



## Humana Reports Second Quarter Results

August 3, 2000

LOUISVILLE, Ky., Aug. 3 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported operating earnings of \$.11 per diluted share for the second quarter ended June 30, 2000, in line with consensus estimates.

These results compare to operating earnings of \$.17 per diluted share for the second quarter of 1999. (Second quarter 1999 earnings per diluted share were \$.01 excluding the beneficial effects from previously established premium deficiency and severance charges, favorable development in the company's workers' compensation liabilities, and non-recurring investment gains.)

Net income for the second quarter of 2000 was \$19 million, compared to earnings of \$28 million for the same period in the prior year.

The company is in the process of eliminating non-core business primarily through market exits and sales, with many of the steps needed to accomplish these exits and sales having taken place during the second quarter of 2000.

"We are successfully focusing on the basics," said Michael B. McCallister, Humana's president and chief executive officer. "In addition to downsizing our non-core operations, we are also ensuring that we price the business right, pay claims timely and accurately, eliminate ineffective risk arrangements, improve provider contracting, and e-enable our business processes.

"By executing on these initiatives, we are turning Humana around while simultaneously repositioning the company to grow profitability when the turnaround is complete."

### Revenue and Membership

Revenue in the second quarter increased 7.6 percent from the year ago quarter to \$2.7 billion, primarily driven by significant increases in premium yields.

Commercial premium yields averaged 12.0 percent for the second quarter, compared to 6.9 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 2,844,500, a 4.5 percent decline sequentially.

Medicare premium yields rose to 6.3 percent in the second quarter of 2000 versus 3.0 percent for the prior year quarter, the result of a new pricing component implemented in the first quarter of 2000 -- member premiums -- and improvement in the mix of members in markets with higher HCFA reimbursement rates. On June 30, 2000 the company announced its intent to exit 45 Medicare counties January 1, 2001, affecting 84,000 members.

### Medical and Administrative Expenses

The company's medical expense ratio for the second quarter was 85.0 percent, versus ratios of 85.1 percent for the same period in 1999 and 85.0 percent in the first quarter of 2000. Sequential increases in Medicare hospital inpatient costs were offset by declines in commercial inpatient and outpatient cost trends. Pharmacy cost trends declined 180 basis points to 7.4 percent for the company's commercial business as a higher percentage of members moved to a three-tier benefit. The planned reduction in the company's higher cost non-core operations also helped improve medical costs during a quarter with traditionally higher seasonality.

Planned spending on infrastructure and technology initiatives resulted in a sequential increase of 20 basis points in the company's administrative expense ratio, to 15.0 percent. This compares to 14.8 percent in the first quarter of 2000 and 14.6 percent from the year-ago quarter.

The company's effective tax rate of 21 percent for the second quarter of 2000 was unchanged from that reported for the first quarter of 2000 and compares to 35 percent for the second quarter of 1999. The lower effective tax rate for 2000 results from the implementation of certain tax planning strategies related to the disposition of the company's workers' compensation business.

### Cash flows

Excluding timing of the receipt of the Medicare premium payment from HCFA and the impact of the company's recent \$15 million settlement for Medicare overpayments, cash flows provided by operations totaled \$67 million in the second quarter of 2000.

### Highlights from Operating Divisions

#### Health Plan Division

#### Large Group Commercial

- Premium yields were in the 10 to 11 percent range in the second quarter of 2000 consistent with the first quarter of 2000 range. Approximately 60 percent of this line of business renews in the first quarter each year.

\* Membership declined 2.8 percent to 1,369,000 from 1,409,000 at March 31,

2000 as the company experienced modest attrition in this aspect of its

core business from premium rate increases.

- Medical cost trends were in the 6 to 7 percent range for the second quarter of 2000 compared to a range of 7 to 8 percent in the first quarter of 2000 and a range of 9 to 10 percent in the second quarter of 1999.

## Medicare

- Premium yields were 6.3 percent in the second quarter of 2000 compared to 6.2 percent in the first quarter of 2000.
- Membership increased sequentially 0.8 percent or 4,100 members to 522,100 as of June 30, 2000, primarily in core markets.
- Medical cost trends were in the 7 to 8 percent range in the second quarter of 2000 compared to a range of 6 to 7 percent for the first quarter of 2000 and 3 to 4 percent for the second quarter of 1999. Excluding counties that the company intends to exit on January 1, 2001, medical cost trends were in the 6 to 7 percent range.

## Small Group Division

### Small Group Commercial

- Premium yields were in the 13 to 14 percent range in the second quarter of 2000 compared to a range of 12 to 13 percent in the first quarter of 2000, continuing the acceleration of rates for the small group segment.
- Membership declined sequentially approximately 93,000 or 5.9 percent due to continued attrition in reaction to significant rate increases.
- Medical cost trends were in the 11 to 12 percent range in the second quarter of 2000 compared to 12 to 13 percent in the first quarter of 2000 and in the second quarter of 1999.

Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded managed health care companies, with approximately 5.8 million medical members located primarily in 15 states and Puerto Rico. Humana offers coordinated health insurance 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 and in Humana's quarterly report on Form 10-Q for the quarter ended March 31, 2000, as filed with the Securities and Exchange Commission.

### Summary of operating results for the three months ended June 30:

	2000	1999
Revenues	\$ 2,696,000,000	\$ 2,505,000,000
Income before income taxes	\$ 24,000,000	\$ 44,000,000 (a)
Net income	\$ 19,000,000	\$ 28,000,000 (a)
Basic earnings per common share	\$ .11	\$ .17 (a)
Diluted earnings per common share	\$ .11	\$ .17 (a)
Shares used in basic earnings per common share computation	167,740,000	167,576,000
Shares used in diluted earnings per common share computation	167,740,000	168,153,000

(a) Includes \$41 million (\$27 million after tax, \$.16 per diluted share)

related to the beneficial effects of the previously established premium deficiency and severance charges, favorable liability development in the company's run-off workers' compensation business and non-recurring investment gains.

### Summary of operating results for the six months ended June 30:

	2000	1999 (b)
Revenues	\$ 5,338,000,000	\$ 4,982,000,000
Income before income taxes	\$ 51,000,000	\$ 19,000,000 (c)
Net income	\$ 40,000,000	\$ 12,000,000 (c)
Basic earnings per common share	\$ .24	\$ .07 (c)
Diluted earnings per common share	\$ .24	\$ .07 (c)
Shares used in basic earnings		

per common share computation	167,746,000	167,568,000
Shares used in diluted earnings		
per common share computation	167,796,000	168,475,000

(b) Includes 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.

(c) Includes \$52 million (\$34 million after tax, \$.20 per diluted share)

related to the beneficial effects of the previously established premium deficiency and severance charges, favorable liability development in the company's run-off workers' compensation business and non-recurring investment gains.

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Dollars in millions, except per share results

Summarized Operating Results	Three months ended June 30,		Six months ended June 30,	
	2000	1999	2000	1999(a)
Revenues:				
Premiums	\$ 2,666	\$ 2,461	\$ 5,277	\$ 4,889
Interest	27	40	56	74
Other income	3	4	5	19
Total revenues	2,696	2,505	5,338	4,982
Operating expenses:				
Medical	2,265	2,094	4,485	4,230
Selling, general and administrative	363	329	716	654
Depreciation and amortization	37	30	71	61
Total operating expenses	2,665	2,453	5,272	4,945
Income from operations	31	52	66	37
Interest expense	7	8	15	18
Income before income taxes	24	44	51	19
Provision for income taxes	5	16	11	7
Net income	\$ 19	\$ 28	\$ 40	\$ 12
Basic earnings per common share				
	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.07
Diluted earnings per common share				
	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.07
Shares used in basic earnings per share computation (000)				
	167,740	167,576	167,746	167,568
Shares used in diluted earnings per share computation (000)				
	167,740	168,153	167,796	168,475
Medical expense ratio	85.0%	85.1%	85.0%	86.5%
Administrative expense				

ratio 15.0% 14.6% 14.9% 14.6%

(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	\$ 608	\$ 591	\$ 1,207	\$ 1,184
Medicare HMO	837	727	1,640	1,446
Medicaid	188	150	359	293
TRICARE	227	202	433	402
Medicare supplement and Workers' compensation	27	28	54	55
Total Health Plans	1,887	1,698	3,693	3,380

##### Small Group:

Small group commercial	719	707	1,463	1,399
Specialty	60	56	121	110
Total Small Group	779	763	1,584	1,509
Total premiums	\$ 2,666	\$ 2,461	\$ 5,277	\$ 4,889

June 30, December 31,

Financial Position	2000	1999
Assets:		
Cash and investments	\$ 2,317	\$ 2,738
Property and equipment, net	425	418
Other assets	1,605	1,744
Total assets	\$ 4,347	\$ 4,900
Liabilities and equity:		
Medical expenses payable, current portion	\$ 1,356	\$ 1,432 (b)
Other liabilities	1,680	2,200
Equity	1,311	1,268
Total liabilities and equity	\$ 4,347	\$ 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		Six months ended	
	June 30,		June 30,	
Summarized Operating Results (excluding non-recurring items)	2000	1999	2000	1999(c)
Revenues:				
Premiums	\$ 2,666	\$ 2,461	\$ 5,277	\$ 4,889
Interest	27	40	56	74
Other income	3	4	5	7
Total revenues	2,696	2,505	5,338	4,970
Operating expenses:				

Medical	2,265	2,094	4,485	4,140
Selling, general and administrative	363	329	716	654
Depreciation and amortization	37	30	71	61
Total operating expenses	2,665	2,453	5,272	4,855

Income from operations	31	52	66	115
Interest expense	7	8	15	18
Income before income taxes	24	44	51	97
Provision for income taxes	5	16	11	36
Net income	\$ 19	\$ 28	\$ 40	\$ 61

Basic earnings per common share	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.37
Diluted earnings per common share	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.37

Shares used in basic earnings per share computation (000)	167,740	167,576	167,746	167,568
Shares used in diluted earnings per share computation (000)	167,740	168,153	167,796	168,475

Medical expense ratio	85.0%	85.1%	85.0%	84.7%
Administrative expense ratio	15.0%	14.6%	14.9%	14.6%

(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		Six months ended	
	June 30,		June 30,	
Operating Cash Flows	2000	1999	2000	1999

Net income	\$ 19	\$ 28	\$ 40	\$ 12
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	37	30	71	61
Deferred income tax provision	(4)	(7)	1	3
Gain on sale of a tangible asset	--	--	--	(12)
Gain on sale of marketable securities	--	(11)	(1)	(12)
Payment for government audit settlement	(15)	--	(15)	--
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:				
Premiums receivable	9	--	(39)	(2)
Other assets	(8)	6	(16)	--
Medical and other				

expenses payable	7	(99)	(19)	(48)
Workers' compensation run out claims reduction	--	(43)	(30)	(76)
Trade accounts payable and accrued expenses	10	(21)	(62)	(27)
Unearned premium revenues	(5)	--	48	(227)
Income taxes payable	7	19	8	38
Other	(5)	1	(4)	1
Net cash provided by (used in) operating activities	\$ 52	\$ (97)	\$ (18)	\$ (289)
Timing of Medicare premium payment	--	--	(19)	235
Workers' compensation liability payments	--	33	30	61
Pro forma net cash provided by (used in) operating activities	\$ 52	\$ (64)	\$ (7)	\$ 7

Humana Inc.  
In thousands

	June 30,	Percent		
Ending Medical Membership	2000	1999	Difference	Change

Health Plans:

Large group commercial	1,369.0	1,478.3	(109.3)	(7.4)
Medicare HMO	522.1	484.8	37.3	7.7
Medicaid	675.1 (d)	658.5	16.6	2.5
TRICARE	1,049.1	1,064.6	(15.5)	(1.5)
Administrative services	655.7 (e)	636.7	19.0	3.0
Medicare supplement	38.8 (e)	48.7	(9.9)	(20.3)
Total Health Plans	4,309.8	4,371.6	(61.8)	(1.4)

Small Group:

Small group commercial	1,475.5	1,695.7	(220.2)	(13.0)
Total ending medical membership	5,785.3	6,067.3	(282.0)	(4.6)

	June 30,	Percent		
Ending Specialty Membership	2000	1999	Difference	Change

Health Plans:

Workers' compensation	--	441.4	(441.4)	--
TRICARE dental	28.8	29.3	(0.5)	(1.7)
Total Health Plans	28.8	470.7	(441.9)	(93.9)

Small Group:

Dental	1,685.2	1,482.0	203.2	13.7
Group Life	737.5	823.5	(86.0)	(10.4)
Other	40.0	61.4	(21.4)	(34.9)
Total Small Group	2,462.7	2,366.9	95.8	4.0
Total ending specialty membership	2,491.5	2,837.6	(346.1)	(12.2)

	Three months ended June 30,		Six months ended June 30,	
Average Medical Membership	2000	1999	2000	1999
Health Plans:				
Large group commercial	1,386.5	1,494.0	1,377.0	1,500.1
Medicare HMO	522.8	483.2	510.3	481.4
Medicaid	667.6	653.3	650.9	650.1
TRICARE	1,051.7	1,069.7	1,055.4	1,077.7
Administrative services	656.9	628.9	653.8	620.0
Medicare supplement	39.7	50.2	40.9	52.0
Total Health Plans	4,325.2	4,379.3	4,288.3	4,381.3
Small Group:				
Small group commercial	1,509.2	1,681.8	1,558.6	1,680.9
Total average medical membership	5,834.4	6,061.1	5,846.9	6,062.2

(d) 96,300 North Florida Medicaid members were transferred on July 1, 2000

effective with the sale of this business to HealthEase of Florida, Inc., an affiliate of WellCare HMO Inc.

(e) Substantially all Medicare Supplement members were transferred to

Administrative services on July 1, 2000 effective with the reinsurance of this business to United Teacher Associates Insurance Company.

SOURCE Humana Inc.