



## Humana Reports Fourth Quarter Results

February 7, 2001

LOUISVILLE, Ky., Feb. 7 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported operating earnings of \$.16 per diluted share for the fourth quarter ended December 31, 2000.

Humana reported an operating loss of \$2.48 per diluted share for the fourth quarter of 1999. Adjusted net income (excludes the impact of a one-time charge taken in the prior year quarter) was \$.15 per diluted share for the 1999 quarter. The non-recurring fourth quarter 1999 charge primarily related to the write-off of certain goodwill and losses on non-core assets held for sale. Adjusted net income for the fourth quarter of 1999 included \$.09 per diluted share related to the beneficial effects from previously established premium deficiency charges and favorable development in the company's workers' compensation liabilities.

Net income for the fourth quarter of 2000 was \$27 million, compared to adjusted earnings of \$25 million for the same period in the prior year. Weighted average shares outstanding (assuming dilution) were 166,445,000 in the fourth quarter 2000 versus 167,517,000 in the prior year's quarter due to the impact of treasury stock transactions during the second half of 2000.

"We continue to make solid progress on our turnaround," said Michael B. McCallister, Humana's president and chief executive officer. "Our improving results are the consequence of commercial pricing discipline, favorable medical cost trends from benefit design changes and the elimination of various non-core markets and products."

Humana reported net income for the year 2000 of \$90 million or \$.54 per diluted share compared to a net loss of \$382 million or \$2.28 loss per diluted share in 1999. Humana's 1999 adjusted net income (excluding one-time charges and gain on the sale of a tangible asset) was \$109 million or \$.65 per diluted share. The company did not record any such charges during 2000.

### Revenue and Membership

Revenue in the fourth quarter was essentially unchanged from the year ago quarter at \$2.56 billion versus \$2.57 billion in 1999.

Commercial premium yields averaged 13.9 percent for the fourth quarter, compared to 9.6 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 2,545,800, a 3.6 percent decline sequentially. For the year, commercial membership declined 537,800 or 17.4 percent, the result of premium increases as well as eliminating unprofitable markets and products.

Medicare premium yields rose to 6.7 percent in the fourth quarter of 2000 versus 4.6 percent for the prior year quarter, the result of a pricing component implemented in the first quarter of 2000 -- member premiums -- and a change 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 on January 1, 2001, affecting approximately 84,000 members. Medicare membership declined 18,900 or 3.7 percent in the fourth quarter, with most of the attrition attributable to the January 1, 2001 exits. Medicare membership increased 5,700 for the year, a 1.2 percent increase. New Medicare sales throughout the year in Humana's core markets slightly offset membership reductions in Medicare markets deemed non-core and subsequently exited.

### Medical and Administrative Expenses

The company's medical expense ratio for the fourth quarter was 83.7 percent, versus a ratio of 84.8 percent for the same period in 1999 and a ratio of 84.2 percent in the third quarter of 2000. For the year, Humana's medical expense ratio was 84.5 percent, an improvement of 30 basis points compared to an adjusted 84.8 percent in 1999.

Planned spending on infrastructure and technology initiatives combined with a lower ratio of members to employees resulted in a sequential increase of 40 basis points in the company's administrative expense ratio to 15.9 percent. This compares to 15.5 percent in the third quarter of 2000 and an adjusted ratio of 14.7 percent from the year-ago quarter. Membership attrition along with planned infrastructure and technology spending throughout 2000 contributed to an administrative expense ratio of 15.3 percent for the year versus an adjusted ratio of 14.6 percent for 1999.

"Despite the short-term rise in our administrative expense ratio, our technology development is an investment that we believe will reduce administrative expenses in the long run," McCallister said. "We are poised to resume growth in revenue and health plan membership through a new generation of products fueled by the efficiency and convenience of actionable digital information."

The company's effective tax rate of 21 percent for the fourth quarter of 2000 was unchanged from that reported for the first three quarters of 2000 and compares to 35 percent for the fourth 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 the timing of the receipt of the Medicare premium payment from HCFA, cash flows provided by operations totaled \$46 million in the fourth quarter of 2000. Cash flows during the quarter include the impact of a \$33 million reduction in claims inventories.

### Highlights from Primary Lines of Business

#### Large Group Commercial

- Premium yields were in the 12 to 13 percent range in the fourth quarter of 2000, slightly higher than the range of 10 to 11 percent during each of the first three quarters of 2000.

\* Membership declined 1.6 percent to 1,257,800 from 1,278,500 at September 30, 2000.

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

#### Medicare

- Premium yields were 6.7 percent in the fourth quarter of 2000 compared to 5.5 percent in the third quarter of 2000.
- Membership declined sequentially 3.7 percent or 18,900 members to 494,200 as of December 31, 2000, as the company experienced attrition related to Medicare counties it exited January 1, 2001. Membership remaining in these exited counties as of December 31, 2000 totaled approximately 54,000.
- Medical cost trends were in the 9 to 10 percent range in the fourth quarter of 2000 compared to a range of 7 to 8 percent for the third quarter of 2000 and 5 to 6 percent for the fourth quarter of 1999.

#### Small Group Commercial

- Premium yields were in the 15 to 16 percent range in the fourth quarter of 2000 compared to a range of 16 to 17 percent in the third quarter of 2000. These premium yields reflect the result of significant pricing actions by the company which began in the fourth quarter 1999.
- Membership declined sequentially approximately 73,100 or 5.4 percent, with a majority of the decline in those markets where focal rate increases were introduced or where the company exited the market.
- Medical cost trends were in the 9 to 10 percent range in the fourth quarter of 2000 compared to 9 to 10 percent in the third quarter of 2000 and 10 to 11 percent in the fourth quarter of 1999. The progressive implementation of Humana's three-tier pharmacy benefit helped drive lower cost trends in the latter half of 2000.

Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded health services companies, with approximately 5.3 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 annual report to shareholders, Form 10-K, Form 10-Qs, and proxy statement;
- Copy of most recent investor presentation;
- Copies of quarterly earnings press releases;
- Audio archive of the most recent earnings release conference call;
- Calendar of events (includes upcoming earnings release date, related conference call access number, and planned participation in investor conferences).

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 the following documents, as filed with the Securities and Exchange Commission: Humana's 1999 Form 10-K; Humana's Form 10-Qs for the first three quarters of 2000.

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

|   | 2000             | 1999             |
|---|------------------|------------------|
|   | (a)              | (b)              |
| Revenues  | \$ 2,560,000,000 | \$ 2,574,000,000 |
| Income (loss) before income taxes                                   | \$34,000,000     | \$(457,000,000)  |
| Net income (loss)   | \$27,000,000     | \$(416,000,000)  |
| Basic earnings (loss) per common share                              | \$.16            | \$(2.48)         |
| Diluted earnings (loss) per common share                            | \$.16            | \$(2.48)         |
| Shares used in basic earnings (loss) per common share computation   | 164,026,000      | 167,517,000      |
| Shares used in diluted earnings (loss) per common share computation | 166,445,000      | 167,517,000      |

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

| 2000 | 1999 |
|------|------|
|------|------|

|  | (a)               | (c)               | (d) |
|--|-------------------|-------------------|-----|
| Revenues   | \$ 10,514,000,000 | \$ 10,113,000,000 |     |
| Income (loss) before income taxes                                      | \$ 114,000,000    | \$(404,000,000)   |     |
| Net income (loss)  | \$ 90,000,000     | \$(382,000,000)   |     |
| Basic earnings (loss) per common share                                 | \$.54             | \$(2.28)          |     |
| Diluted earnings (loss) per common share                               | \$.54             | \$(2.28)          |     |
| Shares used in basic earnings (loss)<br>per common share computation   | 166,224,000       | 167,556,000       |     |
| Shares used in diluted earnings (loss)<br>per common share computation | 166,932,000       | 167,556,000       |     |

(a) Includes fourth quarter charge of \$495 million (\$441 million after

tax, \$2.63 per diluted share) primarily related to goodwill write-down and losses on non-core assets held for sale.

(b) Includes \$24 million (\$15 million after tax, \$.09 per diluted share)

related to the beneficial effects of the previously established premium deficiency charge and favorable liability development in the company's run-off workers' compensation business.

(c) Includes first quarter charge of \$90 million (\$58 million after tax,

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

(d) Includes \$99 million (\$64 million after tax, \$.38 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 |          | Year Ended   |            |
|--------------------------------------|--------------------|----------|--------------|------------|
|                                      | December 31,       |          | December 31, |            |
|                                      | 2000               | 1999(b)  | 2000         | 1999(a)(b) |
| Revenues:                            |                    |          |              |            |
| Premiums                             | \$ 2,530           | \$ 2,543 | \$ 10,395    | \$ 9,959   |
| Investment income                    | 28                 | 29       | 110          | 132        |
| Other income                         | 2                  | 2        | 9            | 22         |
| Total revenues                       | 2,560              | 2,574    | 10,514       | 10,113     |
| Operating expenses:                  |                    |          |              |            |
| Medical                              | 2,118              | 2,154    | 8,782        | 8,532      |
| Selling, general and administrative  | 363                | 376      | 1,442        | 1,368      |
| Depreciation                         | 22                 | 21       | 85           | 79         |
| Goodwill amortization                | 13                 | 9        | 52           | 33         |
| Other intangible amortization        | 3                  | 3        | 10           | 12         |
| Asset write-downs and other charges  | --                 | 460      | --           | 460        |
| Total operating expenses             | 2,519              | 3,023    | 10,371       | 10,484     |
| Income (loss) from operations        | 41                 | (449)    | 143          | (371)      |
| Interest expense                     | 7                  | 8        | 29           | 33         |
| Income (loss) before income taxes    | 34                 | (457)    | 114          | (404)      |
| Provision (benefit) for income taxes | 7                  | (41)     | 24           | (22)       |
| Net income (loss)                    | \$ 27              | \$ (416) | \$ 90        | \$ (382)   |

Basic earnings (loss) per common

|  |         |          |         |          |
|--|---------|----------|---------|----------|
| share                                    | \$ 0.16 | (\$2.48) | \$ 0.54 | (\$2.28) |
| Diluted earnings (loss) per common share | \$ 0.16 | (\$2.48) | \$ 0.54 | (\$2.28) |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Shares used in basic earnings (loss) per share computation (000)   | 164,026 | 167,517 | 166,224 | 167,556 |
| Shares used in diluted earnings (loss) per share computation (000) | 166,445 | 167,517 | 166,932 | 167,556 |

|                              |       |       |       |       |
|------------------------------|-------|-------|-------|-------|
| Medical expense ratio        | 83.7% | 84.8% | 84.5% | 85.7% |
| Administrative expense ratio | 15.9% | 16.0% | 15.3% | 15.0% |

(a) Includes first quarter 1999 charge 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.

(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.

#### Premiums

##### Health Plans:

|                        |        |        |          |          |
|------------------------|--------|--------|----------|----------|
| Large group commercial | \$ 588 | \$ 583 | \$ 2,384 | \$ 2,348 |
| Medicare HMO           | 818    | 736    | 3,286    | 2,920    |
| Medicaid               | 146    | 152    | 661      | 603      |
| TRICARE                | 222    | 228    | 893      | 866      |
| Other                  | 13     | 28     | 79       | 110      |
| Total Health Plans     | 1,787  | 1,727  | 7,303    | 6,847    |

##### Small Group:

|                        |         |         |          |         |
|------------------------|---------|---------|----------|---------|
| Small group commercial | 683     | 753     | 2,851    | 2,882   |
| Specialty              | 60      | 63      | 241      | 230     |
| Total Small Group      | 743     | 816     | 3,092    | 3,112   |
| Total premiums         | \$2,530 | \$2,543 | \$10,395 | \$9,959 |

| Financial Position                 | December 31,<br>2000 | December 31,<br>1999 |
|------------------------------------|----------------------|----------------------|
| Assets:                            |                      |                      |
| Cash and investments               | \$ 2,307             | \$ 2,779             |
| Property and equipment, net        | 435                  | 418                  |
| Other assets                       | 1,425                | 1,703                |
| Total assets                       | \$ 4,167             | \$ 4,900             |
| Liabilities and equity:            |                      |                      |
| Medical and other expenses payable | \$ 1,181             | \$ 1,432 (c)         |
| Other liabilities                  | 1,026                | 1,514                |
| Debt                               | 600                  | 686                  |
| Equity                             | 1,360                | 1,268                |
| Total liabilities and equity       | \$ 4,167             | \$ 4,900             |

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

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

|   | December 31, |          | December 31, |            |
|---|--------------|----------|--------------|------------|
| Summarized Operating Results<br>(excluding non-recurring items) | 2000         | 1999(e)  | 2000         | 1999(d)(e) |
| Revenues:   |              |          |              |            |
| Premiums  | \$ 2,530     | \$ 2,543 | \$ 10,395    | \$ 9,959   |
| Investment income   | 28           | 29       | 110          | 132        |
| Other income  | 2            | 2        | 9            | 10         |
| Total revenues  | 2,560        | 2,574    | 10,514       | 10,101     |
| Operating expenses:   |              |          |              |            |
| Medical   | 2,118        | 2,154    | 8,782        | 8,442      |
| Selling, general and<br>administrative                          | 363          | 341      | 1,442        | 1,333      |
| Depreciation  | 22           | 21       | 85           | 79         |
| Goodwill amortization   | 13           | 9        | 52           | 33         |
| Other intangible amortization                                   | 3            | 3        | 10           | 12         |
| Total operating expenses  | 2,519        | 2,528    | 10,371       | 9,899      |
| Income from operations  | 41           | 46       | 143          | 202        |
| Interest expense  | 7            | 8        | 29           | 33         |
| Income before income taxes                                      | 34           | 38       | 114          | 169        |
| Provision for income taxes                                      | 7            | 13       | 24           | 60         |
| Net income  | \$ 27        | \$ 25    | \$ 90        | \$ 109     |

|                                   |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|
| Basic earnings per common share   | \$ 0.16 | \$ 0.15 | \$ 0.54 | \$ 0.65 |
| Diluted earnings per common share | \$ 0.16 | \$ 0.15 | \$ 0.54 | \$ 0.65 |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Shares used in basic earnings per<br>share computation (000)   | 164,026 | 167,517 | 166,224 | 167,556 |
| Shares used in diluted earnings per<br>share computation (000) | 166,445 | 167,517 | 166,932 | 167,556 |

|                              |       |       |       |       |
|------------------------------|-------|-------|-------|-------|
| Medical expense ratio        | 83.7% | 84.8% | 84.5% | 84.8% |
| Administrative expense ratio | 15.9% | 14.7% | 15.3% | 14.6% |

(d) Excludes first quarter 1999 charge 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.

(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.

|   | Three months ended |          | Year Ended   |          |
|---|--------------------|----------|--------------|----------|
| Operating Cash Flows  | December 31,       |          | December 31, |          |
| Net income  | 2000               | 1999     | 2000         | 1999     |
| Net income  | \$ 27              | \$ (416) | \$ 90        | \$ (382) |
| Adjustments to reconcile net<br>income to net cash provided by<br>operating activities: |                    |          |              |          |
| Asset write-downs and other<br>charges  | 460                | --       | 460          |          |
| Depreciation and amortization   | 38                 | 33       | 147          | 124      |
| Deferred income tax provision   | 1                  | (13)     | 19           | 5        |
| (Gain)/loss on sales of<br>investments and other assets                                 | (2)                | 1        | (9)          | (23)     |
| Payment for government audit<br>settlement  | --                 | --       | (15)         | --       |
| Changes in operating assets and<br>liabilities excluding<br>effects of acquisitions and |                    |          |              |          |

|   |        |        |       |        |    |
|---|--------|--------|-------|--------|----|
| divestitures:                                       |        |        |       |        |    |
| Premiums receivable                                 | 2      | 90     | 10    | 51     |    |
| Other assets  | 4      | 28     | (9)   | 54     |    |
| Medical and other expenses payable                  | (50)   | 38     | (195) | (23)   |    |
| Workers' compensation run out claims reduction      | --     | (35)   | (30)  | (150)  |    |
| Trade accounts payable and accrued expenses         | 12     | (6)    | 39    | 42     |    |
| Unearned premium revenues                           |        | 243    | 278   | (16)   | 56 |
| Other   | 4      | --     | 9     | 3      |    |
| Net cash provided by operating activities           | \$ 279 | \$ 458 | \$ 40 | \$ 217 |    |
| Timing of Medicare premium payment                  | (233)  | (251)  | 18    | (16)   |    |
| Workers' compensation liability payments            | --     | 27     | 30    | 119    |    |
| Pro forma net cash provided by operating activities | \$ 46  | \$ 234 | \$ 88 | \$ 320 |    |

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In thousands

|                           | December 31, | Percent |            |        |
|---------------------------|--------------|---------|------------|--------|
| Ending Medical Membership | 2000         | 1999    | Difference | Change |

|                         |         |         |         |         |
|-------------------------|---------|---------|---------|---------|
| Health Plans:           |         |         |         |         |
| Large group commercial  | 1,257.8 | 1,420.5 | (162.7) | (11.5)  |
| Medicare HMO            | 494.2   | 488.5   | 5.7     | 1.2     |
| Medicaid                | 575.5   | 616.6   | (41.1)  | (6.7)   |
| TRICARE                 | 1,070.4 | 1,058.0 | 12.4    | 1.2     |
| Administrative services | 612.8   | 648.0   | (35.2)  | (5.4)   |
| Medicare supplement     | --      | 44.5    | (44.5)  | (100.0) |
| Total Health Plans      | 4,010.7 | 4,276.1 | (265.4) | (6.2)   |

|                                 |         |         |         |        |
|---------------------------------|---------|---------|---------|--------|
| Small Group:                    |         |         |         |        |
| Small group commercial          | 1,288.0 | 1,663.1 | (375.1) | (22.6) |
| Total ending medical membership | 5,298.7 | 5,939.2 | (640.5) | (10.8) |

|                             | December 31, | Percent |            |        |
|-----------------------------|--------------|---------|------------|--------|
| Ending Specialty Membership | 2000         | 1999    | Difference | Change |

|                       |      |       |         |         |
|-----------------------|------|-------|---------|---------|
| Health Plans:         |      |       |         |         |
| Workers' compensation | --   | 447.1 | (447.1) | (100.0) |
| TRICARE dental        | 26.6 | 29.8  | (3.2)   | (10.7)  |
| Total Health Plans    | 26.6 | 476.9 | (450.3) | (94.4)  |

|                                   |         |         |         |        |
|-----------------------------------|---------|---------|---------|--------|
| Small Group:                      |         |         |         |        |
| Dental                            | 1,639.3 | 1,598.4 | 40.9    | 2.6    |
| Group Life                        | 646.9   | 827.5   | (180.6) | (21.8) |
| Other                             | 32.0    | 58.5    | (26.5)  | (45.3) |
| Total Small Group                 | 2,318.2 | 2,484.4 | (166.2) | (6.7)  |
| Total ending specialty membership | 2,344.8 | 2,961.3 | (616.5) | (20.8) |

|                            | Three months ended |              | Year Ended |      |
|----------------------------|--------------------|--------------|------------|------|
| Average Medical Membership | December 31,       | December 31, | 2000       | 1999 |
|                            | 2000               | 1999         | 2000       | 1999 |

|                        |         |         |         |         |
|------------------------|---------|---------|---------|---------|
| Health Plans:          |         |         |         |         |
| Large group commercial | 1,259.9 | 1,423.2 | 1,337.1 | 1,465.3 |
| Medicare HMO           | 500.3   | 481.7   | 511.2   | 482.8   |
| Medicaid               | 578.2   | 637.5   | 619.1   | 647.4   |
| TRICARE                | 1,070.3 | 1,057.3 | 1,061.1 | 1,069.5 |

|                         |         |         |         |         |
|-------------------------|---------|---------|---------|---------|
| Administrative services | 624.8   | 646.3   | 648.4   | 631.5   |
| Medicare supplement     | --      | 45.0    | 40.9    | 48.9    |
| Total Health Plans      | 4,033.5 | 4,291.0 | 4,217.8 | 4,345.4 |

Small Group:

|                                  |         |         |         |         |
|----------------------------------|---------|---------|---------|---------|
| Small group commercial           | 1,312.0 | 1,679.2 | 1,458.8 | 1,684.7 |
| Total average medical membership | 5,345.5 | 5,970.2 | 5,676.6 | 6,030.1 |

SOURCE Humana Inc.