EXHIBIT 7

UnitedHealth Group

2000 Annual Report

Every customer is unique. Each has distinct needs, and each defines value in a different way. By recognizing and embracing this fact, UnitedHealth Group has continued to achieve record growth. We combine outstanding clinical insight with consumer-focused services and innovative technology tools to enable, facilitate and advance optimal health for everyone. And in so doing—just like the customers we serve—UnitedHealth Group has established itself as truly one of a kind.

UnitedHealth Group
UnitedHealth Group Center
9900 Bren Road East
Minnetonka, Minnesota 55343

www.unitedhealthgroup.com

UnitedHealth Group®

"We have never embraced a 'one size fits all' concept for health care Instead, we have aligned our businesses and efforts along definable market segments that focus on unique issues and needs."

William W. McGuire, M.D.

Last year, I wrote that our strong 1999 performance "suggested the emerging potential" of strategies we initiated in the early 1990s and dramatically advanced three years ago when we repositioned UnitedHealth Group into independent but strategically aligned, market-defined businesses. This year's outstanding performance documents that we delivered on that potential—advancing health within a framework of sound business principles.

With each of our business segments reporting record results in the year 2000, we continue our progress as one of the most dynamic growth companies in America. In the year 2000:

- Revenues rose to more than $21 billion, reflecting significant market share gains with strong and balanced growth in all business segments.
- Earnings per share grew 32 percent, with increasing diversification in income.
- Cash flows from operations exceeded $1.5 billion, a 28 percent increase over 1999.
- Return on equity rose to 19 percent for the year and 21 percent in the fourth quarter.
- Our companies added more than 3 million new individual customers, and now serve nearly 35 million Americans.
- Our share price increased more than 130 percent, following a 23 percent increase in 1999.

UnitedHealthcare increased same-store revenues 13 percent by offering simple, convenient access to comprehensive benefits and services to nearly 8.5 million Americans.

Ovations achieved revenues of nearly $4 billion by successfully addressing the health care challenges of our rapidly aging population through an innovative portfolio of programs and services.

Uniprise realized striking market share gains and revenue growth of 15 percent by utilizing innovative technology to provide simple and effective solutions to large, multi-location employers with complex employee service and benefit needs.

Specialized Care Services generated revenues of $974 million in 2000, a dramatic 34 percent increase over 1999. Specialized Care Services responds to customers' demands for more diverse resources to improve their lives by organizing access to dental, behavioral, vision, transplant and other specialized care networks, and information resources within the ever-expanding and diversifying health and well-being marketplace.

Ingenix generated $375 million in revenues in 2000, a 45 percent increase, by providing knowledge and information tools to help physicians and care providers, health insurers, other health organizations, and pharmaceutical and medical device manufacturers improve research and performance on behalf of those they serve.

We must build upon past successes. So even as we continue to strengthen our overall performance, we also continue to critically assess the health care system, the needs of those who use it or are part of it, and our own contribution to advancing this important social marketplace.

## THE HEALTH CARE ENVIRONMENT

Our American health care system is the most sophisticated, care-intensive and technology-rich system in the world. It is not, however, an environment that is systematic by nature. Health care delivery is profoundly fragmented—among hospitals, clinics, primary care and specialist physicians, and drug and medical device manufacturers. Care providers range from multi-billion-dollar enterprises to small, localized practitioners, each existing as freestanding, localized assets and resources usually accessed at the discretion of the consumer. From a consumer's perspective, the marketplace can be complex and confusing.

Today, our society spends roughly 14 percent of its gross domestic product on health care-related services and products, and that percentage will grow. With health care costs escalating well above the internal growth rates of the population and economy, there remains significant pressure to eliminate waste and maximize productivity within all aspects of health care. Yet, while other sectors of American industry have made significant advancements in productivity and technology, the national health care economic sector has yet to advance meaningful productivity improvement or extend its reach into our entire population.

Adding to the challenge, the use of health care services is rising dramatically, and we expect the landscape will become increasingly complex. The increasing burden of chronic disease in an aging population with higher health expectations is resulting in greater complexity and higher costs. Demand is expanding as consumers are empowered to take greater control over their health decisions, just as they are overwhelmed with information and commercial influence from the media, the Internet and direct-to-consumer advertising. Expanding scientific knowledge such as that associated with the human genome, new medical technology, and new pharmaceutical and device technology, offers exciting opportunities to improve health, but also poses challenges for cost-effectiveness and appropriate application. And as always, we need to continue to be vigilant about both the under-use of necessary and appropriate health care interventions, as well as the equally concerning use of unnecessary or clinically improper interventions.

Decades of sweeping attempts to rationalize the system—by well-intentioned participants, each from their own point of view—have been unable to optimize the value and the potential within the American health system. In working to improve health care efficiency, the marketplace has not yet established the optimal balance with the strong consumer values placed on choice and access Health care, like other areas of social commerce, should be based on principles of freedom and market choice, and hence, no single solution will work for everyone.

## OUR ROLE—MAKING HEALTH CARE WORK MORE EFFECTIVELY

We have never embraced a "one size fits all" concept for health care. Instead, we have aligned our businesses and efforts along definable market segments that focus on unique issues and needs. Doctors in small groups have a different business approach than large medical practices. Fortune 100 employers and small businesses purchase health services differently. Young families have different needs than people over the age of 50. Our challenge is to adapt component pieces to create simple, functional health care systems that serve the unique needs of each constituency.

With core competencies in organizing care providers and resources into better-functioning health networks and systems, using databases, analyses and the resulting clinical intelligence to inform participants in health care, and developing and using technology to improve quality and lower costs of administrative functions, UnitedHealth Group is well positioned to add value to the marketplace. But it is our fundamental values—which span market segments and guide our strategic thinking—that truly fuel our continued success.

We believe in choice and direct access to broad, diverse and fully qualified care providers and health resources. Accordingly, we offer a full range of option-rich benefit designs that enable customers to make choices based on their unique needs. This partly explains why, in the past 12 months, we added more than 2 million new individuals to the list of those we serve through UnitedHealthcare and Uniprise. This represents an unprecedented level of growth entering 2001. Today, we serve more than 16 million individuals for general medical care and specialized needs, and an additional 18 million people through Specialized Care Services alone. In addition, by leveraging the buying power of nearly 35 million Americans, UnitedHealth Group can access the best resources at the best prices—making care more affordable for the consumer and fair to the care-giving community.

We believe in simplifying the health care experience and have made significant and sustained investments to do just that. We have adopted streamlined, more consistent processes and designed simpler, more understandable products and services, and we are using advanced system technologies to automate and speed health care interactions, simplify administrative functions, advance information and lower costs. Uniprise is realizing record growth and client satisfaction with technology solutions such as EmployerLink Net, which gives employers and consultants instant, online, real-time access to add, update or verify health benefits and data. EverCare, an Ovations business that serves approximately 19,000 frail, elderly people living in nursing homes, is introducing technology called EverLink to make patients' clinical information readily available to the nurse practitioners and physicians caring for them. And the Internet has become a major tool to serve customers and partners. Myuhc.com, for example, gives individual customers access to information on thousands of health topics and enables them to access services such as requesting ID cards, viewing the status of claims, searching for a physician and, depending on their coverage, renewing prescriptions.

Over the past two years, UnitedHealth Group has invested more than $400 million in technology research, development and deployment. This ongoing investment in technology, initiated years ago and now accelerating, has provided significant service enhancements to our customers and major productivity gains for our company. Today, we have the most advanced technological tools and the most complete, clinically oriented databases in all of health care services. Our approach is helping physicians focus on care and consumers focus on their health, not on the health care system.

We have an uncompromising belief in safe and fact-based medicine. Indeed, our Ingenix business segment is devoted to gathering and sharing knowledge and information that will advance health care quality and delivery. Across all of our businesses, we strive to advance care appropriateness, best practices and patient safety based on fact and scientific evidence. This principle even carries over to the UnitedHealth Foundation, which distributed more than 1 million copies of the book *Clinical Evidence* in 2000. Published by the *British Medical Journal*, this highly regarded reference guide of evidence-based clinical health care generated an overwhelmingly positive response from the more than 400,000 doctors and 80,000 nurses who received it.

Above all, we believe in helping people by facilitating care. Through Care Coordination℠ possibly the most acclaimed change to come to health care services in the past decade, UnitedHealthcare channels resources to people who will benefit most from coordinating fragmented care delivery resources. As part of Care Coordination, we dismantled pre-authorization processes and infrastructure in 1999 and redirected those resources into improving decision-making, facilitating care delivery and advancing health outcomes through physician and patient outreach. As a result, in 2000 we placed more than 250,000 telephone calls to individuals with serious health care needs, helping them and their families to access, coordinate, manage and efficiently and effectively obtain the care they needed. Patients, families, physicians, employers, regulators, legislators and other interested parties have responded very positively.

Commitment to improved access, real choice, simplification, information and care facilitation, together with underlying competencies in organizing health assets, clinical information capabilities and applying technology, have propelled our success to date. More important, they will enable UnitedHealth Group to continue to grow, progress and innovate, regardless of how or when the market evolves and changes.

William W. McGuire

William W. McGuire, M.D.

Chairman and Chief Executive Officer

UnitedHealth Group has prospered by recognizing that value is measured not only by price, but also by how well we meet individual customer demands for choice, control, quality and convenience. Through five primary operating businesses—UnitedHealthcare, Ovations, Uniprise, Specialized Care Services and Ingenix—UnitedHealth Group serves the specific needs of unique market segments. And by leveraging the collective expertise and capabilities of the companies within our family, we are advancing optimal health for all Americans and achieving unparalleled growth.

### TECHNOLOGY AND PROCESS LEADERSHIP

- Invested more than $400 million in technology and database development and deployment in 1999 and 2000
- Introduced applications in Care Coordination℠, e-Billing and Predictive Modeling, and four Internet portals dedicated to employers, care providers, consumers, and brokers and agents
- In 2001, we will conclude a 30-month process simplification and consolidation effort that produced a 35% productivity advancement in 1999 and 2000

### GROWTH

- Achieved 21% compound annual revenue growth over the past four years
- Added 3 million new individuals served in 2000 to reach nearly 35 million Americans served by UnitedHealth Group companies
- Achieved more than 94% overall customer retention across member-based business segments

### PERFORMANCE 1997–2000

- 24% compound annual growth in earnings from operations, excluding investment income
- 23% compound annual growth in earnings per share
- 31% compound annual growth in operating cash flows
- 22% compound annual growth in return on equity

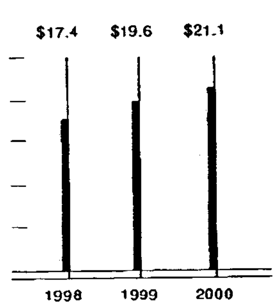
### PERFORMANCE IN 2000

- Earnings from operations grew 27% to $1.2 billion
- Operating cash flows grew 28% to more than $1.5 billion
- Operating margin grew 19% to 5.7%

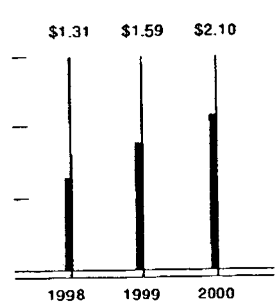
### DIVERSIFICATION AND INNOVATION

- Throughout 2000, implemented a new approach called Care Coordination, which eliminated authorization processes and channels resources into facilitating access to services
- In 2000, approximately 40% of UnitedHealth Group earnings came from business segments other than Health Care Services
- In total, less than 25% of UnitedHealth Group earnings now come from UnitedHealthcare's commercial insured products

REVENUES (in billions)

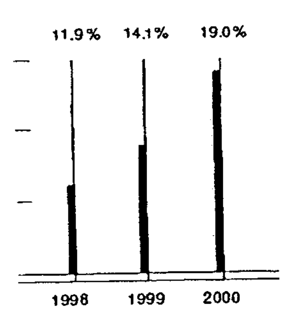



EARNINGS PER SHARE[1]




[1]Excludes nonrecurring items and special operating charges.

RETURN ON EQUITY[1]




[1]Excludes nonrecurring items and special operating charges.

UnitedHealthcare works to improve people's health and make the health care experience simpler, more effective and more efficient for consumers, physicians and employers alike. With basic principles such as direct access to specialists and the innovative Care Coordination℠ approach, UnitedHealthcare is offering people simple solutions with more control and choice over health decisions. And instead of continually looking over doctors' shoulders, UnitedHealthcare focuses its programs on prevention, education and closing the gaps in care. In the year 2000, the company extended its people-oriented health services to more than 560,000 new individuals.

### REAL CHOICE

Understanding that people want more choices, UnitedHealthcare offers a broad range of products and services that allow customers to select benefits that are right for them.

### DIRECT ACCESS

UnitedHealthcare facilitates access to broad and diverse health care networks, and designs benefit plans that give individuals direct access to specialists without obtaining referrals.

### INFORMED DECISION-MAKING

By providing them with evidence-based clinical data, UnitedHealthcare helps individuals and physicians make more-informed decisions about treatment options.

### SIMPLIFICATION

UnitedHealthcare enhances the health care experience by simplifying processes and using advanced technology to improve access to information and services, while driving down costs and improving operating productivity.

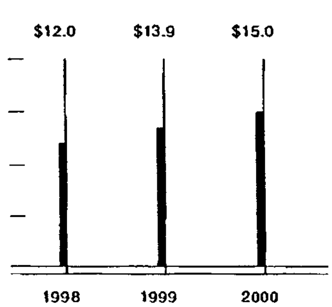
### CARE COORDINATION

Care Coordination creates a better, more positive and effective health care experience, according to 89 percent of people surveyed about the program. In addition, 83 percent said Care Coordination made it easier for them to get the care they needed.

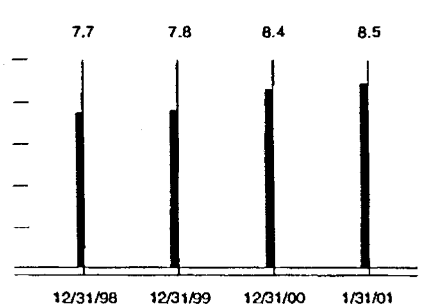
### AFFORDABILITY

Leveraging the purchasing power of more than 16 million people, UnitedHealthcare provides access to services that are more affordable for customers and fair to physicians.

REVENUES (in billions)




INDIVIDUALS SERVED (in millions)




CHOOSING WHAT'S
RIGHT FOR HIM

Adults 50 and older represent America's single largest consumer group They represent half of total consumer demand, 65 percent of total net worth, and hold 70 percent of all personal financial assets in this country. Today, this age group numbers 76 million individuals, and in the year 2010, Americans age 50 and older will represent more than 40 percent of the total population. Ovations is dedicated to serving this rapidly growing and diverse group of consumers by delivering products and services designed to meet their unique health and well-being needs. Currently, Ovations serves more than 3.5 million individuals and is the country's largest business totally dedicated to this population.

## AARP HEALTH CARE OPTIONS

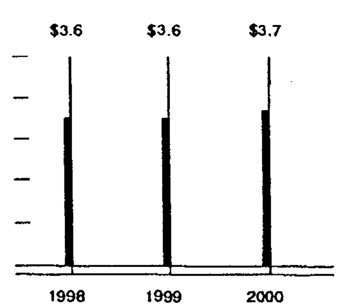
With more than 30 million members, AARP is the nation's leading organization representing Americans age 50 and older. On behalf of AARP, Ovations provides the country's largest single Medicare Supplement and Hospital Indemnity offerings. Management of this program was assumed by Ovations in 1998, following five straight years of declining membership. In 2000, this program achieved year-over-year membership growth and sharply reduced lapse rates for its standardized Medicare Supplement plans. Of the 54 million claims received by the AARP division in the year 2000, more than 99 percent were processed within 10 days, with 99.8 percent financial accuracy. In addition to Medicare Supplement products, Ovations also offers AARP members a Pharmacy Discount Service, hospital supplement products, and an eye health services program.

## EVERCARE

In many ways, EverCare represents Care Coordination℠ tailored to the unique needs of the frail elderly— delivered through EverCare's unique teams of geriatric nurse practitioners and physicians. Because of this program, EverCare enrollees have avoided serious illness requiring hospitalization, resulting in a 40 percent lower rate in admissions. The EverCare pneumonia Care Coordination program, which was introduced in 1999, has led to a 48 percent drop in mortality from pneumonia among EverCare members.

Effective February 2001, EverCare merged with Lifemark to become, by far, the nation's largest enterprise dedicated exclusively to the health and well-being needs of the frail, vulnerable and chronically ill elderly. In 2001, EverCare revenues are expected to exceed $500 million.

### REVENUES (in billions)



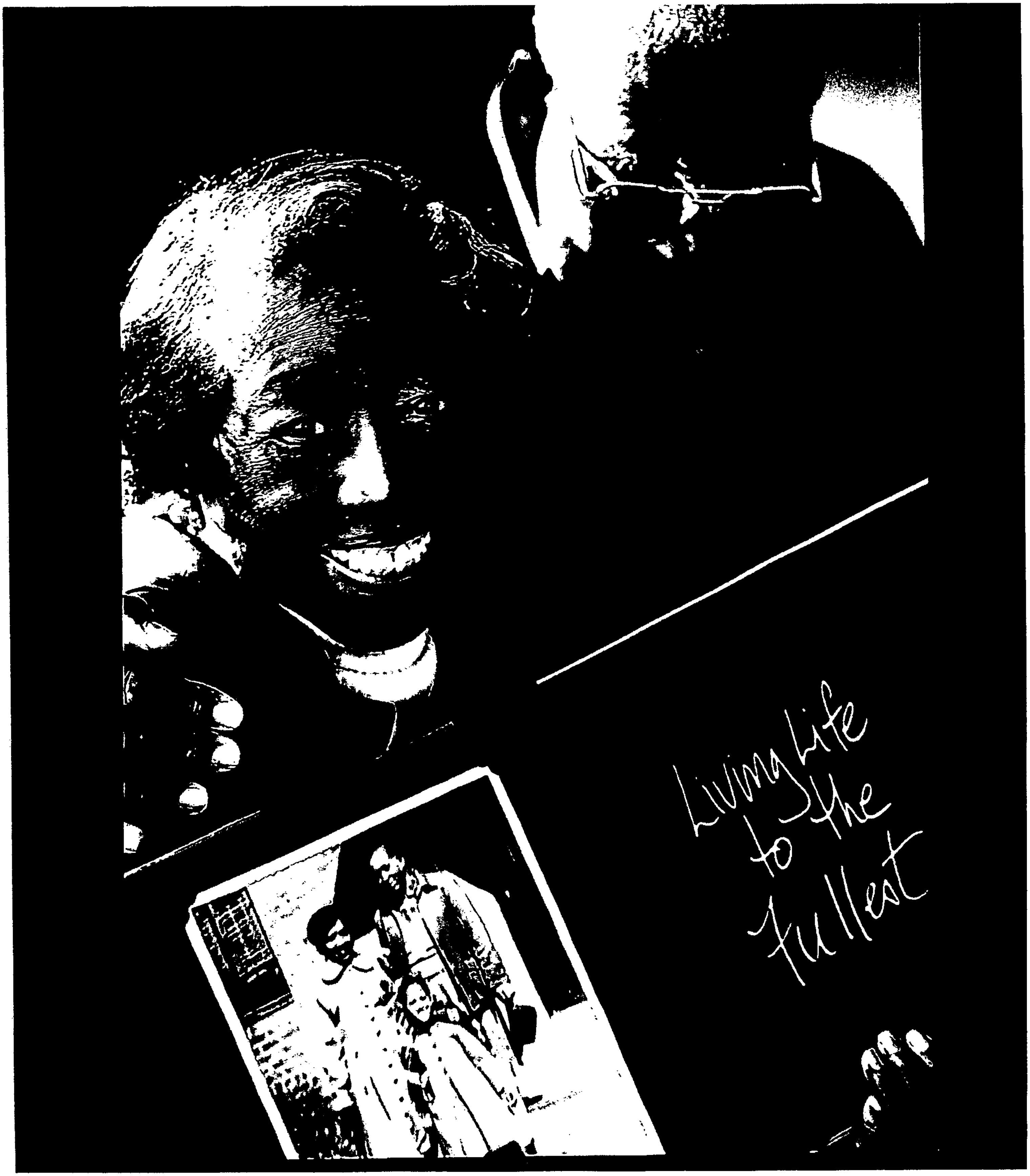

### INDIVIDUALS SERVED
(as of Jan. 31, 2001)

AARP Division

- Medicare Supplement: 2.2 million
- Hospital Indemnity: 1.5 million

EverCare

- Core Business: 18,600
- Lifemark (acquired Feb. 2001): 140,000


Living Life
to the
Fullest

Uniprise develops and executes customized and highly integrated services to address benefit delivery and service needs of large, complex, multi-location employers. Through Uniprise, national employers have access to the full range of UnitedHealth Group networks and services and the ease of integrated administration for all employee services. An intense focus on service excellence, including new Web-enabled service capabilities, has helped Uniprise improve the service experience for clients and consumers alike. Today, Uniprise is the fastest-growing large group service business in America, providing services for more than 25 percent of companies in the Fortune 500.

## THE UNIPRISE DIFFERENCE

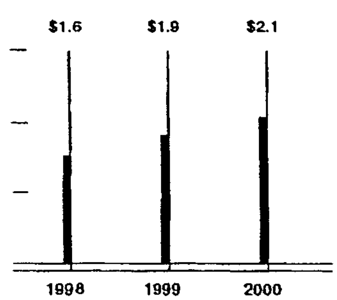
Uniprise serves approximately 8 million Americans through relationships with more than 260 of America's largest and most demanding companies. Uniprise's 23 percent year-over-year growth through January 2001 was its strongest performance to date. Nearly 1.5 million new individuals were served by Uniprise in the past 12 months. The reasons for this are simple: elite, dedicated service to the large corporate marketplace, anchored in the most advanced technology applications and with access to the broadest and most diversified health care and benefit networks available to the market today.

## SERVICE INNOVATION

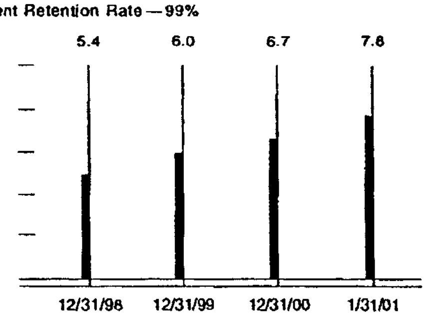
Technology-based service is a distinctive element of Uniprise's position in this rapidly growing market. Internet technology has created a new channel for providing health information and services to individuals, physicians, employers and brokers, while also reducing transaction and support expenses.

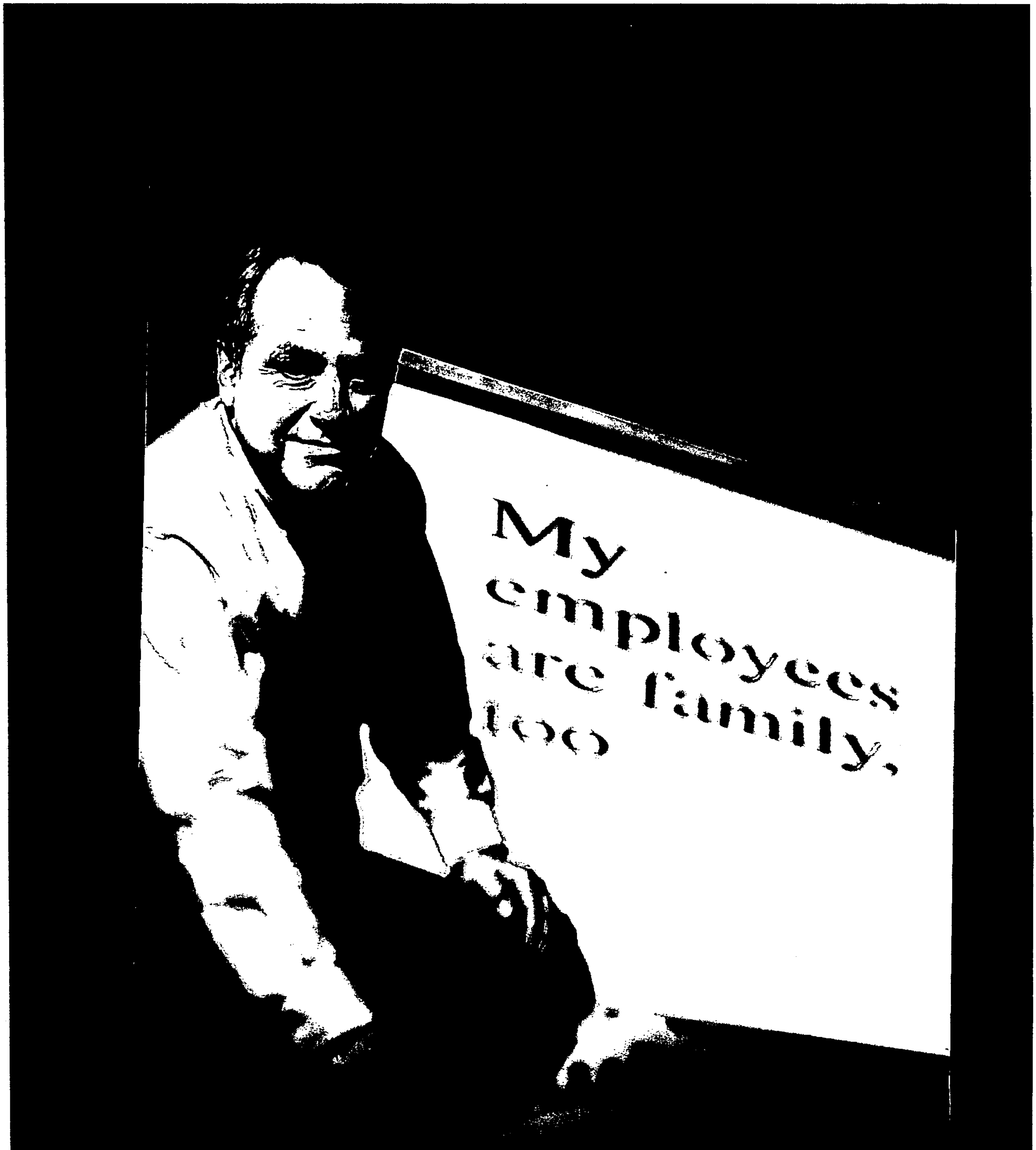
Through Web-based tools such as EmployerLink Net, employers and consultants have instant, real-time, online access to update information, verify benefits or check the status on a wide range of factors specific to their service needs. Uniprise customers also conduct sophisticated analyses on financial and clinical trends using this Web technology, which links directly to their specific data within our data warehouse.

REVENUES (in billions)




INDIVIDUALS SERVED (in millions)
Client Retention Rate — 99%




My employees are family, too

Specialized Care Services is an expanding portfolio of health and well-being companies, each dedicated to serving a specific market need by offering a unique blend of benefits, provider networks, services and resources. Through its subsidiary companies, Specialized Care Services provides access to a broad range of specialized services to enhance basic health care. Strong demand for these service offerings drove revenues for this business segment up more than 30 percent in 2000. Going forward, Specialized Care Services will continue to look for and develop additional consumer-oriented services that help support people's total well-being.

### UNITED BEHAVIORAL HEALTH

A leading provider of network-based employee assistance and mental health/substance abuse services, United Behavioral Health's services emphasize early intervention and direct access to the most appropriate care.

### OPTUM®

Addressing the full spectrum of health and well-being, Optum enables personalized delivery of consumer information and resources using the Internet, telephone, print, e-mail, fax, audiotape and personal support.

### UNITED RESOURCE NETWORKS

A provider of network-based transplantation and catastrophic care services, its strength lies in using clinical information to create, enhance and promote access to specialized networks and provide complex case management services.

### DENTAL BENEFIT PROVIDERS

One of the nation's largest network-based dental services companies, Dental Benefit Providers offers access to affordable care along with innovative product choices.

### COORDINATED VISION CARE

Providing network-based vision benefit management services, Coordinated Vision Care brings value to customers by contracting directly with care providers, frame suppliers and lens laboratories.

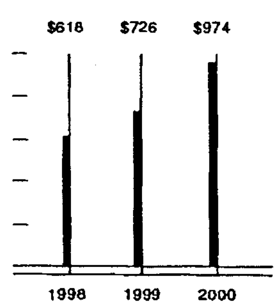
### UNIMERICA

By providing life, accident and critical illness benefits that supplement basic health plans, Unimerica enables customers to tailor benefits to their personal circumstances and needs.

### NATIONAL BENEFIT RESOURCES

Offering network-based cost management services and benefit products for self-insured employers, National Benefit Resources leverages UnitedHealth Group's broader capabilities to better serve and penetrate this market segment.

### REVENUES (in millions)




### INDIVIDUALS SERVED

(as of Jan. 31, 2001)

- United Behavioral Health 18.7 million
- Optum 19.9 million
- Dental Benefit Providers 2.4 million
- Coordinated Vision Care 1.2 million


We all hav
pecial

Improved knowledge and information are key to improving health and well being Accurate, unbiased research and information help improve the effectiveness of care by supporting fact-based clinical and financial decisions. Which treatment leads to the best outcome? What is the safest, most effective care intervention between newly introduced medical technology and an established practice? Is a potential new prescription drug better than existing drug options? Through its two divisions—Ingenix Health Intelligence and Ingenix Pharmaceutical Services—Ingenix provides answers to these and other important questions for clients around the world.

## INGENIX HEALTH INTELLIGENCE

Ingenix Health Intelligence, a leader in the multi-billion-dollar market for health care information, offers a breadth of informatics products and services, combined with depth of knowledge and experience, and innovative data, analytic and predictive approaches to solving problems.

Data and Software Products

- Cost and utilization reporting and analysis
- Billing and reimbursement editing and coding
- Fraud and abuse detection
- Care provider fee schedules
- HEDIS reporting
- Quality profiling
- Workers compensation and disability insurance repricing and support

Print and Electronic Publications

- Coding and reimbursement information
- Information about new regulatory developments
- Best practices data

Consulting Services

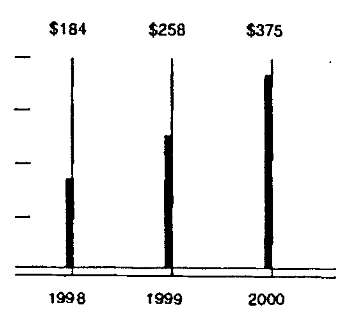
- Actuarial and financial disciplines
- Product development
- Care provider contracting and medical policy
- Management consulting
- Health services evaluation and delivery

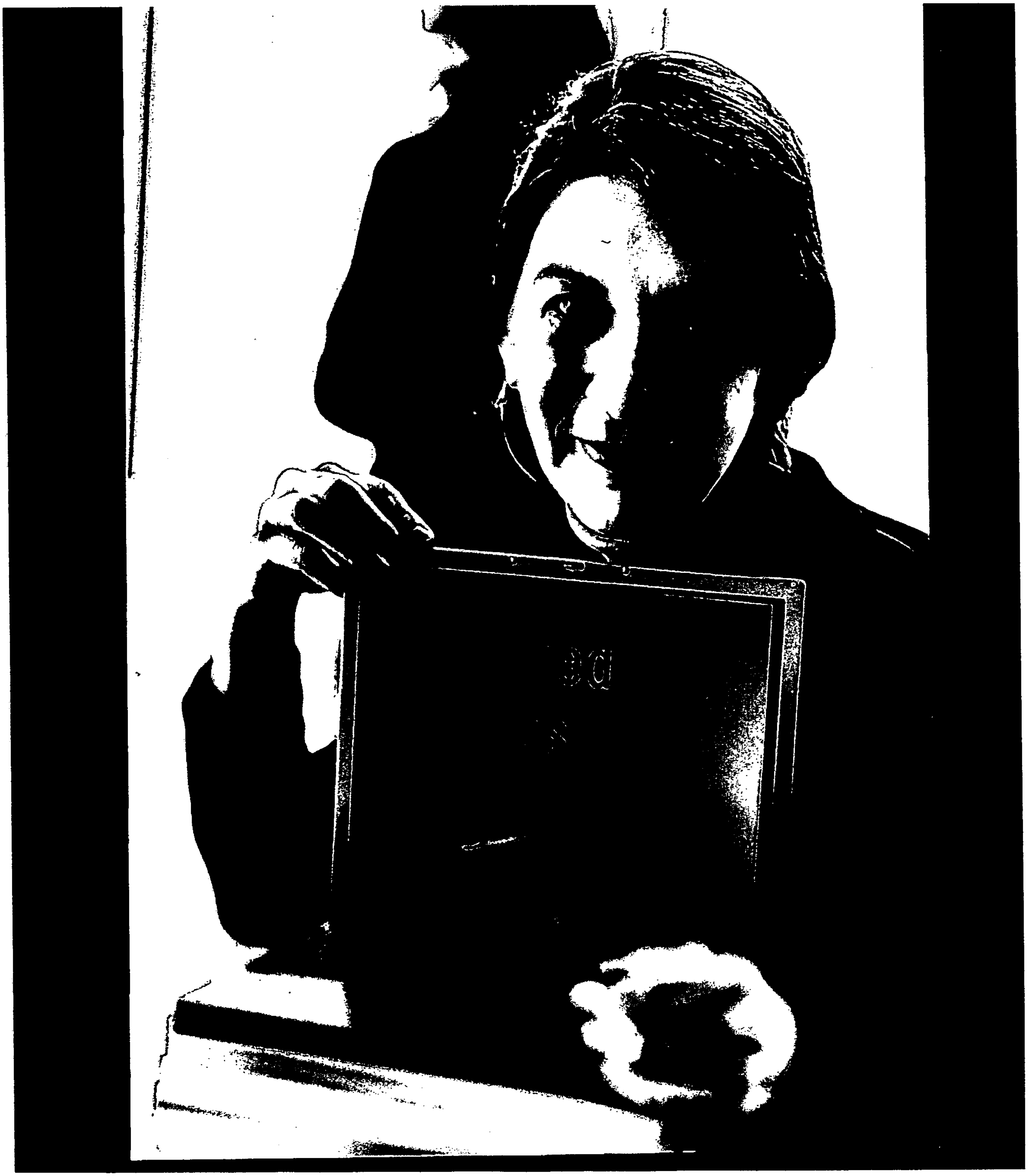
## INGENIX PHARMACEUTICAL SERVICES

Ingenix Pharmaceutical Services speeds the product development process. As part of UnitedHealth Group, the company has access to a comprehensive longitudinal database of more than 15 million patients. Its in-depth knowledge and expertise in working with all key constituents in health care give Ingenix Pharmaceutical Services the unique ability to view drug challenges and opportunities from multiple vantage points. Its services include:

- Clinical trials services and outcomes
- Pharmacoeconomic and safety research
- Medical education
- Regulatory and strategic marketing services for pharmaceutical, biotechnology and medical device manufacturers

## REVENUES (in millions)





FINANCIAL REVIEW

"With each of our business segments reporting record results in the year 2000, we continue our progress as one of the most dynamic growth companies in America."

## 2000 FINANCIAL PERFORMANCE HIGHLIGHTS

2000 was the strongest year in the history of UnitedHealth Group, resulting from diversified business growth and continued productivity improvements. Financial performance highlights include[1]:

- Record revenues of $21.1 billion, a 12% increase in continuing markets over 1999.
- Record operating earnings of $1.2 billion, up 27% over 1999, with each segment delivering strong year-over-year revenue and operating earnings advances.
- Record net earnings applicable to common shareholders of $705 million, and diluted net earnings per common share of $2.10, representing increases over 1999 of 25% and 32%, respectively.
- Record cash flows of more than $1.5 billion generated from operating activities, an increase of 28% over 1999.
- Return on shareholders' equity of 19.0%, up from 14.1% in 1999.

[1] Where applicable, 2000 and 1999 results exclude the effects of separate dispositions of UnitedHealth Capital investments.

Following is a five-year summary of selected financial data:

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| (In millions, except per share data) | 2000 | 1999 | 1998 | 1997 | 1996 |
| **Consolidated Operating Results** | | | | | |
| Revenues | $ 21,122 | $ 19,562 | $ 17,355 | $ 11,794 | $ 10,074 |
| Earnings (Loss) From Operations | $ 1,200 | $ 943 | $ (42)[3] | $ 742 | $ 581[4] |
| Net Earnings (Loss) | $ 736[1] | $ 568[2] | $ (166) | $ 460 | $ 356[4] |
| Net Earnings (Loss) Applicable to Common Shareholders | $ 736 | $ 568 | $ (214)[3] | $ 431 | $ 327 |
| Basic Net Earnings (Loss) per Common Share | $ 2.27 | $ 1.63 | $ (0.56) | $ 1.15 | $ 0.90 |
| Diluted Net Earnings (Loss) per Common Share | $ 2.19[1] | $ 1.60[2] | $ (0.56)[3] | $ 1.13 | $ 0.88[4] |
| Common Stock Dividends per Share | $ 0.02 | $ 0.02 | $ 0.02 | $ 0.02 | $ 0.02 |
| **Consolidated Cash Flows From Operating Activities** | $ 1,521 | $ 1,189 | $ 1,071 | $ 683 | $ 562 |
| **Consolidated Financial Condition** (As of December 31) | | | | | |
| Cash and Investments | $ 5,053 | $ 4,719 | $ 4,424 | $ 4,041 | $ 3,453 |
| Total Assets | $ 11,053 | $ 10,273 | $ 9,675 | $ 7,623 | $ 6,997 |
| Debt | $ 1,209 | $ 991 | $ 708[5] | $ – | $ – |
| Convertible Preferred Stock | $ – | $ – | $ –[5] | $ 500 | $ 500 |
| Shareholders' Equity | $ 3,688 | $ 3,863 | $ 4,038 | $ 4,534 | $ 3,823 |
| Return on Shareholders' Equity | 19.0 % | 14.1 % | na[3] | 10.4 % | 9.2%[4] |

Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes.

[1] 2000 results include a $14 million net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation and a $27 million gain ($17 million after tax) related to a separate disposition of UnitedHealth Capital investments. Excluding these items, net earnings and diluted net earnings per common share were $705 million and $2.10 per share for the year ended December 31, 2000.

[2] 1999 results include a net permanent tax benefit primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, net earnings and diluted net earnings per common share were $563 million and $1.59 per share.

[3] Excluding the operational realignment and other charges of $725 million, $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates, and the $20 million convertible preferred stock redemption premium from 1998 results, earnings from operations and net earnings applicable to common shareholders would have been $858 million and $509 million, or $1.31 diluted net earnings per common share, and return on shareholders' equity would have been 11.9%.

[4] Excluding the merger costs associated with the acquisition of HealthWise of America, Inc. of $15 million ($9 million after tax) and the provision for future losses on two multi-year contracts of $45 million ($27 million after tax), 1996 earnings from operations and net earnings would have been $641 million and $392 million, or $0.98 diluted net earnings per common share, and return on shareholders' equity would have been 10.2%.

[5] During 1998, we issued debt totaling $708 million and redeemed $500 million of convertible preferred stock.

na — not applicable

## 2000 RESULTS COMPARED TO 1999 RESULTS

## CONSOLIDATED FINANCIAL RESULTS

### Revenues

Revenues are comprised of premium revenue associated with insured products, fees associated with management, administrative and consulting services, and investment and other income.

Consolidated revenues increased in 2000 to $21.1 billion. Strong and balanced growth across all business segments was partially offset by transitions in certain geographic and Medicare markets. Adjusted for the effects of these market transitions, consolidated revenues increased approximately $2.2 billion, or 12%, over 1999. Following is a discussion of 2000 consolidated revenue trends for each of our three revenue components.

**Premium Revenues** Consolidated premium revenues in 2000 totaled $18.9 billion, an increase of $1.4 billion, or 8%, compared with 1999. This increase was driven by two primary factors: premium yield increases on UnitedHealthcare's commercial insured business, and growth in individuals served. These increases were partially offset by transitions in certain geographic and Medicare markets. Adjusted for the effect of these market transitions, premium revenues increased 12% over 1999.

**Management Services Fee Revenues** Fee revenues in 2000 totaled $2.0 billion, representing an increase of $171 million, or 10%, over 1999. The overall increase in fee revenues is primarily the result of record growth in Uniprise's multi-site customer base, growth in UnitedHealthcare's fee-based business, modest price increases, and acquisitions and growth from our Specialized Care Services and Ingenix businesses.

**Investment and Other Income** Investment and other income during the year ended December 31, 2000, totaled $232 million, representing an increase of $13 million over 1999. Higher interest yields on investments in 2000 compared with 1999 were largely offset by $34 million of net realized capital losses in 2000. Net realized capital losses were $6 million in 1999.

### Medical Costs

The combination of pricing and care coordination efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

Our consolidated medical care ratio decreased from 85.7% in 1999 to 85.4% in 2000. Excluding AARP business, on a year-over-year basis, the medical care ratio decreased 30 basis points to 83.9%. Decreases in our year-over-year medical care ratios are attributable to commercial net premium yield increases exceeding the underlying increase in total benefit costs.

On an absolute dollar basis, the increase in medical costs of $1.1 billion, or 7%, over 1999 was driven by a combination of growth in individuals served with insured products, medical cost inflation, benefit changes and product mix changes.

### Operating Costs

Operating costs as a percentage of total revenues (the operating cost ratio) was 16.7% in 2000, compared with 17.1% in 1999. This decrease was primarily driven by productivity increases achieved through process improvement, technology deployment and cost reduction initiatives, and by further leveraging the fixed cost components of our infrastructure.

Changes in revenue mix also affect the operating cost ratio. For our fastest-growing businesses (Uniprise, Specialized Care Services and Ingenix), most direct costs of revenue are included in operating costs, not medical costs. Using a revenue mix comparable to 1999, the 2000 operating cost ratio would have decreased 80 basis points to 16.3%.

On an absolute dollar basis, operating costs increased by $177 million, or 5%, over 1999. This increase reflects the additional costs to support product and technology development initiatives, and to support the 8% increase in consolidated revenues in 2000, partially offset by the benefit of productivity and technology improvements discussed above.

### Depreciation and Amortization

Depreciation and amortization was $247 million in 2000 and $233 million in 1999. This increase resulted primarily from increased levels of capital expenditures to support business growth and technology enhancements, and the amortization of goodwill and other intangible assets related to acquisitions.

### Income Taxes

Our 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 37.5% in 2000 and 37.0% in 1999.

## BUSINESS SEGMENTS

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

**Revenues**

| | 2000 | 1999 | Percent Change |
|---|---|---|---|
| Health Care Services | $ 18,696 | $ 17,581 | 6% |
| Uniprise | 2,140 | 1,865 | 15% |
| Specialized Care Services | 974 | 726 | 34% |
| Ingenix | 375 | 258 | 45% |
| Corporate and Eliminations | (1,063) | (868) | nm |
| Consolidated Revenues | $ 21,122 | $ 19,562 | 8% |

**Earnings from Operations**

| | 2000 | 1999 | Percent Change |
|---|---|---|---|
| Health Care Services | $ 739 | $ 578 | 28% |
| Uniprise | 289 | 222 | 30% |
| Specialized Care Services | 174 | 128 | 36% |
| Ingenix | 32 | 25 | 28% |
| Total Operating Segments | 1,234 | 953 | 29% |
| Corporate | (34) | (10) | nm |
| Consolidated Earnings from Operations | $ 1,200 | $ 943 | 27% |

nm — not meaningful

**Health Care Services**

The Health Care Services segment consists of the UnitedHealthcare and Ovations businesses. UnitedHealthcare coordinates network-based health and well-being services on behalf of local employers and consumers nationwide. Ovations, which administers Medicare Supplement benefits on behalf of AARP, offers health and well-being services for Americans age 50 and older.

The Health Care Services segment posted record revenues of $18.7 billion, representing an increase of $1.1 billion, or 6%, over 1999. This increase is primarily attributable to premium yield increases on UnitedHealthcare's commercial business and growth in individuals served in continuing markets, partially offset by targeted pullbacks in certain geographic and Medicare markets. Adjusted for the effects of these market transitions, Health Care Services' revenues increased by 10% on a year-over-year basis.

The Health Care Services segment contributed earnings from operations of $739 million in 2000, an increase of $161 million, or 28%, over 1999. This increase is primarily the result of improved margins on UnitedHealthcare's commercial business and reduced operating costs as a percentage of revenues, driven by process improvement, technology deployment and cost reduction initiatives. Health Care Services' operating margin increased to 4.0% in 2000 from 3.3% in 1999.

UnitedHealthcare's commercial medical care ratio improved to 84.1% in 2000 from 84.6% in 1999, driven by net premium yield increases in excess of underlying medical costs. Commercial health plan premium rates are established based on anticipated benefit costs, including the effects of medical cost inflation, benefit changes and product mix.

UnitedHealthcare's year-over-year Medicare enrollment decreased 7% as a result of actions taken to better position this program for long-term success. Effective January 1, 2000 and 2001, UnitedHealthcare withdrew its Medicare+Choice product from targeted counties affecting 40,000 individuals and 56,000 individuals, respectively. These actions reduce Medicare enrollment, but improve profitability in the long term relative to the cost of capital and required resource management.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands):

| | 2000 | 1999 |
|---|---|---|
| Commercial | | |
| Insured | 5,495 | 5,150 |
| Fee-based | 1,927 | 1,745 |
| Total Commercial | 7,422 | 6,895[1] |
| Medicare | 406 | 437 |
| Medicaid | 549 | 479 |
| Total UnitedHealthcare | 8,377 | 7,811 |

[1] Excludes individuals served through UnitedHealthcare platforms located in Puerto Rico and Pacific Coast regions. As of December 31, 2000, UnitedHealthcare had substantially transitioned from these markets. Including these markets, individuals served at December 31, 1999 were:

| | |
|---|---|
| Commercial | |
| Insured | 5,650 |
| Fee-based | 1,887 |
| Total Commercial | 7,537 |

**Uniprise**

Uniprise provides network based health and well being services, business to business transactional infrastructure services, consumer connectivity, and technology support for large employers and health plans. Uniprise revenues of $2.1 billion increased by $275 million, or 15%, over 1999. This increase was driven primarily by continued growth in Uniprise's large multi-site customer base, which had an 11% increase in individuals served, as well as changes in funding arrangements selected by certain customers and price increases on fee-based business. Uniprise served 6.7 million and 6.0 million individuals as of December 31, 2000 and 1999, respectively. Uniprise's earnings from operations grew by $67 million, or 30%, over 1999 as a result of the increased revenues, and operating margin improved to 13.5% in 2000 from 11.9% in 1999. As revenues have increased, Uniprise has expanded its operating margin by improving productivity through process improvement initiatives, increased deployment of technology and by further leveraging the fixed cost components of its infrastructure.

**Specialized Care Services**

Specialized Care Services is an expanding portfolio of health and well-being companies, each serving a specialized market need with a unique blend of benefits, provider networks, services and resources. Specialized Care Services' revenues of $974 million increased by $248 million, or 34%, over 1999. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, its mental health and substance abuse services business, and the acquisitions of Dental Benefit Providers, Inc. in June 1999 and National Benefit Resources, Inc. in November 1999. Earnings from operations of $174 million increased by 36% compared with 1999, commensurate with 2000 revenue growth. Specialized Care Services' operating margin improved from 17.6% in 1999 to 17.9% in 2000.

**Ingenix**

Ingenix is a leader in the field of health care data and information, research analysis and application, serving pharmaceutical companies, health insurers and payers, care providers, large employers and governments. Revenues of $375 million increased by $117 million, or 45%, over 1999 driven by organic growth of $54 million and 1999 acquisitions that broadened the business franchise in clinical research and development, clinical marketing and data mining. Earnings from operations of $32 million increased 28% over 1999. Operating margin decreased to 8.5% in 2000 from 9.7% in 1999, principally as a result of increased goodwill amortization expense associated with acquisitions.

**Corporate**

Corporate includes investment income derived from cash and investments not assigned to operating segments and the company-wide costs associated with process improvement initiatives. The decrease of $24 million in 2000 earnings reflects a decline in the level of unassigned cash and investments and associated investment income, primarily resulting from share repurchases and incremental 2000 process improvement costs.

## 1999 RESULTS COMPARED TO 1998 RESULTS

### CONSOLIDATED FINANCIAL RESULTS

**Revenues**

Consolidated revenues increased 13% in 1999 to $19.6 billion, reflecting balanced growth across all business segments. Following is a discussion of 1999 consolidated revenue trends for each of our three revenue components.

**Premium Revenues** Consolidated premium revenues in 1999 totaled $17.6 billion, an increase of $2.0 billion, or 13%, compared to 1998. This increase was primarily driven by premium yield increases on UnitedHealthcare's commercial insured business, growth in the number of individuals served by United Behavioral Health and the acquisitions of HealthPartners of Arizona, Inc. and Dental Benefit Providers, Inc.

**Management Services Fee Revenues** Management services fee revenues in 1999 totaled $1.8 billion, representing an increase of $203 million, or 13%, over 1998. The overall increase in management services fee revenues was primarily the result of strong growth in Uniprise's multi-site customer base, price increases in fee business, and acquisitions and growth from our Ingenix business.

**Investment and Other Income** Investment and other income during the year ended December 31, 1999, totaled $219 million, representing a decrease of $30 million from 1998. This decrease is primarily the result of net realized capital losses from the sale of investments in 1999 in contrast to net realized capital gains in 1998, along with decreases in cash and investments and associated investment income resulting from our stock repurchase activities and business acquisitions. Rising interest rates during 1999 resulted in declines in the fair value of fixed income investments, and we realized net capital losses of $6 million during 1999. For the year ended December 31, 1998, realized net capital gains were $26 million.

**Medical Costs**

The consolidated medical care ratio decreased to 85.7% in 1999 from 87.2% in 1998. Excluding the AARP business and the effects of 1998 special charges, on a year-over-year basis, the medical care ratio decreased 10 basis points to 84.2%.

On an absolute dollar basis, the increase in medical costs of $1.5 billion, or 11%, over 1998 was driven by a combination of growth in individuals served with insured products, medical cost inflation, benefit changes and product mix changes.

**Operating Costs**

Operating costs as a percentage of total revenues (the operating cost ratio) was 17.1% in 1999, consistent with 1998. Operating cost reductions in 1999 were partially offset by $39 million of incremental expenses in 1999 related to process improvement initiatives and platform system conversions. On a comparable revenue mix basis, the operating cost ratio would have decreased 30 basis points to 16.8%.

On an absolute dollar basis, operating costs increased by $379 million, or 13%, over 1998. This increase reflects the additional costs to support the corresponding 13% increase in consolidated revenues in 1999, and the incremental process improvement expenses described above.

**Depreciation and Amortization**

Depreciation and amortization was $233 million in 1999 and $185 million in 1998. The increase in 1999 resulted from increased levels of capital expenditures in 1998 and 1999 to support business growth and technology enhancements and amortization of goodwill and other intangible assets.

## BUSINESS SEGMENTS

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

| Revenues | 1999 | 1998 | Percent Change |
|---|---|---|---|
| Health Care Services | $ 17,581 | $ 15,612 | 13% |
| Uniprise | 1,865 | 1,624 | 15% |
| Specialized Care Services | 726 | 618 | 17% |
| Ingenix | 258 | 184 | 40% |
| Corporate and Eliminations | (868) | (683) | nm |
| Consolidated Revenues | $ 19,562 | $ 17,355 | 13% |

| Earnings from Operations | 1999 | 1998 [1] | Percent Change |
|---|---|---|---|
| Health Care Services | $ 578 | $ 503 | 15% |
| Uniprise | 222 | 161 | 38% |
| Specialized Care Services | 128 | 109 | 17% |
| Ingenix | 25 | 20 | 25% |
| Total Operating Segments | 953 | 793 | 20% |
| Corporate | (10) | 65 | nm |
| Consolidated Earnings from Operations | $ 943 | $ 858 | 10% |

[1] Excludes $725 million of operational realignment and other charges and $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.

nm — not meaningful

### Health Care Services

The Health Care Services segment posted revenues of $17.6 billion, representing an increase of $2.0 billion, or 13%, over 1998. This increase was primarily attributable to UnitedHealthcare's net premium yield increases on commercial business and the acquisition of HealthPartners of Arizona, Inc.

The Health Care Services segment contributed earnings from operations of $578 million in 1999, an increase of $75 million, or 15%, over 1998. This increase is primarily due to growth in the average number of individuals served by UnitedHealthcare during 1999 and reduced operating costs as a percentage of revenues driven by our process improvement initiatives.

UnitedHealthcare's commercial medical care ratio improved to 84.6% in 1999 from 84.9% in 1998 (excluding 1998 special operating charges), driven by net premium yield increases in excess of underlying medical costs.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands)[1]:

| | 1999 | 1998 |
|---|---|---|
| Commercial | | |
| Insured | 5,150 | 5,141 |
| Fee-based | 1,745 | 1,616 |
| Total Commercial | 6,895 | 6,757 |
| Medicare | 437 | 482 |
| Medicaid | 479 | 430 |
| Total UnitedHealthcare | 7,811 | 7,669 |

[1] Excludes individuals served through UnitedHealthcare platforms in Puerto Rico and Pacific Coast regions. The company has transitioned these markets.

**Uniprise**

Uniprise's revenues increased by $241 million, or 15%, over 1998 driven primarily by continued growth in its large multi-site customer base, which had an 11% increase in individuals served, and price increases on fee-based business. Uniprise served 6.0 million individuals as of December 31, 1999, and 5.4 million individuals as of December 31, 1998. Uniprise's earnings from operations grew by $61 million, or 38%, over 1998 as a result of the increased revenues, ongoing process improvement initiatives and improved operating margins on insured business.

**Specialized Care Services**

Specialized Care Services' revenues increased by $108 million, or 17%, over 1998. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, and the acquisition of Dental Benefit Providers, Inc. in June 1999. Earnings from operations of $128 million increased by 17% compared with 1998, commensurate with 1999 revenue growth.

**Ingenix**

Revenues increased by $74 million, or 40%, over 1998 primarily as a result of acquisitions during the last half of 1998 and during 1999. Earnings from operations of $25 million represented an increase of 25% over 1998.

**Corporate**

The decrease of $75 million in 1999 Corporate earnings was attributable to $39 million of incremental process improvement costs over 1998 levels, and a decline in the level of unassigned cash and investments and associated investment income, which resulted primarily from share repurchases and business acquisitions.

## OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with our operational realignment initiatives, we developed and, in the second quarter of 1998, approved a comprehensive plan (the Plan) to implement our operational realignment. We recognized corresponding charges to operations of $725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing operations and associated real estate obligations.

Our accompanying financial statements include the operating results of businesses and markets disposed of or discontinued, and markets we have exited in connection with the operational realignment. The accompanying Consolidated Statements of Operations include revenues and operating earnings (losses) from businesses disposed of and markets exited for the years ended December 31, as follows (in millions):

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Revenues | $ 312 | $ 689 | $ 964 |
| Earnings (Loss) From Operations | $ 9 | $ (41) | $ (52) |

The table above does not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2000, and January 1, 2001. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately $230 million. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately $320 million.

During 2000, we finalized our agreement with Blue Shield of California to transition approximately 210,000 individuals served by our California health plan. Additionally, we transitioned approximately 75,000 individuals served by our Oregon and Washington health plans to Premera BlueCross and LifeWise. These actions conclude our planned transition to concentrate resources in the Pacific Coast region on Uniprise national, multi-site customers and Specialized Care Services customers. We have also transitioned out of the market in Puerto Rico. The balances accrued in our operational realignment and other charges were sufficient to cover expenses incurred in the sale and exit of our operations in these markets.

The operational realignment and other charges do not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidate processing centers, and employee relocation and training. These costs are expensed as incurred or capitalized, as appropriate. During 2000, 1999 and 1998, we incurred expenses of approximately $57 million, $52 million and $13 million, respectively, related to these activities.

We expect to complete our realignment initiatives during 2001. Based on current facts and circumstances, we believe our remaining accrued liability for realignment initiatives of $65 million will be adequate to cover the costs to be incurred in executing the remainder of the Plan.

## FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2000

During 2000, we generated cash from operations of more than $1.5 billion, an increase of $332 million, or 28%, over 1999. The increase in operating cash flows resulted from an increase of $182 million in net income excluding depreciation and amortization expense, working capital improvements of approximately $57 million, and $93 million related to income tax benefits resulting from employee stock option exercises.

We maintained a strong financial condition and liquidity position, with cash and investments of $5.1 billion at December 31, 2000. Total cash and investments increased by $334 million since December 31, 1999, primarily resulting from strong cash flows from operations partially offset by common stock repurchases.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations. At December 31, 2000, approximately $327 million of our $5.1 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately $65 million was available for general corporate use, including acquisitions and share repurchases. The remaining $262 million consists of public and non-public equity securities primarily held by UnitedHealth Capital, our venture and development capital business. Our operating cash flows and financing capability also provide us with funds, as needed, for general corporate use.

As of December 31, 2000, we had $409 million of commercial paper outstanding, with interest rates ranging from 6.6% to 6.9%. In July 2000, we executed new credit arrangements supporting our commercial paper program for an aggregate of $900 million. These credit arrangements are composed of a $450 million revolving facility expiring in July 2005, and a $450 million, 364-day facility expiring in July 2001. We also have the capacity to issue approximately $200 million of extendible commercial notes (ECNs). During 2000, we had no amounts outstanding under our credit facilities or ECNs. During 2000, we also issued $400 million of five-year 7.5% senior unsecured notes.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which place limitations on secured and unsecured borrowings and require us to exceed minimum interest coverage levels. We are in compliance with the requirements of all debt covenants. Our senior debt is rated "A" by Standard & Poor's and Fitch (formerly known as Duff & Phelps), and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by Standard & Poor's, "F-1" by Fitch, and "P-2" by Moody's.

The remaining aggregate issuing capacity of all securities covered by shelf registration statements for common stock, preferred stock, debt securities and other securities is $850 million. We may publicly offer such securities from time to time at prices and terms to be determined at the time of offering.

Under the board of directors' authorization, we are operating a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During the 12 months ended December 31, 2000, we repurchased 31.0 million shares at an aggregate cost of $1.2 billion. Through December 31, 2000, we had repurchased approximately 92.9 million shares for an aggregate cost of $2.6 billion since the inception of the program in November of 1997. In December of 1998, we also repurchased $500 million of preferred stock that was convertible into 20.2 million shares of common stock. As of December 31, 2000, we have board of directors' authorization to purchase up to an additional 28.4 million shares of our common stock.

In October 2000, the board of directors declared a two-for-one split of the company's common stock in the form of a 100 percent common stock dividend. This dividend was issued on December 22, 2000, to shareholders of record as of December 1, 2000. The accompanying consolidated financial statements have been restated to reflect the share and per share effects of the common stock split.

We expect our available cash and investment resources, operating cash flows and financing capability will be sufficient to meet our current operating requirements and other corporate development initiatives. A substantial portion of our long-term investments (approximately $3.3 billion as of December 31, 2000) is classified as available for sale. Subject to the previously described regulations, these investments may be used to fund working capital or for other purposes.

Currently, we do not have any other material definitive commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products and programs and may include acquisitions.

During 1999, we formed and initiated funding of the UnitedHealth Foundation. Through December 31, 2000, we made contributions to the UnitedHealth Foundation using a portion of our UnitedHealth Capital investments valued at approximately $100 million on the dates contributed. The UnitedHealth Foundation is dedicated to improving Americans' health and well-being by supporting consumer and physician education and awareness programs, generating objective information that will contribute to improving health care delivery, and sponsoring community-based health and well-being activities.

## REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

Our operations are conducted through our wholly-owned subsidiaries, which include health maintenance organizations and insurance companies. These companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by our regulated subsidiaries, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus.

The National Association of Insurance Commissioners has developed minimum capitalization guidelines for health maintenance organizations, subject to state-by-state adoption. Many states have adopted and other states will likely adopt some form of these rules. We do not expect that further state adoptions or implementations will require us to make significant incremental investments of general corporate resources into regulated subsidiaries.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates and equity prices.

Approximately $4.8 billion of our cash and investments at December 31, 2000, was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however, our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed income portfolio at December 31, 2000, the fair value of our fixed income investments would decrease or increase by approximately $140 million.

## INFLATION

The national health care cost inflation rate exceeds the general inflation rate. We use various strategies to mitigate the negative effects of health care cost inflation, including setting commercial premiums based on anticipated health care costs, coordinating care with various health care providers, and using various health care cost containment measures. Specifically, health plans try to control medical and hospital costs through contracts with independent providers of health care services. Through these contracted care providers, our health plans emphasize preventive health care, appropriate use of specialty and hospital services, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation will be successful. However, other factors such as competitive pressures, new health care and pharmaceutical product introductions, demands from health care providers and consumers, applicable regulations or other factors may affect our ability to control the impact of health care cost increases.

## LEGAL MATTERS

Because of the nature of our business, we are routinely subject to suits alleging various causes of action. Some of these suits may include claims for substantial non-economic or punitive damages. We do not believe that any such actions, or any other types of actions, currently threatened or pending will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

## CAUTIONARY STATEMENT REGARDING "FORWARD-LOOKING" STATEMENTS

The statements contained in Results of Operations, and other sections of this annual report to shareholders, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA). When used herein, the words or phrases "believes," "expects," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" statements under the safe harbor provisions of the PSLRA. Forward-looking statements involve known and unknown risks, which may cause actual results and corporate developments to differ materially from those expected. Factors that could cause results and developments to differ materially from expectations include, without limitation: the effects of state and federal regulations, the effects of acquisitions and divestitures, and other risks described from time to time in each of UnitedHealth Group's SEC reports, including quarterly reports on Form 10-Q, annual reports on Form 10-K and reports on Form 8-K.

| (In millions, except per share data) | 2000 | 1999 | 1998 |
|---|---|---|---|
| | For the Year Ended December 31, | | |
| **Revenues** | | | |
| Premiums | $ 18,926 | $ 17,550 | $ 15,516 |
| Management Services Fees | 1,964 | 1,793 | 1,590 |
| Investment and Other Income | 232 | 219 | 249 |
| Total Revenues | 21,122 | 19,562 | 17,355 |
| **Medical and Operating Costs** | | | |
| Medical Costs | 16,155 | 15,043 | 13,523 |
| Operating Costs | 3,520 | 3,343 | 2,964 |
| Depreciation and Amortization | 247 | 233 | 185 |
| Operational Realignment and Other Charges | - | - | 725 |
| Total Medical and Operating Costs | 19,922 | 18,619 | 17,397 |
| **Earnings (Loss) From Operations** | 1,200 | 943 | (42) |
| Gain on Disposition of UnitedHealth Capital Investments | 27 | - | - |
| Interest Expense | (72) | (49) | (4) |
| **Earnings (Loss) Before Taxes** | 1,155 | 894 | (46) |
| Provision for Income Taxes | (419) | (326) | (120) |
| **Net Earnings (Loss)** | 736 | 568 | (166) |
| Convertible Preferred Stock Dividends and Redemption Premium | - | - | (48) |
| **Net Earnings (Loss) Applicable to Common Shareholders** | $ 736 | $ 568 | $ (214) |
| **Basic Net Earnings (Loss) per Common Share** | $ 2.27 | $ 1.63 | $ (0.56) |
| **Diluted Net Earnings (Loss) per Common Share** | $ 2.19 | $ 1.60 | $ (0.56) |
| **Basic Weighted-Average Number of Common Shares Outstanding** | 324.2 | 348.2 | 381.2 |
| **Dilutive Effect of Outstanding Stock Options** | 12.3 | 6.8 | - |
| **Weighted-Average Number of Common Shares Outstanding Assuming Dilution** | 336.5 | 355.0 | 381.2 |

See notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS UnitedHealth Group

| (in millions, except share and per share data) | As of December 31, 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and Cash Equivalents | $ 1,419 | $ 1,605 |
| Short-Term Investments | 200 | 546 |
| Accounts Receivable, net of allowances of $118 and $117 | 867 | 912 |
| Assets Under Management | 1,646 | 1,328 |
| Other Current Assets | 273 | 177 |
| Total Current Assets | 4,405 | 4,568 |
| Long-Term Investments | 3,434 | 2,568 |
| Property and Equipment, net of accumulated depreciation of $513 and $482 | 303 | 278 |
| Goodwill and Other Intangible Assets, net of accumulated amortization of $501 and $376 | 2,911 | 2,859 |
| **Total Assets** | $ 11,053 | $ 10,273 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Medical Costs Payable | $ 3,266 | $ 2,915 |
| Accounts Payable and Accrued Liabilities | 1,050 | 1,003 |
| Other Policy Liabilities | 1,216 | 910 |
| Commercial Paper and Current Maturities of Long-Term Debt | 559 | 591 |
| Unearned Premiums | 479 | 473 |
| Total Current Liabilities | 6,570 | 5,892 |
| Long-Term Debt | 650 | 400 |
| Deferred Income Taxes and Other Liabilities | 145 | 118 |
| Commitments and Contingencies *(Note 11)* | | |
| Shareholders' Equity | | |
| Common Stock, $0.01 par value - 500,000,000 shares authorized; 317,235,000 and 334,941,000 shares outstanding | 3 | 3 |
| Additional Paid-In Capital | - | 250 |
| Retained Earnings | 3,595 | 3,445 |
| Accumulated Other Comprehensive Income: | | |
| Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects | 90 | 165 |
| **Total Shareholders' Equity** | 3,688 | 3,863 |
| **Total Liabilities and Shareholders' Equity** | $ 11,053 | $ 10,273 |

See notes to consolidated financial statements.

| (In millions) | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Net Unrealized Holding Gains on Investments Available for Sale | Total Shareholders' Equity | Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 1997** | 382 | $ 4 | $ 1,398 | $3,103 | $ 29 | $4,534 | |
| Issuances of Common Stock | 8 | – | 145 | – | – | 145 | |
| Common Stock Repurchases | (22) | – | (436) | – | – | (436) | |
| Comprehensive Income (Loss) | | | | | | | |
| Net Loss | – | – | – | (166) | – | (166) | $ (166) |
| Other Comprehensive Income Adjustments | | | | | | | |
| Change in Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects | – | – | – | – | 15 | 15 | 15 |
| Comprehensive Loss | – | – | – | – | – | – | $ (151) |
| Cash Dividends | | | | | | | |
| Common Stock | – | – | – | (6) | – | (6) | |
| Convertible Preferred Stock | – | – | – | (28) | – | (28) | |
| Convertible Preferred Stock Redemption Premium | – | – | – | (20) | – | (20) | |
| **Balance at December 31, 1998** | 368 | 4 | 1,107 | 2,883 | 44 | 4,038 | |
| Issuances of Common Stock | 6 | – | 125 | – | – | 125 | |
| Common Stock Repurchases | (39) | (1) | (982) | – | – | (983) | |
| Comprehensive Income | | | | | | | |
| Net Earnings | – | – | – | 568 | – | 568 | $ 568 |
| Other Comprehensive Income Adjustments | | | | | | | |
| Change in Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects | – | – | – | – | 121 | 121 | 121 |
| Comprehensive Income | – | – | – | – | – | – | $ 689 |
| Common Stock Dividend | – | – | – | (6) | – | (6) | |
| **Balance at December 31, 1999** | 335 | 3 | 250 | 3,445 | 165 | 3,863 | |
| Issuances of Common Stock | 13 | – | 349 | – | – | 349 | |
| Common Stock Repurchases | (31) | – | (599) | (581) | – | (1,180) | |
| Comprehensive Income | | | | | | | |
| Net Earnings | – | – | – | 736 | – | 736 | $ 736 |
| Other Comprehensive Income Adjustments | | | | | | | |
| Change in Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects | – | – | – | – | (75) | (75) | (75) |
| Comprehensive Income | – | – | – | – | – | – | $ 661 |
| Common Stock Dividend | – | – | – | (5) | – | (5) | |
| **Balance at December 31, 2000** | 317 | $ 3 | $ – | $3,595 | $ 90 | $ 3,688 | |

See notes to consolidated financial statements.

| (in millions) | For the Year Ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net Earnings (Loss) | $ 736 | $ 568 | $ (166) |
| Noncash Items | | | |
| Depreciation and Amortization | 247 | 233 | 185 |
| Deferred Income Taxes and Other | 73 | 35 | (184) |
| Asset Impairments | – | – | 451 |
| Net Change in Other Operating Items, net of effects from acquisitions, sales of subsidiaries and changes in AARP balances | | | |
| Accounts Receivable and Other Current Assets | 26 | 84 | 67 |
| Medical Costs Payable | 288 | 165 | 269 |
| Accounts Payable and Other Current Liabilities | 162 | 60 | 347 |
| Unearned Premiums | (11) | 44 | 102 |
| **Cash Flows From Operating Activities** | 1,521 | 1,189 | 1,071 |
| **Investing Activities** | | | |
| Cash Paid for Acquisitions, net of cash assumed and other effects | (76) | (334) | (464) |
| Purchases of Property and Equipment and Capitalized Software | (245) | (196) | (210) |
| Proceeds from Sales of Property and Equipment and Disposition of Businesses | 12 | 51 | 59 |
| Purchases of Investments | (3,022) | (2,208) | (2,799) |
| Maturities and Sales of Investments | 2,363 | 2,064 | 3,435 |
| **Cash Flows (Used For) From Investing Activities** | (968) | (623) | 21 |
| **Financing Activities** | | | |
| Proceeds from Common Stock Issuances | 228 | 102 | 84 |
| (Payments of) Proceeds from Commercial Paper, net | (182) | 132 | 459 |
| Proceeds from Issuance of Long-Term Debt | 400 | 150 | 249 |
| Common Stock Repurchases | (1,180) | (983) | (436) |
| Redemption of Convertible Preferred Stock | – | – | (520) |
| Dividends Paid | (5) | (6) | (34) |
| **Cash Flows Used For Financing Activities** | (739) | (605) | (198) |
| **Increase (Decrease) in Cash and Cash Equivalents** | (186) | (39) | 894 |
| **Cash and Cash Equivalents, Beginning of Period** | 1,605 | 1,644 | 750 |
| **Cash and Cash Equivalents, End of Period** | $ 1,419 | $ 1,605 | $ 1,644 |

See notes to consolidated financial statements.

## (1) DESCRIPTION OF BUSINESS

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us," "our") is a national leader in forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through independent but strategically aligned, market-defined businesses, we offer health care coverage and related services designed to enable, facilitate and advance optimal health.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

We have prepared the consolidated financial statements in accordance with generally accepted accounting principles and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

### USE OF ESTIMATES

These financial statements include some amounts that are based on our best estimates and judgments. The most significant estimates relate to medical costs, medical costs payable, other policy liabilities and intangible asset valuations relating to acquisitions. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant. The impact of any changes in estimates is included in the determination of earnings in the period of change.

### REVENUE RECOGNITION

Premium revenues are recognized in the period enrolled members are entitled to receive health care services. Premium payments received from our customers prior to such period are recorded as unearned premiums. Management services fee revenues are recognized in the period the related services are performed. Premium revenues related to Medicare and Medicaid programs as a percentage of total premium revenues were 17% in 2000, 21% in 1999 and 20% in 1998.

### MEDICAL COSTS AND MEDICAL COSTS PAYABLE

Medical costs include claims paid, claims adjudicated but not yet paid, estimates for claims received but not yet adjudicated, and estimates for claims incurred but not yet received.

The estimates of medical costs and medical costs payable are developed using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors including product changes. The estimates are subject to change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change our actuarial methods during 2000, 1999 and 1998. Management believes that the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 2000.

### CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term.

Investments held by trustees or agencies according to state regulatory requirements are classified as held-to-maturity based on our ability and intent to hold these investments to maturity. Such investments are reported at amortized cost and, because of regulatory restrictions, are included in long-term investments regardless of their maturity date. All other investments are classified as available for sale and reported at fair value based on quoted market prices. Investments are classified as short-term or long-term depending on their maturity term. Periodically, we sell investments classified as long-term prior to their maturity to fund working capital or for other purposes.

Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of shareholders' equity, net of income tax effects. To calculate realized gains and losses on the sale of investments, we use the specific cost of each investment sold. We have no investments classified as trading securities.

### ASSETS UNDER MANAGEMENT

Under our 10-year agreement with AARP, we are administering certain aspects of AARP's insurance program that were transferred from the program's previous carrier (see Note 5). Pursuant to our agreement with AARP, the associated assets are managed separately from our general investment portfolio and are used to fund expenditures associated with the AARP program. These assets are invested at our discretion, within certain investment guidelines approved by AARP. At December 31, 2000, the assets were invested in marketable debt securities. Interest earnings and realized investment gains and losses on these assets accrue to AARP policyholders and, as such, are not included in our determination of earnings. Assets under management are reported at their fair value. Unrealized gains and losses are included in the rate stabilization fund associated with the AARP program. As of December 31, 2000, the AARP investment portfolio included net unrealized gains of $19 million compared with net unrealized losses of $34 million as of December 31, 1999.

### OTHER POLICY LIABILITIES

Other policy liabilities include the rate stabilization fund associated with the AARP program (see Note 5) and retrospective rate credit liabilities and customer balances related to experience-rated indemnity products.

Retrospective rate credit liabilities represent premiums we received in excess of amounts contractually owed by customers based on actual claim experience. Liabilities established for closed policy years are based on actual experience, while liabilities for open years are based on estimates of premiums, claims and expenses incurred.

Customer balances consist principally of deposit accounts and reserves that have accumulated under certain experience-rated contracts. At the customer's option, these balances may be returned to the customer or used to pay future premiums or claims under eligible contracts.

### PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the respective assets, ranging from three years to 30 years. The weighted-average useful life of property and equipment at December 31, 2000, was approximately four years.

### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the purchase price and transaction costs associated with businesses we have acquired in excess of the estimated fair value of the net assets of these businesses. To the extent possible, a portion of the excess purchase price and transaction costs is assigned to identifiable intangible assets. Goodwill and other intangible assets are being amortized on a straight-line basis over useful lives ranging from three years to 40 years, with a weighted-average useful life of 32 years at December 31, 2000.

The most significant components of goodwill and other intangible assets are composed of goodwill of $2.1 billion at December 31, 2000 and 1999, and employer group contracts, supporting infrastructure, distribution networks and institutional knowledge of $530 million at December 31, 2000, and $550 million at December 31, 1999, net of accumulated amortization.

### LONG-LIVED ASSETS

We review long-lived assets, including goodwill and other intangible assets, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider a number of factors, including estimated future undiscounted cash flows associated with the long-lived asset, to make this decision. We record assets held for sale at the lower of their carrying amount or fair value, less any costs associated with the final settlement.

### INCOME TAXES

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

### STOCK-BASED COMPENSATION

We use the intrinsic value method for determining stock-based compensation expenses. Under the intrinsic value method, we do not recognize compensation expense when the exercise price of an employee stock option equals or exceeds the fair market value of the stock on the date the option is granted. Information on what our stock-based compensation expenses would have been had we calculated those expenses using the fair market values of outstanding stock options is included in Note 9.

### NET EARNINGS (LOSS) PER COMMON SHARE

Basic net earnings (loss) per common share is computed by dividing net earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, since their inclusion would be anti-dilutive.

### RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133 regarding accounting for derivative instruments and hedging activities. SFAS No. 133, as amended by SFAS No. 137 and No. 138, establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activity be recorded in the balance sheet either as an asset or liability measured at its fair value. The statement requires changes in the derivative's fair value to be recognized in earnings or, for derivatives that hedge market risk related to future cash flows, in accumulated other comprehensive income, unless specific hedge accounting criteria are met. The company adopted SFAS No. 133 within its financial statements effective January 1, 2001, which did not result in a material effect on its financial position, results of operations or cash flows.

## (3) ACQUISITIONS

In September 1999, our Ingenix business segment acquired Worldwide Clinical Trials, Inc. (WCT), a leading contract research organization. We paid $214 million in cash in exchange for all outstanding shares of WCT. We accounted for the purchase using the purchase method of accounting, which means the purchase price was allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition. Only the post-acquisition results of WCT are included in our consolidated financial statements. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by $214 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 30 years. The pro forma effects of the WCT acquisition on our consolidated financial statements were not material.

In June 1999, our Specialized Care Services business segment acquired Dental Benefit Providers, Inc. (DBP), one of the largest dental benefit management companies in the United States. We paid $105 million in cash, and we accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by

$105 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro forma effects of the DBP acquisition on our consolidated financial statements were not material.

In October 1998, our Health Care Services segment acquired HealthPartners of Arizona, Inc. (HPA), with 509,000 members as of the acquisition date. We paid $235 million in cash in exchange for all outstanding shares of HPA. We accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the estimated fair value of net assets acquired by $223 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro forma effects of the HPA acquisition on our consolidated financial statements were not material.

During 1998, our Ingenix segment acquired Kern McNeill International, Inc. (KMI), a leading contract research organization, and St. Anthony Publishing, Inc. (St. Anthony), a leader in the health care coding and reimbursement publications market. In the aggregate, we paid $188 million in cash and assumed liabilities of $17 million in exchange for all of the common stock of KMI and St. Anthony. We accounted for these acquisitions using the purchase method of accounting. The purchase price and costs associated with these acquisitions exceeded the preliminary fair value of net assets acquired by $205 million, which has been assigned to trade names and goodwill and is being amortized over their estimated useful lives ranging from 15 to 40 years. The pro forma effects of these acquisitions on our consolidated financial statements were not material.

## (4) SPECIAL OPERATING CHARGES

### OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with our operational realignment initiatives, we developed and, in the second quarter of 1998, approved a comprehensive plan (the Plan) to implement our operational realignment. We recognized corresponding charges to operations of $725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing operations and associated real estate obligations. Activities associated with the Plan will result in the reduction of approximately 5,200 positions, affecting approximately 6,400 people in various locations. Through December 31, 2000, we have eliminated approximately 4,900 positions, affecting approximately 5,000 people, pursuant to the Plan. The remaining positions are expected to be eliminated during 2001.

Our accompanying financial statements include the operating results of businesses and markets disposed of or discontinued, and markets we have exited in connection with the operational realignment. The accompanying Consolidated Statements of Operations include revenues and operating earnings (losses) from businesses disposed of and markets we exited for the years ended December 31, as follows (in millions):

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Revenues | $ 312 | $ 689 | $ 964 |
| Earnings (Loss) From Operations | $ 9 | $ (41) | $ (52) |

The table above does not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2000, and January 1, 2001. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately $230 million. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately $320 million.

During 2000, we finalized our agreement with Blue Shield of California to transition approximately 210,000 individuals served by our California health plan. Additionally, we transitioned approximately 75,000 individuals served by our Oregon and Washington health plans to Premera BlueCross and LifeWise. These actions conclude our planned transition to concentrate resources in the Pacific Coast region on Uniprise national, multi-site customers and Specialized Care Services customers. We have also transitioned out of the market in Puerto Rico.

The balances accrued in our operational realignment and other charges were sufficient to cover expenses incurred in the sale and exit of our operations in these markets.

The operational realignment and other charges do not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidate processing centers, and employee relocation and training. These costs are expensed as incurred or capitalized, as appropriate. During 2000, 1999 and 1998, we incurred expenses of approximately $57 million, $52 million and $13 million, respectively, related to these activities.

The Plan anticipated substantial completion in 1999. However, some initiatives, including the consolidation of certain claim and administrative processing functions and certain divestitures and market realignment activities are requiring additional time to complete in the most effective manner. These activities will extend through the middle of 2001. Based on current facts and circumstances, we believe the remaining realignment reserve is adequate to cover the costs to be incurred in executing the remainder of the Plan. However, as we proceed with the execution of the Plan and more current information becomes available, it may be necessary to adjust our estimates for severance and lease obligations on exited facilities.

The table below is a roll-forward of accrued operational realignment and other charges, which are included in Accounts Payable and Accrued Liabilities in the accompanying Consolidated Balance Sheets, through December 31, 2000 (in millions):

| | Asset Impairments | Severance and Outplacement Costs | Noncancelable Lease Obligations | Disposition of Businesses and Other Costs | Total |
|---|---|---|---|---|---|
| Balance at December 31, 1997 | $ – | $ – | $ – | $ – | $ – |
| Provision for Operational Realignment and Other Charges | 430 | 142 | 82 | 71 | 725 |
| Additional Charges (Credits) | 21 | (20) | (9) | 8 | – |
| Cash Payments | – | (19) | (6) | (13) | (38) |
| Noncash Charges | (451) | – | – | – | (451) |
| Balance at December 31, 1998 | – | 103 | 67 | 66 | 236 |
| Additional Charges (Credits) | – | (22) | 13 | 9 | – |
| Cash Payments | – | (46) | (18) | (45) | (109) |
| Balance at December 31, 1999 | – | 35 | 62 | 30 | 127 |
| Cash Payments | – | (24) | (20) | (18) | (62) |
| Balance at December 31, 2000 | $ – | $ 11 | $ 42 | $ 12 | $ 65 |

## MEDICAL COSTS

During the second quarter of 1998, we recorded $175 million of medical cost charges. Of this amount, $120 million related to Medicare contract losses and increases to Medicare medical costs payable estimates, and $55 million related to increases to commercial medical costs payable estimates.

## (5) AARP CONTRACT

In February 1997, we entered into a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately $3.5 billion during 2000, 1999 and 1998.

The underwriting results related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. To the extent underwriting losses exceed the balance in the RSF, we would be required to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

We assumed the policy and other policy liabilities related to the AARP program and received cash and premium receivables from the previous insurance carrier equal to the carrying value of the liabilities assumed as of January 1, 1998. The following AARP program-related assets and liabilities are included in our Consolidated Balance Sheets (in millions):

| | Balance as of December 31, 2000 | 1999 |
|---|---|---|
| Assets Under Management | $ 1,625 | $ 1,307 |
| Accounts Receivable | $ 277 | $ 276 |
| Medical Costs Payable | $ 855 | $ 791 |
| Other Policy Liabilities | $ 932 | $ 713 |
| Accounts Payable and Accrued Liabilities | $ 115 | $ 79 |

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

## (6) CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, the amortized cost, gross unrealized holding gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

| 2000 | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 1,419 | $ – | $ – | $ 1,419 |
| Debt Securities — Available for Sale | 3,198 | 89 | (6) | 3,281 |
| Equity Securities — Available for Sale | 201 | 61 | – | 262 |
| Debt Securities — Held to Maturity | 91 | – | – | 91 |
| Total Cash and Investments | $ 4,909 | $ 150 | $ (6) | $ 5,053 |
| **1999** | | | | |
| Cash and Cash Equivalents | $ 1,605 | $ – | $ – | $ 1,605 |
| Debt Securities — Available for Sale | 2,605 | 4 | (58) | 2,551 |
| Equity Securities — Available for Sale | 166 | 318 | – | 484 |
| Debt Securities — Held to Maturity | 79 | – | – | 79 |
| Total Cash and Investments | $ 4,455 | $ 322 | $ (58) | $ 4,719 |

As of December 31, 2000, debt securities consisted of $855 million in U.S. Government obligations, $1,386 million in state and municipal obligations, and $1,131 million in corporate obligations. At December 31, 2000, we held $209 million in debt securities with maturities less than one year, $1,227 million in debt securities maturing in one to five years, and $1,936 million in debt securities with maturities of more than five years.

We recorded realized gains and losses on the sale of investments, excluding UnitedHealth Capital investments, as follows (in millions):

| | For the Year Ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| Gross Realized Gains | $ 12 | $ 9 | $ 31 |
| Gross Realized Losses | (46) | (15) | (5) |
| Net Realized Gains (Losses) | $ (34) | $ (6) | $ 26 |

During 2000 and 1999, respectively, we contributed UnitedHealth Capital investments valued at approximately $52 million and $50 million to the UnitedHealth Foundation. The realized gain of approximately $51 million in 2000 and $49 million in 1999 was offset by the related contribution expense of $52 million in 2000 and $50 million in 1999. The $1 million net expense of these transactions in both 2000 and 1999 is included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

In a separate disposition of UnitedHealth Capital investments during 2000, we realized a gain of $27 million.

## (7) COMMERCIAL PAPER AND DEBT

Commercial paper and debt consisted of the following as of December 31 (in millions):

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Commercial Paper | $ 409 | $ 409 | $ 591 | $ 591 |
| Floating Rate Notes due November 2001 | 150 | 150 | 150 | 150 |
| 6.6% Senior Unsecured Notes due December 2003 | 250 | 250 | 250 | 238 |
| 7.5% Senior Unsecured Notes due November 2005 | 400 | 413 | – | – |
| Total Commercial Paper and Debt | 1,209 | 1,222 | 991 | 979 |
| Less Current Maturities | (559) | (559) | (591) | (591) |
| Total Long-Term Debt | $ 650 | $ 663 | $ 400 | $ 388 |

As of December 31, 2000, our outstanding commercial paper had interest rates ranging from 6.6% to 6.9%. In November 1999, we issued $150 million of two-year floating-rate notes. The interest rate is adjusted quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.5%. As of December 31, 2000, the applicable rate was 7.25%.

In July 2000, we executed new credit arrangements supporting our commercial paper program for an aggregate of $900 million. These credit arrangements are composed of a $450 million revolving credit facility expiring in July 2005, and a $450 million, 364-day facility expiring in July 2001. We also have the capacity to issue approximately $200 million of extendible commercial notes (ECNs). During 2000, we had no amounts outstanding under our credit facilities or ECNs.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which place limitations on secured and unsecured borrowings and require us to exceed minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of commercial paper and debt for the years ending December 31 are as follows (in millions):

| 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| $ 559 | – | $ 250 | – | $ 400 |

We made cash payments for interest of $68 million and $43 million in 2000 and 1999, respectively. We made no cash payments for interest in 1998.

## (8) SHAREHOLDERS' EQUITY

### REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

Our operations are conducted through our wholly-owned subsidiaries, which include health maintenance organizations and insurance companies. These companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by our regulated subsidiaries, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. Approximately $4.7 billion of our $5.1 billion of cash and investments at December 31, 2000, was held by regulated subsidiaries.

The National Association of Insurance Commissioners has developed minimum capitalization guidelines for health maintenance organizations, subject to state-by-state adoption. Many states have adopted and other states will likely adopt some form of these rules. We do not expect that further state adoptions or implementations will require us to make significant incremental investments of general corporate resources into regulated subsidiaries.

### STOCK REPURCHASE PROGRAM

Under the board of directors' authorization, we are operating a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2000, we repurchased 31.0 million shares for an aggregate of $1.2 billion. Since inception of our stock repurchase activities in November 1997 through December 31, 2000, we have repurchased 92.9 million shares for an aggregate of $2.6 billion. As of December 31, 2000, we have board of directors' authorization to purchase up to an additional 28.4 million shares of our common stock.

As a component of our share repurchase activities, we have entered into agreements to purchase shares of our common stock, where the number of shares we purchase, if any, is dependent upon market conditions and other contractual terms. As of December 31, 2000, we have agreements to purchase up to 8.9 million shares of our common stock at various times through 2003, at an average cost of approximately $40 per share.

### COMMON STOCK SPLIT

In October 2000, our board of directors declared a two-for-one split of the company's common stock in the form of a 100 percent common stock dividend. The dividend was issued on December 22, 2000, to shareholders of record as of December 1, 2000. The accompanying consolidated financial statements have been restated to reflect the share and per share effects of the common stock split.

### DIVIDENDS

On February 13, 2001, the board of directors approved an annual dividend for 2001 of $0.03 per share. The dividend will be paid on April 18, 2001, to shareholders of record at the close of business on April 2, 2001.

### PREFERRED STOCK

In December 1998, the company redeemed all 500,000 outstanding shares of 5.75% Series A Convertible Preferred Stock. At December 31, 2000, we have 10 million shares of $0.001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

## (9) STOCK BASED COMPENSATION PLANS

The company maintains various stock and incentive plans for the benefit of eligible employees and directors. As of December 31, 2000, employee stock and incentive plans allowed for the future granting of up to 22.4 million shares as incentive or non-qualified stock options, stock appreciation rights, restricted stock awards and performance awards. Our non-employee director stock option plan allowed for future granting of 825,000 non-qualified stock options as of December 31, 2000.

Stock options are granted at an exercise price not less than the fair market value of the common stock at the date of grant. They may be exercised over varying periods and up to 10 years from the date of grant. A summary of activity under our various stock plans is presented in the table below (shares in thousands):

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at Beginning of Year | 44,080 | $ 19 | 36,748 | $ 19 | 34,226 | $ 17 |
| Granted | 8,516 | $ 30 | 14,406 | $ 20 | 11,694 | $ 20 |
| Exercised | (12,331) | $ 17 | (4,666) | $ 17 | (6,758) | $ 12 |
| Forfeited | (1,455) | $ 20 | (2,408) | $ 20 | (2,414) | $ 20 |
| Outstanding at End of Year | 38,810 | $ 22 | 44,080 | $ 19 | 36,748 | $ 19 |
| Exercisable at End of Year | 17,367 | $ 20 | 15,558 | $ 17 | 13,450 | $ 17 |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Option Term (years) | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| $ 0-$20 | 9,723 | 6.0 | $ 17 | 6,755 | $ 16 |
| $21-$30 | 25,611 | 8.1 | $ 22 | 10,482 | $ 22 |
| $31-$40 | 3,269 | 9.5 | $ 39 | 130 | $ 34 |
| $41-$50 | 207 | 9.6 | $ 44 | – | $ – |
| $ 0-$50 | 38,810 | 7.7 | $ 22 | 17,367 | $ 20 |

We do not recognize compensation expense in connection with stock option grants because we grant stock options at exercise prices that equal or exceed the fair market value of the stock at the time options are granted. If we had determined compensation expense using fair market values for the stock options, net earnings (loss) per common share would have been reduced to the following pro forma amounts:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Net Earnings (Loss) (in millions) | | | |
| As Reported | $ 736 | $ 568 | $ (166) |
| Pro Forma | $ 660 | $ 531 | $ (206) |
| Diluted Net Earnings (Loss) Per Common Share | | | |
| As Reported | $ 2.19 | $ 1.60 | $ (0.56) |
| Pro Forma | $ 2.04 | $ 1.50 | $ (0.67) |
| Weighted-Average Fair Value Per Share of Options Granted | $ 14 | $ 12 | $ 8 |

To determine compensation cost under the fair value method, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Principal assumptions used in applying the Black-Scholes model were as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Risk-Free Interest Rate | 5.0% | 6.7% | 5.2% |
| Expected Volatility | 49.0% | 50.0% | 46.0% |
| Expected Dividend Yield | 0.1% | 0.1% | 0.1% |
| Expected Life in Years | 4.5 | 5.0 | 5.8 |

We also maintain a non-leveraged employee stock ownership plan and an employee stock purchase plan. Activity related to these plans was not material in relation to our consolidated financial results in 2000, 1999 and 1998.

## (10) INCOME TAXES

### Components of the Provision (Benefit) for Income Taxes

| Year Ended December 31, (in millions) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current | | | |
| Federal | $ 330 | $ 264 | $ 273 |
| State | 38 | 36 | 31 |
| Total Current | 368 | 300 | 304 |
| Deferred | 51 | 26 | (184) |
| Total Provision | $ 419 | $ 326 | $ 120 |

### Reconciliation of the Tax Provision at the U.S. Federal Statutory Rate to the Provision for Income Taxes

| Year Ended December 31, (in millions) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Tax Provision (Benefit) at the U.S. Federal Statutory Rate | $ 404 | $ 313 | $ (16) |
| State Income Taxes, net of federal benefit | 29 | 24 | 19 |
| Tax-Exempt Investment Income | (17) | (16) | (25) |
| Non-Deductible Amortization | 27 | 25 | 24 |
| Non-Deductible Asset Impairments | - | - | 100 |
| Charitable Contributions | (18) | (16) | - |
| Other, net | (6) | (4) | 18 |
| Provision for Income Taxes | $ 419 | $ 326 | $ 120 |

Components of Deferred Income Tax Assets and Liabilities

| December 31, (in millions) | 2000 | 1999 |
|---|---|---|
| Deferred Income Tax Assets | | |
| Accrued Expenses and Allowances | $ 126 | $ 101 |
| Unearned Premiums | 74 | 87 |
| Medical Costs Payable and Other Policy Liabilities | 84 | 62 |
| Net Operating Loss Carryforwards | 42 | 43 |
| Other | 10 | 10 |
| Subtotal | 336 | 303 |
| Less: Valuation Allowances | (56) | (52) |
| Total Deferred Income Tax Assets | 280 | 251 |
| Deferred Income Tax Liabilities | | |
| Capitalized Software Development | (80) | (54) |
| Net Unrealized Gains on Investments Available for Sale | (59) | (97) |
| Depreciation & Amortization | (12) | (4) |
| Total Deferred Income Tax Liabilities | (151) | (155) |
| Net Deferred Income Tax Assets | $ 129 | $ 96 |

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. The valuation allowance primarily relates to future tax benefits on certain purchased domestic and foreign net operating losses.

We made cash payments for income taxes of $352 million in 2000, $214 million in 1999 and $245 million in 1998. We increased additional paid-in capital by $116 million in 2000, $23 million in 1999 and $47 million in 1998 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

Consolidated income tax returns for fiscal years 1996 through 1999 are currently being examined by the Internal Revenue Service. We do not believe any adjustments that may result will have a significant impact on our consolidated operating results or financial position.

## (11) COMMITMENTS AND CONTINGENCIES

### LEASES

We lease facilities, computer hardware and other equipment under long-term operating leases that are non-cancelable and expire on various dates through 2011. Rent expense under all operating leases was $132 million in 2000, $129 million in 1999 and $119 million in 1998.

At December 31, 2000, future minimum annual lease payments under all non-cancelable operating leases were as follows (in millions):

| 2001 | 2002 | 2003 | 2004 | 2005 | Thereafter |
|---|---|---|---|---|---|
| $ 121 | $ 108 | $ 95 | $ 84 | $ 74 | $ 340 |

### SERVICE AGREEMENTS

In 1995 and 1996, we entered into three separate contracts for certain data center operations and support, and network and voice communication services, each with an approximate term of 10 years. Expenses incurred in connection with these agreements were $182 million in 2000, $172 million in 1999 and $162 million in 1998.

## LEGAL MATTERS

Because of the nature of our business, we are routinely subject to suits alleging various causes of action. Some of these suits may include claims for substantial non-economic or punitive damages. We do not believe that any such actions, or any other types of actions, currently threatened or pending will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

## GOVERNMENT REGULATION

Our business is regulated at federal, state and local levels. The laws and rules governing our business are subject to frequent change and broad latitude is given to the agencies administering those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability for medical malpractice or other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We are also subject to various governmental reviews, audits and investigations. However, we do not believe the results of any of the current audits, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations.

## (12) SEGMENT FINANCIAL INFORMATION

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments are recorded at their estimated fair value, as if they were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. In accordance with generally accepted accounting principles, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare and Ovations have been combined in the Health Care Services segment column in the tables presented on the next page (in millions):

| 2000 | Health Care Services | Uniprise | Specialized Care Services | Ingenix | Corporate and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Revenues — External Customers | $ 18,502 | $ 1,595 | $ 503 | $ 290 | $ – | $ 20,890 |
| Revenues — Intersegment | – | 520 | 461 | 85 | (1,066) | – |
| Investment and Other Income | 194 | 25 | 10 | – | 3 | 232 |
| Total Revenues | $ 18,696 | $ 2,140 | $ 974 | $ 375 | $ (1,063) | $ 21,122 |
| Earnings (Loss) From Operations | $ 739 | $ 289 | $ 174 | $ 32 | $ (34) | $ 1,200 |
| Total Assets[1] | $ 8,118 | $ 1,578 | $ 525 | $ 730 | $ (133) | $ 10,818 |
| Net Assets[1] | $ 3,085 | $ 978 | $ 276 | $ 617 | $ (113) | $ 4,843 |
| Purchases of Property and Equipment and Capitalized Software | $ 88 | $ 94 | $ 28 | $ 35 | $ – | $ 245 |
| Depreciation and Amortization | $ 100 | $ 75 | $ 25 | $ 47 | $ – | $ 247 |
| **1999** | | | | | | |
| Revenues — External Customers | $17,419 | $ 1,398 | $ 328 | $ 198 | $ – | $19,343 |
| Revenues — Intersegment | – | 445 | 393 | 59 | (897) | – |
| Investment and Other Income | 162 | 22 | 5 | 1 | 29 | 219 |
| Total Revenues | $17,581 | $ 1,865 | $ 726 | $ 258 | $ (868) | $19,562 |
| Earnings (Loss) From Operations | $ 578 | $ 222 | $ 128 | $ 25 | $ (10) | $ 943 |
| Total Assets[1] | $ 7,364 | $ 1,411 | $ 446 | $ 683 | $ 206 | $10,110 |
| Net Assets[1] | $ 2,892 | $ 953 | $ 230 | $ 573 | $ 221 | $ 4,869 |
| Purchases of Property and Equipment and Capitalized Software | $ 69 | $ 71 | $ 28 | $ 28 | $ – | $ 196 |
| Depreciation and Amortization | $ 97 | $ 76 | $ 23 | $ 37 | $ – | $ 233 |
| **1998** | | | | | | |
| Revenues — External Customers | $15,463 | $ 1,238 | $ 274 | $ 131 | $ – | $17,106 |
| Revenues — Intersegment | – | 357 | 339 | 52 | (748) | – |
| Investment and Other Income | 149 | 29 | 5 | 1 | 65 | 249 |
| Total Revenues | $15,612 | $ 1,624 | $ 618 | $ 184 | $ (683) | $17,355 |
| Earnings (Loss) From Operations[2] | $ 503 | $ 161 | $ 109 | $ 20 | $ 65 | $ 858 |
| Total Assets[1] | $ 6,652 | $ 1,499 | $ 231 | $ 472 | $ 555 | $ 9,409 |
| Net Assets[1] | $ 2,512 | $ 940 | $ 89 | $ 388 | $ 555 | $ 4,484 |
| Purchases of Property and Equipment and Capitalized Software | $ 80 | $ 93 | $ 27 | $ 10 | $ – | $ 210 |
| Depreciation and Amortization | $ 90 | $ 59 | $ 14 | $ 22 | $ – | $ 185 |

[1] Total Assets and Net Assets exclude, where applicable, debt and accrued interest of $1,222 million, $1,002 million and $708 million, income tax-related assets of $235 million, $163 million and $266 million, and income tax-related liabilities of $168 million, $167 million and $4 million as of December 31, 2000, 1999 and 1998, respectively.

[2] For comparability purposes, 1998 results are adjusted to exclude $725 million of operational realignment and other charges and $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates. Including these charges, 1998 segment operating earnings (loss) from operations were as follows:

| | Year Ended December 31, 1998 |
|---|---|
| Health Care Services | $ (46) |
| Uniprise | 10 |
| Specialized Care Services | 14 |
| Ingenix | (66) |
| Total Operating Segments | (88) |
| Corporate | 46 |
| Total Consolidated | $ (42) |

## (13) QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Quarter Ended | | | |
|---|---|---|---|---|
| (in millions, except per share data) | March 31 | June 30 | September 30 | December 31 |
| **2000** | | | | |
| Revenues | $ 5,099 | $ 5,220 | $ 5,369 | $ 5,434 |
| Medical and Operating Costs | $ 4,826 | $ 4,932 | $ 5,060 | $ 5,104 |
| Net Earnings Applicable to Common Shareholders | $ 174[1] | $ 170 | $ 182 | $ 210[2] |
| Basic Net Earnings per Common Share | $ 0.53 | $ 0.52 | $ 0.56 | $ 0.66 |
| Diluted Net Earnings per Common Share | $ 0.52[1] | $ 0.50 | $ 0.54 | $ 0.63[2] |
| **1999** | | | | |
| Revenues | $ 4,809 | $ 4,858 | $ 4,903 | $ 4,992 |
| Medical and Operating Costs | $ 4,588 | $ 4,633 | $ 4,664 | $ 4,734 |
| Net Earnings Applicable to Common Shareholders | $ 132 | $ 135 | $ 144 | $ 157[3] |
| Basic Net Earnings per Common Share | $ 0.36 | $ 0.39 | $ 0.41 | $ 0.47 |
| Diluted Net Earnings per Common Share | $ 0.36 | $ 0.38 | $ 0.40 | $ 0.46[3] |

[1] Includes a $14 million, net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, Net Earnings Applicable to Common Shareholders and Diluted Net Earnings Per Common Share were $160 million or $0.48 per share, respectively.

[2] Includes a $27 million gain ($17 million after-tax) related to the disposition of UnitedHealth Capital investments. Excluding this gain, Net Earnings and Diluted Net Earnings per Common Share were $193 million and $0.58 per share, respectively.

[3] Includes a net permanent tax benefit primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, Net Earnings Applicable to Common Shareholders and Diluted Net Earnings per Common Share were $152 million and $0.44 per share, respectively.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and
Directors of UnitedHealth Group Incorporated:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

**ARTHUR ANDERSEN LLP**
Minneapolis, Minnesota
February 2, 2001

## REPORT OF MANAGEMENT

The management of UnitedHealth Group is responsible for the integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related information were prepared according to generally accepted accounting principles and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the company, meets periodically and privately with the company's independent public accountants and management to review accounting, auditing, internal control, financial reporting and other matters.

William W. McGuire, M.D.
Chairman and Chief Executive Officer

Stephen J. Hemsley
President and Chief Operating Officer

Patrick J. Erlandson
Chief Financial Officer

## CORPORATE AND BUSINESS LEADERS

**UnitedHealth Group**

William W. McGuire, M.D.
Chairman and
Chief Executive Officer

Stephen J. Hemsley
President and
Chief Operating Officer

Patrick J. Erlandson
Chief Financial Officer

David J. Lubben
General Counsel

Jeannine M. Rivet
Executive Vice President

James B. Hudak
Chief Executive Officer
UnitedHealth Technologies

Reed V. Tuckson, M.D.
Senior Vice President
Consumer Health and Medical
Care Advancement

L. Robert Dapper
Senior Vice President
Human Capital

John S. Penshorn
Director of Capital Markets
Communications and Strategy

**UnitedHealthcare**

Robert J. Sheehy
Chief Executive Officer

**Ovations**

Lois Quam
Chief Executive Officer

**Uniprise**

R. Channing Wheeler
Chief Executive Officer

**Specialized Care Services**

Ronald B. Colby
Chief Executive Officer

**Ingenix**

Jeannine M. Rivet
Chief Executive Officer

## BOARD OF DIRECTORS

**William C. Ballard, Jr.**
Of Counsel
Greenbaum, Doll & McDonald
Louisville, Kentucky, law firm

**Richard T. Burke**
Former Chairman and
Chief Executive Officer
United HealthCare
Corporation

**Stephen J. Hemsley**
President and
Chief Operating Officer
UnitedHealth Group

**James A. Johnson**
Chairman and
Chief Executive Officer
Johnson Capital Partners
Private investment company

**Thomas H. Kean**
President
Drew University

**Douglas W. Leatherdale**
Chairman and
Chief Executive Officer
The Saint Paul Companies Inc.
Insurance and related services

**William W. McGuire, M.D.**
Chairman and
Chief Executive Officer
UnitedHealth Group

**Walter F. Mondale**
Partner
Dorsey & Whitney LLP
Minneapolis, Minnesota, law firm

**Mary O. Mundinger**
Dean and Professor, School of Nursing,
and Associate Dean,
Faculty of Medicine
Columbia University

**Robert L. Ryan**
Senior Vice President and
Chief Financial Officer
Medtronic, Inc.
Medical devices company

**William G. Spears**
Managing Partner
W. G. Spears Grisant &
Brown LLC
New York City-based investment
counseling and management firm

**Gail R. Wilensky**
Senior Fellow
Project HOPE
International health foundation

**Audit Committee**
William C. Ballard, Jr.
James A. Johnson
Douglas W. Leatherdale
Robert L. Ryan

**Compensation and Human Resources Committee**
Thomas H. Kean
Mary O. Mundinger
William G. Spears

**Compliance and Government Affairs Committee**
Richard T. Burke
Walter F. Mondale
Gail R. Wilensky

**Executive Committee**
William C. Ballard, Jr.
Douglas W. Leatherdale
William W. McGuire, M.D.
William G. Spears

**Nominating Committee**
William C. Ballard, Jr.
Thomas H. Kean
Douglas W. Leatherdale
William W. McGuire, M.D.
William G. Spears

| Growth & Profits — Consolidated[1] (in millions, except per share data) | 1998 | 1999 | 2000 |
|---|---|---|---|
| Revenues | $ 17,355 | $ 19,562 | $ 21,122 |
| Continuing Markets Revenue Growth Rate | 12% | 13% | 12% |
| Earnings from Operations | $ 858 | $ 943 | $ 1,200 |
| Operating Margin | 4.9% | 4.8% | 5.7% |
| Return on Net Assets | 17.7% | 19.8% | 25.5% |
| Net Earnings | $ 509 | $ 563 | $ 705 |
| Net Margin | 2.9% | 2.9% | 3.3% |
| Diluted Net Earnings Per Share | $ 1.31 | $ 1.59 | $ 2.10 |

| Growth & Profits — By Segment[1] (in millions) | 1998 | 1999 | 2000 |
|---|---|---|---|
| **Health Care Services** | | | |
| Revenues | $ 15,612 | $ 17,581 | $ 18,696 |
| Earnings from Operations | $ 503 | $ 578 | $ 739 |
| Operating Margin | 3.2% | 3.3% | 4.0% |
| Return on Net Assets | 20.0% | 20.6% | 24.6% |
| **Uniprise** | | | |
| Revenues | $ 1,624 | $ 1,865 | $ 2,140 |
| Earnings from Operations | $ 161 | $ 222 | $ 289 |
| Operating Margin | 9.9% | 11.9% | 13.5% |
| Return on Net Assets | 16.7% | 22.6% | 30.6% |
| **Specialized Care Services** | | | |
| Revenues | $ 618 | $ 726 | $ 974 |
| Earnings from Operations | $ 109 | $ 128 | $ 174 |
| Operating Margin | 17.6% | 17.6% | 17.9% |
| Return on Net Assets | 105.8% | 80.0% | 68.8% |
| **Ingenix** | | | |
| Revenues | $ 184 | $ 258 | $ 375 |
| Earnings from Operations | $ 20 | $ 25 | $ 32 |
| Operating Margin | 10.9% | 9.7% | 8.5% |
| Return on Net Assets | 7.3% | 5.4% | 5.2% |

| Capital Items[1] (in millions, except per share data) | 1998 | 1999 | 2000 |
|---|---|---|---|
| Cash Flows from Operations | $ 1,071 | $ 1,189 | $ 1,521 |
| Capital Expenditures | $ 210 | $ 196 | $ 245 |
| Cash Paid for Acquisitions | $ 464 | $ 334 | $ 76 |
| Debt to Total Capital | nm | 20.4% | 24.7% |
| Return on Shareholders' Equity | 11.9% | 14.1% | 19.0% |
| Year-End Market Capitalization | $ 7,920 | $ 8,896 | $ 19,470 |
| Year-End Common Share Price | $ 21.53 | $ 26.56 | $ 61.38 |

[1] Excludes nonrecurring items and special operating charges.

nm - not meaningful

**Market Price of Common Stock**

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange Composite Tape for the calendar periods shown through February 26, 2001. These prices do not include commissions or fees associated with purchasing or selling this security.

| | High | Low |
|---|---|---|
| 2001 | | |
| First Quarter 2001 Through February 26, 2001 | $ 62.41 | $ 51.56 |
| 2000 | | |
| First Quarter 2000 | $ 32.33 | $ 23.18 |
| Second Quarter 2000 | $ 44.50 | $ 28.88 |
| Third Quarter 2000 | $ 50.56 | $ 39.06 |
| Fourth Quarter 2000 | $ 63.44 | $ 48.63 |
| 1999 | | |
| First Quarter 1999 | $ 27.34 | $ 19.72 |
| Second Quarter 1999 | $ 35.00 | $ 22.35 |
| Third Quarter 1999 | $ 33.35 | $ 24.03 |
| Fourth Quarter 1999 | $ 29.25 | $ 19.69 |

**Account Questions**

Our transfer agent, Wells Fargo, National Association, can help you with a variety of shareholder-related services, including:

Change of address
Lost stock certificates
Transfer of stock to another person
Additional administrative services

You can call our transfer agent at (800) 468-9716 or locally at (651) 450-4064.

You can write them at:
Wells Fargo Shareowner Services
P.O. Box 64854
Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at:
stocktransfer@wellsfargo.com

**Investor Relations**

You can contact UnitedHealth Group's Investor Relations group any time to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:
Investor Relations, MN008-T930
UnitedHealth Group
P.O. Box 1459
Minneapolis, Minnesota 55440-1459

**Annual Meeting**

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 9, 2001, at 10 a.m., at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

**Dividend Policy**

UnitedHealth Group's dividend policy was established by the board of directors in August 1990. The policy requires the board to review the company's audited financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 1, 2000, received an annual dividend for 2000 of $0.015 per share. On October 24, 2000, UnitedHealth Group's board of directors declared a two-for-one stock split. On February 13, 2001, the company's board of directors approved an annual dividend for 2001 of $0.03 per share. The dividend will be paid on April 18, 2001, to shareholders of record at the close of business on April 2, 2001.

**Stock Listing**

The company's common stock is traded on the New York Stock Exchange under the symbol UNH.

**Information Online**

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at:
www.unitedhealthgroup.com

UnitedHealth Group

UnitedHealth Group
UnitedHealth Group Center
9900 Bren Road East
Minnetonka, Minnesota 55343
(800) 328-5979

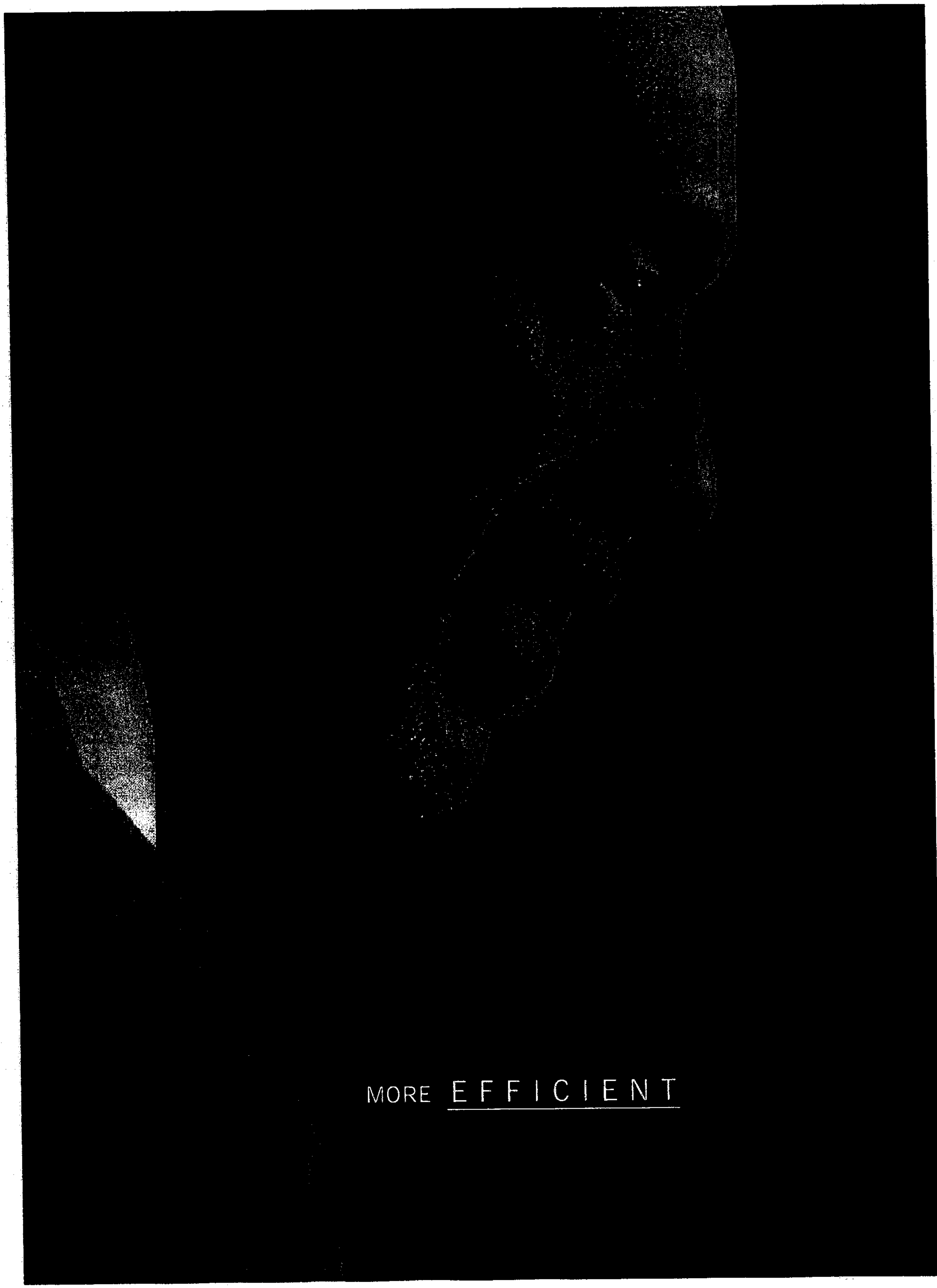
100-3367

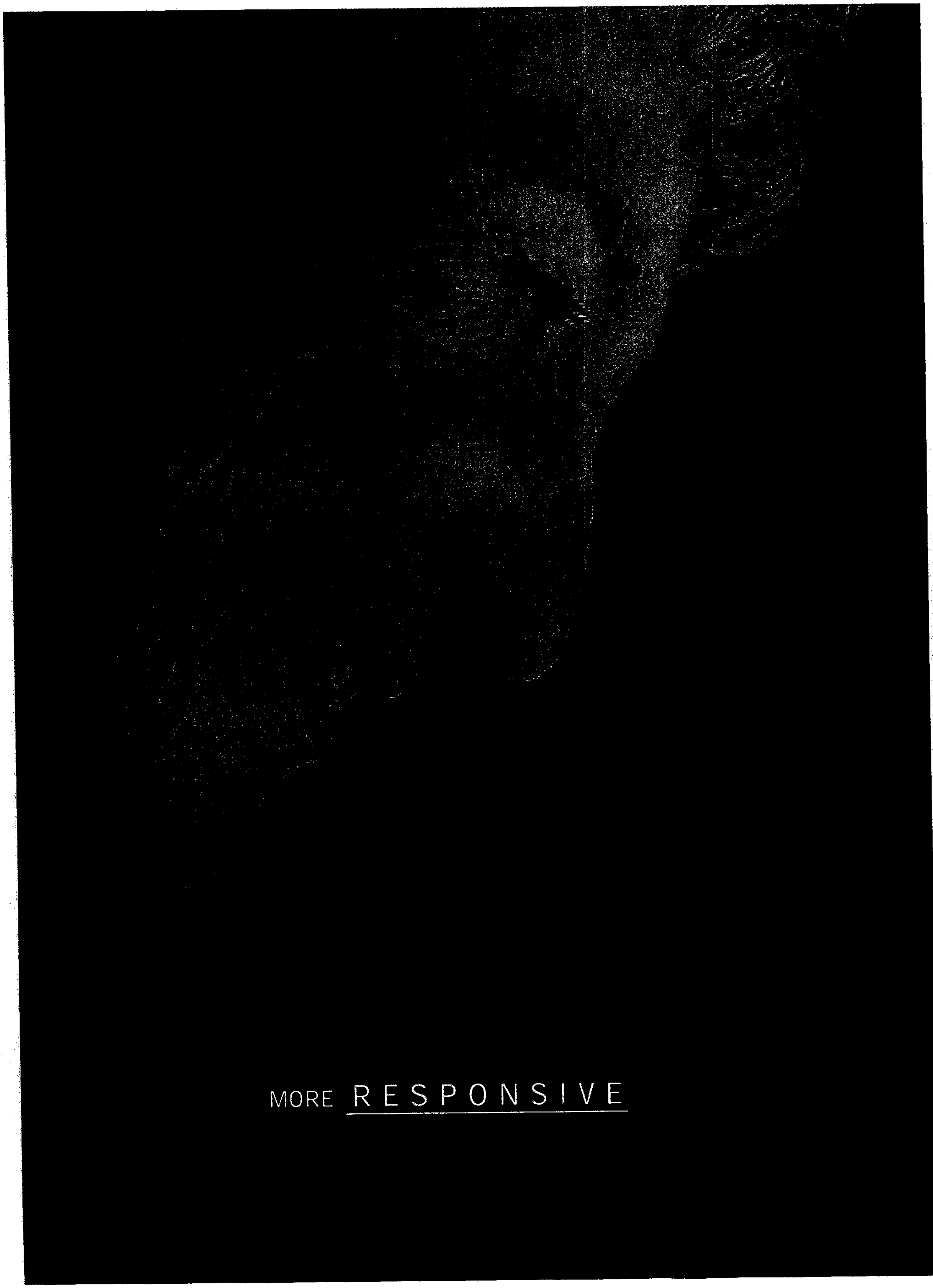
UnitedHealth Group

# MAKING
# HEALTH CARE
# MORE

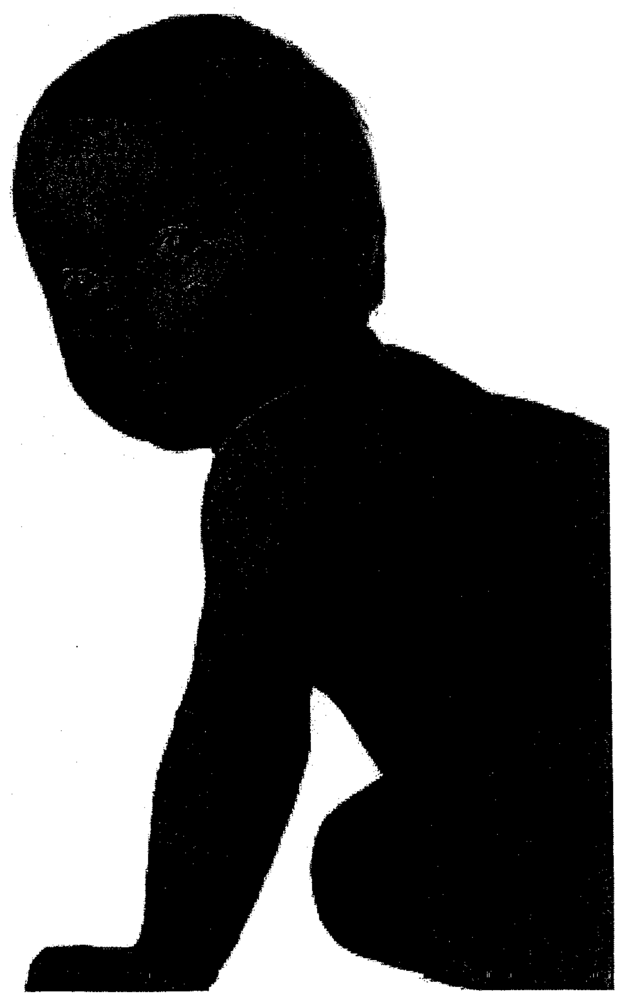
MORE ACCESSIBLE

MORE AFFORDABLE


MORE EFFICIENT


MORE RESPONSIVE

MORE SUPPORTIVE



MORE INFORMED

Each year I write to you discussing the strength of our company's annual performance, its key elements and the continuing growth strategies we are pursuing, which have now created a decade with a compound annual growth rate of 25 percent. This year's results demonstrate that our momentum remains as strong as ever, and we are poised to sustain and advance our performance as we enter 2002. I will depart from my customary approach and — after a brief discussion of 2001 results — focus the balance of this letter on the important challenges within our national health care system, how all of us can begin to address these challenges, and where we envision our company's role going forward.

This discussion is critical because our various stakeholders need to understand the issues to be faced within a broader strategic context. Broader vision is really what matters here, since the future opportunities for UnitedHealth Group are ultimately intertwined with the positive evolution of our nation's health care policies. Our approach to building shareholder value will be shaped by the direction our nation's health care system pursues.

*This year's results demonstrate that our momentum remains as strong as ever, and we are poised to sustain and advance our performance as we enter 2002.*

### *2001 FINANCIAL RESULTS*

The future direction of UnitedHealth Group remains unchanged, propelled not so much by prior successes, but by the powerful future opportunities that are a product of the continuing pressures on our health care system and the growing needs of all those who participate in and depend on it. We have responded positively to those needs in the past, and our strong 2001 results underscore our advancing capabilities:

> Revenues rose more than 11 percent to $23.5 billion, representing a more diversified and balanced revenue stream than ever before.

> Earnings per share for 2001 grew 33 percent, following a 32 percent increase from 2000.

> Cash flows from operations increased to more than $1.8 billion, a 21 percent increase.

> Return on equity rose to more than 24 percent for the year.

> We provided services to over 1.4 million more Americans than in 2000 and now directly serve more than 38 million people through our companies.

> As many stocks suffered the effects of a broad economic downturn, our share price increased 15 percent in 2001, following a 130 percent increase in 2000 and a 23 percent increase in 1999.

> We took major steps forward in Internet services, operational advancements to simplify services, and core system modernization to enhance current performance and future flexibility.

The pages of this annual report document the depth, quality and diversification of our performance, providing clear and comprehensive analysis, discussion and disclosure. Accordingly, I will not delve further into that arena, but instead will offer some views on our nation's health care system. I come to this discussion not just as the chairman and chief executive of one of our nation's leading health care companies, but as a former practicing physician, medical researcher, a shareholder and, most importantly, a deeply concerned fellow citizen.

### *OUR NATIONAL HEALTH CARE SYSTEM: CHALLENGES AND HOPE*

This discussion is driven in part by personal disappointment and frustration with aspects of our nation's health system that are today sub optimal. But I am more motivated by hope and determination, feelings that are magnified when I consider the performance of UnitedHealth Group and its contributions to advancing health and well-being in the past year and, in fact, over the past decade. I firmly believe we at UnitedHealth Group can play a leadership role in addressing the challenges facing our nation directly and advance them to higher national prominence.

*UnitedHealth Group can play a leadership role in addressing the challenges facing our nation directly and advance them to higher national prominence.*

Make no mistake, these challenges are immense and are becoming more pressing by the day. From a failure to build a medical system based on science and efficiency, to vast and growing numbers of uninsured citizens, to the swelling ranks of those in need of chronic disease management, to wide variations in care delivery and inefficient use of resources, all of these problems suggest our health care system is seriously troubled and faces expanding challenges.

At its best, ours is a system of truly great assets and resources, unparalleled science and technology, and miraculous outcomes. But it is also an environment characterized by fragmented health care "systems" and agendas, unsupportable variation in clinical approaches to care, maldistribution of health services by geography and population segment, loose definitions of essential care services, no agreement on what constitutes quality or even safety, a general unwillingness to make choices or give up on any chance for improvement no matter how remote, and a very wealthy and hugely consumptive society.

Against that backdrop, our national health care expenditures will exceed $1.5 trillion this year, roughly 14 percent of the U.S. gross domestic product, and are projected to increase to more than $2.6 trillion, or 16 percent of our GDP, by 2010. Our fundamental problem is not that we spend too little, nor is it that we fail to generally cover enough benefits or services. Instead, we too often fail to spend wisely or appropriately, and we have not created a coherent system built on science, efficiency and optimal value for each and every one of our citizens.

In response to these issues, our nation's efforts have for too long worked at the edges of the problem. The opportunity to improve our health care system and, in turn, the health and well-being of every individual, lies in addressing underlying issues with approaches and tools that bridge populations, geographies and economics. The result should be a more efficient, simplified health system that is predicated on science and evidence in the utilization of its resources. Applied to all populations, it can function more effectively to lessen suffering and improve outcomes and, ultimately, will cost less while extending its benefits to every individual.

### *FIXING THE SYSTEM: GOALS AND SOLUTIONS*

Our goal must be no less than essential health care for all Americans. This will not be easy, given the endemic challenges of our health care system. But the result of our shortcomings now — just as in years past — is a waste of valuable resources and dollars, significantly escalating health care costs and decreasing access to essential care for many. This status quo cannot, and should not, continue. Left unaddressed, it will ultimately impose a social cost we cannot afford.

As part of addressing these issues, I suggest the following course of action.

> *FIRST*, we must promote a process that clearly defines what constitutes a basic health benefit package, and then work to deliver these basic benefits to everyone. The government should lead in this effort, since no other sector of our society can possibly spearhead such an initiative and support its ultimate authority. Importantly, in this endeavor we must avoid weighing down the process with too many agendas and avoid the narrow rhetoric of self-interest.

I do not advocate a broader role for government in operating our health services or adding further coverage mandates for the private sector. I am also opposed to a single payer health system. Indeed, there is no evidence that services operated by government are more effective or can outperform the private sector, and there is some evidence that would suggest the opposite. What is needed instead starts with an informed public consensus on the necessary attributes of a minimum, essential health benefit package made available to all and funded both by government and private sources as appropriate for the population in question. From there it can fall to the private sector — including hospitals, physicians and related health professionals, employers, health plans and other intermediaries — to make these benefits available in the marketplace as cost effectively and creatively as possible. So called "nonessential" and discretionary benefits can then be made available as supplements, based on the willingness of an individual, employer or other party to pay for them in a competitive marketplace.

An essential and basic benefit package should be based on firm evidence of the effectiveness and the cost efficiency of its components, and include a minimum set of health promoting, health protecting, diagnostic, therapeutic and restorative elements. Accordingly, it may exclude many benefits and interventions now included in government-funded programs, as well as several current state or federal mandates that are unproven or nonessential. Other areas such as palliative care and selected behavioral health services may need to be strengthened. Clearly a challenging concept even if approached properly, the result would be critical service availability for all people, coupled with the potential for significantly improved resource deployment, curbed consumption, outcomes improvement and cost savings.

> *SECOND*, **the administrative components of health care services need across-the-board simplification and standardization.** Some of the core processes in the industry scream out for uniformity and interconnectivity. The current fragmentation in health care's administrative infrastructure — and the associated waste and inefficiency — is simply unacceptable in this day of advanced technology.

*Tools and approaches that facilitate efficiency, accuracy and lower costs — such as the use of the Internet for communication and data flow — must be actively promoted and adopted*

Participants in the health care arena, including companies such as our own, must step forward and jointly align basic data requirements, processes and guidelines. Tools and approaches that facilitate efficiency, accuracy and lower costs — such as the use of the Internet for communication and data flow — must be actively promoted and adopted. This means dislocation of some established but inefficient prior practices and venues, which is entirely appropriate given the issues and opportunity.

In this endeavor, government regulation must be prudent and applied carefully. Far too frequently we stifle efforts such as these with over-burdensome regulation, which in turn adds incremental costs and process complexity. But done properly, the rewards can be meaningful and rapid. This has been well demonstrated with UnitedHealth Group's deployment of free Internet portals that establish links with physicians, employers and individual consumers. In these cases, we have been at the forefront of best practices, and our efforts give a clear view of the gains to be made on behalf of all constituents. Yet, we have only scratched the surface in this area.

> *THIRD*, **evidence-based medicine should be upheld as the standard of quality.** Academic medical centers, physicians and their professional societies need to step forward and better define, promulgate and enforce a scientific and evidence-based system of medical practice. As physicians, we have often failed to optimize medical decision making and the resultant health care outcomes, and thus have not adequately fulfilled our obligations. We must be equally concerned by under-use of appropriate interventions that have proven scientific effectiveness, and the overuse of medical interventions that are not supported by good science or whose cost-benefit relationship is sub-optimal. Medicine is a science-based profession, and the wide variations that we witness in clinical practice too often represent poor quality care and waste of valuable resources.

The distribution of up-to-date, scientifically based information to physicians and other health care providers needs to be expanded. We have extensive evidence that such efforts are well received and have a positive impact on approaches to care. Our UnitedHealth Foundation has documented this receptivity for information and support through its twice yearly distribution of *Clinical Evidence* — the definitive text on evidence-based medicine produced by the *British Medical Journal* — to 500,000 physicians and other health professionals. In addition, we have experienced a significant and dramatic increase in use of the Internet as part of our business efforts to support enhanced integration of clinically relevant knowledge into medical practice, and provide physicians with feedback on their actual clinical practices compared against evidence-based standards.

On a related point, we should as a nation wholeheartedly support our federally operated research enterprises such as the National Institutes of Health as part of our ongoing investments in promoting scientific and evidence-based health care. It is essential that we maintain our leadership and contributions in medical research and discovery — for our nation and the world — and in turn apply their output to our society as a whole.

> *FOURTH,* **health consumers must receive better information and decision support tools as they participate, along with their physicians, in making health care decisions.** The explosion in consumer information sources, combined with the Internet, provides both important opportunities and some risks. Information can enhance individual decision-making and help bridge gaps in our fragmented health delivery system, so we must promote this effort. At the same time, appropriate safeguards regarding the validity of data content as well as the privacy and confidentiality of individually identifiable health information are essential. A key part of the challenge, therefore, in providing health consumers with better information and decision support, is striking a balance between safe-guarding privacy and avoiding over-regulation of health information sources.

Services that help facilitate care regimens, identify gaps in care that may result in sub-optimal outcomes, and direct preventive efforts in anticipation of future health issues are emerging today and should be promoted. Used in the increasingly complex environment of health care today, they become valuable adjuncts to physicians, patients and families. This will become even more important as our population ages and chronic disease becomes more prevalent. These services and the information systems and technology upon which they are built, warrant our support and promotion.

The efforts and investments by UnitedHealth Group in this arena have clearly been of value to physicians, by helping them implement clinical regimens and stay alert to variances in clinical care approaches; to patients, by facilitating treatment programs and helping them navigate through complex issues; and to employers and other health care payers, by lowering costs and improving the health status of those affected. Better resource utilization and improved short-term outcomes will translate into enhanced long-term health and more appropriate economic outlays. Needless to say, these are positive gains for all.

### *LOOKING FORWARD: ACTION AND OPPORTUNITIES*

Our nation has the most sophisticated and technology-rich health care system in the world. The tragedy of our nation's health care system is that, in spite of its many impressive features, it has ultimately failed to make even basic care consistently available to all of our citizens. While all of these considerations illuminate the shortcomings of our health care system, they also highlight the magnitude of the opportunity for our society by appropriately utilizing the many tools that are already at our disposal.

*As all of us address the challenges and pursue the opportunities for improvement, I believe that UnitedHealth Group can demonstrate many of the better ways to approach health care.*

The time for action is now. UnitedHealth Group remains committed to being a leader in resolving the problems and issues now chronic to our health care system. And we will pursue solutions on all fronts. We will continue to engage our national leaders to address fundamental issues rather than narrow interests that fail to advance the whole. We will continue to work with the medical community to strengthen the fact-based clinical evidence resources at their disposal, and to press for evidence-based medicine to be upheld as the standard of quality and safety. Our investments in technology, information tools, facilitation of care and basic operating disciplines will help for years to come in addressing the challenges in our health care system regarding simplicity, efficiency, and analysis and distribution of important data in order to facilitate informed decision-making.

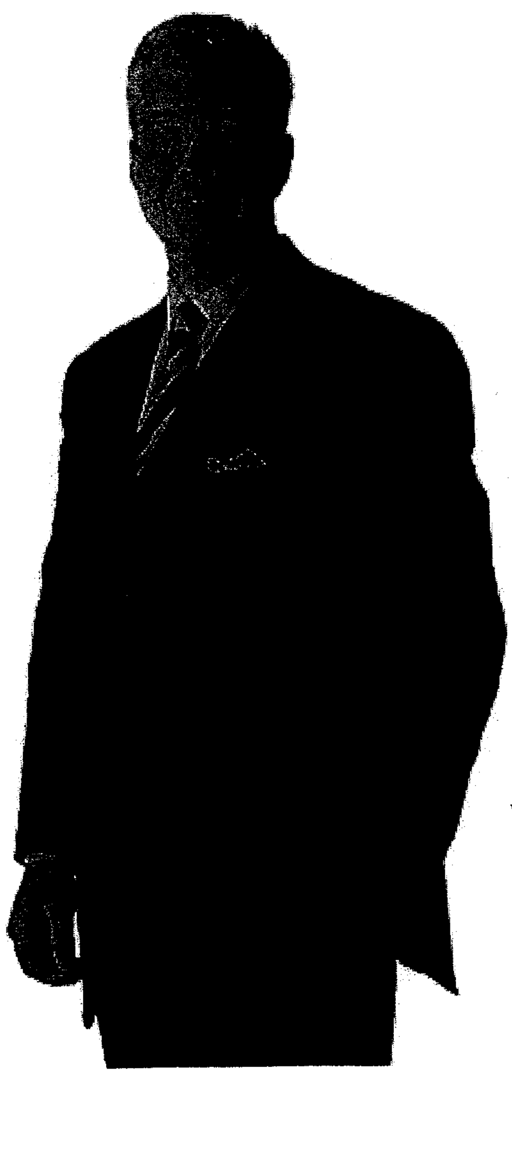
Resolving our health care problems, while retaining and enhancing all that is good in our health care system, will not happen overnight or without some pain. As all of us address the challenges and pursue the opportunities for improvement, I believe that UnitedHealth Group can demonstrate many of the better ways to approach health care. That, in turn, has the potential to significantly enhance shareholder value. Yet there is far more at stake. Since our inception, we have sought to contribute toward the creation of a more effective health care system that can provide for the well-being of our nation and all of its people without exceptions. We would not be in this business otherwise. I promise to you that we will continue to do our part in advancing this national discussion, while helping to provide tangible solutions and services.

Sincerely,

William W. McGuire

*Chairman and Chief Executive Officer*

MORE **EFFECTIVE**



William W. McGuire, M.D.

# UnitedHealth Group

UnitedHealth Group provides a comprehensive and diversified array of health and well-being services through five operating business segments. Across all of its businesses, UnitedHealth Group advances its long-standing and fundamental commitment to broad and diverse access to care, choice based on consumer needs, simplicity in the health care experience, information to drive good decisions and improve products, help in facilitating and coordinating access to services, and support for patient safety.

KEY FACTS

UnitedHealth Group improves health care by focusing on key performance areas:

> Improving processes. Through focused attention to process simplification and the practical application of advanced technologies, UnitedHealth Group continues to simplify the health care experience and provide quicker, more efficient service options for customers.

> Advancing technology. Over the past three years, UnitedHealth Group has invested more than $600 million in modernizing systems to strengthen customer interactions.

> Using knowledge and information. UnitedHealth Group's data and information capabilities help customers, physicians and individual consumers make more informed health care decisions. These capabilities also help us design better and more innovative products and services.

> Driving innovation. UnitedHealth Group continues to build on a tradition of business and product innovation. UnitedHealth Group is the clear leader in benefit product design, technology-based solutions, database analytics and services, and administrative services.

> Operating discipline. UnitedHealth Group operating disciplines demand accountability and ownership, align people and assets, and set goals and measure the results. Focused operating disciplines ensure that maximum value is delivered for every health care dollar spent.

[ FINANCIAL PERFORMANCE ]

| (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues | $ 23,454 | $ 21,122 | $ 19,562 |
| Earnings From Operations | $ 1,566 | $ 1,200 | $ 943 |
| Operating Margin | 6.7 % | 5.7 % | 4.8 % |
| Cash Flows from Operating Activities | $ 1,844 | $ 1,521 | $ 1,189 |
| Capital Expenditures | $ 425 | $ 245 | $ 196 |
| Return on Net Assets | 30.7 % | 25.5 % | 19.8 % |
| Return on Equity | 24.5 % | 19.0 % | 14.1 % |

1 Excludes nonrecurring items in 1999 and 2000, as described in footnotes 1 and 2 at the bottom of page 22.

> Uniprise

> Ingenix

> UnitedHealthcare

> Ovations

> Specialized Care Services

Our diversified business segments
use advanced technologies and intense market focus
to design and deliver

MORE INNOVATIVE

health and well-being services.

# Uniprise

Uniprise is the leading provider of benefit delivery and service solutions for large, complex employers and insurers. In 2001, Uniprise served more than 1.3 million new individuals and currently serves more than 8.5 million individuals associated with nearly 300 organizations.

KEY FACTS

### EFFICIENT, SIMPLIFIED SERVICE

Uniprise operates an advanced service environment that provides employers and their employees with faster, more effective service at a lower cost. Uniprise has a flexible and scalable infrastructure built on an integrated operating platform, which can combine UnitedHealthcare networks, benefits from Specialized Care Services, and benefit offerings from outside vendors chosen by customers to create simple, broad-based benefits packages.

Uniprise is a clear leader in Internet-based service capabilities, giving customers online, real-time access to services, transactions and information through fully functional, Web-enabled service portals. A single login gives employers easy access to integrated transaction services including:

> Enrollment services. Instant access to integrated eligibility data enables single-entry eligibility changes and real-time eligibility updates.

> Claim services. Employers can access aggregated claim data instantly.

> Reporting. A fully integrated desktop solution gives employers reporting and analytic tools that help them evaluate performance and identify trends.

> Electronic billing. Electronic billing capability eliminates paper invoices and enables employers to review and adjust bills online and remit payments electronically. This service, which is surpassing planned adoption targets, reduces costs and simplifies administrative processes for customers.

### BROAD CARE ACCESS AND EXCEPTIONAL VALUE

Uniprise delivers exceptional value through access to the entire UnitedHealth Group universe of hospitals, clinics, physicians, pharmacy services and ancillary care providers. Vast and easy access to services at exceptional rates translates into aggregate cost advantages for employers and consumers.

### [ FINANCIAL PERFORMANCE ]

| (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues | $ 2,462 | $ 2,140 | $ 1,865 |
| Earnings From Operations | $ 374 | $ 289 | $ 222 |
| Operating Margin | 15.2% | 13.5% | 11.9% |
| Return on Net Assets | 37.2% | 30.6% | 22.6% |

# Ingenix

Ingenix is an international leader in the field of health care data analysis and application. The company serves pharmaceutical companies, health insurers and payers, health care providers, large employers and government entities on a business-to-business basis with a broad portfolio of data tools, publications, and research and consulting services.

KEY FACTS

### KNOWLEDGE AND INFORMATION SERVICES

A leading innovator within the health information and analytics marketplace, Ingenix continues to introduce new services that help clients leverage information assets, gain clinical and financial insights, advance the quality of health care delivery and administration and improve cost management. Ingenix has several recent product innovations.

> Parallax *i*™ aggregates health data from multiple systems, enabling users to identify and analyze multifaceted benefits issues.

> Galaxy clinical database integrates longitudinal, population-based clinical information from multiple sources to enable statistically valid measurement and analyses of health care utilization, effectiveness and cost.

> Predictive modeling tools identify individuals with the greatest need for disease management and care facilitation and delineate potential interventions that will benefit them.

### INTEGRATED PHARMACEUTICAL SERVICES

Ingenix is a leader in scientific-based solutions that help accelerate the development and adoption of new therapies on a global basis. Services include clinical research, economic and outcomes research, drug safety research, and patient registries, medical education and communications. Ingenix was the top-ranked contract research organization in the United States in a survey of 405 investigative sites published in July 2001 by CenterWatch, a premier information source for the clinical trials industry. Ingenix is developing new Web-based solutions.

> Electronic data capture gives customers the ability to enter and access real-time data on clinical trial information.

> Interactive Web-based delivery of medical education programs will enable up-to-the-minute access to clinical information and extend the reach of educational programs and services.

### [ FINANCIAL PERFORMANCE ]

| (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues | $ **447** | $ 375 | $ 258 |
| Earnings From Operations | $ **48** | $ 32 | $ 25 |
| Operating Margin | **10.7%** | 8.5% | 9.7% |
| Return on Net Assets | **7.5%** | 5.2% | 6.4% |

## Health Care Services

The Health Care Services business segment includes the results of the UnitedHealthcare and Ovations businesses.

### UnitedHealthcare

UnitedHealthcare organizes health and well-being services for small and mid-sized employers. UnitedHealthcare currently serves more than 7.5 million people associated with small business employers that have two to 50 employees and larger employers with up to 5,000 employees.

KEY FACTS

BROAD AND EASY ACCESS

UnitedHealthcare provides individuals with simple, convenient access to a broad and diverse spectrum of fully qualified physicians and health care providers. Products are designed to promote direct access to the most appropriate care, and the company leverages the aggregate buying power of more than 16 million individuals to offer these services at fair prices for both health care buyers and providers of care. UnitedHealthcare strives to help physicians deliver quality care, using a collection of data-sharing tools to provide physicians with meaningful information they can use to improve the consistency of their clinical performance.

FACILITATING CARE

UnitedHealthcare employs a spectrum of easy-to-use service tools and capabilities that help people access the care they need. This includes health information and education services, personal care facilitation and advocacy services, and pharmacy services.

SIMPLIFIED SERVICE

Web-enabled technology tools help UnitedHealthcare improve and simplify service.

> More than 700,000 households representing 1.4 million individuals are registered with myuhc.com — the company's consumer-focused Web portal. Through myuhc.com, individuals can check their eligibility for benefits, review claim status, order ID cards, locate physicians, manage flexible spending accounts, order prescriptions and research more than 1,000 health and well-being topics.

> Internet services for physicians enable them to check benefit eligibility for their patients, submit claims, and review claim and payment status. As of year-end, office practices representing more than 100,000 physicians were using the Web site. By year-end 2002, an additional 200,000 physicians are projected to adopt this service.

> Small business brokers can enter the sales process using a Web based distribution portal. Approximately 20 percent of new small business accounts are currently sourced through this site. By year-end 2002, 50 percent of the company's active small business brokers will use this Web site.

## Ovations

Ovations is the largest business in the United States devoted exclusively to meeting the health and well-being needs of individuals age 50 and older.

KEY FACTS

### SERVING AARP

In 2001, Ovations realized 10 percent enrollment growth in active AARP Medicare Supplement benefit plans. Ovations also reintroduced the AARP hospital indemnity product with modernized benefits for individuals ages 50 to 64.

### OVATIONS HEALTH AND WELL-BEING SERVICES

The rising cost of pharmaceutical products is one of the most significant issues affecting older Americans. Ovations operates the largest pharmacy discount drug program in America for AARP members, with annual revenues of more than $300 million. As part of this business, Ovations also provides older Americans with a broad range of non-prescription health and well-being products.

### EVERCARE

Evercare offers complete, individualized care planning, care facilitation and care benefits for aging, vulnerable and chronically ill individuals living on their own, or in community-based and assisted-living settings. Evercare serves nearly 200,000 individuals nationwide.

[ FINANCIAL PERFORMANCE — HEALTH CARE SERVICES ]

| (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues — UnitedHealthcare | $ 16,237 | $ 15,005 | $ 13,944 |
| Revenues — Ovations | $ 4,257 | $ 3,691 | $ 3,637 |
| Revenues — Health Care Services | $ 20,494 | $ 18,696 | $ 17,581 |
| Earnings From Operations | $ 944 | $ 739 | $ 578 |
| Operating Margin | 4.6% | 4.0% | 3.3% |
| Return on Net Assets | 29.2% | 24.6% | 20.6% |

## Specialized Care Services

Through eight, high-performing business platforms, Specialized Care Services offers a comprehensive array of benefits, services and resources that help customers access complex and specialized care and fulfill personal needs.

KEY FACTS

> **United Behavioral Health** provides employee assistance, mental health/substance abuse and work/family services for 22 million individuals. United Behavioral Health is the national leader in these services.

> **Optum**® offers personalized delivery of health and well-being information, resources and services through the Internet, telephone, print, e-mail, fax, audiotape and personal support. Optum services are available to approximately 19 million individuals throughout the United States.

> **United Resource Networks** provides more than 2,000 health plans, insurers, employers and other payers — which in turn deliver benefits to more than 40 million individuals — with access to the nation's leading specialized networks. United Resource Networks provides access to clinical centers of excellence for organ transplants, cancer resource services and congenital heart disease services.

> **Dental Benefit Providers** is one of the nation's largest network-based dental services companies, offering access to affordable dental care to approximately 3 million individuals.

> **Spectera** is a leading provider of vision care benefits for more than 6 million individuals throughout the United States.

> **National Benefit Resources** offers network-based benefit products and services for self-insured employers through independent third-party administrators.

> **ACN Group** provides network-based chiropractic, physical therapy and other complementary health care services. ACN Group currently serves more than 6 million individuals in 20 markets.

> **Life and Accident Benefits** provided through Specialized Care Services give small and medium-sized employer groups a convenient and simple way to deliver a total benefits package to their employees.

[ FINANCIAL PERFORMANCE ]

| (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues | **$ 1,254** | $ 974 | $ 726 |
| Earnings From Operations | **$ 214** | $ 174 | $ 128 |
| Operating Margin | **17.1%** | 17.9% | 17.6% |
| Return on Net Assets | **59.1%** | 68.8% | 80.0% |

Focused business execution and
sustained business management disciplines
promote

MORE PRODUCTIVE

products and services
and help drive superior performance.

*RESULTS OF OPERATIONS*

### 2001 FINANCIAL PERFORMANCE HIGHLIGHTS

2001 was a very strong year for UnitedHealth Group, as the company continued to advance diversified business growth and productivity improvements. Financial performance highlights include[1]:

> Record revenues of $23.5 billion, an 11% increase over 2000.

> Record operating earnings of $1.6 billion, up 31% over 2000, with each business segment delivering strong advances in year-over-year revenue and operating earnings.

> Record net earnings of $913 million and diluted net earnings per common share of $2.79, representing increases over 2000 of 30% and 33%, respectively.

> Record operating cash flows of more than $1.8 billion, an increase of 21% over 2000.

> Consolidated operating margin of 6.7%, up from 5.7% in 2000, driven by productivity gains, effective care facilitation efforts, and favorable mix shift from risk-based products to higher-margin, fee-based products.

> Return on shareholders' equity of 24.5%, up from 19.0% in 2000.

1 Where applicable, 2000 results exclude the effects of separate dispositions of UnitedHealth Capital investments, further described in footnote 1 at the bottom of this page.

Following is a five-year summary of selected financial data:

| (in millions, except per share data) | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| | | For the Year Ended December 31, | | | |
| **CONSOLIDATED OPERATING RESULTS** | | | | | |
| Revenues | **$ 23,454** | $ 21,122 | $ 19,562 | $ 17,355 | $ 11,794 |
| Earnings (Loss) From Operations | **$ 1,566** | $ 1,200 | $ 943 | $ (42)[3] | $ 742 |
| Net Earnings (Loss) | **$ 913** | $ 736[1] | $ 568[2] | $ (166) | $ 460 |
| Net Earnings (Loss) Applicable to Common Shareholders | **$ 913** | $ 736 | $ 568 | $ (214)[3] | $ 431 |
| Basic Net Earnings (Loss) per Common Share | **$ 2.92** | $ 2.27 | $ 1.63 | $ (0.56) | $ 1.15 |
| Diluted Net Earnings (Loss) per Common Share | **$ 2.79** | $ 2.19[1] | $ 1.60[2] | $ (0.56)[3] | $ 1.13 |
| Common Stock Dividends per Share | **$ 0.03** | $ 0.02 | $ 0.02 | $ 0.02 | $ 0.02 |
| **CONSOLIDATED CASH FLOWS FROM OPERATING ACTIVITIES** | **$ 1,844** | $ 1,521 | $ 1,189 | $ 1,071 | $ 683 |
| **CONSOLIDATED FINANCIAL CONDITION** (As of December 31) | | | | | |
| Cash and Investments | **$ 5,698** | $ 5,053 | $ 4,719 | $ 4,424 | $ 4,041 |
| Total Assets | **$ 12,486** | $ 11,053 | $ 10,273 | $ 9,675 | $ 7,623 |
| Debt | **$ 1,584** | $ 1,209 | $ 991 | $ 708[4] | $ – |
| Convertible Preferred Stock | **$ -** | $ – | $ – | $ –[4] | $ 500 |
| Shareholders' Equity | **$ 3,891** | $ 3,688 | $ 3,863 | $ 4,038 | $ 4,534 |
| Return on Shareholders' Equity | **24.5%** | 19.0% | 14.1% | na[3] | 10.4% |

Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes.

1 2000 results include a $14 million net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation and a $27 million gain ($17 million after tax) related to a separate disposition of UnitedHealth Capital investments. Excluding these items, Net Earnings and Diluted Net Earnings per Common Share were $705 million and $2.10 per share for the year ended December 31, 2000.

2 1999 results include a net permanent tax benefit primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, Net Earnings and Diluted Net Earnings per Common Share were $563 million and $1.59 per share.

3 Excluding the operational realignment and other charges of $725 million, $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates, and the $20 million convertible preferred stock redemption premium from 1998 results, Earnings From Operations and Net Earnings Applicable to Common Shareholders would have been $858 million and $509 million, or $1.31 Diluted Net Earnings per Common Share, and Return on Shareholders' Equity would have been 11.9%.

4 During 1998, we issued debt totaling $708 million and redeemed $500 million of convertible preferred stock.

na — not applicable

## 2001 RESULTS COMPARED TO 2000 RESULTS

### *CONSOLIDATED FINANCIAL RESULTS*

#### *Revenues*

Revenues include premium revenue from risk-based (insured) products, fees from management, administrative and consulting services, and investment and other income.

Consolidated revenues increased in 2001 to $23.5 billion. Strong and balanced growth across all business segments was partially offset by the impact of planned exits in 2000 from UnitedHealthcare's commercial businesses in the Pacific Coast region, the withdrawal of its Medicare+Choice product offering from targeted counties and the closure of Uniprise's Medicare fiscal intermediary operations. Adjusted for the effects of these business and market exits and excluding revenues from acquired businesses, consolidated revenues increased approximately $3.0 billion, or 15%, over 2000. Following is a discussion of 2001 consolidated revenue trends for each revenue component.

***Premium Revenues*** Consolidated premium revenues in 2001 totaled $20.7 billion, an increase of $1.8 billion, or 9%, compared with 2000. Adjusted for the effect of business and market exits and excluding revenues from acquired businesses, premium revenues increased 13% over 2000. This increase was primarily driven by average net premium yield increases in excess of 13% on UnitedHealthcare's renewing commercial insured business.

***Fee Revenues*** Fee revenues in 2001 totaled $2.5 billion, an increase of $526 million, or 27%, over 2000. The overall increase in fee revenues is primarily the result of record growth of 20% in Uniprise's multi-site, large-employer customer base, growth in UnitedHealthcare's fee-based business, and Ovations' Pharmacy Services business that began operations in June 2001.

***Investment and Other Income*** Investment and other income in 2001 totaled $281 million, an increase of $49 million over 2000. Lower interest yields on investments in 2001 compared with 2000 were largely offset by increased levels of cash and fixed-income investments in 2001. Net realized capital gains in 2001 were $11 million, compared to net realized capital losses of $34 million in 2000.

#### *Medical Costs*

The combination of pricing, benefit designs and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

The consolidated medical care ratio decreased from 85.4% in 2000 to 85.3% in 2001. Excluding AARP business, the medical care ratio was 83.9% in both 2000 and 2001, as net premium yield increases were generally well matched with increases in medical benefit costs.

On an absolute dollar basis, medical costs increased $1.5 billion, or 9%, over 2000. The increase was driven by medical cost inflation, increased consumption patterns, benefit changes and product mix changes.

*Operating Costs*

Operating costs as a percentage of total revenues (the operating cost ratio) was 17.0% in 2001, compared with 16.7% in 2000. Changes in productivity and revenue mix affect the operating cost ratio. For our fastest-growing businesses (Uniprise, Specialized Care Services, Ingenix and Ovations Pharmacy Services), most direct costs of revenue are included in operating costs, not medical costs. Using a revenue mix comparable to 2000, the 2001 operating cost ratio would have decreased 70 basis points to 16.0%. This decrease was principally driven by productivity gains from process improvements, technology deployment and cost management initiatives, primarily in the areas of claim processing and customer billings and enrollment. Additionally, because our infrastructure can be scaled efficiently, we have been able to grow revenues at a proportionately higher rate than associated expenses.

On an absolute dollar basis, operating costs increased by $459 million, or 13%, over 2000. This increase reflects additional costs to support product and technology development initiatives and the 11% increase in consolidated revenues in 2001, partially offset by productivity and technology improvements discussed above.

*Depreciation and Amortization*

Depreciation and amortization was $265 million in 2001 and $247 million in 2000. This increase resulted primarily from higher levels of capital expenditures to support business growth and technology enhancements, as well as the amortization of goodwill and other intangible assets related to acquisitions.

*Income Taxes*

The 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 38.0% in 2001 and 37.5% in 2000.

*BUSINESS SEGMENTS*

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

| REVENUES | 2001 | 2000 | Percent Change |
|---|---|---|---|
| Health Care Services | **$20,494** | $ 18,696 | 10% |
| Uniprise | **2,462** | 2,140 | 15% |
| Specialized Care Services | **1,254** | 974 | 29% |
| Ingenix | **447** | 375 | 19% |
| Corporate and Eliminations | **(1,203)** | (1,063) | nm |
| Consolidated Revenues | **$23,454** | $ 21,122 | 11% |

| EARNINGS FROM OPERATIONS | 2001 | 2000 | Percent Change |
|---|---|---|---|
| Health Care Services | **$ 944** | $ 739 | 28% |
| Uniprise | **374** | 289 | 29% |
| Specialized Care Services | **214** | 174 | 23% |
| Ingenix | **48** | 32 | 50% |
| Total Operating Segments | **1,580** | 1,234 | 28% |
| Corporate | **(14)** | (34) | nm |
| Consolidated Earnings from Operations | **$ 1,566** | $ 1,200 | 31% |

nm — not meaningful

### *Health Care Services*

The Health Care Services segment consists of the UnitedHealthcare and Ovations businesses. UnitedHealthcare provides health and well-being services on behalf of local employers and consumers nationwide. Ovations offers health and well-being services for Americans age 50 and older.

The Health Care Services segment posted record revenues of $20.5 billion in 2001, an increase of $1.8 billion, or 10%, over 2000. This increase resulted from average net premium yield increases in excess of 13% on UnitedHealthcare's renewing commercial insured business, partially offset by the impact of UnitedHealthcare's targeted exits in 2000 from its commercial businesses in the Pacific Coast region and the withdrawal of its Medicare+Choice product offering from certain counties. Adjusted for the effects of these actions and excluding revenues from acquired businesses, Health Care Services' revenues increased by 13% on a year-over-year basis.

The Health Care Services segment had earnings from operations of $944 million in 2001, an increase of $205 million, or 28%, over 2000. This increase resulted from revenue growth and stable gross margins on UnitedHealthcare's commercial business and improved operating cost efficiencies from process improvement, technology deployment and cost management initiatives. Health Care Services' operating margin increased to 4.6% in 2001 from 4.0% in 2000, driven by the productivity improvements described above and a positive shift in product mix from risk-based products to higher-margin, fee-based products.

UnitedHealthcare's commercial medical care ratio remained flat compared with 2000 at 84.1%, as net premium yield increases were generally well matched with increases in overall medical benefit costs. UnitedHealthcare sets commercial health plan premium rates based on anticipated benefit costs, including the effects of medical cost inflation, consumption patterns, benefit changes, product mix and market conditions.

UnitedHealthcare's commercial individuals served increased by 135,000, or 2%, from December 31, 2000 to December 31, 2001, consisting of an increase of 380,000 in the number of individuals served with fee-based products, partially offset by a 245,000 decrease in individuals served by risk-based products. The decrease in individuals served by risk-based products was driven by a combination of customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of its risk-based product offerings from unprofitable arrangements with customers using multiple health benefit carriers. The increase in fee-based customers was driven by customers converting from risk-based products and new customer relationships established in 2001.

UnitedHealthcare's year-over-year Medicare enrollment decreased 15% because of actions taken to better position this program for long-term success. Effective January 1, 2001, UnitedHealthcare withdrew its Medicare+Choice product from targeted counties affecting 56,000 individuals. Annual revenues in 2000 from the Medicare markets exited as of January 1, 2001, were approximately $320 million.

Effective January 1, 2002, UnitedHealthcare withdrew its Medicare+Choice product from targeted counties affecting 57,000 individuals. Annual revenues in 2001 from the Medicare markets exited as of January 1, 2002, were approximately $370 million. These withdrawals are primarily in response to insufficient Medicare program reimbursement rates in specific counties. These actions will further reduce Medicare enrollment, but will preserve profit margins in the long term. UnitedHealthcare will continue to evaluate Medicare markets and, where necessary, take actions that may result in further withdrawals of Medicare product offerings or reductions in membership, when and as permitted by its contracts with the Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands):

| | 2001 | 2000 |
|---|---|---|
| Commercial | | |
| Insured (risk-based) | **5,250** | 5,495 |
| Fee-based | **2,305** | 1,925 |
| Total Commercial | **7,555** | 7,420 |
| Medicare | **345** | 405 |
| Medicaid | **640** | 550 |
| Total UnitedHealthcare | **8,540** | 8,375 |

### *Uniprise*

Uniprise provides health and well-being services, business-to-business transaction processing services, consumer connectivity and technology support for large employers and health plans. Uniprise revenues were $2.5 billion in 2001, up $322 million, or 15%, over 2000. This increase was driven primarily by continued growth in Uniprise's large multi-site customer base, which had a 20% increase in the number of individuals served. Uniprise served 8.0 million individuals as of December 31, 2001, and 6.7 million individuals as of December 31, 2000. Uniprise's earnings from operations grew by $85 million, or 29%, over 2000 as a result of the increased revenues. The operating margin improved to 15.2% in 2001 from 13.5% in 2000. As revenues have increased, Uniprise has expanded its operating margin by improving productivity through process improvement initiatives and deployment of technology. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing their business to grow revenues at a proportionately higher rate than associated expenses.

### *Specialized Care Services*

Specialized Care Services is an expanding portfolio of health and well-being companies, each serving a specialized market need with a unique blend of benefits, networks, services and resources. Specialized Care Services had revenues of $1.3 billion in 2001, an increase of $280 million, or 29%, over 2000. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, its mental health benefit business, and an increase in specialized services purchased by customers serviced by Uniprise and UnitedHealthcare. Earnings from operations reached $214 million in 2001, an increase of 23% over 2000. Specialized Care Services' operating margin decreased from 17.9% in 2000 to 17.1% in 2001. The decrease in operating margin is the result of a shifting product mix, with a larger percentage of revenues coming from businesses with higher revenues per individual served and lower percentage operating margins.

### *Ingenix*

Ingenix is a leader in the field of health care data analysis and application, serving pharmaceutical companies, health insurers and payers, health care providers, large employers and governments. Revenues were $447 million in 2001, an increase of $72 million, or 19%, over 2000. This increase reflects growth in both the health information and pharmaceutical services businesses. Earnings from operations were $48 million, up 50% over 2000. Operating margin increased to 10.7% in 2001 from 8.5% in 2000, principally as a result of revenue growth and improved productivity.

### *Corporate*

Corporate includes investment income derived from cash and investments not assigned to operating segments, companywide costs for certain core process improvement initiatives, net expenses from charitable contributions to the UnitedHealth Foundation and eliminations of intersegment transactions. The decrease of $20 million in 2001 corporate expenses reflects lower companywide process improvement expenses in 2001 compared to 2000, as certain process improvement initiatives were completed in 2001.

## 2000 RESULTS COMPARED TO 1999 RESULTS

### *CONSOLIDATED FINANCIAL RESULTS*

#### *Revenues*

Consolidated revenues increased in 2000 to $21.1 billion. Balanced growth across all business segments was partially offset by targeted pullbacks and exits from certain geographic and Medicare markets. Adjusted for the effects of these market transitions, consolidated revenues increased approximately $2.2 billion, or 12%, over 1999. Following is a discussion of 2000 consolidated revenue trends for each revenue component.

***Premium Revenues*** Consolidated premium revenues in 2000 totaled $18.9 billion, an increase of $1.4 billion, or 8%, compared with 1999. This increase was driven by two primary factors: premium yield increases on UnitedHealthcare's renewing commercial insured business and growth in the number of individuals served. These increases were partially offset by withdrawals from certain geographic and Medicare markets. Adjusted for the effect of these market withdrawals, premium revenues increased 12% over 1999.

***Fee Revenues*** Fee revenues in 2000 totaled $2.0 billion, an increase of $171 million, or 10%, over 1999. This increase resulted from record growth in Uniprise's multi-site customer base, growth in UnitedHealthcare's fee-based business, modest price increases, and acquisitions and growth in the Specialized Care Services and Ingenix businesses.

***Investment and Other Income*** Investment and other income in 2000 totaled $232 million, an increase of $13 million over 1999. Higher interest yields on investments in 2000 compared with 1999 were largely offset by $34 million of net realized capital losses in 2000. Net realized capital losses were $6 million in 1999.

#### *Medical Costs*

The consolidated medical care ratio decreased from 85.7% in 1999 to 85.4% in 2000. Excluding AARP business, on a year-over-year basis, the medical care ratio decreased 30 basis points to 83.9%. Year-over-year medical care ratios decreased because commercial net premium yield increases exceeded the increase in total benefit costs.

On an absolute dollar basis, medical costs increased $1.1 billion, or 7%, over 1999. The increase was driven by growth in the number of individuals served with insured products, medical cost inflation, increased consumption patterns, benefit changes and product mix changes.

#### *Operating Costs*

The operating cost ratio was 16.7% in 2000, compared with 17.1% in 1999. Using a revenue mix comparable to 1999, the 2000 operating cost ratio would have decreased 80 basis points to 16.3%. This decrease was primarily driven by productivity gains from process improvements, technology deployment and cost management initiatives, and by further leveraging our fixed costs.

On an absolute dollar basis, operating costs increased by $177 million, or 5%, over 1999. This increase reflects additional costs to support product and technology development initiatives and the 8% increase in consolidated revenues in 2000, partially offset by productivity and technology improvements discussed above.

#### *Depreciation and Amortization*

Depreciation and amortization was $247 million in 2000 and $233 million in 1999. This increase resulted primarily from higher levels of capital expenditures to support business growth and technology enhancements, as well as amortization of goodwill and other intangible assets related to acquisitions.

### *Income Taxes*

The 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 37.5% in 2000 and 37.0% in 1999.

### *BUSINESS SEGMENTS*

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

| **REVENUES** | 2000 | 1999 | Percent Change |
|---|---|---|---|
| Health Care Services | $ 18,696 | $ 17,581 | 6% |
| Uniprise | 2,140 | 1,865 | 15% |
| Specialized Care Services | 974 | 726 | 34% |
| Ingenix | 375 | 258 | 45% |
| Corporate and Eliminations | (1,063) | (868) | nm |
| Consolidated Revenues | $ 21,122 | $ 19,562 | 8% |

| **EARNINGS FROM OPERATIONS** | 2000 | 1999 | Percent Change |
|---|---|---|---|
| Health Care Services | $ 739 | $ 578 | 28% |
| Uniprise | 289 | 222 | 30% |
| Specialized Care Services | 174 | 128 | 36% |
| Ingenix | 32 | 25 | 28% |
| Total Operating Segments | 1,234 | 953 | 29% |
| Corporate | (34) | (10) | nm |
| Consolidated Earnings from Operations | $ 1,200 | $ 943 | 27% |

nm — not meaningful

### *Health Care Services*

The Health Care Services segment posted revenues of $18.7 billion in 2000, an increase of $1.1 billion, or 6%, over 1999. This increase was primarily due to premium yield increases on UnitedHealthcare's renewing commercial insured business and growth of approximately 7% in the number of individuals served in continuing markets, partially offset by targeted pullbacks in certain geographic and Medicare markets. Adjusted for the effects of these market changes, Health Care Services' revenues increased by 10% on a year-over-year basis.

The Health Care Services segment contributed earnings from operations of $739 million in 2000, an increase of $161 million, or 28%, over 1999. This increase was primarily the result of improved margins on UnitedHealthcare's commercial business and lower operating costs as a percentage of revenues, driven by process improvement, technology deployment and cost management initiatives. Health Care Services' operating margin increased to 4.0% in 2000 from 3.3% in 1999.

UnitedHealthcare's commercial medical care ratio improved to 84.1% in 2000 from 84.6% in 1999, as net premium yield increases exceeded increases in medical costs.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands):

| | 2000 | 1999 |
|---|---|---|
| Commercial | | |
| Insured (risk-based) | 5,495 | 5,150 |
| Fee-based | 1,925 | 1,745 |
| Total Commercial | 7,420 | 6,895[1] |
| Medicare | 405 | 435 |
| Medicaid | 550 | 480 |
| Total UnitedHealthcare | 8,375 | 7,810 |

[1] Excludes individuals served through UnitedHealthcare platforms located in Puerto Rico and Pacific Coast regions. As of December 31, 2000, UnitedHealthcare had substantially transitioned from these markets. Including these markets, commercial individuals served at December 31, 1999, were 5,650 for insured products and 1,885 for fee-based products.

### *Uniprise*

Uniprise had revenues of $2.1 billion in 2000, an increase of $275 million, or 15%, over 1999. This increase was driven primarily by continued growth in Uniprise's large multi-site customer base, which had an 11% increase in individuals served, as well as changes in funding arrangements selected by certain customers and price increases on fee-based business. Uniprise served 6.7 million and 6.0 million individuals as of December 31, 2000 and 1999, respectively. Uniprise's earnings from operations grew by $67 million, or 30%, over 1999 as a result of increased revenues. Operating margin improved to 13.5% in 2000 from 11.9% in 1999. Uniprise has expanded its operating margin by improving productivity through process improvement initiatives, increased deployment of technology and further leveraging of fixed costs.

### *Specialized Care Services*

Specialized Care Services' revenues were $974 million in 2000, an increase of $248 million, or 34%, over 1999. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, and the acquisitions of Dental Benefit Providers, Inc. in June 1999 and National Benefit Resources, Inc. in November 1999. Earnings from operations of $174 million increased by 36% compared with 1999, in line with 2000 revenue growth. Specialized Care Services' operating margin improved from 17.6% in 1999 to 17.9% in 2000.

### *Ingenix*

Ingenix had revenues of $375 million in 2000, an increase of $117 million, or 45%, over 1999. This increase was driven by organic growth of $54 million and acquisitions made in 1999 that expanded the company's clinical research and development, clinical marketing and health information services. Earnings from operations of $32 million increased 28% over 1999. Operating margin decreased to 8.5% in 2000 from 9.7% in 1999, principally as a result of increased goodwill amortization expense associated with acquisitions.

### *Corporate*

The decrease of $24 million in 2000 earnings reflects a decline in the level of unassigned cash and investments and associated investment income, primarily due to share repurchases and incremental process improvement costs in 2000.

## OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with a comprehensive operational realignment initiated in 1998, we developed and approved an implementation plan (the Plan). We recognized corresponding charges to operations of $725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing and customer service operations and associated real estate obligations.

We completed our operational realignment plan in 2001. Actual costs incurred executing the Plan exceeded estimates by approximately $4 million, which has been included in 2001 operating costs in the Consolidated Statements of Operations. These excess costs were incurred in the fourth quarter of 2001. Activities associated with the Plan resulted in the reduction of approximately 5,100 positions, affecting approximately 5,800 people.

As of December 31, 2000, we had completed all planned business dispositions and market exits pursuant to the Plan. Accordingly, our 2001 financial statements do not include the operating results of exited businesses or markets. Our Consolidated Statements of Operations include results for businesses disposed of and markets exited in connection with our operational realignment as follows: $312 million in revenues and $9 million in earnings from operations in 2000, and $689 million in revenues and $41 million of losses from operations in 1999. These amounts do not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2001, and January 1, 2000. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately $320 million. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately $230 million.

The operational realignment and other charges did not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidated processing and service centers, and employee relocation and training. These costs were expensed as incurred or capitalized, as appropriate. During 2001, 2000 and 1999, we incurred expenses of approximately $20 million, $57 million and $52 million, respectively, related to these activities.

## FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2001

### *LIQUIDITY*

We manage our cash, investments and capital structure so we are able to meet the short- and long-term obligations of our business while maintaining financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable prudent investment and financing within the overall constraints of our financial strategy, such as our self-imposed limit of 30% on our debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders' equity).

Much of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest monies of regulated subsidiaries that exceed our near-term obligations in longer term marketable debt securities, to improve our overall income return. Factors we consider in making these investment decisions include our board of directors' approved policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Even our long-term investments are available for sale to meet liquidity and other needs. Monies in excess of the capital needs of our regulated entities are paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate cash from operations. Additionally, we issue long-term debt and commercial paper with staggered maturity dates and have available credit facilities. These additional sources of liquidity allow us to maintain further operating and financial flexibility. Because of this flexibility, we typically maintain low cash and investment balances in our non-regulated companies. Cash in these entities is generally used to reinvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock.

Cash generated from operating activities, our primary source of liquidity, is principally attributable to net earnings, excluding depreciation and amortization. As such, any future decline in our profitability would likely have a negative impact on our liquidity. The availability of financing, in the form of debt or equity, is influenced by many factors including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

### *CASH AND INVESTMENTS*

During 2001, we generated cash from operations of more than $1.8 billion, an increase of $323 million, or 21%, over 2000. The increase in operating cash flows primarily resulted from an increase of $195 million in net income excluding depreciation and amortization expense and working capital improvements of approximately $111 million.

We maintained a strong financial condition and liquidity position, with cash and investments of $5.7 billion at December 31, 2001. Total cash and investments increased by $645 million since December 31, 2000, primarily resulting from strong cash flows from operations partially offset by common stock repurchases.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. At December 31, 2001, approximately $660 million of our $5.7 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately $260 million was segregated for future regulatory capital needs and $230 million was available for general corporate use, including acquisitions and share repurchases. The remaining $170 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

### *FINANCING AND INVESTING ACTIVITIES*

We use commercial paper and debt to maintain adequate operating and financial flexibility. As of December 31, 2001 and 2000, we had commercial paper and debt outstanding of $1.6 billion and $1.2 billion, respectively. Proceeds from the net increase of $375 million in total commercial paper and debt will be used for general corporate purposes, which may include working capital, business acquisitions, capital expenditures and share repurchases.

Our debt-to-total-capital ratio was 28.9% and 24.7% as of December 31, 2001 and 2000, respectively. We expect to maintain our debt-to-total-capital ratio between 25% and 30%. Within this range, we believe our cost of capital and return on shareholders' equity are optimized, while maintaining a prudent level of leverage and liquidity.

Commercial paper outstanding at December 31, 2001, totaled $684 million, with interest rates ranging from 1.9% to 2.7%. In November 2001, we issued $100 million of floating-rate notes due November 2003 and $150 million of floating-rate notes due November 2004. The interest rates on the notes are reset quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of December 31, 2001, the applicable rates on the notes were 2.4% and 2.7%, respectively. A portion of the proceeds from these borrowings was used to repay $150 million of floating-rate notes that matured in November 2001.

In January 2002, we issued $400 million of 5.2% fixed-rate notes due January 2007. Proceeds from this borrowing will be used to repay commercial paper and for general corporate purposes, including working capital, capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into interest rate swap agreements to convert a portion of our interest rate exposure from a fixed rate to a variable rate. The interest rate swap agreements have an aggregate notional amount of $200 million maturing January 2007. The variable rates approximate the six-month LIBOR and are reset on a semiannual basis.

We have credit arrangements for $900 million that support our commercial paper program. These credit arrangements include a $450 million revolving facility that expires in July 2005, and a $450 million, 364-day facility that expires in July 2002. We also have the capacity to issue approximately $200 million of extendible commercial notes (ECNs). As of December 31, 2001 and 2000, we had no amounts outstanding under our credit facilities or ECNs.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated "A" by Standard & Poor's (S&P) and Fitch, and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by S&P, "F-1" by Fitch, and "P-2" by Moody's. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we intend to maintain our debt-to-total-capital ratio at 30% or less. A significant downgrade in our debt and commercial paper ratings could adversely affect our borrowing capacity and costs.

The remaining issuing capacity of all securities covered by our shelf registration statement for common stock, preferred stock, debt securities and other securities is $450 million, after giving effect to the $400 million fixed-rate notes issued in January 2002. We may publicly offer such securities from time to time at prices and terms to be determined at the time of offering.

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2001, we repurchased 19.6 million shares at an aggregate cost of approximately $1.1 billion. Through December 31, 2001, we had repurchased approximately 112.5 million shares for an aggregate cost of $3.7 billion since the program began in November 1997. As of December 31, 2001, we had board of directors' authorization to purchase up to an additional 8.8 million shares of our common stock. In February 2002, the board of directors authorized us to repurchase up to an additional 30 million shares of common stock under the program.

As part of our share repurchase activities, we have entered into agreements with an independent third party to purchase shares of our common stock, where the number of shares we purchase, if any, depends upon market conditions and other contractual terms. As of December 31, 2001, we had conditional agreements to purchase up to 6.1 million shares of our common stock at various times and prices through 2003, at an average price of approximately $58 per share.

During 2001 and 2000, we invested $425 million and $245 million, respectively, in property, equipment and capitalized software. These investments were made to support business growth, operational efficiency, service improvements and technology enhancements.

*CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS*

We have various contractual obligations and commercial commitments to make future payments including debt agreements, lease obligations, stock repurchase contracts and data center service agreements. The following table summarizes our future obligations under these contracts due by period as of December 31, 2001 (in millions):

| | 2002 | 2003 to 2004 | 2005 to 2006 | Thereafter | Total |
|---|---|---|---|---|---|
| Debt and Commercial Paper[1] | $ 684 | $ 500 | $ 400 | $ – | $1,584 |
| Operating Leases | 99 | 167 | 128 | 224 | 618 |
| Data Center Service Agreements | 206 | 443 | 263 | – | 912 |
| Stock Repurchase Contracts[2] | 217 | 138 | – | – | 355 |
| Total Contractual Obligations | $1,206 | $1,248 | $ 791 | $ 224 | $3,469 |

1 Debt payments could be accelerated upon violation of debt covenants. We believe the likelihood of a debt covenant violation is remote.

2 Reflects maximum potential purchases under stock repurchase contracts. In the event of certain termination events, including a default on our debt or credit agreements or a downgrade of our debt ratings below investment grade, we could be required to immediately settle our remaining obligations under the contracts. We may elect to settle the contracts by issuing common stock in lieu of cash. We believe the likelihood of a debt covenant violation or a downgrade of our debt rating below investment grade is remote.

Currently, we do not have any other material definitive commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products and programs and may include acquisitions.

*AARP*

In January 1998, we began providing services under a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately $3.5 billion during 2001, 2000 and 1999.

The underwriting gains or losses related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF), which is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. The company is at risk for underwriting losses to the extent cumulative net losses exceed the balance in the RSF. We may recover RSF deficits, if any, from gains in future contract periods. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

## REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct our operations through our wholly-owned subsidiaries. These companies are subject to standards established by the National Association of Insurance Commissioners (NAIC) that, among other things, require them to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the level regulators require. As of December 31, 2001, our regulated subsidiaries had aggregate statutory capital and surplus of approximately $2.0 billion, more than $1.1 billion above the $850 million of required aggregate capital and surplus.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 2 to the Consolidated Financial Statements.

### *MEDICAL COSTS*

A substantial portion of our medical costs payable balance is based on estimates. This balance includes estimates for the costs of health care services people have received, but for which claims have not yet been submitted, and estimates for the costs of claims we have received but have not yet processed. We develop medical costs payable estimates using actuarial methods based upon historical claim submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change actuarial methods during 2001, 2000 and 1999.

Management believes the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 2001; however, actual claim payments may differ from established estimates. Assuming a hypothetical 1% difference between our December 31, 2001 estimates of medical costs payable and actual costs payable, 2001 earnings from operations would increase or decrease by approximately $20 million and basic and diluted net earnings per common share would increase or decrease by approximately $0.04 per share. Adjustments to medical costs payable estimates are reflected in operating results in the period in which the change in estimate is identified.

*REVENUES*

Our revenue is principally derived from health care insurance premiums. Premium revenues are recognized in the period enrolled members are entitled to receive health care services. Customers are typically billed monthly at a contracted rate per enrolled member multiplied by the number of members eligible to receive services, as recorded in our records. Because employer groups generally provide us with changes to their eligible member population one month in arrears, each billing includes an adjustment for prior month changes in member status that were not reflected in our billing. We estimate the amount of future adjustments and adjust the current period's revenues and accounts receivable accordingly. Our estimates are based on historical trends, premiums billed, the level of contract renewal activity, and other relevant information. We also estimate the amount of uncollectible receivables each period and record valuation allowances based on historical collection rates, the age of unpaid amounts, and information about the creditworthiness of the customers. Estimates of revenue adjustments and uncollectible accounts receivable are revised each period, and changes are recorded in the period they become known.

*INVESTMENTS*

As of December 31, 2001, we had approximately $4.2 billion of investments, primarily held in marketable debt securities. Our investments are principally classified as available for sale and are recorded at their fair values as of the date reported. Unrealized investment gains and losses are excluded from earnings and reported as a separate component in shareholders' equity. We continually monitor the difference between the cost and fair value of our investments. If any of our investments experience a decline in fair value that we believe is other than temporary, we record a realized loss in our Consolidated Statements of Operations. Management judgment is involved in evaluating whether a decline in an investment's fair value is other than temporary. The discovery of new information and the passage of time can change these judgments. Revisions of impairment judgments are made when new information becomes known, and any resulting impairment adjustments are made at that time. We manage our investment portfolio to limit our exposure to any one issuer or industry, and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

*LONG-LIVED ASSETS*

As of December 31, 2001 and 2000, we had long-lived assets, including goodwill, other intangible assets, and property, equipment and capitalized software of $3.7 billion and $3.2 billion, respectively. We review these assets for events and changes in circumstances that would indicate we might not recover their carrying value. In assessing the recoverability of our long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

*CONTINGENT LIABILITIES*

Because of the nature of our businesses, we are routinely involved in various disputes, legal proceedings and governmental audits and investigations. We record liabilities for our estimate of probable costs resulting from these matters. Our estimates are developed in consultation with outside legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and considering our insurance coverages for such matters. We do not believe any matters currently threatened or pending will have a material adverse effect on our consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings.

## INFLATION

The national health care cost inflation rate significantly exceeds the general inflation rate. We use various strategies to lessen the effects of health care cost inflation. This includes setting commercial premiums based on anticipated health care costs and coordinating care with physicians and other health care providers. Through contracts with physicians and other health care providers, our health plans emphasize preventive health care, appropriate use of specialty and hospital services, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation on our operating results have been and will continue to be successful. However, other factors including competitive pressures, new health care and pharmaceutical product introductions, demands from physicians and other health care providers and consumers, and applicable regulations may affect our ability to control the impact of health care cost inflation. Changes in medical cost trends that were not anticipated in establishing premium rates, because of the narrow operating margins of our insurance products, can create significant changes in our financial results.

## LEGAL MATTERS

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. These matters include: claims relating to health care benefits coverage; medical malpractice actions; allegations of anti-competitive and unfair business activities; disputes over compensation and termination of contracts including those with physicians and other health care providers; disputes related to our administrative services, including actions alleging claim administration errors and failure to disclose rate discounts and other fee and rebate arrangements; disputes over benefit copayment calculations; claims related to disclosure of certain business practices; and claims relating to customer audits and contract performance.

In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO). Although the results of pending litigation are always uncertain, we do not believe the results of any such actions, including those described above, currently threatened or pending will, individually or in aggregate, have a material adverse effect on our results of operations or financial position.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in value of a financial instrument caused by changes in interest rates and equity prices.

Approximately $5.5 billion of our cash and investments at December 31, 2001, was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however, our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed income portfolio at December 31, 2001, the fair value of our fixed income investments would decrease or increase by approximately $160 million.

At December 31, 2001, we had approximately $170 million of equity investments in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity portfolio.

## CONCENTRATIONS OF CREDIT RISK

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our board of directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government, Agency and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited to the large number of employer groups that constitute our customer base. As of December 31, 2001, there were no significant concentrations of credit risk.

## CAUTIONARY STATEMENT REGARDING "FORWARD-LOOKING" STATEMENTS

The statements contained in Results of Operations and other sections of this annual report to shareholders, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). When used in this report, the words or phrases "believes," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" and unknown risks may cause actual results and corporate developments to differ materially from those expected. Except to the extent otherwise required by federal securities laws, in making these statements we are not undertaking to address or update each statement in future filings or communications regarding our business or results, and are not undertaking to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed in this annual report may have affected our past, as well as current, forward-looking statements about future results. Any or all forward-looking statements in this report and in any other public statements we make may turn out to be inaccurate or false. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties.

Many factors discussed below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed in our prior communications. Factors that could cause results and developments to differ materially from expectations include, without limitation, (a) increases in medical costs that are higher than we anticipated in establishing our premium rates, including increased use of or costs of medical services; (b) increases in costs associated with increased litigation, legislative activity and government regulation and review of our industry, including costs associated with compliance with proposed legislation related to the Patients' Bill of Rights, e-commerce activities and consumer privacy issues; (c) heightened competition as a result of new entrants into our market, mergers and acquisitions of health care companies and suppliers, and expansion of physician or practice management companies; (d) events that may negatively affect our contract with AARP, including any failure on our part to service AARP customers in an effective manner and any adverse events that directly affect AARP or its business partners; (e) medical cost increases or benefit changes associated with our remaining Medicare+Choice operations; (f) significant deterioration in customer retention; and (g) significant deterioration in economic conditions, including the effects of acts of terrorism, particularly bioterrorism. A further list and description of these risks, uncertainties and other matters can be found in the company's annual report on Form 10-K for the year ended December 31, 2001, and in its periodic reports on Forms 10-Q and 8-K (if any).

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Year Ended December 31, | | |
|---|---|---|---|
| (in millions, except per share data) | 2001 | 2000 | 1999 |
| **REVENUES** | | | |
| Premiums | **$ 20,683** | $ 18,926 | $ 17,550 |
| Fees | **2,490** | 1,964 | 1,793 |
| Investment and Other Income | **281** | 232 | 219 |
| Total Revenues | **23,454** | 21,122 | 19,562 |
| **MEDICAL AND OPERATING COSTS** | | | |
| Medical Costs | **17,644** | 16,155 | 15,043 |
| Operating Costs | **3,979** | 3,520 | 3,343 |
| Depreciation and Amortization | **265** | 247 | 233 |
| Total Medical and Operating Costs | **21,888** | 19,922 | 18,619 |
| **EARNINGS FROM OPERATIONS** | **1,566** | 1,200 | 943 |
| Gain on Disposition of UnitedHealth Capital Investments | **-** | 27 | – |
| Interest Expense | **(94)** | (72) | (49) |
| **EARNINGS BEFORE INCOME TAXES** | **1,472** | 1,155 | 894 |
| Provision for Income Taxes | **(559)** | (419) | (326) |
| **NET EARNINGS** | **$ 913** | $ 736 | $ 568 |
| **BASIC NET EARNINGS PER COMMON SHARE** | **$ 2.92** | $ 2.27 | $ 1.63 |
| **DILUTED NET EARNINGS PER COMMON SHARE** | **$ 2.79** | $ 2.19 | $ 1.60 |
| **BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** | **312.4** | 324.2 | 348.2 |
| **DILUTIVE EFFECT OF OUTSTANDING STOCK OPTIONS** | **14.4** | 12.3 | 6.8 |
| **WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION** | **326.8** | 336.5 | 355.0 |

See notes to consolidated financial statements.

## *CONSOLIDATED BALANCE SHEETS*

| (in millions, except share and per share data) | As of December 31, 2001 | 2000 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and Cash Equivalents | **$ 1,540** | $ 1,419 |
| Short-Term Investments | **270** | 200 |
| Accounts Receivable, net of allowances of $127 and $118 | **856** | 867 |
| Assets Under Management | **1,903** | 1,646 |
| Deferred Income Taxes | **316** | 235 |
| Other Current Assets | **61** | 38 |
| Total Current Assets | **4,946** | 4,405 |
| Long-Term Investments | **3,888** | 3,434 |
| Property, Equipment and Capitalized Software, net of accumulated depreciation and amortization of $670 and $599 | **847** | 557 |
| Goodwill and Other Intangible Assets, net of accumulated amortization of $500 and $415 | **2,805** | 2,657 |
| **TOTAL ASSETS** | **$ 12,486** | $ 11,053 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Medical Costs Payable | **$ 3,460** | $ 3,266 |
| Accounts Payable and Accrued Liabilities | **1,209** | 1,050 |
| Other Policy Liabilities | **1,595** | 1,216 |
| Commercial Paper and Current Maturities of Long-Term Debt | **684** | 559 |
| Unearned Premiums | **543** | 479 |
| Total Current Liabilities | **7,491** | 6,570 |
| Long-Term Debt, less current maturities | **900** | 650 |
| Deferred Income Taxes and Other Liabilities | **204** | 145 |
| Commitments and Contingencies *(Note 11)* | | |
| Shareholders' Equity | | |
| Common Stock, $0.01 par value – 1,500,000,000 shares authorized; 308,626,000 and 317,235,000 shares outstanding | **3** | 3 |
| Additional Paid-In Capital | **39** | – |
| Retained Earnings | **3,805** | 3,595 |
| Accumulated Other Comprehensive Income: | | |
| Net Unrealized Gains on Investments, net of tax effects | **44** | 90 |
| **TOTAL SHAREHOLDERS' EQUITY** | **3,891** | 3,688 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 12,486** | $ 11,053 |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (in millions) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Net Unrealized Gains on Investments Available for Sale | Total Shareholders' Equity | Comprehensive Income |
|---|---|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 1998** | 368 | $ 4 | $ 1,107 | $ 2,883 | $ 44 | $ 4,038 | |
| Issuances of Common Stock, and related tax benefits | 6 | – | 125 | – | – | 125 | |
| Common Stock Repurchases | (39) | (1) | (982) | – | – | (983) | |
| Comprehensive Income | | | | | | | |
| Net Earnings | – | – | – | 568 | – | 568 | $ 568 |
| Other Comprehensive Income Adjustments | | | | | | | |
| Change in Net Unrealized Gains on Investments, net of tax effects | – | – | – | – | 121 | 121 | 121 |
| Comprehensive Income | – | – | – | – | – | – | $ 689 |
| Common Stock Dividend | – | – | – | (6) | – | (6) | |
| **BALANCE AT DECEMBER 31, 1999** | 335 | 3 | 250 | 3,445 | 165 | 3,863 | |
| Issuances of Common Stock, and related tax benefits | 13 | – | 349 | – | – | 349 | |
| Common Stock Repurchases | (31) | – | (599) | (581) | – | (1,180) | |
| Comprehensive Income | | | | | | | |
| Net Earnings | – | – | – | 736 | – | 736 | $ 736 |
| Other Comprehensive Income Adjustments | | | | | | | |
| Change in Net Unrealized Gains on Investments, net of tax effects | – | – | – | – | (75) | (75) | (75) |
| Comprehensive Income | – | – | – | – | – | – | $ 661 |
| Common Stock Dividend | – | – | – | (5) | – | (5) | |
| **BALANCE AT DECEMBER 31, 2000** | 317 | 3 | – | 3,595 | 90 | 3,688 | |
| Issuances of Common Stock, and related tax benefits | 11 | – | 474 | – | – | 474 | |
| Common Stock Repurchases | (19) | – | (435) | (694) | – | (1,129) | |
| Comprehensive Income | | | | | | | |
| Net Earnings | – | – | – | 913 | – | 913 | $ 913 |
| Other Comprehensive Income Adjustments | | | | | | | |
| Change in Net Unrealized Gains on Investments, net of tax effects | – | – | – | – | (46) | (46) | (46) |
| Comprehensive Income | – | – | – | – | – | – | $ 867 |
| Common Stock Dividend | – | – | – | (9) | – | (9) | |
| **BALANCE AT DECEMBER 31, 2001** | **309** | **$ 3** | **$ 39** | **$ 3,805** | **$ 44** | **$ 3,891** | |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| | For the Year Ended December 31, | | |
| **OPERATING ACTIVITIES** | | | |
| Net Earnings | **$ 913** | $ 736 | $ 568 |
| Noncash Items | | | |
| Depreciation and Amortization | **265** | 247 | 233 |
| Deferred Income Taxes and Other | **40** | 73 | 35 |
| Net Change in Other Operating Items, net of effects from acquisitions, sales of subsidiaries and changes in AARP balances | | | |
| Accounts Receivable and Other Current Assets | **7** | 26 | 84 |
| Medical Costs Payable | **156** | 288 | 165 |
| Accounts Payable and Accrued Liabilities | **280** | 75 | 68 |
| Other Policy Liabilities | **131** | 87 | (8) |
| Unearned Premiums | **52** | (11) | 44 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **1,844** | 1,521 | 1,189 |
| **INVESTING ACTIVITIES** | | | |
| Cash Paid for Acquisitions, net of cash assumed and other effects | **(92)** | (76) | (334) |
| Purchases of Property, Equipment and Capitalized Software | **(425)** | (245) | (196) |
| Purchases of Investments | **(2,088)** | (3,022) | (2,208) |
| Maturities and Sales of Investments | **1,467** | 2,375 | 2,115 |
| **CASH FLOWS USED FOR INVESTING ACTIVITIES** | **(1,138)** | (968) | (623) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from Common Stock Issuances | **178** | 228 | 102 |
| Proceeds from (Payments of) Commercial Paper, net | **275** | (182) | 532 |
| Proceeds from Issuance of Long-Term Debt | **250** | 400 | 150 |
| Payments for Retirement of Long-Term Debt | **(150)** | – | (400) |
| Common Stock Repurchases | **(1,129)** | (1,180) | (983) |
| Dividends Paid | **(9)** | (5) | (6) |
| **CASH FLOWS USED FOR FINANCING ACTIVITIES** | **(585)** | (739) | (605) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **121** | (186) | (39) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | **1,419** | 1,605 | 1,644 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$ 1,540** | $ 1,419 | $ 1,605 |

| | | | |
|---|---|---|---|
| **SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES** | | | |
| Common Stock Issued for Acquisitions | **$ 163** | $ – | $ – |

See notes to consolidated financial statements.

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

## [ 1 ] DESCRIPTION OF BUSINESS

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us," "our") is a national leader in forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through independent but strategically aligned, market-defined businesses, we offer health care access and coverage and related administrative, technology and information services designed to enable, facilitate and advance optimal health care.

## [ 2 ] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *BASIS OF PRESENTATION*

We have prepared the consolidated financial statements according to accounting principles generally accepted in the United States and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

### *USE OF ESTIMATES*

These financial statements include some amounts that are based on our estimates and judgments. The most significant estimates relate to medical costs, medical costs payable, contingent liabilities, and asset valuations, allowances and impairments. We adjust these estimates as more current information becomes available, and any adjustment could have a significant impact on our consolidated operating results. The impact of any changes in estimates is included in the determination of earnings in the period in which the change in estimate is identified.

### *REVENUES*

We recognize premium revenues in the period in which enrolled members are entitled to receive health care services. We record premium payments received from our customers prior to such period as unearned premiums. We recognize fee revenues in the period the related services are performed. Premium revenues related to Medicare and Medicaid programs as a percentage of total premium revenues were 17% in 2001 and 2000, and 21% in 1999.

### *MEDICAL COSTS AND MEDICAL COSTS PAYABLE*

Medical costs include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, and estimates for the costs of health care services people have received, but for which claims have not yet been submitted.

We develop our estimates of medical costs payable using actuarial methods based upon historical claim submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change actuarial methods during 2001, 2000 and 1999. Management believes the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 2001; however, actual claim payments may differ from established estimates. Adjustments to medical costs payable estimates are reflected in operating results in the period in which the change in estimate is identified.

### *CASH, CASH EQUIVALENTS AND INVESTMENTS*

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term. We may sell investments classified as long-term before their maturity to fund working capital or for other purposes.

Because of regulatory restrictions, certain investments are included in long-term investments regardless of their maturity date. These investments are classified as held to maturity and are reported at amortized cost. All other investments are classified as available for sale and reported at fair value based on quoted market prices. We have no investments classified as trading securities.

Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of shareholders' equity, net of income tax effects. We continually monitor the difference between the cost and estimated fair value of our investments. If any of our investments experience a decline in value that we believe is other than temporary, we record a realized loss in Investment and Other Income in our Consolidated Statements of Operations. To calculate realized gains and losses on the sale of investments, we use the specific cost of each investment sold.

*ASSETS UNDER MANAGEMENT*

We administer certain aspects of AARP's insurance program (see Note 5). Pursuant to our agreement, AARP assets are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our discretion, within investment guidelines approved by AARP. At December 31, 2001, the assets were invested in marketable debt securities. We do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract to another entity, cash equal in amount to the fair value of these investments would be transferred to that entity. Because the purpose of these assets is to fund the medical costs payable and rate stabilization fund liabilities associated with the AARP contract, assets under management are classified as current assets, consistent with the classification of these liabilities. Interest earnings and realized investment gains and losses on these assets accrue to AARP policyholders through the rate stabilization fund and, as such, are not included in our earnings. Interest income and realized gains and losses related to assets under management are recorded as an increase to the AARP rate stabilization fund and were $113 million and $91 million in 2001 and 2000, respectively. Assets under management are reported at their fair market value, and unrealized gains and losses are included in the rate stabilization fund associated with the AARP program. As of December 31, 2001 and 2000, the AARP investment portfolio included net unrealized gains of $56 million and $19 million, respectively.

*PROPERTY, EQUIPMENT AND CAPITALIZED SOFTWARE*

Property, equipment and capitalized software is stated at cost, net of accumulated depreciation and amortization. Capitalized software consists of certain costs incurred in the development of internal-use software, including external direct material and service costs and payroll costs of employees fully devoted to specific software development.

We calculate depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The useful lives for property, equipment and capitalized software are: from three to seven years for furniture, fixtures and equipment; the shorter of five years or the remaining lease term for leasehold improvements; and from three to nine years for capitalized software. The weighted-average useful life of property, equipment and capitalized software at December 31, 2001, was approximately five years.

The net book value of property and equipment was $421 million and $303 million as of December 31, 2001 and 2000, respectively. The net book value of capitalized software was $426 million and $254 million as of December 31, 2001 and 2000, respectively.

*GOODWILL AND OTHER INTANGIBLE ASSETS*

Goodwill represents the amount by which the purchase price and transaction costs of businesses we have acquired exceeds the estimated fair value of the net tangible assets and identifiable intangible assets of these businesses. Goodwill and other intangible assets are amortized on a straight-line basis over useful lives ranging from three years to 40 years, with a weighted-average useful life of 32 years at December 31, 2001.

The two most significant components of goodwill and other intangible assets are: 1) goodwill of $2.2 billion at December 31, 2001, and $2.1 billion at December 31, 2000, net of accumulated amortization; and 2) employer group contracts, supporting infrastructure, distribution networks and institutional knowledge of $512 million at December 31, 2001, and $530 million at December 31, 2000, net of accumulated amortization.

*LONG-LIVED ASSETS*

We review long-lived assets, including goodwill and other intangible assets, and property, equipment and capitalized software, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider many factors, including estimated future cash flows associated with the assets, to make this decision. We record assets held for sale at the lower of their carrying amount or fair value, less any costs for the final settlement.

*OTHER POLICY LIABILITIES*

Other policy liabilities include the rate stabilization fund associated with the AARP program (see Note 5) and customer balances related to experience-rated insurance products.

Customer balances represent premium payments we have received that exceed what customers owe based on actual claim experience, and deposit accounts that have accumulated under experience-rated contracts. At the customer's option, these balances may be refunded or used to pay future premiums or claims under eligible contracts.

*INCOME TAXES*

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

*STOCK-BASED COMPENSATION*

We do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices that equal or exceed the fair market value of the stock on the date the options are granted. Information on what our stock-based compensation expenses would have been had we calculated those expenses using the fair market values of outstanding stock options is included in Note 9.

*NET EARNINGS PER COMMON SHARE*

We compute basic net earnings per common share by dividing net earnings by the weighted-average number of common shares outstanding during the period. We determine diluted net earnings per common share using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options.

*DERIVATIVE FINANCIAL INSTRUMENTS*

As part of our risk management strategy, we may enter into interest rate swap agreements to manage our exposure to interest rate risk. The differential between fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations.

*RECENTLY ISSUED ACCOUNTING STANDARDS*

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 141, business combinations initiated after June 30, 2001, must be accounted for using the purchase method of accounting. Under SFAS No. 142, amortization of goodwill and indefinite-lived intangible assets will cease, and the carrying value of these assets will instead be evaluated for impairment using a fair-value-based test, applied at least annually. We adopted SFAS No. 142 on January 1, 2002, completed the initial impairment tests of goodwill as required by SFAS No. 142, and determined that our goodwill is not impaired. The following table shows net earnings and earnings per common share adjusted to reflect the adoption of the non-amortization provisions of SFAS No. 142 as of the beginning of the respective periods:

| (in millions, except per share data) | For the Year Ended December 31, 2001 | 2000 | 1999 |
|---|---|---|---|
| **NET EARNINGS** | | | |
| Reported Net Earnings | **$ 913** | $ 736 | $ 568 |
| Goodwill Amortization, net of tax effects | **89** | 85 | 76 |
| Adjusted Net Earnings | **$ 1,002** | $ 821 | $ 644 |
| **BASIC NET EARNINGS PER COMMON SHARE** | | | |
| Reported Basic Net Earnings per Share | **$ 2.92** | $ 2.27 | $ 1.63 |
| Goodwill Amortization, net of tax effects | **0.29** | 0.26 | 0.22 |
| Adjusted Basic Net Earnings per Share | **$ 3.21** | $ 2.53 | $ 1.85 |
| **DILUTED NET EARNINGS PER COMMON SHARE** | | | |
| Reported Diluted Net Earnings per Share | **$ 2.79** | $ 2.19 | $ 1.60 |
| Goodwill Amortization, net of tax effects | **0.28** | 0.25 | 0.21 |
| Adjusted Diluted Net Earnings per Share | **$ 3.07** | $ 2.44 | $ 1.81 |

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. We must adopt the standard on January 1, 2003. We do not expect the adoption of SFAS No. 143 will have any impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," which provides new accounting and financial reporting guidance for the impairment or disposal of long-lived assets and the disposal of segments of a business. We adopted the standard on January 1, 2002, and its adoption did not have any impact on our financial position or results of operations.

*RECLASSIFICATIONS*

Certain 1999 and 2000 amounts in the consolidated financial statements have been reclassified to conform to the 2001 presentation. These reclassifications have no effect on net earnings or shareholders' equity as previously reported.

## [ 3 ] ACQUISITIONS

In October 2001, our Specialized Care Services business segment acquired Spectera, Inc. (Spectera), a leading vision care benefit company in the United States, to expand the breadth of service offerings we extend to our customers. We paid $37 million in cash, accrued $25 million for additional consideration due, and issued 1.2 million shares of common stock with a value of $81 million in exchange for all outstanding shares of Spectera. The purchase price and related acquisition costs of approximately $146 million exceeded the preliminary estimated fair value of net assets acquired by $126 million. Under the purchase method of accounting, we assigned this amount to goodwill. The results of Spectera's operations since the acquisition date are included in our 2001 Consolidated Statement of Operations. The pro forma effects of the Spectera acquisition on our consolidated financial statements were not material. In February 2002, the $25 million of accrued consideration was satisfied by issuing an additional 335,000 shares of our common stock.

In September 1999, our Ingenix business segment acquired Worldwide Clinical Trials, Inc. (WCT), a leading clinical research organization. We paid $214 million in cash in exchange for all outstanding shares of WCT, and we accounted for the purchase using the purchase method of accounting. Only the post-acquisition results of WCT are included in our consolidated financial statements. The purchase price and other acquisition costs exceeded the estimated fair value of net assets acquired by $214 million, which was assigned to goodwill and is being amortized over its estimated useful life of 30 years. The pro forma effects of the WCT acquisition on our consolidated financial statements were not material.

In June 1999, our Specialized Care Services business segment acquired Dental Benefit Providers, Inc. (DBP), one of the largest dental benefit management companies in the United States. We paid $105 million in cash, and we accounted for the acquisition using the purchase method of accounting. The purchase price and other acquisition costs exceeded the estimated fair value of net assets acquired by $105 million, which was assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro forma effects of the DBP acquisition on our consolidated financial statements were not material.

For the years ended December 31, 2001, 2000 and 1999, consideration paid or issued for smaller acquisitions accounted for under the purchase method, which were not material to our consolidated financial statements, was $134 million, $76 million and $15 million, respectively.

## [ 4 ] OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with a comprehensive operational realignment initiated in 1998, we developed and approved an implementation plan (the Plan). We recognized corresponding charges to operations of $725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing and customer service operations and associated real estate obligations.

We completed our operational realignment plan in 2001. Actual costs incurred executing the Plan exceeded estimates by approximately $4 million, which has been included in 2001 operating costs in the Consolidated Statements of Operations. These excess costs were incurred in the fourth quarter of 2001. Activities associated with the Plan resulted in the reduction of approximately 5,100 positions, affecting approximately 5,800 people.

As of December 31, 2000, we had completed all planned business dispositions and market exits pursuant to the Plan. Accordingly, our 2001 financial statements do not include the operating results of exited businesses or markets. Our Consolidated Statements of Operations include results for businesses disposed of and markets exited in connection with our operational realignment as follows: $312 million in revenues and $9 million in earnings from operations in 2000, and $689 million in revenues and $41 million of losses from operations in 1999. These amounts do not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2001, and January 1, 2000. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately $320 million. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately $230 million.

The operational realignment and other charges did not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidated processing and service centers, and employee relocation and training. These costs were expensed as incurred or capitalized, as appropriate. During 2001, 2000 and 1999, we incurred expenses of approximately $20 million, $57 million and $52 million, respectively, related to these activities.

The table below is a roll-forward of accrued operational realignment and other charges, which are included in Accounts Payable and Accrued Liabilities in the accompanying Consolidated Balance Sheets (in millions):

| | Asset Impairments | Severance and Outplacement Costs | Noncancelable Lease Obligations | Disposition of Businesses and Other Costs | Total |
|---|---|---|---|---|---|
| Balance at December 31, 1997 | $ – | $ – | $ – | $ – | $ – |
| Provision for Operational Realignment and Other Charges | 430 | 142 | 82 | 71 | 725 |
| Additional Charges (Credits) | 21 | (20) | (9) | 8 | – |
| Cash Payments | – | (19) | (6) | (13) | (38) |
| Noncash Charges | (451) | – | – | – | (451) |
| Balance at December 31, 1998 | – | 103 | 67 | 66 | 236 |
| Additional Charges (Credits) | – | (22) | 13 | 9 | – |
| Cash Payments | – | (46) | (18) | (45) | (109) |
| Balance at December 31, 1999 | – | 35 | 62 | 30 | 127 |
| Cash Payments | – | (24) | (20) | (18) | (62) |
| Balance at December 31, 2000 | – | 11 | 42 | 12 | 65 |
| Additional Charges (Credits) | – | 10 | – | (6) | 4 |
| Cash Payments | – | (21) | (11) | (6) | (38) |
| Noncash Charges[1] | – | – | (31) | – | (31) |
| **Balance at December 31, 2001** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |

[1] Consists of noncancelable lease obligations for which definitive subleases have been finalized. These amounts have been transferred to other liability accounts as they are fixed and determinable obligations.

## [ 5 ] AARP

In January 1998, we began providing services under a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately $3.5 billion during 2001, 2000 and 1999.

The underwriting gains or losses related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are charged to the RSF and accrue to AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

When we entered the contract, we assumed the policy and other policy liabilities related to the AARP program, and we received cash and premium receivables from the previous insurance carrier equal to the carrying value of these liabilities as of January 1, 1998. The following AARP program-related assets and liabilities are included in our Consolidated Balance Sheets (in millions):

| | Balance as of December 31, 2001 | 2000 |
|---|---|---|
| Assets Under Management | **$ 1,882** | $ 1,625 |
| Accounts Receivable | **$ 281** | $ 277 |
| Medical Costs Payable | **$ 867** | $ 855 |
| Other Policy Liabilities | **$ 1,180** | $ 932 |
| Accounts Payable and Accrued Liabilities | **$ 116** | $ 115 |

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

## [ 6 ] CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, the amortized cost, gross unrealized holding gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

| 2001 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Cash and Cash Equivalents** | **$ 1,540** | **$ -** | **$ -** | **$ 1,540** |
| **Debt Securities - Available for Sale** | **3,806** | **121** | **(20)** | **3,907** |
| **Equity Securities - Available for Sale** | **201** | **16** | **(46)** | **171** |
| **Debt Securities - Held to Maturity** | **80** | **-** | **-** | **80** |
| **Total Cash and Investments** | **$ 5,627** | **$ 137** | **$ (66)** | **$ 5,698** |

| 2000 | | | | |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 1,419 | $ - | $ - | $ 1,419 |
| Debt Securities — Available for Sale | 3,198 | 89 | (6) | 3,281 |
| Equity Securities — Available for Sale | 201 | 61 | – | 262 |
| Debt Securities — Held to Maturity | 91 | – | – | 91 |
| Total Cash and Investments | $ 4,909 | $ 150 | $ (6) | $ 5,053 |

As of December 31, 2001, debt securities consisted of $1,073 million in U.S. Government and Agency obligations, $1,684 million in state and municipal obligations, and $1,230 million in corporate obligations. At December 31, 2001, we held $306 million in debt securities with maturities less than one year, $1,475 million in debt securities maturing in one to five years, and $2,206 million in debt securities with maturities of more than five years.

During 2001, 2000 and 1999, respectively, we contributed UnitedHealth Capital investments valued at approximately $22 million, $52 million and $50 million to the UnitedHealth Foundation, a non-consolidated, not-for-profit organization. The realized gain of approximately $18 million in 2001, $51 million in 2000 and $49 million in 1999 was offset by the related contribution expense of $22 million in 2001, $52 million in 2000 and $50 million in 1999. The net expense of $4 million in 2001 and $1 million in both 2000 and 1999 is included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

In a separate disposition of UnitedHealth Capital investments during 2000, we realized a gain of $27 million.

We recorded realized gains and losses on the sale of investments, excluding the UnitedHealth Capital dispositions described above, as follows (in millions):

| | For the Year Ended December 31, 2001 | 2000 | 1999 |
|---|---|---|---|
| Gross Realized Gains | **$ 30** | $ 12 | $ 9 |
| Gross Realized Losses | **(19)** | (46) | (15) |
| Net Realized Gains (Losses) | **$ 11** | $ (34) | $ (6) |

## [ 7 ] COMMERCIAL PAPER AND DEBT

Commercial paper and debt consisted of the following as of December 31 (in millions):

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Commercial Paper | **$ 684** | **$ 684** | $ 409 | $ 409 |
| Floating-Rate Notes due November 2001 | **-** | **-** | 150 | 150 |
| Floating-Rate Notes due November 2003 | **100** | **100** | – | – |
| Floating-Rate Notes due November 2004 | **150** | **150** | – | – |
| 6.6% Senior Unsecured Notes due December 2003 | **250** | **266** | 250 | 250 |
| 7.5% Senior Unsecured Notes due November 2005 | **400** | **433** | 400 | 413 |
| Total Commercial Paper and Debt | **1,584** | **1,633** | 1,209 | 1,222 |
| Less Current Maturities | **(684)** | **(684)** | (559) | (559) |
| Long-Term Debt, less current maturities | **$ 900** | **$ 949** | $ 650 | $ 663 |

As of December 31, 2001, our outstanding commercial paper had interest rates ranging from 1.9% to 2.7%. In November 2001, we issued $100 million of floating-rate notes due November 2003 and $150 million of floating-rate notes due November 2004. The interest rates on the notes are reset quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of December 31, 2001, the applicable rates on the notes were 2.4% and 2.7%, respectively. A portion of the proceeds from these borrowings was used to repay the $150 million of floating-rate notes that matured in November 2001.

In January 2002, we issued $400 million of 5.2% fixed-rate notes due January 2007. Proceeds from this borrowing will be used to repay commercial paper and for general corporate purposes including working capital, capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into interest rate swap agreements that qualify as fair value hedges to convert a portion of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have an aggregate notional amount of $200 million maturing January 2007. The variable rates approximate the six-month LIBOR and are reset on a semiannual basis.

We have credit arrangements for $900 million that support our commercial paper program. These credit arrangements include a $450 million revolving facility that expires in July 2005, and a $450 million, 364-day facility that expires in July 2002. We also have the capacity to issue approximately $200 million of extendible commercial notes (ECNs). As of December 31, 2001 and 2000, we had no amounts outstanding under our credit facilities or ECNs.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of commercial paper and debt, excluding the impact of the debt issued in January 2002, for the years ending December 31 are as follows (in millions):

| 2002 | 2003 | 2004 | 2005 | 2006 | Thereafter |
|---|---|---|---|---|---|
| $ 684 | $ 350 | $ 150 | $ 400 | $ – | $ – |

We made cash payments for interest of $91 million, $68 million and $43 million in 2001, 2000 and 1999, respectively.

## [ 8 ] SHAREHOLDERS' EQUITY

### *REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS*

We conduct our operations through our wholly-owned subsidiaries. These companies are subject to standards established by the National Association of Insurance Commissioners (NAIC) that, among other things, require them to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. At December 31, 2001, approximately $660 million of our $5.7 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately $260 million was segregated for future regulatory capital needs and $230 million was available for general corporate use, including acquisitions and share repurchases. The remaining $170 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the level regulators require. As of December 31, 2001, our regulated subsidiaries had aggregate statutory capital and surplus of approximately $2.0 billion, more than $1.1 billion above the $850 million of required aggregate capital and surplus.

### *STOCK REPURCHASE PROGRAM*

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to restrictions on volume, pricing and timing. During 2001, we repurchased 19.6 million shares for an aggregate of $1.1 billion. Through December 31, 2001, we had repurchased approximately 112.5 million shares for an aggregate cost of $3.7 billion since the program began in November 1997. As of December 31, 2001, we had board of directors' authorization to purchase up to an additional 8.8 million shares of our common stock. In February 2002, the board of directors authorized us to repurchase up to an additional 30 million shares of common stock under the program.

As part of our share repurchase activities, we have entered into agreements with an independent third party to purchase shares of our common stock, where the number of shares we purchase, if any, depends upon market conditions and other contractual terms. As of December 31, 2001, we had conditional agreements to purchase up to 6.1 million shares of our common stock at various times and prices through 2003, at an average price of approximately $58 per share.

### *PREFERRED STOCK*

At December 31, 2001, we had 10 million shares of $0.001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

### *DIVIDENDS*

On February 12, 2002, the board of directors approved an annual dividend for 2002 of $0.03 per share. The dividend will be paid on April 17, 2002, to shareholders of record at the close of business on April 1, 2002.

## [ 9 ] STOCK-BASED COMPENSATION PLANS

The company maintains various stock and incentive plans for the benefit of eligible employees and directors. As of December 31, 2001, employee stock and incentive plans allowed for the future granting of up to 29.6 million shares as incentive or non-qualified stock options, stock appreciation rights, restricted stock awards and performance awards. Our non-employee director stock option plan allowed for future granting of 710,000 non-qualified stock options as of December 31, 2001.

Stock options are granted at an exercise price not less than the fair market value of the common stock at the date of grant. They generally vest over four years and may be exercised up to 10 years from the date of grant. Activity under our various stock plans is summarized in the table below (shares in thousands):

| | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at Beginning of Year | **38,810** | **$ 22** | 44,080 | $ 19 | 36,748 | $ 19 |
| Granted | **8,333** | **$ 53** | 8,516 | $ 30 | 14,406 | $ 20 |
| Exercised | **(7,716)** | **$ 20** | (12,331) | $ 17 | (4,666) | $ 17 |
| Forfeited | **(1,090)** | **$ 25** | (1,455) | $ 20 | (2,408) | $ 20 |
| Outstanding at End of Year | **38,337** | **$ 29** | 38,810 | $ 22 | 44,080 | $ 19 |
| Exercisable at End of Year | **19,585** | **$ 21** | 17,367 | $ 20 | 15,558 | $ 17 |

| As of December 31, 2001 | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Option Term (years) | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| $ 0 - $20 | 6,170 | 5.4 | $ 17 | 5,253 | $ 17 |
| $21 - $40 | 23,853 | 7.4 | $ 24 | 14,188 | $ 22 |
| $41 - $70 | 8,314 | 9.1 | $ 53 | 144 | $ 51 |
| $ 0 - $70 | 38,337 | 7.4 | $ 29 | 19,585 | $ 21 |

We do not recognize compensation expense in connection with stock option grants because we grant stock options at exercise prices that equal or exceed the fair market value of the stock at the time options are granted. If we had determined compensation expense using fair market values for the stock options, net earnings per common share would have been reduced to the following pro forma amounts:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net Earnings (in millions) | | | |
| As Reported | **$ 913** | $ 736 | $ 568 |
| Pro Forma | **$ 831** | $ 660 | $ 531 |
| Basic Net Earnings per Common Share | | | |
| As Reported | **$ 2.92** | $ 2.27 | $ 1.63 |
| Pro Forma | **$ 2.66** | $ 2.04 | $ 1.52 |
| Diluted Net Earnings per Common Share | | | |
| As Reported | **$ 2.79** | $ 2.19 | $ 1.60 |
| Pro Forma | **$ 2.54** | $ 1.96 | $ 1.50 |
| Weighted-Average Fair Value per Share of Options Granted | **$ 23** | $ 14 | $ 12 |

To determine compensation cost under the fair value method, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Principal assumptions we used in applying the Black-Scholes model were as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Risk-Free Interest Rate | **3.7%** | 5.0% | 6.7% |
| Expected Volatility | **45.9%** | 49.0% | 50.0% |
| Expected Dividend Yield | **0.1%** | 0.1% | 0.1% |
| Expected Life in Years | **4.8** | 4.5 | 5.0 |

We also maintain a non-leveraged employee stock ownership plan and an employee stock purchase plan. Activity related to these plans was not significant in relation to our consolidated financial results in 2001, 2000 and 1999.

## [ 10 ] INCOME TAXES

Components of the Provision (Benefit) for Income Taxes

| Year Ended December 31, (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current | | | |
| Federal | **$ 524** | $ 330 | $ 264 |
| State | **45** | 38 | 36 |
| Total Current | **569** | 368 | 300 |
| Deferred | **(10)** | 51 | 26 |
| Total Provision | **$ 559** | $ 419 | $ 326 |

Reconciliation of the Tax Provision at the U.S. Federal Statutory Rate to the Provision for Income Taxes

| Year Ended December 31, (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Tax Provision at the U.S. Federal Statutory Rate | **$ 515** | $ 404 | $ 313 |
| State Income Taxes, net of federal benefit | **29** | 29 | 24 |
| Tax-Exempt Investment Income | **(21)** | (17) | (16) |
| Non-deductible Amortization | **29** | 27 | 25 |
| Charitable Contributions | **–** | (18) | (16) |
| Other, net | **7** | (6) | (4) |
| Provision for Income Taxes | **$ 559** | $ 419 | $ 326 |

Components of Deferred Income Tax Assets and Liabilities

| As of December 31, (in millions) | 2001 | 2000 |
|---|---|---|
| Deferred Income Tax Assets | | |
| Accrued Expenses and Allowances | **$ 198** | $ 126 |
| Unearned Premiums | **65** | 74 |
| Medical Costs Payable and Other Policy Liabilities | **84** | 84 |
| Net Operating Loss Carryforwards | **39** | 42 |
| Other | **30** | 10 |
| Subtotal | **416** | 336 |
| Less: Valuation Allowances | **(53)** | (56) |
| Total Deferred Income Tax Assets | **363** | 280 |
| Deferred Income Tax Liabilities | | |
| Capitalized Software Development | **(128)** | (80) |
| Net Unrealized Gains on Investments Available for Sale | **(31)** | (59) |
| Depreciation & Amortization | **(22)** | (12) |
| Total Deferred Income Tax Liabilities | **(181)** | (151) |
| Net Deferred Income Tax Assets | **$ 182** | $ 129 |

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. The valuation allowance primarily relates to future tax benefits on certain purchased domestic and foreign net operating loss carryforwards.

We made cash payments for income taxes of $384 million in 2001, $352 million in 2000 and $214 million in 1999. We increased additional paid-in capital and reduced income taxes payable by $133 million in 2001, $116 million in 2000 and $23 million in 1999 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

The company, together with its wholly-owned subsidiaries, files a consolidated federal income tax return. Tax returns for fiscal years 1998 and 1999 are currently being examined by the Internal Revenue Service. We do not believe any adjustments that may result will have a significant impact on our consolidated operating results or financial position. Examinations for the 1996 and 1997 tax years have been completed and did not have a significant impact on our consolidated operating results or financial position.

## [ 11 ] COMMITMENTS AND CONTINGENCIES

*LEASES*

We lease facilities, computer hardware and other equipment under long-term operating leases that are non-cancelable and expire on various dates through 2011. Rent expense under all operating leases was $135 million in 2001, $132 million in 2000 and $129 million in 1999.

At December 31, 2001, future minimum annual lease payments, net of sublease income, under all noncancelable operating leases were as follows (in millions):

| 2002 | 2003 | 2004 | 2005 | 2006 | Thereafter |
|---|---|---|---|---|---|
| $ 99 | $ 90 | $ 77 | $ 68 | $ 60 | $ 224 |

*SERVICE AGREEMENTS*

In 1995 and 1996, we entered into three separate contracts for certain data center operations and support, and network and voice communication services, each with an approximate term of 10 years. Expenses incurred in connection with these agreements were $196 million in 2001, $182 million in 2000 and $172 million in 1999.

*LEGAL MATTERS*

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. These matters include: claims relating to health care benefits coverage; medical malpractice actions; allegations of anti-competitive and unfair business activities; disputes over compensation and termination of contracts including those with physicians and other health care providers; disputes related to our administrative services, including actions alleging claim administration errors and failure to disclose rate discounts and other fee and rebate arrangements; disputes over benefit copayment calculations; claims related to disclosure of certain business practices; and claims relating to customer audits and contract performance.

In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO). Although the results of pending litigation are always uncertain, we do not believe the results of any such actions, including those described above, currently threatened or pending will, individually or in aggregate, have a material adverse effect on our results of operations or financial position.

*GOVERNMENT REGULATION*

Our business is regulated domestically at federal, state and local levels, and internationally. The laws and rules governing our business are subject to frequent change, and agencies have broad latitude to administer those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability related to coverage interpretations or other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We are also subject to various governmental reviews, audits and investigations. However, we do not believe the results of any of the current audits, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations.

## [ 12 ] SEGMENT FINANCIAL INFORMATION

Factors used in determining our reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the company's chief operating decision-maker to evaluate our results of operations.

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments principally consist of customer service and claim processing services Uniprise provides to UnitedHealthcare, certain product offerings sold to Uniprise and UnitedHealthcare customers by Specialized Care Services, and sales of medical benefits cost, quality and utilization data and predictive modeling to UnitedHealthcare by Ingenix. These transactions are recorded at management's best estimate of fair value, as if the services were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. Assets and liabilities that are jointly used are assigned to each segment using estimates of pro-rata usage. Cash and investments are assigned such that each segment has minimum specified levels of regulatory capital or working capital for non-regulated businesses. The "Corporate and Eliminations" column includes companywide costs associated with core process improvement initiatives, net expenses from charitable contributions to the UnitedHealth Foundation, and eliminations of intersegment transactions. In accordance with accounting principles generally accepted in the United States, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare and Ovations have been combined in the Health Care Services segment column in the tables presented on this page because both businesses have similar products and services, types of customers, distribution methods and operational processes, and both operate in a similar regulatory environment (in millions):

| | Health Care Services | Uniprise | Specialized Care Services | Ingenix | Corporate and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **2001** | | | | | | |
| **Revenues - External Customers** | **$ 20,259** | **$ 1,841** | **$ 734** | **$ 339** | **$ -** | **$23,173** |
| **Revenues - Intersegment** | **-** | **587** | **504** | **108** | **(1,199)** | **-** |
| **Investment and Other Income** | **235** | **34** | **16** | **-** | **(4)** | **281** |
| **Total Revenues** | **$ 20,494** | **$ 2,462** | **$ 1,254** | **$ 447** | **$ (1,203)** | **$23,454** |
| **Earnings From Operations** | **$ 944** | **$ 374** | **$ 214** | **$ 48** | **$ (14)** | **$ 1,566** |
| **Total Assets[1]** | **$ 9,014** | **$ 1,737** | **$ 848** | **$ 771** | **$ (200)** | **$12,170** |
| **Net Assets[1]** | **$ 3,408** | **$ 1,020** | **$ 514** | **$ 646** | **$ (158)** | **$ 5,430** |
| **Purchases of Property, Equipment and Capitalized Software** | **$ 152** | **$ 171** | **$ 33** | **$ 69** | **$ -** | **$ 425** |
| **Depreciation and Amortization** | **$ 101** | **$ 81** | **$ 33** | **$ 50** | **$ -** | **$ 265** |
| 2000 | | | | | | |
| Revenues — External Customers | $ 18,502 | $ 1,595 | $ 503 | $ 290 | $ – | $ 20,890 |
| Revenues — Intersegment | – | 520 | 461 | 85 | (1,066) | – |
| Investment and Other Income | 194 | 25 | 10 | – | 3 | 232 |
| Total Revenues | $ 18,696 | $ 2,140 | $ 974 | $ 375 | $ (1,063) | $ 21,122 |
| Earnings From Operations | $ 739 | $ 289 | $ 174 | $ 32 | $ (34) | $ 1,200 |
| Total Assets[1] | $ 8,118 | $ 1,578 | $ 525 | $ 730 | $ (133) | $ 10,818 |
| Net Assets[1] | $ 3,085 | $ 978 | $ 276 | $ 617 | $ (113) | $ 4,843 |
| Purchases of Property, Equipment and Capitalized Software | $ 88 | $ 94 | $ 28 | $ 35 | $ – | $ 245 |
| Depreciation and Amortization | $ 100 | $ 75 | $ 25 | $ 47 | $ – | $ 247 |
| 1999 | | | | | | |
| Revenues — External Customers | $ 17,419 | $ 1,398 | $ 328 | $ 198 | $ – | $ 19,343 |
| Revenues — Intersegment | – | 445 | 393 | 59 | (897) | – |
| Investment and Other Income | 162 | 22 | 5 | 1 | 29 | 219 |
| Total Revenues | $ 17,581 | $ 1,865 | $ 726 | $ 258 | $ (868) | $ 19,562 |
| Earnings From Operations | $ 578 | $ 222 | $ 128 | $ 25 | $ (10) | $ 943 |
| Total Assets[1] | $ 7,364 | $ 1,411 | $ 446 | $ 683 | $ 206 | $ 10,110 |
| Net Assets[1] | $ 2,892 | $ 953 | $ 230 | $ 573 | $ 221 | $ 4,869 |
| Purchases of Property, Equipment and Capitalized Software | $ 69 | $ 71 | $ 28 | $ 28 | $ – | $ 196 |
| Depreciation and Amortization | $ 97 | $ 76 | $ 23 | $ 37 | $ – | $ 233 |

[1] Total Assets and Net Assets exclude, where applicable, debt and accrued interest of $1,603 million, $1,222 million and $1,002 million, income tax-related assets of $316 million, $235 million and $163 million, and income tax-related liabilities of $252 million, $168 million and $167 million as of December 31, 2001, 2000 and 1999, respectively.

## [ 13 ] QUARTERLY FINANCIAL DATA (UNAUDITED)

| (In millions, except per share data) | For the Quarter Ended March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| **2001** | | | | |
| **Revenues** | **$ 5,680** | **$ 5,813** | **$ 5,941** | **$ 6,020** |
| **Medical and Operating Expenses** | **$ 5,315** | **$ 5,429** | **$ 5,545** | **$ 5,599** |
| **Earnings From Operations** | **$ 365** | **$ 384** | **$ 396** | **$ 421** |
| **Net Earnings** | **$ 212** | **$ 223** | **$ 231** | **$ 247** |
| **Basic Net Earnings per Common Share** | **$ 0.67** | **$ 0.71** | **$ 0.75** | **$ 0.79** |
| **Diluted Net Earnings per Common Share** | **$ 0.64** | **$ 0.68** | **$ 0.71** | **$ 0.76** |
| 2000 | | | | |
| Revenues | $ 5,099 | $ 5,220 | $ 5,369 | $ 5,434 |
| Medical and Operating Expenses | $ 4,826 | $ 4,932 | $ 5,060 | $ 5,104 |
| Earnings From Operations | $ 273 | $ 288 | $ 309 | $ 330 |
| Net Earnings | $ 174[1] | $ 170 | $ 182 | $ 210[2] |
| Basic Net Earnings per Common Share | $ 0.53 | $ 0.52 | $ 0.56 | $ 0.66 |
| Diluted Net Earnings per Common Share | $ 0.52[1] | $ 0.50 | $ 0.54 | $ 0.63[2] |

1 Includes a $14 million, net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, Net Earnings and Diluted Net Earnings per Common Share were $160 million and $0.48 per share, respectively.

2 Includes a $27 million gain ($17 million after tax) related to the disposition of UnitedHealth Capital investments. Excluding this gain, Net Earnings and Diluted Net Earnings per Common Share were $193 million and $0.58 per share, respectively.

## REPORT OF MANAGEMENT

The management of UnitedHealth Group is responsible for the integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related information were prepared according to accounting principles generally accepted in the United States and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the company, meets periodically and privately with the company's independent public accountants and management to review accounting, auditing, internal control, financial reporting and other matters.

**William W. McGuire, MD**
Chairman and Chief Executive Officer

**Stephen J. Hemsley**
President and Chief Operating Officer

**Patrick J. Erlandson**
Chief Financial Officer

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and
Directors of UnitedHealth Group Incorporated:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

*ARTHUR ANDERSEN LLP*
Minneapolis, Minnesota
January 24, 2002

## CORPORATE AND BUSINESS LEADERS

### UnitedHealth Group

**William W. McGuire, MD**
Chairman and Chief Executive Officer

**Stephen J. Hemsley**
President and Chief Operating Officer

**Patrick J. Erlandson**
Chief Financial Officer

**David J. Lubben**
General Counsel

**Jeannine M. Rivet**
Executive Vice President

**James B. Hudak**
Chief Executive Officer
UnitedHealth Technologies

**Reed V. Tuckson, MD**
Senior Vice President
Consumer Health and
Medical Care Advancement

**L. Robert Dapper**
Senior Vice President
Human Capital

**John S. Penshorn**
Director of Capital Markets
Communications and Strategy

### UnitedHealthcare

**Robert J. Sheehy**
Chief Executive Officer

### Ovations

**Lois Quam**
Chief Executive Officer

### Uniprise

**R. Channing Wheeler**
Chief Executive Officer

### Specialized Care Services

**Ronald B. Colby**
Chief Executive Officer

### Ingenix

**Jeannine M. Rivet**
Chief Executive Officer

## BOARD OF DIRECTORS

**William C. Ballard, Jr.**
Of Counsel
Greenebaum, Doll & McDonald
Louisville, Kentucky, law firm

**Richard T. Burke**
Former Chief Executive Officer
and Governor
Phoenix Coyotes
National Hockey League team

**Stephen J. Hemsley**
President and
Chief Operating Officer
UnitedHealth Group

**James A. Johnson**
Vice Chairman
Perseus, LLC
Private merchant banking
and investment firm

**Thomas H. Kean**
President
Drew University

**Douglas W. Leatherdale**
Former Chairman and
Chief Executive Officer
The St. Paul Companies, Inc.
Insurance and related services

**William W. McGuire, MD**
Chairman and
Chief Executive Officer
UnitedHealth Group

**Walter F. Mondale**
Partner
Dorsey & Whitney LLP
Minneapolis, Minnesota, law firm

**Mary O. Mundinger, RN, DrPH**
Dean and Centennial Professor in
Health Policy, School of Nursing, and
Associate Dean, Faculty of Medicine
Columbia University

**Robert L. Ryan**
Senior Vice President and
Chief Financial Officer
Medtronic, Inc.
Medical technology company

**Donna E. Shalala, PhD**
President
University of Miami

**William G. Spears**
Managing Partner
Spears Grisanti &
Brown LLC
New York City-based investment
counseling and management firm

**Gail R. Wilensky, PhD**
Senior Fellow
Project HOPE
International health foundation

### Audit Committee

**William C. Ballard, Jr.**
**James A. Johnson**
**Douglas W. Leatherdale**
**Robert L. Ryan**

### Compensation and Human Resources Committee

**Thomas H. Kean**
**Mary O. Mundinger**
**William G. Spears**

### Compliance and Government Affairs Committee

**Richard T. Burke**
**Walter F. Mondale**
**Gail R. Wilensky**

### Executive Committee

**William C. Ballard, Jr.**
**Douglas W. Leatherdale**
**William W. McGuire**
**William G. Spears**

### Nominating Committee

**William C. Ballard, Jr.**
**Thomas H. Kean**
**Douglas W. Leatherdale**
**William W. McGuire**
**William G. Spears**

*FINANCIAL PERFORMANCE AT A GLANCE*

| GROWTH & PROFITS - CONSOLIDATED[1] (in millions, except per share data) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues | **$ 23,454** | $ 21,122 | $ 19,562 |
| Continuing Markets Revenue Growth Rate | **15%** | 12% | 13% |
| Earnings From Operations | **$ 1,566** | $ 1,200 | $ 943 |
| Operating Margin | **6.7%** | 5.7% | 4.8% |
| Return on Net Assets | **30.7%** | 25.5% | 19.8% |
| Net Earnings | **$ 913** | $ 705 | $ 563 |
| Net Margin | **3.9%** | 3.3% | 2.9% |
| Diluted Net Earnings per Share | **$ 2.79** | $ 2.10 | $ 1.59 |

| GROWTH & PROFITS - BY SEGMENT (in millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| **HEALTH CARE SERVICES** | | | |
| Revenues | **$ 20,494** | $ 18,696 | $ 17,581 |
| Earnings From Operations | **$ 944** | $ 739 | $ 578 |
| Operating Margin | **4.6%** | 4.0% | 3.3% |
| Return on Net Assets | **29.2%** | 24.6% | 20.6% |
| **UNIPRISE** | | | |
| Revenues | **$ 2,462** | $ 2,140 | $ 1,865 |
| Earnings From Operations | **$ 374** | $ 289 | $ 222 |
| Operating Margin | **15.2%** | 13.5% | 11.9% |
| Return on Net Assets | **37.2%** | 30.6% | 22.6% |
| **SPECIALIZED CARE SERVICES** | | | |
| Revenues | **$ 1,254** | $ 974 | $ 726 |
| Earnings From Operations | **$ 214** | $ 174 | $ 128 |
| Operating Margin | **17.1%** | 17.9% | 17.6% |
| Return on Net Assets | **59.1%** | 68.8% | 80.0% |
| **INGENIX** | | | |
| Revenues | **$ 447** | $ 375 | $ 258 |
| Earnings From Operations | **$ 48** | $ 32 | $ 25 |
| Operating Margin | **10.7%** | 8.5% | 9.7% |
| Return on Net Assets | **7.5%** | 5.2% | 5.4% |

| CAPITAL ITEMS (in millions, except per share data) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash Flows From Operating Activities | **$ 1,844** | $ 1,521 | $ 1,189 |
| Capital Expenditures | **$ 425** | $ 245 | $ 196 |
| Consideration Paid or Issued for Acquisitions | **$ 255** | $ 76 | $ 334 |
| Debt to Total Capital | **28.9%** | 24.7% | 20.4% |
| Return on Shareholders' Equity | **24.5%** | 19.0% | 14.1% |
| Year-End Market Capitalization | **$ 21,841** | $ 19,470 | $ 8,896 |
| Year-End Common Share Price | **$ 70.77** | $ 61.38 | $ 26.56 |

[1] Excludes nonrecurring items in 1999 and 2000, as described in footnotes 1 and 2 at the bottom of page 22.

### *Market Price of Common Stock*

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange for the calendar periods shown through February 25, 2002. These prices do not include commissions or fees associated with purchasing or selling this security.

| | High | Low |
|---|---|---|
| 2002 | | |
| First Quarter | | |
| Through February 25, 2002 | $ 75.75 | $ 68.52 |
| 2001 | | |
| First Quarter | $ 64.36 | $ 50.50 |
| Second Quarter | $ 67.40 | $ 52.50 |
| Third Quarter | $ 70.00 | $ 58.80 |
| Fourth Quarter | $ 72.80 | $ 62.42 |
| 2000 | | |
| First Quarter | $ 32.33 | $ 23.18 |
| Second Quarter | $ 44.50 | $ 28.88 |
| Third Quarter | $ 50.56 | $ 39.06 |
| Fourth Quarter | $ 63.44 | $ 48.63 |

As of February 25, 2002, the company had 12,970 shareholders of record.

### *Account Questions*

Our transfer agent, Wells Fargo, can help you with a variety of shareholder-related services, including:

Change of address
Lost stock certificates
Transfer of stock to another person
Additional administrative services

You can call our transfer agent at (800) 468-9716 or locally at (651) 450-4064.

You can write them at:

Wells Fargo Shareowner Services
P.O. Box 64854
Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at:

stocktransfer@wellsfargo.com

### *Investor Relations*

You can contact UnitedHealth Group Investor Relations any time to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:

Investor Relations, MN008-T930
UnitedHealth Group
P.O. Box 1459
Minneapolis, Minnesota 55440-1459

### *Annual Meeting*

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 15, 2002, at 10 a.m., at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

### *Dividend Policy*

UnitedHealth Group's dividend policy was established by its board of directors in August 1990. The policy requires the board to review the company's audited financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 2, 2001, received an annual dividend for 2001 of $0.03 per share. On February 12, 2002, the board of directors approved an annual dividend for 2002 of $0.03 per share. The dividend will be paid on April 17, 2002, to shareholders of record at the close of business on April 1, 2002.

### *Stock Listing*

The company's common stock is traded on the New York Stock Exchange under the symbol UNH.

### *Information Online*

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at:

www.unitedhealthgroup.com