japan's yen operating results of translating its dollar-denominated investment income and related items by comparing certain segment results with those that would have been reported had yen/dollar exchange rates remained unchanged from the comparable period in the previous year.

AFLAC Japan Percentage Changes Over Previous Period

For the Periods Ended September 30,
(Yen Operating Results)

	Including Foreign Currency Changes				Excluding Foreign Currency Changes**			
	Three Months Operating Results		Nine Months Operating Results		Three Months Operating Results		Nine Months Operating Results	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Net investment income	**5.7%**	4.2%	**3.7%**	7.2%	**6.2%**	4.9%	**5.7%**	5.8%
Total operating revenues	**6.5**	5.4	**6.2**	5.6	**6.5**	5.5	**6.5**	5.4
Pretax operating earnings*	**12.8**	12.2	**13.7**	18.0	**13.4**	13.1	**16.2**	16.2

**See page 18 for our definition of operating earnings.*

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

AFLAC Japan Sales

AFLAC Japan produced another quarter of better-than-expected total new annualized premium sales results. Total new annualized premium sales were 29.5 billion yen, or 15.9% higher than sales of 25.4 billion yen in the third quarter of 2002. These strong sales results reflect the continued popularity of our new stand-alone medical policy, EVER. Total new annualized premium sales as reported in dollars increased 17.5% to $251 million, compared with $213 million in the third quarter of 2002. Total new annualized premium sales grew 13.0% in yen terms to 89.5 billion yen or $756 million for the nine months ended September 30, 2003, compared with 79.2 billion yen or $629 million in 2002.

Led by EVER, sales of stand-alone medical products represented 31% of third quarter sales in 2003, up from 21% a year ago. Introduced in the first quarter of 2002, EVER was developed to address consumer interest in whole-life medical insurance as a result of health care legislation that increased out-of-pocket costs for Japanese consumers in April 2003. We believe that EVER will continue to be a popular product and a solid contributor to sales.

Sales of Rider MAX, the medical/sickness rider to our cancer life coverage, represented 23% of total sales in the third quarter of 2003, compared with 32% a year ago. Rider MAX sales have been impacted by an expected decline in conversions from the original term policy to a whole-life version of our Rider MAX product that we introduced in early 2002. For policy conversions, new annualized premium sales include only the incremental annualized premium amount over the original term policy. We believe sales contributions from conversions will continue to taper off.

As expected, cancer life sales were lower than a year ago due in part to our current marketing focus on medical products. Cancer life sales accounted for 26% of total sales, compared with 32% for the quarter ended September 30, 2002. Life insurance production accounted for 14% of sales during the quarter, compared with 11% in the second quarter of 2002.

In order to maintain our strong sales momentum, we have continued to strengthen our recruiting efforts in Japan. We recruited more than 3,200 new individual and corporate agencies during the first nine months of 2003, putting us on track to surpass our recruiting target of 3,500 agencies for 2003. We continue to believe that new agencies and sales associates will be attracted to AFLAC Japan's high commissions, superior products, customer service and brand image.

Our initial objective for 2003 was to increase total new annualized premium sales by 5% to 10% in yen terms. Considering our strong sales results during the first nine months, we now believe total new annualized premium sales will increase by 11% to 12% in yen terms for the year.

AFLAC Japan Investments

Growth of investment income in yen is affected by available cash flow from operations, investment yields achievable on new investments, and as previously discussed, the effect of yen/dollar exchange rates on dollar-denominated investment income. Although yen-denominated investment yields, as measured by yields on Japanese government bonds, increased during the third quarter, investment yields on yen-denominated debt securities remained at relatively low levels during 2003.

We purchased yen-denominated securities at an average yield of 2.99% in the third quarter, compared with 3.52% in the third quarter of 2002. Including dollar-denominated investments, our blended new money yield was 3.96% for the quarter, compared with 3.76% for the quarter ended September 30, 2002. At September 30, 2003, the yield on AFLAC Japan's fixed-maturity portfolio was 4.60%, compared with 4.76% at September 30, 2002. Our return on average invested assets, net of investment expenses, was 4.43% for the quarter ended September 30, 2003, compared with 4.59% a year ago. For the nine months ended September 30, 2003, the return on average invested assets was 4.54%, compared with 4.71% for the same period in 2002.

INSURANCE OPERATIONS, AFLAC U.S. SEGMENT

AFLAC U.S. Segment Pretax Operating Earnings

Changes in AFLAC U.S. pretax operating earnings and profit margins are primarily affected by morbidity, mortality, persistency, investment yields and expense levels. As a percentage of premium income, total benefits remained fairly consistent at 61.2% for the first nine months of 2003, compared with 61.5% for the same period in 2002. Additionally, our policy persistency by product has remained stable and the excess of investment yields over required interest on policy reserves has not changed materially during the past few years. For the current year, we expect the operating expense ratio to be in the range of 31.3% to 31.8%. We expect the profit margin for 2003 to be in the range of 14.5% to 15.0%. The following table presents a summary of operating results for the AFLAC U.S. segment.

Table of Contents

AFLAC U.S. Summary of Operating Results

(In millions)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Premium income	**$ 660**	$ 568	**$ 1,921**	$ 1,635
Investment income	**92**	84	**267**	245
Other income	**3**	2	**7**	7
Total revenues	**755**	654	**2,195**	1,887
Benefits and claims	**403**	350	**1,175**	1,006
Operating expenses	**235**	204	**693**	591
Total benefits and expenses	**638**	554	**1,868**	1,597
Pretax operating earnings*	**$ 117**	$ 100	**$ 327**	$ 290
Percentage changes over previous period:				
Premium income	**16.3%**	20.5%	**17.5%**	20.2%
Investment income	**9.4**	9.4	**8.8**	9.1
Total revenues	**15.3**	19.0	**16.3**	18.5
Pretax operating earnings*	**16.5**	17.2	**12.7**	15.2
Ratios to total revenues:				
Benefits and claims	**53.4%**	53.4%	**53.5%**	53.3%
Operating expenses	**31.1**	31.3	**31.6**	31.3
Pretax operating earnings*	**15.5**	15.3	**14.9**	15.4

**See page 18 for our definition of operating earnings.*

AFLAC U.S. Sales

AFLAC U.S. produced total new annualized premium sales of $263 million, or 1.0% higher than new sales of $260 million for the three months ended September 30, 2002. For the nine-month period ended September 30, 2003, total new annualized premium sales grew 4.5% to $783 million, compared with $750 million for the same period in 2002.

Accident/disability insurance was again the leading contributor to sales for the third quarter of 2003, representing 52% of total sales, compared with 50% for the year ago period. Cancer expense insurance accounted for 19% of total sales for the three months ended September 30, 2003 and 20% for the same period in 2002. Sales contributions from the hospital indemnity and fixed-benefit dental product groups remained unchanged from the prior-year quarter at 11% and 7%, respectively.

We have been disappointed with our sales throughout 2003, and have taken several steps to improve future sales growth. Our actions primarily are centered on enhancing our distribution system by expanding the field management network that supports our sales force. We added two new sales territory directors in May 2003. We have also increased the number of state, regional and district sales coordinators to enhance our sales management infrastructure. We anticipate additional coordinator expansion in the future.

The percentage growth in newly recruited agents continued to lag in the quarter and was basically flat with last year, due to tough comparisons and our recent focus on expanding our state, regional and district sales coordinator base. During the third quarter, the average number of associates producing business on a monthly basis increased 5.2% to 16,700 agents, compared with 15,900 for the same period in 2002. We believe that the number of newly recruited agents and producing associates will improve in future periods as our newly promoted field management becomes more seasoned.

Another aspect of our growth strategy is the enhancement of our product line. During the third quarter of 2003, we have continued to introduce the new versions of our accident, cancer and short-term disability insurance policies throughout the United States. We believe these changes will benefit sales growth in future periods.

We believe that AFLAC's advertising program and the changes we have made to our sales infrastructure and product offerings will benefit our organization in the long run. For the fourth quarter, we believe sales will be flat, compared with the fourth quarter of 2002, as these changes take hold and the members of our new sales management team adjust to new roles and responsibilities.

AFLAC U.S. Investments

For the quarter ended September 30, 2003, available cash flow was invested at an average yield of 6.29%, compared with 7.66% in 2002. The yield on AFLAC's U.S. portfolio was 7.63% at September 30, 2003, compared with 7.98% at September 30, 2002. The return on average invested assets, net of investment expenses, was 7.33% for the third quarter of 2003, compared with 7.48% in 2002. For the nine months ended September 30, 2003, the return on average invested assets was 7.41%, compared with 7.55% in 2002.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation addresses consolidation and disclosure issues associated with variable interest entities. For additional information, see Note 2 of the Notes to the Consolidated Financial Statements.

During the second quarter of 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The requirements of these standards are not expected to impact our financial position or results of operations.

For additional information on new accounting pronouncements, see Note 1 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2002.

FINANCIAL CONDITION

Since December 31, 2002, our overall financial condition has remained strong in the functional currencies of our operations. The yen/dollar exchange rate at the end of each period is used to translate yen-denominated balance sheet items to U.S. dollars for reporting purposes. The exchange rate at September 30, 2003, was 111.25 yen to one U.S. dollar, or 7.8% stronger than the December 31, 2002 exchange rate of 119.90. The stronger yen increased reported investments and cash by $2.4 billion, total assets by $2.8 billion, and total liabilities by $2.7 billion, compared with the amounts that would have been reported as of September 30, 2003, if the exchange rate had remained unchanged from December 31, 2002.

Investments and Cash

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

For the nine-month period, the increase in investments and cash reflects general market conditions for debt securities and the substantial cash flows in the functional currencies of our operations. See the Capital Resources and Liquidity section for additional information.

The following table presents an analysis of investment securities by segment:

	AFLAC Japan		AFLAC U.S.	
(In millions)	**September 30, 2003**	December 31, 2002	**September 30, 2003**	December 31, 2002
Securities available for sale, at fair value:				
Fixed maturities	**$ 19,743**	$ 18,036	**$ 5,294***	$ 4,623*
Perpetual debentures	**3,018**	2,569	**209**	161
Equity securities	**35**	136	**31**	122
Total available for sale	**22,796**	20,741	**5,534**	4,906
Securities held to maturity, at amortized cost:				
Fixed maturities	**9,012**	8,394	**15**	-
Perpetual debentures	**4,145**	3,700	**-**	-
Total held to maturity	**13,157**	12,094	**15**	-
Total investment securities	**$ 35,953**	$ 32,835	**$ 5,549**	$ 4,906

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

AFLAC Japan has invested in yen-denominated privately issued securities to secure higher yields than those available from Japanese government bonds. Our investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers, which help reduce our exposure to Japanese corporate issuers. These non-Japanese issuers are willing to issue yen-denominated securities with longer maturities, thereby allowing us to improve our asset and liability matching and our overall investment returns. Privately issued securities held by AFLAC Japan at amortized cost accounted for $22.7 billion, or 58.7% of total debt securities as of September 30, 2003, compared with $19.3 billion, or 56.3%, at December 31, 2002. Total privately issued securities, at amortized cost, accounted for $24.5 billion, or 63.2%, of total debt securities as of September 30, 2003, compared with $20.6 billion, or 60.2%, at December 31, 2002. Of the total privately issued securities, reverse-dual currency debt securities accounted for $6.4 billion, or 26.2%, of total privately issued securities as of September 30, 2003, compared with $4.7 billion, or 22.6%, at December 31, 2002.

We continue to adhere to prudent standards for credit quality. Most of our privately issued securities are issued under medium-term note programs and have standard covenants commensurate with credit ratings, except when internal credit analysis indicates that additional protective and/or event-risk covenants are required. AFLAC invests primarily within the debt securities markets, which exposes us to credit risk. Credit risk is a consequence of extending credit and/or carrying investment positions. We require that all securities be rated investment grade at the time of purchase. We use specific criteria to judge the credit quality and liquidity of our investments and use a variety of credit rating services to monitor these criteria. The percentage distribution of our debt securities, at amortized cost and fair value, by credit rating was as follows:

	September 30, 2003		December 31, 2002	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	**2.9%**	**3.1%**	2.3%	2.5%
AA	**29.2**	**32.2**	34.6	38.3
A	**35.9**	**35.8**	36.8	36.0
BBB	**28.7**	**26.3**	24.0	21.5
BB or lower	**3.3**	**2.6**	2.3	1.7
	100.0%	**100.0%**	100.0%	100.0%

Debt security purchases were as follows:

	Nine Months Ended September 30, 2003	Twelve Months Ended December 31, 2002
AAA	**9.7%**	1.7%
AA	**11.4**	21.1
A	**38.6**	47.5
BBB	**40.3**	29.7
	100.0%	100.0%

The overall credit quality of our portfolio remains high in part because our investment policy prohibits us from purchasing below-investment-grade securities. In the event of a credit rating downgrade to below-investment-grade status, we do not automatically liquidate our position. However, if the security was in the held-to-maturity category, we immediately transfer it to the available-for-sale portfolio so that the security's fair value is reflected on the balance sheet. Investment management then updates its credit analysis and reviews the investment based on our impairment policy to determine if the investment should be impaired and/or liquidated.

Net unrealized gains of $2.8 billion on investment securities at September 30, 2003, consisted of $4.0 billion in gross unrealized gains and $1.2 billion in gross unrealized losses. Net unrealized gains of $3.3 billion on investment securities at December 31, 2002, consisted of $4.3 billion in gross unrealized gains and $1.0 billion in gross unrealized losses. The increase in gross unrealized losses since year-end 2002 primarily reflects an increase in investment yields in Japan. Gross unrealized losses on investment-grade securities were $1.0 billion at September 30, 2003 and $870 million at December 31, 2002.

Net unrealized losses of $185 million on our below-investment-grade securities at September 30, 2003, consisted of $216 million of gross unrealized losses and $31 million of gross unrealized gains. Net unrealized losses of $156 million on below-investment-grade securities at December 31, 2002, consisted of $163 million of gross unrealized losses and $7 million of gross unrealized gains. These below-investment-grade securities, which are held in our available-for-sale portfolio, comprised 3.3% of total investment securities at amortized cost (2.6% at fair value) at September 30, 2003, compared with 2.3% of total investment securities at amortized cost (1.7% at fair value) at December 31, 2002. Below-investment-grade holdings were as follows:

Below-Investment-Grade Holdings

	September 30, 2003		December 31, 2002	
(In millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Ahold Finance	**$ 337**	**$ 284**	$ *	$ *
KLM Royal Dutch Airlines	**270**	**191**	250	158
Royal and Sun Alliance Insurance	**225**	**171**	*	*
Levi Strauss & Co.	**126**	**108**	117	117
AMP Japan	**54**	**57**	*	*
Asahi Finance Limited	**46**	**67**	42	46
LeGrand	**46**	**44**	86	66
Cerro Negro Finance	**42**	**35**	67	40
Tennessee Gas Pipeline	**30**	**29**	40	33
SB Treasury Company LLC	**28**	**30**	*	*
KDDI	**23**	**24**	22	21
Ikon, Inc.	**21**	**21**	*	*
PDVSA Finance	**9**	**8**	32	25
BIL Asia Group	*	*	133	124
Other	**18**	**21**	2	5
Total	**$ 1,275**	**$ 1,090**	$ 791	$ 635

**Investment grade at respective reporting date*

Occasionally a debt security will be rated as investment grade by one rating agency, while another rating agency will rate the same security as below investment grade. As a result of the current credit environment, we changed our credit rating classification policy on split-rated securities during the first quarter of 2003. Prior to the first quarter, our practice was to report split-rated securities based on the higher credit rating. However, our current policy is to review each issue on a case-by-case basis to determine if a split-rated security should be classified as investment grade or below investment grade. Our review includes evaluating the Securities Valuation Office (SVO) designation from the National Association of Insurance Commissioners (NAIC) as well as current market pricing and other factors, such as the issuer's or security's inclusion on a credit rating downgrade watch list. Split-rated holdings as of September 30, 2003, represented 2.2% of total debt securities at amortized cost and were as follows:

Split-Rated Holdings
September 30, 2003

(In millions)	Amortized Cost	Moody's Rating	S&P Rating	SVO Class	Investment Grade or Below Investment Grade
Sumitomo Bank	$ 345	Baa1	BB+	2/P2	Investment Grade
Royal and Sun Alliance Insurance	225	Ba2	BBB	3	Below Investment Grade
Sanwa Finance	100	Baa1	BB+	2/P2	Investment Grade
AMP Japan	54	Ba3	BBB-	3	Below Investment Grade
Southern Investment Capital	38	Baa3	BB	3Z	Investment Grade
SB Treasury Company LLC	28	Baa3	B+	P3	Below Investment Grade
Ikon, Inc.	21	Ba1	BBB-	3	Below Investment Grade
Tyco International	18	Ba2	BBB-	3	Below Investment Grade
Fuji Finance	17	Baa1	BB+	2	Investment Grade
Union Carbide Corp.	15	B1	A-	4/4Z	Investment Grade

As part of our investment activities, we have investments in variable interest entities (VIEs) and special purpose entities (SPEs). For additional information, see Note 2 of the Notes to the Consolidated Financial Statements.

Cash, cash equivalents and short-term investments totaled $1.2 billion, or 2.8% of total investments and cash as of September 30, 2003, compared with $1.4 billion, or 3.5% as of December 31, 2002.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs totaled $4.8 billion at September 30, 2003, an increase of $511 million, or 12.0% during the first nine months of 2003. AFLAC Japan's deferred policy acquisition costs were $3.3 billion at September 30, 2003, an increase of $383 million, or 13.3% (5.2% increase in yen). At September 30, 2003, deferred policy acquisition costs of AFLAC U.S. were $1.5 billion, an increase of $128 million, or 9.1%. The increase in deferred policy acquisition costs was primarily driven by increases in total new annualized premium sales. The stronger yen at September 30, 2003 increased reported deferred policy acquisition costs by $235 million.

Policy Liabilities

Policy liabilities totaled $37.1 billion at September 30, 2003, an increase of $4.4 billion, or 13.5%, during the first nine months of 2003. AFLAC Japan's policy liabilities were $33.5 billion (3.7 trillion yen) at September 30, 2003, an increase of $4.1 billion, or 13.9% (5.7% increase in yen). At September 30, 2003, policy liabilities of AFLAC U.S. were $3.6 billion, an increase of $327 million, or 10.0%. The increase in policy liabilities is the result of the growth and aging of our in-force business. The stronger yen at September 30, 2003, increased reported policy liabilities by $2.4 billion.

Notes Payable

Notes payable totaled $1.4 billion at September 30, 2003, and $1.3 billion at December 31, 2002. See Note 6 of the Notes to the Consolidated Financial Statements for information on notes payable at September 30, 2003. The ratio of debt to total capitalization (debt plus shareholders' equity, excluding the unrealized gains on investment securities) was 23.7% as of September 30, 2003, compared with 24.8% as of December 31, 2002.

As of September 30, 2003, we had no material purchase obligations that were not recorded on the balance sheet. Additionally, we had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations.

Security Lending

We use short-term security lending arrangements to increase investment income with minimal risk. For further information regarding such arrangements, see Note 4 of the Notes to the Consolidated Financial Statements.

Defined Benefit Pension Plans

AFLAC U.S. and AFLAC Japan have defined benefit pension plans that cover substantially all full-time employees. General market conditions and the actuarial assumptions used to value our plans' assets and liabilities have a significant impact on plan costs and the reported values of plan assets and liabilities. Generally, the plans are funded annually, with minimum contributions required by applicable regulations, including amortization of unfunded prior service cost. In light of the depressed U.S. interest rate environment, we lowered the discount rate used in valuing our U.S. plan from 7.0% to 6.5% during the first quarter of 2003 to be more in line with prevailing rates. We do not expect this change to materially impact AFLAC U.S. 2003 operating earnings. We expect the lower discount rate to increase the minimum pension liability associated with our U.S. plan, assuming no improvement in the general markets for investment securities during the remainder of 2003. As such, we recorded an additional minimum pension liability of $3 million during the first nine months to reflect the expected annual increase in the minimum pension liability.

Policyholder Protection Fund and State Guaranty Associations

The Japanese and American insurance industries each have a policyholder protection system that provides funds for the policyholders of insolvent insurers. In Japan, we recognize charges for our estimated share of the insurance industry's obligation once it is determinable. In the United States, we recognize assessments as they are determined by the state guaranty associations. For additional information regarding such funds, see MD&A of our annual report to shareholders for the year ended December 31, 2002.

Capital Resources and Liquidity

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

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

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

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

AFLAC Japan is regulated by the Japanese FSA. The FSA maintains its own solvency standards, a version of risk-based capital requirements, and can limit or restrict the transfer of funds from AFLAC Japan if the transfers would cause AFLAC Japan to lack sufficient financial strength for the protection of policyholders. However, AFLAC Japan's solvency margin ratio significantly exceeds regulatory minimums and as such has not limited its ability to transfer funds to AFLAC Incorporated or AFLAC. Payments are made from AFLAC Japan to AFLAC Incorporated for management fees and to AFLAC U.S. for allocated expenses and remittances of earnings. AFLAC Japan paid $20 million to AFLAC Incorporated for management fees during the first nine months of 2003 and $19 million for the same period in 2002. Expenses allocated to AFLAC Japan were $17 million for the nine months ended September 30, 2003, compared with $16 million in 2002. During the first nine months of 2003, AFLAC Japan also remitted profits of $385 million (45.6 billion yen) to AFLAC U.S., compared with approximately $383 million (45.3 billion yen) in 2002. For additional information on regulatory restrictions on dividends, profit transfers and other remittances, see Note 9 of the Notes to the Consolidated Financial Statements in our annual report to shareholders for the year ended December 31, 2002.

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

AFLAC Incorporated's insurance operations continue to provide the primary sources of its liquidity through dividends and management fees. AFLAC declared dividends payable to AFLAC Incorporated in the amount of $408 million in the first nine months of 2003, compared with $327 million in the first nine months of 2002. AFLAC Incorporated occasionally accesses debt and equity security markets to provide additional sources of capital. Capital is primarily used to fund business expansion, capital expenditures and our share repurchase program. We believe outside sources for additional debt and equity capital, if needed, will continue to be available.

Consolidated Cash Flows

We translate operating cash flows for AFLAC Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In periods when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported. The following table summarizes consolidated cash flows by activity for the nine months ended September 30:

Consolidated Cash Flows by Activity

(In millions)	**2003**	2002
Operating activities	**$ 2,606**	$ 2,435
Investing activities	**(2,690)**	(1,821)
Financing activities	**(171)**	(234)
Exchange effect on cash and cash equivalents	**52**	59
Net change in cash and cash equivalents	**$ (203)**	$ 439

Operating Activities

In the first nine months of 2003, consolidated cash flow from operations increased 7.0% to $2.6 billion, compared with $2.4 billion for the same period in 2002. AFLAC Japan contributed 80% of the consolidated net cash flow from operations for the nine months ended September 30, 2003, compared with 83% for the same period in 2002. For the nine months ended September 30, 2003, net cash flow from operations for AFLAC Japan increased 3.2% (2.5% decrease in yen) to $2.1 billion, compared with $2.0 billion in 2002. The decrease in yen cash flows is primarily due to increased payments for cash surrender values. While the majority of the increase in cash surrender values is due to policy cash values increasing as policies age, payments were also impacted by cash values paid out as a result of Rider MAX conversions. Yen cash flows were also impacted by an increase in commissions due to better-than-expected sales, higher general expenses due to advertising and information technology related expenditures and the effect of translating AFLAC Japan's dollar-denominated revenues and expenses with a stronger yen during the first nine months of 2003. Net cash flow from operations other than Japan increased 26.3% in the nine-month period ended September 30, 2003, to $509 million, compared with $403 million for the nine months ended September 30, 2002.

Investing Activities

Operating cash flow is primarily used to purchase debt securities to meet future policy obligations. Consolidated cash flow used by investing activities increased 47.7% to $2.7 billion in the first nine months of 2003, compared with $1.8 billion for the same period in 2002. Cash flow used by investing activities for AFLAC Japan was $2.4 billion in the first nine months of 2003, compared with $1.4 billion a year ago.

When market opportunities arise, we dispose of selected debt securities that are available for sale to improve future investment yields and/or improve the duration matching of our assets and liabilities. Therefore, dispositions before maturity can vary significantly from year to year. Dispositions before maturity amounted to approximately 4% of the year-to-date average investment portfolio of debt securities available for sale during the nine-month period ended September 30, 2003, compared with 5% for the same period in 2002.

Financing Activities

Consolidated cash used by financing activities was $171 million in the first nine months of 2003, compared with $234 million in the first nine months of 2002. During the nine months ended September 30, 2003, we purchased approximately 6.7 million shares of AFLAC stock for $211 million, compared with approximately 9.5 million shares for $262 million for the same period in 2002. Dividends to shareholders for the first nine months of 2003 increased 29%, from $.17 per share in 2002 to $.22 per share in 2003.

Credit Ratings

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

Other

In October 2003, the board of directors declared the fourth quarter cash dividend of $.08 per share. The dividend is payable December 1, 2003, to shareholders of record at the close of business on November 13, 2003.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our financial instruments are primarily exposed to two types of market risks. They are currency risk and interest rate risk.

Currency Risk

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

We are only exposed to economic currency risk when yen funds are converted into dollars. This primarily occurs when we convert yen funds that have been transferred from AFLAC Japan for profit repatriations, management fees and home office expense allocations. The exchange rates prevailing at the time of transfer may differ from the exchange rates prevailing at the time the yen profits were earned. It has been our practice to transfer yen funds each year from AFLAC Japan to AFLAC U.S. Generally, these yen fund repatriations have represented an amount less than 80% of AFLAC Japan's prior year FSA-based earnings.

For financial reporting purposes, we translate financial statement amounts from yen into dollars. Therefore, the translation of the reported amounts is affected by foreign currency fluctuations. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income.

On a consolidated basis, we attempt to match yen-denominated assets to yen-denominated liabilities in order to minimize the exposure of our shareholders' equity to foreign currency translation fluctuations. We accomplish this by investing a portion of AFLAC Japan's investment portfolio in dollar-denominated securities and by the parent company's issuance of yen-denominated debt. As a result, the effect of currency fluctuations on our net assets is diminished.

At September 30, 2003, consolidated yen-denominated net assets were $273 million. AFLAC Japan's yen-denominated net assets were $1.7 billion at September 30, 2003. AFLAC Incorporated's yen-denominated net liabilities were $1.4 billion at September 30, 2003. The following table compares the dollar values of our yen-denominated asset exposure at various exchange rates.

Dollar Value of Yen-Denominated Assets and Liabilities
At Selected Exchange Rates
September 30, 2003

(In millions)

Yen/dollar exchange rates	**96.25**	**111.25***	**126.25**
Yen-denominated financial instruments:			
Assets:			
Securities available for sale:			
Fixed maturities	$ 19,898	$ 17,215	$ 15,170
Perpetual debentures	3,228	2,793	2,461
Equity securities	41	35	31
Securities held to maturity:			
Fixed maturities	10,416	9,012	7,941
Perpetual debentures	4,791	4,145	3,653
Cash and cash equivalents	718	621	547
Other financial instruments	15	13	11
Subtotal	39,107	33,834	29,814
Liabilities:			
Notes payable	1,071	927	817
Cross-currency swaps	577	499	440
Obligation for Japanese policyholder protection fund	272	235	207
Subtotal	1,920	1,661	1,464
Net yen-denominated financial instruments	37,187	32,173	28,350
Other yen-denominated assets	5,011	4,336	3,821
Other yen-denominated liabilities	41,883	36,236	31,931
Consolidated yen-denominated net assets subject to foreign currency fluctuation	$ 315	$ 273	$ 240

**Actual September 30, 2003 exchange rate*

For information regarding the effect of foreign currency translation on operating earnings per diluted share, see Foreign Currency Translation beginning on page 20.

Interest Rate Risk

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

We attempt to match the duration of our assets with the duration of our liabilities. For AFLAC Japan, the duration of policy benefits and related expenses to be paid in future years is longer than that of the related invested assets due to the unavailability of acceptable long-duration yen-denominated securities. Currently, when our debt securities mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the investment yield on new investments exceeds interest requirements on policies issued in recent years. Since 1994, premium rates on new business have been increased several times to help offset the lower available investment yields. Also in recent years, our strategy of developing and marketing riders as attachments to our older policies has helped offset the negative investment spread. And, despite the negative investment spreads, adequate overall profit margins still exist in AFLAC Japan's aggregate block of business because of profits that have emerged from changes in mix of business and favorable mortality, morbidity and expenses.

At September 30, 2003, we had $2.8 billion of net unrealized gains on total debt securities. The hypothetical reduction in the fair value of our debt securities resulting from a 100 basis point increase in market interest rates is estimated to be $3.9 billion based on our portfolio as of September 30, 2003. The effect on yen-denominated debt securities is approximately $3.2 billion and the effect on dollar-denominated debt securities is approximately $660 million.

Forward-Looking Information

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

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

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

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 4 - There are no long-term debt instruments in which the total amount of securities authorized exceeds 10% of the total assets of AFLAC Incorporated and its subsidiaries on a consolidated basis. We agree to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- 11 - Statement regarding the computation of per-share earnings for the Registrant.
- 12 - Statement regarding the computation of ratio of earnings to fixed charges for the Registrant.
- 15 - Letter from KPMG LLP regarding unaudited interim financial information.
- 31.1 - Certification of CEO dated November 12, 2003, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification of CFO dated November 12, 2003, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 - Certification of CEO and CFO dated November 12, 2003, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

During the three months ended September 30, 2003, one Current Report on Form 8-K, dated July 23, 2003, was furnished to report the Company's press release announcing its second quarter financial results. A second Current Report on Form 8-K, dated July 23, 2003, was furnished to report the Company's second quarter report to shareholders. A third Current Report on Form 8-K, dated September 29, 2003, was furnished to report mixed third quarter sales results and the Company's revised 2004 earnings target.

Items other than those listed above are omitted because they are not required or are not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AFLAC INCORPORATED

/s/ ***Kriss Cloninger III*** (Kriss Cloninger III)	President, Treasurer and Chief Financial Officer	November 12, 2003
/s/ ***Ralph A. Rogers Jr.*** (Ralph A. Rogers Jr.)	Senior Vice President, Financial Services; Chief Accounting Officer	November 12, 2003

Exhibits Filed With Current Form 10-Q:

11 - Statement regarding the computation of per-share earnings for the Registrant.

12 - Statement regarding the computation of ratio of earnings to fixed charges for the Registrant.

15 - Letter from KPMG LLP regarding unaudited interim financial information.

31.1 - Certification of CEO dated November 12, 2003, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 - Certification of CFO dated November 12, 2003, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 - Certification of CEO and CFO dated November 12, 2003, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.