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I N C O R P O R A T E D

January 24, 2005

To: Our Health Net Clients
From: William H. Lavis, Senior Vice President
RE: Health Net of California. - A.M. Best Rating Downgrade

We believe it is important to let our clients know of relevant changes in their insurers financial condition as viewed by the major rating services. Therefore, we wish to inform you of the recent rating downgrade given to Health Net of California by A.M. Best Insurance. Health Net of California went from an A.M. Best Insurance rating of an A- to a B++.

A.M. Best Insurance has two general categories of ratings: "Secure" and "Vulnerable." Any rating that is "Very Good" or higher (A++, A+, A, A-, B++, B+) is considered "Secure." The "Very Good" or B++ rating indicates that A.M. Best's opinion is that those companies have a good ability to meeting their ongoing obligations to policyholders.

Health Net, Inc.'s response has been that their financial condition remains sound and that their operating results are continuing to improve. They are implementing a strategy which they are confident will lead to a more positive outlook by the financial rating services in the future.

If anything new develops that warrants your attention, your dedicated SML Account Manager will be sure to contact you immediately. If you have any questions or would like to discuss this matter in greater detail, please feel free to contact your SML Account Team.

Thank you.

Regards,

William H. Lavis
Senior Vice-President
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