



## Humana Reports Third Quarter and First Nine Months of 2001 Results

October 29, 2001

LOUISVILLE, Ky., Oct. 29 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported earnings of \$.18 per diluted share for the third quarter ended September 30, 2001 versus \$.14 per diluted share for the third quarter of 2000. Earnings per diluted share for the first nine months were \$.49 compared to \$.38 a year ago.

Net income for the third quarter of 2001 was \$30 million compared to net income of \$23 million for the same period in the prior year, a 30 percent increase. Net income for the first nine months of \$82 million compares with \$63 million in the same period a year ago, also a 30 percent increase. Income before income taxes for the quarter was up 62 percent to \$47 million versus \$29 million a year ago. Comparable results for the nine months ended September 30, 2001 and 2000 were \$128 million and \$80 million, respectively, a 60 percent improvement.

"Humana's strategy continues to drive operational improvements as well as progressive consumer-centrism," said Michael B. McCallister, Humana's president and chief executive officer. "The consumer-centric approach to our business, fueled by comprehensive e-business initiatives, allows us to strengthen our relationships with members, providers and employers, increasing members' involvement in health care decision-making."

### Revenue and Membership

Revenue in the third quarter was \$2.61 billion versus \$2.64 billion in the third quarter of 2000. Third quarter revenues improved 5 percent sequentially from \$2.50 billion in the second quarter of 2001. Total medical membership at September 30, 2001 was 6,428,600 versus 5,447,600 a year ago and 6,463,000 at June 30, 2001.

Humana exited numerous non-core markets and products in the latter part of 2000, accounting for the year over year decline in third 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.

Third quarter premium revenues for the Commercial segment totaled \$1.31 billion compared to \$1.37 billion for the same period in 2000 and \$1.29 billion in the second quarter 2001. Medical membership for the Commercial segment increased by 19,100 members to 2,910,500 at September 30, 2001 from 2,891,400 at June 30, 2001. Fully insured medical business within the segment averaged premium yields of 11.9 percent for the third quarter of 2001 compared to 13.5 percent for the third quarter of 2000 and 12.7 percent in the second quarter of 2001. Premium yields for the third quarter of 2001 include the negative impact of the year-over-year comparison to higher premiums during the third quarter of 2000 due to significant focal rate increases in Colorado and Texas implemented at that time.

Government segment premium revenues totaled \$1.23 billion in the third quarter of 2001 versus \$1.22 billion for the prior year's quarter and \$1.15 billion in the second quarter of 2001. The company's Medicare+Choice line averaged premium yields of 10.2 percent during the third quarter versus 5.5 percent in the prior year's quarter and 8.8 percent in the second quarter of 2001. Medicare+Choice membership at September 30, 2001 was 406,100 versus 418,000 at June 30, 2001, a decline of 11,900 members. TRICARE premium revenues increased to \$399 million in the third quarter versus \$238 million in the prior year's quarter. TRICARE premium revenues for the second quarter of 2001 approximated \$294 million. The year over year and sequential increases in TRICARE premium revenues are primarily attributable to the company's acquisition of the TRICARE regions 2 and 5 business on May 31, 2001. The company's TRICARE membership of 2,655,400 as of September 30, 2001 was essentially unchanged from June 30, 2001.

### Medical and SG&A Expenses and Taxes

The company's medical expense ratio (medical expenses as a percent of premium revenues) for the third quarter was 83.3 percent, versus a ratio of 84.2 percent for the same period in 2000 and a ratio of 83.9 percent in the second quarter of 2001.

Medical cost trends for the commercial fully insured medical line of business were in the 9 to 10 percent range for the third quarter of 2001, unchanged from both the first two quarters of 2001.

Medicare+Choice medical cost trends for the third quarter 2001 ranged from 5 to 7 percent, compared to a 3 to 5 percent trend for the first two quarters of 2001. The favorable effects of the exit from the 45 Medicare+Choice counties combined with the effect of significant benefit reductions, both effective January 1, 2001, were partially offset by a shift in the geographic mix of membership during the most recent quarter.

An increase in the percentage of average non-risk membership resulted in a sequential increase of 60 basis points in the company's selling, general and administrative ("SG&A") expense ratio (SG&A expenses as a percent of premiums and administrative services fees) to 15.4 percent. This compares to 14.8 percent in the second quarter of 2001 and a ratio of 14.7 percent in the year-ago quarter.

The company's effective tax rate of 36 percent for the third quarter of 2001 is unchanged from the first two quarters of 2001 and 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.

### Days in claims payable

Days in claims payable for the third quarter of 49.1 days include the full quarter's impact of the acquisition of the TRICARE regions 2 and 5 business on May 31, 2001. Excluding the impact of that acquisition, days in claims payable for the third quarter of 2001 increased to 46.9 from 46.1 for the second quarter of 2001.

### Cash flows

Excluding the timing of the receipt of the Medicare premium payment from the Centers for Medicare and Medicaid Services (CMS), cash flows

provided by operations totaled \$95 million in the third quarter of 2001.

Summary of operating results for the three months ended September 30:

	2001	2000
Revenues	\$ 2,611,000,000	\$ 2,635,000,000
Income before income taxes	\$ 47,000,000	\$ 29,000,000
Net income	\$ 30,000,000	\$ 23,000,000
Basic earnings per common share	\$ .18	\$ .14
Diluted earnings per common share	\$ .18	\$ .14
Shares used in basic earnings per common share computation	164,110,000	165,380,000
Shares used in diluted earnings per common share computation	166,743,000	165,690,000

Summary of operating results for the nine months ended September 30:

	2001	2000
Revenues	\$ 7,572,000,000	\$ 8,019,000,000
Income before income taxes	\$ 128,000,000	\$ 80,000,000
Net income	\$ 82,000,000	\$ 63,000,000
Basic earnings per common share	\$ .50	\$ .38
Diluted earnings per common share	\$ .49	\$ .38
Shares used in basic earnings per common share computation	164,088,000	166,957,000
Shares used in diluted earnings per common share computation	166,864,000	167,094,000

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

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 web cast. 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.

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 by Humana with the Securities and Exchange Commission:

- Form 10-K for the year ended December 31, 2000;
- \* Form 10-Qs for the quarters ended March 31, 2001 and June 30, 2001;
- \* Form S-3 (No. 333-63384) as amended.

Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded health benefits companies, with approximately 6.4 million medical members located primarily in 18 states and Puerto Rico. Humana offers coordinated health insurance coverage and related services -- through traditional and Internet based plans -- 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 stockholders, 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 conference call dates, related conference call access number, and planned participation in investor conferences).

Humana Inc.  
In thousands

	September 30,		Percent	
Ending Medical Membership	2001	2000	Difference	Change

Commercial:

Fully insured	2,332.7	2,639.6	(306.9)	(11.6)
ASO	577.8	647.3	(69.5)	(10.7)
Total Commercial	2,910.5	3,286.9	(376.4)	(11.5)

Government:

Medicare+Choice	406.1	513.1	(107.0)	(20.9)
Medicaid	456.6	584.4	(127.8)	(21.9)
TRICARE	1,712.7	1,063.2	649.5	61.1
TRICARE ASO	942.7	--	942.7	100.0
Total Government	3,518.1	2,160.7	1,357.4	62.8
Total ending medical membership	6,428.6	5,447.6	981.0	18.0

	September 30,		Percent	
Ending Specialty Membership	2001	2000	Difference	Change

Commercial:

Dental	1,676.4	1,675.9	0.5	0.0
Group life	564.2	685.1	(120.9)	(17.6)
Short-term disability	27.1	33.5	(6.4)	(19.1)
Total ending specialty membership	2,267.7	2,394.5	(126.8)	(5.3)

Three months ended Nine months ended

September 30, September 30,

	2001		2000	
Premiums	2001	2000	2001	2000
Commercial:				
Fully insured medical	\$1,231	\$1,294	\$3,683	\$3,963
Specialty	76	72	227	219
Medicare supplement	--	--	--	29
Total Commercial	1,307	1,366	3,910	4,211

Government:

Medicare+Choice	721	828	2,191	2,468
Medicaid	114	156	358	515
TRICARE	399	238	936	671
Total Government	1,234	1,222	3,485	3,654
Total premiums	\$2,541	\$2,588	\$7,395	\$7,865

Average Medical Membership

Commercial:

Fully insured	2,318.8	2,724.8	2,362.2	2,870.5
ASO	569.7	661.6	555.3	656.3
Medicare supplement	--	--	--	27.2
Total Commercial	2,888.5	3,386.4	2,917.5	3,554.0

Government:

Medicare+Choice	408.8	517.3	420.6	514.9
Medicaid	464.9	585.1	491.9	632.8
TRICARE	1,714.4	1,063.2	1,359.6	1,058.0
TRICARE ASO	940.5	--	495.2	--
Total Government	3,528.6	2,165.6	2,767.3	2,205.7
Total average medical membership	6,417.1	5,552.0	5,684.8	5,759.7

Humana Inc.

Dollars in millions, except per share results

Three months ended Nine months ended

September 30, September 30,

Summarized Operating Results	2001	2000	2001	2000
------------------------------	------	------	------	------

Revenues:

Premiums	\$ 2,541	\$ 2,588	\$ 7,395	\$ 7,865
Administrative services fees	40	19	87	68
Investment and other income	30	28	90	86
Total revenues	2,611	2,635	7,572	8,019
Operating expenses:				
Medical	2,118	2,179	6,172	6,664
Selling, general and administrative	399	382	1,133	1,144
Depreciation	24	23	69	63
Goodwill amortization	13	13	41	40
Other intangible amortization	4	2	9	6
Total operating expenses	2,558	2,599	7,424	7,917
Income from operations	53	36	148	102
Interest expense	6	7	20	22
Income before income taxes	47	29	128	80
Provision for income taxes	17	6	46	17
Net income	\$ 30	\$ 23	\$ 82	\$ 63

Basic earnings per common share	\$ 0.18	\$ 0.14	\$ 0.50	\$ 0.38
Diluted earnings per common share	\$ 0.18	\$ 0.14	\$ 0.49	\$ 0.38

Shares used in basic earnings per common share computation (000)	164,110	165,380	164,088	166,957
Shares used in diluted earnings per common share computation (000)	166,743	165,690	166,864	167,094

Medical expense ratio	83.3%	84.2%	83.5%	84.7%
Selling, general and administrative expense ratio	15.4%	14.7%	15.1%	14.4%

#### Historical Operating Results

	1Q00	2Q00	3Q00	4Q00
Revenues:				
Premiums	\$ 2,611	\$ 2,666	\$ 2,588	\$ 2,530
Administrative services fees	28	21	19	19
Investment and other income	30	28	28	29
Total revenues	2,669	2,715	2,635	2,578
Operating expenses:				
Medical	2,220	2,265	2,179	2,118
Selling, general and administrative	380	382	382	381
Depreciation	19	21	23	22
Goodwill amortization	13	14	13	14
Other intangible amortization	2	2	2	2
Total operating expenses	2,634	2,684	2,599	2,537
Income from operations	35	31	36	41
Interest expense	8	7	7	7
Income before income taxes	27	24	29	34
Provision for income taxes	6	5	6	7
Net income	\$ 21	\$ 19	\$ 23	\$ 27

Basic earnings per common share	\$ 0.13	\$ 0.11	\$ 0.14	\$ 0.16
Diluted earnings per common share	\$ 0.13	\$ 0.11	\$ 0.14	\$ 0.16

Shares used in basic earnings per common share computation (000)	167,752	167,740	165,380	164,026
Shares used in diluted earnings per common share computation (000)	167,852	167,740	165,690	166,445

Medical expense ratio	85.0%	85.0%	84.2%	83.7%
Selling, general and administrative expense ratio	14.4%	14.2%	14.7%	15.0%

Historical Operating Results	1Q01	2Q01	3Q01
Revenues:			
Premiums	\$ 2,413	\$ 2,441	\$ 2,541
Administrative services fees	21	26	40
Investment and other income	30	30	30
Total revenues	2,464	2,497	2,611
Operating expenses:			
Medical	2,007	2,047	2,118
Selling, general and administrative	369	365	399
Depreciation	23	22	24
Goodwill amortization	14	14	13
Other intangible amortization	2	3	4
Total operating expenses	2,415	2,451	2,558
Income from operations	49	46	53
Interest expense	7	7	6
Income before income taxes	42	39	47
Provision for income taxes	15	14	17
Net income	\$ 27	\$ 25	\$ 30

Basic earnings per common share	\$ 0.16	\$ 0.15	\$ 0.18
Diluted earnings per common share	\$0.16	\$ 0.15	\$ 0.18

Shares used in basic earnings per common share computation (000)	164,055	164,099	164,110
Shares used in diluted earnings per common share computation (000)	167,373	166,475	166,743

Medical expense ratio	83.2%	83.9%	83.3%
Selling, general and administrative expense ratio	15.2%	14.8%	15.4%

#### Humana Inc.

Dollars in millions

Financial Position	September 30, 2001	December 31, 2000
Assets:		
Cash and investments	\$2,258	\$2,307
Property and equipment, net	453	435
Other assets	1,463	1,425
Total assets	\$4,174	\$4,167
Liabilities and equity:		
Medical and other expenses payable	\$1,130	\$1,181
Other liabilities	991	1,026
Debt	589	600
Equity	1,464	1,360
Total liabilities and equity	\$4,174	\$4,167

Cash Flows	Three months ended		Nine months ended	
	September 30, 2001	September 30, 2000	September 30, 2001	September 30, 2000
Cash flows from operating activities				
Net income	\$ 30	\$ 23	\$ 82	\$ 63
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	41	38	119	109
Provision for deferred income taxes	14	17	40	18
Payment for government audit				

settlement	--	--	(8)	(15)		
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:						
Premiums receivable	(14)	47	16	8		
Other assets	10	3	12	(13)		
Medical and other expenses payable	9	(126)	(156)	(145)		
Workers' compensation run-out claims reduction	--	--	--	(30)		
Other liabilities	24	81	10	27		
Unearned premium revenues		(30)	(307)	(55)	(259)	
Other	3	3	--	(2)		
Net cash provided by (used in) operating activities	87	(221)	60	(239)		
Timing of receipt of Medicare+Choice premium payment from CMS	8	270	5	251		
Workers' compensation run-out claims reduction	--	--	--	30		
Pro forma net cash provided by operating activities	95	49	65	42		
Cash flows from investing activities						
Acquisitions, net of cash and cash equivalents acquired	--	(6)	(32)	(12)		
Divestitures, net of cash and cash equivalents disposed	--	(23)	--	32		
Purchases of property and equipment	(29)	(26)	(82)	(99)		
Proceeds from sale of property and equipment	--	--	--	14		
Purchases of marketable securities	(491)	(232)	(1,359)	(744)		
Proceeds from maturities of marketable securities	165	92	421	365		
Proceeds from sales of marketable securities	294	59	965	260		
Net cash used in investing activities	(61)	(136)	(87)	(184)		
Cash flows from financing activities						
Revolving credit agreement repayments	(250)	--	(250)	--		
Net commercial paper repayments	(60)	(6)	(80)	(77)		
Proceeds from issuance of senior notes	296	--	296	--		
Change in book overdraft	(27)	(36)	(8)	(86)		
Common stock repurchases		(2)	(26)	(2)	(26)	
Other	6	--	5	(2)		
Net cash used in financing activities	(37)	(68)	(39)	(191)		
Decrease in cash and cash equivalents	(11)	(425)	(66)	(614)		
Cash and cash equivalents at beginning of period	603	789	658	978		
Cash and cash equivalents at end of period	\$ 592	\$ 364	\$ 592	\$ 364		