1999 Financial Performance Highlights

1999 was the strongest year in the history of UnitedHealth Group, resulting from business growth and continued productivity improvements. Financial performance highlights include[1]:

- Record earnings from operations, net earnings applicable to common shareholders, and diluted net earnings per common share of $943 million, $568 million and $3.20 per share, respectively, representing increases over 1998 of 10%, 12% and 22%, respectively.
- Record revenues of $19.6 billion, a 13% increase over 1998.
- Segment operating earnings of $953 million, up 20% over 1998, with each segment delivering strong year-over-year gains.
- Record cash flows of $1.2 billion generated from operating activities, an 11% increase over 1998.
- Continued financing initiatives to achieve a more efficient capital structure, including the repurchase of 19.4 million shares of our common stock.
- 1999 return on equity of 14.1%, up from 11.9% in 1998.

[1] Where applicable, 1998 results exclude special operating charges.

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

(in millions, except per share data)	For the Year Ended December 31, 1999	1998	1997	1996	1995
Consolidated Operating Results					
Revenues	**$ 19,562**	$ 17,355	$ 11,794	$ 10,074	$ 5,671
Earnings (Loss) From Operations	**$ 943**	$ (42)[1]	$ 742	$ 581[2]	$ 461[3]
Net Earnings (Loss)	**$ 568**	$ (166)	$ 460	$ 356[2]	$ 286[3]
Net Earnings (Loss) Applicable to Common Shareholders	**$ 568**	$ (214)[1]	$ 431	$ 327	$ 279
Basic Net Earnings (Loss) per Common Share	**$ 3.26**	$ (1.12)	$ 2.30	$ 1.80	$ 1.61
Diluted Net Earnings (Loss) per Common Share	**$ 3.20**	$ (1.12)[1]	$ 2.26	$ 1.76[2]	$ 1.57[3]
Common Stock Dividends per Share	**$ 0.03**	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Consolidated Cash Flows From Operating Activities	**$ 1,189**	$ 1,071	$ 683	$ 562	$ 435
Consolidated Financial Condition (As of December 31)					
Cash and Investments	**$ 4,719**	$ 4,424	$ 4,041	$ 3,453	$ 3,078
Total Assets	**$ 10,273**	$ 9,675	$ 7,623	$ 6,997	$ 6,161
Debt	**$ 991**	$ 708[4]	$ –	$ –	$ –
Convertible Preferred Stock	**$ –**	$ –[4]	$ 500	$ 500	$ 500
Shareholders' Equity	**$ 3,863**	$ 4,038	$ 4,534	$ 3,823	$ 3,188

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

[1] 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 $2.62 diluted net earnings per common share.

[2] Excluding the merger costs associated with the acquisition of HealthWise of America, Inc. of $15 million ($9 million after tax, or $0.05 diluted net earnings per common share) and the provision for future losses on two large multi-year contracts of $45 million ($27 million after tax, or $0.15 diluted net earnings per common share), 1996 earnings from operations and net earnings would have been $641 million and $392 million, or $1.96 diluted net earnings per common share.

[3] Excluding restructuring charges associated with the acquisition of The MetraHealth Companies, Inc. of $154 million ($97 million after tax, or $0.55 diluted net earnings per common share), 1995 earnings from operations and net earnings would have been $615 million and $383 million, or $2.12 diluted net earnings per common share.

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

1999 Results Compared to 1998 Results
Consolidated Financial Results

Revenues

Revenues are comprised of: 1) premium revenues associated with risk-based products (those where we assume financial responsibility for health care costs); 2) management services and fees associated with administrative services, managed health plans, and our Specialized Care Services and Ingenix businesses; and 3) investment and other income.

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 driven by UnitedHealthcare's average year-over-year premium yield increases on risk-based commercial groups of approximately 9%. The balance of the increase is attributable to growth in individuals served by United Behavioral Health, and our acquisitions of HealthPartners of Arizona, Inc. in October 1998 and Dental Benefit Providers, Inc. in June 1999.

Management Services and Fee Revenues

Management services and fee revenues in1999 totaled $1.8 billion, representing an increase of $203 million, or 13%, over 1998. The overall increase in management services and fee revenues is 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 as opposed 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, excluding the gain on the transfer of Healtheon Corporation (Healtheon) common stock to UnitedHealth Foundation (see Note 7 to the financial statements). For the year ended December 31, 1998, we realized net capital gains of $26 million.

Operating Expenses

Medical Costs

The combination of our 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 87.2% in 1998 to 85.7% in 1999. 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 of $1.5 billion, or 11%, in medical costs over 1998 is driven by a combination of growth in individuals served with risk-based products, medical cost inflation, benefit changes and product mix changes.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses as a percent of total revenues (the operating cost ratio) was 17.1% in 1999, consistent with 1998. SG&A reductions in 1999 were partially offset by $39 million of incremental expenses over 1998 expense levels related to core process improvement initiatives and platform system conversions. Additionally, changes in revenue mix affect our operating cost ratio. Our fastest growing businesses (Uniprise, Specialized Care Services and Ingenix) maintain proportionately higher SG&A costs as the majority of their direct costs of revenue are included in SG&A expenses, not medical costs. On a comparable revenue mix basis, the operating cost ratio would have decreased 30 basis points to 16.8%.

On an absolute dollar basis, SG&A expenses 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 core process improvement expenses described above.

Depreciation and Amortization

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

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 (Loss) from Operations

		1998		
	1999	Reported	Adjusted (a)	Percent Change (b)
Health Care Services	$ 578	$ (46)	$ 503	15%
Uniprise	222	10	161	38%
Specialized Care Services	128	14	109	17%
Ingenix	25	(66)	20	25%
Total Operating Segments	953	(88)	793	20%
Corporate and Eliminations	(10)	46	65	nm
Consolidated Earnings (Loss) from Operations	$ 943	$ (42)	$ 858	10%

(a) 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.
(b) Calculated as percentage change between 1999 results and 1998 results, as adjusted.
nm — not meaningful

Health Care Services

The Health Care Services segment consists of the UnitedHealthcare and Ovations businesses. UnitedHealthcare designs and operates network-based health and well-being services, including commercial, Medicare and Medicaid products for locally based employers and individuals in six broad regional markets. Ovations, which administers Medicare Supplement benefits on behalf of AARP (American Association of Retired Persons), offers health and well-being services for Americans age 50 and older.

The Health Care Services segment posted record revenues of $17,581 million, representing an increase of $1,969 million, or 13%, over 1998. This increase is primarily attributable to UnitedHealthcare's average net premium yield increases on commercial business of approximately 9% and the acquisition of HealthPartners of Arizona, Inc. in October 1998.

The Health Care Services segment contributed earnings from operations of $578 million in 1999, an increase of $75 million, or 15%, over 1998. The 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 realignment process improvement initiatives.

The following table summarizes UnitedHealthcare's medical care ratios by product line for the years ended December 31:

		1998	
	1999	Reported	Adjusted (a)
UnitedHealthcare			
Commercial	84.6%	85.6%	84.9%
Medicare	89.6%	92.0%	87.0%
Medicaid	86.3%	85.2%	85.2%

(a) Excludes the effects of $175 million of contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.

UnitedHealthcare's commercial medical care ratio improved on a year-over-year basis, driven by net premium yield increases in excess of underlying medical costs. Commercial health plan premium rates are established based on anticipated benefit costs. During 1999, our total cost of benefits, including the effects of medical cost inflation, benefit changes and product mix, increased at a rate of approximately 8% while average premium yield increases were approximately 9%. For 2000, we are pricing renewal commercial business with average 9% to 10% premium yield increases, while our projected total cost of benefits increase is 8.0% to 8.5%.

UnitedHealthcare's Medicare medical care ratio increased in 1999 compared to 1998 (excluding 1998 special charges). We continue to evaluate Medicare markets and alter benefit designs to further improve our Medicare product margins.

Our year-over-year Medicare enrollment decreased 9% as a result of actions taken to better position this program for long-term success. Effective January 1, 1999, we withdrew Medicare+Choice product offerings from 86 counties, affecting approximately 60,000, or 12%, of our Medicare members as of December 31, 1998. On July 1, 1999, we announced plans to withdraw, effective January 1, 2000, from the Medicare+Choice product program in another 49 counties affecting 40,000 existing members, and also filed significant benefit adjustments. Annual revenues for 1999 from the Medicare markets we exited effective January 1, 2000, were approximately $230 million. These actions are expected to further reduce Medicare enrollment, but better position this program in the long term in terms of profitability relative to its cost of capital and required resource management.

We will continue to evaluate the markets we serve and, where necessary, take actions that may result in further withdrawals of Medicare product offerings or reductions in membership, when and as permitted by our contracts with the Health Care Financing Administration (HCFA).

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

	1999	1998
Commercial		
Risk-based	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 located in Puerto Rico and Pacific Coast regions. The company is transitioning these markets.

Uniprise

Uniprise provides network-based health and well-being services, business-to-business transactional infrastructure services, consumer connectivity and service, and technology support for large employers and health plans. Uniprise's revenues increased by $241 million, or 15%, over 1998 driven primarily by continued growth in its large multi-site customer base, as demonstrated by 11% growth in individuals served, and price increases on fee-based business. Uniprise served 5,980,000 and 5,400,000 individuals as of December 31, 1999 and 1998, respectively. 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 risk-based products.

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 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, our mental health and substance abuse services business, 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

Ingenix is a leading health care information and research company that offers a comprehensive line of health care knowledge and information products and services to pharmaceutical companies, health insurers and payers, care providers, large employers and governments. 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 increased by 25% compared with 1998.

Corporate and Eliminations

Corporate includes investment income derived from cash and investments not assigned to operating segments and the company-wide costs associated with core process improvement initiatives. The decrease of $75 million in 1999 Corporate earnings is attributable to $39 million of incremental core process improvement costs over 1998 levels and a decline in the level of unassigned cash and investments and associated investment income, primarily resulting 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.

The asset impairments consisted principally of: 1) purchased in-process research and development associated with our acquisition of Medicode, Inc; 2) goodwill and other long-lived assets including fixed assets, computer hardware and software, and leasehold improvements associated with businesses we intend to dispose of or markets where we plan to curtail operations or change our operating presence; and 3) other realignment initiatives. 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, 1999, we had eliminated approximately 3,900 positions, affecting approximately 3,700 people, pursuant to the Plan. The remaining positions are expected to be eliminated by December 31, 2000.

In August 1999, we completed the sale of our managed workers' compensation business. During the second half of 1998 and the first half of 1999, we also completed the sale of our medical provider clinics and reconfigured our small group insurance business and a non-strategic health plan market. The balances accrued in our operational realignment and other charges were sufficient to cover actual costs associated with the disposition and reconfiguration of these businesses.

Remaining markets where we plan to curtail or make changes to our operating presence include two health plan markets that are in non-strategic markets. In Puerto Rico, we expect to complete the sale of this business prior to April 30, 2000. In the Pacific Coast region, we will be exiting our operations related to small and mid-sized customer groups with anticipated completion in 2000. We believe the balances accrued in our operational realignment and other charges will be sufficient to cover expenses incurred in the sale and exit of these markets.

Our accompanying financial statements include the operating results of businesses and markets to be disposed of or discontinued in connection with the operational realignment. The carrying value of the net assets held for sale or disposal was approximately $20 million as of December 31, 1999. Our accompanying Consolidated Statements of Operations for the years ended December 31, 1999 and 1998, include revenues of $689 million and $964 million, respectively, and losses from operations of $41 million and $52 million, respectively, from businesses disposed of or to be disposed of and markets we plan to exit.

The revenues and operating losses described above do not include operating results from the counties where we withdrew our Medicare product offerings, effective January 1, 1999, and where we are withdrawing our Medicare product offerings, effective January 1, 2000. Annual revenues for 1998 for Medicare counties we exited in January 1999 were approximately $225 million. Annual revenues for 1999 from the Medicare counties we are exiting in January 2000 were approximately $230 million.

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

The Plan provided for 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 in order to complete them in the most effective manner and will extend through 2000. 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, lease obligations on exited facilities, and losses on disposition of businesses.

The table below summarizes accrued operational realignment and other charges through December 31, 1999 (in millions):

	Asset Impairments	Severance and Outplacement Costs	Noncancelable Lease Obligations	Disposition of Business 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**

1998 Results Compared to 1997 Results

Consolidated Financial Results

Revenues

Premium Revenues

Consolidated premium revenues in 1998 totaled $15.5 billion, an increase of $5.4 billion, or 53%, compared to 1997. On January 1, 1998, our Health Care Services' Ovations business began delivering Medicare Supplement insurance and other medical insurance coverage to approximately 4 million AARP members. Premium revenues from our portion of the AARP insurance offerings during 1998 were $3.5 billion.

Excluding the AARP business, 1998 consolidated premium revenues totaled $12 billion, an increase of 19% over 1997. This increase was primarily the result of growth in our Health Care Services' UnitedHealthcare business. On a year-over-year same-store basis, UnitedHealthcare's premium revenues increased $1.7 billion, or 18%, during 1998. The increase reflected same-store commercial health plan enrollment growth of 10% and average year-over-year premium yield increases on renewing commercial health plan groups of approximately 5% to 6%.

Growth in UnitedHealthcare's Medicare programs also contributed to the increase in premium revenues, with same-store growth of 33% in Medicare enrollment. Significant growth in Medicare enrollment affects year-over-year comparability. The Medicare product generally has per member premium rates three to four times higher than average commercial premium rates because Medicare members typically use proportionately more medical services. On a year-over-year, same-store basis, UnitedHealthcare's commercial health plan and Medicare products accounted for $1.8 billion of premium revenue growth during 1998.

Management Services and Fee Revenues

Management services and fee revenues during 1998 totaled $1.6 billion, representing an increase of approximately $160 million over 1997. The increase was primarily the result of acquisitions by Ingenix during 1997 and 1998. Additionally, our Specialized Care Services business — most notably in United Behavioral Health and Optum®, our telephone- and Internet-based health information and services business — increased the number of individuals it serves.

Investment and Other Income

Investment and other income increased to $249 million in 1998 from $231 million in 1997. The increase of $18 million was primarily attributable to an increase in average cash and investments from $3.6 billion in 1997 to $4.1 billion in 1998. Net realized capital gains were $26 million in both 1998 and 1997.

Operating Expenses

Medical Costs

The following table summarizes our medical care ratio by product line for the years ended December 31:

	1998		
	Reported	Adjusted[1]	1997
UnitedHealthcare:			
Commercial	85.6%	84.9%	85.7%
Medicare	92.0%	87.0%	83.3%
Medicaid	85.2%	85.2%	82.8%
Consolidated UnitedHealth Group	87.2%	86.0%	84.3%
Consolidated (excluding AARP)	85.8%	84.3%	84.3%

[1] Excludes the effects of contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.

Our consolidated medical care ratio increased to 87.2% in 1998 from 84.3% in 1997. The year-over-year increase includes the effects of the AARP business on our medical care ratio. We experience a medical care ratio of approximately 92% related to our portion of the AARP insurance offerings, which we began delivering on January 1, 1998. Excluding the AARP business, on a year-over-year basis, the medical care ratio increased to 85.8%.

The increase in the 1998 medical care ratio was primarily due to average Medicare premium rate increases of 2.5%, which were more than offset by increased medical utilization reflected mostly in hospital costs. In 13 of our 24 Medicare markets, representing half of our annual Medicare premiums of $2.4 billion, we incurred contract losses of $111 million. Six of these 13 markets were generally newer markets where we had been unable to achieve the scale of operations necessary to achieve profitability. In numerous counties in the other seven markets, we experienced increased medical costs that exceeded the fixed Medicare premiums, which only increased 2.5% on average.

Despite increasing commercial medical cost trends in certain health plan markets, UnitedHealthcare's commercial medical care ratio improved slightly to 85.6% in 1998 from 85.7% in 1997.

Selling, General and Administrative Expenses
Selling, general and administrative expenses as a percent of total revenues (the operating cost ratio) decreased from 20.0% in 1997 to 17.1% in 1998. The improvement in the year-over-year operating cost ratio principally reflected the operating leverage we gained with the addition of the AARP business. On an absolute dollar basis, selling, general and administrative costs increased by $600 million, or 25%, over 1997. The increase primarily reflected the additional infrastructure needed to support the $5.4 billion, or 53%, increase in premium-based business.

Depreciation and Amortization
Depreciation and amortization was $185 million in 1998, and $146 million in 1997. This increase resulted from a combination of higher levels of capital expenditures to support business growth and amortization of goodwill and other intangible assets related to recent acquisitions.

Financial Condition and Liquidity at December 31, 1999
During 1999, we generated $1.2 billion in cash from operating activities. We continued to maintain a strong financial condition and liquidity position, with cash and investments of $4.7 billion at December 31, 1999, an increase of $295 million from December 31, 1998.

Cash and investments included $484 million and $111 million of equity securities as of December 31, 1999 and 1998, respectively. The increase in equity securities is primarily attributable to unrealized gains of $318 million during 1999, largely resulting from our investment in Healtheon common stock, which increased in value subsequent to Healtheon's initial public stock offering in February 1999.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations. After taking into account these regulations, approximately $300 million (excluding equity securities of $484 million) of our $4.7 billion of cash and investments at December 31, 1999, was available for general corporate use, including share repurchases, acquisitions and working capital needs. Of this amount, approximately $200 million was maintained at year-end as part of our Year 2000 risk mitigation planning. Our operating cash flows and financing capability also provide us with funds, as needed, for general corporate use.

During 1999, we issued commercial paper and, as of December 31, 1999, we had $591 million outstanding, with interest rates ranging from 5.5% to 6.3%.

In November 1999, we also issued a $150 million two-year floating rate note. The interest rate for the initial three-month period is 6.65%.

We used the proceeds from the commercial paper and the floating rate note to repay $400 million of unsecured notes in December 1999.

In August 1999, we increased our commercial paper program and our supporting credit arrangements with a group of banks to an aggregate of $900 million. The supporting credit arrangements are composed of a $300 million revolving credit facility, expiring in December 2003, and a $600 million 364-day facility, expiringin August 2000. We also have the capacity to issue approximately $180 million of extendible commercial notes (ECNs). At December 31, 1999, we had no amounts outstanding under our credit facilities or ECN programs.

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 Duff & Phelps, and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by Standard & Poor's, "D-1" by Duff & Phelps, and "P-2" by Moody's.

The aggregate issuing capacity of all securities covered by shelf registration statements for common stock, preferred stock, debt securities and other securities is $1.25 billion. 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 1999, we repurchased 19.4 million shares for an aggregate of $983 million. Since inception of our stock repurchase activities in November 1997 and through December 31, 1999, we have repurchased 30.9 million shares for an aggregate of $1.4 billion. As of December 31, 1999, we have board of directors' authorization to purchase up to an additional 13.9 million shares of our common stock.

In the second quarter of 1998, we recognized special charges to operations of $725 million associated with implementing our operational realignment plan. We believe our remaining after-tax cash outlay associated with these charges will be approximately $80 million over the next 12 months.

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 ($2.6 billion as of December 31, 1999) is classified as available for sale. Subject to the previously described regulations, these investments may be sold prior to their maturity 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 using a portion of our investment in Healtheon common stock valued at approximately $50 million. 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 (HMOs) and insurance companies. HMOs and insurance 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 regulated insurance and HMO companies, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus.

As of December 31, 1999, our regulated subsidiaries had aggregate statutory capital and surplus of approximately $1.5 billion, compared with their aggregate minimum statutory capital and surplus requirements of approximately $350 million.

The National Association of Insurance Commissioners has adopted rules which, to the extent that they are implemented by the states, will set new minimum capitalization requirements for insurance companies, HMOs and other entities bearing risk for health care coverage. The requirements take the form of risk-based capital rules. The change in rules for insurance companies was effective December 31, 1998. The new HMO rules are subject to state-by-state adoption, but not many states had adopted the rules as of December 31, 1999. The HMO rules, if adopted by the states in their proposed form, would significantly increase the minimum capital required for certain of our subsidiaries. However, we believe we can redeploy capital among our regulated entities to minimize the need for incremental capital investment of general corporate financial resources into regulated subsidiaries. As such, we do not anticipate a significant impact on our aggregate capital or investments in 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 $4.2 billion of our cash and investments at December 31, 1999, 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 in rates applicable to our fixed income portfolio at December 31, 1999, the fair value of our fixed income investments would decrease by approximately $110 million.

As of December 31, 1999, we owned approximately 7.8 million shares of Healtheon common stock. With Healtheon's public stock offering in February 1999 and subsequent increases to the fair value of Healtheon's stock, we have recorded a $283 million unrealized gain, or $178 million net of income tax effects, in shareholders' equity as of December 31, 1999. Assuming an immediate decrease of 25% in Healtheon's stock price, the hypothetical reduction in shareholders' equity related to these holdings is estimated to be $45 million (net of income tax effects), or 1% of total shareholders' equity at December 31, 1999.

Inflation

Although the general rate of inflation has remained relatively stable and health care cost inflation has stabilized in recent years, the national health care cost inflation rate still 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, care coordination with various health care providers, and 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 and appropriate use of specialty and hospital services.

While we currently believe our strategies to mitigate health care cost inflation will continue to be successful, competitive pressures, new health care and pharmaceutical product introductions, demands from health care providers and customers, applicable regulations or other factors may affect our ability to control the impact of health care cost increases. In addition, certain non-network-based products do not have health care cost containment measures similar to those in place for network-based products. As a result, there is added health care cost inflation risk with these products, which constitute approximately 4% of our consolidated risk-based membership. We consider these inflation risks when determining prices for those products.

Year 2000 Infrastructure Modification Activities

Our Year 2000 infrastructure remediation efforts were successful and, during 2000, we have not experienced any business disruptions or system failures.

Legal Matters

See Note 13 to the accompanying consolidated financial statements for a discussion of legal matters.

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)	For the Year Ended December 31, 1999	1998	1997
Revenues			
Premiums	**$ 17,550**	$15,516	$ 10,135
Management Services and Fees	**1,793**	1,590	1,428
Investment and Other Income	**219**	249	231
Total Revenues	**19,562**	17,355	11,794
Operating Expenses			
Medical Costs	**15,043**	13,523	8,542
Selling, General and Administrative Expenses	**3,343**	2,964	2,364
Depreciation and Amortization	**233**	185	146
Operational Realignment and Other Charges	**–**	725	–
Total Operating Expenses	**18,619**	17,397	11,052
Earnings (Loss) From Operations	**943**	(42)	742
Interest Expense	**(49)**	(4)	–
Earnings (Loss) Before Income Taxes	**894**	(46)	742
Provision for Income Taxes	**(326)**	(120)	(282)
Net Earnings (Loss)	**568**	(166)	460
Convertible Preferred Stock Dividends and Redemption Premium	**–**	(48)	(29)
Net Earnings (Loss) Applicable To Common Shareholders	**$ 568**	$ (214)	$ 431
Basic Net Earnings (Loss) per Common Share	**$ 3.26**	$ (1.12)	$ 2.30
Diluted Net Earnings (Loss) per Common Share	**$ 3.20**	$ (1.12)	$ 2.26
Basic Weighted-Average Number of Common Shares Outstanding	**174.1**	190.6	187.0
Dilutive Effect of Outstanding Stock Options	**3.4**	–	3.8
Weighted-Average Number of Common Shares Outstanding, Assuming Dilution	**177.5**	190.6	190.8

See notes to consolidated financial statements.

(in millions, except share and per share data)	As of December 31, 1999	1998
Assets		
Current Assets		
Cash and Cash Equivalents	$ 1,605	$ 1,644
Short-Term Investments	546	170
Accounts Receivable, net of allowances of $117 and $64	912	965
Assets Under Management	1,328	1,155
Other Current Assets	177	320
Total Current Assets	4,568	4,254
Long-Term Investments	2,568	2,610
Property and Equipment, net of accumulated depreciation of $482 and $463	278	294
Goodwill and Other Intangible Assets, net of accumulated amortization of $376 and $258	2,859	2,517
Total Assets	$ 10,273	$ 9,675
Liabilities and Shareholders' Equity		
Current Liabilities		
Medical Costs Payable	$ 2,915	$ 2,780
Accounts Payable and Accrued Liabilities	1,003	949
Other Policy Liabilities	910	714
Short-Term Debt	591	459
Unearned Premiums	473	414
Total Current Liabilities	5,892	5,316
Long-Term Debt	400	249
Deferred Income Taxes and Other Liabilities	118	72
Commitments and Contingencies (*Note 13*)		
Shareholders' Equity		
Common Stock, $0.01 par value - 500,000,000 shares authorized; 167,470,000 and 183,930,000 issued and outstanding	2	2
Additional Paid-in Capital	249	1,107
Retained Earnings	3,447	2,885
Accumulated Other Comprehensive Income:		
Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects	165	44
Total Shareholders' Equity	3,863	4,038
Total Liabilities and Shareholders' Equity	$ 10,273	$ 9,675

See notes to consolidated financial statements.

(in millions, except per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Net Unrealized Holding Gains (Losses) on Investments Available for Sale	Total Shareholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 1996	185	$ 2	$ 1,148	$ 2,680	$ (7)	$ 3,823	
Issuance of Common Stock							
Stock Plans and Related Tax Benefits	3	–	116	–	–	116	
Acquisitions	3	–	144	–	–	144	
Stock Repurchases	–	–	(10)	–	–	(10)	
Comprehensive Income							
Net Earnings	–	–	–	460	–	460	$ 460
Other Comprehensive Income Adjustments							
Change in Net Unrealized Holding Gains (Losses) on Investments Available for Sale, net of income tax effects	–	–	–	–	36	36	36
Comprehensive Income	–	–	–	–	–	–	$ 496
Cash Dividends							
Common Stock ($0.03 per share)	–	–	–	(6)	–	(6)	
Convertible Preferred Stock ($57.50 per share)	–	–	–	(29)	–	(29)	
Balance at December 31, 1997	191	2	1,398	3,105	29	4,534	
Issuance of Common Stock							
Stock Plans and Related Tax Benefits	4	–	131	–	–	131	
Acquisitions	–	–	14	–	–	14	
Stock Repurchases	(11)	–	(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 ($0.03 per share)	–	–	–	(6)	–	(6)	
Convertible Preferred Stock ($56.03 per share)	–	–	–	(28)	–	(28)	
Convertible Preferred Stock Redemption Premium	–	–	–	(20)	–	(20)	
Balance at December 31, 1998	184	2	1,107	2,885	44	4,038	
Issuance of Common Stock							
Stock Plans and Related Tax Benefits	3	–	125	–	–	125	
Stock Repurchases	(20)	–	(983)	–	–	(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
Cash Dividends							
Common Stock ($0.03 per share)	–	–	–	(6)	–	(6)	
Balance at December 31, 1999	**167**	**$ 2**	**$ 249**	**$ 3,447**	**$ 165**	**$ 3,863**	

See notes to consolidated financial statements.

(in millions)	1999	For the Year Ended December 31, 1998	1997
Operating Activities			
Net Earnings (Loss)	$ 568	$ (166)	$ 460
Noncash Items			
Depreciation and Amortization	233	185	146
Deferred Income Taxes and Other	35	(184)	91
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	84	67	(84)
Medical Costs Payable	165	269	53
Accounts Payable and Other Current Liabilities	60	347	(30)
Unearned Premiums	44	102	47
Cash Flows From Operating Activities	1,189	1,071	683
Investing Activities			
Cash Paid for Acquisitions, net of cash assumed and other effects	(334)	(464)	–
Purchases of Property and Equipment and Capitalized Software	(196)	(210)	(187)
Proceeds from Sales of Property and Equipment and Disposition of Businesses	51	59	–
Purchases of Investments	(2,208)	(2,799)	(6,706)
Maturities/Sales of Investments	2,064	3,435	5,889
Cash Flows (Used For) From Investing Activities	(623)	21	(1,004)
Financing Activities			
Proceeds from Stock Option Exercises	102	84	79
Proceeds from Short-Term Borrowings, net of payments	132	459	–
Proceeds from Issuance of Long-Term Debt	150	249	–
Common Stock Repurchases	(983)	(436)	(10)
Redemption of Convertible Preferred Stock	–	(520)	–
Dividends Paid	(6)	(34)	(35)
Cash Flows (Used For) From Financing Activities	(605)	(198)	34
Increase (Decrease) in Cash and Cash Equivalents	(39)	894	(287)
Cash and Cash Equivalents, Beginning of Period	1,644	750	1,037
Cash and Cash Equivalents, End of Period	$ 1,605	$ 1,644	$ 750

See notes to consolidated financial statements.