

*FINANCIAL REVIEW*

Focused business execution and  
sustained business management disciplines  
promote

MORE P R O D U C T I V E

products and services  
and help drive superior performance.

## RESULTS OF OPERATIONS

### 2001 FINANCIAL PERFORMANCE HIGHLIGHTS

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

- > Record revenues of \$23.5 billion, an 11% increase over 2000.
- > Record operating earnings of \$1.6 billion, up 31% over 2000, with each business segment delivering strong advances in year-over-year revenue and operating earnings.
- > Record net earnings of \$913 million and diluted net earnings per common share of \$2.79, representing increases over 2000 of 30% and 33%, respectively.
- > Record operating cash flows of more than \$1.8 billion, an increase of 21% over 2000.
- > Consolidated operating margin of 6.7%, up from 5.7% in 2000, driven by productivity gains, effective care facilitation efforts, and favorable mix shift from risk-based products to higher-margin, fee-based products.
- > Return on shareholders' equity of 24.5%, up from 19.0% in 2000.

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

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

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

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

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

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

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

<sup>4</sup> During 1998, we issued debt totaling \$708 million and redeemed \$500 million of convertible preferred stock.

na — not applicable

## 2001 RESULTS COMPARED TO 2000 RESULTS

### *CONSOLIDATED FINANCIAL RESULTS*

#### ***Revenues***

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

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

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

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

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

#### ***Medical Costs***

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

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

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

### *Operating Costs*

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

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

### *Depreciation and Amortization*

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

### *Income Taxes*

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

### *BUSINESS SEGMENTS*

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

REVENUES	2001	2000	Percent Change
Health Care Services	\$20,494	\$ 18,696	10%
Uniprise	2,462	2,140	15%
Specialized Care Services	1,254	974	29%
Ingenix	447	375	19%
Corporate and Eliminations	(1,203)	(1,063)	nm
Consolidated Revenues	\$23,454	\$ 21,122	11%
<b>EARNINGS FROM OPERATIONS</b>			
	2001	2000	Percent Change
Health Care Services	\$ 944	\$ 739	28%
Uniprise	374	289	29%
Specialized Care Services	214	174	23%
Ingenix	48	32	50%
Total Operating Segments	1,580	1,234	28%
Corporate	(14)	(34)	nm
Consolidated Earnings from Operations	\$ 1,566	\$ 1,200	31%

nm — not meaningful

### ***Health Care Services***

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

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

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

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

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

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

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

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

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

### ***Uniprise***

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

### ***Specialized Care Services***

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

### ***Ingenix***

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

### ***Corporate***

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

## 2000 RESULTS COMPARED TO 1999 RESULTS

### *CONSOLIDATED FINANCIAL RESULTS*

#### ***Revenues***

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

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

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

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

#### ***Medical Costs***

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

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

#### ***Operating Costs***

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

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

#### ***Depreciation and Amortization***

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

### ***Income Taxes***

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

### ***BUSINESS SEGMENTS***

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

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

  

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

nm — not meaningful

### ***Health Care Services***

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

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

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

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

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

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

### ***Uniprise***

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

### ***Specialized Care Services***

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

### ***Ingenix***

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

### ***Corporate***

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

## OPERATIONAL REALIGNMENT AND OTHER CHARGES

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

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

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

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

## FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2001

### *LIQUIDITY*

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

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

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

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

#### ***CASH AND INVESTMENTS***

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

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

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

#### ***FINANCING AND INVESTING ACTIVITIES***

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

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

Commercial paper outstanding at December 31, 2001, totaled \$684 million, with interest rates ranging from 1.9% to 2.7%. In November 2001, we issued \$100 million of floating-rate notes due November 2003 and \$150 million of floating-rate notes due November 2004. The interest rates on the notes are reset quarterly to

the three-month LIBOR (London Interbank Offered Rate) plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of December 31, 2001, the applicable rates on the notes were 2.4% and 2.7%, respectively. A portion of the proceeds from these borrowings was used to repay \$150 million of floating-rate notes that matured in November 2001.

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

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

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

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

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

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

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

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

### **CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

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

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

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

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

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

#### **AARP**

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

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

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

## REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### *MEDICAL COSTS*

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

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

### ***REVENUES***

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

### ***INVESTMENTS***

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

### ***LONG-LIVED ASSETS***

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

### ***CONTINGENT LIABILITIES***

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

## **INFLATION**

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

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

## **LEGAL MATTERS**

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

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

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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

## CONCENTRATIONS OF CREDIT RISK

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

## CAUTIONARY STATEMENT REGARDING "FORWARD-LOOKING" STATEMENTS

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See notes to consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**

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

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	For the Year Ended December 31,		
	2001	2000	1999
<b>OPERATING ACTIVITIES</b>			
Net Earnings	<b>\$ 913</b>	\$ 736	\$ 568
Noncash Items			
Depreciation and Amortization	<b>265</b>	247	233
Deferred Income Taxes and Other	<b>40</b>	73	35
Net Change in Other Operating Items, net of effects from acquisitions, sales of subsidiaries and changes in AARP balances			
Accounts Receivable and Other Current Assets	<b>7</b>	26	84
Medical Costs Payable	<b>156</b>	288	165
Accounts Payable and Accrued Liabilities	<b>280</b>	75	68
Other Policy Liabilities	<b>131</b>	87	(8)
Unearned Premiums	<b>52</b>	(11)	44
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>1,844</b>	1,521	1,189
<b>INVESTING ACTIVITIES</b>			
Cash Paid for Acquisitions, net of cash assumed and other effects	<b>(92)</b>	(76)	(334)
Purchases of Property, Equipment and Capitalized Software	<b>(425)</b>	(245)	(196)
Purchases of Investments	<b>(2,088)</b>	(3,022)	(2,208)
Maturities and Sales of Investments	<b>1,467</b>	2,375	2,115
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES</b>	<b>(1,138)</b>	(968)	(623)
<b>FINANCING ACTIVITIES</b>			
Proceeds from Common Stock Issuances	<b>178</b>	228	102
Proceeds from (Payments of) Commercial Paper, net	<b>275</b>	(182)	532
Proceeds from Issuance of Long-Term Debt	<b>250</b>	400	150
Payments for Retirement of Long-Term Debt	<b>(150)</b>	-	(400)
Common Stock Repurchases	<b>(1,129)</b>	(1,180)	(983)
Dividends Paid	<b>(9)</b>	(5)	(6)
<b>CASH FLOWS USED FOR FINANCING ACTIVITIES</b>	<b>(585)</b>	(739)	(605)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>121</b>	(186)	(39)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,419</b>	1,605	1,644
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,540</b>	\$ 1,419	\$ 1,605
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>			
Common Stock Issued for Acquisitions	<b>\$ 163</b>	\$ -	\$ -

See notes to consolidated financial statements.