LOEWS CORP
Form 10-K/A
March 04, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From ____________ to _____________

Commission File Number 1-6541

LOEWS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-2646102
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

667 Madison Avenue, New York, N.Y. 10021-8087
(Address of principal executive offices) (Zip Code)

(212) 521-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Loews Common Stock, par value $1.00 per share	New York Stock Exchange
Carolina Group Stock, par value $0.01 per share	New York Stock Exchange
3 1/8% Exchangeable Subordinated Notes Due 2007	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to

the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X No ___

The aggregate market value of voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $7,024,000,000.

As of February 20, 2004, 185,447,050 shares of Loews common stock and 57,965,000 shares of Carolina Group stock were outstanding.

Documents Incorporated by Reference:

Portions of the Registrant's definitive proxy statement intended to be filed by Registrant with the Commission prior to April 29, 2004 are incorporated by reference into Part III of this Report.

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LOEWS CORPORATION

INDEX TO ANNUAL REPORT ON
FORM 10-K/A (AMENDMENT NO. 1) FILED WITH THE
SECURITIES AND EXCHANGE COMMISSION

For the Year Ended December 31, 2003

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PART III

Certain information called for by Part III (Items 10, 11, 12, 13 and 14) has been omitted as Registrant intends to file with the Securities and Exchange Commission not later than 120 days after the close of its fiscal year a definitive Proxy Statement pursuant to Regulation 14A.

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EXPLANATORY NOTE

This report has been amended to make several typographical and numerical corrections. See Exhibit 99.02.

PART I

Item 1. Business.

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: property and casualty insurance (CNA Financial Corporation, a 90% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc., a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation, a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc., a 54% owned subsidiary); the operation of an interstate natural gas transmission pipeline system (Texas Gas Transmission, LLC, a wholly owned subsidiary), and the distribution and sale of watches and clocks (Bulova Corporation, a 97% owned subsidiary).

Unless the context otherwise requires, the terms "Company" and "Registrant" as used herein mean Loews Corporation excluding its subsidiaries.

Information relating to the major business segments from which the Company's consolidated revenues and income are derived is contained in Note 23 of the Notes to Consolidated Financial Statements, included in Item 8.

CAROLINA GROUP TRACKING STOCK

The issuance of Carolina Group stock has resulted in a two class common stock structure for Loews Corporation. Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. See Note 6 of the Notes to Consolidated Financial Statements, included in Item 8.

The Company has attributed the following assets and liabilities to the

Carolina Group:

(a) the Company's 100% stock ownership interest in Lorillard, Inc.;

(b) notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021 (as of February 20, 2004, $2.0 billion was outstanding);

(c) any and all liabilities, costs and expenses of the Company and Lorillard, Inc. and the subsidiaries and predecessors of Lorillard, Inc., arising out of or related to tobacco or otherwise arising out of the past, present or future business of Lorillard, Inc. or its subsidiaries or predecessors, or claims arising out of or related to the sale of any businesses previously sold by Lorillard, Inc. or its subsidiaries or predecessors, in each case, whether grounded in tort, contract, statute or otherwise, whether pending or asserted in the future;

(d) all net income or net losses arising from the assets and liabilities that are reflected in the Carolina Group and all net proceeds from any disposition of those assets, in each case, after deductions to reflect dividends paid to holders of Carolina Group stock or credited to the Loews Group in respect of its intergroup interest; and

(e) any acquisitions or investments made from assets reflected in the Carolina Group.

As of February 20, 2004, 57,965,000 shares of Carolina Group stock are outstanding representing a 33.43% economic interest in the Carolina Group.

The Loews Group consists of all of the Company's assets and liabilities other than the 33.43% economic interest in the Carolina Group represented by the outstanding Carolina Group stock, and includes as an asset the notional intergroup debt of the Carolina Group referred to above.

The creation of the Carolina Group and the issuance of Carolina Group stock does not change the Company's ownership of Lorillard, Inc. or Lorillard, Inc.'s status as a separate legal entity. The Carolina Group and the Loews Group are notional groups that are intended to reflect the performance of the defined sets of assets and liabilities of each such group as described above. The Carolina Group and the Loews Group are not separate legal entities and the

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attribution of assets and liabilities of the Company to the Loews Group or the Carolina Group does not affect title to the assets or responsibility for the liabilities so attributed.

Each outstanding share of Carolina Group Stock has 1/10 of a vote per share. Holders of the Company's common stock and of Carolina Group stock are shareholders of Loews Corporation and are subject to the risks related to an equity investment in Loews Corporation.

CNA FINANCIAL CORPORATION

CNA Financial Corporation (together with its subsidiaries, "CNA") was incorporated in 1967 and is an insurance holding company whose primary subsidiaries consist of property and casualty insurance companies. CNA's property and casualty insurance operations are conducted by Continental Casualty Company ("CCC"), incorporated in 1897, and its affiliates, and The

Continental Insurance Company ("CIC"), organized in 1853, and its affiliates. CNA's principal market is the United States with a continued focus on expanding globally to serve those with growing worldwide interests. CNA accounted for 71.26%, 70.38% and 69.89% of the Company's consolidated total revenue for the years ended December 31, 2003, 2002 and 2001, respectively.

During 2003, CNA completed a strategic review of its operations and decided to concentrate efforts on its property and casualty business and to replenish statutory capital of its principal insurance subsidiaries. In furtherance of those plans, CNA has taken a number of actions, including:

- CNA sold the majority of its Group Benefits business to Hartford Financial Services Group, Inc. in December of 2003. CNA's Group Benefits operations provided group life, health insurance and investment products and services to employers, affinity groups and other entities that purchase insurance as a group. The business sold to Hartford included group life and accident, short and long term disability and certain other products, but did not include group long term care and specialty medical businesses.

- CNA signed a definitive agreement in February of 2004 to sell its individual life insurance business to Swiss Re Life & Health America Inc. CNA's Life operations provides individuals with term, universal and permanent life insurance, individual long term care insurance, annuities and other products. The business to be sold to Swiss Re includes term, universal and permanent life insurance policies and individual annuity products, but not the individual long term care and structured settlements businesses. CNA ceased sales to new customers in its structured settlement, institutional markets and individual long term care businesses. CNA will continue to accept new deposits and premiums only from existing customers and will service its existing commitments. These businesses will be managed as a run-off operation.

- CNA withdrew from the assumed reinsurance business, which included the sale in October of 2003 of the renewal rights for most of its treaty reinsurance business to Folksamerica Reinsurance Company.

For additional information with respect to the transactions described above, including a capital plan to replenish statutory capital, see Item 7. MD&A-Overview-CNA Recent Developments.

Property and Casualty Operations

Standard Lines

Standard Lines works with an independent agency distribution system and network of brokers to market a broad range of property and casualty insurance products and services to small, middle-market and large businesses. The Standard Lines operating model focuses on underwriting performance, relationships with selected distribution sources and understanding customer needs.

Standard Lines includes Property and Casualty and Excess & Surplus.

Property and Casualty ("P&C"): P&C provides standard property and casualty insurance products such as workers compensation, general and product liability, property and commercial auto coverage through traditional and innovative advanced financial risk products to a wide range of businesses. The majority of P&C customers are small and middle-market businesses, with less than $1.0 million in annual insurance premiums. Most insurance programs are provided on a

guaranteed cost basis; however, P&C has the capability to offer specialized, loss-sensitive insurance programs to those risks viewed as higher risk and less predictable in exposure.

P&C's field structure consists of 34 branch locations across the country. Each branch provides the marketing, underwriting, claim services and risk control expertise on the entire portfolio of products. A centralized processing operation for small and middle-market customers handles policy processing and accounting, and provides a customer service call center. Also, Standard Lines began providing total risk management services relating to claim services, risk control, cost management and information services to the large commercial insurance marketplace in 2003.

Excess & Surplus ("E&S"): E&S provides specialized insurance and other financial products for selected commercial risks on both an individual customer and program basis. Customers insured by E&S are generally viewed as higher risk and less predictable in exposure than those covered by standard insurance markets. E&S's products are distributed throughout the United States through specialist producers, program agents, and P&C's agents and brokers.

Specialty Lines

Specialty Lines provides professional, financial and specialty domestic and international property and casualty products and services through a network of brokers, managing general agencies and independent agencies. Specialty Lines provides solutions for managing the risks of its clients, including architects, engineers, lawyers, healthcare professionals, financial intermediaries and corporate directors and officers. Product offerings also include surety and fidelity bonds and vehicle and equipment warranty services.

Specialty Lines includes the following business groups: Professional Liability Insurance, CNA Global, Surety, Warranty, and CNA Guaranty and Credit.

Professional Liability Insurance ("CNA Pro"): CNA Pro provides management and professional liability insurance and risk management services, primarily in the United States. This unit provides professional liability coverages to various professional firms, including architects and engineers, realtors, non-Big Four accounting firms, law firms and technology firms. CNA Pro also provides directors and officers, errors and omissions, employment practices, fiduciary and fidelity coverages. Specific areas of focus include larger firms as well as privately held firms and not-for-profit organizations where CNA offers tailored products for this client segment. Products within CNA Pro are distributed through brokers, agents and managing general underwriters.

CNA Pro, through CNA HealthPro, also offers insurance products to serve the healthcare delivery system. Products are distributed on a national basis through a variety of channels including brokers, agents and managing general underwriters. Key customer segments include long term care facilities, allied healthcare providers, life sciences, dental professionals and mid-size and large healthcare facilities and delivery systems. Additionally, CNA HealthPro offers risk management consulting services to assist customers in managing quality of care risks associated with the delivery of healthcare. Claim services are provided to manage and resolve claims.

CNA Global consists of Marine and Global Standard Lines.

Marine serves domestic and global ocean marine needs, with markets extending across North America, Europe and throughout the world. Marine offers hull, cargo, primary and excess marine liability, marine claims and recovery

products and services. Business is sold through national brokers, regional marine specialty brokers and independent agencies.

Global Standard Lines is responsible for coordinating and managing the direct business of CNA's overseas property and casualty operations. This business identifies and capitalizes on strategic indigenous opportunities and currently has operations in Hawaii, Europe, Latin America and Canada.

Surety: Surety consists primarily of CNA Surety Corporation ("CNA Surety"), a 64% owned subsidiary of CNA, offering small, medium and large contract and commercial surety bonds. CNA Surety provides surety and fidelity bonds in all 50 states through a combined network of approximately 34,000 independent agencies.

Warranty: Warranty provides warranty service contracts that protect individuals and businesses from the financial burden associated with breakdown, under-performance or maintenance of a product. Products are distributed via a sales

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force employed or contracted through a program administrator. Warranty's business activities are primarily performed through the wholly owned subsidiary, CNA National Warranty Corporation, which sells vehicle service contracts in the United States and Canada.

CNA Guaranty and Credit: CNA Guaranty and Credit provided credit insurance on short term trade receivables for domestic and international clients as well as reinsurance to insurers who provide financial guarantees to issuers of asset-backed securities, money market funds and investment-grade corporate debt securities. The Guaranty business underwritten by CNA's insurance affiliates excluding CNA's ownership interest in R.V.I. Guaranty Co. Ltd. ("RVI"), an unconsolidated affiliate, is currently in run-off. The Credit business underwritten by CNA's insurance affiliates was sold on December 31, 2002; however, all inforce business and reserves at the date of sale were retained by CNA. The run-off of these businesses will occur over several years.

CNA Re

During October of 2003, CNA sold most of the renewal rights for all treaty business to Folksamerica Reinsurance Company ("Folksamerica"). Concurrent with the sale, CNA announced its withdrawal from the assumed reinsurance business. CNA will manage the run-off of its retained liabilities, including unearned premium reserves. Prior to the sale, CNA Re had offered treaty, facultative, and financial reinsurance while operating primarily in the United States and select global markets. In 2002 and prior, CNA Re's operations had also included the business of CNA Re U.K., a United Kingdom reinsurance company. On October 31, 2002, CNA completed the sale of CNA Re U.K. to Tawa UK Limited ("Tawa"). The sale included business underwritten since inception by CNA Re U.K., except for certain risks retained by Continental Casualty Company ("CCC"). See the Investments section of the Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD&A") for further details of the sale of CNA Re U.K. CNA Re's U.K. subsidiaries ceased new underwriting activities in the third quarter of 2001.

Group Operations

Group Operations provides group life, group health insurance and investment products and services to employers, affinity groups and other entities that purchase insurance as a group.

Group Operations includes three principal business units: Group Benefits, Federal Markets and Institutional Markets and Other, which also includes results from businesses that CNA has exited; retail variable life and annuities and life reinsurance.

Group Benefits: Group Benefits offered group long term care and specialty medical products and related services. On December 31, 2003, CNA sold its group term life and accident insurance and short term and long term disability business to Hartford. Prior to this sale, products had been marketed through a nationwide operation of 31 sales offices, third-party administrators, managing general agents and insurance consultants. See Note 14 of the Consolidated Financial Statements included under Item 8 for further details of this transaction.

Federal Markets: Federal Markets provided health insurance benefits to federal employees, retirees and their families, insuring nearly one million members under the Mail Handlers Plan. On July 1, 2002, CNA sold its federal health plan administrator, Claims Administration Corporation, and transferred the Mail Handlers Plan to First Health Group. As a result of this transaction, CNA recognized a $7.0 million pretax realized loss on the sale of Claims Administration Corporation and $15.0 million of pretax non-recurring fee income related to the transfer of the Mail Handlers Plan.

Institutional Markets and Other: Institutional Markets and Other is a provider of annuities and investment products to pension plan sponsors and other institutional customers. The products include traditional and synthetic guaranteed investment contract ("GICs"), indexed contracts, group annuities and funding agreements. CNA offers an index 500 product, which is a guaranteed investment contract that is indexed to the performance of the Standard & Poor's 500 ("S&P 500") index. During 2004, CNA ceased new sales in its institutional markets business. CNA will continue to accept new deposits and premiums only from existing customers and will service its existing commitments. This business will be managed as a run-off operation.

Also within Group Operations is CNA Trust, a limited operations bank located in Costa Mesa, California, which provides full trustee and pension third-party administrative services to the under 500-life employer markets. Products

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include qualified and non-qualified plans and IRAs. Products are marketed through life insurers and mutual fund companies.

The variable products business was exited in the fourth quarter of 2001. During July 2002, CNA entered into an agreement, whereby the Phoenix Companies, Inc. acquired the variable life and annuity business of VFL through a coinsurance arrangement, with modified coinsurance on the separate accounts. The life reinsurance business was sold on December 31, 2000.

Life Operations

Life Operations provides financial protection to individuals through term life insurance, universal life insurance, individual long term care insurance, annuities and other products. Life Operations has several distribution relationships and partnerships including managing general agencies, other independent agencies working with CNA life sales offices, a network of brokers and dealers, and other independent insurance consultants.

In February of 2004, CNA entered into a definitive agreement to sell its individual life insurance business to Swiss Re Life & Health America Inc. ("Swiss Re") for approximately $690.0 million. The business sold includes term, universal and permanent life insurance policies and individual annuity

products. The transaction is expected to be completed on or before March 31, 2004, subject to certain customary closing conditions and regulatory approvals. See Note 25 of the Notes to Consolidated Financial Statements included under Item 8 for further information.

During the second quarter of 2003, CNA completed a review of its individual long term care product offerings. The focus of the review was to determine whether the current products provide adequate pricing flexibility under the range of reasonably possible claims experience levels. Based on the review and current market conditions, CNA decided to significantly reduce new sales of this product and certain infrastructure costs.

During February of 2004, CNA also ceased new sales in its structured settlement business. CNA will continue to accept new deposits and premiums only from existing customers and will service its existing commitments. These businesses will be managed as a run-off operation.

Other

The Other Insurance segment is principally comprised of losses and expenses related to the centralized adjusting and settlement of Asbestos and Environmental Pollution and Mass Tort ("APMT") claims, certain run-off insurance and non-insurance operations and other operations.

APMT consists of the losses and expenses related to the centralized adjusting and settlement of APMT claims that were formerly included in the property and casualty segments. Run-off insurance operations consists of personal insurance, entertainment insurance, agriculture insurance, group reinsurance and other financial lines as well as the direct financial guarantee business underwritten by CNA's insurance affiliates and other insurance run-off operations. Run-off insurance operations also includes assumed business underwritten through a managing general agent, IOA Global, which consists primarily of certain accident and health coverages ("IGI Program").

Other operations include interest expense on corporate borrowings, asbestos claims related to Fibreboard Corporation and CNA UniSource and inter-company eliminations.

CNA UniSource provided human resources, information technology, payroll processing and professional employer organization services. During 2002, CNA decided to exit the lines of business provided by CNA UniSource. Effective March 31, 2002, CNA UniSource ceased providing professional employer organization services. Effective December 31, 2002, CNA UniSource ceased payroll processing services.

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Supplementary Insurance Data

The following table sets forth supplementary insurance data:

Year Ended December 31	2003	2002	2001
(In millions, except ratio information)			
Trade Ratios - GAAP basis (a):			
Loss and loss adjustment expense ratio	107.1%	79.4%	125.2%

Expense ratio	42.2	29.3	36.7
Dividend ratio	1.4	0.9	1.5
Combined ratio	150.7%	109.6%	163.4%
Trade Ratios - Statutory basis (a):			
Loss and loss adjustment expense ratio	112.7%	79.2%	126.2%
Expense ratio	32.8	30.1	32.3
Dividend ratio	1.1	1.0	1.7
Combined ratio	146.6%	110.3%	160.2%
Individual Life and Group Life Insurance In-Force:			
Individual Life (b)	$330,805.0	$345,272.0	$426,822.0
Group Life	58,163.0	92,479.0	70,910.0
	$388,968.0	$437,751.0	$497,732.0
Other Data - Statutory basis (c):			
Property and casualty companies' capital and surplus (d)	$ 6,170.0	$ 6,836.0	$ 6,241.0
Life and group companies' capital and surplus (d)	707.0	1,645.0	1,752.0
Property and casualty companies' written premium to surplus ratio	1.1	1.3	1.3
Life companies' capital and surplus-percent to total liabilities	13.0%	21.0%	25.3%
Participating policyholders-percent of gross life insurance in force	0.5%	0.4%	0.4%

(a) Trade ratios reflect the results of CNA's property and casualty insurance subsidiaries. Trade ratios are industry measures of property and casualty underwriting results. The loss and loss adjustment expense ratio is the percentage of net incurred loss and loss adjustment expenses to net earned premiums. The primary difference in this ratio between accounting principles generally accepted in the United States of America ("GAAP") and statutory accounting practices ("SAP") is related to the treatment of active life reserves ("ALR") related to long term care insurance products written in property and casualty insurance subsidiaries. For GAAP, ALR is classified as claim and claim adjustment expense reserves whereas for SAP, ALR is classified as unearned premium reserves. The expense ratio, using amounts determined in accordance with GAAP, is the percentage of underwriting and acquisition expenses, including the amortization of deferred acquisition expenses to net earned premiums. The expense ratio, using amounts determined in accordance with SAP, is the percentage of acquisition and underwriting expenses (with no deferral of acquisition expenses) to net written premiums. The dividend ratio, using amounts determined in accordance with GAAP, is the ratio of dividends incurred to net earned premiums. The dividend ratio, using amounts determined in accordance with SAP, is the ratio of dividends paid to net earned premiums. The combined ratio is the sum of the loss and loss adjustment expense, expense and dividend ratios.

(b) Lapse ratios for individual life insurance, as measured by surrenders and withdrawals as a percentage of average ordinary life insurance in-force, were 11.9%, 34.7% and 8.7% in 2003, 2002 and 2001, respectively. The 2002 lapse ratio includes the novation of CNA's individual life insurance

business. Excluding the novation, the 2002 lapse ratio was 7.6%.

(c) Other data is determined in accordance with SAP. Life and group statutory capital and surplus as a percent of total liabilities is determined after excluding separate account liabilities and reclassifying the statutorily required Asset Valuation Reserve to surplus.

(d) Surplus includes the property and casualty companies' equity ownership of the life and group insurance subsidiaries in 2003, and the ownership of life and group insurance subsidiaries in 2002 and 2001. On December 31, 2003, CNA completed the sale of the majority of its Group Benefits business to Hartford. See Note 14 of the Notes to Consolidated Financial Statements included under Item 8 for further details of this transaction.

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The following table displays the distribution of gross written premiums for CNA's operations by geographic concentration:

Year Ended December 31	2003	2002	2001
Illinois	9.3%	9.1%	8.3%
California	8.5	7.7	6.8
New York	7.3	7.2	7.9
Florida	7.6	6.7	6.2
Texas	5.7	6.2	5.8
New Jersey	4.5	4.6	4.4
Pennsylvania	4.2	4.5	4.3
Massachusetts	3.1	2.8	2.6
All other states, countries or political subdivisions (a)	49.8	51.2	53.7
	100.0%	100.0%	100.0%

(a) No other individual state, country or political subdivision accounts for more than 3.0% of gross written premium.

Approximately 3.2%, 3.5% and 4.8% of CNA's gross written premiums were derived from outside of the United States for the years ended December 31, 2003, 2002 and 2001. Gross written premiums from the United Kingdom were approximately 1.8%, 1.7% and 3.3% of CNA's premiums for the years ended December 31, 2003, 2002 and 2001. Premiums from any individual foreign country excluding the United Kingdom, were not significant.

Property and Casualty Claim and Claim Adjustment Expenses

The following loss reserve development table illustrates the change over time of reserves established for property and casualty claim and claim adjustment expenses at the end of the preceding ten calendar years for CNA's property and casualty insurance operations. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to the originally reported reserve liability. The third section, reading down, shows re-estimates of the originally recorded reserves as of the end of each successive year, which is the result of CNA's

property and casualty insurance subsidiaries' expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserves to the reserves originally established, and indicates whether the original reserves were adequate or inadequate to cover the estimated costs of unsettled claims. This table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

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Schedule of Property and Casualty Loss Reserve Development

Year Ended December 31	1993(a)	1994(a)	1995(b)	1996	1997	1998	1999(c)	2000	2001(d)	2002
(In millions of dollars)										
Originally reported gross reserves for unpaid claim and claim adjustment expenses	20,812	21,639	31,044	29,357	28,533	28,317	26,631	26,408	29,551	25
Originally reported ceded recoverable	2,491	2,705	6,089	5,660	5,326	5,424	6,273	7,568	11,798	10
Originally reported net reserves for unpaid claim and claim adjustment expenses	18,321	18,934	24,955	23,697	23,207	22,893	20,358	18,840	17,753	15
Cumulative net paid as of:										
One year later	3,629	3,656	6,510	5,851	5,954	7,321	6,546	7,686	5,981	5
Two years later	6,143	7,087	10,485	9,796	11,394	12,241	11,935	11,988	10,355	
Three years later	8,764	9,195	13,363	13,602	14,423	16,020	15,247	15,291	-	
Four years later	10,318	10,624	16,271	15,793	17,042	18,271	18,136	-	-	
Five years later	11,378	12,577	17,947	17,736	18,568	20,779	-	-	-	
Six years later	13,100	13,472	19,465	18,878	20,573	-	-	-	-	
Seven years later	13,848	14,394	20,410	20,828	-	-	-	-	-	
Eight years later	14,615	15,024	22,237	-	-	-	-	-	-	
Nine years later	15,161	15,602	-	-	-	-	-	-	-	
Ten years later	15,675	-	-	-	-	-	-	-	-	
Net reserves re-estimated as of:										
End of initial year	18,321	18,934	24,955	23,697	23,207	22,893	20,358	18,840	17,753	15
One year later	18,250	18,922	24,864	23,441	23,470	23,920	20,785	21,306	17,805	17
Two years later	18,125	18,500	24,294	23,102	23,717	23,774	22,903	21,377	20,368	
Three years later	17,868	18,088	23,814	23,270	23,414	25,724	22,780	23,890	-	
Four years later	17,511	17,354	24,092	22,977	24,751	25,407	25,293	-	-	
Five years later	17,082	17,506	23,854	24,105	24,330	27,456	-	-	-	
Six years later	17,176	17,248	24,883	23,736	26,037	-	-	-	-	
Seven years later	17,017	17,751	24,631	25,250	-	-	-	-	-	
Eight years later	17,500	17,650	26,023	-	-	-	-	-	-	
Nine years later	17,443	18,193	-	-	-	-	-	-	-	
Ten years later	17,926	-	-	-	-	-	-	-	-	
Total net (deficiency) redundancy	395	741	(1,068)	(1,553)	(2,830)	(4,563)	(4,935)	(5,050)	(2,615)	(2

Reconciliation to gross re-estimated reserves:

Net reserves re-estimated	17,926	18,193	26,023	25,250	26,037	27,456	25,293	23,890	20,368	17
Re-estimated ceded recoverable	2,725	3,030	8,367	7,526	6,828	7,163	9,411	10,406	16,037	15
Total gross re-estimated reserves	20,651	21,223	34,390	32,776	32,865	34,619	34,704	34,296	36,405	32
Net (deficiency) redundancy related to:										
Asbestos claims	(2,106)	(2,073)	(2,301)	(2,402)	(2,300)	(2,056)	(1,480)	(1,414)	(642)	
Environmental claims	(909)	(743)	(785)	(729)	(751)	(530)	(629)	(617)	(153)	
Total asbestos and environmental	(3,015)	(2,816)	(3,086)	(3,131)	(3,051)	(2,586)	(2,109)	(2,031)	(795)	
Other claims	3,410	3,557	2,018	1,578	221	(1,977)	(2,826)	(3,019)	(1,820)	(1
Total net (deficiency) redundancy	395	741	(1,068)	(1,553)	(2,830)	(4,563)	(4,935)	(5,050)	(2,615)	(2

(a) Reflects reserves of CNA's property and casualty insurance subsidiaries, excluding CIC reserves, which were acquired on May 10, 1995 (the "Acquisition Date"). Accordingly, the reserve development (net reserves recorded at the end of the year, as initially estimated, less net reserves re-estimated as of subsequent years) does not include CIC.

(b) Includes CIC gross reserves of $9,713.0 and net reserves of $6,063.0 acquired on the Acquisition Date and subsequent development thereon.

(c) Ceded recoverable includes reserves transferred under retroactive reinsurance agreements of $784.0 as of December 31, 1999.

(d) Effective January 1, 2001, CNA established a new life insurance company, CNA Group Life Assurance Company ("CNAGLA"). Further, on January 1, 2001 approximately $1,055.0 of reserves were transferred from CCC to CNAGLA.

(e) Effective October 31, 2002, CNA sold CNA Reinsurance Company Limited ("CNA Re U.K."). As a result of the sale, net reserves were reduced by approximately $1,316.0. See Note 14 of the Notes to Consolidated Financial Statements included under Item 8 for further discussion of the sale.

(f) Effective December 31, 2003, CNA sold CNAGLA. As a result of the sale, net reserves were reduced by approximately $1,309.0. See Note 14 of the Notes to Consolidated Financial Statements included under Item 8 for further discussion of the sale.

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Additional information as to CNA's property and casualty claim and claim adjustment expense reserves and reserve development is set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Notes 1 and 9 of the Notes to Consolidated Financial Statements, included in Item 8.

Investments

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments and Notes 1, 2, 3 and 4 of the Notes to Consolidated Financial Statements, incorporated by reference to Item 8, for information regarding CNA's investment portfolio.

Other

Competition: The property and casualty and life and health insurance

industries are highly competitive both as to rate and service. CNA's consolidated property and casualty subsidiaries compete not only with other stock insurance companies, but also with mutual insurance companies, reinsurance companies and other entities for both producers and customers. CNA must continuously allocate resources to refine and improve its insurance and reinsurance products and services.

Rates among insurers vary according to the types of insurers and methods of operation. CNA competes for business not only on the basis of rate, but also on the basis of availability of coverage desired by customers and quality of service, including claim adjustment services.

There are approximately 2,400 individual companies that sell property and casualty insurance in the United States. CNA's consolidated property and casualty subsidiaries ranked as the eleventh largest property and casualty insurance organization in the United States based upon 2002 statutory net written premiums.

The commercial property and casualty markets continue to realize significant rate increases, indicative of a hard market, while simultaneously using more strict underwriting criteria and requiring higher retention amounts for policyholders to further mitigate risk. The markets focus on underwriting profitability and the heightened perception of risk indicate the hard market will likely continue at a reduced level into 2004.

Regulation: The insurance industry is subject to comprehensive and detailed regulation and supervision throughout the United States. Each state has established supervisory agencies with broad administrative powers relative to licensing insurers and agents, approving policy forms, establishing reserve requirements, fixing minimum interest rates for accumulation of surrender values and maximum interest rates of policy loans, prescribing the form and content of statutory financial reports and regulating solvency and the type and amount of investments permitted. Such regulatory powers also extend to premium rate regulations, which require that rates not be excessive, inadequate or unfairly discriminatory. In addition to regulation of dividends by insurance subsidiaries, intercompany transfers of assets may be subject to prior notice or approval by the state insurance regulator, depending on the size of such transfers and payments in relation to the financial position of the insurance affiliates making the transfer or payments. See "Liquidity and Capital Resources - Dividend Paying Ability" included in Item 7.

Insurers are also required by the states to provide coverage to insureds who would not otherwise be considered eligible by the insurers. Each state dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. CNA's share of these involuntary risks is mandatory and generally a function of its respective share of the voluntary market by line of insurance in each state.

Insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty fund and other insurance-related assessments are levied by the state departments of insurance to cover claims of insolvent insurers.

Reform of the U.S. tort liability system is another issue facing the insurance industry. Over the last decade, many states have passed some type of reform, but more recently, a number of state courts have modified or overturned these

reforms. Additionally, new causes of action and theories of damages continue to be proposed in state court actions or by legislatures. Continued

unpredictability in the law means that insurance underwriting and rating is expected to continue to be difficult in commercial lines, professional liability and some specialty coverages.

Although the federal government and its regulatory agencies do not directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance business in a variety of ways. These initiatives and legislation include tort reform proposals; class action reform proposals; proposals to establish a privately financed trust to process asbestos bodily injury claims; proposals to overhaul the Superfund hazardous waste removal and liability statutes; and various tax proposals affecting insurance companies. In 1999, Congress passed the Financial Services Modernization or "Gramm-Leach-Bliley" Act ("GLB Act"), which repealed portions of the Glass-Steagall Act and enabled closer relationships between banks and insurers. Although "functional regulation" was preserved by the GLB Act for state oversight of insurance, additional financial services modernization legislation could include provisions for an alternate federal system of regulation for insurance companies.

CNA's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the National Association of Insurance Commissioners ("NAIC") to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, that are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which determines a specified level of regulatory attention applicable to a company. As of December 31, 2003 and 2002, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Subsidiaries with insurance operations outside the United States are also subject to regulation in the countries in which they operate. CNA has operations in the United Kingdom, Canada, and other countries. Information related to regulation is set forth in MD&A included under Item 7.

Terrorism Insurance: CNA and the insurance industry incurred substantial losses related to the September 11, 2001 World Trade Center disaster and related events. For the most part, CNA believes the industry was able to absorb the loss of capital from these losses, but the capacity to withstand the effect of any additional terrorism events was significantly diminished. Information related to terrorism is set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reinsurance: See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Notes 1 and 19 of the Notes to Consolidated Financial Statements, included in Item 8, for information related to CNA's reinsurance activities.

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Properties: CNA Plaza serves as the executive office for CNA and its insurance subsidiaries. CNA owns or leases office space in various cities throughout the United States and in other countries. The following table sets forth certain information with respect to the principal office buildings owned or leased by CNA:

Location	Size (square feet)	Principal Usage
Owned:		
CNA Plaza 333 S. Wabash Chicago, Illinois	1,144,378	Principal executive offices of CNA
100 CNA Drive Nashville, Tennessee	251,363	Life insurance offices (a)
Leased:		
40 Wall Street New York, New York	168,723	Property and casualty insurance offices
2405 Lucien Way Maitland, Florida	178,744	Property and casualty insurance offices
3500 Lacey Road Downers Grove, Illinois	168,793	Property and casualty insurance offices
1100 Cornwall Road Monmouth Junction, New Jersey	112,926	Property and casualty insurance offices
600 N Pearl Street Dallas, Texas	115,666	Property and casualty insurance offices
675 Placentia Avenue Brea, California	113,133	Property and casualty insurance offices
1111 E Broad Street Columbus, Ohio	110,411	Property and casualty insurance offices

(a) property to be transferred to Swiss Re subsequent to the sale of the individual life insurance business expected to be completed on or before March 31, 2004.

LORILLARD, INC.

The Company's wholly owned subsidiary, Lorillard, Inc. ("Lorillard"), is engaged, through its subsidiaries, in the production and sale of cigarettes. The principal cigarette brand names of Lorillard are Newport, Kent, True, Maverick and Old Gold. Lorillard's largest selling brand is Newport, the second largest selling cigarette brand in the United States and the largest selling brand in the menthol segment of the U.S. cigarette market in 2003. Newport accounted for approximately 90.2% of Lorillard's sales in 2003.

Substantially all of Lorillard's sales are in the United States, Puerto Rico and certain U.S. territories. Lorillard's major trademarks outside of the United States were sold in 1977. Lorillard accounted for 19.96%, 22.23% and 21.13% of the Company's consolidated total revenue for the years ended December 31, 2003, 2002 and 2001, respectively.

The major tobacco companies in the United States, including Lorillard, continue to be faced with a number of issues that have impacted or may adversely impact their business, results of operations and financial condition. These issues include substantial litigation seeking damages aggregating into the billions of dollars, as well as other relief; substantial annual payments and marketing and advertising restrictions provided for in the settlement agreements with each of the 50 states and certain other jurisdictions; the continuing contraction of the U.S. cigarette market; competition from other major cigarette manufacturers and deep discount manufacturers and resultant increases in industry-wide promotional expenses and sales incentives; substantial and potentially increasing federal, state and local excise taxes; regulation of the manufacture, sale, distribution, advertising, labeling and use of tobacco products; and increasing sales of counterfeit cigarettes in the United States. See Results of Operations-Lorillard, and-Liquidity and Capital Resources-Lorillard included in Item 7 of

this Report. See also Item 3 of this Report, and Note 21 of the Notes to Consolidated Financial Statements included in Item 8 of this Report.

Legislation and Regulation: Lorillard's business operations are subject to a variety of federal, state and local laws and regulations governing, among other things, publication of health warnings on cigarette packaging, advertising and sales of tobacco products, restrictions on smoking in public places and fire safety standards. Further, from time to time new legislation or regulations are proposed and reports are published by government sponsored committees and others recommending additional regulations of tobacco products.

Federal Regulation: The Federal Comprehensive Smoking Education Act, which became effective in 1985, requires that cigarette packaging and advertising display one of the following four warning statements, on a rotating basis: (1) "SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, And May Complicate Pregnancy." (2) "SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health." (3) "SURGEON GENERAL'S WARNING: Smoking By Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight." (4) "SURGEON GENERAL'S WARNING: Cigarette Smoke Contains Carbon Monoxide." This law also requires that each person who manufactures, packages or imports cigarettes shall annually provide to the Secretary of Health and Human Services a list of the ingredients added to tobacco in the manufacture of cigarettes. This list of ingredients may be submitted in a manner that does not identify the company that uses the ingredients or the brand of cigarettes that contain the ingredients.

In addition, from time to time, bills have been introduced in Congress, among other things, to end or limit the price supports for leaf tobacco; to prohibit all tobacco advertising and promotion; to require new health warnings on cigarette packages and advertising; to authorize the establishment of various anti-smoking education programs; to provide that current federal law should not be construed to relieve any person of liability under common or state law; to permit state and local governments to restrict the sale and distribution of cigarettes; concerning the placement of advertising of tobacco products; to provide that cigarette advertising not be deductible as a business expense; to prohibit the mailing of unsolicited samples of cigarettes and otherwise to restrict the sale or distribution of cigarettes in retail stores, by mail or over the internet; to impose an additional, or to increase existing, excise taxes on cigarettes; to require that cigarettes be manufactured in a manner that will cause them, under certain circumstances, to be self-extinguishing; and to subject cigarettes to regulation in various ways by the U.S. Department of Health and Human Services or other regulatory agencies.

In 1996, the U.S. Food and Drug Administration published regulations that would have extensively regulated the distribution, marketing and advertising of cigarettes, including the imposition of a wide range of labeling, reporting, record keeping, manufacturing and other requirements. Challenges to the FDA's assertion of jurisdiction over cigarettes made by Lorillard and other manufacturers were upheld by the Supreme Court in March 2000 when that Court ruled that Congress did not give the FDA authority to regulate tobacco products under the federal Food, Drug and Cosmetic Act.

Since the Supreme Court decision, various proposals and recommendations have been made for additional federal and state legislation to regulate cigarette manufacturers. Congressional advocates of FDA regulation have introduced legislation that would give the FDA authority to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health, thereby allowing the FDA to reinstate its prior regulations or adopt new or

additional regulations. Proposals have also been introduced to end the federal price support and quota system for tobacco growers and to compensate the growers with payments to be funded by a fee, tax or other charge on tobacco products to be paid by tobacco manufacturers. Recently, efforts have been made to link the new FDA proposals with the buy-out of the federal tobacco price support and quota system, which is intended to increase the likelihood of the passage of both the FDA proposals and the buy-out.

In February of 2001, a committee convened by the Institute of Medicine, a private, non-profit organization which advises the federal government on medical issues, issued a report recommending that Congress enact legislation enabling a suitable agency to regulate tobacco-related products that purport to reduce exposure to one or more tobacco toxicants or to reduce risk of disease, and to implement other policies designed to reduce the harm from tobacco use. The report recommended regulation of all tobacco products, including potentially reduced exposure products, known as PREPs.

In 2002 certain public health groups petitioned the FDA to assert jurisdiction over several PREP type products that have been introduced into the marketplace. These groups assert that claims made by manufacturers of these products allow the FDA to regulate the manufacture, advertising and sale of these products as drugs or medical devices under the Food Drug and Cosmetic Act. The agency has received comments on these petitions but has taken no action.

In late 2002 Philip Morris U.S.A., the largest U.S. manufacturer of cigarettes, filed a request for rulemaking petition with the Federal Trade Commission ("FTC") seeking changes in the existing FTC regulatory scheme for measuring and reporting tar and nicotine to the federal government and for inclusion in cigarette advertising. The agency procedures allow for interested parties to submit comments on this proposal. The agency has received comments on these petitions but has taken no action.

In 1986, the Surgeon General of the United States and the National Academy of Sciences reported that environmental tobacco smoke ("ETS") exposes nonsmokers to an increased risk of lung cancer and respiratory illness. In addition, in 1993, the United States Environmental Protection Agency released a report (the "EPA Risk Assessment") concluding that ETS is a human lung carcinogen in adults, and causes respiratory effects in children, The EPA Risk Assessment has not been used as a basis for any regulatory action by the EPA. In May 2000, the Department of Health and Human Service's National Toxicology Program listed ETS as "known to be a human carcinogen." Various public health organizations have also issued statements on environmental tobacco smoke and its health effects and many scientific papers on ETS have been published since the EPA Risk Assessment, with varying conclusions.

Lorillard cannot predict the ultimate outcome of these proposals, reports and recommendations, though if enacted, certain of these proposals could have a material adverse effect on Lorillard's business and the Company's financial position or results of operations in the future.

State and Local Regulation: In recent years, many state, local and municipal governments and agencies, as well as private businesses, have adopted legislation, regulations or policies which prohibit or restrict, or are intended to discourage, smoking, including legislation, regulations or policies prohibiting or restricting smoking in various places such as public buildings and facilities, stores, restaurants and bars and on airline flights and in the workplace. This trend has increased significantly since the release of the EPA Risk Assessment. The following are examples of some of the more significant state and local regulations affecting Lorillard's business:

- In September of 1997, the California Environmental Protection Agency released a report (the "Cal/EPA Report") concluding that ETS causes specified development, respiratory, carcinogenic and cardiovascular effects including lung and nasal sinus cancer, heart disease, sudden infant death syndrome, respiratory infections and asthma induction and exacerbation in children. The Cal/EPA Report was subsequently released as a monograph by the National Cancer Institute in November of 1999. The California Air Resources Board is in the early stages of the process of determining whether to identify ETS as a toxic air contaminant, or "TAC," under the Toxic Air Contaminant Identification and Control Act. A subcommittee of that board has issued a draft report linking ETS with certain diseases, and public comment on the report has been invited. If California, on the basis of its assessments of risk and exposure, identifies ETS as a TAC, California could initiate the control phase of the Tanner Act, which involves adoption of measures to reduce or eliminate emissions. These measures could include further restrictions regarding venues where smoking is permitted or controls on product emissions.

- The Commonwealth of Massachusetts has enacted legislation requiring each manufacturer of cigarettes and smokeless tobacco sold in Massachusetts to submit to the state's Department of Public Health ("DPH") an annual report identifying for each brand sold certain "added constituents," and providing nicotine yield ratings and other information for certain brands based on regulations promulgated by the DPH. The State of Texas has implemented legislation similar to the Massachusetts law. Neither legislation allows for the public release of trade secret information.

- New York State has enacted legislation that requires the State's Office of Fire Prevention and Control ("OFPC") to promulgate fire-safety standards for cigarettes sold in New York and that cigarettes sold in New York meet ignition propensity performance standards established by that agency. On December 31, 2003, OFPC issued final Fire Safety Standards For Cigarettes proposing performance and testing standards pursuant to the legislation. The effective date of the regulations is June 28, 2004. Lorillard has developed proprietary technology to comply with the standards and intends to be able to comply by the effective date.

Other similar laws and regulations have been enacted or considered by other state and local governments. Lorillard cannot predict the impact which these regulations may have on Lorillard's business, though if enacted, they could have a material adverse effect on Lorillard's business and the Company's financial position or results of operations in the future.

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Excise Taxes: Cigarettes are subject to substantial federal, state and local excise taxes in the United States and, in general, such taxes have been increasing. On January 1, 2002, the federal excise tax on cigarettes increased by $2.50 per thousand cigarettes and is now $19.50 per thousand cigarettes (or $0.39 per pack of 20 cigarettes). State excise taxes, which are levied upon and paid by the distributors, are also in effect in the fifty states, the District of Columbia and many municipalities. Increases in state excise taxes on cigarette sales in 2003 ranged from $0.09 per pack to $0.70 per pack in 16 states plus the District of Columbia. The average state excise tax, including the District of Columbia, increased to $0.73 per pack (of 20 cigarettes) in 2003 from $0.61 in 2002. Proposals for additional increases in federal, state and local excise taxes continue to be considered. The combined state and municipal taxes generally range from $0.025 to $3.00 per pack of cigarettes.

Advertising and Marketing: Lorillard advertises its products to adult

smokers in magazines, newspapers, direct mail and point-of-sale display materials. In addition, Lorillard promotes its cigarette brands to adult smokers through distribution of store coupons, retail price promotions, and personal contact with distributors and retailers. Although Lorillard's sales are made primarily to wholesale distributors rather than retailers, Lorillard's sales personnel monitor retail and wholesale inventories, work with retailers on displays and signs, and enter into promotional arrangements with retailers from time to time.

As a general matter, Lorillard allocates its marketing expenditures among brands on the basis of marketplace opportunity and profitable return. In particular, Lorillard focuses its marketing efforts on the premium segment of the U.S. cigarette industry, with a specific focus on Newport.

Advertising of tobacco products through television and radio has been prohibited since 1971. In addition, on November 23, 1998, Lorillard and the three other largest major cigarette manufacturers entered into a Master Settlement Agreement ("MSA") with 46 states, the District of Columbia, the Commonwealth of Puerto Rico and certain other U.S. territories to settle certain health care cost recovery and other claims. These manufacturers had previously settled similar claims brought by the four remaining states which together with the MSA are generally referred to as the "State Settlement Agreements." Under the State Settlement Agreements the participating cigarette manufacturers agreed to severe restrictions on their advertising and promotion activities. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each tobacco manufacturer to one event sponsorship during any twelve-month period, which may not include major team sports or events in which the intended audience includes a significant percentage of youth; bans all outdoor advertising of tobacco products with the exception of small signs at retail establishments that sell tobacco products; bans tobacco manufacturers from offering or selling apparel and other merchandise that bears a tobacco brand name, subject to specified exceptions; prohibits the distribution of free samples of tobacco products except within adult-only facilities; prohibits payments for tobacco product placement in various media; and bans gift offers based on the purchase of tobacco products without sufficient proof that the intended gift recipient is an adult.

Many states, cities and counties have enacted legislation or regulations further restricting tobacco advertising. There may be additional local, state and federal legislative and regulatory initiatives relating to the advertising and promotion of cigarettes in the future. Lorillard cannot predict the impact of such initiatives on its marketing and sales efforts.

Lorillard has funded and plans to continue to fund a Youth Smoking Prevention Program, which is designed to discourage youth from smoking. The program has addressed not only youth, but also parents and, through the "We Card" program, retailers, to prevent purchase of cigarettes by underage purchasers. Lorillard has determined not to advertise its cigarettes in magazines with large readership among people under the age of 18.

Distribution Methods: Lorillard sells its products primarily to distributors, who in turn service retail outlets; chain store organizations; and government agencies, including the U.S. Armed Forces. Upon completion of the manufacturing process, Lorillard ships cigarettes to public distributing warehouse facilities for rapid order fulfillment to wholesalers and other direct buying customers. Lorillard retains a portion of its manufactured cigarettes at its Greensboro central distribution center and Greensboro cold-storage facility for future finished goods replenishment.

As of December 31, 2003, Lorillard had approximately 740 direct buying

customers servicing more than 400,000 retail accounts. Lorillard does not sell cigarettes directly to consumers. During 2003, 2002 and 2001, sales made by Lorillard to McLane Company, Inc., comprised 20%, 17% and 15%, respectively, of Lorillard's revenues. No other customer accounted for more than 10% of 2003, 2002 or 2001 sales. Lorillard does not have any backlog orders.

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Most of Lorillard's customers buy cigarettes on a next-day-delivery basis. Approximately 90% of Lorillard's customers purchase cigarettes using electronic funds transfer, which provides immediate payment to Lorillard.

Raw Materials and Manufacturing: In its production of cigarettes, Lorillard uses burley leaf tobacco, and flue-cured leaf tobacco grown in the United States and abroad, and aromatic tobacco grown primarily in Turkey and other Near Eastern countries. A domestic supplier manufactures all of Lorillard's reconstituted tobacco.

Lorillard purchases more than 99% of its domestic leaf tobacco from Dimon International, Inc. Lorillard directs Dimon in the purchase of tobacco according to Lorillard's specifications for quality, grade, yield, particle size, moisture content and other characteristics. Dimon purchases and processes the whole leaf and then dries and packages it for shipment to and storage at Lorillard's Danville, Virginia facility. In the event that Dimon becomes unwilling or unable to supply leaf tobacco to Lorillard, Lorillard believes that it can readily obtain high-quality leaf tobacco from well-established, alternative industry sources.

Due to the varying size and quality of annual crops and other economic factors, including U.S. tobacco production controls administered by the United States Department of Agriculture, tobacco prices have historically fluctuated. The U.S. price supports that accompany production controls have inflated the market price of tobacco. In addition, the transition in tobacco purchasing from auction markets to direct farmer contracting may increase the market price of domestically grown tobacco. However, Lorillard does not believe that this increase, if any, will have a material effect on its business.

Lorillard stores its tobacco in 29 storage warehouses on its 130-acre Danville facility. To protect against loss, amounts of all types and grades of tobacco are stored in separate warehouses. Because the process of aging tobacco normally requires approximately two years, Lorillard maintains large quantities of leaf tobacco at all times. Lorillard believes its current tobacco supplies are adequately balanced for its present production requirements. If necessary, Lorillard can purchase aged tobacco in the open markets to supplement existing inventories.

Lorillard produces cigarettes at its Greensboro, North Carolina manufacturing plant, which has a production capacity of approximately 185 million cigarettes per day and approximately 43 billion cigarettes per year. Through various automated systems and sensors, Lorillard actively monitors all phases of production to promote quality and compliance with applicable regulations.

Prices: Lorillard believes that the volume of U.S. cigarette sales is sensitive to price changes. Changes in pricing by Lorillard or other cigarette manufacturers could have an adverse impact on Lorillard's volume of units sold, which in turn could have an adverse impact on Lorillard's profits and earnings. Lorillard makes independent pricing decisions based on a number of factors. Lorillard cannot predict the potential adverse impact of price changes on industry volume or Lorillard volume, on the mix between premium and discount sales, on Lorillard's market share or on Lorillard's profits and earnings. Lorillard has not increased its wholesale prices since March of

2002. In May of 2003, Lorillard lowered the wholesale list price of its discount brand, Maverick, by $55.00 per thousand cigarettes ($1.10 per pack of 20 cigarettes) in an effort to reposition the brand to be more competitive in the deep discount price cigarette segment.

Properties: Lorillard's manufacturing facility is located on approximately 80 acres in Greensboro, North Carolina. This 942,600 square-foot plant contains modern high-speed cigarette manufacturing machinery. The Greensboro facility also includes a warehouse with shipping and receiving areas totaling 54,800 square feet. In addition, Lorillard owns tobacco receiving and storage facilities totaling approximately 1,500,000 square feet in Danville, Virginia. Lorillard's executive offices are located in a 130,000 square-foot, four-story office building in Greensboro. Its 93,800 square-foot research facility is also located in Greensboro.

Lorillard's principal properties are owned in fee. With minor exceptions, Lorillard owns all of the machinery it uses. Lorillard believes that its properties and machinery are in generally good condition. Lorillard leases sales offices in major cities throughout the United States, a cold-storage facility in Greensboro and warehousing space in 27 public distributing warehouses located throughout the United States.

Competition: The domestic U.S. market for cigarettes is highly competitive. Competition is primarily based on a brand's price, positioning, consumer loyalty, retail display, promotion, quality and taste. Lorillard's principal competitors are the three other major U.S. cigarette manufacturers, Philip Morris, R.J. Reynolds ("RJR") and Brown & Williamson ("B&W").

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Lorillard believes its ability to compete even more effectively has been restrained by the Philip Morris Retail Leaders program and could further be restrained by the proposed combination of RJR and B&W discussed below. The terms of Philip Morris' merchandising contracts preclude Lorillard from obtaining visible space in the retail store to effectively promote its brands. As a result in a large number of retail locations, Lorillard either has a severely limited or no opportunity to competitively support its promotion programs thereby limiting its sales potential.

Lorillard's 9.3% market share of the 2003 U.S. domestic cigarette industry was fourth highest overall. Philip Morris, RJR and B&W accounted for approximately 50.4%, 21.5% and 10.5%, respectively, of wholesale shipments in 2003. Among the four major manufacturers, Lorillard ranked third behind Philip Morris and RJR with a 12.0% share of the premium segment in 2003.

On October 27, 2003, RJR, the second largest cigarette manufacturer in the United States, and British American Tobacco announced that they have agreed to combine the U.S. tobacco business of RJR with British American Tobacco's U.S. tobacco business, B&W, the third largest cigarette manufacturer in the United States. The closing of this combination is subject to various conditions, including regulatory approvals.

If completed, the consolidation of these two competitors would result in further concentration of the U.S. tobacco industry, with the top two companies, Philip Morris USA and the newly created Reynolds American, having a combined market share of approximately 80%. In addition, this transaction would combine in one company the third and fourth leading menthol brands, Kool and Salem, which have a combined share of the menthol segment of approximately 21%. This concentration of U.S. market share could make it more difficult for Lorillard and others to compete for shelf space in retail outlets and could impact price competition among menthol brands, either of which could have a material adverse effect on the results of operations and financial condition

of the Company.

The following table sets forth cigarette sales data provided by the industry and by Lorillard to Management Science Associates ("MSAI"), an independent third-party database management organization that collects wholesale shipment data from various cigarette manufacturers and provides analysis of market share, unit sales volume and premium versus discount mix for individual companies and the industry as a whole. MSAI's information relating to unit sales volume and market share of certain of the smaller, primarily deep discount, cigarette manufacturers is based on estimates derived by MSAI. Lorillard management believes that volume and market share information for these manufacturers are understated and, correspondingly, share information for the larger manufacturers, including Lorillard, are overstated by MSAI. The table below indicates the relative position of Lorillard in the U.S.

Calendar Year	Industry (000)	Lorillard (000)	Lorillard to Industry
2003	371,525,000	34,431,000	9.27%
2002	391,404,000	35,444,000	9.05%
2001	406,304,000	37,626,000	9.26%

MSAI divides the cigarette market into two price segments, the premium price segment and the discount or reduced price segment. According to MSAI, the discount segment share of market decreased from approximately 27.2% in 2002 to 26.1% in 2003. Virtually all of Lorillard's sales are in the premium price segment where Lorillard's share amounted to approximately 12.0% in 2003, 11.8% in 2002 and 11.5% in 2001, as reported by MSAI.

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LOEWS HOTELS HOLDING CORPORATION

The subsidiaries of Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary of the Company, presently operate the following 20 hotels. Loews Hotels accounted for 1.74%, 1.53% and 1.49% of the Company's consolidated total revenue for the years ended December 31, 2003, 2002 and 2001, respectively.

Name and Location	Number of Rooms	Owned, Leased or Managed
Loews Annapolis Annapolis, Maryland	220	Owned
Loews Beverly Hills Hotels Beverly Hills, California	137	Management contract expiring 2008 (a)
Loews Coronado Bay Resort San Diego, California	440	Land lease expiring 2034
Loews Denver Denver, Colorado	185	Owned
Don CeSar Beach Resort, a Loews Hotel St. Pete Beach, Florida	347	Management contract (a)(b)

Hard Rock Hotel, at Universal Orlando Orlando, Florida	650	Management contract (c)
House of Blues Hotel, a Loews Hotel Chicago, Illinois	370	Management contract expiring 2005 (a)
The Jefferson, a Loews Hotel Washington, D.C.	100	Management contract expiring 2010 (a)
Loews Le Concorde Quebec City, Canada	405	Land lease expiring 2069
Loews L'Enfant Plaza Washington, D.C.	370	Management contract expiring 2005 (a)
Loews Miami Beach Hotel Miami Beach, Florida	790	Land lease expiring 2096
Loews New Orleans Hotel New Orleans, Louisiana	285	Management contract expiring 2018 (a)
Loews Philadelphia Hotel Philadelphia, Pennsylvania	585	Owned
Portofino Bay Hotel, at Universal Orlando, a Loews Hotel Orlando, Florida	750	Management contract (c)
The Regency, a Loews Hotel New York, New York	350	Land lease expiring 2013, with renewal option for 47 years
Royal Pacific Resort at Universal Orlando, a Loews Hotel Orlando, Florida	1,000	Management contract (c)
Loews Santa Monica Beach Santa Monica, California	340	Management contract expiring 2018, with renewal option for 5 years (a)
Loews Vanderbilt Plaza Nashville, Tennessee	340	Owned
Loews Ventana Canyon Resort Tucson, Arizona	400	Management contract expiring 2009, with renewal options for 5 years (a)
Loews Hotel Vogue Montreal, Canada	140	Owned

(a) These management contracts are subject to termination rights.

(b) A Loews Hotels subsidiary is a 20% owner of the hotel, which is being operated by Loews Hotels pursuant to a management contract.

(c) A Loews Hotels subsidiary is a 50% owner of these hotels located at the Universal Orlando theme park, through a joint venture with Universal Studios and the Rank Group. The hotels are constructed on land leased by the joint venture from the resort's owners and are being operated by Loews Hotels pursuant to a management contract.

The hotels which are operated by Loews Hotels contain shops, a variety of restaurants and lounges, and some contain parking facilities, swimming pools, tennis courts and access to golf courses.

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The hotels owned by Loews Hotels are subject to mortgage indebtedness aggregating approximately $146.5 million at December 31, 2003 with interest rates ranging from 3.1% to 6.3%, and maturing between 2004 and 2028. In addition, certain hotels are held under leases which are subject to formula derived rental increases, with rentals aggregating approximately $11.1 million for the year ended December 31, 2003.

Competition from other hotels, motor hotels and inns, including facilities owned by local interests and by national and international chains, is vigorous in all areas in which Loews Hotels operates. The demand for hotel rooms in many areas is seasonal and dependent on general and local economic conditions. Loews Hotels properties also compete with facilities offering similar services

in locations other than those in which its hotels are located. Competition among luxury hotels is based primarily on location and service. Competition among resort and commercial hotels is based on price as well as location and service. Because of the competitive nature of the industry, hotels must continually make expenditures for updating, refurnishing and repairs and maintenance, in order to prevent competitive obsolescence.

DIAMOND OFFSHORE DRILLING, INC.

Diamond Offshore Drilling Inc. ("Diamond Offshore"), is engaged, through its subsidiaries, in the business of owning and operating drilling rigs that are used primarily in the drilling of offshore oil and gas wells on a contract basis for companies engaged in exploration and production of hydrocarbons. Diamond Offshore operates 45 offshore rigs. Diamond Offshore accounted for 4.18%, 4.70% and 5.38% of the Company's consolidated total revenue for the years ended December 31, 2003, 2002 and 2001, respectively.

Drilling Units and Equipment: Diamond Offshore currently owns and operates 45 mobile offshore drilling rigs (30 semisubmersible rigs, 14 jack-up rigs and one drillship) and related equipment. Offshore rigs are mobile units that can be relocated via either self-propulsion or the use of tugs enabling them to be repositioned based on market demand.

Semisubmersible rigs are supported by large pontoons and are partially submerged during drilling for greater stability. Semisubmersibles are typically anchored in position and remain stable for drilling in the semi-submerged floating position due in part to their wave transparency characteristics at the water line. Semisubmersibles can also be held in position through the use of a computer controlled thruster (dynamic-positioning) system to maintain the rig's position over a drillsite. Diamond Offshore has three such semisubmersible rigs with dynamic-positioning capabilities.

Diamond Offshore owns and operates nine high specification semisubmersible rigs. These semisubmersibles are larger than many other semisubmersibles, are capable of working in deep water or harsh environments, and have other advanced features. As of February 2, 2004, Diamond Offshore was actively marketing 26 of its semisubmersible rigs. These rigs are currently located as follows: nine in the U.S. Gulf of Mexico, four in Mexico, three in the North Sea and three in Brazil, with the remaining rigs located in various foreign markets.

The remaining four of Diamond Offshore's semisubmersible rigs are cold stacked; two since March 2002 and two since December 2002. When Diamond Offshore anticipates that a rig will be idle for an extended period of time, it cold stacks the unit by ceasing to actively market the rig. This eliminates all expenditures associated with keeping the rig ready to go to work.

Diamond Offshore owns and operates 14 jack-up rigs, 13 of which were being actively marketed as of February 2, 2004. These rigs stand on the ocean floor with their drilling platforms "jacked up" on support legs above the water. They are used for drilling in water depths from 20 feet to 350 feet. Thirteen of Diamond Offshore's jack-up rigs are cantilevered units capable of over platform development drilling and workover as well as exploratory drilling. Twelve of Diamond Offshore's jack-up rigs are currently located in the Gulf of Mexico.

Diamond Offshore's drillship is self-propelled and designed to drill in deep water. Shaped like a conventional vessel, it is the most mobile of the major rig types. Diamond Offshore's drillship has dynamic-positioning capabilities and is currently operating in Brazil.

Markets: Diamond Offshore's principal markets for its offshore contract drilling services are the Gulf of Mexico, including the United States and offshore Mexico, Europe, principally the U.K. and Norway, South America, Africa, and Australia/Southeast Asia. Diamond Offshore actively markets its rigs worldwide.

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Diamond Offshore contracts to provide offshore drilling services vary in their terms and provisions. Diamond Offshore often obtains its contracts through competitive bidding, although it is not unusual for Diamond Offshore to be awarded drilling contracts without competitive bidding. Drilling contracts generally provide for a basic drilling rate on a fixed dayrate basis regardless of whether or not such drilling results in a productive well. Drilling contracts may also provide for lower rates during periods when the rig is being moved or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather or water conditions or other conditions beyond the control of Diamond Offshore. Under dayrate contracts, Diamond Offshore generally pays the operating expenses of the rig, including wages and the cost of incidental supplies. Dayrate contracts have historically accounted for a substantial portion of Diamond Offshore's revenues. In addition, Diamond Offshore has worked some of its rigs under dayrate contracts that include the ability to earn an incentive bonus based upon performance.

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well, a group of wells (a "well-to-well contract") or a stated term (a "term contract") and may be terminated by the customer in the event the drilling unit is destroyed or lost or if drilling operations are suspended for a specified period of time as a result of a breakdown of equipment or, in some cases, due to other events beyond the control of either party. In addition, certain of Diamond Offshore's contracts permit the customer to terminate the contract early by giving notice and in some circumstances may require the payment of an early termination fee by the customer. The contract term in many instances may be extended by the customer exercising options for the drilling of additional wells at fixed or mutually agreed terms, including dayrates.

The duration of offshore drilling contracts is generally determined by market demand and the respective management strategies of the offshore drilling contractor and its customers. In periods of rising demand for offshore rigs, contractors typically prefer well-to-well contracts that allow contractors to profit from increasing dayrates. In contrast, during these periods customers with reasonably definite drilling programs typically prefer longer term contracts to maintain dayrate prices at a consistent level. Conversely, in periods of decreasing demand for offshore rigs, contractors generally prefer longer term contracts to preserve dayrates at existing levels and ensure utilization, while customers prefer well-to-well contracts that allow them to obtain the benefit of lower dayrates. If possible, Diamond Offshore seeks to have a foundation of long-term contracts with a reasonable balance of single-well, well-to-well and short-term contracts to minimize the downside impact of a decline in the market while still participating in the benefit of increasing dayrates in a rising market.

Customers: Diamond Offshore provides offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. Several customers have accounted for 10.0% or more of Diamond Offshore's annual consolidated revenues, although the specific customers may vary from year to year. During 2003, Diamond Offshore performed services for 52 different customers with Petroleo Brasileiro S.A. ("Petrobras") and BP accounting for 20.3% and 11.9% of Diamond Offshore's annual total consolidated revenues, respectively. During 2002, Diamond Offshore performed services for 46 different customers with Petrobras, BP, and

Murphy Exploration and Production Company accounting for 19.0%, 18.9% and 10.4% of Diamond Offshore's annual total consolidated revenues, respectively. During 2001, Diamond Offshore performed services for 44 different customers with BP and Petrobras accounting for 21.8% and 17.3% of Diamond Offshore's annual total consolidated revenues, respectively. During periods of low demand for offshore drilling rigs, the loss of a single significant customer could have a material adverse effect on Diamond Offshore's results of operations.

Competition: The contract drilling industry is highly competitive and is influenced by a number of factors, including the current and anticipated prices of oil and natural gas, the expenditures by oil and gas companies for exploration and development of oil and natural gas and the availability of drilling rigs. In addition, demand for drilling services remains dependent on a variety of political and economic factors beyond Diamond Offshore's control, including worldwide demand for oil and natural gas, the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of the various governments regarding exploration and development of their oil and natural gas reserves.

Customers often award contracts on a competitive bid basis, and although a customer selecting a rig may consider, among other things, a contractor's safety record, crew quality, rig location, and quality of service and equipment, an oversupply of rigs can create an intensely competitive market in which price is the primary factor in determining the selection of a drilling contractor. In periods of increased drilling activity, rig availability often becomes a consideration, particularly with respect to technologically advanced units. Diamond Offshore believes that competition for drilling contracts will continue to be intense in the foreseeable future. Contractors are also able to adjust localized supply and

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demand imbalances by moving rigs from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates. Such movements, reactivations or a decrease in drilling activity in any major market could depress dayrates and could adversely affect utilization of Diamond Offshore's rigs.

Governmental Regulation: Diamond Offshore's operations are subject to numerous international, federal, state and local laws and regulations that relate directly or indirectly to its operations, including certain regulations controlling the discharge of materials into the environment, requiring removal and clean-up under certain circumstances, or otherwise relating to the protection of the environment. For example, Diamond Offshore may be liable for damages and costs incurred in connection with oil spills for which it is held responsible. Laws and regulations protecting the environment have become increasingly stringent in recent years and may, in certain circumstances, impose "strict liability" rendering a company liable for environmental damage without regard to negligence or fault on the part of such company. Liability under such laws and regulations may result from either governmental or citizen prosecution. Such laws and regulations may expose Diamond Offshore to liability for the conduct of or conditions caused by others, or for acts of Diamond Offshore that were in compliance with all applicable laws at the time such acts were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on Diamond Offshore.

The United States Oil Pollution Act of 1990 ("OPA '90"), and similar legislation enacted in Texas, Louisiana and other coastal states, addresses oil spill prevention and control and significantly expands liability exposure across all segments of the oil and gas industry. OPA '90, such similar

legislation and related regulations impose a variety of obligations on Diamond Offshore related to the prevention of oil spills and liability for damages resulting from such spills. OPA '90 imposes strict and, with limited exceptions, joint and several liability upon each responsible party for oil removal costs and a variety of public and private damages.

Indemnification and Insurance: Diamond Offshore's operations are subject to hazards inherent in the drilling of oil and gas wells such as blowouts, reservoir damage, loss of production, loss of well control, cratering or fires, the occurrence of which could result in the suspension of drilling operations, injury to or death of rig and other personnel and damage to or destruction of Diamond Offshore's, Diamond Offshore's customers' or a third party's property or equipment. Damage to the environment could also result from Diamond Offshore's operations, particularly through oil spillage or uncontrolled fires. In addition, offshore drilling operations are subject to perils peculiar to marine operations, including capsizing, grounding, collision and loss or damage from severe weather. Diamond Offshore has insurance coverage and contractual indemnification for certain risks, but there can be no assurance that such coverage or indemnification will adequately cover Diamond Offshore's loss or liability in certain circumstances or that Diamond Offshore will continue to carry such insurance or receive such indemnification.

Diamond Offshore's retention of liability for property damage is between $1.0 and $2.5 million per incident, depending on the value of the equipment, with an aggregate annual deductible of $5.0 million. In addition, Diamond Offshore is self insured for 10% of its property damage losses.

Operations Outside the United States: Operations outside the United States accounted for approximately 51.6%, 55.5% and 37.3% of Diamond Offshore's total consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively. Diamond Offshore's non-U.S. operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including risks of war and civil disturbances (or other risks that may limit or disrupt markets), expropriation and the general hazards associated with the assertion of national sovereignty over certain areas in which operations are conducted. No prediction can be made as to what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. Diamond Offshore's operations outside the United States may also face the additional risk of fluctuating currency values, hard currency shortages, controls of currency exchange and repatriation of income or capital.

During 2003, Diamond Offshore entered into contracts to operate four of its semisubmersible rigs offshore Mexico for Pemex-Exploracion Y Produccion, the national oil company of Mexico. The terms of these contracts expose Diamond Offshore to greater risks than it normally assumes, such as exposure to greater environmental liability. While Diamond Offshore believes that the financial terms of the contracts and Diamond Offshore's operating safeguards in place mitigate these risks, there can be no assurance that Diamond Offshore's increased risk exposure will not have a negative impact on Diamond Offshore's future operations or financial results.

Properties: Diamond Offshore owns an eight-story office building located in Houston, Texas containing approximately 182,000 net rentable square feet, which is used for its corporate headquarters. Diamond Offshore also

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owns two buildings totaling 39,000 square feet and 20 acres of land in New Iberia, Louisiana for its offshore drilling warehouse and storage facility, and a 13,000 square foot building and five acres of land in Aberdeen, Scotland

for its North Sea operations. In addition, Diamond Offshore leases various office, warehouse and storage facilities in Louisiana, Australia, Brazil, Indonesia, Scotland, Vietnam, the Netherlands, Malaysia, South Africa, West Africa, Ecuador and Mexico to support its offshore drilling operations.

TEXAS GAS TRANSMISSION, LLC

The Company, through a wholly owned subsidiary, TGT Pipeline, LLC ("TGT") acquired Texas Gas Transmission, LLC ("Texas Gas") from the Williams Companies, Inc. in May of 2003. Texas Gas accounted for 0.87% of the Company's consolidated total revenue for the year ended December 31, 2003.

Texas Gas owns and operates a natural gas pipeline system originating in the Louisiana Gulf Coast area and in East Texas and running north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois. Texas Gas's direct market area encompasses eight states in the South and Midwest, and includes the Memphis, Tennessee; Louisville, Kentucky; Cincinnati, Ohio; and the Evansville and Indianapolis, Indiana metropolitan areas. Texas Gas also has indirect market access to the Northeast through interconnections with unaffiliated pipelines.

Texas Gas's system, has a mainline delivery capacity of approximately 2.8 billion cubic feet (Bcf) of gas per day, is composed of approximately 5,800 miles of mainline, storage, and branch transmission pipelines and 31 compressor stations having a sea-level-rated capacity totaling approximately 556,000 horsepower.

Texas Gas owns and operates natural gas storage reservoirs in nine underground storage fields located in Indiana and Kentucky. The storage capacity of Texas Gas's certificated storage fields is approximately 178 Bcf of gas, of which approximately 55 Bcf is working gas. Texas Gas owns a majority of its storage gas which it uses, in part to meet operational balancing needs on its system, in part to meet the requirements of Texas Gas's firm and interruptible storage customers, and in part to meet the requirements of Texas Gas's "No-Notice" transportation service, which allows Texas Gas's customers to temporarily draw from Texas Gas's storage gas during the winter season to be repaid in-kind during the following summer season. A small amount of storage gas is also used to provide "Summer No-Notice" ("SNS") transportation service, designed primarily to meet the needs of summer-season electrical power generation facilities. SNS customers may temporarily draw from Texas Gas's storage gas in the summer, to be repaid during the same summer season. A large portion of the gas delivered by Texas Gas to its market area is used for space heating, resulting in substantially higher daily requirements during winter months.

Customers: In 2003, Texas Gas transported gas of 100 distribution companies and municipalities for resale to residential, commercial and industrial end users. Texas Gas provided transportation services to approximately 14 industrial customers located along its system. At December 31, 2003, Texas Gas had transportation contracts with approximately 489 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. Texas Gas's largest customer, Proliance Energy, LLC (Proliance), accounted for approximately 19.6% of total operating revenue. Only one other customer, Atmos Energy, with approximately 11.5%, accounted for over 10% of total operating revenue in 2003. Texas Gas's firm transportation and storage agreements are generally long-term agreements with various expiration dates and account for the major portion of Texas Gas's business. Additionally, Texas Gas offers interruptible transportation, short-term firm transportation and storage services under agreements that are generally short-term.

Government Regulation: Texas Gas is subject to regulation by the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act ("NGA") of 1938 and under the Natural Gas Policy Act of 1978, and as such, its rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and its accounting, among other things, are subject to regulation. Texas Gas's rates are established primarily through the FERC ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation rates, (2) allowed rate of return, including the equity component of Texas Gas's capital structure, and (3) volume throughput assumptions. The allowed rate of return is determined by the FERC in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. Texas Gas holds certificates of public convenience and necessity issued by the FERC authorizing ownership and operation of all pipelines, facilities and properties considered jurisdictional for which certificates are required under the NGA.

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At December 31, 2003, Texas Gas had no pending rate case proceedings and no associated rate refunds. Texas Gas is required to file a rate case with the FERC with rates to be effective no later than November 1, 2005, and, presently Texas Gas does not plan to file a rate case prior to that time.

Texas Gas is also subject to the Natural Gas Pipeline Safety Act of 1968, as amended by Title I of the Pipeline Safety Act of 1979, which regulates safety requirements in the design, construction, operation and maintenance of interstate natural gas pipelines and is subject to extensive federal, state and local environmental laws and regulations, which affect Texas Gas's operations, related to the construction and operation of its pipeline facilities.

Competition: Texas Gas competes primarily with other interstate pipelines in the transportation of natural gas, and natural gas competes with other forms of energy available to Texas Gas's customers, including electricity, coal, and fuel oils. The principal elements of competition among pipelines are rates, terms of service, access to supply basins, and flexibility and reliability of service. In addition, the FERC's continuing efforts to increase competition in the natural gas industry are having the effect of increasing the natural gas transportation options of Texas Gas's traditional customer base. As a result, segmentation and capacity release have created an active secondary market, which is increasingly competitive with Texas Gas.

Properties: Texas Gas's pipeline system is owned in fee, with certain portions, such as the offshore areas, being held jointly with third parties. However, a substantial portion of Texas Gas's system is constructed and maintained pursuant to rights-of-way, easements, permits, and licenses or consents on and across property owned by others. Texas Gas's compressor stations, with appurtenant facilities, are located on lands owned in fee by Texas Gas. Texas Gas owns its main office building and other facilities located in Owensboro, Kentucky. Storage facilities are either owned or contracted for under long-term leases.

During January 2004, Texas Gas held a non-binding open season to evaluate market interest for the expansion of daily and seasonal storage capacity from its natural gas storage complex. In the open season, Texas Gas proposed to add additional compression at its Western Kentucky storage facilities capable of incremental daily withdrawals up to 150,000 Mcf and seasonal storage capacity up to 8.2 Bcf, with service starting by November 2005. Texas Gas is currently reviewing responses received and working with parties that expressed interest in this project.

BULOVA CORPORATION

Bulova Corporation ("Bulova") is engaged in the distribution and sale of watches, clocks and timepiece parts for consumer use. Bulova accounted for 1.01%, 0.95% and 0.79% of the Company's consolidated total revenue for the years ended December 31, 2003, 2002 and 2001, respectively.

Bulova's principal watch brands are Bulova, Caravelle, Wittnauer and Accutron. Clocks are principally sold under the Bulova brand name. All watches and substantially all clocks are purchased from foreign suppliers. Bulova's principal markets are the United States, Canada and Mexico. Bulova's product breakdown includes luxury watch lines represented by Wittnauer and Accutron, a mid-priced watch line represented by Bulova, and a lower-priced watch line represented by Caravelle. Bulova established a Swiss subsidiary, Bulova Swiss SA, in the third quarter of 2002 to distribute product throughout Europe. Bulova Swiss SA began selling Bulova products in Italy, Greece and the Netherlands during the first quarter of 2003.

Properties: Bulova owns an 80,000 square foot facility in Woodside, New York which it uses for executive and sales offices, watch distribution, service and warehouse purposes and also owns a 91,000 square foot facility in Brooklyn, New York, which it uses for clock service and warehouse purposes. Bulova also owns 6,100 square feet of office space in Hong Kong which it uses for quality control and sourcing purposes. Bulova leases 31,000 square foot facility in Toronto, Canada, which it uses for watch and clock sales and service; a 27,000 square foot office and manufacturing facility in Ontario, Canada which it uses for its grandfather clock operations. Bulova also leases facilities in Mexico, Federal District, and Fribourg, Switzerland.

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OTHER INTERESTS

A subsidiary of the Company, Majestic Shipping Corporation ("Majestic"), owns a 49% common stock interest in Hellespont Shipping Corporation ("Hellespont"). Hellespont is engaged in the business of owning and operating four ultra large crude oil tankers that are used primarily to transport crude oil from the Persian Gulf to a limited number of ports in the Far East, Northern Europe and the United States.

EMPLOYEE RELATIONS

The Company, inclusive of its operating subsidiaries as described below, employed approximately 22,700 persons at December 31, 2003 and considers its employee relations to be satisfactory.

Lorillard employed approximately 3,200 persons. Approximately 1,200 of these employees are represented by labor unions covered by three collective bargaining agreements.

Lorillard has collective bargaining agreements covering hourly rated production and service employees at various Lorillard plants with the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union, and the National Conference of Fireman and Oilers/SEIU. Lorillard has experienced satisfactory labor relations and provides a retirement plan, a deferred profit sharing plan, and other benefits for its hourly paid employees who are represented by the foregoing unions. In addition, Lorillard provides to its salaried employees a retirement plan, group life, disability and health insurance program and a savings plan.

Loews Hotels employed approximately 2,200 persons, approximately 700 of whom are union members covered under collective bargaining agreements. Loews Hotels

has experienced satisfactory labor relations and provides comprehensive benefit plans for its hourly paid employees.

The Company maintains a retirement plan, group life, disability and health insurance program and a savings plan for executive office employees. Loews Hotels non-union employees also participate in these benefit plans. Union employees participate in benefit plans provided by collective bargaining agreements.

CNA employed approximately 12,100 full-time equivalent employees and has experienced satisfactory labor relations. CNA and its subsidiaries have comprehensive benefit plans for substantially all of their employees, including retirement plans, savings plans, disability programs, group life programs and group health care programs.

Diamond Offshore employed approximately 3,740 persons including international crew personnel furnished through independent labor contractors. Diamond Offshore has experienced satisfactory labor relations and provides comprehensive benefit plans for its employees. Diamond Offshore does not currently consider the possibility of a shortage of qualified personnel to be a material factor in its business.

Texas Gas employed approximately 700 persons. Certain of those employees were covered by a collective bargaining agreement. Texas Gas has experienced satisfactory labor relations and provides comprehensive benefit plans for its employees. The International Chemical Workers Union Council of the United Food and Commercial Workers International Union, Local 187C, represents 116 of Texas Gas's 375 field employees. The current collective bargaining agreement between Texas Gas and Local 187C expires on April 30, 2004.

Bulova and its subsidiaries employed approximately 560 persons, approximately 150 of whom are union members. Bulova and its subsidiaries have experienced satisfactory labor relations. Bulova provides comprehensive benefit plans for substantially all employees.

AVAILABLE INFORMATION

The Company's website address is www.loews.com. The Company makes available, free of charge, through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Copies of the Company's Code of Business Conduct and Ethics, Corporate Governance

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Guidelines, Audit Committee charter, Compensation Committee charter and Nominating and Governance Committee charter have also been posted and are available on the Company's website.

Item 2. Properties.

Information relating to the properties of Registrant and its subsidiaries is contained under Item 1.

Item 3. Legal Proceedings.

1. <u>Insurance Related.</u> Information with respect to insurance related legal proceedings is incorporated by reference to Note 21, "Legal Proceedings -

Insurance Related" of the Notes to Consolidated Financial Statements included in Item 8.

2. Tobacco Related. Approximately 4,275 product liability cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 3,875 of these cases. The Company is a defendant in six of the pending cases. Information with respect to tobacco related legal proceedings is incorporated by reference to Note 21, "Legal Proceedings - Tobacco Related" of the Notes to Consolidated Financial Statements included in Item 8. Additional information regarding tobacco related legal proceedings is contained below and in Exhibit 99.01.

The pending product liability cases are comprised of the following types of cases:

"Conventional product liability cases" are brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or by exposure to environmental tobacco smoke. Approximately 1,475 cases are pending, including approximately 1,100 cases against Lorillard. The 1,475 cases include approximately 1,000 cases pending in a single West Virginia court in which a consolidated trial is scheduled for March 21, 2005. Lorillard is a defendant in nearly 950 of the 1,000 consolidated West Virginia cases. The Company is a defendant in two of the conventional product liability cases and is not a party to any of the consolidated West Virginia cases.

"Class action cases" are purported to be brought on behalf of large numbers of individuals for damages allegedly caused by smoking. Thirteen of these cases are pending against Lorillard. The Company is a defendant in two of the class action cases. An additional group of approximately 25 class action cases are pending against other cigarette manufacturers and assert claims on behalf of smokers of "light" cigarettes. Reference is made to Exhibit 99.01 to this Report for a list of pending Class Action Cases in which Lorillard is a party.

"Reimbursement cases" are brought by or on behalf of entities who seek reimbursement of expenses incurred in providing health care to individuals who allegedly were injured by smoking. Plaintiffs in these cases have included the U.S. federal government, U.S. state and local governments, foreign governmental entities, hospitals or hospital districts, American Indian tribes, labor unions, private companies, and private citizens suing on behalf of taxpayers. Lorillard is a defendant in 11 of the 13 pending Reimbursement cases. The Company is a defendant in one of the pending Reimbursement cases. Reference is made to Exhibit 99.01 to this Report for a list of pending Reimbursement Cases in which Lorillard is a party.

"Contribution cases" are brought by private companies, such as asbestos manufacturers or their insurers, who are seeking contribution or indemnity for court claims they incurred on behalf of individuals injured by their products but who also allegedly were injured by smoking cigarettes. Lorillard is a defendant in each of the seven pending Contribution cases. The Company is a defendant in one of the pending Contribution cases. Reference is made to Exhibit 99.01 to this Report for a list of pending Contribution cases in which Lorillard is a party.

"Flight Attendant cases" are brought by non-smoking flight attendants alleging injury from exposure to environmental smoke in the cabins of aircraft. Plaintiffs in these cases may not seek punitive damages for injuries that arose prior to January 15, 1997. Lorillard is a defendant in each of the approximately 2,725 pending Flight Attendant cases. The Company is not a defendant in any of the Flight Attendant cases.

Excluding the flight attendant and the consolidated West Virginia suits, approximately 550 product liability cases are pending against U.S. cigarette manufacturers. Lorillard is a defendant in approximately 200 of the 550 cases. The Company, which is not a defendant in any of the flight attendant or the consolidated West Virginia matters, is a defendant in six of the actions.

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Other tobacco-related litigation includes "Tobacco Related Anti-Trust Cases." Reference is made to Exhibit 99.01 to this Report for a list of pending Tobacco Related Anti-Trust Cases in which Lorillard is a party.

Item 4. Submission of Matters to a Vote of Security Holders.

None

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Position and Offices Held	Age	First Became Officer
Gary W. Garson	Senior Vice President, General Counsel and Secretary	57	1988
Herbert C. Hofmann	Senior Vice President	61	1979
Peter W. Keegan	Senior Vice President and Chief Financial Officer	59	1997
Arthur L. Rebell	Senior Vice President	62	1998
Andrew H. Tisch	Office of the President and Chairman of the Executive Committee	54	1985
James S. Tisch	Office of the President, President and Chief Executive Officer	51	1981
Jonathan M. Tisch	Office of the President	50	1987
Preston R. Tisch	Chairman of the Board	77	1960

Andrew H. Tisch and James S. Tisch are brothers, and are nephews of, and Jonathan M. Tisch is a son of, Preston R. Tisch. None of the other officers or directors of Registrant is related to any other.

All executive officers of Registrant, have been engaged actively and continuously in the business of Registrant for more than the past five years.

Officers are elected and hold office until their successors are elected and qualified, and are subject to removal by the Board of Directors.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

Price Range of Common Stock

Loews common stock

Loews Corporation's common stock is listed on the New York Stock Exchange. The following table sets forth the reported high and low sales prices in each

calendar quarter of 2003 and 2002:

	2003		2002	
	High	Low	High	Low
First Quarter	$47.90	$39.65	$62.10	$53.95
Second Quarter	49.02	38.25	62.30	52.00
Third Quarter	49.18	40.10	53.89	40.67
Fourth Quarter	49.48	38.80	45.62	37.50

Carolina Group stock

Carolina Group stock is listed on the New York Stock Exchange and trading of the stock started on February 1, 2002. The following table sets forth the reported high and low sales prices in each calendar quarter of 2003 and 2002:

	2003		2002	
	High	Low	High	Low
First Quarter	$22.95	$18.00	$30.05	$27.70
Second Quarter	27.18	16.86	33.59	25.85
Third Quarter	28.10	20.70	27.25	17.35
Fourth Quarter	25.70	22.49	21.20	16.41

Dividend Information

The Company has paid quarterly cash dividends on Loews common stock in each year since 1967. Regular dividends of $0.15 per share of Loews common stock were paid in each calendar quarter of 2003 and 2002.

The Company paid quarterly cash dividends on Carolina Group stock of $0.445 per share beginning in the second quarter of 2002. The Company increased its quarterly cash dividend on Carolina Group stock to $0.455 per share beginning in the second quarter of 2003.

Approximate Number of Equity Security Holders

The Company has approximately 1,900 holders of record of Loews common stock and 70 holders of record of Carolina Group stock.

Item 6. Selected Financial Data.

Year Ended December 31	2003	2002	2001	2000	1999
(In millions, except per share data)					
Results of Operations:					
Revenues	$16,461.0	$17,456.5	$18,728.2	$20,633.0	$20,840.2
(Loss) income before taxes and minority interest	$(1,378.4)	$ 1,640.7	$ (829.1)	$ 3,135.9	$ 861.5
(Loss) income from continuing operations	$ (666.1)	$ 978.6	$ (547.7)	$ 1,835.5	$ 472.6
Discontinued operations - net	55.4	(27.0)	13.9	13.1	12.6
Cumulative effect of changes in accounting principles-net		(39.6)	(53.3)		(157.9)
Net (loss) income	$ (610.7)	$ 912.0	$ (587.1)	$ 1,848.6	$ 327.3
(Loss) income attributable to:					
Loews common stock:					
(Loss) income from continuing operations	$ (781.3)	$ 837.9	$ (547.7)	$1,835.5	$ 472.6
Discontinued operations-net	55.4	(27.0)	13.9	13.1	12.6
Cumulative effect of changes in accounting principles-net		(39.6)	(53.3)		(157.9)
Loews common stock	(725.9)	771.3	(587.1)	1,848.6	327.3
Carolina Group stock	115.2	140.7			
Net (loss) income	$ (610.7)	$ 912.0	$ (587.1)	$1,848.6	$ 327.3
(Loss) Income Per Share:					
Loews common stock:					
(Loss) income from continuing operations	$ (4.21)	$ 4.46	$ (2.81)	$ 9.24	$ 2.18
Discontinued operations - net	0.30	(0.14)	0.07	0.06	0.05
Cumulative effect of changes in accounting principles-net		(0.21)	(0.27)		(0.73)
Net (loss) income	$ (3.91)	$ 4.11	$ (3.01)	$ 9.30	$ 1.50
Carolina Group stock	$ 2.76	$ 3.50			
Financial Position:					
Investments	$42,514.8	$40,136.7	$41,159.1	$41,332.7	$42,008.0
Total assets	77,880.9	70,515.6	75,001.0	71,588.7	70,628.2
Long-term debt	5,820.2	5,651.9	5,920.3	6,040.0	5,706.3
Shareholders' equity	11,054.3	11,235.2	9,429.3	10,969.1	9,783.8
Cash dividends per share:					
Loews common stock	0.60	0.60	0.58	0.50	0.50
Carolina Group stock	1.81	1.34			
Book value per share of Loews common stock	60.92	61.68	49.24	55.62	46.82
Shares outstanding:					
Loews common stock	185.45	185.44	191.49	197.23	208.96
Carolina Group stock					