



Humana Reports Fourth Quarter and Full Year 2002 Results

February 3, 2003

LOUISVILLE, Ky., Feb 3, 2003 /PRNewswire-FirstCall via COMTEX/ -- Humana Inc. (NYSE: HUM) today reported results for the fourth quarter ended December 31, 2002 and comparative amounts for the quarter ended December 31, 2001 as follows:

	4Q02 GAAP(1)	4Q01 GAAP(1)	4Q02 Adjusted(2)	4Q01 Adjusted(3)
Earnings (loss) per diluted share	\$(.01)	\$.21	\$.34	\$.29
Net income (loss) (in thousands)	\$(1,705)	\$35,108	\$56,495	\$48,281
Pre-tax margin	--	2.1%	2.9%	2.6%

(See "Footnote Definitions" section of this press release.)

Fourth quarter 2002 adjusted earnings per diluted share of \$.34 increased 17 percent compared to the same period in the prior year driven primarily by improved adjusted earnings in the company's Commercial segment. Adjusted net income for the fourth quarter also improved 17 percent compared to that for the same period in the prior year. The adjusted pre-tax margin of 2.9 percent increased 30 basis points from the fourth quarter of 2001.

Results for the years ended December 31, 2002 and 2001 are as follows:

	Full Year 2002 GAAP(1)	Full Year 2001 GAAP(1)	Full Year 2002 Adjusted(2)	Full Year 2001 Adjusted(3)
Earnings per diluted share	\$.85	\$.70	\$1.20	\$1.01
Net income (in thousands)	\$142,755	\$117,171	\$200,955	\$169,417
Pre-tax margin	1.9%	1.8%	2.6%	2.3%

(See "Footnote Definitions" section of this press release.)

Adjusted earnings per diluted share for the year ended December 31, 2002 of \$1.20 increased 19 percent compared to \$1.01 for the year ended December 31, 2001. Net income on an adjusted basis also improved 19 percent for the full year 2002 versus the full year 2001.

In July 2002, the company announced a \$100 million share repurchase program. As of February 2, 2003, 6.6 million shares had been repurchased for an aggregate purchase price of \$76.0 million, or \$11.53 per share.

"Humana has targeted specific opportunities within the Commercial segment, and the early impact of those initiatives is demonstrated by significant progress in our financial results for that segment during 2002," said Michael B. McCallister, Humana's chief executive officer. "Our strategy of providing solutions for employers is proving effective, and we believe we can further improve our Commercial business in 2003 while maintaining strong results in our Government segment."

Unusual Items

During the fourth quarter of 2002, the company recorded the following items that were not reflective of the run-rate operations of the company. These adjustments initially were described in the company's press release, dated December 5, 2002. Management believes these unusual items should be excluded to properly reflect the run-rate operations of the company and to provide better comparability to prior year results.

Statement of Operations Line Item Impacted	Pre-tax Impact	Earnings per diluted After-tax share Impact	Impact
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(in thousands,
except per share)

amounts)

Severance and related Restructuring
employee benefits charge \$(32,105) \$(19,616) \$(.12)

Building, equipment
and lease Restructuring
discontinuance charge \$(3,772) \$(2,305) \$(.01)

Reserves for Selling,
liabilities related general and
to previous administrative
acquisitions ("SG&A") \$(30,140) \$(18,416) \$(.11)

Impairment in the
fair value of
certain private
debt and equity Investment
investments income \$(19,571) \$(17,863) \$(.11)

Total unusual items \$(85,588) \$(58,200) \$(.35)

(See "Footnote Definitions" section of this press release.)

Segment Results

Pre-tax results for the company's business segments for the fourth quarters and years ended December 31, 2002 and 2001 were as follows:

Pre-tax income (loss)	4Q02	4Q01	4Q02	4Q01
	GAAP(1)	GAAP(1)	Adjusted(2)	Adjusted(3)

(in thousands)

Commercial segment	\$(60,702)	\$(10,756)	\$ 8,199	\$(2,748)
Government segment	\$ 58,195	\$ 65,612	\$ 74,882	\$ 71,553
Consolidated	\$(2,507)	\$ 54,856	\$ 83,081	\$ 68,805

Pre-tax income (loss)	Full Year	Full Year	Full Year	Full Year
	2002	2001	2002	2001
	GAAP(1)	GAAP(1)	Adjusted(2)	Adjusted(3)

(in thousands)

Commercial segment	\$(15,174)	\$(2,013)	\$ 53,727	\$ 31,422
Government segment	\$225,108	\$185,093	\$241,795	\$206,723
Consolidated	\$209,934	\$183,080	\$295,522	\$238,145

(See "Footnote Definitions" section of this press release.)

Revenues and Membership

Consolidated revenues and membership for the fourth quarters and the years ended December 31, 2002 and 2001 were as follows:

Consolidated	2002	2001	2002	2001
	GAAP(1)	GAAP(1)	Adjusted(2)	Adjusted(3)

(in thousands)

Fourth quarter - total revenues	\$2,855,032	\$2,622,716	\$2,874,603	\$2,622,716
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Full year - total revenues	\$ 11,261,181	\$ 10,194,886	\$ 11,280,752	\$ 10,194,886
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Ending medical membership	6,647.1	6,435.8	6,647.1	6,435.8
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(See "Footnote Definitions" section of this press release.)

Commercial segment premiums and administrative services fees and membership for the fourth quarters and the years ended December 31, 2002 and 2001 were as follows:

Commercial Segment	4Q02		4Q01		Full Year 2002		Full Year 2001	
	GAAP(1)		GAAP(1)		GAAP(1)		GAAP(1)	
(in thousands)								
Premiums	\$1,508,550	\$1,336,704	\$5,836,328	\$5,246,602				
Administrative services fees	\$ 25,913	\$ 21,695	\$ 103,203	\$ 84,204				
Total premiums and administrative services fees	\$1,534,463	\$1,358,399	\$5,939,531	\$5,330,806				
Ending medical membership	2,992.5	2,893.8	2,992.5	2,893.8				

(See "Footnote Definitions" section of this press release.)

Commercial segment medical membership grew by 3.4 percent from December 31, 2001 to December 31, 2002. Commercial premium yields were within the 12 to 14 percent range for 2002. These factors contributed to a year-over-year increase in total premiums and administrative services fees for the Commercial segment of 13 percent for the fourth quarter 2002 and 11 percent for the year ended December 31, 2002.

Government segment premiums and administrative services fees and membership for the fourth quarters and the years ended December 31, 2002 and 2001 were as follows:

Government Segment	4Q02		4Q01		Full Year 2002		Full Year 2001	
	GAAP(1)		GAAP(1)		GAAP(1)		GAAP(1)	
(in thousands)								
Premiums	\$1,283,960	\$1,207,682	\$5,094,069	\$4,692,359				
Administrative services fees	\$ 28,583	\$ 27,622	\$ 141,193	\$ 52,886				
Total premiums and administrative services fees	\$1,312,543	\$1,235,304	\$5,235,262	\$4,745,245				
Ending medical membership	3,654.6	3,542.0	3,654.6	3,542.0				

(See "Footnote Definitions" section of this press release.)

Government segment premiums and administrative services fees increased year-over-year by 6 percent in the fourth quarter of 2002 and 10 percent during the year ended December 31, 2002.

Medicare+Choice membership totaled 344,100 at December 31, 2002, a decline of 4,900 members sequentially during the quarter and 49,800 for the year. Medicare+Choice premium yields for 2002 were within the 5 to 7 percent range.

TRICARE's insured membership totaled 1,755,800 at December 31, 2002, essentially flat sequentially and 2 percent higher than the December 31, 2001 level. TRICARE ASO membership was 1,048,700 at the end of the fourth quarter of 2002, up approximately 1 percent sequentially and a growth of 11 percent for the year. TRICARE premium revenues and administrative services fees increased year-over-year by 26 percent during the fourth quarter of 2002 and 54 percent for the full year. These increases in TRICARE revenues primarily are attributable to Congressionally legislated benefit changes, an increase in eligible beneficiaries, a decrease in the use of military treatment facilities, and for the full year, the acquisition of the Regions 2 and 5 business on May 31, 2001.

Medicaid membership of 506,000 at December 31, 2002 grew by approximately 3 percent from December 31, 2001. Approximately 86 percent of the company's Medicaid membership is in Puerto Rico, where reimbursement rates are contractually specified.

Medical and SG&A Expenses

The company's medical expense ratio (medical expenses as a percent of premiums) and SG&A expense ratio (SG&A expenses as a percent of premiums and administrative services fees) for the quarters and years ended December 31, 2002 and 2001 were as follows:

	4Q02	Full Year 4Q01	Full Year 2002	Full Year 2001
Medical expense ratio - GAAP(1)	83.3%	82.9%	83.6%	83.3%
SG&A expense ratio - GAAP(1)	16.2%	15.9%	15.6%	15.3%
SG&A expense ratio - Adjusted(2)	15.1%	15.9%	15.3%	15.3%

(See "Footnote Definitions" section of this press release.)

Medical cost trends for the Commercial fully-insured business for 2002 were in the expected 11 to 13 percent range. Medicare+Choice medical cost trends for 2002 were also in the expected 4 to 6 percent range.

Cash flows from operations

Cash flows from operations for the fourth quarters and the years ended December 31, 2002 and 2001 were as follows:

(in thousands)	4Q02	4Q01	Full Year 2002	Full Year 2001
GAAP(1)	\$422,710	\$89,120	\$321,408	\$148,958
Normalized(4)	\$216,955	\$100,169	\$332,281	\$165,773

(See "Footnote Definitions" section of this press release.)

Guidance

The company has offered the following earnings guidance points for the investor community:

For the Full Year 2003:	Projected
Earnings per diluted share - GAAP(1)	\$1.23 - \$1.28
Earnings per diluted share - Adjusted(5)	\$1.35 - \$1.40
Organic growth - Commercial segment medical membership (fully insured and ASO combined)	4 - 5%
Commercial premium yields	13 - 15%
Commercial medical cost trends	12 - 14%
SG&A expense ratio - Adjusted(5)	Improve by approximately 80 basis points year over year
Normalized cash flows from operations(4)	\$325 million to \$350 million
Effective tax rate	36%

(See "Footnote Definitions" section of this press release.)

Footnote Definitions

- 1 - Generally Accepted Accounting Principles ("GAAP")
- 2 - Adjusted results for 2002 exclude from GAAP results the impact of unusual items recorded during that year. These items were recorded in the fourth quarter of 2002. The statistics pages at the end of this press release provide a reconciliation of GAAP to adjusted results. The detail of the adjustments also is described in the "Unusual Items" section of this press release.
- 3 - Adjusted results for 2001 exclude from previously reported GAAP results amortization expense for goodwill to facilitate comparability. GAAP required all companies to cease amortizing goodwill effective January 1, 2002. The statistics pages at the end of this press release provide a reconciliation of GAAP to adjusted results.
- 4 - Normalized cash flows from operations give effect to the usual adjustment for the timing of the receipt of the Medicare+Choice premium payment from the Centers for Medicare and Medicaid Services ("CMS"). The fixed monthly payment from CMS is payable to Humana on the first day of each month. However, if the first of the month falls

on a weekend or a holiday, the company receives that payment early, often resulting in a significant impact on cash flows from operations.

The statistics pages at the end of this press release provide a reconciliation of GAAP to normalized cash flows from operations.

- 5 - Adjusted results for the full year 2003 exclude from GAAP results the expected impact of non-run-rate items to be recorded during that year. As discussed in the company's press release issued December 5, 2002, the anticipated adjustments relate to the disposition of one customer service center, related equipment and other assets.

Conference Call

Humana will host a conference call, as well as a virtual slide presentation, at 9:30 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. 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, approximately two hours following the live web cast. An audio recording of the conference call will also be available in the Audio Archives located on the Investor Relations page at 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, 2001,
- Form 10-Qs for the quarters ended March 31, 2002, June 30, 2002, and September 30, 2002, and
- Form S-3 (No. 333-100419) filed October 8, 2002.

Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded health benefits companies, with approximately 6.6 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, government-sponsored plans, and individuals.

More information regarding Humana is available via the Internet at www.humana.com, including on-line:

- Copies of annual reports to stockholders;
- Securities and Exchange Commission filings including Form 10-Ks, Form 10-Qs, proxy statements, Form 4s, Form S-3s, and Form 8-Ks;
- 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

	December 31,		Difference	Percent	
Ending Medical Membership	2002	2001	Change	Change	
Commercial:					
Fully insured	2,340.3	2,301.3	39.0	1.7	
ASO	652.2	592.5	59.7	10.1	
Total Commercial	2,992.5	2,893.8	98.7	3.4	
Government:					
Medicare+Choice	344.1	393.9	(49.8)	(12.6)	
Medicaid	506.0	490.8	15.2	3.1	
TRICARE	1,755.8	1,714.6	41.2	2.4	

TRICARE ASO	1,048.7	942.7	106.0	11.2
Total Government	3,654.6	3,542.0	112.6	3.2
Total ending medical membership	6,647.1	6,435.8	211.3	3.3

	December 31,		Difference	Percent
Ending Specialty Membership	2002	2001		Change

Commercial:

Dental-fully insured	918.9	908.5	10.4	1.1
Dental-ASO	313.2	343.0	(29.8)	(8.7)
Total Dental	1,232.1	1,251.5	(19.4)	(1.6)
Group life	523.3	546.1	(22.8)	(4.2)
Short-term disability	22.1	25.2	(3.1)	(12.3)
Total ending specialty membership	1,777.5	1,822.8	(45.3)	(2.5)

	Three months ended		Twelve months ended	
Premiums	December 31,		December 31,	
	2002	2001	2002	2001

Commercial:

Fully insured medical	\$1,422,602	\$1,258,530	\$5,499,033	\$4,941,888
Specialty	85,948	78,174	337,295	304,714
Total Commercial	1,508,550	1,336,704	5,836,328	5,246,602

Government:

Medicare+Choice	647,666	718,987	2,629,597	2,909,478
Medicaid	119,609	83,431	462,998	441,324
TRICARE	516,685	405,264	2,001,474	1,341,557
Total Government	1,283,960	1,207,682	5,094,069	4,692,359
Total premiums	\$2,792,510	\$2,544,386	\$10,930,397	\$9,938,961

	Three months ended		Twelve months ended	
Administrative services fees	December 31,		December 31,	
	2002	2001	2002	2001
Commercial	\$25,913	\$21,695	\$103,203	\$84,204
Government	28,583	27,622	141,193	52,886
Total Administrative services fees	\$54,496	\$49,317	\$244,396	\$137,090

Humana Inc.

Dollars in thousands, except per share results

Three months ended

	Restructuring and Other		Adjusted	
	Dec. 31, 2002	Unusual Items	Dec. 31, 2002	Dec. 31, 2001

Consolidated Statements of
Operations

Revenues:

Premiums	\$2,792,510	\$ -	\$2,792,510	\$2,544,386
Administrative services fees	54,496	-	54,496	49,317
Investment income	6,138	19,571	25,709	25,676
Other income	1,888	-	1,888	3,337

Total revenues	2,855,032	19,571	2,874,603	2,622,716
Operating expenses:				
Medical	2,326,448	-	2,326,448	2,108,187
Selling, general and administrative	460,676	(30,140)	430,536	412,469
Depreciation	26,243	-	26,243	24,302
Goodwill amortization	-	-	-	13,949
Other intangible amortization	3,931	-	3,931	4,119
Restructuring charge	35,877	(35,877)	-	-
Total operating expenses	2,853,175	(66,017)	2,787,158	2,563,026
Income from operations	1,857	85,588	87,445	59,690
Interest expense	4,364	-	4,364	4,834
(Loss) income before income taxes	(2,507)	85,588	83,081	54,856
(Benefit) provision for income taxes	(802)	27,388	26,586	19,748
Net (loss) income	\$(1,705)	\$58,200	\$56,495	\$35,108
Add back: Goodwill amortization expense, net of tax	-	-	-	13,173
Adjusted net (loss) income	\$(1,705)	\$58,200	\$56,495	\$48,281

Basic (loss) earnings per common share	\$(0.01)	\$0.36	\$0.35	\$0.21
Add back: Goodwill amortization expense, net of tax	-	-	-	0.08
Adjusted basic (loss) earnings per common share	\$(0.01)	\$0.36	\$0.35	\$0.29

Diluted (loss) earnings per common share	\$(0.01)	\$0.35	\$0.34	\$0.21
Add back: Goodwill amortization expense, net of tax	-	-	-	0.08
Adjusted diluted (loss) earnings per common share	\$(0.01)	\$0.35	\$0.34	\$0.29

Shares used in basic (loss) earnings per common share computation (000)	160,943	160,943	160,943	164,020
Shares used in diluted (loss) earnings per common share computation (000)	160,943	164,804	164,804	167,396

Pretax Results by Segment

Commercial, as reported	\$(60,702)	\$68,901	\$8,199	\$(10,756)
Add back: Goodwill amortization expense	-	-	-	8,008
Commercial, as adjusted	\$(60,702)	\$68,901	\$8,199	\$(2,748)

Government, as reported	\$58,195	\$16,687	\$74,882	\$65,612
Add back: Goodwill amortization expense	-	-	-	5,941
Government, as adjusted	\$58,195	\$16,687	\$74,882	\$71,553

Key Ratios

Medical expense ratio				
Commercial	83.7%	-	83.7%	84.2%
Government	82.8%	-	82.8%	81.4%

Total	83.3%	-	83.3%	82.9%
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Selling, general, and administrative expense ratio

Commercial	19.1%	-1.8%	17.3%	17.4%
Government	12.8%	-0.2%	12.6%	14.2%
Total	16.2%	-1.1%	15.1%	15.9%

EBITDA *

Commercial	\$(38,390)	\$68,901	\$30,511	\$16,743
Government	70,421	16,687	87,108	85,317
Total EBITDA	\$32,031	\$85,588	\$117,619	\$102,060

*EBITDA is defined as earnings (including investment and other income) before interest expense, income taxes, depreciation and amortization.

Humana Inc.

Dollars in thousands, except per share results

Twelve months ended

	Restructuring		
	and Other	Adjusted	
Dec. 31,	Unusual	Dec. 31,	Dec. 31,
2002	Items	2002	2001

Consolidated Statements of Operations

Revenues:

Premiums	\$10,930,397	\$ -	\$10,930,397	\$9,938,961
Administrative services fees	244,396	-	244,396	137,090
Investment income	78,833	19,571	98,404	112,676
Other income	7,555	-	7,555	6,159
Total revenues	11,261,181	19,571	11,280,752	10,194,886

Operating expenses:

Medical	9,138,196	-	9,138,196	8,279,844
Selling, general and administrative	1,739,192	(30,140)	1,709,052	1,545,129
Depreciation	105,006	-	105,006	92,929
Goodwill amortization	-	-	-	55,065
Other intangible amortization	15,724	-	15,724	13,537
Restructuring charge	35,877	(35,877)	-	-
Total operating expenses	11,033,995	(66,017)	10,967,978	9,986,504
Income from operations	227,186	85,588	312,774	208,382
Interest expense	17,252	-	17,252	25,302
Income before income taxes	209,934	85,588	295,522	183,080
Provision for income taxes	67,179	27,388	94,567	65,909
Net income	\$142,755	\$58,200	\$200,955	\$117,171
Add back: Goodwill amortization expense, net of tax	-	-	-	52,246
Adjusted net income	\$142,755	\$58,200	\$200,955	\$169,417

Basic earnings per common

share	\$0.87	\$0.36	\$1.23	\$0.71
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Add back: Goodwill

amortization expense, net of tax	-	-	-	0.32
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Adjusted basic earnings per

common share	\$0.87	\$0.36	\$1.23	\$1.03
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Diluted earnings per common share	\$0.85	\$0.35	\$1.20	\$0.70
Add back: Goodwill amortization expense, net of tax	-	-	-	0.31
Adjusted diluted earnings per common share	\$0.85	\$0.35	\$1.20	\$1.01

Shares used in basic earnings per common share computation (000)	163,489	163,489	163,489	164,071
Shares used in diluted earnings per common share computation (000)	167,801	167,801	167,801	167,308

Pretax Results by Segment

Commercial, as reported	\$(15,174)	\$68,901	\$53,727	\$(2,013)
Add back: Goodwill amortization expense	-	-	-	33,435
Commercial, as adjusted	\$(15,174)	\$68,901	\$53,727	\$31,422

Government, as reported	\$225,108	\$16,687	\$241,795	\$185,093
Add back: Goodwill amortization expense	-	-	-	21,630
Government, as adjusted	\$225,108	\$16,687	\$241,795	\$206,723

Key Ratios

Medical expense ratio				
Commercial	83.5%	-	83.5%	83.1%
Government	83.8%	-	83.8%	83.6%
Total	83.6%	-	83.6%	83.3%

Selling, general, and administrative expense ratio

Commercial	17.5%	-0.4%	17.1%	17.6%
Government	13.3%	-	13.3%	12.8%
Total	15.6%	-0.3%	15.3%	15.3%

EBITDA *

Commercial	\$69,470	\$68,901	\$138,371	\$111,626
Government	278,446	16,687	295,133	258,287
Total EBITDA	\$347,916	\$85,588	\$433,504	\$369,913

*EBITDA is defined as earnings (including investment and other income) before interest expense, income taxes, depreciation and amortization.

Humana Inc.

Dollars in thousands, except per share results

	December 31,	September 30,	December 31,
Consolidated Balance Sheets	2002	2002	2001
Assets			
Current assets:			
Cash and cash equivalents	\$721,357	\$375,736	\$651,420
Investment securities	1,405,833	1,420,524	1,389,596
Receivables, net:			
Premiums	411,829	489,518	299,601
Administrative services fees	68,316	67,762	26,667
Other	244,354	230,963	255,654
Total current assets	2,851,689	2,584,503	2,622,938

Property and equipment, net	459,842	462,453	461,761
Other assets:			
Long-term investment securities	283,954	317,346	280,320
Goodwill	776,874	776,874	776,874
Other	197,964	238,154	261,745
Total other assets	1,258,792	1,332,374	1,318,939
Total assets	\$4,570,323	\$4,379,330	\$4,403,638
Liabilities and Stockholders' Equity			
Current liabilities:			
Medical and other expenses payable	\$1,142,131	\$1,164,431	\$1,086,386
Trade accounts payable and accrued expenses	532,637	475,885	479,996
Book overdraft	94,882	104,402	152,757
Unearned premium revenues	335,757	89,977	325,040
Short-term debt	265,000	265,000	263,000
Total current liabilities	2,370,407	2,099,695	2,307,179
Long-term debt	339,913	334,061	315,489
Professional liability risks	209,302	247,690	241,431
Other long-term liabilities	44,227	30,440	31,590
Total liabilities	2,963,849	2,711,886	2,895,689
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$1 par; 10,000,000 shares authorized; none issued	-	-	-
Common stock, \$0.16 2/3 par; 300,000,000 shares authorized; 171,334,893, 171,303,567, and 170,692,520 issued at December 31, 2002, September 30, 2002, and December 31, 2001, respectively	28,556	28,551	28,449
Capital in excess of par value	931,089	930,942	922,439
Retained earnings	720,878	722,583	578,122
Accumulated other comprehensive income	22,454	35,819	11,670
Unearned restricted stock compensation	(6,516)	(9,059)	(17,882)
Treasury stock, at cost, 8,362,537, 4,028,137, and 1,880,619 shares at December 31, 2002, September 30, 2002, and December 31, 2001, respectively	(89,987)	(41,392)	(14,849)
Total stockholders' equity	1,606,474	1,667,444	1,507,949
Total liabilities and stockholders' equity	\$4,570,323	\$4,379,330	\$4,403,638

Debt to total capitalization ratio 27.4% 26.4% 27.8%

Humana Inc.

Dollars in thousands

Three months ended Twelve months ended
December 31, December 31,
2002 2001 2002 2001

Consolidated Statements of
Cash Flows

Cash flows from operating activities

Net (loss) income \$(1,705) \$35,108 \$142,755 \$117,171
Adjustments to reconcile net
(loss) income to net

cash provided by operating activities:				
Non-cash restructuring charge	2,448	-	2,448	-
Depreciation and amortization	30,174	42,370	120,730	161,531
Provision for deferred income taxes	15,340	15,816	49,561	56,104
Payment for government audit settlement	-	-	(8,000)	
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:				
Receivables	77,135	(35,443)	(153,877)	(21,192)
Other assets	(2,732)	(3,260)	(2,464)	10,579
Medical and other expenses payable	(22,300)	(23,632)	55,745	(179,539)
Other liabilities	56,401	17,220	61,143	27,456
Unearned premium revenues	245,780	42,094	10,717	(13,397)
Other	22,169	(1,153)	34,650	(1,755)
Net cash provided by operating activities	422,710	89,120	321,408	148,958
Timing of Medicare+Choice premium payment from CMS	(205,755)	11,049	10,873	16,815
Normalized net cash provided by operating activities	216,955	100,169	332,281	165,773

Cash flows from investing activities

Acquisitions, net of cash and cash equivalents acquired				
	-	3,341	-	(29,359)
Divestitures, net of cash and cash equivalents disposed				
	-	420	-	1,470
Purchases of property and equipment				
	(27,815)	(32,798)	(110,287)	(114,971)
Purchases of marketable securities				
	(929,275)	(514,806)	(2,569,078)	(1,874,482)
Proceeds from maturities of marketable securities				
	219,736	204,871	492,935	626,369
Proceeds from sales of marketable securities				
	719,149	307,646	2,058,273	1,272,166
Net cash used in investing activities	(18,205)	(31,326)	(128,157)	(118,807)

Cash flows from financing activities

Revolving credit agreement (repayments) borrowings				
	-	(270,000)	-	(520,000)
Net commercial paper conduit borrowings				
	-	263,000	2,000	263,000
Net commercial paper repayments				
	-	-	-	(79,952)
Proceeds from issuance of senior notes				
	-	-	-	299,277
Proceeds from other borrowings				
	-	-	-	5,700
Debt issue costs				
	(990)	(3,876)	(1,549)	(7,116)
Change in book overdraft				
	(9,520)	11,823	(57,875)	4,194
Common stock repurchases				
	(48,595)	-	(74,034)	(1,867)
Other				
	221	846	8,144	471
Net cash (used in) provided by financing activities	(58,884)	1,793	(123,314)	(36,293)

Increase (decrease) in cash and cash equivalents				
	345,621	59,587	69,937	(6,142)

Cash and cash equivalents at beginning of period	375,736	591,833	651,420	657,562
Cash and cash equivalents at end of period	\$721,357	\$651,420	\$721,357	\$651,420

Humana Inc.
Percentage of Ending Membership Under Capitation Arrangements

	Commercial Segment			
	Fully Insured	ASO	Total Segment	
December 31, 2002				
Capitated HMO				
hospital system based A		6.3%	-	4.9%
Capitated HMO				
physician group based A		3.2%	-	2.5%
Risk-sharing B	2.9%	-	-	2.3%
All other membership		87.6%	100.0%	90.3%
Total	100.0%	100.0%	100.0%	

December 31, 2001				
Capitated HMO				
hospital system based A		7.0%	-	5.6%
Capitated HMO				
physician group based A		4.1%	-	3.3%
Risk-sharing B	3.9%	-	-	3.1%
All other membership		85.0%	100.0%	88.0%
Total	100.0%	100.0%	100.0%	

A In a limited number of circumstances, we contract with hospitals and physicians to accept financial risk for a defined set of HMO membership. In transferring this risk, we prepay these providers a monthly fixed-fee per member to coordinate substantially all of the medical care for their capitated HMO membership, including some health benefit administrative functions and claims processing. For these capitated HMO arrangements, we generally agree to reimbursement rates that target a medical expense ratio ranging from 82% to 89%. Providers participating in hospital-based capitated HMO arrangements generally receive a monthly payment for all of the services within their system for their HMO membership. Providers participating in physician-based capitated HMO arrangements generally have subcontracted directly with hospitals and specialist physicians, and are responsible for reimbursing such hospitals and physicians for services rendered to their HMO membership.

B In some circumstances, we contract with physicians under risk-sharing arrangements whereby physicians have assumed some level of risk for all or a portion of the medical costs of their HMO membership. Although these arrangements do include capitation payments for services rendered, we process substantially all of the claims under these arrangements.

Humana Inc.
Percentage of Ending Membership Under Capitation Arrangements

	Government Segment				
	Medicare+ Choice	Medicaid	TRICARE ASO	TRICARE Total Segment	
December 31, 2002					
Capitated HMO					
hospital system					

based A	13.7%	2.4%	-	-	1.6%	3.1%
Capitated HMO						
physician group						
based A	3.1%	57.9%	-	-	8.3%	5.7%
Risk-sharing B	46.6%	32.4%	-	-	8.9%	5.9%
All other membership	36.6%	7.3%	100.0%	100.0%	81.2%	85.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

December 31, 2001

Capitated HMO						
hospital system						
based A	14.9%	2.1%	-	-	2.0%	3.6%
Capitated HMO						
physician group						
based A	3.5%	18.2%	-	-	2.9%	3.1%
Risk-sharing B	44.5%	37.1%	-	-	10.1%	6.9%
All other membership	37.1%	42.6%	100.0%	100.0%	85.0%	86.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

A In a limited number of circumstances, we contract with hospitals and physicians to accept financial risk for a defined set of HMO membership. In transferring this risk, we prepay these providers a monthly fixed-fee per member to coordinate substantially all of the medical care for their capitated HMO membership, including some health benefit administrative functions and claims processing. For these capitated HMO arrangements, we generally agree to reimbursement rates that target a medical expense ratio ranging from 82% to 89%. Providers participating in hospital-based capitated HMO arrangements generally receive a monthly payment for all of the services within their system for their HMO membership. Providers participating in physician-based capitated HMO arrangements generally have subcontracted directly with hospitals and specialist physicians, and are responsible for reimbursing such hospitals and physicians for services rendered to their HMO membership.

B In some circumstances, we contract with physicians under risk-sharing arrangements whereby physicians have assumed some level of risk for all or a portion of the medical costs of their HMO membership. Although these arrangements do include capitation payments for services rendered, we process substantially all of the claims under these arrangements.

Humana Inc.

Dollars in thousands

Medical Claim Reserves - Details and Statistics

Change in medical and other expenses payable:

The change in medical and other expenses payable is summarized as follows:

	2002	2001	2000	
Balances at January 1		\$1,086,386	\$1,181,027	\$1,432,226
Acquisitions and divestitures, net		-	85,052 A	5,213 A
Incurred related to:				
Current year	9,125,915	8,303,256	8,790,478	
Prior years	12,281 B	(23,412)C	(8,480)D	
Total incurred	9,138,196	8,279,844	8,781,998	
Paid related to:				
Current year	(8,002,610)	(7,291,541)	(7,634,338)	
Prior years	(1,079,841)	(1,167,996)	(1,404,072)	

Total paid (9,082,451) (8,459,537) (9,038,410)

Balances at December 31 \$1,142,131 \$1,086,386 \$1,181,027

A Includes reserves acquired in connection with the acquisition of TRICARE Regions 2 and 5 during the second quarter of 2001. Included in 2000 are the dispositions of our workers compensation and Medicare supplement businesses and the acquisition of Memorial Sisters of Charity Health Network, Inc.

B Changes in estimates of incurred claims for prior years recognized during 2002 consisted of a \$25.7 million increase in TRICARE medical claim expense estimates as a result of expanded Congressionally legislated benefits, an increase in eligible beneficiaries and a decrease in the use of military treatment facilities. These same items resulted in additional revenues recorded during 2002 through the change order and bid price adjustment process with the Department of Defense. Other than this \$25.7 million, medical claim liabilities developed favorably by \$13.4 million for our medical and other lines of business (primarily in our commercial products).

C Changes in estimates of incurred claims for prior years recognized during 2001 were primarily attributable to favorable development in our TRICARE operations, including lower than anticipated utilization of medical services for the latter half of 2000.

D Changes in estimates of incurred claims for prior years recognized during 2000 were primarily attributable to favorable development in our TRICARE operations, including lower than anticipated utilization of medical services for the latter half of 1999.

Humana Inc.

Dollars in thousands

Medical Claim Reserves - Details and Statistics

Medical and Other Expenses Payable Detail:

	December 31,			
	2002	2001	2000	
A IBNR and other medical expenses payable	\$650,606	\$615,834	\$685,967	
B TRICARE IBNR	212,826	186,740	126,100	
C TRICARE other medical expenses payable	37,793	30,089	446	
D Unprocessed claim inventories		92,300	125,400	257,400
E Processed claim inventories		105,422	102,622	81,361
F Payable to pharmacy benefit administrator	43,184	25,701	29,753	
Total medical and other expenses payable	\$1,142,131	\$1,086,386	\$1,181,027	

A IBNR represents an estimate of medical expenses payable for claims incurred but not reported (IBNR) at the balance sheet date. The level of IBNR is primarily impacted by membership levels, medical claim trends and the receipt cycle time which represents the length of time between when a claim is initially incurred and when the claim form is received (i.e. a shorter time span results in lower reserves for claims IBNR).

B TRICARE IBNR has increased primarily due to higher membership levels and, to a lesser extent, medical claim trends.

C TRICARE other medical expense payable may include liabilities to subcontractors and/or risk share payables to the Department of

Defense. The level of these balances may fluctuate from period to period due to the timing of payment (cutoff) and whether or not the balances are payables or receivables (receivables from the Department of Defense are classified as "receivables" in our balance sheet).

D Unprocessed claim inventories represent the estimated valuation of claims received but not yet fully processed. TRICARE claim inventories are not included in this amount as an independent third party administrator processes all TRICARE medical claims on our behalf. Reserves for TRICARE claims inventory are included in TRICARE IBNR.

E Processed claim inventories represent the estimated valuation of processed claims that are in the post claim adjudication process, which consists of administrative functions such as audit and check batching and handling.

F The balance due to our pharmacy benefit administrator fluctuates due to bi-weekly payments and the month-end cutoff.

Receipt Cycle Time:

Due to increasing electronic connectivity and other efficiencies gained by our providers with regards to the claim submission process, the average length of time between when a claim was initially incurred and when the claim form was received has shortened over the last two years, as follows:

	Average # of Days from Incurred Date to Receipt Date (1)			
	2002	2001	Change	% Change
1st Quarter Average	19.0	20.8	(1.8)	-8.7%
2nd Quarter Average	18.1	20.0	(1.9)	-9.5%
3rd Quarter Average	17.3	20.0	(2.7)	-13.5%
4th Quarter Average	16.9	19.1	(2.2)	-11.5%
Full Year Average	17.8	20.0	(2.2)	-11.0%

(1) Receipt cycle time data for our 2 largest claim processing platforms representing approximately 90% of our claims volume.

Humana Inc.
Medical Claim Reserves - Details and Statistics

Unprocessed Claim Inventories:

The estimated valuation and number of claims on hand that are yet to be processed are as follows:

Date	Estimated Valuation (000)	Number of Claim Item Counts	Number of Days On Hand
12/31/2000	\$257,400	1,157,900	11.0
03/31/2001	\$213,800	870,200	8.3
06/30/2001	\$172,000	714,600	6.8
09/30/2001	\$154,800	664,800	6.4
12/31/2001	\$125,400	518,100	5.0
03/31/2002	\$121,000	559,600	5.2
06/30/2002	\$110,300	513,100	4.8
09/30/2002	\$108,800	496,200	4.8

12/31/2002 \$92,300 424,200 4.1

The reduction of unprocessed claim inventories was a direct result of our focused effort to drive service and operational efficiencies through the increased use of technology and other process improvement.

Days in Claim Payable (Quarterly):

A common metric for monitoring medical claim reserve levels relative to the medical claim expenses is days in claims payable, or DCP, which represents the medical claim liabilities at the end of the period divided by average medical expenses per day in the quarterly period. Since we have some providers under capitation payment arrangements (which do not require a medical claim IBNR reserve), we have summarized this metric excluding capitation expenses as well.

Quarter Ended	Days in Claims Payable (DCP)	DCP Annual Change	% Excluding Capitation	Annual Change	% Change
12/31/2000	51.3		61.5		
03/31/2001	49.5		59.6		
06/30/2001	49.9		60.0		
09/30/2001	49.1		59.2		
12/31/2001	47.4	(3.9)	-7.6%	57.1	(4.4) -7.2%
03/31/2002	47.2	(2.3)	-4.6%	56.2	(3.4) -5.7%
06/30/2002	46.8	(3.1)	-6.2%	55.3	(4.7) -7.8%
09/30/2002	46.6	(2.5)	-5.1%	55.3	(3.9) -6.6%
12/31/2002	45.2	(2.2)	-4.6%	53.3	(3.8) -6.7%

This metric fluctuates due to all of the issues reviewed above, including the shortening of the receipt cycle time, the paydown of medical claim inventories, the changes in TRICARE liability balances, the timing of our bi-weekly payment to our pharmacy benefits administrator and the change in provider risk-share balances. An annual recap follows:

	2002	2001
4th quarter-prior year		47.4
Impact of shortening claim receipt cycle time	(2.6)	(2.0)
Impact of reducing unprocessed claim inventories	(1.3)	(5.8)
Impact of changing TRICARE balances	0.3	1.3
Impact of change in pharmacy payment cutoff	0.7	(0.2)
All other	0.7	2.8
4th quarter-current year		45.2

SOURCE Humana Inc.

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