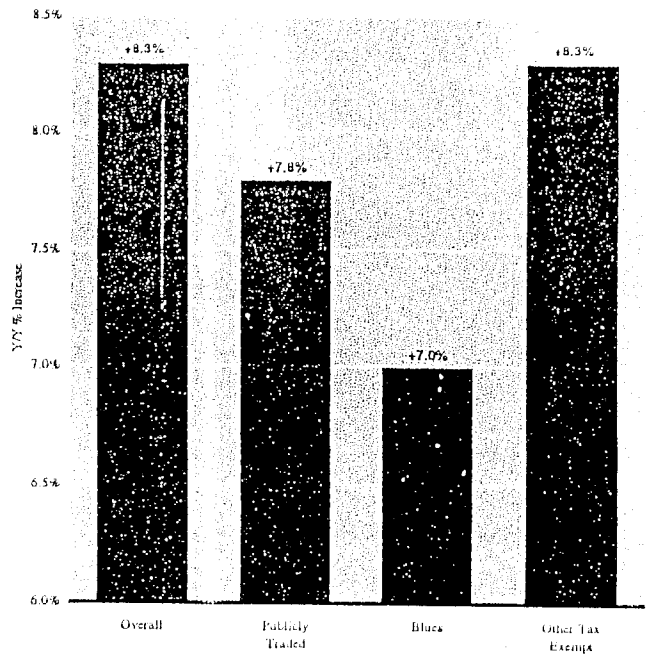
ANALYSIS OF PRICING TRENDS

Profit problems over the last several years have forced health plans to focus on premium increases to improve profitability rather than on market share.

1999 RATE INCREASES BY REGION

Region	HMO/POS Y/Y % Increase	PPO Y/Y% Increase
New England	7.6%	NM
Middle Atlantic	8.2	7.8%
South Atlantic	8.1	7.8
East North Central	7.3	10.0
East South Central	6.5	NM
West North Central	10.4	10.3
West South Central	7.4	8.7
Mountain	8.5	7.6
Pacific	7.2	7.7

PPO RATE INCREASES BY PLAN SPONSOR



Source: DLJ Benefit Manager Survey. Fully insured plans only.

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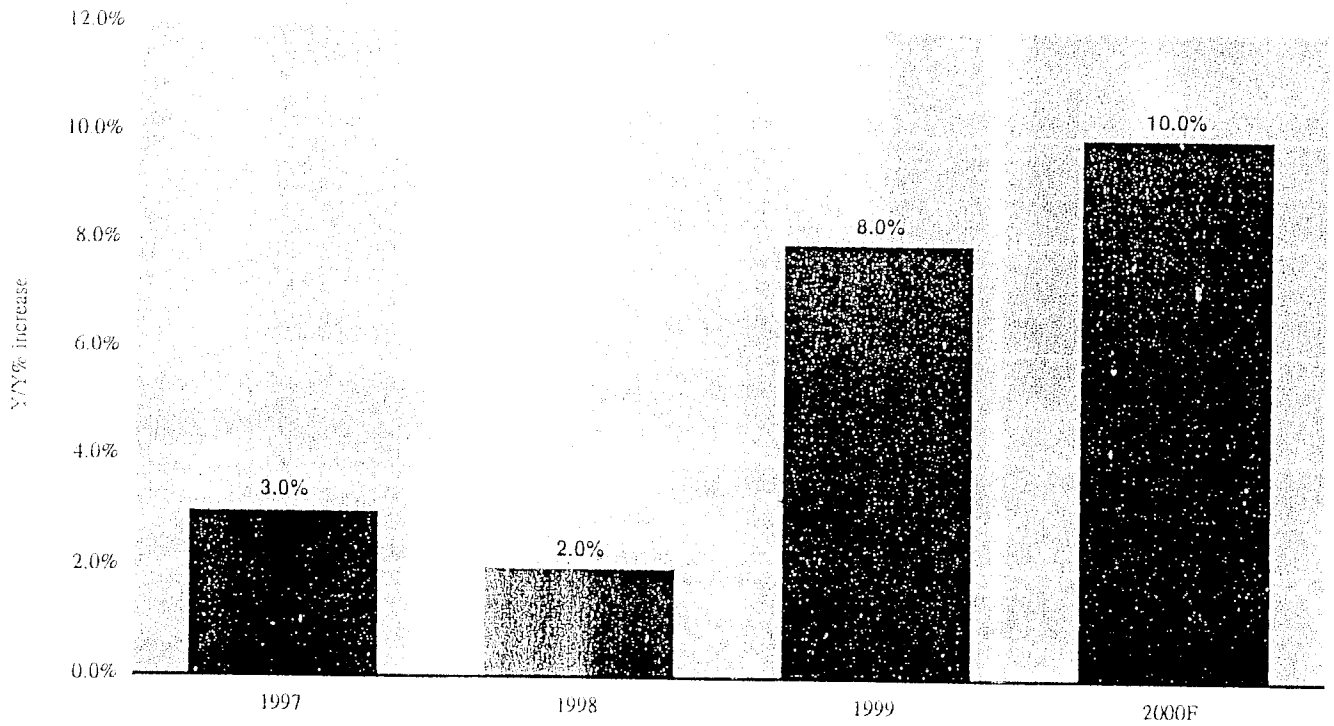
MEDICAL COSTS CONTINUE TO ACCELERATE

Health care cost trends are accelerating due to strong increases in prescription drug costs and provider pushback.



F = Forecast

Source: DLJ Benefit Manager Survey, self-insured plans only.

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STRATEGIC REPOSITIONING TRENDS

The managed care industry has undergone a period of strategic repositioning as emphasis has shifted from growth to earnings.

- Exit unprofitable government programs
  - Strategic market exits from lower reimbursement Medicare markets
  - Medicare rate increases of 2% in 1999 (compared to 5-7% increases prior to 1998)
  - Capitation is only a short-term solution
  - It is estimated that 440,000 Medicare enrollees were affected in 1999 and it is estimated that an additional 210,000 will be affected in 2000
  - Medicaid programs have seen similar trends due to highly unpredictable pricing (subject to state budgetary processes) and difficulties managing population
- Exit unprofitable markets and lines of business
  - Exit non-core business (e.g. workers' compensation)
  - Dispose of owned-practices
  - Exit markets where market position and scale is insufficient

STRATEGIC REPOSITIONING TREND EXTENDS ACROSS ALL PLAN TYPES AND MARKETS

Source: DLJ Research; Modern Healthcare.

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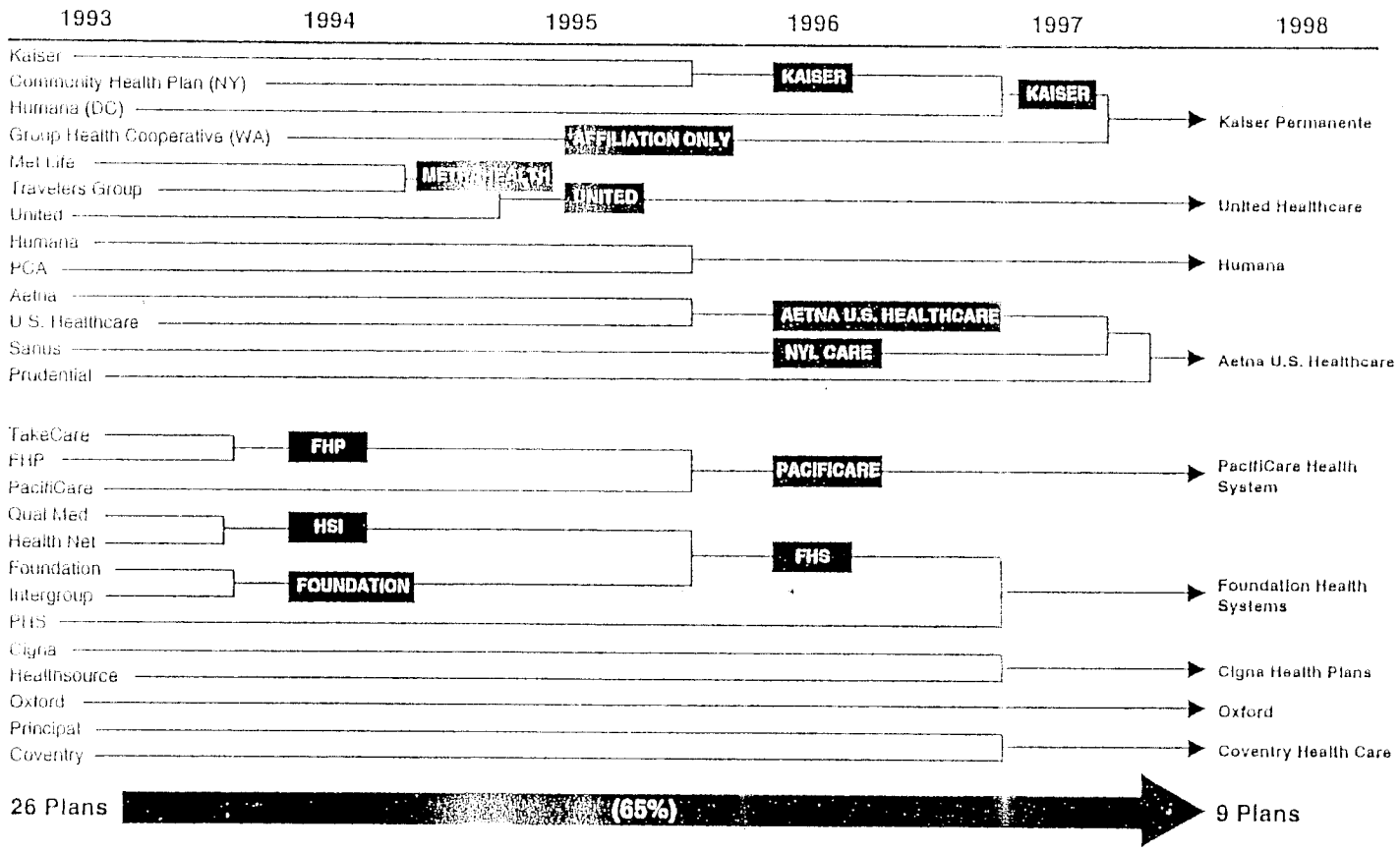
ONGOING CONSOLIDATION TREND



Source: Andersen Consulting.

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COMPELLING ADVANTAGES OF SCALE

Larger players will flourish at the expense of smaller companies due to the compelling advantages of both local and multi-regional share leadership.

- Ability to underwrite broader product array
- Appeal to multi-regional customers
- Access to capital
- Risk spread across greater markets
- Marketing scale
- Brand name recognition
- Administrative efficiencies
- Contracting leverage
- Medical management
- Systems, information technology scale and sophistication
- Need to invest in e-commerce
- Cost of compliance with HIPA regulations
- Ability to spread litigation risk and cost

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BLUE CROSS BLUE SHIELD OVERVIEW

In recent years, the BCBS sector has been characterized by many of the same trends that have impacted the overall managed care sector as well as several unique to the sector.

- Conversion to for-profit stockholder-owned corporations (or demutualizations in the case of Trigon)
- Consolidation either through mergers or affiliations to reap the benefits of regional market scale
- Actively accessing public capital markets to fund strategic growth initiatives
- Unlike many large managed care plans, the BCBS sector has benefited from strong consumer preference for less-managed products and broader provider networks
- Benefit from strong market growth in core PPO and small group markets
- Strong local market shares position sector to develop strong regional and super-regional presence in rapidly consolidating sector
- Larger BCBS plans are now viewed as competing directly with public market counterparts

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HISTORY OF CONVERSION TRANSACTIONS

The following BCBS plans have either completed a conversion transaction or are in the process of converting.

($ in millions)

Year Initiated	Company	Status	Foundation Contribution	Comments
1994	RightChoice / (BCBS of Missouri)	Pending	$211.5	Under the current plan, pending approval, BCBSMO will contribute its 80.1% interest in RightChoice common stock, plus $12.8 million to a charitable foundation.
1995	Empire Blue Cross & Blue Shield	Pending	100% of Value	Under Empire's current conversion plan, it will contribute 100% of its value to a charitable foundation. The conversion plan was recently approved by the New York Commissioner of Insurance, but is being challenged by the Attorney General. New enabling legislation is currently being considered by state legislature.
1996	WellPoint / (Blue Cross of California)	Completed	$3,200	WellPoint's IPO was completed in 1993. Its foundation contribution was the result of a subsequent negotiated settlement in 1996.
1997	Trigon / (BCBS of Virginia)	Completed	$175.0	Actually a demutualization. BCBSVA converted to a mutual insurance company in 1987. Contribution was made to the Commonwealth of Virginia general fund.
1999	BCBS United of Wisconsin	Pending	100% of Value	Under BCBSUW's conversion plan, it will contribute 100% of its value to a charitable foundation. The plan has been reviewed and approval by the Wisconsin Insurance Commissioner. Consumer group court challenge pending.

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CONSOLIDATION TREND

Over the past several years, there has been a significant regional consolidation trend within the BCBS sector.

Entity	Regions	Description
CareFirst	Maryland District of Columbia Delaware	Mid-Atlantic affiliation of CareFirst BlueCross of Maryland, BlueCross BlueShield of the National Capital Area and BlueCross BlueShield of Delaware.
Regence	Oregon Washington Utah Idaho	Largest affiliation of health care plans in the Pacific Northwest, including Regence BlueCross BlueShield of Oregon, Regence BlueShield, Regence BlueShield of Idaho and Regence BlueCross BlueShield of Utah. Serves more than 3 million people in four states with more than $4 billion in combined annual revenue.
WellPoint	California Georgia (Pending)	Transaction is pending court approval of BCBS of Georgia's conversion/demutualization plan. Cerulean has agreed to contribute $80 million to a charitable foundation as part of this transaction. The plan for merger has been extended to December 31, 2000.
Highmark	Pennsylvania	Created in 1996 through the consolidation of Blue Cross of Western Pennsylvania and Blue Shield of Pennsylvania.
Anthem	Colorado Connecticut Indiana Kentucky Nevada New Hampshire Ohio Maine (Pending)	Regional affiliation of Blue Cross Blue Shield of Colorado (1999), Blue Cross Blue Shield of Connecticut (1997), Blue Cross Blue Shield of Indiana, Blue Cross Blue Shield of Kentucky (1993), Blue Cross Blue Shield of Nevada (1999), Blue Cross Blue Shield of New Hampshire (1999) and Blue Cross Blue Shield of Ohio (1995). Acquisition of Blue Cross Blue Shield of Maine is currently pending.
Premera	Alaska Washington	Medical Services Corporation of Eastern Washington merged into Blue Cross of Washington and Alaska in 1998.
Health Care Service Corp.	Texas Illinois	Both plans are corporate divisions of the Health Care Service Corporation. Blue Cross & Blue Shield of Illinois serves over 5.5 million members. On March 30, 2000, Blue Cross & Blue Shield of Illinois announced its plan to acquire Blue Cross & Blue Shield of New Mexico.
Excellus Health Plan	New York	Formed in 1998 through the combination of the BlueCross Blue Shield Plans of the Rochester Area, Central New York and Utica-Watertown.

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PUBLIC CAPITAL RAISING TREND

Since 1993, BCBS plans have raised nearly $1.7 billion of capital from the public markets.

($ in millions)

Year	Company	Amount	Security	Use of Proceeds
2000	Anthem	$300.0	Sale of a 10 year 9.125% surplus note	General corporate purposes
1999	WellPoint	260.0	Sale of a 20 year zero coupon convertible debenture at 67.165	Purchase common stock from California Healthcare Foundations
1997	WellPoint	114.0	Sale of 3.0 million primary shares	Repay debt
1997	Anthem	200.0	Sale of a 30 year 9.000% surplus note	General corporate purposes
1997	Trigon	201.5	Initial public offering of 15.5 million primary shares	General corporate purposes
1995	United Wisconsin Services	44.7	Sale of 0.3 million primary shares	General corporate purposes
1994	RightChoice	35.8	Initial public offering of 3.3 million primary shares	Expansion of services and general corporate purposes
1994	United Wisconsin Services	28.0	Sale of 1.0 million primary shares	General corporate purposes, working capital
1993	WellPoint	476.0	Initial public offering of 17.0 million primary shares	General corporate purposes, expansion
Total		$1,660.0		

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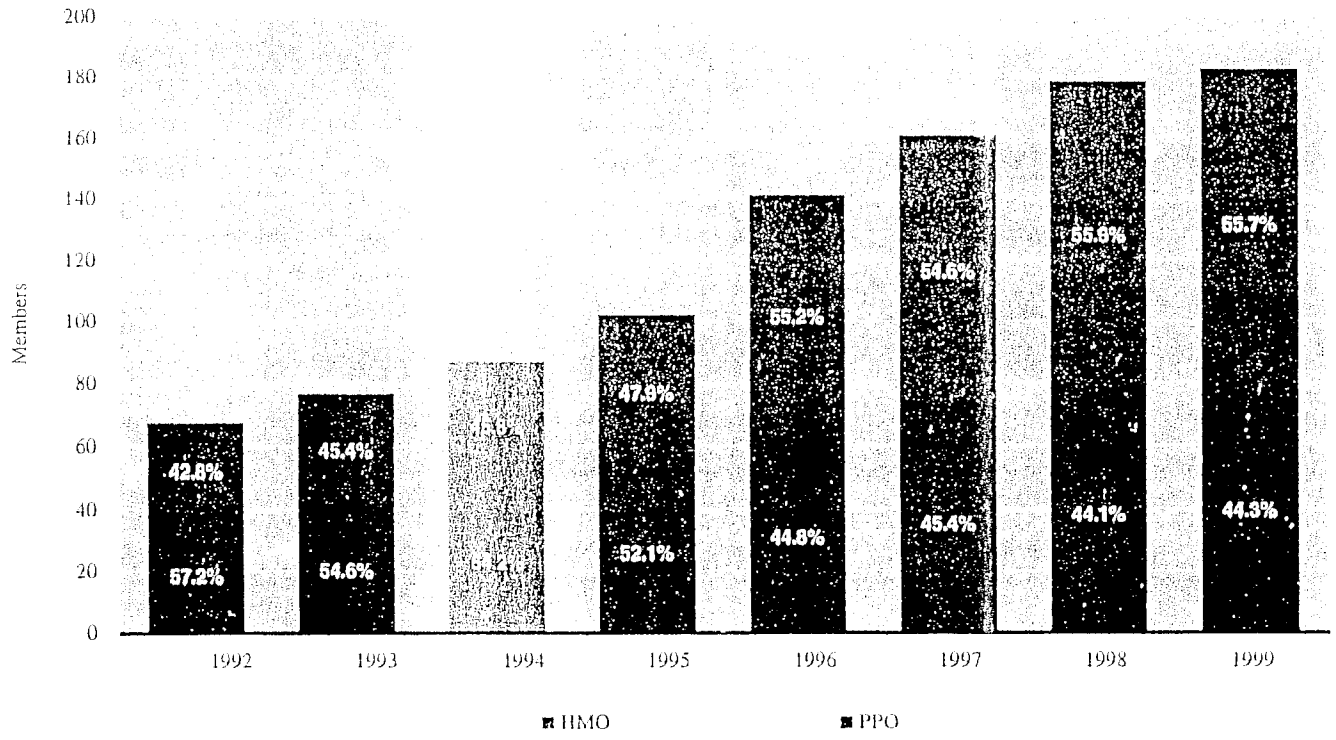
ENROLLMENT TRENDS

The BCBS sector is well positioned to benefit from a clear consumer preference for less managed health plans.

NATIONAL MANAGED CARE ENROLLMENT GROWTH
($ in millions)



Source: Data compiled from the Managed Care On-Line™ Information Exchange, 1999, 2000.

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