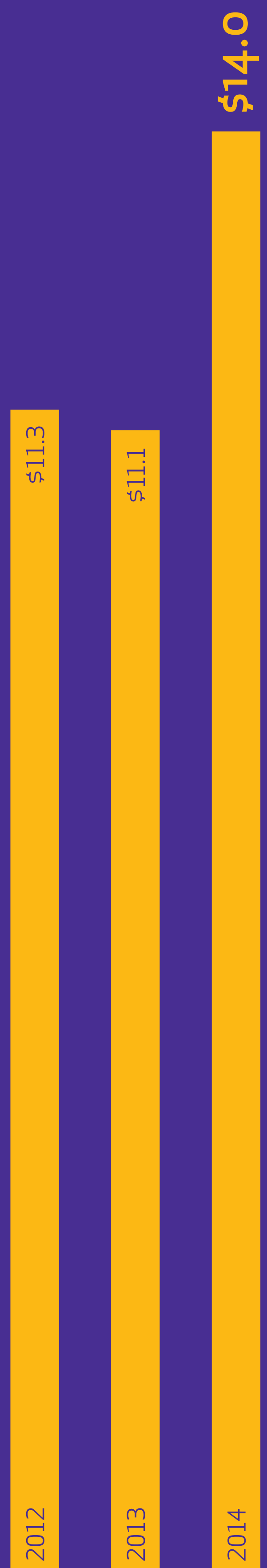


TOTAL REVENUES (In billions)

2014: A YEAR OF TRANSFORMATION

To Our Stockholders:

We are very pleased to report on an excellent 2014. We set aggressive goals for 2014, and together we achieved them.

2014 HIGHLIGHTS

Health Net experienced remarkable growth in 2014. This growth was primarily due to changes arising from the implementation of the Affordable Care Act (ACA). These changes drove robust membership gains and brought health care coverage to thousands of new members in Arizona and California.

Our growth also drove excellent financial performance.

We exceeded our combined Western Region Operations and Government Contracts segments diluted earnings per share expectations while absorbing the full effect of approximately $240 million in incremental fees related to the implementation of the ACA.

We experienced better-than-expected growth in Medicaid enrollment, propelled in large part by the Medicaid expansion population—a direct result of the ACA.

Our California state settlement account went from a deficit to a surplus, a reflection of strong Medicaid performance and further affirmation that the settlement agreement is working as intended.

Our individual commercial market position was transformed by our profitable growth in the ACA exchanges, particularly the California exchange, Covered California.

We believe our success is linked to our extensive use of provider risk-based arrangements. More than 80 percent of our members were covered by risk-based contracts with providers in 2014. We believe this is well above the industry average and above targets set by national organizations such as the Centers for Medicare & Medicaid Services and others for the end of this decade.

We believe our leadership in these contracting methods could pave the way for potential expansion opportunities if, as expected, risk-based contracting becomes more prevalent nationally as a result of the ACA.

Our administrative expenses as a percentage of health plan premiums declined. In November 2014, we entered into a master services agreement with a wholly owned subsidiary of Cognizant Technology Solutions Corporation (Cognizant) that, subject to required regulatory approval, has the potential to give us scale parity with much larger plans while enhancing our product and service capabilities. We expect to receive required regulatory approvals in the first half of 2015.

In 2014, two issues didn't go as well as anticipated.

First, Medicare enrollment grew, but margins were not as we had planned. In response, we exited underperforming plans in 2015 and put renewed focus on our strongest geographies.

Second, we launched our dual eligibles demonstration programs in Los Angeles and San Diego counties in 2014, but enrollment did not meet expectations because of higher-than-expected opt-out rates among potential enrollees. There are numerous initiatives under discussion to address this issue in 2015.

FINANCIAL REVIEW

In 2014, revenues rose approximately 27 percent to $14.0 billion, primarily driven by Medicaid and commercial enrollment growth.

For 2014, our GAAP earnings per diluted share were $1.80 compared with $2.12 per diluted share in 2013. The decline was primarily caused by $185.3 million in cash and non-cash expenses primarily incurred in connection with our entrance into the master services agreement with Cognizant in November 2014.

Our 2014 earnings per diluted share from our combined Western Region and Government Contracts segments were $2.32, an increase of approximately 5 percent from the $2.21 per diluted share earned by these segments in 2013.

Total General and Administrative expenses were higher in 2014 compared with 2013, primarily because of premium taxes, the health insurer fee and other ACA-related fees.

In 2014, however, our Administrative Expense ratio improved by 140 basis points compared with 2013. Administrative expenses do not include premium taxes, the health insurer fee and other ACA-related fees.

We are pleased that we were able to achieve this improvement even before we begin the implementation of our new Cognizant agreement.

Our operating cash flow in 2014 benefited from our rapid enrollment and revenue growth in 2014, and includes the impact of new risk-sharing arrangements.

Days claims payable (DCP) increased by more than 50 percent in 2014, reaching 61.2 days. Adjusted DCP[1] was 77.2 days in 2014, also a substantial increase over the comparable 2013 amount. DCP and adjusted DCP rose primarily because of higher claims reserves, a positive reflection of our rapid enrollment growth and the impact of the ACA reinsurance program.

With our overall strong financial performance as a backdrop, in 2014 we repurchased 3 million shares of our common stock for $137.8 million at an average price of $45.92 per share.

Medicaid

The most compelling growth in 2014 came from our Medicaid health plans, primarily from the expansion of Medicaid eligibility to those from households with incomes up to 133 percent of the Federal Poverty Level. Medicaid expansion is one of the central features of the ACA.

Medicaid enrollment grew by 50 percent in 2014 as we added approximately 560,000 new members in California and Arizona. In 2014, Medicaid premium revenues climbed by approximately 96 percent to approximately $4.8 billion. In the fourth quarter of 2014, Health Net's Medicaid premium revenues exceeded our commercial premium revenues for the first time in the company's history.

Medicaid expansion wasn't the sole source of growth, however. More than one-third of 2014's enrollment growth came from traditional members who qualify for the Temporary Assistance to Needy Families (TANF) program.

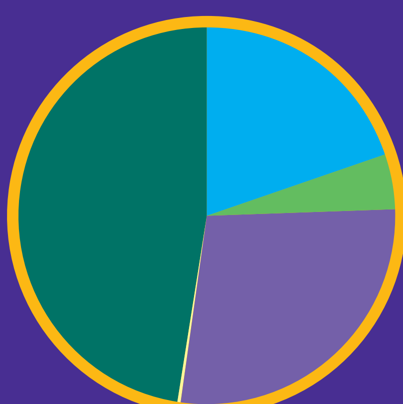
Lastly on Medicaid, the balance of our state settlement account at the end of 2014 was in a $53.4 million surplus position. This surplus results in no receivable or payable as of December 31, 2014—consistent with the terms of the agreement.

[1]See page 73 of the December 31, 2014 Annual Report on Form 10-K for a reconciliation of this information to the comparable GAAP financial measure.

275,000
NEW EXCHANGE MEMBERS

559,000
NEW MEDICAID MEMBERS

713,000
NEW MEMBERS IN 2014

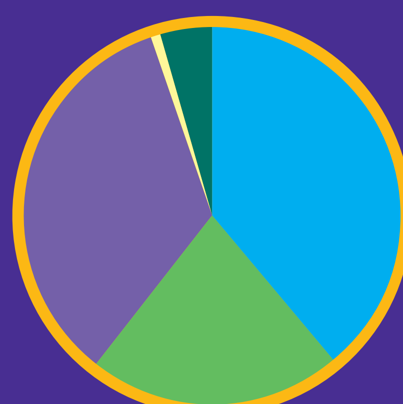


HEALTH NET MEMBERSHIP

(as of December 31, 2014)

TOTAL: 5,996,000

●	COMMERCIAL	20%
●	MEDICARE	5%
●	MEDICAID	28%
●	DUALS	<1%
●	TRICARE	47%



HEALTH PLAN SERVICES PREMIUMS AND GOVERNMENT CONTRACTS REVENUE CONTRIBUTION

(as of December 31, 2014)

●	COMMERCIAL	39%
●	MEDICARE	22%
●	MEDICAID	34%
●	DUALS	1%
●	GOVERNMENT CONTRACTS	4%

19%

MARKET SHARE IN CALIFORNIA FOR INDIVIDUAL EXCHANGE MEMBERSHIP

32%

MARKET SHARE IN SOUTHERN CALIFORNIA

Commercial

Let's now turn to the commercial market where our participation in the new ACA exchanges helped transform Health Net's position in both the individual market and the commercial market as a whole.

In 2014, we more than doubled our individual commercial enrollment in the Western Region, ending the year with 332,000 individual members. At December 31, 2014, approximately 82 percent of these members were enrolled through the Arizona and California exchanges, with the balance in off-exchange plans.

Approximately 65 percent of our total exchange membership is in subsidized Silver plans, consistent with our exchange strategy. We believe these plans are among the most affordable on the exchanges.

We continue to see greater participation in our tailored network plans. In these plans, we closely partner with those providers who share our commitment to quality and affordability. Tailored network plans played an essential role in our success on the exchanges. Overall, at the end of 2014, approximately 50 percent of our commercial members were in tailored network products compared with 37.5 percent at the end of 2013.

Our exchange success drove overall commercial enrollment higher by approximately 10 percent in 2014, despite declines in our group business. Commercial premium revenues rose approximately 5 percent in 2014 to $5.4 billion.

The commercial MCR in 2014 was 260 basis points better than in 2013. We believe this was due to the health insurer fee driving premium revenue higher and our enrollment growth coming from the individual exchanges, where MCRs are lower than our overall commercial average.

“As we look back at 2014, we are gratified that we met the many challenges presented by the remarkable growth we experienced.”

Jay M. Gellert

Medicare
In 2014, Medicare Advantage enrollment rose approximately 13 percent, driving Medicare premium revenues higher by 9.8 percent.

The Medicare MCR was 90 basis points higher in 2014 compared with 2013, primarily as a result of rate pressure and higher fourth quarter utilization due to an early flu season and higher utilization among members in plans we decided to discontinue for 2015.

Dual Eligibles
The launch of our participation in the dual eligibles demonstration programs in Los Angeles and San Diego counties went well, but we ended 2014 with enrollment at approximately 16,000 members—below our expectations. Dual eligibles revenues for 2014 were $117.9 million.

Dual eligible members, or those who receive benefits from both Medicare and Medicaid, were passively enrolled in San Diego County beginning in May and in Los Angeles County beginning in July. Prospective members have the choice to opt out of the demonstrations. If they opt out, managed care health plans, including Health Net, may provide such enrollees with benefits, including Long-Term Services and Supports (LTSS). At the end of 2014, approximately 70,000 of Health Net’s Medicaid members were receiving incremental LTSS benefits.

The opt-out rates were higher than expected. Many parties—health plans, providers and relevant government entities—involved in managing and funding these demonstrations are working to find solutions to help reduce these opt-out rates in the future.

Government Contracts
Government Contracts revenue rose by approximately 6 percent in 2014 to approximately $604 million.

Profitability declined due to an adjustment to health care cost trend incentive and start-up costs related to new work for the Department of Veterans Affairs (VA).

We believe our current work with VA could produce significant new business opportunities in the future.

CONCLUSION

As we look back at 2014, we are gratified that we met the many challenges presented by the remarkable growth we experienced.

We also are mindful of the challenges that remain. We are determined to become more efficient to ensure that we can compete effectively in the years ahead.

We know we must continue to meet the expectations of all our members for quality and affordable care.

Lastly, we must continue to meet our obligations to you, our stockholders, to strive to increase stockholder value by staying true to our mission.

Thank you for your support. Let’s all look forward, with confidence, to more success in 2015 and beyond.

Jay Gellert

Jay M. Gellert
President and Chief Executive Officer

March 25, 2015