ANTHEM INC
Form 424B4
July 29, 2002

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Registration No. 333-90478

$950,000,000

Anthem, Inc.

$150,000,000
4.875% Notes Due 2005

$800,000,000
6.800% Notes Due 2012

Anthem, Inc. is offering $150,000,000 aggregate principal amount of 4.875 % notes due 2005 and $800,000,000 aggregate principal amount of 6.800% notes due 2012. Anthem will pay interest on the notes on February 1 and August 1 of each year. The first such payment will be made on February 1, 2003. The 4.875% notes due 2005 will mature on August 1, 2005 and the 6.800% notes due 2012 will mature on August 1, 2012. The notes will be issued only in denominations of $1,000 and integral multiples of $1,000. The notes are not redeemable prior to their maturity.

The notes are unsecured and unsubordinated debt securities. Anthem does not intend to list the notes on any national securities exchange.

See "Risk Factors" beginning on page 9 to read about factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per 4.875% Note Due 2005	Total	Per 6.800% Note Due 2012	Total
Public offering price	99.798%	$ 149,697,000	99.456%	$ 795,648,000
Underwriting discount	0.400%	$ 600,000	0.650%	$ 5,200,000
Proceeds, before expenses, to Anthem, Inc.	99.398%	$ 149,097,000	98.806%	$ 790,448,000

The public offering prices set forth above do not include accrued interest, if any. Interest on the notes will accrue from July 31, 2002 and must be paid by the purchaser if the notes are delivered after July 31, 2002.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on July 31, 2002.

Goldman, Sachs & Co.

JPMorgan **Banc of America Securities LLC**

Fleet Securities, Inc.

Wachovia Securities

Prospectus dated July 26, 2002.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a result, it does not contain all of the information that you should consider before investing in our notes. You should read the entire prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and the notes to those statements. References to the term "Anthem" refer to Anthem, Inc., or Anthem, Inc. and its direct and indirect subsidiaries, as the context requires. References to the terms "we," "our," or "us" refer to Anthem.

Anthem

We are one of the nation's largest health benefits companies, serving approximately eight million members, primarily in Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. We hold the leading market position in seven of these eight states and own the exclusive right to market our products and services using the Blue Cross® Blue Shield®, or BCBS, names and marks in all eight states under license agreements with the Blue Cross Blue Shield Association, or BCBSA, an association of independent BCBS plans. We seek to be a leader in our industry by offering a broad selection of flexible and competitively priced health benefits products.

Our product portfolio includes a diversified mix of managed care products, including health maintenance organizations, or HMOs, preferred provider organizations, or PPOs, and point of service, or POS plans, as well as traditional indemnity products. We also offer a broad range of administrative and managed care services and partially insured products for employer self-funded plans. These services and products include underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, claims processing and other administrative services. In addition, we offer our customers several specialty products including group life, disability, prescription management, dental and vision. Our products allow our customers to choose from a wide array of funding alternatives. For our insured products, we charge a premium and assume all or a majority of the health care risk. Under our self-funded and partially insured products, we charge a fee for services, and the employer or plan sponsor reimburses us for all or a majority of the health care costs.

Our managed care plans and products are designed to encourage providers and members to select quality, cost-effective health care by utilizing the full range of Anthem's innovative medical management services, quality initiatives and financial incentives. Our leading market shares enable us to realize the long-term benefits of investing in preventive and early detection programs. Our ability to provide cost-effective health benefits products and services is enhanced through a disciplined approach to internal cost containment, prudent management of our risk exposure and successful integration of acquired businesses. These measures have allowed us to achieve significant growth in membership (93%), revenue (100%), and net income (256%) from the beginning of 1997 through 2001.

Operating Segments

Our reportable segments are strategic business units delineated by geographic areas within which we offer similar products and services, but manage with a local focus to address each geographic region's unique market, regulatory and health care delivery characteristics. The regions are:

- the Midwest, which includes Indiana, Kentucky and Ohio;
- the East, which includes Connecticut, New Hampshire and Maine; and
- the West, which includes Colorado and Nevada.

In addition to our three geographic regions, we have a Specialty segment and an Other segment. Our Specialty segment includes business units providing:

- group life and disability insurance benefits;

pharmacy benefit management;

dental administration services; and

third party occupational health services.

Various ancillary business units (reported with the Other segment) include: AdminaStar Federal, a subsidiary which administers Medicare programs in Indiana, Illinois, Kentucky and Ohio.

The Other segment also includes intersegment revenue, expense eliminations and corporate expenses not allocated to reportable segments.

Strategy

Our strategic objective is to be among the best and biggest in our industry with the size and scale to deliver the best product value with the best people.

To achieve these goals, we offer a broad selection of flexible and competitively priced products and seek to establish leading market positions. We believe that increased scale in each of our regional markets will provide us competitive advantages, cost efficiencies and greater opportunities to sustain profitable growth. The key to our ability to deliver this growth is our commitment to work with providers to optimize the cost and quality of care while improving the health of our members and improving the quality of our service.

The following are key elements to our strategy and operating principles:

Promote Quality Care: We believe that our ability to help our members receive quality, cost-effective health care will be key to our success. We promote the health of our members through education and through products that cover prevention and early detection programs that help our members and their providers manage illness before higher cost intervention is required.

Product Value: We aim to create products that offer value to our customers. By offering a wide spectrum of products supported by broad provider networks, we seek to meet the differing needs of our various customers.

Operational Excellence: To provide cost-effective products, we continuously strive to improve operational efficiency. We actively benchmark our performance against other leading health benefits companies to identify opportunities to drive continuous performance improvement.

Technology: We continuously review opportunities to improve our interactions with customers, brokers and providers. By utilizing technologies, we seek to make the interactions as simple, efficient and productive as possible.

Growth: We believe that profitable growth, both organic and through acquisitions, is an important part of our business. Increased scale allows us to increase customer convenience and improve operating margins, while keeping our products competitively priced. Expansion into new geographic markets enables us to reduce exposure to economic cycles and regulatory changes and provides options for business expansion.

Our principal executive offices are located at 120 Monument Circle, Indianapolis, Indiana. Our telephone number is (317) 488-6000.

Our Pending Acquisition of Trigon

Pursuant to an Agreement and Plan of Merger dated April 28, 2002, Trigon Healthcare, Inc., or Trigon, would be merged with and into AI Sub Acquisition Corp., a direct wholly owned subsidiary

of Anthem, as the surviving corporation to be named "Anthem Southeast, Inc." In the merger, each Trigon shareholder will have the right to receive, subject to adjustment as set forth in the merger agreement, $30.00 in cash, without interest, and 1.062 shares of our common stock for each share of Trigon Class A common stock held. Upon completion of the merger, we expect that our shareholders will own approximately 72% of the combined company and Trigon shareholders will own approximately 28% of the combined company.

The Offering

Securities offered	$150,000,000 aggregate principal amount of 4.875% notes due 2005 and $800,000,000 aggregate principal amount of 6.800% notes due 2012.
Maturity dates	The 4.875% notes due 2005 will mature on August 1, 2005. The 6.800% notes due 2012 will mature on August 1, 2012.
Interest payment dates	February 1 and August 1 of each year, commencing February 1, 2003.
Ranking	The notes will be our unsecured obligations and will rank equally with all our other unsecured and unsubordinated indebtedness. The indenture does not restrict our ability to incur other debt.
Redemption	The notes are not redeemable.
Sinking fund	None.
Form and denomination of notes	The notes of each series will initially be represented by one or more global notes which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC. Indirect holders trading their beneficial interests in the global notes through DTC must trade in DTC's same-day funds settlement system and pay in immediately available funds. The notes may only be withdrawn from DTC in the limited situations described below under "DESCRIPTION OF THE NOTES Form and Denominations Definitive Notes."

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF ANTHEM

The following table summarizes financial information for Anthem. We prepared this information using our unaudited consolidated financial statements for the three-month periods ended March 31, 2002 and 2001 and our consolidated financial statements for each of the years in the five-year period ended December 31, 2001, which have been audited by Ernst & Young LLP. You should read this information with our unaudited and audited consolidated financial statements and notes, our management's discussion and analysis of financial condition and results of operations and the unaudited pro forma combined financial information included elsewhere in this prospectus. In our opinion, the selected financial data for the three-month periods ended March 31, 2002 and 2001 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of that data. The selected consolidated financial data do not necessarily indicate the results to be expected in the future.

	As of and for the Three Months Ended March 31		As of and for the Year Ended December 31				
	2002	2001	2001	2000[1]	1999[1, 2]	1998	1997
	(unaudited)						
	($ in Millions, Except Per Share Data)						
Income Statement Data							
Total operating revenue	$ 2,748.6	$ 2,493.4	$ 10,120.3	$ 8,543.5	$ 6,080.6	$ 5,389.7	$ 5,110.0
Total revenues	2,812.4	2,560.5	10,444.7	8,771.0	6,270.1	5,682.4	5,332.2
Income from continuing operations	99.8	70.6	342.2	226.0	50.9	178.4	79.1
Net income (loss)	99.8	70.6	342.2	226.0	44.9	172.4	(159.0)

	As of and for the Three Months Ended March 31		As of and for the Year Ended December 31				
Per Share Data[3]							
Basic income from continuing operations	$ 0.97	$ 0.68	$ 3.31	$ 2.19	$ 0.49	$ 1.73	$ 0.77
Diluted income from continuing operations	0.95	0.68	3.30	2.18	0.49	1.72	0.76
Other Data (unaudited)[4]							
Operating revenue and premium equivalents[5]	$ 3,793.2	$ 3,390.1	$ 14,057.4	$ 11,800.1	$ 8,691.6	$ 7,987.4	$ 7,269.3
Operating gain (loss)	106.6	59.9	319.5	184.1	28.5	35.4	(82.2)
Benefit expense ratio	84.5%	85.2%	84.5%	84.7%	84.6%	83.0%	83.7%
Administrative expense ratio:							
Calculated using operating revenue	18.4%	20.0%	19.6%	21.2%	24.2%	26.3%	26.6%
Calculated using operating revenue and premium equivalents	13.3%	14.7%	14.1%	15.3%	16.9%	17.8%	18.7%
Operating margin	3.9%	2.4%	3.2%	2.2%	0.5%	0.7%	(1.6)%
Members (000s)[6]							
Midwest	5,070	4,760	4,854	4,454	4,253	4,046	4,345
East	2,292	2,186	2,260	2,093	1,397	968	916
West	809	662	769	595	486		
Total	8,171	7,608	7,883	7,142	6,136	5,014	5,261
Balance Sheet Data							
Total assets	$ 6,403.0	$ 5,896.3	$ 6,276.6	$ 5,708.5	$ 4,816.2	$ 4,359.2	$ 4,131.9
Long term debt	818.7	597.4	818.0	597.5	522.0	301.9	305.7
Total shareholders' equity[7]	2,126.0	1,980.9	2,060.0	1,919.8	1,660.9	1,702.5	1,524.7

(See footnotes on following page.)

1

The net assets and results of operations for BCBS-NH, BCBS-CO/NV and BCBS-ME are included from their respective acquisition dates of October 27, 1999, November 16, 1999 and June 5, 2000.

2

The 1999 operating gain includes a non-recurring charge of $41.9 million related to the settlement agreement with the Office of Inspector General, or OIG. Net income for 1999 includes contributions totaling $114.1 million ($71.8 million, net of tax) to non-profit foundations in the states of Kentucky, Ohio and Connecticut to settle charitable asset claims.

3

There were no shares or dilutive securities outstanding prior to November 2, 2001 (date of demutualization and initial public offering). Accordingly, amounts prior to 2002 represent pro forma earnings per share. For comparative pro forma earnings per share presentation, the weighted average shares outstanding and the effect of dilutive securities for the period from November 2, 2001 to December 31, 2001 was used to calculate pro forma earnings per share for all periods prior to 2002.

4

Operating gain (loss) consists of operating revenue less benefit and administrative expenses. The benefit expense ratio represents benefit expense as a percentage of premium revenue. The administrative expense ratio represents administrative expense as a percentage of operating revenue and has also been presented as a percentage of operating revenue and premium equivalents. Operating margin represents operating gain (loss) as a percentage of operating revenue.

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. The self-funded claims included for the three months ended March 31, 2002 and 2001 were $1,044.6 and $896.7, respectively, and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 were $3,937.1, $3,256.6, $2,611.0, $2,597.7 and $2,159.3, respectively.

6

Excludes TRICARE members of 419,000 at March 31, 2001 and 128,000, 129,000 and 153,000 at December 31, 2000, 1999, and 1998, respectively. The TRICARE operations were sold on May 31, 2001.

7

Represents policyholders' surplus prior to November 2, 2001.

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following selected unaudited pro forma combined financial information combines historical amounts of Anthem and Trigon, adjusted to reclassify Trigon's information to Anthem's presentation format and to reflect the effects of the merger and the issuance of the notes offered hereby. The table sets forth the information as if the notes had been issued and the merger had occurred on March 31, 2002, with respect to balance sheet data, and at the beginning of the periods presented, with respect to income statement data. The pro forma data in the tables assume that the merger is accounted for using the purchase method of accounting. The selected unaudited pro forma combined financial data has been derived from and should be read in conjunction with the unaudited pro forma combined financial statements and the related notes included elsewhere herein and should be read in conjunction with the consolidated financial statements of Anthem and Trigon, which are included elsewhere herein. See "UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION."

The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, should not be relied upon as being indicative of the results that could actually have been obtained if the notes had been issued and the merger had been in effect for the periods described below or the future results of the combined company.

	As of and for the Three Months Ended March 31, 2002	For the Year Ended December 31, 2001
	($ in Millions)	
Unaudited Pro Forma Combined Income Statement Data:		
Total operating revenue	$ 3,575.4	$ 13,106.7
Total revenues	3,646.6	13,453.4
Net income	116.4	387.1
Unaudited Pro Forma Combined Balance Sheet Data:		
Investments	$ 5,247.9	
Goodwill and other intangible assets	3,643.0	
Total assets	11,409.1	
Total policy liabilities	2,353.3	
Long term debt, less current portion	1,757.0	
Total shareholders' equity	4,995.3	

RISK FACTORS

You should carefully consider the risks described below together with all of the other information in this prospectus before you decide to buy the notes. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that event, we may be unable to meet our obligations under the notes and you may lose all or part of your investment.

RISKS RELATING TO THE NOTES

Following this offering of notes, we will have substantial indebtedness outstanding and may incur additional indebtedness in the future. As a holding company, Anthem will not be able to repay its indebtedness except through dividends from subsidiaries, some of which are restricted in their ability under applicable insurance law to pay such dividends. Such indebtedness could also adversely affect our ability to pursue desirable business opportunities.

Following this offering we will have substantial indebtedness outstanding and have available borrowing capacity under our amended and restated credit facilities of up to $1.0 billion.

We may also incur additional indebtedness in the future. The terms of the indenture under which the notes are to be issued will not prohibit us or our subsidiaries from incurring additional indebtedness. Our debt service obligations will require us to use a portion of our cash flow to pay interest and principal on debt instead of for other corporate purposes, including funding future expansion. If our cash flow and capital resources are insufficient to service our debt obligations, we may be forced to seek extraordinary dividends from our subsidiaries, sell assets, seek additional equity or debt capital or restructure our debt. However, these measures might be unsuccessful or inadequate in permitting us to meet scheduled debt service obligations.

As a holding company, Anthem has no operations and is dependent on dividends from its subsidiaries for cash to fund its debt service and other corporate needs. State insurance laws restrict the ability of Anthem's regulated subsidiaries to pay dividends. Indebtedness could also limit our ability to pursue desirable business opportunities, and may affect our ability to maintain an investment grade rating for our indebtedness.

We may also incur future debt obligations that might subject us to restrictive covenants that could affect our financial and operational flexibility. Our breach or failure to comply with any of these covenants could result in a default under our credit agreements. If we default under our credit agreements, the lenders could cease to make further extensions of credit or cause all of our outstanding debt obligations under our credit agreements to become immediately due and payable, together with accrued and unpaid interest. If the indebtedness under the notes or our credit agreements is accelerated, we may be unable to repay or finance the amounts due.

The notes will not be secured by any of our assets and any secured creditors would have a prior claim on our assets.

The notes will not be secured by any of our assets. The terms of the indenture will permit us to incur secured debt. If we become insolvent or are liquidated, or if payment under any of the agreements governing our secured debt is accelerated, the lenders under our secured debt agreements will be entitled to exercise the remedies available to a secured lender under applicable law and pursuant to agreements governing that debt. Accordingly, the lenders will have a prior claim on our assets. In that event, because the notes will not be secured by any of our assets, it is possible that there will be no assets remaining from which claims of the

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holders of notes can be satisfied or, if any assets remain, the remaining assets might be insufficient to satisfy those claims in full. As of June 30, 2002, we had no secured debt securities outstanding.

The notes are effectively subordinated to the indebtedness of our subsidiaries.

Because we operate as a holding company, our right to participate in any distribution of assets of any subsidiary upon that subsidiary's dissolution, winding-up, liquidation, reorganization or otherwise (and thus the ability of the holders of the notes to participate indirectly from the distribution) is subject to the prior claims of the creditors of that subsidiary, except to the extent that we are a creditor of the subsidiary and our claims are recognized. Therefore, the notes will be effectively subordinated to all indebtedness and other obligations of our subsidiaries. Our subsidiaries are separate legal entities and have no obligations to pay, or make funds available for the payment of, any amounts due on the notes. The indenture governing the notes does not prohibit or limit the incurrence of indebtedness and other liabilities by us or our subsidiaries. The incurrence of additional indebtedness and other liabilities by us or our subsidiaries could adversely affect our ability to pay obligations on the notes.

An active trading market for the notes may not develop.

There has not been an established trading market for the notes. We do not intend to apply for listing of the notes on any securities exchange or for quotation through the National Association of Securities Dealers Automated Quotation system.

Although some of the underwriters have informed us that they currently intend to make a market in the notes, they have no obligation to do so and may discontinue making a market at any time without notice. The liquidity of any market for the notes will depend on the number of holders of the notes, our performance, the market for similar securities, the interest of securities dealers in making a market in the notes and other factors. A liquid trading market may not develop for the notes.

RISKS RELATING TO THE BUSINESS OF ANTHEM, TRIGON AND THE COMBINED COMPANY

Changes in state and federal regulations may adversely affect our and Trigon's business, financial condition and results of operations. As holding companies, we and Trigon are dependent on dividends from our subsidiaries. Our and Trigon's regulated subsidiaries are subject to state regulations, including restrictions on the payment of dividends and maintenance of minimum levels of capital.

Our and Trigon's insurance and health maintenance organization, or HMO, subsidiaries are subject to extensive regulation and supervision by the insurance regulatory authorities of each state in which they are licensed or authorized, as well as to regulation by federal and local agencies. We cannot assure you that future regulatory action by state insurance authorities will not have a material adverse effect on the profitability or marketability of our and Trigon's health benefits or managed care products or on our and Trigon's business, financial condition and results of operations. In addition, because of our participation in government-sponsored programs such as Medicare and both our and Trigon's participation in Medicaid, changes in government regulations or policy with respect to, among other things, reimbursement levels, could also adversely affect our and Trigon's business, financial condition and results of operations.

State legislatures and Congress continue to focus on health care issues. Congress is considering various forms of Patients' Bill of Rights legislation which, if adopted, could

fundamentally alter the treatment of coverage decisions under the Employee Retirement Income Security Act of 1974, or ERISA. Additionally, there recently have been legislative attempts to limit ERISA's preemptive effect on state laws. If adopted, such limitations could increase our and Trigon's liability exposure and could permit greater state regulation of our and Trigon's operations. Other proposed bills and regulations at state and federal levels may impact certain aspects of our and Trigon's business, including provider contracting, claims payments and processing and confidentiality of health information. While we cannot predict if any of these initiatives will ultimately become effective or, if enacted, what their terms will be, their enactment could increase our and Trigon's costs, expose us and Trigon to expanded liability or require us and Trigon to revise the ways in which we and Trigon conduct business. Further, as we continue to implement our e-business initiatives, uncertainty surrounding the regulatory authority and requirements in this area may make it difficult to ensure compliance.

In December 2000, the Department of Health and Human Services, known as HHS, promulgated certain regulations under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, related to the privacy of individually identifiable health information, or protected health information. The new regulations require health plans, clearinghouses and providers to:

- comply with various requirements and restrictions related to the use, storage and disclosure of protected health information;
- adopt rigorous internal procedures to protect protected health information; and
- enter into specific written agreements with business associates to whom protected health information is disclosed.

The regulations establish significant criminal penalties and civil sanctions for noncompliance. In addition, the regulations could expose us and Trigon to additional liability for, among other things, violations by our business associates. We and Trigon must comply with the new regulations by April 14, 2003. Although we have not quantified the costs required to comply with the regulations, we believe the costs could be material.

We and Trigon are each holding companies whose assets include all of the outstanding shares of common stock of our licensed insurance company subsidiaries. As holding companies, we and Trigon depend on dividends from our licensed insurance company subsidiaries and their receipt of dividends from our other regulated subsidiaries. Among other restrictions, state insurance laws may restrict the ability of regulated subsidiaries to pay dividends. Our ability to pay dividends in the future to our shareholders and meet our obligations, including paying operating expenses and debt service on our outstanding and future indebtedness, will depend upon the receipt of dividends from our subsidiaries. An inability of our subsidiaries to pay dividends in the future in an amount sufficient for us to meet our financial obligations may materially adversely affect our business, financial condition and results of operations.

Our and Trigon's insurance and HMO subsidiaries are subject to risk-based capital, or RBC, standards, imposed by their states of domicile. These laws are based on the RBC Model Act adopted by the National Association of Insurance Commissioners, or NAIC, and require our and Trigon's regulated subsidiaries to report their results of risk-based capital calculations to the departments of insurance and the NAIC. Failure to maintain the minimum RBC standards could subject our and Trigon's regulated subsidiaries to corrective action, including state supervision or liquidation. Our and Trigon's insurance and HMO subsidiaries are currently in compliance with the risk-based capital requirements imposed by their respective states of domicile.

Our and Trigon's inability to contain health care costs, efficiently implement increases in premium rates, maintain adequate reserves for policy benefits, maintain current provider agreements or avoid a downgrade in ratings may adversely affect our and Trigon's business, financial condition and results of operations.

Our and Trigon's profitability depends in large part on accurately predicting health care costs and on the ability to manage future health care costs through underwriting criteria, utilization management, product design and negotiation of favorable provider contracts. The aging of the population and other demographic characteristics and advances in medical technology continue to contribute to rising health care costs. Government-imposed limitations on Medicare and Medicaid reimbursement have also caused the private sector to bear a greater share of increasing health care costs. Changes in health care practices, inflation, new technologies, the cost of prescription drugs, clusters of high cost cases, changes in the regulatory environment and numerous other factors affecting the cost of health care may adversely affect our and Trigon's ability to predict and manage health care costs, as well as our and Trigon's business, financial condition and results of operations.

In addition to the challenge of managing health care costs, we and Trigon face pressure to contain premium rates. Our and Trigon's customer contracts may be subject to renegotiation as customers seek to contain their costs. Alternatively, our and Trigon's customers may move to a competitor to obtain more favorable premiums. Fiscal concerns regarding the continued viability of programs such as Medicare and Medicaid may cause decreasing reimbursement rates for government- sponsored programs in which we and Trigon participate. A limitation on our or Trigon's ability to increase or maintain premium levels could adversely affect our and Trigon's business, financial condition and results of operations.

The reserves we and Trigon establish for health insurance policy benefits and other contractual rights and benefits are based upon assumptions concerning a number of factors, including trends in health care costs, expenses, general economic conditions and other factors. Actual experience will likely differ from assumed experience, and to the extent the actual claims experience is less favorable than estimated based on our and Trigon's underlying assumptions, our and Trigon's incurred losses would increase and future earnings could be adversely affected.

Our and Trigon's profitability is dependent upon our ability to contract on favorable terms with hospitals, physicians and other health care providers. The failure to maintain or to secure new cost-effective health care provider contracts may result in a loss in membership or higher medical costs. In addition, our or Trigon's inability to contract with providers, or the inability of providers to provide adequate care, could adversely affect our and Trigon's business.

Claims paying ability and financial strength ratings by recognized rating organizations have become an increasingly important factor in establishing the competitive position of insurance companies and health benefits companies. Rating organizations continue to review the financial performance and condition of insurers. Each of the rating agencies reviews its ratings periodically and there can be no assurance that current ratings will be maintained in the future. We believe our and Trigon's strong ratings are an important factor in marketing our and Trigon's products to customers, since ratings information is broadly disseminated and generally used throughout the industry. If our or Trigon's ratings are downgraded or placed under surveillance or review, with possible negative implications, the downgrade, surveillance or review could adversely affect our and Trigon's business, financial condition and results of operations. Our financial strength ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to

policyholders, and are not evaluations directed toward the protection of investors in our common stock.

We and Trigon face risks related to litigation.

We and Trigon may be a party to a variety of legal actions that affect any business, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims and intellectual property related litigation. In addition, because of the nature of our business, we and Trigon are subject to a variety of legal actions relating to our and Trigon's business operations, including the design, management and offering of our and Trigon's products and services. These could include:

- claims relating to the denial of health care benefits;
- medical malpractice actions;
- allegations of anti-competitive and unfair business activities;
- provider disputes over compensation and termination of provider contracts;
- disputes related to self-funded business;
- disputes over co-payment calculations;
- claims related to the failure to disclose certain business practices; and
- claims relating to customer audits and contract performance.

A number of class action lawsuits have been filed against us and certain of our competitors in the managed care business. The suits are purported class actions on behalf of certain of our managed care members and network providers for alleged breaches of various state and federal laws. While we intend to defend these suits vigorously, we will incur expenses in the defense of these suits and cannot predict their outcome.

Recent court decisions and legislative activity may increase our and Trigon's exposure for any of these types of claims. In some cases, substantial non-economic, treble or punitive damages may be sought. We and Trigon currently have insurance coverage for some of these potential liabilities. Other potential liabilities may not be covered by insurance, insurers may dispute coverage or the amount of insurance may not be enough to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance and insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

A reduction in the enrollment in our and Trigon's health benefits programs could have an adverse effect on our and Trigon's business and profitability. The health benefits industry is subject to negative publicity, which can adversely affect our and Trigon's profitability. Additionally, we and Trigon face significant competition from other health benefits companies.

A reduction in the number of enrollees in our and Trigon's health benefits programs could adversely affect our and Trigon's business, financial condition and results of operations. Factors that could contribute to a reduction in enrollment include:

- failure to obtain new customers or retain existing customers;
- premium increases and benefit changes;
- our or Trigon's exit from a specific market;

- reductions in workforce by existing customers;
- negative publicity and news coverage;
- failure to attain or maintain nationally-recognized accreditations; and
- general economic downturn that results in business failures.

The health benefits industry is subject to negative publicity. Negative publicity may result in increased regulation and legislative review of industry practices, which may further increase our and Trigon's costs of doing business and adversely affect our and Trigon's profitability by:

- adversely affecting our and Trigon's ability to market our and Trigon's products and services;
- requiring us and Trigon to change our and Trigon's products and services; or
- increasing the regulatory burdens under which we and Trigon operate.

In addition, as long as we and Trigon use the BCBS names and marks in marketing our and Trigon's health benefits products and services, any negative publicity concerning the BCBSA or other BCBSA licensees may adversely affect us and Trigon and the sale of our and Trigon's health benefits products and services.

As a health benefits company, we and Trigon operate in a highly competitive environment and in an industry that is currently subject to significant changes from business consolidations, new strategic alliances, legislative reform, aggressive marketing practices by other health benefits organizations and market pressures brought about by an informed and organized customer base, particularly among large employers. This environment has produced and will likely continue to produce significant pressures on the profitability of health benefits companies. Some of our and Trigon's competitors are larger and have greater financial and other resources. In addition, the Gramm-Leach-Bliley Act, which gives banks and other financial institutions the ability to affiliate with insurance companies, could result in new competitors with significant financial resources entering our and Trigon's markets. We cannot assure you that we and Trigon will be able to compete successfully against current and future competitors or that competitive pressures faced by us will not materially and adversely affect our business, financial condition and results of operations.

Regional concentrations of our and Trigon's business may subject us and Trigon to economic downturns in those regions.

Our and Trigon's business operations include or consist of regional companies located in the Midwest, East and West (in the case of Anthem), and in the Southeast (in the case of Trigon) with most of our and Trigon's revenues generated in the states of Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada (in the case of Anthem) and in the Commonwealth of Virginia (in the case of Trigon). Due to this concentration of business in a small number of states, we and Trigon are exposed to potential losses resulting from the risk of an economic downturn in these states. If economic conditions in these states deteriorate, we and Trigon may experience a reduction in existing and new business, which may have a material adverse effect on our and Trigon's business, financial condition and results of operations.

We have built a significant portion of our current business through mergers and acquisitions and expect to pursue acquisitions in the future. The following are some of the risks associated with acquisitions that could have a material adverse effect on our business, financial condition and results of operations:

some of the acquired businesses may not achieve anticipated revenues, earnings or cash flow;

we may assume liabilities that were not disclosed to us;

we may be unable to integrate acquired businesses successfully and realize anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical or financial problems;

acquisitions could disrupt our ongoing business, distract management, divert resources and make it difficult to maintain our current business standards, controls and procedures;

we may finance future acquisitions by issuing common stock for some or all of the purchase price, which could dilute the ownership interests of our shareholders;

we may also incur additional debt related to future acquisitions; and

we would be competing with other firms, many of which have greater financial and other resources, to acquire attractive companies.

Our and Trigon's investment portfolios are subject to varying economic and market conditions, as well as regulation. As a Medicare fiscal intermediary, we are subject to complex regulations. If we fail to comply with these regulations, we may be exposed to criminal sanctions and significant civil penalties. Moreover, we and Trigon are using the BCBS names and marks as identifiers for our and Trigon's products and services under licenses from the BCBSA. The termination of these license agreements could adversely affect our and Trigon's business, financial condition and results of operations.

The market value of our and Trigon's investments varies from time to time depending on economic and market conditions. For various reasons, we and Trigon may sell certain of our investments at prices that are less than the carrying value of the investments. In addition, in periods of declining interest rates, bond calls and mortgage loan prepayments generally increase, resulting in the reinvestment of these funds at the then lower market rates. We cannot assure you that our and Trigon's investment portfolios will produce positive returns in future periods. Our and Trigon's regulated subsidiaries are subject to state laws and regulations that require diversification of our and Trigon's investment portfolios and limit the amount of investments in certain riskier investment categories, such as below-investment-grade fixed income securities, mortgage loans, real estate and equity investments, which could generate higher returns on our and Trigon's investments. Failure to comply with these laws and regulations might cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus and risk-based capital, and, in some instances, require the sale of those investments.

Like a number of other BCBS companies, we serve as a fiscal intermediary for the Medicare program, which generally provides coverage for persons who are 65 or older and for persons with end-stage renal disease. Part A of the Medicare program provides coverage for services provided by hospitals, skilled nursing facilities and other health care facilities. Part B of the Medicare program provides coverage for services provided by physicians, physical and occupational therapists and other professional providers. As a fiscal intermediary, we receive

reimbursement for certain costs and expenditures, which is subject to adjustment upon audit by the federal Centers for Medicare and Medicaid Services, or CMS, formerly the Health Care Financing Administration, or HCFA. The laws and regulations governing fiscal intermediaries for the Medicare program are complex, subject to interpretation and can expose a fiscal intermediary to penalties for non-compliance. Fiscal intermediaries may be subject to criminal fines, civil penalties or other sanctions as a result of such audits or reviews. In the fourth quarter of 1999, one of our subsidiaries reached a settlement agreement with the federal government in the amount of $41.9 million to resolve an investigation into the Medicare fiscal intermediary operations of a predecessor of the subsidiary. The period investigated was before we acquired the subsidiary. While we believe that we are in compliance in all material respects with the regulations governing fiscal intermediaries, there are ongoing reviews by the federal government of our activities under certain of our Medicare fiscal intermediary contracts. One of our subsidiaries, AdminaStar Federal, Inc., has received several subpoenas from the OIG, HHS, and from the U.S. Department of Justice seeking documents and information concerning its responsibilities as a Medicare Part B contractor in its Kentucky office, and requesting certain financial records from AdminaStar Federal, Inc. and from us related to our Medicare fiscal intermediary Part A and Part B operations. For additional information, see "BUSINESS OF ANTHEM Other Contingencies."

We and Trigon are a party to license agreements with the BCBSA that entitle us and Trigon to the exclusive use of the BCBS names and marks in our and Trigon's geographic territories. The license agreements contain certain requirements and restrictions regarding our and Trigon's operations and our and Trigon's use of the BCBS names and marks, including:

- minimum capital and liquidity requirements;
- enrollment and customer service performance requirements;
- participation in programs which provide portability of membership between plans;
- disclosures to the BCBSA relating to enrollment and financial conditions;
- disclosures as to the structure of the BCBS system in contracts with third parties and in public statements;
- plan governance requirements;
- a requirement that at least 80% of a licensee's annual combined net revenue attributable to health benefits plans within its service area must be sold, marketed, administered or underwritten under the BCBS names and marks;
- a requirement that neither a plan nor any of its licensed affiliates may permit an entity other than a plan or a licensed affiliate to obtain control of the plan or the licensed affiliate or to acquire a substantial portion of its assets related to licensable services;

- a requirement that we and Trigon guarantee the contractual and financial obligations of our and Trigon's licensed affiliates; and

- a requirement that we and Trigon indemnify the BCBSA against any claims asserted against us or Trigon resulting from the contractual and financial obligations of any subsidiary which serves as a fiscal intermediary providing administrative services for Medicare Parts A and B.

We believe that we and Trigon and our and Trigon's licensed affiliates are currently in compliance with these standards.

16

Upon the occurrence of an event causing termination of the license agreements, we and Trigon would no longer have the right to use the BCBS names and marks in one or more of our and Trigon's geographic territories. Furthermore, the BCBSA would be free to issue a license to use the BCBS names and marks in these states to another entity. Events which could cause the termination of a license agreement with the BCBSA include failure to comply with minimum capital requirements imposed by the BCBSA, a change of control or violation of the BCBSA ownership limitations on our and Trigon's capital stock, impending financial insolvency, the appointment of a trustee or receiver or the commencement of any action against a licensee seeking its dissolution. We believe that the BCBS names and marks are valuable identifiers of our and Trigon's products and services in the marketplace. Accordingly, termination of the license agreements could have a material adverse effect on our and Trigon's business, financial condition and results of operations.

The failure to effectively maintain and modernize our and Trigon's operations in an Internet environment could adversely affect our and Trigon's business.

Our and Trigon's businesses depend significantly on effective information systems, and we and Trigon have many different information systems for our and Trigon's various businesses. Our and Trigon's information systems require an ongoing commitment of significant resources to maintain and enhance existing systems and develop new systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences. For example, HIPAA's administrative simplification provisions and the Department of Labor's claim processing regulations may ultimately require significant changes to current systems. In addition, we and Trigon may from time to time obtain significant portions of our and Trigon's systems-related or other services or facilities from independent third parties, which may make our and Trigon's operations vulnerable to such third parties' failure to perform adequately. As a result of our merger and acquisition activities, we have acquired additional systems. Our and Trigon's failure to maintain effective and efficient information systems, or our and Trigon's failure to efficiently and effectively consolidate our and Trigon's information systems to eliminate redundant or obsolete applications, could have a material adverse effect on our and Trigon's business, financial condition and results of operations.

Also, like many of our and Trigon's competitors in the health benefits industry, our vision for the future includes becoming a premier e-business organization by modernizing interactions with customers, brokers, agents, employees and other stakeholders through web-enabling technology and redesigning internal operations. We are developing our e-business strategy with the goal of becoming widely regarded as an e-business leader in the health benefits industry. The strategy includes not only sales and distribution of health benefits products on the Internet, but also implementation of advanced self-service capabilities benefiting customers, agents, brokers, partners and employees. There can be no assurance that we will be able to realize successfully our e-business vision or integrate e-business operations with our current method of operations. The failure to develop successful e-business capabilities could result in competitive and cost disadvantages to us as compared to our competitors.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains a number of forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, regarding the financial condition, results of operations and business of Anthem. These statements may include statements for the period following the completion of the merger with Trigon. You can find many of these statements by looking for words such as "may," "will," "should," "anticipate," "estimate," "expect," "plan,"

17

"believe," "predict," "potential," "intend" or similar expressions. Health benefits companies operate in a highly competitive, constantly changing environment that is significantly influenced by aggressive marketing and pricing practices of competitors, regulatory oversight and organizations that have resulted from business combinations. The following is a summary of factors, the results of which, either individually or in combination, if markedly different from our planning assumptions, could cause our results to differ materially from those expressed in any forward-looking statements contained in this document:

- trends in health care costs and utilization rates;
- 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;
- ability to contract with providers consistent with past practice;
- general economic downturns;
- the level of realization, if any, of expected cost savings and other synergies from the merger with Trigon;
- difficulties related to the integration of the business of Anthem and Trigon may be greater than expected; and
- revenues following our acquisition of Trigon may be lower than expected.

Because such forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. You are cautioned not to place undue reliance on such statements, which speak only as of the date of this document.

18

OUR ACQUISITION OF TRIGON

On April 28, 2002, we entered into an Agreement and Plan of Merger with Trigon Healthcare, Inc. Once the acquisition is completed, Trigon will become our wholly owned subsidiary. Trigon is Virginia's largest health benefits company, providing a broad range of health, wellness and healthcare financing programs and services to more than two million members. Trigon offers indemnity, PPO and HMO products as well as health management services such as disease management and high-risk maternity programs. Trigon owns the exclusive right to market its products and services using the BCBS names and marks in the Commonwealth of Virginia, excluding a small portion of northern Virginia consisting of suburbs adjacent to Washington, D.C. As of March 31, 2002, Trigon had total assets of $2.7 billion and total operating revenues of $0.8 billion for the three months ended March 31, 2002.

Within Trigon's network product offerings, employer groups may choose various funding options ranging from fully insured to partially or fully self-funded financial arrangements. While self-funded customers participate in Trigon's networks, the customers bear all, or some portion of, the claims risk. In addition, through its participation in the national contract between the BCBSA and the U.S. Office of Personnel Management, Trigon provides health benefits to federal employees in Virginia. Trigon also serves multi-state customers through the BlueCard program, which links all BCBSA affiliated plans for claims submission and payment purposes. The BlueCard program has enabled Trigon to serve a growing share of self-funded business outside Virginia through the coordination of service and claims functions across the BCBSA affiliated plans.

All regulatory and shareholder approvals required to complete the merger with Trigon have been obtained and we expect to close the merger on July 31, 2002, subject to satisfaction or waiver of the other closing conditions. The issuance of the notes being offered by this prospectus is not conditioned on completion of the merger.

The merger agreement provides for the merger of Trigon with and into AI Sub Acquisition Corp., an Indiana corporation and a direct wholly owned subsidiary of Anthem. Upon completion of the merger, the separate corporate existence of Trigon will cease and AI Sub Acquisition Corp. will continue as the surviving corporation and will be named "Anthem Southeast, Inc."

Upon completion of the merger, Trigon shareholders will be entitled to receive, subject to adjustment as set forth in the merger agreement, $30.00 in cash, without interest, and 1.062 shares of Anthem common stock for each share of Trigon Class A common stock that they hold. Trigon shareholders will receive cash instead of any fractional shares of Anthem common stock that would have otherwise been issued at the completion of the merger. The 1.062 shares of Anthem common stock that will be issued for each share of Trigon Class A common stock is sometimes referred to in this prospectus as the "exchange ratio." If the number of shares of Anthem common stock changes before the merger is completed because of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar event, then an appropriate and proportionate adjustment will be made to the exchange ratio. In addition, if Trigon elects to terminate the merger agreement because, at the time we would otherwise complete the merger, the price of Anthem common stock fails to satisfy the minimum price thresholds set forth in the merger agreement, we will have the right, but not the obligation, to either increase the number of shares of Anthem common stock to be issued for each share of Trigon Class A common stock or increase the amount of cash to be paid for each share of Trigon Class A common stock, or a combination of both, in order to satisfy the minimum price criteria contained in the merger agreement.

As a result of the merger, Anthem shareholders will own approximately 72% and Trigon shareholders will own approximately 28% of the outstanding shares of Anthem common stock. These percentages are based on the number of shares of Anthem common stock outstanding or

issuable upon exercise of outstanding stock options as of March 31, 2002 and the number of shares of Trigon Class A common stock outstanding or issuable upon exercise of outstanding stock options as of April 28, 2002.

We will account for our acquisition of Trigon as a purchase for financial reporting purposes.

We will have cash requirements of approximately $1.2 billion for the merger, including both the cash portion of the purchase price and transaction costs. We are issuing the notes offered by this prospectus to obtain long-term financing for part of the cash portion of the merger consideration. We intend to use available cash and investments for the balance of our cash needs for the merger. If we do not issue the notes prior to the merger, we intend to use borrowings under our revolving credit facilities, decribed below, and available cash and investments to fund our cash needs for the merger. Borrowings under the bridge loan, also described below, would be utilized only if necessary.

On July 2, 2002, we entered into amended and restated revolving credit facilities of up to $1.0 billion with our lender group. Under one facility, which expires on November 5, 2006, we may borrow up to $400.0 million. Under the other facility, which expires July 1, 2003, we may borrow up to $600.0 million. Any amounts outstanding under this facility at July 1, 2003 (except amounts which bear interest rates determined by a competitive bidding process) convert to a one-year term loan at our option. Borrowings under both credit facilities bear interest at rates determined under two interest rate options or through a competitive bid process. The first option is a floating rate equal to the greater of the prime rate or the federal funds rate plus one-half percent. The second option is a floating rate equal to LIBOR plus a margin determined by reference to the ratings of Anthem's senior, unsecured debt. Under the competitive bid process, borrowings may bear interest at floating rates determined by reference to LIBOR, or at fixed rates. Our ability to borrow under these credit facilities is subject to typical conditions and to compliance with certain financial ratios.

On May 29, 2002, we entered into a bridge loan agreement under which we could borrow up to $1.2 billion. We reduced the amount available under the bridge loan to $600.0 million effective July 2, 2002. The bridge loan agreement contains various conditions to our ability to borrow under the bridge loan, including compliance with the financial covenants and ratios set forth in the bridge loan agreement, and the requirement that we and our unregulated subsidiaries (after giving effect to the merger) must have cash or cash equivalents on hand of at least $300.0 million at the time of the merger. Interest under the bridge loan will be payable periodically at a floating rate equal, at our option, to either the "Base Rate" (essentially, the higher of a commercial "prime rate" or the federal funds rate plus 0.50%) or a floating rate equal to LIBOR plus a margin determined by reference to the ratings of Anthem's senior, unsecured debt. All indebtedness under the bridge loan must be repaid in full no later than January 28, 2003, and a prepayment in the amount of $300.0 million must be made no later than one month after the completion of the merger.

We may complete the Trigon merger before the notes offered by this prospectus are issued. To the extent that indebtedness under the amended and restated credit facilities and/or the bridge loan has been incurred to fund the Trigon merger, the net proceeds from the issuance of the notes offered herein will be used to repay that indebtedness.

20

USE OF PROCEEDS

Our net proceeds from this offering will be approximately $938.3 million, after deducting underwriting and issuance discounts and estimated offering expenses payable by us. We intend to use all of the net proceeds from this offering to pay a portion of the approximately $1.2 billion of cash merger consideration and expenses associated with our acquisition of Trigon. If we do not complete this offering prior to our acquisition of Trigon, we expect to use borrowings under our amended and restated credit facilities of up to $1.0 billion (and may, if necessary, use borrowings under our bridge loan of up to $600.0 million) to finance the Trigon acquisition and we will use the proceeds from this offering to repay those borrowings. If for any reason we do not complete our acquisition of Trigon we will use the net proceeds from this offering for general corporate purposes.

21

RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended March 31, 2002	Year Ended December 31				
		2001	**2000**	**1999**	**1998**	**1997**
Ratio of earnings to fixed charges	9.49	9.71	7.03	3.00	11.33	5.50
Pro forma ratio of earnings to fixed charges	5.00	4.74				

For purposes of this computation, earnings are defined as pretax earnings from continuing operations before adjustment for minority interest, plus interest expense, and amortization of debt discount and expense related to indebtedness. Fixed charges are interest expense, including amortization of debt discount and expense on indebtedness.

For purposes of the pro forma ratio of earnings to fixed charges, fixed charges also reflect the following charges to interest expense for the notes offered by this prospectus:

Three Months Ended March 31, 2002	Year Ended December 31, 2001

	Three Months Ended March 31, 2002			Year Ended December 31, 2001		
	Interest	Amortization of Debt Discount and Expense	Total	Interest	Amortization of Debt Discount and Expense	Total
$150.0 million 4.875% notes due 2005	$ 1.8	$ 0.1	$ 1.9	$ 7.3	$ 0.4	$ 7.7
$800.0 million 6.800% notes due 2012	13.6	0.3	13.9	54.3	1.1	55.4
Total notes offered by this prospectus	$ 15.4	$ 0.4	$ 15.8	$ 61.6	$ 1.5	$ 63.1

The pro forma ratio does not give effect to any pro forma earnings resulting from the use of the net proceeds from the issuance of the notes.

CAPITALIZATION

The following table sets forth, as of March 31, 2002, Anthem's historical capitalization and pro forma capitalization as adjusted to give effect to:

the merger with Trigon, including the repayment by Trigon prior to the merger of its $299.7 million of commercial paper outstanding at March 31, 2002;

the issuance of 39,726,740 shares of Anthem common stock in the merger, with a fair value of $2,808.7 million, based on the April 26, 2002 closing price of Anthem common stock, which was $70.70;

the conversion of options for 766,079 shares of Trigon common stock to options for an estimated 1,138,393 shares of Anthem common stock at a fair value of $60.6 million, using the Black-Scholes valuation model; and

the issuance of the notes being offered herein, in the aggregate principal amount of $950.0 million, less underwriting and issuance discounts and other estimated offering expenses aggregating $11.7 million.

	At March 31, 2002	
	Anthem Historical	Anthem Pro Forma
	($ in Millions, except share data)	
Debt:		
Surplus notes at 9.125% due 2010	$ 296.0	$ 296.0
Surplus notes at 9.00% due 2027	197.3	197.3
Senior guaranteed notes at 6.75% due 2003	99.7	99.7
Debentures included in Equity Security Units at 5.95% due 2006	220.9	220.9
Notes		938.3
Other	5.1	5.1

	At March 31, 2002	
Total debt	819.0	1,757.3
Shareholders' equity		
Preferred stock, without par value, shares authorized 100,000,000 shares issued and outstanding none		
Common stock, par value $0.01, shares authorized 900,000,000 shares issued and outstanding 103,323,299 historically and 143,050,040 pro forma	1.1	1.5
Additional paid in capital	1,960.9	4,829.8
Retained earnings	155.5	155.5
Accumulated other comprehensive income	8.5	8.5
Total shareholders' equity	2,126.0	4,995.3
Total capitalization	$ 2,945.0	$ 6,752.6

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The unaudited pro forma combined financial information presented below gives effect to the issuance of the notes being offered hereby and to the merger of Trigon as if the notes had been issued and the merger had occurred on March 31, 2002 for purposes of the unaudited pro forma balance sheet, and as of January 1, 2001 for purposes of the unaudited pro forma combined income statements for the three months ended March 31, 2002 and the year ended December 31, 2001. The unaudited pro forma combined financial information includes the historical amounts of Anthem and Trigon, adjusted to reclassify Trigon's information to Anthem's presentation format and to reflect the effects of Anthem's acquisition of Trigon.

Under the terms of the merger agreement, Trigon's shareholders will receive, subject to adjustment as set forth in the merger agreement, $30.00 in cash, without interest, and 1.062 shares of Anthem common stock for each share of Trigon Class A common stock. The unaudited pro forma combined financial statements assume that Anthem has issued 39,726,740 shares in the merger (based on 35,786,186 Trigon shares outstanding at December 31, 2001, plus 1,621,291 shares of Trigon Class A common stock issued upon the exercise of outstanding Trigon stock options, converted at 1.062 per share), with a fair market value of $2,808.7 million, based on the closing market price of $70.70 on April 26, 2002. The pro forma information assumes that Anthem will pay the $1,201.4 million of cash consideration (including transaction costs, but excluding $30.8 million of deferred contractual payments) from the aggregate principal amount of the $950.0 million of notes offered hereby, less underwriting and issuance discounts and other estimated offering expenses aggregating $11.7 million, and the remaining $263.1 million of cash consideration from cash and investments.

We will account for the merger using the purchase method of accounting. Therefore, we will record the assets (including identifiable intangible assets) and liabilities of Trigon at their estimated fair market value. The difference between the purchase price and the estimated fair market value of the net assets and liabilities will result in goodwill.

The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, should not be relied upon as being indicative of the results that would actually have been obtained if the notes had been issued and the merger had been in effect for the periods described below or the future results of the combined company.

The pro forma information should be read in conjunction with the historical selected consolidated financial and other data, the historical consolidated financial statements of Anthem, and the historical consolidated financial statements of Trigon included elsewhere in this prospectus.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET

($ in Millions)

	March 31, 2002				
	Anthem Historical	**Trigon Historical**	**Reclassification Adjustments[1]**	**Pro Forma Adjustments**	**Anthem Pro Forma**
Assets					
Current assets:					
Investments	$ 3,960.9	$ 1,859.0	$ (9.2)	$ (562.8)[2]	$ 5,247.9
Cash and cash equivalents	456.3	8.2		[2]	464.5
Premium and self funded receivables	610.6	667.6	(440.3)		837.9
Reinsurance receivables	77.6				77.6
Other receivables	275.3		122.5		397.8
Other current assets	37.5	27.5			65.0
Total current assets	5,418.2	2,562.3	(327.0)	(562.8)	7,090.7
Restricted cash and investments	39.6	7.1	9.2		55.9
Property and equipment	406.6	92.0			498.6
Goodwill and other intangible assets	469.0	13.7		3,160.3 [3]	3,643.0
Other noncurrent assets	69.6	51.3			120.9
Total assets	$ 6,403.0	$ 2,726.4	$ (317.8)	$ 2,597.5	$ 11,409.1
Liabilities and shareholders' equity					
Liabilities					
Current liabilities:					
Total policy liabilities	$ 1,835.2	$ 663.0	$ (144.9)	$	$ 2,353.3
Unearned income	328.7	160.9	37.6		527.2
Accounts payable and accrued expenses	245.8	76.1			321.9
Bank overdrafts	360.2		57.5		417.7
Income taxes payable	54.1		36.8		90.9
Other current liabilities	184.0	446.1	(229.7)	(99.7)[4]	300.7
Total current liabilities	3,008.0	1,346.1	(242.7)	(99.7)	4,011.7
Long term debt, less current portion	818.7	200.0		738.3 [5]	1,757.0
Retirement benefits	97.3	44.2			141.5
Other noncurrent liabilities	353.0	89.9	(75.1)	135.8 [6]	503.6
Total liabilities	4,277.0	1,680.2	(317.8)	774.4	6,413.8
Shareholders' equity					
Common stock	1.1	0.3		0.1 [7]	1.5
Additional paid in capital	1,960.9	780.9		2,088.0 [8]	4,829.8
Retained earnings	155.5	269.6		(269.6)[9]	155.5
Accumulated other comprehensive income (loss)	8.5	(4.6)		4.6 [10]	8.5
Total shareholders' equity	2,126.0	1,046.2		1,823.1	4,995.3

	March 31, 2002				
Total liabilities and shareholders' equity	$ 6,403.0	$ 2,726.4	$ (317.8)	$ 2,597.5	$ 11,409.1

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

($ in Millions, except per share data)

	Three Months Ended March 31, 2002				
	Anthem Historical	**Trigon Historical**	**Reclassification Adjustments[1]**	**Pro Forma Adjustments**	**Anthem Pro Forma**
Revenues					
Premiums	$ 2,529.5	$ 744.0	$ 18.0	$	$ 3,291.5
Administrative fees	201.0	61.5	(1.4)	(1.5)[11]	259.6
Other revenue	18.1	6.2			24.3
Total operating revenue	2,748.6	811.7	16.6	(1.5)	3,575.4
Net investment income	60.5	24.5	1.0	(7.5)[12]	78.5
Net realized gains (losses) on investments	3.3	(10.6)			(7.3)
	2,812.4	825.6	17.6	(9.0)	3,646.6
Expenses					
Benefit expense	2,136.4	627.9	12.9		2,777.2
Administrative expense	505.6	142.0	4.7	(1.5)[11]	650.8
Interest expense	17.6	1.6		14.2 [13]	33.4
Amortization of identifiable intangible assets	3.3			6.9 [14]	10.2
	2,662.9	771.5	17.6	19.6	3,471.6
Income (loss) before income taxes and minority interest	149.5	54.1		(28.6)	175.0
Income taxes (credit)	49.2	17.7		(10.0)[15]	56.9
Minority interest	0.5	1.2			1.7
Net income (loss)	$ 99.8	$ 35.2	$	$ (18.6)	$ 116.4
Net income per share:					
Basic	$ 0.97				$ 0.81
Diluted	$ 0.95				$ 0.80
Weighted average number of shares outstanding:					
Basic	103,323,299				143,050,040
Diluted	104,820,572				145,237,653

**UNAUDITED PRO FORMA COMBINED
STATEMENT OF INCOME**

($ in Millions, except per share data)

	Year Ended December 31, 2001				
	Anthem Historical	**Trigon Historical**	**Reclassification Adjustments[1]**	**Pro Forma Adjustments**	**Anthem Pro Forma**
Revenues					
Premiums	$ 9,244.8	$ 2,695.7	$ 60.9	$	$ 12,001.4
Administrative fees	817.3	210.3	3.9	(4.5)[11]	1,027.0
Other revenue	58.2	20.1			78.3
Total operating revenue	10,120.3	2,926.1	64.8	(4.5)	13,106.7
Net investment income	238.6	105.2	3.3	(30.1)[12]	317.0
Net realized gains (losses) on investments	60.8	(56.3)			4.5
Gain on sale of subsidiary operations	25.0				25.0
	10,444.7	2,975.0	68.1	(34.6)	13,453.2
Expenses					
Benefit expense	7,814.7	2,263.8	49.9		10,128.4
Administrative expense	1,986.1	522.7	16.6	(4.5)[11]	2,520.9
Interest expense	60.2	12.7		50.4 [13]	123.3
Amortization of goodwill and other intangible assets	31.5		1.6	29.0 [14]	62.1
Demutualization expenses	27.6				27.6
	9,920.1	2,799.2	68.1	74.9	12,862.3
Income (loss) before income taxes and minority interest	524.6	175.8		(109.5)	590.9
Income taxes (credit)	183.4	58.2		(38.3)[15]	203.3
Minority interest (credit)	(1.0)	1.5			0.5
Net income (loss)	$ 342.2	$ 116.1	$	$ (71.2)	$ 387.1
Net income per share[16]:					
Basic	$ 3.31				$ 2.71
Weighted average number of shares outstanding:					
Basic	103,295,675				143,022,416

NOTES TO UNAUDITED PROFORMA COMBINED FINANCIAL STATEMENTS

1

Reclassification of Trigon's historical amounts to conform to Anthem's historical presentation.

2

Pursuant to the merger agreement, holders of Trigon Class A common stock will receive, subject to adjustment as set forth in the merger agreement, $30.00 cash, without interest, and 1.062 shares of Anthem common stock for each share of Trigon Class A common stock. In addition, it is assumed Trigon will repay its outstanding commercial paper prior to the merger. The net decrease in cash and investments of $562.8 million is composed of the following estimated items (in millions):

Cash consideration of $30.00 per share, without interest, for 35,786,186 outstanding shares of Trigon Class A common stock and 1,621,291 shares of Trigon Class A common stock issuable upon exercise of Trigon stock options	$	1,122.2
Cash transaction costs of $22.7 million for change in control and other payments and $56.5 million related to transaction closing costs		79.2
Total cash consideration		1,201.4
Net proceeds from the notes offered hereby to partially fund the transaction as discussed in Note 5 below		(938.3)
Net reduction in cash and investments for Trigon purchase		263.1
Cash and investments used to repay Trigon commercial paper as discussed in Note 4 and Note 5 below		299.7
	$	562.8

3

Adjustment to goodwill and other intangible assets of $3,160.3 million is a result of the excess of cost over the estimated fair market value of the net assets of Trigon (at an assumed purchase price of $4,206.5 million, including certain estimated purchase price adjustments related to the merger). The calculation is estimated as follows (in millions):

Cash consideration to Trigon's shareholders and option holders discussed in Note 2 above	$	1,122.2
Value of 39,726,740 shares of Anthem common stock issued to Trigon's shareholders and option holders based on the April 26, 2002 closing price of $70.70		2,808.7
Cash transaction costs of $79.2 million discussed in Note 2 plus additional deferred contractual payments of $30.8 million		110.0
Conversion of options for 766,079 shares of Trigon common stock to options for an estimated 1,138,393 shares of Anthem common stock at fair value using the Black-Scholes valuation model		60.6
Deferred tax liability on identifiable intangible assets		105.0
Assumed total purchase price		4,206.5
Fair value of Trigon's net assets as of March 31, 2002		(1,046.2)
Total increase in goodwill and other intangible assets See Note 14 below	$	3,160.3

4

Represents payment of current portion of Trigon's commercial paper program as discussed in Note 2 above. The remaining payment of $200.0 million is discussed in Note 5 below.

5 Represents the $950.0 million of aggregate principal amount of the notes offered hereby, less underwriting and issuance discounts and other estimated offering expenses aggregating $11.7 million. Net proceeds of $938.3 million will be used to partially finance the merger, in

addition to the $263.1 million of cash and investments discussed in Note 2. The $938.3 million of proceeds is offset by repayment of Trigon's commercial paper program in the amount of $200.0 million as discussed in Note 2 and Note 4 above.

6 Reflects an increase in other liabilities of $135.8 million, as a result of the recognition of a deferred tax liability of $105.0 million related to the estimated identifiable intangible assets of $300.0 million and $30.8 million of deferred contractual payments as described in Note 3 above.

7 Represents $(0.3) million elimination of Trigon's Class A common stock accounts for combination purposes, offset by $0.4 million, representing the par value of 39,726,740 shares as discussed in Note 3 above.

8 Reflects the elimination of Trigon's paid in capital of $(780.9) million for combination purposes, offset by the issuance of $2,808.3 million of new Anthem common stock (net of par value) and $60.6 million for Trigon stock options, as discussed in Note 3 above.

9 Reflects the elimination of Trigon's retained earnings for combination purposes.

10 Reflects the elimination of Trigon's accumulated other comprehensive loss for combination purposes.

11 Anthem's indirect wholly owned subsidiary, Health Management Services, has an existing customer relationship with Trigon. As a result, Anthem administrative revenues include amounts billed to Trigon. Trigon includes these amounts as administrative expense. For pro forma purposes, the amounts have been eliminated. The amounts were $1.5 million and $4.5 million, respectively, for the three months ended March 31, 2002 and the year ended December 31, 2001.

12 The $562.8 million of cash requirements as discussed in Note 2 is assumed to come from the sale of investment securities. The reduction to investment income in the pro forma consolidated statement of income reflects reduced investment income on $562.8 million of investment securities yielding 5.35%. The pro forma amounts of reduced investment income are $7.5 million and $30.1 million for the three months ended March 31, 2002 and year ended December 31, 2001, respectively.

13 The interest expense in the pro forma consolidated statement of income reflects the following charges to interest expense for the notes offered by this prospectus:

	Three Months Ended March 31, 2002			Year Ended December 31, 2001		
	Interest	**Amortization of Debt Discount and Expense**	**Total**	**Interest**	**Amortization of Debt Discount and Expense**	**Total**
$150.0 million 4.875% notes due 2005	$ 1.8	$ 0.1	$ 1.9	$ 7.3	$ 0.4	$ 7.7
$800.0 million 6.800% notes due 2012	13.6	0.3	13.9	54.3	1.1	55.4

	Three Months Ended March 31, 2002			Year Ended December 31, 2001		
Total notes offered by this prospectus	$ 15.4	$ 0.4	$ 15.8	$ 61.6	$ 1.5	$ 63.1

These charges to interest expense are offset by reduced interest expense resulting from the assumed repayment of Trigon's outstanding commercial paper. The reduced amounts are $1.6 million and $12.7 million for the three months ended March 31, 2002 and the year ended December 31, 2001, respectively.

14

Upon completion of the merger, Anthem intends to determine the fair value of the net assets of Trigon. Purchase price will be allocated to the fair value of Trigon's net assets, including identified intangible assets, such as the Blue Cross and Blue Shield name and service mark, employer groups, company-developed software and provider contracts. Preliminary values and lives have been assigned to these assets consistent with the methodology used in Anthem's previous acquisitions. The preliminary purchase price allocation, for pro forma purposes, resulted in an estimated $300.0 million of identifiable intangible assets with finite lives. The amortization of these intangible assets are recognized in the income statement using a declining balance method over a 20-year life. The pro forma amortization expense resulting from the $300.0 million of identifiable intangible assets is $6.9 million for the three months ended March 31, 2002 and is $29.0 million for the year ended December 31, 2001.

15

The income tax benefit related to all adjustments is projected at a statutory rate of $38.0%. The income tax benefit is $10.0 million and $38.3 million for the three months ended March 31, 2002 and the year ended December 31, 2001, respectively.

16

We have not presented Anthem diluted net earnings per share for the year ended December 31, 2001. Such amounts would not be meaningful as no stock or dilutive securities existed for the majority of the year and a relevant market price for the entire year does not exist. There were no dilutive securities outstanding prior to November 2, 2001, the effective date of the demutualization of Anthem Insurance, a subsidiary of Anthem, and Anthem's initial public offering. Historical and pro forma basic earnings per share for the year ended December 31, 2001 were calculated using the weighted average shares outstanding for the period from November 2, 2001 to December 31, 2001.

Shares of Trigon Class A common stock outstanding were converted at a rate of 1.062 shares of Anthem common stock for each share of Trigon Class A common stock. In addition, it was assumed that of the 3,516,612 options outstanding, options for 2,750,533 shares were exercised prior to the completion of the merger, and that Trigon used the proceeds to acquire and retire 1,129,242 shares of Trigon Class A common stock. The net new shares resulting from such exercise, totaling 1,621,291, were converted at a rate of 1.062 shares of Anthem common stock for each share of Trigon Class A common stock, for a total of 1,721,811 shares of Anthem common stock. It has also been assumed that options for the remaining 766,079 shares of Trigon Class A common stock were be converted into Anthem stock options at a rate of 1.486 Anthem shares for each of Trigon share, the exchange ratio resulting from an assumed value of Anthem common stock of $70.70.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are one of the nation's largest health benefits companies and an independent licensee of the Blue Cross Blue Shield Association, or BCBSA. We offer Blue Cross Blue Shield branded products to over eight million members throughout Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada.

Our health business segments are strategic business units delineated by geographic areas within which we offer similar products and services. We manage our business units with a local focus to address each geographic region's unique market, regulatory and healthcare delivery characteristics. Our geographic health segments are: Midwest, which includes Indiana, Kentucky and Ohio; East, which includes Connecticut, New Hampshire and Maine; and West, which includes Colorado and Nevada.

In addition to our three geographic health segments, our reportable segments include a Specialty segment that contains business units providing group life and disability insurance benefits, pharmacy benefit management, dental and vision administration services and third party occupational health services. Our Other segment is comprised of AdminaStar Federal, intersegment revenue and expense eliminations and corporate expenses not allocated to reportable segments. AdminaStar Federal is a subsidiary that administers Medicare programs in Indiana, Illinois, Kentucky and Ohio. Prior to May 31, 2001, our Other segment also contained Anthem Alliance Health Insurance Company, or Anthem Alliance. Anthem Alliance was a subsidiary that primarily provided health care benefits and administration in nine states for the Department of Defense's TRICARE Program for military families. We sold our TRICARE operations on May 31, 2001.

We offer our health benefits customers traditional indemnity products and a diversified mix of managed care products, including health maintenance organizations or HMOs, preferred provider organizations or PPOs, and point of service or POS plans. We also provide a broad array of managed care services and partially insured products to self-funded employers, including underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, claims processing and other administrative services. Our operating revenue consists of premiums, administrative service fees and other revenue. The premiums come from fully or partially insured contracts where we indemnify our policyholders against loss. The administrative fees come from self-funded contracts where our contract holders are wholly or partially self-insured and from the administration of Medicare programs. Other revenue is principally generated by our pharmacy benefit management company in the form of co-pays and deductibles paid by the member associated with the sale of mail order drugs.

Our benefit expense consists mostly of four cost of care components: outpatient and inpatient care costs, physician costs and pharmacy benefit costs. All four components are affected both by unit costs and utilization rates. Unit costs, for example, are the cost of outpatient medical procedures, inpatient hospital stays, physician fees for office visits and prescription drug prices. Utilization rates represent the volume of consumption of health services and vary with the age and health of our members and broader social and lifestyle factors in the population as a whole.

On April 29, 2002, we announced that we had entered into an agreement and plan of merger with Trigon Healthcare, Inc. ("Trigon") pursuant to which Trigon will become a wholly owned subsidiary of Anthem. Trigon is Virginia's largest health care company and is the Blue Cross and Blue Shield licensee in the Commonwealth of Virginia. Under the agreement, Trigon's shareholders will, subject to adjustment as set forth in the merger agreement, receive $30.00 in cash, without interest, and 1.062 shares of Anthem common stock for each share of Trigon Class A common stock outstanding. The value of the transaction is estimated to be approximately $4.0 billion, and is expected to close in the third quarter of 2002, subject to regulatory and shareholder approvals.

Trigon reported the following unaudited financial results for the periods ended March 31, 2002 and 2001:

	2002	2001
	($ in Millions)	
Total revenues	$ 825.6	$ 728.2
Net income	35.2	32.4

As of March 31, 2002, Trigon reported total assets of $2.7 billion, total liabilities of $1.7 billion and total shareholders' equity of $1.0 billion.

Our results in 1999, 2000 and 2001 were significantly impacted by the acquisitions of Blue Cross and Blue Shield of New Hampshire, or BCBS-NH, which we completed on October 27, 1999, Blue Cross and Blue Shield of Colorado and Nevada, or BCBS-CO/NV, which we completed on November 16, 1999, and Blue Cross and Blue Shield of Maine, or BCBS-ME, which we completed on June 5, 2000. We accounted for these acquisitions as purchases and we included the net assets and results of operations in our consolidated financial statements from the respective dates of purchase. The following represents the contribution to our total revenues, operating gain, assets and membership in the year of and subsequent to each acquisition for the years ended December 31, 2001, 2000 and 1999.

As of and for the Year Ended December 31	
2001	2000

	As of and for the Year Ended December 31							
	Total Revenues	Operating Gain	Assets	(000s) Members	Total Revenues	Operating Loss	Assets	(000s) Members
	($ in Millions)							
BCBS-ME	$ 948.1	$ 12.6	$ 307.6	504	$ 489.4	$ 8.7	$ 339.5	487

	As of and for the Year Ended December 31							
	2000				1999			
	Total Revenues	Operating Gain	Assets	(000s) Members	Total Revenues	Operating Loss	Assets	(000s) Members
	($ in Millions)							
BCBS-NH	$ 591.0	$ 11.6	$ 316.8	479	$ 77.9	$ (0.3)	$ 250.6	366
BCBS-CO/NV	678.6	6.5	545.8	595	76.9	(3.4)	521.5	486
BCBS-ME	489.4	8.7	339.5	487				
Total	$ 1,759.0	$ 26.8	$ 1,202.1	1,561	$ 154.8	$ (3.7)	$ 772.1	852

Operating gain consists of operating revenue less benefit expense and administrative expense.

We sold our TRICARE operations on May 31, 2001. The results of our TRICARE operations are reported in our Other segment (for Anthem Alliance), and in our Midwest business segment, which assumed a portion of the TRICARE risk from May 1, 1998, to December 31, 2000. The operating results for our TRICARE operations for 2001, 2000 and 1999 were as follows and include both the Anthem Alliance and Midwest business segment results:

	2001	2000	1999
	($ in Millions)		
Operating Revenue	$ 263.2	$ 353.9	$ 292.4
Operating Gain	$ 4.2	$ 3.9	$ 5.1

The results of our TRICARE operations for the three months ended March 31, 2001 were $146.9 million in operating revenue and $1.1 million in operating gain.

On May 30, 2001, we signed a definitive agreement with Blue Cross and Blue Shield of Kansas, or BCBS-KS, pursuant to which BCBS-KS would become a wholly owned subsidiary.

Under the proposed transaction, BCBS-KS would demutualize and convert to a stock insurance company. The agreement calls for us to pay $190.0 million in exchange for all of the shares of BCBS-KS. On February 11, 2002, the Kansas Insurance Commissioner disapproved the proposed transaction, which had been previously approved by the BCBS-KS policyholders in January 2002. On February 19, 2002, the board of directors of BCBS-KS voted unanimously to appeal the Kansas Insurance Commissioner's decision and BCBS-KS sought to have the decision overturned in Shawnee County District Court. We joined BCBS-KS in the appeal, which was filed on March 7, 2002. On June 7, 2002, the Court ruled in favor of Anthem and BCBS-KS, vacating the Commissioner's disapproval and remanding the matter to the Commissioner for further proceedings not inconsistent with the Court's order. On June 10, 2002, the Kansas Insurance Commissioner appealed the Court's ruling. Anthem and BCBS-KS are reviewing the ruling and the Commissioner's appeal and are considering their next steps.

You should read this discussion in conjunction with our audited and unaudited consolidated financial statements and accompanying notes presented on pages F-1 through F-45.

ANTHEM'S MEMBERSHIP THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

We categorize our membership into seven different customer types: Local Large Group, Small Group, Individual, National, Medicare + Choice, Federal Employee Program and Medicaid.

Local Large Group consists of those customers with 51 or more eligible employees, which are not considered National accounts.

Small Group consists of those customers with one to 50 employees.

Individual members include those in our under age 65 business and our Medicare Supplement (age 65 and over) business.

Our National accounts customers are employer groups, which have multi-state locations and require partnering with other Blue Cross and Blue Shield plans for administration and/or access to non-Anthem provider networks. Included within the National business are our BlueCard customers who represent enrollees of health plans marketed by other Blue Cross and Blue Shield Plans, or the home plans, who receive health care services in our Blue Cross and Blue Shield licensed markets.

Medicare + Choice members have enrolled in coverages that are managed care alternatives for the Medicare program.

The Federal Employee Program, or FEP, provides health insurance coverage to United States government employees and their dependents. Our FEP members work in Anthem markets and are covered by this program.

Medicaid membership represents eligible members with state sponsored managed care alternatives in the Medicaid programs which we manage for the states of Connecticut and New Hampshire.

Our BlueCard membership is calculated based on the amount of BlueCard administrative fees we receive from the BlueCard members' home plans. Generally, the administrative fees we receive are based on the number and type of claims processed and a portion of the network discount on those claims. The administrative fees are then divided by an assumed per member per month, or PMPM, factor to calculate the number of members. The assumed PMPM factor is based on an estimate of our experience and BCBSA guidelines.

In addition to categorizing our membership by customer type, we categorize membership by funding arrangement according to the level of risk we assume in the product contract. Our two funding arrangement categories are fully insured and self-funded. Self-funded products are offered

to customers, generally larger employers, with the ability and desire to retain some or all of the risk associated with their employees' health care costs.

The following table presents our membership count by segment, customer type and funding arrangement as of March 31, 2002 and 2001. The membership data presented are unaudited and in certain instances include our estimates of the number of members represented by each contract at the end of the period, rounded to the nearest thousand.

	March 31			
	2002	2001	Change	% Change
	(In Thousands)			
Segment				

	March 31			
Midwest	5,070	4,760	310	7%
East	2,292	2,186	106	5
West	809	662	147	22
Total without TRICARE	8,171	7,608	563	7
TRICARE		419	(419)	(100)
Total	8,171	8,027	144	2%
Customer Type				
Local Large Group	2,792	2,750	42	2%
Small Group	811	790	21	3
Individual	730	663	67	10
National accounts [1].	3,163	2,774	389	14
Medicare + Choice	101	100	1	1
Federal Employee Program	449	426	23	5
Medicaid	125	105	20	19
Total without TRICARE	8,171	7,608	563	7
TRICARE		419	(419)	(100)
Total	8,171	8,027	144	2%
Funding Arrangement				
Self-funded	4,294	3,914	380	10%
Fully insured	3,877	3,694	183	5
Total without TRICARE	8,171	7,608	563	7
TRICARE		419	(419)	(100)
Total	8,171	8,027	144	2%

1 Includes BlueCard members of 1,933 as of March 31, 2002, and 1,508 as of March 31, 2001.

Our TRICARE program provided managed care services to active and retired military personnel and their dependents. We sold our TRICARE business on May 31, 2001, and thus we had no TRICARE members as of March 31, 2002. At March 31, 2001, our TRICARE membership totaled 419,000 and was fully insured.

During the twelve months ended March 31, 2002, total membership increased 144,000, or 2%. Excluding our TRICARE business from 2001, membership increased 563,000, or 7%, primarily due to National, Individual and Local Large Group businesses. National membership increased 389,000, or 14%, primarily due to a significant increase in BlueCard activity and sales in our National accounts business. Individual membership increased 67,000, or 10%, with the majority of this growth resulting from higher sales in our under 65 business in all segments. Local Large Group membership, which includes both fully insured and self-funded business, increased 42,000, or 2%, primarily due to sales of new accounts and retention of insured business which more than offset a decrease in self-funded business. Local Large Group self-funded membership decreased slightly, particularly in the Midwest.

Medicare + Choice membership increased 1,000, or 1%. Excluding our withdrawal from the Medicare + Choice market in Colorado as of January 1, 2002, Medicare + Choice membership increased 11,000, or 12%. This increase was primarily due to new business in certain counties in Ohio, where many competitors have left the market, leaving us as one of the few remaining companies offering this product. Our Medicare + Choice membership in Colorado was 10,000 at March 31, 2001.

Self-funded membership increased 380,000, or 10%, primarily due to an increase in BlueCard membership. Fully insured membership, excluding our TRICARE business from 2001, grew by 183,000 members, or 5%, from March 31, 2001, primarily in Individual, Local Large Group and Small Group businesses.

ANTHEM'S RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2001

The following table presents our consolidated results of operations for the three months ended March 31, 2002 and 2001:

			Change	
	2002	**2001**	**$**	**%**
		($ in Millions)		
Operating revenue and premium equivalents [1]	$ 3,793.2	$ 3,390.1	$ 403.1	12%
Premiums	$ 2,529.5	$ 2,268.9	$ 260.6	11%
Administrative fees	201.0	213.0	(12.0)	(6)
Other revenue	18.1	11.5	6.6	57
Total operating revenue	2,748.6	2,493.4	255.2	10
Benefit expense	2,136.4	1,934.1	202.3	10
Administrative expense	505.6	499.4	6.2	1
Total operating expense	2,642.0	2,433.5	208.5	9
Operating gain	106.6	59.9	46.7	78
Net investment income	60.5	53.9	6.6	12
Net realized gains on investments	3.3	13.2	(9.9)	(75)
Interest expense	17.6	14.4	3.2	22
Amortization of goodwill and other intangible assets	3.3	7.7	(4.4)	(57)
Demutualization expenses		0.6	(0.6)	(100)
Income before taxes and minority interest	149.5	104.3	45.2	43
Income taxes	49.2	34.4	14.8	43
Minority interest (credit)	0.5	(0.7)	1.2	NM[2]
Net income	$ 99.8	$ 70.6	$ 29.2	41%
Benefit expense ratio [3]	84.5%	85.2%		(70)bp[4]
Administrative expense ratio: [5]				
Calculated using operating revenue [6]	18.4%	20.0%		(160)bp[4]
Calculated using operating revenue and premium equivalents [7]	13.3%	14.7%		(140)bp[4]
Operating margin [8]	3.9%	2.4%		150bp[4]

The following definitions are also applicable to all other tables and schedules in this discussion:

1

Operating revenue and premium equivalents is a measure of the volume of business commonly used in the health insurance industry to allow for a comparison of operating efficiency among companies. It is obtained by adding to premiums, administrative fees and other revenue the amount of claims attributable to non-Medicare, self-funded health business where we provide a complete array of customer service, claims administration and billing and enrollment services.

The self-funded claims included for the three months ended March 31, 2002 were $1,044.6 million and for the three months ended March 31, 2001 were $896.7 million.

2 NM = Not meaningful.

3 Benefit expense ratio = Benefit expense ÷ Premiums.

4 bp = basis point; one hundred basis points = 1%.

5 While we include two calculations of administrative expense ratio, we believe that administrative expense ratio including premium equivalents is a better measure of efficiency as it eliminates changes in the ratio caused by changes in our mix of insured and self-funded business. All discussions and explanations related to administrative expense ratio will be related to administrative expense ratio including premium equivalents.

6 Administrative expense ÷ Operating revenue.

7 Administrative expense ÷ Operating revenue and premium equivalents.

8 Operating margin = Operating gain ÷ Total operating revenue.

Premiums increased $260.6 million, or 11%, to $2,529.5 million in 2002. Excluding our TRICARE business from 2001, premiums increased $369.8 million, or 17%, primarily due to premium rate increases, particularly in our Local Large Group and Small Group businesses, and higher membership in all of our business segments. Our Midwest premiums increased due to higher membership and premium rate increases in our group accounts (both Local Large Group and Small Group). Our East and West premiums increased primarily due to premium rate increases and higher membership in both our Local Large Group and Small Group businesses.

Administrative fees decreased $12.0 million, or 6%, from $213.0 million in 2001 to $201.0 million in 2002 primarily due to the sale of our TRICARE business. Excluding our TRICARE business from 2001, administrative fees increased $25.7 million, or 15%, primarily from membership growth in National account self-funded business. Excluding our TRICARE business from 2001, other revenue, which is comprised principally of co-pays and deductibles paid by the member associated with Anthem Prescription Management's, or APM's, sale of mail order drugs, increased $6.6 million, or 57%. APM is our pharmacy benefit manager and provides its services principally to other Anthem affiliates. Mail order revenues increased primarily due to additional volume resulting from the introduction of APM as the pharmacy benefit manager at Blue Cross and Blue Shield of Colorado and Nevada, or BCBS-CO/NV and Blue Cross and Blue Shield of Maine, or BCBS-ME, in the second quarter of 2001.

Benefit expense increased $202.3 million, or 10%, in 2002. Excluding our TRICARE business from 2001, benefit expense increased $311.3 million, or 17%, due to higher average membership and increasing cost of care. Cost of care trends were driven primarily by higher utilization of outpatient services and higher prescription drug costs. Our benefit expense ratio decreased 70 basis points from 85.2% in 2001 to 84.5% in 2002 primarily due to the sale of our TRICARE business. Excluding our TRICARE business from 2001, our benefit expense ratio remained flat at 84.5%.

Overall, our cost of care trends have been approximately 13%, using a rolling 12-month calculation through March 2002. Outpatient and professional services cost increases for the quarter have varied among regions and products. For the rolling 12-month period ended March 31, 2002 compared to the rolling 12-month period ended March 31, 2001, outpatient cost increases were approximately 13% while professional services cost increases were approximately 11%. These increases resulted from both increased utilization and higher unit costs. Increased outpatient utilization reflects an industry-wide trend toward a broader range of medical procedures being performed without overnight hospital stays, as well as an increasing customer awareness of and demand for diagnostic procedures such as magnetic resonance imagings, or MRIs. In addition, improved medical technology has allowed more complicated medical procedures to be performed

on an outpatient basis rather than on an inpatient (hospitalized) basis, increasing both outpatient utilization rates and unit costs.

Prescription drug cost increases for the 12-month period ended March 31, 2002 compared to the 12-month period ended March 31, 2001 varied among regions and by product, but were approximately 18%. These cost increases resulted from the introduction of new, higher cost drugs and higher overall utilization. In response to increasing prescription drug costs, we continue to implement three-tiered drug programs for our members. Three-tiered drug programs reflect benefit designs that have three co-payment levels which depend on the drug selected. Generic drugs have the lowest co-payment, brand name drugs included in the drug formulary have a higher co-payment and brand name drugs omitted from the drug formulary have the highest co-payment. Drug formularies are a list of prescription drugs that have been reviewed and selected for their quality and efficacy by a committee of practicing physicians and clinical pharmacists. Through our pharmacy benefit design, we encourage use of these listed brand name and generic drugs to ensure members receive quality and cost-effective medication.

Growth in inpatient costs was approximately 11% for the 12-month period ended March 31, 2002 compared to the 12-month period ended March 31, 2001. This increase was due to re-negotiation of provider contracts and higher overall utilization. Hospitals have taken a more aggressive stance in their contracting with health insurance companies as a result of reduced hospital reimbursements from Medicare and pressure to recover the costs of additional investments in new medical technology and facilities.

Administrative expense increased $6.2 million, or 1%, for the three months ended March 31, 2002. Excluding our TRICARE business from 2001, administrative expense increased $43.0 million, or 9%, primarily due to commissions and premium taxes, which vary with premium, higher employment costs and other additional costs associated with higher membership and investments in technology. Excluding our TRICARE business from 2001, our administrative expense ratio, calculated using operating revenue and premium equivalents, decreased 100 basis points to 13.3% primarily due to operating revenue growth and continued focus on cost containment efforts.

Net investment income increased $6.6 million, or 12%, primarily due to our higher average investment portfolio balances for the first three months of 2002, as compared to the average for the first three months of 2001. The higher portfolio balances included net cash generated from operations, as well as cash generated from improved balance sheet management, such as quicker collection of receivables. As returns on fixed maturity portfolios are dependent on market interest rates and changes in interest rates are unpredictable, there is no certainty that past investment performance will be repeated in the future.

Net realized gains on investments decreased from $13.2 million for the three months ended March 31, 2001 to $3.3 million for the three months ended March 31, 2002. Net realized capital gains from sale of equities decreased $2.6 million, or 90%, to $0.3 million in 2002 from $2.9 million in 2001. Net realized capital gains from sale of fixed income securities decreased $7.3 million, or 71%, to $3.0 million in 2002 from $10.3 million in 2001. Net gains or losses on investments are influenced by market conditions when or if an investment is sold, and will vary from period to period.

Interest expense increased $3.2 million, or 22%, primarily reflecting the issuance of our 6.00% Equity Security Units on November 2, 2001.

Amortization of goodwill and other intangible assets decreased $4.4 million, or 57%, from the three months ended March 31, 2001 to the three months ended March 31, 2002, primarily due to adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", on January 1, 2002. See Note 3 to our March 31, 2002 unaudited consolidated financial statements for additional information.

Income tax expense increased $14.8 million, or 43%, primarily due to higher income before taxes. Our effective income tax rate was 32.9% in the first quarter of 2002 and 33.0% in the first quarter of 2001.

Net income increased $29.2 million, or 41%, primarily due to the improvement in our operating results, higher net investment income and lower amortization of goodwill and other intangible assets resulting from the adoption of FAS No. 142 on January 1, 2002. Assuming FAS 142 had been in effect for the quarter ended March 31, 2001, our net income would have increased $25.2 million, or 34%.

Midwest

Our Midwest segment is comprised of health benefit and related business for members in Indiana, Kentucky and Ohio. The following table presents our Midwest segment's summarized results of operations for the three months ended March 31, 2002 and 2001:

	2002	2001	% Change
	($ in Millions)		

	2002	2001	% Change
Operating Revenue	$ 1,451.8	$ 1,219.9	19%
Operating Gain	$ 54.1	$ 42.8	26%
Operating Margin	3.7%	3.5%	20bp
Membership (in 000s)	5,070	4,760	7%

Operating revenue increased $231.9 million, or 19%, in 2002 primarily due to premium rate increases, membership gains, particularly in Local Large Group fully insured business, Small Group and Medicare + Choice, and overall good service that resulted in increased retention.

Operating gain increased $11.3 million, or 26%, resulting in an operating margin of 3.7% at March 31, 2002, a 20 basis point improvement from the three months ended March 31, 2001. This improvement was primarily due to revenue growth and effective expense control. Administrative expense increased at a slower rate than premiums as we gained operating efficiencies and leveraged our fixed costs over higher membership.

Membership increased 310,000, or 7%, to 5.1 million members, primarily due to growth in National business and additional sales in Individual business. Retention of members was favorable in all lines of business.

East

Our East segment is comprised of health benefit and related business for members in Connecticut, New Hampshire and Maine. The following table presents our East segment's summarized results of operations for the three months ended March 31, 2002 and 2001.

	2002	2001	% Change
	($ in Millions)		
Operating Revenue	$ 985.3	$ 874.9	13%
Operating Gain	$ 42.2	$ 22.6	87%
Operating Margin	4.3%	2.6%	170bp
Membership (in 000s)	2,292	2,186	5%

Operating revenue increased $110.4 million, or 13%, in 2002 due to premium rate increases and higher Small Group membership.

Operating gain increased $19.6 million, or 87%, primarily due to improved underwriting results, primarily in New Hampshire and Maine group business. Operating margin increased 170 basis points to 4.3% for the three months ended March 31, 2002.

Membership increased 106,000, or 5%, primarily in National accounts business.

On February 28, 2002, a subsidiary of Anthem Insurance, Anthem Health Plans of Maine, Inc., completed its purchase of the remaining 50% ownership interest in Maine Partners Health Plan, Inc. for an aggregate purchase price of $10.6 million. We had previously consolidated the financial results of this entity in our consolidated financial statements and recorded minority interest for the percentage we did not own.

West

Our West segment is comprised of health benefit and related business for members in Colorado and Nevada. The following table presents our West segment's summarized results of operations for the three months ended March 31, 2002 and 2001:

	2002	2001	% Change
	($ in Millions)		
Operating Revenue	$ 221.2	$ 176.5	25%
Operating Gain	$ 7.5	$ 0.2	NM

	2002	2001	% Change
Operating Margin	3.4%	0.1%	330bp
Membership (in 000s)	809	662	22%

Operating revenue increased $44.7 million, or 25%, primarily due to higher premium rates designed to bring our pricing in line with claim trends, and higher membership in Local Large Group, Small Group and Individual businesses.

Operating gain increased $7.3 million to $7.5 million in 2002, primarily due to improved underwriting performance and higher average membership, particularly in our Local Large Group, Small Group and Individual businesses. In addition, we were able to leverage our fixed costs over a significantly increased membership base. These improvements in our operating gain resulted in a 330 basis point increase in operating margin to 3.4% in 2002.

Membership increased 147,000, or 22%, to 809,000, due to higher sales in Local Large Group, Small Group and Individual businesses and increased National Accounts business, primarily BlueCard activity. We exited the Medicare + Choice market in Colorado effective January 1, 2002. At March 31, 2001, our Medicare + Choice membership in Colorado was approximately 10,000. We expect no material effect on operating results from exiting this market.

Specialty

Our Specialty segment includes our group life and disability, pharmacy benefit management, dental and vision administration services and third party occupational health services. The following table presents our Specialty segment's summarized results of operations for the three months ended March 31, 2002 and 2001:

	2002	2001	% Change
	($ in Millions)		
Operating Revenue	$ 120.1	$ 89.1	35%
Operating Gain	$ 12.4	$ 7.5	65%
Operating Margin	10.3%	8.4%	190bp

Operating revenue increased $31.0 million, or 35%, primarily due to higher revenue at Anthem Prescription Management, or APM, and increased life and disability premiums. APM's operating revenue grew primarily due to increased mail order prescription volume and the implementation of APM's pharmacy benefit programs in the second quarter of 2001 by BCBS-CO/NV and BCBS-ME. Excluding our TRICARE business from 2001, mail service membership increased 20%, while retail service membership increased 20%. Excluding our TRICARE business from 2001, mail service prescription volume increased 31% and retail prescription volume increased 22%. Life and disability premiums increased primarily due to higher premium rates and higher membership.

39

Operating gain increased $4.9 million, or 65%, primarily due to increased mail order prescription volume at APM and the leveraging of our fixed costs over increased membership. Improved APM results and the leveraging of fixed costs resulted in a 190 basis point increase in our operating margin to 10.3%.

Other

Our Other segment includes AdminaStar Federal, a subsidiary that administers Medicare Parts A and B programs in Indiana, Illinois, Kentucky and Ohio, intersegment revenue and expense eliminations and corporate expenses not allocated to operating segments. In 2001, our Other segment also contained Anthem Alliance, a subsidiary that provided the health care benefits and administration in nine states for active and retired military employees and their dependents under the Department of Defense's TRICARE program for military families. Our TRICARE business was sold on May 31, 2001. The following table presents the summarized results of operations for our Other segment, including elimination of intersegment revenue, for the three months ended March 31, 2002 and 2001:

	2002	2001	% Change
	($ in Millions)		

	2002	2001	% Change
Operating Revenue	$ (29.8)	$ 133.0	NM
Operating Loss	$ (9.6)	$ (13.2)	27%

Operating revenue decreased $162.8 million to $(29.8) million in 2002. Excluding intersegment operating revenue eliminations of $66.2 million in 2002 and $46.6 million in 2001, operating revenue decreased $143.2 million, or 80%, primarily due to the sale of our TRICARE operations. Excluding our TRICARE business from 2001 and intersegment operating revenue eliminations, operating revenue increased $3.7 million, or 11%, primarily due to additional revenues at AdminaStar Federal.

Certain corporate expenses are not allocated to our business segments. These unallocated expenses accounted for $19.1 million for the three months ended March 31, 2002 and $16.7 million for the three months ended March 31, 2001, and primarily included such items as incentive compensation, certain technology related expenses and certain costs associated with becoming an investor-owned company.

ANTHEM'S MEMBERSHIP YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

The following table presents our membership count by segment, customer type and funding arrangement as of December 31, 2001 and 2000. The membership data presented are unaudited and in certain instances include our estimates of the number of members represented by each contract at the end of the period, rounded to the nearest thousand.

Membership

	December 31			
	2001	2000	Change	% Change
	(In Thousands)			
Segment				
Midwest	4,854	4,582	272	6%
East	2,260	2,093	167	8
West	769	595	174	29
Total	7,883	7,270	613	8%
Customer Type				
Local Large Group	2,827	2,634	193	7%
Small Group	813	775	38	5
Individual	701	650	51	8
National accounts [1].	2,903	2,468	435	18
Medicare + Choice	97	106	(9)	(8)
Federal Employee Program	423	407	16	4
Medicaid	119	102	17	17
Total without TRICARE	7,883	7,142	741	10
TRICARE		128	(128)	(100)
Total	7,883	7,270	613	8%
Funding Arrangement				
Self-funded	4,052	3,481	571	16%

	December 31			
Fully insured	3,831	3,789	42	1
Total	7,883	7,270	613	8%

[1] Includes BlueCard members of 1,626 as of December 31, 2001, and 1,320 as of December 31, 2000.

The renewal patterns of our membership are somewhat cyclical throughout the year. Typically, approximately 37% of our group fully insured business renews during the first quarter and approximately 30% renews during the third quarter. The remainder of our membership renewals are evenly distributed over the other two quarters.

During the year ended December 31, 2001, total membership increased 613,000, or 8%, primarily due to growth in National business and Local Large Group, including a significant increase in BlueCard membership as a result of strong sales activity and favorable retention. Excluding TRICARE, membership increased 741,000, or 10%. Local Large Group membership increased 193,000, or 7%, with growth in all regions attributable to the success of our PPO products, as more employer groups desire the broad, open access to our networks provided by these products. The 38,000, or 5%, growth in Small Group business reflects our initiatives to increase Small Group membership through revised commission structures, enhanced product offerings, brand promotion and enhanced relationships with brokers.

Medicare + Choice membership decreased as we withdrew from the Medicare + Choice program in Connecticut effective January 1, 2001, due to losses in this line of business in that market. At December 31, 2000, our Medicare + Choice membership in Connecticut totaled 18,000. With such small membership, we concluded that attaining profitability in this program would be difficult. Offsetting this decrease was growth in our Medicare + Choice membership in certain counties in Ohio, where many competitors have left the market, leaving us as one of the few remaining companies offering this product. We decided to remain in these counties in Ohio because we believe we have a critical mass of membership and can continue to achieve improved results. We withdrew, effective on January 1, 2002, from the Medicare + Choice market in Colorado due to low membership in this market. Our Medicare + Choice membership in Colorado was 6,000 at December 31, 2001.

Individual membership increased primarily due to new business resulting from higher sales of Individual (under age 65) products, particularly in our Midwest segment.

Self-funded membership increased primarily due to our 23% increase in BlueCard membership. Fully insured membership, excluding TRICARE, grew by 170,000 members, or 5%, from December 31, 2000, due to growth in both Local Large and Small Group businesses.

Our Midwest and West membership grew primarily from increases in BlueCard activity, Local Large Group and National accounts. Our East membership growth is attributed to increased sales of Local Large Group and growth in BlueCard. Local Large Group sales in our East segment increased primarily due to the withdrawal of two of our largest competitors from the New Hampshire and Maine markets.

ANTHEM'S RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

The following table presents our consolidated results of operations for the years ended December 31, 2001 and 2000:

	2001	2000	$ Change	% Change
	($ in Millions)			
Operating revenue and premium equivalents [1]	$ 14,057.4	$ 11,800.1	$ 2,257.3	19%
Premiums	$ 9,244.8	$ 7,737.3	$ 1,507.5	19%
Administrative fees	817.3	755.6	61.7	8
Other revenue	58.2	50.6	7.6	15

	2001	2000	$ Change	% Change
Total operating revenue	10,120.3	8,543.5	1,576.8	18
Benefit expense	7,814.7	6,551.0	1,263.7	19
Administrative expense	1,986.1	1,808.4	177.7	10
Total operating expense	9,800.8	8,359.4	1,441.4	17
Operating gain	319.5	184.1	135.4	74
Net investment income	238.6	201.6	37.0	18
Net realized gains on investments	60.8	25.9	34.9	NM
Gain on sale of subsidiary operations (TRICARE)	25.0		25.0	NM
Interest expense	60.2	54.7	5.5	10
Amortization of intangibles	31.5	27.1	4.4	16
Demutualization expenses	27.6		27.6	NM
Income before taxes and minority interest	524.6	329.8	194.8	59
Income taxes	183.4	102.2	81.2	79
Minority interest (credit)	(1.0)	1.6	(2.6)	NM
Net income	$ 342.2	$ 226.0	$ 116.2	51%
Benefit expense ratio	84.5%	84.7%		(20) bp
Administrative expense ratio:				
Calculated using operating revenue	19.6%	21.2%		(160) bp
Calculated using operating revenue and premium equivalents	14.1%	15.3%		(120) bp
Operating margin	3.2%	2.2%		100 bp

1 The self-funded claims included for the year ended December 31, 2001 were $3,937.1 million and for the year ended December 31, 2000 were $3,256.6 million.

Premiums increased $1,507.5 million, or 19%, to $9,244.8 million in 2001 in part due to our acquisition of BCBS-ME in June 2000 and the additional risk we recaptured as of January 1, 2001, associated with the TRICARE business. Our subsidiary Anthem Alliance had retained 35% of the risk on its TRICARE contract as of January 1, 2000, and we increased the retention as of January 1, 2001, to 90% of the total risk for the contract. We sold the TRICARE business on May 31, 2001. Excluding our acquisition of BCBS-ME and the sale of our TRICARE business, premiums increased $1,089.5 million, or 15%, due to premium rate increases and higher membership in all of our business segments. Our Midwest premiums increased due to higher membership and premium rate increases in our group accounts (both Local Large Group and Small Group) and higher membership in Medicare + Choice. Our East and West premiums increased primarily due to premium rate increases and higher membership in group business.

Administrative fees increased $61.7 million, or 8%, from $755.6 million in 2000 to $817.3 million in 2001, with $30.2 million of this increase from our acquisition of BCBS-ME. Excluding our acquisition of BCBS-ME and the sale of our TRICARE business, administrative fees increased $112.2 million, or 20%, primarily from membership growth in National account self-funded business. Excluding our acquisition of BCBS-ME and the sale of our TRICARE business, other revenue, which is comprised principally of co-pays and deductibles associated with Anthem Prescription Management's, or APM's, sale of mail order drugs, increased $12.1 million, or 27%. APM is our pharmacy benefit manager and provides its services to other Anthem affiliates. Mail order revenues increased primarily due to additional volume resulting from the introduction of APM as the pharmacy benefit manager at BCBS-NH in late 2000 and BCBS-CO/NV and BCBS-ME in 2001.

Benefit expense increased $1,263.7 million, or 19%, in 2001 due to our acquisition of BCBS-ME and the additional risk assumed by Anthem Alliance for TRICARE business on January 1, 2001. Excluding our acquisition of BCBS-ME and the sale of our TRICARE business, benefit expense increased $888.6 million, or 15%, due to higher average membership and increasing cost of care. Cost of care trends were driven primarily by higher utilization of outpatient services and higher prescription drug costs. Our benefit expense ratio decreased 20 basis points from 84.7% in 2000 to 84.5% in 2001 primarily due to disciplined pricing, implementation of disease management plans and improvement in provider contracting. Excluding our acquisition of BCBS-ME and the sale of our TRICARE business, our benefit expense ratio decreased 40 basis points from 84.3% in 2000 to 83.9% in 2001 for the same reasons.

Total cost of care for 2001 increased approximately 13% from 2000. Excluding changes in our mix of business between regions, total cost of care for 2001 increased approximately 12%. Outpatient and professional services cost increases have varied among regions and products. For the year ended December 31, 2001, cost increases have generally averaged from 14% to 15% for outpatient services and from 11% to 12% for professional services. These increases resulted from both increased utilization and higher unit costs. Increased outpatient utilization reflects an industry-wide trend toward a broader range of medical procedures being performed without overnight hospital stays, as well as an increasing customer awareness of and demand for diagnostic procedures such as magnetic resonance imagings, or MRIs. In addition, improved medical technology has allowed more complicated medical procedures to be performed on an outpatient basis rather than on an inpatient (hospitalized) basis, increasing both outpatient utilization rates and unit costs.

Prescription drug cost increases for the year varied among regions and by product, but have generally averaged from 16% to 17% in 2001 over 2000. The cost increases resulted from the introduction of new, higher cost drugs and higher overall utilization as a result of increases in direct-to-consumer advertising by pharmaceutical companies. In response to increasing prescription drug costs, we have implemented three-tiered drug programs and expanded the use of formularies for our members. Three-tiered drug programs reflect benefit designs that have three co-payment levels which depend on the drug selected. Generic drugs have the lowest co-payment, brand name

drugs included in the drug formulary have a higher co-payment, and brand name drugs omitted from the drug formulary have the highest co-payment. Drug formularies are a list of prescription drugs that have been reviewed and selected for their quality and efficacy by a committee of practicing physicians and clinical pharmacists. Through our pharmacy benefit design, we encourage use of these listed brand name and generic drugs to ensure members receive quality and cost-effective medication.

Growth in inpatient costs was nearly 11% during 2001, up from low-single digits in previous years. This increase was due to re-negotiation of provider contracts and higher overall utilization, particularly for cardiac services admissions. Hospitals have taken a more aggressive stance in their contracting with health insurance companies as a result of reduced hospital reimbursements from Medicare and pressure to recover the costs of additional investments in new medical technology and facilities.

Administrative expense increased $177.7 million, or 10%, in 2001, which includes the impacts of our acquisition of BCBS-ME and the sale of our TRICARE business. Excluding our acquisition of BCBS-ME and the sale of our TRICARE business, administrative expense increased $194.0 million, or 12%, primarily due to higher commissions and premium taxes, which vary with premium, higher salary and benefit costs, additional costs associated with higher membership and investments in technology. Our administrative expense ratio, calculated using operating revenue and premium equivalents, decreased 120 basis points primarily due to operating revenue increasing faster than administrative expense.

Net investment income increased $37.0 million, or 18%, primarily due to our higher investment portfolio balances. The higher portfolio balances included net cash generated from operations, as well as cash generated from improved balance sheet management, such as quicker collection of receivables and liquidation of non-strategic assets. Excluding the investment income earned by BCBS-ME and TRICARE, net investment income increased $31.7 million, or 16%. As returns on fixed maturity portfolios are dependent on market interest rates and changes in interest rates are unpredictable, there is no certainty that past investment performance will be repeated in the future.

Net realized capital gains increased from $25.9 million in 2000 to $60.8 million in 2001. Included in net realized capital gains in 2001 was $65.2 million of gains resulting from restructuring our equity portfolio into fixed maturity securities and equity index funds in the early to mid third quarter of 2001. This offset $28.9 million of losses on equity securities that we recognized as other than temporary impairment during the second quarter of 2001. Net realized capital gains from sale of equities decreased $3.4 million, or 8%, to $40.1 million in 2001 from $43.5 million in 2000. Net realized capital gains from sale of fixed income securities were $20.7 million in 2001, while we experienced net realized capital losses of $17.6 million in 2000. Net gains or losses on investments are influenced by market conditions when an investment is sold, and will vary from year to year.

Gain on sale of subsidiary operations of $25.0 million relates to the sale of our TRICARE business on May 31, 2001.

Interest expense increased $5.5 million, or 10%, primarily reflecting the issuance of our 6.00% Equity Security Units, or Units, on November 2, 2001 and the commitment fee associated with our new $800.0 million line of credit.

Amortization of intangibles increased $4.4 million, or 16%, from 2000 to 2001, primarily due to amortization expense associated with our acquisition of BCBS-ME. As we adopted FAS 142 on January 1, 2002, this standard did not have any effect on these results. See Note 1 to our audited consolidated financial statements for additional information.

Demutualization expenses, which are non-recurring, totaled $27.6 million in 2001.

Income tax expense increased $81.2 million, or 79%, primarily due to higher income before taxes. Our effective income tax rate in 2001 was 35.0% and was 31.0% in 2000. Our rate was lower than the statutory effective tax rate in 2000 primarily as a result of changes in our deferred tax

valuation allowance. Our effective tax rate increased in 2001 primarily due to the non-deductibility of demutualization expenses and a portion of goodwill amortization for income tax purposes.

Net income increased $116.2 million, or 51%, primarily due to the improvement in our operating results, net realized capital gains, gain on sale of subsidiary operations and higher investment income. Excluding the gain on the sale of our TRICARE business ($16.3 million after tax), net realized gains on investments and demutualization expenses, net income increased $105.0 million, or 51%.

Midwest

Our Midwest segment is comprised of health benefit and related business for members in Indiana, Kentucky and Ohio. The following table presents our Midwest segment's summarized results of operations for the years ended December 31, 2001 and 2000:

	2001	2000	% Change
	($ in Millions)		
Operating Revenue	$ 5,093.0	$ 4,460.5	14%
Operating Gain	$ 161.5	$ 87.8	84%
Operating Margin	3.2%	2.0%	120bp
Membership (in 000s)	4,854	4,454[1]	9%

1 Excludes 128,000 TRICARE members.

Operating revenue increased $632.5 million, or 14%, in 2001 due primarily to premium rate increases and the effect of higher average membership in our Local Large Group, Small Group and Medicare + Choice businesses.

Operating gain increased $73.7 million, or 84%, resulting in an operating margin of 3.2% at December 31, 2001, a 120 basis point improvement from the year ended December 31, 2000. This improvement was primarily due to revenue growth and effective expense control. Administrative expense increased at a slower rate than premiums as we gained operating efficiencies and leveraged our fixed costs over higher membership.

Our Midwest segment assumed a portion of the risk for Anthem Alliance's TRICARE contract until December 31, 2000. Effective January 1, 2001, Anthem Alliance reassumed this risk. For the year ended December 31, 2000, our Midwest segment received $122.1 million of premium income, no administrative fees or other income, incurred $113.8 million of benefit expense and $7.4 million of administrative expense, resulting in a $0.9 million operating gain on the TRICARE contract. We also had 128,000 TRICARE members included in our Midwest segment's membership at December 31, 2000, and no members at December 31, 2001.

Excluding TRICARE, membership increased 400,000, or 9%, to 4.9 million members, primarily due to sales in National business, higher BlueCard activity and favorable retention of business.

East

Our East segment is comprised of health benefit and related business for members in Connecticut, New Hampshire and Maine. The following table presents our East segment's summarized results of operations for the years ended December 31, 2001 and 2000. BCBS-ME is included from its acquisition date of June 5, 2000.

	2001	2000	% Change
	($ in Millions)		
Operating Revenue	$ 3,667.3	$ 2,921.9	26%
Operating Gain	$ 128.8	$ 103.8	24%
Operating Margin	3.5%	3.6%	(10) bp
Membership (in 000s)	2,260	2,093	8%

Operating revenue increased $745.4 million, or 26%. Excluding our acquisition of BCBS-ME in June 2000 and the effect of our exit from the Medicare + Choice business in Connecticut on January 1, 2001, operating revenue increased $449.0 million, or 20%, in 2001 due to premium rate increases in group business and higher average membership. Increases in group membership accounted for most of our increase and were primarily in our Local Large Group business.

Operating gain increased $25.0 million, or 24%, primarily due to improved underwriting results in Small Group and Local Large Group businesses, exiting the Medicare + Choice market in Connecticut, and higher overall membership. Operating margin decreased 10 basis points primarily due to the relatively lower margins on our Maine business.

Membership increased 167,000, or 8%, primarily in Local Large Group and BlueCard businesses.

West

Our West segment is comprised of health benefit and related business for members in Colorado and Nevada. The following table presents our West segment's summarized results of operations for the years ended December 31, 2001 and 2000:

	2001	2000	% Change
	($ in Millions)		
Operating Revenue	$ 774.4	$ 622.4	24%
Operating Gain	$ 20.1	$ 2.5	704%
Operating Margin	2.6%	0.4%	220bp
Membership (in 000s)	769	595	29%

Operating revenue increased $152.0 million, or 24%, primarily due to higher premium rates designed to bring our pricing in line with cost of care and higher membership in National and both Local Large Group and Small Group businesses.

Operating gain increased $17.6 million, to $20.1 million in 2001, primarily due to improved underwriting performance as a result of premium rate increases exceeding cost of care increases and higher average membership, particularly in our Local Large Group business. This improvement in our operating gain resulted in a 220 basis point increase in operating margin to 2.6% in 2001.

Membership increased 174,000, or 29%, to 769,000, due to increased BlueCard activity and higher sales in Local Large Group and Small Group businesses. We exited the Medicare + Choice market in Colorado effective January 1, 2002. At December 31, 2001, our Medicare + Choice membership in Colorado was approximately 6,000. We expect no material effect on operating results from exiting this market.

We entered into an agreement with Sloan's Lake HMO in Colorado for the conversion of Sloan's Lake HMO business effective January 1, 2001. The terms of the agreement include payment to Sloan's Lake for each member selecting our product at the group's renewal date and continuing as our member for a minimum of nine months. Through December 31, 2001, we added approximately 35,000 members from Sloan's Lake.

Specialty

Our Specialty segment includes our group life and disability, pharmacy benefit management, dental and vision administration services, and third party occupational health services. The following

table presents our Specialty segment's summarized results of operations for the years ended December 31, 2001 and 2000:

	2001	2000	% Change
	($ in Millions)		
Operating Revenue	$ 396.1	$ 332.3	19%
Operating Gain	$ 32.9	$ 24.9	32%
Operating Margin	8.3%	7.5%	80bp

Operating revenue increased $63.8 million, or 19%, primarily due to higher revenue at APM. APM's operating revenue grew primarily due to increased mail order prescription volume and the implementation of APM's pharmacy benefit programs beginning in 2001 by BCBS-CO/NV and BCBS-ME, and in late 2000 by BCBS-NH. Mail service membership increased 28%, while retail service membership decreased 13%. Mail service prescription volume increased 38% and retail prescription volume increased 31%. This growth more than offset the effect of the termination of a special funding arrangement with a large life group on December 31, 2000. Life and disability premiums decreased $28.8 million, or 23%, primarily due to this termination. This group accounted for $35.9 million of life and disability premiums for 2000 and contributed very low margins to our Specialty segment's profitability.

Operating gain increased $8.0 million, or 32%, primarily due to increased mail order prescription volume at APM. Improved APM results, coupled with the termination of the large life group, resulted in an 80 basis point increase in our operating margin to 8.3%.

Other

Our Other segment includes various ancillary business units such as AdminaStar Federal, a subsidiary that administers Medicare Parts A and B programs in Indiana, Illinois, Kentucky and Ohio, and Anthem Alliance, a subsidiary that provided the health care benefits and administration in nine states for active and retired military employees and their dependents under the Department of Defense's TRICARE program for military families until our TRICARE business was sold on May 31, 2001. Our Other segment also includes intersegment revenue and expense eliminations and corporate expenses not allocated to operating segments. The following table presents the summarized results of operations for our Other segment for the years ended December 31, 2001 and 2000:

	2001	2000	% Change
	($ in Millions)		
Operating Revenue	$ 189.5	$ 206.4	(8)%
Operating Loss	$ (23.8)	$ (34.9)	32%

Operating revenue decreased $16.9 million, or 8%, to $189.5 million in 2001. Excluding intersegment operating revenue eliminations of $214.0 million in 2001 and $151.7 million in 2000, operating revenue increased $45.4 million, or 13%, primarily due to an increase in premiums resulting from the additional risk assumed as of January 1, 2001, by our TRICARE operations before its sale on May 31, 2001.

Certain corporate expenses are not allocated to our business segments. These unallocated expenses accounted for $33.0 million in 2001 and $39.9 million in 2000, and primarily included such items as unallocated incentive compensation associated with better than expected performance. Excluding unallocated corporate expenses, operating gain was $9.2 million in 2001 versus $5.0 million in 2000.

ANTHEM'S MEMBERSHIP YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Our membership data presented below are unaudited and in certain instances include our estimates of the number of members at the end of the period rounded to the nearest thousand.

The following table presents membership data by segment, customer type and funding arrangement as of December 31, 2000 and 1999, comparing both total and same-store membership. The membership data presented are unaudited and in certain instances include our estimates of the number of members represented by each contract at the end of the period, rounded to the nearest thousand. We define same-store membership as our membership at a given year-end in a segment or for a particular customer or funding type, after excluding the impact of members obtained through acquisitions or combinations during such year. As such, we believe that same-store membership data best captures the rate of organic growth of our operations year over year.

Membership

	Total 2000	BCBS-ME Acquisition	Same Store 2000	Total 1999	Total Change	Total %	Same Store Change	Same Store %
	(In Thousands)							
Segment								
Midwest	4,582		4,582	4,382	200	5%	200	5%
East	2,093	487	1,606	1,397	696	50	209	15
West	595		595	486	109	22	109	22
Total	7,270	487	6,783	6,265	1,005	16%	518	8%
Customer Type								
Local Large Group	2,634	278	2,356	2,249	385	17%	107	5%
Small Group	775	62	713	637	138	22	76	12
Individual	650	84	566	586	64	11	(20)	(3)
National Accounts [1]	2,468	32	2,436	2,106	362	17	330	16
Medicare + Choice	106		106	96	10	10	10	10
Federal Employee Program	407	31	376	362	45	12	14	4
Medicaid	102		102	100	2	2	2	2
Total without TRICARE	7,142	487	6,655	6,136	1,006	16	519	8
TRICARE	128		128	129	(1)	(1)	(1)	(1)
Total	7,270	487	6,783	6,265	1,005	16%	518	8%
Funding Type								
Fully insured	3,789	360	3,429	3,354	435	13%	75	2%
Self-funded	3,481	127	3,354	2,911	570	20	443	15
Total	7,270	487	6,783	6,265	1,005	16%	518	8%

1 Includes BlueCard members of 1,320 as of December 31, 2000 and 974 as of December 31, 1999.

Same-store membership increased 518,000, or 8%, from 1999 to 2000, primarily due to growth in National business, including a significant increase in enrollment in BlueCard programs. The 76,000, or 12%, growth in Small Group business in 2000 reflects our initiatives to increase Small Group membership, including revised commission structures, product offerings, brand promotion and enhanced relationships with our brokers.

Medicare + Choice membership increased mostly due to growth in Ohio, where many competitors have left the market and we are one of the few remaining companies offering this product. We decided to remain in selected markets for Medicare + Choice in Ohio because we believe that with a critical mass of membership in those markets we can achieve satisfactory results. We withdrew from the Medicare + Choice program in Connecticut effective January 1, 2001, due to losses in this line of business. At December 31, 2000, membership in the Medicare + Choice program in Connecticut was 18,000.

Individual membership dropped primarily due to a reduction in Medicare Supplement business in our Midwest region. This block of business, which has traditionally generated high profit margins, is shrinking due to terminations of grandfathered policies, primarily mortality related, exceeding new sales. Effective on January 1, 1992, the Center for Medicare and Medicaid Services, or CMS, then known as the Health Care Financing Administration, or HCFA, required that new sales of Medicare Supplement coverages be sold in the form of one of 10 standardized policies, while persons with existing Medicare Supplement coverages could retain their existing Medicare Supplement products, which generally had higher profit margins than the new products. Since that time, our Medicare Supplement membership has, through terminations of grandfathered policies and sales of new policies, reached the point where at December 31, 2000, approximately 50% of our Medicare Supplement membership in the Midwest was in the old plans and 50% in the new plans. During 2001, we introduced a line of competitive Medicare Supplement policies in the Midwest to improve the growth of this business and we modified the premium rate structures to improve the attractiveness of these products in the marketplace.

Self-funded membership increased in 2000 primarily due to the increase in BlueCard membership, while fully insured membership grew primarily as a result of the growth in our Small Group membership sales.

Our Midwest membership grew in 2000 primarily from the growth in BlueCard membership discussed above, Local Large Group and National accounts sales. Our East membership grew primarily due to increased sales of Small Group and growth in BlueCard. Small Group sales in our East segment increased primarily due to the withdrawal of two of our largest competitors from the New Hampshire market. Our West membership growth was primarily due to higher BlueCard membership.

ANTHEM'S RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

The following table presents our consolidated results of operations for the years ended December 31, 2000 and 1999:

	2000	1999	$ Change	% Change
		($ in Millions)		
Operating revenue and premium equivalents [1]	$ 11,800.1	$ 8,691.6	$ 3,108.5	36%
Premiums	$ 7,737.3	$ 5,418.5	$ 2,318.8	43%
Administrative fees	755.6	611.1	144.5	24
Other revenue	50.6	51.0	(0.4)	(1)
Total operating revenue	8,543.5	6,080.6	2,462.9	41
Benefit expense	6,551.0	4,582.7	1,968.3	43
Administrative expense	1,808.4	1,469.4	339.0	23
Total operating expense	8,359.4	6,052.1	2,307.3	38
Operating gain	184.1	28.5	155.6	NM
Net investment income	201.6	152.0	49.6	33

	2000	1999	$ Change	% Change
Net realized gains on investments	25.9	37.5	(11.6)	(31)
Interest expense	54.7	30.4	24.3	80
Amortization of intangibles	27.1	12.7	14.4	113
Endowment of non-profit foundations		114.1	(114.1)	(100)
Income from continuing operations before taxes and minority interest	329.8	60.8	269.0	NM
Income taxes	102.2	10.2	92.0	NM
Minority interest (credit)	1.6	(0.3)	1.9	NM
Income from continuing operations	226.0	50.9	175.1	NM
Discontinued operations, net of income taxes				
Loss on disposal of discontinued operations		(6.0)	6.0	NM
Net income	$ 226.0	$ 44.9	$ 181.1	NM
Benefit expense ratio	84.7%	84.6%		10bp
Administrative expense ratio:				
Calculated using operating revenue	21.2%	24.2%		(300bp)
Calculated using operating revenue and premium equivalents	15.3%	16.9%		(160bp)
Operating margin	2.2%	0.5%		170bp

[1] Self-funded claims included for the year ended December 31, 2000, were $3,256.6 million and for the year ended December 31, 1999, were $2,611.0 million.

Premiums increased by $2,318.8 million, or 43%, to $7,737.3 million in 2000 primarily due to our acquisitions of BCBS-NH and BCBS-CO/NV in the fourth quarter of 1999 and BCBS-ME in June 2000. Excluding these acquisitions, premiums increased by $870.5 million, or 16%, primarily due to premium rate increases and higher membership in our Midwest and East segments. Our Midwest premiums increased $473.8 million, or 13%, while our East premiums increased $353.4 million, or 25%. Midwest premiums increased primarily due to higher membership and premium rate increases in our group accounts (both Local Large Group and Small Group) and higher membership in Medicare + Choice. East premiums increased primarily due to premium rate

increases and higher membership in group business, as well as the conversion of the State of Connecticut account to fully insured from self-funded status in mid-1999.

Administrative fees increased $144.5 million, or 24%, from $611.1 million in 1999 to $755.6 million in 2000, with $135.3 million of this increase resulting from our acquisitions of BCBS-NH, BCBS-CO/NV and BCBS-ME. In July 1999, we sold two non-strategic businesses which had combined 1999 revenues of $12.8 million. Excluding these acquisitions and divestitures, administrative fees increased $20.6 million, or 3%, primarily from membership growth in National account business. Excluding these acquisitions and divestitures, other revenue increased $6.0 million, or 14%, primarily due to Anthem Alliance assuming additional administrative functions under the TRICARE program.

Benefit expense increased $1,968.3 million, or 43%, in 2000, primarily due to acquisitions. Excluding our acquisitions, benefit expense increased $729.9 million, or 16%, due to increasing cost of care and the effect of higher average membership throughout the year. Cost of care trends were driven primarily by higher utilization of outpatient services and higher prescription drug costs. Our benefit expense ratio increased 10 basis points from 84.6% in 1999 to 84.7% in 2000 due to our acquisition of BCBS-ME in 2000, which had a higher benefit expense ratio than our other operations. Excluding acquisitions, our benefit expense ratio remained constant at 84.6% in 2000 and 1999.

Outpatient cost increases in our segments ranged from 15% to 20% in 2000 over 1999. These increases have resulted from both increased utilization and higher unit costs. Increased outpatient utilization reflects an industry-wide trend toward a broader range of medical procedures being performed without overnight hospital stays, as well as an increasing customer awareness of and demand for diagnostic procedures such as MRIs. In addition, improved medical technology has allowed more complicated medical procedures to be performed on an outpatient basis rather than on an inpatient (hospitalized) basis, increasing both outpatient utilization rates and unit costs.

Prescription drug cost increases have varied among regions and by product, but generally ranged from 12% to 20% in 2000 over 1999, primarily due to introduction of new, higher cost drugs as well as higher overall utilization as a result of increases in direct-to-consumer advertising by pharmaceutical companies. In response to increasing prescription drug costs, we implemented a three-tiered drug program and expanded the use of formularies for our members.

Administrative expense increased $339.0 million, or 23%, in 2000, primarily due to our acquisitions of BCBS-NH, BCBS-CO/NV and BCBS-ME. Administrative expense in 1999 included $41.9 million resulting from our settlement with the Office of Inspector General, or OIG, Health and Human Services to re