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Jay M. Gellert
President and Chief Executive Officer

To Our Stockholders:

We are pleased to report on a successful 2010 for Health Net, Inc. While the world of health care was buffeted by the onset of health care reform and challenges from the economy, our ongoing focus on key strategic goals produced improved financial results and, we believe, kept us on a course that should drive even stronger performance in the future.

Our goals include the following:

- Support our broad and diverse businesses that include commercial, Medicare and Medicaid health plans in our Western Region Operations (Western Region) — Arizona, California, Oregon and Washington — and the TRICARE North Region contract along with a range of behavioral health services for our nation’s active duty military personnel;
- Invest in and support further operating efficiencies so that our general and administrative expenses are at the appropriate level to aid margin expansion and support growth;
- Continuously review our current businesses and growth opportunities to be certain we have an appropriate asset balance; and
- Consistently expand margins, strengthen the balance sheet and use our capital to drive improvement in stockholder value.

If we do these things day in and day out, we believe we will continue to meet our customers’ needs and provide you, our stockholders, with solid returns now and in the future.

FINANCIAL HIGHLIGHTS

Our diverse business base produced solid results in 2010. For the year, we earned \$2.06 per diluted share on a GAAP basis, while our Western Region and Government Contracts segments combined achieved \$2.60 in earnings per diluted share. Improved commercial margins were the primary driver of our earnings performance.

Our strong earnings performance supported solid operating cash flow of \$271 million for the full year, more than 1.3 times net income — what we believe is an important measure of earnings quality.

The cash flow performance, combined with additional proceeds from the 2009 sale of our Northeast operations, gave us the resources to repurchase 9.1 million shares for approximately \$237 million in 2010. At this time, we believe that share repurchase remains the best use of excess capital to improve stockholder value.

We continued to strengthen our balance sheet in 2010, and two important metrics bear this out. Debt-to-total capital declined by 7 percentage points to 19 percent at the end of 2010, down from 26 percent at the end of 2009. In addition, days in claims payable (DCP) increased by 7.5 days from December 31, 2009 to December 31, 2010. We believe that this increase in DCP underscores our appropriately solid reserve position given health care reform, the growth of our tailored network products and other factors.

Our risk-based capital levels are above 400 percent of authorized control levels, providing additional affirmation of our strong 2010 financial performance.

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HEALTH CARE REFORM

The world of health care changed substantively in 2010 when, in March, President Barack Obama signed the Affordable Care Act (ACA). Its provisions represent the most sweeping changes to health care since the establishment of Medicare and Medicaid in 1965.

In many ways, the ACA's broad range of new regulatory and other requirements will fundamentally alter the way the health insurance industry operates. At Health Net, we are devoting significant resources to implementing the ACA's new requirements. Some we have already implemented, while others will be required over the next few years.

The economic challenges facing the United States also have driven change. Health Net's successful response to these challenges helped drive improved performance in 2010.

WESTERN REGION COMMERCIAL HEALTH PLANS

Health Net's commercial enrollment was approximately 1.4 million members at the end of 2010, a decline of 4 percent from the end of 2009.

The ongoing challenges arising from persistent economic pressures are creating greater focus on the affordability of health plans. Businesses want to maintain comprehensive health benefits for their employees. However, high health care cost inflation continues to pressure businesses of every size in their quest to meet this fundamental need.

In 2010, Health Net made further noteworthy progress in addressing this concern as the company's tailored network, health maintenance organization (HMO) products grew yet again, gaining share in the small group HMO market despite economic headwinds that included persistently high

unemployment in our Western Region markets. This growth helped produce enrollment stability in the second half of the year and lay the groundwork for what we believe will be a successful 2011.

Our tailored network plans combine comprehensive benefits, increased affordability compared to our traditional HMO products, and broad networks of physicians and hospitals. These networks are based on strong relationships with select providers who demonstrate an optimal combination of quality and cost effectiveness.

At the end of 2010, enrollment in Health Net's tailored network plans represented 23 percent of total commercial enrollment compared with 19 percent at the end of 2009.

While these plans were originally designed for customers in the small group market, we believe they also will help answer the needs of large group customers. They can be as much as 50 percent less costly than comparable preferred provider organization health plans.

WESTERN REGION MEDICARE ADVANTAGE AND PART D PRESCRIPTION DRUG PLANS

Similar to our commercial focus, our Medicare Advantage (MA) strategy is to provide seniors with comprehensive benefits at affordable prices. In fact, in 30 of the 41 counties in our Western Region where we offer MA plans, we do not charge members a supplemental premium, yet include benefits that are more generous than those in the traditional Medicare program.

In 2010, we focused on carefully matching these benefits and premiums to help meet the needs of our members and achieve stable financial performance.

TAILORED NETWORK PLANS ENROLLMENT

% of Total Western Region Operations Membership (As of December 31)

2010	23%
2009	19%
2008	15%
2007	13%



In November 2010, we received notice from the Centers for Medicare & Medicaid Services (CMS) that the company's Medicare operations were being sanctioned due to certain issues related to our compliance with certain Medicare Part D regulations. We are actively working with CMS to address its concerns.

WESTERN REGION MEDICAID PLANS

In 2010, we enhanced our strong position as a leader in the California Medicaid market. California's Medicaid program, known as Medi-Cal, is one of the lowest cost Medicaid programs in the United States.

Membership in our Medi-Cal and other state programs increased by 5 percent in 2010 as the economic environment increases the number of those eligible for the program.

As with our commercial and Medicare plans, we believe that our close provider partnerships are an integral part of our success.

GOVERNMENT CONTRACTS

In May 2010, we were awarded the new TRICARE North Region contract. Health care delivery under the new contract is scheduled to begin on April 1, 2011. This award continues our service to military families and retirees — service that began in 1988.

Our demonstrated expertise in TRICARE has helped us diversify our presence in other government programs. In 2010, we expanded our efforts to meet the behavioral health needs of our men and women in uniform through the Military & Family Life Consultant program.

In addition, we added other contracts serving the Veterans Administration and entered the market for correctional health services in 2010. These new contracts, though small, are important steps to further diversify our business base.

CONCLUSION

We are very pleased that 2010 was a successful year for Health Net. We produced solid progress on many fronts. There is more to be done. We must continue to support our affordable commercial plans. We want to ensure stable performance in our range of government programs, and we need to constantly strive for greater levels of efficiency.

As we look back on 2010, we also remember a long-time board member, Thomas T. Farley, who passed away in August. Tom Farley always provided valued counsel in his more than 15 years on the board. He will be missed.

We look forward to 2011 and the years to come, sobered by the challenges presented by health care reform and the economy, yet buoyed by the success of 2010. We believe our position is sound, our strategy wise and our commitment to stockholder value unwavering.

Thank you to all our stockholders for your support over the years. We believe that the best years lie ahead for Health Net.

Sincerely,

Jay Gellert
President and Chief Executive Officer

April 4, 2011