

2009 Annual Report

Building a strong, sustainable future



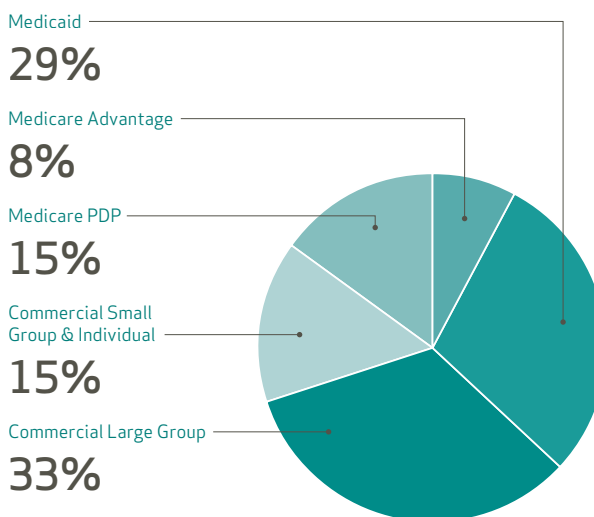
Health Net is a Western region health benefits company with a large Government Contracts and Specialty Services business...

...Providing managed health benefits to more than **6.1 million** individuals in the U.S. through commercial, Medicare and Medicaid offerings

...Serving approximately **3.1 million** military beneficiaries through the TRICARE North contract in 23 states and the District of Columbia

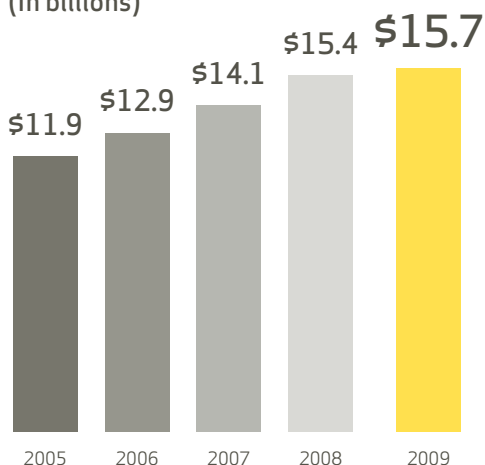
...Offering mental health benefits to nearly **6.5 million** individuals and pharmacy benefit management services to approximately **2.7 million** individuals

Diverse Medical Membership Base of approximately 3.0 million Health Plan Members

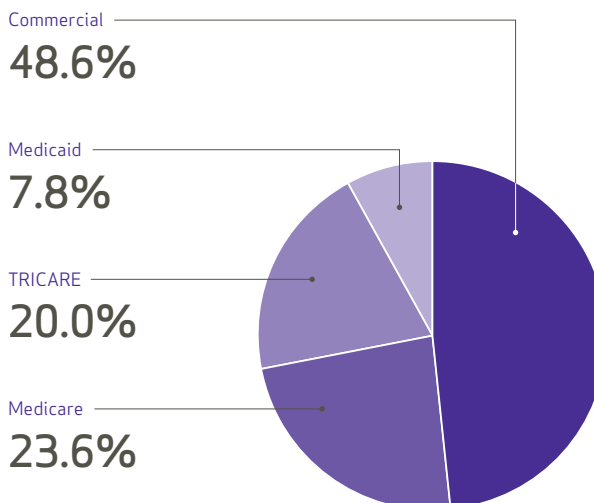


...Generating **\$15.7 billion** in total revenues in 2009

Total Revenues (In billions)



Premium Revenue Contribution



The current **economic environment** and potential **health care reform** present both challenges and opportunities.

A New Environment

As a result of the changing economy and the potential for health care reform, we believe there could be compelling growth opportunities for Health Net. Many Americans can no longer afford plans with high deductibles and large premium increases. We believe that these new “value shoppers” want predictability and affordability from their health plan. To meet this growing customer need, we developed more cost-effective, narrow network

products that are designed to give our customers access to quality care and reduce financial barriers to getting vital preventive care for every member of the family. We also believe that health care reform will present further opportunities for us to develop and offer more affordable products based on our current networks of hospitals, physicians and other health care professionals.





Positioned for the Future

We believe Health Net today has **multiple growth opportunities** and **is positioned for the future.**

HEALTH PLAN SERVICES

Commercial Business

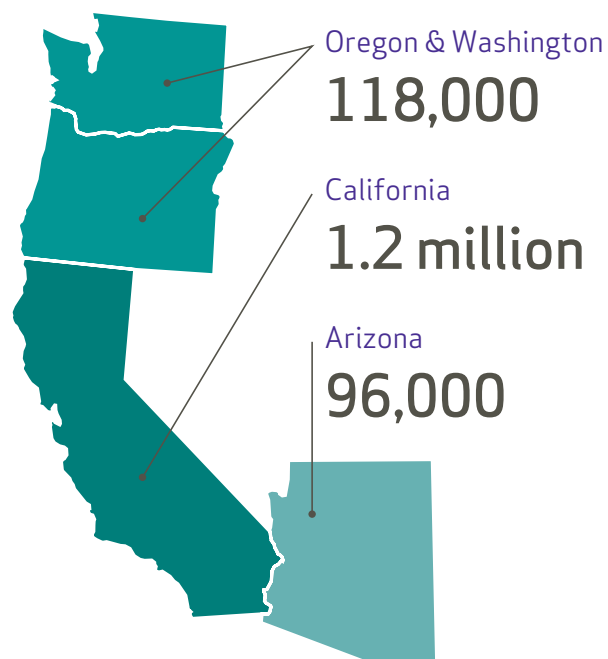
Health Net offers managed care benefits to the commercial market in Arizona, California, Oregon and Washington. In 2009, commercial premium revenues in these states totaled approximately \$5.7 billion.

Many of our commercial customers continue to ask for products that can enhance affordability. We are addressing this need with new lower-cost, narrow network products. These plans provide comprehensive coverage with low out-of-pocket costs and access to a wide range of physicians and hospitals.

Medicare Advantage and Medicare Part D Business

Health Net offers a variety of Medicare Advantage products to seniors and others who are eligible for Medicare benefits in Arizona, California, Oregon and Washington. In addition, the company offers

Commercial Members



Medicare Part D products in 49 states (New York is the exception). Medicare premium revenues were approximately \$3.7 billion in 2009.

With the sale of our Northeast businesses in late 2009, Health Net is now concentrating on its Western Medicare network-model markets — we believe these long-standing markets will continue to provide opportunities for growth, especially as “Baby Boomers” age.

State Health Programs Business

Health Net participates in California’s Medicaid program (Medi-Cal), the Children’s Health Insurance Program (Healthy Families), and Access for Infants and Mothers (AIM). Through these programs, Health Net provides managed care benefits to 857,000 members in 36 counties.

We believe we have expanded our presence in Medi-Cal as a result of both the economic downturn and our recognized high service levels. In fact, Health Net of California’s Medi-Cal program is the highest-ranked Medicaid plan in the state according to *U.S. News/NCQA America’s Best Health Insurance Plans* for 2009–2010.

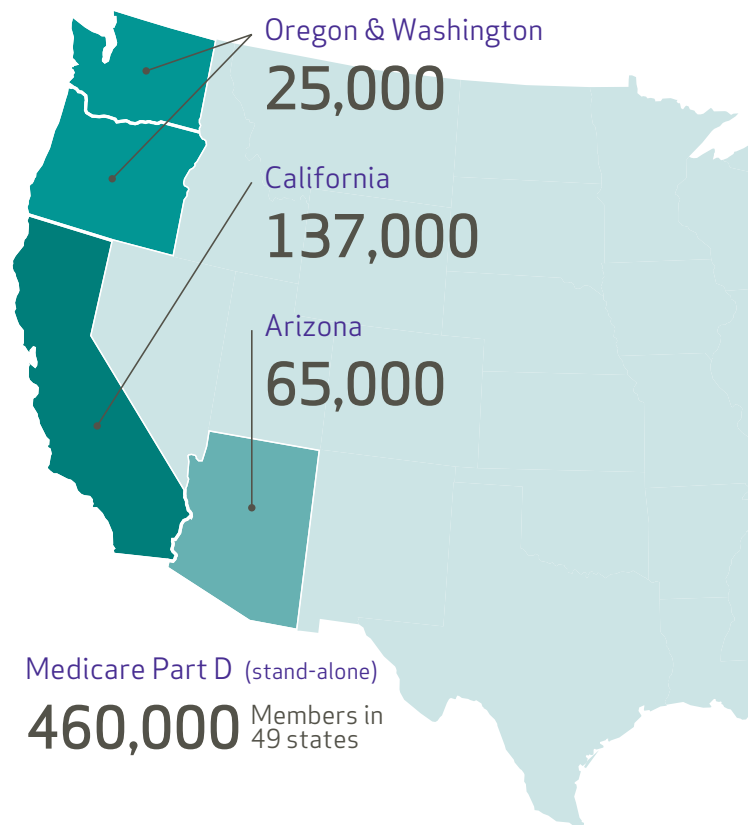
Health Net expects to maintain financial stability in its State Health Programs line of business in the future. We believe we are well-positioned for a variety of growth opportunities in this market as a result of potential health reform and expansion of coverage.

GOVERNMENT CONTRACTS BUSINESS

Through our Government Contracts business, we continue to provide exemplary service to more than 3 million TRICARE beneficiaries in the North Region. Our program consistently earns some of the highest customer satisfaction ratings in the United States. On March 9, 2010, the Department of Defense exercised additional option periods that extend our current contract through March 31, 2011.

Through our Military & Family Life Consultant contract, Health Net’s behavioral health subsidiary, MHN, provides support to servicemen and women and their families during the difficult times of military life, including mobilization, reintegration and issues that may arise as a result. There has been an increasing demand for these services over the

Medicare Advantage Members



past few years, and we expect to see continued growth in 2010. Through this program, there are more than 1,500 consultants in nearly 300 locations worldwide who provide support and are prepared to respond quickly to emergent events and military lifestyle stressors.

OPERATING EFFICIENCIES

The company’s Operations Strategy was designed to make our administrative operations more efficient and less costly. Through a variety of initiatives that included streamlining and consolidating processes, this effort has reduced our administrative costs by more than \$125 million on an annual run-rate basis. We believe these efficiency improvements bring better service to our members and make us more competitive in the market.

In addition, as Health Net continues to transform as a result of the sale of our Northeast businesses and a change in the TRICARE contract, we are targeting an additional \$80 million to \$100 million in run-rate administrative savings in 2011.

Health Net has **financial flexibility** and ended 2009 with a **strong balance sheet**.

Financial Strength

- **Total cash and investments** of \$2.1 billion with average credit quality of AA+
- **Investment portfolio** with market value of \$1.4 billion
- **Total debt** of \$602.5 million and **debt-to-total capital ratio** of 26.2 percent
- **Strong cash** at parent with \$450 million at year-end 2009
- **Resumed share repurchase program** in December 2009 and repurchased 2.7 million shares through January 29, 2010





Jay M. Gellert

President and Chief Executive Officer

To our stockholders

Health Net's board of directors and management are pleased to report on a successful 2009 – a year of significant milestones, substantial operating progress and stronger financial results for the company. As a result of our hard work in 2009, we believe that Health Net today is a much stronger company, better prepared to succeed in a challenging environment.

Strategic Review Completed

At the end of 2008, at our board's direction, management undertook an extensive strategic review of our operations with particular emphasis on our Northeast and Arizona health plans. After a thorough process, we reached two conclusions – to sell our Northeast health plans and retain our Arizona plan.

On July 20, 2009, we announced the sale of the Northeast health plans to UnitedHealthcare (United). The transaction closed on December 11, 2009, and we received \$350 million at closing for a portion of tangible net equity payments and a minimum payment for expected membership transition to United. The transaction is currently valued at between \$490 million and \$610 million. The ultimate value depends on several factors – most importantly, the number of our former commercial members who transition to other United products at their renewal dates.

We will continue to provide administrative services to United in the Northeast during a transition period of approximately two years.

The Northeast sale unlocked the equity in the Northeast businesses. We've redeployed the equity in other areas and to support the growth of our Western health plans. The sale placed our Northeast plans in the hands of a leading company with substantial scale in the region.

With the completion of the Northeast sale, we are now a Western region health plan company with a substantial Government Contracts business. We believe these businesses present multiple growth opportunities for the future.

Last year was not simply a period of strategic changes. We also achieved significant operating improvements throughout the year.

Health Plan Focus

The greatest effect on the competitive climate for commercial health insurance in 2009 was the struggling U.S. economy. Many of our commercial customers, particularly employers in our Western health plan markets, continued to ask for products that can enhance affordability.

We addressed this renewed need for affordability with new lower-cost, narrow network products. These plans provide comprehensive coverage with low out-of-pocket costs and access to a wide range of physicians and hospitals. They are narrow network because they exclude the most expensive providers outside the employer's immediate geographic region.

As a result of our hard work in 2009, we believe that Health Net today is a much stronger company, better prepared to succeed in a challenging environment.

To our stockholders

Membership in these products rose by approximately 13 percent in 2009, bucking the tide of commercial membership declines in the industry. These products now account for approximately 40 percent of our California small group and individual membership and approximately 20 percent of our total commercial membership.

Despite the growth in these affordable products, Health Net's commercial enrollment declined 10.4 percent in our Western health plans in 2009.

Commercial membership decreases came largely from existing accounts as employers trimmed their workforces. Our 2009 new commercial account sales were approximately equal to the number of accounts that left our plans, a testament to our sales strategies.

Our success with affordable products strengthened our position as one of the leading commercial network-model health plans in California. We believe we gained market share in 2009 and, with these new products continuing to gain favor, we believe we can achieve further market share gains in the years ahead.

Medicare Turnaround

Our 2009 Medicare goals focused on improving performance in both the Medicare Advantage programs and in the Medicare prescription drug benefit plan, known as Medicare Part D. We achieved these goals and took several key steps to promote continued success in both programs.

With our planned exit from the Medicare Private Fee-for-Service business and the Northeast sale, we can now concentrate on Western Medicare network-model markets where Medicare Advantage has been part of the health care fabric for more than 20 years. With rate pressure expected as the federal government takes steps to reduce Medicare costs, we believe these long-standing Western markets will continue to provide opportunities for us.

For example, in 2009 we introduced a Medicare Advantage plan for California's burgeoning senior Latino population. This plan is based on our commercial product for Latinos called *Salud con Health Net*.

For 2009, we substantially reworked our Part D offerings to improve our performance. As a result, we saw our membership decline by 5.5 percent to approximately 460,000 at the end of 2009. This refinement allowed us to concentrate on markets where we had the best competitive profiles.

Our Medicaid program, known as Medi-Cal in California, and Healthy Families program, California's program for low-income children, saw significant membership increases and expanded market share in 2009. We believe these increases were the result of the continuing tough economy combined with our recognized high service levels. Health Net of California's Medi-Cal program is the highest-ranked Medicaid plan in the state according to *U.S. News/NCQA America's Best Health Insurance Plans* for 2009–2010.

Steady TRICARE Performance and Award Protest

We continued our exemplary service to more than 3 million TRICARE beneficiaries in the North Region in 2009. Our program consistently earns some of the highest customer satisfaction ratings in the United States. We are very proud of our record of serving the families of active duty personnel and military retirees for more than 20 years.

With a new North Region contract up for bid in 2009, we worked hard to produce a competitive bid that met the government's needs. On July 13, 2009, however, the Department of Defense (DoD) announced that it had awarded the new North Region contract to another bidder.

Health Net protested the award, believing there were serious issues that the bid assessment process did not adequately address. The Government Accountability Office, an independent investigative arm of the U.S. Congress, agreed and directed the DoD to conduct a further review of the bids based on the issues raised in the protest. On March 9, 2010, the DoD exercised additional option periods that extend our current contract through March 31, 2011.

Operating Efficiencies

Our operating team made major strides in the company's Operations Strategy in 2009. This effort is designed to make our administrative operations more efficient and less costly.

The Operations Strategy included streamlining and consolidating processes, IT application and

infrastructure outsourcing, and outsourcing of some non-customer-facing business processes.

While our headcount has been reduced by approximately 1,300 since the start of the Operations Strategy, many of these Health Net associates are now employed by our business partners such as IBM and Cognizant. We have retained significant institutional knowledge, achieved vital efficiencies, and tapped into the broad knowledge and experience of our partners.

The Operations Strategy has reduced our administrative costs by more than \$125 million on an annual run-rate basis. Equally important are the efficiency improvements that we believe bring better service to our members and make us more competitive in the market.

Health Care Reform

Health care reform took center stage in Washington this year. While the debate continues, there are many parts of reform that are consistent with Health Net's strategy. All of the reform proposals build on the current employer-based system, expand Medicaid eligibility, and guarantee affordable coverage for everyone. This includes coverage for those with pre-existing conditions and a requirement that everyone participate in the system. However, there remains much more work to be done on lowering the overall cost trend for health care services. We have pledged to do our part, but it requires the efforts of all involved to be successful.

2009 Highlights

- A challenging environment
- Completed Northeast sale
- Western health plan focus on affordability
- Operations Strategy yielding savings
- Steady Government Contracts performance
- Solid financial performance in 2009

No matter the outcome of this debate, health care reform and the current economic environment present both challenges and opportunities for the future. We believe we are well-positioned for success today and also in a post-reform environment.

Financial Summary

In 2009, revenue climbed by 2.2 percent to \$15.7 billion. The company recorded a net loss of \$0.47 per diluted share in 2009 compared with net income of \$0.88 per diluted share in 2008. The 2009 loss was the direct result of charges for the Northeast sale and for investments that reduce general and administrative costs. These were necessary expenses that represent investments in the company's Operations Strategy.

Our balance sheet is solid, with cash and investments of \$2.1 billion and debt-to-total capital at 26.2 percent at the end of 2009. The \$350 million we received at the closing of the Northeast sale allowed us to contribute additional capital to our regulated subsidiaries, pay down debt and resume our share repurchase program.

From its resumption on December 14, 2009, through January 29, 2010, the company repurchased more than 2.7 million shares at an average price of \$24.74 per share, spending approximately \$67.3 million. Management believes that share repurchase is currently the best use of our capital.

Conclusion

We are very proud of our operational and strategic success in 2009. We accomplished much, but we know we have more work to do to ensure continued future growth. The challenges are substantial, but we believe that 2009 will prove to be a positive sign for the future.

On behalf of the board of directors and our entire management team, let me again thank our associates who rose to 2009's challenges with dedication, focus and determination.

To our stockholders, we remain committed to taking the steps necessary to enhance stockholder value through better products, greater efficiencies and appropriate capital deployment. Thank you again for your support.

Regards,



Jay M. Gellert

President and Chief Executive Officer

HEALTH NET, INC. BOARD OF DIRECTORS

Roger F. Greaves

*Chairman of the Board
Health Net, Inc.
Former Co-Chairman of
the Board of Directors,
Co-President and
Co-Chief Executive Officer
Health Systems International, Inc.*

Mary Anne Citrino

*Senior Managing Director
The Blackstone Group*

Theodore F. Craver, Jr.^{1,4}

*Chairman, President and
Chief Executive Officer
Edison International*

Vicki B. Escarra^{2,3}

*President and
Chief Executive Officer
Feeding America*

Thomas T. Farley^{1,2,4}

*Senior Partner
Petersen & Fonda, P.C.*

Gale S. Fitzgerald^{1,3}

*Former Chair and
Chief Executive Officer
Computer Task Group, Inc.*

Patrick Foley^{2,3,4}

*Former Chairman, President
and Chief Executive Officer
DHL Airways, Inc.*

Board Committees:

¹ Audit Committee

² Governance Committee

³ Compensation Committee

⁴ Finance Committee

Jay M. Gellert

*President and
Chief Executive Officer
Health Net, Inc.*

Bruce G. Willison^{2,3,4}

*President
Grandpoint Capital, Inc.*

Frederick C. Yeager^{1,3}

*Advisor to Senior Management
Time Warner, Inc.*

HEALTH NET, INC. EXECUTIVE OFFICERS

Jay M. Gellert

*President and
Chief Executive Officer*

Angelee F. Bouchard, Esq.

*Senior Vice President,
General Counsel and Secretary*

Joseph C. Capezza, CPA

*Executive Vice President and
Chief Financial Officer*

Patricia T. Clarey

*Senior Vice President,
Chief Regulatory and
External Relations Officer*

Karin D. Mayhew

*Senior Vice President,
Organization Effectiveness*

Steven J. Sell

*President of Western
Region Health Plan
President of Health Net
of California, Inc.*

John P. Sivori

*Health Care Services Officer
President of Health Net
Pharmaceutical Services*

Linda V. Tiano, Esq.

*President, Regional Health
Plans, Health Net of the
Northeast, Inc.*

Steven D. Tough

*President of
Government Programs
President of Health Net
Federal Services, LLC*

James E. Woys

*Executive Vice President and
Chief Operating Officer*

CORPORATE INFORMATION

21650 Oxnard Street
Woodland Hills, CA 91367
800.291.6911
818.676.6000
www.healthnet.com

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
Los Angeles, CA

Stock Transfer Agent and Registrar

Wells Fargo Bank, N.A.
St. Paul, MN

Market Data of Health Net, Inc.

Common Stock
Traded: New York Stock Exchange
Symbol: HNT

2010 Annual Meeting

The 2010 Annual Meeting of
Stockholders will be held at
10:00 a.m. PDT on May 12,
2010, at Health Net of
California, 21281 Burbank Blvd.,
Woodland Hills, CA 91367,
and also will be accessible via
the Internet at the site noted
in the Company's Notice of
2010 Annual Meeting and
Proxy Statement.

All statements in this Annual Report, other than statements of historical information provided herein, may be deemed to be forward-looking statements and as such are subject to a number of risks and uncertainties. These statements are based on management's analysis, judgment, belief and expectation only as of the date hereof, and are subject to uncertainty and changes in circumstances. Without limiting the foregoing, statements including the words "believes," "anticipates," "plans," "expects," "may," "should," "could," "estimate," "intend" and other similar expressions are intended to identify forward-looking statements. Actual results could differ materially due to, among other things, costs, fees and expenses related to the post-closing administrative services to be provided under the administrative services agreements entered into in connection with the sale of our Northeast business; potential termination of the administrative services agreements by the service recipients should we breach such agreements or fail to perform all or a material part of the services required thereunder; any liabilities of the Northeast business that were incurred prior to the closing of its sale as well as those liabilities incurred through the winding-up and running-out period of the Northeast business; potential termination of our TRICARE North operations; potential health care reform; rising health care costs; continued recessionary economic conditions or a further decline in the economy; negative prior period claims reserve developments; trends in medical care ratios; unexpected utilization patterns or unexpectedly severe or widespread illnesses; membership declines; rate cuts affecting our Medicare or Medicaid businesses; litigation costs; regulatory issues; operational issues; investment portfolio impairment charges; volatility in the financial markets; and general business and market conditions.

Additional factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, the risks discussed in the "Risk Factors" section included within this Annual Report and subsequent quarterly reports on Form 10-Q filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements. The company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this Annual Report.

On June 16, 2009, as required by Section 303A.12(a) of the New York Stock Exchange ("NYSE") Listed Company Manual, Health Net's Chief Executive Officer provided the Annual CEO Certification, certifying that as of such date, he was not aware of any violation by Health Net of NYSE's Corporate Governance listing standards.

Health Net's mission is to help people be healthy, secure and comfortable.



21650 Oxnard Street
Woodland Hills, CA 91367
800.291.6911
818.676.6000

www.healthnet.com

