UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[ ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission file number: 1-10864

UNITEDHEALTH GROUP

UnitedHealth Group Incorporated
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

41-1321939
(I.R.S. Employer Identification No.)

UnitedHealth Group Center
9900 Bren Road East
Minnetonka, Minnesota
(Address of principal executive offices)

55343
(Zip Code)

(952) 936-1300
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (check one)

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer (Do not check if a smaller reporting company) [ ]

Smaller reporting company [ ] Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of April 30, 2018, there were 960,981,242 shares of the registrant’s Common Stock, $.01 par value per share, issued and outstanding.
UNITEDHEALTH GROUP

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ITEM 1. FINANCIAL STATEMENTS

UnitedHealth Group
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$18,243</td>
<td>$11,981</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>$3,798</td>
<td>$3,509</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$11,512</td>
<td>$9,568</td>
</tr>
<tr>
<td>Other current receivables, net</td>
<td>$6,778</td>
<td>$6,262</td>
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<tr>
<td>Assets under management</td>
<td>$2,922</td>
<td>$3,101</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>$5,100</td>
<td>$2,663</td>
</tr>
<tr>
<td>current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>$48,353</td>
<td>$37,084</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>$29,441</td>
<td>$28,341</td>
</tr>
<tr>
<td>Property, equipment and</td>
<td>$8,144</td>
<td>$7,013</td>
</tr>
<tr>
<td>capitalized software, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>$56,850</td>
<td>$54,556</td>
</tr>
<tr>
<td>Other intangible assets, net</td>
<td>$9,033</td>
<td>$8,489</td>
</tr>
<tr>
<td>Other assets</td>
<td>$3,748</td>
<td>$3,575</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$155,569</td>
<td>$139,058</td>
</tr>
<tr>
<td>**Liabilities, redeemable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>noncontrolling interests and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>equity**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical costs payable</td>
<td>$19,589</td>
<td>$17,871</td>
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<tr>
<td>Accounts payable and accrued</td>
<td>$18,210</td>
<td>$15,180</td>
</tr>
<tr>
<td>liabilities</td>
<td></td>
<td></td>
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<tr>
<td>Commercial paper and</td>
<td>$7,379</td>
<td>$2,857</td>
</tr>
<tr>
<td>current maturities of long-term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned revenues</td>
<td>$7,683</td>
<td>$2,269</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>$14,806</td>
<td>$12,286</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$67,667</td>
<td>$50,463</td>
</tr>
<tr>
<td>Long-term debt, less current</td>
<td>$28,206</td>
<td>$28,835</td>
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<tr>
<td>maturities</td>
<td></td>
<td></td>
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<tr>
<td>Deferred income taxes</td>
<td>$2,213</td>
<td>$2,182</td>
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<tr>
<td>Other liabilities</td>
<td>$5,557</td>
<td>$5,556</td>
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<tr>
<td>Total liabilities</td>
<td>$103,643</td>
<td>$87,036</td>
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<tr>
<td>Commitments and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>contingencies (Note 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable noncontrolling</td>
<td>$1,890</td>
<td>$2,189</td>
</tr>
<tr>
<td>interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, $0.001 par</td>
<td></td>
<td></td>
</tr>
<tr>
<td>value - 10 shares authorized;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>no shares issued or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $0.01 par value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 3,000 shares authorized; 962</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and 969 issued and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td></td>
<td>$1,703</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$50,494</td>
<td>$48,730</td>
</tr>
<tr>
<td>Accumulated other</td>
<td>(2,951)</td>
<td>(2,667)</td>
</tr>
<tr>
<td>comprehensive loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonredeemable noncontrolling</td>
<td>$2,483</td>
<td>$2,057</td>
</tr>
<tr>
<td>interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>$50,036</td>
<td>$49,833</td>
</tr>
<tr>
<td>**Total liabilities, redeemable</td>
<td>$155,569</td>
<td>$139,058</td>
</tr>
<tr>
<td>noncontrolling interests and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>equity**</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See Notes to the Condensed Consolidated Financial Statements
## UnitedHealth Group
### Condensed Consolidated Statements of Operations (Unaudited)

<table>
<thead>
<tr>
<th>(in millions, except per share data)</th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$44,084</td>
</tr>
<tr>
<td>Products</td>
<td>6,702</td>
</tr>
<tr>
<td>Services</td>
<td>4,104</td>
</tr>
<tr>
<td>Investment and other income</td>
<td>298</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>55,188</td>
</tr>
<tr>
<td><strong>Operating costs:</strong></td>
<td></td>
</tr>
<tr>
<td>Medical costs</td>
<td>35,863</td>
</tr>
<tr>
<td>Operating costs</td>
<td>8,506</td>
</tr>
<tr>
<td>Cost of products sold</td>
<td>6,184</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>582</td>
</tr>
<tr>
<td><strong>Total operating costs</strong></td>
<td>51,135</td>
</tr>
<tr>
<td><strong>Earnings from operations</strong></td>
<td>4,053</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(329)</td>
</tr>
<tr>
<td><strong>Earnings before income taxes</strong></td>
<td>3,724</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>(800)</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>2,924</td>
</tr>
<tr>
<td>Earnings attributable to noncontrolling interests</td>
<td>(88)</td>
</tr>
<tr>
<td><strong>Net earnings attributable to UnitedHealth Group common shareholders</strong></td>
<td>$2,836</td>
</tr>
<tr>
<td><strong>Earnings per share attributable to UnitedHealth Group common shareholders:</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$2.94</td>
</tr>
<tr>
<td>Diluted</td>
<td>2.87</td>
</tr>
<tr>
<td><strong>Basic weighted-average number of common shares outstanding</strong></td>
<td>966</td>
</tr>
<tr>
<td><strong>Dilutive effect of common share equivalents</strong></td>
<td>21</td>
</tr>
<tr>
<td><strong>Diluted weighted-average number of common shares outstanding</strong></td>
<td>987</td>
</tr>
<tr>
<td>Anti-dilutive shares excluded from the calculation of dilutive effect of common share equivalents</td>
<td>7</td>
</tr>
<tr>
<td>Cash dividends declared per common share</td>
<td>$0.750</td>
</tr>
</tbody>
</table>

See Notes to the Condensed Consolidated Financial Statements
UnitedHealth Group
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net earnings</strong></td>
<td>$2,924</td>
<td>$2,191</td>
</tr>
<tr>
<td>Other comprehensive (loss) income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross unrealized (losses) gains on investment securities during the period</td>
<td>(378)</td>
<td>99</td>
</tr>
<tr>
<td>Income tax effect</td>
<td>86</td>
<td>(32)</td>
</tr>
<tr>
<td>Total unrealized (losses) gains, net of tax</td>
<td>(292)</td>
<td>67</td>
</tr>
<tr>
<td>Gross reclassification adjustment for net realized gains included in net earnings</td>
<td>(19)</td>
<td>(21)</td>
</tr>
<tr>
<td>Income tax effect</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Total reclassification adjustment, net of tax</td>
<td>(15)</td>
<td>(13)</td>
</tr>
<tr>
<td>Total foreign currency translation (loss) gain</td>
<td>(1)</td>
<td>180</td>
</tr>
<tr>
<td>Other comprehensive (loss) income</td>
<td>(308)</td>
<td>234</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>$2,616</td>
<td>$2,425</td>
</tr>
<tr>
<td><strong>Comprehensive income attributable to noncontrolling interests</strong></td>
<td>(88)</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>Comprehensive income attributable to UnitedHealth Group common shareholders</strong></td>
<td>$2,528</td>
<td>$2,406</td>
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</tbody>
</table>

See Notes to the Condensed Consolidated Financial Statements
### UnitedHealth Group

**Condensed Consolidated Statements of Changes in Equity**

**(Unaudited)**

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Common Stock</th>
<th></th>
<th></th>
<th>Accumulated Other Comprehensive (Loss) Income</th>
<th></th>
<th></th>
<th></th>
<th>Total Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
<td>Amount</td>
<td>Additional Paid-In Capital</td>
<td>Retained Earnings</td>
<td>Net Unrealized (Losses) Gains on Investments</td>
<td>Foreign Currency Translation (Losses) Gains</td>
<td>Nonredeemable Noncontrolling Interests</td>
<td></td>
</tr>
<tr>
<td>Balance at January 1, 2018</td>
<td>969</td>
<td>$10</td>
<td>$1,703</td>
<td>$48,730</td>
<td>$ (13)</td>
<td>$ (2,654)</td>
<td>$2,057</td>
<td>$49,833</td>
</tr>
<tr>
<td>Adjustment to adopt ASU 2016-01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(24)</td>
<td></td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,836</td>
<td></td>
<td>53</td>
<td>2,889</td>
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<td>Other comprehensive loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(307)</td>
<td></td>
<td>(1)</td>
<td>(308)</td>
</tr>
<tr>
<td>Issuances of common stock, and related tax effects</td>
<td>5</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>415</td>
<td>415</td>
</tr>
<tr>
<td>Share-based compensation</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>206</td>
<td>206</td>
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<td>Common share repurchases</td>
<td>(12)</td>
<td>—</td>
<td>(2,324)</td>
<td>(326)</td>
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<td></td>
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<tr>
<td>Cash dividends paid on common shares</td>
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<td></td>
<td>(722)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(722)</td>
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<tr>
<td>Acquisition of nonredeemable noncontrolling interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>423</td>
</tr>
<tr>
<td>Distribution to nonredeemable noncontrolling interests</td>
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<td></td>
<td></td>
<td></td>
<td>(50)</td>
<td></td>
<td>(50)</td>
<td></td>
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<tr>
<td>Balance at March 31, 2018</td>
<td>962</td>
<td>$10</td>
<td></td>
<td>$50,494</td>
<td>$ (296)</td>
<td>$ (2,655)</td>
<td>$2,483</td>
<td>$50,036</td>
</tr>
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<td>Balance at January 1, 2017</td>
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<td>$10</td>
<td></td>
<td>$40,945</td>
<td>$ (97)</td>
<td>$ (2,584)</td>
<td>(97)</td>
<td>$38,177</td>
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<td>Net earnings</td>
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<td>2,172</td>
<td></td>
<td></td>
<td>9</td>
<td>2,181</td>
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<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>54</td>
<td></td>
<td>180</td>
</tr>
<tr>
<td>Issuances of common stock, and related tax effects</td>
<td>17</td>
<td>—</td>
<td></td>
<td>1,923</td>
<td></td>
<td></td>
<td></td>
<td>1,923</td>
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<tr>
<td>Share-based compensation</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>189</td>
<td></td>
<td>189</td>
</tr>
<tr>
<td>Common share repurchases</td>
<td>(4)</td>
<td>—</td>
<td>(682)</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td>(682)</td>
</tr>
<tr>
<td>Cash dividends paid on common shares</td>
<td></td>
<td></td>
<td></td>
<td>(596)</td>
<td></td>
<td></td>
<td></td>
<td>(596)</td>
</tr>
<tr>
<td>Redeemable noncontrolling interests fair value and other adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>389</td>
<td></td>
<td>389</td>
</tr>
<tr>
<td>Acquisition of nonredeemable noncontrolling interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,191</td>
<td></td>
<td>2,191</td>
</tr>
<tr>
<td>Distribution to nonredeemable noncontrolling interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(11)</td>
<td></td>
<td>(11)</td>
</tr>
<tr>
<td>Balance at March 31, 2017</td>
<td>965</td>
<td>$10</td>
<td>$1,819</td>
<td>$42,521</td>
<td>$ (43)</td>
<td>$ (2,404)</td>
<td>$2,092</td>
<td>$43,995</td>
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</table>

See Notes to the Condensed Consolidated Financial Statements
## UnitedHealth Group
### Condensed Consolidated Statements of Cash Flows
(Unaudited)

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td>$2,924</td>
</tr>
<tr>
<td>Noncash items:</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>582</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(74)</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>208</td>
</tr>
<tr>
<td>Other, net</td>
<td>27</td>
</tr>
<tr>
<td>Net change in other operating items, net of effects from acquisitions and changes in AARP balances:</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(1,579)</td>
</tr>
<tr>
<td>Other assets</td>
<td>(3,232)</td>
</tr>
<tr>
<td>Medical costs payable</td>
<td>1,313</td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>2,821</td>
</tr>
<tr>
<td>Unearned revenues</td>
<td>5,379</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>8,369</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(3,891)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>1,002</td>
</tr>
<tr>
<td>Maturities of investments</td>
<td>1,504</td>
</tr>
<tr>
<td>Cash paid for acquisitions, net of cash assumed</td>
<td>(2,583)</td>
</tr>
<tr>
<td>Purchases of property, equipment and capitalized software</td>
<td>(477)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(72)</td>
</tr>
<tr>
<td>Cash flows used for investing activities</td>
<td>(4,517)</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Common share repurchases</td>
<td>(2,650)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(722)</td>
</tr>
<tr>
<td>Proceeds from common stock issuances</td>
<td>295</td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td>(1,100)</td>
</tr>
<tr>
<td>Proceeds from (repayments of) commercial paper, net</td>
<td>4,259</td>
</tr>
<tr>
<td>Proceeds from issuance of long-term debt</td>
<td>—</td>
</tr>
<tr>
<td>Customer funds administered</td>
<td>2,962</td>
</tr>
<tr>
<td>Other, net</td>
<td>(622)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>2,422</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(12)</td>
</tr>
<tr>
<td><strong>Increase in cash and cash equivalents</strong></td>
<td></td>
</tr>
<tr>
<td>$6,262</td>
<td>5,712</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, beginning of period</strong></td>
<td>11,981</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of period</strong></td>
<td>$18,243</td>
</tr>
<tr>
<td><strong>Supplemental schedule of noncash investing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Common stock issued for acquisition</td>
<td>$</td>
</tr>
</tbody>
</table>

See Notes to the Condensed Consolidated Financial Statements
1. Basis of Presentation

UnitedHealth Group Incorporated (individually and together with its subsidiaries, “UnitedHealth Group” and the “Company”) is a diversified health care company dedicated to helping people live healthier lives and helping make the health system work better for everyone. Through its diversified family of businesses, the Company leverages core competencies in data and health information; advanced technology; and clinical expertise to help meet the demands of the health system. These core competencies are deployed within two distinct, but strategically aligned, business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum.

The Company has prepared the Condensed Consolidated Financial Statements according to U.S. Generally Accepted Accounting Principles (GAAP) and has included the accounts of UnitedHealth Group and its subsidiaries. The year-end condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in its annual audited Consolidated Financial Statements. Therefore, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in Part II, Item 8, “Financial Statements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC (2017 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to medical costs payable, revenues, and goodwill and other intangible assets. Certain of these estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any change in estimates is included in earnings in the period in which the estimate is adjusted.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, “Leases (Topic 842)” (ASU 2016-02). Under ASU 2016-02, an entity will be required to recognize assets and liabilities for the rights and obligations created by leases on the entity’s balance sheet for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. ASU 2016-02 will require new disclosures that depict the amount, timing and uncertainty of cash flows pertaining to an entity’s leases. Companies are required to adopt the new standard using a modified retrospective approach for annual and interim periods beginning after December 15, 2018. Early adoption of ASU 2016-02 is permitted. When adopted, ASU 2016-02 will not have a material impact on the Company’s balance sheet, results of operations, equity or cash flows.

Recently Adopted Accounting Standards

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). Most notably, the new guidance requires that equity investments, with certain exemptions, be measured at fair value with changes in fair value recognized in net income as opposed to other comprehensive income. The Company adopted ASU 2016-01 on a prospective basis effective January 1, 2018, as required, and reclassified $24 million from accumulated other comprehensive income to retained earnings.

The Company has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on its Condensed Consolidated Financial Statements.
2. Investments

A summary of debt securities by major security type is as follows:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities - available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agency obligations ..........</td>
<td>$2,939</td>
<td>$1</td>
<td>$(54)</td>
<td>$2,886</td>
</tr>
<tr>
<td>State and municipal obligations..................</td>
<td>7,190</td>
<td>43</td>
<td>(94)</td>
<td>7,139</td>
</tr>
<tr>
<td>Corporate obligations............................</td>
<td>14,411</td>
<td>15</td>
<td>(167)</td>
<td>14,259</td>
</tr>
<tr>
<td>U.S. agency mortgage-backed securities...........</td>
<td>4,423</td>
<td>3</td>
<td>(110)</td>
<td>4,316</td>
</tr>
<tr>
<td>Non-U.S. agency mortgage-backed securities......</td>
<td>1,162</td>
<td>—</td>
<td>(20)</td>
<td>1,142</td>
</tr>
<tr>
<td>Total debt securities - available-for-sale.......</td>
<td>30,125</td>
<td>62</td>
<td>(445)</td>
<td>29,742</td>
</tr>
<tr>
<td>Debt securities - held-to-maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agency obligations ..........</td>
<td>249</td>
<td>1</td>
<td>(2)</td>
<td>248</td>
</tr>
<tr>
<td>State and municipal obligations..................</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Corporate obligations............................</td>
<td>340</td>
<td>—</td>
<td>—</td>
<td>340</td>
</tr>
<tr>
<td>Total debt securities - held-to-maturity........</td>
<td>591</td>
<td>1</td>
<td>(2)</td>
<td>590</td>
</tr>
<tr>
<td>Total debt securities ................................</td>
<td>$30,716</td>
<td>$63</td>
<td>$(447)</td>
<td>$30,332</td>
</tr>
</tbody>
</table>

| December 31, 2017 |                |                        |                         |            |
| Debt securities - available-for-sale: |                |                        |                         |            |
| U.S. government and agency obligations .......... | $2,673         | $1                     | (30)                   | $2,644     |
| State and municipal obligations.................. | 7,596          | 99                     | (35)                   | 7,660      |
| Corporate obligations............................ | 13,181         | 57                     | (44)                   | 13,194     |
| U.S. agency mortgage-backed securities........... | 3,942          | 7                      | (38)                   | 3,911      |
| Non-U.S. agency mortgage-backed securities...... | 1,018          | 3                      | (6)                    | 1,015      |
| Total debt securities - available-for-sale.......| 28,410         | 167                    | (153)                  | 28,424     |
| Debt securities - held-to-maturity:             |                |                        |                         |            |
| U.S. government and agency obligations .......... | 254            | 1                      | (1)                    | 254        |
| State and municipal obligations.................. | 2              | —                      | —                      | 2          |
| Corporate obligations............................ | 280            | —                      | —                      | 280        |
| Total debt securities - held-to-maturity........| 536            | 1                      | (1)                    | 536        |
| Total debt securities ................................| $28,946        | $168                   | $(154)                 | $28,960    |

The Company held $1.9 billion and $2.0 billion of equity securities as of March 31, 2018 and December 31, 2017, respectively. The Company’s investments in equity securities primarily consist of investments in Brazilian real denominated fixed-income funds, employee savings plan related investments and dividend paying stocks, with readily determinable fair values.

Additionally, the Company’s investments included $959 million and $898 million of equity method investments in operating businesses in the health care sector as of March 31, 2018 and December 31, 2017, respectively.
The amortized cost and fair value of debt securities as of March 31, 2018, by contractual maturity, were as follows:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Available-for-Sale</th>
<th>Held-to-Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized Cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Due in one year or less</td>
<td>$3,923</td>
<td>$3,915</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>$11,400</td>
<td>$11,273</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>$6,874</td>
<td>$6,766</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>$2,343</td>
<td>$2,330</td>
</tr>
<tr>
<td>U.S. agency mortgage-backed securities</td>
<td>$4,423</td>
<td>$4,316</td>
</tr>
<tr>
<td>Non-U.S. agency mortgage-backed securities</td>
<td>$1,162</td>
<td>$1,142</td>
</tr>
<tr>
<td>Total debt securities</td>
<td>$30,125</td>
<td>$29,742</td>
</tr>
</tbody>
</table>

The fair value of available-for-sale debt securities with gross unrealized losses by security type and length of time that individual securities have been in a continuous unrealized loss position were as follows:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Less Than 12 Months</th>
<th>12 Months or Greater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Gross Unrealized Losses</td>
<td>Fair Value</td>
</tr>
<tr>
<td>March 31, 2018 Debt securities - available-for-sale:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agency obligations ..</td>
<td>$1,787</td>
<td>(25)</td>
<td>$945</td>
</tr>
<tr>
<td>State and municipal obligations ..</td>
<td>$3,958</td>
<td>(66)</td>
<td>$781</td>
</tr>
<tr>
<td>Corporate obligations ..</td>
<td>$9,998</td>
<td>(129)</td>
<td>$1,193</td>
</tr>
<tr>
<td>U.S. agency mortgage-backed securities ..</td>
<td>$2,775</td>
<td>(61)</td>
<td>$1,127</td>
</tr>
<tr>
<td>Non-U.S. agency mortgage-backed securities ..</td>
<td>$863</td>
<td>(15)</td>
<td>$136</td>
</tr>
<tr>
<td>Total debt securities - available-for-sale</td>
<td>$19,381</td>
<td>(296)</td>
<td>$4,182</td>
</tr>
</tbody>
</table>

| December 31, 2017 Debt securities - available-for-sale: | | | | | | |
| U.S. government and agency obligations .. | $1,249 | (8) | $1,027 | (22) | $2,276 | (30) |
| State and municipal obligations .. | $2,599 | (21) | $866 | (14) | $3,465 | (35) |
| Corporate obligations .. | $5,901 | (23) | $1,242 | (21) | $7,143 | (44) |
| U.S. agency mortgage-backed securities .. | $1,657 | (12) | $1,162 | (26) | $2,819 | (38) |
| Non-U.S. agency mortgage-backed securities .. | $411 | (3) | $144 | (3) | $555 | (6) |
| Total debt securities - available-for-sale | $11,817 | (67) | $4,441 | (86) | $16,258 | (153) |

The Company’s unrealized losses from debt securities as of March 31, 2018 were generated from 18,000 positions out of a total of 28,000 positions. The Company believes that it will collect the principal and interest due on its debt securities that have an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases and not by unfavorable changes in the credit quality associated with these securities. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting no significant deterioration since purchase. As of March 31, 2018, the Company did not have the intent to sell any of the securities in an unrealized loss position. Therefore, the Company believes these losses to be temporary.

3. **Fair Value**

Certain assets and liabilities are measured at fair value in the Condensed Consolidated Financial Statements or have fair values disclosed in the Notes to the Condensed Consolidated Financial Statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP.
For a description of the methods and assumptions that are used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument, see Note 4 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2017 10-K.

The following table presents a summary of fair value measurements by level and carrying values for items measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Quoted Prices in Active Markets (Level 1)</th>
<th>Other Observable Inputs (Level 2)</th>
<th>Unobservable Inputs (Level 3)</th>
<th>Total Fair and Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$16,249</td>
<td>$1,994</td>
<td>—</td>
<td>$18,243</td>
</tr>
<tr>
<td>Debt securities - available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agency obligations</td>
<td>2,631</td>
<td>255</td>
<td>—</td>
<td>2,886</td>
</tr>
<tr>
<td>State and municipal obligations</td>
<td>—</td>
<td>7,139</td>
<td>—</td>
<td>7,139</td>
</tr>
<tr>
<td>Corporate obligations</td>
<td>50</td>
<td>14,068</td>
<td>141</td>
<td>14,259</td>
</tr>
<tr>
<td>U.S. agency mortgage-backed securities</td>
<td>—</td>
<td>4,316</td>
<td>—</td>
<td>4,316</td>
</tr>
<tr>
<td>Non-U.S. agency mortgage-backed securities</td>
<td>—</td>
<td>1,142</td>
<td>—</td>
<td>1,142</td>
</tr>
<tr>
<td>Total debt securities - available-for-sale</td>
<td>2,681</td>
<td>26,920</td>
<td>141</td>
<td>29,742</td>
</tr>
<tr>
<td>Equity securities</td>
<td>1,791</td>
<td>13</td>
<td>143</td>
<td>1,947</td>
</tr>
<tr>
<td>Assets under management</td>
<td>950</td>
<td>1,972</td>
<td>—</td>
<td>2,922</td>
</tr>
<tr>
<td>Total assets at fair value</td>
<td>$21,671</td>
<td>$30,899</td>
<td>$284</td>
<td>$52,854</td>
</tr>
<tr>
<td>Percentage of total assets at fair value</td>
<td>41%</td>
<td>58%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>December 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$11,718</td>
<td>$263</td>
<td>—</td>
<td>$11,981</td>
</tr>
<tr>
<td>Debt securities - available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agency obligations</td>
<td>2,428</td>
<td>216</td>
<td>—</td>
<td>2,644</td>
</tr>
<tr>
<td>State and municipal obligations</td>
<td>—</td>
<td>7,660</td>
<td>—</td>
<td>7,660</td>
</tr>
<tr>
<td>Corporate obligations</td>
<td>65</td>
<td>12,989</td>
<td>140</td>
<td>13,194</td>
</tr>
<tr>
<td>U.S. agency mortgage-backed securities</td>
<td>—</td>
<td>3,911</td>
<td>—</td>
<td>3,911</td>
</tr>
<tr>
<td>Non-U.S. agency mortgage-backed securities</td>
<td>—</td>
<td>1,015</td>
<td>—</td>
<td>1,015</td>
</tr>
<tr>
<td>Total debt securities - available-for-sale</td>
<td>2,493</td>
<td>25,791</td>
<td>140</td>
<td>28,424</td>
</tr>
<tr>
<td>Equity securities</td>
<td>1,784</td>
<td>14</td>
<td>194</td>
<td>1,992</td>
</tr>
<tr>
<td>Assets under management</td>
<td>1,117</td>
<td>1,984</td>
<td>—</td>
<td>3,101</td>
</tr>
<tr>
<td>Total assets at fair value</td>
<td>$17,112</td>
<td>$28,052</td>
<td>$334</td>
<td>$45,498</td>
</tr>
<tr>
<td>Percentage of total assets at fair value</td>
<td>38%</td>
<td>61%</td>
<td>1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Transfers between levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs; there were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during the three months ended March 31, 2018 or 2017.
The following table presents a summary of fair value measurements by level and carrying values for certain financial instruments not measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Quoted Prices in Active Markets (Level 1)</th>
<th>Other Observable Inputs (Level 2)</th>
<th>Unobservable Inputs (Level 3)</th>
<th>Total Fair Value</th>
<th>Total Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities - held-to-maturity</td>
<td>$260</td>
<td>$66</td>
<td>$264</td>
<td>$590</td>
<td>$591</td>
</tr>
<tr>
<td>Long-term debt and other financing obligations</td>
<td>$—</td>
<td>$32,892</td>
<td>$—</td>
<td>$32,892</td>
<td>$31,162</td>
</tr>
<tr>
<td><strong>December 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities - held-to-maturity</td>
<td>$267</td>
<td>$4</td>
<td>$265</td>
<td>$536</td>
<td>$536</td>
</tr>
<tr>
<td>Long-term debt and other financing obligations</td>
<td>$—</td>
<td>$34,504</td>
<td>$—</td>
<td>$34,504</td>
<td>$31,542</td>
</tr>
</tbody>
</table>

Nonfinancial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the three months ended March 31, 2018 or 2017.

4. Medical Costs Payable

The following table shows the components of the change in medical costs payable for the three months ended March 31:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical costs payable, beginning of period</td>
<td>$17,871</td>
<td>$16,391</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>211</td>
<td>76</td>
</tr>
<tr>
<td>Reported medical costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>36,153</td>
<td>32,529</td>
</tr>
<tr>
<td>Prior years</td>
<td>(290)</td>
<td>(450)</td>
</tr>
<tr>
<td>Total reported medical costs</td>
<td>35,863</td>
<td>32,079</td>
</tr>
<tr>
<td>Medical payments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for current year</td>
<td>(21,237)</td>
<td>(18,742)</td>
</tr>
<tr>
<td>Payments for prior years</td>
<td>(13,119)</td>
<td>(12,154)</td>
</tr>
<tr>
<td>Total medical payments</td>
<td>(34,356)</td>
<td>(30,896)</td>
</tr>
<tr>
<td>Medical costs payable, end of period</td>
<td>$19,589</td>
<td>$17,650</td>
</tr>
</tbody>
</table>

For the three months ended March 31, 2018 and 2017, the medical cost reserve development included no individual factors that were significant. Medical costs payable included reserves for claims incurred by insured customers but not yet reported to the Company of $13.3 billion and $12.3 billion at March 31, 2018 and December 31, 2017, respectively.
5. Commercial Paper and Long-Term Debt

Commercial paper and senior unsecured long-term debt consisted of the following:

<table>
<thead>
<tr>
<th>(in millions, except percentages)</th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial paper</td>
<td>$4,427</td>
<td>$150</td>
</tr>
<tr>
<td>6.000% notes due February 2018</td>
<td>4,423</td>
<td>1,100</td>
</tr>
<tr>
<td>1.900% notes due July 2018</td>
<td>1,499</td>
<td>1,499</td>
</tr>
<tr>
<td>1.700% notes due February 2019</td>
<td>744</td>
<td>747</td>
</tr>
<tr>
<td>1.625% notes due March 2019</td>
<td>495</td>
<td>501</td>
</tr>
<tr>
<td>2.300% notes due December 2019</td>
<td>495</td>
<td>501</td>
</tr>
<tr>
<td>2.700% notes due July 2020</td>
<td>1,493</td>
<td>1,496</td>
</tr>
<tr>
<td>Floating rate notes due October 2020</td>
<td>299</td>
<td>300</td>
</tr>
<tr>
<td>3.875% notes due October 2020</td>
<td>459</td>
<td>467</td>
</tr>
<tr>
<td>1.950% notes due October 2020</td>
<td>879</td>
<td>892</td>
</tr>
<tr>
<td>4.700% notes due February 2021</td>
<td>418</td>
<td>425</td>
</tr>
<tr>
<td>2.125% notes due March 2021</td>
<td>731</td>
<td>744</td>
</tr>
<tr>
<td>3.375% notes due November 2021</td>
<td>504</td>
<td>516</td>
</tr>
<tr>
<td>2.875% notes due December 2021</td>
<td>743</td>
<td>760</td>
</tr>
<tr>
<td>2.875% notes due March 2022</td>
<td>1,037</td>
<td>1,054</td>
</tr>
<tr>
<td>3.350% notes due July 2022</td>
<td>1,005</td>
<td>1,033</td>
</tr>
<tr>
<td>2.375% notes due October 2022</td>
<td>866</td>
<td>891</td>
</tr>
<tr>
<td>0.000% notes due October 2022</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>2.750% notes due February 2023</td>
<td>611</td>
<td>626</td>
</tr>
<tr>
<td>2.875% notes due March 2023</td>
<td>738</td>
<td>759</td>
</tr>
<tr>
<td>3.750% notes due July 2025</td>
<td>2,026</td>
<td>2,108</td>
</tr>
<tr>
<td>3.100% notes due March 2026</td>
<td>969</td>
<td>1,007</td>
</tr>
<tr>
<td>3.450% notes due January 2027</td>
<td>743</td>
<td>776</td>
</tr>
<tr>
<td>3.375% notes due April 2027</td>
<td>615</td>
<td>642</td>
</tr>
<tr>
<td>2.950% notes due October 2027</td>
<td>903</td>
<td>947</td>
</tr>
<tr>
<td>4.625% notes due July 2035</td>
<td>1,094</td>
<td>1,165</td>
</tr>
<tr>
<td>5.800% notes due March 2036</td>
<td>1,042</td>
<td>1,105</td>
</tr>
<tr>
<td>6.500% notes due June 2037</td>
<td>660</td>
<td>698</td>
</tr>
<tr>
<td>6.625% notes due November 2037</td>
<td>869</td>
<td>923</td>
</tr>
<tr>
<td>6.875% notes due February 2038</td>
<td>1,511</td>
<td>1,596</td>
</tr>
<tr>
<td>5.700% notes due October 2040</td>
<td>371</td>
<td>389</td>
</tr>
<tr>
<td>5.950% notes due February 2041</td>
<td>443</td>
<td>466</td>
</tr>
<tr>
<td>4.625% notes due November 2041</td>
<td>644</td>
<td>685</td>
</tr>
<tr>
<td>4.375% notes due March 2042</td>
<td>524</td>
<td>555</td>
</tr>
<tr>
<td>3.950% notes due October 2042</td>
<td>614</td>
<td>650</td>
</tr>
<tr>
<td>4.250% notes due March 2043</td>
<td>771</td>
<td>822</td>
</tr>
<tr>
<td>4.750% notes due July 2045</td>
<td>2,201</td>
<td>2,362</td>
</tr>
<tr>
<td>4.200% notes due January 2047</td>
<td>759</td>
<td>808</td>
</tr>
<tr>
<td>4.250% notes due April 2047</td>
<td>741</td>
<td>798</td>
</tr>
<tr>
<td>3.750% notes due October 2047</td>
<td>895</td>
<td>969</td>
</tr>
<tr>
<td>Total commercial paper and long-term debt</td>
<td>$34,594</td>
<td>$31,067</td>
</tr>
</tbody>
</table>

The Company’s long-term debt obligations included $1.4 billion and $625 million of other financing obligations, of which $207 million and $107 million were classified as current as of March 31, 2018 and December 31, 2017, respectively.

Commercial Paper and Bank Credit Facilities

Commercial paper consists of short-duration, senior unsecured debt privately placed on a discount basis through broker-dealers. As of March 31, 2018, the Company’s outstanding commercial paper had a weighted-average annual interest rate of 2.0%.
The Company has $3.0 billion five-year, $3.0 billion three-year and $4.0 billion 364-day revolving bank credit facilities with 26 banks, which mature in December 2022, December 2020 and December 2018, respectively. These facilities provide liquidity support for the Company’s commercial paper program and are available for general corporate purposes. As of March 31, 2018, no amounts had been drawn on any of the bank credit facilities. The annual interest rates, which are variable based on term, are calculated based on the London Interbank Offered Rate (LIBOR) plus a credit spread based on the Company’s senior unsecured credit ratings. If amounts had been drawn on the bank credit facilities as of March 31, 2018, annual interest rates would have ranged from 2.7% to 3.3%.

**Debt Covenants**

The Company’s bank credit facilities contain various covenants, including covenants requiring the Company to maintain a defined debt to debt-plus-shareholders’ equity ratio of not more than 55%. The Company was in compliance with its debt covenants as of March 31, 2018.

6. **Commitments and Contingencies**

**Legal Matters**

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators, relating to the Company’s businesses, including management and administration of health benefit plans and other services. These matters include medical malpractice, employment, intellectual property, antitrust, privacy and contract claims and claims related to health care benefits coverage and other business practices.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters: involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred.

**Government Investigations, Audits and Reviews**

The Company has been involved or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by the Centers for Medicare and Medicaid Services (CMS), state insurance and health and welfare departments, the Brazilian national regulatory agency for private health insurance and plans (the Agência Nacional de Saúde Suplementar), state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Government Accountability Office, the Federal Trade Commission, U.S. Congressional committees, the U.S. Department of Justice, the SEC, the Internal Revenue Service, the U.S. Drug Enforcement Administration, the Brazilian federal revenue service (the Secretaria da Receita Federal), the U.S. Department of Labor, the Federal Deposit Insurance Corporation, the Defense Contract Audit Agency and other governmental authorities. Certain of the Company’s businesses have been reviewed or are currently under review, including for, among other matters, compliance with coding and other requirements under the Medicare risk-adjustment model. CMS has selected certain of the Company’s local plans for risk adjustment data validation (RADV) audits to validate the coding practices of and supporting documentation maintained by health care providers and such audits may result in retrospective adjustments to payments made to the Company’s health plans.

On February 14, 2017, the Department of Justice (DOJ) announced its decision to pursue certain claims within a lawsuit initially asserted against the Company and filed under seal by a whistleblower in 2011. The whistleblower’s complaint, which was unsealed on February 15, 2017, alleges that the Company made improper risk adjustment submissions and violated the False Claims Act. On February 12, 2018, the court granted in part and denied in part the Company’s motion to dismiss. The Company cannot reasonably estimate the outcome that may result from this matter given its procedural status.
7. Segment Financial Information

The Company’s four reportable segments are UnitedHealthcare, OptumHealth, OptumInsight and OptumRx. For more information on the Company’s segments see Part I, Item I, “Business” and Note 13 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2017 10-K.

The following tables present reportable segment financial information:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>UnitedHealthcare</th>
<th>OptumHealth</th>
<th>OptumInsight</th>
<th>OptumRx</th>
<th>Optum Eliminations</th>
<th>Optum</th>
<th>Corporate and Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Three Months Ended March 31, 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues - unaffiliated customers:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums .........................</td>
<td>$43,237</td>
<td>$847</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$847</td>
<td>$—</td>
<td>$44,084</td>
</tr>
<tr>
<td>Products .........................</td>
<td>$—</td>
<td>12</td>
<td>23</td>
<td>6,667</td>
<td>$—</td>
<td>6,702</td>
<td>$—</td>
<td>6,702</td>
</tr>
<tr>
<td>Services ..........................</td>
<td>$2,039</td>
<td>1,188</td>
<td>740</td>
<td>137</td>
<td>$—</td>
<td>2,065</td>
<td>$—</td>
<td>4,104</td>
</tr>
<tr>
<td>Total revenues - unaffiliated customers .........................</td>
<td>$45,276</td>
<td>2,047</td>
<td>763</td>
<td>6,804</td>
<td>$—</td>
<td>9,614</td>
<td>$—</td>
<td>54,890</td>
</tr>
<tr>
<td>Total revenues - affiliated customers .........................</td>
<td>$—</td>
<td>3,606</td>
<td>1,304</td>
<td>9,295</td>
<td>(333)</td>
<td>13,872</td>
<td>(13,872)</td>
<td>$—</td>
</tr>
<tr>
<td>Investment and other income .........................</td>
<td>183</td>
<td>106</td>
<td>2</td>
<td>7</td>
<td>$—</td>
<td>115</td>
<td>$—</td>
<td>298</td>
</tr>
<tr>
<td>Total revenues .........................</td>
<td>$45,459</td>
<td>5,759</td>
<td>2,069</td>
<td>16,106</td>
<td>(333)</td>
<td>23,601</td>
<td>(13,872)</td>
<td>$55,188</td>
</tr>
<tr>
<td>Earnings from operations .........................</td>
<td>$2,400</td>
<td>488</td>
<td>395</td>
<td>770</td>
<td>$—</td>
<td>1,653</td>
<td>$—</td>
<td>4,053</td>
</tr>
<tr>
<td>Interest expense .........................</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>(329)</td>
<td>(329)</td>
</tr>
<tr>
<td>Earnings before income taxes .........................</td>
<td>$2,400</td>
<td>488</td>
<td>395</td>
<td>770</td>
<td>$—</td>
<td>1,653</td>
<td>(329)</td>
<td>3,724</td>
</tr>
<tr>
<td><strong>Three Months Ended March 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues - unaffiliated customers:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums .........................</td>
<td>$38,053</td>
<td>885</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>885</td>
<td>$—</td>
<td>38,938</td>
</tr>
<tr>
<td>Products .........................</td>
<td>$—</td>
<td>12</td>
<td>21</td>
<td>6,096</td>
<td>$—</td>
<td>6,129</td>
<td>$—</td>
<td>6,129</td>
</tr>
<tr>
<td>Services ..........................</td>
<td>1,922</td>
<td>721</td>
<td>642</td>
<td>149</td>
<td>$—</td>
<td>1,512</td>
<td>$—</td>
<td>3,434</td>
</tr>
<tr>
<td>Total revenues - unaffiliated customers .........................</td>
<td>39,975</td>
<td>1,618</td>
<td>663</td>
<td>6,245</td>
<td>$—</td>
<td>8,526</td>
<td>$—</td>
<td>48,501</td>
</tr>
<tr>
<td>Total revenues - affiliated customers .........................</td>
<td>$—</td>
<td>3,059</td>
<td>1,179</td>
<td>8,698</td>
<td>(286)</td>
<td>12,650</td>
<td>(12,650)</td>
<td>$—</td>
</tr>
<tr>
<td>Investment and other income .........................</td>
<td>161</td>
<td>56</td>
<td>1</td>
<td>4</td>
<td>$1</td>
<td>61</td>
<td>$—</td>
<td>222</td>
</tr>
<tr>
<td>Total revenues .........................</td>
<td>$40,136</td>
<td>4,733</td>
<td>1,843</td>
<td>14,947</td>
<td>(286)</td>
<td>21,237</td>
<td>(12,650)</td>
<td>$48,723</td>
</tr>
<tr>
<td>Earnings from operations .........................</td>
<td>$2,134</td>
<td>332</td>
<td>294</td>
<td>653</td>
<td>$—</td>
<td>1,279</td>
<td>$—</td>
<td>3,413</td>
</tr>
<tr>
<td>Interest expense .........................</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>(283)</td>
<td>(283)</td>
<td>$—</td>
</tr>
<tr>
<td>Earnings before income taxes .........................</td>
<td>$2,134</td>
<td>332</td>
<td>294</td>
<td>653</td>
<td>$—</td>
<td>1,279</td>
<td>(283)</td>
<td>3,130</td>
</tr>
</tbody>
</table>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the accompanying Condensed Consolidated Financial Statements and Notes and with our 2017 10-K, including the Consolidated Financial Statements and Notes in Part II, Item 8, “Financial Statements” in that report. Unless the context indicates otherwise, references to the terms “UnitedHealth Group,” “we,” “our” or “us” used throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations refer to UnitedHealth Group Incorporated and its consolidated subsidiaries.

Readers are cautioned that the statements, estimates, projections or outlook contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations, including discussions regarding financial prospects, economic conditions, trends and uncertainties contained in this Item 2, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the results discussed or implied in the forward-looking statements. A description of some of the risks and uncertainties is set forth in Part I, Item 1A, “Risk Factors” in our 2017 10-K and in the discussion below.

EXECUTIVE OVERVIEW

General

UnitedHealth Group is a diversified health care company dedicated to helping people live healthier lives and helping make the health system work better for everyone. Through our diversified family of businesses, we leverage core competencies in data and health information; advanced technology; and clinical expertise to help meet the demands of the health system. These core competencies are deployed within our two distinct, but strategically aligned, business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum.

Further information on our business is presented in Part I, Item 1, “Business” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2017 10-K and additional information on our segments can be found in this Item 2 and in Note 7 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Business Trends

Our businesses participate in the United States, South American and certain other international health markets. In the United States, health care spending has grown consistently for many years and comprises approximately 19% of gross domestic product. We expect overall spending on health care to continue to grow in the future due to inflation, medical technology and pharmaceutical advancement, regulatory requirements, demographic trends in the population and national interest in health and well-being. The rate of market growth may be affected by a variety of factors, including macro-economic conditions and regulatory changes, which have impacted and could further impact our results of operations.

Pricing Trends

To price our health care benefit products, we start with our view of expected future costs, including the impact of the Health Insurance Industry Tax. We frequently evaluate and adjust our approach in each of the local markets we serve, considering all relevant factors, such as product positioning, price competitiveness and environmental, competitive, legislative and regulatory considerations, including minimum medical loss ratio (MLR) thresholds. We will continue seeking to balance growth and profitability across all of these dimensions.

The commercial risk market remains highly competitive in both the small group and large group segments. We expect broad-based competition to continue as the industry adapts to individual and employer needs amid reform changes. In 2019 there will be a one year moratorium on the collection of the Health Insurance Industry Tax. Pricing for contracts that cover some portion of calendar year 2019 will reflect the impact of the moratorium.

Medicare Advantage funding continues to be pressured, as discussed below in “Regulatory Trends and Uncertainties.”

Medical Cost Trends

Our medical cost trends primarily relate to changes in unit costs, health system utilization and prescription drug costs. We endeavor to mitigate those increases by engaging physicians and consumers with information and helping them make clinically sound choices, with the objective of helping them achieve high quality, affordable care.

Regulatory Trends and Uncertainties

Following is a summary of management’s view of the trends and uncertainties related to Medicare Advantage rates. For additional information regarding regulatory trends and uncertainties, see Part I, Item 1 “Business - Government Regulation,” Item 1A, “Risk Factors” and Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2017 10-K.
Medicare Advantage Rates. Final 2019 Medicare Advantage rates resulted in an increase in industry base rates of approximately 3.4%, short of the industry forward medical cost trend, which creates continued pressure in the Medicare Advantage program. The impact of this funding shortfall in Medicare Advantage is partially mitigated by reductions in provider payments for those care providers with rates indexed to Medicare Advantage revenues or Medicare fee-for-service payment rates. These factors can affect our plan benefit designs, pricing, growth prospects and earnings expectations for our Medicare Advantage plans.

The Tax Cut and Jobs Act (Tax Reform). Tax Reform was enacted by the U.S federal government in December 2017, changing existing federal tax law, including reducing the U.S. corporate income tax rate. With the impact of Tax Reform, partially offset by the return of the nondeductible Health Insurance Industry Tax, we expect that our effective tax rate in 2018 will be approximately 24%.

Health Insurance Industry Tax. After a moratorium in 2017, the industry-wide amount of the Health Insurance Industry Tax in 2018 will be $14.3 billion and we expect our portion to be approximately $2.8 billion. The return of the tax impacts year over year comparability of our financial statements, including revenue, medical care ratio (MCR), operating cost ratio and effective tax rate. A one year moratorium on the collection of the Health Insurance Industry Tax will occur in 2019.

SELECTED OPERATING PERFORMANCE AND OTHER SIGNIFICANT ITEMS

The following summarizes select first quarter 2018 year-over-year operating comparisons to first quarter 2017 and other 2018 significant items.

- Consolidated revenues grew 13%, UnitedHealthcare revenues grew 13% and Optum revenues grew 11%.
- UnitedHealthcare served 465,000 fewer people as a result of completion of its commitment to the 2.9 million people under the TRICARE military health care program, partially offset by the addition of 2 million people through acquisition and the remainder from organic growth.
- Earnings from operations increased 19%, including increases of 12% at UnitedHealthcare and 29% at Optum.
- Due primarily to the impact of Tax Reform, our effective income tax rate decreased 850 basis points to 21.5%.
- Diluted earnings per common share increased 29%.
- Cash flows from operations were $8.4 billion, aided by the March receipt of our April CMS premium payment of $5.1 billion.
The following table summarizes our consolidated results of operations and other financial information:

<table>
<thead>
<tr>
<th>(in millions, except percentages and per share data)</th>
<th>Three Months Ended March 31, 2018</th>
<th>Three Months Ended March 31, 2017</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$44,084</td>
<td>$38,938</td>
<td>$5,146</td>
</tr>
<tr>
<td>Products</td>
<td>6,702</td>
<td>6,129</td>
<td>573</td>
</tr>
<tr>
<td>Services</td>
<td>4,104</td>
<td>3,434</td>
<td>670</td>
</tr>
<tr>
<td>Investment and other income</td>
<td>298</td>
<td>222</td>
<td>76</td>
</tr>
<tr>
<td>Total revenues</td>
<td>55,188</td>
<td>48,723</td>
<td>6,465</td>
</tr>
<tr>
<td><strong>Operating costs:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical costs</td>
<td>35,863</td>
<td>32,079</td>
<td>3,784</td>
</tr>
<tr>
<td>Operating costs</td>
<td>8,506</td>
<td>7,022</td>
<td>1,484</td>
</tr>
<tr>
<td>Cost of products sold</td>
<td>6,184</td>
<td>5,676</td>
<td>508</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>582</td>
<td>533</td>
<td>49</td>
</tr>
<tr>
<td>Total operating costs</td>
<td>51,135</td>
<td>45,310</td>
<td>5,825</td>
</tr>
<tr>
<td>Earnings from operations</td>
<td>4,053</td>
<td>3,413</td>
<td>640</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(329)</td>
<td>(283)</td>
<td>(46)</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>3,724</td>
<td>3,130</td>
<td>594</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>(800)</td>
<td>(939)</td>
<td>139</td>
</tr>
<tr>
<td>Net earnings</td>
<td>2,924</td>
<td>2,191</td>
<td>733</td>
</tr>
<tr>
<td>Earnings attributable to noncontrolling interests</td>
<td>(88)</td>
<td>(19)</td>
<td>(69)</td>
</tr>
<tr>
<td>Net earnings attributable to UnitedHealth Group common shareholders</td>
<td>$2,836</td>
<td>$2,172</td>
<td>$664</td>
</tr>
<tr>
<td>Diluted earnings per share attributable to UnitedHealth Group common shareholders</td>
<td>$2.87</td>
<td>$2.23</td>
<td>$0.64</td>
</tr>
<tr>
<td>Medical care ratio (a)</td>
<td>81.4%</td>
<td>82.4%</td>
<td>(1.0)%</td>
</tr>
<tr>
<td>Operating cost ratio</td>
<td>15.4</td>
<td>14.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Operating margin</td>
<td>7.3</td>
<td>7.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Tax rate</td>
<td>21.5</td>
<td>30.0</td>
<td>(8.5)</td>
</tr>
<tr>
<td>Net earnings margin (b)</td>
<td>5.1</td>
<td>4.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Return on equity (c)</td>
<td>23.8%</td>
<td>21.7%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

(a) Medical care ratio is calculated as medical costs divided by premium revenue.
(b) Net earnings margin attributable to UnitedHealth Group shareholders.
(c) Return on equity is calculated as annualized net earnings divided by average equity. Average equity is calculated using the equity balance at the end of the preceding year and the equity balances at the end of each of the quarters in the year presented.

2018 RESULTS OF OPERATIONS COMPARED TO 2017 RESULTS OF OPERATIONS

Consolidated Financial Results

Revenue
The increase in revenue was primarily driven by the increase in the number of individuals served through risk-based products across our UnitedHealthcare benefits businesses, pricing trends, including for the return of the Health Insurance Industry Tax in 2018, and growth across the Optum business.

Medical Costs and MCR
Medical costs increased due to growth in people served through risk-based products and medical cost trends. The MCR decreased due to the revenue effects of the Health Insurance Industry Tax partially offset by elevated flu-related illness costs.

Income Tax Rate
Our effective tax rate decreased due to the impact of Tax Reform, which was partially offset by the return of the nondeductible Health Insurance Industry Tax.
Reportable Segments

See Note 7 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for more information on our segments. The following table presents a summary of the reportable segment financial information:

<table>
<thead>
<tr>
<th>(in millions, except percentages)</th>
<th>Three Months Ended March 31,</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UnitedHealthcare</td>
<td>$45,459</td>
<td>$40,136</td>
</tr>
<tr>
<td>OptumHealth</td>
<td>5,759</td>
<td>4,733</td>
</tr>
<tr>
<td>OptumInsight</td>
<td>2,069</td>
<td>1,843</td>
</tr>
<tr>
<td>OptumRx</td>
<td>16,106</td>
<td>14,947</td>
</tr>
<tr>
<td>Optum eliminations</td>
<td>(333)</td>
<td>(286)</td>
</tr>
<tr>
<td>Optum</td>
<td>23,601</td>
<td>21,237</td>
</tr>
<tr>
<td>Eliminations</td>
<td>(13,872)</td>
<td>(12,650)</td>
</tr>
<tr>
<td>Consolidated revenues</td>
<td>$55,188</td>
<td>$48,723</td>
</tr>
<tr>
<td><strong>Earnings from operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UnitedHealthcare</td>
<td>$2,400</td>
<td>$2,134</td>
</tr>
<tr>
<td>OptumHealth</td>
<td>488</td>
<td>332</td>
</tr>
<tr>
<td>OptumInsight</td>
<td>395</td>
<td>294</td>
</tr>
<tr>
<td>OptumRx</td>
<td>770</td>
<td>653</td>
</tr>
<tr>
<td>Optum</td>
<td>1,653</td>
<td>1,279</td>
</tr>
<tr>
<td>Consolidated earnings from operations</td>
<td>$4,053</td>
<td>$3,413</td>
</tr>
<tr>
<td><strong>Operating margin</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UnitedHealthcare</td>
<td>5.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>OptumHealth</td>
<td>8.5</td>
<td>7.0</td>
</tr>
<tr>
<td>OptumInsight</td>
<td>19.1</td>
<td>16.0</td>
</tr>
<tr>
<td>OptumRx</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Optum</td>
<td>7.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Consolidated operating margin</td>
<td>7.3%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

UnitedHealthcare

The following table summarizes UnitedHealthcare revenues by business:

<table>
<thead>
<tr>
<th>(in millions, except percentages)</th>
<th>Three Months Ended March 31,</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>UnitedHealthcare Employer &amp; Individual</td>
<td>$13,414</td>
<td>$12,739</td>
</tr>
<tr>
<td>UnitedHealthcare Medicare &amp; Retirement</td>
<td>18,925</td>
<td>16,552</td>
</tr>
<tr>
<td>UnitedHealthcare Community &amp; State</td>
<td>10,671</td>
<td>8,949</td>
</tr>
<tr>
<td>UnitedHealthcare Global</td>
<td>2,449</td>
<td>1,896</td>
</tr>
<tr>
<td>Total UnitedHealthcare revenues</td>
<td>$45,459</td>
<td>$40,136</td>
</tr>
</tbody>
</table>
The following table summarizes the number of individuals served by our UnitedHealthcare businesses, by major market segment and funding arrangement:

<table>
<thead>
<tr>
<th>(in thousands, except percentages)</th>
<th>March 31, 2018</th>
<th>March 31, 2017</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial group:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-based</td>
<td>7,860</td>
<td>7,695</td>
<td>165 2%</td>
</tr>
<tr>
<td>Fee-based</td>
<td>18,475</td>
<td>19,155</td>
<td>(680) (4)</td>
</tr>
<tr>
<td>Total commercial group</td>
<td>26,335</td>
<td>26,850</td>
<td>(515) (2)</td>
</tr>
<tr>
<td>Individual</td>
<td>475</td>
<td>585</td>
<td>(110) (19)</td>
</tr>
<tr>
<td>Fee-based TRICARE</td>
<td>—</td>
<td>2,860</td>
<td>(2,860) (100)</td>
</tr>
<tr>
<td>Total commercial</td>
<td>26,810</td>
<td>30,295</td>
<td>(3,485) (12)</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>4,760</td>
<td>4,305</td>
<td>455 11%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>6,695</td>
<td>6,200</td>
<td>495 8</td>
</tr>
<tr>
<td>Medicare Supplement (Standardized)</td>
<td>4,490</td>
<td>4,350</td>
<td>140 3</td>
</tr>
<tr>
<td>Total public and senior</td>
<td>15,945</td>
<td>14,855</td>
<td>1,090 7</td>
</tr>
<tr>
<td>Total UnitedHealthcare - domestic medical</td>
<td>42,755</td>
<td>45,150</td>
<td>(2,395) (5)</td>
</tr>
<tr>
<td>International</td>
<td>6,095</td>
<td>4,165</td>
<td>1,930 46</td>
</tr>
<tr>
<td>Total UnitedHealthcare - medical</td>
<td>48,850</td>
<td>49,315</td>
<td>(465) (1)%</td>
</tr>
<tr>
<td><strong>Supplemental Data:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare Part D stand-alone</td>
<td>4,770</td>
<td>4,955</td>
<td>(185) (4)%</td>
</tr>
</tbody>
</table>

Broad-based growth, primarily in services to small groups, resulted in the overall increase in people served through risk-based benefit plans in the commercial group market. Fee-based commercial group business declined primarily due to the non-renewal of one public sector customer in the third quarter of 2017. Medicare Advantage increased year-over-year due to growth in people served through individual and employer-sponsored group Medicare Advantage plans. Medicaid growth was driven by the combination of new state-based awards and growth in established programs. Medicare Supplement growth reflected strong customer retention and new sales. International growth was driven by an acquisition in the first quarter.

UnitedHealthcare’s revenue increased due to growth in the number of individuals served across its risk-based businesses, rate increases for underlying medical cost trends and the impact of the return of the Health Insurance Industry Tax. Earnings from operations increased, as the operating margin remained consistent.

**Optum**

Total revenues and earnings from operations increased as each segment reported increased revenues and earnings from operations as a result of productivity and overall cost management initiatives in addition to the factors discussed below.

The results by segment were as follows:

**OptumHealth**

Revenue and earnings from operations increased at OptumHealth primarily due to organic and acquisition-related growth in care delivery and behavioral, digital customer engagement and health financial services.

**OptumInsight**

Revenue and earnings from operations at OptumInsight increased primarily due to organic and acquisition-related growth in payer technology and services and care provider advisory services.

**OptumRx**

Revenue and earnings from operations at OptumRx increased primarily due to customer growth. OptumRx fulfilled 332 million and 322 million adjusted scripts, in the first quarters of 2018 and 2017, respectively.
LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES

Liquidity

Summary of our Major Sources and Uses of Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Three Months Ended March 31,</th>
<th>Increase/Decrease</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2018 vs. 2017</td>
</tr>
<tr>
<td>Sources of cash:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash provided by operating activities</td>
<td>$ 8,369</td>
<td>$ 6,456</td>
<td>$ 1,913</td>
</tr>
<tr>
<td>Issuances of commercial paper and long-term debt, net of repayments</td>
<td>3,159</td>
<td>—</td>
<td>3,159</td>
</tr>
<tr>
<td>Proceeds from common stock issuances</td>
<td>295</td>
<td>270</td>
<td>25</td>
</tr>
<tr>
<td>Customer funds administered</td>
<td>2,962</td>
<td>3,217</td>
<td>(255)</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>25</td>
<td>(25)</td>
</tr>
<tr>
<td>Total sources of cash</td>
<td>14,785</td>
<td>9,968</td>
<td></td>
</tr>
<tr>
<td>Uses of cash:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock repurchases</td>
<td>(2,650)</td>
<td>(682)</td>
<td>(1,968)</td>
</tr>
<tr>
<td>Cash paid for acquisitions, net of cash assumed</td>
<td>(2,583)</td>
<td>(468)</td>
<td>(2,115)</td>
</tr>
<tr>
<td>Purchases of investments, net of sales and maturities</td>
<td>(1,385)</td>
<td>(1,339)</td>
<td>(46)</td>
</tr>
<tr>
<td>Repayments of commercial paper and long-term debt, net of issuances</td>
<td>—</td>
<td>(189)</td>
<td>189</td>
</tr>
<tr>
<td>Purchases of property, equipment and capitalized software</td>
<td>(477)</td>
<td>(507)</td>
<td>30</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(722)</td>
<td>(596)</td>
<td>(126)</td>
</tr>
<tr>
<td>Other</td>
<td>(694)</td>
<td>(495)</td>
<td>(199)</td>
</tr>
<tr>
<td>Total uses of cash</td>
<td>(8,511)</td>
<td>(4,276)</td>
<td></td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(12)</td>
<td>20</td>
<td>(32)</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>$ 6,262</td>
<td>$ 5,712</td>
<td>$ 550</td>
</tr>
</tbody>
</table>

2018 Cash Flows Compared to 2017 Cash Flows

Increased cash flows provided by operating activities were primarily driven by the increase in unearned revenues, due to the increase in the March receipt of our April CMS premium payment of $5.1 billion compared to $4.4 billion, for 2018 and 2017, respectively, higher net earnings, and the year-over-year impact of the return of the Health Insurance Industry Tax.

Other significant changes in sources or uses of cash year-over-year included an increase in cash paid for acquisitions and share repurchases, partially offset by net issuances of commercial paper in 2018.

Financial Condition

As of March 31, 2018, our cash, cash equivalent, available-for-sale debt securities and equity securities balances of $50 billion included $18 billion of cash and cash equivalents (of which $1 billion was available for general corporate use), $30 billion of debt securities and $2 billion of investments in equity securities. Given the significant portion of our portfolio held in cash and cash equivalents, we do not anticipate fluctuations in the aggregate fair value of our financial assets to have a material impact on our liquidity or capital position. Our available-for-sale debt portfolio had a weighted-average duration of 3.2 years and a weighted-average credit rating of “Double A” as of March 31, 2018. When multiple credit ratings are available for an individual security, the average of the available ratings is used to determine the weighted-average credit rating.

Capital Resources and Uses of Liquidity

In addition to cash flows from operations and cash and cash equivalent balances available for general corporate use, our capital resources and uses of liquidity are as follows:

Commercial Paper and Bank Credit Facilities. Our revolving bank credit facilities provide liquidity support for our commercial paper borrowing program, which facilitates the private placement of unsecured debt through third-party broker-dealers, and are available for general corporate purposes. For more information on our commercial paper and bank credit facilities, see Note 5 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.
Our revolving bank credit facilities contain various covenants, including covenants requiring us to maintain a defined debt to debt-plus-shareholders’ equity ratio of not more than 55%. As of March 31, 2018, our debt to debt-plus-shareholders’ equity ratio, as defined and calculated under the credit facilities, was approximately 40%.

**Long-Term Debt.** Periodically, we access capital markets and issue long-term debt for general corporate purposes, such as to meet our working capital requirements, to refinance debt, to finance acquisitions or for share repurchases. For more information on our long-term debt, see Note 5 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

**Credit Ratings.** Our credit ratings as of March 31, 2018 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Moody's</th>
<th>S&amp;P Global</th>
<th>Fitch</th>
<th>A.M. Best</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ratings</td>
<td>Ratings</td>
<td>Ratings</td>
<td>Ratings</td>
</tr>
<tr>
<td>Senior unsecured debt</td>
<td>A3</td>
<td>A+</td>
<td>A-</td>
<td>bbb+</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>P-2</td>
<td>A-1</td>
<td>F1</td>
<td>AMB-2</td>
</tr>
</tbody>
</table>

The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, debt covenants and other contractual restrictions, regulatory requirements and economic and market conditions. For example, a significant downgrade in our credit ratings or adverse conditions in the capital markets may increase the cost of borrowing for us or limit our access to capital.

**Share Repurchase Program.** During the three months ended March 31, 2018, we repurchased 12 million shares at an average price of $228.16 per share. As of March 31, 2018, we had Board authorization to purchase up to an additional 31 million shares of our common stock.

**Dividends.** Our quarterly cash dividend to shareholders reflects an annual dividend rate of $3.00 per share.

For additional liquidity discussion, see Note 10 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 in our 2017 10-K.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2017 was disclosed in our 2017 10-K. During the three months ended March 31, 2018, there were no material changes to this previously disclosed information outside the ordinary course of business. However, we continually evaluate opportunities to expand our operations, including through internal development of new products, programs and technology applications and acquisitions.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

See Note 1 of Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of new accounting pronouncements that affect us.

**CRITICAL ACCOUNTING ESTIMATES**

In preparing our Condensed Consolidated Financial Statements, we are required to make judgments, assumptions and estimates, which we believe are reasonable and prudent based on the available facts and circumstances. These judgments, assumptions and estimates affect certain of our revenues and expenses and their related balance sheet accounts and disclosure of our contingent liabilities. We base our assumptions and estimates primarily on historical experience and consider known and projected trends. On an ongoing basis, we re-evaluate our selection of assumptions and the method of calculating our estimates. Actual results, however, may materially differ from our calculated estimates, and this difference would be reported in our current operations.

Our critical accounting estimates include medical costs payable, revenues, and goodwill and other intangible assets. For a detailed description of our critical accounting estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 in our 2017 10-K. For a detailed discussion of our significant accounting policies, see Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in our 2017 10-K.
FORWARD-LOOKING STATEMENTS

The statements, estimates, projections, guidance or outlook contained in this document include “forward-looking” statements within the meaning of the PSLRA. These statements are intended to take advantage of the “safe harbor” provisions of the PSLRA. Generally the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “forecast,” “outlook,” “plan,” “project,” “should” and similar expressions identify forward-looking statements, which generally are not historical in nature. These statements may contain information about financial prospects, economic conditions and trends and involve risks and uncertainties. We caution that actual results could differ materially from those that management expects, depending on the outcome of certain factors.

Some factors that could cause actual results to differ materially from results discussed or implied in the forward-looking statements include: our ability to effectively estimate, price for and manage our medical costs, including the impact of any new coverage requirements; new laws or regulations, or changes in existing laws or regulations, or their enforcement or application, including increases in medical, administrative, technology or other costs or decreases in enrollment resulting from U.S., South American and other jurisdictions’ regulations affecting the health care industry; the outcome of the DOJ’s legal action relating to the risk adjustment submission matter; our ability to maintain and achieve improvement in CMS star ratings and other quality scores that impact revenue; reductions in revenue or delays to cash flows received under Medicare, Medicaid and other government programs, including the effects of a prolonged U.S. government shutdown or debt ceiling constraints; changes in Medicare, including changes in payment methodology; the CMS star ratings program or the application of risk adjustment data validation audits; cyber-attacks or other privacy or data security incidents; failure to comply with privacy and data security regulations; regulatory and other risks and uncertainties of the pharmacy benefits management industry; competitive pressures, which could affect our ability to maintain or increase our market share; changes in or challenges to our public sector contract awards; our ability to execute contracts on competitive terms with physicians, hospitals and other service providers; failure to achieve targeted operating cost productivity improvements, including savings resulting from technology enhancement and administrative modernization; increases in costs and other liabilities associated with increased litigation, government investigations, audits or reviews; failure to manage successfully our strategic alliances or complete or receive anticipated benefits of acquisitions and other strategic transactions, fluctuations in foreign currency exchange rates on our reported shareholders’ equity and results of operations; downgrades in our credit ratings; the performance of our investment portfolio; impairment of the value of our goodwill and intangible assets if estimated future results do not adequately support goodwill and intangible assets recorded for our existing businesses or the businesses that we acquire; failure to maintain effective and efficient information systems or if our technology products do not operate as intended; and our ability to obtain sufficient funds from our regulated subsidiaries or the debt or capital markets to fund our obligations, to maintain our debt to total capital ratio at targeted levels, to maintain our quarterly dividend payment cycle or to continue repurchasing shares of our common stock.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain risk factors that may affect our business operations, financial condition and results of operations, in our other periodic and current filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Any or all forward-looking statements we make may turn out to be wrong, and can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. By their nature, forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed or implied in this document or any of our prior communications. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update or revise any forward-looking statements, except as required by applicable securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We manage exposure to market interest rates by diversifying investments across different fixed-income market sectors and debt across maturities, as well as by endeavoring to match our floating-rate assets and liabilities over time, either directly or through the use of interest rate swap contracts. Unrealized gains and losses on investments in available-for-sale securities are reported in comprehensive income.
The following table summarizes the impact of hypothetical changes in market interest rates across the entire yield curve by 1% point or 2% points as of March 31, 2018 on our investment income and interest expense per annum, and the fair value of our investments and debt (in millions, except percentages):

<table>
<thead>
<tr>
<th>Increase (Decrease) in Market Interest Rate</th>
<th>March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Income Per Annum (a)</td>
</tr>
<tr>
<td>2 % .................................................................</td>
<td>$ 426</td>
</tr>
<tr>
<td>1..............................................................................</td>
<td>213</td>
</tr>
<tr>
<td>(1)...........................................................................</td>
<td>(213)</td>
</tr>
<tr>
<td>(2)...........................................................................</td>
<td>(340)</td>
</tr>
</tbody>
</table>

(a) Given the low absolute level of short-term market rates on our floating-rate assets and liabilities as of March 31, 2018, the assumed hypothetical change in interest rates does not reflect the full 200 basis point reduction in interest expense as the rate cannot fall below zero.

(b) As of March 31, 2018, some of our investments had interest rates below 2% so the assumed hypothetical change in the fair value of investments does not reflect the full 200 basis point reduction.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the filing of this quarterly report on Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2018.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.
PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
A description of our legal proceedings is included in and incorporated by reference to Note 6 of Notes to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report.

ITEM 1A. RISK FACTORS
In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors” of our 2017 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2017 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

There have been no material changes to the risk factors disclosed in our 2017 10-K.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS
In November 1997, our Board of Directors adopted a share repurchase program, which the Board evaluates periodically. There is no established expiration date for the program. During the first quarter 2018, we repurchased approximately 12 million shares at an average price of $228.16 per share. As of March 31, 2018, we had Board authorization to purchase up to 31 million shares of our common stock.
ITEM 6. EXHIBITS*

The following exhibits are filed or incorporated by reference herein in response to Item 601 of Regulation S-K. The Company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to the Securities Exchange Act of 1934 under Commission File No. 1-10864.

3.1 Certificate of Incorporation of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form 8-A/A filed on July 1, 2015)

3.2 Bylaws of UnitedHealth Group Incorporated, effective August 15, 2017 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on August 16, 2017)

4.1 Senior Indenture, dated as of November 15, 1998, between United HealthCare Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-3/A, SEC File Number 333-66013, filed on January 11, 1999)

4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)


4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)

12.1 Computation of Ratio of Earnings to Fixed Charges

31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002


* Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long-term debt are not filed. The Company will furnish copies thereof to the SEC upon request.
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITEDHEALTH GROUP INCORPORATED

/s/ DAVID S. WICHMANN

David S. Wichmann

Chief Executive Officer
(principal executive officer)

Dated: May 7, 2018

/s/ JOHN F. REX

John F. Rex

Executive Vice President and
Chief Financial Officer
(principal financial officer)

Dated: May 7, 2018

/s/ THOMAS E. ROOS

Thomas E. Roos

Senior Vice President and
Chief Accounting Officer
(principal accounting officer)

Dated: May 7, 2018