


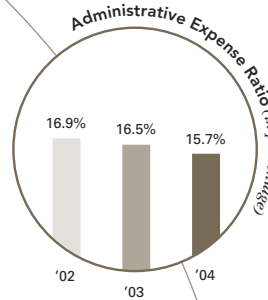
advocacy

"take the customer out of the middle" 

t o o u r s t o c k h o l d e r s

WellChoice's corporate vision begins with the idea that we will be indispensable to all of our customers. We use the power of information and the skills of our people to advocate for our customers as the primary means for achieving our vision. Our advocacy strategy is based on a broad, flexible product portfolio; a commitment to flawless execution in all that we do; and a dedication to enhancing our customers' experiences through technological innovation. For employers, this means supporting our product offerings with powerful consultative advice that helps them to select the healthcare options that are best for their companies and their employees. For members, it means offering them options for care that allow them to make informed, meaningful healthcare decisions. For providers, it means creating policy and fee structures that enable fair and effective reimbursement for the care they provide to our members. And, for all of our constituencies, it means proactively identifying and meeting their healthcare needs.

We believe that the successful execution of our vision will result in growth that delivers strong, sustainable financial performance and superior stockholder value.



Delivering solid financial performance

WellChoice delivered solid financial performance in 2004 that was driven primarily by significant enrollment gains in our core managed care products, an ongoing commitment to disciplined pricing, strong underwriting margins and administrative cost controls. For the year ended December 31, 2004, total revenue was approximately \$5.8 billion, compared with \$5.4 billion for the year ended December 31, 2003. We reported net income for the year of \$246.2 million, or \$2.94 per diluted share, compared with net income of \$201.1 million, or \$2.41 per diluted share for the prior year. This represents a 22% earnings per share increase compared with 2003, or a 19.1% earnings per share annual growth rate, after adjusting for a one-time tax credit of \$0.07 in the second quarter of 2004.

In addition, our ongoing administrative efficiency contributed to the Company's positive performance. Our administrative expense ratio for the year was 15.7%, an 80 basis point improvement over 2003. On a premium equivalent basis, our administrative expense ratio for the full year 2004 was 9.5%, a 110 basis point improvement, compared with 10.6% for the full year 2003. We believe that looking at administrative expense ratios on a premium equivalent basis provides a more realistic view of the Company's administrative costs because that ratio measures administrative expenses relative to the proportion of our insured and self-funded business. Premium equivalents are the sum of premiums earned, service fees and paid claims attributable to our self-funded business for which we provide a range of services, including claims administration and membership and billing services, but for which we do not bear financial risk for claims.

In recognition of WellChoice's continued strong earnings performance, capitalization, and liquidity, as well as its conservative investment practices and good enrollment growth, Standard and Poor's (S&P), one of the nation's leading financial rating agencies, raised the financial strength and counterparty credit rating of Empire Blue Cross Blue Shield, WellChoice's primary operating subsidiary, to an "A" rating in 2004. This is the fifth upgrade that the Company has received from S&P since 1999.

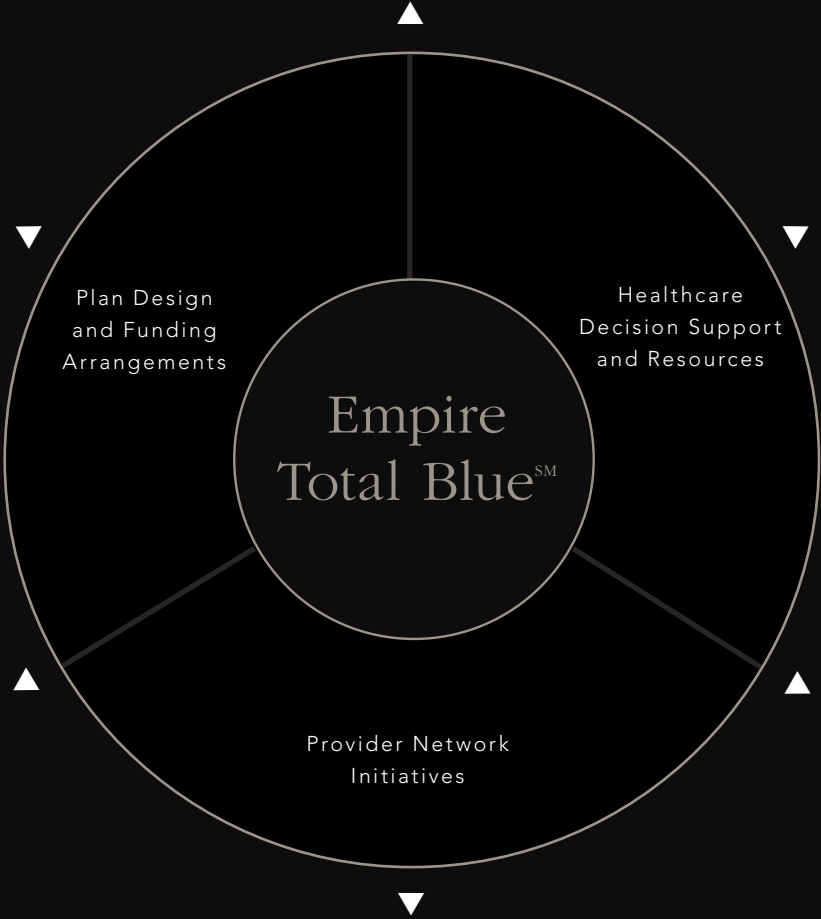


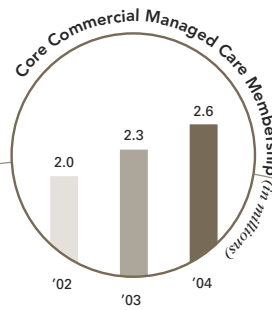
Driving membership growth

Through our Empire Blue Cross Blue Shield subsidiaries, our products convey the trust and security of one of healthcare's most recognized and successful brands and impart what we believe to be a significant competitive advantage in our industry.

We are committed to ensuring that all of our products provide our customers with lower long-term cost than other choices in the marketplace combined with exemplary customer service and the intangible benefits integral to a trusted brand. WellChoice's diverse product portfolio, which is composed of more than two dozen different managed care and traditional indemnity plans, allows the Company to offer individualized solutions to employers and employees in multiple market segments. It also helped to attract new members and retain existing ones during 2004.

The largest PPO and HMO provider networks in our New York service area form the foundation upon which we set our managed care products. The size and breadth of our networks enable our members to choose the doctor or hospital they want and help control costs by ensuring that the vast majority of care is provided on an in-network basis. They also allow employers to benefit from a range of cost-effective network-based products. Our HMO network offers members in-network coverage from more than 65,000 doctors and 203 hospitals, while PPO and EPO members have access to more than 69,000 doctors and 218 hospitals. The additional benefits of the BlueCard® program, which is administered through the Blue Cross and Blue Shield Association, come standard on our PPO, EPO and indemnity products. BlueCard provides in-network access to a national network of more than 670,000 doctors and more than 5,800 hospitals—the largest such network in the country.





Overall corporate enrollment increased for the fifth consecutive year, reflecting continued momentum in core commercial managed care membership growth. Our enrollment growth was fueled primarily by strong membership gains in the small and middle markets over the course of the year as well as strong national account sales.

As of December 31, 2004, total membership stood at 4.95 million, an increase of 4.2% over the prior year. Enrollment in the Company's core commercial managed care segment, which excludes the New York City and New York State accounts, increased by 257,000 to 2.6 million members, representing an 11.2% increase since year-end 2003. Membership in our commercial managed care segment increased by 6.7% to 4.4 million for the year. Self-funded membership grew 12.3% to 2 million for the year ended December 31, 2004, and accounted for 39.4% of our total membership.

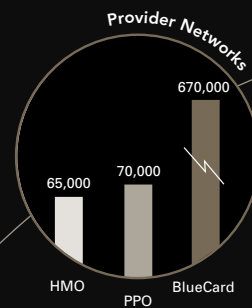
National accounts continue to comprise a noteworthy portion of our membership, and leading employers, including Sony, Monster Worldwide, L-3 Communications and JetBlue, joined the list of nationally recognized companies that offer one or more of our products to their employees. Total national account membership stood at 1.2 million members at year-end 2004, an increase of 121,000 national account members since year-end 2003.

Innovative product design

In order to continue to meet market demands successfully, we offer a product portfolio that provides our customers with a choice of benefit designs and pricing flexibility and that surrounds them with indispensable value. And, as the market continually evolves, we stand ready to meet the new demands.

Consumer directed health plans (CDHP) were the buzz in 2004 and they offer a fundamentally different approach to healthcare. The concept behind CDHPs is that by giving consumers more responsibility and discretion in spending their healthcare dollars, payers can achieve both cost savings *and* increase consumer satisfaction through empowerment. These plans are designed to engage members more fully in the healthcare decision-making process by exposing them to the true costs of the healthcare services. Consumer directed health plans turn plan members into educated healthcare consumers by furnishing them with the incentives, resources and tools they need to help them make cost-effective, efficient decisions about their healthcare and to help them to achieve the best quality outcomes.

In 2004, Empire Blue Cross Blue Shield successfully launched Empire Total BlueSM, our new consumer directed health plan for groups of 50 or more employees. It was well received by the market and as of January 2005, we had enrolled more than 42,000 members in this innovative plan. Empire Total Blue is the first consumer directed product in New York designed from the “ground up” that incorporates features and coverage options that capture the spirit and intent of consumer directed health plans. Groups have the option of funding this plan through either employer-funded health reimbursement accounts (HRAs) or employee-owned health savings accounts (HSAs). HSA members manage their own healthcare spending and they can use a bank-issued debit card that draws on their individual account to pay for their qualified healthcare expenses. Empire Total Blue members have access to our local PPO network for in-network benefits locally and the national BlueCard network for in-network coverage nationally. Empire Total Blue offers employers a range of deductibles and benefit plans to help ensure a variety of price points.



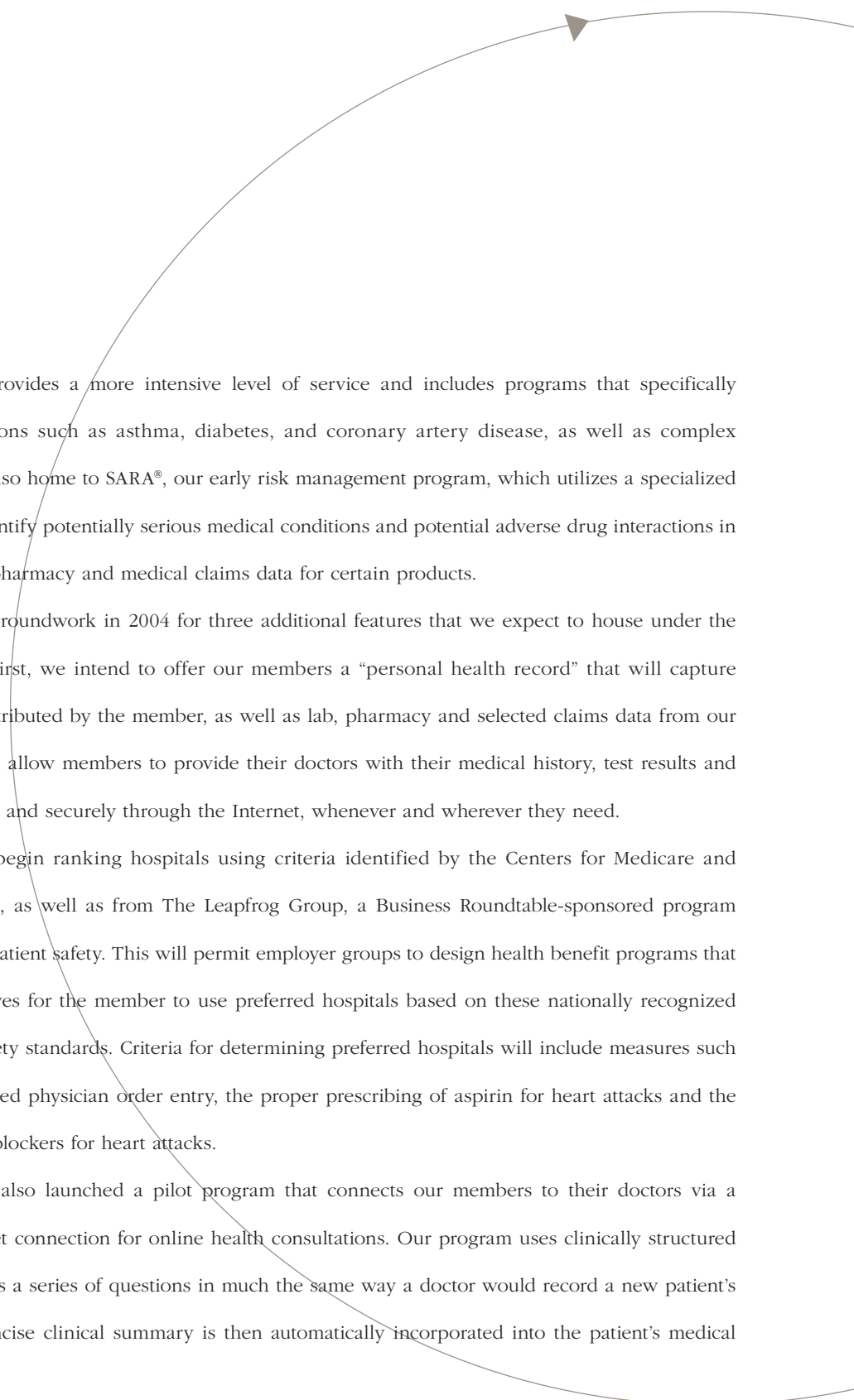
Leveraging technology to achieve excellence

This is an exciting time for the health insurance industry as it moves towards developing new core competencies that leverage technology to achieve new standards in quality, customer satisfaction and reduced administrative costs. We believe that the company that can most effectively execute on this set of new core competencies will have a significant strategic advantage in the marketplace—and we plan on being that company.

In 2001, we began a six-year consumer focused initiative designed to provide our members with the tools and information they need to make wise choices about quality and cost as they navigate the healthcare system. In 2004, we consolidated these initiatives under a single umbrella called 360° HealthSM, a new continuum of healthcare guidance and health management services designed to maximize the value of members' healthcare benefits. The single entry point provided by 360° Health delivers simplicity and convenience by providing access to health information and support services including a broad-based spectrum of disease management programs and innovative personal health tools—which can be used in conjunction with all of our managed care plans.

360° Health begins online at empireblue.com with "Health Resources," through which members can access health and wellness information. Next is "Health Extras," which includes online access to "My Health," powered by WebMD, a comprehensive one-stop resource center of health information, services and tools. Our "Health Guidance" component assists members in getting the medical help they need 24/7.



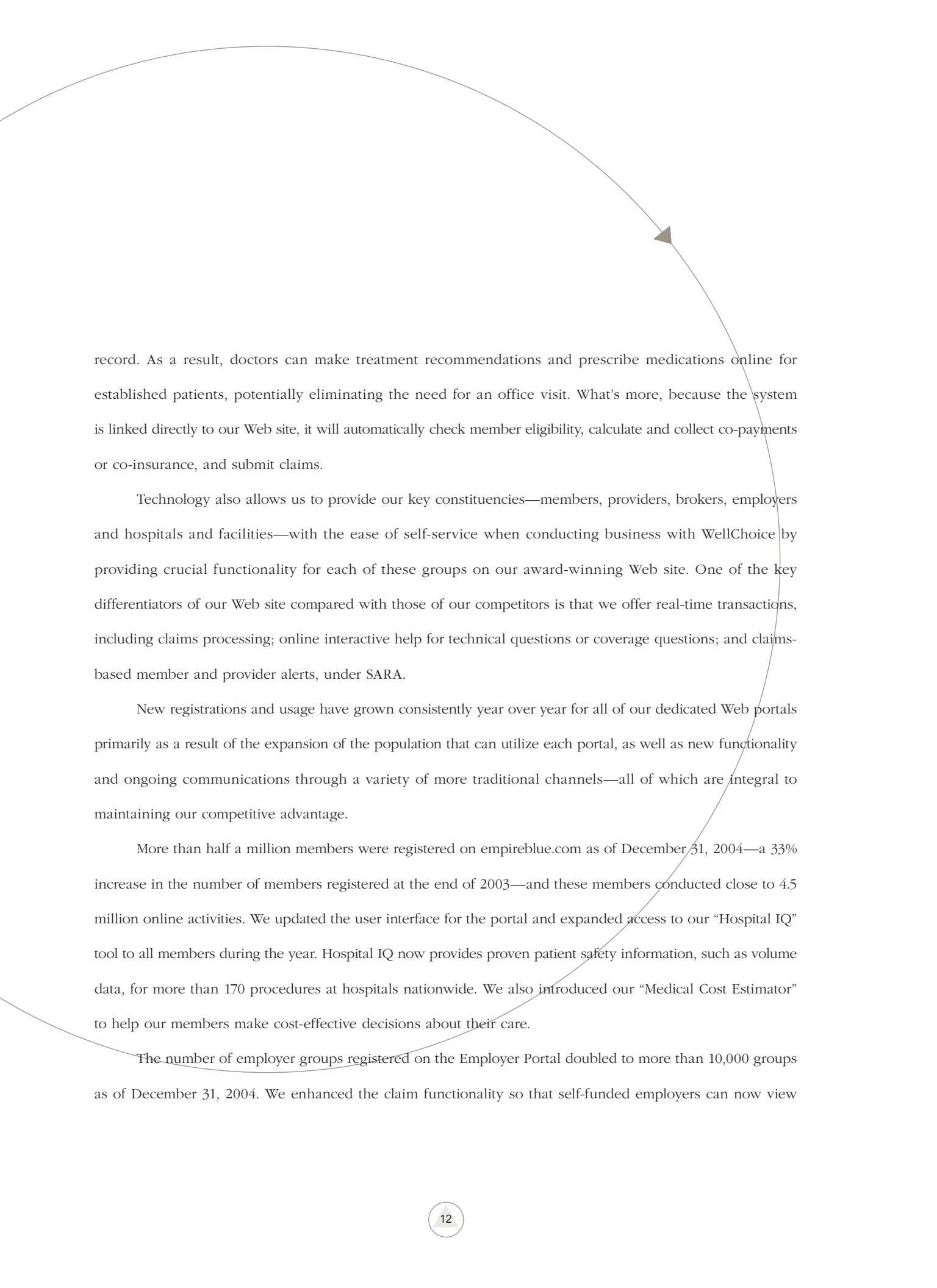


“Health Management” provides a more intensive level of service and includes programs that specifically address chronic conditions such as asthma, diabetes, and coronary artery disease, as well as complex case management. It is also home to SARA[®], our early risk management program, which utilizes a specialized computer program to identify potentially serious medical conditions and potential adverse drug interactions in real-time based on lab, pharmacy and medical claims data for certain products.

We also laid the groundwork in 2004 for three additional features that we expect to house under the 360° Health umbrella. First, we intend to offer our members a “personal health record” that will capture medical information contributed by the member, as well as lab, pharmacy and selected claims data from our claims systems. This will allow members to provide their doctors with their medical history, test results and lab results quickly, easily and securely through the Internet, whenever and wherever they need.

Second, we will begin ranking hospitals using criteria identified by the Centers for Medicare and Medicaid Services (CMS), as well as from The Leapfrog Group, a Business Roundtable-sponsored program dedicated to improving patient safety. This will permit employer groups to design health benefit programs that include financial incentives for the member to use preferred hospitals based on these nationally recognized and accepted patient safety standards. Criteria for determining preferred hospitals will include measures such as the use of computerized physician order entry, the proper prescribing of aspirin for heart attacks and the appropriate use of beta blockers for heart attacks.

During 2004, we also launched a pilot program that connects our members to their doctors via a HIPAA-compliant Internet connection for online health consultations. Our program uses clinically structured algorithms to ask patients a series of questions in much the same way a doctor would record a new patient’s medical history. The concise clinical summary is then automatically incorporated into the patient’s medical



record. As a result, doctors can make treatment recommendations and prescribe medications online for established patients, potentially eliminating the need for an office visit. What's more, because the system is linked directly to our Web site, it will automatically check member eligibility, calculate and collect co-payments or co-insurance, and submit claims.

Technology also allows us to provide our key constituencies—members, providers, brokers, employers and hospitals and facilities—with the ease of self-service when conducting business with WellChoice by providing crucial functionality for each of these groups on our award-winning Web site. One of the key differentiators of our Web site compared with those of our competitors is that we offer real-time transactions, including claims processing; online interactive help for technical questions or coverage questions; and claims-based member and provider alerts, under SARA.

New registrations and usage have grown consistently year over year for all of our dedicated Web portals primarily as a result of the expansion of the population that can utilize each portal, as well as new functionality and ongoing communications through a variety of more traditional channels—all of which are integral to maintaining our competitive advantage.

More than half a million members were registered on empireblue.com as of December 31, 2004—a 33% increase in the number of members registered at the end of 2003—and these members conducted close to 4.5 million online activities. We updated the user interface for the portal and expanded access to our “Hospital IQ” tool to all members during the year. Hospital IQ now provides proven patient safety information, such as volume data, for more than 170 procedures at hospitals nationwide. We also introduced our “Medical Cost Estimator” to help our members make cost-effective decisions about their care.

The number of employer groups registered on the Employer Portal doubled to more than 10,000 groups as of December 31, 2004. We enhanced the claim functionality so that self-funded employers can now view

claims information by date of service and by doctor, in addition to the claim number. Physicians conducted more than three million online transactions on the Provider Portal during the year with the most-used features being patient eligibility and claims status checks. Meanwhile, 100% of our targeted network hospitals are registered on the Facility Portal and hospitals, along with other facilities, logged close to one million hits in 2004.

Web-based self-servicing also helps to manage administrative costs. For example, we have about 35,000 customers with 50 or fewer employees. Many of these accounts add and subtract members and dependents on a monthly basis, in addition to making benefit and product changes annually. In the past, all of these transactions required multiple and often uncoordinated phone calls and reams of paperwork in order to effect the changes. Our online dedicated Broker portal now makes implementing any of these changes fast and easy. Our brokers conducted more than 30,000 transactions online during 2004. We upgraded system architecture to improve speed, enhance security and provide greater scalability for future functionality in 2004 and also updated the user interface and began to offer multi-region quoting and online renewal capabilities. We anticipate that over the next year about 40 percent of all small group plan design changes will be made online, which we expect to result in substantial administrative savings and improved customer satisfaction.

Executing flawlessly

Customers expect excellent performance and we have repeatedly distinguished ourselves by performing both fundamentals and innovations at service levels that differentiate us from the rest of the industry. We believe that flawless execution enhances our ability to attract new business, helps us to control administrative expenses by eliminating the need for rework, and enables us to reduce medical costs by helping to ensure that our members get the right care, at the right time, in the right setting—all factors that result in long-lasting customer loyalty.

John F. McGillicuddy



Michael A. Stocker, M.D.



The result of our Company's ongoing focus on service excellence was a 91.2% member satisfaction rate in 2004, one of the highest satisfaction rates in the industry. As a testament to our world-class customer service the New York State Department of Insurance (DOI), in its *2004 New York Consumer Guide to Health Insurers*, again ranked our HMO #1 in the downstate New York area, with the fewest upheld complaints and the fewest prompt pay complaints. DOI rankings are an important objective measure of health plan performance and are strong indicators of excellent service levels.

We are proud of our accomplishments in 2004. We had strong membership growth, we delivered solid financial performance, and we successfully met the market demand for a broad and flexible product portfolio. We are excited about our consumer-focused initiatives and we will continue to leverage technology to improve the health of our members, enhance our customers' experiences and control administrative costs. It is an exciting time for our industry and we are enthusiastic about what lies ahead.

A handwritten signature in cursive script, appearing to read "John F. McGillicuddy".

John F. McGillicuddy
Chairman of the Board

A handwritten signature in cursive script, appearing to read "Michael A. Stocker, M.D.". The signature is written in a professional, slightly stylized cursive.

Michael A. Stocker, M.D.
President and Chief Executive Officer