

UNITEDHEALTH GROUP INC  
Form 10-Q  
August 05, 2013

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

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

or

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number: 1-10864

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

Minnesota 41-1321939  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

UnitedHealth Group Center 55343  
9900 Bren Road East  
Minnetonka, Minnesota  
(Address of principal executive offices) (Zip Code)  
(952) 936-1300  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of August 2, 2013, there were 1,016,699,724 shares of the registrant's Common Stock, \$.01 par value per share, issued and outstanding.



## UNITEDHEALTH GROUP

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## UnitedHealth Group

## Condensed Consolidated Balance Sheets

(Unaudited)

| (in millions, except per share data)                                                             | June 30,<br>2013 | December 31,<br>2012 |
|--------------------------------------------------------------------------------------------------|------------------|----------------------|
| Assets                                                                                           |                  |                      |
| Current assets:                                                                                  |                  |                      |
| Cash and cash equivalents                                                                        | \$7,654          | \$8,406              |
| Short-term investments                                                                           | 2,443            | 3,031                |
| Accounts receivable, net                                                                         | 3,674            | 2,709                |
| Other current receivables, net                                                                   | 3,020            | 2,889                |
| Assets under management                                                                          | 2,613            | 2,773                |
| Deferred income taxes                                                                            | 366              | 463                  |
| Prepaid expenses and other current assets                                                        | 848              | 781                  |
| Total current assets                                                                             | 20,618           | 21,052               |
| Long-term investments                                                                            | 17,976           | 17,711               |
| Property, equipment and capitalized software, net                                                | 3,785            | 3,939                |
| Goodwill                                                                                         | 31,427           | 31,286               |
| Other intangible assets, net                                                                     | 4,079            | 4,682                |
| Other assets                                                                                     | 2,316            | 2,215                |
| Total assets                                                                                     | \$80,201         | \$80,885             |
| Liabilities and shareholders' equity                                                             |                  |                      |
| Current liabilities:                                                                             |                  |                      |
| Medical costs payable                                                                            | \$11,855         | \$11,004             |
| Accounts payable and accrued liabilities                                                         | 7,046            | 6,984                |
| Other policy liabilities                                                                         | 5,176            | 4,910                |
| Commercial paper and current maturities of long-term debt                                        | 1,086            | 2,713                |
| Unearned revenues                                                                                | 1,242            | 1,505                |
| Total current liabilities                                                                        | 26,405           | 27,116               |
| Long-term debt, less current maturities                                                          | 15,543           | 14,041               |
| Future policy benefits                                                                           | 2,451            | 2,444                |
| Deferred income taxes                                                                            | 2,076            | 2,450                |
| Other liabilities                                                                                | 1,576            | 1,535                |
| Total liabilities                                                                                | 48,051           | 47,586               |
| Commitments and contingencies (Note 9)                                                           |                  |                      |
| Redeemable noncontrolling interest                                                               | 769              | 2,121                |
| Shareholders' equity:                                                                            |                  |                      |
| Preferred stock, \$0.001 par value - 10 shares authorized; no shares issued or outstanding       | —                | —                    |
| Common stock, \$0.01 par value - 3,000 shares authorized; 1,006 and 1,019 issued and outstanding | 10               | 10                   |
| Additional paid-in capital                                                                       | —                | 66                   |
| Retained earnings                                                                                | 31,906           | 30,664               |
| Accumulated other comprehensive (loss) income                                                    | (535)            | ) 438                |
| Total shareholders' equity                                                                       | 31,381           | 31,178               |
| Total liabilities and shareholders' equity                                                       | \$80,201         | \$80,885             |

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group  
Condensed Consolidated Statements of Operations  
(Unaudited)

| (in millions, except per share data)                                                              | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|---------------------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                                                                                   | 2013                        | 2012     | 2013                      | 2012      |
| Revenues:                                                                                         |                             |          |                           |           |
| Premiums                                                                                          | \$27,220                    | \$24,609 | \$54,494                  | \$49,240  |
| Services                                                                                          | 2,244                       | 1,800    | 4,356                     | 3,591     |
| Products                                                                                          | 749                         | 678      | 1,500                     | 1,366     |
| Investment and other income                                                                       | 195                         | 178      | 398                       | 350       |
| Total revenues                                                                                    | 30,408                      | 27,265   | 60,748                    | 54,547    |
| Operating costs:                                                                                  |                             |          |                           |           |
| Medical costs                                                                                     | 22,173                      | 20,013   | 44,742                    | 39,952    |
| Operating costs                                                                                   | 4,825                       | 4,080    | 9,439                     | 8,176     |
| Cost of products sold                                                                             | 669                         | 620      | 1,351                     | 1,254     |
| Depreciation and amortization                                                                     | 340                         | 326      | 676                       | 622       |
| Total operating costs                                                                             | 28,007                      | 25,039   | 56,208                    | 50,004    |
| Earnings from operations                                                                          | 2,401                       | 2,226    | 4,540                     | 4,543     |
| Interest expense                                                                                  | (176)                       | ) (153)  | ) (354)                   | ) (301)   |
| Earnings before income taxes                                                                      | 2,225                       | 2,073    | 4,186                     | 4,242     |
| Provision for income taxes                                                                        | (789)                       | ) (736)  | ) (1,510)                 | ) (1,517) |
| Net earnings                                                                                      | 1,436                       | 1,337    | 2,676                     | 2,725     |
| Less: earnings attributable to noncontrolling interest                                            | —                           | —        | (48)                      | ) —       |
| Net earnings attributable to UnitedHealth Group common shareholders                               | \$1,436                     | \$1,337  | \$2,628                   | \$2,725   |
| Earnings per share attributable to UnitedHealth Group common shareholders:                        |                             |          |                           |           |
| Basic                                                                                             | \$1.42                      | \$1.30   | \$2.60                    | \$2.64    |
| Diluted                                                                                           | \$1.40                      | \$1.27   | \$2.56                    | \$2.59    |
| Basic weighted-average number of common shares outstanding                                        | 1,009                       | 1,028    | 1,012                     | 1,034     |
| Dilutive effect of common stock equivalents                                                       | 17                          | 21       | 15                        | 20        |
| Diluted weighted-average number of common shares outstanding                                      | 1,026                       | 1,049    | 1,027                     | 1,054     |
| Anti-dilutive shares excluded from the calculation of dilutive effect of common stock equivalents | 9                           | 10       | 13                        | 17        |
| Cash dividends declared per common share                                                          | \$0.2800                    | \$0.2125 | \$0.4925                  | \$0.3750  |

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

| (in millions)                                                                      | Three Months Ended June 30, |         | Six Months Ended June 30, |         |   |
|------------------------------------------------------------------------------------|-----------------------------|---------|---------------------------|---------|---|
|                                                                                    | 2013                        | 2012    | 2013                      | 2012    |   |
| Net earnings                                                                       | \$1,436                     | \$1,337 | \$2,676                   | \$2,725 |   |
| Other comprehensive (loss) income:                                                 |                             |         |                           |         |   |
| Gross unrealized holding (losses) gains on investment securities during the period | (453                        | ) 81    | (501                      | ) 111   |   |
| Income tax effect                                                                  | 165                         | (35     | ) 181                     | (46     | ) |
| Total unrealized (losses) gains, net of tax                                        | (288                        | ) 46    | (320                      | ) 65    |   |
| Gross reclassification adjustment for net realized gains included in net earnings  | (49                         | ) (50   | ) (106                    | ) (89   | ) |
| Income tax effect                                                                  | 18                          | 19      | 39                        | 33      |   |
| Total reclassification adjustment, net of tax                                      | (31                         | ) (31   | ) (67                     | ) (56   | ) |
| Total foreign currency translation losses                                          | (604                        | ) (4    | ) (586                    | ) (1    | ) |
| Other comprehensive (loss) income                                                  | (923                        | ) 11    | (973                      | ) 8     |   |
| Comprehensive income                                                               | 513                         | 1,348   | 1,703                     | 2,733   |   |
| Less: comprehensive income attributable to noncontrolling interests                | —                           | —       | (48                       | ) —     |   |
| Comprehensive income attributable to UnitedHealth Group common shareholders        | \$513                       | \$1,348 | \$1,655                   | \$2,733 |   |

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group  
Condensed Consolidated Statements of Changes in Shareholders' Equity  
(Unaudited)

| (in millions)                                                             | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss)         |                                              | Total<br>Shareholders'<br>Equity |
|---------------------------------------------------------------------------|--------------|--------|----------------------------------|----------------------|-------------------------------------------------------------|----------------------------------------------|----------------------------------|
|                                                                           | Shares       | Amount |                                  |                      | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Investments | Foreign<br>Currency<br>Translation<br>Losses |                                  |
| Balance at January 1, 2013                                                | 1,019        | \$10   | \$66                             | \$30,664             | \$516                                                       | \$(78)                                       | \$31,178                         |
| Net earnings attributable to<br>UnitedHealth Group common<br>shareholders |              |        |                                  | 2,628                |                                                             |                                              | 2,628                            |
| Other comprehensive loss                                                  |              |        |                                  |                      | (387)                                                       | (586)                                        | (973)                            |
| Issuances of common stock, and<br>related tax effects                     | 10           | —      | 228                              |                      |                                                             |                                              | 228                              |
| Share-based compensation, and<br>related tax benefits                     |              |        | 207                              |                      |                                                             |                                              | 207                              |
| Common stock repurchases                                                  | (23)         | —      | (445)                            | (889)                |                                                             |                                              | (1,334)                          |
| Acquisition of noncontrolling interest                                    |              |        | (56)                             |                      |                                                             |                                              | (56)                             |
| Cash dividends paid on common<br>stock                                    |              |        |                                  | (497)                |                                                             |                                              | (497)                            |
| Balance at June 30, 2013                                                  | 1,006        | \$10   | \$—                              | \$31,906             | \$129                                                       | \$(664)                                      | \$31,381                         |
| Balance at January 1, 2012                                                | 1,039        | \$10   | \$—                              | \$27,821             | \$476                                                       | \$(15)                                       | \$28,292                         |
| Net earnings                                                              |              |        |                                  | 2,725                |                                                             |                                              | 2,725                            |
| Other comprehensive income (loss)                                         |              |        |                                  |                      | 9                                                           | (1)                                          | 8                                |
| Issuances of common stock, and<br>related tax effects                     | 18           | —      | 194                              |                      |                                                             |                                              | 194                              |
| Share-based compensation, and<br>related tax benefits                     |              |        | 351                              |                      |                                                             |                                              | 351                              |
| Common stock repurchases                                                  | (33)         | —      | (545)                            | (1,264)              |                                                             |                                              | (1,809)                          |
| Cash dividends paid on common<br>stock                                    |              |        |                                  | (386)                |                                                             |                                              | (386)                            |
| Balance at June 30, 2012                                                  | 1,024        | \$10   | \$—                              | \$28,896             | \$485                                                       | \$(16)                                       | \$29,375                         |

See Notes to the Condensed Consolidated Financial Statements



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UnitedHealth Group  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

| (in millions)                                                                                       | Six Months Ended June 30, |          |
|-----------------------------------------------------------------------------------------------------|---------------------------|----------|
|                                                                                                     | 2013                      | 2012     |
| Operating activities                                                                                |                           |          |
| Net earnings                                                                                        | \$2,676                   | \$2,725  |
| Non-cash items:                                                                                     |                           |          |
| Depreciation and amortization                                                                       | 676                       | 622      |
| Deferred income taxes                                                                               | 100                       | 108      |
| Share-based compensation                                                                            | 176                       | 242      |
| Other, net                                                                                          | (86)                      | (163)    |
| Net change in other operating items, net of effects from acquisitions and changes in AARP balances: |                           |          |
| Accounts receivable                                                                                 | (952)                     | (188)    |
| Other assets                                                                                        | (661)                     | (27)     |
| Medical costs payable                                                                               | 792                       | 298      |
| Accounts payable and other liabilities                                                              | 107                       | 23       |
| Other policy liabilities                                                                            | (41)                      | (365)    |
| Unearned revenues                                                                                   | (260)                     | 2,496    |
| Cash flows from operating activities                                                                | 2,527                     | 5,771    |
| Investing activities                                                                                |                           |          |
| Purchases of investments                                                                            | (5,942)                   | (4,946)  |
| Sales of investments                                                                                | 2,924                     | 2,090    |
| Maturities of investments                                                                           | 2,718                     | 2,322    |
| Cash paid for acquisitions, net of cash assumed                                                     | (284)                     | (2,404)  |
| Cash received from dispositions                                                                     | 45                        | —        |
| Purchases of property, equipment and capitalized software                                           | (625)                     | (465)    |
| Proceeds from disposal of property, equipment and capitalized software                              | 146                       | —        |
| Cash flows used for investing activities                                                            | (1,018)                   | (3,403)  |
| Financing activities                                                                                |                           |          |
| Acquisition of noncontrolling interest shares                                                       | (1,474)                   | —        |
| Common stock repurchases                                                                            | (1,334)                   | (1,809)  |
| Proceeds from issuance of long-term debt                                                            | 2,235                     | 995      |
| Repayments of long-term debt                                                                        | (1,560)                   | —        |
| Repayments of commercial paper, net                                                                 | (688)                     | —        |
| Cash dividends paid                                                                                 | (497)                     | (386)    |
| Customer funds administered                                                                         | 855                       | 1,108    |
| Proceeds from common stock issuances                                                                | 314                       | 410      |
| Checks outstanding                                                                                  | 37                        | (290)    |
| Other, net                                                                                          | (55)                      | (247)    |
| Cash flows used for financing activities                                                            | (2,167)                   | (219)    |
| Effect of exchange rate changes on cash and cash equivalents                                        | (94)                      | —        |
| (Decrease) increase in cash and cash equivalents                                                    | (752)                     | 2,149    |
| Cash and cash equivalents, beginning of period                                                      | 8,406                     | 9,429    |
| Cash and cash equivalents, end of period                                                            | \$7,654                   | \$11,578 |

See Notes to the Condensed Consolidated Financial Statements



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UnitedHealth Group

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

UnitedHealth Group Incorporated (both individually and together with its consolidated subsidiaries referred to as “UnitedHealth Group” and the “Company”) is a diversified health and well-being company whose mission is to help people live healthier lives and to make the health system work better for everyone. The Company offers a broad spectrum of products and services through two distinct platforms: UnitedHealthcare, which provides health care coverage and benefits services; and Optum, which provides information and technology-enabled health services. The Company has prepared the Condensed Consolidated Financial Statements according to U.S. Generally Accepted Accounting Principles (GAAP) and has included the accounts of UnitedHealth Group and its subsidiaries. The Company has eliminated intercompany balances and transactions. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in its annual audited Consolidated Financial Statements. Therefore, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the SEC (2012 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to medical costs payable, premium rebates and risk-adjusted and risk-sharing provisions related to revenues, valuation and impairment analysis of goodwill and other intangible assets, estimates of other policy liabilities and other current receivables, valuations of investments, and estimates and judgments related to income taxes and contingent liabilities. These estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any changes in estimates is included in earnings in the period in which the estimate is adjusted.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (ASU 2013-02). ASU 2013-02 requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income, by component, either on the face of the financial statements or in the notes to the financial statements and is intended to help entities improve the transparency of changes in other comprehensive income. ASU 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 became effective for the Company’s fiscal year 2013 and the new disclosures have been included with the Company’s investment disclosures in Note 2. The Company has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on its Condensed Consolidated Financial Statements.

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## 2. Investments

A summary of short-term and long-term investments by major security type is as follows:

| (in millions)                              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2013                              |                   |                              |                               |               |
| Debt securities - available-for-sale:      |                   |                              |                               |               |
| U.S. government and agency obligations     | \$2,305           | \$13                         | \$(13)                        | ) \$2,305     |
| State and municipal obligations            | 6,430             | 192                          | (67)                          | ) 6,555       |
| Corporate obligations                      | 7,194             | 152                          | (61)                          | ) 7,285       |
| U.S. agency mortgage-backed securities     | 2,031             | 27                           | (40)                          | ) 2,018       |
| Non-U.S. agency mortgage-backed securities | 656               | 18                           | (10)                          | ) 664         |
| Total debt securities - available-for-sale | 18,616            | 402                          | (191)                         | ) 18,827      |
| Equity securities - available-for-sale     | 770               | 4                            | (6)                           | ) 768         |
| Debt securities - held-to-maturity:        |                   |                              |                               |               |
| U.S. government and agency obligations     | 180               | 3                            | —                             | 183           |
| State and municipal obligations            | 28                | —                            | —                             | 28            |
| Corporate obligations                      | 616               | —                            | —                             | 616           |
| Total debt securities - held-to-maturity   | 824               | 3                            | —                             | 827           |
| Total investments                          | \$20,210          | \$409                        | \$(197)                       | ) \$20,422    |
| December 31, 2012                          |                   |                              |                               |               |
| Debt securities - available-for-sale:      |                   |                              |                               |               |
| U.S. government and agency obligations     | \$2,501           | \$38                         | \$(1)                         | ) \$2,538     |
| State and municipal obligations            | 6,282             | 388                          | (3)                           | ) 6,667       |
| Corporate obligations                      | 6,930             | 283                          | (4)                           | ) 7,209       |
| U.S. agency mortgage-backed securities     | 2,168             | 70                           | —                             | 2,238         |
| Non-U.S. agency mortgage-backed securities | 538               | 36                           | —                             | 574           |
| Total debt securities - available-for-sale | 18,419            | 815                          | (8)                           | ) 19,226      |
| Equity securities - available-for-sale     | 668               | 10                           | (1)                           | ) 677         |
| Debt securities - held-to-maturity:        |                   |                              |                               |               |
| U.S. government and agency obligations     | 168               | 6                            | —                             | 174           |
| State and municipal obligations            | 30                | —                            | —                             | 30            |
| Corporate obligations                      | 641               | 2                            | —                             | 643           |
| Total debt securities - held-to-maturity   | 839               | 8                            | —                             | 847           |
| Total investments                          | \$19,926          | \$833                        | \$(9)                         | ) \$20,750    |

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The fair values of the Company's mortgage-backed securities by credit rating (when multiple credit ratings are available for an individual security, the average of the available ratings is used) and origination as of June 30, 2013 were as follows:

| (in millions)                          | AAA     | AA  | A    | Non-Investment Grade | Total Fair Value |
|----------------------------------------|---------|-----|------|----------------------|------------------|
| 2013                                   | \$71    | \$— | \$—  | \$—                  | \$71             |
| 2012                                   | 110     | —   | —    | —                    | 110              |
| 2011                                   | 20      | —   | —    | —                    | 20               |
| 2010                                   | 20      | 2   | —    | —                    | 22               |
| 2009                                   | 2       | —   | —    | —                    | 2                |
| 2007                                   | 74      | —   | —    | 3                    | 77               |
| Pre - 2007                             | 337     | 4   | 11   | 10                   | 362              |
| U.S. agency mortgage-backed securities | 2,017   | —   | 1    | —                    | 2,018            |
| Total                                  | \$2,651 | \$6 | \$12 | \$13                 | \$2,682          |

The Company includes any securities backed by Alt-A or sub-prime mortgages and any commercial mortgage loans in default in the non-investment grade column in the table above.

The amortized cost and fair value of available-for-sale debt securities as of June 30, 2013, by contractual maturity, were as follows:

| (in millions)                              | Amortized Cost | Fair Value |
|--------------------------------------------|----------------|------------|
| Due in one year or less                    | \$2,529        | \$2,542    |
| Due after one year through five years      | 6,811          | 6,939      |
| Due after five years through ten years     | 4,818          | 4,887      |
| Due after ten years                        | 1,771          | 1,777      |
| U.S. agency mortgage-backed securities     | 2,031          | 2,018      |
| Non-U.S. agency mortgage-backed securities | 656            | 664        |
| Total debt securities - available-for-sale | \$18,616       | \$18,827   |

The amortized cost and fair value of held-to-maturity debt securities as of June 30, 2013, by contractual maturity, were as follows:

| (in millions)                            | Amortized Cost | Fair Value |
|------------------------------------------|----------------|------------|
| Due in one year or less                  | \$399          | \$400      |
| Due after one year through five years    | 159            | 159        |
| Due after five years through ten years   | 141            | 143        |
| Due after ten years                      | 125            | 125        |
| Total debt securities - held-to-maturity | \$824          | \$827      |

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

| (in millions)                              | Less Than 12 Months and in |                         |
|--------------------------------------------|----------------------------|-------------------------|
|                                            | Fair Value                 | Gross Unrealized Losses |
| June 30, 2013                              |                            |                         |
| Debt securities - available-for-sale:      |                            |                         |
| U.S. government and agency obligations     | \$818                      | \$(13 )                 |
| State and municipal obligations            | 2,177                      | (67 )                   |
| Corporate obligations                      | 3,103                      | (61 )                   |
| U.S. agency mortgage-backed securities     | 1,117                      | (40 )                   |
| Non-U.S. agency mortgage-backed securities | 337                        | (10 )                   |
| Total debt securities - available-for-sale | \$7,552                    | \$(191 )                |
| Equity securities - available-for-sale     | \$134                      | \$(6 )                  |
| December 31, 2012                          |                            |                         |
| Debt securities - available-for-sale:      |                            |                         |
| U.S. government and agency obligations     | \$183                      | \$(1 )                  |
| State and municipal obligations            | 362                        | (3 )                    |
| Corporate obligations                      | 695                        | (4 )                    |
| Total debt securities - available-for-sale | \$1,240                    | \$(8 )                  |
| Equity securities - available-for-sale     | \$13                       | \$(1 )                  |

The unrealized losses from all securities as of June 30, 2013 were generated from approximately 6,500 positions out of a total of 19,000 positions. The Company believes that it will collect the principal and interest due on its investments that have an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). Therefore, the Company believes these losses to be temporary. As of June 30, 2013, the Company did not have the intent to sell any of the securities in an unrealized loss position.

A portion of the Company's investments in equity securities and venture capital funds consists of investments held in various public and nonpublic companies concentrated in the areas of health care services and related information technologies. Market conditions that affect the value of health care and related technology stocks will likewise impact the value of the Company's equity portfolio. The equity securities and venture capital funds were evaluated for severity and duration of unrealized loss, overall market volatility and other market factors.

Net realized gains reclassified out of accumulated other comprehensive income were from the following sources:

| (in millions)                                                                                                       | Three Months Ended |        | Six Months Ended June |        |
|---------------------------------------------------------------------------------------------------------------------|--------------------|--------|-----------------------|--------|
|                                                                                                                     | June 30, 2013      | 2012   | 2013                  | 2012   |
| Total OTTI                                                                                                          | \$(1 )             | \$(1 ) | \$(4 )                | \$(4 ) |
| Portion of loss recognized in other comprehensive income                                                            | —                  | —      | —                     | —      |
| Net OTTI recognized in earnings                                                                                     | (1 )               | (1 )   | (4 )                  | (4 )   |
| Gross realized losses from sales                                                                                    | (2 )               | (2 )   | (3 )                  | (3 )   |
| Gross realized gains from sales                                                                                     | 52                 | 53     | 113                   | 96     |
| Net realized gains (included in Investment and Other Income on the Condensed Consolidated Statements of Operations) | 49                 | 50     | 106                   | 89     |

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|                                                                                                                   |      |   |      |   |      |   |      |   |
|-------------------------------------------------------------------------------------------------------------------|------|---|------|---|------|---|------|---|
| Income tax effect (included in Provision for Income Taxes on the Condensed Consolidated Statements of Operations) | (18  | ) | (19  | ) | (39  | ) | (33  | ) |
| Realized gains, net of taxes                                                                                      | \$31 |   | \$31 |   | \$67 |   | \$56 |   |

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3. Fair Value

Certain assets and liabilities are measured at fair value in the Condensed Consolidated Financial Statements or have fair values disclosed in the Notes to the Condensed Consolidated Financial Statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The fair value hierarchy is summarized as follows:

Level 1 — Quoted prices (unadjusted) for identical assets/liabilities in active markets.

Level 2 — Other observable inputs, either directly or indirectly, including:

• Quoted prices for similar assets/liabilities in active markets;

• Quoted prices for identical or similar assets/liabilities in non-active markets (e.g., few transactions, limited information, non-current prices, high variability over time);

• Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, implied volatilities, credit spreads); and

• Inputs that are corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data.

Transfers between levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs; there were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during 2013 or 2012.

Non-financial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the three and six months ended June 30, 2013 or 2012.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument included in the tables below:

**Cash and Cash Equivalents.** The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

**Debt and Equity Securities.** Fair values of debt and equity securities are based on quoted market prices, where available. The Company obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, and, if necessary, makes adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source, prices reported by its custodian, its investment consultant and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and reviews of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets but are priced using other observable inputs are classified as Level 2.



Fair value estimates for Level 1 and Level 2 equity securities are based on quoted market prices for actively traded equity securities and/or other market data for the same or comparable instruments and transactions in establishing the prices.

The Company's Level 3 equity securities are primarily investments in venture capital securities. The fair values of Level 3 investments in venture capital portfolios are estimated using a market valuation technique that relies heavily on management assumptions and qualitative observations. Under the market approach, the fair values of the Company's various venture capital

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investments are computed using limited quantitative and qualitative observations of activity for similar companies in the current market. The Company's market modeling utilizes, as applicable, transactions for comparable companies in similar industries and having similar revenue and growth characteristics; and similar preferences in their capital structure. Key significant unobservable inputs in the market technique include implied earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and revenue multiples. Additionally, the fair value of certain of the Company's venture capital securities are based off of recent transactions in inactive markets for identical or similar securities. Significant changes in any of these inputs could result in significantly lower or higher fair value measurements.

Throughout the procedures discussed above in relation to the Company's processes for validating third party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing and determines the proper classification in the hierarchy based on that understanding.

**AARP Program-related Investments.** The Company provides health insurance products and services to members of AARP under a Supplemental Health Insurance Program (AARP Program). AARP Program-related investments consist of debt and equity securities held to fund costs associated with the AARP Program and are priced and classified using the same methodologies as the Company's debt and equity securities.

**Interest Rate and Currency Swaps.** Fair values of the Company's swaps are estimated using the terms of the swaps and publicly available information including market yield curves. Because the swaps are unique and not actively traded but are valued using other observable inputs, the fair values are classified as Level 2.

**Long-term Debt.** The fair value of the Company's long-term debt is estimated and classified using the same methodologies as the Company's investments in debt securities.

**AARP Program-related Other Liabilities.** AARP Program-related other liabilities consist of liabilities that represent the amount of net investment gains and losses related to AARP Program-related investments that accrue to the benefit of the AARP policyholders.

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The following table presents a summary of fair value measurements by level and carrying values for items measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets excluding AARP Program-related assets and liabilities, which are presented in a separate table below:

| (in millions)                               | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair and<br>Carrying<br>Value |   |
|---------------------------------------------|----------------------------------------------------|--------------------------------------------|-------------------------------------|----------------------------------------|---|
| June 30, 2013                               |                                                    |                                            |                                     |                                        |   |
| Cash and cash equivalents                   | \$7,224                                            | \$430                                      | \$—                                 | \$7,654                                |   |
| Debt securities - available-for-sale:       |                                                    |                                            |                                     |                                        |   |
| U.S. government and agency obligations      | 1,669                                              | 636                                        | —                                   | 2,305                                  |   |
| State and municipal obligations             | —                                                  | 6,555                                      | —                                   | 6,555                                  |   |
| Corporate obligations                       | 18                                                 | 7,236                                      | 31                                  | 7,285                                  |   |
| U.S. agency mortgage-backed securities      | —                                                  | 2,018                                      | —                                   | 2,018                                  |   |
| Non-U.S. agency mortgage-backed securities  | —                                                  | 657                                        | 7                                   | 664                                    |   |
| Total debt securities - available-for-sale  | 1,687                                              | 17,102                                     | 38                                  | 18,827                                 |   |
| Equity securities - available-for-sale      | 504                                                | 19                                         | 245                                 | 768                                    |   |
| Currency swap assets                        | —                                                  | 21                                         | —                                   | 21                                     |   |
| Total assets at fair value                  | \$9,415                                            | \$17,572                                   | \$283                               | \$27,270                               |   |
| Percentage of total assets at fair value    | 35                                                 | % 64                                       | % 1                                 | % 100                                  | % |
| Interest rate swap liabilities              | \$—                                                | \$88                                       | \$—                                 | \$88                                   |   |
| December 31, 2012                           |                                                    |                                            |                                     |                                        |   |
| Cash and cash equivalents                   | \$7,615                                            | \$791                                      | \$—                                 | \$8,406                                |   |
| Debt securities - available-for-sale:       |                                                    |                                            |                                     |                                        |   |
| U.S. government and agency obligations      | 1,752                                              | 786                                        | —                                   | 2,538                                  |   |
| State and municipal obligations             | —                                                  | 6,667                                      | —                                   | 6,667                                  |   |
| Corporate obligations                       | 13                                                 | 7,185                                      | 11                                  | 7,209                                  |   |
| U.S. agency mortgage-backed securities      | —                                                  | 2,238                                      | —                                   | 2,238                                  |   |
| Non-U.S. agency mortgage-backed securities  | —                                                  | 568                                        | 6                                   | 574                                    |   |
| Total debt securities - available-for-sale  | 1,765                                              | 17,444                                     | 17                                  | 19,226                                 |   |
| Equity securities - available-for-sale      | 450                                                | 3                                          | 224                                 | 677                                    |   |
| Interest rate swap assets                   | —                                                  | 14                                         | —                                   | 14                                     |   |
| Total assets at fair value                  | \$9,830                                            | \$18,252                                   | \$241                               | \$28,323                               |   |
| Percentage of total assets at fair value    | 35                                                 | % 64                                       | % 1                                 | % 100                                  | % |
| Interest rate and currency swap liabilities | \$—                                                | \$14                                       | \$—                                 | \$14                                   |   |

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The following table presents a summary of fair value measurements by level and carrying values for certain financial instruments not measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets:

| (in millions)                            | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value | Total<br>Carrying<br>Value |
|------------------------------------------|----------------------------------------------------|--------------------------------------------|-------------------------------------|------------------------|----------------------------|
| June 30, 2013                            |                                                    |                                            |                                     |                        |                            |
| Debt securities - held-to-maturity:      |                                                    |                                            |                                     |                        |                            |
| U.S. government and agency obligations   | \$ 183                                             | \$—                                        | \$—                                 | \$ 183                 | \$ 180                     |
| State and municipal obligations          | —                                                  | —                                          | 28                                  | 28                     | 28                         |
| Corporate obligations                    | 21                                                 | 319                                        | 276                                 | 616                    | 616                        |
| Total debt securities - held-to-maturity | \$ 204                                             | \$ 319                                     | \$ 304                              | \$ 827                 | \$ 824                     |
| Long-term debt                           | \$—                                                | \$ 16,621                                  | \$—                                 | \$ 16,621              | \$ 15,728                  |
| December 31, 2012                        |                                                    |                                            |                                     |                        |                            |
| Debt securities - held-to-maturity:      |                                                    |                                            |                                     |                        |                            |
| U.S. government and agency obligations   | \$ 174                                             | \$—                                        | \$—                                 | \$ 174                 | \$ 168                     |
| State and municipal obligations          | —                                                  | 1                                          | 29                                  | 30                     | 30                         |
| Corporate obligations                    | 10                                                 | 346                                        | 287                                 | 643                    | 641                        |
| Total debt securities - held-to-maturity | \$ 184                                             | \$ 347                                     | \$ 316                              | \$ 847                 | \$ 839                     |
| Long-term debt                           | \$—                                                | \$ 17,034                                  | \$—                                 | \$ 17,034              | \$ 15,167                  |

The carrying amounts reported in the Condensed Consolidated Balance Sheets for accounts and other current receivables, unearned revenues, commercial paper, accounts payable and accrued liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs is as follows:

| (in millions)                                                   | Three Months Ended |                      |       | Six Months Ended   |                      |       |
|-----------------------------------------------------------------|--------------------|----------------------|-------|--------------------|----------------------|-------|
|                                                                 | Debt<br>Securities | Equity<br>Securities | Total | Debt<br>Securities | Equity<br>Securities | Total |
| June 30, 2013                                                   |                    |                      |       |                    |                      |       |
| Balance at beginning of period                                  | \$32               | \$239                | \$271 | \$17               | \$224                | \$241 |
| Purchases                                                       | 7                  | 11                   | 18    | 22                 | 42                   | 64    |
| Sales                                                           | —                  | —                    | —     | —                  | (21)                 | (21)  |
| Net unrealized losses in accumulated other comprehensive income | (1)                | (4)                  | (5)   | (1)                | (6)                  | (7)   |
| Net realized (losses) gains in investment and other income      | —                  | (1)                  | (1)   | —                  | 6                    | 6     |
| Balance at end of period                                        | \$38               | \$245                | \$283 | \$38               | \$245                | \$283 |
| June 30, 2012                                                   |                    |                      |       |                    |                      |       |
| Balance at beginning of period                                  | \$7                | \$204                | \$211 | \$208              | \$209                | \$417 |
| Purchases                                                       | —                  | 33                   | 33    | —                  | 51                   | 51    |
| Sales                                                           | —                  | (7)                  | (7)   | —                  | (9)                  | (9)   |
| Net unrealized losses in accumulated other comprehensive income | —                  | (3)                  | (3)   | —                  | (3)                  | (3)   |
| Net realized gains in investment and other income               | —                  | 1                    | 1     | —                  | 1                    | 1     |
| Transfers to held-to-maturity                                   | —                  | —                    | —     | (201)              | (21)                 | (222) |
| Balance at end of period                                        | \$7                | \$228                | \$235 | \$7                | \$228                | \$235 |



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The following table presents quantitative information regarding unobservable inputs that were significant to the valuation of assets measured at fair value on a recurring basis using Level 3 inputs:

| (in millions)                              | Fair Value | Valuation Technique                    | Unobservable Input           | Range |      |
|--------------------------------------------|------------|----------------------------------------|------------------------------|-------|------|
|                                            |            |                                        |                              | Low   | High |
| June 30, 2013                              |            |                                        |                              |       |      |
| Equity securities - available-for-sale     |            |                                        |                              |       |      |
| Venture capital portfolios                 | \$226      | Market approach - comparable companies | Revenue multiple             | 1.0   | 10.0 |
|                                            |            |                                        | EBITDA multiple              | 7.0   | 10.0 |
|                                            | 19         | Market approach - recent transactions  | Inactive market transactions | N/A   | N/A  |
| Total equity securities available-for-sale | \$245      |                                        |                              |       |      |

Also included in the Company's assets measured at fair value on a recurring basis using Level 3 inputs were \$38 million of available-for-sale debt securities at June 30, 2013, which were not significant.

The Company elected to measure the entirety of the AARP Assets Under Management at fair value pursuant to the fair value option. See Note 2 of Notes to the Consolidated Financial Statements in the Company's 2012 10-K for further detail on AARP. The following table presents fair value information about the AARP Program-related financial assets and liabilities:

| (in millions)                              | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Total Fair and Carrying Value |
|--------------------------------------------|-------------------------------------------|-----------------------------------|-------------------------------|
| June 30, 2013                              |                                           |                                   |                               |
| Cash and cash equivalents                  | \$169                                     | \$4                               | \$173                         |
| Debt securities:                           |                                           |                                   |                               |
| U.S. government and agency obligations     | 488                                       | 251                               | 739                           |
| State and municipal obligations            | —                                         | 61                                | 61                            |
| Corporate obligations                      | —                                         | 1,081                             | 1,081                         |
| U.S. agency mortgage-backed securities     | —                                         | 411                               | 411                           |
| Non-U.S. agency mortgage-backed securities | —                                         | 145                               | 145                           |
| Total debt securities                      | 488                                       | 1,949                             | 2,437                         |
| Equity securities - available-for-sale     | —                                         | 3                                 | 3                             |
| Total assets at fair value                 | \$657                                     | \$1,956                           | \$2,613                       |
| Other liabilities                          | \$10                                      | \$16                              | \$26                          |
| December 31, 2012                          |                                           |                                   |                               |
| Cash and cash equivalents                  | \$230                                     | \$—                               | \$230                         |
| Debt securities:                           |                                           |                                   |                               |
| U.S. government and agency obligations     | 545                                       | 244                               | 789                           |
| State and municipal obligations            | —                                         | 51                                | 51                            |
| Corporate obligations                      | —                                         | 1,118                             | 1,118                         |
| U.S. agency mortgage-backed securities     | —                                         | 427                               | 427                           |
| Non-U.S. agency mortgage-backed securities | —                                         | 155                               | 155                           |
| Total debt securities                      | 545                                       | 1,995                             | 2,540                         |
| Equity securities - available-for-sale     | —                                         | 3                                 | 3                             |
| Total assets at fair value                 | \$775                                     | \$1,998                           | \$2,773                       |

|                   |      |      |      |
|-------------------|------|------|------|
| Other liabilities | \$23 | \$58 | \$81 |
|-------------------|------|------|------|

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## 4. Medicare Part D Pharmacy Benefits

The Condensed Consolidated Balance Sheets include the following amounts associated with the Medicare Part D program:

| (in millions)             | June 30, 2013 |               |            | December 31, 2012 |               |            |
|---------------------------|---------------|---------------|------------|-------------------|---------------|------------|
|                           | Subsidies     | Drug Discount | Risk-Share | Subsidies         | Drug Discount | Risk-Share |
| Other current receivables | \$ 141        | \$ 220        | \$—        | \$461             | \$ 314        | \$—        |
| Other policy liabilities  | —             | 232           | 411        | —                 | 319           | 438        |

The Catastrophic Reinsurance and Low-Income Member Cost Sharing Subsidies (Subsidies) and drug discounts represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by the Centers for Medicare and Medicaid Services (CMS) for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these contract elements are not reflected as premium revenues, but rather are accounted for as a reduction of receivables and/or increase in deposit liabilities. CMS provides prospective payments for the drug discounts, which the Company records as liabilities when received. The drug discounts are ultimately funded by the pharmaceutical manufacturers. The Company bills them for claims under the program and records those bills as receivables. Related cash flows are presented as customer funds administered within financing activities in the Condensed Consolidated Statements of Cash Flows.

Premiums from CMS are subject to risk-sharing provisions based on a comparison of the Company's annual bid estimates of prescription drug costs and the actual costs incurred. Variances may result in CMS making additional payments to the Company or require the Company to remit funds to CMS subsequent to the end of the year. The Company records risk-share adjustments to premium revenue and to other current receivables or other policy liabilities in the Condensed Consolidated Balance Sheets.

## 5. Medical Cost Development

The following table provides details of the Company's net favorable medical cost development:

| (in millions)           | Three Months Ended June 30, |       | Six Months Ended June 30, |        |
|-------------------------|-----------------------------|-------|---------------------------|--------|
|                         | 2013                        | 2012  | 2013                      | 2012   |
| Related to Prior Years  | \$ 120                      | \$ 90 | \$ 400                    | \$ 620 |
| Related to Current Year | 190                         | 120   | N/A                       | N/A    |

The favorable development for the three and six months ended June 30, 2013 and June 30, 2012 was primarily driven by lower than expected health system utilization levels.



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## 6. Commercial Paper and Long-Term Debt

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

| (in millions, except percentages)                     | June 30, 2013 |                |            | December 31, 2012 |                |            |
|-------------------------------------------------------|---------------|----------------|------------|-------------------|----------------|------------|
|                                                       | Par Value     | Carrying Value | Fair Value | Par Value         | Carrying Value | Fair Value |
| Commercial Paper                                      | \$901         | \$901          | \$901      | \$1,587           | \$1,587        | \$1,587    |
| 4.875% senior unsecured notes due February 2013       | —             | —              | —          | 534               | 534            | 536        |
| 4.875% senior unsecured notes due April 2013          | —             | —              | —          | 409               | 411            | 413        |
| 4.750% senior unsecured notes due February 2014       | 172           | 176            | 176        | 172               | 178            | 180        |
| 5.000% senior unsecured notes due August 2014         | 389           | 404            | 408        | 389               | 411            | 414        |
| Senior unsecured floating-rate notes due August 2014  | 250           | 250            | 250        | —                 | —              | —          |
| 4.875% senior unsecured notes due March 2015 (a)      | 416           | 437            | 444        | 416               | 444            | 453        |
| 0.850% senior unsecured notes due October 2015 (a)    | 625           | 622            | 626        | 625               | 623            | 627        |
| 5.375% senior unsecured notes due March 2016 (a)      | 601           | 647            | 665        | 601               | 660            | 682        |
| 1.875% senior unsecured notes due November 2016       | 400           | 398            | 407        | 400               | 397            | 412        |
| 5.360% senior unsecured notes due November 2016       | 95            | 95             | 108        | 95                | 95             | 110        |
| 6.000% senior unsecured notes due June 2017           | 441           | 484            | 508        | 441               | 489            | 528        |
| 1.400% senior unsecured notes due October 2017 (a)    | 625           | 609            | 614        | 625               | 622            | 626        |
| 6.000% senior unsecured notes due November 2017       | 156           | 169            | 179        | 156               | 170            | 191        |
| 6.000% senior unsecured notes due February 2018       | 1,100         | 1,118          | 1,292      | 1,100             | 1,120          | 1,339      |
| 1.625% senior unsecured notes due March 2019          | 500           | 498            | 483        | —                 | —              | —          |
| 3.875% senior unsecured notes due October 2020        | 450           | 443            | 473        | 450               | 442            | 499        |
| 4.700% senior unsecured notes due February 2021       | 400           | 417            | 438        | 400               | 417            | 466        |
| 3.375% senior unsecured notes due November 2021 (a)   | 500           | 481            | 498        | 500               | 512            | 533        |
| 2.875% senior unsecured notes due March 2022          | 1,100         | 1,003          | 1,049      | 1,100             | 998            | 1,128      |
| 0.000% senior unsecured notes due November 2022       | 15            | 9              | 10         | 15                | 9              | 11         |
| 2.750% senior unsecured notes due February 2023 (a)   | 625           | 576            | 582        | 625               | 619            | 631        |
| 2.875% senior unsecured notes due March 2023          | 750           | 747            | 705        | —                 | —              | —          |
| 5.800% senior unsecured notes due March 2036          | 850           | 845            | 954        | 850               | 845            | 1,025      |
| 6.500% senior unsecured notes due June 2037           | 500           | 495            | 599        | 500               | 495            | 659        |
| 6.625% senior unsecured notes due November 2037       | 650           | 645            | 791        | 650               | 645            | 860        |
| 6.875% senior unsecured notes due February 2038       | 1,100         | 1,084          | 1,374      | 1,100             | 1,084          | 1,510      |
| 5.700% senior unsecured notes due October 2040        | 300           | 298            | 330        | 300               | 298            | 364        |
| 5.950% senior unsecured notes due February 2041       | 350           | 348            | 396        | 350               | 348            | 440        |
| 4.625% senior unsecured notes due November 2041       | 600           | 593            | 576        | 600               | 593            | 641        |
| 4.375% senior unsecured notes due March 2042          | 502           | 486            | 464        | 502               | 486            | 521        |
| 3.950% senior unsecured notes due October 2042        | 625           | 611            | 538        | 625               | 611            | 622        |
| 4.250% senior unsecured notes due March 2043          | 750           | 740            | 684        | —                 | —              | —          |
| Total U.S. dollar denominated debt                    | 16,738        | 16,629         | 17,522     | 16,117            | 16,143         | 18,008     |
| Cetip Interbank Deposit Rate (CDI) + 1.3%             | —             | —              | —          | 147               | 148            | 150        |
| Subsidiary floating debt due October 2013             | —             | —              | —          | —                 | —              | —          |
| CDI + 1.45% Subsidiary floating debt due October 2014 | —             | —              | —          | 147               | 149            | 150        |
| 110% CDI Subsidiary floating debt due December 2014   | —             | —              | —          | 147               | 151            | 147        |

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|                                                                                                           |          |          |          |          |          |          |
|-----------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|
| CDI + 1.6% Subsidiary floating debt due October 2015                                                      | —        | —        | —        | 74       | 76       | 76       |
| Brazilian Extended National Consumer Price Index (IPCA) + 7.61% Subsidiary floating debt due October 2015 | —        | —        | —        | 73       | 87       | 90       |
| Total Brazilian real denominated debt (in U.S. dollars)                                                   | —        | —        | —        | 588      | 611      | 613      |
| Total commercial paper and long-term debt                                                                 | \$16,738 | \$16,629 | \$17,522 | \$16,705 | \$16,754 | \$18,621 |

(a) Fixed-rate debt instruments hedged with interest rate swap contracts. See below for more information on the Company's interest rate swaps.

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## Commercial Paper and Bank Credit Facilities

Commercial paper consists of short-duration, senior unsecured debt privately placed on a discount basis through broker-dealers. As of June 30, 2013, the Company's outstanding commercial paper had a weighted-average annual interest rate of 0.3%.

The Company has \$3.0 billion five-year and \$1.0 billion 364-day revolving bank credit facilities with 21 banks, which mature in November 2017 and November 2013, respectively. These facilities provide liquidity support for the Company's \$4.0 billion commercial paper program and are available for general corporate purposes. There were no amounts outstanding under these facilities as of June 30, 2013. The interest rates on borrowings are variable based on term and are calculated based on the London Interbank Offered Rate (LIBOR) plus a credit spread based on the Company's senior unsecured credit ratings. As of June 30, 2013, the annual interest rates on both bank credit facilities, had they been drawn, would have ranged from 1.0% to 1.2%.

## Debt Covenants

The Company's bank credit facilities contain various covenants including requiring the Company to maintain a debt to debt-plus-equity ratio of not more than 50%. The Company was in compliance with its debt covenants as of June 30, 2013.

## Interest Rate and Currency Swap Contracts

The Company uses interest rate swap contracts to convert a portion of its interest rate exposure from fixed rates to floating rates to more closely align interest expense with interest income received on its cash equivalent and variable rate investment balances. The floating rates are benchmarked to LIBOR. The swaps are designated as fair value hedges on the Company's fixed-rate debt. Since the critical terms of the swaps match those of the debt being hedged, they are assumed to be highly effective hedges and all changes in fair value of the swaps are recorded as an adjustment to the carrying value of the related debt with no net impact recorded in the Condensed Consolidated Statements of Operations.

The following table summarizes the location and fair value of the interest rate swap fair value hedges on the Company's Condensed Consolidated Balance Sheet:

| Type of Fair Value Hedge     | Notional Amount<br>(in billions) | Fair Value<br>(in millions) | Balance Sheet Location |
|------------------------------|----------------------------------|-----------------------------|------------------------|
| June 30, 2013                |                                  |                             |                        |
| Interest rate swap contracts | \$3.4                            | \$88                        | Other liabilities      |
| December 31, 2012            |                                  |                             |                        |
| Interest rate swap contracts | \$2.8                            | \$14                        | Other assets           |
|                              |                                  | 11                          | Other liabilities      |

The following table provides a summary of the effect of changes in fair value of fair value hedges on the Company's Condensed Consolidated Statements of Operations:

| (in millions)                                                               | Three Months Ended June 30, |        | Six Months Ended June 30, |        |   |
|-----------------------------------------------------------------------------|-----------------------------|--------|---------------------------|--------|---|
|                                                                             | 2013                        | 2012   | 2013                      | 2012   |   |
| Hedge (interest rate swap) (loss) gain recognized in interest expense       | \$(104                      | ) \$22 | \$(91                     | ) \$12 |   |
| Hedged item (long-term debt) gain (loss) recognized in interest expense     | 104                         | (22    | ) 91                      | (12    | ) |
| Net impact on the Company's Condensed Consolidated Statements of Operations | \$—                         | \$—    | \$—                       | \$—    |   |

In December 2012, the Company entered into currency swap contracts to hedge the foreign currency exposure on the principal amount of intercompany borrowings denominated in Brazilian reais. The currency swaps have a notional amount of \$256 million and mature on December 30, 2013. As of June 30, 2013, the fair value of the currency swap assets totaled \$21 million, which was recorded in Other Current Assets in the Company's Condensed Consolidated Balance Sheets. As of December 31, 2012 the fair value of the currency swap liabilities totaled \$3 million, which was recorded in Other Current Liabilities in the Company's Condensed Consolidated Balance Sheets.



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## 7. Shareholders' Equity

## Share Repurchase Program

Under its Board of Directors' authorization, the Company maintains a share repurchase program. The objectives of the share repurchase program are to optimize the Company's capital structure and cost of capital, thereby improving returns to shareholders, as well as to offset the dilutive impact of share-based awards. Repurchases may be made from time to time in open market purchases or other types of transactions (including prepaid or structured share repurchase programs), subject to certain Board restrictions. In June 2013, the Board renewed and expanded the Company's share repurchase program with an authorization to repurchase up to 110 million shares of its common stock. During the six months ended June 30, 2013, the Company repurchased 23 million shares at an average price of \$58.92 per share and an aggregate cost of \$1.3 billion. As of June 30, 2013, the Company had Board authorization to purchase up to an additional 109 million shares of its common stock.

## Dividends

In June 2013, the Company's Board of Directors increased the Company's cash dividend to shareholders to an annual dividend rate of \$1.12 per share, paid quarterly. Since June 2012, the Company had paid an annual dividend of \$0.85 per share, paid quarterly. Declaration and payment of future quarterly dividends is at the discretion of the Board and may be adjusted as business needs or market conditions change.

The following table provides details of the Company's 2013 dividend payments:

| Payment Date   | Amount per Share | Total Amount Paid<br>(in millions) |
|----------------|------------------|------------------------------------|
| March 26, 2013 | \$ 0.2125        | \$ 216                             |
| June 26, 2013  | 0.2800           | 281                                |

## 8. Share-Based Compensation

The Company's outstanding share-based awards consist mainly of non-qualified stock options, stock-settled stock appreciation rights (SARs) and restricted stock and restricted stock units (collectively, restricted shares). As of June 30, 2013, the Company had 35 million shares available for future grants of share-based awards under its share-based compensation plan, including, but not limited to, incentive or non-qualified stock options, SARs and up to 14 million of awards in restricted shares.

## Stock Options and SARs

Stock option and SAR activity for the six months ended June 30, 2013 is summarized in the table below:

|                                            | Shares<br>(in millions) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual Life<br>(in years) | Aggregate<br>Intrinsic Value<br>(in millions) |
|--------------------------------------------|-------------------------|-------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------|
| Outstanding at beginning of period         | 63                      | \$45                                      |                                                                     |                                               |
| Granted                                    | 8                       | 57                                        |                                                                     |                                               |
| Exercised                                  | (18)                    | ) 42                                      |                                                                     |                                               |
| Forfeited                                  | (2)                     | ) 56                                      |                                                                     |                                               |
| Outstanding at end of period               | 51                      | 47                                        | 4.6                                                                 | \$926                                         |
| Exercisable at end of period               | 40                      | 46                                        | 3.4                                                                 | 777                                           |
| Vested and expected to vest, end of period | 51                      | 47                                        | 4.5                                                                 | 918                                           |

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## Restricted Shares

Restricted share activity for the six months ended June 30, 2013 is summarized in the table below:

| (shares in millions)             | Shares | Weighted-Average<br>Grant Date<br>Fair Value<br>per Share |
|----------------------------------|--------|-----------------------------------------------------------|
| Nonvested at beginning of period | 9      | \$ 46                                                     |
| Granted                          | 3      | 58                                                        |
| Nonvested at end of period       | 12     | 49                                                        |

## Other Share-Based Compensation Data

| (in millions, except per share amounts)                             | Three Months Ended<br>June 30, |      | Six Months Ended June<br>30, |      |
|---------------------------------------------------------------------|--------------------------------|------|------------------------------|------|
|                                                                     | 2013                           | 2012 | 2013                         | 2012 |
| <b>Stock Options and SARs</b>                                       |                                |      |                              |      |
| Weighted-average grant date fair value of shares granted, per share | \$20                           | \$19 | \$19                         | \$19 |
| Total intrinsic value of stock options and SARs exercised           | 242                            | 178  | 325                          | 398  |
| <b>Restricted Shares</b>                                            |                                |      |                              |      |
| Weighted-average grant date fair value of shares granted, per share | 62                             | 56   | 58                           | 52   |
| Total fair value of restricted shares vested                        | —                              | 61   | —                            | 352  |
| <b>Share-Based Compensation Items</b>                               |                                |      |                              |      |
| Share-based compensation expense, before tax                        | 77                             | 102  | 176                          | 242  |
| Share-based compensation expense, net of tax effects                | 18                             | 72   | 107                          | 160  |
| Income tax benefit realized from share-based award exercises        | 83                             | 87   | 116                          | 274  |
| (in millions, except years)                                         |                                |      | June 30, 2013                |      |
| Unrecognized compensation expense related to share awards           |                                |      | \$436                        |      |
| Weighted-average years to recognize compensation expense            |                                |      | 1.4                          |      |

## Share-Based Compensation Recognition and Estimates

The principal assumptions the Company used in calculating grant-date fair value for stock options and SARs were as follows:

|                         | Three Months Ended June 30, |       | Six Months Ended June 30, |               |
|-------------------------|-----------------------------|-------|---------------------------|---------------|
|                         | 2013                        | 2012  | 2013                      | 2012          |
| Risk-free interest rate | 1.1%                        | 0.7%  | 1.0% - 1.1%               | 0.7% - 0.9%   |
| Expected volatility     | 43.0%                       | 44.0% | 42.6% - 43.0%             | 43.4% - 44.0% |
| Expected dividend yield | 1.4%                        | 1.2%  | 1.4% - 1.5%               | 1.2% - 1.3%   |
| Forfeiture rate         | 5.0%                        | 5.0%  | 5.0%                      | 5.0%          |
| Expected life in years  | 5.3                         | 5.3   | 5.3                       | 5.3 - 5.6     |

Risk-free interest rates are based on U.S. Treasury yields in effect at the time of grant. Expected volatilities are based on the historical volatility of the Company's common stock and the implied volatility from exchange-traded options on the Company's common stock. Expected dividend yields are based on the per share cash dividend paid by the Company. The Company uses historical data to estimate option and SAR exercises and forfeitures within the valuation model. The expected lives of options and SARs granted represents the period of time that the awards granted are expected to be outstanding based on historical exercise patterns.

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9. Commitments and Contingencies

Legal Matters

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

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

Litigation Matters

Out-of-Network Reimbursement Litigation. Since 1999, the Company has been involved in a number of lawsuits challenging reimbursement amounts for non-network health care services based on the Company's use of a database previously maintained by Ingenix, Inc. (now known as OptumInsight). These suits have alleged, among other things, that the database licensed to these companies by Ingenix was flawed and that Ingenix conspired with these companies to underpay their members' claims. In 2012, the Company was dismissed as a party from one of these lawsuits involving Cigna and its members. In July 2013, the Company was dismissed from a similar lawsuit involving WellPoint and its members. In light of these and other developments, the Company does not believe that the remaining out-of-network reimbursement litigation concerning the use of the Ingenix database presents a reasonable possibility of a material loss.

California Claims Processing Matter. On January 25, 2008, the California Department of Insurance (CDI) issued an Order to Show Cause to PacifiCare Life and Health Insurance Company, a subsidiary of the Company, alleging violations of certain insurance statutes and regulations related to an alleged failure to include certain language in standard claims correspondence, timeliness and accuracy of claims processing, interest payments, care provider contract implementation, care provider dispute resolution and other related matters. The matter has been the subject of an administrative hearing before a California administrative law judge since December 2009. Although the Company believes that CDI has never issued a penalty in excess of \$8 million, CDI is seeking a penalty of approximately \$325 million in this matter. The Company is vigorously defending against the claims in this matter and believes that the penalty requested by CDI is excessive and without merit. After the administrative law judge issues a ruling at the conclusion of the administrative proceeding, expected in 2013, the California Insurance Commissioner may accept, reject or modify the administrative law judge's ruling, issue his own decision, and impose a fine or penalty. The Commissioner's decision is subject to challenge in court. The Company cannot reasonably estimate the range of loss, if any, that may result from this matter given the procedural status of the dispute, the legal issues presented (including the legal basis for the majority of the alleged violations), the inherent difficulty in predicting regulatory fines and penalties, and the various remedies and levels of judicial review available to the Company in the event a fine or penalty is assessed.

Endoscopy Center of Southern Nevada Litigation. In April 2013, a Las Vegas jury awarded \$24 million in compensatory damages and \$500 million in punitive damages against a Company health plan and its parent corporation on the theory that they were negligent in their credentialing and monitoring of an in-network endoscopy center owned and operated by independent physicians who were subsequently linked by regulators to an outbreak of hepatitis C. Company plans are party to 41 additional individual lawsuits and 2 class actions relating to the outbreak. The Company cannot reasonably estimate the range of loss, if any, that may result from these matters given the

likelihood of reversal on appeal, the availability of statutory and other limits on damages, the novel legal theories being advanced by the plaintiffs, the various postures of the remaining cases, the availability in many cases of federal defenses under Medicare law and Employee Retirement Income Security Act, and the pendency of certain relevant legal questions before the Nevada Supreme Court. The Company is vigorously defending these lawsuits.



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Government Investigations, Audits and Reviews

The Company has been and is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Federal Trade Commission, U.S. Congressional committees, the U.S. Department of Justice, U.S. Attorneys, the SEC, the Brazilian securities regulator - Comissão de Valores Mobiliários, Internal Revenue Service, the Brazilian federal revenue service - the Secretaria da Receita Federal, the U.S. Department of Labor, the Federal Deposit Insurance Corporation and other governmental authorities. Certain of the Company's businesses have been reviewed or are currently under review, including for, among other things, compliance with coding and other requirements under the Medicare risk-adjustment model.

In February 2012, CMS announced a final Risk Adjustment Data Validation (RADV) audit and payment adjustment methodology and that it will conduct RADV audits beginning with the 2011 payment year. These audits involve a review of medical records maintained by care providers and may result in retrospective adjustments to payments made to health plans. CMS has not communicated how the final payment adjustment under its methodology will be implemented.

The Company cannot reasonably estimate the range of loss, if any, that may result from any material government investigations, audits and reviews in which it is currently involved given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding.

10. Segment Financial Information

Factors used to determine the Company's reportable segments include the nature of operating activities, economic characteristics, existence of separate senior management teams and the type of information presented to the Company's chief operating decision maker to evaluate its results of operations. Reportable segments with similar economic characteristics are combined. The Company's four reportable segments are UnitedHealthcare, OptumHealth, OptumInsight and OptumRx.

Since the Company's acquisition of Amil occurred in the fourth quarter of 2012, the purchase price allocation is subject to adjustment as valuation analyses, primarily related to intangibles and fixed assets and contingent and tax liabilities, are finalized. During 2013, the Company acquired all of Amil's remaining public shares for \$1.5 billion, bringing the Company's ownership of Amil to 90%. For more information on the Company's investment in Amil, see Note 6 of the Notes of the Consolidated Financial Statements in the Company's 2012 10-K.

Transactions between reportable segments principally consist of sales of pharmacy benefit products and services to UnitedHealthcare customers by OptumRx, certain product offerings and care management and integrated care delivery services sold to UnitedHealthcare by OptumHealth, and health information and technology solutions, consulting and other services sold to UnitedHealthcare by OptumInsight. These transactions are recorded at management's estimate of fair value. Intersegment transactions are eliminated in consolidation. For more information on the Company's segments see Note 13 of the Notes of the Consolidated Financial Statements in the Company's 2012 10-K.

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Corporate and intersegment elimination amounts are presented to reconcile the reportable segment results to the consolidated results. The following table presents the reportable segment financial information:

| (in millions)                       | Optum            |             |              |          |             | Corporate and             |   | Consolidated |
|-------------------------------------|------------------|-------------|--------------|----------|-------------|---------------------------|---|--------------|
|                                     | UnitedHealthcare | OptumHealth | OptumInsight | OptumRx  | Total Optum | Intersegment Eliminations |   |              |
| Three Months Ended                  |                  |             |              |          |             |                           |   |              |
| June 30, 2013                       |                  |             |              |          |             |                           |   |              |
| Revenues - external customers:      |                  |             |              |          |             |                           |   |              |
| Premiums                            | \$ 26,603        | \$ 617      | \$ —         | \$ —     | \$ 617      | \$ —                      |   | \$ 27,220    |
| Services                            | 1,564            | 176         | 480          | 24       | 680         | —                         |   | 2,244        |
| Products                            | 2                | 5           | 14           | 728      | 747         | —                         |   | 749          |
| Total revenues - external customers | 28,169           | 798         | 494          | 752      | 2,044       | —                         |   | 30,213       |
| Total revenues - intersegment       | —                | 1,581       | 287          | 4,895    | 6,763       | (6,763)                   | ) | —            |
| Investment and other income         | 163              | 32          | —            | —        | 32          | —                         |   | 195          |
| Total revenues                      | \$ 28,332        | \$ 2,411    | \$ 781       | \$ 5,647 | \$ 8,839    | \$ (6,763)                | ) | \$ 30,408    |
| Earnings from operations            | \$ 1,865         | \$ 225      | \$ 157       | \$ 154   | \$ 536      | \$ —                      |   | \$ 2,401     |
| Interest expense                    | —                | —           | —            | —        | —           | (176)                     | ) | (176)        |
| Earnings before income taxes        | \$ 1,865         | \$ 225      | \$ 157       | \$ 154   | \$ 536      | \$ (176)                  | ) | \$ 2,225     |
| Three Months Ended                  |                  |             |              |          |             |                           |   |              |
| June 30, 2012                       |                  |             |              |          |             |                           |   |              |
| Revenues - external customers:      |                  |             |              |          |             |                           |   |              |
| Premiums                            | \$ 24,184        | \$ 425      | \$ —         | \$ —     | \$ 425      | \$ —                      |   | \$ 24,609    |
| Services                            | 1,184            | 187         | 410          | 19       | 616         | —                         |   | 1,800        |
| Products                            | —                | 6           | 10           | 662      | 678         | —                         |   | 678          |
| Total revenues - external customers | 25,368           | 618         | 420          | 681      | 1,719       | —                         |   | 27,087       |
| Total revenues - intersegment       | —                | 1,377       | 251          | 3,924    | 5,552       | (5,552)                   | ) | —            |
| Investment and other income         | 148              | 30          | —            | —        | 30          | —                         |   | 178          |
| Total revenues                      | \$ 25,516        | \$ 2,025    | \$ 671       | \$ 4,605 | \$ 7,301    | \$ (5,552)                | ) | \$ 27,265    |
| Earnings from operations            | \$ 1,906         | \$ 123      | \$ 95        | \$ 102   | \$ 320      | \$ —                      |   | \$ 2,226     |
| Interest expense                    | —                | —           | —            | —        | —           | (153)                     | ) | (153)        |
| Earnings before income taxes        | \$ 1,906         | \$ 123      | \$ 95        | \$ 102   | \$ 320      | \$ (153)                  | ) | \$ 2,073     |

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| (in millions)                       | Optum            |             |              |           | Total Optum | Corporate and |              | Consolidated |
|-------------------------------------|------------------|-------------|--------------|-----------|-------------|---------------|--------------|--------------|
|                                     | UnitedHealthcare | OptumHealth | OptumInsight | OptumRx   |             | Intersegment  | Eliminations |              |
| Six Months Ended June 30, 2013      |                  |             |              |           |             |               |              |              |
| Revenues - external customers:      |                  |             |              |           |             |               |              |              |
| Premiums                            | \$ 53,284        | \$ 1,210    | \$ —         | \$ —      | \$ 1,210    | \$ —          |              | \$ 54,494    |
| Services                            | 2,987            | 383         | 939          | 47        | 1,369       | —             |              | 4,356        |
| Products                            | 4                | 10          | 33           | 1,453     | 1,496       | —             |              | 1,500        |
| Total revenues - external customers | 56,275           | 1,603       | 972          | 1,500     | 4,075       | —             |              | 60,350       |
| Total revenues - intersegment       | —                | 3,188       | 582          | 9,343     | 13,113      | (13,113 )     |              | —            |
| Investment and other income         | 336              | 62          | —            | —         | 62          | —             |              | 398          |
| Total revenues                      | \$ 56,611        | \$ 4,853    | \$ 1,554     | \$ 10,843 | \$ 17,250   | \$ (13,113 )  |              | \$ 60,748    |
| Earnings from operations            | \$ 3,509         | \$ 451      | \$ 306       | \$ 274    | \$ 1,031    | \$ —          |              | \$ 4,540     |
| Interest expense                    | —                | —           | —            | —         | —           | (354 )        |              | (354 )       |
| Earnings before income taxes        | \$ 3,509         | \$ 451      | \$ 306       | \$ 274    | \$ 1,031    | \$ (354 )     |              | \$ 4,186     |
| Six Months Ended June 30, 2012      |                  |             |              |           |             |               |              |              |
| Revenues - external customers:      |                  |             |              |           |             |               |              |              |
| Premiums                            | \$ 48,395        | \$ 845      | \$ —         | \$ —      | \$ 845      | \$ —          |              | \$ 49,240    |
| Services                            | 2,362            | 389         | 800          | 40        | 1,229       | —             |              | 3,591        |
| Products                            | —                | 13          | 27           | 1,326     | 1,366       | —             |              | 1,366        |
| Total revenues - external customers | 50,757           | 1,247       | 827          | 1,366     | 3,440       | —             |              | 54,197       |
| Total revenues - intersegment       | —                | 2,659       | 515          | 7,960     | 11,134      | (11,134 )     |              | —            |
| Investment and other income         | 292              | 58          | —            | —         | 58          | —             |              | 350          |
| Total revenues                      | \$ 51,049        | \$ 3,964    | \$ 1,342     | \$ 9,326  | \$ 14,632   | \$ (11,134 )  |              | \$ 54,547    |
| Earnings from operations            | \$ 3,971         | \$ 215      | \$ 184       | \$ 173    | \$ 572      | \$ —          |              | \$ 4,543     |
| Interest expense                    | —                | —           | —            | —         | —           | (301 )        |              | (301 )       |
| Earnings before income taxes        | \$ 3,971         | \$ 215      | \$ 184       | \$ 173    | \$ 572      | \$ (301 )     |              | \$ 4,242     |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the accompanying Condensed Consolidated Financial Statements and Notes and with our 2012 10-K, including the Consolidated Financial Statements and Notes in that report. References to the terms "UnitedHealth Group," "we," "our" or "us" used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to UnitedHealth Group Incorporated and its consolidated subsidiaries.

Readers are cautioned that the statements, estimates, projections or outlook contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations, including discussions regarding financial prospects, economic conditions, trends and uncertainties contained in this Item 2, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the results discussed or implied in the forward-looking statements. A description of some of the risks and uncertainties can be found further below.

EXECUTIVE OVERVIEW

General

UnitedHealth Group is a diversified health and well-being company dedicated to helping people live healthier lives and making the health system work better for everyone. We offer a broad spectrum of products and services through two distinct platforms: UnitedHealthcare, which provides health care coverage and benefits services; and Optum, which provides information and technology-enabled health services.

Further information on our business is included in Item 1, "Business" in our 2012 10-K and additional information on our segments can be found in this Item 2 and in Note 10 to the Condensed Consolidated Financial Statements in Item 1, "Financial Statements."

Business Trends

Our businesses participate in the U.S., Brazilian and certain other health economies. In the U.S., health care spending comprises approximately 18% of gross domestic product and has grown consistently for many years. We expect overall spending on health care to continue to grow in the future, due to inflation, medical technology and pharmaceutical advancement, regulatory requirements, demographic trends in the population and national interest in health and well-being. The rate of market growth may be affected by a variety of factors, including macro-economic conditions and regulatory changes, including enacted health care reforms in the U.S., which could also impact our results of operations.

Pricing Trends. We seek to price our health care benefit products consistent with anticipated underlying medical trends, while balancing growth, margins, competitive dynamics, cost increases for the industry fees and tax provisions of The Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010, which we refer to together as the Health Reform Legislation, and premium rebates at the local market level. Changes in business mix and Health Reform Legislation may impact our premiums, medical costs and medical care ratio. We continue to expect premium rates to be under pressure through ongoing market competition in commercial products and through government payment rates. Aggregating UnitedHealthcare's businesses, we believe the medical care ratio will rise over time as we continue to grow in the senior and public markets and begin to participate in the emerging health benefit exchange market in 2014.

In the commercial market segment, we expect pricing to continue to be highly competitive throughout 2013. We endeavor to sustain a commercial medical care ratio in a stable range for an equivalent mix of business. We plan to hold to our pricing disciplines and, considering the competitive environment and persistently weak employment and new business formation rates, we expect continued pressure on our commercial risk-based product membership over the balance of 2013. Self-insured membership as a percentage of total commercial membership is expected to continue to increase at a modest pace in 2013 and beyond, due in part to the emerging interest from fully-insured mid-size employers in moving to self-funded arrangements. In the first quarter of 2013, we worked with our largest fully-insured customer to convert its coverage arrangements from risk-based to fee-based status. While this conversion

of 1.1 million risk-based members to a fee-based arrangement will reduce our 2013 consolidated revenues by \$2.5 billion, the impact to our earnings from operations and cash flows will be negligible.

In government programs, we are seeing continuing rate pressures. Medicare Advantage funding has been cut in recent years, was further reduced in 2013 and additional reductions are expected in 2014, as discussed below in “Regulatory Trends and Uncertainties.” Rate changes for some Medicaid programs are slightly negative year-over-year. Unlike in prior years, recent Medicaid rate reductions have generally not been mitigated by corresponding benefit reductions or care provider fee schedule reductions by the state sponsor. We continue to take a prudent, market-sustainable posture for both new bids and maintenance of existing Medicaid contracts. We expect these factors to result in year-over-year pressure on gross margin percentages for our

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Medicare and Medicaid programs over the balance of 2013.

For 2013, UnitedHealthcare created a new affordable “Basic Plan” for Medicare Part D consumers and reclassified its large four million member Medicare Part D plan to an “Enhanced Plan” status with CMS. The Basic Plan achieves a lower price point principally through a narrower list of covered drugs. Under CMS regulations, Enhanced Plans are not deemed actuarially equivalent to the standard Part D plan design for risk-sharing purposes. The change to Enhanced Plan status therefore changes the seasonal pattern of revenue and earnings to later in the year with no material impact expected on full-year profitability.

**Medical Cost Trends.** We expect our 2013 commercial medical cost trend to be in the range of 5.5% plus or minus 50 basis points, with relatively consistent unit cost and utilization trends compared to 2012. We expect our total trend will be driven primarily by continued unit cost pressure from health care providers as they try to compensate for persistently lower government reimbursement levels. Health system utilization is increasing at a relatively consistent pace with the prior year, with utilization increases observed in outpatient services and offset by declining inpatient utilization. We expect full year 2013 pharmacy trends to be flat to slightly lower than in 2012. The primary drivers of prescription drug trends continue to be unit cost pressure and a shift towards expensive new specialty drugs. Overall, the recent weak economic environment, combined with our medical cost management, has had a favorable impact on utilization trends. We believe our alignment of progressive benefit designs, consumer engagement, clinical management, pay-for-performance reimbursement programs for care providers and network resources is favorably controlling medical and pharmacy costs, enhancing affordability and quality of health care for our customers and members.

**Delivery System and Payment Modernization.** The market is changing based on demographic shifts, new regulations, political forces and both payer and patient expectations. These factors are creating market pressures to change from fee-for-service delivery and payment arrangements to new delivery models focused on the holistic health of the consumer, integrated care across care providers and pay-for-performance payment structures. Health plans and care providers are being called upon to work together to close gaps in care and improve the overall care for people, improve the health of a population and reduce the cost of care. The focus on delivery system modernization and payment reform is critical and the alignment of incentives between key constituents remains an important theme. We are placing a greater emphasis on rewarding care providers for better care and lower costs. We have more than \$20 billion of our reimbursements to hospitals, physicians, and ancillary care providers paid through contracts that link a portion of the reimbursement to quality and cost-efficiency measures; we expect the number of such contracts to increase significantly in the coming years as more care providers join the transition to accountable care contracts that reward quality and value-based health care.

This trend is also creating needs for health management services that can coordinate care around the primary care physician and for investment in new clinical and administrative information and management systems, providing growth opportunities for our Optum business platform.

**Government Reliance on Private Sector.** The government, as a benefit sponsor, has been increasingly relying on private sector solutions. We expect this trend to continue as we believe the private sector provides a more flexible, better managed, higher quality health care experience than do traditional passive indemnity programs typically used in governmental benefit programs.

States are struggling to balance budget pressures with increases in their Medicaid expenditures. At the same time, many states are expanding their interest in managed care with particular emphasis on consumers who have complex and expensive health care needs. Medicaid managed care is increasingly viewed as an effective method to improve quality and manage costs. There are more than nine million individuals eligible for both Medicare and Medicaid (known as dually eligible). Dually eligible beneficiaries typically have complex conditions, with costs of care that are far higher than those of a typical Medicare or Medicaid beneficiary. While these individuals’ health needs are more complex and more costly, they have historically been in unmanaged environments. This provides UnitedHealthcare an opportunity to work with governments to integrate Medicare and Medicaid financing to fund efforts to optimize the

health status of this frail population through close coordination of care. As of June 30, 2013, UnitedHealthcare served more than 250,000 members in legacy dually eligible programs through Medicare Advantage and Special Needs Plans. In the first half of 2014, UnitedHealthcare Community & State plans to help implement Integrated Medicare-Medicaid Eligible (MME) programs in two states.

#### Regulatory Trends and Uncertainties

Following is a summary of management's view of the trends and uncertainties related to some of the key provisions of the Health Reform Legislation and other regulatory items; for additional information regarding the Health Reform Legislation and regulatory trends and uncertainties, see Item 1, "Business - Government Regulation" and Item 1A, "Risk Factors" in our 2012 10-K.

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Medicare Advantage Rates and Minimum Loss Ratios. Medicare Advantage payment benchmarks have been cut over the last several years, including 2013, with additional funding reductions to be phased-in over the next two to four years. Further, on April 1, 2013, CMS released its final notice of 2014 Medicare Advantage benchmark rates and payment policies. The final notice includes significant reductions to 2014 Medicare Advantage payments, including the benchmark reductions described previously. These reductions and the Health Reform Legislation insurance industry tax described below result in revenue reductions and incremental assessments totaling more than 4% in 2014, against a typical industry forward medical cost trend outlook of 3%. Additionally, Congress passed the Budget Control Act of 2011, which as amended by the American Taxpayer Relief Act of 2012, triggered automatic across-the-board budget cuts (known as sequestration), including a 2% reduction in Medicare Advantage and Medicare Part D payments beginning April 1, 2013. The impact of sequestration cuts to our Medicare Advantage revenues is partially mitigated by reductions in provider reimbursements for those care providers with rates indexed to Medicare Advantage revenues or Medicare fee-for-service reimbursement rates. We estimate that sequestration, which began in April 2013, will result in a net decrease to our consolidated pre-tax earnings in the range of \$250 million to \$300 million for the full year 2013. These factors will likely affect our plan benefit designs, market participation, growth prospects and earnings potential for our Medicare Advantage plans in 2014. In addition, beginning in 2014, Medicare Advantage plans will be required to have a minimum medical loss ratio of 85%.

On-going reductions to Medicare Advantage funding place continued importance on effective medical management and ongoing improvements in administrative efficiency. There are a number of adjustments we can and are making to partially offset these rate reductions. These adjustments will impact the majority of the seniors we serve through Medicare Advantage. For example, we seek to intensify our medical and operating cost management, make changes to the composition of our care provider network and the terms of our contracts with care providers, adjust members' benefits and decide on a county-by-county basis in which geographies to participate. These changes will impact the level of value our offerings provide to seniors and are likely to reduce both retention levels and slow the rate of new member sign-ups in 2014. The depth of the underfunding of these benefits is also causing us to exit certain plans and market areas for 2014 in which we currently serve approximately 150,000 Medicare Advantage beneficiaries.

Our Medicare Advantage rates are currently enhanced by CMS quality bonuses in certain counties based on a plan's star rating. The level of star ratings from CMS, based upon specified clinical and operational performance standards, will impact future quality bonuses. In addition, star ratings affect the amount of savings a plan has to generate to offer supplemental benefits, which ultimately may affect the plan's revenue. The expanded stars bonus program is set to expire after 2014. In 2015, quality bonus payments will only be paid to 4 and 5 star plans compared to current bonuses that are available to qualifying plans rated 3 stars or higher. For the 2014 payment year, based on scoring released by CMS in October 2012, approximately 60% of our current Medicare Advantage members are enrolled in plans that will be rated 3.5 stars or higher and approximately 10% are enrolled in plans that will be rated 4 stars or higher. Updated scores, to be released in October 2013, will determine what portion of our Medicare Advantage membership will reside in 4 or 5 star plans and qualify for quality bonus payments in 2015. Although we are dedicating substantial resources to improving our quality scores and star ratings, if we are unable to significantly increase the level of membership in plans with a rating of 4 stars or higher for the 2015 payment year, our 2015 results of operations and cash flows could be adversely impacted.

We also may be able to mitigate the effects of reduced funding by increasing enrollment due, in part, to the increasing number of people eligible for Medicare in coming years. Compared with the second quarter of 2012, our 2013 Medicare Advantage membership has increased by 415,000 consumers, or 17%. Longer term, market wide decreases in the availability or relative quality of Medicare Advantage products may increase demand for other senior health benefits products such as our Medicare Supplement and Medicare Part D insurance offerings.

Industry Fees and Taxes. The Health Reform Legislation includes an annual, non-deductible insurance industry tax to be levied proportionally across the insurance industry for risk-based products, beginning January 1, 2014. The industry-wide amount of the annual tax is \$8 billion in 2014, \$11.3 billion in 2015 and 2016, \$13.9 billion in 2017 and \$14.3 billion in 2018. For 2019 and beyond, the amount will be equal to the annual tax for the preceding year increased by the rate of premium growth for the preceding year. The annual tax will be allocated to each market



participant based on the ratio of the entity's net premiums written during the preceding calendar year to the total health insurance industry's net premiums written for any U.S. health risk-based products during the preceding calendar year, subject to certain exceptions. This tax will first be expensed and paid in 2014. However, because our policies are annual with varying beginning dates throughout the calendar year, for those policies that include a portion of 2014 coverage periods, we have included the tax and other Health Reform Legislation cost factors, wherever possible, proportionally in our 2013 rate filings; any related premium increases will increase the amount of premium recognized in 2013. Our effective income tax rate will increase significantly in 2014 as a result of the non-deductibility of these taxes.

With the introduction of state health insurance exchanges in 2014, the Health Reform Legislation includes three programs designed to stabilize the health insurance markets. These programs are: a transitional reinsurance program; a temporary risk

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corridors program; and a permanent risk adjustment program. The transitional reinsurance program is a temporary program that will be funded on a per capita basis from all commercial lines of business including insured and self-funded arrangements (\$25 billion over a three-year period beginning in 2014 of which \$20 billion, subject to increases based on state decisions, will fund the state reinsurance pools and \$5 billion will fund the U.S. Treasury). While funding for the reinsurance program will come from all commercial lines of business, only non-grandfathered individual business will be eligible for reinsurance recoveries.

**Commercial Rate Increase Review.** The Health Reform Legislation requires the U.S. Department of Health and Human Services (HHS) to maintain an annual review of “unreasonable” increases in premium rates for commercial health plans. HHS established a review threshold of annual premium rate increases generally at or above 10% and enacted a new rule requiring the production of information regarding any proposed rate increase (whether or not in excess of 10% annually). HHS review does not supersede existing state review and approval procedures. Premium rate review legislation (ranging from new or enhanced rate filing requirements to prior approval requirements) has been introduced or passed in more than half of the states.

The competitive forces common in our markets do not support unjustifiable rate increases. We have experienced and expect to continue to experience a tight, competitive commercial pricing environment. Further, our rates and rate filings are developed using methods consistent with the standards of actuarial practices. We have requested rate increases above 10% in a number of markets due to the combination of medical cost trends and the incremental costs of health care reform. We have begun to experience greater regulatory challenges to appropriate premium rate increases in several states, including California and New York. Depending on the level of scrutiny of our proposed rate increases by the states and HHS, we may experience a broad range of potential business impacts. For example, it may become more difficult for us to price our commercial risk-based business consistent with expected underlying cost trends, leading to the risk of operating margin compression in the commercial health benefits business.

**State-Based Exchanges and Coverage Expansion.** Effective in 2014, state-based exchanges are required to be established for individuals and small employers, with enrollment processes scheduled to commence in October 2013. We expect to respond and participate selectively in exchanges as they are introduced to the market. Our level of participation in state-based exchanges will be driven by how we assess each local market’s current and future prospects, including how the exchange and its rules are set up state-by-state and our market position relative to others in the market. We currently expect to participate in about 12 exchanges between the individual and small group exchange categories in 2014. Our participation will likely evolve over time as the exchange markets mature.

Exchanges will create new market dynamics that could impact our existing businesses, depending on the ultimate member migration patterns for each market, the pace of migration in the market and the impact of the migration on our established membership. For example, certain small employers may no longer offer health benefits to their employees and some employers purchasing full risk products could convert to self-funded programs.

The Health Reform Legislation also provides for expanded Medicaid coverage effective in January 2014. These measures remain subject to implementation at the state level.

**Individual & Small Group Market Reforms.** The Health Reform Legislation includes several provisions that will take effect on January 1, 2014 and are expected to alter the individual and small group marketplace. In early 2013, HHS released new rules implementing key provisions of the Health Reform Legislation that address, among other matters: (1) adjusted community rating requirements, which will change how individual and small group plans are rated in many states and are expected to result in significant adjustments in some policyholders' rates; (2) essential health benefit requirements, which will result in benefit changes for many individual and small group policyholders and will also impact rates; and (3) actuarial value requirements, which will significantly impact benefit designs in the individual market, such as member cost sharing requirements, and could also significantly impact rates for many individual and some small group policyholders. We are assessing the impact of these rules to the individual and small group marketplace and working with state regulators to complete rate filings and approvals as needed.

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## RESULTS SUMMARY

The following table summarizes our consolidated results of operations and other financial information:

| (in millions, except percentages and per share data)                                     | Three Months Ended<br>June 30, |                | Increase/(Decrease) |             | Six Months Ended<br>June 30, |                | Increase/(Decrease) |              |
|------------------------------------------------------------------------------------------|--------------------------------|----------------|---------------------|-------------|------------------------------|----------------|---------------------|--------------|
|                                                                                          | 2013                           | 2012           | 2013 vs. 2012       |             | 2013                         | 2012           | 2013 vs. 2012       |              |
| <b>Revenues:</b>                                                                         |                                |                |                     |             |                              |                |                     |              |
| Premiums                                                                                 | \$27,220                       | \$24,609       | \$2,611             | 11 %        | \$54,494                     | \$49,240       | \$5,254             | 11 %         |
| Services                                                                                 | 2,244                          | 1,800          | 444                 | 25          | 4,356                        | 3,591          | 765                 | 21           |
| Products                                                                                 | 749                            | 678            | 71                  | 10          | 1,500                        | 1,366          | 134                 | 10           |
| Investment and other income                                                              | 195                            | 178            | 17                  | 10          | 398                          | 350            | 48                  | 14           |
| <b>Total revenues</b>                                                                    | <b>30,408</b>                  | <b>27,265</b>  | <b>3,143</b>        | <b>12</b>   | <b>60,748</b>                | <b>54,547</b>  | <b>6,201</b>        | <b>11</b>    |
| <b>Operating costs:</b>                                                                  |                                |                |                     |             |                              |                |                     |              |
| Medical costs                                                                            | 22,173                         | 20,013         | 2,160               | 11          | 44,742                       | 39,952         | 4,790               | 12           |
| Operating costs                                                                          | 4,825                          | 4,080          | 745                 | 18          | 9,439                        | 8,176          | 1,263               | 15           |
| Cost of products sold                                                                    | 669                            | 620            | 49                  | 8           | 1,351                        | 1,254          | 97                  | 8            |
| Depreciation and amortization                                                            | 340                            | 326            | 14                  | 4           | 676                          | 622            | 54                  | 9            |
| <b>Total operating costs</b>                                                             | <b>28,007</b>                  | <b>25,039</b>  | <b>2,968</b>        | <b>12</b>   | <b>56,208</b>                | <b>50,004</b>  | <b>6,204</b>        | <b>12</b>    |
| Earnings from operations                                                                 | 2,401                          | 2,226          | 175                 | 8           | 4,540                        | 4,543          | (3)                 | —            |
| Interest expense                                                                         | (176)                          | (153)          | 23                  | 15          | (354)                        | (301)          | 53                  | 18           |
| Earnings before income taxes                                                             | 2,225                          | 2,073          | 152                 | 7           | 4,186                        | 4,242          | (56)                | (1)          |
| Provision for income taxes                                                               | (789)                          | (736)          | 53                  | 7           | (1,510)                      | (1,517)        | (7)                 | —            |
| <b>Net earnings</b>                                                                      | <b>1,436</b>                   | <b>1,337</b>   | <b>99</b>           | <b>7</b>    | <b>2,676</b>                 | <b>2,725</b>   | <b>(49)</b>         | <b>(2)</b>   |
| Less earnings attributable to noncontrolling interest                                    | —                              | —              | —                   | nm          | (48)                         | —              | (48)                | nm           |
| <b>Net earnings attributable to UnitedHealth Group common shareholders</b>               | <b>\$1,436</b>                 | <b>\$1,337</b> | <b>\$99</b>         | <b>7 %</b>  | <b>\$2,628</b>               | <b>\$2,725</b> | <b>\$(97)</b>       | <b>(4) %</b> |
| <b>Diluted earnings per share attributable to UnitedHealth Group common shareholders</b> | <b>\$1.40</b>                  | <b>\$1.27</b>  | <b>\$0.13</b>       | <b>10 %</b> | <b>\$2.56</b>                | <b>\$2.59</b>  | <b>\$(0.03)</b>     | <b>(1) %</b> |
| Medical care ratio (a)                                                                   | 81.5 %                         | 81.3 %         | 0.2 %               |             | 82.1 %                       | 81.1 %         | 1.0 %               |              |
| Operating cost ratio                                                                     | 15.9                           | 15.0           | 0.9                 |             | 15.5                         | 15.0           | 0.5                 |              |
| Operating margin                                                                         | 7.9                            | 8.2            | (0.3)               |             | 7.5                          | 8.3            | (0.8)               |              |
| Tax rate                                                                                 | 35.5                           | 35.5           | —                   |             | 36.1                         | 35.8           | 0.3                 |              |
| Net margin                                                                               | 4.7                            | 4.9            | (0.2)               |             | 4.4                          | 5.0            | (0.6)               |              |
| Return on equity (b)                                                                     | 18.2 %                         | 18.4 %         | (0.2) %             |             | 16.7 %                       | 18.9 %         | (2.2) %             |              |

nm= not meaningful

(a) Medical care ratio is calculated as medical costs divided by premium revenue.

Return on equity is calculated as annualized net earnings divided by average equity. Average equity is calculated (b) using the equity balance at the end of the preceding year and the equity balances at the end of each of the quarters in the periods presented.

## SELECTED OPERATING PERFORMANCE AND OTHER SIGNIFICANT ITEMS

The following represents a summary of select second quarter 2013 year-over-year operating comparisons to second quarter 2012 and other 2013 significant items.

• Consolidated revenues increased by 12%, UnitedHealthcare revenues increased by 11% and Optum revenues grew by 21%.

• UnitedHealthcare medical enrollment grew by 9.1 million people, including 4.7 million people served internationally, primarily in Brazil, and 2.9 million military beneficiaries through the TRICARE contract.

• Medicare Part D stand-alone membership increased by 570,000 people.

• The consolidated medical care ratio of 81.5% increased 20 basis points.

• Earnings from operations decreased 2% at UnitedHealthcare and increased 68% at Optum.

• We acquired all of Amil's remaining public shares for \$1.5 billion.

• As of June 30, 2013, there was \$1.2 billion of cash available for general corporate use.

• The ratio of debt to debt-plus-equity decreased 160 basis points from March 31, 2013 to 34.6% at June 30, 2013.

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2013 RESULTS OF OPERATIONS COMPARED TO 2012 RESULTS

Consolidated Financial Results

Revenues

The increases in revenues for the three and six months ended June 30, 2013 were primarily driven by 2012 acquisitions, growth in the number of individuals served through benefit products and overall growth in each of Optum's major businesses, partially offset by the conversion of 1.1 million risk-based members of our largest public sector client to a fee-based arrangement in the first quarter of 2013.

Medical Costs and Medical Care Ratio

Medical costs for the three and six months ended June 30, 2013 increased due to risk-based membership growth in our international and public and senior markets businesses, partially offset by the conversion of the large client discussed above. The medical care ratio for the six months ended June 30, 2013 increased primarily due to changes in business mix favoring governmental benefit programs, pressure in Medicare and Medicaid funding rates, decreased favorable medical cost development and the impact of favorable rebate true-ups in the first quarter of 2012.

Operating Costs

The increase in our operating costs for the three and six months ended June 30, 2013 was due to business growth, including an increase in fee-based benefits and fee-based service revenues, which carry comparatively higher operating costs, the impact of the Amil acquisition and investments in TRICARE, which were partially offset by the Company's on-going cost containment efforts.

Reportable Segments

We have four reportable segments across our two business platforms, UnitedHealthcare and Optum:

• UnitedHealthcare, which includes UnitedHealthcare Employer & Individual, UnitedHealthcare Medicare & Retirement, UnitedHealthcare Community & State and UnitedHealthcare International;

• OptumHealth;

• OptumInsight; and

• OptumRx.

See Note 10 of Notes to the Condensed Consolidated Financial Statements and Item 1, "Business" in our 2012 10-K for a description of how each of our reportable segments derives its revenues, including intersegment transactions.

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The following table presents reportable segment financial information:

| (in millions, except percentages)     | Three Months Ended<br>June 30, |          | Increase/(Decrease) |       | Six Months Ended<br>June 30, |           | Increase/(Decrease) |        |
|---------------------------------------|--------------------------------|----------|---------------------|-------|------------------------------|-----------|---------------------|--------|
|                                       | 2013                           | 2012     | 2013 vs. 2012       |       | 2013                         | 2012      | 2013 vs. 2012       |        |
| <b>Revenues</b>                       |                                |          |                     |       |                              |           |                     |        |
| UnitedHealthcare                      | \$28,332                       | \$25,516 | \$2,816             | 11 %  | \$56,611                     | \$51,049  | \$5,562             | 11 %   |
| OptumHealth                           | 2,411                          | 2,025    | 386                 | 19    | 4,853                        | 3,964     | 889                 | 22     |
| OptumInsight                          | 781                            | 671      | 110                 | 16    | 1,554                        | 1,342     | 212                 | 16     |
| OptumRx                               | 5,647                          | 4,605    | 1,042               | 23    | 10,843                       | 9,326     | 1,517               | 16     |
| Total Optum                           | 8,839                          | 7,301    | 1,538               | 21    | 17,250                       | 14,632    | 2,618               | 18     |
| Eliminations                          | (6,763 )                       | (5,552 ) | (1,211 )            | 22    | (13,113 )                    | (11,134 ) | (1,979 )            | 18     |
| Consolidated revenues                 | \$30,408                       | \$27,265 | \$3,143             | 12 %  | \$60,748                     | \$54,547  | \$6,201             | 11 %   |
| <b>Earnings from operations</b>       |                                |          |                     |       |                              |           |                     |        |
| UnitedHealthcare                      | \$1,865                        | \$1,906  | \$(41 )             | (2 )% | \$3,509                      | \$3,971   | \$(462 )            | (12 )% |
| OptumHealth                           | 225                            | 123      | 102                 | 83    | 451                          | 215       | 236                 | 110    |
| OptumInsight                          | 157                            | 95       | 62                  | 65    | 306                          | 184       | 122                 | 66     |
| OptumRx                               | 154                            | 102      | 52                  | 51    | 274                          | 173       | 101                 | 58     |
| Total Optum                           | 536                            | 320      | 216                 | 68    | 1,031                        | 572       | 459                 | 80     |
| Consolidated earnings from operations | \$2,401                        | \$2,226  | \$175               | 8 %   | \$4,540                      | \$4,543   | \$(3 )              | — %    |
| <b>Operating margin</b>               |                                |          |                     |       |                              |           |                     |        |
| UnitedHealthcare                      | 6.6                            | % 7.5    | % (0.9 )            | %     | 6.2                          | % 7.8     | % (1.6 )            | %      |
| OptumHealth                           | 9.3                            | 6.1      | 3.2                 |       | 9.3                          | 5.4       | 3.9                 |        |
| OptumInsight                          | 20.1                           | 14.2     | 5.9                 |       | 19.7                         | 13.7      | 6.0                 |        |
| OptumRx                               | 2.7                            | 2.2      | 0.5                 |       | 2.5                          | 1.9       | 0.6                 |        |
| Total Optum                           | 6.1                            | 4.4      | 1.7                 |       | 6.0                          | 3.9       | 2.1                 |        |
| Consolidated operating margin         | 7.9                            | % 8.2    | % (0.3 )            | %     | 7.5                          | % 8.3     | % (0.8 )            | %      |

## UnitedHealthcare

The following table summarizes UnitedHealthcare revenue by business:

| (in millions, except percentages)                     | Three Months<br>Ended June 30, |          | Increase/(Decrease) |       | Six Months Ended<br>June 30, |          | Increase/(Decrease) |       |
|-------------------------------------------------------|--------------------------------|----------|---------------------|-------|------------------------------|----------|---------------------|-------|
|                                                       | 2013                           | 2012     | 2013 vs. 2012       |       | 2013                         | 2012     | 2013 vs. 2012       |       |
| UnitedHealthcare Employer & Individual                | \$11,161                       | \$11,578 | \$(417 )            | (4 )% | \$22,250                     | \$23,224 | \$(974 )            | (4 )% |
| UnitedHealthcare Medicare & Retirement <sup>(a)</sup> | 11,053                         | 9,807    | 1,246               | 13    | 22,233                       | 19,723   | 2,510               | 13    |
| UnitedHealthcare Community & State <sup>(a)</sup>     | 4,482                          | 4,093    | 389                 | 10    | 8,920                        | 8,033    | 887                 | 11    |
| UnitedHealthcare International                        | 1,636                          | 38       | 1,598               | nm    | 3,208                        | 69       | 3,139               | nm    |
| Total UnitedHealthcare revenue                        | \$28,332                       | \$25,516 | \$2,816             | 11 %  | \$56,611                     | \$51,049 | \$5,562             | 11 %  |

nm= not meaningful

In the fourth quarter of 2012, UnitedHealthcare reclassified 75,000 dually eligible enrollees to UnitedHealthcare

(a) Community & State from UnitedHealthcare Medicare & Retirement. Earlier periods presented have been conformed to reflect this change.



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The following table summarizes the number of individuals served by our UnitedHealthcare businesses, by major market segment and funding arrangement:

| (in thousands, except percentages) | June 30, |        | Increase/(Decrease) |   |       |
|------------------------------------|----------|--------|---------------------|---|-------|
|                                    | 2013     | 2012   | 2013 vs. 2012       |   |       |
| Commercial risk-based              | 8,130    | 9,345  | (1,215              | ) | (13)% |
| Commercial fee-based               | 19,030   | 17,075 | 1,955               |   | 11    |
| Commercial fee-based TRICARE       | 2,930    | —      | 2,930               |   | nm    |
| Total commercial                   | 30,090   | 26,420 | 3,670               |   | 14    |
| Medicare Advantage <sup>(a)</sup>  | 2,920    | 2,505  | 415                 |   | 17    |
| Medicaid <sup>(a)</sup>            | 3,940    | 3,875  | 65                  |   | 2     |
| Medicare Supplement (Standardized) | 3,365    | 3,075  | 290                 |   | 9     |
| Total public and senior            | 10,225   | 9,455  | 770                 |   | 8     |
| International                      | 4,685    | —      | 4,685               |   | nm    |
| Total UnitedHealthcare - medical   | 45,000   | 35,875 | 9,125               |   | 25%   |
| Supplemental Data:                 |          |        |                     |   |       |
| Medicare Part D stand-alone        | 4,800    | 4,230  | 570                 |   | 13%   |

nm= not meaningful  
<sup>(a)</sup> Earlier periods presented above have been recast such that all periods presented reflect the dually eligible enrollment change from Medicare Advantage to Medicaid discussed above.

Commercial risk-based membership decreased in 2013 primarily due to the conversion of 1.1 million risk-based members of our largest public sector client to a fee-based arrangement, as well as other funding conversions. Commercial fee-based membership increased due to these conversions as well as a number of new business awards and strong customer retention. On April 1, 2013, UnitedHealthcare Military & Veterans began service under the TRICARE West Region Managed Care Support Contract. The administrative services contract for health care operations added 2.9 million people and includes a transition period and five one-year renewals at the government's option. Medicare Advantage participation increased due to solid execution in product design, marketing and local engagement, which drove sales growth. Medicaid growth was due to a combination of winning new state accounts and growth within existing state customers, partially offset by the first quarter 2013 divestiture of our Medicaid business in South Carolina and a fourth quarter 2012 market withdrawal from one product in Wisconsin, which combined affected 235,000 Medicaid beneficiaries. Medicare Supplement growth was due to strong retention and new sales. In our Medicare Part D stand-alone business, membership increased primarily as a result of our repositioning in the market. International represents commercial membership in Brazil added as a result of the Amil acquisition in 2012.

UnitedHealthcare's revenue growth for the three and six months ended June 30, 2013 was primarily due to the impact of 2012 acquisitions and the growth in the number of individuals served, partially offset by the customer funding conversions discussed above, which represented more than \$600 million and \$1.2 billion in premium revenue in the three and six months ended June 30, 2012, respectively.

UnitedHealthcare's earnings from operations and operating margins for three and six months ended June 30, 2013 decreased compared to the prior year as operating margins were pressured by funding reductions in the Medicare & Retirement business and costs to implement TRICARE. The 2013 second quarter earnings from operations were positively impacted by an increase in favorable reserve development, while year-over-year earnings for the six months ended June 30, 2013 were negatively impacted due to the high level of favorable reserve development in the first quarter of 2012 and Part D timing.

**Optum**

Total revenues increased for the three and six months ended June 30, 2013 primarily due to broad-based organic growth across Optum's services portfolio led by pharmacy growth from the insourcing of UnitedHealthcare commercial customers and external clients.



Optum's earnings from operations and operating margin for the three and six months ended June 30, 2013 increased compared to 2012, reflecting progress on Optum's plan to accelerate growth and improve margins and productivity by strengthening integration and business alignment.

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The results by segment were as follows:

### OptumHealth

Revenue increases at OptumHealth for the three and six months ended June 30, 2013 were primarily due to market expansion, including growth related to 2012 acquisitions in clinical services and organic growth.

Earnings from operations and operating margins for the three and six months ended June 30, 2013 increased primarily due to revenue growth and productivity gains.

### OptumInsight

Revenues at OptumInsight for the three and six months ended June 30, 2013 increased primarily due to expansion in government services, payment integrity services and provider compliance offerings.

The increases in earnings from operations and operating margins for the three and six months ended June 30, 2013 reflect increased revenues, changes in product mix and continuing improvements in business alignment and efficiency.

### OptumRx

The increases in OptumRx revenues for the three and six months ended June 30, 2013 were due to the insourcing of our commercial pharmacy benefit programs, as described below, and growth in both UnitedHealthcare's Medicare Part D members and external membership.

OptumRx earnings from operations and operating margins for the three and six months ended June 30, 2013 increased primarily due to strong growth, pricing disciplines and further improvements in generic medication mix.

Over the course of 2013, we will continue to consolidate and manage our commercial pharmacy benefit programs from Express Scripts' subsidiary, Medco Health Solutions, Inc. As of July 31, 2013, OptumRx had transitioned approximately 8 million migrating and new members to the OptumRx platform. Overall, as a result of this transition OptumRx expects to add approximately 12 million members.

## LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES

### Liquidity

#### Introduction

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, investments, working capital balances and capital structure to meet the short- and long-term obligations of our businesses while seeking to maintain liquidity and financial flexibility. Cash flows generated from operating activities are principally from earnings before non-cash expenses.

Our regulated subsidiaries generate significant cash flows from operations and are subject to financial regulations and standards in their respective jurisdictions. These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each jurisdiction, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. In the United States, most of these regulations and standards are generally consistent with model regulations established by the National Association of Insurance Commissioners. Except in the case of extraordinary dividends, these standards generally permit dividends to be paid from statutory unassigned surplus of the regulated subsidiary and are limited based on the regulated subsidiary's level of statutory net income and statutory capital and surplus. These dividends are referred to as "ordinary dividends" and generally may be paid without prior regulatory approval. If the dividend, together with other dividends paid within the preceding twelve months, exceeds a specified statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an "extraordinary dividend" and must receive prior regulatory approval. In 2013, based on the 2012 statutory net income and statutory capital and surplus levels, the maximum amount of ordinary dividends which could be paid by our U.S. regulated subsidiaries to their parent companies was \$4.3 billion.

For the six months ended June 30, 2013, our regulated subsidiaries paid their parent companies dividends of \$2.0 billion, including \$230 million of extraordinary dividends. For the twelve months ended December 31, 2012, our regulated subsidiaries paid their parent companies dividends of \$4.9 billion, including \$1.2 billion of extraordinary dividends.

Our non-regulated businesses also generate cash flows from operations for general corporate use. Cash flows generated by these entities, combined with dividends from our regulated entities and financing through the issuance of

long term debt as well as issuance of commercial paper or drawings under our committed credit facilities, further strengthen our operating and financial flexibility. We use these cash flows to expand our businesses through acquisitions, reinvest in our businesses through

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capital expenditures, repay debt, and return capital to our shareholders through shareholder dividends and/or repurchases of our common stock, depending on market conditions.

## Summary of our Major Sources and Uses of Cash

| (in millions)                                                                                       | Six Months Ended June |          | Increase/(Decrease)<br>2013 vs. 2012 |
|-----------------------------------------------------------------------------------------------------|-----------------------|----------|--------------------------------------|
|                                                                                                     | 2013                  | 2012     |                                      |
| Sources of cash:                                                                                    |                       |          |                                      |
| Cash provided by operating activities                                                               | \$2,527               | \$5,771  | \$ (3,244 )                          |
| Proceeds from customer funds administered                                                           | 855                   | 1,108    | (253 )                               |
| Proceeds from common stock issuances                                                                | 314                   | 410      | (96 )                                |
| Proceeds from issuances of long-term debt and commercial paper, net of repayments                   | —                     | 995      | (995 )                               |
| Other                                                                                               | 37                    | —        | 37                                   |
| Total sources of cash                                                                               | 3,733                 | 8,284    |                                      |
| Uses of cash:                                                                                       |                       |          |                                      |
| Cash paid for acquisitions and noncontrolling interest shares, net of cash assumed and dispositions | (1,713 )              | (2,404 ) | 691                                  |
| Common stock repurchases                                                                            | (1,334 )              | (1,809 ) | 475                                  |
| Cash dividends paid                                                                                 | (497 )                | (386 )   | (111 )                               |
| Purchases of property, equipment and capitalized software, net                                      | (479 )                | (465 )   | (14 )                                |
| Purchases of investments, net of sales and maturities                                               | (300 )                | (534 )   | 234                                  |
| Other                                                                                               | (68 )                 | (537 )   | 469                                  |
| Total uses of cash                                                                                  | (4,391 )              | (6,135 ) |                                      |
| Effect of exchange rate changes on cash and cash equivalents                                        | (94 )                 | —        | (94 )                                |
| Net (decrease) increase in cash                                                                     | \$(752 )              | \$2,149  | \$ (2,901 )                          |

## 2013 Cash Flows Compared to 2012 Cash Flows

Cash flows provided by operating activities for 2013 decreased \$3.2 billion due to the favorable impact on 2012 operating cash flows from the early receipt of the July 2012 CMS payment, which included \$0.6 billion of payments that reduced accounts receivable, as well as our regular monthly premium payment of \$2.7 billion.

Cash flows used for investing activities decreased \$2.4 billion primarily due to decreased investments in acquisitions and a decrease in net purchases of investments.

Cash flows used for financing activities increased \$1.9 billion primarily due to (a) the acquisition of the remaining publicly traded shares of Amil during the second quarter of 2013, and (b) a decrease in net proceeds from commercial paper and long-term debt, as proceeds from 2013 debt issuances were fully offset by scheduled maturities and the redemption of all of our outstanding subsidiary debt. These factors that comparably increased cash usage were partially offset by (c) decreased common stock repurchases.

## Financial Condition

As of June 30, 2013, our cash, cash equivalent and available-for-sale investment balances of \$27.3 billion included \$7.7 billion of cash and cash equivalents (of which \$1.2 billion was available for general corporate use), \$18.8 billion of debt securities and \$768 million of investments in equity securities and venture capital funds. Given the significant portion of our portfolio held in cash equivalents, we do not anticipate fluctuations in the aggregate fair value of our financial assets to have a material impact on our liquidity or capital position. The use of different market assumptions or valuation methodologies, especially those used in valuing our \$283 million of available-for-sale Level 3 securities (those securities priced using significant unobservable inputs), may have an effect on the estimated fair value amounts of our investments. Due to the subjective nature of these assumptions, the estimates may not be indicative of the actual exit price if we had sold the investment at the measurement date. Other sources of liquidity, primarily from operating cash flows and our commercial paper program, which is supported by our bank credit facilities, reduce the need to sell investments during adverse market conditions. See Note 3 of Notes to the Condensed Consolidated Financial

Statements for further detail on our fair value measurements.

Our cash equivalent and investment portfolio had a weighted-average duration of 2.4 years and a weighted-average credit rating of “AA” as of June 30, 2013. Included in the debt securities balance was \$1.6 billion of state and municipal obligations

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that are guaranteed by a number of third parties. Due to the high underlying credit ratings of the issuers, the weighted-average credit rating of these securities with and without the guarantee was “AA” as of June 30, 2013. We do not have any significant exposure to any single guarantor (neither indirect through the guarantees, nor direct through investment in the guarantor). When multiple credit ratings are available for an individual security, the average of the available ratings is used to determine the weighted-average credit rating.

**Capital Resources and Uses of Liquidity**

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

**Commercial Paper.** We maintain a commercial paper borrowing program, which facilitates the private placement of unsecured debt through third-party broker-dealers. The commercial paper program is supported by the bank credit facilities described below. As of June 30, 2013, we had \$901 million of commercial paper outstanding at a weighted-average annual interest rate of 0.3%.

**Bank Credit Facilities.** We have \$3.0 billion five-year and \$1.0 billion 364-day revolving bank credit facilities with 21 banks, which mature in November 2017 and November 2013, respectively. These facilities provide liquidity support for our \$4.0 billion commercial paper program and are available for general corporate purposes. There were no amounts outstanding under these facilities as of June 30, 2013. The interest rates on borrowings are variable depending on term and are calculated based on the LIBOR plus a credit spread based on our senior unsecured credit ratings. As of June 30, 2013, the annual interest rates on both bank credit facilities, had they been drawn, would have ranged from 1.0% to 1.2%.

Our bank credit facilities contain various covenants, including requiring us to maintain a debt to debt-plus-equity ratio of not more than 50%. Our debt to debt-plus-equity ratio, calculated as the sum of debt divided by the sum of debt and shareholders’ equity, which reasonably approximates the actual covenant ratio, was 34.6% as of June 30, 2013. We were in compliance with our debt covenants as of June 30, 2013.

**Long-term Debt.** Periodically, we access capital markets and issue long-term debt for general corporate purposes, for example, to meet our working capital requirements, to refinance debt, to finance acquisitions or for share repurchases. In February 2013, we issued \$2.25 billion in senior unsecured notes, which included: \$250 million of floating-rate notes due August 2014, \$500 million of 1.625% fixed-rate notes due March 2019, \$750 million of 2.875% fixed-rate notes due March 2023 and \$750 million of 4.250% fixed-rate notes due March 2043.

**Credit Ratings.** Our credit ratings at June 30, 2013 were as follows:

|                       | Moody’s |          | Standard & Poor’s |         | Fitch   |         | A.M. Best |         |
|-----------------------|---------|----------|-------------------|---------|---------|---------|-----------|---------|
|                       | Ratings | Outlook  | Ratings           | Outlook | Ratings | Outlook | Ratings   | Outlook |
| Senior unsecured debt | A3      | Negative | A                 | Stable  | A-      | Stable  | bbb+      | Stable  |
| Commercial paper      | P-2     | n/a      | A-1               | n/a     | F1      | n/a     | AMB-2     | n/a     |

The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, debt covenants and other contractual restrictions, regulatory requirements and economic and market conditions. For example, a significant downgrade in our credit ratings or conditions in the capital markets may increase the cost of borrowing for us or limit our access to capital. We have adopted strategies and actions toward maintaining financial flexibility to mitigate the impact of such factors on our ability to raise capital.

**Share Repurchase Program.** Under our Board of Directors’ authorization, we maintain a share repurchase program. Repurchases may be made from time to time in open market purchases or other types of transactions (including prepaid or structured share repurchase programs), subject to certain Board restrictions. In June 2013, our Board renewed and expanded our share repurchase program with an authorization to repurchase up to 110 million shares of our common stock. As of June 30, 2013, we had Board authorization to purchase up to an additional 109 million shares of our common stock.

**Dividends.** In June 2013, our Board of Directors increased our cash dividend to shareholders to an annual dividend rate of \$1.12 per share, paid quarterly. Since June 2012, we had paid an annual dividend of \$0.85 per share, paid quarterly. Declaration and payment of future quarterly dividends is at the discretion of the Board and may be adjusted

as business needs or market conditions change.

Amil Tender Offer. We acquired all of Amil's remaining public shares for \$1.5 billion in the second quarter of 2013 bringing our ownership in Amil to 90%.

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**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2012 was disclosed in our 2012 10-K. During the six months ended June 30, 2013 there were no material changes to this previously-filed information outside the ordinary course of business. However, we continually evaluate opportunities to expand our operations, including internal development of new products, programs and technology applications and acquisitions.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

We have determined that there have been no recently issued, but not yet adopted, accounting standards that will have a material impact on our Condensed Consolidated Financial Statements.

**CRITICAL ACCOUNTING ESTIMATES**

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

Our critical accounting estimates include medical costs, revenues, goodwill and intangible assets, investments, income taxes and contingent liabilities. For a detailed description of our critical accounting estimates, see "Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our 2012 10-K. As of June 30, 2013, our critical accounting policies have not changed from those described in our 2012 10-K. For a detailed discussion of our significant accounting policies, see Note 2 of Notes to the Consolidated Financial Statements in our 2012 10-K.

**CONCENTRATIONS OF CREDIT RISK**

Investments in financial instruments such as marketable securities and accounts receivable may subject us to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our Board of Directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. government and agency securities, state and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups and other customers that constitute our client base. As of June 30, 2013, we had an aggregate \$1.9 billion reinsurance receivable resulting from the sale of our Golden Rule Financial Corporation life and annuity business in 2005. We regularly evaluate the financial condition of the reinsurer and only record the reinsurance receivable to the extent that the amounts are deemed probable of recovery. Currently, the reinsurer is rated by A.M. Best as "A+." As of June 30, 2013, there were no other significant concentrations of credit risk.

**FORWARD-LOOKING STATEMENTS**

The statements, estimates, projections, guidance or outlook contained in this report include "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). These statements are intended to take advantage of the "safe harbor" provisions of the PSLRA. Generally the words "believe," "expect," "intend," "estimate," "anticipate," "forecast," "plan," "project," "should" and similar expressions identify forward-looking statements, which generally are not historical in nature. These statements may contain information about financial prospects, economic conditions and trends and involve risks and uncertainties. We caution that actual results could differ materially from those that management expects, depending on the outcome of certain factors.

Some factors that could cause results to differ materially from results discussed or implied in the forward-looking statements include: our ability to effectively estimate, price for and manage our medical costs, including the impact of any new coverage requirements; the potential impact that new laws or regulations, or changes in existing laws or regulations, or their enforcement or application could have on our results of operations, financial position and cash



flows, including as a result of increases in medical, administrative, technology or other costs or decreases in enrollment resulting from U.S., Brazilian and other jurisdictions' regulations affecting the health care industry; the impact of any potential assessments for insolvent payers under state guaranty fund laws; the ultimate impact of the Patient Protection and Affordable Care Act, which could materially and adversely affect our results of operations, financial position and cash flows through reduced revenues, increased costs, new taxes and expanded liability, or require changes to the ways in which we conduct business or put us at risk for loss of business; potential reductions in revenue received from Medicare and Medicaid programs, including sequestration; uncertainties

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regarding changes in Medicare, including potential changes in risk adjustment data validation audit and payment adjustment methodology; failure to comply with patient privacy and data security regulations; regulatory and other risks and uncertainties associated with the pharmacy benefits management industry and our ability to successfully repatriate our pharmacy benefits management business; competitive pressures, which could affect our ability to maintain or increase our market share; the impact of challenges to our public sector contract awards; our ability to execute contracts on competitive terms with physicians, hospitals and other service professionals; increases in costs and other liabilities associated with increased litigation, government investigations, audits or reviews; failure to complete or receive anticipated benefits of acquisitions and other strategic transactions, including the Amil acquisition; our ability to attract, retain and provide support to a network of independent producers (i.e., brokers and agents) and consultants; events that may adversely affect our relationship with AARP; the potential impact of adverse economic conditions on our revenues (including decreases in enrollment resulting from increases in the unemployment rate and commercial attrition) and results of operations; the performance of our investment portfolio; possible impairment of the value of our goodwill and intangible assets in connection with dispositions or if estimated future results do not adequately support goodwill and intangible assets recorded for our existing businesses or the businesses that we acquire; increases in health care costs resulting from large-scale medical emergencies; failure to maintain effective and efficient information systems or if our technology products otherwise do not operate as intended; misappropriation of our proprietary technology; our ability to obtain sufficient funds from our regulated subsidiaries or the debt or capital markets to fund our obligations, to maintain our debt to total capital ratio at targeted levels, to maintain our quarterly dividend payment cycle or to continue repurchasing shares of our common stock; the impact of fluctuations in foreign currency exchange rates on our reported shareholders' equity and results of operations; potential downgrades in our credit ratings; and failure to achieve targeted operating cost productivity improvements, including savings resulting from technology enhancement and administrative modernization. This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain risk factors that may affect our business operations, financial condition and results of operations, in our other periodic and current filings with the SEC, including our 2012 10-K. Any or all forward-looking statements we make may turn out to be wrong, and can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. By their nature, forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed in this report or any of our prior communications. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update or revise any forward-looking statements, except as required by applicable securities laws.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market risks are exposures to (a) changes in interest rates that impact our investment income and interest expense and the fair value of certain of our fixed-rate investments and debt, (b) foreign currency exchange rate risk of the U.S. dollar primarily to the Brazilian real and (c) changes in equity prices that impact the value of our equity investments.

As of June 30, 2013, we had \$8.9 billion of cash, cash equivalents and investments on which the interest rates received vary with market interest rates, which may materially impact our investment income. Also, \$6.6 billion of our debt and deposit liabilities as of June 30, 2013 were at interest rates that vary with market rates, either directly or through the use of related interest rate swap contracts.

The fair value of certain of our fixed-rate investments and debt also varies with market interest rates. As of June 30, 2013, \$18.4 billion of our investments were fixed-rate debt securities and \$12.9 billion of our debt was non-swapped fixed-rate term debt. An increase in market interest rates decreases the market value of fixed-rate investments and fixed-rate debt. Conversely, a decrease in market interest rates increases the market value of fixed-rate investments and fixed-rate debt.

We manage exposure to market interest rates by diversifying investments across different fixed income market sectors and debt across maturities, as well as endeavoring to match our floating-rate assets and liabilities over time, either directly or periodically through the use of interest rate swap contracts.



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The following table summarizes the impact of hypothetical changes in market interest rates across the entire yield curve by 1% or 2% as of June 30, 2013 on our investment income and interest expense per annum, and the fair value of our investments and debt (in millions, except percentages):

| Increase (Decrease) in Market Interest Rate | June 30, 2013                   |                                | Fair Value of Investments (b) | Fair Value of Debt |
|---------------------------------------------|---------------------------------|--------------------------------|-------------------------------|--------------------|
|                                             | Investment Income Per Annum (a) | Interest Expense Per Annum (a) |                               |                    |
| 2 %                                         | \$178                           | \$131                          | \$(1,371 )                    | \$(2,211 )         |
| 1                                           | 89                              | 65                             | (701 )                        | (1,197 )           |
| (1)                                         | (46 )                           | (13 )                          | 644                           | 1,412              |
| (2)                                         | nm                              | nm                             | 1,032                         | 2,990              |

nm = not meaningful

(a) Given the low absolute level of short-term market rates on our floating-rate assets and liabilities as of June 30, 2013, the assumed hypothetical change in interest rates does not reflect the full 100 basis point reduction in interest income or interest expense as the rate cannot fall below zero and thus the 200 basis point reduction is not meaningful.

(b) As of June 30, 2013, some of our investments had interest rates below 2% so the assumed hypothetical change in the fair value of investments does not reflect the full 200 basis point reduction.

With the Amil acquisition, we have an exposure to changes in the value of the Brazilian real to the U.S. dollar in translation of Amil's operating results at the average exchange rate over the accounting period, and Amil's assets and liabilities at the spot rate at the end of the accounting period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars are included in shareholders' equity and comprehensive income.

An appreciation of the U.S. dollar against the Brazilian real reduces the carrying value of the net assets denominated in Brazilian real. For example, as of June 30, 2013, a hypothetical 10% increase in the value of the U.S. dollar against the Brazilian real would cause a reduction in net assets of \$460 million. We manage exposure to foreign currency risk by conducting our international business operations primarily in their functional currencies. We have funded certain cash needs of Amil through intercompany notes. At June 30, 2013, we had currency swaps with a total notional amount of \$256 million hedging the U.S. dollar to the Brazilian real to provide a cash flow hedge on the principal amount of intercompany notes to Amil.

As of June 30, 2013, we had \$768 million of investments in equity securities, including employee savings plan related investments of \$378 million and venture capital funds, a portion of which were invested in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will impact the value of our equity investments.

#### ITEM 4. CONTROLS AND PROCEDURES

##### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2013.

##### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

A description of our legal proceedings is included in and incorporated by reference to Note 9 of the Notes to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item

1A, "Risk Factors" of our 2012 10-K, which could materially affect our business, financial condition or future results. The risks

described in our 2012 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that

we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to the risk factors disclosed in our 2012 10-K.

## ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities (a)

Second Quarter 2013

| For the Month Ended | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under The Plans or Programs |
|---------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
|                     | (in millions)                    |                              | (in millions)                                                                    | (in millions)                                                                  |
| April 30, 2013      | 6                                | \$61                         | 6                                                                                | 70                                                                             |
| May 31, 2013        | 4                                | 62                           | 4                                                                                | 65                                                                             |
| June 30, 2013       | 3                                | 64                           | 3                                                                                | 109                                                                            |
| Total               | 13                               | \$62                         | 13                                                                               |                                                                                |

In November 1997, our Board of Directors adopted a share repurchase program, which the Board evaluates periodically. In June 2013, the Board renewed and expanded our share repurchase program with an authorization to repurchase up to 110 million shares of our common stock in open market purchases or other types of transactions (including prepaid or structured repurchase programs). There is no established expiration date for the program.

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ITEM 6. EXHIBITS \*

The following exhibits are filed in response to Item 601 of Regulation S-K.

- 3.1 Third Restated Articles of Incorporation of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 29, 2007)
- 3.2 Fourth Amended and Restated Bylaws of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 23, 2009)
- 4.1 Senior Indenture, dated as of November 15, 1998, between United HealthCare Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3/A, SEC File Number 333-66013, filed on January 11, 1999)
- 4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between the UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
- 4.3 Instrument of Resignation, Appointment and Acceptance of Trustee, dated January 8, 2007, pursuant to the Senior Indenture, dated November 15, 1998, amended November 6, 2000, among UnitedHealth Group Incorporated, The Bank of New York and Wilmington Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
- 4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)
- 12.1 Ratio of Earnings to Fixed Charges
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from UnitedHealth Group Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed on August 5, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.

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\* Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long-term debt are not filed. The Company will furnish copies thereof to the SEC upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITEDHEALTH GROUP INCORPORATED

|                                              |                                                                        |                       |
|----------------------------------------------|------------------------------------------------------------------------|-----------------------|
| /s/ STEPHEN J. HEMSLEY<br>Stephen J. Hemsley | President and Chief Executive Officer<br>(principal executive officer) | Dated: August 5, 2013 |
|----------------------------------------------|------------------------------------------------------------------------|-----------------------|

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|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| /s/ DAVID S. WICHMANN<br>David S. Wichmann | Executive Vice President and<br>Chief Financial Officer of UnitedHealth Group<br>and President of UnitedHealth Group Operations<br>(principal financial officer) | Dated: August 5, 2013 |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|

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| /S/ ERIC S. RANGEN<br>Eric S. Rangen | Senior Vice President and<br>Chief Accounting Officer<br>(principal accounting officer) | Dated: August 5, 2013 |
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EXHIBIT INDEX\*

The following exhibits are filed in response to Item 601 of Regulation S-K.

- 3.1 Third Restated Articles of Incorporation of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 29, 2007)
- 3.2 Fourth Amended and Restated Bylaws of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 23, 2009)
- 4.1 Senior Indenture, dated as of November 15, 1998, between United HealthCare Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3/A, SEC File Number 333-66013, filed on January 11, 1999)
- 4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between the UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
- 4.3 Instrument of Resignation, Appointment and Acceptance of Trustee, dated January 8, 2007, pursuant to the Senior Indenture, dated November 15, 1998, amended November 6, 2000, among UnitedHealth Group Incorporated, The Bank of New York and Wilmington Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
- 4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)
- 12.1 Ratio of Earnings to Fixed Charges
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from UnitedHealth Group Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed on August 5, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.

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\* Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long-term debt are not filed. The Company will furnish copies thereof to the SEC upon request.