

To Our Shareholders:

From our strong roots as a behavioral health company to our work in pharmacy and providing a suite of specialty solutions, Magellan Health Services is moving swiftly to become a market leader in the management of fast-growing, complex and high-cost areas of health-care, with a focus on special population management.

During 2013, Magellan produced solid financial results, executed on our two primary growth strategies, added seasoned healthcare executives to our team, and implemented changes to our operations and products to ensure that Magellan is nimble, competitive and poised to respond swiftly to the changing healthcare marketplace. The forward momentum we built during 2013 has positioned us well for future success.

Executing on our growth strategies

In the past year, we significantly advanced our two key growth strategies – our integrated health management business, Magellan Complete Care, and our pharmacy business, Magellan Rx Management.

MCC is now live in three states, and we are setting the stage to expand into other markets. In Florida, we have been operating as a general Medicaid HMO since June 2013, and we are preparing to go live in mid-2014 with the nation's first Medicaid specialty plan for individuals with Serious Mental Illness. In New York, our strategic investment in AlphaCare has provided us with long-term care management capabilities. We

are actively enrolling Medicaid and Medicare lives and gearing up for the start of the state's dual eligible program next year. In Iowa, our Behavioral Led Health Home program, which serves adults with SMI and children with Serious Emotional Disturbance, continues to roll out in various counties across the state.

In October, we acquired Partners Rx, which enhanced our full-service pharmacy resources by adding scale and capabilities in the commercial pharmacy benefit management market, and enhanced our existing, seasoned team with new talent. The management of drug spend has evolved, leaving many of our competitors unable to manage dollars spent through the medical benefit. By combining our PBM with our Medicaid pharmacy, specialty pharmacy, and our unique medical pharmacy capabilities, we are able to manage any drug, under any benefit, at any site of service. The time is right for Magellan's pharmacy business to further expand its reach and become a full-service market leader in the industry.

The Right Leadership

Magellan's employees are its greatest resource – providing innovative ideas, thoughtful solutions and outstanding customer service. We've expanded the sales, account management and clinical areas of our company, and we have three seasoned healthcare executives leading our businesses. Sam Srivastava,

