

Policyholder Instruction Guide

[a n d Q / A]

Please read this document first

- Blue Cross and Blue Shield of Kansas (BCBSKS) is seeking to be acquired by Anthem Blue Cross and Blue Shield, an Indiana company.

- As a BCBSKS policyholder, you are being asked to make an important decision about the future of BCBSKS.

- This conversion and acquisition would not affect your policy or contract rights.

- Eligible policyholders would receive cash consideration if the transaction is approved.

- Eligible policyholders vote on the transaction.

Questions? Call our Policyholder Information Center toll-free at 1-800-756-8400, 8:00 a.m. to 4:30 p.m. Central Standard Time.



An Independent Licensee of the
Blue Cross and Blue Shield Association

November 9, 2001

Dear Policyholder:



I am pleased to inform you that your board of directors has approved a plan to convert Blue Cross and Blue Shield of Kansas, Inc., (BCBSKS) from a mutual life insurance company to a stock company. That same plan also provides for our affiliation with Anthem Insurance Companies, Inc. (Anthem BCBS), a Blue Cross and Blue Shield Plan headquartered in Indianapolis, Indiana.

We do not propose a change of this nature lightly, but we believe strongly it is most beneficial to the company. For policyholders and members, this affiliation secures the same high level of service and reliability that they are accustomed to. It also provides the financial flexibility, security and strength needed to continue offering a complete portfolio of what we believe are among the most attractive health insurance plans in the country. In addition, it will allow us to continue our longstanding tradition of community service and support, with continued business operations in Topeka.

Anthem BCBS recognizes the local nature of health care, the differing history and traditions of Blue Plans in various states and the need for managerial decision-making to be close to the customer. Accordingly, the company has created an operating model to meet these requirements. Because of Anthem BCBS's unique approach, it has a proven track record of successfully consolidating BCBS Plans in several states.

Please be assured your policy and contract rights will not be changed in any respect by the conversion and affiliation with Anthem BCBS. However, we cannot assure you that premiums will not be increased in the future. See "Risk Factors Relating to the Conversion and the Acquisition — The transaction may result in future premium increases and/or other measures to return to profitability", in the enclosed Policyholder Information Statement. As always, changes to your policy will continue to be governed by the terms of your policy and by Kansas and federal law.

Enclosed is some very important information that will help you understand the proposed transaction and explains how to cast your vote. Please review this material carefully.

Your vote is important. Please mark, sign, date and return the Proxy Card in the pre-addressed envelope, or cast your vote in person at the special meeting. No matter how you vote, or whether you vote, please complete, sign and return the Taxpayer Identification Card to avoid withholding of taxes on any distribution. Your board of directors believes it is the right time to convert and enter into this strategic business arrangement with Anthem BCBS. **The board unanimously recommends that you approve the plan by voting "Yes" for the proposal listed on the Proxy Card. No distribution of cash to policyholders will occur unless the plan is approved. However, there are risks associated with the conversion and the acquisition. Some of these risks are discussed under "Risk Factors Relating to the Conversion and the Acquisition" in the enclosed Policyholder Information Statement.** They are also summarized on page 6 of this Guide.

On behalf of your board of directors I would like to thank you for letting us serve your health insurance needs.

Sincerely,

A handwritten signature in dark ink, appearing to read "John W. Knack". The signature is written in a cursive style with a large, sweeping initial "J".

John W. Knack
President and CEO

Policyholder's Package

Your Policyholder's Package Includes:

- Instruction Guide and Q & A (this booklet that you are reading)
- Proxy Card and Other Cards

Card Number and Name What You Need to Do

Card 1: Proxy Card

Complete, sign, date and return

Card 2: Taxpayer Identification Number Card

Complete, sign, date and return

No matter how you vote, or whether you vote, you should complete, sign and return this card to avoid taxes being withheld on any distribution and a possible \$50 IRS penalty.

Card 3: Member Record Card

Retain this card for your records

- Pre-addressed Return Envelope (Postage is prepaid if mailed from within the U.S.)
- Policyholder Information Statement (including a detailed description of the Plan of Conversion)

If any materials are missing, please call the Policyholder Information Center toll-free at 1-800-756-8400, Monday through Friday, 8:00 a.m. to 4:30 p.m. Central Standard Time.

Hearing & Policyholder Meetings

All policyholders are invited to the following:

Public Comment Meetings before the Kansas Insurance Commissioner

Date: December 4, 2001, 9:00 a.m. - 12:00 p.m.

City: Hays KS

Location: Fort Hays State University
Black & Gold Room, Memorial Union
600 Park St.

Date: December 4, 2001, 7:00 p.m. - 10:00 p.m.

City: Garden City KS

Location: Holiday Inn Express
2502 E. Kansas Ave.

Date: December 5, 2001, 7:00 p.m. - 10:00 p.m.

City: Wichita KS

Location: Joan Finney Bldg.
230 E. William, Room 3080

Date: December 13, 2001, 9:00 a.m. - 12:00 p.m.

City: Pittsburg KS

Location: Pittsburg State University
Governor's Room
302 E. Cleveland

Date: December 14, 2001, 8:00 a.m. - 11:00 a.m.

City: Topeka KS

Location: Maner Conference Center - Shawnee A
1 Expo Centre Dr.

Public Hearing on the Plan of Conversion before the Kansas Insurance Commissioner

Date: January 7-9, 2002, 9:00 a.m. - 5:00 pm

City: Topeka KS

Location: Capital Plaza Hotel
Emerald Ballroom
1717 SW Topeka Blvd.

Special Meeting of Policyholders and on the Acquisition by Anthem

Date: January 11, 2002, 10:00 a.m.

City: Topeka KS

Location: Regency Ballroom,
Ramada Inn Downtown,
420 S.E. 6th.

What you need to do.

What Should I Read?

This mailing contains important information about the BCBSKS Plan of Conversion (the Plan). Please carefully read the following:

Proxy and Personalized Information Cards:

- Card 1: Your personalized Proxy Card
- Card 2: Taxpayer Identification Number Card
- Card 3: Member Record Card

Policyholder Information Statement

This contains:

- A notice of Public Comment Meetings
- A notice of Public Hearing
- A notice of Special Policyholder Meeting
- A detailed explanation of the Plan of Conversion
- A copy of the Plan, financial statements, and other important information about the Plan and operations of BCBSKS and Anthem BCBS, including a description of risks associated with the conversion and acquisition

What Should I Return To BCBSKS?

Please return your marked Proxy Card and the Taxpayer Identification Number (TIN) Card. **Do not return your Member Record Card.** This card is for your records and future reference. For policyholders other than businesses, your TIN is usually your social security number. **If you do not verify your Taxpayer Identification Number, we may have to withhold taxes from any amounts you are due if the transaction is approved.**

How Do I Vote?

Please mark and SIGN your Proxy Card, and return it along with your TIN card in the enclosed postage-paid envelope. You may cast your vote in person by attending the Special Meeting to be held at the Regency Ballroom, Ramada Inn Downtown, 420 S.E. 6th, Topeka KS at 10:00 a.m., Central Standard Time on January 11, 2002. We suggest that the most convenient way for you to vote is to use the enclosed Proxy Card.

What If I Have Other Questions?

If you have questions, first look through these materials for answers. If you still have questions, you can call the Policyholder Information Center, 1-800-756-8400, from 8:00 a.m. to 4:30 p.m. Central Standard Time.

Why do we believe BCBSKS needs to change?

60 Years Of Service

Blue Cross and Blue Shield of Kansas (BCBSKS) will celebrate its 60th anniversary in 2002. As we near this milestone of service to Kansans our mission remains constant: to excel at meeting our customers' health and benefit needs. In pursuing this mission we are committed to

- providing customers with access to quality health care
- improving our customers' health
- offering affordable products and services
- being known for our integrity and excellence as a company.

The company has its roots in two companies that began operations in the 1940s. Blue Cross of Kansas originated following legislation in 1941; Blue Shield of Kansas was established in 1946 — both as nonprofit service corporations. The two consolidated into one corporation in 1983.

Since July 1, 1992, BCBSKS has been a mutual life insurance company. A mutual life insurance company is one in which policyholders elect the board of directors of the company, and have certain contingent rights regarding the company's surplus (*what you might think of as its net worth, or bank balance*) in the unlikely event that the company were to liquidate.

Position Of Strength

BCBSKS has always been dedicated to serving Kansas policyholders. Because BCBSKS is in a position of strength — with substantial market

share, a strong financial base and consistent high performance marks — now is the right time to take the steps to ensure long-term success and the best future for all of our customers.

On May 24, 2001, the BCBSKS Board of Directors authorized management to enter into an Alliance Agreement with Anthem Insurance Companies, Inc. (Anthem BCBS), headquartered in Indianapolis, Indiana. That Alliance Agreement was signed on May 30, 2001.

On October 25, 2001, the BCBSKS Board of Directors adopted a Plan of Conversion to convert the company to a stock insurance company and sell that stock to Anthem BCBS, with cash consideration to be paid to policyholders.

Anthem Insurance Companies, Inc., is the formal name of the company which does business as Anthem Blue Cross and Blue Shield in Indiana. In addition, since 1993, Anthem BCBS has combined with, through merger or purchase, Blue Cross and Blue Shield Plans in Connecticut, New Hampshire, Maine, Colorado and Nevada. In each of those states, it does business as Anthem BCBS. In fact, under the proposed affiliation, the name of Blue Cross and Blue Shield of Kansas will change to Anthem Health Plans of Kansas, Inc. as a formal matter, but business will be done as Anthem Blue Cross and Blue Shield.

Solid Foundation Preserved

An affiliation with Anthem BCBS represents an important step in the company's long-term

Why do we believe BCBSKS needs to change?

strategy of providing Kansans with health benefits that offer exceptional value, excellent service and financial security. We share with Anthem BCBS a common culture — a common Blue Cross and Blue Shield legacy, a commitment to providing high quality products and services, a history of market and community leadership and an understanding of the requirements to compete effectively in the health care market.

By joining forces with Anthem BCBS, we will be able to leverage the greater financial and operational resources of the combined entity — and will enhance our ability to provide quality health care products and services. The Alliance Agreement also provides assurances of continued local input into medical policy, allowing the company to continue to be responsive to the local marketplace and to secure services of health care providers for its members.

The affiliation will allow us to take advantage of the best administrative, customer service, and provider contracting practices developed within the Anthem BCBS group of companies.

Industry Undergoing Major Changes

As a single-state health insurance company, certain circumstances can have a disproportionate impact on our business when compared to a national insurer. Circumstances such as a localized, widespread health problem, a single adverse state law, or an unfavorable litigation result can have a substantial financial impact on our company.

In addition, BCBSKS has a demographic vulnerability its national competition does not have. This manifests itself in several ways:

- when an out-of-state firm buys a local Kansas company and takes those employees into its health insurance plan, BCBSKS loses the business of that group which previously benefitted all policyholders;
- when an out-of-state firm buys a local Kansas company which was a prospective business to purchase health insurance coverage, again, BCBSKS loses the potential financial support that group would contribute to all policyholders; and
- loss of a few large enrolled businesses can have a far greater impact on a small, single-state insurer than on a large insurer.

Blue Cross and Blue Shield Plans are increasingly consolidating. Since 1986 the number of Blue Plans has decreased from 134 to only 44 Plans as of July 1, 2001. As these consolidations increase, the choices of whom to consolidate with and how to consolidate, narrow, and BCBSKS wants to make a decision while it is still in a position of financial soundness and has a number of choices.

More diverse national health care competitors, with better access to capital, are leading to an ever more competitive environment. The kinds of capital that will be necessary to serve policyholder needs in the future is substantial. Without access to capital, and without spreading increasing administrative costs over a larger number of members, BCBSKS could only get funds for these competitive needs by passing the cost along directly to policyholders.

Key things you need to know.

Your Rights As A Policyholder

As a policyholder of a mutual insurance company, you have certain rights and interests. You have contract rights, which are derived from the insurance policy you own with BCBSKS. You also have membership rights, which include the right to vote for the directors of BCBSKS and to receive any remaining value in the unlikely event the company is liquidated. When the demutualization becomes effective your membership rights in BCBSKS as a mutual insurance company would terminate. Your contract rights as a policyholder would not, however, change.

Cash Distribution To Policyholders

The conversion would allow BCBSKS to distribute the value of BCBSKS to our eligible policyholders, which would not be possible if we remained a mutual insurance company. If the proposal were approved, eligible policyholders would receive this distribution in the form of cash. For reasons discussed below, the precise amount of cash consideration to be distributed to eligible policyholders is not known. An estimate of the total amount eligible for distribution, not including certain expenses, based on a transaction completed as of January 31, 2002, would be \$321 million. That amount cannot be guaranteed and is used solely as a hypothetical, for the reasons we explain below.

BCBSKS policyholders would receive this consideration in the form of cash only. Although Anthem BCBS recently became a stock insurance company, policyholders would not have an option to obtain stock in Anthem BCBS, except for their capacity to buy stock in Anthem BCBS on the open market.

Two Distributions To Policyholders

Policyholders would receive cash consideration from the sale of stock to Anthem BCBS, plus a special distribution declared by the BCBSKS Board of Directors on October 25, 2001, less certain costs and other items. Those payments to eligible policyholders would be made in two separate installments and the total amounts of those payments would be determined differently:

- The special distribution would amount to the difference between policyholder surplus on the closing date and \$155 million. BCBSKS currently projects that its surplus as of January 31, 2002 will be \$286 million. However, it may be less than that or greater than that amount. If it were precisely \$286 million, then the amount available for distribution to policyholders under the special distribution would be \$131 million. Seven percent (7%) interest, calculated from the conversion date, would be added to \$131 million until the funds are distributed. The funds should be distributed between 90 and 120 days after the Plan becomes effective.
- Anthem BCBS would pay \$190 million for the stock of BCBSKS. That total payment, however, would not be distributed to eligible policyholders immediately. Instead, \$48 million would go into an escrow fund and the balance of that amount – \$142 million – would be distributed along with the special distribution. Seven percent (7%) interest, calculated from the conversion date, would be added to \$142 million until the funds are distributed. In total, we currently estimate that \$273 million would be paid to policyholders 90 days to 120 days after the closing date.

Key things you need to know.

Two Distributions To Policyholders (continued)

1. The escrow fund would be established to address the risk of litigation arising out of a subpoena received by BCBSKS from the U.S. Department of Health and Human Services Office of the Inspector General (OIG) on February 28, 2001. That subpoena seeks documents in relation to an investigation pertaining to possible false or improper claims submitted to Medicare. We are cooperating with the government in responding to that subpoena. We are unaware of any facts which would give rise to liability in BCBSKS for any inappropriate claims made against Medicare.
2. Until any litigation arising out of that subpoena is resolved, or until it becomes clear that no litigation will arise out of that subpoena, \$48 million out of the payment for the stock of BCBSKS would be held in an escrow account, which would be invested solely in government or government-backed securities. Interest from those securities would accrue to the benefit of the escrow fund.
3. The escrow fund would be overseen by a Policyholder Committee consisting of five persons selected by the Kansas Insurance Commissioner, two of whom would be from a slate recommended by the BCBSKS Board of Directors prior to the closing. The escrow fund would be further overseen by the Commissioner of Insurance of the State of Kansas. One of the purposes of the Policyholder Committee is to oversee any litigation that arises out of the OIG subpoena. The escrow fund would protect BCBSKS and Anthem BCBS from any costs it incurs as a result of any such litigation. It would also pay for the costs of operation of the escrow fund, for expense of counsel retained by BCBSKS in responding to that subpoena and for any related litigation, as well as for certain other expenses.
4. Upon resolution of any litigation arising out of that subpoena or when it becomes clear that no litigation will arise out of that subpoena, then the Policyholder Committee would assure that, after making allowances for taxes and other expenses to be paid from the escrow fund, the balance of the escrow fund is distributed to policyholders according to the Plan of Conversion. Because of the uncertain nature of the contingent litigation matter, we are unable to predict how much of the escrow fund would remain to be distributed to eligible policyholders, or when that distribution would occur.
5. No distribution to policyholders would be made if the cost of distribution were expected to exceed the amount in the escrow fund, and instead, such balances would go to a charity.
6. There are risks associated with the conversion and the acquisition. These include:

The transaction may result in future premium increases and/or other measures to return to profitability. You would lose the benefits of mutuality in the conversion and the acquisition, including your membership interests and the freedom from conflict between policyholder and shareholder interests. A challenge to the Plan or to the Kansas Insurance Commissioner's approvals may adversely affect the terms of the plan. You may not receive the special distribution. You may not receive some of the purchase price as a result of the contingent litigation matter and there may be significant delays in distributing any such amounts.

How it works

Two Distributions To Policyholders (continued)

Our directors and officers have potential conflicts of interest in promoting the acquisition. We could become liable for termination costs and fees if we fail to complete the acquisition. Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the acquisition. Changes in state and federal regulations may affect our business, financial condition and results of operations. We may face potential adverse reaction to the conversion and acquisition.

These are discussed more fully under "Risk Factors Relating to the Conversion and the Acquisition" in the enclosed Policyholder Information Statement.

A "Sponsored Demutualization"

A demutualization is the conversion of a mutual company to a stock company. The words "demutualization" and "conversion" are often used interchangeably to mean the same thing. In this case, BCBSKS, a mutual insurance company governed by its policyholders, after obtaining the necessary approvals and satisfying necessary conditions, would become a stock insurance company. Because of the Alliance Agreement with Anthem BCBS, that stock would be sold immediately to Anthem BCBS, with the payment for that stock being distributed to our policyholders. That process, in which a parent company buys all of the stock of a mutual insurance company which is demutualizing or converting to a stock status, is called a "sponsored demutualization." In the transaction with Anthem BCBS, which is known as a "sponsored demutualization," BCBSKS would convert to a stock insurance

company. All of the stock of BCBSKS would be sold to Anthem BCBS. Anthem BCBS would pay for that stock, and the cash consideration from that sale, subject to any costs which might arise out of a specific potential matter of litigation against BCBSKS and tax issues associated with it, would be distributed to our policyholders.

In addition to payment for the stock, the BCBSKS Board of Directors declared a "special distribution" to policyholders on October 25, 2001. The special distribution, as well as \$142 million of the purchase price, would be paid to policyholders not earlier than 90 days after the effective date of the transaction.

Anthem BCBS Is A Publicly-Traded Company

Anthem BCBS has a publicly-traded parent corporation, Anthem, Inc., which is listed on the New York Stock Exchange. Anthem BCBS conducts business as Anthem BCBS in Indiana, and through affiliated entities in Ohio, Kentucky, Maine, New Hampshire, Connecticut, Colorado, Nevada, and in Kansas, after the acquisition of BCBSKS. Anthem BCBS is headquartered in Indianapolis, Indiana. For more information on Anthem BCBS, see the Policyholder Information Statement or visit the Anthem BCBS Web site at www.anthem.com.

Two Steps: Conversion To A Stock Company And Sale To Anthem BCBS

The transaction on which policyholders are asked to vote involves two steps, conversion of BCBSKS to a stock company and the sale of that stock to Anthem BCBS.

How it works

Mutual Company/Stock Company Comparison

The following chart compares BCBSKS as a mutual company and as a stock company after the demutualization and affiliation with Anthem BCBS:

	Your Policy or Contract Today (as a mutual company)	Your Policy or Contract After Demutualization and Affiliation with Anthem (as a stock company subsidiary of Anthem BCBS)
Insurance Policy	In effect.	Remains in effect. Your contract rights as a policyholder would not change.
Consumer Rights	Consumer rights are protected by the Kansas Insurance Department which regulates the company.	Remains in effect.
Financial Rights of Policyholders	In the event of a demutualization or liquidation, policyholders have the right to a distribution of cash, stock or other consideration.	Eligible policyholders would receive cash consideration as a result of the demutualization. After demutualization, you no longer have financial rights to a distribution if we were to liquidate.
Right to Vote	Policyholders have the right to vote at annual or special meetings, including the right to vote for BCBSKS's directors.	None.

Questions & Answers

1. Why is BCBSKS seeking to convert to a stock company and combining with Anthem BCBS?

We believe that the affiliation would help with all of the following:

- Allow us to distribute cash consideration to our eligible policyholders.
- Enable us to do business as a more efficient, larger company. This means we would take advantage of the best administrative, customer service and provider contracting practices developed within the Anthem BCBS group of companies.
- Reduce the risks we face as a single-state health insurance company.
- Allow us access to the kinds of capital that may be necessary to serve policyholder needs in the future.
- Provide assurances of continued local input into medical policy, allowing the company to continue to be responsive to the local marketplace and to secure services of health care providers for its customers.

2. What would happen if the demutualization and affiliation take place?

Under the Plan, BCBSKS would convert from a mutual insurance company to a stock insurance company (an organization owned by its shareholders). At the same time, BCBSKS would become a wholly-owned subsidiary of Anthem BCBS -- the sole shareholder. It would still be a Kansas insurance company, regulated by the Kansas Insurance Commissioner and subject to Kansas insurance laws.

As part of the conversion and affiliation process, all membership interests of BCBSKS policyholders would be terminated — that is, they would no longer be able to vote for persons on the board of directors — and eligible policyholders would receive distribution in the form of cash payments.

3. What are the "membership interests" I would be giving up in the demutualization?

Membership interests primarily consist of the right to vote at the annual meeting of policyholders at BCBSKS (including the election of directors). They also include the right to participate in any dividend that might be declared by the BCBSKS Board of Directors (although the BCBSKS Board of Directors has never declared such a dividend) and to receive the distribution of the residual value of BCBSKS, if any, in the unlikely event of a liquidation of BCBSKS. These interests would be terminated when the company demutualizes and the company's mutual structure will end.

4. Why should I vote?

Your vote is important because this demutualization and affiliation with Anthem BCBS would change the corporate structure and ownership of BCBSKS. To complete this transaction, approval of two-thirds of the votes cast by voting policyholders is needed (or a majority of the votes if more than half of the policyholders vote). Every vote is important.

Questions & Answers

5. Why should I vote "yes" for approval of the Plan of Conversion?

You should vote "yes" for two primary reasons. First, your "yes" vote would help approve the Plan under which eligible policyholders would receive cash consideration in exchange for the termination of their membership interests. To receive this payment you do not have to pay anything extra into, or give up any value from, your policy. Second, the BCBSKS Board of Directors believes that the demutualization and affiliation would provide BCBSKS with means to continue to deliver to Kansas policyholders high levels of service at competitive prices well into the future. The BCBSKS Board of Directors unanimously recommends that you vote "yes" for approval of the Plan.

6. Are there risks from the conversion and affiliation?

Yes. Some of these risks are discussed under "Risk Factors Relating to the Conversion and the Acquisition" in the enclosed Policyholder Information Statement. They are also summarized on page 6 of this Guide.

7. What do I need to do to vote?

Simply mark the "yes" or "no" box on your Proxy Card (Card 1), then sign, date and return it in the enclosed postage paid envelope. If you prefer, you may vote in person at the Special Meeting of policyholders on January 11, 2002, at 10:00 a.m. Central Standard Time at the Regency Ballroom, Ramada Inn Downtown, 420 S.E. 6th, Topeka KS.

8. Do I need to do anything else?

Yes. You should also complete, sign, date and return the Taxpayer Identification Number Card (Card 2). If you fail to complete and return the Taxpayer Identification Number Card (Card 2), you may be subject to a possible \$50 IRS penalty and federal withholding tax required by the Internal Revenue Service. You need to return this card regardless of if or how you vote.

9. What happens if the Plan of Conversion were not approved?

If the Plan is not approved, BCBSKS would remain a mutual insurance company and members would retain their membership interests of the company. Since the demutualization and affiliation would not occur, no payment would be made to eligible policyholders. Only if the Plan is approved would policyholders receive payment.

10. What must happen for the Plan of Conversion to be approved?

Two-thirds of the policyholders that vote must vote in favor of the Plan (a majority must vote in favor of it if more than half of all eligible policyholders vote). The Kansas Insurance Commissioner must also approve both the Plan and the Alliance Agreement with Anthem BCBS.

11. What effect would the demutualization and affiliation have on my insurance policy?

Your policy would continue just as before. The demutualization and affiliation will not affect your policy or contract rights. After the demutualization and affiliation, changes to

Questions & Answers

your policy or contract rights would continue to be governed by the terms of your policy and by Kansas law. As a Kansas-domiciled subsidiary of Anthem BCBS, BCBSKS would continue to be subject to the same laws it was subject to prior to the demutualization and affiliation, including laws regarding policy provisions, policy form approvals, premium filings and required contents of policies BCBSKS would continue to operate as an insurance company with its headquarters located in Topeka, Kansas.

12. Who is an eligible policyholder?

An eligible policyholder is, in the case of a non-group policy, the person named on the identification card issued by BCBSKS. In the case of a group policy, it is the group itself that is the policyholder.

For purposes of voting, even if a policyholder owns more than one policy with BCBSKS, that policyholder has only one vote regarding the demutualization and affiliation. For example, if you own both a Medicare supplement policy and a hospital confinement policy, you still may only cast one vote.

There is one exception to these rules: if you were covered under a group policy issued to a trust established solely for the convenience of BCBSKS, then for purposes of voting and distributing the proceeds, the existence of the trust would be ignored, and each employer unit participating in that trust will be treated as though it held a direct group contract with BCBSKS in force on October 25, 2001.

13. If I own a policy issued by Premier Health, Inc. (doing business as Premier Blue), is that policy included in the Plan of Conversion?

No — only policyholders of BCBSKS are eligible, and not policyholders of a subsidiary such as Premier Health (Premier Blue). If, however, you hold both a Premier Blue contract and a BCBSKS contract (such as the "self-referral option" made available by BCBSKS in conjunction with Premier Blue coverage), then you would be counted as a BCBSKS policyholder by reason of that separate BCBSKS self-referral option contract.

14. Am I eligible to receive cash consideration in the Plan of Conversion?

You would be eligible to receive payment provided that you were an eligible policyholder of BCBSKS under a policy that was in force on October 25, 2001 (the Plan was approved by the BCBSKS Board of Directors).

15. What are the tax consequences of the distribution?

Generally, the full amount of any cash you would receive would be taxed as a capital gain in the year it is received. Your special distribution and initial distribution of Anthem's purchase price might be increased by additional payments of interest, which would be taxed as ordinary income. If you were entitled to receive more than \$3,000, a portion of the amount paid to you from the escrow fund might be treated as interest, which would be taxed as ordinary income. Special rules may apply to some policyholders. You should consult your tax advisor to determine tax consequences in your particular circumstance.

Questions & Answers

If you do not certify your Taxpayer Identification Number on the card enclosed with this mailing, federal income taxes may be withheld from your share of the cash distributions and you may be subject to a \$50 IRS penalty.

16. Must group policyholders distribute any amounts received to employee participants in the group?

The Department of Labor has offered guidance to employers subject to the Employee Retirement Income Security Act of 1974 (ERISA) on this subject. Generally, employers subject to ERISA are obligated to provide to employees the benefit of any distributions such employers receive proportionate to employee contributions to premiums. The benefit can be provided either through cash distributions to employees or through use of the payment to offset current or future employee costs or to provide additional benefits under the health benefit program. A guidance booklet is being provided to employers who BCBSKS believes are subject to ERISA.

For all employers, whether or not subject to ERISA, there may be other obligations to provide employees with some of the benefit of the cash consideration arising, for example, out of employment contracts, collective bargaining or other sources.

Payment by BCBSKS of cash consideration to the group policyholder fully discharges the obligations of BCBSKS.

17. How would the amount of my payment be determined?

There are two components to the distribution. First, there would be a fixed

share, which can be understood as the payment for your voting interest. Each policyholder — regardless of whether the policyholder is a group policyholder or a non-group policyholder — would receive the same fixed component of cash payment. Even if you own more than one policy, you would receive only one fixed share (just as you receive only one vote).

Second, there would be a variable component of payment. This would vary based on the historic and future contribution of policies to the surplus of BCBSKS. In determining historic and future contributions to surplus, factors such as the contributions to surplus by your class of business would be taken into consideration. The process used to determine each eligible policyholder's payment would be based on actuarial formulas reviewed by the Kansas Insurance Department. If you own more than one policy, the historical and future surplus contributions of each would be taken into account in determining your variable share.

18. Would the fixed share be paid separately from the variable share?

No. BCBSKS has determined the relative percentage of the total consideration each policyholder would be entitled to based on both fixed shares and variable shares. That percentage would be applied to the initial distribution and to the distribution of amounts (if any) in the escrow fund after resolution of the contingent litigation matter.

Questions & Answers

19. Would my policy still be effective even if I receive money because of the demutualization?

Yes. The payment of the special distribution and the proceeds from the stock sale would not affect the status of your policy. It would remain in effect, and your policy and contract rights would not be changed because of the demutualization and affiliation.

20. Why wouldn't the full amount of the special distribution and the stock payment be distributed immediately?

First, the special distribution would be contingent on the policyholder surplus of BCBSKS at the closing date (the date the acquisition of BCBSKS by Anthem BCBS becomes legally effective). Closing of the books of BCBSKS will take some time — at least 90 days from the effective date — before all income and expenses attributable to periods prior to the closing date have been accurately recorded. Once that is done, the special distribution of the amount by which the policyholder surplus exceeds \$155

million would be paid, as would \$142 million of the payment for BCBSKS stock.

Second, under the Plan, \$48 million from the payment from Anthem BCBS for the stock of BCBSKS would go into an escrow fund. It would remain in that fund until the contingent litigation matter is resolved or it becomes clear that no litigation will arise out of the contingent litigation matter. Because of the uncertain nature of the contingent litigation matter, we are unable to predict how much of the escrow fund would remain to be distributed to eligible policyholders or when that distribution would occur.

21. What if I have additional questions about any part of this transaction?

If you have any questions, please call the Policyholder Information Center toll-free at 1-800-756-8400, Monday through Friday from 8:00 a.m. to 4:30 p.m. Central Standard Time.



An Independent Licensee of the
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