MARKET ANALYSIS

Highmark primarily conducts its business in western Pennsylvania, but operates in the rest of the Commonwealth in partnership with the other BCBS plans.

MEMBERSHIP BY MARKET & PRODUCT SEGMENT

	Western PA	Eastern PA			
Managed Care Segment	Highmark	Blue Cross of Northeastern PA	Capital Blue Cross	Independence Blue Cross	Total
Health	2,722,340	316,705	1,227,111	395,914	4,662,070
Dental	665,739	68,686	218,588	353,830	1,306,843
Vision	999,249	127,017	454,644	307,373	1,888,283
Total	4,387,328	512,408	1,900,343	1,057,117	7,857,196

Source: Highmark

Note: Highmark's national subsidiaries include United Concordia Companies, Inc. (4.5 million members), Davis Vision (7.8 million members) and Highmark Life and Casualty (2.2 million members).

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RELATIONSHIP WITH MOUNTAIN STATE BCBS

Highmark also operates in West Virginia in partnership with Mountain State Blue Cross Blue Shield.

WEST VIRGINIA

- Effective April 30, 1999, Highmark closed a transaction with Mountain State BCBS resulting in Highmark becoming the primary licensee for the Blue Cross and Blue Shield registered tradenames and trademarks in West Virginia, as well as Mountain State becoming a smaller controlled affiliate of Highmark

KEY STATISTICS

1999 Membership	410,000
1999 Revenue	$430 million
1999 Gain/Loss	$4.3 million

BUSINESS RELATIONSHIP

- Mountain State BCBS becomes smaller controlled affiliate of Highmark
- Highmark assumes 50% of Board
- Highmark replaces $10 million surplus note
- Highmark monitors benchmarks for majority control
- Negotiates more formal affiliation over 24 months
- Negotiates ownership interest in managed care business
- Highmark has supermajority privileges
- Expands market reach of related products—Clarity, UCCI, Highmark Life and Casualty
- Install seamless networks, products and systems

Source: Highmark

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HISTORY

Highmark has a long and trusted history in the state of Pennsylvania.

Key Event	Year of: 1937	1946	1947	1963	1982	1986	1988	1996	1997	1999
The Pennsylvania Insurance Department approves Hospital Service Association of Pittsburgh	■									
The Medical Service Association of Pennsylvania ("MSAP") becomes Pennsylvania Blue Shield		■								
Philadelphia, Wilkes-Barre, and Pittsburgh Blue Cross Plans agree to sell Blue Shield products			■							
Hospital Service Association of Western Pennsylvania changes its name to Blue Cross of Western Pennsylvania				■						
Pennsylvania Blue Shield forms Keystone Health Plans, Inc. ("HMO")					■					
Blue Cross of Western Pennsylvania and Pennsylvania Blue Shield launch Keystone Health Plan West (HMO to serve Western Pennsylvania)						■				
Pennsylvania Blue Shield sells 50% interest in Keystone Health Plan Central to Capital Blue Cross							■			
Blue Cross of Western Pennsylvania and Pennsylvania Blue Shield consolidate to form Highmark Inc.								■		
Highmark sells interests in managed care business in Philadelphia market									■	
Highmark closes an affiliation with Mountain State Blue Cross Blue Shield										■

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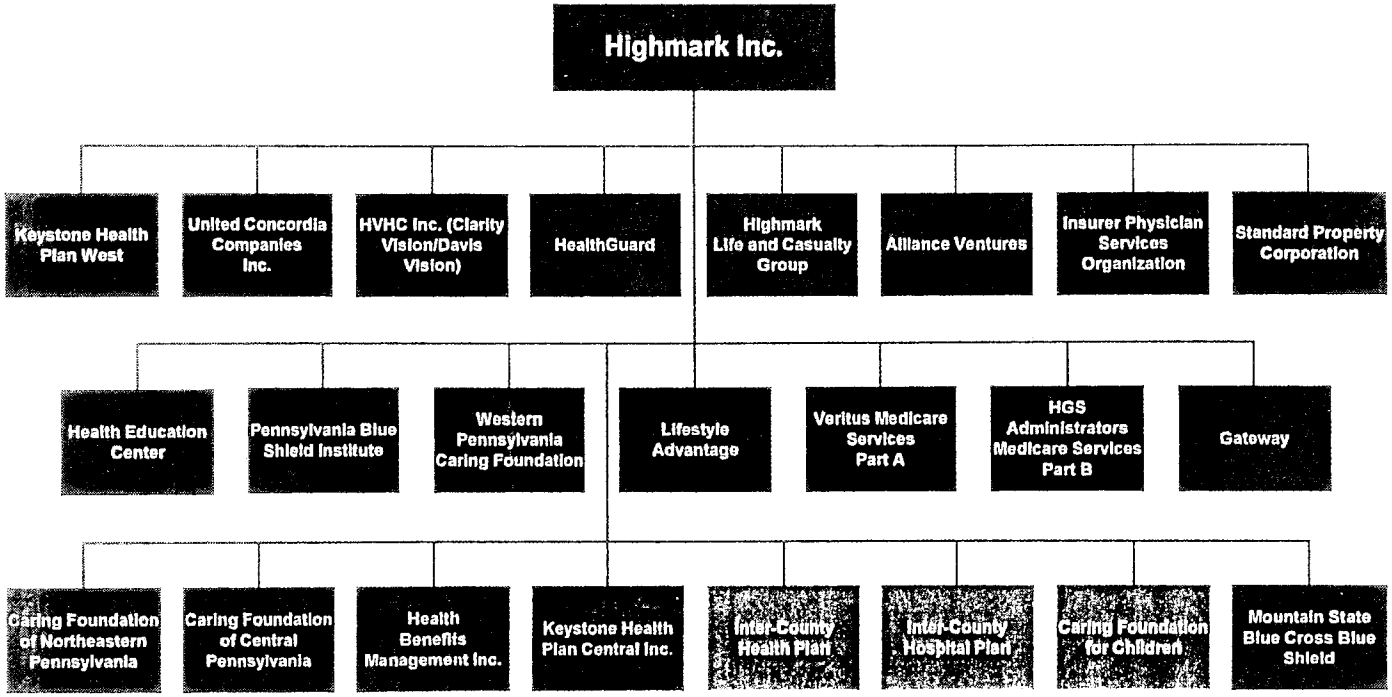
CORPORATE STRUCTURE

Highmark is organized in the following structure.



Note: Green indicates ownership with BlueCross of Northeastern PA, orange indicates shared ownership with Capital Blue Cross, yellow indicates shared ownership with Independence Blue Cross and red indicates affiliation with Mountain State Blue Cross Blue Shield.

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DETAILED BUSINESS DESCRIPTIONS

($ in millions)

Entity	Relationship/ Ownership	For-Profit	1999 Revenues(1)	Description
Highmark Inc.	Parent Company	✗	$5,482.8	• Primary BCBS licensee
Keystone Health Plan West	Subsidiary/ 100%	✓	1,341.0	• A 400,000-member HMO serving Western Pennsylvania
United Concordia Companies Inc.	Subsidiary/ 100%	✓	590.4	• The fifth largest dental insurance company in the nation. It offers traditional and managed dental care programs to over 6.4 million members
Mountain State Blue Cross Blue Shield	Non-economic/ Non-consolidated	✗	429.2	• Mountain State Blue Cross Blue Shield provides approximately 410,000 residents of West Virginia with quality healthcare
Keystone Health Plan Central Inc.	Affiliate/ 50%/50% with Capital Blue Cross	✓	343.7	• A 237,000-member HMO serving Central Pennsylvania and the Lehigh Valley area
Gateway	Affiliate/ 50%/50% with Mercy Health System East	✓	272.4	• A medical HMO serving Pennsylvania residents
Highmark Life and Casualty Group	Subsidiary/ 100%	✓	210.5	• Provides life, disability, stop-loss and workers compensation coverage across the U.S. from its 15 multi-state offices
HVHC Inc. (Clarity Vision/Davis Vision)	Subsidiary/ 100%	✓	195.9	• A for-profit subsidiary holding the stock of Clarity Vision, a provider of vision coverage, and Davis Vision, the nations third largest provider of managed care vision benefits with 7.8million members

(1) Excluding Investment Income.

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DETAILED BUSINESS DESCRIPTIONS (CONT'D)

($ in millions)

Entity	Relationship/ Ownership	For-Profit	1999 Revenues(1)	Description
HealthGuard	Subsidiary/ 100%	✓	$109.3	• A 59,000-member HMO serving the Lancaster County, PA
Alliance Ventures	Subsidiary/ 100%	✓	42.2	• Staffs primary care centers as part of developing integrated health care systems in Western Pennsylvania • It develops special relationships with physicians and hospitals to integrate the financing and delivery of health care services
Inter-County Hospitalization and Health Plan	Affiliate/ 50%/50% with Independence Blue Cross	✗	15.0	• Maintains and operates a hospitalization plan and a professional health service plan • Inter-county serves approximately 50,000 members in Southeastern PA
Standard Property Corporation	Subsidiary/ 100%	✓	8.2	• Serves as the real estate arm of Highmark and subsidiaries located in the western region of Pennsylvania
Western Pennsylvania Caring Foundation	Non-economic/ Non-consolidated	✗	6.4	• A charitable foundation
Health Benefits Management Inc.	Affiliate/ 50%/50% with Capital Blue Cross	✓	4.7	• Provides managed health care services, such as precertification and second surgical opinions, to employers and health insurance companies to help reduce the utilization of health care services • Health Benefits Management, Inc. is jointly owned with Capital Blue Cross

(1) Excluding Investment Income.

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DETAILED BUSINESS DESCRIPTIONS (CONT'D)

($ in millions)

Entity	Relationship/ Ownership	For-Profit	1999 Revenues(1)	Description
Insurer Physician Services Organizations	Subsidiary/ 100%	✓	$4.5	• Develops physician-equity joint ventures with private practice physicians, which assume progressive levels of financial risk for delivery of medical care services from licensed managed care insurers
Caring Foundation of Central Pennsylvania	Non-economic/ Shared with Capital Blue Cross	✗	1.1	• A charitable foundation
Caring Foundation for Children	Non-economic/ Partnership with Independence Blue Cross	✗	0.9	• A charitable foundation
Health Education Center	Non-economic/ Non-consolidated	✗	0.2	• Established in 1976 as a non-profit agency to educate the public on health, focusing exclusively on disease prevention and health promotion
Caring Foundation of Northeastern Pennsylvania	Non-economic/ Shared with Blue Cross of Northeastern Pennsylvania	✗	0.2	
Pennsylvania Blue Shield Institute	Non-economic/ Non-consolidated	✗	N/A	• A research organization dedicated to fostering public debate on regional, state and national health care issues

(1) Excluding Investment Income.

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DETAILED BUSINESS DESCRIPTIONS (CONT'D)

($ in millions)

Entity	Relationship/ Ownership	For-Profit	1999 Revenues(1)	Description
Lifestyle Advantage	Affiliate/ 50%/50% with Dr. Dean Ornish	✓	N/A	• A joint venture company formed by Highmark Inc. and the Preventive Medicine Research Institute in April, 2000 • Based in Sausalito, CA Lifestyle Advantage exclusively markets and licenses the Dr. Dean Ornish Program for Reversing Heart Disease
Veritus Medicare Services Part A	Division of Highmark Inc.	N/A	N/A	• Processes Part A (hospital) Medicare claims for beneficiaries in most regions of Pennsylvania and in Delaware
HGS Administrators Medicare Services Part B	Division of Highmark Inc.	N/A	N/A	• Currently processes Part B (doctor) Medicare claims for beneficiaries in Pennsylvania
Total(2)(3)			$7,998.3	

(1) Excluding Investment Income. Represents total revenues to subsidiary and will not equal Highmark consolidated income.
(2) Excludes revenues of non-majority owned affiliates.
(3) Equals subscription revenue earned plus other revenue from December 31, 1999 audited income statement.

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