

news release

Anthem, Inc.
120 Monument Circle
Indianapolis, IN 46204
Tel 317 488-6390
Fax 317 488-6460



Contacts: Investor Relations
Tami Durle, 317-488-6390

Media
Lauren Green-Caldwell, 317-488-6321

Anthem, Inc. Reports Results for Third Quarter 2001

- **Earnings per share increased 33%, to 76 cents, before net realized gains and non-recurring items**
- **Benefit expense ratio improved 40 basis points**
- **Administrative expense ratio improved 150 basis points**
- **Operating gain increased 48%, with improvement in all segments**
- **Same store membership increased 12% to 7.8 million**

Indianapolis, IN - November 14, 2001 Anthem, Inc. (NYSE: ATH) today reported that net income for the third quarter ended September 30, 2001 increased 76% to \$111.5 million, or \$1.08 per share, compared with net income of \$63.5 million, or \$0.62 per share, for the third quarter of 2000. Net income, excluding net realized gains and other non-recurring items, for the third quarter of 2001 increased to \$78.2 million, or \$0.76 per share, compared with \$59.2 million, or \$0.57 per share, for the third quarter of 2000.

Net income for the first nine months of 2001 increased 65% to \$254.5 million, or \$2.47 per share, compared with net income of \$153.8 million, or \$1.49 per share, for the first nine months of 2000. Net income, excluding net realized gains and other non-recurring items, increased 48% to \$215.0 million, or \$2.09 per share, compared with \$145.3 million, or \$1.41 per share, for the first nine months of 2000.

“We are pleased with the investment community’s response to our demutualization and initial public offering,” said Larry Glasscock, Chief Executive Officer of Anthem, Inc. “We believe the success of these transactions, along with our financial momentum in the third quarter, demonstrates our commitment and focus on creating shareholder value,” Glasscock added.

Consolidated Highlights

- Operating revenue increased 12% to \$2.5 billion in the third quarter 2001, compared with the third quarter 2000. The increase was primarily attributable to membership growth and disciplined pricing. Excluding the prior year operating results associated with the TRICARE operations that were sold on May 31, 2001, operating revenue increased 16% in the third quarter. For the nine months ended September 30, 2001, operating revenue was \$7.5 billion,

an increase of 21% over the same period in the prior year. Excluding the operating results associated with the acquisition of Blue Cross Blue Shield of Maine (BCBS-ME) on June 5, 2000 and the disposition of the TRICARE operations, operating revenue increased 15% for the nine months ended September 30, 2001 compared with the same period in 2000.

- Commercial premium yields increased in a range between 14% and 15%, while commercial medical costs increased between 12% and 13% during the 12-month period ended September 30, 2001. The increase in medical costs continues to be driven primarily by outpatient and pharmacy costs.
- The benefit expense ratio improved 40 basis points, to 85.1% in the third quarter 2001, as compared with the third quarter 2000, and improved 10 basis points sequentially from the second quarter 2001. These improvements were primarily due to improved underwriting results that more than offset the impact of approximately \$21 million pre-tax reserve strengthening in the Midwest and East segments during the third quarter of 2001. For the nine months ended September 30, 2001, the benefit expense ratio improved 50 basis points to 85.2%, compared with the same period in 2000. Days in claims payable were 63.5 days at September 30, 2001, up 0.7 days from 62.8 days at June 30, 2001.
- The administrative expense ratio improved 150 basis points to 18.7% in the third quarter of 2001, compared with 20.2% in the same period of 2000. For the first nine months of 2001, the administrative expense ratio improved 100 basis points to 19.5%. The positive trend in both periods was due to cost containment efforts and growth in operating revenue.
- Operating gain was \$79.1 million in the third quarter of 2001, an increase of 48% compared with an operating gain of \$53.3 million in the same period of 2000. The increase was primarily due to growth in the Midwest and West segments. For the nine months ended September 30, 2001, operating gain increased 77% to \$212.4 million, compared with \$119.9 million for the same period in 2000. Excluding the results associated with acquisitions and dispositions, operating gain increased 46% and 65% for the third quarter and nine months ended September 30, 2001, respectively, compared with the same periods in 2000.
- Medical membership was 7.8 million at September 30, 2001, an increase of 12% compared with September 30, 2000 on a same store basis. National Accounts and Local Large Group businesses contributed a significant portion of the growth.
- Net realized capital gains were \$72.1 million for the third quarter of 2001 and \$61.2 million in the first nine months of 2001, compared with \$6.6 million and \$13.1 million in the same periods of 2000, respectively. Included in net realized capital gains in the third quarter were \$65.2 million of gains, resulting primarily from restructuring the investment portfolio to reduce the risk exposure to equity markets. At September 30, 2001, approximately 4% of our investment portfolio was invested in equity securities, a decrease from 11% at June 30, 2001.

2001 and 2002 Earnings Outlook

The company expects net income, excluding net realized gains and other non-recurring items to be \$2.95 to \$3.00 per share for the full year 2001. On the same basis, net income in 2002 is expected to increase by at least 15%, to \$3.40 to \$3.50 per share. Including the impact of FAS 142 relating to accounting for goodwill, net income in 2002 is expected to be \$3.55 to \$3.65 per share. The number of shares used to compute earnings per share was estimated to be 103,088,000. Actual shares outstanding will vary from this estimate following the distribution of shares and cash to eligible statutory members in the demutualization.

Operating Segment Highlights

Midwest Segment Highlights

The Midwest segment is comprised of health benefit and related business for members in Indiana, Kentucky and Ohio.

| (\$ in Millions) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|----------------------|------------------------------------|-------------|---------------|-----------------------------------|-------------|---------------|
| | <u>2001</u> | <u>2000</u> | <u>Change</u> | <u>2001</u> | <u>2000</u> | <u>Change</u> |
| Operating Revenue | \$1,294.3 | \$1,122.3 | 15% | \$3,761.0 | \$3,293.7 | 14% |
| Operating Gain | \$34.3 | \$24.3 | 41% | \$119.3 | \$60.5 | 97% |
| Operating Margin | 2.7% | 2.2% | 50 bp | 3.2% | 1.8% | 140 bp |
| Membership (in 000s) | 4,846 | 4,520 | 7% | | | |

- Third quarter 2001 operating revenue increased 15% year-over-year due to price increases and membership growth.
- Operating gain was \$34.3 million in the third quarter 2001, an increase of 41% compared to the prior year. Operating margin improved to 2.7% in the third quarter 2001, compared with the third quarter of 2000, a 50 basis point improvement. The improvement was primarily due to revenue growth and cost containment initiatives which more than offset \$11.2 million pre-tax reserve strengthening during the third quarter 2001. Excluding this adjustment, operating gain increased 87% in the quarter, to an operating margin of 3.5%.

East Segment Highlights

The East segment is comprised of health benefit and related business for members in Connecticut, New Hampshire and Maine.

| (\$ in Millions) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|----------------------|------------------------------------|-------------|---------------|-----------------------------------|-------------|---------------|
| | <u>2001</u> | <u>2000</u> | <u>Change</u> | <u>2001</u> | <u>2000</u> | <u>Change</u> |
| Operating Revenue | \$941.1 | \$841.8 | 12% | \$2,699.8 | \$2,077.8 | 30% |
| Operating Gain | \$30.3 | \$30.1 | 1% | \$78.7 | \$64.2 | 23% |
| Operating Margin | 3.2% | 3.6% | (40) bp | 2.9% | 3.1% | (20) bp |
| Membership (in 000s) | 2,225 | 2,015 | 10% | | | |

- Operating revenue increased \$99.3 million, or 12% year-over-year, to \$941.1 million in the third quarter 2001. Adjusting for the impact of exiting the Medicare+Choice market in Connecticut on January 1, 2001, third quarter 2001 operating revenue increased 17% compared to third quarter of 2000. Operating revenue for the nine months ended September 30, 2001, excluding the impact of the exit from the Medicare+Choice market and the acquisition of BCBS-ME on June 5, 2000, increased 19% year-over-year.
- Operating gain for third quarter 2001 was essentially flat due to \$9.4 million pre-tax reserve strengthening. Excluding this adjustment, operating gain increased 32% in the third quarter and 37% for the first nine months of 2001, compared with

the same periods in 2000. This growth was largely driven by improvement in both Local Large and Small Group businesses, exiting the Medicare+Choice market, and higher overall membership.

- Excluding the impact of the exit from the Medicare+Choice market, medical membership at September 30, 2001 grew by 12%, compared with September 30, 2000.

West Segment Highlights

The West segment is comprised of health benefit and related business for members in Colorado and Nevada.

| (\$ in Millions) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|----------------------|------------------------------------|-------------|---------------|-----------------------------------|-------------|---------------|
| | <u>2001</u> | <u>2000</u> | <u>Change</u> | <u>2001</u> | <u>2000</u> | <u>Change</u> |
| Operating Revenue | \$211.4 | \$156.2 | 35% | \$568.3 | \$459.3 | 24% |
| Operating Gain | \$7.2 | \$0.1 | – | \$10.3 | \$1.4 | – |
| Operating Margin | 3.4% | 0.1% | 330 bp | 1.8% | 0.3% | 150 bp |
| Membership (in 000s) | 763 | 601 | 27% | | | |

- Third quarter operating revenue increased 35% year-over-year as a result of membership growth and the effect of premium increases to bring pricing in line with prevailing market conditions.
- Third quarter 2001 operating margin increased 330 basis points year-over-year, reaching 3.4%. Operating gain was \$7.2 million in the third quarter of 2001, the highest quarterly performance reported in this segment since the acquisition of Blue Cross Blue Shield of Colorado/Nevada in November 1999.
- Year-over-year growth in membership was 27% at September 30, 2001, principally reflecting expansion in National Accounts and Local Large Group businesses.

Specialty Segment Highlights

The Specialty segment includes group life, pharmacy benefit management, dental and vision operations of the company.

| (\$ in Millions) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|-------------------|------------------------------------|-------------|---------------|-----------------------------------|-------------|---------------|
| | <u>2001</u> | <u>2000</u> | <u>Change</u> | <u>2001</u> | <u>2000</u> | <u>Change</u> |
| Operating Revenue | \$100.3 | \$82.9 | 21% | \$285.8 | \$244.3 | 17% |
| Operating Gain | \$9.1 | \$4.2 | 117% | \$25.0 | \$14.0 | 79% |
| Operating Margin | 9.1% | 5.1% | 400 bp | 8.7% | 5.7% | 300 bp |

- Operating gain more than doubled in the third quarter of 2001 and increased 79% in the first nine months of 2001, compared with the same periods in 2000. This growth was driven by improved results in Anthem Prescription Management

(APM). Operating margin increased 400 basis points compared with the same period in 2000 largely due to increased mail order volume.

- APM became the pharmacy benefit manager for our recent acquisitions of New Hampshire in September 2000, Colorado and Nevada in March 2001, and Maine in May 2001.

Other Segment Highlights

The Other segment includes AdminaStar Federal, a subsidiary that administers Medicare programs, and Anthem Alliance, a subsidiary that included the health benefits and administration for the TRICARE program which was sold on May 31, 2001. The segment also includes intersegment revenue and expense eliminations and corporate expenses not allocated to operating segments.

| (\$ in Millions) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|------------------|------------------------------------|-------------|---------------|-----------------------------------|-------------|---------------|
| | <u>2001</u> | <u>2000</u> | <u>Change</u> | <u>2001</u> | <u>2000</u> | <u>Change</u> |
| Operating Loss | (\$1.8) | (\$5.4) | 67% | (\$20.9) | (\$20.2) | (3%) |

Basis of Presentation:

1. The number of shares used to compute earnings per share was based on estimates of actual shares outstanding at November 14, 2001, pending final distribution of shares and cash to eligible statutory members in the demutualization. Actual shares outstanding will vary from these estimates following the completion of the demutualization. As there were no shares available prior to the initial public offering and demutualization on November 2, 2001, the same number of shares (103,088,000) used for the third quarter of 2001 have been applied on a pro forma basis to all prior and future periods discussed above.
2. The non-recurring items excluded from net income are the after-tax impact of gain on disposition of the TRICARE operations on May 31, 2001 and demutualization expenses in 2001.
3. Operating revenue is defined as premiums plus administrative fees and other revenue.
4. Operating gain is defined as operating revenue less benefit expense and administrative expense. Net investment income, net realized gains on investments, interest expense, amortization of goodwill and other intangible assets, gain on sale of subsidiary operations, and demutualization expenses are not included.
5. Operating revenue and premium equivalents is a measure of the volume of business serviced by Anthem that is commonly used in the health benefits industry to allow for a comparison of operating efficiency among companies. It is calculated by adding to premiums, administrative fees and other revenue the amount of claims attributable to non-Medicare, self-funded health business where Anthem provides a complete array of customer service, claims administration and billing and enrollment services.

Conference call information is available on Anthem's web site, www.anthem.com, under Investor Relations.

This press release contains certain forward-looking information. Words such as “expect(s)”, “feel(s)”, “believe(s)”, “will”, “may”, “anticipate(s)” and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include: trends in health care costs and utilization rates; our ability to secure sufficient premium rate increases; competitor pricing below market trends of increasing costs; increased government regulation of health benefits and managed care; significant acquisitions or divestitures by major competitors; introduction and utilization of new prescription drugs and technology; a downgrade in our financial strength ratings; litigation targeted at health benefits companies; our ability to contract with providers consistent with past practice; and general economic downturns. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. Anthem undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by Anthem, found in Anthem’s final Prospectus dated October 29, 2001, for the initial public offering, and in future periodic reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission, which attempt to advise interested parties of the factors which affect Anthem’s business.

Anthem, Inc.
Membership Summary

| (in Thousands) | Sept. 30, 2001 | Dec. 31, 2000 | Sept. 30, 2000 | % Change | |
|--------------------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | | | | Dec. 31, 2000 | Sept. 30, 2000 |
| Local Large Group | 2,800 | 2,634 | 2,586 | 6% | 8% |
| Small Group | 818 | 775 | 743 | 6% | 10% |
| Individual | 688 | 650 | 644 | 6% | 7% |
| National Accounts ¹ | 2,890 | 2,468 | 2,425 | 17% | 19% |
| Medicare+Choice | 100 | 106 | 104 | (6%) | (4%) |
| Federal Employee Program | 426 | 407 | 410 | 5% | 4% |
| Medicaid | 112 | 102 | 99 | 10% | 13% |
| Total without TRICARE | 7,834 | 7,142 | 7,011 | 10% | 12% |
| TRICARE ² | - | 128 | 125 | (100%) | (100%) |
| Total with TRICARE | 7,834 | 7,270 | 7,136 | 8% | 10% |
| Funding Arrangement | | | | | |
| Self-Funded | 4,048 | 3,481 | 3,424 | 16% | 18% |
| Fully Insured | 3,786 | 3,789 | 3,712 | - | 2% |
| Total | 7,834 | 7,270 | 7,136 | 8% | 10% |

¹ Includes BlueCard members of 1,617 as of September 30, 2001, 1,320 as of December 31, 2000, and 1,281 as of September 30, 2000.

² TRICARE operations were sold effective May 31, 2001.

Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

| <i>(\$ in millions, except per share data)</i> | Three Months Ended September 30 | | % Change |
|---|------------------------------------|-----------|----------|
| | 2001 | 2000 | |
| Operating revenue and premium equivalents | \$3,545.5 | \$3,107.8 | 14% |
| Premiums | \$2,323.3 | \$2,047.1 | 13% |
| Administrative fees | 191.7 | 193.5 | (1%) |
| Other revenue | 15.2 | 20.6 | (26%) |
| Total operating revenue | 2,530.2 | 2,261.2 | 12% |
| Benefit expense | 1,976.8 | 1,750.7 | 13% |
| Administrative expense | 474.3 | 457.2 | 4% |
| Total operating expense | 2,451.1 | 2,207.9 | 11% |
| Operating gain | 79.1 | 53.3 | 48% |
| Net investment income | 61.4 | 52.2 | 18% |
| Net realized gains on investments | 72.1 | 6.6 | – |
| Gain on sale of subsidiary operations (TRICARE) | – | – | – |
| Interest expense | 13.8 | 14.2 | (3%) |
| Amortization of goodwill and other intangible assets | 8.1 | 6.8 | 19% |
| Demutualization expenses | 13.6 | – | – |
| Income before income taxes and minority interest | 177.1 | 91.1 | 94% |
| Income taxes | 64.6 | 27.4 | – |
| Minority interest | 1.0 | 0.2 | – |
| Net income | \$111.5 | \$63.5 | 76% |
| Net income excluding net realized gains and other non-recurring items | \$78.2 | \$59.2 | 32% |
| Pro forma per share data: | | | |
| Net income (basic and diluted) | \$1.08 | \$0.62 | 74% |
| Net income excluding net realized gains and other non-recurring items per share (basic and diluted) | \$0.76 | \$0.57 | 33% |
| Shares used in calculating per share amount (in 000s) | 103,088 | 103,088 | – |
| Benefit expense ratio | 85.1% | 85.5% | (40 bp) |
| Administrative expense ratio: | | | |
| Calculated using operating revenue | 18.7% | 20.2% | (150 bp) |
| Calculated using operating revenue and premium equivalents | 13.4% | 14.7% | (130 bp) |
| Operating margin | 3.1% | 2.4% | 70 bp |

Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

| <i>(\$ in millions, except per share data)</i> | Nine Months Ended September 30 | | % Change |
|---|-----------------------------------|-----------|----------|
| | 2001 | 2000 | |
| Operating revenue and premium equivalents | \$10,428.6 | \$8,666.8 | 20% |
| Premiums | \$6,866.1 | \$5,636.4 | 22% |
| Administrative fees | 622.0 | 550.0 | 13% |
| Other revenue | 37.8 | 39.5 | (4%) |
| Total operating revenue | 7,525.9 | 6,225.9 | 21% |
| Benefit expense | 5,847.6 | 4,831.3 | 21% |
| Administrative expense | 1,465.9 | 1,274.7 | 15% |
| Total operating expense | 7,313.5 | 6,106.0 | 20% |
| Operating gain | 212.4 | 119.9 | 77% |
| Net investment income | 170.4 | 147.2 | 16% |
| Net realized gains on investments | 61.2 | 13.1 | – |
| Gain on sale of subsidiary operations (TRICARE) | 25.0 | – | – |
| Interest expense | 41.8 | 41.2 | 1% |
| Amortization of goodwill and other intangible assets | 23.8 | 18.2 | 31% |
| Demutualization expenses | 16.6 | – | – |
| Income before income taxes and minority interest | 386.8 | 220.8 | 75% |
| Income taxes | 133.2 | 66.3 | – |
| Minority interest (credit) | (0.9) | 0.7 | – |
| Net income | \$254.5 | \$153.8 | 65% |
| Net income excluding net realized gains and other non-recurring items | \$215.0 | \$145.3 | 48% |
| Pro forma per share data: | | | |
| Net income (basic and diluted) | \$2.47 | \$1.49 | 66% |
| Net income excluding net realized gains and other non-recurring items per share (basic and diluted) | \$2.09 | \$1.41 | 48% |
| Shares used in calculating per share amount (in 000s) | 103,088 | 103,088 | – |
| Benefit expense ratio | 85.2% | 85.7% | (50 bp) |
| Administrative expense ratio: | | | |
| Calculated using operating revenue | 19.5% | 20.5% | (100 bp) |
| Calculated using operating revenue and premium equivalents | 14.1% | 14.7% | (60 bp) |
| Operating margin | 2.8% | 1.9% | 90 bp |

Anthem, Inc.
Consolidated Balance Sheets

| <i>(\$ in millions, except share data)</i> | September 30, 2001 | December 31, 2000 ¹ |
|---|--------------------|--------------------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Investments available-for-sale, at fair value | \$3,912.8 | \$3,511.3 |
| Cash and cash equivalents | 364.6 | 203.3 |
| Receivables, net | 772.8 | 856.6 |
| Other current assets | 34.9 | 53.1 |
| Total current assets | 5,085.1 | 4,624.3 |
| Property and equipment | 409.4 | 428.8 |
| Goodwill and other intangible assets | 475.3 | 498.9 |
| Other noncurrent assets | 123.4 | 156.5 |
| Total assets | \$6,093.2 | \$5,708.5 |
| Liabilities and policyholders' surplus | | |
| Liabilities | | |
| Current liabilities: | | |
| Policy liabilities | \$1,698.0 | \$1,723.5 |
| Unearned income | 296.8 | 260.2 |
| Other current liabilities | 828.6 | 814.3 |
| Total current liabilities | 2,823.4 | 2,798.0 |
| Long term debt, less current maturities | 597.8 | 597.5 |
| Retirement benefits | 181.5 | 175.1 |
| Other noncurrent liabilities | 315.6 | 218.1 |
| Total liabilities | 3,918.3 | 3,788.7 |
| Policyholders' surplus | | |
| Surplus | 2,103.1 | 1,848.6 |
| Accumulated other comprehensive income | 71.8 | 71.2 |
| Total policyholders' surplus | 2,174.9 | 1,919.8 |
| Total liabilities and policyholders' surplus | \$6,093.2 | \$5,708.5 |

¹ Certain prior year balances have been reclassified to conform to the current period presentation.

Anthem, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

| <i>(\$ in millions)</i> | Nine Months Ended September 30 | |
|---|--------------------------------|-----------|
| | 2001 | 2000 |
| Operating activities | | |
| Net income | \$254.5 | \$153.8 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized gains on investments | (61.2) | (13.1) |
| Gain on sale of subsidiary operations | (25.0) | – |
| Depreciation, amortization and accretion | 90.2 | 72.9 |
| Deferred income taxes | 54.9 | 0.8 |
| Loss on sale of assets | 2.6 | 0.6 |
| Changes in operating assets and liabilities, net of effect of purchases and divestitures: | | |
| Receivables | 5.8 | (23.8) |
| Policy liabilities | 137.4 | 156.4 |
| Unearned income | 42.9 | (17.3) |
| Other assets and liabilities | 11.3 | 155.1 |
| Net cash provided by continuing operations | 513.4 | 485.4 |
| Net cash used in discontinued operations | (1.6) | (2.4) |
| Cash provided by operating activities | 511.8 | 483.0 |
| Investing activities | | |
| Purchases of investments | (2,913.9) | (2,808.4) |
| Sales or maturities of investments | 2,573.5 | 2,321.4 |
| Sale (purchase) of subsidiaries, net of cash sold | 41.2 | (63.2) |
| Purchases of property and equipment | (51.3) | (45.8) |
| Cash used in investing activities | (350.5) | (596.0) |
| Financing activities | | |
| Proceeds from borrowings | – | 295.3 |
| Payments on borrowings | – | (220.0) |
| Cash provided by financing activities | – | 75.3 |
| Change in cash and cash equivalents | 161.3 | (37.7) |
| Cash and cash equivalents at beginning of period | 203.3 | 204.4 |
| Cash and cash equivalents at end of period | \$364.6 | \$166.7 |