

**Understanding Our Customers** Through innovative products and services, we will supply



**2001 Annual Report**

## Financial Highlights

*Dollars in thousands, except per share results, as of and for the years ended December 31.*

Operating Results	2001	2000
Revenues	\$ 10,194,886	\$ 10,595,950
Income before income taxes	183,080	113,990
Net income	117,171	90,052
Basic earnings per common share	0.71	0.54
Diluted earnings per common share	0.70	0.54
Earnings before interest expense, income taxes, depreciation and amortization (EBITDA)	369,913	289,153
Medical expense ratio	83.3%	84.5%

### Financial Position

Total assets	\$ 4,403,638	\$ 4,306,978
Stockholders' equity	1,507,949	1,360,421
Debt to total capitalization ratio	27.8%	30.6%

### Medical Membership

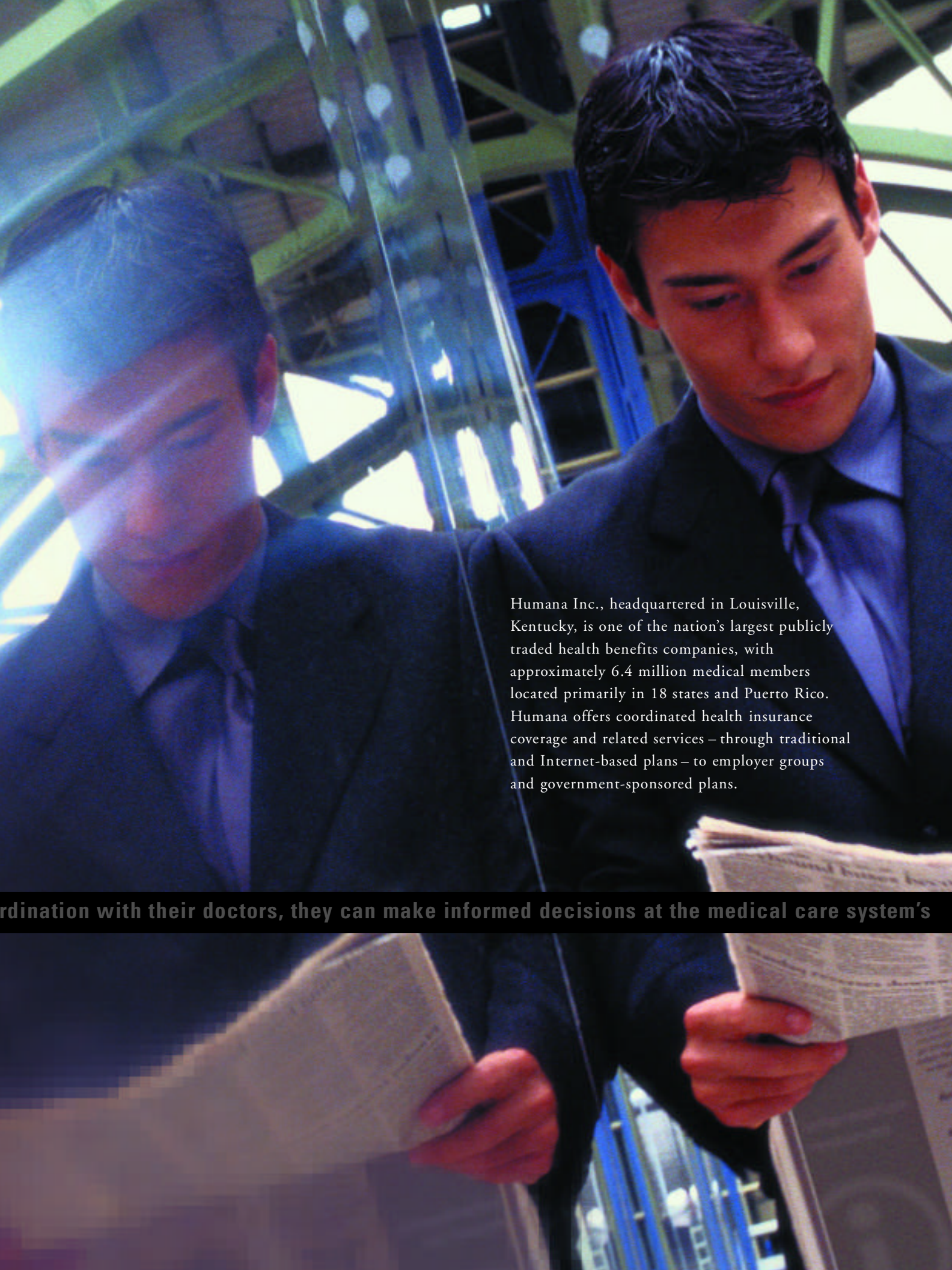
#### Commercial:

Fully insured	2,301,300	2,545,800
ASO	592,500	612,800
	2,893,800	3,158,600

#### Government:

Medicare+Choice	393,900	494,200
Medicaid	490,800	575,600
TRICARE	1,714,600	1,070,300
TRICARE ASO	942,700	—
	3,542,000	2,140,100
Total ending medical membership	6,435,800	5,298,700

consumers with real-time, actionable information – delivered electronically – so that, in coo

A photograph of two men in dark suits and light blue shirts, standing in a modern building with large glass windows. They are both looking down at a newspaper held by the man on the right. The man on the left is slightly out of focus, while the man on the right is in sharp focus. The background shows the structural elements of the building, including blue and green metal beams and large glass panels that reflect light.

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.

rdination with their doctors, they can make informed decisions at the medical care system's

To our stockholders:

As anticipated, 2001 saw the successful completion of Humana's financial turnaround and the launch of our growth-through-innovation strategy, featuring a suite of consumer-directed, technology-enabled health benefits products and services. To address the rising frustration of consumers and physicians, Humana pioneered a new direction in health benefits in 2001, helping employers control costs through expanded employee benefit options, dramatically improving service to our members and the doctors who care for them and introducing Emphesys – a ground-breaking, digital health plan.

In 2001, we also saw a 30 percent increase in earnings. Humana

profitability or no longer fit the company's strategic focus.

Medical membership increased from 5.3 million in 2000 to 6.4 million in 2001. The increase was primarily driven by the acquisition of 1.2 million TRICARE members on May 31. (TRICARE is the U.S. Department of Defense's health benefits program for military dependents and retirees.) Humana

has been the TRICARE

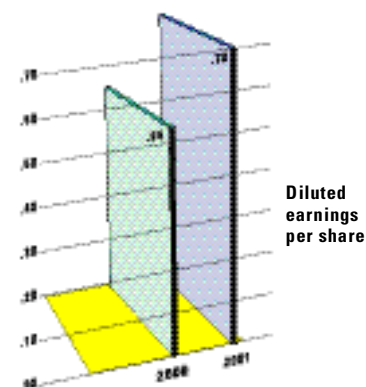
contractor for Regions 3 and 4 since 1996;

the 1.2 million additional TRICARE members, from Regions 2 and 5, brought total Humana TRICARE membership to

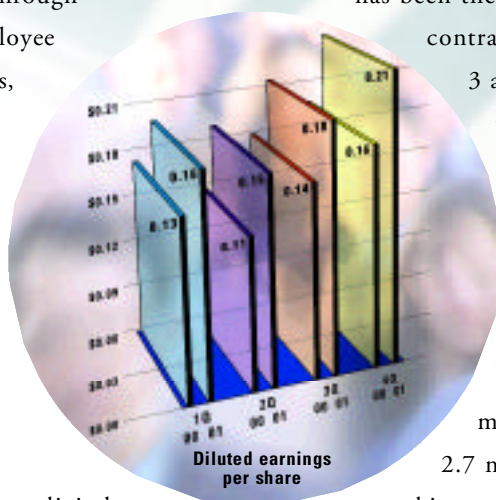
2.7 million members,

making us the leading national contractor for this profitable program.

Reflecting continued discipline in



premium revenues plus administrative services fees) rose, from 14.5 percent in 2000 to 15.3 percent in 2001. As profitable administrative services only (ASO) membership grew last year – particularly with the acquisition of TRICARE Regions 2 and 5 and the inauguration of the TRICARE for Life expanded benefits program for older military retirees – the resultant shift in business mix accounted for a portion of the increase. Planned, robust spending on our industry-leading technology infrastructure also contributed to the rise; ultimately those investments are expected to substantially lower the cost of serving our members. EBITDA (Earnings Before Interest, Taxes, Depreciation



points of use. At the same time, we will relentlessly strive to execute "the basics" flawlessly.

reported net income of \$117.2 million or \$.70 per diluted share, compared to \$90.1 million or \$.54 per diluted share in 2000. Revenues fell slightly to \$10.2 billion in 2001 from \$10.6 billion in 2000, reflecting the completion of a two-year process of divesting those products and markets that either lacked the prospect for long-term

commercial pricing, as well as benefit and product design changes, Humana's medical expense ratio (our medical expenses as a percent of premium revenues) improved by 120 basis points in 2001. For the year, the ratio was 83.3 percent, compared to 84.5 percent in 2000. On the other hand, our selling, general and administrative expense ratio (those expenses as a percent of

and Amortization), a measure often used to evaluate the cash basis earnings of the company, also improved 28 percent during the year to \$369.9 million, versus \$289.2 million in 2000.

Serving our members more quickly, seamlessly and effectively was an area of dramatic improvement for



2001



DAVID A. JONES, CHAIRMAN OF THE BOARD AND MICHAEL B. MCCALLISTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Humana over the course of the past 12 months. To focus on three key statistics, our fourth-quarter 2001 electronic claims submission rate was approximately 10 percent higher than a year ago; the percentage of calls answered within 20 seconds increased from 54 percent in 2000 to 82 percent in 2001; and the percentage of calls abandoned declined from 6.4 percent in 2000 to 2.1 percent in

ways as well. By listening to customers' desires and frustrations, we are increasingly able to understand where the health benefits industry needs to evolve beyond traditional managed care. Having completed our financial turnaround, Humana is now focused on crafting technology-driven products and services that allow us to serve as a high-tech, high-touch "info-mediary" for our members.

consumers are asking for in their health plans – plans that give them more choices, respond promptly to their questions and provide informed navigation through the healthcare system. They also point the way toward an even more consumer-focused future as Humana increasingly anticipates, meets and exceeds customer expectations.

## This is what we mean by creating a health plan experience, or overall environment, that uses

2001. These favorable results are a tribute to Humana's 14,500 associates, whose dedication to service excellence is increasingly shown in statistics that reflect the success of thousands of daily customer interactions.

Our relentless attention to our customers is paying off in other

The actionable health and coverage information we deliver electronically allows Humana members, in concert with their doctors, to take charge of their own health.

Under the theme of "Understanding our Customers," the pages that follow detail our progress last year in creating the kind of transparency

Sincerely,

  
David A. Jones

CHAIRMAN OF THE BOARD AND SIGNIFICANT STOCKHOLDER



Michael B. McCallister  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
AND SIGNIFICANT STOCKHOLDER

# the transformation of managed care

## Putting customers first is key

To succeed in a changing healthcare environment, Humana is transforming itself into a technology-enabled health benefits company that puts consumers first – adding value by supplying them with real-time, actionable information that gives them the tools they need to navigate the healthcare system with speed and precision. When armed with reliable, easy-to-follow information, consumers tell us they'll start making the kind of purchasing judgments they make in other phases of their lives. That way – for the first time – they'll consciously share in both the rewards and the costs of their care.

The rising cost of healthcare is the most significant health benefits issue for employers and their employees. While the overall consumer price index has risen between 1.5 to 3.5 percent over the past five years, medical cost inflation has more than doubled the CPI annually, jumping 11 percent in 2001 alone. To respond, we are pursuing a strategy of engaging our health plan members in the cost of their healthcare decision-making, giving them the power to think and act like savvy consumers.

On the employer side of the equation, private enterprises and government entities are reaching their limits on absorbing healthcare cost increases. They are frustrated with double-digit premium increases that reflect nationwide rises in drug, physician and hospital charges. We are responding by offering employers and their employees greater choice. Through innovative products and services, consumers can begin to determine how they want to manage their healthcare costs – both “up front” with pretax premium dollars and later at the point of care. In consultation with their doctors, they can make informed decisions about their care, with the potential to save money for themselves and to help reduce overall premium costs.

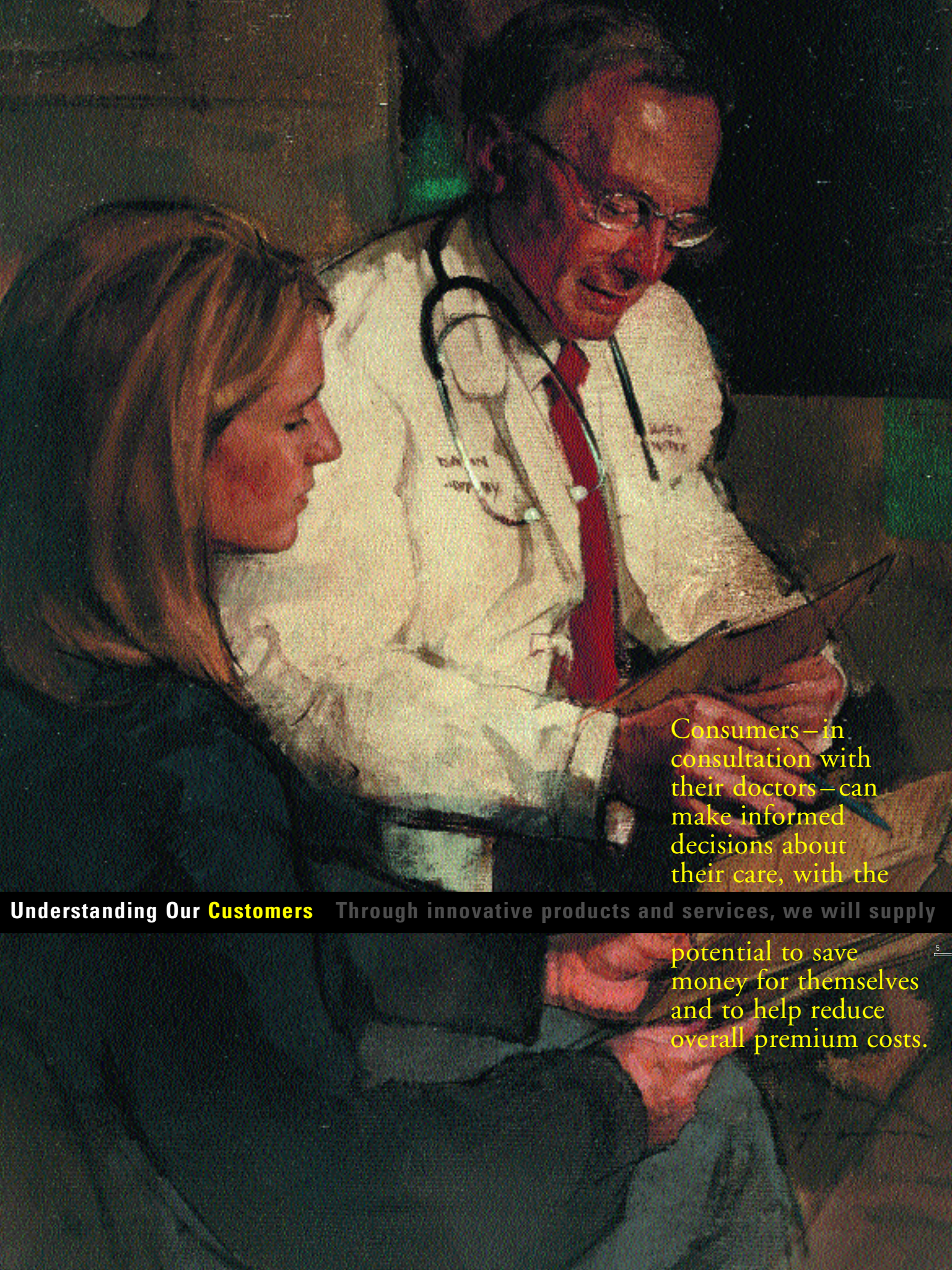
Humana's new consumer-directed health benefits plans are concerned not with “Where can I go?” but instead with “Where can I get the best value for my dollar?” Our new products are designed so that consumers may choose the doctor, prescription drug, hospital or treatment option they prefer, as long as they are willing to share a portion of the cost. We believe this new outlook on our business will reshape the way consumers use healthcare. Our role is to provide information about healthcare choices, not to make consumers' choices for them.

process, products and technology to enable consumers to take control of their own health.

### HUMANA PERSONAL NURSE

This new service now in place in every Humana market assigns a single nurse to telephonically interact with seriously ill members to help them navigate the healthcare system and educate them about benefits, claims payment, and prescription drug options while supporting the member between doctor visits.





Consumers—in consultation with their doctors—can make informed decisions about their care, with the

**Understanding Our Customers** Through innovative products and services, we will supply

potential to save money for themselves and to help reduce overall premium costs.


# solving **employers'** cost dilemma



Employers are struggling with hefty insurance premium increases that have resulted from rising medical costs. Consequently, we are pursuing a strategy of engaging consumers in the cost of their healthcare decision-making as a means of lowering expenses for themselves and their employers. We will then help employers and consumers make the most of the healthcare system, replacing the “cloud of unknowing” with value-added knowledge, navigation and guidance.



consumers with real-time, actionable information – delivered electronically – so that, in coo



As an employer with 14,500 associates in approximately 30 states, Humana understands other employers' frustration with rising healthcare costs. To address the issue, employers have limited options: drop coverage, absorb the costs, pass premium increases on to their employees, reduce benefits or offer employees flexibility to balance their benefits and their costs, giving them the information they need to help them spend their healthcare dollars more wisely.

The healthcare system does not pay physicians or employers to educate consumers about purchasing a health plan. We believe that's our role as a health benefits company: to provide information and serve as a guide through the complexities of the healthcare system. Humana is focused on supplying effective, easy-to-understand processes, flawless performance of the transactional "basics" of health insurance, ensuring security and privacy of personal health information, and less hassle and more help with healthcare decisions, without dictating choices for consumers.

We've developed industry-leading electronic self-service capabilities and an expansive range of products. Primary among them is SmartSuite<sup>SM</sup>, created in 2001 as an innovative effort to balance choice and cost control. It's a Web-enabled, first-of-its-kind health benefits package that allows employers to select from one of four plan bundles, each containing up to six benefits plans. Employees choose one of those plans, based on their health and budget needs, with the help of an online "wizard" that guides them through the plan options while ranking the plans based on the employee's preferences.

Innovative products supported by technology are the cornerstone of Humana's strategy. This approach to our business is the primary reason we were able to forge new partnerships with customers such as General Electric. GE employees in Ohio, Kentucky and Wisconsin became Humana members largely because we impressed GE with our industry-leading approach to health-benefit design.

Among the broad range of Humana's health plan choices are options that vary widely in price, with traditional lower-deductible plans, new lower-premium plans with higher deductibles and plans with health spending accounts.

Coordination with their doctors, they can make informed decisions at the medical care system's

Employees who choose these plans pay considerably lower premium prices in exchange for sharing more in the costs of healthcare they use – an option that makes sense for many employees and their families.

For employers squeezed by rising healthcare costs, the new products signal the start of a transition in our industry, from a defined-benefit environment, where employers choose benefits for their workers, to an environment where employers begin to stabilize their premium contributions. The transition means that individuals will have the opportunity to better manage their healthcare spending. Employees will share responsibility for the implications of their decisions, and employers will not have to absorb all of the cost associated with rising healthcare prices.



## new solutions for consumers

Consumers want to control their healthcare, with advice from their doctors, financial support from their employers, information from the Internet and other resources, and input from relatives and friends. Humana is continually working to understand consumers' needs and provide the information and solutions they're looking for.

The Humana innovations described below highlight some of the ways we're putting consumers first:

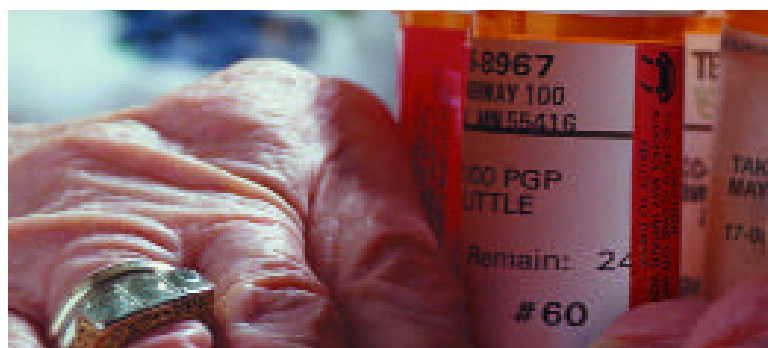
**Humana Rx4:** The health industry's first four-tier prescription drug benefit allows our members access to virtually any medication by varying copayments.

**EmpheSys:** With this new online, fully interactive health plan, Humana delivers unmatched customer service, via user-friendly technology developed "from the ground up" exclusively for the Internet. Nearly all plan transactions are available on the Web. For example, members can enroll, add or delete dependents, and access information about claims and prescription drugs, all online. Employers have convenient Web-based enrollment and other self-service options to more easily administer their health benefits. These simplified processes save time, reduce the chance of error and decrease the need for paper forms, files and records.

**Humana Personal Nurse:** This new service now in place in every Humana market assigns a single nurse to telephonically interact with seriously ill members to help them navigate the healthcare system and educate them about benefits, claims payment, and prescription drug options while supporting the member between doctor visits.

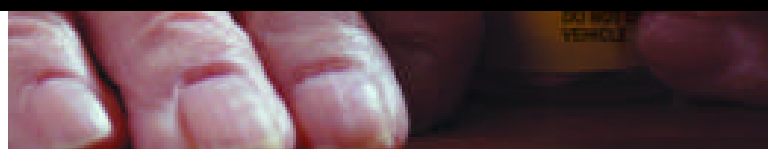
In short, we're deploying technology to smooth and speed the transactional side of healthcare delivery while enabling physicians and patients to better manage the clinical side. To make healthcare work more effectively for consumers, our responsibility is to help shorten and smooth the pathways to the kind of care they choose.

Already, our members are letting us know how these innovations are positively impacting their lives. Amy Castillo of Mesa, Ariz., wrote to praise Laura



points of use. At the same time, we will relentlessly strive to execute "the basics" flawlessly

**MyHumana:** Taking advantage of the Internet's unique ability to customize information one person at a time, MyHumana allows members to design a "personal home page" on [www.humana.com](http://www.humana.com) based on their individual preferences. Members may choose health topics to quickly review current information about them. They may also review recent claims, learn about prescription and alternative drug options, access provider information including consumer assessments of doctors and hospitals, utilize decision-support tools and condition workbooks, access more than 24,000 pages of health content, take a health risk assessment and read personal messages from Humana in a secured message center.



West-Ramirez, an Arizona-based Personal Nurse, for her support of Humana member Carmen Castro. Castillo wrote, "It is hard to find good service these days, but it is unheard of to find excellent and thoughtful service over a long period of time . . . Laura has gone out of her way to call and check on Ms. Castro . . . I cannot begin to tell you how helpful and dependable Laura has been."



IN SHORT, WE'RE deploying technology to smooth and speed the transactional side of healthcare delivery while enabling physicians and patients to better manage the clinical side.



✕ This is what we mean by creating a health plan experience, or overall environment, that



# offer customers technology that makes sense

Humana's industry-leading technology innovation is focused on improving our interactions with all Humana stakeholders. We are leveraging our investment in technology to remove administrative inefficiencies and put more control in consumers' hands.

New technologies are providing Humana members not just with information, but with actionable information that contributes to our consumer-directed focus. Our e-business transformation is an important component of our overall business strategy. We believe that by creating compelling consumer-focused experiences via the Internet (and other electronic means), Humana will become the easiest health insurer to work with.

In 2001, *InformationWeek* named Humana 17th among all U.S. companies and first among all insurers for information technology innovation. To earn such a designation, a company must demonstrate a pattern of technological, procedural and organizational innovation. For the second consecutive year, Humana also was recognized in the *eWeek* Fast Track 500 and the eHealthcare Leadership Awards for excellence in e-business. To serve our customers well, Humana's goal is to meet and exceed the standards that are being set in our own as well as other sectors of the economy.

**Finding a doctor:** Consumers tell us they want good, timely information from us about choosing a doctor who's right for them or about a particular medical condition. Humana is responding with a set of Internet tools – including physician and hospital assessments – that give members a source for some of the information they seek.

**Interactive Voice Response/Voice Application Technology:** More Humana customers are carrying out routine transactions with us using our interactive voice response systems. These calls cost Humana far less than the calls our customer service associates answer. And they enable us to respond to our members more effectively. Also in 2001, we began using voice application technology to make automated outbound calls to deliver important information and health reminders to members. The technology includes speech recognition, which allows members to interact with the automated voice.

**Privacy:** Vigilantly protecting our members' privacy and personal information is critical as we seek to serve our members well and attract new customers. To properly manage the security issues involved in effectively administering our products, we make use of an array of internationally accepted and industry-standard security measures. As part of our commitment, Humana's systems are regularly

Here are four examples of how we're using technology to become easier to interact with and more responsive to customer needs.

**Humana.com:** Throughout 2001, members, employers, providers and agents flocked to our Internet site. They carried out 42 percent more transactions on the site in 2001 than in 2000. We also redesigned Humana.com in 2001, adding richer information and simplifying ease of use.

subjected to stringent security reviews and penetration tests by independent firms.

Technology is key to Humana's new approach to customer control, customer service, customer rights and also customer responsibilities. We want to ensure that when people need information, we make it easily accessible for them.

uses process, products and technology to enable consumers to take control of their own health



In 2001,  
*InformationWeek*  
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17th among all  
U.S. companies  
and first among  
all insurers  
for information  
technology  
innovation.



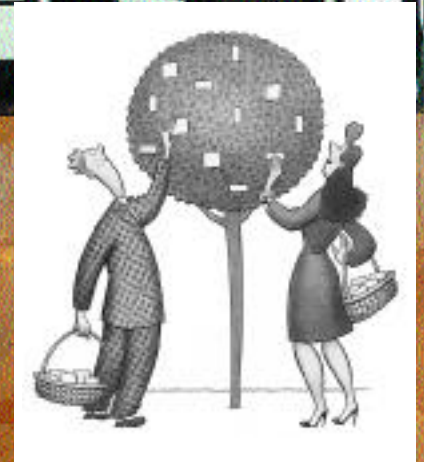
lth. **Understanding Our Customers** Through innovative products and services, we will supply

# consumers want new **products** that work for them

Humana's new health benefits products provide more choice, service, speed and flexibility to healthcare consumers and the physicians who serve them. The new products and programs are the initial offerings developed by the Humana Innovation Center, a fully integrated organization that is guiding our transition to a new model of consumer-directed care. In addition to the benefits our members derive from these innovations, our focus on consumer-centrism has also served to enhance Humana's traditional health plan offerings.

Our own associates experienced the first versions of these new plans and tools in 2001. As an enterprise, we have the advantage of being not only a benefits company but also a large employer. When we look at our medical cost trends, we have many of the same issues and concerns as the employers we serve. Thus, we believe that whenever possible, Humana should develop healthcare solutions internally.

THE NEW PRODUCTS AND programs expand consumer choice and increase consumers' control of decisions that affect their healthcare and health spending. Humana is also offering innovative online tools that allow consumers to better understand and control the financial impact of their healthcare decisions.



consumers with real-time, actionable information – delivered electronically – so that, in coo



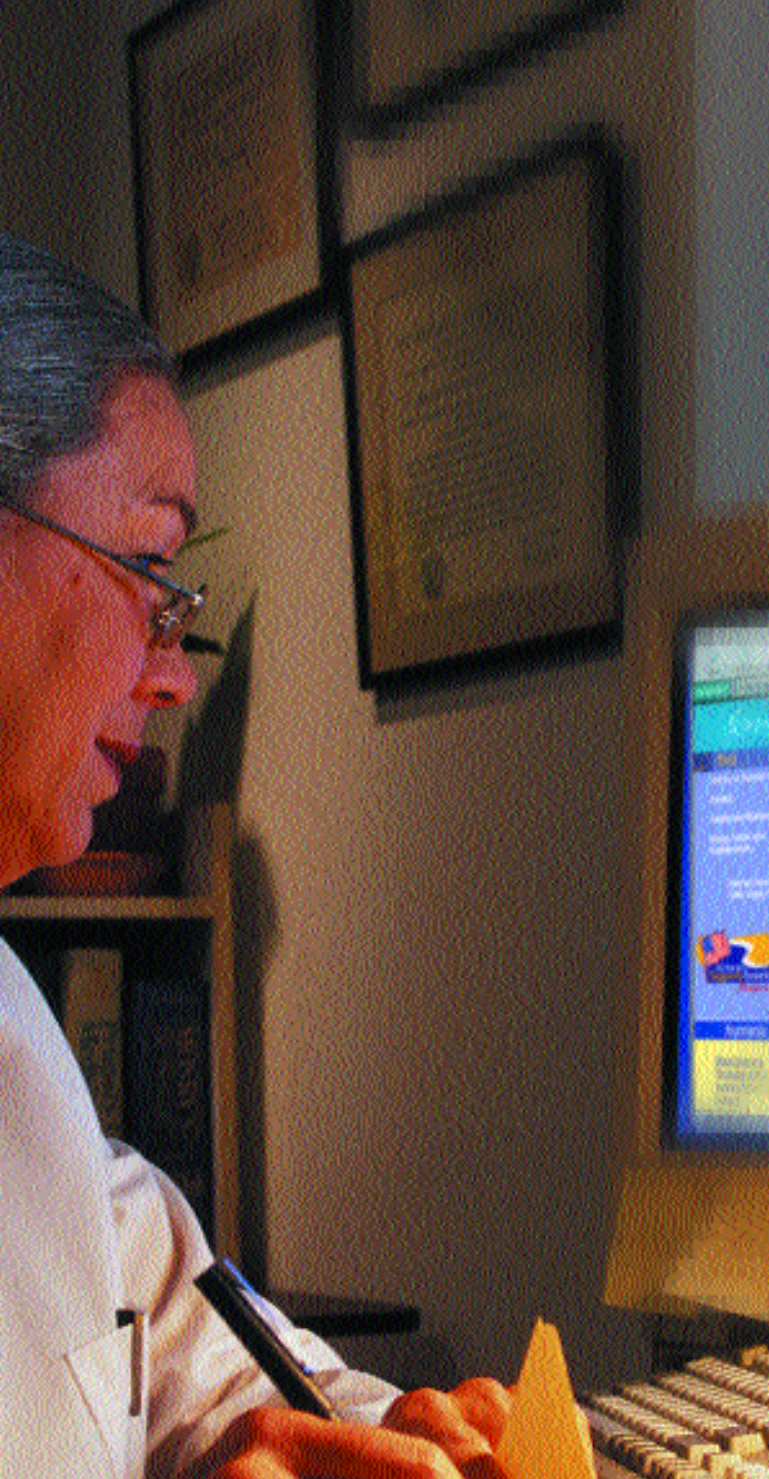
Consequently, our associates helped us design this new array of consumer-directed, technology-enabled health benefits products and services. The new generation of SmartSuite<sup>SM</sup> products on the market in 2002 are based on the input we received from our associates' experiences in 2001. Innovative products and exciting online tools, all built around consumer choice, technology, cost predictability and flexibility, are at the heart of Humana's business strategy. We've set out to create health benefit plans that provide choice, customization and a clear-eyed view of cost. And we're doing it all online.

Several national media organizations have taken notice. For instance, a *USA Today* "Cover Story," in the paper's Money section, focused on Humana's development of innovative health plan products. The story started with a description of the decision-making process that led associate Cheryl Brock to choose one of our company's new plans. She told *USA Today*, "I'm very satisfied with the plan. It reduced my premium considerably."

More than three-fourths (76 percent) of Humana associates surveyed about the

coordination with their doctors, they can make informed decisions at the medical care system's

new consumer-directed plans said the number of options was "about right" for them. When asked to rate their satisfaction with the plan they chose, 74 percent said they were happy with their choice.



# enhancing our customer service

## Getting the basics right

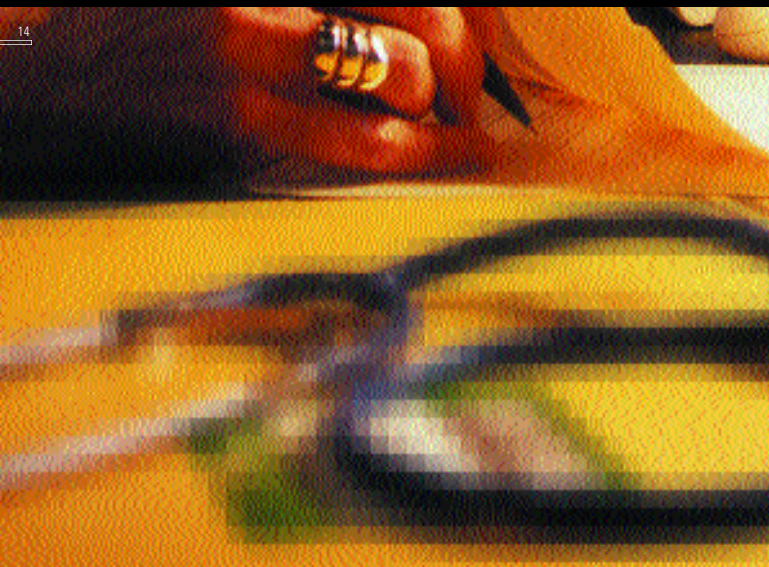
Humana is making major strides to improve our customer service. The value proposition of our strategy, “service and operational excellence,” expresses our commitment to getting the basics right. In 2001, we made measurable customer service gains as we answered our customers’ calls and responded to their requests more effectively than ever before.

Humana is working to become the premier company that does the basics flawlessly and consistently responds to customers’ needs. No health insurer is there yet. Our associates will enable us to get there first, by focusing on specific competencies that are part of the successful associate training programs we continually enhance. We expect all of our associates to:

- Believe in service to the customer, above all else;
- Make a positive difference in people’s lives;
- Perform, work smarter, and execute on the basics while taking pride in our work;
- Never be satisfied and continuously improve;
- Value individual initiative and individual growth.


Below are examples of how Humana is currently improving the customer service we provide:

points of use.  At the same time, we will relentlessly strive to execute “the basics” flawl



**Customer surveys:** Humana is conducting company-wide customer satisfaction surveys of our members. The primary goal of the surveys is to gauge overall satisfaction with Humana. The results are helping us determine how we can enhance our customer service.

**Claims processing:** We’re implementing new technology in our customer service centers to improve claims-processing speed. We’re also working to encourage the electronic submission of claims, which saves Humana and our providers



time and money. In 2001, physicians and other healthcare providers submitted approximately 10 percent more claims electronically than in 2000.

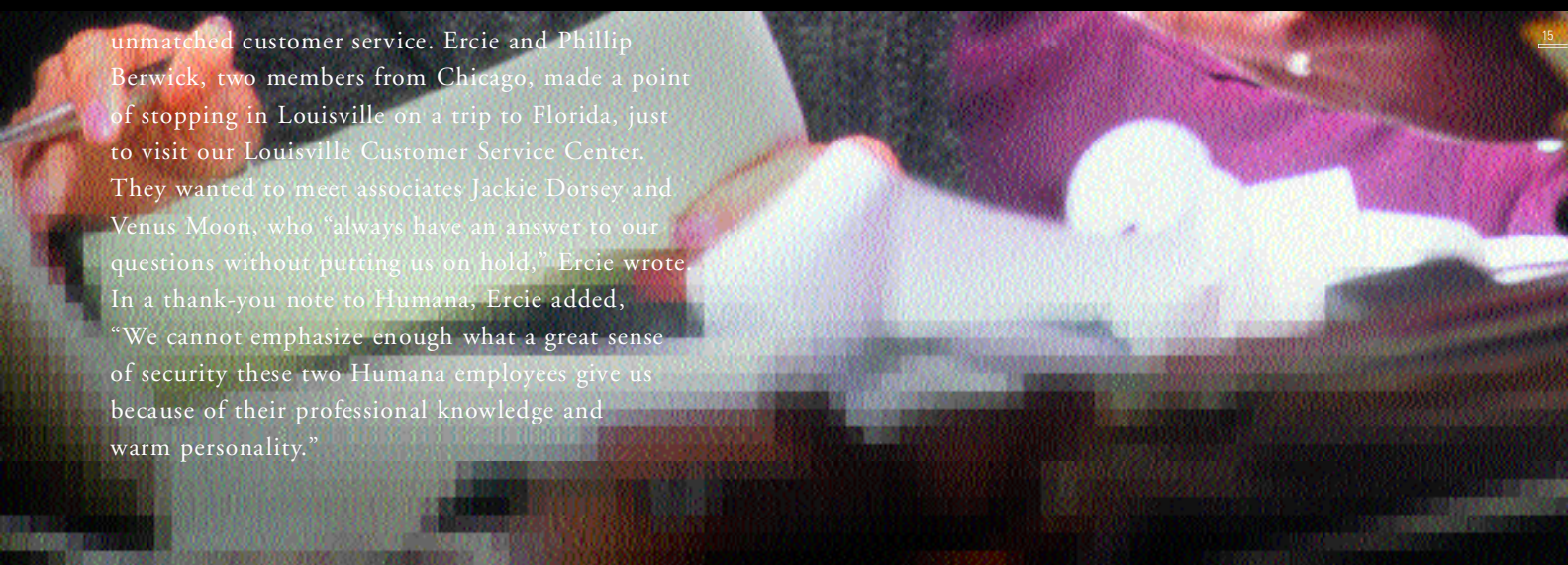
**Enhancing associates' online skills:** Humana is also applying Internet technology to its internal business processes. As part of this transition, associates routinely use Humana's online resources. This not only provides internal efficiencies but also enables associates to more effectively guide our customers through our online resources. As a consequence, our members' and physicians' electronic self-service transactions have increased by 1,169 percent over the past two years.

**Simpler communications:** We're working to regularly communicate with our members in plain language, not the traditional language of health insurance. For instance, we routinely close letters to members with this statement: "At Humana, we value our relationship with our members. For your convenience, Humana has created a tool for you to easily review your claims, plan benefits, prescription drug coverage and a listing of doctors, hospitals, or pharmacies in your network. For more information and to use these options, go to [www.humana.com](http://www.humana.com)."

Humana members are noticing – and acknowledging – our commitment to provide

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essly. This is what we mean by creating a health plan experience, or overall environment, that



unmatched customer service. Ercie and Phillip Berwick, two members from Chicago, made a point of stopping in Louisville on a trip to Florida, just to visit our Louisville Customer Service Center. They wanted to meet associates Jackie Dorsey and Venus Moon, who "always have an answer to our questions without putting us on hold," Ercie wrote. In a thank-you note to Humana, Ercie added, "We cannot emphasize enough what a great sense of security these two Humana employees give us because of their professional knowledge and warm personality."

# Humana's **growth** initiatives: the key to sustained success

In 2001, Humana medical membership increased to 6.4 million, from 5.3 million in 2000. The increase was primarily driven by the acquisition of 1.2 million military members on May 31, after the Department of Defense approved Humana's acquisition of the Regions 2 and 5 TRICARE contract. (TRICARE is the health benefits program for military dependents and retirees. Humana has been the TRICARE contractor for Regions 3 and 4 since 1996.) The acquisition of Regions 2 and 5 makes us the leading national contractor for this profitable program.

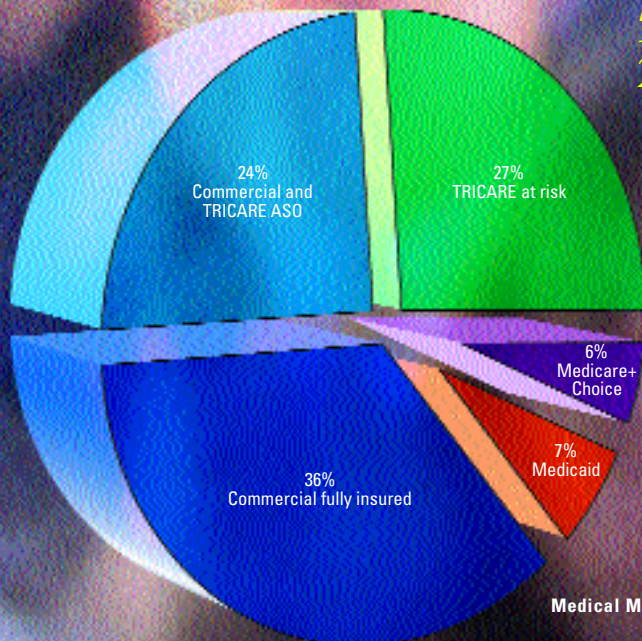
Throughout 2002, Humana is focusing on growth through building market share in our existing markets, leveraging our strong networks to grow our commercial administrative services only (ASO) membership, marketing Emphesys in our launch cities of Memphis, Tenn., and Austin, Texas, and other selected locations, promoting and expanding our dental product offerings and the new consumer-driven SmartSuite<sup>SM</sup> products highlighted throughout this report. These growth initiatives are empowered by the innovative products and technology that we bring to the table with meaningful benefits for both employers and members.

The transition in our industry to a consumer-directed environment means that individuals will share in the responsibility for the implications – financial and health-related – of their decisions. By responding to and guiding our customers, Humana can enhance

**uses process, products and technology to enable consumers to take control of their own health**

peace of mind for them, providing financial protection and knowledge that will empower our members, with their physicians, to take control of their own health and well-being.

In 2001,  
Humana medical  
membership  
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Medical Membership Mix as of December 31, 2001

1th. Understanding Our **Customers** Through innovative products and services, we will supply

## Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

December 31,

2001

2000

### Assets

#### Current assets:

Cash and cash equivalents	\$ 651,420	\$ 657,562
Investment securities	1,389,596	1,408,522
Premiums receivable, less allowance for doubtful accounts of \$38,539 in 2001 and \$42,005 in 2000	322,064	205,260
Deferred income taxes	64,221	67,205
Other	195,637	195,517
Total current assets	2,622,938	2,534,066

#### Property and equipment, net

461,761 434,620

#### Other assets:

Long-term investment securities	280,320	240,064
Goodwill	776,874	789,541
Deferred income taxes	36,582	102,767
Other	225,163	205,920

Total other assets 1,318,939 1,338,292

Total assets \$ 4,403,638 \$ 4,306,978

### Liabilities and Stockholders' Equity

#### Current liabilities:

Medical and other expenses payable	\$ 1,086,386	\$ 1,181,027
Trade accounts payable and accrued expenses	479,996	428,556
Book overdraft	152,757	148,563
Unearned premium revenues	325,040	333,305
Short-term debt	263,000	599,952
Total current liabilities	2,307,179	2,691,403

#### Long-term debt

315,489 —

#### Professional liability risks

241,431 219,768

#### Other long-term liabilities

31,590 35,386

Total liabilities 2,895,689 2,946,557

#### 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; 170,692,520 shares issued in 2001, and 170,889,142 shares issued in 2000	28,449	28,482
Capital in excess of par value	922,439	922,621
Retained earnings	578,122	460,951
Accumulated other comprehensive income (loss)	11,670	(8,509)
Unearned restricted stock compensation	(17,882)	(29,177)
Treasury stock, at cost, 1,880,619 shares in 2001, and 1,823,348 shares in 2000	(14,849)	(13,947)

Total stockholders' equity 1,507,949 1,360,421

Total liabilities and stockholders' equity \$ 4,403,638 \$ 4,306,978

## Condensed Consolidated Statements of Operations

(In thousands, except per share results)

For the years ended December 31,

	2001	2000	1999
Revenues:			
Premiums	\$ 9,938,961	\$ 10,394,631	\$ 9,958,582
Administrative services fees	137,090	86,298	97,940
Investment and other income	118,835	115,021	155,013
Total revenues	10,194,886	10,595,950	10,211,535
Operating expenses:			
Medical	8,279,844	8,781,998	8,533,090
Selling, general and administrative	1,545,129	1,524,799	1,466,181
Depreciation and amortization	161,531	146,548	123,858
Asset impairments and other charges	—	—	459,852
Total operating expenses	9,986,504	10,453,345	10,582,981
Income (loss) from operations	208,382	142,605	(371,446)
Interest expense	25,302	28,615	33,393
Income (loss) before income taxes	183,080	113,990	(404,839)
Provision (benefit) for income taxes	65,909	23,938	(22,419)
Net income (loss)	\$ 117,171	\$ 90,052	\$ (382,420)
Basic earnings (loss) per common share	\$ 0.71	\$ 0.54	\$ (2.28)
Diluted earnings (loss) per common share	\$ 0.70	\$ 0.54	\$ (2.28)

# Condensed Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock		Capital	Retained	Accumulated	Unearned	Treasury	Total
	Issued Shares	Amount	In Excess of Par Value		Other Comprehensive Income (Loss)	Restricted Stock Compensation		
				Earnings			Stock	Stockholders' Equity
Balances, January 1, 1999	167,540	\$ 27,923	\$ 902,711	\$ 753,798	\$ 12,771	\$ (8,814)		\$1,688,389
Comprehensive loss:								
Net loss				(382,420)				(382,420)
Other comprehensive loss:								
Net unrealized investment losses, net of \$26,269 tax					(41,261)			(41,261)
Comprehensive loss								(423,681)
Restricted stock grants (forfeitures), net	(43)	(7)	(910)			(150)		(1,067)
Restricted stock amortization						3,104		3,104
Restricted stock market value adjustment			(4,350)			4,350		
Stock option exercises	112	19	859					878
Stock option tax benefit			388					388
Balances, December 31, 1999	167,609	27,935	898,698	371,378	(28,490)	(1,510)		1,268,011
Comprehensive income:								
Net income				90,052				90,052
Other comprehensive income:								
Net unrealized investment gains, net of \$12,721 tax					19,981			19,981
Comprehensive income								110,033
Common stock repurchases							(26,432)	(26,432)
Restricted stock grants (forfeitures), net	2,990	498	20,525	(479)		(33,029)	12,485	
Restricted stock amortization						7,069		7,069
Restricted stock market value adjustment			1,707			(1,707)		
Stock option exercises	290	49	1,568					1,617
Stock option tax benefit			123					123
Balances, December 31, 2000	170,889	28,482	922,621	460,951	(8,509)	(29,177)	(13,947)	1,360,421
Comprehensive income:								
Net income				117,171				117,171
Other comprehensive income:								
Net unrealized investment gains, net of \$12,847 tax					20,179			20,179
Comprehensive income								137,350
Common stock repurchases							(1,867)	(1,867)
Restricted stock grants (forfeitures), net	(433)	(72)	(1,699)			815	956	
Restricted stock amortization						9,492		9,492
Restricted stock market value adjustment			(988)			988		
Stock option exercises	237	39	2,244				9	2,292
Stock option tax benefit			261					261
Balances, December 31, 2001	170,693	\$ 28,449	\$ 922,439	\$ 578,122	\$ 11,670	\$ (17,882)	\$ (14,849)	\$1,507,949

## Condensed Consolidated Statements of Cash Flows

(In thousands)

For the years ended December 31,

2001

2000

1999

### Cash flows from operating activities

Net income (loss)	\$ 117,171	\$ 90,052	\$ (382,420)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	161,531	146,548	123,858
Amortization of restricted stock	9,492	7,069	3,104
Gain on sale of property and equipment, net	—	(3,373)	(11,652)
Gain on sale of investment securities, net	(13,853)	(6,615)	(10,641)
Provision for deferred income taxes	56,104	19,287	4,974
Provision for doubtful accounts	4,039	10,927	12,644
Payment of government audit settlement	(8,000)	(14,526)	—
Asset impairments and other charges	—	—	459,852
Changes in operating assets and liabilities excluding the effects of acquisitions and divestitures:			
Premiums receivable	(22,836)	(994)	38,593
Other assets	8,184	(8,234)	53,940
Medical and other expenses payable	(179,539)	(195,891)	(22,949)
Workers' compensation liabilities	—	(30,064)	(150,245)
Other liabilities	27,456	39,020	43,218
Unearned premium revenues	(13,397)	(16,050)	55,601
Other	2,606	3,248	(142)
Net cash provided by operating activities	148,958	40,404	217,735

### Cash flows from investing activities

Acquisitions, net of cash and cash equivalents acquired	(29,359)	(12,910)	(14,810)
Divestitures, net of cash and cash equivalents disposed	1,470	28,517	—
Purchases of property and equipment	(114,971)	(135,067)	(88,930)
Dispositions of property and equipment	—	21,163	53,833
Purchases of investment securities	(1,874,482)	(1,205,129)	(796,026)
Maturities of investment securities	626,369	543,062	391,440
Proceeds from sales of investment securities	1,272,166	582,339	472,272
Net cash (used in) provided by investing activities	(118,807)	(178,025)	17,779

### Cash flows from financing activities

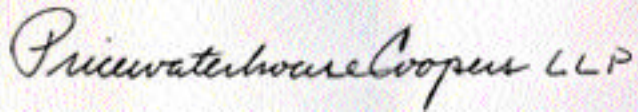
Revolving credit agreement (repayments) borrowings	(520,000)	520,000	(93,000)
Net conduit commercial paper borrowings	263,000	—	—
Net commercial paper repayments	(79,952)	(606,261)	(43,763)
Proceeds from issuance of senior notes	299,277	—	—
Proceeds from other borrowings	5,700	—	—
Debt issue costs	(7,116)	—	—
Change in book overdraft	4,194	(66,618)	(19,243)
Common stock repurchases	(1,867)	(26,432)	—
Other	471	(3,793)	(13,800)
Net cash used in financing activities	(36,293)	(183,104)	(169,806)
(Decrease) increase in cash and cash equivalents	(6,142)	(320,725)	65,708
Cash and cash equivalents at beginning of period	657,562	978,287	912,579
Cash and cash equivalents at end of period	\$ 651,420	\$ 657,562	\$ 978,287

## Report of Independent Accountants

To the Board of Directors and Stockholders  
Humana Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Humana Inc. and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2001, (not presented herein) appearing in Appendix A to the proxy statement for the 2002 annual meeting of stockholders of the Corporation; and in our report dated February 4, 2002, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

A handwritten signature in dark ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Louisville, Kentucky  
February 4, 2002

## Board of Directors

Charles M. Brewer

*Green Street Properties, LLC*

David A. Jones

*Chairman of the Board, Humana Inc.*

Michael B. McCallister

*President and Chief Executive Officer,  
Humana Inc.*

Michael E. Gellert

*General Partner, Windcrest Partners,  
private investment partnership*

David A. Jones, Jr.

*Vice Chairman, Humana Inc.  
Chairman and Managing Director,  
Chrysalis Ventures, LLC  
venture capital firm*

W. Ann Reynolds, Ph.D.

*President, University of Alabama  
at Birmingham*

John R. Hall

*Retired Chairman of the Board  
and Chief Executive Officer,  
Ashland Inc.*

Irwin Lerner

*Retired Chairman of the Board,  
Chairman of the Executive  
Committee, and former President  
and Chief Executive Officer,  
Hoffmann-LaRoche Inc.*

## Board Committees

### *Executive Committee*

David A. Jones, *Chairman*  
Michael E. Gellert  
David A. Jones, Jr.  
Michael B. McCallister

### *Audit Committee*

Michael E. Gellert, *Chairman*  
Charles M. Brewer  
John R. Hall  
Irwin Lerner

### *Investment Committee*

David A. Jones, Jr., *Chairman*  
Michael E. Gellert  
W. Ann Reynolds, Ph.D.

### *Medical Affairs Committee*

W. Ann Reynolds, Ph.D., *Chairwoman*  
David A. Jones, Jr.  
Irwin Lerner

### *Nominating and Corporate Governance Committee*

John R. Hall, *Chairman*  
Charles M. Brewer  
David A. Jones, Jr.  
W. Ann Reynolds, Ph.D.

### *Organization and Compensation Committee*

Irwin Lerner, *Chairman*  
Charles M. Brewer  
Michael E. Gellert  
John R. Hall

## Senior Management

Michael B. McCallister  
*President and Chief Executive Officer*

Kenneth J. Fasola  
*Chief Operating Officer –  
Market Operations*

Thomas J. Liston  
*Senior Vice President –  
Strategy and Corporate Development*

James E. Murray  
*Chief Operating Officer –  
Service Operations*

Jonathan T. Lord, M.D.  
*Senior Vice President and  
Chief Clinical Strategy and  
Innovation Officer*

James H. Bloem  
*Senior Vice President and  
Chief Financial Officer*

Heidi S. Margulis  
*Senior Vice President –  
Government Relations*

Stefen F. Brueckner  
*Vice President –  
Market Operations*

Steven O. Moya  
*Senior Vice President and  
Chief Marketing Officer*

Douglas R. Carlisle  
*Senior Vice President –  
Market Operations*

Thomas T. Noland, Jr.  
*Senior Vice President –  
Corporate Communications*

Bruce J. Goodman  
*Senior Vice President and  
Chief Information Officer*

Bruce D. Perkins  
*Senior Vice President –  
National Contracting*

Bonita C. Hathcock  
*Senior Vice President and  
Chief Human Resources Officer*

R. Eugene Shields  
*Senior Vice President –  
Government Programs*

Arthur P. Hipwell  
*Senior Vice President and  
General Counsel*

## Additional Information

### Transfer Agent

National City Bank  
Shareholder Services  
Post Office Box 92301  
Cleveland, Ohio 44193-0900  
(800) 622-6757  
shareholder.inquiries@nationalcity.com

### Form 10-K

Copies of the Company's Form 10-K filed with the Securities and Exchange Commission may be obtained, without charge, by writing:

Regina C. Nethery  
Vice President of Investor Relations  
Humana Inc.  
Post Office Box 1438  
Louisville, Kentucky 40201-1438

Copies of the Company's Form 10-K and other Company information can also be obtained through the Internet at the following address:

<http://www.humana.com>

### Financial Statements

This summary annual report contains condensed financial statements. The full financial statements and related notes can be found in the Company's Form 10-K and in the Proxy Statement for the May 16, 2002 annual meeting as filed with the Securities and Exchange Commission.

### Stock Listing

The Company's common stock trades on the New York Stock Exchange under the symbol HUM. The following table shows the range of high and low closing sales prices as reported on the New York Stock Exchange Composite Tape:

2001	High	Low
First Quarter	\$ 14.94	\$ 9.84
Second Quarter	10.71	8.58
Third Quarter	12.19	9.30
Fourth Quarter	12.89	10.22

2000	High	Low
First Quarter	\$ 9.25	\$ 6.13
Second Quarter	8.69	4.75
Third Quarter	10.75	5.25
Fourth Quarter	15.38	10.50

### Corporate Headquarters

Humana Inc.  
The Humana Building  
500 West Main Street  
Louisville, Kentucky 40202  
(502) 580-1000

### Independent Accountants

PricewaterhouseCoopers LLP  
Louisville, Kentucky

### Annual Meeting

The Company's Annual Meeting of Stockholders will be held on Thursday, May 16, 2002, at 10:00 a.m. EDT in the Auditorium on the 25th floor of the Humana Building.

uses process, products and technology to enable consumers to take control of their own health.



The Humana Building  
500 West Main Street  
Louisville, Kentucky 40202

(502) 580-1000  
[www.humana.com](http://www.humana.com)