



## Humana Reports Fourth-Quarter Results

February 9, 2000

\* Core Earnings Continue Sequential Improvement Before Previously

Announced Charge

\* 20-Basis-Point Sequential Improvement in Medical Expense Ratio

\* Strong Growth in Key Medicare Markets

\* Double-digit Commercial Premium Yields for 2000

\* \$234 Million Cash Flow From Operations

LOUISVILLE, Ky., Feb. 9 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported operating earnings of \$.15 per diluted share for the fourth quarter ended December 31, 1999, before the effect of a previously announced charge.

Included in the fourth quarter results are the beneficial effect of a premium deficiency recorded in the first quarter of 1999 of approximately \$.06 per diluted share and the continued favorable development related to the company's workers' compensation liabilities of approximately \$.03 per diluted share. Excluding these favorable items, core earnings were \$.06 per share, compared to \$.05 per share in Humana's third quarter of 1999.

These results compare to earnings of \$.34 per diluted share for the fourth quarter of 1998. Net income for the fourth quarter excluding the charge was \$25 million, compared to \$57 million in the fourth quarter of 1998.

As announced on January 3, 2000, the company recorded a charge totaling \$495 million in the fourth quarter. The pretax charge includes the write-off of approximately \$340 million of goodwill associated with the company's Physician Corporation of America (Austin) and CareNetwork (Milwaukee) acquisitions; estimated losses of approximately \$120 million on pending sales of certain non-core assets, including the majority of its Florida Medicaid operations, Medicare supplement and workers' compensation operations; and approximately \$35 million primarily to strengthen captive insurance reserves.

"We are focused on our core business -- health insurance -- and we are aggressively selling non-core assets. The proceeds of our asset sales will be used to reduce debt and fund technology opportunities for the future," said Michael B. McCallister, Humana's newly appointed president and chief executive officer.

Excluding charges, Humana reported net income of \$109 million or \$.65 per share for the year, compared to \$213 million or \$1.27 per share in 1998. Including charges, Humana reported a net loss of \$382 million or \$2.28 per share for the year, compared to net income of \$129 million or \$.77 per share in 1998.

"Our results for 1999 are clearly not acceptable," said McCallister. "During the second half of 1999 we have put in place corrective actions that have begun to produce favorable results but more importantly set the stage for 2000. In addition to focusing on improving results, we have also spent this time creating a strategic direction that will guide Humana for years to come."

### Revenue

Revenue in the fourth quarter increased 4.2 percent from the year ago quarter to \$2.6 billion. For the year, total revenues were \$10.1 billion, a 3.4 percent increase over 1998's \$9.8 billion. Revenue growth in the fourth quarter and fiscal year was primarily the result of commercial premium yields which escalated throughout the later half of the year.

Commercial premium yield was 9.6 percent for the fourth quarter and compared favorably to the third quarter yield of 6.7 percent. The increasing commercial premium yield is the result of the company pricing its products commensurate with cost trends.

### Membership

Commercial membership declined sequentially in the fourth quarter by 47,600 or 1.5 percent to 3,083,600 due to the sale of 40,000 Florida individual product members to Well Care Management Group, Inc. For the year, commercial membership declined 177,900 or 5.5 percent, the result of the Florida individual product sale and substantial large and small group commercial premium increases.

The company's Medicare membership was essentially flat during the quarter. Strong sales in Humana's key Medicare markets offset the early membership attrition in the 31 counties exited by the company January 1, 2000. Medicare membership at December 31, 1999 was 488,500, a decline of 13,500 or 2.7 percent from a year ago, the result of exiting Sarasota and Treasure Coast, Florida on January 1, 1999.

The company also reported that January 2000 Medicare membership continued strong, not only in the company's key markets but also in markets where the company introduced member premiums.

"Medicare member premiums are an important new pricing paradigm in our industry. They allow us to offset the effect of lower reimbursement rates and, at Humana, are helping to create a strong base from which we can build our Medicare revenues in 2000," said McCallister.

### Medical and Administrative Expenses

The company reported a 20-basis-point sequential improvement in its medical expense ratio to 84.8 percent from 85.0 percent in the third quarter as a result of commercial and Medicare cost trends of 9.5 percent and 5.5 percent, respectively, offset by rising commercial and Medicare premium yields. For the year, Humana's medical expense ratio, excluding the first quarter charge, was 84.8 percent, compared to 83.0 percent for 1998.

Humana's administrative ratio, excluding charges, increased 10 basis points during the fourth quarter to 14.7 percent due to spending on information technology and increased marketing in key Medicare markets. The administrative cost ratio, excluding charges, declined by 30 basis points during the fiscal year to 14.6 percent.

#### Year 2000 Premium Yield Increases

The company expects premium yields for January 2000 of approximately 10 percent for large-group commercial and approximately 13 percent for small-group commercial, compared to 5.2 percent for large group and 6.7 percent for small group in January 1999. Approximately 60 percent of Humana's large groups have renewal dates in January. Renewal of small group customers occur ratably throughout the year.

"January yields for both large and small commercial groups are extremely strong," said Ken Fasola, senior vice president for Humana's small group business. "Customers are accepting substantial rate increases. As a result of these rate increases, we expect first quarter margins to improve by two percent on the large group business and three percent for small group business from the fourth quarter."

#### Cash Flow

Cash flow from operations was \$234 million for the quarter, excluding run-off workers' compensation payments and early receipt of the January Medicare payment. This compares to \$78 million in the third quarter. "Cash flow, like our entire business, is enjoying the impact of greater focus on fundamentals," said Jim Murray, Humana's senior vice president and chief financial officer. "Humana is positioned to perform well in the year ahead."

Following is a summary of financial highlights from Humana's two operating divisions.

#### Health Plan Division

##### Large Group Commercial

- \* Premium yields were 6.8 percent in the fourth quarter compared to a 5.0 percent yield in the third quarter of 1999. The sequential increase is a reflection of the company's more aggressive pricing strategy for new and renewal business.
- \* Membership declined a modest 3,900 sequentially and 139,200 year-over-year to 1,420,500 at December 31, 1999, compared to 1,559,700 at December 31, 1998.
- \* Medical cost trends were 8.2 percent compared to 7.7 percent in the third quarter and 8.0 percent in the second quarter. As cost trends have been relatively stable and premium yields continue to increase, margins improved 130 basis points from the third quarter.

##### Medicare

- \* Premium yields were 4.6 percent in the fourth quarter compared to 4.0 percent in the third quarter, the result of growth in markets with higher reimbursement rates.
- \* Membership was essentially flat sequentially and declined 13,500 or 2.7 percent from December 31, 1998 to 488,500. Strong sales in key markets such as Chicago, Tampa and South Florida offset early membership attrition in the 31 counties the company exited on January 1, 2000.
- \* Medical cost trend of 5.5 percent compares to 5.0 percent in the third quarter. The sequential increase is related to higher inpatient costs, the result of an earlier flu season compared to the previous year.

#### Small Group Division

##### Small Group Commercial

- \* Premium yields were 11.6 percent in the fourth quarter compared to 8.0 percent in the third quarter.
- \* Membership was 1,663,100 at December 31, 1999, a decline of 43,700 or 2.6 percent from the third quarter and a 2.3 percent decline from December 31, 1998. The decline was mainly the result of the sale of 40,000 members in the Florida individual product effective December 1, 1999.
- \* Medical cost trend of 10.6 percent was flat sequentially. Margins have improved steadily as cost trends have leveled off and premium yields improved 360 basis points from the third quarter.

Humana Inc., headquartered in Louisville, Ky., is one of the nation's largest publicly traded managed health care companies with approximately 6 million medical members located primarily in 15 states and Puerto Rico. Humana offers coordinated health care through a variety of plans - health maintenance organizations, preferred provider organizations, point-of-service plans and administrative services

products - to employer groups, government-sponsored plans and individuals.

More information about Humana is available on the Internet at <http://www.humana.com> .

This press release contains forward-looking information. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be significantly impacted by certain risks and uncertainties described in Humana's Annual Report on Form 10-K for the year ended December 31, 1998 and in Humana's Quarterly Report on Form 10-Q for the quarters ended March 31, 1999, June 30, 1999 and September 30, 1999 as filed with the Securities and Exchange Commission.

Summary of operating results for the three months ended December 31:

	1999 (b)	1998
Revenues	\$2,574,000,000	\$2,469,000,000
Income before income taxes	\$ 38,000,000	\$ 89,000,000
Net income	\$ 25,000,000	\$ 57,000,000
Earnings per common share	\$ .15	\$ .34
Earnings per common share-assuming dilution	\$ .15	\$ .34
Shares used in earnings per share computation	167,517,000	167,406,000
Shares used in earnings per share computation -assuming dilution	167,517,000	168,599,000

Summary of operating results for the twelve months ended December 31:

	1999 (a) (b)	1998 (c)
Revenues	\$10,101,000,000	\$9,781,000,000
Income before income taxes	\$ 169,000,000	\$ 335,000,000
Net income	\$ 109,000,000	\$ 213,000,000
Earnings per common share	\$ .65	\$ 1.28
Earnings per common share -assuming dilution	\$ .65	\$ 1.27
Shares used in earnings per share computation	167,556,000	166,472,000
Shares used in earnings per share computation -assuming dilution	167,556,000	168,265,000

(a) Excludes first quarter 1999 charge of \$90 million (\$58 million after tax, or \$.34 per diluted share) primarily related to premium deficiency and reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

(b) Excludes fourth quarter 1999 charge of \$495 million (\$441 million after tax, or \$2.63 per diluted share) primarily related to goodwill write-down and losses on non-core assets held for sale.

(c) Excludes third quarter 1998 charge of \$132 million (\$84 million after tax, or \$.50 per diluted share) primarily related to the costs of certain market exits and product discontinuances, asset write-offs and

a one-time associate incentive for employees, excluding officers.

Humana Inc.

Dollars in millions, except per share results

	Three months ended December 31,		Year ended December 31,	
	1999 (b)	1998	1999 (a)(b)	1998 (c)
<b>Summarized Operating Results</b>				
<b>Revenues:</b>				
Premiums	\$ 2,543	\$ 2,427	\$ 9,959	\$ 9,597
Interest	29	35	132	150
Other income	2	7	22	34
Total revenues	2,574	2,469	10,113	9,781
<b>Operating expenses:</b>				
Medical	2,154	2,010	8,532	8,041
Selling, general and administrative	376	327	1,368	1,328
Depreciation and amortization	33	31	124	128
Asset write-downs and other charges	460	--	460	34
Total operating expenses	3,023	2,368	10,484	9,531
(Loss) income from operations	(449)	101	(371)	250
Interest expense	8	12	33	47
(Loss) income before income taxes	(457)	89	(404)	203
(Benefit) provision for income taxes	(41)	32	(22)	74
Net (loss) income	\$ (416)	\$ 57	\$ (382)	\$ 129
(Loss) earnings per common share	(\$2.48)	\$0.34	(\$2.28)	\$0.77
(Loss) earnings per common share - assuming dilution	(\$2.48)	\$0.34	(\$2.28)	\$0.77
<b>Shares used in earnings per share computation (000)</b>				
Shares used in earnings per share computation - assuming dilution (000)	167,517	168,599	167,556	166,472
Medical expense ratio	84.8%	82.8%	85.7%	83.8%
Administrative cost ratio	16.0%	14.7%	15.0%	15.2%

(a) Includes first quarter 1999 charge of \$90 million (\$58 million after tax, or \$.34 per diluted share) primarily related to premium deficiency and reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

(b) Includes fourth quarter 1999 charge of \$495 million (\$441 million after tax, or \$2.63 per diluted share) primarily related to goodwill write-down and losses on non-core assets held for sale.

(c) Includes third quarter 1998 charge of \$132 million (\$84 million after tax, or \$.50 per diluted share) primarily related to the costs of certain market exits and product discontinuances, asset write-offs and a one-time associate incentive for employees, excluding officers.

Premiums

Health Plans:

Large Group Commercial	\$ 583	\$ 595	\$2,348	\$2,368
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Medicare HMO	736	734	2,920	2,918
Medicaid	152	140	603	554
TRICARE	228	200	866	800
Medicare Supplement and Workers' Compensation	23	22	90	94
Total Health Plans	1,722	1,691	6,827	6,734

Small Group:

Small Group Commercial	753	682	2,882	2,652
Specialty	68	54	250	211
Total Small Group	821	736	3,132	2,863
Total premiums	\$2,543	\$2,427	\$9,959	\$9,597

Humana Inc.

Dollars in millions, except per share results

Summarized Operating Results (excluding non-recurring items)	Three months ended		Year ended	
	1999 (e)	1998	1999 (d)(e)	1998 (f)
Revenues:				
Premiums	\$2,543	\$2,427	\$9,959	\$9,597
Interest	29	35	132	150
Other income	2	7	10	34
Total revenues	2,574	2,469	10,101	9,781
Operating expenses:				
Medical	2,154	2,010	8,442	7,968
Selling, general and administrative	341	327	1,333	1,303
Depreciation and amortization	33	31	124	128
Total operating expenses	2,528	2,368	9,899	9,399
Income from operations	46	101	202	382
Interest expense	8	12	33	47
Income before income taxes	38	89	169	335
Provision for income taxes	13	32	60	122
Net income	\$ 25	\$ 57	\$ 109	\$ 213

Earnings per common share \$ 0.15 \$ 0.34 \$ 0.65 \$ 1.28

Earnings per common share

- assuming dilution \$ 0.15 \$ 0.34 \$ 0.65 \$ 1.27

Shares used in earnings per

share computation (000) 167,517 167,406 167,556 166,472

Shares used in earnings

per share computation

- assuming dilution (000) 167,517 168,599 167,556 168,265

Medical expense ratio 84.8% 82.8% 84.8% 83.0%

Administrative cost ratio 14.7% 14.7% 14.6% 14.9%

(d) Excludes first quarter 1999 charge of \$90 million (\$58 million after tax, or \$.34 per diluted share) primarily related to premium deficiency and reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

(e) Excludes fourth quarter 1999 charge of \$495 million (\$441 million after tax, or \$2.63 per diluted share) primarily related to goodwill write-down and losses on non-core assets held for sale.

(f) Excludes third quarter 1998 charge of \$132 million (\$84 million after tax, or \$.50 per diluted share) primarily related to the costs of certain market exits and product discontinuances, asset write-offs and a one-time associate incentive for employees, excluding officers.

Financial Position	December 31, 1999	December 31, 1998
Assets:		

Cash and investments	\$2,738	\$2,812
Property and equipment, net	418	433
Other assets	1,744	2,251
Total assets	\$4,900	\$5,496
Liabilities and equity:		
Medical expenses payable, current portion	\$1,432	\$1,470
Other liabilities	2,200	2,338
Equity	1,268	1,688
Total liabilities and equity	\$4,900	\$5,496

	Three months ended		Year ended	
	December 31,		December 31,	
	1999	1998	1999	1998
Operating Cash Flows				
Net (loss) income	\$(416)	\$ 57	\$(382)	\$129
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Asset write-downs and other charges	460	--	460	17
Depreciation and amortization	33	31	124	128
Gain on sale of property and equipment	--	--	(12)	--
Loss (gain) on sale of marketable securities	1	(2)	(11)	(21)
Deferred income taxes	(13)	23	5	26
Changes in operating assets and liabilities:				
Premiums receivable	90	(31)	51	45
Other assets	28	26	54	32
Medical and other expenses payable	38	13	(23)	(22)
Workers' compensation liabilities	(35)	(31)	(150)	(134)
Trade accounts payable and accrued expenses	(12)	16	45	(135)
Unearned premium revenues	278	226	56	(10)
Other	6	(3)	--	--
Net cash provided by operating activities	\$ 458	\$ 325	\$ 217	\$ 55
Timing of Medicare payment	(251)	(235)	(16)	(10)
Workers' compensation liability payments	27	31	119	129
Pro forma net cash provided by operating activities	\$234	\$121	\$320	\$174

Humana Inc.  
In thousands

Ending Medical Membership	December 31,		Percent
	1999	1998	Difference Change

Health Plans:				
Large Group Commercial	1,420.5	1,559.7	(139.2)	(8.9)
Medicare HMO	488.5	502.0	(13.5)	(2.7)
Medicaid	616.6	643.8	(27.2)	(4.2)
TRICARE	1,058.0	1,085.7	(27.7)	(2.6)
Administrative services	648.0	646.2	1.8	0.3
Medicare Supplement	44.5	56.6	(12.1)	(21.4)
Total Health Plans	4,276.1	4,494.0	(217.9)	(4.8)

Small Group:				
Small Group Commercial	1,663.1	1,701.8	(38.7)	(2.3)
Total ending medical membership	5,939.2	6,195.8	(256.6)	(4.1)

Ending Specialty Membership	December 31,		Difference	Percent Change
	1999	1998		

Health Plans:

Workers' Compensation	447.1	418.8	28.3	6.8
TRICARE Dental	29.8	25.7	4.1	16.0
Total Health Plans	476.9	444.5	32.4	7.3

Small Group:

Dental	1,598.4	1,349.8	248.6	18.4
Group Life	827.5	781.6	45.9	5.9
Other	58.5	57.4	1.1	1.9
Total Small Group	2,484.4	2,188.8	295.6	13.5
Total ending specialty membership	2,961.3	2,633.3	328.0	12.5

Average Medical Membership	Three months ended December 31,		Year ended December 31,	
	1999	1998	1999	1998

Health Plans:

Large Group Commercial	1,423.2	1,553.7	1,465.3	1,559.1
Medicare HMO	481.7	502.5	482.8	498.7
Medicaid	637.5	643.4	647.4	635.1
TRICARE	1,057.3	1,088.9	1,069.5	1,097.1
Administrative services	646.3	661.0	631.5	679.6
Other	45.0	57.2	48.9	61.5
Total Health Plans	4,291.0	4,506.7	4,345.4	4,531.1

Small Group:

Small Group Commercial	1,679.2	1,696.7	1,684.7	1,686.3
Total average medical membership	5,970.2	6,203.4	6,030.1	6,217.4

SOURCE Humana Inc.