

PROFILE OF THE CONSOLIDATED COMPANY

The consolidation of Highmark and IBC will produce a Pennsylvania-based, nonprofit company (“NewCo”) having the following key characteristics:

- A single, 22-member Board of Directors and three Regional Advisory Boards.
- A regional organizational structure designed to promote responsiveness and support best practices in customer and provider relations.
- Over 18,000 employees located in Pennsylvania.
- A broad product portfolio of core medical and ancillary health insurance products.
- Approximately seven million medical covered lives—^{1, 2}
 - Approximately 1,600,000 enrollees currently insured by Highmark at the parent level;
 - Approximately 110,000 enrollees currently insured by IBC at the parent level;
 - Approximately 575,000 managed care (*i.e.*, commercial, Medicare, and Medicaid) enrollees currently insured by Highmark subsidiaries;
 - Approximately 1,760,000 managed care (*i.e.*, commercial, Medicare, and Medicaid) enrollees currently insured by IBC subsidiaries;
 - Approximately 1,920,000 enrollees in self-insured plans of Highmark at the parent level;
 - Approximately 41,500 enrollees in self-insured plans of IBC at the parent level;
 - Approximately 78,500 enrollees in self-insured plans of Highmark subsidiaries; and
 - Approximately 612,000 enrollees in self-insured plans of IBC subsidiaries.
- Authority to act as a nonprofit hospital plan corporation and as a nonprofit professional health services plan corporation.
- \$22 billion in annual operating revenue.

¹ Segments of these medical covered lives that comprise the Pennsylvania insurance business of Highmark’s and IBC’s domestic insurance company subsidiaries are included in the competitive analysis required by 40 P.S. § 991.1403(d), as explained in footnote 1 of the *Statement Regarding Compliance With the Competitive Standard of 40 P.S. § 991.1403(d)*.

² The enrollment numbers reflected in this category for both the Highmark and IBC subsidiaries include enrollment of individuals that reside outside of the Commonwealth of Pennsylvania. This enrollment is appropriately excluded from the competitive analysis required by 40 P.S. § 991.1403(d), as explained in footnote 1 of the *Statement Regarding Compliance With the Competitive Standard of 40 P.S. § 991.1403(d)*.



Governance


The Board of Directors and the Regional Advisory Boards

The NewCo Board of Directors will have twenty-two members, eleven of whom will be appointed by IBC from among its current directors and eleven of whom will be appointed by Highmark from among its current directors, including NewCo's Chief Executive Officer and President/Chief Operating Officer who will serve as ex-officio members of the Board.

M. Walter D'Alessio, current Chair of the IBC Board of Directors, will serve as the Chairman of the NewCo Board. J. Robert Baum, Ph.D., current Chair of the Highmark Board, will serve as the Vice-Chairman of the NewCo Board.

NewCo will have three Regional Advisory Boards (East, West and Central) to help assure that the company maintains its local community focus. The members of the Regional Advisory Boards will consist of local business and community leaders, including individuals selected from current members of the IBC and Highmark boards of directors and Highmark corporate members.

Senior Management



Dr. Kenneth Melani, current CEO of Highmark, will serve as NewCo's Chief Executive Officer. Joseph Frick, current CEO of IBC, will serve as NewCo's President and Chief Operating Officer. The other members of NewCo's senior management team will be selected from among IBC and Highmark's current senior management teams. Future developments and changed circumstances also could result in the recruitment of senior managers from outside the ranks of IBC and Highmark's incumbent management teams. The senior management teams will be finalized prior to closing on the consolidation transaction.


Regional Management Structure

NewCo's organizational structure will consist of the following:

- Regional organizations responsible for customer and provider relationships and operations.
- A centralized organization responsible for information technology, finance, administration, specialty healthcare and ancillary products.

This structure will permit NewCo to realize the economic benefit of consolidated operations while also permitting the company to maintain a local presence in the areas of customer and provider relations.

Office Locations and Functions



NewCo will continue to maintain operations and facilities such as claims, customer service and information technology at the same locations where Highmark and IBC currently have those operations. This includes the Highmark and IBC corporate centers in Pittsburgh, Philadelphia and Camp Hill, and the operations centers and facilities in Erie, Allentown, Harrisburg,

Johnstown, Williamsport and the surrounding suburbs of Philadelphia (Norristown, Fort Washington, Valley Forge, and Horsham).

Products

Medical Insurance Products

Highmark, IBC and their respective affiliates offer an array of medical insurance products including managed care and traditional indemnity products. Such products include health maintenance organization, preferred provider organization and point-of-service plans, as well as Medicare Advantage products, Part D drug benefit coverage, Medicare Supplemental coverage, Medicaid products, health and wellness programs and workers’ compensation insurance. The following chart illustrates the Plans’ portfolios of health and medical insurance products:

Product Category	Highmark	IBC
HMO	<ul style="list-style-type: none"> • Keystone Blue 	<ul style="list-style-type: none"> • Keystone Health Plan East HMO
PPO	<ul style="list-style-type: none"> • Preferred Blue 	<ul style="list-style-type: none"> • Personal Choice
Indemnity	<ul style="list-style-type: none"> • ClassicBlue 	<ul style="list-style-type: none"> • Traditional
Medicare Advantage	<ul style="list-style-type: none"> • SecurityBlue HMO • Freedom Blue 	<ul style="list-style-type: none"> • Keystone 65 • Personal Choice 65

NewCo and its affiliates expect to continue to offer this portfolio of medical insurance products with one important difference. The consolidation will reduce duplicative product development activity and investments, and will permit NewCo to use the combined resources and experience of Highmark and IBC to bring new products to market in a faster and more cost-effective manner.

Ancillary Health Insurance Products and Services

NewCo will offer the portfolio of ancillary health products currently being offered by Highmark and IBC and their respective affiliates with the plan to grow sales of those products in different ways:

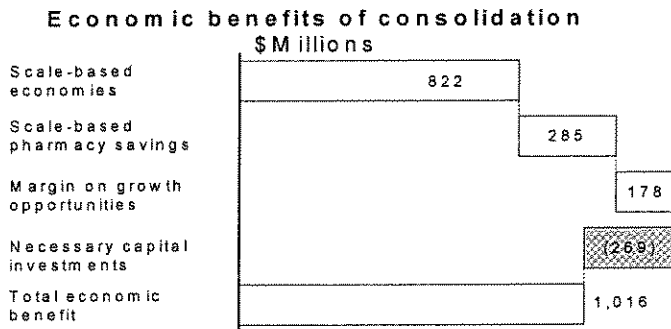
- *Dental and Vision Products:* Highmark’s dental and vision offerings will be cross-marketed to IBC’s customers.
- *Stop loss:* Highmark’s stop loss products will be marketed in the IBC service area.
- *TPA Services:* IBC’s unbranded TPA services will be marketed to self-funded employer groups in adjacent counties in Ohio, Virginia, Maryland, and New York.
- *Pharmacy Benefit Management (“PBM”) Services:* NewCo will compete nationally for PBM accounts, utilizing IBC’s in-house pharmacy benefits manager, targeting mid-sized Blue plans that have insufficient scale to maintain their own PBM units.

Distribution System

Highmark and IBC distribute their health insurance products through independent agents, brokers and benefits consultants, as well as through a dedicated group of national and regional account representatives. Following consolidation, NewCo will continue to offer its health insurance products through this combined distribution system. The notable difference will be that this unified distribution system will have a broader and deeper portfolio of products and services with which to meet customer requirements.

Economic Benefits of the Consolidation

Highmark and IBC estimate that the consolidation will result in over \$1 billion in net economic benefits over the first six years of NewCo's operations.³ These benefits are a combination of revenue growth opportunities and cost savings that will flow directly from the consolidation:



- *Scale-based Economies.* The consolidation will enable NewCo to generate over \$820 million in scale-based economies over six years. These savings opportunities include cost reductions in information technology, claims management, medical management, informatics, enrollment, and corporate systems; consolidation of IT and desktop infrastructure; and consolidation of data centers (with avoided costs in new data center investments and upgrades). Additional material savings will be realized through the consolidation of back-office and corporate management and administration functions.
- *Scale-based Pharmacy Savings.* The consolidation should produce approximately \$285 million in pharmacy cost savings over the first six years of operations. These savings will be a function of increased scale which should enable NewCo to secure higher rebates and pharmacy discounts, and lower PBM administration and dispensing fees (relative to unconsolidated stand-alone operations).
- *New Growth Opportunities.* The consolidation should position NewCo and its affiliates for growth in three major areas:

³ This total is net of required investments of \$269 million.

- Increased sales of ancillary health products generating incremental margins of \$45 million over the first six years of operations.
- Leveraging “best-of-both” products and services should enable NewCo to (i) improve penetration in national account sales; (ii) expand sales of unbranded TPA services in adjacent counties in Ohio, Virginia, Maryland, and New York; (iii) expand distribution of Highmark’s limited medical benefit products; and (iv) grow IBC’s in-house PBM operations through the sale of this service to other Blue plans and insurers. These opportunities are expected to generate incremental margins of \$91 million over the first six years of NewCo’s operations.
- Expanding value-added services. Highmark and IBC provide a variety of administrative services to other entities, including Medicare claims processing for CMS. A consolidated enterprise, with the capabilities to serve a larger area, will be better able to take advantage of additional administrative service opportunities. In addition, NewCo’s integrated informatics platform will support the sale of a suite of product and service offerings such as predictive modeling, biometrics, utilization and productivity reporting, and care/case management services. These value-added services should generate \$42 million in additional net revenue over the first six years of NewCo’s operations.

How the Economic Benefits of the Consolidation Will Be Applied

The increased revenue and the cost savings that consolidation will yield over the first six years of NewCo’s operations will be applied to benefit the public interest as follows:

- NewCo will provide over \$650 million in support to Pennsylvania programs for the uninsured and underinsured.
 - NewCo will contribute \$300 million over six years to existing programs targeting the uninsured and/or to new initiatives aimed at expanding healthcare coverage by providing uninsured and small business employees with affordable coverage.
 - NewCo will extend Highmark and IBC’s combined commitment to Community Health Reinvestment (“CHR”) through 2013.
- The consolidation will improve the affordability of healthcare for Pennsylvanians through \$600 million in cost savings.
 - NewCo will hold per-member per-month administrative fees for its employer group customers flat for two years following consolidation. This will save customers approximately \$295 million.
 - NewCo will pass pharmacy cost savings to its customers. These savings will result from using NewCo’s consolidated strength to reduce pharmacy costs, capture higher rebates and pharmacy discounts, lower PBM administration and dispensing fees, and more cost effectively distribute specialty pharmaceuticals.

NewCo will pass these savings to its customers to help slow premium growth, for an anticipated savings of \$285 million over six years.

- Consolidation will eliminate Blue Card fees that would otherwise apply to transactions between Highmark and IBC. This will save customers approximately \$36 million in avoided Blue Card fees over the first six years of NewCo's operations.

Other Benefits and Initiatives

- NewCo will continue and expand Highmark's and IBC's roll-out of an ePrescribing initiative for physicians in all NewCo service areas.
- NewCo will explore mechanisms to encourage the adoption and implementation of a standardized, inter-operable system for Personal Health Records ("PHR") and Electronic Medical Records ("EMR"). A strong PHR/EMR system will make full medical histories readily available, thereby improving quality of care by helping to reduce adverse drug interactions, duplicative testing, and incorrect diagnoses.
- NewCo will expand incentives to retain healthcare professionals in Pennsylvania. This will build on the successful work undertaken by IBC relative to nurse recruitment and retention. NewCo will financially support efforts to help attract and retain qualified physicians, nurses, and physician assistants in Pennsylvania.
- NewCo will use its consolidated resources to develop a "best-of-both" solution for an integrated model that pulls together the full spectrum of healthcare services, from prevention and wellness, through decision support and disease management, to complex, large case management and integrated absentee management. This type of platform for managing care should yield quality improvements throughout the Pennsylvania healthcare delivery system.
- NewCo will integrate and share the best practices of IBC and Highmark across quality of care management programs.
- NewCo will assure the continuation of Highmark's and IBC's consolidated operations in Pennsylvania.
- The consolidation will position NewCo and its affiliates for continued growth and expansion of operations on a national scale, providing additional benefits to the Pennsylvania economy through growth in local operations and employment.