



## Humana Reports First Quarter Results

May 2, 2001

LOUISVILLE, Ky., May 2 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported \$.16 earnings per diluted share for the first quarter ended March 31, 2001. Humana reported \$.13 earnings per diluted share for the first quarter of 2000.

Net income for the first quarter of 2001 was \$27 million compared to net income of \$21 million for the same period in the prior year, a 29 percent increase. Income before income taxes for the quarter was up 55 percent to \$42 million versus \$27 million a year ago.

"The actions we've taken to eliminate non-core business while applying disciplined operational focus to our core products and markets continue to produce favorable results," said Michael B. McCallister, Humana's president and chief executive officer. "This successful strategy is providing the platform we need to resume growing our top line -- creating innovative, consumer-centric products and services powered by leading-edge information technology."

During the first quarter of 2001, Humana implemented a management realignment to emphasize its consumer-centric focus. This realignment has been reflected in the company's redefined business segments: Commercial and Government. The Commercial segment includes three lines of business: fully insured medical, ASO and specialty. The Government segment also includes three lines of business: Medicare+Choice, Medicaid and TRICARE.

### Revenue and Membership

Revenue in the first quarter was \$2.4 billion versus \$2.6 billion in the first quarter of 2000. Humana exited numerous non-core markets and products in the latter three quarters of 2000, accounting for the decline in first quarter revenues. Those markets and products were deemed non-core because they either lacked potential for profitability or did not fit into the company's strategic focus, or both.

Premium revenues for the Commercial segment totaled \$1.3 billion compared to \$1.4 billion for the same period in 2000. Fully insured medical business within the segment averaged premium yields of 14.1 percent for the first quarter of 2001 compared to 11.4 percent for the first quarter of 2000. Membership for the fully insured medical line declined by 6 percent to 2,387,900 at March 31, 2001 from 2,545,800 at December 31, 2000, as the company continued to focus on pricing discipline and exited certain unprofitable markets.

Government segment premium revenues totaled \$1.1 billion in the first quarter of 2001 versus \$1.2 billion for the prior year's quarter. The company's Medicare+Choice line averaged premium yields of 7.0 percent during the first quarter versus 6.2 percent in the prior year's quarter. Medicare+Choice membership at March 31, 2001 was 428,100 versus 494,200 at December 31, 2000, a decline of 66,100 members, primarily attributable to the previously announced exits from 45 counties on January 1, 2001.

### Medical and Administrative Expenses and Taxes

The company's medical expense ratio for the first quarter was 83.2 percent, versus a ratio of 85.0 percent for the same period in 2000 and a ratio of 83.7 percent in the fourth quarter of 2000.

Medical cost trends for the commercial fully insured medical line of business were in the 9 to 10 percent range for the first quarter of 2001, down from 10 to 11 percent in the first quarter of 2000.

Medicare+Choice medical cost trends for the first quarter 2001 ranged from 4 to 5 percent, down significantly from 6 to 7 percent for the first quarter of 2000. The exit from the 45 Medicare+Choice counties combined with the effect of significant benefit reductions effective January 1, 2001, helped drive the lower cost trends.

Planned spending on infrastructure and technology initiatives combined with a lower ratio of members to employees resulted in a sequential increase of 10 basis points in the company's administrative expense ratio to 14.5 percent (excluding depreciation and amortization). This compares to 14.4 percent in the fourth quarter of 2000 and a ratio of 13.5 percent from the year-ago quarter.

"While our administrative expense ratio was up slightly, as expected, it was more than offset by the sequential and year-over-year improvement in our medical expense ratio," McCallister said. "In the long run, our infrastructure and technology spending is anticipated to favorably impact both medical and administrative expenses."

The company's effective tax rate of 36 percent for the first quarter of 2001 compares to 21 percent for each of the 2000 quarters. The lower effective tax rate for 2000 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 used in operations totaled \$75 million in the first quarter of 2001. Cash flows during the quarter include the negative impact of \$55 million in run-off claims for terminated members and a \$51 million reduction in claims inventories as days-in-claims inventories dropped sequentially by two days.

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

	2001	2000
Revenues	\$ 2,448,000,000	\$ 2,642,000,000
Income before income taxes	\$42,000,000	\$27,000,000

Net income	\$27,000,000	\$21,000,000
Basic earnings per common share	\$.16	\$.13
Diluted earnings per common share	\$.16	\$.13
Shares used in basic earnings per common share computation	164,055,000	167,752,000
Shares used in diluted earnings per common share computation	167,373,000	167,852,000

Humana will host a conference call, as well as a virtual slide presentation at 9:00 a.m. EDT today to discuss its financial results for the quarter and updated earnings guidance for 2001.

All parties interested in the audio only portion of the conference call are invited to dial 888-625-7430. No password is required. The company suggests participants dial in approximately ten minutes in advance of the call.

A live virtual presentation (audio with slides) will be available and may be accessed via Humana's Investor Relations page at [www.humana.com](http://www.humana.com). The company suggests web participants sign on approximately 15 minutes in advance of the call. The company also suggests web participants visit the site well in advance of the call to run a system test and to download any free software needed to view the presentation.

For those unable to participate in the live event, the virtual presentation archive will be available in the Presentations section of the Investor Relations page at [www.humana.com](http://www.humana.com), approximately two hours following the live webcast. An audio recording of the conference call will be available in the Audio Archives located on the Investor Relations page at [www.humana.com](http://www.humana.com) approximately two hours after the live call.

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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 Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission.

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Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded health services companies, with approximately 4.9 million medical members located primarily in 15 states and Puerto Rico. Humana offers coordinated health benefits coverage through a variety of plans

- health maintenance organizations, preferred provider organizations and administrative service products -- to employer groups and government-sponsored plans.

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).

Humana Inc.

Dollars in millions, except per share results

	Three months ended March 31,	
Summarized Operating Results	2001	2000
Revenues:		
Premiums	\$2,413	\$2,611
Investment income	29	29
Other income	3	2
Total revenues	2,445	2,642
Operating expenses:		
Medical	2,007	2,220
Selling, general and administrative	350	353
Depreciation	23	19
Goodwill amortization	14	13
Other intangible amortization	2	2
Total operating expenses	2,396	2,607

Income from operations	49	35
Interest expense	7	8
Income before income taxes	42	27
Provision for income taxes	15	6
Net income	\$27	\$21
Basic earnings per common share	\$0.16	\$0.13
Diluted earnings per common share	\$0.16	\$0.13
Shares used in basic earnings per common share computation (000)	164,055	167,752
Shares used in diluted earnings per common share computation (000)	167,373	167,852
Medical expense ratio	83.2%	85.0%
Administrative expense ratio, excluding depreciation and amortization	14.5%	13.5%

#### Premiums

Commercial:		
Fully insured	\$1,236	\$1,343
Specialty	75	73
Medicare supplement	--	15
Total Commercial	1,311	1,431
Government:		
Medicare+Choice	734	803
Medicaid	124	171
TRICARE	244	206
Total Government	1,102	1,180
Total premiums	\$2,413	\$2,611

#### Humana Inc.

##### Dollars in millions

Financial Position	March 31, 2001	December 31, 2000	
Assets:			
Cash and investments	\$2,194	\$2,307	
Property and equipment, net	439	435	
Other assets	1,444	1,425	
Total assets	\$4,077	\$4,167	
Liabilities and equity:			
Medical and other expenses payable		\$1,103	\$1,181
Other liabilities	989	1,026	
Debt	590	600	
Equity	1,395	1,360	
Total liabilities and equity	\$4,077	\$4,167	

Operating Cash Flows	Three months ended March 31, 2001	2000
Net income	\$27	\$21
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	39	34
Provision for deferred income taxes	16	5

Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:			
Premiums receivable	(48)	(48)	
Other assets	3	(8)	
Medical and other expenses payable	(78)	(26)	
Workers' compensation run-out claims reduction	--	(30)	
Other liabilities	(27)	(71)	
Unearned premium revenues	1	53	
Other	(2)	--	

Net cash used in operating activities	\$(69)	\$(70)
Timing of Medicare+Choice premium payment from HCFA	(6)	(19)
Workers' compensation run-out claims reduction	--	30

Pro forma net cash used in operating activities	\$(75)	\$(59)
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Humana Inc.  
In thousands

	March 31,	Difference	Percent	
Ending Medical Membership	2001	2000		Change

Commercial:

Fully insured	2,387.9	2,977.5	(589.6)	(19.8)
ASO	547.2	657.0	(109.8)	(16.7)
Medicare supplement	--	40.8	(40.8)	(100.0)
Total Commercial	2,935.1	3,675.3	(740.2)	(20.1)

Government:

Medicare+Choice	428.1	518.0	(89.9)	(17.4)
Medicaid	493.2	656.6	(163.4)	(24.9)
TRICARE	1,070.9	1,060.0	10.9	1.0
Total Government	1,992.2	2,234.6	(242.4)	(10.8)
Total ending medical membership	4,927.3	5,909.9	(982.6)	(16.6)

	March 31,	Percent		
Ending Specialty Membership	2001	2000	Difference	Change

Commercial:

Dental	1,626.1	1,699.7	(73.6)	(4.3)
Group Life	610.3	777.5	(167.2)	(21.5)
Short-term Disability	30.2	43.1	(12.9)	(29.9)
Workers' Compensation	--	459.8	(459.8)	(100.0)
Total ending specialty membership	2,266.6	2,980.1	(713.5)	(23.9)

Three months ended  
March 31,

Average Medical Membership	2001	2000
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Commercial:

Fully insured	2,411.7	2,990.9
ASO	550.2	650.4
Medicare supplement	--	42.1
Total Commercial	2,961.9	3,683.4

Government:

Medicare+Choice	431.2	504.5
Medicaid	520.9	645.6
TRICARE	1,070.7	1,059.3
Total Government	2,022.8	2,209.4
Total average medical membership	4,984.7	5,892.8

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