In the world of Science, the elements serve as the fundamental building blocks of all matter. The Periodic Table of the Elements forms a meaningful structure that enables scientists both current and future to use the elements and understand the significance of their interactions.

Like a science, providing access to quality health care requires its own “chemistry,” which involves the interaction of many elements. At Blue Cross and Blue Shield of Louisiana, service, financial strength and vision are some of the fundamental building blocks of success, both now and for the future.

This annual report looks at the various elements of our business and how each contributes uniquely to the science of what we do. Blue Cross is using each element to build a future of continued strength and success.
A message from the President and CEO

The year 2004 was a time of significant transition for Blue Cross and Blue Shield of Louisiana. The company successfully faced numerous challenges and changes. At year’s end, we were stronger than ever, with many elements of continued success at hand: impressive market share, favorable financial position and a reputation for service and stability.

In November 2004, I joined Blue Cross and Blue Shield of Louisiana as its new president and CEO. Louisiana is unique in many ways, with the health care market being no exception. I have spoken with many of those involved in our business, gathering information and insight into the ways we can fit our strengths and successes into a well-constructed framework for the future.

Many factors attracted me to this company. Blue Cross and Blue Shield of Louisiana is the state’s oldest and largest health insurer, with nearly 1,400 dedicated employees and exceptionally strong brand recognition. Our company has unmatched provider networks and enjoys a reputation among providers for excellent service. We have a large and loyal customer base statewide that values our financial stability and commitment to the community. Our focus on customer service is evident in our strong membership growth – topping 1 million members early in 2004. Revenue growth has regularly exceeded projections, and we have strong financial reserves to help protect our policyholders.

The danger would be to take these favorable dynamics for granted. In today’s extremely competitive market, we cannot rest on our laurels. The rising cost of health care, the growing number of uninsured citizens and competitive challenges all are critical concerns.

I am deeply committed, as I have been throughout my career, to providing access to quality health care to all of our members, while operating efficiently and managing health care costs appropriately, in order to keep health care affordable. To that end, our business plan for 2005 strongly emphasizes a strategic planning approach, which is at once visionary and practical. It is crucial that we re-examine our company’s mission and then establish a vision suitable for this challenging and changing world.

In this context, we must address three key issues: the increasing problem of health insurance affordability, the importance of ensuring clinical quality in health care and the rising number of uninsured residents in Louisiana. This annual report explores these issues in more detail. I am proud to say that our financial strength, reputation for service and commitment to our members will remain the basic elements we will use to extend and improve upon Blue Cross and Blue Shield of Louisiana’s 71-year tradition of excellence. These assets form a foundation and shape the dynamics with which to address the emerging health care needs of the people of Louisiana – now and in the challenging years ahead.

Sincerely,

Gery J. Barry, FSA
President and Chief Executive Officer
April 2005
Today’s Strengths

At year’s end, Blue Cross and Blue Shield of Louisiana was the strongest it has ever been in all major respects. A careful eye toward cost management contributed to continued strong financial performance. The more than 1 million customers we serve benefited from our nationally acclaimed strong provider relationships and use of technology. And as always, the customer remained No. 1.
Strength

Blue Cross and Blue Shield of Louisiana ended 2004 with a strong market position, serving more than 1 million members statewide. This number represents nearly one-quarter of the state's population and nearly one-half of the privately insured market.

This strength in membership was matched by the company's financial performance. Revenue growth exceeded projections, and the company was able to add more than $50 million to its statutory reserves in 2004. Standard & Poor's reaffirmed the company's "A" (strong) ratings for the eighth consecutive year, citing our strong market share and financial position.

We've taken many steps to moderate the growth of medical costs by expanding our efforts in disease management and case management programs. We've also transitioned our pharmacy benefit program to a new vendor, where we have seen clear improvements in our management of drug costs.

Controlling administrative costs was a focus of the company in 2004 as well. While only 12 cents of every dollar is spent on administrative expenses at Blue Cross, we have a commitment to lower that number even more. Performance accountabilities for our employees incorporate cost-containment strategies to ensure that every employee stretches every dollar to its fullest without sacrificing customer service.

Not content with our already strong customer satisfaction ratings, Blue Cross launched an internal initiative to focus employees' efforts to improve every aspect of the customer experience, from sales and enrollment through renewal and retention.

Strong provider relationships play a large role in our customer service strategy. Broad provider networks, effective provider contracting and negotiated reimbursements continued to be a demonstrable competitive advantage, especially in rural areas. The company's reputation for accessibility, exceptional service levels and prompt payments kept provider satisfaction high, with surveys by the Louisiana State Medical Society and the Louisiana Hospital Association ranking Blue Cross as the best company with which providers do business.

Keeping the customer No. 1 led the company's strategic investment in technology throughout 2004. We made significant progress on the project to replace our current computer operating system with one that will greatly enhance competitive capabilities, with careful and deliberate planning focused on minimizing service interruptions. New online self-service capabilities found favor with customers, giving them greater power and flexibility to manage their coverage.

A complete redesign of the company’s website, www.bcbsla.com, provided a platform for continued development of online self-service tools for customers, employers, brokers and providers, recognizing the emergence of e-commerce as a key business component.
Growth in statutory reserves

Blue Cross and Blue Shield of Louisiana is required by law and as an independent licensee of the Blue Cross and Blue Shield Association to maintain financial reserves for the protection of our policyholders. At the end of 2004, our statutory reserves surpassed $300 million, substantially exceeding minimum requirements, meaning our customers are protected even more.
Exceptional customer experience

What does this mean to the customer? That question is asked by Blue Cross employees in their day-to-day work. An exceptional customer experience is our objective, putting the customer at the center of everything we do. Customer focus is part of the company’s transformation to a high-performance culture, a key corporate goal in 2005 and beyond.
On online member self-service tools

We asked our customers what they wanted in regard to self-service options, and they told us. We responded with AccessBlue, a suite of services that enables customers to check the status of recent claims, review their claims information, and manage a host of account options—all online and at their convenience. In just four months, more than 4,000 members had signed on to use this new tool.
No. 1 in provider satisfaction

The Blue Cross and Blue Shield Association conducts an annual survey to determine satisfaction among providers participating in the BlueCard® program, which allows members to access network providers across the nation. For the second consecutive year, Blue Cross and Blue Shield of Louisiana ranked No. 1 in provider satisfaction among all Blue Plans in the country.
Tomorrow’s Challenges

The written Chinese language uses the same character to represent both “challenge” and “opportunity” – a bit of wisdom that holds true for the health care industry. Blue Cross and Blue Shield of Louisiana has a clear and focused strategy to apply our significant strengths to the key issues of affordability, quality and the uninsured, turning these challenges into opportunities for growth and improvement in today’s competitive marketplace.
Even as Blue Cross and Blue Shield of Louisiana has enjoyed favorable trends in financial strength and membership growth over the past several years, the health insurance marketplace has been changing. Three issues critical both in Louisiana and nationwide intensified in 2004: affordability, clinical quality and the uninsured.

U.S. health care costs have continued to rise faster than general inflation, a result of medical cost inflation and growth in utilization. Medical advances come with a high price tag, and consumers are demanding more services. The current system of health care financing cannot sustain this trend without higher premiums, which in turn result in thousands of Louisiana families and employers deciding that they simply can no longer afford health insurance.

Louisiana has one of the highest uninsured populations per capita in the nation, with an estimated 21.1 percent of adults and 11.1 percent of children lacking health insurance. The growing number of uninsured doubly impacts insurance premiums. As healthy people leave the insurance system, those left tend to be those with more health problems, which causes overall premiums to increase even more rapidly. Secondly, people without health insurance still have health care needs, but many delay treatment until a condition worsens and becomes more expensive to treat. Many turn to the state’s public health system for help. This cost is borne by all state taxpayers — our company and our customers included.

Patient safety and quality of care have also emerged as factors affecting our customers, bringing attention to the need for process improvements in the clinical setting and use of information technology to transform how health care is managed and delivered.

Adding to the vicious cycle of affordability, quality issues and lack of insurance, Louisiana ranks high in many negative health indicators that directly increase health care costs, such as pre-term infant birth rate, high rate of cardiovascular disease, low childhood immunization rates, overall population obesity and the number of uninsured residents in the state. Perhaps most shocking is the state’s No. 1 ranking for deaths due to diabetes.
We fully appreciate that these interrelated issues must be addressed head on in order for voluntary health insurance programs like ours to thrive and to bring even more value to ever-growing numbers of Louisianians. Fundamental change is needed, and Blue Cross and Blue Shield of Louisiana is actively engaged in addressing these issues. In 2004, the company launched a major multimedia education initiative to explain the complex drivers behind health care costs to key consumers, employers and the media. Educational materials describe what Blue Cross is doing to help contain costs and offer consumers tips for controlling their own medical expenses. The initiative will continue through 2005 and beyond as a key element of our strategy to address health care affordability.

Letting consumers know that there are affordable products available to them is also part of the company’s efforts. In 2004, Blue Cross rolled out a new product, Blue Select, which offered the basic benefits customers told us they wanted the most, with options designed for affordability. We were at the forefront in the emergence of consumer-directed health care plans (CDHP) and health savings accounts (HSA) as affordable options for today’s consumers, with the company being one of the top Blue Cross Plans in the country in the number of HSA-qualified product sales.

Over the last two years, Blue Cross and Blue Shield of Louisiana has greatly expanded its medical cost-containment activities, recognizing that both affordability and clinical quality can be improved by applying scientific guidelines to disease and case management. The company launched a diabetes management program for federal workers described as “one of a kind” by officials in the U.S. Office of Personnel Management, which oversees the Federal Employee Program (FEP) that insures those workers. Recognizing that Louisiana is the No. 1 state in the nation for deaths from diabetes, the company aims to improve the health and reduce the long-term costs of federal employee policyholders in Louisiana through intense educational efforts and coordinated care.

The FEP diabetes program offers an opportunity to target a unique and cohesive population. Blue Cross and Blue Shield of Louisiana coordinates several other disease management programs that assist the general membership with diabetes, as well as chronic conditions like asthma and cardiovascular disease.

The company is also working closely with civic and government leaders at all levels in order to set into motion an agenda for sustainable reform in how health care in Louisiana is delivered and funded. Only then will the people throughout this state have sufficient and affordable coverage for the quality health care they need.
Understanding health care costs

In 2004, Blue Cross took an unprecedented stand to educate Louisianians on the drivers of health care costs. Using a variety of communications, ranging from TV and radio advertising to billboards to our website, we provided details on the factors behind rising health care costs, as well as information on what we’re doing about them — and what consumers themselves can do.
Managing pharmaceutical costs and quality

One of the largest contributors to the rising cost of health care is prescription drugs. A switch to a new vendor to manage prescription drug benefits saved Blue Cross more than $8 million in 2004. The change also opened opportunities for more cost-saving programs, such as automated letters to members taking certain higher-cost medications with recommendations for lower-cost alternatives.

Another effort aimed at reducing drug costs and improving quality involved Flareware, a high-tech tool giving providers access to the Blue Cross drug formularies via handheld PDAs or desktop computers. With the most up-to-date data at his or her fingertips, a provider can search for the most affordable options for patients while reducing the risk of potentially harmful drug interactions.
Caring for the uninsured

Blue Cross and Blue Shield of Louisiana has participated in the national Cover-the-Uninsured Week ever since the move’s inception, and continues working to raise awareness of the “involuntary” uninsured – those who truly cannot afford health insurance. A state law passed in 2004 allows insurers to offer lower-cost, mandate-free plans to individuals and small group customers. Now in development are affordable products designed to bring these voluntary uninsured into the system.
The right care at the right time

Our case management activities moved toward providing a lifelong continuum of care, from wellness education and preventive services for members in good health, through disease management in support of members with acute or chronic conditions, to full case management for extraordinary or complex circumstances. In-house medical professionals include board-certified medical directors, pharmacists and a full staff of registered nurses, who are supported in their decision-making by advisory committees of practicing medical professionals who serve our customers.

Predictive modeling technology used by Blue Cross identifies members in need of care before their conditions worsen. Employers can use this technology to manage their costs while providing meaningful employee benefits.
Blue Cross and Blue Shield of Louisiana is ready to meet the challenges of renewed competition and rising customer expectations. A collaborative effort of strategic planning by all staff will make our five-year vision and roadmap to the future part of our corporate culture, a culture focused on high performance.
Strategic positioning, replacement of the company’s present operating system and protecting our franchise are critical for our success in 2005 and beyond. Focusing on these elements with a clear strategic direction will enable the company to meet growth and financial projections and address the challenges of affordability, the uninsured and clinical quality.

As 2005 began, a renewed vision for Blue Cross and Blue Shield of Louisiana was being created by those who will direct it – our employees. Our company’s mission has been re-established in light of our place in today’s changing marketplace and our plans for the future. The framework supporting our vision and mission is strategic planning.

A fundamental component of this plan will be an active, progressive approach toward diversity to broaden our customer base, increase value to all customers and strengthen our ability to implement our vision. The company continues to “raise the bar” on performance expectations of our employees, tapping the leadership talents of staff that in turn will improve our operating expense structure and our ability to get things done.

Part of our efforts for the future is the replacement of our current operating system with one offering vastly improved data management capabilities, along with greater flexibility to support complex product development, greater speed-to-market and improved ability to meet customer needs. Most of the design and development work on the project is complete, and the new system is expected to lower administrative costs because of its efficiencies.

Protecting our current status as leader in the Louisiana market involves maintaining our strong broker relationships, enhancing customer service capabilities and continuing to improve our already extensive product portfolio. Efforts such as extending our call center’s hours of operation and streamlining the enrollment process for new groups are designed to create an exceptional customer experience.

A major initiative for 2005 will be our preparation for the impending Medicare Part D prescription drug benefit program, providing an avenue for growth as well as retention in our Medicare supplement lines of business.
Core operating system

One of the largest projects Blue Cross has ever undertaken, in terms of both capital outlay and human resource investment, is the replacement of the company’s core operating system that will be deployed in waves to ensure as smooth a transition as possible. The first group of member records will be transferred by the third quarter of 2005. Independent analyst Standard and Poor’s lauded this effort as well-timed, and another independent review found this mission-critical project to be clearly scoped and under strong leadership.
Diversity

Our company’s internal diversity program successfully raised awareness of the value that employees of varying ethnicities, religions, educational backgrounds, ages and experience levels bring to our business. In 2005, we are expanding our efforts to corporate performance, weaving diversity into every aspect of our business to broaden our customer reach and strengthen our ability to deliver exceptional results.
Blue Cross and Blue Shield of Louisiana recorded another successful year in 2004. With innovative thinking and improved products and services, we ended the year on strong financial footing, with future efforts toward continued growth in membership and stability.

Not content with the status quo, we are striving for the exceptional. Focused, visionary strategic planning will ensure a successful 2005 and take us into the future. We have all of the elements we need to build a standard of excellence that every one of our customers deserves.
## Louisiana Health Service & Indemnity Company and Subsidiaries
### Five-Year Comparative Statement
**(in thousands)**

#### Assets

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td>Cash and Investments</td>
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<td>$319,568</td>
<td>$396,623</td>
<td>$473,361</td>
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<td>Premium Receivable</td>
<td>9,456</td>
<td>6,640</td>
<td>5,271</td>
<td>5,612</td>
<td>6,358</td>
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<tr>
<td>Other Assets, Including Real Estate</td>
<td>89,866</td>
<td>105,890</td>
<td>110,142</td>
<td>110,476</td>
<td>128,473</td>
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<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$337,554</td>
<td>$432,098</td>
<td>$512,036</td>
<td>$599,449</td>
<td>$706,965</td>
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#### Liabilities and Surplus

<table>
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<tr>
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<tr>
<td>Policyholder Liabilities</td>
<td>$444,991</td>
<td>$332,090</td>
<td>$358,484</td>
<td>$353,732</td>
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<td>Unearned Premium</td>
<td>19,350</td>
<td>25,681</td>
<td>29,769</td>
<td>30,826</td>
<td>37,318</td>
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<tr>
<td>Deposits and Other Liabilities</td>
<td>49,419</td>
<td>110,313</td>
<td>116,025</td>
<td>128,231</td>
<td>128,580</td>
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<td><strong>Total Liabilities</strong></td>
<td>$213,650</td>
<td>$219,690</td>
<td>$234,388</td>
<td>$218,379</td>
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<td>Surplus</td>
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<td>212,408</td>
<td>277,527</td>
<td>352,340</td>
<td>451,740</td>
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<tr>
<td><strong>TOTAL LIABILITIES AND SURPLUS</strong></td>
<td>$337,554</td>
<td>$432,098</td>
<td>$512,036</td>
<td>$599,449</td>
<td>$706,965</td>
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</table>

*Presented in accordance with Generally Accepted Accounting Principles. 2000-2003 restated to conform to the 2004 presentation.*

Life and Other
Self-funded
Insured Medical

Louisiana Health Service & Indemnity Company and Subsidiaries
Claims
Louisiana Health Service & Indemnity Company and Subsidiaries
Consolidated Income Statements

(\text{in millions})

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td>Premium Income</td>
<td>$934</td>
<td>$963</td>
<td>$1,174</td>
<td>$1,352</td>
<td>$1,497</td>
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<tr>
<td>Claims Expense</td>
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<td>770</td>
<td>939</td>
<td>1,072</td>
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<tr>
<td><strong>GROSS MARGIN</strong></td>
<td><strong>$145</strong></td>
<td><strong>$193</strong></td>
<td><strong>$235</strong></td>
<td><strong>$279</strong></td>
<td><strong>$279</strong></td>
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<tr>
<td>Service Revenue and Other Income</td>
<td>18</td>
<td>34</td>
<td>44</td>
<td>54</td>
<td>65</td>
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<tr>
<td>Commissions</td>
<td>44</td>
<td>52</td>
<td>68</td>
<td>79</td>
<td>82</td>
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<tr>
<td>Administrative Expenses</td>
<td>120</td>
<td>127</td>
<td>154</td>
<td>165</td>
<td>183</td>
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<tr>
<td>Operating Income w/o Strategic Projects</td>
<td>(1)</td>
<td>48</td>
<td>60</td>
<td>89</td>
<td>79</td>
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<td>Strategic Projects Expense</td>
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<td>22</td>
<td>41</td>
<td>15</td>
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<tr>
<td><strong>NET OPERATING INCOME</strong></td>
<td><strong>$(4)</strong>*</td>
<td><strong>$54</strong></td>
<td><strong>$58</strong></td>
<td><strong>$48</strong></td>
<td><strong>$64</strong></td>
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<tr>
<td>Investment Income</td>
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<td>19</td>
<td>19</td>
<td>22</td>
</tr>
<tr>
<td><strong>PRE-TAX INCOME</strong></td>
<td><strong>$89</strong></td>
<td><strong>$56</strong></td>
<td><strong>$57</strong></td>
<td><strong>$67</strong></td>
<td><strong>$86</strong></td>
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* Presented in accordance with Generally Accepted Accounting Principles.
Prior years have been restated for comparative purposes.

Louisiana Health Service & Indemnity Company and Subsidiaries
Members Served
2000-2004

NUMBER OF MEMBERS AS OF DECEMBER 31 OF CORRESPONDING YEAR

<table>
<thead>
<tr>
<th>Year</th>
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<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td></td>
<td>782,231</td>
<td>857,568</td>
<td>972,746</td>
<td>972,976</td>
<td>1,057,963</td>
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Consolidated member total includes Blue Cross and Blue Shield of Louisiana, HMO Louisiana, Inc., Southern National Life Insurance Company, Inc. and BlueCard® members.
Independent licenses of the Blue Cross and Blue Shield Association.
Blue Cross and Blue Shield of Louisiana Board of Directors
(pictured above)

Top Row (left to right)
Thad D. Minaldi
Charles “Brent” McCoy
Frances T. Henry
Michael B. Bruno
Kathy E. Sellers-Johnson, Vice-Chair
Robert E. Brooks
H. Claude DeBeaux, Jr.
Carl S. Luikart, M.D., F.A.C.C.

Bottom Row (left to right)
Sybil H. Morial
Gery J. Barry
Ann H. Knapp, Secretary
Virgil Robinson, Jr., Chairman
C. Richard Atkins, D.D.S.

Executive Team

Gery J. Barry
President and Chief Executive Officer

Renea Austin-Duffin
Senior Vice President - Business Support Services

Michele Calandro
Senior Vice President and General Counsel

James Carnay, M.D.
Corporate Vice President and Chief Medical Officer

David Congram
Interim Chief Financial Officer

Mike Hayes
Senior Vice President - Benefits Administration

Sabrina Helts
Corporate Vice President - Medical Economics

Pamela MacIntyre
Interim Vice President - Human Resources

Mike Reitz
Senior Vice President and Chief Marketing Officer

Ob Sornthorum
Senior Vice President and Chief Information Officer

Richard Williams
Corporate Vice President - Network Administration

Tony Wittmann
Vice President and Chief Actuary - Actuarial Services
CORPORATE HEADQUARTERS:
5525 Reitz Ave.
Baton Rouge, LA 70809-3802
Phone: 225.295.3307

SUBSIDIARIES:
HMO Louisiana, Inc.
5525 Reitz Ave.
Baton Rouge, LA 70809-3802
Phone: 225.295.3307

Southern National Life Insurance Company, Inc.
5321 Corporate Blvd.
Baton Rouge, LA 70808
Phone: 225.295.2525

Louisiana Child Caring Foundation
5525 Reitz Ave.
Baton Rouge, LA 70809-3802
Phone: 800.554.7430

DISTRICT OFFICES:
Alexandria
5417 Jackson Street Extension, Suite B
Alexandria, LA 71303
Phone: Group Sales: 318.448.1660
Individual Sales: 318.442.8107

Baton Rouge
5321 Corporate Blvd.
Baton Rouge, LA 70808
Phone: Group Sales: 225.295.2556
Individual Sales: 225.295.2527

 Houma
1457 St. Charles Street, Suite 135
Houma, LA 70360
Phone: Group Sales: 985.225.3499
Individual Sales: 985.855.5965

Lafayette
5701 Johnston Street, Suite 300
Lafayette, LA 70503
Phone: Group Sales: 337.232.7527
Individual Sales: 337.593.5747

Lake Charles
219 W. Prien Lake Road
Lake Charles, LA 70603
Phone: Group Sales: 337.566.0595
Individual Sales: 337.480.5315

Monroe
7130 Mercedes Drive
Monroe, LA 71201
Phone: Group Sales: 318.323.1479
Individual Sales: 318.384.4955

New Orleans
3501 North Causeway Boulevard, Suite 600
Metairie, LA 70002
Phone: Group Sales: 504.831.5800
Individual Sales: 504.831.5800

Shreveport
One Bellemeade Centre
6425 Youree Drive, Suite 300
Shreveport, LA 71105
Phone: Group Sales: 318.795.0573
Individual Sales: 318.795.4921