1999 was an outstanding year for UnitedHealth Group.

- Revenues rose nearly 13 percent, reflecting strong and balanced growth in all business segments.
- Earnings per share grew by 22 percent, with more than 40 percent of operating income coming from outside of our health plan business.
- Cash flows from operations well exceeded $1 billion for the second consecutive year.
- Return on equity rose to 14.1 percent for the year, a significant advance over 11.9 percent in 1998, and on track to reach 16 percent or more by year-end 2000.
- For the full year, our stock price increased 23 percent.

This strong and broad-based performance suggests the emerging potential of strategies put in place more than two years ago, when we realigned our company into five independent, market-defined operating businesses. UnitedHealthcare, Ovations, Uniprise, Specialized Care Services and Ingenix today constitute a powerful portfolio of leading businesses that establish UnitedHealth Group as the preeminent and most diversified health and well-being company in America.

The formation of our separate businesses reignited an entrepreneurial spirit that dates back to when UnitedHealth Group was a start-up company working with physicians to create local health plans. We continue to harness the creativity and innovation that established our long-standing leadership. In today's dynamic marketplace, those qualities, coupled with a customer-defined commitment to operational excellence, provide a competitive advantage and should accelerate our growth.

As we enter the next century, we intend to continue our leadership by investing intellect, energy and dollars in research and development to create better, more informed consumer-oriented offerings for the broad health services market. Our actions will be characterized by three key principles: market-driven focus, consumer-defined value and operating excellence.

Market-Driven Focus

With revenues of nearly $20 billion and more than 40 percent of operating income contributed from outside of our health plan business, UnitedHealth Group operates far beyond the bounds and traditions of either insurance or managed care.

We are committed to being the best at forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. This is possible because of UnitedHealth Group's proven competencies in network creation and coordination, sophisticated and complex large-scale transaction processing, and data and knowledge analysis and application. These are three core competencies we can apply to improve virtually any market within the vast health and well-being landscape.

These competencies transcend organizational boundaries and create building blocks for our current businesses and future ventures. Today, UnitedHealth Group is a diverse, market-focused enterprise composed of five distinct, yet strategically aligned businesses:

- UnitedHealthcare, which organizes health markets serving the needs of individuals and employers in local geographic regions;
- Ovations, which offers health and well-being services for Americans in the second half of life;
- Uniprise, which provides leading-edge support services and health and benefit solutions to large corporations and employers, other payers and health plans;
- Specialized Care Services, which organizes highly specialized markets for services to meet the needs of individuals and businesses of all sizes; and,
- Ingenix, which provides health information and research to virtually all participants in the health care system.


William W. McGuire, M.D.

Each of these businesses is focused on responding to important basic human needs that aggregate into major market segments within a health and wellness economy that today exceeds $1 trillion. These businesses are now separated, so as to be market-focused and independently branded and managed, but are fully able to draw on each other's strengths to better — and often uniquely — meet the needs of their respective customers. This means ongoing change and evolution that is more dedicated and better focused on meeting market needs. It also is a modular structure, designed to react quickly to emerging and changing markets, along with changes in the health care environment itself.

Consumer-Defined Value

UnitedHealth Group has consistently sought ways to provide tangible value to its customers — whether individual consumers, businesses, governments or other health care institutions. In that pursuit, our view of value in the marketplace has included not just the measurement of the price of services, but also their convenience, quality and consistency with the underlying values of the customer. Innovations such as direct access to medical specialists, health plan report cards, broad and open physician networks, and multi-tiered prescription drug formularies were introduced to the market by UnitedHealthcare.

In our society, access to basic health care is placed above the economic dynamics of its supply. Personal control over one's individual health and well-being has become increasingly important, and we expect that private sector systems will continue to evolve, giving individual consumers greater accountability — intellectually, financially and otherwise. In that environment, each consumer will require — and demand — more information along with better performance and accountability from purchasers as well as providers of care.

In 1999 we moved dramatically toward bringing these concepts of consumerism and value closer to reality. Most notable was the launch of the Care Coordination concept, a major step in rethinking the evolving role of health care systems. Care Coordination helps define a new standard for advancing health and well-being. It directs resources into patient education, coordination of efforts for specific complex cases, support services to help people understand and comply with treatment plans and medications, and help in obtaining timely access to needed resources and services.

Similar advances were brought forth in other businesses — all consistently focused on delivering tangible value to better-defined customer segments. Uniprise emerged as a preeminent coordinator of health care services to large, multi-site employers and other organizations in need of technology and unique transactional solutions to complex health care service needs. And Ovations translated its administrative efficiencies and creative product designs for the AARP Medicare Supplement program into bottom line value for AARP members — specifically, the lowest premium rate increases in a decade. This in turn translated into stronger customer retention for AARP.

Health care costs remain a major challenge to our nation, its employers and individual consumers. In 1999 we were successful in helping balance cost trends and customer demand for access, choice and critical benefit needs. For example, we again achieved particularly positive results in the area of pharmaceutical costs, continuing a tradition of one of the lowest cost trends in the industry while offering customers access to a broad array of drugs. And, in the face of tremendous advances in medical technology, an aging population and strong consumer demand for elective medical interventions, we were able to moderate, on a comparative basis, health care costs for our customers in virtually all market segments.

What will shape health and well-being services in the next decade? Clearly, demand for information will increase dramatically, paralleling the expansion in medical advances and services. New technologies will continue to provide us with wondrous ways to anticipate and diagnose disease, fight illness and correct heretofore untreatable medical problems. Our population will continue to age, and access to desired services will be at a premium. With new capabilities, changing demographics and our society's commitment to health and well-being, costs associated with health care will continue to grow at a rate above that of other economic sectors. This will intensify the challenges for all of us — with particular pressure on those unable to afford or even access all of our nation's health care capabilities. Cost, access and quality will continue as challenging issues for our society.

UnitedHealth Group has positioned itself to be an increasingly important participant in this new environment. It is a position achieved because of the combined clinical expertise and technology capabilities we direct toward improving service and facilitating care; because of critical information we report to users, providers and payers of health care services; and because of our unrelenting focus on helping people get what they need at the right time and the right place at a fair price. It is a strong position because our business model enables us to focus on specific needs of different market segments at different times — all while leveraging the expertise and capabilities of other companies within our family.

Operating Excellence

Our vision for the future can be fulfilled only through excellence in execution. Sound business practices and discipline set the foundation for how we work, and we are committed to operating at a level demonstrated by our nation's greatest enterprises. Our clients should expect nothing less.

Meeting this goal demands proper organization and a focus on accountability and performance. Our independent but strategically linked business model has pointed the way to that end. More essential — and highlighted by our diversification — are our people. Even as we continue to foster growth among our core employees, we have made conscious efforts to add people, particularly senior management, with deep operating experience outside the health and insurance worlds. We are using their skills and experience to move us quickly into management approaches and service levels that, when viewed by our customers and the broad business community, establish us at the same level as any well-built, well-managed company, regardless of market.

The intent of such actions is to continuously enhance service levels — particularly to improve key interactions between providers of care and patients. In 1999, we achieved fundamental improvements in response time and problem resolution across all of our businesses. These gains were rewarded by strong customer retention, business expansion to existing customers, and record new business sales in UnitedHealthcare, Uniprise, United Resource Networks and United Behavioral Health.

Looking Ahead

In 1999, for the first time, we were listed as one of the Fortune 100 companies. And while we are proud that we have built this company into such a significant force, we also are aware that the challenge is to continue to advance and be willing to change and reshape even our most recent efforts. When measured against the scope of the market opportunity that stands before us, our work has just begun.

The strength and breadth of our organization offers significant advantages we will exploit. Yet the new millennium's fast-paced, global marketplace values speed more than size, flexibility and adaptability more than stability. Recognition of that fact is at the crux of the changes we sketched in 1997, applied in 1998, refined in 1999, and will accelerate in 2000.

From the start, we have had confidence in our broad focus. We are convinced that creating distinct market-facing businesses allows us to serve the aggregate needs of people — the essence of any market — with greater effectiveness through support of an agile and energetic culture. In so doing, UnitedHealth Group will become an even stronger performer.

Last year, we made tremendous strides and achieved record results. We enter the dynamic marketplace of 2000 excited by the opportunities, committed to helping improve the health and well-being of the individuals we serve, and — most importantly — steadfast in our resolve to apply ourselves creatively in order to optimize whatever the future holds.

William W. McGuire

William W. McGuire, M.D.
Chairman and Chief Executive Officer

My daughter is seven. If she gets sick, I want to know that I can get her the care she needs at a fair price. I want the freedom and control to decide, together with my daughter's pediatrician, which course of treatment is most appropriate for her and to have my health care company respect our decision. And I want the whole process to be simpler.

I need help accessing quality care and using health care resources effectively, but I want enough control and flexibility to choose what's best for our family. And because our lives are so hectic, our benefits have to be easy to understand and convenient to use.

It's not too much to ask.

What's right

UnitedHealthcare

We understand. That's why four simple principles shape UnitedHealthcare and, we believe, will ultimately shape the marketplace for health care services.

Simple, Convenient Access to Quality Care
UnitedHealthcare is making it easier for people to get the care they need, when they need it, with its comprehensive Care Coordination philosophy. Care Coordination helps make the use of health care services more effective and efficient, while helping to preserve broad access. Health care professionals work with individuals to help identify and prevent delays in receiving care, assist them in understanding and complying with doctors' instructions and medication requirements, and coordinate access to a broad set of resources and services.

UnitedHealthcare has programs that provide health education, admission counseling before a hospital stay, care advocacy to help prevent delays in accessing resources, help ensuring a safe transition from the hospital, support for individuals at risk of needing intensive treatment, continuous coordination for people with chronic conditions, and prescription drug management, which promotes safe and effective use of medications.

Benefits and Services that Value Individual Choice and Control
UnitedHealthcare wants people to be engaged and active participants in managing their own health and well-being. The company designs options that let individuals choose what is best for themselves and their families and offers incentives that increase involvement in treatment and buying decisions.

UnitedHealthcare's multi-tiered pharmacy benefit program, for example, provides access to a wide range of generic and brand-name drugs. Individuals can benefit by accessing higher-priced brand-name drugs, as well as generic drugs, which will cost them less. In addition, UnitedHealthcare was a leader in aggressively promoting open access, which allows individuals to schedule appointments directly with specialists without a referral from a primary care physician.

Improved Quality of Care Through Information
To help physicians make better treatment decisions, UnitedHealthcare uses Clinical Profiles — data that compares a physician's actual practices to nationally accepted benchmarks for the most successful care.

UnitedHealthcare distributes profiles to physicians twice a year, and has added physi-

for my family

cians with each distribution. More than 70,000 physicians currently participate in this leading-edge effort.

An enriched Web site puts in-depth information at consumers' fingertips: a directory of physicians and hospitals, reports on thousands of health topics, and soon, a health profile tailored to individual interests.

Affordable Value

UnitedHealthcare's efforts to help improve quality also help keep health care costs affordable. Care Coordination, by helping connect people with the right care in a timely manner, strives to improve health outcomes by avoiding complications and optimizing the use of health care resources, which ultimately lowers costs.

Further, UnitedHealthcare arranges access to care through more than 340,000 physicians and 3,200 hospitals across the United States. The consolidated purchasing power represented by the individuals we serve makes it possible for UnitedHealthcare to contract cost-effectively, passing on savings to consumers and employers while providing access to broad convenient networks of care providers.

I have a great relationship with my physician, but I know she may not be able to provide all of the services I need to maintain my total health and well-being. I need vision care and dental services. I believe many alternative therapies provide valuable benefits, and I want affordable access to services such as acupuncture and chiropractic care.

And though I feel healthy today, I want to know that if I ever need special help, I will have access to quality specialized care for things like heart or cancer treatment, transplantation, behavioral health services or counseling support.

Specialized care

Specialized Care Services

Specialized Care Services was conceived and built to respond to people's desire for affordable access to an ever broadening range of specialized health and well-being resources. Its portfolio of businesses connects people with leading care providers in more specialized fields, gives them access to valuable information and educational materials, and makes these services increasingly affordable.

Specialized Care Services offers access to the most comprehensive array of specialized and alternative care available to the consumer directly or through the business-to-business marketplace. For a wide set of needs — whether as a comprehensive package of specialty services or as access to a specific, individual service — Specialized Care Services can organize services that can help. That translates into added convenience, simplicity and value for its customers.

Critical Care

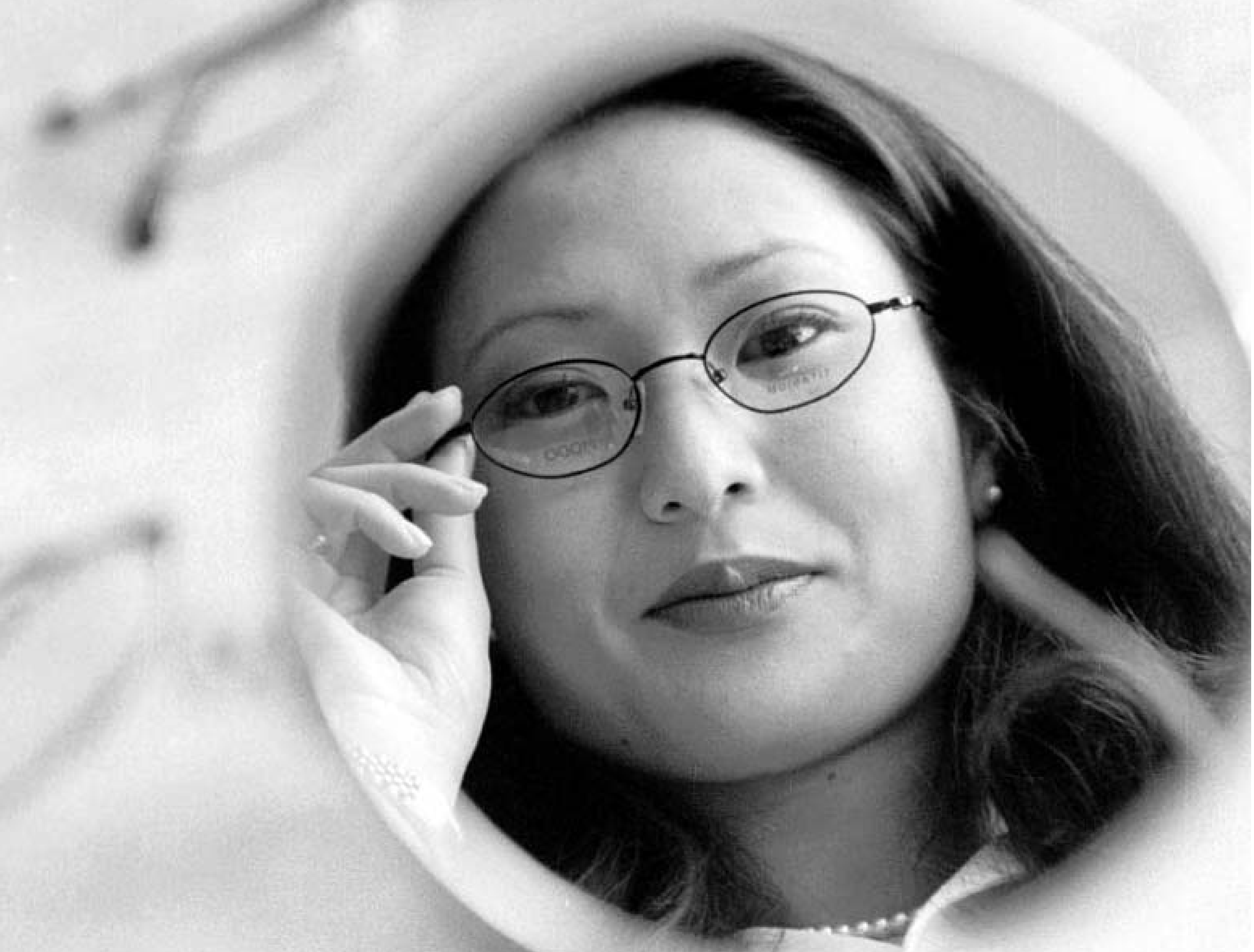
United Resource Networks is a gateway to leading critical care and chronic care programs at more than 50 of the best medical centers throughout the United States. The company's focus on quality helps improve outcomes — including survival rates — even as it lowers costs an average of 35 percent.

Behavioral Health

United Behavioral Health provides mental health and substance abuse services, employee assistance programs and PsychWorks℠, a unique service that helps manage the impact of short-term disability due to mental illness. In 1999, United Behavioral Health added specific programs that help health care professionals manage psychiatric medications and, in turn, provide quality care at a reasonable cost in this growing and sensitive area.

Health Information

Optum® helps individuals take charge of their health and well-being. For 10 years, Optum has been a leader in helping people meet their personal health needs in a confidential and protected manner. The company provides information, education and support in print, by phone, on tape, face-to-face and over the Internet. Optum Internet services contain comprehensive



at my fingertips

information, including interactive features for personalized information.

Dental Care
Dental Benefit Providers offers convenient access to affordable dental care with the broadest benefits portfolio, demonstrated cost advantages and extensive networks that allow maximum accessibility.

Vision Care
Coordinated Vision Care facilitates each step in the delivery of vision services and products, helping to enhance quality and control costs to create value for individual consumers or for health care organizations.

Life and Accident Benefits
Unimerica Life and Accident is a single convenient source for life and accident benefits that align with other health and specialty coverages and benefits.

I'm not a kid anymore, and I love it. I've worked hard all my life, and now I have time to be myself, enjoy my grandkids, travel with my wife and hit the bike trails.

I recognize my needs and opportunities are changing. My health concerns are increasing. I need to understand my health care choices, whether I have enough money, what coverage Medicare will provide, and what supplemental coverage I will need. I want information and services tailored to my needs — family, health and fitness, travel and recreation, home and work.

After all, I intend to enjoy the second half of my life, not worry about it.

Services to meet my

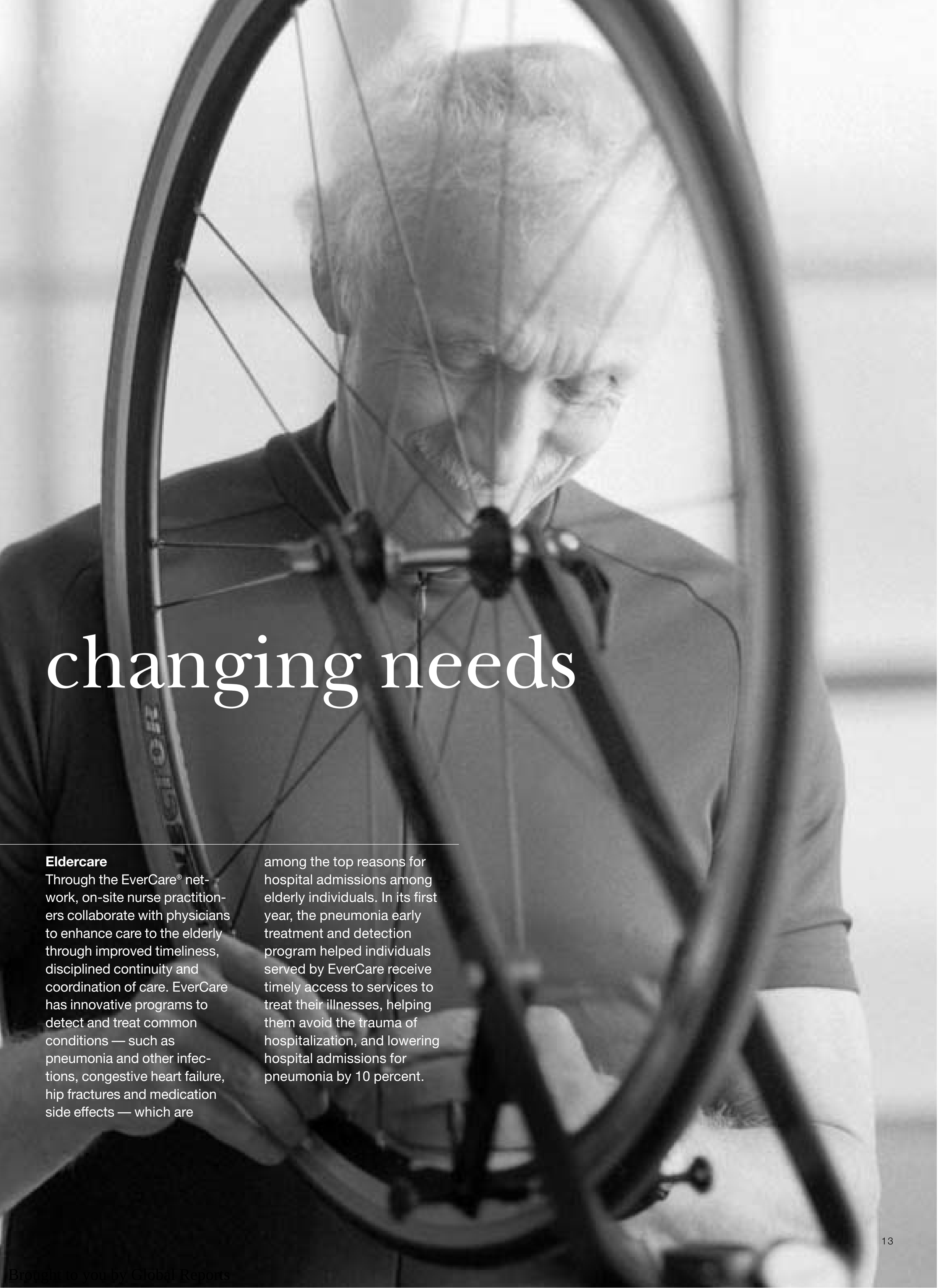
Ovations

Ovations serves the needs and aspirations of people in the second half of life, using UnitedHealth Group capabilities and buying power to develop products and services around the distinct health and life-stage needs of people age 50 and older.

Affordable Health Care
Americans are caught between the soaring cost of health care and pressure on Medicare to remain viable by reducing costs. Ovations is responding through a 10-year partnership with AARP, offering Medicare Supplement and Hospital Indemnity insurance to more than 3.7 million AARP members. Recently, Ovations introduced AARP Eye Health Services to offer affordable eye exams, complimentary glaucoma screenings and discounts on eyewear. Ovations' Medicare Supplement Pharmacy Service addresses one of the most significant cost problems facing older Americans — prescription drug costs. These services saved AARP members nearly $60 million in 1999. Ovations' AARP Division also developed a valuable offering with lower cost Medicare Supplement coverage that provides a hospital network and 24-hour access to health care information from nurses.

Healthy Lifestyles
In nearly every person's life, there comes a time when thinking about where to live is influenced by health and family considerations. Ovations is shaping a distinctive service that will respond to the complex health, housing and well-being needs of older Americans. This integrated set of services will leverage Ovations' and UnitedHealth Group's capabilities to serve the unique needs of this market.

Knowledge About Health and Well-Being
Ovations Knowledge Group provides useful information for making health and lifestyle decisions. The Ovations Press is developing books designed to improve understanding of complex questions faced in life. The first books provide guides to financial planning, caring for your heart, forgetfulness, memory loss and Alzheimer's disease, and wills, trusts and estate planning.



changing needs

Eldercare
Through the EverCare® network, on-site nurse practitioners collaborate with physicians to enhance care to the elderly through improved timeliness, disciplined continuity and coordination of care. EverCare has innovative programs to detect and treat common conditions — such as pneumonia and other infections, congestive heart failure, hip fractures and medication side effects — which are among the top reasons for hospital admissions among elderly individuals. In its first year, the pneumonia early treatment and detection program helped individuals served by EverCare receive timely access to services to treat their illnesses, helping them avoid the trauma of hospitalization, and lowering hospital admissions for pneumonia by 10 percent.

To run a world-class business, you need to recruit and retain world-class employees. That's why it's so important to me to be able to offer my employees and their families competitive benefits that are distinctive in how they combine quality, convenience and affordability.

I want to align with an organization that makes it easy for my company to offer a set of employee services that delivers maximum value to our people. And as my business needs change, I want a technologically advanced, progressive partner with the initiative to continually strive to develop and deliver superior solutions.

Benefits that run as well as

Uniprise

Uniprise offers the most advanced and comprehensive set of employee services and technologies in the entire spectrum of health care benefits. Uniprise services fit seamlessly into any business environment and serve the needs of employees and their families — from simplified benefits design with broad network access to world-class Internet connectivity to consumer-friendly services and experiences.

Whether you represent a large domestic company, university, government agency or diverse global enterprise, or an insurance company, a provider network or health care company seeking an outsourcing solution, Uniprise can respond with a set of services appropriate for your needs.

Uniprise works with clients to develop a strategic plan that takes them from where they are today to wherever they want to go — and gets them there fast. That's why, in 1998 and 1999, Uniprise grew more than any other enterprise in its marketplace, and has retained more than 98 percent of its customers over the past three years.

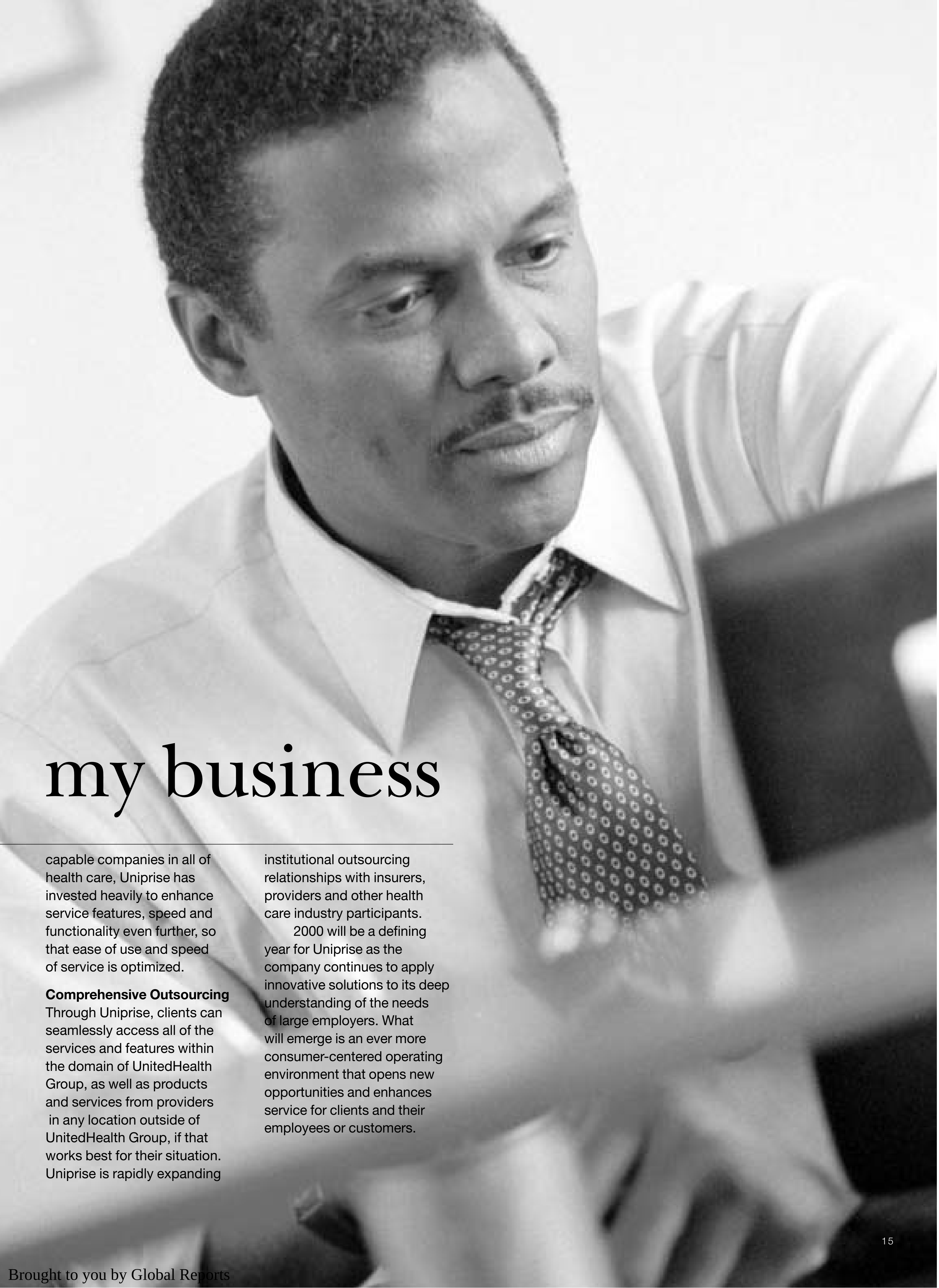
Consumer Focus

Uniprise serves more than one-fourth of the Fortune 500 companies, including many of the most progressive companies in the world. In 2000, Uniprise will handle more than 350 million transactions with industry-leading levels of timeliness and quality.

During the past 24 months, Uniprise has invested more than $100 million in infrastructure enhancements aimed at improving the consumer experience by strengthening service quality and accuracy, simplifying operations and applying advanced technology. In this effort, Uniprise is looking beyond the historic health care services industry and emulating the best consumer services companies, regardless of industry. In 2000, Uniprise will expand these investments and continue to advance its consumer-focused agenda. That is what the marketplace desires, and it defines a great future for Uniprise.

Advanced Technology

Uniprise has aggressively expanded its Internet technology. Already among the most connected, Internet-



my business

capable companies in all of health care, Uniprise has invested heavily to enhance service features, speed and functionality even further, so that ease of use and speed of service is optimized.

Comprehensive Outsourcing
Through Uniprise, clients can seamlessly access all of the services and features within the domain of UnitedHealth Group, as well as products and services from providers in any location outside of UnitedHealth Group, if that works best for their situation. Uniprise is rapidly expanding institutional outsourcing relationships with insurers, providers and other health care industry participants.

2000 will be a defining year for Uniprise as the company continues to apply innovative solutions to its deep understanding of the needs of large employers. What will emerge is an ever more consumer-centered operating environment that opens new opportunities and enhances service for clients and their employees or customers.

How are new technologies changing care protocols and costs? Who provides the best care? What should I expect in terms of duration, recovery and total costs for a given procedure?

Health care is too important for guesswork. I want information I can use — evidence — to improve outcomes and help control costs.

Knowing the cost of a single procedure or the result of one patient's experience with a treatment just isn't enough. To draw meaningful conclusions, I need information that helps me understand broad trends, evaluate what works and doesn't work, consider results and costs over a longer period of time, and learn from the experience of large populations.

Knowledge that

Ingenix

Whether you represent a corporation trying to better understand and shape health care benefits for its employees, a pharmaceutical manufacturer seeking to bring a new product to market, a health insurer or payer trying to understand costs, or a health care provider trying to improve coding and billing disciplines, Ingenix has the health care informatic databases and expertise to help. Ingenix combines the power of information and technology to guide better clinical, technical and financial decisions. Through its information, analysis, research and consulting services, Ingenix can help customers improve health care operations and address critical issues, such as rising medical costs, quality of care and new therapies and compounds.

The Source for Pharmaceutical Services
Ingenix conducts clinical research and studies to help develop new therapeutic agents, evaluate medical outcomes and consider economic impacts. Ingenix helps devise research protocols, identify and train investigators, and assist with recruitment. The company also provides data management, biostatistics, regulatory services and overall project management services.

With access to massive databases, Ingenix can identify physicians with the necessary experience for a certain study and establish data sets for broad populations. As demonstrated in its work on clinical trials, Ingenix's ability to organize physician and patient populations advances the search for better treatments and cures. Its access to UnitedHealth Group's deep, rich base of care and outcomes data aids in trial design and enables Ingenix to identify treatment patterns and outcomes, as well as pinpoint factors that contribute to adverse effects or other problems.

The Source for Health Information
As a leader in health information, Ingenix offers one-stop shopping to meet business-to-business health care information needs.

From the beginning, UnitedHealth Group has used information to study and make advances in care, the reimbursement process, population risk management and cost management. Now, with a growing arsenal of advanced information technologies, including increasingly sophisticated analytic tools, Ingenix is poised to help solve the most challenging operational issues and make breakthroughs in

drives results

the treatment of today's most serious health problems.

- *Data and Software Products*. Ingenix helps companies streamline, interpret and manage activities by providing data services and software to support benchmarking, pricing, cost management, utilization, regulation, reporting, coding, claim review and provider contracting. UnitedHealthcare's Clinical Profiling, which encourages improvement in clinical performance by comparing an individual physician's practices to local peer group and national standards, is conducted using Ingenix data and software products.
- *Publishing.* Ingenix business-to-business publications deal with coding and reimbursement information. These publications are used by virtually all providers and payers in America to understand the use of health benefits more clearly.
- *Consulting.* In the United States and abroad, Ingenix advises providers, insurance companies and government programs on their health care operations.

UnitedHealth Group At A Glance

Business	Description	Customer Base (as of Jan. 31, 2000)	Market Opportunity
UnitedHealth Group	**Focused on forming and operating orderly, efficient markets for the exchange of high quality health and well-being services through five distinct businesses operating in strategic alignment across separate market segments.**	**Not applicable**	**$1.1 trillion in aggregate U.S. health care spending, and further potential in worldwide activities in various markets.**
UnitedHealthcare	Network-based health and well-being services, including commercial, Medicare and Medicaid products for locally based employers and individuals in six broad regional markets.	• 7.4 million individuals from small and mid-sized employers • 412,000 Medicare-eligible individuals • 485,000 Medicaid-eligible individuals	Approximately $150 billion in small and mid-sized employer group, Medicare and Medicaid spending across the UnitedHealthcare markets.
Ovations	Health and well-being services for people in the second half of life and their families.	• 3.7 million individuals served through the AARP Division • 16,000 individuals served through EverCare®	About $20 billion of spending in supplemental Medicare and hospital indemnity products; about $18 billion in eldercare services; additional revenue opportunity in emerging businesses, such as health and housing, and knowledge and information services.
Uniprise	Network-based health and well-being services, business-to-business transactional infrastructure services, consumer connectivity and service, and technology support for large employers, health plans, and other payers.	• 218 large organizations, including 131 Fortune 500 companies, representing 6.3 million individuals	More than $100 billion in aggregate spending each year by U.S. employers with more than 5,000 employees through either fee-based or risk–sharing business models; further opportunity to manage infrastructure for other payers in the marketplace.
Specialized Care Services	Portfolio of specialized health and well-being companies, each serving a specialized market need with a unique blend of benefits, provider networks, services and resources.	• United Behavioral Health serves more than 15 million individuals • United Resource Networks serves 1,400 clients representing more than 41 million individuals • Optum® services are available to more than 16 million individuals • Dental Benefit Providers serves more than 2 million individuals	More than $200 billion in total payer, employer and consumer spending across the spectrum of specialized benefits and products; purchases made on both a fee basis as well as on partially or fully insured terms.
Ingenix	Two primary business unit divisions — pharmaceutical services and health information — providing a comprehensive line of health care knowledge and information products and services to pharmaceutical companies, health insurers and payers, care providers, large employers and governments.	• More than 200,000 health care providers • 2,000 payers • 100 Fortune 500 companies • Most major pharmaceutical manufacturers	More than $40 billion in worldwide spending on pharmaceutical research and development; an additional $13 billion in data, software and health business information services.

Competitive Strengths	1999 Operating Highlights
• **Strategically aligned, market-facing business model** • **Deep, talented and motivated management team** • **Entrepreneurial roots** • **Advanced technology capabilities**	• **Revenues increased nearly 13% to $19.6 billion** • **Earnings per share grew by 22%** • **More than 40% of operating income contributed from outside of our health plan business** • **Cash flows from operations well exceeded $1 billion for the second consecutive year** • **Return on equity rose to 14.1%** • **Stock price increased 23%**
• Flexible, access-oriented products • Pro-consumer philosophy • Local orientation • Simplicity, quality and affordability of services • Strong underwriting capabilities • Focus on health care providers as central participants in the system	• Revenues reached $13.9 billion, an increase of 16% • Introduced Care Coordination process to help enhance health outcomes • What works for you?℠ campaign and branding initiatives launched • Added 160,000 net new fee-based commercial individuals
• Exclusive focus on needs of people 50 and older • Nation's largest Medicare Supplement insurance offering with AARP, including unique services to address affordability and quality of health care • EverCare®, one of the nation's largest eldercare companies • EverCare's award-winning nurse practitioner model • Depth of research and information through the Ovations Knowledge Group	• Revenues increased 1% to $3.6 billion • Enhanced the AARP Medicare Supplement product offerings for individuals, improving membership trends • Expanded EverCare® membership and revenues 47% with improving clinical and operational performance • Created total consumer savings of $60 million through Medicare Supplement Pharmacy Service offering • New operational processes created medical savings of more than $50 million • Launched publishing enterprise
• Focused commitment to this market segment • Consumer orientation • Advanced technology • Scalable infrastructure serving 1.5 million members covered by other health insurers • Comprehensive outsourcing for employee services	• Revenues increased 15% to $1.9 billion • Added 30 new major corporate employers as clients • Processed 300 million transactions • Achieved customer retention rate of 98.7% • Electronic claim submission hit 46% and claim auto-adjudication rate exceeded 65% • Financial accuracy measured 99% • Developing new customer service solutions leveraging the Internet
• Most complete offering of access to specialized health care services in America • Premier behavioral health offering • Largest center of excellence critical care program in the nation • One of top consumer health information services • One of largest managed dental services companies • Vision care services that help improve quality and control costs	• Revenues increased 17% to $726 million • Added dental, vision, life and accident product capabilities • Enhanced behavioral health, catastrophic care and information-based service offerings
• Unique, proprietary data sets • Therapeutic clinical expertise • Commercialized medical cost and utilization knowledge and information in business-to-business sector	• Revenues reached $258 million, an increase of 40% • Enrolled 13,000 physicians in clinical investigator network • Increased clinical trials business sixfold

1999 Financial Performance Highlights

1999 was the strongest year in the history of UnitedHealth Group, resulting from business growth and continued productivity improvements. Financial performance highlights include[1]:

- Record earnings from operations, net earnings applicable to common shareholders, and diluted net earnings per common share of $943 million, $568 million and $3.20 per share, respectively, representing increases over 1998 of 10%, 12% and 22%, respectively.
- Record revenues of $19.6 billion, a 13% increase over 1998.
- Segment operating earnings of $953 million, up 20% over 1998, with each segment delivering strong year-over-year gains.
- Record cash flows of $1.2 billion generated from operating activities, an 11% increase over 1998.
- Continued financing initiatives to achieve a more efficient capital structure, including the repurchase of 19.4 million shares of our common stock.
- 1999 return on equity of 14.1%, up from 11.9% in 1998.

[1] Where applicable, 1998 results exclude special operating charges.

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

(in millions, except per share data)	For the Year Ended December 31, 1999	1998	1997	1996	1995
Consolidated Operating Results					
Revenues	**$ 19,562**	$ 17,355	$ 11,794	$ 10,074	$ 5,671
Earnings (Loss) From Operations	**$ 943**	$ (42)[1]	$ 742	$ 581[2]	$ 461[3]
Net Earnings (Loss)	**$ 568**	$ (166)	$ 460	$ 356[2]	$ 286[3]
Net Earnings (Loss) Applicable to Common Shareholders	**$ 568**	$ (214)[1]	$ 431	$ 327	$ 279
Basic Net Earnings (Loss) per Common Share	**$ 3.26**	$ (1.12)	$ 2.30	$ 1.80	$ 1.61
Diluted Net Earnings (Loss) per Common Share	**$ 3.20**	$ (1.12)[1]	$ 2.26	$ 1.76[2]	$ 1.57[3]
Common Stock Dividends per Share	**$ 0.03**	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Consolidated Cash Flows From Operating Activities	**$ 1,189**	$ 1,071	$ 683	$ 562	$ 435
Consolidated Financial Condition (As of December 31)					
Cash and Investments	**$ 4,719**	$ 4,424	$ 4,041	$ 3,453	$ 3,078
Total Assets	**$ 10,273**	$ 9,675	$ 7,623	$ 6,997	$ 6,161
Debt	**$ 991**	$ 708[4]	$ –	$ –	$ –
Convertible Preferred Stock	**$ –**	$ –[4]	$ 500	$ 500	$ 500
Shareholders' Equity	**$ 3,863**	$ 4,038	$ 4,534	$ 3,823	$ 3,188

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

[1] Excluding the operational realignment and other charges of $725 million, $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates, and the $20 million convertible preferred stock redemption premium from 1998 results, earnings from operations and net earnings applicable to common shareholders would have been $858 million and $509 million, or $2.62 diluted net earnings per common share.

[2] Excluding the merger costs associated with the acquisition of HealthWise of America, Inc. of $15 million ($9 million after tax, or $0.05 diluted net earnings per common share) and the provision for future losses on two large multi-year contracts of $45 million ($27 million after tax, or $0.15 diluted net earnings per common share), 1996 earnings from operations and net earnings would have been $641 million and $392 million, or $1.96 diluted net earnings per common share.

[3] Excluding restructuring charges associated with the acquisition of The MetraHealth Companies, Inc. of $154 million ($97 million after tax, or $0.55 diluted net earnings per common share), 1995 earnings from operations and net earnings would have been $615 million and $383 million, or $2.12 diluted net earnings per common share.

[4] During 1998, we issued debt totaling $708 million and redeemed $500 million of convertible preferred stock.

1999 Results Compared to 1998 Results

Consolidated Financial Results

Revenues

Revenues are comprised of: 1) premium revenues associated with risk-based products (those where we assume financial responsibility for health care costs); 2) management services and fees associated with administrative services, managed health plans, and our Specialized Care Services and Ingenix businesses; and 3) investment and other income.

Consolidated revenues increased 13% in 1999 to $19.6 billion, reflecting balanced growth across all business segments. Following is a discussion of 1999 consolidated revenue trends for each of our three revenue components.

Premium Revenues

Consolidated premium revenues in 1999 totaled $17.6 billion, an increase of $2.0 billion, or 13%, compared to 1998. This increase was driven by UnitedHealthcare's average year-over-year premium yield increases on risk-based commercial groups of approximately 9%. The balance of the increase is attributable to growth in individuals served by United Behavioral Health, and our acquisitions of HealthPartners of Arizona, Inc. in October 1998 and Dental Benefit Providers, Inc. in June 1999.

Management Services and Fee Revenues

Management services and fee revenues in1999 totaled $1.8 billion, representing an increase of $203 million, or 13%, over 1998. The overall increase in management services and fee revenues is primarily the result of strong growth in Uniprise's multi-site customer base, price increases in fee business, and acquisitions and growth from our Ingenix business.

Investment and Other Income

Investment and other income during the year ended December 31, 1999, totaled $219 million, representing a decrease of $30 million from 1998. This decrease is primarily the result of net realized capital losses from the sale of investments in 1999 as opposed to net realized capital gains in 1998, along with decreases in cash and investments and associated investment income resulting from our stock repurchase activities and business acquisitions. Rising interest rates during 1999 resulted in declines in the fair value of fixed income investments and we realized net capital losses of $6 million during 1999, excluding the gain on the transfer of Healtheon Corporation (Healtheon) common stock to UnitedHealth Foundation (see Note 7 to the financial statements). For the year ended December 31, 1998, we realized net capital gains of $26 million.

Operating Expenses

Medical Costs

The combination of our pricing and care coordination efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

Our consolidated medical care ratio decreased from 87.2% in 1998 to 85.7% in 1999. Excluding the AARP business and the effects of 1998 special charges, on a year-over-year basis, the medical care ratio decreased 10 basis points to 84.2%.

On an absolute dollar basis, the increase of $1.5 billion, or 11%, in medical costs over 1998 is driven by a combination of growth in individuals served with risk-based products, medical cost inflation, benefit changes and product mix changes.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses as a percent of total revenues (the operating cost ratio) was 17.1% in 1999, consistent with 1998. SG&A reductions in 1999 were partially offset by $39 million of incremental expenses over 1998 expense levels related to core process improvement initiatives and platform system conversions. Additionally, changes in revenue mix affect our operating cost ratio. Our fastest growing businesses (Uniprise, Specialized Care Services and Ingenix) maintain proportionately higher SG&A costs as the majority of their direct costs of revenue are included in SG&A expenses, not medical costs. On a comparable revenue mix basis, the operating cost ratio would have decreased 30 basis points to 16.8%.

On an absolute dollar basis, SG&A expenses increased by $379 million, or 13%, over 1998. This increase reflects the additional costs to support the corresponding 13% increase in consolidated revenues in 1999, and the incremental core process improvement expenses described above.

Depreciation and Amortization

Depreciation and amortization was $233 million in 1999 and $185 million in 1998. This increase resulted from a combination of increased levels of capital expenditures in 1998 and 1999 to support business growth and technology enhancements and amortization of goodwill and other intangible assets related to acquisitions.

Business Segments

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

Revenues

	1999	1998	Percent Change
Health Care Services	$ 17,581	$ 15,612	13%
Uniprise	1,865	1,624	15%
Specialized Care Services	726	618	17%
Ingenix	258	184	40%
Corporate and Eliminations	(868)	(683)	nm
Consolidated Revenues	$ 19,562	$ 17,355	13%

Earnings (Loss) from Operations

		1998		
	1999	Reported	Adjusted (a)	Percent Change (b)
Health Care Services	$ 578	$ (46)	$ 503	15%
Uniprise	222	10	161	38%
Specialized Care Services	128	14	109	17%
Ingenix	25	(66)	20	25%
Total Operating Segments	953	(88)	793	20%
Corporate and Eliminations	(10)	46	65	nm
Consolidated Earnings (Loss) from Operations	$ 943	$ (42)	$ 858	10%

(a) Excludes $725 million of operational realignment and other charges and $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.
(b) Calculated as percentage change between 1999 results and 1998 results, as adjusted.
nm — not meaningful

Health Care Services

The Health Care Services segment consists of the UnitedHealthcare and Ovations businesses. UnitedHealthcare designs and operates network-based health and well-being services, including commercial, Medicare and Medicaid products for locally based employers and individuals in six broad regional markets. Ovations, which administers Medicare Supplement benefits on behalf of AARP (American Association of Retired Persons), offers health and well-being services for Americans age 50 and older.

The Health Care Services segment posted record revenues of $17,581 million, representing an increase of $1,969 million, or 13%, over 1998. This increase is primarily attributable to UnitedHealthcare's average net premium yield increases on commercial business of approximately 9% and the acquisition of HealthPartners of Arizona, Inc. in October 1998.

The Health Care Services segment contributed earnings from operations of $578 million in 1999, an increase of $75 million, or 15%, over 1998. The increase is primarily due to growth in the average number of individuals served by UnitedHealthcare during 1999 and reduced operating costs as a percentage of revenues driven by our realignment process improvement initiatives.

The following table summarizes UnitedHealthcare's medical care ratios by product line for the years ended December 31:

		1998	
	1999	Reported	Adjusted (a)
UnitedHealthcare			
Commercial	84.6%	85.6%	84.9%
Medicare	89.6%	92.0%	87.0%
Medicaid	86.3%	85.2%	85.2%

(a) Excludes the effects of $175 million of contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.

UnitedHealthcare's commercial medical care ratio improved on a year-over-year basis, driven by net premium yield increases in excess of underlying medical costs. Commercial health plan premium rates are established based on anticipated benefit costs. During 1999, our total cost of benefits, including the effects of medical cost inflation, benefit changes and product mix, increased at a rate of approximately 8% while average premium yield increases were approximately 9%. For 2000, we are pricing renewal commercial business with average 9% to 10% premium yield increases, while our projected total cost of benefits increase is 8.0% to 8.5%.

UnitedHealthcare's Medicare medical care ratio increased in 1999 compared to 1998 (excluding 1998 special charges). We continue to evaluate Medicare markets and alter benefit designs to further improve our Medicare product margins.

Our year-over-year Medicare enrollment decreased 9% as a result of actions taken to better position this program for long-term success. Effective January 1, 1999, we withdrew Medicare+Choice product offerings from 86 counties, affecting approximately 60,000, or 12%, of our Medicare members as of December 31, 1998. On July 1, 1999, we announced plans to withdraw, effective January 1, 2000, from the Medicare+Choice product program in another 49 counties affecting 40,000 existing members, and also filed significant benefit adjustments. Annual revenues for 1999 from the Medicare markets we exited effective January 1, 2000, were approximately $230 million. These actions are expected to further reduce Medicare enrollment, but better position this program in the long term in terms of profitability relative to its cost of capital and required resource management.

We will continue to evaluate the markets we serve and, where necessary, take actions that may result in further withdrawals of Medicare product offerings or reductions in membership, when and as permitted by our contracts with the Health Care Financing Administration (HCFA).

The following table summarizes individuals served by UnitedHealthcare, by product and funding arrangement, as of December 31 (in thousands)[1]:

	1999	1998
Commercial		
Risk-based	5,150	5,141
Fee-based	1,745	1,616
Total Commercial	6,895	6,757
Medicare	437	482
Medicaid	479	430
Total UnitedHealthcare	7,811	7,669

[1] Excludes individuals served through UnitedHealthcare platforms located in Puerto Rico and Pacific Coast regions. The company is transitioning these markets.

Uniprise

Uniprise provides network-based health and well-being services, business-to-business transactional infrastructure services, consumer connectivity and service, and technology support for large employers and health plans. Uniprise's revenues increased by $241 million, or 15%, over 1998 driven primarily by continued growth in its large multi-site customer base, as demonstrated by 11% growth in individuals served, and price increases on fee-based business. Uniprise served 5,980,000 and 5,400,000 individuals as of December 31, 1999 and 1998, respectively. Uniprise's earnings from operations grew by $61 million, or 38%, over 1998 as a result of the increased revenues, ongoing process improvement initiatives, and improved operating margins on risk-based products.

Specialized Care Services

Specialized Care Services is an expanding portfolio of health and well-being companies, each serving a specialized market need with a unique blend of benefits, provider networks, services and resources. Specialized Care Services' revenues increased by $108 million, or 17%, over 1998. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, our mental health and substance abuse services business, and the acquisition of Dental Benefit Providers, Inc. in June 1999. Earnings from operations of $128 million increased by 17% compared with 1998, commensurate with 1999 revenue growth.

Ingenix

Ingenix is a leading health care information and research company that offers a comprehensive line of health care knowledge and information products and services to pharmaceutical companies, health insurers and payers, care providers, large employers and governments. Revenues increased by $74 million, or 40%, over 1998 primarily as a result of acquisitions during the last half of 1998 and during 1999. Earnings from operations of $25 million increased by 25% compared with 1998.

Corporate and Eliminations

Corporate includes investment income derived from cash and investments not assigned to operating segments and the company-wide costs associated with core process improvement initiatives. The decrease of $75 million in 1999 Corporate earnings is attributable to $39 million of incremental core process improvement costs over 1998 levels and a decline in the level of unassigned cash and investments and associated investment income, primarily resulting from share repurchases and business acquisitions.

Operational Realignment and Other Charges

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

The asset impairments consisted principally of: 1) purchased in-process research and development associated with our acquisition of Medicode, Inc; 2) goodwill and other long-lived assets including fixed assets, computer hardware and software, and leasehold improvements associated with businesses we intend to dispose of or markets where we plan to curtail operations or change our operating presence; and 3) other realignment initiatives. Activities associated with the Plan will result in the reduction of approximately 5,200 positions, affecting approximately 6,400 people in various locations. Through December 31, 1999, we had eliminated approximately 3,900 positions, affecting approximately 3,700 people, pursuant to the Plan. The remaining positions are expected to be eliminated by December 31, 2000.

In August 1999, we completed the sale of our managed workers' compensation business. During the second half of 1998 and the first half of 1999, we also completed the sale of our medical provider clinics and reconfigured our small group insurance business and a non-strategic health plan market. The balances accrued in our operational realignment and other charges were sufficient to cover actual costs associated with the disposition and reconfiguration of these businesses.

Remaining markets where we plan to curtail or make changes to our operating presence include two health plan markets that are in non-strategic markets. In Puerto Rico, we expect to complete the sale of this business prior to April 30, 2000. In the Pacific Coast region, we will be exiting our operations related to small and mid-sized customer groups with anticipated completion in 2000. We believe the balances accrued in our operational realignment and other charges will be sufficient to cover expenses incurred in the sale and exit of these markets.

Our accompanying financial statements include the operating results of businesses and markets to be disposed of or discontinued in connection with the operational realignment. The carrying value of the net assets held for sale or disposal was approximately $20 million as of December 31, 1999. Our accompanying Consolidated Statements of Operations for the years ended December 31, 1999 and 1998, include revenues of $689 million and $964 million, respectively, and losses from operations of $41 million and $52 million, respectively, from businesses disposed of or to be disposed of and markets we plan to exit.

The revenues and operating losses described above do not include operating results from the counties where we withdrew our Medicare product offerings, effective January 1, 1999, and where we are withdrawing our Medicare product offerings, effective January 1, 2000. Annual revenues for 1998 for Medicare counties we exited in January 1999 were approximately $225 million. Annual revenues for 1999 from the Medicare counties we are exiting in January 2000 were approximately $230 million.

The operational realignment and other charges do not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering and employee relocation and training. These costs are charged to expense as incurred or capitalized, as appropriate. During 1999 and 1998, we incurred expenses of approximately $52 million and $13 million, respectively, related to these activities.

The Plan provided for substantial completion in 1999. However, some initiatives, including the consolidation of certain claim and administrative processing functions and certain divestitures and market realignment activities are requiring additional time in order to complete them in the most effective manner and will extend through 2000. Based on current facts and circumstances, we believe the remaining realignment reserve is adequate to cover the costs to be incurred in executing the remainder of the Plan. However, as we proceed with the execution of the Plan and more current information becomes available, it may be necessary to adjust our estimates for severance, lease obligations on exited facilities, and losses on disposition of businesses.

The table below summarizes accrued operational realignment and other charges through December 31, 1999 (in millions):

	Asset Impairments	Severance and Outplacement Costs	Noncancelable Lease Obligations	Disposition of Business and Other Costs	Total
Balance at December 31, 1997	$ –	$ –	$ –	$ –	$ –
Provision for Operational Realignment and Other Charges	430	142	82	71	725
Additional Charges (Credits)	21	(20)	(9)	8	–
Cash Payments	–	(19)	(6)	(13)	(38)
Noncash Charges	(451)	–	–	–	(451)
Balance at December 31, 1998	–	103	67	66	236
Additional Charges (Credits)	–	(22)	13	9	–
Cash Payments	–	(46)	(18)	(45)	(109)
Balance at December 31, 1999	**$ –**	**$ 35**	**$ 62**	**$ 30**	**$ 127**

1998 Results Compared to 1997 Results
Consolidated Financial Results

Revenues

Premium Revenues

Consolidated premium revenues in 1998 totaled $15.5 billion, an increase of $5.4 billion, or 53%, compared to 1997. On January 1, 1998, our Health Care Services' Ovations business began delivering Medicare Supplement insurance and other medical insurance coverage to approximately 4 million AARP members. Premium revenues from our portion of the AARP insurance offerings during 1998 were $3.5 billion.

Excluding the AARP business, 1998 consolidated premium revenues totaled $12 billion, an increase of 19% over 1997. This increase was primarily the result of growth in our Health Care Services' UnitedHealthcare business. On a year-over-year same-store basis, UnitedHealthcare's premium revenues increased $1.7 billion, or 18%, during 1998. The increase reflected same-store commercial health plan enrollment growth of 10% and average year-over-year premium yield increases on renewing commercial health plan groups of approximately 5% to 6%.

Growth in UnitedHealthcare's Medicare programs also contributed to the increase in premium revenues, with same-store growth of 33% in Medicare enrollment. Significant growth in Medicare enrollment affects year-over-year comparability. The Medicare product generally has per member premium rates three to four times higher than average commercial premium rates because Medicare members typically use proportionately more medical services. On a year-over-year, same-store basis, UnitedHealthcare's commercial health plan and Medicare products accounted for $1.8 billion of premium revenue growth during 1998.

Management Services and Fee Revenues

Management services and fee revenues during 1998 totaled $1.6 billion, representing an increase of approximately $160 million over 1997. The increase was primarily the result of acquisitions by Ingenix during 1997 and 1998. Additionally, our Specialized Care Services business — most notably in United Behavioral Health and Optum®, our telephone- and Internet-based health information and services business — increased the number of individuals it serves.

Investment and Other Income

Investment and other income increased to $249 million in 1998 from $231 million in 1997. The increase of $18 million was primarily attributable to an increase in average cash and investments from $3.6 billion in 1997 to $4.1 billion in 1998. Net realized capital gains were $26 million in both 1998 and 1997.

Operating Expenses

Medical Costs

The following table summarizes our medical care ratio by product line for the years ended December 31:

	1998 Reported	1998 Adjusted[1]	1997
UnitedHealthcare:			
Commercial	85.6%	84.9%	85.7%
Medicare	92.0%	87.0%	83.3%
Medicaid	85.2%	85.2%	82.8%
Consolidated UnitedHealth Group	87.2%	86.0%	84.3%
Consolidated (excluding AARP)	85.8%	84.3%	84.3%

[1] Excludes the effects of contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.

Our consolidated medical care ratio increased to 87.2% in 1998 from 84.3% in 1997. The year-over-year increase includes the effects of the AARP business on our medical care ratio. We experience a medical care ratio of approximately 92% related to our portion of the AARP insurance offerings, which we began delivering on January 1, 1998. Excluding the AARP business, on a year-over-year basis, the medical care ratio increased to 85.8%.

The increase in the 1998 medical care ratio was primarily due to average Medicare premium rate increases of 2.5%, which were more than offset by increased medical utilization reflected mostly in hospital costs. In 13 of our 24 Medicare markets, representing half of our annual Medicare premiums of $2.4 billion, we incurred contract losses of $111 million. Six of these 13 markets were generally newer markets where we had been unable to achieve the scale of operations necessary to achieve profitability. In numerous counties in the other seven markets, we experienced increased medical costs that exceeded the fixed Medicare premiums, which only increased 2.5% on average.

Despite increasing commercial medical cost trends in certain health plan markets, UnitedHealthcare's commercial medical care ratio improved slightly to 85.6% in 1998 from 85.7% in 1997.

Selling, General and Administrative Expenses
Selling, general and administrative expenses as a percent of total revenues (the operating cost ratio) decreased from 20.0% in 1997 to 17.1% in 1998. The improvement in the year-over-year operating cost ratio principally reflected the operating leverage we gained with the addition of the AARP business. On an absolute dollar basis, selling, general and administrative costs increased by $600 million, or 25%, over 1997. The increase primarily reflected the additional infrastructure needed to support the $5.4 billion, or 53%, increase in premium-based business.

Depreciation and Amortization
Depreciation and amortization was $185 million in 1998, and $146 million in 1997. This increase resulted from a combination of higher levels of capital expenditures to support business growth and amortization of goodwill and other intangible assets related to recent acquisitions.

Financial Condition and Liquidity at December 31, 1999

During 1999, we generated $1.2 billion in cash from operating activities. We continued to maintain a strong financial condition and liquidity position, with cash and investments of $4.7 billion at December 31, 1999, an increase of $295 million from December 31, 1998.

Cash and investments included $484 million and $111 million of equity securities as of December 31, 1999 and 1998, respectively. The increase in equity securities is primarily attributable to unrealized gains of $318 million during 1999, largely resulting from our investment in Healtheon common stock, which increased in value subsequent to Healtheon's initial public stock offering in February 1999.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations. After taking into account these regulations, approximately $300 million (excluding equity securities of $484 million) of our $4.7 billion of cash and investments at December 31, 1999, was available for general corporate use, including share repurchases, acquisitions and working capital needs. Of this amount, approximately $200 million was maintained at year-end as part of our Year 2000 risk mitigation planning. Our operating cash flows and financing capability also provide us with funds, as needed, for general corporate use.

During 1999, we issued commercial paper and, as of December 31, 1999, we had $591 million outstanding, with interest rates ranging from 5.5% to 6.3%.

In November 1999, we also issued a $150 million two-year floating rate note. The interest rate for the initial three-month period is 6.65%.

We used the proceeds from the commercial paper and the floating rate note to repay $400 million of unsecured notes in December 1999.

In August 1999, we increased our commercial paper program and our supporting credit arrangements with a group of banks to an aggregate of $900 million. The supporting credit arrangements are composed of a $300 million revolving credit facility, expiring in December 2003, and a $600 million 364-day facility, expiringin August 2000. We also have the capacity to issue approximately $180 million of extendible commercial notes (ECNs). At December 31, 1999, we had no amounts outstanding under our credit facilities or ECN programs.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which place limitations on secured and unsecured borrowings and require us to exceed minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated "A" by Standard & Poor's and Duff & Phelps, and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by Standard & Poor's, "D-1" by Duff & Phelps, and "P-2" by Moody's.

The aggregate issuing capacity of all securities covered by shelf registration statements for common stock, preferred stock, debt securities and other securities is $1.25 billion. We may publicly offer such securities from time to time at prices and terms to be determined at the time of offering.

Under the board of directors' authorization, we are operating a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 1999, we repurchased 19.4 million shares for an aggregate of $983 million. Since inception of our stock repurchase activities in November 1997 and through December 31, 1999, we have repurchased 30.9 million shares for an aggregate of $1.4 billion. As of December 31, 1999, we have board of directors' authorization to purchase up to an additional 13.9 million shares of our common stock.

In the second quarter of 1998, we recognized special charges to operations of $725 million associated with implementing our operational realignment plan. We believe our remaining after-tax cash outlay associated with these charges will be approximately $80 million over the next 12 months.

We expect our available cash and investment resources, operating cash flows and financing capability will be sufficient to meet our current operating requirements and other corporate development initiatives. A substantial portion of our long-term investments ($2.6 billion as of December 31, 1999) is classified as available for sale. Subject to the previously described regulations, these investments may be sold prior to their maturity to fund working capital or for other purposes.

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

During 1999, we formed and initiated funding of the UnitedHealth Foundation using a portion of our investment in Healtheon common stock valued at approximately $50 million. UnitedHealth Foundation is dedicated to improving Americans' health and well-being by supporting consumer and physician education and awareness programs, generating objective information that will contribute to improving health care delivery, and sponsoring community-based health and well-being activities.

Regulatory Capital and Dividend Restrictions

Our operations are conducted through our wholly-owned subsidiaries, which include health maintenance organizations (HMOs) and insurance companies. HMOs and insurance companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by regulated insurance and HMO companies, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus.

As of December 31, 1999, our regulated subsidiaries had aggregate statutory capital and surplus of approximately $1.5 billion, compared with their aggregate minimum statutory capital and surplus requirements of approximately $350 million.

The National Association of Insurance Commissioners has adopted rules which, to the extent that they are implemented by the states, will set new minimum capitalization requirements for insurance companies, HMOs and other entities bearing risk for health care coverage. The requirements take the form of risk-based capital rules. The change in rules for insurance companies was effective December 31, 1998. The new HMO rules are subject to state-by-state adoption, but not many states had adopted the rules as of December 31, 1999. The HMO rules, if adopted by the states in their proposed form, would significantly increase the minimum capital required for certain of our subsidiaries. However, we believe we can redeploy capital among our regulated entities to minimize the need for incremental capital investment of general corporate financial resources into regulated subsidiaries. As such, we do not anticipate a significant impact on our aggregate capital or investments in regulated subsidiaries.

Quantitative and Qualitative Disclosures About Market Risk

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

Approximately $4.2 billion of our cash and investments at December 31, 1999, was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase in rates applicable to our fixed income portfolio at December 31, 1999, the fair value of our fixed income investments would decrease by approximately $110 million.

As of December 31, 1999, we owned approximately 7.8 million shares of Healtheon common stock. With Healtheon's public stock offering in February 1999 and subsequent increases to the fair value of Healtheon's stock, we have recorded a $283 million unrealized gain, or $178 million net of income tax effects, in shareholders' equity as of December 31, 1999. Assuming an immediate decrease of 25% in Healtheon's stock price, the hypothetical reduction in shareholders' equity related to these holdings is estimated to be $45 million (net of income tax effects), or 1% of total shareholders' equity at December 31, 1999.

Inflation

Although the general rate of inflation has remained relatively stable and health care cost inflation has stabilized in recent years, the national health care cost inflation rate still exceeds the general inflation rate. We use various strategies to mitigate the negative effects of health care cost inflation, including setting commercial premiums based on anticipated health care costs, care coordination with various health care providers, and various health care cost containment measures. Specifically, health plans try to control medical and hospital costs through contracts with independent providers of health care services. Through these contracted care providers, our health plans emphasize preventive health care and appropriate use of specialty and hospital services.

While we currently believe our strategies to mitigate health care cost inflation will continue to be successful, competitive pressures, new health care and pharmaceutical product introductions, demands from health care providers and customers, applicable regulations or other factors may affect our ability to control the impact of health care cost increases. In addition, certain non-network-based products do not have health care cost containment measures similar to those in place for network-based products. As a result, there is added health care cost inflation risk with these products, which constitute approximately 4% of our consolidated risk-based membership. We consider these inflation risks when determining prices for those products.

Year 2000 Infrastructure Modification Activities

Our Year 2000 infrastructure remediation efforts were successful and, during 2000, we have not experienced any business disruptions or system failures.

Legal Matters

See Note 13 to the accompanying consolidated financial statements for a discussion of legal matters.

Cautionary Statement Regarding "Forward-Looking" Statements

The statements contained in Results of Operations, and other sections of this annual report to shareholders, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA). When used herein, the words or phrases "believes," "expects," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" statements under the safe harbor provisions of the PSLRA. Forward-looking statements involve known and unknown risks, which may cause actual results and corporate developments to differ materially from those expected. Factors that could cause results and developments to differ materially from expectations include, without limitation: the effects of state and federal regulations, the effects of acquisitions and divestitures, and other risks described from time to time in each of UnitedHealth Group's SEC reports, including quarterly reports on Form 10-Q, annual reports on Form 10-K, and reports on Form 8-K.

(in millions, except per share data)	For the Year Ended December 31, 1999	1998	1997
Revenues			
Premiums	$ 17,550	$15,516	$ 10,135
Management Services and Fees	1,793	1,590	1,428
Investment and Other Income	219	249	231
Total Revenues	19,562	17,355	11,794
Operating Expenses			
Medical Costs	15,043	13,523	8,542
Selling, General and Administrative Expenses	3,343	2,964	2,364
Depreciation and Amortization	233	185	146
Operational Realignment and Other Charges	–	725	–
Total Operating Expenses	18,619	17,397	11,052
Earnings (Loss) From Operations	943	(42)	742
Interest Expense	(49)	(4)	–
Earnings (Loss) Before Income Taxes	894	(46)	742
Provision for Income Taxes	(326)	(120)	(282)
Net Earnings (Loss)	568	(166)	460
Convertible Preferred Stock Dividends and Redemption Premium	–	(48)	(29)
Net Earnings (Loss) Applicable To Common Shareholders	$ 568	$ (214)	$ 431
Basic Net Earnings (Loss) per Common Share	$ 3.26	$ (1.12)	$ 2.30
Diluted Net Earnings (Loss) per Common Share	$ 3.20	$ (1.12)	$ 2.26
Basic Weighted-Average Number of Common Shares Outstanding	174.1	190.6	187.0
Dilutive Effect of Outstanding Stock Options	3.4	–	3.8
Weighted-Average Number of Common Shares Outstanding, Assuming Dilution	177.5	190.6	190.8

See notes to consolidated financial statements.

(in millions, except share and per share data)	As of December 31, 1999	1998
Assets		
Current Assets		
Cash and Cash Equivalents	$ 1,605	$ 1,644
Short-Term Investments	546	170
Accounts Receivable, net of allowances of $117 and $64	912	965
Assets Under Management	1,328	1,155
Other Current Assets	177	320
Total Current Assets	4,568	4,254
Long-Term Investments	2,568	2,610
Property and Equipment, net of accumulated depreciation of $482 and $463	278	294
Goodwill and Other Intangible Assets, net of accumulated amortization of $376 and $258	2,859	2,517
Total Assets	$ 10,273	$ 9,675
Liabilities and Shareholders' Equity		
Current Liabilities		
Medical Costs Payable	$ 2,915	$ 2,780
Accounts Payable and Accrued Liabilities	1,003	949
Other Policy Liabilities	910	714
Short-Term Debt	591	459
Unearned Premiums	473	414
Total Current Liabilities	5,892	5,316
Long-Term Debt	400	249
Deferred Income Taxes and Other Liabilities	118	72
Commitments and Contingencies (*Note 13*)		
Shareholders' Equity		
Common Stock, $0.01 par value - 500,000,000 shares authorized; 167,470,000 and 183,930,000 issued and outstanding	2	2
Additional Paid-in Capital	249	1,107
Retained Earnings	3,447	2,885
Accumulated Other Comprehensive Income:		
Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects	165	44
Total Shareholders' Equity	3,863	4,038
Total Liabilities and Shareholders' Equity	$ 10,273	$ 9,675

See notes to consolidated financial statements.

(in millions, except per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Net Unrealized Holding Gains (Losses) on Investments Available for Sale	Total Shareholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 1996	185	$ 2	$ 1,148	$ 2,680	$ (7)	$ 3,823	
Issuance of Common Stock							
Stock Plans and Related Tax Benefits	3	–	116	–	–	116	
Acquisitions	3	–	144	–	–	144	
Stock Repurchases	–	–	(10)	–	–	(10)	
Comprehensive Income							
Net Earnings	–	–	–	460	–	460	$ 460
Other Comprehensive Income Adjustments							
Change in Net Unrealized Holding Gains (Losses) on Investments Available for Sale, net of income tax effects	–	–	–	–	36	36	36
Comprehensive Income	–	–	–	–	–	–	$ 496
Cash Dividends							
Common Stock ($0.03 per share)	–	–	–	(6)	–	(6)	
Convertible Preferred Stock ($57.50 per share)	–	–	–	(29)	–	(29)	
Balance at December 31, 1997	191	2	1,398	3,105	29	4,534	
Issuance of Common Stock							
Stock Plans and Related Tax Benefits	4	–	131	–	–	131	
Acquisitions	–	–	14	–	–	14	
Stock Repurchases	(11)	–	(436)	–	–	(436)	
Comprehensive Income (Loss)							
Net Loss	–	–	–	(166)	–	(166)	$ (166)
Other Comprehensive Income Adjustments							
Change in Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects	–	–	–	–	15	15	15
Comprehensive Loss	–	–	–	–	–	–	$ (151)
Cash Dividends							
Common Stock ($0.03 per share)	–	–	–	(6)	–	(6)	
Convertible Preferred Stock ($56.03 per share)	–	–	–	(28)	–	(28)	
Convertible Preferred Stock Redemption Premium	–	–	–	(20)	–	(20)	
Balance at December 31, 1998	184	2	1,107	2,885	44	4,038	
Issuance of Common Stock							
Stock Plans and Related Tax Benefits	3	–	125	–	–	125	
Stock Repurchases	(20)	–	(983)	–	–	(983)	
Comprehensive Income							
Net Earnings	–	–	–	568	–	568	$ 568
Other Comprehensive Income Adjustments							
Change in Net Unrealized Holding Gains on Investments Available for Sale, net of income tax effects	–	–	–	–	121	121	121
Comprehensive Income	–	–	–	–	–	–	$ 689
Cash Dividends							
Common Stock ($0.03 per share)	–	–	–	(6)	–	(6)	
Balance at December 31, 1999	**167**	**$ 2**	**$ 249**	**$ 3,447**	**$ 165**	**$ 3,863**	

See notes to consolidated financial statements.

(in millions)	1999	For the Year Ended December 31, 1998	1997
Operating Activities			
Net Earnings (Loss)	$ 568	$ (166)	$ 460
Noncash Items			
Depreciation and Amortization	233	185	146
Deferred Income Taxes and Other	35	(184)	91
Asset Impairments	–	451	–
Net Change in Other Operating Items, net of effects from acquisitions, sales of subsidiaries and changes in AARP balances			
Accounts Receivable and Other Current Assets	84	67	(84)
Medical Costs Payable	165	269	53
Accounts Payable and Other Current Liabilities	60	347	(30)
Unearned Premiums	44	102	47
Cash Flows From Operating Activities	1,189	1,071	683
Investing Activities			
Cash Paid for Acquisitions, net of cash assumed and other effects	(334)	(464)	–
Purchases of Property and Equipment and Capitalized Software	(196)	(210)	(187)
Proceeds from Sales of Property and Equipment and Disposition of Businesses	51	59	–
Purchases of Investments	(2,208)	(2,799)	(6,706)
Maturities/Sales of Investments	2,064	3,435	5,889
Cash Flows (Used For) From Investing Activities	(623)	21	(1,004)
Financing Activities			
Proceeds from Stock Option Exercises	102	84	79
Proceeds from Short-Term Borrowings, net of payments	132	459	–
Proceeds from Issuance of Long-Term Debt	150	249	–
Common Stock Repurchases	(983)	(436)	(10)
Redemption of Convertible Preferred Stock	–	(520)	–
Dividends Paid	(6)	(34)	(35)
Cash Flows (Used For) From Financing Activities	(605)	(198)	34
Increase (Decrease) in Cash and Cash Equivalents	(39)	894	(287)
Cash and Cash Equivalents, Beginning of Period	1,644	750	1,037
Cash and Cash Equivalents, End of Period	$ 1,605	$ 1,644	$ 750

See notes to consolidated financial statements.

(1) Description of Business

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the Company," "we," "us," "our") is a national leader in forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through five distinct but strategically aligned businesses operating in separate market segments, we offer health care coverage and related services to help people achieve improved health and well-being.

(2) Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the consolidated financial statements in accordance with generally accepted accounting principles and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

Use of Estimates

These financial statements include some amounts that are based on our best estimates and judgments. The most significant estimates relate to medical costs payable and other policy liabilities, intangible asset valuations and integration reserves relating to acquisitions, and liabilities and asset impairments relating to our operational realignment activities. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Revenue Recognition

Premium revenues are recognized in the period enrolled members are entitled to receive health care services. Premium payments received from our customers prior to such period are recorded as unearned premiums. Management services and fee revenues are recognized in the period the related services are performed. Premium revenues related to Medicare and Medicaid programs as a percentage of total premium revenues were 21% in 1999, 20% in 1998, and 22% in 1997.

Medical Costs and Medical Costs Payable

Medical costs include claims paid, claims adjudicated but not yet paid, estimates for claims received but not yet adjudicated, and estimates for claims incurred but not yet received.

The estimates of medical costs and medical costs payable are developed using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors including product changes. The estimates are subject to change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change our actuarial methods during 1999, 1998 or 1997. The impact of any changes in estimates is included in the determination of earnings in the period of change. Management believes that the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 1999.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term.

Investments held by trustees or agencies according to state regulatory requirements are classified as held-to-maturity based on our ability and intent to hold these investments to maturity. Such investments are reported at amortized cost and are included in long-term investments. All other investments are classified as available for sale and reported at fair value based on quoted market prices and are classified as short-term or long-term depending on their maturity term. Periodically, we sell investments classified as long-term prior to their maturity to fund working capital or for other purposes.

Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of shareholders' equity, net of income tax effects. To calculate realized gains and losses on the sale of investments available for sale, we use the specific cost of each investment sold. We have no investments classified as trading securities.

Assets Under Management

Under our 10-year agreement with AARP, we are administering certain aspects of AARP's insurance program that were transferred from the program's previous carrier (see Note 6). Pursuant to our agreement with AARP, the associated assets are managed separately from our general investment portfolio and are used to fund expenditures associated with the AARP Program. These assets are invested at our discretion, within certain investment guidelines approved by the AARP. At December 31, 1999, the assets were invested in marketable debt securities. Interest earnings and realized investment gains and losses on these assets accrue to the AARP policyholders and, as such, are not included in our determination of earnings. Assets under management are reported at their fair value. Unrealized gains and losses are included in the rate stabilization fund associated with the AARP Program (see Note 6). As of December 31, 1999, the AARP investment portfolio included net unrealized losses of $34 million compared with net unrealized gains of $12 million as of December 31, 1998.

Other Policy Liabilities

Other policy liabilities include the rate stabilization fund associated with the AARP Program (see Note 6) and retrospective rate credit liabilities and customer balances related to experience-rated indemnity products.

Retrospective rate credit liabilities represent premiums we received in excess of amounts contractually owed by customers based on actual claim experience. Liabilities established for closed policy years are based on actual experience, while liabilities for open years are based on estimates of premiums, claims and expenses incurred.

Customer balances consist principally of deposit accounts and reserves that have accumulated under certain experience-rated contracts. At the customer's option, these balances may be returned to the customer or used to pay future premiums or claims under eligible contracts.

Property and Equipment

Property and equipment is stated at cost. Depreciation is calculated using the straight-line method over the estimated useful life of the respective assets, ranging from three years to 30 years. The weighted-average useful life of property and equipment at December 31, 1999, was approximately four years.

Goodwill and Other Intangible Assets

Goodwill represents the purchase price and transaction costs associated with businesses we have acquired in excess of the estimated fair value of the net assets of these businesses. To the extent possible, a portion of the excess purchase price and transaction costs is assigned to identifiable intangible assets. Goodwill and other intangible assets are being amortized on a straight-line basis over useful lives ranging from three years to 40 years, with a weighted-average useful life of 34 years at December 31, 1999.

The useful lives of goodwill and other intangible assets have been assigned based on our best judgment. We periodically evaluate whether certain circumstances may affect the estimated useful lives or the recoverability of the unamortized balance of goodwill or other intangible assets.

The most significant components of goodwill and other intangible assets are composed of goodwill of $2.1 billion at December 31, 1999, and $1.8 billion at December 31, 1998, and employer group contracts, supporting infrastructure, distribution networks and institutional knowledge of $550 million at December 31, 1999, and $570 million at December 31, 1998, net of accumulated amortization.

Long-Lived Assets

We review long-lived assets for events or changes in circumstances that would indicate we may not recover their carrying value. We consider a number of factors, including estimated future undiscounted cash flows associated with the long-lived asset, to make this decision. We record assets held for sale at the lower of their carrying amount or fair value, less any costs associated with the final settlement.

Income Taxes

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

Stock-Based Compensation

We use the intrinsic value method for determining stock-based compensation expenses. Under the intrinsic value method, we do not recognize compensation expense when the exercise price of an employee stock option equals or exceeds the fair market value of the stock on the date the option is granted. Information on what our stock-based compensation expenses would have been had we calculated those expenses using the fair market values of outstanding stock options is included in Note 11.

Net Earnings (Loss) Per Common Share

Basic net earnings (loss) per common share is computed by dividing net earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, since their inclusion would be anti-dilutive.

Comprehensive Income

Comprehensive income and its components are reported in the Consolidated Statements of Changes in Shareholders' Equity. Comprehensive income is defined as changes in the equity of our business excluding changes resulting from investments and distributions to our shareholders.

Recently Issued Accounting Standard

In June 1998, a new standard on accounting for derivative financial instruments and hedging activities was issued. This new standard will not materially affect our financial results or disclosures based upon our current investment portfolio.

Reclassifications

Certain 1998 and 1997 amounts in the consolidated financial statements have been reclassified to conform to the 1999 presentation. These reclassifications have no effect on net earnings (loss) or shareholders' equity as previously reported.

(3) Acquisitions

In September 1999, our Ingenix business segment acquired Worldwide Clinical Trials, Inc. (WCT), a leading contract research organization. We paid $214 million in cash in exchange for all outstanding shares of WCT. We accounted for the purchase using the purchase method of accounting, which means the purchase price was allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition and only the post-acquisition results of WCT are included in our consolidated financial statements. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by $214 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 30 years. The pro forma effects of the WCT acquisition on our consolidated financial statements were not material.

In June 1999, our Specialized Care Services business segment acquired Dental Benefit Providers, Inc. (DBP), one of the largest managed dental care services companies in the United States. We paid $105 million in cash, and we accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by $105 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro forma effects of the DBP acquisition on our consolidated financial statements were not material.

In October 1998, our Health Care Services segment acquired HealthPartners of Arizona, Inc. (HPA), with 509,000 members as of the acquisition date. We paid $235 million in cash in exchange for all outstanding shares of HPA. We accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the estimated fair value of net assets acquired by $223 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro forma effects of the HPA acquisition on our consolidated financial statements were not material.

During 1998, our Ingenix segment acquired Kern McNeill International, Inc. (KMI), a leading contract research organization, and St. Anthony Publishing, Inc. (St. Anthony), a leader in the health care coding and reimbursement publications market. In the aggregate, we paid $188 million in cash and assumed liabilities of $17 million in exchange for all of the common stock of KMI and St. Anthony. We accounted for these acquisitions using the purchase method of accounting. The purchase price and costs associated with these acquisitions exceeded the preliminary fair value of net assets acquired by $205 million, which has been assigned to trade names and goodwill and is being amortized over their estimated useful lives ranging from 15 to 40 years. The pro forma effects of these acquisitions on our consolidated financial statements were not material.

On December 31, 1997, our Ingenix segment acquired Medicode, Inc. (Medicode), a leading provider of health care information products. We issued 2.4 million shares of common stock and 507,000 common stock options with a total fair value of $127 million in exchange for all outstanding shares of Medicode. We accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by $123 million, which was originally assigned entirely to goodwill. During the second quarter of 1998, the Company completed the valuation of the intangible assets acquired in the Medicode transaction. Pursuant to the valuation, we expensed $68 million of the excess purchase price representing purchased in-process technology that previously had been assigned to goodwill. In management's judgment, this amount reflects the amount we would reasonably expect to pay an unrelated party for each project included in the technology. The value of in-process research and development of $68 million represented approximately 48% of the purchase price and was determined by estimating the costs to develop the purchased technology into commercially viable products, then estimating the resulting net cash flows from each project that was incomplete at the acquisition date, and discounting the resulting net cash flows to their present value. As of the date of our acquisition, Medicode had invested $8.5 million in in-process research and development projects. An additional $5 million was expended through September 30, 1999, at which time all projects that were in-process as of the acquisition date were complete. The $68 million charge is included as a component of Operational Realignment and Other Charges in the accompanying Consolidated Statements of Operations for the year ended December 31, 1998. Based on the final valuation, the remaining excess purchase price of $55 million was assigned to existing technologies, trade names and goodwill and is being amortized over their estimated useful lives, averaging 13 years. The pro forma effects of the Medicode acquisition on our consolidated financial statements were not material.

(4) Special Operating Charges

Operational Realignment and Other Charges

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

The asset impairments consisted principally of: 1) purchased in-process research and development associated with our acquisition of Medicode, Inc.; 2) goodwill and other long-lived assets including fixed assets, computer hardware and software, and leasehold improvements associated with businesses we intend to dispose of or markets where we plan to curtail our operations or change our operating presence; and 3) other realignment initiatives. Activities associated with the Plan will result in the reduction of approximately 5,200 positions, affecting approximately 6,400 people in various locations. Through December 31, 1999, we had eliminated approximately 3,900 positions, affecting approximately 3,700 people, pursuant to the Plan. The remaining positions are expected to be eliminated by December 31, 2000.

In August 1999, we completed the sale of our managed workers' compensation business. During the second half of 1998 and the first half of 1999, we also completed the sale of our medical provider clinics and the reconfiguration of our small group insurance business and a non-strategic health plan market. The balances accrued in our operational realignment and other charges were sufficient to cover actual costs associated with the disposition and reconfiguration of these businesses.

Remaining markets where we plan to curtail or make changes to our operating presence include two health plan markets that are in non-strategic markets. In Puerto Rico, we expect to complete the sale of this business prior to April 30, 2000. In the Pacific Coast region, we will be exiting our operations related to small and mid-sized customer groups with anticipated completion in 2000. We believe the balances accrued in our operational realignment and other charges will be sufficient to cover expenses incurred in the sale and exit of these markets.

Our accompanying financial statements include the operating results of businesses and markets to be disposed of or discontinued in connection with the operational realignment. The carrying value of the net assets held for sale or disposal is approximately $20 million as of December 31, 1999. Our accompanying Consolidated Statements of Operations include revenues and operating losses from businesses disposed of or to be disposed of, and markets we plan to exit for the years ended December 31 as follows (in millions):

	1999	1998
Revenues	$ 689	$ 964
Loss from operations	$ (41)	$ (52)

The table above does not include operating results from the counties where we withdrew our Medicare product offerings, effective January 1, 1999, and where we will be withdrawing our Medicare product offerings, effective January 1, 2000. Annual revenues for 1998 for Medicare counties we exited in January 1999 were approximately $225 million. Annual revenues for 1999 from the Medicare counties we are exiting in January 2000 were approximately $230 million.

The operational realignment and other charges do not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, and employee relocation and training. These costs are charged to expense as incurred or capitalized, as appropriate. During 1999 and 1998, we incurred expenses of approximately $52 million and $13 million, respectively, related to these activities.

The Plan provided for substantial completion in 1999. However, some initiatives, including the consolidation of certain claim and administrative processing functions and certain divestitures and market realignment activities are requiring additional time in order to complete them in the most effective manner and will extend through 2000. Based on current facts and circumstances, we believe the remaining realignment reserve is adequate to cover the costs to be incurred in executing the remainder of the Plan. However, as we proceed with the execution of the Plan and more current information becomes available, it may be necessary to adjust our estimates for severance, lease obligations on exited facilities, and losses on disposition of businesses.

The accrual for operational realignment and other charges is included in Accounts Payable and Accrued Liabilities in the accompanying Consolidated Balance Sheets. The table below summarizes accrued operational realignment and other charges through December 31, 1999 (in millions):

	Asset Impairments	Severance and Outplacement Costs	Noncancelable Lease Obligations	Disposition of Business and Other Costs	Total
Balance at December 31, 1997	$ –	$ –	$ –	$ –	$ –
Provision for Operational Realignment and Other Charges	430	142	82	71	725
Additional Charges (Credits)	21	(20)	(9)	8	–
Cash Payments	–	(19)	(6)	(13)	(38)
Noncash Charges	(451)	–	–	–	(451)
Balance at December 31, 1998	–	103	67	66	236
Additional Charges (Credits)	–	(22)	13	9	–
Cash Payments	–	(46)	(18)	(45)	(109)
Balance at December 31, 1999	**$ –**	**$ 35**	**$ 62**	**$ 30**	**$ 127**

Medical Costs

During the second quarter of 1998, we recorded $175 million of medical cost charges. Of this amount, $101 million related to Medicare contract losses, $19 million related to other increases to Medicare medical costs payable estimates, and $55 million related to increases to commercial medical costs payable estimates.

The $101 million of contract losses were incurred in 13 of our 24 Medicare markets. These plans contributed half of our annual Medicare premiums of $2.4 billion in 1998. Six of these markets were generally newer markets where we had been unable to achieve the scale of operations necessary to achieve profitability. In numerous counties in the other seven markets, we experienced increased medical costs that exceeded the fixed Medicare premiums, which only increased 2.5% on average.

(5) Provision for Future Losses

In the second quarter of 1996, we recorded a provision to medical costs of $45 million to cover estimated losses we expected to incur through the remaining terms of two large multi-year contracts in our St. Louis health plan. One of the contracts expired in December 1998 and contained a premium rate increase cap of 2.5% per year. The other contract expires in December 2000 and generally limits premium rate increases to annual Consumer Price Index adjustments. As of December 31, 1999, there were 40,000 members covered under this contract. During 1999 and 1998, we utilized $6 million and $8 million, respectively, of the accrual for future losses. At December 31, 1999, we had $7 million remaining in the accrual for future losses, which is included in Medical Costs Payable in the accompanying Consolidated Balance Sheets. We expect this accrual will be sufficient to cover expected future losses from the remaining contract.

(6) AARP (American Association of Retired Persons)

On January 1, 1998, we entered into a 10-year contract to provide insurance products and services to members of the AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. AARP has also contracted with certain other vendors to provide other member and marketing services. We report premium revenues associated with the AARP Program net of the administrative fees paid to these vendors and an administrative allowance we pay to AARP. Premium revenues from our portion of the AARP insurance offerings were approximately $3.5 billion during both 1999 and 1998.

The underwriting results related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. To the extent underwriting losses exceed the balance in the RSF, we would be required to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. The RSF balance was $713 million as of December 31, 1999, and $509 million as of December 31, 1998, and is included in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

We assumed the policy and other policy liabilities related to the AARP program and received cash and premium receivables from the previous insurance carrier equal to the carrying value of the liabilities assumed as of January 1, 1998. The following AARP Program-related assets and liabilities are included in our Consolidated Balance Sheets (in millions):

	Balance as of December 31, 1999	1998
Assets Under Management	**$ 1,307**	$ 1,155
Accounts Receivable	**$ 276**	$ 287
Medical Costs Payable	**$ 791**	$ 830
Other Policy Liabilities	**$ 713**	$ 509
Accounts Payable and Accrued Liabilities	**$ 79**	$ 103

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

(7) Cash, Cash Equivalents and Investments

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

1999	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Cash and Cash Equivalents	$ 1,605	$ –	$ –	$ 1,605
Debt Securities — Available for Sale				
U.S. Government and Agencies	726	–	(18)	708
State and State Agencies	555	2	(9)	548
Municipalities	527	2	(9)	520
Corporate	797	–	(22)	775
Debt Securities — Available for Sale	2,605	4	(58)	2,551
Equity Securities — Available for Sale	166	318	–	484
Total Investments Available for Sale	2,771	322	(58)	3,035
Investments Held to Maturity				
U.S. Government and Agencies	58	–	–	58
State and State Agencies	1	–	–	1
Municipalities	1	–	–	1
Corporate	19	–	–	19
Total Investments Held to Maturity	79	–	–	79
Total Cash and Investments	$ 4,455	$ 322	$ (58)	$ 4,719

1998	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Cash and Cash Equivalents	$ 1,644	$ –	$ –	$ 1,644
Debt Securities — Available for Sale				
U.S. Government and Agencies	668	10	–	678
State and State Agencies	675	27	–	702
Municipalities	535	20	–	555
Corporate	628	10	(2)	636
Debt Securities — Available for Sale	2,506	67	(2)	2,571
Equity Securities — Available for Sale	105	6	–	111
Total Investments Available for Sale	2,611	73	(2)	2,682
Investments Held to Maturity				
U.S. Government and Agencies	53	–	–	53
State and State Agencies	16	–	–	16
Municipalities	1	–	–	1
Corporate	17	–	–	17
Other	11	–	–	11
Total Investments Held to Maturity	98	–	–	98
Total Cash and Investments	$ 4,353	$ 73	$ (2)	$ 4,424

As of December 31, 1999, the contractual maturities of our investments in debt securities were as follows (in millions):

Years to Maturity	Less Than One Year	One to Five Years	More Than Five to Ten Years	More Than Ten Years	Total
At Amortized Cost:					
Investments Available for Sale	$ 202	$ 851	$ 835	$ 717	$ 2,605
Investments Held to Maturity	36	43	–	–	79
Total Debt Securities	$ 238	$ 894	$ 835	$ 717	$ 2,684
At Fair Value:					
Investments Available for Sale	$ 202	$ 841	$ 816	$ 692	$ 2,551
Investments Held to Maturity	36	43	–	–	79
Total Debt Securities	$ 238	$ 884	$ 816	$ 692	$ 2,630

Gross realized gains of $9 million, $31 million and $37 million and gross realized losses of $15 million, $5 million and $11 million were recognized in 1999, 1998 and 1997, respectively, and are included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

During 1999, we contributed approximately 1.2 million shares of Healtheon Corporation common stock valued at approximately $50 million to the UnitedHealth Foundation. The difference between the realized gain of approximately $49 million on the stock transfer and the related contribution expense of $50 million was $1 million. The net effect of this transaction is included in Investment and Other Income in the accompanying Consolidated Statement of Operations for 1999.

(8) Debt

Debt consisted of the following as of December 31 (in millions):

	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Commercial Paper	$ 591	$ 591	$ 59	$ 59
5.65% Senior Unsecured Note due December 1999	–	–	400	400
Floating Rate Note due November 2001	150	150	–	–
6.60% Senior Unsecured Note due December 2003	250	238	249	249
Total Debt	$ 991	$ 979	$ 708	$ 708
Less Current Portion	(591)	(591)	(459)	(459)
Total Long-Term Debt	$ 400	$ 388	$ 249	$ 249

As of December 31, 1999, we had $591 million of commercial paper outstanding, with interest rates ranging from 5.5% to 6.3%. In November 1999, we also issued a $150 million two-year floating rate note. The interest rate is adjusted quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.5%, which was 6.65% as of December 31, 1999.

The repayment of the $400 million unsecured note in December 1999 was financed with the $150 million floating rate note and commercial paper issuance.

In August 1999, we increased our commercial paper program and our supporting credit arrangements with a group of banks to an aggregate of $900 million. The supporting credit arrangements are comprised of a $300 million revolving credit facility, expiring in December 2003, and a $600 million 364-day facility, expiring in August 2000. We also have the capacity to issue approximately $180 million of extendible commercial notes (ECNs) under our ECN program. At December 31, 1999, we had no amounts outstanding under our credit facilities or ECN program.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which place limitations on secured and unsecured borrowings and require us to exceed minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of long-term debt for the years ending December 31 are as follows (in millions):

2000	2001	2002	2003	2004
–	$ 150	–	$ 250	–

We made cash payments for interest of $43 million in 1999.

(9) Convertible Preferred Stock

In December 1998, we redeemed all 500,000 outstanding shares of 5.75% Series A Convertible Preferred Stock (Preferred Stock). This Preferred Stock was issued to certain former shareholders of The MetraHealth Companies, Inc. (MetraHealth) as a portion of the total consideration of our 1995 acquisition of MetraHealth. The redemption price per share of stock was $1,040 per share, or $520 million in the aggregate, which included a redemption premium of $40 per share or $20 million in the aggregate. The redemption premium of $20 million is deducted from Net Earnings (Loss) to arrive at Net Earnings (Loss) Applicable to Common Shareholders in the accompanying Consolidated Statement of Operations for 1998.

(10) Shareholders' Equity

Regulatory Capital and Dividend Restrictions

Our operations are conducted through our wholly-owned subsidiaries, which include health maintenance organizations (HMOs) and insurance companies. HMOs and insurance companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by regulated insurance and HMO companies, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus.

As of December 31, 1999, the Company's regulated subsidiaries had aggregate statutory capital and surplus of approximately $1.5 billion, compared with their aggregate minimum statutory capital and surplus requirements of approximately $350 million.

The National Association of Insurance Commissioners has adopted rules which, to the extent that they are implemented by the states, will set new minimum capitalization requirements for insurance companies, HMOs and other entities bearing risk for health care coverage. The requirements take the form of risk-based capital rules. The change in rules for insurance companies was effective December 31, 1998. The new HMO rules are subject to state-by-state adoption, but not many states had adopted the rules as of December 31, 1999. The HMO rules, if adopted by the states in their proposed form, would significantly increase the minimum capital required for certain of our subsidiaries. However, we believe we can redeploy capital among our regulated entities to minimize the need for incremental capital investment of general corporate financial resources into regulated subsidiaries. As such, we do not anticipate a significant impact on our aggregate capital or investments in regulated subsidiaries.

Stock Repurchase Program

Under the board of directors' authorization, we are operating a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 1999, we repurchased 19.4 million shares for an aggregate of $983 million. Since inception of our stock repurchase activities in November 1997 and through December 31, 1999, we have repurchased 30.9 million shares for an aggregate of $1.4 billion. As of December 31, 1999, we have board of directors' authorization to purchase up to an additional 13.9 million shares of our common stock.

Dividends

On February 10, 2000, the board of directors approved an annual dividend for 2000 of $0.03 per share to holders of common stock.

(11) Stock-Based Compensation Plans

We have stock and incentive plans (the Stock Plans) for the benefit of eligible employees. As of December 31, 1999, the Stock Plans allowed for the future granting of up to 7.2 million shares as incentive or non-qualified stock options, stock appreciation rights, restricted stock awards and performance awards to employees.

In 1995, we adopted the Non-employee Director Stock Option Plans (the 1995 Plan) to benefit members of the board of directors who are not employees. As of December 31, 1999, 479,000 shares were available for future grants of non-qualified stock options under the 1995 Plan.

Stock options are granted at an exercise price not less than the fair market value of the common stock at the date of grant. They may be exercised over varying periods and up to 10 years from the date of grant.

A summary of the activity under our Stock Plans and the 1995 Plan during 1999, 1998 and 1997 is presented in the table below (shares in thousands):

	1999		1998		1997	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at Beginning of Year	**18,374**	**$ 37**	17,113	$ 34	16,894	$ 29
Granted	**7,203**	**$ 40**	5,847	$ 39	4,366	$ 44
Issued in Acquisition	**–**	**$ –**	–	$ –	507	$ 4
Exercised	**(2,333)**	**$ 33**	(3,379)	$ 23	(3,095)	$ 20
Forfeited	**(1,204)**	**$ 39**	(1,207)	$ 39	(1,559)	$ 35
Outstanding at end of year	**22,040**	**$ 38**	18,374	$ 37	17,113	$ 34
Exercisable at end of year	**7,779**	**$ 34**	6,725	$ 33	6,702	$ 28

The following table summarizes information about stock options outstanding at December 31, 1999 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Option Term (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0 - $22	1,591	2.9	$ 16	1,529	$ 16
$23 - $35	5,500	7.4	$ 33	2,630	$ 33
$36 - $46	11,834	8.5	$ 41	2,996	$ 41
$47 - $55	3,050	7.2	$ 50	581	$ 50
$56 - $73	65	8.5	$ 68	43	$ 72
$ 0 - $73	22,040	7.6	$ 38	7,779	$ 34

We increased additional paid-in capital $23 million in 1999, $47 million in 1998, and $37 million in 1997 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

We do not recognize compensation expense in connection with stock option grants related to the Stock Plans and the 1995 Plan because we grant stock options at exercise prices that equal or exceed the fair market value of the stock at the time options are granted. If we had determined compensation expense using fair market values for the stock options, net earnings (loss) per common share would have been reduced to the following pro forma amounts:

	1999	1998	1997
Net Earnings (Loss) (in millions)			
As Reported	**$ 568**	$ (166)	$ 460
Pro Forma	**$ 531**	$ (206)	$ 430
Diluted Net Earnings (Loss) Per Common Share			
As Reported	**$ 3.20**	$(1.12)	$ 2.26
Pro Forma	**$ 2.99**	$(1.33)	$ 2.10
Weighted-Average Fair Value Per Share of Options Granted	**$ 23**	$ 16	$ 25

To determine compensation cost under the fair value method, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Principal assumptions used in applying the Black-Scholes model were as follows:

	1999	1998	1997
Risk-Free Interest Rate	**6.7%**	5.2%	6.0%
Expected Volatility	**50%**	46%	56%
Expected Dividend Yield	**0.1%**	0.1%	0.1%
Expected Life in Years	**5.0**	5.8	5.6

Because we did not apply the fair value method of accounting to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of what can be expected in future years.

Employee Stock Ownership Plan

We have a non-leveraged Employee Stock Ownership Plan (ESOP) for the benefit of all eligible employees. Company contributions to the ESOP are made at the discretion of the board of directors. We made contributions to the ESOP of $5 million in 1999, $4 million in 1998 and $4 million in 1997.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (ESPP) allows all eligible employees to purchase shares of common stock on semiannual offering dates at a price that is the lesser of 85% of the fair market value of the shares on the first day or the last day of the semiannual period. Employee contributions to the ESPP were $19 million for 1999, $19 million for 1998 and $17 million for 1997. Through the ESPP, we issued to employees 460,000 shares for 1999, 206,000 shares for 1998, and 422,000 for 1997. As of December 31, 1999, 2.5 million shares were available for future issue.

(12) Income Taxes

Components of the Provision (Benefit) for Income Taxes

Year Ended December 31, (in millions)	1999	1998	1997
Current			
Federal	$ 264	$ 273	$ 171
State	36	31	20
Total Current	300	304	191
Deferred	26	(184)	91
Total Provision	$ 326	$ 120	$ 282

Reconciliation of the Tax Provision at the U.S. Federal Statutory Rate to the Provision for Income Taxes

Year Ended December 31, (in millions)	1999	1998	1997
Tax Provision (Benefit) at the U.S. Federal Statutory Rate	$ 313	$ (16)	$ 259
State Income Taxes, net of federal benefit	24	19	21
Tax-Exempt Investment Income	(16)	(25)	(21)
Non-Deductible Amortization	25	24	21
Non-Deductible Asset Impairments	–	100	–
Non-Deductible Losses and Expenses	3	12	7
Charitable Contributions	(16)	–	–
Other, net	(7)	6	(5)
Provision for Income Taxes	$ 326	$ 120	$ 282

Components of Deferred Income Tax Assets and Liabilities

December 31, (in millions)	1999	1998
Deferred Income Tax Assets		
Accrued Operational Realignment and Other Charges, and Restructuring Reserves	$ 63	$ 138
Unearned Premiums	87	68
Loss Reserve Discounting	52	51
Net Operating Loss Carryforwards	43	34
Bad Debt Allowance	29	13
Medical Costs Payable and Other Policy Liabilities	19	22
Intangible Amortization	5	7
Other	10	8
Subtotal	308	341
Less: Valuation allowances	(52)	(34)
Total Deferred Income Tax Assets	256	307
Deferred Income Tax Liabilities		
Net Unrealized Gains on Investments Available for Sale	(97)	(23)
Capitalized Software Development	(54)	(31)
Depreciation	(9)	(12)
Other	–	(2)
Total Deferred Income Tax Liabilities	(160)	(68)
Net Deferred Income Tax Assets	$ 96	$ 239

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. The valuation allowance primarily relates to future tax benefits on certain purchased domestic and foreign net operating losses.

We made cash payments for income taxes of $214 million in 1999, $245 million in 1998 and $124 million in 1997.

Consolidated income tax returns for fiscal years 1997 and 1996 are currently being examined by the Internal Revenue Service. We do not believe any adjustments that may result will have a significant impact on our consolidated operating results or financial position.

(13) Commitments and Contingencies

Leases

We lease facilities, computer hardware and other equipment under long-term operating leases that are noncancelable and expire on various dates through 2011. Rent expense under all operating leases was $129 million in 1999, $119 million in 1998 and $104 million in 1997.

At December 31, 1999, future minimum annual lease payments under all noncancelable operating leases were as follows (in millions):

2000	2001	2002	2003	2004	Thereafter
$102	$ 86	$ 72	$ 59	$ 48	$197

Service Agreements

On June 1, 1996, and November 16, 1995, we entered into two separate contracts with nonaffiliated third parties for information technology services, each with an approximate term of 10 years. Under the terms of the contracts, the third parties assumed responsibility for certain data center operations and support. On September 19, 1996, we entered into a 10-year contract with a third party for certain data network and voice communication services. Future payments under all of these contracts are estimated to be $1.3 billion; however, the actual timing and amount of payments will vary based on usage. Expenses incurred in connection with these agreements were $172 million in 1999, $162 million in 1998 and $125 million in 1997.

Legal Matters

Because of the nature of our business, we are routinely subject to suits alleging various causes of action. Some of these suits may include claims for substantial noneconomic or punitive damages. We do not believe that any such actions, or any other types of actions, currently threatened or pending will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

On February 4, 2000, we entered into a settlement agreement with the attorneys representing the plaintiff classes that assert claims under the U.S. securities laws against UnitedHealth Group and certain of its current and former officers and directors. The proposed settlement agreement is subject to court approval. Our insurers have agreed to cover the cost of this settlement.

Government Regulation

Our business is regulated on a federal, state and local level. The laws and rules governing our business are subject to ongoing change, and latitude is given to the agencies administering those regulations. Existing or future laws and rules could affect how we do business, increase our health care and administrative costs and capital requirements, and increase our obligations. Further, we must obtain and maintain regulatory approvals to market many of our products.

State legislatures and Congress continue to focus on health care issues. In Congress, managed health care has been the subject of proposed legislation. Any such legislation could expand health plan liability and could have an impact on the costs and revenues of our health plans. Proposed federal bills and regulations may also impact other aspects of our business.

We are also subject to various governmental reviews, audits and investigations. However, we do not believe the results of any of the current audits, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations.

Concentrations of Credit Risk

Investments in financial instruments such as marketable securities and commercial premiums receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by the board of directors. These policies limit the amounts that may be invested in any one issuer. Concentrations of credit risk with respect to commercial premiums receivable are limited to the large number of employer groups that constitute our customer base. As of December 31, 1999, there were no significant concentrations of credit risk.

(14) Segment Financial Information

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments are recorded at their estimated fair value, as if they were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. In accordance with generally accepted accounting principles, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare and Ovations have been combined in the Health Care Services segment column in the tables presented below.

1999	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Corporate and Eliminations	Consolidated
Revenues — External Customers	$ 17,419	$ 1,398	$ 328	$ 198	$ –	$ 19,343
Revenues — Intersegment	–	445	393	59	(897)	–
Investment and Other Income	162	22	5	1	29	219
Total Revenues	$ 17,581	$ 1,865	$ 726	$ 258	$ (868)	$ 19,562
Earnings (Loss) From Operations	$ 578	$ 222	$ 128	$ 25	$ (10)	$ 943
Total Assets [1]	$ 7,198	$ 1,411	$ 365	$ 683	$ 453	$ 10,110
Net Assets [1]	$ 2,726	$ 953	$ 149	$ 573	$ 468	$ 4,869
Purchases of Property and Equipment and Capitalized Software	$ 69	$ 71	$ 28	$ 28	$ –	$ 196
Depreciation and Amortization	$ 97	$ 76	$ 23	$ 37	$ –	$ 233

1998	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Corporate and Eliminations	Consolidated
Revenues — External Customers	$ 15,463	$ 1,238	$ 274	$ 131	$ –	$ 17,106
Revenues — Intersegment	–	357	339	52	(748)	–
Investment and Other Income	149	29	5	1	65	249
Total Revenues	$ 15,612	$ 1,624	$ 618	$ 184	$ (683)	$ 17,355
Earnings From Operations [2]	$ 503	$ 161	$ 109	$ 20	$ 65	$ 858
Total Assets [1]	$ 6,652	$ 1,499	$ 231	$ 472	$ 555	$ 9,409
Net Assets [1]	$ 2,512	$ 940	$ 89	$ 388	$ 555	$ 4,484
Purchases of Property and Equipment and Capitalized Software	$ 80	$ 93	$ 27	$ 10	$ –	$ 210
Depreciation and Amortization	$ 90	$ 59	$ 14	$ 22	$ –	$ 185

1997	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Corporate and Eliminations	Consolidated
Revenues — External Customers	$ 10,103	$ 1,182	$ 255	$ 23	$ –	$ 11,563
Revenues — Intersegment	–	297	291	59	(647)	–
Investment and Other Income	106	11	3	1	110	231
Total Revenues	$ 10,209	$ 1,490	$ 549	$ 83	$ (537)	$ 11,794
Earnings From Operations	$ 379	$ 159	$ 92	$ 2	$ 110	$ 742
Total Assets [1]	$ 4,124	$ 1,447	$ 208	$ 204	$ 1,599	$ 7,582
Net Assets [1]	$ 2,152	$ 1,008	$ 116	$ 170	$ 1,599	$ 5,045
Purchases of Property and Equipment and Capitalized Software	$ 80	$ 79	$ 23	$ 5	$ –	$ 187
Depreciation and Amortization	$ 78	$ 54	$ 12	$ 2	$ –	$ 146

[1] Total Assets and Net Assets exclude, where applicable, debt and accrued interest of $1,002 million and $708 million, income tax-related assets of $163 million and $266 million, and income tax-related liabilities of $167 million and $4 million as of December 31, 1999 and 1998, respectively. In 1997, Total Assets and Net Assets exclude, where applicable, redeemable preferred stock of $500 million, income tax-related assets of $41 million, and income tax-related liabilities of $52 million.

[2] For comparability purposes, 1998 results are adjusted to exclude $725 million of operational realignment and other charges and $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates. Including these charges, 1998 segment earnings (loss) from operations were as follows:

	Year Ended December 31, 1998
Health Care Services	$ (46)
Uniprise	10
Specialized Care Services	14
Ingenix	(66)
Total Operating Segments	(88)
Corporate	46
Total Consolidated	$ (42)

(15) Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 1999 and 1998 (in millions, except per share data):

	Quarters Ended			
	March 31	June 30	September 30	December 31
1999				
Revenues	$ 4,809	$ 4,858	$ 4,903	$ 4,992
Operating Expenses	$ 4,588	$ 4,633	$ 4,664	$ 4,734
Net Earnings Applicable to Common Shareholders	$ 132	$ 135	$ 144	$ 157 [1]
Basic Net Earnings per Common Share	$ 0.73	$ 0.78	$ 0.83	$ 0.93
Diluted Net Earnings per Common Share	$ 0.72	$ 0.76	$ 0.81	$ 0.91 [1]
1998				
Revenues	$ 4,115	$ 4,235	$ 4,360	$ 4,645
Operating Expenses	$ 3,906	$ 4,914	$ 4,146	$ 4,431
Net Earnings (Loss)	$ 132	$ (565)	$ 135	$ 132
Net Earnings (Loss) Applicable to Common Shareholders	$ 125	$ (572) [2]	$ 128	$ 105 [3]
Basic Net Earnings (Loss) per Common Share	$ 0.65	$ (2.96)	$ 0.67	$ 0.57
Diluted Net Earnings (Loss) per Common Share	$ 0.63	$ (2.96) [2]	$ 0.66	$ 0.57 [3]

[1] Includes a net permanent tax benefit primarily related to the contribution of Healtheon Corporation common stock to the UnitedHealth Foundation. Excluding this benefit, Net Earnings Applicable to Common Shareholders and Diluted Net Earnings per Common Share were $152 million and $0.88 per share, respectively.

[2] Includes $725 million of operational realignment and other charges and $175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates. Excluding these charges, Net Earnings Applicable to Common Shareholders would have been $132 million, or $0.66 Diluted Net Earnings per Common Share.

[3] Includes $20 million convertible preferred stock redemption premium. Excluding the effects of the convertible preferred stock redemption premium, Net Earnings Applicable to Common Shareholders would have been $125 million, or $0.67 Diluted Net Earnings per Common Share.

Report of Independent Public Accountants

To the Shareholders and Directors of UnitedHealth Group Incorporated:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP
Minneapolis, Minnesota
February 10, 2000

Report of Management

The management of UnitedHealth Group is responsible for the integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related information were prepared according to generally accepted accounting principles and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. Internal auditors review the accounting practices, systems of internal control and compliance with these practices and controls.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the Company, meets periodically and privately with the Company's independent public accountants and its internal auditors, as well as management, to review accounting, auditing, internal control, financial reporting and other matters.

William W. McGuire, M.D.
Chairman and Chief Executive Officer

Stephen J. Hemsley
President and Chief Operating Officer

Arnold H. Kaplan
Chief Financial Officer

UnitedHealth Group

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Chief Operating Officer

Arnold H. Kaplan
Chief Financial Officer

David J. Lubben
General Counsel

Robert J. Backes
Senior Vice President
Human Resources

John S. Penshorn
Director of Capital Markets
Communications and Strategy

UnitedHealthcare

Jeannine M. Rivet
Chief Executive Officer

Ovations

Lois Quam
Chief Executive Officer

Uniprise

R. Channing Wheeler
Chief Executive Officer

Specialized Care Services

Ronald B. Colby
Chief Executive Officer

Ingenix

Kevin W. Pearson
Chief Executive Officer
Ingenix Health Information

Kevin H. Roché
Chief Executive Officer
Ingenix International

UnitedHealth Technologies

James B. Hudak
Chief Executive Officer

William C. Ballard, Jr.
Of Counsel
Greenbaum,
Doll & McDonald
Louisville, Kentucky, law firm

Richard T. Burke
Chief Executive Officer
and Governor
Phoenix Coyotes
National Hockey League team

Stephen J. Hemsley
President and
Chief Operating Officer
UnitedHealth Group

James A. Johnson
Chairman and
Chief Executive Officer
Johnson Capital Partners
Private investment company

Thomas H. Kean
President
Drew University

Douglas W. Leatherdale
Chairman and
Chief Executive Officer
The Saint Paul Companies, Inc.
Insurance and related services

William W. McGuire, M.D.
Chairman and
Chief Executive Officer
UnitedHealth Group

Walter F. Mondale
Partner
Dorsey & Whitney LLP
Minneapolis, Minnesota, law firm

Mary O. Mundinger
Dean and Professor, School of
Nursing, and Associate Dean,
Faculty of Medicine
Columbia University

Robert L. Ryan
Senior Vice President and
Chief Financial Officer
Medtronic, Inc.
Medical devices company

William G. Spears
Managing Partner
W. G. Spears Grisant &
Brown LLC
New York City-based investment counseling and management firm

Gail R. Wilensky
Senior Fellow
Project HOPE
International health foundation

Audit Committee

William C. Ballard, Jr.
James A. Johnson
Douglas W. Leatherdale
Robert L. Ryan

Compensation and Human Resources Committee

Thomas H. Kean
Mary O. Mundinger
William G. Spears

Compliance and Government Affairs Committee

Richard T. Burke
Walter F. Mondale
Gail R. Wilensky

Executive Committee

William C. Ballard, Jr.
Douglas W. Leatherdale
William W. McGuire, M.D.
William G. Spears

Nominating Committee

William C. Ballard, Jr.
Thomas H. Kean
Douglas W. Leatherdale
William W. McGuire, M.D.
William G. Spears

Market Price of Common Stock

The following table shows the range of high and low sales prices for the Company's stock as reported on the New York Stock Exchange Composite Tape for the calendar periods shown through February 25, 2000. These prices do not include commissions or fees associated with purchasing or selling this security.

	High	Low
2000		
First Quarter 2000 Through February 25, 2000	$ 64.69	$ 50.56
1999		
First Quarter 1999	$ 54.68	$ 39.43
Second Quarter 1999	$ 70.00	$ 44.69
Third Quarter 1999	$ 66.69	$ 48.06
Fourth Quarter 1999	$ 58.50	$ 39.38
1998		
First Quarter 1998	$ 66.81	$ 46.56
Second Quarter 1998	$ 73.94	$ 61.25
Third Quarter 1998	$ 66.50	$ 29.56
Fourth Quarter 1998	$ 50.62	$ 33.38

As of February 25, 2000, the Company had 11,271 shareholders of record.

Account Questions

Our transfer agent, Norwest Bank Minnesota, N.A., can help you with a variety of shareholder-related services, including:

- Change of address
- Lost stock certificates
- Transfer of stock to another person
- Additional administrative services

You can call our transfer agent at (800) 468-9716 or locally at (651) 450-4064.

You can write to them at:

Norwest Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

Or you can e-mail our transfer agent at: stocktransfer@norwest.com.

Investor Relations

You can contact UnitedHealth Group's Investor Relations group any time to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:

Investor Relations
UnitedHealth Group
P.O. Box 1459, Route MN008-8092
Minneapolis, MN 55440-1459

Annual Meeting

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 10, 2000, at 3:00 p.m., at the Lutheran Brotherhood Building, 625 Fourth Avenue South, Minneapolis, Minnesota.

Dividend Policy

UnitedHealth Group's dividend policy was established by the board of directors in August 1990. The policy requires the board to review the Company's audited consolidated financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 1, 1999, received an annual dividend for 1999 of $0.03 per share. On February 10, 2000, the Company's board of directors announced an annual dividend for 2000 of $0.03 per share. The dividend will be paid on April 19, 2000, to shareholders of record at the close of business on April 3, 2000.

Stock Listing

The Company's common stock is traded on the New York Stock Exchange under the symbol UNH.

Information Online

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet.

Our Internet address is: www.unitedhealthgroup.com.