

[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)	2001	For the Year Ended December 31,	
		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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized 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

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	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 consoli-

dated 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 Assets¹	\$ 9,014	\$ 1,737	\$ 848	\$ 771	\$ (200)	\$12,170
Net Assets¹	\$ 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