



## Humana Reports First Quarter Results

May 3, 2000

LOUISVILLE, Ky., May 3 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported operating earnings of \$.13 per diluted share for the first quarter ended March 31, 2000.

These results compare to earnings of \$.20 per diluted share for the first quarter of 1999. (Excludes additional medical claims expense of \$.34 per diluted share and \$.04 per diluted share gain on the sale of a tangible asset, and includes the beneficial effect of \$.02 per diluted share from premium deficiency recognized in the quarter and \$.02 per diluted share from favorable development in the company's workers' compensation liabilities.) Results for the fourth quarter of 1999 were \$.15 per diluted share. (Excludes \$2.63 per diluted share for charges primarily related to goodwill write-down and losses on non-core asset sales. Includes the beneficial effect of \$.06 per diluted share from premium deficiency reserves and favorable development related to the company's workers' compensation liabilities of approximately \$.03 per diluted share.) Fourth quarter 1999 earnings excluding charges and beneficial effects (core earnings) were \$.06 per diluted share.

Net income for the first quarter of 2000 was \$21 million, compared to earnings of \$33 million for the same period in the prior year. (The \$33 million first quarter net income excludes the items previously discussed.) The company anticipates similar results for the second quarter.

"The improvement in core earnings is evidence of the strides we continue to make in returning our business to solid profitability. We would like to have seen even more progress during the quarter. Nonetheless, given our progress in implementing our strategic initiatives, we are cautiously optimistic with the pace of momentum we had originally anticipated for the second half of the year and heading into 2001," said Michael B. McCallister, Humana's president and chief executive officer.

"We remain confident that the steps we are taking -- investments in infrastructure, on-going market and product rationalization and emerging e-health initiatives -- will return Humana to solid growth rates and improvement in operating results."

### Revenue and Membership

Revenue in the first quarter increased 7.2 percent from the year ago quarter to \$2.6 billion, primarily driven by significant increases in premium yields. Commercial premium yields averaged 11.4 percent for the first quarter, compared to 6.3 percent for the same period in the prior year. Due to the impact that premium increases had on member retention, Humana's commercial membership was 2,977,500, a 3.4 percent decline sequentially.

Medicare premium yields rose to 6.2 percent in the first quarter of 2000 versus 2.1 percent for the prior year quarter, the result of a new pricing component -- member premiums -- and improvement in the mix of members in markets with higher HCFA reimbursement rates. Medicare membership increased 29,500 or 6.0 percent sequentially. The redirection of sales efforts to Humana's remaining markets resulted in new sales offsetting membership reductions from the company's exit of 30 counties effective January 1, 2000. The company also added approximately 19,500 Medicare members as a result of a recent acquisition in Houston, Texas.

### Medical and Administrative Expenses

The company's medical expense ratio for the first quarter was 85.0 percent, versus adjusted ratios of 84.3 percent for the same period in 1999 and 84.8 percent in the fourth quarter of 1999. (Medical expense ratios for the first and fourth quarters of 1999 exclude the impact of charges but include the beneficial effects of premium deficiencies and favorable development in workers' compensation reserves.) The 20 basis point sequential increase is the result of higher than anticipated medical cost trends in various small group commercial and five Medicare markets.

Investments in infrastructure and technology initiatives resulted in an increase of 20 basis points in the company's administrative expense ratio, to 14.8 percent. This compares to 14.7 percent in the fourth quarter of 1999, excluding charges, and 14.7 percent from the year-ago quarter. Also impacting the administrative expense ratio was a 20 basis point increase from a change in the amortization period of goodwill to 20 years, effective January 1, 2000.

The company's effective tax rate for the first quarter of 2000 declined to 21 percent compared to 35 percent for the fourth quarter of 1999 as a result of the implementation of certain tax planning strategies related to the disposition of its workers' compensation business.

### Cash flows

Excluding run-off workers' compensation payments and timing of the receipt of the Medicare payment from HCFA, cash flows used in operations totaled \$59 million in the first quarter of 2000. Operating cash was used to make certain annual payments for premium taxes and employee benefits (\$32 million), reduce medical claims inventories (\$20 million) and pay claims related to terminated membership (\$11 million).

At the end of the first quarter of 2000, the company received approximately \$125 million in cash related to the disposition of its workers' compensation business. The company currently expects to use those proceeds to reduce debt in the second quarter and fund large group infrastructure and information technology spending.

### E-Health Accomplishments

The company further enhanced its position in e-health on several fronts during the quarter as it:

- Implemented Internet vendor relationships with Trizetto, Healtheon/WebMD, Oracle, EDS, QualityMetric, and PPS,
- Announced a strategic collaboration with Microsoft Corp. and Healtheon/WebMD to implement Microsoft's Windows (R) for SmartCard technology,

- Implemented its enhanced humana.com website,
- Completed re-design of customer service, billing and enrollment, medical management, network operations, and sales processes at its flagship Cincinnati market for the implementation of e-health initiatives,
- Dedicated a separate management team that is developing a 100 percent e-enabled health plan in three test markets,
- Appointed Jonathan T. Lord, M.D., a nationally recognized leader in the field of e-health, health services quality improvement, and physician leadership development, as its new chief medical officer.

"Humana has developed an aggressive strategy to exploit the efficiencies and conveniences that Internet connectivity brings to our relationships with providers, members, employers and brokers," said Humana's president and chief executive officer, Michael B. McCallister. "We are committed to e-health because it will standardize and simplify our business, reduce administrative costs and create value for all our stakeholders."

#### Highlights from Operating Divisions

##### Health Plan Division

##### Large Group Commercial

- Premium yields were in the 10 to 11 percent range in the first quarter of 2000 compared to a range of 6 to 7 percent in the fourth quarter of 1999. The sequential increase is a reflection of the company's aggressive pricing strategy, particularly during a quarter in which approximately 60 percent of customers in this segment renew their coverage.

\* Membership declined less than one percent to 1,409,000 from 1,420,500 at December 31, 1999.

- Medical cost trends were in the 7 to 8 percent range for the first quarter of 2000 compared to a range of 8 to 9 percent in the fourth quarter of 1999 and a range of 7 to 8 percent in the first quarter of 1999.

##### Medicare

- Premium yields were 6.2 percent in the first quarter of 2000 compared to 4.6 percent in the fourth quarter of 1999, the result of the implementation of a member premium component for many of the company's Medicare members combined with a shift in the mix of members to markets with higher HCFA reimbursement rates.
- Membership increased sequentially 6.0 percent or 29,500 members to 518,000, despite the exit of 30 counties on January 1, 2000. Strong sales initiatives in key markets offset member losses from the exited counties, with additional membership resulting from the company's acquisition of the Memorial Sisters of Charity Health Network in January 2000.
- Medical cost trends were in the 6 to 7 percent range in the first quarter of 2000 compared to a range of 5 to 6 percent in the fourth quarter of 1999 and a range of 3 to 4 percent in the first quarter of 1999. Higher than expected utilization in five Medicare markets had a negative effect on cost trends in the first quarter of 2000. Medicare cost trends in these five markets averaged 15 to 20 percent compared to five percent in the company's more mature Medicare markets.

##### Small Group Division

##### Small Group Commercial

- Premium yields were in the 12 to 13 percent range in the first quarter of 2000 compared to a range of 11 to 12 percent in the fourth quarter of 1999, continuing the acceleration of rates for the small group segment.
- Membership declined sequentially approximately 94,600 or 5.7 percent due to continued attrition in reaction to significant rate increases.
- Medical cost trends were in the 12 to 13 percent range in the first quarter of 2000 compared to 10 to 11 percent in the fourth quarter of 1999 and 9 to 10 percent in the first quarter of 1999. Medical cost trends were more severe in small group markets that did not have health plan membership overlap. Problem non-overlap market cost trends averaged approximately 20 percent versus approximately 10 percent for the company's overlap markets.

Two additional small group markets, Colorado and Texas, require immediate premium pricing actions to bring premium in line with current medical costs.

Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded managed health care companies, with approximately 5.9 million medical members located primarily in 15 states and Puerto Rico. Humana offers coordinated health care coverage through a variety of plans -- health maintenance organizations, preferred provider organizations, point-of-service-plans and administrative service products -- to employer groups, government-sponsored plans and individuals.

More information regarding Humana is available via the Internet at [www.humana.com](http://www.humana.com), including on-line copies of our annual report to shareholders, Form 10-K, Form 10-Qs, proxy statement, and recent presentations to investor groups.

This news release contains forward-looking statements. The forward-looking statements made in this news release 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, 1999, as filed with the Securities and Exchange Commission.

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

	2000	1999 (a)
Revenues	\$ 2,642,000,000	\$ 2,465,000,000
Income before income taxes	\$ 27,000,000	\$ 53,000,000 (b)
Net income	\$ 21,000,000	\$ 33,000,000 (b)
Earnings per common share	\$ .13	\$ .20 (b)
Earnings per common share - assuming dilution	\$ .13	\$ .20 (b)
Shares used in earnings per common share computation	167,752,000	167,559,000
Shares used in earnings per common share computation - assuming dilution	167,852,000	167,559,000

(a) Excludes additional medical claims expense of \$90 million (\$58 million

after tax, or \$.34 per diluted share) and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

(b) Includes \$6 million or \$.02 per diluted share related to the

beneficial effect of the \$50 million premium deficiency recognized during the quarter and \$5 million or \$.02 per diluted share related to the favorable liability development in the company's run-off workers' compensation business.

Humana Inc.

Dollars in millions, except per share results

Summarized Operating Results	Three months ended March 31,	
	2000	1999(a)
Revenues:		
Premiums	\$ 2,611	\$ 2,428
Interest	29	34
Other income	2	15
Total revenues	2,642	2,477
Operating expenses:		
Medical	2,220	2,136
Selling, general and administrative		353
Depreciation and amortization		34
Total operating expenses	2,607	2,492
Income (loss) from operations	35	(15)
Interest expense	8	10
Income (loss) before income taxes	27	(25)
Provision (benefit) for income taxes	6	(9)
Net income (loss)	\$ 21	\$ (16)
Earnings (loss) per common share	\$0.13	(\$0.10)
Earnings (loss) per common share - assuming dilution	\$0.13	(\$0.10)
Shares used in earnings per share computation (000)	167,752	167,559
Shares used in earnings per share computation - assuming dilution (000)	167,852	167,559
Medical expense ratio	85.0%	88.0%
Administrative expense ratio	14.8%	14.7%

(a) Includes expenses of \$90 million (\$58 million after tax, or \$.34 per

diluted share) primarily related to premium deficiency and medical reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

#### Premiums

##### Health Plans:

Large Group Commercial	\$ 599	\$ 593		
Medicare HMO	803	719		
Medicaid	171	143		
TRICARE	206	200		
Medicare Supplement and Workers' Compensation			27	22
Total Health Plans	1,806	1,677		

##### Small Group:

Small Group Commercial	744	692		
Specialty	61	59		
Total Small Group	805	751		
Total premiums	\$ 2,611	\$ 2,428		

March 31, December 31,

Financial Position	2000	1999		
Assets:				
Cash and investments	\$ 2,391	\$ 2,738		
Property and equipment, net	426	418		
Other assets	1,604	1,744		
Total assets	\$ 4,421	\$ 4,900		
Liabilities and equity:				
Medical expenses payable, current portion	\$ 1,360	\$ 1,432(b)		
Other liabilities	1,762	2,200		
Equity	1,299	1,268		
Total liabilities and equity	\$ 4,421	\$ 4,900		

(b) Excluding the current portion of workers' compensation liabilities,

medical expenses payable would have been \$1,324 at December 31, 1999.

Humana Inc.

Dollars in millions, except per share results

Three months ended  
March 31,  
2000 1999(c)

#### Summarized Operating Results (excluding non-recurring items)

##### Revenues:

Premiums	\$ 2,611	\$ 2,428
Interest	29	34
Other income	2	3
Total revenues	2,642	2,465

##### Operating expenses:

Medical	2,220	2,046
Selling, general and administrative	353	325
Depreciation and amortization	34	31
Total operating expenses	2,607	2,402
Income from operations	35	63
Interest expense	8	10
Income before income taxes	27	53
Provision for income taxes	6	20
Net income	\$ 21	\$ 33

Earnings per common share	\$0.13	\$0.20
Earnings per common share - assuming dilution	\$0.13	\$0.20

Shares used in earnings per share computation (000)	167,752	167,559
Shares used in earnings per share computation - assuming dilution (000)	167,852	167,559

Medical expense ratio	85.0%	84.3%
Administrative expense ratio	14.8%	14.7%

(c) Excludes expenses of \$90 million (\$58 million after tax, or \$.34 per

diluted share) primarily related to premium deficiency and medical reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

	Three months ended	
	March 31,	
	2000	1999
Operating Cash Flows		
Net income (loss)	\$ 21	\$ (16)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	34	31
Gain on sale of property and equipment	--	(12)
Gain on sale of marketable securities	(1)	(1)
Deferred income taxes	5	10
Changes in operating assets and liabilities:		
Premiums receivable	(48)	(2)
Other assets	(8)	(6)
Medical and other expenses payable	(26)	51
Workers' compensation liabilities	(30)	(33)
Trade accounts payable and accrued expenses	(71)	13
Unearned premium revenues	53	(228)
Other	1	1
Net cash used in operating activities	\$ (70)	\$ (192)
Timing of Medicare payment	(19)	235
Workers' compensation liability payments	30	28
Pro forma net cash (used in) provided by operating activities	\$ (59)	\$ 71

Humana Inc.  
In thousands

	March 31,		Percent	
Ending Medical Membership	2000	1999	Difference	Change
Health Plans:				
Large Group Commercial	1,409.0	1,495.5	(86.5)	(5.8)
Medicare HMO	518.0	480.7	37.3	7.8
Medicaid	656.6	651.6	5.0	0.8
TRICARE	1,060.0	1,085.7	(25.7)	(2.4)
Administrative services	657.0	617.9	39.1	6.3
Medicare Supplement	40.8	52.7	(11.9)	(22.6)
Total Health Plans	4,341.4	4,384.1	(42.7)	(1.0)
Small Group:				
Small Group Commercial	1,568.5	1,676.2	(107.7)	(6.4)
Total ending medical membership	5,909.9	6,060.3	(150.4)	(2.5)

March 31,                      Percent

Ending Specialty Membership	2000	1999	Difference	Change
Health Plans:				
Workers' Compensation	459.8	420.2	39.6	9.4
TRICARE Dental	28.8	27.0	1.8	6.7
Total Health Plans	488.6	447.2	41.4	9.3
Small Group:				
Dental	1,670.9	1,454.0	216.9	14.9
Group Life	777.5	809.0	(31.5)	(3.9)
Other	43.1	61.1	(18.6)	(30.1)
Total Small Group	2,491.5	2,324.7	166.8	7.2
Total ending specialty membership	2,980.1	2,771.9	208.2	7.5

	Three months ended March 31,	
Average Medical Membership	2000	1999
Health Plans:		
Large Group Commercial	1,367.4	1,506.3
Medicare HMO	497.8	479.6
Medicaid	634.1	646.9
TRICARE	1,059.2	1,085.8
Administrative services	650.6	611.0
Other	42.1	53.8
Total Health Plans	4,251.2	4,383.4
Small Group:		
Small Group Commercial	1,608.0	1,680.1
Total average medical membership	5,859.2	6,063.5

SOURCE Humana Inc.