MCKNIGHT TINA D
Form 4
May 02, 2012

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
MCKNIGHT TINA D
(Last) (First) (Middle)
740 CALLE PLANO
(Street)
CAMARILLO, CA 93012
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
POWER ONE INC [PWER]

3. Date of Earliest Transaction (Month/Day/Year)
04/30/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP Gen. Counsel and Secretary

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/30/2012		A		24,000 (1)	A	$ 0	208,504	D	
Common Stock	04/30/2012		A		20,400 (2)	A	$ 0	228,904	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option	$ 4.27	04/30/2012		A		101,000		(3)	04/30/2022	Common Stock	101,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MCKNIGHT TINA D 740 CALLE PLANO CAMARILLO, CA 93012			SVP Gen. Counsel and Secretary	

Signatures

Tina D. McKnight	05/02/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents Restricted Stock Units that vest in three equal annual installments on the first, second, and third anniversaries of the April 30, 2012 award date.

(2) Represents Restricted Stock Units that vest in four equal annual installments on the first, second, third and fourth anniversaries of the April 30, 2012 award date.

(3) Represents Stock Options that vest in three equal annual installments on the first, second, and third anniversaries of the April 30, 2012 award date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Supporting remaining products
9.2 4.5 14.7 4.7

Total impaired loans(1)
$50.9 $11.4 $174.3 $25.5

(1)

Includes impaired loans at December 31, 2002 and 2001 of $31.3 million and $60.2 million, respectively, for which no specific reserves are considered necessary.

The activity in the specific and general mortgage loan impairment reserves for the periods indicated is summarized below:

(millions)	Supporting Discontinued Products	Supporting Experience-Rated Products	Supporting Remaining Products	Total
Balance at December 31, 1999	$ 28.9	$13.6	$ 3.4	$ 45.9
Principal write-offs	(.5)	(.8)	(.6)	(1.9)
Balance at December 31, 2000	$ 28.4	$12.8	$ 2.8	$ 44.0
Provision (charged to realized capital loss)	.2		5.4	5.6
Principal write-offs	(13.7)	(.4)	(2.9)	(17.0)
Balance at December 31, 2001(1)	$ 14.9	$12.4	$ 5.3	$ 32.6
Provision (charged to realized capital loss)		.3	.3	.6
Recoveries of previously charged off amounts	(6.2)	(4.5)	(.7)	(11.4)
Principal write-offs	(8.7)	(1.3)	(.4)	(10.4)
Balance at December 31, 2002(1)	$	$ 6.9	$ 4.5	$ 11.4

(1) Total reserves at December 31, 2001 include $25.5 million of specific reserves and $7.1 million of general reserves. There was no general reserve at December 31, 2002.

Income earned (pretax) and cash received on the average recorded investment in impaired loans for the years ended December 31 were as follows:

	2002			2001			2000		
(millions)	Average Impaired Loans	Income Earned	Cash Received	Average Impaired Loans	Income Earned	Cash Received	Average Impaired Loans	Income Earned	Cash Received
Supporting discontinued products	$20.4	$1.6	$1.6	$118.1	$10.6	$12.2	$149.9	$ 9.4	$ 8.7
Supporting experience-rated products	41.1	2.9	2.6	44.7	3.9	4.3	65.3	6.0	6.0
Supporting remaining products	13.4	.8	.6	29.6	1.6	3.0	42.1	9.6	9.8
Total	$74.9	$5.3	$4.8	$192.4	$16.1	$19.5	$257.3	$25.0	$24.5

Significant non-cash investing and financing activities include the acquisition of real estate through foreclosures of mortgage loans amounting to $7 million and $20 million for 2002 and 2001, respectively. There were also certain significant noncash activities related to the Transaction. (Refer to Note 21.)

8. Financial Instruments

Estimated Fair Value

The carrying values and estimated fair values of certain of the Company s financial instruments at December 31, 2002 and 2001 were as follows:

	2002		2001	
(millions)	Cost Basis/ Carrying Value	Estimated Fair Value	Cost Basis/ Carrying Value	Estimated Fair Value
Assets:				
Debt securities	$14,170.9	$15,074.8	$14,476.6	$14,745.7
Equity securities	91.3	93.2	234.3	242.1
Mortgage loans	1,773.2	1,806.2	2,045.0	2,071.7
Derivatives	82.9	82.9	14.4	14.4
Liabilities:				
Investment contract liabilities:				
With a fixed maturity	887.4	904.5	1,365.3	1,386.7
Without a fixed maturity	765.5	675.0	793.0	678.0
Derivatives			4.0	4.0
Long-term debt	1,633.2	1,769.0	1,591.3	1,571.1

Fair value estimates are made at a specific point in time, based on available market information and judgments about a given financial instrument, such as estimates of timing and amount of future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument, and do not consider the tax impact of the realization of unrealized capital gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, and the disclosed value cannot be realized upon immediate settlement of the instrument. In evaluating the Company s management of interest rate, price and liquidity risks, the fair values of all financial instruments are taken into consideration.

The following valuation methods and assumptions were used by the Company in estimating the fair value of the financial instruments included in the table above:

Debt and equity securities: Fair values are based on quoted market prices or dealer quotes. Non-traded debt securities are priced independently by a third party vendor and non-traded equity securities are priced based on an internal analysis of the investment s financial statements and cash flow projections. Cost for mortgage-backed securities is adjusted for unamortized premiums and discounts, which are amortized using the interest method over the estimated remaining term of the securities, adjusted for anticipated prepayments and any collateral shortfall issues.

Mortgage loans: Fair values are estimated by discounting expected mortgage loan cash flows at market rates that reflect the rates at which similar loans would be made to similar borrowers. These rates reflect management s assessment of the credit quality and the remaining duration of the loans. The fair value estimates of mortgage loans of lower credit quality, including problem and restructured loans, are based on the estimated fair value of the underlying collateral.

Derivatives: Fair values are estimated based on quoted market prices, dealer quotes or internal price estimates believed to be comparable to dealer quotes.

Investment contract liabilities:

With a fixed maturity: Fair value is estimated by discounting cash flows at interest rates currently being offered by, or available to, the Company for similar contracts.

Without a fixed maturity: Fair value is estimated as the amount payable to the contractholder upon demand. However, the Company has the right under such contracts to delay payment of withdrawals that may ultimately result in paying an amount different than that determined to be payable on demand.

Long-term debt: Fair values are based on quoted market prices for the same or similar issued debt or, if no quoted market prices were available, on the current rates estimated to be available to the Company for debt of similar terms and remaining maturities.

Derivative Financial Instruments

The Company is using interest rate swap agreements to manage certain exposures related to changes in interest rates on investments supporting experience-rated and discontinued products in the Large Case Pensions business. The use of these derivatives does not impact the Company s results of operations.

In December 2002, the Company entered into an interest rate swap agreement to convert the fixed rate of 8.5% on $200 million of its senior notes to a variable rate of three-month LIBOR plus 254.0 basis points (approximately 3.95% at December 31, 2002). In December 2001, the Company entered into an interest rate swap agreement to convert the fixed rate of 8.5% on $350 million of its senior notes to a variable rate of three-month LIBOR plus 159.5 basis points (approximately 3.02% at December 31, 2002). As a result of these swap agreements, the Company s effective interest rate on its long-term debt was 6.99% during 2002. The change in the fair value of the interest rate swaps and the loss or gain on the hedged senior notes attributable to the hedged interest rate risk are recorded in current period earnings. Because the terms of the interest rate swap agreements match the terms of the senior notes, the gain or loss on the swaps and the senior notes will generally be offsetting (no material change in value occurred during the periods ended December 31, 2002 or 2001). The swap agreements contain bilateral credit protection covenants which, depending on credit ratings, obligate each party to post collateral equal to the fair value of the swap. As of February 26, 2003, the Company was not required to post collateral for the $350 million interest rate swap, but did post $2 million for the $200 million interest rate swap.

During the first quarter of 2001, the Company expected to issue approximately $1 billion of five- and ten-year fixed-rate debt securities to replace a portion of its outstanding commercial paper. Prior to the transaction, the Company s risk management objective was to secure financing based on the then five- and ten-year U.S. Treasury rates. Accordingly, the Company entered into certain forward contracts on U.S. Treasury securities prior to the actual issuance of long-term debt of approximately $900 million, which were designated as cash flow hedges in anticipation of the debt offering and determined to be highly effective under the Company s accounting policy.

Upon issuance of the long-term debt (refer to Note 15) and termination of these forward contracts, the Company recognized a loss of approximately $5 million pretax related to these derivatives, which is included in accumulated other comprehensive income. During 2002 and 2001, the amount of the loss that was reclassified from accumulated other comprehensive income and recognized as part of interest expense was not material.

9. Net Investment Income

Sources of net investment income were as follows:

(millions)	2002	2001	2000
Debt securities	$ 954.4	$1,104.8	$1,161.6
Mortgage loans	224.0	184.9	208.2
Other	115.4	147.8	189.9
Investment real estate(1)	66.6	62.8	63.8
Cash equivalents	28.3	26.2	26.7
Equity securities	14.6	2.3	6.8
Other investment securities	14.6	69.9	104.7
Gross investment income	1,417.9	1,598.7	1,761.7
Less: investment expenses	167.2	187.1	130.1
Net investment income(2)	$1,250.7	$1,411.6	$1,631.6

(1) Includes $16.4 million and $14.0 million from real estate held for sale during 2001 and 2000, respectively.

(2) Includes amounts related to experience-rated contractholders of $221.5 million, $237.5 million and $293.6 million during 2002, 2001 and 2000, respectively. Interest credited to contractholders is included in current and future benefits.

10. Capital Gains and Losses on Investments and Other

Net realized capital gains (losses), excluding amounts related to experience-rated contractholders and discontinued products, on investments were as follows:

(millions)	2002	2001	2000
Debt securities	$ 25.6	$ 30.6	$(110.3)
Equity securities	(15.1)	(.6)	15.7
Mortgage loans	4.8	29.8	.7
Investment real estate	(10.5)	(4.7)	(.2)
Sales of subsidiaries(1)	46.0	59.0	78.8
Other	(16.5)	(18.0)	(24.8)
Pretax realized capital gains (losses)	$ 34.3	$ 96.1	$ (40.1)
After-tax realized capital gains (losses)	$ 22.3	$ 73.6	$ (14.2)

(1) Includes a pretax realized capital gain of approximately $60.0 million in 2002, 2001 and 2000 related to contingent consideration earned by the Company following the sale of its behavioral health subsidiary, Human Affairs International, in 1997.

Net realized capital gains (losses) of $8 million, $11 million and $(44) million for 2002, 2001 and 2000, respectively, related to experience-rated contractholders were deducted from net realized capital gains (losses) and an offsetting amount was reflected in policyholders funds. Net realized capital gains (losses) of $(58) million, $19 million and $(31) million for 2002, 2001 and 2000, respectively, related to discontinued products were deducted from net realized capital gains (losses) and an offsetting amount was reflected in the reserve for anticipated future losses on discontinued products.

Proceeds from the sale of debt securities and the related gross gains and losses were as follows:

(millions)	2002	2001	2000
Proceeds on sales	$15,679.9	$17,561.8	$13,093.9
Gross gains	225.2	225.6	70.2
Gross losses	129.0	133.5	120.8

Changes in shareholders equity related to changes in accumulated other comprehensive income (loss) (excluding those related to experience-rated contractholders and discontinued products) were as follows:

(millions)	2002	2001	2000
Net unrealized gains on debt securities	$ 339.0	$ 109.3	$ 543.4
Net unrealized losses on equity securities and other	(7.6)	(52.1)	(152.8)
Foreign currency	.7	(1.1)	(39.9)
Derivatives	.6	(4.8)	
Minimum pension liability adjustment	(1,161.8)		
Subtotal	(829.1)	51.3	350.7
Less: changes in deferred income taxes	290.2	(17.9)	74.4
Subtotal	(538.9)	33.4	276.3
Sale and spin-off transaction			414.4
Net changes in accumulated other comprehensive income (loss)	$ (538.9)	$ 33.4	$ 690.7

Shareholders equity included the following accumulated other comprehensive income (loss) (excluding amounts related to experience-rated contractholders and discontinued products) at December 31:

(millions)	2002	2001
Debt securities:		
Gross unrealized capital gains	$ 477.3	$ 211.2
Gross unrealized capital losses	(35.8)	(108.7)
Net unrealized capital gains on debt securities	441.5	102.5
Equity securities and other:		
Gross unrealized capital gains	12.3	27.8
Gross unrealized capital losses	(20.0)	(27.9)
Net unrealized capital losses on equity securities and other	(7.7)	(.1)
Foreign currency	8.5	7.8
Derivatives	(4.2)	(4.8)
Minimum pension liability adjustment	(1,161.8)	
Deferred income taxes	253.3	(36.9)
Net accumulated other comprehensive income (loss)	$ (470.4)	$ 68.5

Changes in accumulated other comprehensive income (loss) related to changes in unrealized gains (losses) on securities (excluding those related to experience-rated contractholders and discontinued products) were as follows:

(millions)	2002	2001	2000

Net unrealized holding gains arising during the period(1)	$214.9	$76.7	$293.0
Less: reclassification adjustment for gains (losses) and other items included in net income (loss)(2)	(.5)	39.5	(23.2)
Net unrealized gains on securities	$215.4	$37.2	$316.2

(1) Pretax net unrealized holding gains arising during the period were $330.6 million, $118.0 million and $450.8 million for 2002, 2001 and 2000, respectively.

(2) Pretax reclassification adjustments for gains (losses) and other items included in net income were $(.8) million, $60.8 million and $(35.7) million for 2002, 2001 and 2000, respectively.

11. Severance and Facilities Charges

In the fourth quarter of 2001, the Company recorded an after-tax severance and facilities charge of $125 million ($193 million pretax) related to the implementation of initiatives intended to improve the Company s overall future performance (the 2001 Charge). These initiatives included reductions to operating expenses, reorganization and realignment of Health Care operations to better align our business resources with our customer market-focused approach, business process improvements, product market withdrawals, continued migration off the Prudential health care systems and vacating certain facilities (primarily customer service related locations). The 2001 Charge consisted of two types of costs: those related to actions under a plan for the involuntary termination of employees and those related to an exit plan with respect to certain leased facilities. The severance portion of $130 million pretax was based on a plan to eliminate 4,395 positions (primarily customer service and regional field management functions). The facilities portion of $63 million pretax represented the present value of the difference between rent required to be paid by the Company and future sublease rentals expected to be received by the Company related to certain leased facilities, or portions of such facilities, that were vacated. Severance actions and the vacating of leased facilities relating to the 2001 Charge, as aligned to better reflect service operations consistent with the Company s customer market approach, were completed as of December 31, 2002. The remaining lease payments (net of expected sublease rentals) on these vacated facilities are payable over approximately the next six years.

In the second quarter of 2002, the Company recorded an after-tax severance charge of $18 million ($27 million pretax) related to the implementation of ongoing initiatives intended to improve the Company s overall future performance (the Second Quarter 2002 Charge). The initiatives included further reductions to operating expenses and the continued reorganization and realignment of Health Care operations. This charge consisted of costs that related to actions under a plan of involuntary termination of employees and included the elimination of approximately 600 employee positions (primarily regional field management, information technology and medical service functions). Severance actions related to the Second Quarter 2002 Charge were substantially completed by December 31, 2002.

In the third quarter of 2002, the Company recorded an after-tax severance and facilities charge of $58 million ($89 million pretax) related to the implementation of ongoing initiatives intended to improve the Company s overall future performance (the Third Quarter 2002 Charge). These initiatives included further reductions to operating expenses and the continued reorganization and realignment of Health Care and Group Insurance operations. This charge consisted of two types of costs: those that relate to actions under a plan for the involuntary termination of approximately 2,750 employee positions (primarily customer service, plan sponsor services, patient management, sales, network management and certain Group Insurance related positions) representing approximately $81 million pretax of this charge and those actions that relate to an exit plan with respect to certain leased facilities representing approximately $8 million pretax of this charge. The facilities portion represents the present value of the difference between rent required to be paid by the Company and future sublease rentals expected to be received by the Company related to certain leased facilities, or portions of such facilities, that will be vacated. Severance actions and the vacating of leased facilities relating to the Third Quarter Charge 2002 are expected to be completed by September 30, 2003. The remaining lease payments (net of expected sublease rentals) on these vacated facilities are payable over approximately the next seven years.

In the fourth quarter of 2002, the Company recorded an after-tax severance and facilities charge of $29 million ($45 million pretax) related to the implementation of ongoing initiatives intended to improve the Company s overall future performance (the Fourth Quarter 2002 Charge). These initiatives include further reductions to operating expenses and the continued reorganization and realignment of Health Care and Group Insurance operations. This charge consists of two types of costs: those that relate to actions under a plan for the involuntary termination of approximately 680 employee positions (primarily customer service, information technology and certain Group Insurance related positions) representing approximately $31 million pretax of this charge and those actions that relate to an exit plan with respect to certain leased facilities representing approximately $14 million pretax of this charge. The facilities portion represents the present value of the difference between rent required to be paid by the Company and future sublease rentals expected to be received by the Company related to certain leased facilities, or portions of such facilities, that will be vacated. Severance actions and the vacating of leased facilities relating to the Fourth Quarter Charge 2002 are expected to be completed by December 31, 2003. The remaining lease payments (net of expected sublease rentals) on these vacated facilities are payable over approximately the next seven years.

The activity within the severance and facilities reserves and the related number of positions eliminated were as follows:

	2001 Charge		Second Quarter 2002 Charge		Third Quarter 2002 Charge		Fourth Quarter 2002 Charge	
(millions, pretax)	Reserve	Positions	Reserve	Positions	Reserve	Positions	Reserve	Positions
Balance at December 31, 2001	$ 142.6	3,638	$		$		$	
Reserve additions			27.0	598	89.0	2,744	45.0	678
Actions taken(1)	(142.6)	(3,487)	(27.0)	(527)	(72.8)	(1,805)	(21.6)	(321)
Balance at December 31, 2002	$	151(2)	$	71(2)	$ 16.2	939	$ 23.4	357

(1) Actions taken relating to the 2001 Charge include $103.3 million of severance-related actions and $39.3 million related to vacating certain leased facilities. Actions taken relating to the Second Quarter 2002 Charge were all severance related. Actions taken relating to the Third Quarter 2002 Charge include $70.6 million of severance-related actions and $2.2 million related to vacating certain leased facilities. Actions taken relating to the Fourth Quarter 2002 Charge were all severance related.

(2) The Company eliminated substantially all of the positions expected under the Company s plans for involuntary termination related to the 2001 Charge and the Second Quarter 2002 Charge and considers these plans now complete.

12. Discontinued Products

The Company discontinued the sale of its fully guaranteed large case pension products (single-premium annuities (SPAs) and guaranteed investment contracts (GICs)) in 1993. Under the Company s accounting for these discontinued products, a reserve for anticipated future losses from these products was established and is reviewed by management quarterly. As long as the reserve continues to represent management s then best estimate of expected future losses, results of operations of the discontinued products, including net realized capital gains and losses, are credited/charged to the reserve and do not affect the Company s results of operations. The Company s results of operations would be adversely affected to the extent that future losses on the products are greater than anticipated and positively affected to the extent future losses are less than anticipated. The current reserve reflects management s best estimate of anticipated future losses.

The factors contributing to changes in the reserve for anticipated future losses are: operating income or loss, realized capital gains or losses and mortality gains or losses. Operating income or loss is equal to revenue less expenses. Realized capital gains or losses reflect the excess (deficit) of sales price over (below) the carrying value of assets sold. Mortality gains or losses reflect the mortality and retirement experience related to SPAs. A mortality gain (loss) occurs when an annuitant or a beneficiary dies sooner (later) than expected. A retirement gain (loss) occurs when an annuitant retires later (earlier) than expected.

At the time of discontinuance, a receivable from Large Case Pensions continuing products equivalent to the net present value of the anticipated cash flow shortfalls was established for the discontinued products. Interest on the receivable is accrued at the discount rate that was used to calculate the reserve. The offsetting payable, on which interest is similarly accrued, is reflected in continuing products. Interest on the payable generally offsets the investment income on the assets available to fund the shortfall. At December 31, 2002, the receivable from continuing products, net of related deferred taxes payable of $96 million on the accrued interest income, was $357 million. At December 31, 2001, the receivable from continuing products, net of the related deferred taxes payable of $87 million on the accrued interest income, was $345 million. These amounts were eliminated in consolidation.

Results of discontinued products were as follows (pretax):

(millions)	Results	Charged (Credited) to Reserve Future Losses	Net(1)
2002			
Net investment income	$375.2	$	$375.2
Net realized capital losses	(57.5)	57.5	
Interest earned on receivable from continuing products	26.8		26.8
Other income	28.4		28.4
Total revenue	372.9	57.5	430.4
Current and future benefits	393.9	23.8	417.7
Operating expenses	12.7		12.7
Total benefits and expenses	406.6	23.8	430.4
Results of discontinued products	$ (33.7)	$ 33.7	$
2001			
Net investment income	$397.6	$	$397.6
Net realized capital gains	18.9	(18.9)	
Interest earned on receivable from continuing products	27.2		27.2
Other income	32.2		32.2
Total revenue	475.9	(18.9)	457.0
Current and future benefits	423.7	21.1	444.8
Operating expenses	12.2		12.2
Total benefits and expenses	435.9	21.1	457.0
Results of discontinued products	$ 40.0	$(40.0)	$
2000			
Net investment income	$438.0	$	$438.0
Net realized capital losses	(31.1)	31.1	
Interest earned on receivable from continuing products	30.2		30.2
Other income	27.2		27.2
Total revenue	464.3	31.1	495.4
Current and future benefits	453.7	28.9	482.6
Operating expenses	12.8		12.8
Total benefits and expenses	466.5	28.9	495.4
Results of discontinued products	$ (2.2)	$ 2.2	$

(1) Amounts are reflected in the 2002, 2001 and 2000 Consolidated Statements of Income, except for interest earned on the receivable from continuing products, which was eliminated in consolidation.

Net realized capital gains (losses) from the sale of bonds supporting discontinued products were $(82) million, $46 million and $(90) million (pretax) for 2002, 2001 and 2000, respectively.

Assets and liabilities supporting discontinued products at December 31 were as follows:(1)

(millions)	2002	2001
Assets:		
Debt securities available for sale	$3,481.0	$3,573.8
Equity securities	73.4	211.0
Mortgage loans	763.2	822.1
Investment real estate	95.0	130.4
Loaned securities	167.1	131.9
Other investments(2)	505.7	481.4
Total investments	5,085.4	5,350.6
Collateral received under securities loan agreements	170.8	135.2
Current and deferred income taxes	94.4	93.0
Receivable from continuing products(3)	453.1	431.7
Total assets	$5,803.7	$6,010.5
Liabilities:		
Future policy benefits	$4,361.1	$4,512.6
Policyholders funds	82.9	261.5
Reserve for anticipated future losses on discontinued products	902.9	944.9
Collateral payable under securities loan agreements	170.8	135.2
Other liabilities	286.0	156.3
Total liabilities	$5,803.7	$6,010.5

(1) Assets supporting the discontinued products are distinguished from assets supporting continuing products.

(2) Includes debt securities on deposit as required by regulatory authorities of $68.3 million and $55.7 million at December 31, 2002 and 2001, respectively. These securities are considered restricted assets and were included in long-term investments on the Consolidated Balance Sheets.

(3) The receivable from continuing products is eliminated in consolidation.

At December 31, 2002 and 2001, net unrealized capital gains on available-for-sale debt securities are included above in other liabilities and are not reflected in consolidated shareholders equity. The reserve for anticipated future losses is included in future policy benefits on the Consolidated Balance Sheets.

The reserve for anticipated future losses on discontinued products represents the present value (at the risk-free rate at the time of discontinuance, consistent with the duration of the liabilities) of the difference between the expected cash flows from the assets supporting discontinued products and the cash flows expected to be required to meet the obligations of the outstanding contracts. Calculation of the reserve for anticipated future losses requires projection of both the amount and the timing of cash flows over approximately the next 30 years, including consideration of, among other things, future investment results, participant withdrawal and mortality rates and the cost of asset management and customer service. Since 1993, there have been no significant changes to the assumptions underlying the calculation of the reserve related to the projection of the amount and timing of cash flows.

The projection of future investment results considers assumptions for interest rates, bond discount rates and performance of mortgage loans and real estate. Mortgage loan assumptions represent management s best estimate of current and future levels of rent growth, vacancy and expenses based upon market conditions at each reporting date.

The performance of real estate assets has been consistently estimated using the most recent forecasts available. Since 1997, a bond default assumption has been included to reflect historical default experience, since the bond portfolio increased as a percentage of the overall investment portfolio and reflected more bond credit risk, concurrent with the decline in the commercial mortgage loan and real estate portfolios.

The previous years   actual participant withdrawal experience is used for the current year assumption. Prior to 1995, the Company used the 1983 Group Annuitant Mortality table published by the Society of Actuaries (the   Society). In 1995, the Society published the 1994 Uninsured Pensioner s Mortality table which the Company has used since then.

The Company s assumptions about the cost of asset management and customer service reflect actual investment and general expenses allocated over invested assets.

The activity in the reserve for anticipated future losses on discontinued products was as follows (pretax):

(millions)	
Reserve at December 31, 1999	$1,147.6
Operating income	16.1
Net realized capital losses	(31.1)
Mortality and other	12.8
Reserve reduction	(146.0)
Reserve at December 31, 2000	999.4
Operating income	3.2
Net realized capital gains	18.9
Mortality and other	17.9
Reserve reduction	(94.5)
Reserve at December 31, 2001	944.9
Operating income	8.2
Net realized capital losses	(57.5)
Mortality and other	15.6
Reserve reduction	(8.3)
Reserve at December 31, 2002	$ 902.9

Management reviews the adequacy of the discontinued products reserve quarterly and, as a result, $8 million ($5 million after tax) of the reserve was released in the second quarter of 2002, primarily due to favorable mortality and retirement experience and certain reductions in administrative expenses, partially offset by lower portfolio returns. For 2001, $95 million ($61 million after tax) of the reserve was released primarily due to favorable investment performance that included equity gains and mortgage loan prepayment penalty income, as well as favorable mortality and retirement experience. For 2000, $146 million pretax ($95 million after tax) of the reserve was released primarily due to favorable investment performance related to certain equity investments, favorable mortality and retirement experience and the decrease in size of the overall bond portfolio, which decreased default risk. The current reserve reflects management s best estimate of anticipated future losses.

The anticipated run off of the December 31, 2002 reserve balance (assuming that assets are held until maturity and that the reserve run off is proportional to the liability run off) is as follows:

(millions)	
2003	$ 30.8
2004	31.2
2005	31.5
2006	31.7
2007	31.8
2008 2012	163.2
2013 2017	155.2
2018 2022	133.1
2023 2027	104.2

Thereafter	190.2

The expected (as of December 31, 1993) and actual liability balances for the GIC and SPA liabilities at December 31 are as follows:

	Expected		Actual	
(millions)	**GIC**	**SPA**	**GIC**	**SPA**
2000	$690.7	$4,357.9	$548.8	$4,462.5
2001	352.9	4,238.9	261.5	4,512.6
2002	169.5	4,114.6	82.9	4,361.1

The GIC balances were lower than expected in each period as several contractholders redeemed their contracts prior to contract maturity. The SPA balances in each period were higher than expected because of additional amounts received under existing contracts. The increase in the 2001 actual SPA balance, when compared to 2000, is due to the transfer of funds from separate accounts to purchase guaranteed annuities in the Company s general account, under an existing contract.

13. Income Taxes

Income taxes (benefits) consist of the following:

(millions)	2002	2001	2000
Current taxes (benefits):			
Federal	$216.6	$(43.9)	$ 194.9
State	(22.8)	30.3	47.2
Total current taxes (benefits)	193.8	(13.6)	242.1
Deferred taxes (benefits):			
Federal	(43.1)	(74.7)	(152.8)
State	.9	1.1	(.9)
Total deferred tax benefits	(42.2)	(73.6)	(153.7)
Total income taxes (benefits)	$151.6	$(87.2)	$ 88.4

Income taxes were different from the amount computed by applying the federal income tax rate to income before income taxes as follows:

(millions)	2002	2001	2000
Income (loss) from continuing operations before income taxes	$544.8	$(378.7)	$ (39.0)
Tax rate	35%	35%	35%
Application of the tax rate	190.7	(132.5)	(13.7)
Tax effect of:			
Tax-exempt interest	(10.5)	(10.3)	(10.1)
Goodwill amortization and write-off		66.9	103.6
State income taxes	(14.2)	20.4	30.1
Sale of subsidiaries		(11.6)	(10.8)
Tax credits	(18.5)	(17.1)	(14.4)
Other, net	4.1	(3.0)	3.7
Income taxes (benefits)	$151.6	$ (87.2)	$ 88.4

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31 are as follows:

(millions)	2002	2001
Deferred tax assets:		
Reserve for anticipated future losses on discontinued products	$ 176.2	$263.6
Employee and retirement benefits (including minimum pension liability)	552.4	123.5
Severance and facilities reserve	54.4	90.2
Deferred income	20.5	20.5
Expenses not currently deductible	21.0	33.9
Allowance for doubtful accounts	6.4	28.0
Deferred policy costs	37.4	33.1
Investments, net	85.0	37.4
Depreciation and amortization	9.5	1.5
Net operating loss carry forwards	33.9	17.4
Insurance reserves	86.7	6.8
Other	18.8	20.4
Total gross assets	1,102.2	676.3
Less: valuation allowance	33.9	16.2
Assets, net of valuation allowance	1,068.3	660.1
Deferred tax liabilities:		
Amortization of goodwill and other acquired intangible assets	103.0	117.6
Accumulated other comprehensive income	153.4	36.9
Other	28.1	31.0
Total gross liabilities	284.5	185.5
Net deferred tax asset	$ 783.8(1)	$474.6(1)

(1) Includes $201.3 million and $114.1 million classified as current assets in 2002 and 2001, respectively, and $582.5 million and $360.5 million classified as noncurrent assets in 2002 and 2001, respectively.

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. Management believes that it is more likely than not that the Company will realize its net deferred tax asset of $784 million, net of a valuation allowance of $34 million. The valuation allowance is principally on acquired net operating losses and state net operating losses, which are subject to limitations as to future utilization. The Company has recognized $384 million of net deferred tax assets on Aetna Life Insurance Company (which is not consolidated for tax purposes) and $400 million on the remaining consolidated group. Management s beliefs are based on historic and anticipated taxable income for each group. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

The Policyholders Surplus Account , which arose under prior tax law, is generally that portion of a life insurance company s statutory income that has not been subject to taxation. As of December 31, 1983, no further additions could be made to the Policyholders Surplus Account for tax return purposes under the Deficit Reduction Act of 1984. The balance in such account was $918 million at December 31, 2002, adjusted for Internal Revenue Service (the Service) audits finalized to date. This amount would be taxed only under certain conditions. No income taxes have been provided on this amount, since management believes under current tax law the conditions under which such taxes would become payable are remote.

In 2002, the Service completed its audit of the consolidated federal income tax returns of former Aetna and its affiliates for the years 1979 through 1983. The Service is presently completing its audit of former Aetna s 1984 through 1997 returns. As a result of these audits, the Service proposed certain adjustments. The majority of these adjustments have been agreed to by the Company, and as a result, in 2002 the Company reduced liabilities held for potential tax exposure by $50 million for federal taxes associated with the discontinued Property and Casualty insurance operations and by $25 million related to its acquisition of U.S. Healthcare, Inc. in 1996, which was credited to goodwill. However, several key issues have not yet been resolved, although the Company expects to resolve these issues during 2003. In addition, several state audits were also completed during 2001, resulting in the reduction of related liabilities by $20 million.

The Service recently began its audit of former Aetna s 1998 through 2000 (prior to December 13, 2000) and the Company s 2000 (subsequent to December 13, 2000) through 2001 returns. The Company expects to receive any proposed adjustments for these years in late 2003 (as the audits progress to completion).

The Company believes that it has established adequate reserves for additional taxes and interest that may result from the ultimate resolution of the audits noted above. These reserves will be adjusted as necessary upon the resolution of the related issues with the Service.

The Company paid (received refunds of) net income taxes of $(65) million, $106 million and $196 million in 2002, 2001 and 2000, respectively.

14. Benefit Plans

The Company is responsible for pension and post-retirement benefits for actively employed individuals, as well as retired or inactive United States employees of the Company and former Aetna. (Refer to Note 21). For periods prior to December 13, 2000, accrued pension cost has been allocated to continuing and discontinued operations (for those businesses sold by former Aetna) under an allocation method based on eligible salaries. As of the Transaction date, data on a separate company basis regarding the proportionate share of the projected benefit obligation and plan assets for pension and post-retirement plans was not available.

Defined Benefit Pension Plans

The Company s noncontributory defined benefit pension plans cover substantially all of its employees. Effective January 1, 1999, the Company, in conjunction with former Aetna, changed the formula from the previous final average pay formula to a cash balance formula, which will credit employees annually with an amount equal to a percentage of eligible pay based on age and years of service, as well as an interest credit based on individual account balances. The formula also provides for a transition period until December 31, 2006, which allows certain employees to receive vested benefits at the higher of the previous final average pay or cash balance formula. For employees hired after January 1, 2002, the Company changed the cash balance formula to provide greater initial credits and make the benefit less dependent on length of service. Existing employees will receive the larger of the pension credit under the previous formula or this new formula. These changes did not have a material effect on the Company s results of operations, liquidity or financial condition.

Components of the net periodic benefit income (cost) of the Company s (former Aetna, prior to December 13, 2000) noncontributory defined benefit pension plan were as follows:

(millions)	**2002**	**2001**	**2000**
Service cost	$ (74.3)	$ (82.0)	$ (93.1)
Interest cost	(259.9)	(263.8)	(258.0)
Expected return on plan assets	295.6	375.4	350.7
Amortization of prior service cost	(4.0)	(4.5)	(5.8)
Recognized net actuarial gain (loss)	(6.9)	11.9	7.5
Net periodic benefit income (cost)	$ (49.5)	$ 37.0	$ 1.3

The allocated pretax benefit to operations for the pension plan (based on the Company s total salary cost as a percentage of former Aetna s total salary cost) was approximately $6 million for 2000.

As of the measurement date (September 30), the status of the Company s defined benefit pension plans was as follows:

(millions)	2002	2001
Projected benefit obligation, beginning of year	$ 3,580.6	$3,519.4
Service cost	74.3	82.0
Interest cost	259.9	263.8
Actuarial loss (gain)	261.2	(66.7)
Benefits paid	(230.3)	(217.9)
Projected benefit obligation, end of year	$ 3,945.7	$3,580.6
Fair value of plan assets, beginning of year	$ 3,301.5	$4,163.9
Actual return on plan assets	(246.3)	(662.1)
Employer contributions	118.3	17.6
Benefits paid	(230.3)	(217.9)
Fair value of plan assets, end of year	$ 2,943.2	$3,301.5
Fair value of plan assets less than projected benefit obligation	$(1,002.5)	$ (279.1)
Unrecognized net loss	1,230.7	441.3
Unrecognized prior service cost	41.5	38.7
Net amount recognized	$ 269.7	$ 200.9
Amounts recognized in the statement of financial position consist of:		
Prepaid pension asset	$	$ 200.9
Accrued pension liability	(934.5)	
Intangible asset	42.4	
Accumulated other comprehensive income	1,161.8	
Net amount recognized	$ 269.7	$ 200.9
Weighted average discount rate	6.75%	7.50%
Expected return on plan assets	9.00%	9.25%
Rate of compensation increase	3.75%	4.50%

For 2002 and 2001, defined benefit plans included above with benefit obligations in excess of assets had accumulated benefit obligations of approximately $3.9 billion and $3.5 billion, respectively. The above projected benefit and accumulated benefit obligations reflect revised assumptions made as of the 2001 measurement date related to cost of living adjustments, average retirement age and the form of payment elections, including deferral options. These revised assumptions reflect the Company s experience and plan design, and reduced the 2001 projected benefit obligation by $212 million and the accumulated benefit obligation by $208 million.

Other Post-Retirement Benefit Plans

In addition to providing pension benefits, the Company currently provides certain health care, dental and life insurance benefits for retired employees, including those of former Aetna. A comprehensive medical and dental plan is offered to all full-time employees, who terminate employment at age 45 or later with 10 or more years of service. The Company provides subsidized benefits to certain employees as of December 31, 2002 whose sum of age and service is at least equal to 65 (due to a plan amendment, employees hired after January 1, 2002 and all employees under the age of 35 at that date are not eligible for subsidized retiree health benefits). There is a cap on the portion of the cost paid by the Company relating to medical and dental benefits. The plan assets are held in trust and administered by Aetna Life Insurance Company (ALIC).

In January 2003, the Company amended this plan, reducing the subsidy provided to individuals retiring subsequent to January 1, 2004. Beginning January 1, 2004, the Company will begin to phase-out the retiree medical subsidy for active employees (and eligible dependents) who terminate employment after December 31, 2003. The subsidy will decrease 25% each year until it is eliminated for employees terminating employment on or after January 1, 2007. Beginning January 1, 2004, the Company will eliminate the retiree dental subsidy for active employees who terminate employment on or after January 1, 2003. However, Company employees who terminate employment at age 45 or later with at least 10 years of service will be eligible to participate in the Company s group health plans at their own cost. As a result of these plan amendments announced in January of 2003, the Company expects to record a curtailment benefit of approximately $35 million pretax in the first quarter of 2003.

Components of the net periodic benefit cost of the Company s (former Aetna, prior to December 13, 2000) postretirement plans were as follows:

(millions)	2002	2001	2000
Service cost	$ (7.8)	$ (6.7)	$ (7.4)
Interest cost	(31.8)	(31.7)	(32.0)
Expected return on plan assets	4.8	4.8	4.4
Curtailment benefit	11.8(1)		
Amortization of prior service cost	4.4	15.7	23.0
Recognized net actuarial gain		.3	.8
Net periodic benefit cost	$(18.6)	$(17.6)	$(11.2)

(1) Reflects a plan amendment, effective January 1, 2002, whereby the Company no longer provides subsidized benefits to employees who had not reached age 35 by this date.

Allocated pre-tax charges to the Company associated with the postretirement plans of former Aetna were $(10) million in 2000.

As of the measurement date (September 30), the status of the Company s postretirement benefit plans (other than pensions) was as follows:

(millions)	2002	2001
Accumulated benefit obligation, beginning of year	$469.9	$425.9
Service cost	7.8	6.7
Interest cost	31.8	31.7
Actuarial (gain) loss	71.8	43.7
Curtailment benefit	(1.4)	
Benefits paid	(38.7)	(38.1)
Accumulated benefit obligation, end of year	$541.2	$469.9
Fair value of plan assets, beginning of year	$ 78.2	$ 78.4
Actual return on plan assets		1.8
Employer contribution	37.3	36.1
Benefits paid	(38.7)	(38.1)
Fair value of plan assets, end of year	$ 76.8	$ 78.2
Accumulated benefit obligation in excess of fair value of plan assets	$464.4	$391.6
Unrecognized net gain (loss)	(96.6)	4.8
Prior service cost	29.0	19.0
Accrued postretirement benefit costs	$396.8	$415.4

Weighted average discount rate	6.75%	7.50%
Expected return on plan assets	7.00%	7.00%

The health care cost trend rate for the 2002 valuation decreased gradually from 9.0% for pre-65 and 11% for post-65 for 2003 to 5.0% by the year 2007 for pre-65 and 5.0% by the year 2009 for post-65. For the 2001 valuation, the rates decreased gradually from 7.0% for 2002 to 5.5% by the year 2005. This assumption reflects the Company s historical as well as expected future trend rates. In addition, trend assumption reflects factors specific to the Company s retiree medical plan, such as plan design, cost-sharing provisions, benefits covered, and the presence of subsidy caps. As a result of the Transaction (refer to Note 21), the Company retained the postretirement benefit obligation for all Company employees and existing retirees of former Aetna, except for a specific plan that was retained by former Aetna.

A one-percentage-point change (increase or decrease) in assumed health care cost trend rates would have the following effects:

(millions)	Increase	Decrease
Effect on total of service and interest cost components	$ 1.0	$ (.7)
Effect on postretirement benefit obligation	11.3	(10.0)

Incentive Savings Plans Substantially all of the Company s employees are eligible to participate in a savings plan under which designated contributions, which may be invested in common stock of the Company or certain other investments, are matched by the Company. On January 1, 2002, the Company changed its match to 50% of the first 6% of eligible pay contributed to the plan. Effective January 2003, matching contributions by the Company are made in cash and invested according to each participant s investment elections. For the period August 2001 through December 2002, matching contributions by the Company were made in Aetna Common Stock instead of being contributed in cash. In addition, the plan provides for an annual performance-based contribution by the Company of up to 3% of eligible pay (up to a maximum of $6,000), provided the Company exceeds specified performance targets for the year. The performance-based contribution may be made in cash, stock, or a combination of both at the election of the Company. Based on the Company s results for 2002, a performance-based contribution of 3% of eligible pay (up to a maximum of $6,000) was contributed by the Company in February of 2003. Prior to January 1, 2002, the Company provided for a match of up to 100% on the first 5% of eligible pay contributed. The costs to the Company (allocated costs for 2000) associated with these plans, including the performance-based contribution for 2002, were $79 million, $65 million and $67 million for 2002, 2001 and 2000, respectively. The plan trustee held 5,383,324, 5,206,210 and 4,889,945 shares of the Company s common stock for plan participants at December 31, 2002, 2001 and 2000, respectively.

Stock-Based Employee Incentive Plans

Stock-based Employee Incentive Plans The Company s Stock-based Employee Incentive Plans (the Plans) provide for stock option awards (see Stock Options below), deferred contingent common stock (see Performance Units below), restricted stock awards to employees and the ability for employees to purchase common stock at a discount. At December 31, 2002, 17,404,769 shares were available for grant under the Plans.

Stock Options Executive, middle management and nonmanagement employees may be granted options to purchase common stock of the Company at or above the market price on the date of grant. Options generally become 100% vested three years after the grant is made, with one-third of the options vesting each year. From time to time, the Company has issued options with different vesting provisions. Vested options may be exercised at any time during the 10 years after grant, except in certain circumstances, generally related to employment termination or retirement. At the end of the 10-year period, any unexercised options expire.

Prior to December 13, 2000, the Company s employees participated in former Aetna s stock option plan. Since the Company is the successor of former Aetna for accounting purposes, the following table reflects stock option transactions of former Aetna for periods prior to December 13, 2000 and for the Company subsequent to that date.

	2002		2001		2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	32,256,675	$30.72	31,709,870	$30.42	15,581,995	$68.30
Granted	5,280,044	$36.28	5,299,825	$28.21	5,425,592	$44.32
Exercised	(8,393,059)	$27.82	(3,558,748)	$22.90	(619,027)	$44.04
Expired or forfeited	(865,709)	$31.77	(1,194,272)	$34.91	(1,526,884)	$59.48
Outstanding at December 13, 2000					18,861,676	$63.20
Settlement of stock options held by employees of sold businesses					(3,207,604)	
Conversion to Company stock options					16,824,872	
Granted					207,744	$35.01
Exercised					(948,000)	$23.15
Expired or forfeited					(28,818)	$24.32
Outstanding, end of year	28,277,951	$32.55	32,256,675	$30.72	31,709,870	$30.42
Options exercisable, end of year	20,535,382	$32.21	26,126,828	$31.23	30,352,471	$30.42

As a result of the Transaction, the former Aetna stock options held by employees of the Company and existing retirees of former Aetna were converted into options to purchase shares of the Company with adjustments made to both the number of options and the exercise prices to maintain the intrinsic in- or out-of-the-money value immediately before the spin-off. As a result of the change in control of former Aetna, substantially all prior stock option grants became fully vested during 2000. The in-the-money former Aetna stock options held by employees of the sold businesses were settled for cash while the out-of-the-money former Aetna stock options for such employees were cancelled.

The following is a summary of information regarding options outstanding and options exercisable at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$12.89 $16.26	25,694	.7	$15.66	25,694	$15.66
$16.26 $21.69	2,409,442	6.7	$19.70	2,409,442	$19.70
$21.69 $27.11	9,083,021	6.8	$25.37	7,039,310	$25.05
$27.11 $32.53	1,188,042	6.7	$29.46	801,629	$29.72

$32.53	$37.95	7,818,072	6.9	$35.34	2,872,159	$34.65
$37.95	$43.37	4,981,766	3.4	$41.68	4,843,000	$41.66
$43.37	$48.79	2,487,100	5.5	$43.93	2,259,334	$43.51
$48.79	$54.21	284,814	3.3	$53.16	284,814	$53.16
		28,277,951			20,535,382	

Performance Units During 2002 and 2001, the Company granted performance stock units to certain executives as part of a long-term incentive program. The value of the performance stock units is equal to the Company s stock price, although the units are not actual shares of stock and do not pay dividends (but may be paid in shares of stock or cash, except as discussed below). The performance stock units granted in 2002 and 2001 were established with the ability to vest as early as December 31, 2003 and December 31, 2002, respectively, (accelerated vesting) if the Company meets or exceeds performance goals set by the Board of Directors. If performance does not meet the accelerated vesting goal, the performance measurement period for these grants may be as long as four and one-half years from the grant date. The Board of Director s Committee on Compensation and Organization determines if the performance goals have been achieved and resets the performance goal each year, if it is not achieved in the prior year. The number of performance stock units that may vest at the end of the performance measurement period is dependent upon the degree to which the Company achieves the performance goals. The vesting may go as high as 200% of target for 2002 and 2001 grants, if operating earnings, as defined, are 25% above performance goals. If performance accelerated vesting is not obtained, 50% of the grant will vest, regardless of performance, at the end of the four and one-half year measurement period if the participant is actively employed by the Company on such date. Performance stock units which vest pursuant to time vesting (rather than solely performance vesting) will be payable solely in shares. The compensation expense related to time vested performance stock awards will be amortized over the vesting period. For the 50% of the performance stock units subject solely to performance goals, compensation expense is recognized over the vesting period based on the Company s stock price.

In 2002, the Company determined that accelerated vesting at 200% of target applied to grants made in 2001 as the Company exceeded performance goals set by the Board of Directors. Accordingly, the Company recognized all remaining compensation expense associated with these grants in 2002. Distributions to participants occurred after approval by the Board of Director s Committee on Compensation and Organization in the first quarter of 2003.

Incentive Units Prior to December 13, 2000, the Company s executives participated in former Aetna s incentive unit plan. These incentive units were rights to receive common stock or an equivalent value in cash. Of the two cycles of former Aetna incentive unit grants outstanding during 2000, each cycle was due to vest at the end of a four-year vesting period (2000 and 2002), conditioned upon the employee s continued employment during that period and achievement of specified performance goals related to the total return to shareholders over the four-year measurement period. Incentive units could vest within a range from 0% to 175% at the end of the four-year period based on the attainment of these performance goals. Interim measurements of compensation expense were made at each reporting period based on the estimated periodic stock price and estimated forfeitures, over the four-year vesting period. Compensation expense was recognized over the four-year vesting period and no compensation expense was recognized at the date of grant. The incentive unit holders were not entitled to dividends during the vesting period. On December 13, 2000, as a result of the change in control of former Aetna (refer to Note 21), the cycle which ended on December 31, 2000 became fully vested while the cycle which would have ended on December 31, 2002 became vested on a pro-rated basis. These awards were paid in cash. As a result, there were no incentive units outstanding as of December 31, 2000.

The Company s (former Aetna prior to December 13, 2000) performance and incentive unit transactions are as follows:

	Number of Incentive Units		
	2002	**2001**	**2000**
Outstanding, beginning of year	442,325		708,275
Granted	531,140	444,250	16,800
Vested	(482,665)		(382,834)
Expired or forfeited	(24,400)	(1,925)	(342,241)
Outstanding, end of year	466,400	442,325	

The weighted-average grant date fair values for incentive units granted in 2002, 2001 and 2000 were $46.48, $26.55 and $56.01, respectively.

The costs to the Company associated with the Company s (former Aetna, prior to December 13, 2000) performance and incentive units for 2002, 2001 and 2000 were $39 million, $2 million and $9 million, respectively.

Employee Stock Purchase Plan The Company s shareholders approved the Aetna Inc. Employee Stock Purchase Plan (the ESPP) at the Company s Annual Meeting on April 26, 2002. Under the ESPP, 6.5 million of the Company s common shares are authorized for purchase by eligible employees in accordance with the ESPP s provisions. All employees of the Company are eligible to participate in the ESPP if employed immediately prior to the first day of the offering period. Employees may contribute a percentage of their base salary through payroll deductions. Contributions are accumulated for a six-month period and used to purchase stock at the end of the offering period (the Purchase Date). On the Purchase Date, stock is purchased for all participating employees based on the contributions accumulated (subject to a $25,000 annual limit per employee). The purchase price of the stock is based on a discounted percentage (such discount may not exceed 15%) of the lesser of the stock price at the beginning or the end of the offering period. The first six-month accumulation period commenced July 5, 2002 and ended December 20, 2002. The purchase price for this offering was at a 10% discount from the lesser of the stock s fair market value on July 5, 2002 or December 20, 2002. For the period ended December 31, 2002, approximately 136,000 shares of common stock were purchased under the ESPP at the purchase price of $36.85 per share. On January 3, 2003, the second six-month accumulation period commenced. This accumulation period ends on June 20, 2003 and the purchase price for this offering is at a 10% discount from the lesser of the stock s fair market value on January 3, 2003 or June 20, 2003.

15. Debt

The carrying value of long-term debt at December 31, was as follows:

(millions)	2002	2001
Long-term debt:		
Senior notes, 7.375% due 2006	$ 449.1	$ 448.8
Senior notes, 7.875% due 2011	446.9	446.6
Senior notes, 8.50% due 2041	737.2	695.9
Total	$1,633.2	$1,591.3

On February 14, 2001, the Company filed a shelf registration statement with the Securities and Exchange Commission to sell debt securities, from time to time, up to a total of $2 billion, with the amount, price and terms to be determined at the time of the sale. On March 2, 2001, the Company issued $900 million of senior notes under this shelf registration statement consisting of $450 million of 7.375% senior notes due in 2006 and $450 million of 7.875% senior notes due in 2011. On June 18, 2001, the Company issued, under this shelf registration statement, an additional $700 million of 8.5% senior notes due in 2041 (Refer to Note 8 for information on the Company s interest rate swap agreements and effective interest rate for 2002 relating to these senior notes). Net proceeds from these issuances totaled approximately $1.6 billion and were used to reduce outstanding commercial paper borrowings.

During 2002, the maximum amount of domestic short-term borrowings outstanding was $145 million. The Company s short-term borrowings consist of a commercial paper program that relies on backup revolving credit facilities, which together provide for an aggregate borrowing capacity of $800 million. The Company s credit facilities consist of a $300 million credit facility which terminates in November 2003 and a $500 million credit facility which terminates in November 2005. Various interest rate options are available under these facilities. Any revolving borrowings mature on the termination date of the applicable credit facility, however the Company may convert any amounts outstanding under the $300 million facility when it terminates into a term loan that matures in November 2004 upon the satisfaction of certain conditions. The Company pays facility fees on each facility ranging from .1% to .5% per annum, depending upon its long-term senior unsecured debt rating. The facility fee at December 31, 2002 is at an annual rate of .18% for the credit facility terminating in 2003 and .23% for the credit facility terminating in 2005. There were no borrowings under these facilities as of December 31, 2002.

Under the terms of its revolving credit facilities, the Company is required to maintain a minimum level of shareholders equity, excluding net unrealized capital gains and losses, as of each fiscal quarter end. The required minimum level is increased by 50% of the Company s consolidated net income each quarter beginning with the quarter ending March 31, 2003, and is decreased by up to $150 million for certain non-recurring after-tax charges (excluded charges). At December 31, 2002, the Company met its required minimum level of approximately $5 billion. The Company is also required to maintain its ratio of total debt to consolidated earnings as of each fiscal quarter end at or below 3.0. For this purpose, consolidated earnings equals, for the period of four consecutive quarters, net income plus interest expense, income tax expense, depreciation expense, amortization expense, certain excluded charges, the goodwill impairment resulting from the adoption of FAS No. 142 and any extraordinary gains or losses. The Company met this requirement at December 31, 2002.

Total interest paid by the Company was $119 million, $118 million and $333 million in 2002, 2001 and 2000, respectively.

16. Capital Stock

On October 25, 2002, the Company s Board of Directors (the Board) voted to terminate the Company s shareholder rights plan. The plan was terminated by changing its 2010 expiration date to October 31, 2002, although the Board retained the right to adopt a new plan at a future date in the event of changed circumstances.

On September 27, 2002, the Board declared an annual cash dividend of $.04 per common share to shareholders of record at the close of business on November 15, 2002. The dividend was paid on November 29, 2002.

In addition to the capital stock disclosed on the Consolidated Balance Sheets, Aetna has authorized 7,625,000 shares of Class A voting preferred stock, $.01 par value per share. There are also 61,222,228 undesignated shares that the Board has the power to divide into such classes and series, with such voting rights, designations, preferences, limitations and special rights as the Board determines. At December 31, 2002, 39,799,877 common shares of Aetna were reserved for issuance under its stock option plans and 8,542,369 common shares were reserved for issuance under its incentive savings plan.

In December 2000, the Board had authorized the repurchase of up to 5 million shares of common stock (not to exceed an aggregate purchase price of $200 million). The Company repurchased 2.6 million shares of common stock at a cost of approximately $96 million during the first quarter of 2001 pursuant to this authorization, and then suspended repurchases until April 2002. In April 2002, the Company re-initiated share repurchases pursuant to this authorization, and during the second quarter of 2002, the Company repurchased approximately 2.1 million shares of common stock at a cost of approximately $104 million, completing this share repurchase program. On June 28, 2002, the Board authorized a new share repurchase program for the repurchase of up to 5 million shares of common stock (not to exceed an aggregate purchase price of $250 million). During the remainder of 2002, the Company repurchased approximately 1.5 million shares of common stock at a cost of approximately $61 million under this new share repurchase program.

On January 25, 2002, the Board authorized the issuance of approximately 7.5 million of the Company s common shares to eligible employees in accordance with the 2002 Stock Incentive Plan. On January 25, 2002, the Board of Directors Committee on Compensation and Organization approved a grant of approximately 5 million stock options to purchase common shares of the Company at $35.78 per share. During 2002, the Company issued approximately 9.3 million shares of common stock for benefit plans (approximately 8.4 million shares related to stock option exercises).

17. Dividend Restrictions and Shareholders Equity

The Company s business operations are conducted through subsidiaries that principally consist of HMOs and insurance companies. In addition to general state law restrictions on payments of dividends and other distributions to shareholders applicable to all corporations, HMOs and insurance companies are subject to further state regulations that, among other things, may require such companies to maintain certain levels of equity, and restrict the amount of dividends and other distributions that may be paid to their parent corporations. These regulations generally are not directly applicable to Aetna, as a holding company, since it is not an HMO or insurance company. The additional regulations applicable to Aetna s HMO and insurance company subsidiaries are not expected to affect Aetna s ability to service its debt or to pay dividends or the ability of any of Aetna s subsidiaries to service its debt or other financing obligations, if any.

Under regulatory requirements, the amount of dividends that may be paid during 2003 to Aetna by its domestic insurance and HMO subsidiaries without prior approval by state regulatory authorities as calculated at December 31, 2002 is approximately $505 million in the aggregate. There are no such restrictions on distributions from Aetna to its shareholders.

The combined statutory net income for the years ended and statutory surplus as of December 31 for the domestic insurance and HMO subsidiaries of the Company, reflecting intercompany eliminations, were as follows:

(millions)	**2002**	**2001**	**2000**
Statutory net income	$ 689.2	$ 20.9	$ 382.3
Statutory surplus	3,606.7	3,598.6	3,371.3

Effective January 1, 2001, the Company s insurance and HMO subsidiaries were required to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners (the NAIC) Statements of Statutory Accounting Principles (Codification), subject to the adoption of Codification by their respective domiciliary states.

As of December 31, 2002, the Company does not have state prescribed or permitted statutory accounting practices which would result in reported statutory surplus being materially different from the statutory surplus that would have been reported had Codification been followed.

18. Reinsurance

The Company utilizes reinsurance agreements primarily to reduce its exposure to large losses in certain aspects of its insurance business. These reinsurance agreements permit recovery of a portion of losses from reinsurers, although they do not discharge the Company s primary liability as direct insurer of the risks reinsured. Failure of reinsurers to indemnify the Company could result in losses, however, management does not expect charges for unrecoverable reinsurance to have a material effect on the Company s results of operations or financial position. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of its reinsurers. As of December 31, 2002, reinsurance recoverables consisted primarily of amounts due from third parties that maintain independent agency ratings that are consistent with those companies that are considered to have a strong ability to meet their obligations.

Earned premiums for the years ended December 31 were as follows:

(millions)		Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2002(1)						
Accident and Health Insurance	HMO(2)	$11,876.5	$	$ 3.6	$11,880.1	
Accident and Health Insurance	Other(3)	3,482.3	28.8	67.0	3,520.5	1.9%
Life Insurance		1,318.7	68.7	62.1	1,312.1	4.7%
Total premiums		$16,677.5	$ 97.5	$ 132.7	$16,712.7	.8%
2001(1)						
Accident and Health Insurance	HMO(2)	$16,210.6	$	$ 276.1	$16,486.7	1.7%
Accident and Health Insurance	Other(3)	3,121.3	43.7	702.6	3,780.2	18.6%
Life Insurance		1,547.6	98.9	56.4	1,505.1	3.7%
Total premiums		$20,879.5	$142.6	$1,035.1	$21,772.0	4.8%
2000(1)						
Accident and Health Insurance	HMO(2)	$17,041.0	$	$1,373.3	$18,414.3	7.5%
Accident and Health Insurance	Other(3)	2,657.9	38.7	994.4	3,613.6	27.5%
Life Insurance		1,195.5	61.4	52.9	1,187.0	4.5%
Total premiums		$20,894.4	$100.1	$2,420.6	$23,214.9	10.4%

(1) Excludes intercompany transactions.

(2) Includes Commercial HMO (includes premiums related to POS members who access primary care physicians and referred care through an HMO network), Medicare HMO and Medicaid HMO Business. Earned premiums assumed from other companies includes Commercial HMO premiums of $3.6 million, $276.1 million and $847.3 million in 2002, 2001 and 2000, respectively assumed from PHC pursuant to the Coinsurance Agreement discussed below and $526 million in 2000 of Medicare premium assumed from Health Care Services Corporation related to the NYLCare Texas transaction.

(3) Includes all other Medical, Dental and Group Insurance products offered by the Company. Earned premiums assumed from other companies includes $33.8 million, $676.8 million and $975.1 million of premium assumed from PHC pursuant to the Coinsurance Agreement discussed below in 2002, 2001 and 2000, respectively.

Prior to the Company s acquisition of PHC, certain of PHC s medical and dental contracts were underwritten directly by Prudential and HMO contracts were underwritten by Prudential s HMO legal entities. The Company acquired Prudential s HMO legal entities, but did not acquire Prudential, the legal entity that wrote certain of PHC s medical and dental business. Concurrent with the acquisition, ALIC entered into a reinsurance agreement (in the form of a coinsurance agreement) in order to assume the business underwritten by Prudential (the Coinsured Business). In order to provide for an orderly transition of the Coinsured Business to products underwritten by legal entities of the Company, the terms of the coinsurance agreement permitted the Company to renew such business in Prudential s name until August 2001.

Effective November 1, 1999, the Company reinsured certain policyholder liabilities and obligations related to paid-up group life insurance. Effective October 1, 1998, the Company reinsured certain policyholder liabilities and obligations related to individual life insurance (in conjunction with former Aetna s sale of this business). These transactions were in the form of indemnity reinsurance arrangements, whereby the assuming companies contractually assumed certain policyholder liabilities and obligations, although the Company remains directly obligated to policyholders. The liability related to the Company s obligation is recorded in future policy benefits. Assets related to and supporting these policies were transferred to the assuming companies and the Company recorded a reinsurance recoverable. Reinsurance recoverables related to these obligations were approximately $1.1 billion and approximately $1.2 billion at December 31, 2002 and 2001, respectively.

There is not a material difference between premiums on a written basis versus an earned basis. Reinsurance recoveries were approximately $120 million, $154 million and $134 million in 2002, 2001 and 2000, respectively. At December 31, 2002, reinsurance recoverables with a carrying value of approximately $1.1 billion were associated with three reinsurers.

19. Segment Information

Summarized financial information for the Company s principal operations was as follows:

2002 (millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Interest	Discontinued Operations	Total Company
Revenues from external customers(1)	$16,858.3	$1,497.4	$ 238.0	$	$	$18,593.7
Net investment income	295.7	269.5	685.5			1,250.7
Total revenue excluding realized capital gains (losses)	$17,154.0	$1,766.9	$ 923.5	$	$	$19,844.4
Interest expense	$	$	$	$119.5	$	$ 119.5
Amortization of other intangible assets	$ 130.8	$	$	$	$	$ 130.8
Income taxes (benefits)	$ 119.5	$ 57.6	$ 16.3	$ (41.8)	$	$ 151.6
Operating earnings (losses) from continuing operations(2)	$ 361.6	$ 142.2	$ 24.2	$ (77.7)	$	$ 450.3
Other items(3)	(81.6)	(3.2)	5.4			(79.4)
Realized capital gains (losses), net of tax	36.4	(14.0)	(.1)			22.3
Income (loss) from continuing operations	316.4	125.0	29.5	(77.7)		393.2
Discontinued operations, net of tax(4)					50.0	50.0
Cumulative effect adjustment, net of tax	(2,965.7)					(2,965.7)
Net income (loss)	$ (2,649.3)	$ 125.0	$ 29.5	$ (77.7)	$50.0	$ (2,522.5)
Segment assets(5)	$13,805.6	$5,409.0	$20,832.9	$	$	$40,047.5
Expenditures for long-lived assets	$ 39.6	$	$ 2.9	$	$	$ 42.5

(1) Revenues from external customers include revenues earned from one major customer (the federal government, primarily CMS) amounting to 9.4% of total revenue from external customers.

(2) Operating earnings (loss) from continuing operations is comprised of income (loss) from continuing operations excluding net realized capital gains or losses, any other items and the cumulative effect adjustment. While operating earnings is the measure of profit or loss used by the Company s management when assessing performance or making operating decisions, it does not replace net income (loss) as a

measure of profitability.

(3) The following other items were excluded from operating earnings (losses) from continuing operations: a $19.8 million income tax benefit resulting from the release of state income tax related reserves in connection with the favorable conclusion of several state tax audits in the Health Care segment, severance and facilities charges of $104.6 million after tax consisting of $101.4 million after tax in the Health Care segment and $3.2 million after tax in the Group Insurance segment and $5.4 million after tax from reductions of the reserve for anticipated future losses on discontinued products in the Large Case Pensions segment.

(4) As discussed in more detail in Note 21, the Company released $50.0 million of federal income tax reserves resulting from the resolution of several Internal Revenue Service audit issues during the first quarter of 2002 that related to the property and casualty insurance business of one of Aetna s predecessors, which was sold in 1996.

(5) Large Case Pensions assets include $5.4 billion attributable to discontinued products.

2001 (millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Interest	Discontinued Operations	Total Company
Revenues from external customers(1)	$21,793.9	$1,414.9	$ 474.3	$	$	$23,683.1
Net investment income	373.9	286.0	751.7			1,411.6
Total revenue excluding realized capital gains (losses)	$22,167.8	$1,700.9	$ 1,226.0	$	$	$25,094.7
Interest expense	$	$	$	$142.8	$	$ 142.8
Amortization of goodwill and other intangible assets	$ 416.6	$	$	$	$	$ 416.6
Income taxes (benefits)	$ (157.3)	$ 71.2	$ 48.9	$ (50.0)	$	$ (87.2)
Operating earnings (losses) from continuing operations(2)	$ (365.3)	$ 160.1	$ 31.6	$ (92.8)	$	$ (266.4)
Other items(3)	(151.1)	(9.0)	61.4			(98.7)
Realized capital gains (losses), net of tax	77.4	.3	(4.1)			73.6
Income (loss) from continuing operations	(439.0)	151.4	88.9	(92.8)		(291.5)
Discontinued operations, net of tax:						
Reduction of the reserve for sale and spin-off related costs(4)					11.4	11.4
Cumulative effect adjustment, net of tax	.5					.5
Net income (loss)	$ (438.5)	$ 151.4	$ 88.9	$ (92.8)	$11.4	$ (279.6)
Segment assets(5)	$16,593.4	$4,683.5	$21,919.8	$	$	$43,196.7
Expenditures for long-lived assets	$ 29.1	$	$ 33.7	$	$	$ 62.8

(1) Revenues from external customers include revenues earned from one major customer (the federal government, primarily CMS) amounting to 12.6% of total revenue from external customers.

(2) Operating earnings (loss) from continuing operations is comprised of income (loss) from continuing operations excluding net realized capital gains or losses, any other items and the cumulative effect adjustment. While operating earnings is the measure of profit or loss used by the Company s management when assessing performance or making operating decisions, it does not replace net income (loss) as a measure of profitability.

(3) The following other items were excluded from operating earnings (losses) from continuing operations: a $125.1 million after-tax severance and facilities charge, $26.0 million after-tax charge for unfavorable reserve developments related to exited Medicare markets in the Health Care segment, an after-tax charge of $9.0 million for events of September 11, 2001 in the Group Insurance segment; and a $61.4 million after-tax benefit from reductions of the reserve for anticipated future losses on discontinued products in the Large Case Pensions segment.

(4) In connection with the Transaction, as more fully described in Note 21, the Company recorded a reserve of approximately $174 million for net costs associated with this transaction. In the fourth quarter of 2001, the Company reduced the reserve for such costs by approximately $11 million.

(5) Large Case Pensions assets include $5.6 billion attributable to discontinued products.

2000 (millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Interest	Discontinued Operations	Total Company
Revenues from external customers(1)	$23,694.9	$1,367.0	$ 165.5	$	$	$25,227.4
Net investment income	428.5	300.9	902.2			1,631.6
Total revenue excluding realized capital gains (losses)	$24,123.4	$1,667.9	$ 1,067.7	$	$	$26,859.0
Interest expense	$	$	$	$ 248.2	$	$ 248.2
Amortization of goodwill and other intangible assets	$ 435.6	$	$	$	$	$ 435.6
Income taxes (benefits)	$ .4	$ 82.6	$ 92.3	$ (86.9)	$	$ 88.4
Operating earnings (losses) from continuing operations(2)	$ 95.5	$ 193.4	$ 66.0	$(161.3)	$	$ 193.6
Other items(3)	(401.4)	(.3)	94.9			(306.8)
Realized capital gains (losses), net of tax	13.1	(31.8)	4.5			(14.2)
Income (loss) from continuing operations	(292.8)	161.3	165.4	(161.3)		(127.4)
Discontinued operations, net of tax:						
Income from operations					428.5	428.5
Sale and spin-off related costs					(174.0)	(174.0)
Net income (loss)	$ (292.8)	$ 161.3	$ 165.4	$(161.3)	$ 254.5	$ 127.1
Segment assets(4)	$17,114.9	$4,788.5	$25,769.6	$	$	$47,673.0
Expenditures for long-lived assets	$ 34.8	$	$ 82.8	$	$	$ 117.6

(1) Revenues from external customers include revenues earned from one major customer (the federal government, primarily CMS) amounting to 20.3% of total revenue from external customers.

(2) Operating earnings (loss) from continuing operations is comprised of income (loss) from continuing operations excluding net realized capital gains or losses and any other items. While operating earnings is the measure of profit or loss used by the Company s management when assessing performance or making operating decisions, it does not replace net income (loss) as a measure of profitability.

(3) The following other items were excluded from operating earnings (losses) from continuing operations: an after-tax charge of $238.3 million from the write-off of goodwill, a $92.6 million after-tax severance and facilities charge, a $14.6 million after-tax charge related to the New Jersey insolvency assessment, a $5.2 million after-tax charge related to a shareholder litigation settlement agreement and an after-tax charge of $50.7 million, primarily change-in-control related costs, in the Health Care segment; an after-tax charge of $.3 million for change-in-control related costs in the Group Insurance segment; and a $94.9 million after-tax benefit from reductions of the reserve for anticipated future losses on discontinued products in the Large Case Pensions segment.

(4) Large Case Pensions assets include $5.8 billion attributable to discontinued products.

Revenues from external customers (all within the United States) by product were as follows:

(millions)	2002	2001	2000
Health risk	$15,039.4	$19,972.5	$21,756.2
Health ASC	1,818.9	1,821.4	1,938.7
Group life	1,097.0	1,056.1	1,050.4
Group disability	336.0	299.7	272.1
Group long-term care	64.4	59.1	44.5
Large case pensions	238.0	474.3	165.5
Total revenue from external customers	$18,593.7	$23,683.1	$25,227.4

Long-lived assets, all within the United States, were $245 million and $327 million at December 31, 2002 and 2001, respectively.

20. Commitments and Contingent Liabilities

The Company has entered into operating leases for office space and certain computer and other equipment. Rental expenses for these items were $168 million, $217 million and $273 million for 2002, 2001 and 2000, respectively. The future net minimum payments under noncancelable leases for 2003 through 2007 are estimated to be $182 million, $148 million, $112 million, $82 million and $68 million, respectively.

The Company also has funding obligations relating to equity limited partnership investments and commercial mortgage loans. The funding requirements for equity limited partnership investments for 2003 through 2007 are estimated to be $152 million, $51 million, $32 million, $30 million and $14 million, respectively. The funding requirements for commercial mortgage loans for 2003 are estimated to be $44 million. At December 31, 2002, the Company was not obligated to fund any commercial loans beyond 2003.

As discussed in Aetna Inc. s 2002 Annual Report on Form 10-K, the Company has been able to earn contingent consideration under a long-term strategic provider relationship with Magellan Health Services Inc. (Magellan), the purchaser of HAI. The Company recognized the final installment of this contingent consideration under this agreement of approximately $60 million pretax during the second quarter of 2002. This amount was due in February 2003 but was not paid, and Magellan announced that it is experiencing financial difficulties. Based on the Company s discussions with Magellan regarding their plans to address these issues, the Company currently believes it will ultimately recover the full amount due.

Guarantees

The Company has the following guarantee arrangements as of December 31, 2002.

Mortgage-Backed Securities Obligation   In June of 1992, the Company securitized 98 apartment mortgage loans totaling $325 million into 21 FNMA (Fannie Mae) mortgage-backed securities (MBS). The Company subsequently sold those MBSs for cash. Fannie Mae required that the Company continue to retain a portion of the risk of default of the underlying loans, and therefore the Company guaranteed the first $59 million of such losses. As of December 31, 2002, $50 million of the original mortgage loans were outstanding. Therefore, the maximum exposure the Company had on its guarantee to Fannie Mae for loans default, as of December 31, 2002 was $50 million. The Company has no recourse for this guarantee.

Operating Lease Residual Value Guarantee   The Company has a leasing program with an independent third party grantor trust primarily for the lease of a corporate aircraft and certain office furniture. The total value of the assets under lease as of December 31, 2002 was $54 million. Under current accounting guidance, this arrangement is an operating lease, and therefore the related assets and liabilities are not recorded on the Company s Consolidated Balance Sheet. However, under the guidance of FIN 46 (see Note 2 for a discussion of new accounting standards) the Company will consolidate this VIE beginning with its third quarter 2003 interim financial statements. The Company may terminate the lease program at any time by purchasing the assets at cost or dissolving the grantor trust through liquidation. If the assets were sold to a third party at less than the cost to the grantor trust, the Company s maximum exposure under a residual value guarantee was approximately $48 million as of December 31, 2002.

ASC Claim Funding Accounts   The Company has arrangements with certain banks for the processing of claim payments for its ASC customers. The banks maintain accounts to fund ASC customer s claims. The customer is responsible to fund the amount paid by the bank each day. In these arrangements, the Company guarantees that the banks will not sustain losses if the responsible ASC customer does not properly fund their account. The aggregate maximum exposure under these arrangements is $258 million. The Company could limit its exposure to this guarantee by suspending the payment of claims for ASC customers that have not adequately funded the amount paid by the bank.

Indemnification Agreements In connection with certain acquisitions and dispositions of assets and/or businesses (e.g., the Transaction), the Company has incurred certain customary indemnification obligations to the applicable seller or purchaser, respectively. In general, the Company has agreed to indemnify the other party for certain losses relating to the assets or business that the Company purchased or sold. Certain portions of the Company s indemnification obligations are capped at the applicable purchase price, while other arrangements are not subject to such a limit. As of December 31, 2002, the Company believes it has established reserves and/or obtained insurance sufficient to cover such potential losses. Refer to Notes 13 and 21 for more information and the Company s indemnification obligations related to the Transaction.

Intercompany Obligations The Company has guaranteed certain of the obligations of certain of its HMO and dental maintenance organizations (DMO) subsidiaries. For certain HMOs and DMOs, Aetna guarantees the payment of substantially all the legal entities expenses and claims in the event of that legal entity s insolvency. The Company s maximum exposure under these arrangements is the payment of such expense and claim obligations of the applicable legal entities, which totaled approximately $800 million as of December 31, 2002. These obligations are reflected on the applicable legal entity s balance sheets and are included in the Consolidated Balance Sheet. Aetna also has agreed to maintain the capital of certain HMOs at or above the minimum level required by law. The aggregate of all such minimum capital requirements at December 31, 2002 was $11 million; however, the capital of each of these HMOs exceeded the required level at December 31, 2002. There are no recourse provisions to offset payments made under either of these types of arrangements.

Guaranty Fund Assessments, Market Stabilization and Other Non-Voluntary Risk Sharing Pools

Under guaranty fund laws existing in all states, insurers doing business in those states can be assessed (up to prescribed limits) for certain obligations of insolvent insurance companies to policyholders and claimants. Assessments generally are based on a formula relating to the Company s premiums in the state compared to the premiums of other insurers. While we historically have recovered more than half of guaranty fund assessments through statutorily permitted premium tax offsets, significant increases in assessments could jeopardize future recovery of these assessments. Some states have similar laws relating to HMOs. HMOs in certain states in which the Company does business are subject to assessments, including market stabilization and other risk sharing pools for which the Company is assessed charges based on incurred claims, demographic membership mix and other factors. The Company establishes liabilities for these assessments based on applicable laws and regulations. In certain states, the ultimate assessments to be paid by the Company are dependent upon the Company s experience relative to other entities subject to the assessment and the ultimate liability is not known at the balance sheet date. While the ultimate amount of the assessment is dependent upon the experience of all pool participants, the Company has adequate reserves to cover such assessments. There were no material charges to earnings for guaranty fund and other assessments during 2002 or 2001.

Litigation

Managed Care Class Action Litigation

Since 1999, the Company has been involved in purported class action lawsuits that are part of a wave of similar actions targeting the health care payor industry and, in particular, the conduct of business by managed care companies (the Managed Care Class Action Litigation).

The Judicial Panel on Multi-district Litigation has transferred all of the federal actions, including several actions originally filed in state courts, to the United States District Court for the Southern District of Florida (the Florida Federal Court) for consolidated pretrial proceedings. The Florida Federal Court has divided these cases into two tracks one for cases brought on behalf of subscribers (collectively, the Subscriber Cases) and the other for cases brought on behalf of health care providers (collectively, the Provider Cases).

Twelve Subscriber Cases currently are pending in the Florida Federal Court. The Subscriber Cases seek various forms of relief, including unspecified damages, treble damages, injunctive relief and restitutionary relief for unjust enrichment, for alleged violations of the Racketeer Influenced and Corrupt Organizations Act (RICO) and the Employee Retirement Income Security Act of 1974 (ERISA), and seek similar relief under common law theories and/or state unfair trade statutes. Each of former Aetna, the Company (including certain health maintenance organizations that Aetna acquired from Prudential) and Richard L. Huber (the former chairman of former Aetna) are named as defendants in one or more of the Subscriber Cases. The Subscriber Case complaints allege generally that defendants failed to adequately inform members about defendants   managed care practices, including capitated payments to providers and utilization management practices. Certain Subscriber Cases also contain charges relating to the disclosure and determination of usual, customary and reasonable charges for claims and related claims payment practices.

On September 26, 2002, the Florida Federal Court denied the plaintiffs   motion to certify a class for the Subscriber Cases. Merits discovery on the Subscriber Cases commenced in September 2002, and the Florida Federal Court has scheduled trial for the Subscriber Cases commencing September 22, 2003. The Company intends to continue to defend the Subscriber Cases vigorously.

Eleven Provider Cases currently are pending in the Florida Federal Court, and a similar action is pending in Louisiana state court. The Provider Cases allege generally that the Company and each of the other defendant managed care organizations employ coercive economic power to force physicians to enter into economically unfavorable contracts, impose unnecessary administrative burdens on providers and improperly deny claims in whole or in part, and that the defendants do not pay claims timely or do not pay claims at proper rates. The Provider Cases further charge that the Company and the other defendant managed care organizations conspired and aided and abetted one another in the alleged wrongdoing. In addition, a Provider Case brought on behalf of the American Dental Association alleges improper disclosure and determination of usual, customary and reasonable charges for dental claims and related claims payment practices. The Provider Cases allege violations of RICO, ERISA, state unfair trade statutes, state consumer fraud statutes, state laws regarding the timely payment of claims, and various common law doctrines. The Provider Cases seek various forms of relief, including unspecified damages, treble damages, punitive damages and injunctive relief.

The plaintiffs in the Provider Cases generally seek to represent purported nationwide classes and subclasses of physicians and other providers who currently or formerly provided services to members of the Company and/or Prudential. Certain Provider Cases also purport to bring class actions on behalf of physicians and/or other providers in a particular state, and plaintiffs in cases originally filed in state courts seek to have those cases remanded to state courts for separate trial. On September 26, 2002, the Florida Federal Court issued an order certifying a global RICO class and certain sub-classes in the matter it has designated as the lead Provider Case. That order is the subject of a pending appeal before the United States Court of Appeals for the Eleventh Circuit. Merits discovery on the Provider Cases commenced in September 2002, and the Florida Federal Court has scheduled the Provider Cases for trial commencing December 8, 2003. The Company intends to continue to defend vigorously the Provider Cases and similar state court actions.

In addition to the Subscriber and Provider Cases consolidated before the Florida Federal Court, a complaint was filed in the Superior Court of the State of California, County of San Diego (the   California Superior Court) on November 5, 1999 by Linda Ross and The Stephen Andrew Olsen Coalition for Patients Rights, purportedly on behalf of the general public of the State of California (the   Ross Complaint). The Ross Complaint, as amended, seeks injunctive relief against former Aetna, Aetna, Aetna Health of California Inc. and additional unnamed   John Doe   defendants for alleged violations of California Business and Professions Code Sections 17200 and 17500. The Ross Complaint alleges that defendants are liable for alleged misrepresentations and omissions relating to advertising, marketing and member materials directed to the Company s HMO members and the general public and for alleged unfair practices relating to contracting of doctors. This action is in the discovery phase, and trial currently is scheduled to begin on December 5, 2003. Defendants intend to continue to defend this action vigorously.

Securities Class Action Litigation

Laborers Tri-County Pension Fund, Goldplate Investment Partners Ltd. and Sheila Shafran filed a consolidated and amended purported class action complaint (Securities Complaint   ) on June 7, 2002 in the United States District Court for the Southern District of New York. The Securities Complaint supplanted several complaints, filed beginning November 6, 2001, which have been voluntarily dismissed or consolidated. Plaintiffs contend that the Company and two of its current or former officers and directors, William H. Donaldson and John W. Rowe, M.D., violated federal securities laws. Plaintiffs allege misrepresentations and omissions regarding, among other things, the Company s ability to manage and control medical costs and the appropriate reserve for medical costs as of December 31, 2000, for which they seek unspecified damages, among other remedies. On October 15, 2002, the Court heard argument on defendants motion to dismiss the Securities Complaint. Defendants intend to continue vigorously defending this action, which is in its preliminary stages.

The Company is unable to predict at this time the ultimate outcome of the Managed Care Class Action Litigation or Securities Class Action Litigation. It is reasonably possible that their outcome could be material to the Company.

Other Litigation and Regulatory Proceedings

The Company is involved in numerous other lawsuits arising, for the most part, in the ordinary course of its business operations, including employment litigation and claims of bad faith, medical malpractice, non-compliance with state regulatory regimes, marketing misconduct, failure to timely pay medical claims and other litigation in its health care business. Some of these other lawsuits are purported to be class actions.

In addition, the Company s current and past business practices are subject to review by various state insurance and health care regulatory authorities and other state and federal authorities. There continues to be heightened review by these authorities of the managed health care industry s business practices, including utilization management, delegated arrangements and claim payment practices. As a leading national managed care organization, the Company regularly is the subject of such reviews. These reviews may result in changes to or clarifications of the Company s business practices, and may result in fines, penalties or other sanctions.

While the ultimate outcome of this other litigation and these regulatory proceedings cannot be determined at this time, after consideration of the defenses available to the Company, applicable insurance coverage and any related reserves established, they are not expected to result in liability for amounts material to the financial condition of the Company, although they may adversely affect results of operations in future periods.

21. Discontinued Operations

As discussed in Note 13, in the first quarter of 2002 the Company released $50 million of federal income tax reserves resulting from the resolution of Service audit issues that related to the property and casualty insurance business of former Aetna, which was sold in 1996.

On December 13, 2000, former Aetna sold its financial services and international businesses to ING in a transaction valued at approximately $7.7 billion. Under the terms of the agreement and in an integrated transaction, former Aetna spun off to its shareholders the shares of the Company, which is comprised primarily of the Health Care, Group Insurance and Large Case Pensions businesses. Simultaneously, former Aetna, which then was comprised of Aetna Financial Services and Aetna International, was merged with a newly formed subsidiary of ING. In exchange for each share of former Aetna, shareholders received one share of the Company and $35.33 per share in cash. When ING acquired former Aetna, that entity included approximately $3.0 billion of net liabilities, primarily comprised of $2.7 billion of long-term debt. As part of the sale consideration and the spin-off transaction, these net liabilities were acquired by ING.

In December 2000, the Company established a reserve for the net costs associated with the Transaction of approximately $174 million after tax. These costs, which were directly associated with the sale of the financial services and international businesses, were included in the results of discontinued operations for 2000 and related to certain compensation-related arrangements, costs for outside financial and legal advisors, income taxes related to legal entity realignment, payments for the settlement of certain former Aetna employee stock options held by employees of the sold businesses and various other expenses related to the change in control of former Aetna. During the fourth quarter of 2001, the Company reduced the reserve for such costs by approximately $11 million after tax, which management determined were no longer necessary. Included in the cost associated with the Transaction was the release of approximately $53 million of previously established reserves in connection with prior dispositions of businesses reflected as discontinued operations.

In connection with its spin-off from former Aetna, the Company assumed all liabilities related to the Health Care, Group Insurance and Large Case Pensions businesses. In addition, the Company generally is responsible for the liabilities of former Aetna other than those arising out of the financial services and international businesses sold to ING. Those liabilities include the post-retirement pension and other benefits payable to all former employees of former Aetna, liabilities arising out of health litigation and certain corporate-level litigation to which former Aetna is a party, and all liabilities arising out of certain divestiture transactions consummated by former Aetna prior to the closing of the Company s spin-off. The Company also provided certain administrative services on behalf of ING through June 2002.

The Company is the successor of former Aetna for accounting purposes and, accordingly, the account balances and activities of the financial services and international businesses have been segregated and reported as discontinued operations. Operating results of these discontinued operations for the year ended December 31, 2000 were as follows:

(millions)	**2000**
Revenue:	
Premiums	$3,105.2
Total net investment income	1,370.4
Fees and other income	727.2
Net realized capital gains	280.5
Total revenue	5,483.3
Benefits and expenses:	
Current and future benefits	3,255.4
Operating expenses:	
Salaries and related benefits	481.8
Other	665.2
Interest expense	49.7
Amortization of goodwill and other acquired intangible assets	28.6
Amortization of deferred policy acquisition costs	224.3
Total benefits and expenses	4,705.0
Income before taxes	778.3
Income taxes:	
Current	210.6
Deferred	139.2
Total income taxes	349.8
Income from discontinued operations before sale and spin-off related costs	428.5
Sale and spin-off related costs, net of $16.0 million of income taxes	(174.0)
Income from discontinued operations	$ 254.5

MANAGEMENT S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the financial statements of Aetna Inc., which have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements are the products of a number of processes that include the gathering of financial data developed from the records of the Company s day-to-day business transactions. Informed judgments and estimates are used for those transactions not yet complete or for which the ultimate effects cannot be measured precisely. The Company emphasizes the selection and training of personnel who are qualified to perform these functions. In addition, Company personnel are subject to rigorous standards of ethical conduct that are widely communicated throughout the organization.

The Company s internal controls are designed to reasonably assure that Company assets are safeguarded from unauthorized use or disposition and that Company transactions are authorized, executed and recorded properly. Company personnel maintain and monitor these internal controls on an ongoing basis. In addition, the Company s internal auditors review and report upon the functioning of these controls with the right of full access to all Company personnel.

The Company engages KPMG LLP as independent auditors to audit its financial statements and express their opinion thereon. Their audits include reviews and tests of the Company s internal controls to the extent they believe necessary to determine and conduct the audit procedures that support their opinion. Members of that firm also have the right of full access to each member of management in conducting their audits. The report of KPMG LLP appears below.

The Company s Board of Directors has an Audit Committee composed solely of independent directors. The Committee meets regularly with management, the internal auditors and KPMG LLP to oversee and monitor the work of each and to inquire of each as to their assessment of the performance of the others in their work relating to the Company s financial statements. Both the independent and internal auditors have, at all times, the right of full access to the Audit Committee, without management present, to discuss any matter they believe should be brought to the attention of the Committee.

INDEPENDENT AUDITORS REPORT

The Shareholders and Board of Directors
Aetna Inc.:

We have audited the accompanying consolidated balance sheets of Aetna Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aetna Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Hartford, Connecticut
February 10, 2003

QUARTERLY DATA (UNAUDITED)

2002 (millions, except per common share data)	First(1)	Second(2)	Third(3)	Fourth(4)
Total revenue	$ 5,264.7	$5,064.2	$4,832.1	$4,717.7
Income from continuing operations before income taxes	$ 97.7	$ 159.6	$ 143.5	$ 144.0
Income taxes	9.7	51.4	44.7	45.8
Income from continuing operations	88.0	108.2	98.8	98.2
Income from discontinued operations	50.0			
Cumulative effect adjustment, net of tax	(2,965.7)			
Net income (loss)	$(2,827.7)	$ 108.2	$ 98.8	$ 98.2
Per common share results:(5)				
Net income (loss)				
Basic	$ (19.50)	$ .73	$ .66	$ .65
Diluted	(19.00)	.70	.64	.63
Common stock data:				
Dividends declared	$	$	$ .04	$
Common stock prices, high	38.82	51.76	47.04	43.97
Common stock prices, low	30.76	38.66	35.81	31.69

(1) First quarter includes a release of $19.8 million of state income taxes related reserves.

(2) Second quarter includes an after-tax severance and facilities charge of $17.5 million ($27.0 million pretax) (refer to Note 11) and a $5.4 million after tax benefit ($8.3 million pretax) from a reduction of the reserve for loss on discontinued products.

(3) Third quarter includes an after-tax severance and facilities charge of $57.9 million ($89.0 million pretax) (refer to Note 11).

(4) Fourth quarter includes an after-tax severance and facilities charge of $29.2 million ($45.0 million pretax) (refer to Note 11).

(5) Calculation of the earnings per share is based on weighted average shares outstanding during each quarter and, accordingly, the sum may not equal the total for the year.

2001 (millions, except per common share data)	First	Second(1)	Third	Fourth(2)
Total revenue	$6,428.7	$6,536.4	$6,183.2	$6,042.5
Income (loss) from continuing operations before income taxes (benefits)	$ (48.5)	$ 43.6	$ (62.0)	$ (311.8)
Income taxes (benefits)	.2	33.0	(7.6)	(112.8)
Income (loss) from continuing operations	(48.7)	10.6	(54.4)	(199.0)
Income from discontinued operations				11.4
Cumulative effect adjustment, net of tax	.5			
Net income (loss)	$ (48.2)	$ 10.6	$ (54.4)	$ (187.6)

Per common share results:(3)(4)				
Net income (loss)				
Basic	$ (.34)	$ .07	$ (.38)	$ (1.30)
Diluted	(.34)	.07	(.38)	(1.30)
Common stock data:				
Dividends declared	$	$	$ .04	$
Common stock prices, high	41.50	36.55	30.05	33.71
Common stock prices, low	33.81	23.23	24.68	27.64

(1) Second quarter includes a $61.4 million after-tax benefit ($94.5 million pretax) from a reduction of the reserve for loss on discontinued products.

(2) Fourth quarter includes an after-tax severance and facilities charge of $125.1 million ($192.5 million pretax) (refer to Note 11).

(3) Calculation of the earnings per share is based on weighted average shares outstanding during each quarter and, accordingly, the sum may not equal the total for the year.

(4) Since the Company reported a loss from continuing operations in the first, third and fourth quarters, the effect of common stock equivalents has been excluded from per common share computations for these quarters, since including such securities would be anti-dilutive. As a result, diluted and basic per common share amounts for these quarters are the same.

BOARD OF DIRECTORS

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Chairman and Chief Executive Officer
Resource Asset Investment Trust

Barbara Hackman Franklin
President and Chief Executive Officer
Barbara Franklin Enterprises
Former U.S. Secretary of Commerce

Jeffrey E. Garten
Dean
Yale School of Management

Earl G. Graves
Chairman and Chief Executive Officer
Earl G. Graves, Ltd.
Publisher, Black Enterprise magazine

Gerald Greenwald
Founding Principal of
Greenbriar Equity Group
Retired Chairman and
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UAL Corporation

Ellen M. Hancock
Former Chairman and
Chief Executive Officer
Exodus Communications, Inc.

Michael H. Jordan
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Chief Executive Officer
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Retired Vice Chairman
International Business Machines Corporation

Joseph P. Newhouse
John D. MacArthur Professor of Health Policy and Management
Harvard University

Judith Rodin
President
University of Pennsylvania

John W. Rowe, M.D.
Chairman and Chief Executive Officer

Aetna Inc.

Ronald A. Williams
President
Aetna Inc.

R. David Yost
Chief Executive Officer
AmerisourceBergen Corporation

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Earl G. Graves
Ellen M. Hancock
Joseph P. Newhouse

Compensation and Organization
Betsy Z. Cohen
Gerald Greenwald
Michael H. Jordan*
Jack D. Kuehler
R. David Yost

Executive
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Earl G. Graves
Michael H. Jordan
Jack D. Kuehler
Judith Rodin
John W. Rowe, M.D.*

Investment
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Gerald Greenwald
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Judith Rodin
Ronald A. Williams
R. David Yost

Medical Affairs Committee
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Judith Rodin*
John W. Rowe, M.D.

Nominating and Corporate Governance
Barbara Hackman Franklin
Earl G. Graves
Gerald Greenwald*

Ellen M. Hancock

Michael H. Jordan

**Committee Chairman*

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Chairman and Chief Executive Officer

Ronald A. Williams
President

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Executive Vice President
Strategy and Finance

L. Edward Shaw, Jr.
Executive Vice President and
General Counsel

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Vice President
Group Insurance

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National Network, Provider and Product Services and Strategy

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Chief Financial Officer

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Vice President and Business Operations Chief Financial Officer

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Communications

C. Timothy Brown
Senior Vice President
Middle Market Accounts and
Health Care Delivery

William J. Casazza
Vice President, Deputy General Counsel and Corporate Secretary

Wei-Tih Cheng

Senior Vice President and
Chief Information Officer

Patricia A. Farrell
Senior Vice President
Strategic Planning

Russell D. Fisher
Senior Vice President
National Accounts and Aetna Global Benefits

Mary C. Fox
Vice President
Operational Excellence Group

Patricia Hassett
Vice President
Chief of Staff
Office of the Chairman

Paul B. Hebert
Vice President, Internal Audit

Timothy A. Holt
Senior Vice President and
Chief Investment Officer

Charles H. Klippel
Vice President and
Deputy General Counsel

Vanda B. McMurtry
Senior Vice President
Federal Government Relations

Dennis Oakes
Vice President
Investor Relations

Ronald M. Olejniczak
Vice President and Controller

William C. Popik, M.D.
Senior Vice President and
Chief Medical Officer

Alfred P. Quirk, Jr.
Vice President, Finance and Treasurer

Arthur J. Redmond

Senior Vice President
Strategic Marketing

William H. Roth
Senior Vice President
Small Group Business and Retiree Markets

Scott A. Schnuckle
Vice President
Dental and Behavioral Health Operations

Diane D. Souza
Vice President
National Customer Operations

Thomas C. Strohmenger
Vice President and
Chief Compliance Officer

Robyn S. Walsh
Vice President

Elease E. Wright
Senior Vice President
Human Resources

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

151 Farmington Avenue
Hartford, CT 06156
860-273-0123

ANNUAL MEETING

The annual meeting of shareholders of Aetna Inc. will be held on Friday, April 25, 2003 at 9:30 a.m. at the company s headquarters in Hartford, Conn.

STOCK EXCHANGE LISTING

Aetna s common shares are listed on the New York Stock Exchange. The NYSE symbol for the common shares is AET. As of January 31, 2003, there were 14,241 record holders of Aetna s common shares.

WEB SITE ACCESS TO AETNA S PERIODIC AND CURRENT REPORTS AND CORPORATE GOVERNANCE MATERIALS

Aetna makes available free of charge through its Web site at http://www.aetna.com its Annual Report on Form 10-K, Forms 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after Aetna electronically files or furnishes such material with the Securities and Exchange Commission. Aetna also makes available free of charge through its Web site the company s Annual Report, Financial Report and Proxy Statement. Shareholders may request printed copies of these reports free of charge by calling 1-800-237-4273.

Aetna s report to the Securities and Exchange Commission on Form 10-K provides additional details about the company s business, as well as other financial information not included in this Annual Report. **To receive a copy of the Annual Report on Form 10-K without charge, please follow the above instructions.**

Also available on Aetna s Web site at http://www.aetna.com are the following Aetna corporate governance materials: Articles of Incorporation and By-Laws; Code of Conduct for Directors, officers and employees (and information regarding any amendments or waivers relating to Aetna s Directors, executive officers and principal financial and accounting officers or persons performing similar functions); Independence Standards for Directors; Corporate Governance Guidelines; and Charters for the Committees of the Board of Directors (Audit Committee, Committee on Compensation and Organization, Executive Committee, Investment Committee, Medical Affairs Committee, and Nominating and Corporate Governance Committee). These materials also are available in print to shareholders free of charge by calling 1-800-237-4273.

Section 16 reports are filed with the Securities and Exchange Commission by Aetna s Directors and those officers subject to Section 16 to reflect a change in their beneficial ownership of Aetna s securities and are available through Aetna s Web site at http://www.aetna.com.

The Audit Committee can be confidentially contacted by those wishing to raise concerns or complaints about the Company s accounting, internal accounting controls or auditing matters by calling AlertLine®, an independent toll-free service, at 1-888-891-8910 (available seven days a week, 24 hours a day), or by writing to: Corporate Compliance, P.O. Box 370205, West Hartford, CT 06137-0205.

Anyone wishing to make their concerns known to Aetna s nonmanagement Directors may contact the Aetna Director who leads the nonmanagement Directors session at Board meetings (currently Gerald Greenwald) by writing to Mr. Greenwald at P.O. Box 370205, West Hartford, CT 06137-0205.

Aetna mails quarterly financial results only to those shareholders who request copies. Shareholders may call 1-800-237-4273 to listen to the company s quarterly earnings release and dividend information, and to request faxed or mailed copies of the quarterly results.

INVESTOR RELATIONS

Securities analysts and institutional investors should contact:

Dennis Oakes, Vice President

860-273-6184
FAX: 860-273-3971
Internet mail: oakesd@aetna.com

SHAREHOLDER SERVICES

EquiServe Trust Company, N.A. maintains a telephone response center to service registered shareholder accounts. Registered owners may contact the center to inquire about replacement dividend checks, address changes, stock transfers and other account matters.

EquiServe Trust Company, N.A.

P.O. Box 43069
Providence, RI 02940-3069
1-800-446-2617

For direct deposit of dividends, registered shareholders may call EquiServe at 1-800-870-2340.

Registered shareholders with e-mail addresses can send account inquiries electronically to EquiServe at http://www.equiserve.com.

Additionally, registered shareholders now have available online access to their accounts through the Internet at EquiServe s Web site at http://www.equiserve.com.

DirectSERVICE Investment Program

Current shareholders and new investors can purchase common shares of Aetna and reinvest cash dividends through EquiServe Trust Company, N.A. All inquiries for materials or information about this program should be directed to EquiServe at 1-800-446-2617.

Other Shareholder Inquiries

Office of the Corporate Secretary
Aetna Inc.
151 Farmington Avenue, RC4A
Hartford, Connecticut 06156-3215
860-273-3945

AETNA STOCK OPTION PARTICIPANTS

AETNA EMPLOYEE STOCK PURCHASE PLAN PARTICIPANTS
Employees with outstanding stock options should address all questions to UBS PaineWebber regarding their accounts, outstanding options or shares received through option exercises. Employees participating in the Employee Stock

Purchase Plan also should contact UBS PaineWebber with questions on their accounts.

UBS PaineWebber Inc.

Corporate Employee Financial Services
300 Lighting Way, 6th Floor
Secaucus, New Jersey 07094-3672
1-888-793-7631 or 1-800-238-6247

Online access

http://www.cefs.ubspainewebber.com/aet

151 Farmington Avenue
Hartford, Connecticut 06156

Printed on recycled paper.

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Please mark your votes as indicated in this example X

The Board of Directors recommends a vote FOR Items 1, 2, 3, 4 and 5.

The Board of Directors recommends a vote AGAINST Item 6.

	FOR	**WITHHELD**
1. Election of Directors	○	○

01 Betsy Z. Cohen
02 Jeffrey E. Garten
03 Jack D. Kuehler
04 John W. Rowe, M.D.
05 Ronald A. Williams

For, except vote withheld from the following nominee(s):

____

	FOR	**AGAINST**	**ABSTAIN**
2. Approval of KPMG LLP as Independent Auditors	○	○	○
	FOR	**AGAINST**	**ABSTAIN**
3. Amend Articles of Incorporation Business Combinations Voting	○	○	○
	FOR	**AGAINST**	**ABSTAIN**
4. Amend Articles of Incorporation Special Shareholders Meetings	○	○	○
	FOR	**AGAINST**	**ABSTAIN**
5. Amend By-Laws Voting Requirements	○	○	○

	FOR	**AGAINST**	**ABSTAIN**
6. Shareholder Proposal on Cumulative Voting	○	○	○

Mark this box if you plan to attend the Annual Meeting. ○

This instruction card is solicited on behalf of Mellon Bank, N.A.

Signature _______________________ **Date** _______________

NOTE: Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If a corporation or other form of entity, please sign in the full name of the entity, by a duly authorized officer. The signer hereby revokes all voting instructions heretofore given to the Trustee by the signer to vote at the 2003 Annual Meeting of Aetna Inc. and any adjournment or postponement thereof.

5 **FOLD AND DETACH HERE** 5

Vote by Telephone 24 Hours a Day, 7 Days a Week

Telephone voting is available through 11PM Eastern time on April 18, 2003.

Your telephone vote authorizes the named Trustee to vote your shares in the same manner as if you marked, signed and returned your voting instruction card.

Telephone
1-800-435-6710
Use any touch-tone telephone to vote your voting instruction card. Have your voting instruction card in hand when you call. You will be prompted to enter your control number, located in the box below, and then follow the directions given.

OR

Mail

Mark, sign and date
your voting instruction card
and
return it in the
enclosed postage-paid
envelope.

If you vote by telephone, you do NOT need to mail back your voting instruction card.

YOUR VOTE IS IMPORTANT. PLEASE MARK, SIGN, DATE AND PROMPTLY RETURN THIS VOTING INSTRUCTION CARD.

TO ATTEND THE ANNUAL MEETING: If you plan to attend the Annual Meeting, you should mark the box provided on the above voting instruction card or signify your intention to attend when you access the telephone voting system. An admission card will then be mailed to you.

THANK YOU FOR VOTING.

AETNA INC.

To: Participants in the Aetna Incentive Savings Plan

Mellon Bank, N.A., the Trustee under the Aetna Incentive Savings Plan (the Plan), has been instructed to solicit your instructions on how to vote the Aetna Common Shares held by the Trustee on your behalf in accordance with the terms of the Plan and to vote those shares in accordance with your instructions at the Annual Meeting of Shareholders of Aetna Inc. to be held on April 25, 2003 and at any adjournment or postponement thereof. Please indicate by checking the appropriate box how you want these shares voted by the Trustee and return this card to the Trustee in the envelope provided. We would like to remind you that your individual voting instructions are held in *strictest confidence* and will not be disclosed to the Corporation. **If you fail to provide voting instructions to the Trustee by 11:00 p.m., Eastern time, on April 18, 2003 either by telephone or by completing, signing and returning this card, your shares will be voted by the Trustee in the same manner and proportion as those shares for which the Trustee receives proper and timely instructions.**

To vote by telephone, please see the reverse side of this card. To vote by mail, please mark, sign and date this card on the reverse side, tear off at the perforation, and mail promptly in the enclosed postage-paid envelope.

----

5 **FOLD AND DETACH HERE** 5

VOTE BY PHONE

QUICK l EASY l IMMEDIATE
If you voted by telephone DO NOT MAIL your Instruction Card

Note: Participants who received the 2003 Aetna Inc. Proxy Statement and Aetna 2002 Annual Report, Financial Report over the Internet and who would like a printed copy of this document may call 1-800-237-4273.

THANK YOU FOR VOTING.

X **Please mark your votes as in this example.**

8988

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1, 2, 3, 4 AND 5 AND AGAINST ITEM 6.

The Board of Directors recommends a vote FOR Items 1, 2, 3, 4 and 5.

	FOR	**WITHHELD**		**FOR**	**AGAINST**	**ABSTAIN**		**FOR**	**AGAINST**	**ABSTAIN**
1. Election of Directors (See reverse side)	O	O	2. Approval of KPMG LLP as Independent Auditors	O	O	O	4. Amend Articles of Incorporation--Special Shareholders Meetings	O	O	O

The Board of Directors recommends a vote AGAINST Item 6.

	FOR	**AGAINST**	**ABSTAIN**
6. Shareholder Proposal on Cumulative Voting	O	O	O

Mark this box if you have more than one account and want to discontinue receiving multiple copies of future Annual Reports. O

Mark this box if you plan to attend the Annual Meeting. O

Signature ______________________________ **Date** ______________________

NOTE: Please sign exactly as name appears herein. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If a corporation or other form of entity, please sign in the full name of the entity, by a duly authorized officer. The signer hereby revokes all proxies heretofore given by the signer to vote at the 2003 Annual Meeting of Aetna Inc. and any adjournment or postponement thereof.

PLEASE SIGN AND DATE HERE, DETACH AND RETURN IN ENCLOSED ENVELOPE OR VOTE BY TELEPHONE OR THE INTERNET.

NOW YOU CAN VOTE YOUR SHARES BY TELEPHONE OR INTERNET!
QUICK * EASY * IMMEDIATE * AVAILABLE 24 HOURS A DAY * 7 DAYS A WEEK

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, and returned your proxy card. To vote by phone or Internet, please follow these easy steps:

TO VOTE BY PHONE

Call toll free 1-877-PRX-VOTE (1-877-779-8683) on a touch tone telephone. Shareholders residing outside the United States, Canada, and Puerto Rico should call 1-201-536-8073. Telephone voting will be available until 11:59 p.m., Eastern time, on April 24, 2003.

Use the Control Number located in the box above, just below the perforation. Enter the Control Number and pound signs (#) exactly as they appear.

Follow the recorded instructions.

TO VOTE BY INTERNET

Log onto http://www.eproxyvote.com/aet which will be available until 11:59 p.m., Eastern time, on April 24, 2003.

Follow the instructions on the screen.

You can also elect to receive future shareholder materials electronically at this Web site.

TO ATTEND THE ANNUAL MEETING

If you plan to attend the Annual Meeting, you should either mark the box provided on the above proxy card or signify your intention to attend when you access the telephone or Internet voting system.

An admission card will then be mailed to you.

AETNA INC.

PROXY

The undersigned hereby appoints Barbara Hackman Franklin, Gerald Greenwald and Michael H. Jordan, and each of them, the proxies of the undersigned, with full power of substitution, to vote the shares of the undersigned at the Annual Meeting of Shareholders of Aetna Inc. to be held April 25, 2003 and at any adjournment or postponement thereof, and directs said proxies to vote as specified herein on the six items specified in this Proxy, and in their discretion on any other matters that may properly come before the meeting or any adjournment or postponement thereof.

NOMINEES FOR TERMS EXPIRING AT 2004 ANNUAL MEETING:

01. Betsy Z. Cohen
02. Jeffrey E. Garten
03. Jack D. Kuehler
04. John W. Rowe, M.D.
05. Ronald A. Williams

THIS PROXY IS SOLICITED ON BEHALF OF AETNA S BOARD OF DIRECTORS.

To vote by telephone or Internet, please see the reverse of this card. To vote by mail, please mark, sign and date the above proxy card on the reverse, tear off at the perforation, and mail promptly in the enclosed postage-paid envelope.

SHAREHOLDER ACCOUNT INQUIRIES

Aetna Inc. s Transfer Agent, EquiServe Trust Company, N.A., maintains a telephone response center to service shareholder accounts. Registered owners of Aetna shares may call the center at 1-800-446-2617 to inquire about replacement dividend checks, address changes, stock transfers and other account matters or to inquire about EquiServe s DirectSERVICE Investment Program.

For direct deposit of dividends, registered shareholders may call EquiServe at 1-800-870-2340.

Registered shareholders with e-mail addresses can send account inquiries electronically to EquiServe at equiserve@equiserve.com.

Registered shareholders can also access their Aetna accounts via the Internet through EquiServe s web site at http://www.equiserve.com.