

1 Description of Business

UnitedHealth Group Incorporated (also referred to as “UnitedHealth Group,” “the company,” “we,” “us,” and “our”) is a diversified health and well-being company dedicated to making health care work better. Through strategically aligned, market-defined businesses, we design products, provide services and apply technologies that improve access to health and well-being services, simplify the health care experience, promote quality and make health care more affordable.

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 of America and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

USE OF ESTIMATES

These consolidated financial statements include certain amounts that are based on our best estimates and judgments. These estimates require us to apply complex assumptions and judgments, often because we must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to medical costs, medical costs payable, contingent liabilities, intangible asset valuations, asset impairments and revenues. We adjust these estimates each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted.

REVENUES

Premium revenues are primarily derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers’ health care services and related administrative costs. We recognize premium revenues in the period in which eligible individuals are entitled to receive health care services. We record health care premium payments we receive from our customers in advance of the service period as unearned premiums.

Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. Under service fee contracts, we recognize revenue in the period the related services are performed based upon the fee charged to the customer. The customers retain the risk of financing medical benefits for their employees and their employees’ dependents, and we administer the payment of customer funds to physicians and other health care providers from customer-funded bank accounts. Because we do not have the obligation for funding the medical expenses, nor do we have responsibility for delivering the medical care, we do not recognize gross revenue and medical costs for these contracts in our consolidated financial statements.

For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services; transaction processing; customer, consumer and care provider services; and access to contracted networks of physicians, hospitals and other health care professionals.

MEDICAL COSTS AND MEDICAL COSTS PAYABLE

Medical costs and medical costs payable include estimates of our obligations for medical care services that have been rendered on behalf of insured consumers but for which we have either not yet received or processed claims, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, provider contract rate changes, medical care consumption and other medical cost trends. Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we increase or decrease the amount of the estimates, and include the changes in estimates in medical costs in the period in which the change is identified. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are highly liquid investments that generally have 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 maturities of less than one year are classified as short-term. We may sell investments classified as long-term before their maturities to fund working capital or for other purposes. Because of regulatory requirements, certain investments are included in long-term investments regardless of their maturity date. We classify these investments as held to maturity and report them at amortized cost. All other investments are classified as available for sale and reported at fair value based on quoted market prices.

We exclude unrealized gains and losses on investments available for sale from earnings and report it, net of income tax effects, as a separate component of shareholders' equity. We continually monitor the difference between the cost and estimated fair value of our investments. If any of our investments experiences a decline in value that is determined to be other than temporary, based on analysis of relevant factors, 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 or amortized cost of each investment sold.

ASSETS UNDER MANAGEMENT

We administer certain aspects of AARP's insurance program (see Note 11). 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. We do not guarantee any rates of return on these investments and, upon transfer of the AARP contract to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. Because the purpose of these assets is to fund the medical costs payable, the rate stabilization fund (RSF) liabilities and other related 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 the overall benefit of the AARP policyholders through the RSF. As such, they are not included in our earnings.

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 costs of materials and services and payroll costs of employees 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; from 35 to 40 years for buildings; the shorter of the useful life or 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, 2004, was approximately five years. The net book value of property and equipment was \$543 million and \$503 million as of December 31, 2004 and 2003, respectively. The net book value of capitalized software was \$596 million and \$529 million as of December 31, 2004 and 2003, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the amount by which the purchase price and transaction costs of businesses we have acquired exceed the estimated fair value of the net tangible assets and separately identifiable intangible assets of these businesses. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets with discrete useful lives are amortized on a straight-line basis over their estimated useful lives.

LONG-LIVED ASSETS

We review long-lived assets, including property, equipment, capitalized software and intangible assets, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider many factors, including estimated future utility and cash flows associated with the assets, to make this decision. An impairment charge is recorded for the amount by which an asset's carrying value exceeds its estimated fair value. 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 RSF associated with the AARP program (see Note 11), customer balances related to experience-rated insurance products and the current portion of future policy benefits for life insurance and annuity contracts. Customer balances represent excess customer payments and deposit accounts 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, excluding any deferred income tax assets and liabilities of acquired businesses. 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.

FUTURE POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

Future policy benefits for life insurance and annuity contracts represents account balances that accrue to the benefit of the policyholders, excluding surrender charges, for universal life and investment annuity products.

POLICY ACQUISITION COSTS

For our health insurance contracts, costs related to the acquisition and renewal of customer contracts are charged to expense as incurred. Our health insurance contracts typically have a one-year term and may be cancelled upon 30 days notice by either the company or the customer.

STOCK-BASED COMPENSATION

We account for activity under our stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, we do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices not less than the fair value of our common stock on the date of grant.

The following table shows the effect on net earnings and earnings per share had we applied the fair value expense recognition provisions of Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

<small>(in millions, except per share data)</small>	For the Year Ended December 31,		
	2004	2003	2002
NET EARNINGS			
As Reported	\$ 2,587	\$ 1,825	\$ 1,352
Compensation Expense, net of tax effect	(132)	(122)	(101)
Pro Forma	\$ 2,455	\$ 1,703	\$ 1,251
BASIC NET EARNINGS PER COMMON SHARE			
As Reported	\$ 4.13	\$ 3.10	\$ 2.23
Pro Forma	\$ 3.92	\$ 2.89	\$ 2.06
DILUTED NET EARNINGS PER COMMON SHARE			
As Reported	\$ 3.94	\$ 2.96	\$ 2.13
Pro Forma	\$ 3.74	\$ 2.76	\$ 1.97
WEIGHTED-AVERAGE FAIR VALUE PER SHARE OF OPTIONS GRANTED	\$ 19	\$ 11	\$ 14

Information on our stock-based compensation plans and data used to calculate compensation expense in the table above are described in more detail 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 potentially dilutive shares that might be issued upon exercise of common stock options.

DERIVATIVE FINANCIAL INSTRUMENTS

As part of our risk management strategy, we 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. Our existing interest rate swap agreements convert a portion of our interest rate exposure from a fixed to a variable rate and are accounted for as fair value hedges. Additional information on our existing interest rate swap agreements is included in Note 7.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (FAS No. 123(R)), which amends FASB Statement Nos. 123 and 95. FAS No. 123(R) requires all companies to measure compensation expense for all share-based payments (including employee stock options) at fair value and recognize the expense over the related service period. Additionally, excess tax benefits, as defined in FAS No. 123(R), will be recognized as an addition to paid-in capital and will be reclassified from operating cash flows to financing cash flows in the Consolidated Statements of Cash Flows. FAS No. 123(R) will be effective for the third quarter of 2005. We are currently evaluating the effect that FAS No. 123(R) will have on our financial position, results of operations and operating cash flows. We have included information regarding the effect on net earnings and net earnings per common share had we applied the fair value expense recognition provisions of the original FAS No. 123 within the "Stock-Based Compensation" heading in this note.

In March 2004, the FASB issued EITF Issue No. 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." EITF 03-1 includes new guidance for evaluating and recording impairment losses on certain debt and equity investments when the fair value of the investment security is less than its carrying value. In September 2004, the FASB delayed the effective date beyond 2004 for the measurement and recognition provisions until the issuance of additional implementation guidance. The delay does not suspend the requirement to recognize impairment losses as required by existing authoritative literature. We will evaluate the impact of this new accounting standard on our process for determining other-than-temporary impairments of applicable debt and equity securities upon final issuance.

3 Acquisitions

On July 29, 2004, our Health Care Services business segment acquired Oxford Health Plans, Inc. (Oxford). Oxford provides health care and benefit services for individuals and employers, principally in New York City, northern New Jersey and southern Connecticut. This merger strengthened our market position in this region and provided substantial distribution opportunities in this region for our other UnitedHealth Group businesses. Under the terms of the purchase agreement, Oxford shareholders received 0.6357 shares of UnitedHealth Group common stock and \$16.17 in cash for each share of Oxford common stock they owned. Total consideration issued was approximately \$5.0 billion, comprised of approximately 52.2 million shares of UnitedHealth Group common stock (valued at approximately \$3.4 billion based upon the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of April 26, 2004), approximately \$1.3 billion in cash and UnitedHealth Group vested common stock options with an estimated fair value of \$240 million issued in exchange for Oxford's outstanding vested common stock options. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$4.2 billion. Pending completion of an independent valuation analysis, we have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of \$735 million and associated deferred tax liabilities of \$277 million, and goodwill of approximately \$3.7 billion. The finite-lived intangible assets consist primarily of member lists and health care physician and hospital networks, with an estimated weighted-average useful life of 15 years. The acquired goodwill is not deductible for income tax purposes. Our preliminary estimate of the fair value of the tangible assets/ (liabilities) as of the acquisition date, which is subject to further refinement, is as follows:

(in millions)

Cash, Cash Equivalents and Investments	\$ 1,674
Accounts Receivable and Other Current Assets	165
Property, Equipment, Capitalized Software and Other Assets	37
Medical Costs Payable	(713)
Other Current Liabilities	(325)
Net Tangible Assets Acquired	\$ 838

On February 10, 2004, our Health Care Services business segment acquired Mid Atlantic Medical Services, Inc. (MAMSI). MAMSI offers a broad range of health care coverage and related administrative services for individuals and employers in the mid-Atlantic region of the United States. This merger strengthened UnitedHealthcare's market position in the mid-Atlantic region and provided substantial distribution opportunities for other UnitedHealth Group businesses in this region. Under the terms of the purchase agreement, MAMSI shareholders received 0.82 shares of UnitedHealth Group common stock and \$18 in cash for each share of MAMSI common stock they owned. Total consideration issued was approximately \$2.7 billion, comprised of 36.4 million shares of UnitedHealth Group common stock (valued at \$1.9 billion based on the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of October 27, 2003) and \$800 million in cash. The purchase price and costs associated with the acquisition exceeded the estimated fair value of the net tangible assets acquired by approximately \$2.1 billion. Based on management's consideration of fair value, which included an independent valuation analysis, we have allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of approximately \$280 million and associated deferred tax liabilities of approximately \$100 million, and goodwill of approximately \$1.9 billion. The finite-lived intangible assets consist of member lists, health care physician and hospital networks, and trademarks, with an estimated weighted-average useful life of 17 years. The acquired goodwill is not deductible for income tax purposes. Our estimate of the fair value of the tangible assets/(liabilities) as of the acquisition date is as follows:

(in millions)

Cash, Cash Equivalents and Investments	\$	736
Accounts Receivable and Other Current Assets		228
Property, Equipment, Capitalized Software and Other Assets		66
Medical Costs Payable		(283)
Other Current Liabilities		(136)
Net Tangible Assets Acquired	\$	611

The results of operations and financial condition of Oxford and MAMSI have been included in our consolidated financial statements since the acquisition date. The unaudited pro forma financial information presented below assumes that the acquisitions of Oxford and MAMSI had occurred as of the beginning of each respective period presented below. The pro forma adjustments include the pro forma effect of UnitedHealth Group shares issued in the acquisitions, the amortization of finite-lived intangible assets arising from the purchase price allocations, interest expense related to financing the cash portion of the purchase price and the associated income tax effects of the pro forma adjustments. Because the unaudited pro forma financial information has been prepared based on estimates of fair values, the actual amounts recorded as of the completion of the Oxford purchase price allocation may differ from the information presented below. The unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Oxford and MAMSI acquisitions been consummated at the beginning of the respective periods.

(in millions, except per share data)	2004 (Pro Forma Unaudited)	2003 (Pro Forma Unaudited)
Revenues	\$ 40,773	\$ 36,809
Net Earnings	\$ 2,776	\$ 2,257
Earnings Per Share:		
Basic	\$ 4.21	\$ 3.33
Diluted	\$ 4.03	\$ 3.19

On December 10, 2004, our Uniprise business segment acquired Definity Health Corporation (Definity). Definity is the national market leader in consumer-driven health benefit programs. This acquisition strengthened our position in the emerging consumer-driven health benefits marketplace. We paid \$305 million in cash in exchange for all of the outstanding stock of Definity. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$263 million. We have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of \$60 million and associated deferred tax liabilities of \$21 million, and goodwill of \$224 million. The finite-lived intangible assets consist primarily of member lists, with an estimated weighted-average useful life of 15 years. The acquired goodwill is not deductible for income tax purposes. The results of operations and financial condition of Definity have been included in our consolidated financial statements since the acquisition date. The pro forma effects of the Definity acquisition on our consolidated financial statements were not material. Our preliminary estimate of the acquired net tangible assets of \$42 million, which is subject to further refinement, consisted mainly of cash, cash equivalents, accounts receivable, property and equipment and other assets partially offset by current liabilities.

For the year ended December 31, 2004, aggregate consideration paid or issued for smaller acquisitions accounted for under the purchase method was \$158 million. These acquisitions were not material to our consolidated financial statements.

4 Cash, Cash Equivalents and Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2004				
Cash and Cash Equivalents	\$ 3,991	\$ -	\$ -	\$ 3,991
Debt Securities — Available for Sale	7,723	205	(9)	7,919
Equity Securities — Available for Sale	199	10	(2)	207
Debt Securities — Held to Maturity	136	-	-	136
Total Cash and Investments	\$12,049	\$ 215	\$ (11)	\$12,253
2003				
Cash and Cash Equivalents	\$ 2,262	\$ -	\$ -	\$ 2,262
Debt Securities — Available for Sale	6,737	229	(6)	6,960
Equity Securities — Available for Sale	173	9	(1)	181
Debt Securities — Held to Maturity	74	-	-	74
Total Cash and Investments	\$ 9,246	\$ 238	\$ (7)	\$ 9,477

As of December 31, 2004 and 2003, respectively, debt securities consisted of \$1,551 million and \$1,221 million in U.S. Government and Agency obligations, \$2,932 million and \$2,617 million in state and municipal obligations, and \$3,572 million and \$3,196 million in corporate obligations. At December 31, 2004, we held \$619 million in debt securities with maturities of less than one year, \$2,431 million in debt securities with maturities of one to five years, \$2,734 million in debt securities with maturities of five to 10 years and \$2,271 million in debt securities with maturities of more than 10 years.

As of December 31, 2004, we had no investments in a continuous unrealized loss position for 12 months or greater. Gross unrealized losses of \$11 million were largely due to interest rate increases and relate to debt securities with an aggregate fair value of \$1.8 billion at December 31, 2004.

We recorded realized gains and losses on sales of investments, excluding the UnitedHealth Capital disposition described below, as follows:

(in millions)	For the Year Ended December 31,		
	2004	2003	2002
Gross Realized Gains	\$ 37	\$ 45	\$ 57
Gross Realized Losses	(18)	(23)	(75)
Net Realized Gains (Losses)	\$ 19	\$ 22	\$ (18)

During the first quarter of 2004, we realized a capital gain of \$25 million on the sale of certain UnitedHealth Capital investments. With the gain proceeds from this sale, we made a cash contribution of \$25 million to the United Health Foundation in the first quarter of 2004. The realized gain of \$25 million and the related contribution expense of \$25 million are included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

5 Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill, by segment, during the years ended December 31, 2004 and 2003, were as follows:

(in millions)	Health Care	Uniprise	Specialized	Ingenix	Consolidated
	Services		Care Services		
Balance at December 31, 2002	\$ 1,693	\$ 698	\$ 363	\$ 609	\$ 3,363
Acquisitions and Subsequent Payments	77	–	46	23	146
Balance at December 31, 2003	1,770	698	409	632	3,509
Acquisitions and Subsequent Payments	5,724	205	–	32	5,961
Balance at December 31, 2004	\$ 7,494	\$ 903	\$ 409	\$ 664	\$ 9,470

The weighted-average useful life, gross carrying value, accumulated amortization and net carrying value of other intangible assets as of December 31, 2004 and 2003 were as follows:

(in millions)	Weighted-Average Useful Life	December 31, 2004			December 31, 2003		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Contracts and Membership Lists	15 years	\$1,153	\$ (46)	\$1,107	\$ 93	\$ (6)	\$ 87
Patents, Trademarks and Technology	9 years	86	(39)	47	73	(26)	47
Other	11 years	69	(18)	51	57	(11)	46
Total	14 years	\$1,308	\$(103)	\$1,205	\$ 223	\$ (43)	\$ 180

Amortization expense relating to intangible assets was \$62 million in 2004, \$18 million in 2003 and \$9 million in 2002. Estimated future amortization expense relating to intangible assets for the years ending December 31 are as follows: \$99 million in 2005, \$96 million in 2006, \$88 million in 2007, \$82 million in 2008, and \$80 million in 2009.

6 Medical Costs Payable

The following table shows the components of the change in medical costs payable for the years ended December 31:

(in millions)	2004	2003	2002
MEDICAL COSTS PAYABLE, BEGINNING OF PERIOD	\$ 4,152	\$ 3,741	\$ 3,460
ACQUISITIONS	1,040	165	180
REPORTED MEDICAL COSTS			
Current Year	27,210	20,864	18,262
Prior Years	(210)	(150)	(70)
Total Reported Medical Costs	27,000	20,714	18,192
CLAIM PAYMENTS			
Payments for Current Year	(23,173)	(17,411)	(15,147)
Payments for Prior Years	(3,479)	(3,057)	(2,944)
Total Claim Payments	(26,652)	(20,468)	(18,091)
MEDICAL COSTS PAYABLE, END OF PERIOD	\$ 5,540	\$ 4,152	\$ 3,741

7 Commercial Paper and Debt

Commercial paper and debt consisted of the following as of December 31:

(in millions)	2004		2003	
	Carrying Value	Fair Value ¹	Carrying Value	Fair Value ¹
Commercial Paper	\$ 273	\$ 273	\$ 79	\$ 79
Floating-Rate Notes due November 2004	-	-	150	150
7.5% Senior Unsecured Notes due November 2005	400	417	400	438
5.2% Senior Unsecured Notes due January 2007	400	413	400	427
3.4% Senior Unsecured Notes due August 2007	550	546	-	-
3.3% Senior Unsecured Notes due January 2008	500	493	500	499
3.8% Senior Unsecured Notes due February 2009	250	247	-	-
4.1% Senior Unsecured Notes due August 2009	450	452	-	-
4.9% Senior Unsecured Notes due April 2013	450	453	450	454
4.8% Senior Unsecured Notes due February 2014	250	248	-	-
5.0% Senior Unsecured Notes due August 2014	500	503	-	-
Total Commercial Paper and Debt	4,023	4,045	1,979	2,047
Less Current Maturities	(673)	(690)	(229)	(229)
Long-Term Debt, less current maturities	\$ 3,350	\$ 3,355	\$ 1,750	\$ 1,818

¹ Estimated based on third-party quoted market prices for the same or similar issues.

As of December 31, 2004, our outstanding commercial paper had interest rates ranging from 2.3% to 2.4%.

We have interest rate swap agreements that qualify as fair value hedges to convert the majority of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have aggregate notional amounts of \$2.9 billion with variable rates that are benchmarked to the six-month LIBOR (London Interbank Offered Rate). At December 31, 2004, the rates used to accrue interest expense on these agreements ranged from 2.3% to 3.3%. The differential between the 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.

In June 2004, we executed a \$1.0 billion five-year revolving credit facility to support our commercial paper program. This credit facility replaced our \$450 million revolving facility that was set to expire in July 2005, and our \$450 million, 364-day facility that was set to expire in July 2004. As of December 31, 2004, we had no amounts outstanding under this credit facility.

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.

Maturities of commercial paper and debt for the years ending December 31 are as follows: \$673 million in 2005, \$950 million in 2007, \$500 million in 2008, \$700 million in 2009, and \$1,200 million thereafter.

We made cash payments for interest of \$100 million, \$94 million and \$86 million in 2004, 2003 and 2002, respectively.

8 Shareholders' Equity

REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries 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, 2004, approximately \$227 million of our \$12.3 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$37 million was segregated for future regulatory capital needs and the remainder was available for general corporate use, including acquisitions and share repurchases.

The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain 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 minimum level regulators require. As of December 31, 2004, our regulated subsidiaries had aggregate statutory capital and surplus of approximately \$4.1 billion, which is significantly more than the aggregate minimum regulatory requirements.

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 certain restrictions on volume, pricing and timing. During 2004, we repurchased 51.4 million shares at an average price of approximately \$68 per share and an aggregate cost of approximately \$3.5 billion. As of December 31, 2004, we had board of directors' authorization to purchase up to an additional 54.6 million shares of our common stock.

PREFERRED STOCK

At December 31, 2004, we had 10 million shares of \$0.001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

9 Stock-Based Compensation Plans

As of December 31, 2004, we had approximately 49.2 million shares available for future grants of stock-based awards under our stock-based compensation plan including, but not limited to, incentive or non-qualified stock options, stock appreciation rights and restricted stock.

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

	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at Beginning of Year	87.3	\$ 27	86.4	\$ 21	76.7	\$ 15
Granted	17.1	\$ 72	18.4	\$ 44	25.0	\$ 38
Assumed in Acquisitions	7.6	\$ 34	–	\$ –	0.9	\$ 30
Exercised	(21.8)	\$ 24	(15.3)	\$ 15	(13.2)	\$ 14
Forfeited	(2.1)	\$ 35	(2.2)	\$ 30	(3.0)	\$ 20
Outstanding at End of Year	88.1	\$ 37	87.3	\$ 27	86.4	\$ 21
Exercisable at End of Year	44.8	\$ 22	42.7	\$ 16	41.4	\$ 12

As of December 31, 2004

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	26.5	4.3	\$ 11	26.2	\$ 11
\$21 - \$40	29.4	7.0	\$ 34	12.2	\$ 32
\$41 - \$60	18.2	8.0	\$ 48	6.2	\$ 46
\$61 - \$85	14.0	9.7	\$ 75	0.2	\$ 67
\$ 0 - \$85	88.1	6.8	\$ 37	44.8	\$ 22

We also maintain a 401(k) plan and an employee stock purchase plan. Activity related to these plans was not significant in relation to our consolidated financial results in 2004, 2003 and 2002.

To determine compensation expense related to our stock-based compensation plans under the fair value method, the fair value of each option grant is estimated on the date of grant using an option-pricing model. For purposes of estimating the fair value of our employee stock option grants, we utilized a Black-Scholes model during 2002 and a binomial model during 2003 and 2004. The principal assumptions we used in applying the option pricing models were as follows:

	2004	2003	2002
Risk-Free Interest Rate	3.3%	2.6%	2.5%
Expected Volatility	28.5%	30.9%	40.2%
Expected Dividend Yield	0.1%	0.1%	0.1%
Expected Life in Years	4.2	4.1	4.5

Information regarding the effect on net earnings and net earnings per common share had we applied the fair value expense recognition provisions of FAS No. 123 is included in Note 2.

10 Income Taxes

The components of the provision for income taxes are as follows:

Year Ended December 31, (in millions)	2004	2003	2002
Current Provision			
Federal	\$ 1,223	\$ 932	\$ 675
State and Local	78	46	57
Total Current Provision	1,301	978	732
Deferred Provision	85	37	12
Total Provision for Income Taxes	\$ 1,386	\$ 1,015	\$ 744

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes is as follows:

Year Ended December 31, (in millions)	2004	2003	2002
Tax Provision at the U.S. Federal Statutory Rate	\$ 1,391	\$ 994	\$ 734
State Income Taxes, net of federal benefit	54	29	33
Tax-Exempt Investment Income	(33)	(30)	(26)
Other, net	(26)	22	3
Provision for Income Taxes	\$ 1,386	\$ 1,015	\$ 744

The components of deferred income tax assets and liabilities are as follows:

As of December 31, (in millions)	2004	2003
Deferred Income Tax Assets		
Accrued Expenses and Allowances	\$ 227	\$ 161
Unearned Premiums	57	28
Medical Costs Payable and Other Policy Liabilities	85	83
Long-Term Liabilities	78	49
Net Operating Loss Carryforwards	123	86
Other	31	42
Subtotal	601	449
Less: Valuation Allowances	(28)	(43)
Total Deferred Income Tax Assets	573	406
Deferred Income Tax Liabilities		
Capitalized Software Development	(223)	(186)
Net Unrealized Gains on Investments	(72)	(82)
Intangible Assets	(406)	(50)
Property and Equipment	(63)	(58)
Other	(16)	–
Total Deferred Income Tax Liabilities	(780)	(376)
Net Deferred Income Tax Assets (Liabilities)	\$ (207)	\$ 30

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The valuation allowances primarily relate to future tax benefits on certain federal and state net operating loss carryforwards. Federal net operating loss carryforwards expire beginning in 2017 through 2023, and state net operating loss carryforwards expire beginning in 2005 through 2024.

We made cash payments for income taxes of \$898 million in 2004, \$783 million in 2003 and \$458 million in 2002. We increased additional paid-in capital and reduced income taxes payable by \$358 million in 2004, \$222 million in 2003, and by \$133 million in 2002 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

Internal Revenue Service examinations for fiscal years 2000 through 2002 have been completed and the resulting settlements have been included in our 2004 consolidated operating results.

11 AARP

In January 1998, we entered into a 10-year contract to provide health insurance products and services to members of AARP. These products and services are provided to supplement benefits covered under traditional Medicare. Under the terms of the contract, we are compensated for transaction processing 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 \$4.5 billion in 2004, \$4.1 billion in 2003 and \$3.7 billion in 2002.

The underwriting gains or losses related to the AARP business are directly 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 recorded as an increase or decrease to the RSF and accrue to the overall benefit of the 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. To date, we have not been required to fund any underwriting deficits. 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.

The following AARP program-related assets and liabilities are included in our Consolidated Balance Sheets:

(in millions)	Balance as of December 31,	
	2004	2003
Accounts Receivable	\$ 389	\$ 352
Assets Under Management	\$ 1,883	\$ 1,959
Medical Costs Payable	\$ 899	\$ 874
Other Policy Liabilities	\$ 1,162	\$ 1,275
Other Current Liabilities	\$ 211	\$ 162

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

Pursuant to our agreement, AARP assets under management 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. We do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. Interest earnings and realized investment gains and losses on these assets accrue to the overall benefit of the AARP policyholders through the RSF. As such, they 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 RSF and were \$103 million, \$101 million and \$102 million in 2004, 2003 and 2002, respectively. Assets under management are reported at their fair market value, and unrealized gains and losses are included directly in the RSF associated with the AARP program. As of December 31, 2004 and 2003, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments associated with the AARP insurance program, included in Assets Under Management, were as follows (in millions):

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and Cash Equivalents	\$ 184	\$ -	\$ -	\$ 184
Debt Securities — Available for Sale	1,664	37	(2)	1,699
Total Cash and Investments	\$1,848	\$ 37	\$ (2)	\$1,883
2003				
Cash and Cash Equivalents	\$ 218	\$ -	\$ -	\$ 218
Debt Securities — Available for Sale	1,655	86	-	1,741
Total Cash and Investments	\$1,873	\$ 86	\$ -	\$1,959

As of December 31, 2004 and 2003, respectively, debt securities consisted of \$809 million and \$711 million in U.S. Government and Agency obligations, \$20 million and \$16 million in state and municipal obligations and \$870 million and \$1,014 million in corporate obligations. At December 31, 2004, the AARP assets under management included debt securities of \$99 million with maturities of less than one year, \$813 million with maturities of one to five years, \$464 million with maturities of five to 10 years and \$323 million with maturities of more than 10 years.

12 Commitments and Contingencies

LEASES

We lease facilities, computer hardware and other equipment under long-term operating leases that are noncancelable and expire on various dates through 2025. Rent expense under all operating leases was \$137 million in 2004, \$133 million in 2003 and \$132 million in 2002.

At December 31, 2004, future minimum annual lease payments, net of sublease income, under all noncancelable operating leases were as follows: \$126 million in 2005, \$116 million in 2006, \$106 million in 2007, \$78 million in 2008, \$62 million in 2009, and \$149 million thereafter.

SERVICE AGREEMENTS

We have noncancelable contracts for certain data center operations and support, network and voice communication services, and other services, which expire on various dates through 2009. Expenses incurred in connection with these agreements were \$265 million in 2004, \$256 million in 2003 and \$264 million in 2002. At December 31, 2004, future minimum obligations under our noncancelable contracts were as follows: \$103 million in 2005, \$55 million in 2006, \$14 million in 2007, \$9 million in 2008, and \$3 million in 2009.

LEGAL MATTERS

Because of the nature of our businesses, we are routinely made party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to matters incidental to our business.

Beginning in 1999, a series of class action lawsuits were filed against us and virtually all major entities in the health benefits business. In December 2000, a multidistrict litigation panel consolidated several litigation cases involving UnitedHealth Group and our affiliates in the Southern District Court of Florida, Miami division. Generally, the health care provider plaintiffs allege violations of ERISA and RICO in connection with alleged undisclosed policies intended to maximize profits. Other allegations include breach of state prompt payment laws and breach of contract claims for failure to timely reimburse providers for medical services rendered. The consolidated suits seek injunctive, compensatory and equitable relief as well as restitution, costs, fees and interest payments. The trial court granted the health care providers' motion for class certification and that order was reviewed by the Eleventh Circuit Court of Appeals. The Eleventh Circuit affirmed the class action status of the RICO claims, but reversed as to the breach of contract, unjust enrichment and prompt payment claims. Through a series of motions and appeals, all direct claims against UnitedHealthcare have been compelled to arbitration. The trial court has denied UnitedHealthcare's further motion to compel the secondary RICO claims to arbitration and the Eleventh Circuit affirmed that order. A trial date has been set for September 2005. The trial court has ordered that the trial be bifurcated into separate liability and damage proceedings.

On March 15, 2000, the American Medical Association filed a lawsuit against the company in the Supreme Court of the State of New York, County of New York. On April 13, 2000, we removed this case to the United States District Court for the Southern District of New York. The suit alleges causes of action based on ERISA, as well as breach of contract and the implied covenant of good faith and fair dealing, deceptive acts and practices, and trade libel in connection with the calculation of reasonable and customary reimbursement rates for non-network providers. The suit seeks declaratory, injunctive and compensatory relief as well as costs, fees and interest payments. An amended complaint was filed on August 25, 2000, which alleged two classes of plaintiffs, an ERISA class and a non-ERISA class. After the Court dismissed certain ERISA claims and the claims brought by the American Medical Association, a third amended complaint was filed. On October 25, 2002, the court granted in part and denied in part our motion to dismiss the third amended complaint. On May 21, 2003, we filed a counterclaim complaint in this matter alleging antitrust violations against the American Medical Association and asserting claims based on improper billing practices against an individual provider plaintiff. On May 26, 2004, we filed a motion for partial summary judgment seeking the dismissal of certain claims and parties based, in part, due to lack of standing. On July 16, 2004, plaintiffs filed a motion for leave to file an amended complaint, seeking to assert RICO violations.

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

GOVERNMENT REGULATION

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

We typically have and are currently involved in various governmental investigations, audits, and reviews. These include routine, regular and special investigations, audits, and reviews by CMS, state insurance and health and welfare departments and state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Department of Justice, and U.S. Attorneys. Such government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs. We record liabilities for our estimate of probable costs resulting from these matters. Although the results of pending matters are always uncertain, we do not believe the results of any of the current investigations, audits or reviews, currently threatened or pending, individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

OTHER CONTINGENCIES

In 2002, Oxford, which we acquired on July 29, 2004, entered into agreements with two insurance companies that guaranteed cost reduction targets related to certain orthopedic medical services. In 2003, the insurers sought to rescind or terminate the agreements claiming various misrepresentations and material breaches of the agreements by Oxford. Pursuant to the agreements, Oxford filed claims to recover approximately \$50 million of costs incurred and expensed in excess of the cost reduction targets for the period from November 2002 to October 2004. An arbitration hearing with the insurance company holding a large majority of the coverage under the policies was held in January 2005, and a decision was issued on February 22, 2005, denying the insurer's ability to rescind or terminate its agreement. As a result of the decision, Oxford was awarded approximately \$30 million in net recoveries. The insurer has not yet indicated whether it will appeal this decision. Oxford will not record the net recoveries until all contingencies have been resolved. We believe that the remaining insurer's claims are also without merit, and we will vigorously seek to enforce our rights.

13 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 transaction processing services that Uniprise provides to Health Care Services, certain product offerings sold to Uniprise and Health Care Services customers by Specialized Care Services, and sales of medical benefits cost, quality and utilization data and predictive modeling to Health Care Services and Uniprise 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 also includes eliminations of intersegment transactions.

Substantially all of our operations are conducted in the United States. In accordance with accounting principles generally accepted in the United States of America, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare, Ovation and AmeriChoice have been combined in the Health Care Services segment column in the tables presented on the next page because these businesses have similar economic characteristics and have similar products and services, types of customers, distribution methods and operational processes, and operate in a similar regulatory environment, typically within the same legal entity.

The following table presents segment financial information as of and for the years ended December 31, 2004, 2003 and 2002 (in millions):

	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Corporate and Eliminations	Consolidated
2004						
Revenues — External Customers	\$ 32,333	\$ 2,688	\$ 1,363	\$ 446	\$ —	\$ 36,830
Revenues — Intersegment	—	647	914	224	(1,785)	—
Investment and Other Income	340	30	18	—	—	388
Total Revenues	\$ 32,673	\$ 3,365	\$ 2,295	\$ 670	\$ (1,785)	\$ 37,218
Earnings From Operations	\$ 2,810	\$ 677	\$ 485	\$ 129	\$ —	\$ 4,101
Total Assets ¹	\$ 23,799	\$ 2,366	\$ 1,269	\$ 971	\$ (879)	\$ 27,526
Net Assets ¹	\$ 13,138	\$ 1,385	\$ 765	\$ 795	\$ (879)	\$ 15,204
Purchases of Property, Equipment and Capitalized Software	\$ 147	\$ 112	\$ 56	\$ 35	\$ —	\$ 350
Depreciation and Amortization	\$ 173	\$ 95	\$ 44	\$ 62	\$ —	\$ 374
2003						
Revenues — External Customers	\$ 24,592	\$ 2,496	\$ 1,077	\$ 401	\$ —	\$ 28,566
Revenues — Intersegment	—	583	787	173	(1,543)	—
Investment and Other Income	215	28	14	—	—	257
Total Revenues	\$ 24,807	\$ 3,107	\$ 1,878	\$ 574	\$ (1,543)	\$ 28,823
Earnings From Operations	\$ 1,865	\$ 610	\$ 385	\$ 75	\$ —	\$ 2,935
Total Assets ¹	\$ 13,597	\$ 2,024	\$ 1,191	\$ 919	\$ (366)	\$ 17,365
Net Assets ¹	\$ 5,008	\$ 1,116	\$ 710	\$ 766	\$ (347)	\$ 7,253
Purchases of Property, Equipment and Capitalized Software	\$ 122	\$ 130	\$ 48	\$ 52	\$ —	\$ 352
Depreciation and Amortization	\$ 116	\$ 86	\$ 40	\$ 57	\$ —	\$ 299
2002						
Revenues — External Customers	\$ 21,373	\$ 2,175	\$ 897	\$ 355	\$ —	\$ 24,800
Revenues — Intersegment	—	523	598	136	(1,257)	—
Investment and Other Income	179	27	14	—	—	220
Total Revenues	\$ 21,552	\$ 2,725	\$ 1,509	\$ 491	\$ (1,257)	\$ 25,020
Earnings From Operations	\$ 1,328	\$ 517	\$ 286	\$ 55	\$ —	\$ 2,186
Total Assets ¹	\$ 10,522	\$ 1,914	\$ 974	\$ 902	\$ (537)	\$ 13,775
Net Assets ¹	\$ 4,379	\$ 1,097	\$ 602	\$ 763	\$ (517)	\$ 6,324
Purchases of Property, Equipment and Capitalized Software	\$ 129	\$ 159	\$ 59	\$ 72	\$ —	\$ 419
Depreciation and Amortization	\$ 102	\$ 69	\$ 36	\$ 48	\$ —	\$ 255

¹ Total Assets and Net Assets exclude, where applicable, debt and accrued interest of \$4,054 million, \$1,993 million and \$1,775 million, income tax-related assets of \$353 million, \$269 million and \$389 million, and income tax-related liabilities of \$786 million, \$401 million and \$510 million as of December 31, 2004, 2003 and 2002, respectively.

14 Quarterly Financial Data (Unaudited)

(in millions, except per share data)	For the Quarter Ended			
	March 31	June 30	September 30	December 31
2004¹				
Revenues	\$ 8,144	\$ 8,704	\$ 9,859	\$ 10,511
Medical and Operating Expenses	\$ 7,268	\$ 7,759	\$ 8,767	\$ 9,323
Earnings From Operations	\$ 876	\$ 945	\$ 1,092	\$ 1,188
Net Earnings	\$ 554	\$ 596	\$ 698	\$ 739
Basic Net Earnings per Common Share	\$ 0.92	\$ 0.98	\$ 1.09	\$ 1.14
Diluted Net Earnings per Common Share	\$ 0.88	\$ 0.93	\$ 1.04	\$ 1.09
2003				
Revenues	\$ 6,975	\$ 7,087	\$ 7,238	\$ 7,523
Medical and Operating Expenses	\$ 6,322	\$ 6,378	\$ 6,475	\$ 6,713
Earnings From Operations	\$ 653	\$ 709	\$ 763	\$ 810
Net Earnings	\$ 403	\$ 439	\$ 476	\$ 507
Basic Net Earnings per Common Share	\$ 0.68	\$ 0.74	\$ 0.81	\$ 0.87
Diluted Net Earnings per Common Share	\$ 0.65	\$ 0.71	\$ 0.77	\$ 0.83

¹ UnitedHealth Group acquired Oxford in July 2004 for total consideration of approximately \$5.0 billion and acquired MAMSI in February 2004 for total consideration of approximately \$2.7 billion. These acquisitions affect the comparability of 2004 financial information to prior fiscal years. The results of operations and financial condition of Oxford and MAMSI have been included in UnitedHealth Group's consolidated financial statements since the respective acquisition dates. See Note 3 for a detailed discussion of these acquisitions.

The management of UnitedHealth Group is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control system is designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that:

- > Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- > Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- > Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment and those criteria, we believe that, as of December 31, 2004, the company maintained effective internal control over financial reporting.

The company's independent registered public accounting firm has audited management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2004, as stated in the Report of Independent Registered Public Accounting Firm, appearing herein, which expresses unqualified opinions on management's assessment and on the effectiveness of the company's internal controls over financial reporting as of December 31, 2004.

February 28, 2005

William W. McGuire, MD

Chairman and Chief Executive Officer

Stephen J. Hemsley

President and Chief Operating Officer

Patrick J. Erlandson

Chief Financial Officer

To the Board of Directors and Shareholders of UnitedHealth Group Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated and Subsidiaries (the “Company”) as of December 31, 2004 and 2003, 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, 2004. These consolidated 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 the standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2005, expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

February 28, 2005

To the Board of Directors and Shareholders of UnitedHealth Group Incorporated and Subsidiaries:

We have audited management's assessment, included in the accompanying Report of Management, that UnitedHealth Group Incorporated and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated February 28, 2005 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP
Minneapolis, Minnesota
February 28, 2005