UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

S **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2006

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 $0.01 per share	New York Stock Exchange
Carolina Group Stock, par value $0.01 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes __X__ No ______

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ______ No __X__

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer __X__ Accelerated filer ______ Non-accelerated filer ______

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes		No	X

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 $20,106,000,000.

As of February 9, 2007, there were 543,461,657 shares of Loews common stock and 108,334,056 shares of Carolina Group stock 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 30, 2007 are incorporated by reference into Part III of this Report.

LOEWS CORPORATION

INDEX TO ANNUAL REPORT ON
FORM 10-K FILED WITH THE
SECURITIES AND EXCHANGE COMMISSION

For the Year Ended December 31, 2006

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.

PART IV

PART I

Unless the context otherwise requires, references in this report to "Loews Corporation," "we," "our," "us" or like terms refer to the business of Loews Corporation excluding its subsidiaries.

Item 1. Business.

We are a holding company. Our subsidiaries are engaged in the following lines of business:

- commercial property and casualty insurance (CNA Financial Corporation, an 89% owned subsidiary);
- production and sale of cigarettes (Lorillard, Inc., a wholly owned subsidiary);
- operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP, an 80% owned subsidiary);
- operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc., a 51% owned subsidiary);
- operation of hotels (Loews Hotels Holding Corporation, a wholly owned subsidiary); and
- distribution and sale of watches and clocks (Bulova Corporation, a wholly owned subsidiary).

Please read information relating to our major business segments from which we derive revenue and income contained in Note 23 of the Notes to Consolidated Financial Statements, included in Item 8.

CAROLINA GROUP TRACKING STOCK

We have a two class common stock structure, our common stock and our Carolina Group stock. Carolina Group stock, commonly called a tracking stock, reflects the economic performance of a defined group of our assets and liabilities, referred to as the Carolina Group. Please read Note 6 of the Notes to Consolidated Financial Statements, included in Item 8.

We have attributed the following assets and liabilities to the Carolina Group:

- our 100% stock ownership interest in Lorillard, Inc.;
- notional, intergroup debt owed by the Carolina Group to the Loews Group, which we describe below, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021 (as of February 9, 2007, $1.2 billion was outstanding);
- any and all liabilities, costs and expenses of ours, and our subsidiaries, including 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;
- 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
- any acquisitions or investments made from assets reflected in the Carolina Group.

As of February 9, 2007, there were 108,334,056 shares of Carolina Group stock outstanding representing a 62.3% economic interest in the Carolina Group.

The Loews Group consists of all of our assets and liabilities other than the 62.3% 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 our 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 group. The Carolina Group and the Loews Group are not separate legal entities and the attribution of our assets and liabilities 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 3/10 of a vote per share. Holders of our common stock and of Carolina Group stock are shareholders of Loews Corporation and are subject to the risks related to an equity investment in us.

CNA FINANCIAL CORPORATION

CNA Financial Corporation (together with its subsidiaries, "CNA") was incorporated in 1967 and is an insurance holding company. 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. CIC became a subsidiary of CNA in 1995 as a result of the acquisition of The Continental Corporation ("Continental"). CNA accounted for 57.96%, 61.59% and 65.16% of our consolidated total revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

CNA serves a wide variety of customers, including small, medium and large businesses, associations, professionals, and groups and individuals with a broad range of insurance and risk management products and services.

CNA's insurance products primarily include property and casualty coverages. CNA services include risk management, information services, warranty and claims administration. CNA products and services are marketed through independent agents, brokers, managing general agents and direct sales.

CNA's core business, property and casualty insurance operations, is reported in two business segments: Standard Lines and Specialty Lines. CNA's non-core operations are managed in two segments: Life and Group Non-Core and Other Insurance. These segments are managed separately because of differences in their product lines and markets.

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 domestically and abroad. The Standard Lines operating model focuses on underwriting performance, relationships with selected distribution sources and understanding customer needs.

Standard Lines includes Property, Casualty and CNA Global.

Property: Property provides standard and excess property coverage, as well as marine coverage and boiler and machinery to a wide range of businesses.

Casualty: Casualty provides standard casualty insurance products such as workers' compensation, general and product liability and commercial auto coverage through traditional products to a wide range of businesses. Most insurance programs are provided on a guaranteed cost basis; however, Casualty has the capability to offer specialized, loss-sensitive insurance programs to those customers viewed as higher risk and less predictable in exposure.

Excess & Surplus ("E&S"): E&S is included in Casualty. 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 Property and Casualty's agents and brokers.

Property and Casualty ("P&C"): P&C's field structure consists of 33 branch locations across the country organized into 4 regions. Each branch provides the marketing, underwriting and risk control expertise on the entire portfolio of products. The Centralized Processing Operation for small and middle-market customers, located in Maitland, Florida, handles policy processing and accounting, and also acts as a call center to optimize customer service. The claims structure consists of a centralized claim center designed to efficiently handle property damage and medical only claims and 18 claim office locations around the country handling the more complex claims. Also, Standard Lines provides total risk management services relating to claim and information services to the large commercial insurance marketplace, through a wholly owned subsidiary, ClaimsPlus, Inc., a third party administrator.

CNA Global: CNA Global consists of subsidiaries operating in Europe, Latin America, Canada and Hawaii. These affiliates offer property and casualty insurance to small and medium size businesses and capitalize on strategic indigenous opportunities.

Specialty Lines

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

Specialty Lines includes the following business groups: US Specialty Lines, Surety and Warranty.

US Specialty Lines provides management and professional liability insurance and risk management services, primarily in the United States. This group provides professional liability coverages to various professional firms, including architects, realtors, small and mid-sized accounting firms, law firms and technology firms. US Specialty Lines also provides directors and officers ("D&O"), employment practices, fiduciary and fidelity coverages. Specific areas of focus include small and mid-size firms as well as privately held firms and not-for-profit organizations where tailored products for this client segment are offered. Products within US Specialty Lines are distributed through brokers, agents and managing general underwriters.

US Specialty Lines, through CNA HealthPro, also offers insurance products to serve the healthcare delivery system. Products, which include professional liability as well as associated standard property and casualty coverages, 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.

Surety: Surety consists primarily of CNA Surety and its insurance subsidiaries and offers 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 independent agencies. CNA owns approximately 63% of CNA Surety.

Warranty: Warranty provides vehicle warranty service contracts that protect individuals and businesses from the financial burden associated with mechanical breakdown, or maintenance.

Life and Group Non-Core

The Life and Group Non-Core segment primarily includes the results of the life and group lines of business that have either been sold or placed in run-off. CNA sold its individual life business on April 30, 2004 and its specialty medical business on January 6, 2005. The segment includes operating results for these businesses in periods prior to the sales, the realized gain/loss from the sales and the effects of the shared corporate overhead expenses which continue to be allocated to the segment. CNA continues to service its existing individual long term care commitments, its payout annuity business and its pension deposit business. CNA also manages a block of group reinsurance and life settlement contracts. These businesses are being managed as a run-off operation. CNA's group long term care and Index 500 products, while considered non-core, continue to be actively marketed.

Other Insurance

Other Insurance includes the results of certain property and casualty lines of business placed in run-off. CNA Re, formerly a separate property and casualty operating segment, is in run-off and is included in the Other Insurance segment. This segment also includes the results related to the centralized adjusting and settlement of asbestos and environmental pollution and mass tort ("APMT") claims, as well as the results of CNA's participation in voluntary insurance pools and various non-insurance operations. Other operations also include interest expense on corporate borrowings and intercompany eliminations.

Please read Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations by Business Segment - CNA Financial" for information with respect to each segment.

Supplementary Insurance Data

The following table sets forth supplementary insurance data:

Year Ended December 31	**2006**	2005	2004
(In millions, except ratio information)			
Trade Ratios - GAAP basis (a):			
Loss and loss adjustment expense ratio	**75.7%**	89.4%	74.6%
Expense ratio	**30.0**	31.2	31.5
Dividend ratio	**0.3**	0.3	0.2
Combined ratio	**106.0%**	120.9%	106.3%
Trade Ratios - Statutory basis (a):			
Loss and loss adjustment expense ratio	**78.7%**	92.2%	78.1%
Expense ratio	**30.2**	30.0	27.2
Dividend ratio	**0.2**	0.5	0.6
Combined ratio	**109.1%**	122.7%	105.9%
Individual Life and Group Life Insurance Inforce:			
Individual Life	**$ 9,866.0**	$ 10,711.0	$ 11,566.0
Group Life	**5,787.0**	9,838.0	45,079.0
Total	**$ 15,653.0**	$ 20,549.0	$ 56,645.0
Other Data - Statutory basis (preliminary) (b):			
Property and casualty companies' capital and surplus (c)	**$ 8,137.0**	$ 6,940.0	$ 6,998.0
Life companies' capital and surplus	**687.0**	627.0	1,177.0
Property and casualty companies' written premiums to surplus Ratio	**0.9**	1.0	1.0
Life Company's capital and surplus-percent to total liabilities	**38.9%**	33.1%	56.0%
Participating policyholders-percent of gross life insurance inforce	**4.4%**	3.5%	1.4%

(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 claim and claim adjustment expenses and the expenses incurred related to uncollectible reinsurance receivables 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) 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.
(c) Surplus includes the property and casualty companies' equity ownership of the life company's capital and surplus.

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

Year Ended December 31	**2006**	2005	2004
California	**9.6%**	9.0%	9.3%
Florida	**7.9**	7.1	7.1
New York	**7.3**	7.9	7.9
Texas	**5.9**	5.7	5.4
New Jersey	**4.4**	3.8	5.3
Illinois	**4.1**	4.2	5.1
Pennsylvania	**3.4**	4.2	4.7
United Kingdom	**3.2**	2.8	2.3
Missouri	**3.0**	2.8	1.4
Massachusetts	**2.4**	3.3	3.2
All other states, countries or political subdivisions (a)	**48.8**	49.2	48.3
	100.0%	100.0%	100.0%

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

Approximately 7.1%, 6.1% and 5.0% of CNA's gross written premiums were derived from outside of the United States for the years ended December 31, 2006, 2005 and 2004. 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 table excludes CNA's life subsidiaries, and as such, the carried reserves will not agree to the Consolidated Financial Statements included under Item 8. 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.

The loss reserve development table for property and casualty companies 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. Additionally, the development amounts in the table below are the amounts prior to consideration of any related reinsurance bad debt allowance impacts.

Schedule of Loss Reserve Development

Year Ended December 31	1996	1997	1998	1999(a)	2000	2001(b)	2002(c)	2003	2004	2005	**2006**
(In millions of dollars)											
Originally reported gross reserves for unpaid claim and claim adjustment expenses	29,559	28,731	28,506	26,850	26,510	29,649	25,719	31,284	31,204	30,694	**29,459**
Originally reported ceded recoverable	5,385	5,056	5,182	6,091	7,333	11,703	10,490	13,847	13,682	10,438	**8,078**
Originally reported net reserves for unpaid claim and claim adjustment expenses	24,174	23,675	23,324	20,759	19,177	17,946	15,229	17,437	17,522	20,256	**21,381**
Cumulative net paid as of:											
One year later	5,851	5,954	7,321	6,547	7,686	5,981	5,373	4,382	2,651	3,442	-
Two years later	9,796	11,394	12,241	11,937	11,992	10,355	8,768	6,104	4,963	-	-
Three years later	13,602	14,423	16,020	15,256	15,291	12,954	9,747	7,780	-	-	-
Four years later	15,793	17,042	18,271	18,151	17,333	13,244	10,870	-	-	-	-
Five years later	17,736	18,568	20,779	19,686	17,775	13,922	-	-	-	-	-
Six years later	18,878	20,723	21,970	20,206	18,970	-	-	-	-	-	-
Seven years later	20,828	21,649	22,564	21,231	-	-	-	-	-	-	-
Eight years later	21,609	22,077	23,453	-	-	-	-	-	-	-	-
Nine years later	21,986	22,800	-	-	-	-	-	-	-	-	-
Ten years later	22,642	-	-	-	-	-	-	-	-	-	-
Net reserves re-estimated as of:											
End of initial year	24,174	23,675	23,324	20,759	19,177	17,946	15,229	17,437	17,522	20,256	**21,381**
One year later	23,970	23,904	24,306	21,163	21,502	17,980	17,650	17,671	18,513	20,588	-
Two years later	23,610	24,106	24,134	23,217	21,555	20,533	18,248	19,120	19,044	-	-
Three years later	23,735	23,776	26,038	23,081	24,058	21,109	19,814	19,760	-	-	-
Four years later	23,417	25,067	25,711	25,590	24,587	22,547	20,384	-	-	-	-
Five years later	24,499	24,636	27,754	26,000	25,594	22,983	-	-	-	-	-
Six years later	24,120	26,338	28,078	26,625	26,023	-	-	-	-	-	-
Seven years later	25,629	26,537	28,437	27,009	-	-	-	-	-	-	-
Eight years later	25,813	26,770	28,705	-	-	-	-	-	-	-	-
Nine years later	26,072	26,997	-	-	-	-	-	-	-	-	-
Ten years later	26,305	-	-	-	-	-	-	-	-	-	-
Total net (deficiency) redundancy	(2,131)	(3,322)	(5,381)	(6,250)	(6,846)	(5,037)	(5,155)	(2,323)	(1,522)	(332)	-
Reconciliation to gross re-estimated reserves:											
Net reserves re-estimated	26,305	26,997	28,705	27,009	26,023	22,983	20,384	19,760	19,044	20,588	-
Re-estimated ceded recoverable	7,619	6,953	7,469	9,810	10,541	15,939	15,298	13,722	12,624	10,094	-
Total gross re-estimated reserves	33,924	33,950	36,174	36,819	36,564	38,922	35,682	33,482	31,668	30,682	-
Net (deficiency) redundancy related to:											
Asbestos claims	(2,461)	(2,361)	(2,120)	(1,544)	(1,479)	(707)	(707)	(65)	(11)	-	-
Environmental and mass tort claims	(807)	(834)	(618)	(722)	(716)	(256)	(263)	(117)	(116)	(63)	-
Total asbestos, environmental and mass tort	(3,268)	(3,195)	(2,738)	(2,266)	(2,195)	(963)	(970)	(182)	(127)	(63)	-
Other claims	1,137	(127)	(2,643)	(3,984)	(4,651)	(4,074)	(4,185)	(2,141)	(1,395)	(269)	-
Total net (deficiency) redundancy	(2,131)	(3,322)	(5,381)	(6,250)	(6,846)	(5,037)	(5,155)	(2,323)	(1,522)	(332)	-

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

Please read information relating to CNA's property and casualty claim and claim adjustment expense reserves and reserve development set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), and in Notes 1 and 9 of the Notes to Consolidated Financial Statements, included in Item 8.

Investments

Please read Item 7, MD&A - Investments and Notes 1, 2, 3 and 4 of the Notes to Consolidated Financial Statements, included in Item 8.

Other

Competition: The property and casualty insurance industry is 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 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, ratings 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 13th largest property and casualty insurance organization and CNA is the seventh largest commercial insurance writer in the United States based upon 2005 statutory net written premiums.

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 regulators, depending on the size of such transfers and payments in relation to the financial position of the insurance affiliates making the transfer or payment.

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.

Further, 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. In recent years, for example, significant state general tort reforms have been enacted in Georgia, Ohio, Mississippi and South Carolina. Specific state legislation addressing state asbestos reform has been passed in Ohio, Georgia, Florida and Texas. A few more states will be considering such legislation in the coming year. Although these states' legislatures have begun to address their litigious environments, some reforms are being challenged in the courts and it will take some time before they are finalized. Even though there has been some tort reform success, new causes of action and theories of damages continue to be proposed in state court actions or by legislatures. As a result of this unpredictability in the law, 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 industry in a variety of ways. These initiatives and legislation include tort reform proposals; proposals addressing natural catastrophe exposures, terrorism risk mechanisms; 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.

In addition, 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, which 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 requires specified corrective action. As of December 31, 2006 and 2005, 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.

Properties: The 333 S. Wabash Avenue building, located in Chicago, Illinois and owned by Continental Assurance Company ("CAC"), a wholly-owned subsidiary of CCC, 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
333 S. Wabash	904,990	Principal executive offices of CNA
Chicago, Illinois		
401 Penn Street	171,406	Property and casualty insurance offices
Reading, Pennsylvania		
2405 Lucien Way	147,815	Property and casualty insurance offices
Maitland, Florida		
40 Wall Street	110,131	Property and casualty insurance offices
New York, New York		
675 Placentia Avenue	78,655	Property and casualty insurance offices
Brea, California		
600 N. Pearl Street	75,544	Property and casualty insurance offices
Dallas, Texas		
1100 Cornwall Road	74,067	Property and casualty insurance offices
Monmouth Junction, New Jersey		
3175 Satellite Boulevard	48,696	Property and casualty insurance offices
Duluth, Georgia		
405 Howard Street	47,195	Property and casualty insurance offices
San Francisco, California		
4150 N. Drinkwater Boulevard	37,799	Property and casualty insurance offices
Scottsdale, Arizona		

CNA leases its office space described above except for the Chicago, Illinois building and the Reading, Pennsylvania building, which are owned.

LORILLARD, INC.

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 2006. Newport accounted for approximately 91.8% of Lorillard's sales volume in 2006.

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 21.54%, 22.70% and 22.22% of our consolidated total revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

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. New legislation and regulations are proposed and reports are published by government sponsored committees and others recommending additional regulation of tobacco products.

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

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, bills have been introduced in Congress, including those that would:

- prohibit all tobacco advertising and promotion;
- require new health warnings on cigarette packages and advertising;
- authorize the establishment of various anti-smoking education programs;
- provide that current federal law should not be construed to relieve any person of liability under common or state law;
- permit state and local governments to restrict the sale and distribution of cigarettes;
- direct the placement of advertising of tobacco products;
- provide that cigarette advertising not be deductible as a business expense;

- 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;
- impose an additional, or increase existing, excise taxes on cigarettes;
- require that cigarettes be manufactured in a manner that will cause them, under certain circumstances, to be self-extinguishing; and
- 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 ("FDA") 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 U.S. Supreme Court in March of 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, including a bill introduced by Congress in February 2007. Congressional advocates of FDA regulation proposed legislation that would give the FDA regulatory authority over the manufacture, sale, distribution and labeling of tobacco products to protect public health. The legislation would allow the FDA to reinstate its prior regulations or adopt new or additional regulations.

In February of 2001, a committee of the Institute of Medicine, a private, non-profit organization which advises the federal government on medical issues, convened and issued a report recommending that Congress enact legislation. The committee suggested enabling a suitable agency to regulate tobacco-related products that purport to reduce exposure to tobacco toxicants or reduce risk of disease, and 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 has received comments on these petitions but has taken no action.

Environmental tobacco smoke: Various publications and studies by governmental entities have reported that environmental tobacco smoke ("ETS") presents health risks. In addition, public health organizations have issued statements on the adverse health effects of ETS, and scientific papers have been published that address the health problems associated with ETS exposure. Various cities and municipalities have restricted public smoking in recent years, and these restrictions have been based at least in part on the publications regarding the health risks believed to be associated with ETS exposure.

The governmental entities that have published these reports have included the Surgeon General of the United States, first in 1986 and again in 2006. The 2006 report, for instance, concluded that there is no risk-free level of exposure to ETS; see "Risks Related to Us and Our Subsidiary, Lorillard, Inc." of this Report for a discussion of the report issued in 2006 by the United States Surgeon General. In 2000, the Department of Health and Human Services listed ETS as a known human carcinogen. In 1993, the United States Environmental Protection Agency concluded that ETS is a human lung carcinogen in adults and causes respiratory effects in children.

Agencies of state governments also have issued publications regarding ETS, including reports by California entities that were published in 1997, 1999 and 2006. In the 2006 study, the California Air Resources Board determined that ETS is a toxic air contaminant. Based on these or other findings, public health concerns regarding ETS could lead to the imposition of additional restriction on public smoking, including bans.

State and Local Regulation: 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's report regarding ETS in 1993.

Two states, Massachusetts and Texas, have enacted legislation requiring each manufacturer of cigarettes sold in those states to submit an annual report identifying for each brand sold certain "added constituents," and providing nicotine yield ratings and other information for certain brands. Neither law allows for the public release of trade secret information.

A New York law requires cigarettes sold in that state to meet a mandated standard for ignition propensity, which became effective in June of 2004. Lorillard developed proprietary technology to comply with the standards and was compliant by the effective date. Since the passage of the New York law, an additional five states have passed similar laws utilizing the same technical standards. The effective dates of these laws range from May of 2006 to January 2008.

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 our financial position or results of operations in the future.

Excise Taxes and Assessments: Cigarettes are subject to substantial federal, state and local excise taxes in the United States and, in general, such taxes have been increasing. The federal excise tax on cigarettes is $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 2006 ranged from $0.05 per pack to $1.00 per pack in six states and two municipalities. The average state excise tax increased to $0.96 per pack (of 20 cigarettes) in 2006 from $0.92 in 2005. Proposals for additional increases in federal, state and local excise taxes continue to be considered. The combined state and municipal taxes range from $0.07 to $3.66 per pack of cigarettes.

A federal law enacted in October 2004 repealed the federal supply management program for tobacco growers and compensated tobacco quota holders and growers with payments to be funded by an assessment on tobacco manufacturers and importers. Cigarette manufacturers and importers are responsible for paying 96.3% of a $10.14 billion payment to tobacco quota holders and growers over a ten-year period. The law provides that payments will be based on shipments for domestic consumption.

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 regularly.

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 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 funds a Youth Smoking Prevention Program, which is designed to discourage youth from smoking by promoting parental involvement and assisting parents in discussing the issue of smoking with their children. Lorillard is also a founding and principal member of the Coalition for Responsible Tobacco Retailing which through its "We Card" program trains retailers in how to prevent the purchase of cigarettes by underage persons. In addition, Lorillard has adopted guidelines established by the National Association of Attorneys General to restrict advertising 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 distribution 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, 2006, Lorillard had approximately 633 direct buying customers servicing more than 400,000 retail accounts. Lorillard does not sell cigarettes directly to consumers. During 2006, 2005 and 2004, sales made by Lorillard to McLane Company, Inc., comprised 23%, 21% and 20%, respectively, of Lorillard's revenues. No other customer accounted for more than 10% of 2006, 2005 or 2004 sales. Lorillard does not have any backlog orders.

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 domestic and foreign grown burley and flue-cured leaf tobaccos, as well as aromatic tobaccos grown primarily in Turkey and other Near Eastern countries. A domestic supplier manufactures all of Lorillard's reconstituted tobacco.

Lorillard purchases more than 90% of its domestic leaf tobacco from Alliance One International, Inc. Lorillard directs Alliance One in the purchase of tobacco according to Lorillard's specifications for quality, grade, yield, particle size, moisture content, and other characteristics. Alliance One purchases and processes the whole leaf and then dries and packages it for shipment to and storage at Lorillard's Danville, Virginia facility. If Alliance One 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, tobacco prices have historically fluctuated. In 2004, a federal law eliminated historical U.S. price supports that accompanied production controls which inflated the market price of U.S. tobacco. Lorillard believes the elimination of production controls and price supports has favorably impacted the cost of U.S. tobacco.

Lorillard stores its tobacco in 29 storage warehouses on its 130-acre Danville, Virginia facility. To protect against loss, amounts of all types and grades of tobacco are stored in separate warehouses. Because of the aging requirements for tobacco, 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 market 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 and consequently 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 the following:

- industry volume or Lorillard volume,
- the mix between premium and discount sales,
- Lorillard’s market share or
- Lorillard’s profits and earnings.

In addition, Lorillard and other cigarette manufacturers engage in significant promotional activities. These sales promotion costs are accounted for as a reduction in net sales revenue and therefore impact average prices.

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 1,400,000 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 21 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, including level of discounting and other promotional activities, positioning, consumer loyalty, retail display, quality and taste. Lorillard’s principal competitors are the two other major U.S. cigarette manufacturers, Philip Morris (“PM”) and Reynolds American Inc. (“RAI”).

Lorillard believes its ability to compete even more effectively has been restrained by the Philip Morris Retail Leaders program and the combination of RJ Reynolds Tobacco Company (“RJR”) and Brown & Williamson (“B&W”) in 2004. The terms of Philip Morris’ merchandising contracts may effectively limit 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 which limits its sales potential.

Lorillard’s 9.7% market share of the 2006 U.S. domestic cigarette industry was third highest overall. Philip Morris and RAI accounted for approximately 49.2% and 27.9%, respectively, of wholesale shipments in 2006. Among the three major manufacturers, Lorillard ranked third behind Philip Morris and RAI with a 12.7% share of the premium segment in 2006.

Please read Item 1A, Risk Factors and Item 7, MD&A - Results of Operations - Lorillard for information regarding the business environment, including selected market share data for Lorillard.

BOARDWALK PIPELINE PARTNERS, LP

Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”) is engaged in the interstate transportation and storage of natural gas. Boardwalk Pipeline accounted for 3.45%, 3.57% and 1.74% of our consolidated total revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

In November of 2005, Boardwalk Pipeline completed an initial public offering of 15,000,000 common units representing a 14.5% limited partnership interest. We owned 53,256,122 common and 33,093,878 subordinated units representing an aggregate 83.5% limited partner interest, and a wholly owned subsidiary of ours became the general partner of Boardwalk Pipeline and owns a 2.0% general partnership interest and all of Boardwalk Pipeline’s incentive distribution rights, which entitle the general partner to an increasing percentage of the cash that is distributed by Boardwalk Pipeline in excess of $0.4025 per unit per quarter.

In the fourth quarter of 2006, Boardwalk Pipeline sold an additional 6,900,000 common units at a price of $29.65 per unit in a public offering and received net proceeds of $195.2 million. In addition, we contributed $4.2 million to maintain our 2.0% general partner interest. As a result, as of December 31, 2006, we own 80.2% of Boardwalk Pipeline.

Boardwalk Pipeline owns and operates two interstate natural gas pipeline systems, with approximately 13,400 miles of pipeline, directly serving customers in 11 states and indirectly serving customers throughout the northeastern and southeastern United States through numerous interconnections with unaffiliated pipelines. In 2006, its pipeline systems transported approximately 1,340 billion cubic feet (“Bcf”) of gas. Average daily throughput on its pipeline systems during 2006 was approximately 3.7 Bcf. Boardwalk Pipeline’s natural gas storage facilities are comprised of 11 underground storage fields located in four states with aggregate working gas capacity of approximately 146.0 Bcf.

Boardwalk Pipeline conducts all of its operation through two subsidiaries:

- Texas Gas Transmission, LLC (“Texas Gas”) operates approximately 5,900 miles of natural gas pipeline located in Louisiana, Texas, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Ohio, and Illinois having a peak-day delivery capacity of approximately 3.2 Bcf per day, and nine natural gas storage fields located in Indiana and Kentucky with aggregate designated working gas capacity of approximately 63.0 Bcf.

- Gulf South Pipeline, LP (“Gulf South”) operates approximately 7,500 miles of natural gas pipeline, located in Texas, Louisiana, Mississippi, Alabama and Florida having a peak-day delivery capacity of approximately 3.5 Bcf per day, and two natural gas storage fields located in Louisiana and Mississippi with aggregate designated working gas capacity of approximately 83.0 Bcf.

Boardwalk Pipeline transports and stores natural gas for a broad mix of customers, including local distribution companies (“LDC”s), municipalities, interstate and intrastate pipelines, direct industrial users, electric power generation plants, marketers and producers.

Seasonality: Boardwalk Pipeline’s revenues are seasonal in nature and are affected by weather and natural gas price volatility. Weather impacts natural gas demand for power generation and heating purposes, which in turn influences the value of transportation and storage across its pipeline systems. Colder than normal winters or warmer than normal summers typically result in increased pipeline transportation revenues. Natural gas prices are also volatile, influencing drilling and production which can affect revenues from Boardwalk Pipeline’s storage and parking and lending (“PAL”) services. Peak demand for natural gas occurs during the winter months, caused by the heating load. During 2006, approximately 56.8% of Boardwalk's total operating revenues were realized in the first and fourth calendar quarters.

Regulation: The Federal Energy Regulatory Commission (the "FERC") regulates pipelines under the Natural Gas Act of 1938 ("NGA") and the Natural Gas Policy Act of 1978. FERC regulates, among other things, the rates and charges for the transportation and storage of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and the financial accounting of certain regulated pipeline companies. These rates are designed based on certain assumptions to allow Boardwalk Pipeline the opportunity to recover its costs and earn a reasonable return on equity, however, there is no assurance that Boardwalk Pipeline will recover these costs from its customers. Gulf South is permitted to charge market-based storage rates pursuant to authority granted by the FERC. Boardwalk Pipeline is also regulated by the United States Department of Transportation ("DOT") under 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.

Where required, Texas Gas and Gulf South hold certificates of public convenience and necessity issued by the FERC covering their facilities, activities and services. The FERC also prescribes accounting treatment for items for regulatory purposes and may periodically audit the books and records of Texas Gas and Gulf South.

The maximum rates that may be charged by Boardwalk Pipeline for gas transportation and, in the case of Texas Gas, for storage services, are established through FERC ratemaking process. Key determinants in the rate-making process are the costs of providing service, the allowed rate of return on capital investments, volume throughput assumptions, the allocation of costs and the rate design. The allowed rate of return must be approved by the FERC in each rate case. Texas Gas filed a rate case in 2005 which was settled in the second quarter of 2006. Texas Gas has no obligation to file a new rate case and is prohibited from placing new rates into effect prior to November 1, 2010. Gulf South has no obligation to file a new rate case.

Boardwalk Pipeline's operations are also subject to extensive federal, state and local laws and regulations relating to protection of the environment. These laws include, for example:

- the Clean Air Act, and analogous state laws which impose obligations related to air emissions;
- the Water Pollution Control Act, commonly referred to as the Clean Water Act, and analogous state laws which regulate discharge of wastewaters from our facilities into state and federal waters;
- the Comprehensive Environmental Response, Compensation and Liability Act commonly referred to as CERCLA, or the Superfund law, and analogous state laws which regulate the cleanup of hazardous substances; and
- the Resource Conservation and Recovery Act, and analogous state laws which impose requirements for the handling and discharge of solid and hazardous waste.

Competition: Boardwalk Pipeline competes with numerous intrastate and interstate pipelines throughout its service territory to provide transportation and storage services for its customers. Competition is particularly strong in the Midwest and Gulf Coast states where Boardwalk Pipeline competes with numerous existing pipelines and several new pipeline projects that are under way, including the proposed Rockies Express Pipeline that would transport natural gas from northern Colorado to eastern Ohio; the Heartland Gas Pipeline currently being constructed in Indiana; the proposed Mid-Continent Express pipeline that would transport gas from Texas to Alabama; and the proposed Southeast Header Supply System that would transport gas from Perryville, Louisiana to markets in Florida. The principal elements of competition among pipelines are rates, terms of service, access to supply and flexibility and reliability of service. In addition, regulators' continuing efforts to increase competition in the natural gas industry have increased the natural gas transportation options of Boardwalk Pipeline's traditional customers. As a result, segmentation and capacity release have created an active secondary market which increasingly competes with its pipeline services, particularly on its Texas Gas system.

Boardwalk Pipeline's business is, in part, dependent on the volumes of natural gas consumed in the United States. Boardwalk Pipeline's competitors attempt to either attract new supply to their pipelines or attach new load to their pipelines, including those that are currently connected to markets served by Boardwalk Pipeline. Boardwalk Pipeline competes with these entities to maintain current business levels and to serve new demand and markets. In addition, natural gas competes with other forms of energy available to its customers, including electricity, coal and fuel oils.

Expansion Projects: Boardwalk Pipeline has constructed a 20.5 mile segment of 42-inch pipeline from Carthage, Texas to Keatchie, Louisiana which was placed in service in December of 2006. The current capacity of this loop is 120.0 MMcf per day.

Boardwalk Pipeline is pursuing a pipeline expansion project consisting of 242 miles of 42-inch pipeline from DeSoto Parish in western Louisiana to near Harrisville, Mississippi and approximately 110,000 horsepower of new compression. The expansion would add approximately 1.7 Bcf per day of new transmission capacity to the Gulf South pipeline system. The natural gas to be transported on this expansion will originate primarily from the Barnett Shale and Bossier Sands producing regions of East Texas. The expansion will transport natural gas to new interstate pipeline interconnects in the Perryville, Louisiana area and existing pipeline interconnects with other pipelines east of the Mississippi River. This project is supported by binding precedent agreements with customers who have contracted, on a long-term basis (with a weighted average term of approximately 7 years), for 1.3 Bcf per day from Carthage, Texas with an option for an additional 100.0 MMcf per day. On September 1, 2006, Boardwalk Pipeline filed a certificate application relating to this project with the FERC. Boardwalk Pipeline expects this project to be in service during the fall of 2007.

Boardwalk Pipeline is pursuing construction of a new interstate pipeline that will begin near Sherman, Texas and proceed to the Perryville, Louisiana area. The project will be owned by a new subsidiary, which is referred to as Gulf Crossing Pipeline, and will consist of approximately 355 miles of 42-inch pipeline having capacity of up to approximately 1.6 Bcf per day. Additionally, Gulf Crossing Pipeline will enter into: (i) an operating lease for at least 1.1 Bcf per day of capacity on the Gulf South system (including on the Southeast Expansion and a portion of the East Texas and Mississippi Expansion) to make deliveries to an interconnect with Transcontinental Pipe Line Company (“Transco”) in Choctaw County, Alabama and (ii) an operating lease with a third-party intrastate pipeline which will bring certain gas supplies to its system. This project is supported by binding agreements with customers who have contracted for 1.1 Bcf per day of capacity under firm contracts having terms of 5 to 10 years (with a weighted-average term of approximately 9.8 years), and options with certain of these customers for an additional 350.0 MMcf per day of capacity. Boardwalk Pipeline anticipates making the required filings with the FERC by July of 2007 and for the project to be in service during the fourth quarter of 2008. Boardwalk Pipeline is in negotiations with one of the foundation shippers supporting this project concerning the purchase of 49.0% of the equity of Gulf Crossing Pipeline.

Boardwalk Pipeline is pursuing a pipeline expansion extending the Gulf South pipeline system from near Harrisville, Mississippi to an interconnect with Transco in Choctaw County, Alabama which will enhance its ability to deliver gas to the Northeast through other pipeline interconnects. This expansion will consist of approximately 112 miles of 42-inch pipeline having initial capacity of approximately 1.2 Bcf per day expandable to as much as 2.0 Bcf per day to accommodate volumes expected to come from the Gulf Crossing leased capacity discussed above. In addition, Gulf South has executed an operating lease with Destin Pipeline Company to access markets in Florida. This project is supported by binding agreements with customers who have contracted for 660.0 MMcf per day of capacity under firm contracts having terms of 5 to 10 years (with a weighted-average term of 9.2 years), as well as the capacity leased to Gulf Crossing discussed above. The certificate filing was made with the FERC in December of 2006 and the project is anticipated to be in service during first quarter of 2008.

Boardwalk Pipeline is pursuing the construction of two laterals connected to its Texas Gas pipeline system to transport gas from the Fayetteville Shale area in Arkansas to markets directly and indirectly served by Texas Gas. The Fayetteville Lateral, consisting of approximately 165 miles of 36-inch pipeline is anticipated to have an initial design capacity of 800.0 MMcf per day and a maximum design capacity of 1.1 Bcf per day. This lateral will originate in Conway County, Arkansas and proceed southeast through the Bald Knob, Arkansas area to an interconnect with Texas Gas’s pipeline in Coahoma County, Mississippi. The Greenville Lateral, consisting of approximately 95 miles of pipeline with an initial design capacity of 750.0 MMcf per day, will originate at Texas Gas’s mainline near Greenville, Mississippi and proceed east to the Kosciusko, Mississippi area. The Greenville Lateral will allow customers to access additional markets primarily in the Midwest, Northeast and Southeast, including the Henry Hub. Construction of both laterals is supported by a binding precedent agreement with Southwestern Energy Services Company, a wholly owned subsidiary of Southwestern Energy Company. The proposed extensions are subject to FERC approval. In December of 2006, the FERC granted Texas Gas’s request to initiate the pre-filing process for this project and Boardwalk Pipeline anticipates making the required certificate filings with the FERC in June of 2007. Boardwalk Pipeline expects the project to be in service during the first quarter of 2009.

The total cost of the pipeline expansion projects discussed above is expected to be approximately $3.3 billion (before taking into account equity that would be contributed by the purchaser of a 49.0% interest in Gulf Crossing referred to above). Boardwalk Pipeline constantly seeks to optimize these projects to reduce the overall cost. However the actual cost to complete these projects may exceed Boardwalk Pipeline's current estimate as a result of, among other things, higher labor and material costs due to the large number of pipeline projects under way throughout the industry or Boardwalk Pipeline's need to expand pipeline capacity if it contracts for additional volumes. For a further discussion of the risks associated with these projects, please read the section on Risk Factors in Item 1A of this Report.

In December of 2006, the FERC issued a certificate approving Texas Gas's Phase II storage expansion project which will expand the working gas capacity in its western Kentucky storage complex by approximately 9.0 Bcf. This project is supported by binding commitments from customers to contract on a long-term basis for the full additional capacity at Texas Gas's maximum applicable rate. Boardwalk Pipeline expects this project to cost approximately $40.7 million and to be in service by November of 2007. In December of 2006, Texas Gas commenced an open season related to a potential third expansion of its storage facilities. Texas Gas has signed one precedent agreement for 2.0 Bcf of capacity. The ultimate size of the Phase III storage expansion will be determined, in part, by the open season. The Phase III storage expansion is subject to the FERC approvals, including potential market-based rate authority for the new additional storage capacity being created. Phase I of this project which expanded working gas capacity by approximately 8.0 Bcf was completed and in service in November of 2005.

Boardwalk Pipeline is currently developing an additional storage cavern near Napoleonville, Louisiana. During mining operations, certain issues have arisen causing the mining of the cavern to be suspended. Boardwalk Pipeline is continuing to conduct operational integrity tests on the caverns. The tests are on-going but have been delayed due to lack of equipment availability needed to complete the testing. If the test results are favorable, Boardwalk Pipeline expects the storage facilities to be in service perhaps as early as 2008 with working gas capacity of 2.0 Bcf, reduced from 6.0 Bcf as originally designed. If the test results are not favorable, Boardwalk Pipeline will consider the options it has available, including developing a new cavern or the sale or abandonment of the project.

Properties: Boardwalk Pipeline and Texas Gas are headquartered in approximately 108,000 square feet of office space in Owensboro, Kentucky in a building that is owned by Texas Gas. Gulf South has its headquarters in approximately 55,000 square feet of leased office space located in Houston, Texas. Due to recent expansion activities, and the expiration in May of 2007 of the lease for Gulf South's current office space, Gulf South has signed a new ten-year lease for approximately 74,000 square feet of office space in a new location in Houston, Texas. Gulf South will begin moving in the new headquarters in April of 2007. Boardwalk Pipeline's operating subsidiaries own their respective pipeline systems in fee. A substantial portion of these systems is constructed and maintained on property owned by others pursuant to rights-of-way, easements, permits, licenses or consents.

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 in the drilling of offshore oil and gas wells on a contract basis for companies engaged in exploration and production of hydrocarbons. Diamond Offshore owns 44 offshore rigs and also has two premium jack-up rigs currently under construction. Diamond Offshore accounted for 11.74%, 8.07% and 5.49% of our consolidated total revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

Diamond Offshore owns and operates 30 semisubmersible rigs. Semisubmersible rigs consist of an upper working and living deck resting on vertical columns connected to lower hull members. Such rigs operate in a "semi-submerged" position, remaining afloat, off bottom, in a position in which the lower hull is approximately 55 feet to 90 feet below the water line and the upper deck protrudes well above the surface. Semisubmersible rigs 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. Semisubmersible rigs 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. Three semisubmersible rigs in Diamond Offshore's fleet have this capability.

Diamond Offshore owns and operates nine high-specification semisubmersible rigs. These high specification semisubmersible rigs have high-capacity deck loads and are generally capable of working in water depths of 4,000 feet or greater or in harsh environments and have other advanced features, as compared to intermediate semisubmersible rigs. As of January 29, 2007, seven of the nine high-specification semisubmersible rigs were located in the U.S. Gulf of Mexico ("GOM"), while the remaining two high-specification semisubmersible rigs were located offshore Brazil and Malaysia.

Diamond Offshore owns and operates 21 intermediate semisubmersible rigs which generally work in maximum water depths up to 4,000 feet and many have diverse capabilities that enable them to provide both shallow and deep water service in the U.S. and in other markets outside the U.S. As of January 29, 2007, Diamond Offshore had 19 intermediate semisubmersible rigs, drilling in various offshore locations around the world. Five of these intermediate semisubmersible rigs were located in the GOM; three were located offshore Mexico or in the Mexican GOM; four were located in the North Sea, two were located offshore Australia, two were located offshore Brazil and one was located offshore each of New Zealand, Vietnam and Egypt.

In 2006, Diamond Offshore began a major upgrade of the *Ocean Monarch*, a Victory-class semisubmersible that it acquired in August 2005 for $20.0 million. The modernized rig is being designed to operate in up to 10,000 feet of water in a moored configuration for an estimated cost of approximately $300.0 million. Through December 31, 2006, Diamond Offshore had spent $33.9 million related to this project. The *Ocean Monarch* is expected to be ready for deepwater service in the fourth quarter of 2008.

In addition, the shipyard portion of the upgrade of the *Ocean Endeavor* has been completed. The rig is currently undergoing sea trials and commissioning. The unit will remain in Singapore until the arrival of a heavy-lift vessel, anticipated late in the first quarter of 2007, which will return the rig to the GOM. The *Ocean Endeavor* is expected to commence drilling operations in the GOM in mid-2007. Diamond Offshore estimates that the total cost of the upgrade will be approximately $253.0 million of which $208.4 million had been spent through December 31, 2006.

Diamond Offshore owns and operates 13 jack-up drilling rigs. Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor until a foundation is established to support the drilling platform. The rig hull includes the drilling rig, jacking system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, heliport and other related equipment. Diamond Offshore's jack-up rigs are used for drilling in water depths from 20 feet to 350 feet. The water depth limit of a particular rig is principally determined by the length of the rig's legs. A jack-up rig is towed to the drillsite with its hull riding in the sea, as a vessel, with its legs retracted. Once over a drillsite, the legs are lowered until they rest on the seabed and jacking continues until the hull is elevated above the surface of the water. After completion of drilling operations, the hull is lowered until it rests in the water and then the legs are retracted for relocation to another drillsite.

As of January 29, 2007, nine of Diamond Offshore's jack-up rigs were located in the GOM. Six of those rigs are independent-leg cantilevered units, two are mat-supported cantilevered units, and one is a mat-supported slot unit. Of Diamond Offshore's four remaining jack-up rigs, three are internationally based and are independent-leg cantilevered rigs; one was located offshore Indonesia, one was located offshore Africa and the other rig was located offshore Qatar. Diamond Offshore's remaining jack-up rig was located in the Mexican GOM and is also an independent-leg cantilever unit.

In the second quarter of 2005, Diamond Offshore entered into agreements to construct two high-performance, premium jack-up rigs. The two new drilling units, the *Ocean Scepter* and the *Ocean Shield*, are being constructed in Brownsville, Texas and Singapore, respectively, at an aggregate expected cost of approximately $320.0 million, including drill pipe and capitalized interest, of which $176.1 million had been spent through December 31, 2006. Each newbuild jack-up rig will be equipped with a 70-foot cantilever package, capable of drilling depths of up to 35,000 feet and have a hook load capacity of two million pounds. Diamond Offshore expects delivery of both of these units during the first quarter of 2008.

Diamond Offshore has one drillship, the *Ocean Clipper*, which was located offshore Brazil as of January 29, 2007. Drillships, which are typically self-propelled, are positioned over a drillsite through the use of either an anchoring system or a dynamic-positioning system similar to those used on certain semisubmersible rigs. Deep water drillships compete in many of the same markets as do high-specification semisubmersible rigs.

Markets: The principal markets for Diamond Offshore's contract drilling services are the following:

- the Gulf of Mexico, including the United States and Mexico;
- Europe, principally in the United Kingdom, or U.K., and Norway;
- the Mediterranean Basin, including Egypt, Libya and Tunisia; and other parts of Africa;
- South America, principally in Brazil;
- Australia and Asia, including Malaysia, Indonesia and Vietnam; and
- the Middle East, including Kuwait, Qatar and Saudi Arabia.

Diamond Offshore actively markets its rigs worldwide. From time to time Diamond Offshore's fleet operates in various other markets throughout the world as the market demands.

Diamond Offshore believes its presence in multiple markets is valuable in many respects. For example, Diamond Offshore believes that its experience with safety and other regulatory matters in the U.K. has been beneficial in Australia and in the Gulf of Mexico, while production experience gained through Brazilian and North Sea operations has potential application worldwide. Additionally, Diamond Offshore believes its performance for a customer in one market segment or area enables it to better understand that customer's needs and better serve that customer in different market segments or other geographic locations.

Diamond Offshore's contracts to provide offshore drilling services vary in their terms and provisions. Diamond Offshore typically 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 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. Historically, dayrate contracts have accounted for a substantial portion of Diamond Offshore's revenues. In addition, from time to time, Diamond Offshore's dayrate contracts may also provide for the ability to earn an incentive bonus from its customers based upon performance.

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or a group of wells, which Diamond Offshore refers to as a well-to-well contract, or a fixed term, which Diamond Offshore refers to as 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 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 to the contract. 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 also be extended by the customer exercising options for the drilling of additional wells or for an additional length of time, generally at competitive market rates and mutually agreeable terms at the time of the extension.

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 2006, Diamond Offshore performed services for 51 different customers with Anadarko Petroleum Corporation (which acquired Kerr-McGee Oil & Gas Corporation, or Kerr-McGee, in mid-2006) and Petroleo Brasileiro S.A., ("Petrobas") accounting for 10.6% and 10.4% of Diamond Offshore's annual consolidation revenues, repectively. During 2005, Diamond Offshore performed services for 53 different customers with Petrobras and Kerr McGee, accounting for 10.7% and 10.3% of Diamond Offshore's annual total consolidated revenues, respectively. During 2004, Diamond Offshore performed services for 53 different customers with Petrobras and PEMEX-Exploracion Y

Produccion, or PEMEX, accounting for 12.6% and 10.5% of Diamond Offshore's annual total consolidated revenues, respectively.

Competition: The offshore contract drilling industry is highly competitive and is influenced by a number of factors, including current and anticipated prices of oil and natural gas, expenditures by oil and gas companies for exploration and development of oil and natural gas and the availability of drilling rigs.

Governmental Regulation: Diamond Offshore's operations are subject to numerous international, U.S., state and local laws and regulations that relate directly or indirectly to Diamond Offshore's operations, including regulations controlling the discharge of materials into the environment, requiring removal and clean-up under some circumstances, or otherwise relating to the protection of the environment.

Operations Outside the United States: Diamond Offshore's operations outside the United States accounted for approximately 43.0%, 45.0% and 56.0% of Diamond Offshore's total consolidated revenues for the years ended December 31, 2006, 2005 and 2004, respectively.

Properties: Diamond Offshore owns an eight-story office building containing approximately 182,000 net rentable square feet on approximately 6.2 acres of land located in Houston, Texas, where Diamond Offshore has its corporate headquarters, 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. Additionally, Diamond Offshore currently leases various office, warehouse and storage facilities in Louisiana, Australia, Brazil, Indonesia, Norway, The Netherlands, Malaysia, Qatar, Singapore and Mexico to support its offshore drilling operations.

LOEWS HOTELS HOLDING CORPORATION

The subsidiaries of Loews Hotels Holding Corporation (“Loews Hotels”), our wholly owned subsidiary, presently operate the following 18 hotels. Loews Hotels accounted for 2.07%, 2.19% and 2.07% of our consolidated total revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

Name and Location	Number of Rooms	Owned, Leased or Managed
Loews Annapolis Annapolis, Maryland	220	Owned
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)
Loews Lake Las Vegas Hotel Henderson, Nevada	493	Management contract (d)
Loews Le Concorde Quebec City, Canada	405	Land lease expiring 2069
Loews Miami Beach Hotel Miami Beach, Florida	790	Owned
Loews New Orleans Hotel New Orleans, Louisiana	285	Management contract expiring 2018 (a)
Loews Philadelphia Hotel Philadelphia, Pennsylvania	585	Owned
The Madison, a Loews Hotel Washington, D.C.	353	Management contract expiring 2021 (a)
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 2019 (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.
(d) A Loews Hotels subsidiary is a 25% owner of the hotel, which is being operated by Loews Hotels pursuant to a management contract.

The hotels owned by Loews Hotels are subject to mortgage indebtedness totaling approximately $236.0 million at December 31, 2006 with interest rates ranging from 4.5% to 6.3%, and maturing between 2007 and 2028. In addition, certain hotels are held under leases which are subject to formula derived rental increases, with rentals aggregating approximately $6.4 million for the year ended December 31, 2006.

Competition from other hotels and lodging facilities 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, refurbishing and repairs and maintenance, in order to prevent competitive obsolescence.

BULOVA CORPORATION

Bulova Corporation ("Bulova") is engaged in the distribution and sale of watches and clocks for consumer use. Bulova accounted for 1.17%, 1.16% and 1.16% of our consolidated total revenue for the years ended December 31, 2006, 2005 and 2004, 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.

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. Bulova also owns 6,100 square feet of office space in Hong Kong which it uses for quality control and sourcing purposes. Bulova leases a 31,000 square foot facility in Toronto, Canada, which it uses for watch and clock sales and service; and 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 City, Mexico, and Fribourg, Switzerland.

EMPLOYEE RELATIONS

Including our operating subsidiaries as described below, we employed approximately 21,600 persons at December 31, 2006. We, and our subsidiaries, have experienced satisfactory labor relations.

CNA employed approximately 9,800 employees.

Lorillard employed approximately 2,800 persons. Approximately 1,000 of these employees are represented by labor unions covered by three collective bargaining agreements.

Boardwalk Pipeline employed approximately 1,150 persons, approximately 90 of which are covered by a collective bargaining agreement.

Diamond Offshore employed approximately 4,800 persons including international crew personnel furnished through independent labor contractors.

Loews Hotels employed approximately 2,200 persons, approximately 760 of whom are union members covered under collective bargaining agreements.

Bulova employed approximately 500 persons, approximately 150 of whom are union members.

AVAILABLE INFORMATION

Our website address is www.loews.com. We make available, free of charge, through the website our 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 these reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Audit Committee charter, Compensation Committee charter and Nominating and Governance Committee charter have also been posted and are available on our website.

Item 1A. RISK FACTORS.

Our business faces many risks. We have described below some of the more significant risks which we and our subsidiaries face. There may be additional risks that we do not yet know of or that we do not currently perceive to be significant that may also impact our business or the business of our subsidiaries.

Each of the risks and uncertainties described below could lead to events or circumstances that have a material adverse effect on our business, results of operations, cash flows, financial condition or equity and/or the business, results of operations, financial condition or equity of one or more of our subsidiaries. In addition, the risks and uncertainties described below relating to our Carolina Group stock and our Lorillard subsidiary could lead to a material loss in the value of the Carolina Group stock.

You should carefully consider and evaluate all of the information included in this Report and any subsequent reports we may file with the SEC or make available to the public before investing in any securities issued by us. Our subsidiaries, CNA Financial Corporation, Diamond Offshore Drilling, Inc. and Boardwalk Pipeline Partners, LP, are public companies and file reports with the SEC. You are also cautioned to carefully review and consider the information contained in the reports filed by those subsidiaries before investing in any of their securities.

We are a holding company and derive substantially all of our cash flow from our subsidiaries.

We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to holders of our common stock and Carolina Group stock. Our subsidiaries are separate and independent legal entities and have no obligation, contingent or otherwise, to make funds available to us, whether in the form of loans, dividends or otherwise. The ability of our subsidiaries to pay dividends to us is also subject to, among other things, the availability of sufficient funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies. Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and our creditors and shareholders.

In prior years, we have restated our financial results and identified material weaknesses in our internal control over financial reporting.

In May of 2005, we restated our financial results for prior years to correct CNA's accounting for several reinsurance contracts, primarily with a former affiliate, and to correct CNA's equity accounting for that affiliate. In February of 2006, we restated our financial results for prior years to correct the accounting for discontinued operations acquired by CNA in its merger with The Continental Corporation in 1995. In addition, in March of 2006, we restated our financial results for prior years to correct classification errors within our Consolidated Statements of Cash Flows.

As a result of the foregoing restatements, we identified material weaknesses in our internal control over financial reporting as of December 31, 2004 and 2005, respectively. We also determined that our internal control over financial reporting as of such dates was not effective. Our system of internal control over financial reporting is a process designed to provide reasonable assurance to our management, Audit Committee and Board of Directors regarding the reliability of our financial reporting and the preparation and fair presentation of our published financial statements. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the implementing rules of the Securities and Exchange Commission, the periodic reports we file with the SEC include information on our system of disclosure controls and procedures, as well as our overall internal control over financial reporting.

While we have remediated the referenced material weaknesses, if we fail to maintain effective internal control over financial reporting, we could be scrutinized by regulators in a manner that extends beyond the SEC's requests for information relating to the restatements (as further described in the CNA risk factor titled *CNA is responding to subpoenas, interrogatories and inquiries relating to insurance brokers and agents, contingent commissions and bidding practices, and certain finite-risk insurance products* below). We could also be scrutinized by securities analysts and investors. As a result of this scrutiny, we could suffer a loss of public confidence in our financial reporting capabilities and thereby face adverse effects on our business and the market price of our securities.

Risks Related to an Investment in Our Carolina Group Stock

We cannot be certain that we will continue to pay dividends on our Carolina Group stock.

Determinations as to the future dividends on Carolina Group stock primarily will depend on the dividends paid to us by our subsidiaries, our capital requirements and other factors that our board of directors considers relevant. The amount of dividends that legally could be paid on Carolina Group stock if the Carolina Group were a separate Delaware corporation may be greater than the amount actually available for the payment of dividends under Delaware law and our charter. Furthermore, our ability to pay dividends on Carolina Group stock may be reduced by dividends that we pay on our common stock.

Our board of directors reserves the right to declare and pay dividends on Carolina Group stock, and could, in its sole discretion, declare and pay dividends, or refrain from declaring and paying dividends, on Carolina Group stock. Our board of directors may take such actions regardless of the amounts available for the payment of dividends on Carolina Group stock, the amount of prior dividends declared on Carolina Group stock, the voting or liquidation rights of Carolina Group stock, or any other factor.

The independence of the board of directors of Lorillard, Inc. and the board of directors of its wholly owned subsidiary, Lorillard Tobacco Company, may affect Lorillard's payment of dividends to us and thereby inhibit our ability or willingness to pay dividends and make other distributions on our Carolina Group stock.

Our ability and willingness to pay dividends and make other distributions on Carolina Group stock, including dividends and distributions following a disposition of substantially all of the assets attributed to the Carolina Group, will depend on a number of factors, including whether the independent board of directors of Lorillard Tobacco Company causes Lorillard Tobacco Company to declare and pay dividends to its parent, Lorillard, Inc. and whether, in turn, the independent board of directors of Lorillard, Inc. causes Lorillard, Inc. to declare and pay dividends to us. In the event that Lorillard Tobacco Company or Lorillard, Inc. does not distribute its earnings, we are unlikely to pay dividends on Carolina Group stock. To the extent Lorillard, Inc. does not distribute net proceeds following the sale of substantially all of the assets attributed to the Carolina Group, we will not be required to apply the net proceeds to pay dividends to holders of Carolina Group stock or redeem shares of Carolina Group stock.

We expect that the boards of directors of each of Lorillard, Inc. and Lorillard Tobacco Company will continue to function independently of us and will direct the operations and management of the assets and businesses of those corporations, respectively. None of the individuals currently serving as directors of Lorillard, Inc. or Lorillard Tobacco Company are officers, directors or employees of Loews Corporation. Notwithstanding our right, as sole shareholder, to elect and remove directors of Lorillard, Inc., we have no present intention to remove any person currently serving as a director of Lorillard, Inc. Moreover, we expect that in the event of any future vacancies on the board of directors of Lorillard, Inc., we will nominate individuals who are not officers, directors or employees of Loews Corporation to fill such vacancies.

We have allocated to the Carolina Group any liabilities or expenses that we incur as a result of tobacco-related litigation.

The Carolina Group has been allocated any and all liabilities, costs and expenses of us 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.

Accordingly, we and/or Lorillard may make decisions with respect to litigation and settlement strategies designed to obtain our dismissal or release from tobacco-related litigation or liabilities. Such decisions and strategies could result, for example, in limitations on payment of dividends by Lorillard to us or an increase in Lorillard's exposure in such litigation.

The Engle Agreement may affect Lorillard's payment of dividends to us and thereby inhibit our ability or willingness to pay dividends on our Carolina Group stock.

Under the *Engle* Agreement if Lorillard, Inc. does not maintain a balance sheet net worth of at least $921.2 million, the stay pursuant to the agreement would terminate. Because dividends from Lorillard, Inc. to us are deducted from the balance sheet net worth of Lorillard, Inc., the *Engle* Agreement may affect the payment of dividends by Lorillard, Inc. to us. For a description of the *Engle* Agreement, please read MD&A under Item 7 and Note 20 of the Notes to Consolidated Financial Statements included in Item 8.

Holders of our common stock and Carolina Group stock are shareholders of one company and, therefore, financial impacts on one group could affect the other group.

Holders of our common stock and holders of Carolina Group stock are all common shareholders of Loews Corporation and are subject to risks associated with an investment in a single company. Financial effects arising from one group that affect our consolidated results of operations or financial condition could, if significant, affect the market price of the class of common shares relating to the other group. In addition, if we or any of our subsidiaries were to incur significant indebtedness on behalf of one group, including indebtedness incurred or assumed in connection with an acquisition or investment, it could affect the credit rating of us and our subsidiaries taken as a whole. This, in turn, could increase our borrowing costs. Net losses of either group and dividends or distributions on shares of any class of common or preferred stock will reduce the funds legally available for payment of future dividends on Carolina Group stock.

The complex nature of the terms of our Carolina Group stock, or confusion in the marketplace about what a tracking stock is, could materially adversely affect the market price of Carolina Group stock.

Tracking stocks like Carolina Group stock are more complex than traditional common stock and are not directly or entirely comparable to common stock of stand-alone companies or companies that have been spun off by their parent companies. The complex nature of the terms of Carolina Group stock, and the potential difficulties investors may have in understanding these terms, may materially adversely affect the market price of Carolina Group stock. Examples of these terms include:

- the discretion of our board of directors to make determinations that may affect Carolina Group stock and our common stock differently;
- our redemption and/or exchange rights under particular circumstances; and
- the disparate voting rights of Carolina Group stock and our common stock.

Confusion in the marketplace about what a tracking stock is and what it is intended to represent, and/or investors' reluctance to invest in tracking stocks, could materially adversely affect the market price of Carolina Group stock.

Holders of our common stock and Carolina Group stock generally vote together as a single class.

Holders of Carolina Group stock generally do not have the right to vote separately as a class. Holders of Carolina Group stock have the right to vote as a separate class only to the extent required by Delaware law. We have not held, and do not plan to hold, separate meetings for holders of Carolina Group stock.

Holders of our common stock will have significantly greater voting power than holders of our Carolina Group stock with respect to any matter as to which all of our common shares vote together as one class.

Each share of our common stock has one vote. Each share of Carolina Group stock is entitled to 3/10 of a vote, which is disproportionately less than the economic interest represented by each share of Carolina Group stock. When a vote is taken on any matter as to which all of our common shares are voting together as one class, holders of our common stock will have significantly greater voting power than holders of Carolina Group stock. As of February 9, 2007, holders of our common stock controlled approximately 94.4% of our combined voting power and holders of Carolina Group stock controlled approximately 5.6% of our combined voting power. The voting power of Carolina Group stock is subject to adjustment for stock splits, stock dividends and combinations with respect to either class of stock.

Holders of our Carolina Group stock may have interests different from holders of our common stock.

The existence of separate classes of our common stock could give rise to occasions when the interests of the holders of our common stock and Carolina Group stock diverge or conflict or appear to diverge or conflict. Subject to its fiduciary duties, our board of directors could, in its sole discretion, from time to time, make determinations or implement policies that disproportionately affect the groups or the different classes of stock. Our board of directors is not required to select the option that would result in the highest value for the holders of Carolina Group stock. Examples include determinations by our board of directors to:

- pay or omit the payment of dividends on our common stock or Carolina Group stock;
- redeem shares of Carolina Group stock;
- approve dispositions of our assets attributed to either group;
- reallocate funds or assets between groups and determine the amount and type of consideration paid therefore;
- allocate business opportunities, resources and personnel;
- allocate the proceeds of issuances of Carolina Group stock either to the Loews Group, with a corresponding reduction in the intergroup interest, if and to the extent there is an intergroup interest, or to the combined attributed net assets of the Carolina Group;
- formulate public policy positions for us;
- establish relationships between the groups;
- make financial decisions with respect to one group that could be considered to be detrimental to the other group; and
- settle or otherwise seek to resolve actual or potential litigation against us in ways that might adversely affect Lorillard.

Any such decisions by our board of directors could have or be perceived to have a negative effect on the Carolina Group and could have a negative effect on the market price of Carolina Group stock.

If our Carolina Group stock is not treated as a class of our common stock, several adverse federal income tax consequences will result.

It is possible that the issuance of Carolina Group stock could be characterized as property other than our stock for U.S. federal income tax purposes. Such characterization could require us to recognize taxable gain with respect to the issuance of Carolina Group stock and the Carolina Group would be responsible for any tax liability attributable thereto. In addition, we would likely no longer be able to file a consolidated U.S. federal income tax return with the Carolina Group. These tax liabilities, if they arise, would likely have a material adverse effect on us and the Carolina Group.

Changes in the tax law or in the interpretation of current tax law may result in redemption of the Carolina Group stock or cessation of the issuance of shares of Carolina Group stock.

If there are adverse tax consequences to us or the Carolina Group resulting from the issuance of Carolina Group stock, it is possible that we would not issue shares of Carolina Group stock even if we would otherwise choose to do so. This possibility could affect the value of Carolina Group stock then outstanding. Furthermore, we are entitled to redeem Carolina Group stock for either (1) cash in an amount equal to 105% of the average market price per share of Carolina Group stock or (2) our common stock having a value equal to 100% of the ratio of the average market price per share of Carolina Group stock to the average market price per share of our common stock, if, based upon the opinion of tax counsel, there are adverse federal income tax law developments related to Carolina Group stock. In each case, the average market price would be determined over a specified 20 trading day period.

Our board of directors may, at any time until the 90th day after the disposition of 80% of the assets attributed to the Carolina Group, redeem shares of our Carolina Group stock.

Our board of directors may, at any time until the 90th day after the disposition of 80% of the assets attributed to the Carolina Group, redeem all outstanding shares of Carolina Group stock for either (1) cash in an amount equal to 120% of the average market price per share of Carolina Group stock or (2) our common stock having a value equal to 115% of the ratio of the average market price per share of Carolina Group stock to the average market price per share of our common stock. In each case, the average market price would be determined over a specific 20 trading day period. A decision to redeem the Carolina Group stock could be made at a time when either or both of our common stock and Carolina Group stock may be considered to be overvalued or undervalued. In addition, a redemption would preclude holders of Carolina Group stock from retaining their investment in a security intended to reflect separately the economic performance of the Carolina Group. It would also give holders of shares of converted Carolina Group stock an amount of consideration that may be less than the amount of consideration a third-party buyer pays or would pay for all or substantially all of the net assets attributed to the Carolina Group.

If we choose to redeem our Carolina Group stock for cash, holders of Carolina Group stock may have taxable gain or taxable income.

We may, under certain circumstances, redeem Carolina Group stock for cash. If we choose to do so, holders of Carolina Group stock would generally be subject to tax on the excess, if any, of the total consideration they receive for their Carolina Group stock over their adjusted basis in their Carolina Group stock.

Our board of directors does not owe a separate duty to holders of Carolina Group stock.

Principles of Delaware law established in cases involving differing treatment of two classes of capital stock or two groups of holders of the same class of capital stock provide that a board of directors owes an equal duty to all shareholders regardless of class or series, and does not have separate or additional duties to either group of shareholders. Thus, holders of Carolina Group stock who believe that a determination by our board of directors has a disparate impact on their class of stock may not be able to obtain a remedy for such a claim.

Our board of directors may change the Carolina Group policy statement without shareholder approval.

In connection with the initial issuance of Carolina Group stock, our board of directors adopted the Carolina Group policy statement to govern the relationship between the Loews Group and the Carolina Group. Our board of directors may modify, suspend or rescind the policies set forth in the Carolina Group policy statement or make additions or exceptions to them, in the sole discretion of our board of directors, without approval of our shareholders. Our board of directors may also adopt additional policies, depending upon the circumstances. Any changes to our policies could have a negative effect on the holders of Carolina Group stock.

Our directors' and officers' disproportionate ownership of our common stock compared to our Carolina Group stock may give rise to conflicts of interest.

Our directors and officers own shares of our common stock and have been awarded stock options with respect to shares of our common stock. As of February 9, 2007 our directors and executive officers beneficially owned approximately 38.2 million shares of our common stock and no shares of Carolina Group stock, which represents approximately 6.6% of our combined voting power. Accordingly, our directors and officers could have an economic incentive to favor the Loews Group over the Carolina Group.

Because it is possible for an acquiror to obtain control of us by purchasing shares of our common stock without purchasing any shares of our Carolina Group stock, holders of Carolina Group stock may not share in any takeover premium.

Because holders of our common stock have significantly greater voting power than holders of Carolina Group stock, a potential acquiror could acquire control of us by acquiring shares of our common stock without purchasing any shares of Carolina Group stock. As a result, holders of Carolina Group stock might not share in any takeover premium and Carolina Group stock may have a lower market price than it would have if there were a greater likelihood that holders of Carolina Group stock would share in any takeover premium.

Holders of our Carolina Group stock may receive less consideration upon a sale of the assets attributed to the Carolina Group than if the Carolina Group were a separate company.

Assuming the assets attributed to the Carolina Group represent less than substantially all of our assets as a whole, our board of directors could, in its sole discretion and without shareholder approval, approve sales and other dispositions of any amount of our assets attributed to the Carolina Group because the Delaware General Corporation Law requires shareholder approval only for a sale or other disposition of all or substantially all of the assets of the entire company. Similarly, the boards of directors of Lorillard, Inc. or its subsidiaries could decide to sell or otherwise dispose of the operating and other assets reflected in the financial statements of the Carolina Group without the approval of holders of Carolina Group stock.

If 80% or more of the assets attributed to the Carolina Group are sold, we may take one of the following actions, and if we receive any net proceeds from the sale and determine not to retain all of such proceeds as tobacco contingency reserves, we must take one of the following actions:

- pay a special dividend to holders of Carolina Group stock in an amount equal to their pro rata share of the net proceeds (subject to reduction for repayment of notional debt, amounts not distributed from Lorillard to us and the creation by us of reserves for tobacco-related contingent liabilities and future costs) from the disposition in the form of cash and/or securities (other than our common stock);

- redeem shares of Carolina Group stock for cash and/or securities (other than our common stock) in an amount equal to the pro rata share of the net proceeds (subject to reduction for repayment of notional debt) from the disposition of all of the assets attributable to the Carolina Group;

- redeem shares of Carolina Group stock for shares of our common stock at a 15% premium based on the respective market values of Carolina Group stock and our common stock during the 20 consecutive trading days ending on the 5th trading day prior to announcement of the sale; or

- take some combination of the actions described above.

Our board of directors has the discretion to choose from the foregoing options. The value of the consideration paid to holders of Carolina Group stock in the different scenarios described above could be significantly different. Our board of directors would not be required to select the option that would result in the distribution with the highest value to the holders of Carolina Group stock.

If, on the 91st day following the sale of 80% or more of the assets attributed to the Carolina Group, we have not redeemed all of the outstanding shares of Carolina Group stock and Lorillard subsequently distributes to us any previously undistributed portion of the net proceeds and/or we subsequently release any amount of net proceeds previously retained by us as a reserve for tobacco-related contingent liabilities or future costs, we will distribute the pro rata share of such amounts to holders of Carolina Group stock. At any time after:

- Lorillard has distributed to us all previously undistributed portions of the net proceeds;

- no amounts remain in reserve in respect of tobacco-related contingent liabilities and future costs; and

- the only asset remaining in the Carolina Group is cash and/or cash equivalents,

then we may redeem all of the outstanding shares of Carolina Group stock for cash in an amount equal to the greater of (1) the pro rata share of the remaining assets of the Carolina Group and (2) $0.001 per share of Carolina Group stock.

If the Carolina Group were a separate, independent company and its shares were acquired by another person, some of the costs of that sale, including corporate level taxes, might not be payable in connection with that acquisition. As a result, shareholders of a separate, independent company might receive an amount greater than the net proceeds that would be received by the holders of Carolina Group stock. In addition, we cannot assure that the net proceeds per share of Carolina Group stock received by its holder in connection with any redemption following a sale of Carolina Group assets will be equal to or greater than the market value per share of Carolina Group stock prior to or after announcement of a sale of assets reflected in the Carolina Group. Nor can we assure that, where consideration is based on the market value of Carolina Group stock, the market value will be equal to or greater than the net proceeds per share of Carolina Group stock.

We may cause a mandatory exchange of our Carolina Group stock.

We may exchange all outstanding shares of Carolina Group stock for shares of one or more of our qualifying subsidiaries. Such an exchange would result in the qualifying subsidiary or subsidiaries becoming a separate public company and the holders of Carolina Group stock owning shares directly in that subsidiary or those subsidiaries. If we choose to exchange shares of Carolina Group stock in this manner, the market value of the common stock received in that exchange could be less than the market value of Carolina Group stock exchanged.

If we are liquidated, amounts distributed to holders of our Carolina Group stock may not reflect the value of the assets attributed to the Carolina Group.

In the event we are liquidated, we would determine the liquidation rights of the holders of Carolina Group stock in accordance with the market capitalization of the outstanding shares of the Loews Group and the Carolina Group at a specified time prior to the time of liquidation. However, the relative market capitalization of the outstanding shares of each group may not correctly reflect the value of the net assets remaining and attributed to the groups after satisfaction of outstanding liabilities. Accordingly, the holders of Carolina Group stock could receive less consideration upon liquidation than they would if the groups were separate entities.

Risks Related to Us and Our Subsidiary, CNA Financial Corporation

If CNA determines that loss reserves are insufficient to cover its estimated ultimate unpaid liability for claims, CNA may need to increase its loss reserves.

CNA maintains loss reserves to cover its estimated ultimate unpaid liability for claims and claim adjustment expenses for reported and unreported claims and for future policy benefits. Reserves represent CNA management’s best estimate at a given point in time. Insurance reserves are not an exact calculation of liability but instead are complex estimates derived by CNA, generally utilizing a variety of reserve estimation techniques, from numerous assumptions and expectations about future events, many of which are highly uncertain, such as estimates of claims severity, frequency of claims, mortality, morbidity, expected interest rates, inflation, claims handling and case reserving policies and procedures, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time of its ultimate settlement. Many of these uncertainties are not precisely quantifiable and require significant management judgment. As trends in underlying claims develop, particularly in so-called “long tail” or long duration coverages, CNA is sometimes required to add to our reserves. This is called unfavorable development and results in a charge to our earnings in the amount of the added reserves, recorded in the period the change in estimate is made. These charges can be substantial and can have a material adverse effect on our results of operations and equity. Please read additional information on CNA’s reserves included in MD&A under Item 7 and Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

CNA is subject to uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social, and other environmental conditions change. These issues have had, and may continue to have, a negative effect on CNA's business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims, resulting in further increases in CNA's reserves which can have a material adverse effect on our results of operations and equity. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. Examples of emerging or potential claims and coverage issues include:

- increases in the number and size of claims relating to injuries from medical products;
- the effects of accounting and financial reporting scandals and other major corporate governance failures, which have resulted in an increase in the number and size of claims, including director and officer and errors and omissions insurance claims;
- class action litigation relating to claims handling and other practices;
- construction defect claims, including claims for a broad range of additional insured endorsements on policies;
- clergy abuse claims, including passage of legislation to reopen or extend various statutes of limitations; and
- mass tort claims, including bodily injury claims related to silica, welding rods, benzene, lead and various other chemical exposure claims.

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, CNA reviews and changes its reserve estimates in a regular and ongoing process as experience develops and further claims are reported and settled. In addition, CNA periodically undergoes state regulatory financial examinations, including review and analysis of its reserves. If estimated reserves are insufficient for any reason, the required increase in reserves would be recorded as a charge against CNA's earnings for the period in which reserves are determined to be insufficient. These charges can be substantial and can materially adversely affect our results of operations and equity.

Loss reserves for asbestos, environmental pollution and mass torts are especially difficult to estimate and may result in more frequent and larger additions to these reserves.

CNA's experience has been that establishing reserves for casualty coverages relating to APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Estimating the ultimate cost of both reported and unreported asbestos, environmental pollution and mass tort claims is subject to a higher degree of variability due to a number of additional factors, including among others:

- coverage issues, including whether certain costs are covered under the policies and whether policy limits apply;
- inconsistent court decisions and developing legal theories;
- increasingly aggressive tactics of plaintiffs' lawyers;
- the risks and lack of predictability inherent in major litigation;
- changes in the volume of asbestos, environmental pollution and mass tort claims which cannot now be anticipated;
- continued increases in mass tort claims relating to silica and silica-containing products;
- the impact of the exhaustion of primary limits and the resulting increase in claims on any umbrella or excess policies CNA has issued;
- the number and outcome of direct actions against CNA;

- CNA’s ability to recover reinsurance for these claims; and

- changes in the legal and legislative environment in which CNA operates.

As a result of this higher degree of variability, CNA has necessarily supplemented traditional actuarial methods and techniques with additional estimating techniques and methodologies, many of which involve significant judgment on the part of management. Consequently, CNA may periodically need to record changes in its claim and claim adjustment expense reserves in the future in these areas in amounts that may be material. The sections below provide more details involving the specific factors affecting CNA’s estimation of reserves for casualty coverages relating to environmental pollution and asbestos. Please read information on APMT included in MD&A under Item 7 and Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

Environmental pollution claims. The estimation of reserves for environmental pollution claims is complicated by the assertion by many policyholders of claims for defense costs and indemnification. CNA and others in the insurance industry are disputing coverage for many such claims. Key coverage issues in these claims include:

- whether cleanup costs are considered damages under the policies (and accordingly whether CNA would be liable for these costs);

- the trigger of coverage, and the allocation of liability among triggered policies;

- the applicability of pollution exclusions and owned property exclusions;

- the potential for joint and several liability; and

- the definition of an occurrence.

To date, courts have been inconsistent in their rulings on these issues, thus adding to the uncertainty of the outcome of many of these claims.

Further, the scope of federal and state statutes and regulations determining liability and insurance coverage for environmental pollution liabilities have been the subject of extensive litigation. In many cases, courts have expanded the scope of coverage and liability for cleanup costs beyond the original intent of CNA’s insurance policies. In addition, the standards for cleanup in environmental pollution matters are unclear, the number of sites potentially subject to cleanup under applicable laws is unknown and the impact of various proposals to reform existing statutes and regulations is difficult to predict.

Asbestos claims. The estimation of reserves for asbestos claims is particularly difficult for many of the same reasons discussed above for environmental pollution claims, as well as:

- inconsistency of court decisions and jury attitudes, as well as future court decisions;

- specific policy provisions;

- allocation of liability among insurers and insureds;

- missing policies and proof of coverage;

- the proliferation of bankruptcy proceedings and attendant uncertainties;

- novel theories asserted by policyholders and their legal counsel;

- the targeting of a broader range of businesses and entities as defendants;

- uncertainties in predicting the number of future claims and which other insureds may be targeted in the future;
- volatility in claim numbers and settlement demands;
- increases in the number of non-impaired claimants and the extent to which they can be precluded from making claims;
- the efforts by insureds to obtain coverage that is not subject to aggregate limits;
- the long latency period between asbestos exposure and disease manifestation, as well as the resulting potential for involvement of multiple policy periods for individual claims;
- medical inflation trends;
- the mix of asbestos-related diseases presented; and
- the ability to recover reinsurance.

In addition, a number of CNA's insureds have asserted that their claims against CNA for insurance are not subject to aggregate limits on coverage. If these insureds are successful in this regard, CNA's potential liability for their claims would be unlimited. Some of these insureds contend that their asbestos claims fall within the so-called "non-products" liability coverage within their policies, rather than the products liability coverage, and that this "non-products" liability coverage is not subject to any aggregate limit. It is difficult to predict the extent to which these claims will succeed and, as a result, the ultimate size of these claims.

Catastrophe losses are unpredictable.

Catastrophe losses are an inevitable part of CNA's business. Various events can cause catastrophe losses, including hurricanes, windstorms, earthquakes, hail, explosions, severe winter weather and fires, and their frequency and severity are inherently unpredictable. In addition, longer-term natural catastrophe trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain, and snow. For example, in 2005, CNA experienced substantial losses from Hurricanes Katrina, Rita and Wilma and in 2004, CNA experienced substantial losses from Hurricanes Charley, Frances, Ivan and Jeanne. The extent of CNA's losses from catastrophes is a function of both the total amount of its insured exposures in the affected areas and the severity of the events themselves. In addition, as in the case of catastrophe losses generally, it can take a long time for the ultimate cost to CNA to be finally determined. As its claim experience develops on a particular catastrophe, CNA may be required to adjust reserves, or take additional unfavorable development, to reflect its revised estimates of the total cost of claims. CNA believes that it could incur significant catastrophe losses in the future. Please read information on catastrophe losses included in the MD&A under Item 7 and Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

CNA's key assumptions used to determine reserves and deferred acquisition costs for its long term care product offerings could vary significantly.

CNA's reserves and deferred acquisition costs for its long term care product offerings are based on certain key assumptions including morbidity, which is the frequency and severity of illness, sickness and diseases contracted, policy persistency, which is the percentage of policies remaining in force, interest rates, and/or future health care cost trends. If actual experience differs from these assumptions, the deferred acquisition costs may not be fully recovered and the reserves may not be adequate, requiring CNA to add to reserves, or take unfavorable development.

High levels of retained overhead expenses associated with business lines in run-off negatively impact CNA's operating results.

During the past few years, CNA ceased offering certain insurance products relating principally to its life, group and reinsurance segments. Many of these business lines were sold, others have been placed in run-off and, as a result, revenue will progressively decrease. CNA's results of operations have been materially, adversely affected by the high levels of retained overhead expenses associated with these run-off operations, and will continue to be so affected if CNA is not successful in eliminating or reducing these costs.

CNA's premium writings and profitability are affected by the availability and cost of reinsurance.

CNA purchases reinsurance to help manage its exposure to risk. Under CNA's reinsurance arrangements, another insurer assumes a specified portion of CNA's claim and claim adjustment expenses in exchange for a specified portion of policy premiums. Market conditions determine the availability and cost of the reinsurance protection CNA purchases, which affects the level of CNA's business and profitability, as well as the level and types of risk CNA retains. If CNA is unable to obtain sufficient reinsurance at a cost CNA deems acceptable, CNA may be unwilling to bear the increased risk and would reduce the level of CNA's underwriting commitments. Please read information on Reinsurance included in MD&A under Item 7 and Note 18 of the Notes to Consolidated Financial Statements included under Item 8.

CNA may not be able to collect amounts owed to it by reinsurers.

CNA has significant amounts recoverable from reinsurers which are reported as receivables in the balance sheets and estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves. The ceding of insurance does not, however, discharge CNA's primary liability for claims. As a result, CNA is subject to credit risk relating to its ability to recover amounts due from reinsurers. Certain of CNA's reinsurance carriers have experienced deteriorating financial conditions or have been downgraded by rating agencies. In addition, reinsurers could dispute amounts which CNA believes are due to it. If CNA is not able to collect the amounts due to it from reinsurers, its claims expenses will be higher. Please read information on reinsurance included in the MD&A under Item 7 and Note 18 of the Notes to Consolidated Financial Statements included under Item 8.

Rating agencies may downgrade their ratings for CNA in the future, and thereby adversely affect CNA's ability to write insurance at competitive rates or at all.

Ratings are an increasingly important factor in establishing the competitive position of insurance companies. CNA's insurance company subsidiaries, as well as its public debt, are rated by four major rating agencies, namely, A.M. Best Company, Inc., Standard & Poor's Rating Services, Moody's Investors Service, Inc. and Fitch, Inc. Ratings reflect the rating agency's opinions of an insurance company's financial strength, capital adequacy, operating performance, strategic position and ability to meet its obligations to policyholders and debtholders. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

Due to the intense competitive environment in which CNA operates, the uncertainty in determining reserves and the potential for CNA to take material unfavorable development in the future, and possible changes in the methodology or criteria applied by the rating agencies, the rating agencies may take action to further lower CNA's ratings in the future. If CNA's property and casualty insurance financial strength ratings were downgraded below current levels, its business and results of operations could be materially adversely affected. The severity of the impact on our business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of our insurance products to certain markets, and the required collateralization of certain future payment obligations or reserves.

In addition, CNA believes that a lowering of our debt ratings by certain of the rating agencies could result in an adverse impact on CNA's ratings, independent of any change in CNA's circumstances. CNA has entered into several settlement agreements and assumed reinsurance contracts that require collateralization of future payment obligations and assumed reserves if its ratings or other specific criteria fall below certain thresholds. The ratings triggers are generally more than one level below CNA's current ratings. Please read information on our ratings included in the MD&A under Item 7.

CNA is subject to capital adequacy requirements and, if it does not meet these requirements, regulatory agencies may restrict or prohibit CNA from operating its business.

Insurance companies such as CNA are subject to risk-based capital standards set by state regulators to help identify companies that merit further regulatory attention. These standards apply specified risk factors to various asset, premium and reserve components of CNA's statutory capital and surplus reported in CNA's statutory basis of accounting financial statements. Current rules require companies to maintain statutory capital and surplus at a specified minimum level determined using the risk-based capital formula. If CNA does not meet these minimum requirements, state regulators may restrict or prohibit CNA from operating its business. If CNA is required to record a charge against earnings in connection with a change in estimates or circumstances, CNA may violate these minimum capital adequacy requirements unless it is able to raise sufficient additional capital. Examples of events leading CNA to record a charge against earnings include impairment of its investments or unexpectedly poor claims experience.

CNA's insurance subsidiaries, upon whom CNA depends for dividends in order to fund its working capital needs, are limited by state regulators in their ability to pay dividends.

CNA Financial Corporation is a holding company and is dependent upon dividends, loans and other sources of cash from its subsidiaries in order to meet its obligations. Dividend payments, however, must be approved by the subsidiaries' domiciliary state departments of insurance and are generally limited to amounts determined by formula, which varies by state. The formula for the majority of the states is the greater of 10% of the prior year statutory surplus or the prior year statutory net income, less the aggregate of all dividends paid during the twelve months prior to the date of payment. Some states, however, have an additional stipulation that dividends cannot exceed the prior year's earned surplus. If CNA is restricted, by regulatory rule or otherwise, from paying or receiving inter-company dividends, CNA may not be able to fund its working capital needs and debt service requirements from available cash. As a result, CNA would need to look to other sources of capital, which may be more expensive or may not be available at all.

CNA is responding to subpoenas, interrogatories and inquiries relating to insurance brokers and agents, contingent commissions and bidding practices, and certain finite-risk insurance products.

Along with other companies in the industry, CNA has received subpoenas, interrogatories and inquiries from: (i) California, Connecticut, Delaware, Florida, Hawaii, Illinois, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, West Virginia and the Canadian Council of Insurance Regulators concerning investigations into practices including contingent compensation arrangements, fictitious quotes, and tying arrangements; (ii) the SEC, the New York State Attorney General, the United States Attorney for the Southern District of New York, the Connecticut Attorney General, the Connecticut Department of Insurance, the Delaware Department of Insurance, the Georgia Office of Insurance and Safety Fire Commissioner and the California Department of Insurance concerning reinsurance products and finite insurance products purchased and sold by CNA; (iii) the Massachusetts Attorney General and the Connecticut Attorney General concerning investigations into anti-competitive practices; and (iv) the New York State Attorney General concerning declinations of attorney malpractice insurance. CNA continues to respond to these subpoenas, interrogatories and inquiries to the extent they are still open.

Subsequent to receipt of the SEC subpoena, CNA produced documents and provided additional information at the SEC's request. In addition, the SEC and representatives of the United States Attorney's Office for the Southern District of New York conducted interviews with several of CNA's current and former executives relating to the restatement of its financial results for 2004, including CNA's relationship with and accounting for transactions with an affiliate that were the basis for the restatement. The SEC also requested information relating to our restatement in 2006 of prior period results. It is possible that CNA's analyses of, or accounting treatment for, finite reinsurance contracts or discontinued operations could be questioned or disputed by regulatory authorities. As a result, further restatements of CNA's financial results are possible.

CNA's investment portfolio, which is a key component of its overall profitability, may suffer reduced returns or losses, especially with respect to its equity in various limited partnership net assets which are often subject to greater leverage and volatility.

Investment returns are an important part of CNA's overall profitability. General economic conditions, stock market conditions, fluctuations in interest rates, and many other factors beyond CNA's control can adversely affect the returns and the overall value of its equity investments and its ability to control the timing of the realization of investment income. In addition, any defaults in the payments due to CNA for its investments, especially with respect to liquid corporate and municipal bonds, could reduce CNA's investment income and realized investment gains or could cause CNA to incur investment losses. Further, CNA invests a portion of its assets in equity investments, primarily through limited partnerships, which are subject to greater volatility than its fixed income investments. In some cases, these limited partnerships use leverage and are thereby subject to even greater volatility. Although limited partnership investments generally provide higher expected return, they present greater risk and are more illiquid than CNA's fixed income investments. As a result of these factors, CNA may not realize an adequate return on its investments, may incur losses on sales of its investments and may be required to write down the value of its investments.

CNA may be adversely affected by the cyclical nature of the property and casualty business.

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates.

Risks Related to Us and Our Subsidiary, Lorillard, Inc.

Lorillard is a defendant in approximately 2,840 tobacco-related lawsuits, which are extremely costly to defend, and which could result in substantial judgments against Lorillard.

Numerous legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of cigarettes are pending against Lorillard, and it is likely that similar claims will continue to be filed for the foreseeable future. Settlements and victories by plaintiffs in highly publicized cases against Lorillard and other tobacco companies, together with acknowledgments by Lorillard and other tobacco companies regarding the health effects of smoking, may stimulate further claims. In addition, adverse outcomes in pending cases could have adverse effects on the ability of Lorillard to prevail in smoking and health litigation.

Approximately 2,840 tobacco-related cases are pending against Lorillard in the United States. Punitive damages, often in amounts ranging into the billions of dollars, are specifically pleaded in a number of cases in addition to compensatory and other damages. It is possible that the outcome of these cases, individually or in the aggregate, could result in bankruptcy. It is also possible that Lorillard may be unable to post a surety bond in an amount sufficient to stay execution of a judgment in jurisdictions that require such bond pending an appeal on the merits of the case. Even if Lorillard is successful in defending some or all of these actions, these types of cases are very expensive to defend. A material increase in the number of pending claims could significantly increase defense costs.

Further, adverse decisions in actions against tobacco companies other than Lorillard could have an adverse impact on the industry, including Lorillard. For example, in 2006 the Oregon Supreme Court affirmed the verdict in *Williams v. Philip Morris USA, Inc*., in which plaintiff was awarded approximately $525,000 in compensatory damages and $79.5 million in punitive damages, a ratio of more than 150:1. The Oregon Supreme Court had determined that the ratio of punitive to compensatory damages was not inconsistent with U.S. Supreme Court precedents in this area. In February of 2007, the U.S. Supreme Court vacated that decision on other grounds and returned *Williams* to the Oregon Supreme Court for further consideration. Lorillard is not a party to *Williams*. Please read information included in MD&A under Item 7 and Note 20 of the Notes to Consolidated Financial Statements included in Item 8.

A substantial judgment has been rendered against Lorillard in the Scott litigation.

In June of 2004, the court entered a final judgment in favor of the plaintiffs in *Scott v. The American Tobacco Company, et al.* (District Court, Orleans Parish, Louisiana, filed May 24, 1996), a class action on behalf of certain cigarette smokers resident in the State of Louisiana. The jury awarded plaintiffs approximately $591.0 million to fund cessation programs for Louisiana smokers. The court's final judgment also reflected its award of prejudgment interest. During February of 2007, the Louisiana Court of Appeal issued a ruling that, among other things, reduced the amount of the award by approximately $312.0 million; struck the award of prejudgment interest, which totaled approximately $440.0 million as of December 31, 2006; and ruled that the only class members who are eligible to participate in the smoking cessation program are those who began smoking by September 1, 1988, and whose claims accrued by September 1, 1988. The Louisiana Court of Appeal has returned the case to the trial court for further proceedings. Lorillard's share of any judgment has not been determined. It is possible that the parties will seek further review of this decision. For additional information on the *Scott* case, please read Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

The verdict returned in the federal government's reimbursement case, while not final, could impose significant financial burdens on Lorillard and adversely affect future sales and profits.

During August of 2006, a final judgment and remedial order was entered in *United States of America v. Philip Morris USA, Inc., et al.* (U.S. District Court, District of Columbia, filed September 22, 1999). Lorillard is one of the defendants in the case. Although the verdict did not award monetary damages to the plaintiff, the final judgment and remedial order granted equitable relief and imposes a number of requirements on the defendants. Such requirements include, but are not limited to, corrective statements by defendants related to the health effects of smoking. The remedial order also would place certain prohibitions on the manner in which defendants market their cigarette products and would eliminate any use of "lights" or similar product descriptors. It is likely that the remedial order, including the prohibitions on the use of the descriptors relating to low tar cigarettes, will negatively affect Lorillard's future sales and profits. Defendants, including Lorillard, have noticed appeals from the final judgment and the remedial order. Plaintiff also has noticed an appeal from the final judgment. Defendants have received a stay of the judgment and remedial order from the District of Columbia Court of Appeal that will remain in effect while the appeal is proceeding. As a result of the government's appeal, it is possible that certain of the government's claims or damages could be reinstated. While trial was underway, the District of Columbia Court of Appeals ruled that plaintiff may not seek disgorgement of profits, but this appeal was interlocutory in nature and could be reconsidered in the present appeal. Prior to trial, the government had estimated that it was entitled to approximately $280.0 billion from the defendants for its disgorgement of profits claim. In addition, the government sought during trial more than $10.0 billion for the creation of nationwide smoking cessation, public education and counter-marketing programs. In its 2006 verdict, the trial court declined to award such relief. It is possible that these claims could be reinstated on appeal. Please read Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for detailed information regarding tobacco litigation.

Lorillard is a defendant in a case that has been certified as a nationwide class action and that could result in a substantial verdict.

Schwab v. Philip Morris USA, Inc., et al. (U.S. District Court, Eastern District, New York, filed May 11, 2004), has been certified by a federal judge as a nationwide class action on behalf of individuals who purchased "lights" cigarettes. Plaintiffs' claims in *Schwab* are based on defendants' alleged RICO violations in the manufacture, marketing and sale of "lights" cigarettes. Plaintiffs have estimated damages to the class to be in the hundreds of billions of dollars. Any damages awarded to the plaintiffs based on defendants' violation of the RICO statute would be trebled. The federal court of appeals has agreed to review the class certification order, and it has stayed all activity before the trial court until the appeal is concluded. Please read Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for detailed information regarding tobacco litigation.

The Florida Supreme Court's approval of an order vacating a $16.3 billion judgment against Lorillard in the Engle litigation is not final.

Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994) was certified as a class action on behalf of Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to cigarettes. During 2000, a jury awarded the certified class approximately $16.3 billion in punitive damages against Lorillard. This award was part of a verdict against other major tobacco companies that totaled $145.0 billion in punitive damages. The verdict bears interest at the rate of 10.0% per year. During 2006, the Florida Supreme Court affirmed the 2003 holding of an intermediate appellate court that the $145.0 billion punitive damages award must be vacated. The Florida Supreme Court also determined that the case could not proceed further as a class action and decertified the class. The Florida Supreme Court has formally concluded its consideration of *Engle*, but the time for plaintiffs to seek review of the case by the U.S. Supreme Court has not expired.

In the event that the circuit court's $16.3 billion punitive damages judgment against Lorillard is reinstated and ultimately upheld, the amount of that judgment would significantly exceed the assets of Lorillard. Even if the circuit court's $16.3 billion punitive damages judgment were reduced, the reduced amount of the final judgment might ultimately exceed the assets of Lorillard and result in a liquidation or bankruptcy of Lorillard. For additional information on the *Engle* case, please read Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

The Florida Supreme Court's ruling in Engle could encourage additional litigation against cigarette manufacturers, including Lorillard.

The 2006 ruling by the Florida Supreme Court in *Engle* permits members of the decertified class to file individual claims, including claims for punitive damages. The opportunity for filing such cases concludes during January of 2008. The Florida Supreme Court held that these individual plaintiffs are entitled to rely on some of the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial on a number of issues including, among other things, that smoking cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants, including Lorillard, were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. The Supreme Court further held that these first phase jury findings will be binding on the *Engle* defendants, including Lorillard, in any such future case filed by a member of the former class. It is possible that a significant number of additional individual lawsuits will be filed against cigarette manufacturers, including Lorillard, by former class members. It is not possible to estimate the number or ultimate outcome of lawsuits that could be filed as a result of this decision. In the aggregate, these claims may have a material adverse effect on our financial condition, results of operations, and cash flows. For additional information on the *Engle* case, please read Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

The United States Surgeon General has issued a report regarding the risks of cigarette smoking to non-smokers that could result in additional litigation against cigarette manufacturers, additional restrictions placed on the use of cigarettes, and additional regulations placed on the manufacture or sale of cigarettes.

In a report entitled "The Health Consequences of Involuntary Exposure to Tobacco Smoke: A Report of the Surgeon General, 2006," the United States Surgeon General summarized conclusions from previous Surgeon General's reports concerning the health effects of exposure to second-hand smoke by non-smokers. According to this report, scientific evidence now supports six major conclusions:

- Second-hand smoke causes premature death and disease in children and in adults who do not smoke.
- Children exposed to second-hand smoke are at an increased risk for sudden infant death syndrome (SIDS), acute respiratory infections and ear problems.
- Exposure of adults to second-hand smoke has immediate adverse effects on the cardiovascular system and causes heart disease and lung cancer.
- The scientific evidence indicates that there is no risk-free level of exposure to second-hand smoke.
- Many millions of Americans, both children and adults, are exposed to second-hand smoke in their homes and workplaces.
- Eliminating smoking in indoor spaces fully protects non-smokers from exposure to second-hand smoke. Separating smokers from non-smokers, cleaning the air, and ventilating buildings cannot eliminate exposures of non-smokers to second-hand smoke.

This report could form the basis of additional litigation against cigarette manufacturers, including Lorillard. The report could be used to support existing litigation against Lorillard or other cigarette manufacturers. It also is possible that the

Surgeon General's report could result in additional restrictions placed on cigarette smoking or in additional regulations placed on the manufacture or sale of cigarettes. It is possible that such additional restrictions or regulations could result in a decrease in cigarette sales in the United States, including sales of Lorillard brands. These developments may have a material adverse effect on our financial condition, results of operations, and cash flows.

Lorillard has substantial payment obligations under litigation settlement agreements which will materially adversely affect its cash flows and operating income in future periods.

Lorillard and other manufacturers of tobacco products are parties to the State Settlement Agreements with the 50 states, the District of Columbia, the Commonwealth of Puerto Rico and other U.S. territories, which settled the asserted and unasserted health care cost recovery and certain other claims of those states and territories.

Under the State Settlement Agreements, Lorillard is obligated to pay approximately $925.0 million to $975.0 million in 2007, primarily based on 2006 estimated industry volume. Annual payments under the State Settlement Agreements are required to be paid in perpetuity and are based, among other things, on Lorillard's domestic market share and unit volume of domestic shipments in the year preceding the year in which payment is due. Please read Note 20 to the Notes to Consolidated Financial Statements included in Item 8 for additional information regarding the State Settlement Agreements.

Concerns that mentholated cigarettes may pose greater health risks could adversely affect Lorillard.

Some plaintiffs and other sources, including among others, the Center for Disease Control and Prevention, have claimed that mentholated cigarettes may pose greater health risks than non-mentholated cigarettes. If such claims were to be substantiated, Lorillard, as the leading manufacturer of mentholated cigarettes in the United States, could face increased exposure to tobacco-related litigation. Even if those claims are not substantiated, increased concerns about the health impact of mentholated cigarettes could adversely affect Lorillard's sales, including sales of Newport.

Lorillard is subject to important limitations on advertising and marketing cigarettes that could harm its competitive position.

Television and radio advertisements of tobacco products have been prohibited since 1971. Under the State Settlement Agreements, Lorillard generally cannot use billboard advertising, cartoon characters, sponsorship of concerts, non-tobacco merchandise bearing its brand names and various other advertising and marketing techniques. In addition, the Master Settlement Agreement prohibits the targeting of youth in advertising, promotion or marketing of tobacco products. Accordingly, Lorillard has determined not to advertise its cigarettes in magazines with large readership among people under the age of 18. Additional restrictions may be imposed or agreed to in the future. These limitations may make it difficult to maintain the value of an existing brand if sales or market share decline for any reason. Moreover, these limitations significantly impair the ability of cigarette manufacturers, including Lorillard, to launch new premium brands.

Sales of cigarettes are subject to substantial federal, state and local excise taxes.

In 1999, federal excise taxes were $0.24 per pack and state excise taxes ranged from $0.03 to $1.00 per pack. In 2006, the federal excise tax was $0.39 per pack and combined state and local excise taxes ranged from $0.07 to $3.66 per pack. During 2006, excise tax increases ranging from $0.05 to $1.00 per pack of 20 cigarettes were implemented in six states and two municipalities. Proposals continue to be made to increase federal, state and local tobacco excise taxes. Lorillard believes that increases in excise and similar taxes have had an adverse impact on sales of cigarettes and that future increases, the extent of which cannot be predicted, could result in further volume declines for the cigarette industry, including Lorillard, and an increased sales shift toward lower priced discount cigarettes rather than premium brands.

Lorillard is dependent on the U.S. cigarette business, which we expect to continue to contract.

Lorillard's U.S. cigarette business is currently its only significant business. The U.S. cigarette market has generally been contracting and we expect it to continue to contract. Lorillard does not have foreign cigarette sales that could offset these effects, as it sold the international rights to substantially all of its brands, including Newport, in 1977. As a result of price increases, restrictions on advertising and promotions, increases in regulation and excise taxes, health concerns, a decline in the social acceptability of smoking, increased pressure from anti-tobacco groups and other factors, U.S. cigarette shipments have decreased at a compound annual rate of approximately 2.6% over the period 1997 through 2006, as measured by Management Science Associates. Domestic U.S. cigarette industry shipments decreased by 2.4% during 2006, as compared to 2005, and 3.2% for 2005, as compared to 2004, according to information provided by Management Science Associates.

Lorillard derives most of its revenue from the sales of one product in the premium market.

Lorillard’s largest selling brand, Newport, accounted for approximately 93.3% of Lorillard’s sales revenue in 2006. Newport is positioned in the premium segment of the U.S. cigarette market. Lorillard’s principal strategic plan revolves around the advertising and promotion of its Newport brand. Lorillard cannot ensure that it will continue to successfully implement its strategic plan with respect to Newport or that implementation of its strategic plan will result in the maintenance or growth of the Newport brand.

The use of significant amounts of promotion expenses and sales incentives in response to competitive actions and market price sensitivity may have a material adverse impact on Lorillard.

The cigarette market over recent years has been very price competitive due to the impact of, among other things, higher state and local excise taxes and the market share of deep discount brands. In response to these and other competitor actions and pricing pressures, Lorillard has engaged in significant use of promotional expenses and sales incentives. The cost of these measures could have a material adverse impact on Lorillard. Lorillard regularly reviews the results of its promotional spending activities and adjusts its promotional spending programs in an effort to maintain its competitive position. Accordingly, unit sales volume and sales promotion costs in any period are not necessarily indicative of sales and costs that may be realized in subsequent periods.

Several of Lorillard’s competitors have developed alternative cigarette products.

Certain of the major cigarette makers are marketing alternative cigarette products. For example, Philip Morris has developed an alternative cigarette called Accord in which the tobacco is heated rather than burned. Reynolds American has developed an alternative cigarette called Eclipse in which the tobacco is primarily heated, with only a small amount of tobacco burned. Vector Tobacco Inc. is marketing a cigarette offered in several packings with declining levels of nicotine, called Quest. Philip Morris and Reynolds American have indicated that these products may deliver fewer smoke components as compared to conventional cigarettes. Lorillard has not marketed similar alternative cigarettes. Should such alternative cigarette products gain a significant share of the U.S. cigarette market, Lorillard may be at a competitive disadvantage.

Lorillard may not be able to develop, produce or commercialize competitive new products and technologies required by regulatory changes or changes in consumer preferences.

Consumer health concerns and changes in regulations are likely to require Lorillard to introduce new products or make substantial changes to existing products. For example, six states have enacted legislation requiring cigarette manufacturers to reduce the ignition propensity of their products. Lorillard believes that there may be increasing pressure from public health authorities to develop a conventional cigarette or an alternative cigarette that provides a demonstrable reduced risk of adverse health effects. Lorillard may not be able to develop a reduced risk product that is acceptable to consumers. In addition, the costs associated with developing any such new products and technologies could be substantial.

The availability of counterfeit cigarettes could adversely affect Lorillard’s sales.

Sales of counterfeit cigarettes in the United States, including counterfeits of Lorillard’s Newport brand, could adversely impact sales by the manufacturers of the brands that are counterfeited and potentially damage the value and reputation of those brands. The availability of counterfeit Newport cigarettes could have a material adverse effect on Lorillard’s sales volumes, revenue and profits.

Lorillard relies on a single manufacturing facility for the production of its cigarettes.

Lorillard produces all of its cigarettes at its Greensboro, North Carolina manufacturing facility. If Lorillard's manufacturing plant is damaged, destroyed or incapacitated or Lorillard is otherwise unable to operate its manufacturing facility, Lorillard may be unable to produce cigarettes and may be unable to meet customer demand.

Lorillard relies on a small number of suppliers for certain of its tobacco leaf.

Lorillard purchases more than 90% of its domestic leaf tobacco from one supplier, Alliance One International, Inc. In addition, Lorillard purchases all of its reconstituted tobacco from one supplier, which is an affiliate of Reynolds American, Inc., a major competitor of Lorillard. If either of these suppliers becomes unwilling or unable to supply Lorillard and Lorillard is unable to find an alternative supplier on a timely basis, Lorillard's operations could be disrupted resulting in lower production levels and reduced sales.

Risks Related to Us and Our Subsidiary, Boardwalk Pipeline Partners, LP

Boardwalk Pipeline's expansion projects may not be completed or completed on materially different terms or timing than initially anticipated. If completed, the expansion project may not achieve the intended benefits.

Boardwalk Pipeline has announced significant proposed expansion projects and may consider additional expansion projects in the future. Boardwalk Pipeline anticipates that it will be required to seek additional financing in the future to fund current and future expansion projects and may not be able to secure such financing on favorable terms, or at all. In addition, Boardwalk Pipeline may not be able to complete the expansion projects on time as a result of weather conditions, delays in obtaining or failure to obtain regulatory approvals, delays in obtaining key materials, labor difficulties and land owner opposition, difficulties with partners or potential partners or other factors beyond its control. If Boardwalk Pipeline does not meet designated schedules for approval and construction of its expansion projects, certain of its customers may have the right to terminate their precedent agreements relating to the expansion projects. Certain customers may also have the right to receive liquidated damages. Even if expansion projects are completed, the total cost of the expansion projects may be higher than anticipated and the performance of Boardwalk Pipeline's business following the expansion projects may not meet expectations. Further, Boardwalk Pipeline may not be able to timely and effectively integrate the expansion projects into operations, such integration may result in unforeseen operating difficulties or unanticipated costs and the expansion projects might divert the attention of management from other business concerns. Any of these or other factors could adversely affect Boardwalk Pipeline's ability to realize the anticipated benefits from the expansion projects and thus have a material adverse effect on our business, financial condition, results of operations and cash flows.

Boardwalk Pipeline's natural gas transportation and storage operations are subject to FERC rate-making policies.

Action by the FERC on currently pending matters as well as matters arising in the future could adversely affect Boardwalk Pipeline's ability to establish rates, or to charge rates that would cover future increases in Boardwalk Pipeline's costs, or even to continue to collect rates that cover current costs. Boardwalk Pipeline cannot make assurances that it will be able to recover all of its costs through existing or future rates. An adverse determination in any future rate proceeding brought by or against Texas Gas or Gulf South could have a material adverse effect on our business, financial condition, results of operations and cash flows.

On July 20, 2004, the United States Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") issued its opinion in *BP West Coast Products, LLC v. FERC ("BP West Coast")* and vacated the portion of the FERC's decision applying the FERC's *Lakehead* policy to determine an allowance for income taxes in the regulated cost of service. In its *Lakehead* decision, the FERC allowed an oil pipeline limited partnership to include in its cost of service an income tax allowance to the extent that its unitholders were corporations subject to income tax. The D.C. Circuit emphasized that a regulated pipeline's cost of service should include only "appropriate cost[s]" and compared income taxes paid by owners of equity interests in a pipeline to the costs of bookkeeping paid by such owners, indicating the court's belief that such costs paid by an entity other than the regulated entity would not be recoverable in the rates of the pipeline. In May and June 2005, the FERC issued a statement of general policy and an order on remand of *BP West Coast*, respectively, in which the FERC stated it will permit pipelines to include in cost-of-service a tax allowance to reflect actual or potential tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails risk due to the case-by-case review requirement. In December 2005, the FERC issued a case-specific review of the income tax allowance issue in the *SFPP, L.P.* proceeding. The FERC ruled favorably to SFPP, L.P. on all income tax issues and set forth guidelines regarding the type of evidence necessary for the pipeline to determine its income tax allowance. The FERC's *BP West Coast* remand decision, the new tax allowance policy, and the December 2005 order have been appealed to the D.C. Circuit. As a result, the ultimate outcome of these proceedings is not certain and could result in changes to the FERC's treatment of income tax allowances in cost of service. If the FERC were to change its tax allowance policies in the future, or if current policy was reversed or changed on appeal by a court, such changes could materially and adversely impact the rates Boardwalk Pipeline is permitted to charge as future rates are approved for its interstate transportation services.

Boardwalk Pipeline's operations are subject to operational hazards and unforeseen interruptions for which Boardwalk Pipeline may not be adequately insured.

There are a variety of operating risks inherent in Boardwalk Pipeline's natural gas transportation and storage operations, such as leaks, explosions and mechanical problems, all of which could cause substantial financial losses. Any of these or other similar occurrences could result in the disruption of Boardwalk Pipeline's operations, substantial repair costs, personal injury or loss of human life, significant damage to property, environmental pollution, impairment of Boardwalk Pipeline's operations and substantial revenue losses. The location of pipelines near populated areas, including residential areas, commercial business centers and industrial sites, could significantly increase the level of damages resulting from these risks.

Boardwalk Pipeline currently possesses property, business interruption and general liability insurance, but proceeds from such insurance coverage may not be adequate for all liabilities or expenses incurred or revenues lost. Moreover, such insurance may not be available in the future at commercially reasonable costs on commercially reasonable costs and terms.

Because of the natural decline in gas production from existing wells, Boardwalk Pipeline's success depends on its ability to obtain access to new sources of natural gas.

For the years 2003 to 2005, gas production from the Gulf Coast region, which supplies the majority of Boardwalk Pipeline's throughput, has declined an average of approximately 11.0% per year according to the Energy Information Administration (the "EIA"). A large part of this decline was due to the effects of Hurricanes Katrina and Rita in 2005. Boardwalk Pipeline cannot give any assurance regarding the gas production industry's ability to find new sources of domestic supply. Production from existing wells and gas supply basins connected to Boardwalk Pipeline's systems will naturally decline further over time. The amount of natural gas reserves underlying these wells may also be less than Boardwalk Pipeline anticipates, or the rate at which production from these reserves declines may be greater than Boardwalk Pipeline anticipates. Accordingly, to maintain or increase throughput levels on its pipelines, Boardwalk Pipeline must continually obtain access to new supplies of natural gas. The primary factors affecting Boardwalk Pipeline's ability to obtain new sources of natural gas to its pipelines include: (1) the level of successful drilling activity near Boardwalk Pipeline's pipelines; (2) Boardwalk Pipeline's ability to compete for these supplies; (3) the successful completion of new liquefied natural gas ("LNG") facilities near Boardwalk Pipeline's facilities; and (4) Boardwalk Pipeline's gas quality requirements.

The level of drilling activity is dependent on a number of factors beyond Boardwalk Pipeline's control. The primary factor that impacts drilling decisions is the price of oil and natural gas. A sustained decline in natural gas prices could result in a decrease in exploration and development activities in the fields served or to be served by Boardwalk Pipeline, which would lead to reduced throughput levels on its pipelines. Other factors that impact production decisions include producers' capital budget limitations, the ability of producers to obtain necessary drilling and other governmental permits, the availability and cost of drilling rigs and other drilling equipment, and regulatory changes. Because of these factors, even if new natural gas reserves were discovered in areas served by Boardwalk Pipeline, producers may choose not to develop those reserves or may connect them to different pipelines.

Imported LNG is expected to be a significant component of future natural gas supply to the United States. Much of this increase in LNG supply is expected to be imported through new LNG facilities to be developed over the next decade. Boardwalk Pipeline cannot predict which, if any, of these projects will be constructed. If a significant number of these new projects fail to be developed with their announced capacity, or there are significant delays in such development, or if they are built in locations where they are not connected to Boardwalk Pipeline's systems or they do not influence sources of supply on its systems, Boardwalk Pipeline may not realize expected increases in future natural gas supply available for transportation through its systems.

If Boardwalk Pipeline is not able to obtain new supplies of natural gas to replace the natural decline in volumes from existing supply basins, or if the expected increase in natural gas supply through imported LNG is not realized, throughput on its pipeline systems would decline.

Successful development of LNG import terminals in the eastern or northeastern United States could reduce the demand for Boardwalk Pipeline's services.

Development of new, or expansion of existing, LNG facilities on the East Coast could reduce the need for customers in the northeastern United States to transport natural gas from the Gulf Coast and other supply basins connected to the Boardwalk Pipeline's systems. This could reduce the amount of gas transported by Boardwalk Pipeline for delivery off-system to other interstate pipelines serving the northeast. If Boardwalk Pipeline is not able to replace these volumes with volumes to other markets or other regions, throughput on its pipeline systems will decline.

Boardwalk Pipeline may not be able to maintain or replace expiring gas transportation and storage contracts at favorable rates.

Boardwalk Pipeline's primary exposure to market risk occurs at the time existing transportation contracts expire and are subject to renegotiation. As of December 31, 2006, approximately 14.0% of the firm contract load on the Boardwalk Pipeline systems was due to expire on or before December 31, 2007. Upon expiration, Boardwalk Pipeline may not be able to extend contracts with existing customers or obtain replacement contracts at favorable rates or on a long-term basis. A key determinant of the value that customers can realize from firm transportation on a pipeline is the basis differential, which can be affected by, among other things, the availability of supply, available capacity, storage inventories, weather and general market demand in the respective areas.

The extension or replacement of existing contracts depends on a number of factors beyond Boardwalk Pipeline's control, including:

- existing and new competition to deliver natural gas to Boardwalk Pipeline's markets;
- the growth in demand for natural gas in Boardwalk Pipeline's markets;
- whether the market will continue to support long-term contracts;
- the reduction of current basis differentials-market price spreads between two points across the Boardwalk Pipeline systems;
- whether Boardwalk Pipeline's strategy continues to be successful; and
- the effects of state regulation on customer contracting practices.

The northeastern terminus of the Texas Gas pipeline system is in Lebanon, Ohio, where it connects with other interstate natural gas pipelines delivering natural gas to East Coast and Midwest metropolitan areas and other indirect markets. Pipeline capacity into Lebanon is approximately 48.0% greater than pipeline capacity leaving that point, creating a bottleneck for supply into areas of high demand. Approximately 21.0% of Boardwalk Pipeline's long-term contracts with firm deliveries to Lebanon expire by the end of 2007. While demand for natural gas from Boardwalk Pipeline's Lebanon, Ohio terminus and other interconnects in that region has remained strong in the past, there can be no assurance regarding continued demand for gas from the Gulf Coast region, including East Texas, in the face of other sources of natural gas for various indirect markets, including pipelines from Canada, a new proposed pipeline from the Rockies, and new LNG facilities proposed to be constructed along the East Coast.

Boardwalk Pipeline depends on certain key customers for a significant portion of its revenues.

Boardwalk Pipeline relies on a limited number of customers for a significant portion of its revenues. For the years ended December 31, 2006, 2005 and 2004, ProLiance Energy, LLC and Atmos Energy accounted for approximately 18.4%, 20.1% and 32.3% of Boardwalk Pipeline’s total operating revenues. Boardwalk Pipeline may be unable to negotiate extensions or replacements of these contracts and those with other key customers on favorable terms as a result of competition, creditworthiness or for other reasons.

Boardwalk Pipeline is exposed to credit risk relating to nonperformance by its customers.

Boardwalk Pipeline is exposed to credit risk from the nonperformance by its customers of their contractual obligations, in large part relating to volumes owed by customers for imbalances or gas loaned to them, generally under parking and lending services and no-notice services. If any significant customer of Boardwalk Pipeline should have credit or financial problems resulting in a delay or failure to repay the gas they owe Boardwalk Pipeline, it could have a material adverse effect on Boardwalk Pipeline’s financial condition, results of operation and cash flows. Please read information on credit risk included in Credit Risk under Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Boardwalk Pipeline depends on third-party pipelines and other facilities interconnected to its pipelines.

Boardwalk Pipeline depends upon third-party pipelines and other facilities that provide delivery options to and from its pipelines. For example, Gulf South’s pipeline system can deliver approximately 500.0 Mcf per day to a major pipeline connection with Texas Eastern at Kosciusko, Mississippi. If this or any other pipeline connection were to become unavailable for current or future volumes of natural gas due to repairs, damage to the facility, lack of capacity or any other reason, Boardwalk Pipeline’s ability to continue shipping natural gas to end markets could be restricted. Any temporary or permanent interruption at any key pipeline interconnect could cause a material reduction in volumes transported on or stored at facilities of Boardwalk Pipeline.

Significant changes in natural gas prices could affect supply and demand, and reduce system throughput.

Higher natural gas prices could result in a decline in the demand for natural gas and, therefore, in the throughput on the Boardwalk Pipeline systems. In addition, reduced price volatility could reduce the revenues generated by Boardwalk Pipeline’s parking and lending and interruptible storage services. In general terms, the price of natural gas fluctuates in response to changes in supply, changes in demand, market uncertainty and a variety of additional factors that are beyond Boardwalk Pipeline’s control. These factors include:

- worldwide economic conditions;
- weather conditions and seasonal trends;
- levels of domestic production and consumer demand;
- the availability of LNG;
- a material decrease in the price of natural gas could have an adverse effect on the shippers who have contracted for capacity on Boardwalk Pipeline’s planned expansion projects;
- the availability of adequate transportation capacity;
- the price and availability of alternative fuels;
- the effect of energy conservation measures;
- the nature and extent of governmental regulation and taxation; and

- the anticipated future prices of natural gas, LNG and other commodities.

Risks Related to Us and Our Subsidiary, Diamond Offshore Drilling, Inc.

Diamond Offshore's business depends on the level of activity in the oil and gas industry, which is significantly affected by volatile oil and gas prices.

Diamond Offshore's business depends on the level of activity in offshore oil and gas exploration, development and production in markets worldwide. Oil and gas prices, market expectations of potential changes in these prices and a variety of political and economic factors significantly affect this level of activity. However, higher commodity prices do not necessarily translate into increased drilling activity since Diamond Offshore's customers' expectations of future commodity prices typically drive demand for Diamond Offshore's rigs. Oil and gas prices are extremely volatile and are affected by numerous factors beyond Diamond Offshore's control, including:

- the political environment of oil-producing regions, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities in the Middle East or other geographic areas or further acts of terrorism in the United States or elsewhere;
- worldwide demand for oil and gas;
- the cost of exploring for, producing and delivering oil and gas;
- the discovery rate of new oil and gas reserves;
- the rate of decline of existing and new oil and gas reserves;
- available pipeline and other oil and gas transportation capacity;
- the ability of oil and gas companies to raise capital;
- weather conditions in the United States and elsewhere;
- the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain production levels and pricing;
- the level of production in non-OPEC countries;
- the policies of the various governments regarding exploration and development of their oil and gas reserves; and
- advances in exploration and development technology.

Diamond Offshore's industry is cyclical.

Diamond Offshore's industry has historically been cyclical. There have been periods of high demand, short rig supply and high dayrates (such as Diamond Offshore is currently experiencing in the markets in which it operates), followed by periods of lower demand, excess rig supply and low dayrates. Periods of excess rig supply intensify the competition in the industry and often result in rigs being idle for long periods of time.

Current oil and natural gas prices are significantly above historical averages, which has resulted in higher utilization and dayrates earned by Diamond Offshore's drilling units, generally beginning in the third quarter of 2004. However, Diamond Offshore can provide no assurance that the current industry cycle of high demand, short rig supply and higher dayrates will continue. Diamond Offshore may be required to idle rigs or to enter into lower rate contracts in response to market conditions in the future.

Prolonged periods of low utilization and dayrates could also result in the recognition of impairment charges on certain of Diamond Offshore's drilling rigs if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these rigs may not be recoverable.

The terms of some of Diamond Offshore's drilling contracts may limit its ability to benefit from increasing dayrates in a rising market.

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.

To the extent 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. However, Diamond Offshore cannot be sure that it will be able to achieve or maintain such a balance from time to time. Diamond Offshore's inability to fully benefit from increasing dayrates in a rising market due to the long-term nature of its contracts, may adversely impact its profitability.

The majority of Diamond Offshore's contracts for its drilling units are fixed dayrate contracts, and increases in Diamond Offshore's operating costs could adversely affect the profitability of those contracts.

Diamond Offshore's contracts for its drilling units provide for the payment of a fixed dayrate per rig operating day, although some contracts do provide for a limited escalation in dayrate due to increased operating costs incurred. Many of Diamond Offshore's operating costs, such as labor costs, are unpredictable and fluctuate based on events beyond Diamond Offshore's control. The gross margin that Diamond Offshore realizes on these fixed dayrate contracts will fluctuate based on variations in Diamond Offshore's operating costs over the terms of the contracts. In addition, for contracts with dayrate clauses, Diamond Offshore may be unable to recover increased or unforeseen costs from its customers.

Diamond Offshore's drilling contracts may be terminated due to events beyond Diamond Offshore's control.

Diamond Offshore's customers may terminate some of their drilling contracts if 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 major equipment or, in some cases, due to other events beyond the control of either party. In addition, some of Diamond Offshore's drilling contracts permit the customer to terminate the contract after specified notice periods by tendering contractually specified termination amounts. These termination payments may not fully compensate Diamond Offshore for the loss of a contract. In addition, the early termination of a contract may result in a rig being idle for an extended period of time. During depressed market conditions, Diamond Offshore's customers may also seek renegotiation of firm drilling contracts to reduce their obligations.

Rig conversions, upgrades or newbuilds may be subject to delays and cost overruns.

From time to time, Diamond Offshore may undertake to add new capacity through conversions or upgrades to rigs or through new construction. Diamond Offshore has entered into agreements to upgrade two of its drilling units to ultra-deepwater capability at an estimated aggregate cost of $553.0 million. The shipyard portion of the upgrade of one rig has been completed, and Diamond Offshore expects that the unit will return to the Gulf of Mexico in mid-2007. Diamond Offshore expects delivery of its other semisubmersible unit during the fourth quarter of 2008. Diamond Offshore also has entered into agreements to construct two new jack-up drilling units with delivery expected in the first quarter of 2008 at an aggregate cost of approximately $320.0 million, including drillpipe and capitalized interest. These projects and other projects of this type are subject to risks of delay or cost overruns inherent in any large construction project resulting from numerous factors, including the following:

- shortages of equipment, materials or skilled labor;
- work stoppages;
- unscheduled delays in the delivery of ordered materials and equipment;
- unanticipated cost increases;
- weather interferences;
- difficulties in obtaining necessary permits or in meeting permit conditions;
- design and engineering problems;
- shipyard failures; and
- failure or delay of third party service providers and labor disputes.

Failure to complete a rig upgrade or new construction on time, or failure to complete a rig conversion or new construction in accordance with its design specifications may, in some circumstances, result in the delay, renegotiation or cancellation of a drilling contract.

Diamond Offshore's business involves numerous operating hazards and Diamond Offshore is not fully insured against all of them.

Diamond Offshore's operations are subject to the usual hazards inherent in drilling for oil and gas offshore, such as blowouts, reservoir damage, loss of production, loss of well control, punchthroughs, craterings and natural disasters such as hurricanes or fires. The occurrence of these events could result in the suspension of drilling operations, damage to or destruction of the equipment involved and injury or death to rig personnel, damage to producing or potentially productive oil and gas formations and environmental damage. Operations also may be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perform or supply goods or services or personnel shortages. In addition, offshore drilling operators are subject to perils peculiar to marine operations, including capsizing, grounding, collision and loss or damage from severe weather. Damage to the environment could also result from our operations, particularly through oil spillage or extensive uncontrolled fires. Diamond Offshore may also be subject to damage claims by oil and gas companies or other parties.

Pollution and environmental risks generally are not fully insurable, and Diamond Offshore does not typically retain loss-of-hire insurance policies to cover its rigs. Diamond Offshore's insurance policies and contractual rights to indemnity may not adequately cover its losses, or may have exclusions of coverage for some losses. Diamond Offshore does not have insurance coverage or rights to indemnity for all risks, including, among other things, war risk, liability risk for certain amounts of excess coverage and certain physical damage risk. If a significant accident or other event occurs and is not fully covered by insurance or contractual indemnity, it could adversely affect our financial position, results of operations or cash flows. There can be no assurance that Diamond Offshore will continue to carry the insurance it currently maintains or that those parties with contractual obligations to indemnify Diamond Offshore will necessarily be financially able to indemnify it against all these risks. In addition, no assurance can be made that Diamond Offshore will be able to maintain adequate insurance in the future at rates it considers to be reasonable or that it will be able to obtain insurance against some risks.

Diamond Offshore significantly increased its insurance deductibles and has elected to self-insure for a portion of its liability exposure and for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico.

Because the amount of insurance coverage available to Diamond Offshore has been significantly limited and the cost for such coverage has increased substantially, Diamond Offshore has elected to self-insure for a portion of its liability exposure and for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico. Although Diamond Offshore continues to carry physical damage insurance for certain other losses, Diamond Offshore significantly increased its deductibles to offset or mitigate premium increases. Diamond Offshore's deductible for physical damage insurance is currently $150.0 million per occurrence (or lower for some rigs if they are declared a constructive total loss). Diamond Offshore continues to carry liability insurance with coverages similar to prior years, except that Diamond Offshore elected to self-insure for a portion of its excess liability coverage related to named windstorms in the U.S. Gulf of Mexico. Diamond Offshore's deductible for liability coverage generally has increased to $5.0 million per occurrence, but its deductibles arising in connection with certain liabilities relating to named windstorms in the U.S. Gulf of Mexico have increased to $10.0 million per occurrence, with no annual aggregate deductible. To the extent that Diamond Offshore incurs certain liabilities related to named windstorms in the U.S. Gulf of Mexico in excess of $75.0 million, Diamond Offshore is self-insured for up to a maximum retention of $17.5 million per occurrence in addition to these deductibles. These changes result in a higher risk of losses that are not covered by third party insurance contracts. If named windstorms in the U.S. Gulf of Mexico cause significant damage to Diamond Offshore's rigs or equipment or to the property of others for which it may be liable**,** it could have a material adverse effect on our financial position, results of operations or cash flows.

Diamond Offshore's international operations involve additional risks not associated with domestic operations.

Diamond Offshore operates in various regions throughout the world that may expose it to political and other uncertainties, including risks of:

- terrorist acts, war and civil disturbances;
- piracy;
- kidnapping of personnel;
- expropriation of property or equipment;
- foreign and domestic monetary policy;
- the inability to repatriate income or capital;
- regulatory or financial requirements to comply with foreign bureaucratic actions; and
- changing taxation policies.

In addition, international contract drilling operations are subject to various laws and regulations in countries in which Diamond Offshore operates, including laws and regulations relating to:

- the equipping and operation of drilling units;
- repatriation of foreign earnings;
- oil and gas exploration and development;
- taxation of offshore earnings and earnings of expatriate personnel; and
- use and compensation of local employees and suppliers by foreign contractors.

No prediction can be made as to what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. The actions of foreign governments, including initiatives by OPEC, may adversely affect Diamond Offshore's ability to compete.

Diamond Offshore's drilling contracts in the Mexican GOM expose it to greater risks than they normally assume.

As of the date of this report, Diamond Offshore has three intermediate semisubmersible rigs and one jack-up rig drilling offshore Mexico under contract with PEMEX, the national oil company of Mexico, and has two additional intermediate semisubmersibles contracted to begin working for PEMEX in the third quarter of 2007. The terms of these contracts expose Diamond Offshore to greater risks than they normally assume, such as exposure to greater environmental liability, and can be terminated by PEMEX on short-term notice, contractually or by statute, subject to certain conditions. While Diamond Offshore believes that the financial terms of these contracts and its operating safeguards in place mitigate these risks, Diamond Offshore can provide no assurance that the increased risk exposure will not have a negative impact on our future operations or financial results.

Fluctuations in exchange rates and nonconvertibility of currencies could result in losses.

Due to Diamond Offshore's international operations, Diamond Offshore may experience currency exchange losses where revenues are received and expenses are paid in nonconvertible currencies or where it does not hedge an exposure to a foreign currency. Diamond Offshore may also incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital. Diamond Offshore can provide no assurance that financial hedging arrangements will effectively hedge any foreign currency fluctuation losses that may arise.

Risks Related to Us and Our Subsidiaries Generally

In addition to the specific risks and uncertainties faced by our subsidiaries, as discussed above, we and all of our subsidiaries face risks and uncertainties related to, among other things, terrorism, hurricanes and other natural disasters, competition, government regulation, dependence on key executives and employees, litigation, dependence on information technology and compliance with environmental laws.

Future acts of terrorism could harm us and our subsidiaries.

Future terrorist attacks and the continued threat of terrorism in this country or abroad, as well as possible retaliatory military and other action by the United States and its allies, could have a significant impact on the businesses of certain of our subsidiaries, including the following:

CNA. CNA may bear substantial losses from future acts of terrorism. The Terrorism Risk Insurance Extension Act of 2005 ("TRIEA") extended, until December 31, 2007, the program established by the Terrorism Risk Insurance Act of 2002. Under this program, insurers are required to offer terrorism insurance and the federal government will share the risk of loss by commercial property and casualty insurers arising from future terrorist attacks. TRIEA does not provide complete protection for future losses derived from acts of terrorism. Please read information on TRIEA included in the MD&A under Item 7.

Diamond Offshore and Boardwalk Pipeline. The continued threat of terrorism and the impact of retaliatory military and other action by the United States and its allies might lead to increased political, economic and financial market instability and volatility in prices for oil and natural gas, which could affect the market for DiamondOffshore's oil and gas offshore drilling services and Boardwalk Pipeline's natural gas transportation, gathering and storage services. In addition, it has been reported that terrorists might target domestic energy facilities. While Diamond Offshore and Boardwalk Pipeline take steps that they believe are appropriate to increase the security of their energy assets, there is no assurance that they can completely secure their assets, completely protect them against a terrorist attack or obtain adequate insurance coverage for terrorist acts at reasonable rates.

Loews Hotels. The travel and tourism industry went into a steep decline in the periods following the 2001 World Trade Center event which had a negative impact on the occupancy levels and average room rates at Loews Hotels. Future terrorist attacks could similarly lead to reductions in business travel and tourism which could harm Loews Hotels.

Certain of our subsidiaries face significant risks related to the impact of hurricanes and other natural disasters.

In addition to CNA's exposure to catastrophe losses discussed above, the businesses operated by several of our other subsidiaries are exposed to significant harm from the effects of natural disasters, particularly hurricanes and related flooding and other damage. While much of the damage caused by natural disasters is covered by insurance, we cannot be sure that such coverage will be available or be adequate in all cases. These risks include the following:

Boardwalk Pipeline. A substantial portion of the Gulf South pipeline assets and a smaller portion of the Texas Gas pipeline assets are located in the Gulf Coast region of the United States and, as such, are exposed to the impact of hurricanes, such as Hurricanes Katrina and Rita which struck that region in 2005. Boardwalk Pipeline experienced a variety of damage from those storms, including damage to its physical facilities and rights of way, loss of customers, such as the City of New Orleans, damaged or destroyed by the storm and loss of natural gas supply from facilities of suppliers damaged or destroyed by the storm. In addition, Boardwalk Pipeline could be required to relocate some of its pipeline facilities, possibly at its expense, as the Gulf Coast region is reconstructed.

Diamond Offshore. Diamond Offshore operates its offshore rig fleet in waters that can be severely impacted by hurricanes and other natural disasters, including the U.S. Gulf of Mexico. In late August 2005, one of Diamond Offshore's jack-up drilling rigs, the *Ocean Warwick*, was seriously damaged during Hurricane Katrina and other rigs in Diamond's fleet and its warehouse in New Iberia, Louisiana sustained lesser damage in Hurricanes Katrina or Rita, or in some cases both storms. In addition to damaging or destroying rig equipment, some or all of which may be covered by insurance, catastrophes of this kind result in additional operating expenses for Diamond, including the cost of reconnaissance aircraft, rig crew over-time and employee assistance, hurricane relief supplies, temporary housing and office space and the rental of mooring equipment and others which may not be covered by insurance.

Loews Hotels. Hotels operated by Loews Hotels are exposed to damage, business interruption and reductions in travel and tourism in markets affected by significant natural disasters such as hurricanes. For example, Loews Hotels' properties located in Florida and New Orleans suffered significant damage from hurricanes and related flooding during the past two years.

Certain of our subsidiaries are subject to extensive federal, state and local governmental regulations.

The businesses operated by certain of our subsidiaries are impacted by current and potential federal, state and local governmental regulations which imposes or might impose a variety of restrictions and compliance obligations on those companies. Governmental regulations can also change materially in ways that could adversely affect those companies. Risks faced by our subsidiaries related to governmental regulation include the following:

CNA. The insurance industry is subject to comprehensive and detailed regulation and supervision throughout the United States. Most insurance regulations are designed to protect the interests of CNA's policyholders rather than its investors. Each state in which CNA does business has established supervisory agencies that regulate the manner in which CNA does business. Their regulations relate to, among other things:

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of investments;
- restrictions on CNA's ability to withdraw from unprofitable lines of insurance;
- the required use of certain methods of accounting and reporting;
- the establishment of reserves for unearned premiums, losses and other purposes;
- potential assessments for funds necessary to settle covered claims against impaired, insolvent or failed insurance companies;
- licensing of insurers and agents;
- approval of policy forms; and
- limitations on the ability of CNA's insurance subsidiaries to pay dividends to us.

Regulatory powers also extend to premium rate regulations which require that rates not be excessive, inadequate or unfairly discriminatory. CNA also is required by the states to provide coverage to persons 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.

Lorillard. A wide variety of federal and state laws and local regulations limit the advertising, sale and use of cigarettes, and these laws have proliferated in recent years. If the U.S. Food and Drug Administration ("FDA") is granted authority to regulate tobacco products, as has been proposed for many years, Lorillard believes such regulation would provide Philip Morris, as the largest tobacco company in the country, with a competitive advantage. Lorillard believes that FDA regulations could:

- require larger and more severe health warnings on packs and cartons;
- ban the use of descriptors on tobacco products, such as “low-tar” and “light”;
- require the disclosure of ingredients and additives to consumers;
- require pre-market approval by the FDA for claims made with respect to reduced risk or reduced exposure products;
- allow the FDA to require the reduction or elimination of nicotine or any other compound in cigarettes;
- allow the FDA to mandate the use of reduced risk technologies in conventional cigarettes;
- place more severe restrictions on the advertising, marketing and sales of cigarettes;
- permit state regulation of labeling and advertising and eliminate the existing federal preemption of such regulation; and
- grant the FDA the authority to impose broad additional restrictions.

In addition, some states have enacted or proposed regulations, including with respect to mandatory disclosure of ingredients, including flavorings, some of which are trade secrets. State and local laws or rules that prohibit or restrict smoking in public places and workplaces continue to be enacted and proposed. Lorillard cannot predict the ultimate impact of these laws or regulatory proposals, but believes they will continue to reduce sales and increase costs. Extensive and inconsistent regulation by multiple states could prove to be particularly disruptive to Lorillard’s business.

Boardwalk Pipeline. Boardwalk Pipeline’s natural gas transportation, gathering and storage operations are subject to extensive regulation by the FERC and the United States Department of Transportation, among other federal and state authorities. In addition to the FERC rules and regulations related to the rates Boardwalk Pipeline can charge for its services, the FERC’s regulatory authority also extends to:

- operating terms and conditions of service;
- the types of services Boardwalk Pipeline may offer to its customers;
- construction of new facilities;
- acquisition, extension or abandonment of services or facilities;
- accounts and records; and
- relationships with affiliated companies involved in all aspects of the natural gas and electricity businesses.

The FERC action in any of these areas or modifications of its current regulations can adversely impact Boardwalk Pipeline’s ability to compete for business, the costs incurred in its operations, the construction of new facilities or Boardwalk Pipeline’s ability to recover the full cost of operating its pipelines. Another example is the time the FERC takes to approve the construction of new facilities, which could give Boardwalk Pipeline’s non-regulated competitors time to offer alternative projects or raise the costs of Boardwalk Pipeline’s projects to the point where they are no longer economical.

The United States Department of Transportation Office of Pipeline Safety has issued a final rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate certain areas along their pipelines and take additional measures to protect pipeline segments located in what the rule refers to as high consequence areas (“HCAs”) where a leak or rupture could potentially do the most harm.

Diamond Offshore. Diamond Offshore’s operations are affected from time to time in varying degrees by governmental laws and regulations. The drilling industry is dependent on demand for services from the oil and gas exploration industry and, accordingly, is affected by changing tax and other laws relating to the energy business generally. Diamond Offshore may be required to make significant capital expenditures to comply with governmental laws and regulations. It is also possible that these laws and regulations may in the future add significantly to Diamond Offshore’s operating costs or may significantly limit drilling activity.

The businesses operated by our subsidiaries face intense competition.

Each of the businesses operated by our subsidiaries faces intense competition in its industry and will be harmed materially if it is unable to compete effectively. Certain of the competitive risks faced by those companies include:

CNA. All aspects of the insurance industry are highly competitive and CNA must continuously allocate resources to refine and improve its insurance products and services. Insurers compete on the basis of factors including products, price, services, ratings and financial strength. CNA may lose business to competitors offering competitive insurance products at lower prices. CNA competes with a large number of stock and mutual insurance companies and other entities for both distributors and customers. In addition, the Graham-Leach-Bliley Act of 1999 has encouraged growth in the number, size and financial strength of CNA’s potential competitors by removing barriers that previously prohibited holding companies from simultaneously owning commercial banks, insurers and securities firms.

Lorillard. The cigarette market is highly concentrated, as Lorillard’s two major competitors, Philip Morris USA and Reynolds American, Inc., had a combined market share of approximately 77.1% for the year ended December 31, 2006. Reynolds American owns the third and fourth leading menthol brands, Kool and Salem, which had a combined share of the menthol segment of approximately 18.3% for the year ended December 31, 2006. This concentration of U.S. market share could make it more difficult for Lorillard to compete for shelf space in retail outlets, access to which is already exacerbated by the restrictive marketing programs of these larger competitors, and could impact price competition among menthol brands.

In addition to competing with major cigarette makers, Lorillard competes with a significant number of smaller competitors, many of which are not subject to the same payment obligations under the State Settlement Agreements as Lorillard and thereby enjoy competitive cost and pricing advantages. As a result of their cost and pricing advantages, the smaller manufacturers have developed meaningful market share, principally in the deep discount cigarette segment. Lorillard’s focus on the premium market and its obligations under the State Settlement Agreements make it very difficult to compete successfully in the deep discount market.

Diamond Offshore. The offshore contract drilling industry is highly competitive with numerous industry participants, none of which at the present time has a dominant market share. Some of Diamond Offshore’s competitors may have greater financial or other resources than Diamond Offshore. Drilling contracts are traditionally awarded on a competitive bid basis. Intense price competition is often the primary factor in determining which qualified contractor is awarded a job, although rig availability and location, a drilling contractor’s safety record and the quality and technical capability of service and equipment may also be considered. Mergers among oil and natural gas exploration and production companies have reduced the number of available customers.

Diamond Offshore’s industry has historically been cyclical. There have been periods of high demand, short rig supply and high dayrates (such as we are currently experiencing), followed by periods of lower demand, excess rig supply and lower dayrates. Periods of excess rig supply intensify the competition in the industry and often result in rigs being idle for long periods of time.

Although oil and natural gas prices are currently significantly above historical averages, resulting in higher utilization and dayrates earned by Diamond Offshore’s drilling units, generally beginning in the third quarter of 2004, Diamond Offshore can provide no assurance that the current industry cycle of high demand, short rig supply and higher dayrates will continue. Diamond Offshore may be required to idle rigs or to enter into lower rate contracts in response to market conditions in the future.

Significant new rig construction and upgrades of existing drilling units could also intensify price competition. Diamond Offshore believes that there are currently 100 jack-up rigs and floaters (semisubmersible rigs and drillships) on order and scheduled for delivery between 2007 and 2010. Improvements in dayrates and expectations of sustained improvements in rig utilization rates and dayrates may result in the construction of additional new rigs. These increases in rig supply could result in depressed rig utilization and greater price competition from both existing competitors, as well as new entrants into the offshore drilling market. As of the date of this report, not all of the rigs currently under construction have contracted for future work, which may further intensify price competition as scheduled delivery dates occur. In addition, competing contractors are able to adjust localized supply and demand imbalances by moving rigs from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates.

Boardwalk Pipeline. Boardwalk Pipeline competes primarily with other interstate and intrastate pipelines in the transportation and storage of natural gas. Natural gas also competes with other forms of energy available to Boardwalk Pipeline’s customers, including electricity, coal and fuel oils. The principal elements of competition among pipelines are rates, terms of service, access to gas supplies, flexibility and reliability. The FERC’s policies promoting competition in gas markets are having the effect of increasing the gas transportation options for Boardwalk Pipeline’s traditional customer base. Increased competition could reduce the volumes of gas transported by Boardwalk Pipeline’s systems or, in cases where Boardwalk Pipeline does not have long-term fixed rate contracts, could force Boardwalk Pipeline to lower its transportation or storage rates. Competition could intensify the negative impact of factors that significantly decrease demand for natural gas in the markets served by Boardwalk Pipeline’s systems, such as competing or alternative forms of energy, a recession or other adverse economic conditions, weather, higher fuel costs and taxes or other governmental or regulatory actions that directly or indirectly increase the cost or limit the use of natural gas. Boardwalk Pipeline’s ability to renew or replace existing contracts at rates sufficient to maintain current revenues and cash flows could be adversely affected by the activities of its competitors. Boardwalk Pipeline also competes against a number of intrastate pipelines which have significant regulatory advantages over its and other interstate pipelines because of the absence of FERC regulation. In view of potential rate increases, construction and service flexibility available to intrastate pipelines, Boardwalk Pipeline may lose customers and throughput to intrastate competitors.

We and our subsidiaries are subject to litigation.

We and our subsidiaries are subject to litigation in the normal course of business. Litigation is costly and time consuming to defend and could result in a material expense. Please read information on litigation included in the MD&A under Item 7 and Note 20 of the Notes to Consolidated Financial Statements included under Item 8. Certain of the litigation risks faced by us and our subsidiaries are as follows:

CNA. CNA faces substantial risks of litigation and arbitration beyond ordinary course claims and APMT matters, which may contain assertions in excess of amounts covered by reserves that CNA has established. These matters may be difficult to assess or quantify and may seek recovery of very large or indeterminate amounts that include punitive or treble damages. Accordingly, unfavorable results in these proceedings could have a material adverse impact on our results of operations.

Lorillard. As discussed in more detail above, Lorillard is a defendant in a large number of tobacco-related cases and other litigation, in some instances seeking damages from Lorillard ranging into the billions of dollars. We are a defendant in certain of these cases as well.

We and our subsidiaries are each dependent on a small number of key executives and other key personnel to operate our businesses successfully.

Our success and the success of our operating subsidiaries substantially depends upon each company’s ability to attract and retain high quality executives and other qualified employees. In many instances, there may be only a limited number of available qualified executives in the business lines in which we and our subsidiaries compete and the loss of one or more key employees or the inability to attract and retain other talented personnel could impede the successful implementation of our and our subsidiaries’ business strategies. For example, Lorillard is currently experiencing difficulty in identifying and hiring qualified personnel in some areas of its business, due primarily to the health and social issues associated with the tobacco industry. In addition, Diamond Offshore has experienced and continues to experience upward pressure on salaries and wages and increased competition for skilled workers as a result of the strengthening offshore drilling market. Diamond Offshore has also sustained the loss of experienced personnel to competitors. In response to these market conditions, Diamond Offshore has implemented retention programs, including increases in compensation.

Certain of our subsidiaries face significant risks related to compliance with environmental laws.

Certain of our subsidiaries have extensive obligations and/or financial exposure related to compliance with federal, state and local environmental laws or. Laws and regulations protecting the environment have become increasingly stringent in recent years, and may in some cases impose “strict liability,” rendering a person liable for environmental damage without regard to negligence or fault on the part of that person. These laws and regulations may expose us and our subsidiaries to liability for the conduct of or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed. For example:

- as discussed in more detail above, many of CNA’s policyholders have made claims for defense costs and indemnification in connection with environmental pollution matters;

- as an operator of mobile offshore drilling units in navigable U.S. waters and some offshore areas, Diamond Offshore may be liable for, among other things, damages and costs incurred in connection with oil spills related to those operations, including for conduct of or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed;

- the risk of substantial environmental costs and liabilities is inherent in natural gas transportation, gathering and storage, including with respect to, among other things, the handling and discharge of solid and hazardous waste from Boardwalk’s facilities, compliance with clean air standards and the abandonment and reclamation of Boardwalk’s facilities, sites and other properties; and

- Bulova no longer manufactures time pieces; however, it has substantial ongoing clean-up obligations and will continue to incur substantial costs, which could exceed Bulova’s current estimates, related to contaminated properties that were previously operated by Bulova as manufacturing sites.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Information relating to our properties and our subsidiaries’ properties is contained under Item 1.

Item 3. Legal Proceedings.

Insurance Related - Information with respect to insurance related legal proceedings is incorporated by reference to Note 20, Legal Proceedings - Insurance Related of the Notes to Consolidated Financial Statements included in Item 8.

Tobacco Related - Approximately 3,960 product liability cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 2,840 of these cases. The Company is a defendant in four of the pending cases. Information with respect to tobacco related legal proceedings is incorporated by reference to Note 20, 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 composed 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 1,285 cases are pending, including approximately 200 cases against Lorillard. The 1,285 cases include approximately 1,000 cases pending in a single West Virginia court that have been consolidated for trial.

Lorillard is a defendant in approximately 75 of the 1,000 consolidated West Virginia cases. The Company is a defendant in two of the conventional product liability cases.

Class action cases are purported to be brought on behalf of large numbers of individuals for damages allegedly caused by smoking. Ten of these cases are pending against Lorillard. One of these cases, *Schwab v. Philip Morris USA, Inc., et al.*, is on behalf of a purported nationwide class composed of purchasers of light cigarettes. The Company is a defendant in two of the class action cases. Lorillard is not a defendant in approximately 35 additional lights class action cases that are pending against other cigarette manufacturers. 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. Lorillard is a defendant in four of the six Reimbursement cases pending against cigarette manufacturers in the United States. The Company is not a defendant in any of the Reimbursement cases pending in the U.S. Lorillard and the Company are defendants in an additional case pending in Israel. Reference is made to Exhibit 99.01 to this Report for a list of pending Reimbursement Cases in which Lorillard is a party.

Included in this category is the suit filed by the federal government, *United States of America v. Philip Morris USA, Inc., et al.*, that sought disgorgement and injunctive relief. During August of 2006, U.S. District Court, District of Columbia entered a final judgment and remedial order following trial of this matter. Although the verdict did not award monetary damages to the plaintiff, the final judgment and remedial order granted equitable relief and imposes a number of requirements on the defendants. Such requirements include, but are not limited to, corrective statements by defendants related to the health effects of smoking. The remedial order also would place certain prohibitions on the manner in which defendants market their cigarette products and would eliminate any use of “lights” or similar product descriptors. It is likely that the remedial order, including the prohibitions on the use of the descriptors relating to low tar cigarettes, will negatively affect Lorillard’s future sales and profits. The parties have noticed appeals from this judgment. It is possible that the appellate court could reconsider its order from February of 2005 that barred the government from seeking disgorgement of profits. Lorillard is one of the defendants in the case. The Company is not a party to this action.

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 2,625 pending Flight Attendant cases.

Excluding the flight attendant and the consolidated West Virginia suits, approximately 330 product liability cases are pending against cigarette manufacturers in U.S. courts. Lorillard is a defendant in approximately 140 of the 330 cases. The Company, which is not a defendant in any of the flight attendant or the consolidated West Virginia matters, is a defendant in four of the actions.

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
David B. Edelson	Senior Vice President	47	2005
Gary W. Garson	Senior Vice President, General Counsel and Secretary	60	1988
Herbert C. Hofmann	Senior Vice President	64	1979
Peter W. Keegan	Senior Vice President and Chief Financial Officer	62	1997
Arthur L. Rebell	Senior Vice President	66	1998
Andrew H. Tisch	Office of the President, Co-Chairman of the Board and Chairman of the Executive Committee	57	1985
James S. Tisch	Office of the President, President and Chief Executive Officer	54	1981
Jonathan M. Tisch	Office of the President and Co-Chairman of the Board	53	1987

Andrew H. Tisch and James S. Tisch are brothers and are cousins of Jonathan M. Tisch. None of the other officers or directors of Registrant is related to any other.

All of our executive officers except David B. Edelson have been engaged actively and continuously in our business for more than the past five years. Prior to joining us, Mr. Edelson was employed at JPMorgan Chase & Co. for more than five years, serving in various positions but most recently as Executive Vice President and Corporate Treasurer.

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 Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Price Range of Common Stock

Loews common stock

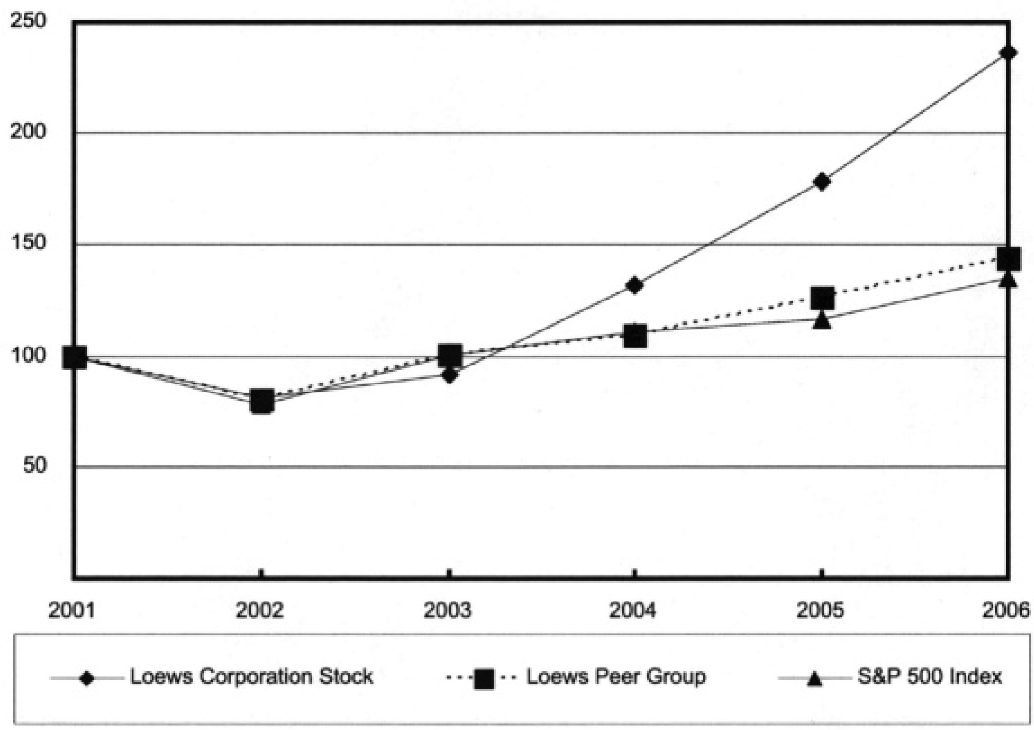
Our common stock is listed on the New York Stock Exchange under the symbol "LTR." On May 8, 2006, the Company effected a three-for-one stock split of Loews common stock to shareholders of record on April 24, 2006. All share and per share information has been retroactively adjusted to reflect the stock split.

The following table sets forth the reported high and low sales prices in each calendar quarter of 2006 and 2005:

	2006		2005	
	High	**Low**	High	Low
First Quarter	**$ 34.26**	**$ 30.75**	$ 24.87	$ 22.35
Second Quarter	**36.79**	**33.24**	26.76	22.98
Third Quarter	**38.79**	**34.85**	31.32	25.57
Fourth Quarter	**41.92**	**37.49**	32.90	29.17

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following graph compares the total annual return of our Common Stock, the Standard & Poor's 500 Composite Stock Index ("S&P 500 Index") and our peer group ("Loews Peer Group")* for the five years ended December 31, 2006. The graph assumes that the value of the investment in our Common Stock, the S&P 500 Index and the Loews Peer Group was $100 on December 31, 2001 and that all dividends were reinvested.



	2001	2002	2003	2004	2005	2006
Loews Corporation Stock	100.00	81.22	91.58	131.48	178.71	235.97
S&P 500	100.00	77.90	100.25	111.15	116.61	135.03
Loews Peer Group	100.00	80.49	100.27	109.01	126.01	144.12

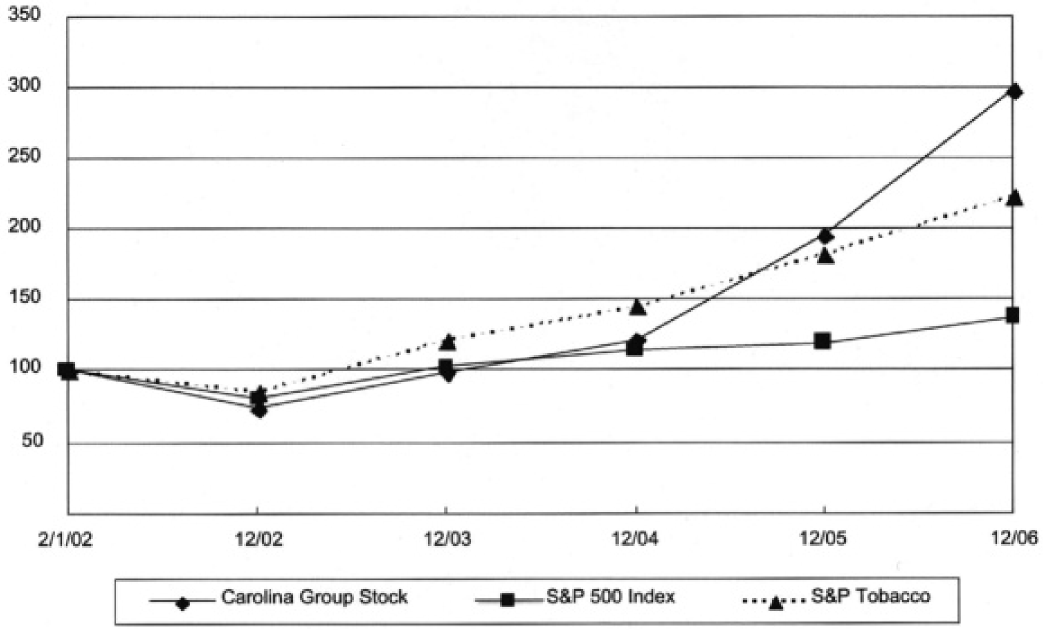
* The Loews Peer Group consists of the following companies that are industry competitors of our principal operating subsidiaries: Ace Limited, Altria Group, Inc., American International Group, Inc., The Chubb Corporation, Cincinnati Financial Corporation, Hartford Financial Services Group, Inc., Reynolds American, Inc., Safeco Corporation, St. Paul Companies (included through 2003), The St. Paul Travelers Companies, Inc., UST, Inc. and XL Capital Ltd.

Carolina Group stock

Carolina Group stock is listed on the New York Stock Exchange under the symbol "CG." The following table sets forth the reported high and low sales prices in each calendar quarter of 2006 and 2005:

	2006		2005	
	High	**Low**	High	Low
First Quarter	**$ 49.99**	**$ 43.96**	$ 34.50	$ 28.47
Second Quarter	**52.92**	**46.44**	33.49	29.25
Third Quarter	**60.94**	**51.18**	40.29	33.10
Fourth Quarter	**64.72**	**55.13**	46.06	38.72

Our Carolina Group stock commenced trading on February 1, 2002. Accordingly, the following graph compares the total annual return of Carolina Group stock, the Standard & Poor's 500 Composite Stock Index and the Standard & Poor's Tobacco Index ("S&P Tobacco") for the period from February 1, 2002 to December 31, 2006. The graph assumes that the value of the investment in our Carolina Group stock and each index was $100 on February 1, 2002 and that all dividends were reinvested.



	2/1/02	12/02	12/03	12/04	12/05	12/06
Carolina Group Stock	100.00	73.54	98.99	121.70	194.76	296.59
S&P 500	100.00	79.62	102.45	113.60	119.18	138.01
S&P Tobacco	100.00	86.36	122.01	146.21	183.03	223.60

Dividend Information

We have paid quarterly cash dividends on Loews common stock in each year since 1967. Regular dividends of $0.05 per share of Loews common stock were paid in each calendar quarter of 2005 and the first quarter of 2006. We increased our quarterly cash dividend on Loews common stock to $0.0625 per share beginning in the second quarter of 2006.

We have paid quarterly cash dividends on Carolina Group stock in each year since inception. Regular dividends of $0.455 per share of Carolina Group stock were paid in each calendar quarter of 2006 and 2005.

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides certain information as of December 31, 2006 with respect to our equity compensation plans under which our equity securities are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Loews common stock:			
Equity compensation plans approved by security holders (a)	4,110,442	$ 23.124	5,998,991
Carolina Group stock:			
Equity compensation plans approved by security holders (b)	581,694	$ 36.237	557,500
Equity compensation plans not approved by security holders (c)	N/A	N/A	N/A

(a) Consists of the Loews Corporation 2000 Stock Option Plan.
(b) Consists of the Carolina Group 2002 Stock Option Plan.
(c) We do not have equity compensation plans that have not been authorized by our stockholders.

Approximate Number of Equity Security Holders

We have approximately 1,610 holders of record of Loews common stock and approximately 70 holders of record of Carolina Group stock.

Common Stock Repurchases

We repurchased Loews common stock in each quarter of 2006 as follows:

Period	Total number of shares purchased	Average price paid per share
January 1, 2006 - March 31, 2006	1,675,200	$ 33.23
April 1, 2006 - June 30, 2006	5,548,800	34.02
July 1, 2006 - September 30, 2006	278,500	37.17
October 1, 2006 - December 31, 2006	6,432,010	39.64

Loews common stock repurchases in the fourth quarter of 2006 were as follows:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in millions)
November 1, 2006 - November 30, 2006	5,754,500	$39.52	N/A	N/A
December 1, 2006 - December 31, 2006	677,510	$40.64	N/A	N/A

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for us. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

There are inherent limitations to the effectiveness of any control system, however well designed, including the possibility of human error and the possible circumvention or overriding of controls. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Management must make judgments with respect to the relative cost and expected benefits of any specific control measure. The design of a control system also is based in part upon assumptions and judgments made by management about the likelihood of future events, and there can be no assurance that a control will be effective under all potential future conditions. As a result, even an effective system of internal control over financial reporting can provide no more than reasonable assurance with respect to the fair presentation of financial statements and the processes under which they were prepared.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework*. Based on this assessment, our management believes that, as of December 31, 2006, our internal control over financial reporting was effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited our financial statements included in this report, has issued a report on our assessment of our internal control over financial reporting. The report of Deloitte & Touche LLP follows this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Loews Corporation:

We have audited management's assessment included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Loews Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2006 and our report dated February 22, 2007, expressed an unqualified opinion on those consolidated financial statements and financial statement schedules and includes an explanatory paragraph concerning a change in the method of accounting for defined benefit pension and other postretirement plans in 2006.

DELOITTE & TOUCHE LLP
New York, NY
February 22, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Loews Corporation:

We have audited the accompanying consolidated balance sheets of Loews Corporation and its subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Loews Corporation and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans in 2006.

We have also audited, in accordance with the standards of the PCAOB, the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
New York, NY
February 22, 2007

Item 6. Selected Financial Data.

The following table presents selected financial data. The table should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data of this Form 10-K.

Year Ended December 31	**2006**	2005	2004	2003	2002
(In millions, except per share data)					
Results of Operations:					
Revenues	**$ 17,911.0**	$ 16,017.8	$ 15,236.9	$ 16,459.7	$ 17,463.9
Income (loss) before taxes and minority interest	**$ 4,472.1**	$ 1,846.5	$ 1,828.8	$ (1,357.1)	$ 1,666.1
Income (loss) from continuing operations	**$ 2,517.0**	$ 1,192.9	$ 1,235.3	$ (654.0)	$ 993.5
Discontinued operations, net	**(25.7)**	18.7	(19.5)	56.8	(33.8)
Cumulative effect of change in accounting principles, net					(39.6)
Net income (loss)	**$ 2,491.3**	$ 1,211.6	$ 1,215.8	$ (597.2)	$ 920.1
Income (loss) attributable to:					
Loews common stock:					
Income (loss) from continuing operations	**$ 2,100.6**	$ 941.6	$ 1,050.8	$ (769.2)	$ 852.8
Discontinued operations, net	**(25.7)**	18.7	(19.5)	56.8	(33.8)
Cumulative effect of change in accounting principles, net					(39.6)
Loews common stock	**2,074.9**	960.3	1,031.3	(712.4)	779.4
Carolina Group stock	**416.4**	251.3	184.5	115.2	140.7
Net income (loss)	**$ 2,491.3**	$ 1,211.6	$ 1,215.8	$ (597.2)	$ 920.1
Net Income (Loss) Per Share (a):					
Loews common stock:					
Income (loss) from continuing operations	**$ 3.80**	$ 1.69	$ 1.89	$ (1.38)	$ 1.51
Discontinued operations, net	**(0.05)**	0.03	(0.04)	0.10	(0.06)
Cumulative effect of change in accounting principles, net					(0.07)
Net income (loss)	**$ 3.75**	$ 1.72	$ 1.85	$ (1.28)	$ 1.38
Carolina Group stock	**$ 4.46**	$ 3.62	$ 3.15	$ 2.76	$ 3.50
Financial Position (a):					
Investments	**$ 53,888.8**	$ 45,396.0	$ 44,298.5	$ 42,514.8	$ 40,136.7
Total assets	**76,880.9**	70,905.8	73,720.3	77,673.9	70,211.0
Debt	**5,572.4**	5,206.8	6,990.3	5,820.2	5,651.9
Shareholders' equity	**16,501.8**	13,092.1	11,969.9	10,855.3	10,995.5
Cash dividends per share:					
Loews common stock	**0.24**	0.20	0.20	0.20	0.20
Carolina Group stock	**1.82**	1.82	1.82	1.81	1.34
Book value per share of Loews common stock	**30.14**	23.64	21.85	19.95	20.13
Shares outstanding:					
Loews common stock	**544.20**	557.54	556.75	556.34	556.32
Carolina Group stock	**108.33**	78.19	67.97	57.97	39.91

(a) On May 8, 2006, the Company effected a three-for-one stock split of Loews common stock to shareholders of record on April 24, 2006. All share and per share information has been retroactively adjusted to reflect the stock split.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Management’s discussion and analysis of financial condition and results of operations is comprised of the following sections:

OVERVIEW

We are a holding company. Our subsidiaries are engaged in the following lines of business:

- commercial property and casualty insurance (CNA Financial Corporation (“CNA”), an 89% owned subsidiary);
- the production and sale of cigarettes (Lorillard, Inc. (“Lorillard”), a wholly owned subsidiary);
- operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), an 80% owned subsidiary);

- operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ("Diamond Offshore"), a 51% owned subsidiary);
- operation of hotels (Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary) and
- distribution and sale of watches and clocks (Bulova Corporation ("Bulova"), a wholly owned subsidiary).

Unless the context otherwise requires, references in this report to "Loews Corporation," "we," "our," "us" or like terms refer to the business of Loews Corporation excluding its subsidiaries.

The following discussion should be read in conjunction with Item 1A, Risk Factors, of this Form 10-K.

Consolidated Financial Results

Consolidated net income (including both the Loews Group and Carolina Group) for the year ended December 31, 2006 was $2,491.3 million, compared to $1,211.6 million in the prior year. Consolidated revenues in the year ended December 31, 2006 amounted to $17.9 billion, compared to $16.0 billion in the prior year.

The following table summarizes the net income and earnings per share information:

Year Ended December 31		**2006**		2005
(In millions, except per share data)				
Net income attributable to Loews common stock:				
Income before net investment gains (losses)	**$**	**2,032.0**	$	951.9
Net investment gains (losses)		**68.6**		(10.3)
Income from continuing operations		**2,100.6**		941.6
Discontinued operations, net		**(25.7)**		18.7
Net income attributable to Loews common stock		**2,074.9**		960.3
Net income attributable to Carolina Group stock (a)		**416.4**		251.3
Consolidated net income	**$**	**2,491.3**	$	1,211.6
Net income per share:				
Loews common stock				
Income from continuing operations	**$**	**3.80**	$	1.69
Discontinued operations, net		**(0.05)**		0.03
Loews common stock	**$**	**3.75**	$	1.72
Carolina Group stock	**$**	**4.46**	$	3.62

(a) *Reflects Loews Corporation's sales of 15 million shares of Carolina Group stock in each of August and May of 2006 and 10 million shares in November of 2005. Net income per share of Carolina Group stock was not impacted by these sales.*

Net income attributable to Loews common stock for the year ended 2006 amounted to $2,074.9 million, or $3.75 per share, compared to $960.3 million, or $1.72 per share, in the prior year. The results for the year ended December 31, 2005 included catastrophe losses at CNA of $304.8 million (after tax and minority interest) including the impact from Hurricanes Wilma, Katrina, Rita, Dennis and Ophelia and a benefit of $136.5 million related to a federal income tax settlement due primarily to net refund interest and the release of federal income tax reserves at CNA. The increase in net income was primarily due to improved results at CNA and Diamond Offshore, partially offset by a decrease in the share of Carolina Group earnings attributable to Loews common stock, due to the sale of additional Carolina Group stock in August and May of 2006.

Net income attributable to Loews common stock includes net investment gains of $68.6 million (after tax and minority interest) compared to net investment losses of $10.3 million (after tax and minority interest) in the prior year.

Net income attributable to Carolina Group stock for the year ended 2006 was $416.4 million, or $4.46 per Carolina Group share, compared to $251.3 million, or $3.62 per Carolina Group share in the prior year. The increase in net income attributable to Carolina Group stock was due to an increase in Lorillard Inc. net income driven by higher effective unit prices reflecting lower sales promotion expenses (accounted for as a reduction to net sales), increased unit sales and reflects an increase in the number of Carolina Group shares outstanding.

Classes of Common Stock

Our issuance of Carolina Group stock has resulted in a two class common stock structure for us. Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of our assets and liabilities referred to as the Carolina Group. The principal assets and liabilities attributed to the Carolina Group are:

- our 100% stock ownership interest in Lorillard, Inc.;
- notional, intergroup debt owed by the Carolina Group to the Loews Group ($1.2 billion outstanding at December 31, 2006), bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and
- any and all liabilities, costs and expenses arising out of or related to tobacco or tobacco-related businesses.

As of December 31, 2006, the outstanding Carolina Group stock represents a 62.34% economic interest in the performance of the Carolina Group. The Loews Group consists of all of our assets and liabilities other than the 62.34% economic interest represented by the outstanding Carolina Group stock, and includes as an asset the notional, intergroup debt of the Carolina Group.

The existence of separate classes of common stock could give rise to occasions where the interests of the holders of Loews common stock and Carolina Group stock diverge or conflict or appear to diverge or conflict. Subject to its fiduciary duties, our board of directors could, in its sole discretion, occasionally make determinations or implement policies that disproportionately affect the groups or the different classes of stock. For example, our board of directors may decide to reallocate assets, liabilities, revenues, expenses and cash flows between groups, without the consent of shareholders. The board of directors would not be required to select the option that would result in the highest value for holders of Carolina Group stock.

As a result of the flexibility provided to our board of directors, it might be difficult for investors to assess the future prospects of the Carolina Group based on the Carolina Group's past performance.

The creation of the Carolina Group and the issuance of Carolina Group stock does not change our 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 attribution of our assets and liabilities to the Loews Group or the Carolina Group does not affect title to the assets or responsibility for the liabilities.

Holders of our common stock and of Carolina Group stock are shareholders of Loews Corporation and are subject to the risks related to an equity investment in us.

Parent Company Structure

We are a holding company and derive substantially all of our cash flow from our subsidiaries, principally Lorillard, Boardwalk Pipeline and Diamond Offshore. We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our stockholders. The ability of our subsidiaries to pay dividends is subject to, among other things, the availability of sufficient funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies. Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and shareholders (see Liquidity and Capital Resources - CNA Financial, below).

At December 31, 2006, the book value per share of Loews common stock was $30.14, compared to $23.64 at December 31, 2005.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

The consolidated financial statements and accompanying notes have been prepared in accordance with GAAP, applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that we believe are reasonable under the known facts and circumstances.

We consider the accounting policies discussed below to be critical to an understanding of our consolidated financial statements as their application places the most significant demands on our judgment. Due to the inherent uncertainties involved with this type of judgment, actual results could differ significantly from estimates and may have a material adverse impact on our results of operations and/or equity.

Insurance Reserves

Insurance reserves are established for both short and long-duration insurance contracts. Short-duration contracts are primarily related to property and casualty insurance policies where the reserving process is based on actuarial estimates of the amount of loss, including amounts for known and unknown claims. Long-duration contracts typically include traditional life insurance and long term care products and are estimated using actuarial estimates about mortality and morbidity, as well as assumptions about expected investment returns. The reserve for unearned premiums on property and casualty and accident and health contracts represents the portion of premiums written related to the unexpired terms of coverage. The inherent risks associated with the reserving process are discussed in the Reserves - Estimates and Uncertainties section below.

Reinsurance

Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves and are reported as receivables in the Consolidated Balance Sheets. The ceding of insurance does not discharge CNA of its primary liability under insurance contracts written by CNA. An exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities assumed under reinsurance agreements. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, CNA’s past experience and current economic conditions.

Reinsurance accounting allows for contractual cash flows to be reflected as premiums and losses, as compared to deposit accounting, which requires cash flows to be reflected as assets and liabilities. To qualify for reinsurance accounting, reinsurance agreements must include risk transfer. Considerable judgment by management may be necessary to determine if risk transfer requirements are met. CNA believes it has appropriately applied reinsurance accounting principles in its evaluation of risk transfer. However, CNA’s evaluation of risk transfer and the resulting accounting could be challenged in connection with regulatory reviews or possible changes in accounting and/or financial reporting rules related to reinsurance, which could materially adversely affect our results of operations and/or equity. Further information on CNA’s reinsurance program is included in the Reinsurance section below and Note 18 of the Notes to Consolidated Financial Statements included under Item 8.

Tobacco and Other Litigation

Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation. Plaintiffs in most of the cases seek unspecified amounts of compensatory damages and punitive damages, although some seek damages ranging into the billions of dollars. Plaintiffs in some of the cases seek treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring, among other damages.

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent we are a defendant in any of the lawsuits, we believe that we are not a proper defendant in these matters and have moved or plan to move for dismissal of all such claims against us. While Lorillard intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

Except for the impact of the State Settlement Agreements as described in Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation and, therefore, no provision has been made in the Consolidated Financial Statements for any unfavorable outcome. It is possible that our results of operations, cash flows and financial position could be materially adversely affected by an unfavorable outcome of certain pending or future litigation.

CNA is also involved in various legal proceedings that have arisen during the ordinary course of business. CNA evaluates the facts and circumstances of each situation, and when CNA determines it necessary, a liability is estimated and recorded. Please read Item 3 - Legal Proceedings and Note 20 of the Notes to Consolidated Financial Statements included in Item 8.

Valuation of Investments and Impairment of Securities

Invested assets are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the value of these assets, it is possible that changes in risks in the near term could have an adverse material impact on our results of operations or equity.

CNA’s investment portfolio is subject to market declines below book value that may be other-than-temporary. CNA has an Impairment Committee, which reviews the investment portfolio on a quarterly basis, with ongoing analysis as new information becomes available. Any decline that is determined to be other-than-temporary is recorded as an other-than-temporary impairment loss in the results of operations in the period in which the determination occurred. Further information on CNA’s process for evaluating impairments is included in Note 2 of the Notes to Consolidated Financial Statements included under Item 8.

Securities in the parent company’s investment portfolio that are not part of its cash management activities are classified as trading securities in order to reflect our investment philosophy. These investments are carried at fair value with the net unrealized gain or loss included in the Consolidated Statements of Income.

Long Term Care Products

Reserves and deferred acquisition costs for CNA’s long term care products are based on certain assumptions including morbidity, policy persistency and interest rates. The recoverability of deferred acquisition costs and the adequacy of the reserves are contingent on actual experience related to these key assumptions and other factors such as future health care cost trends. If actual experience differs from these assumptions, the deferred acquisition costs may not be fully recovered and the reserves may not be adequate, requiring CNA to add to reserves, or take unfavorable development. Therefore, our financial results could be adversely impacted.

Pension and Postretirement Benefit Obligations

We are required to make a significant number of assumptions in order to estimate the liabilities and costs related to our pension and postretirement benefit obligations to employees under our benefit plans. The assumptions that have the most impact on pension costs are the discount rate, the expected return on plan assets and the rate of compensation increases. These assumptions are evaluated relative to current market factors such as inflation, interest rates and fiscal and monetary policies. Changes in these assumptions can have a material impact on pension obligations and pension expense.

In determining the discount rate assumption, we utilized current market information and liability information, including a discounted cash flow analysis of our pension and postretirement obligations. In particular, the basis for our discount rate selection was the yield on indices of highly rated fixed income debt securities with durations comparable to that of our plan liabilities. The Moody’s Aa Corporate Bond Index is consistently used as the basis for the change in discount rate from the last measurement date with this measure confirmed by the yield on other broad bond indices. In addition in 2005, we supplemented our discount rate decision with a yield curve analysis. The yield curve was applied to expected future retirement plan payments to adjust the discount rate to reflect the cash flow characteristics of the plans. The yield curve is a hypothetical double A yield curve represented by a series of annualized discount rates reflecting bond issues having a rating of Aa or better by Moody’s Investors Service, Inc. or a rating of AA or better by Standard & Poor’s.

Further information on our pension and postretirement benefit obligations is included in Note 17 of the Notes to Consolidated Financial Statements included under Item 8.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation (“CNA”). CNA is an 89% owned subsidiary.

CNA manages its property and casualty operations in two operating segments which represent CNA’s core operations: Standard Lines and Specialty Lines. The non-core operations are managed in the Life and Group Non-Core and Other Insurance segments. Standard Lines includes standard property and casualty coverages sold to small and middle market commercial businesses primarily through an independent agency distribution system, and excess and surplus lines, as well as insurance and risk management products sold to large corporations in the U.S., as well as globally. Specialty Lines includes professional, financial and specialty property and casualty products and services. Life and Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance includes the results of certain property and casualty lines of business placed in run-off, including CNA’s former assumed reinsurance business. This segment also includes the results related to the centralized adjusting and settlement of Asbestos, Environment Pollution and Mass Tort (“APMT”) claims as well as the results of CNA’s participation in voluntary insurance pools, which are primarily in run-off, and various other non-insurance operations.

Reserves - Estimates and Uncertainties

CNA maintains reserves to cover its estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled (“case reserves”) and claims that have been incurred but not reported (“IBNR”). Claim and claim adjustment expense reserves are reflected as liabilities and are included on the Consolidated Balance Sheets under the heading “Insurance Reserves.” Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined. The carried case and IBNR reserves are provided in the Segment Results section of this MD&A and in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

The level of reserves CNA maintains represents its best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on its assessment of facts and circumstances known at that time. Reserves are not an exact calculation of liability but instead are complex estimates that CNA derives, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain.

CNA’s experience has been that establishing reserves for casualty coverages relating to asbestos, environmental pollution and mass tort (“APMT”) claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Estimating the ultimate cost of both reported and unreported APMT claims is subject to a higher degree of variability due to a number of additional factors, including among others:

- coverage issues, including whether certain costs are covered under the policies and whether policy limits apply;

- inconsistent court decisions and developing legal theories;
- continuing aggressive tactics of plaintiffs' lawyers;
- the risks and lack of predictability inherent in major litigation;
- changes in the volume of APMT claims which cannot now be anticipated;
- the impact of the exhaustion of primary limits and the resulting increase in claims on any umbrella or excess policies CNA has issued;
- the number and outcome of direct actions against CNA; and
- CNA's ability to recover reinsurance for APMT claims.

It is also not possible to predict changes in the legal and legislative environment and the impact on the future development of APMT claims. This development will be affected by future court decisions and interpretations, as well as changes in applicable legislation. It is difficult to predict the ultimate outcome of large coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. A further uncertainty exists as to whether a national privately financed trust to replace litigation of asbestos claims with payments to claimants from the trust will be established and approved through federal legislation, and, if established and approved, whether it will contain funding requirements in excess of CNA's carried loss reserves.

Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimation techniques and methodologies, many of which involve significant judgments that are required of CNA management. For APMT, CNA regularly monitors its exposures, including reviews of loss activity, regulatory developments and court rulings. In addition, CNA performs a comprehensive ground-up analysis on its exposures annually. CNA's actuaries, in conjunction with its specialized claim unit, use various modeling techniques to estimate its overall exposure to known accounts. CNA uses this information and additional modeling techniques to develop loss distributions and claim reporting patterns to determine reserves for accounts that will report APMT exposure in the future. Estimating the average claim size requires analysis of the impact of large losses and claim cost trend based on changes in the cost of repairing or replacing property, changes in the cost of legal fees, judicial decisions, legislative changes, and other factors. Due to the inherent uncertainties in estimating reserves for APMT claim and claim adjustment expenses and the degree of variability due to, among other things, the factors described above, CNA may be required to record material changes in its claim and claim adjustment expense reserves in the future, should new information become available or other developments emerge. See the APMT Reserves section of this MD&A and Note 9 of the Notes to Consolidated Financial Statements included under Item 8 for additional information relating to APMT claims and reserves.

In addition, CNA is subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social and other environmental conditions change. These issues have had, and may continue to have, a negative effect on CNA's business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. Examples of emerging or potential claims and coverage issues include:

- increases in the number and size of claims relating to injuries from medical products;
- the effects of accounting and financial reporting scandals and other major corporate governance failures, which have resulted in an increase in the number and size of claims, including director and officer and errors and omissions insurance claims;

- class action litigation relating to claims handling and other practices;
- construction defect claims, including claims for a broad range of additional insured endorsements on policies;
- clergy abuse claims, including passage of legislation to reopen or extend various statutes of limitations; and
- mass tort claims, including bodily injury claims related to silica, welding rods, benzene, lead and various other chemical exposure claims.

The impact of these and other unforeseen emerging or potential claims and coverage issues is difficult to predict and could materially adversely affect the adequacy of CNA’s claim and claim adjustment expense reserves and could lead to future reserve additions. See the Segment Results sections of this MD&A and Note 9 of the Notes to Consolidated Financial Statements included under Item 8 for a discussion of changes in reserve estimates and the impact on our results of operations.

Establishing Reserve Estimates

In developing claim and claim adjustment expense (“loss” or “losses”) reserve estimates, CNA’s actuaries perform detailed reserve analyses that are staggered throughout the year. The data is organized at a “product” level. A product can be a line of business covering a subset of insureds such as commercial automobile liability for small and middle market customers, it can encompass several lines of business provided to a specific set of customers such as dentists, or it can be a particular type of claim such as construction defect. Every product is analyzed at least once during the year, and many products are analyzed multiple times. The analyses generally review losses gross of ceded reinsurance and apply the ceded reinsurance terms to the gross estimates to establish estimates net of reinsurance. In addition to the detailed analyses, CNA reviews actual loss emergence for all products each quarter.

The detailed analyses use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. CNA determines a point estimate of ultimate loss by reviewing the various estimates and assigning weight to each estimate given the characteristics of the product being reviewed. The reserve estimate is the difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is IBNR. IBNR calculated as such includes a provision for development on known cases (supplemental development) as well as a provision for claims that have occurred but have not yet been reported (pure IBNR).

Most of CNA’s business can be characterized as long-tail. For long tail business, it will generally be several years between the time the business is written and the time when all claims are settled. CNA’s long-tail exposures include commercial automobile liability, workers’ compensation, general liability, medical malpractice, other professional liability coverages, assumed reinsurance run-off and products liability. Short-tail exposures include property, commercial automobile physical damage, marine and warranty. Each of CNA’s property/casualty segments, Standard Lines, Specialty Lines and Other Insurance, contain both long-tail and short-tail exposures.

The methods used to project ultimate loss for both long-tail and short-tail exposures include, but are not limited to, the following:

- Paid Development,
- Incurred Development,
- Loss Ratio,
- Bornhuetter-Ferguson Using Premiums and Paid Loss,
- Bornhuetter-Ferguson Using Premiums and Incurred Loss, and
- Average Loss.

The paid development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident years with further expected changes in paid loss. Selection of the paid loss pattern requires analysis of several factors including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself requires evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

For many products, paid loss data for recent periods may be too immature or erratic for accurate predictions. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail products such as workers' compensation.

The incurred development method is similar to the paid development method, but it uses case incurred losses instead of paid losses. Since the method uses more data (case reserves in addition to paid losses) than the paid development method, the incurred development patterns may be less variable than paid patterns. However, selection of the incurred loss pattern requires analysis of all of the factors above. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place, and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available.

The loss ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses. The selection of the expected loss ratio requires analysis of loss ratios from earlier accident years or pricing studies and analysis of inflationary trends, frequency trends, rate changes, underwriting changes, and other applicable factors.

The Bornhuetter-Ferguson using premiums and paid loss method is a combination of the paid development approach and the loss ratio approach. The method normally determines expected loss ratios similar to the approach used to estimate the expected loss ratio for the loss ratio method and requires analysis of the same factors described above. The method assumes that only future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the paid development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the paid development method requires consideration of all factors listed in the description of the paid development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each year. This method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the expected loss ratio calculation.

The Bornhuetter-Ferguson using premiums and incurred loss method is similar to the Bornhuetter-Ferguson using premiums and paid loss method except that it uses case incurred losses. The use of case incurred losses instead of paid losses can result in development patterns that are less variable than paid patterns. However, the inclusion of case reserves can lead to distortions if changes in case reserving have taken place, and the method requires analysis of all the factors that need to be reviewed for the loss ratio and incurred development methods.

The average loss method multiplies a projected number of ultimate claims by an estimated ultimate average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for products where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that impact the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims requires analysis of several factors including the rate at which policyholders report claims to us, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss requires analysis of the impact of large losses and claim cost trend based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

For other more complex products where the above methods may not produce reliable indications, CNA uses additional methods tailored to the characteristics of the specific situation. Such products include construction defect losses and APMT.

For construction defect losses, CNA’s actuaries organize losses by report year. Report year groups claims by the year in which they were reported. To estimate losses from claims that have not been reported, various extrapolation techniques are applied to the pattern of claims that have been reported to estimate the number of claims yet to be reported. This process requires analysis of several factors including the rate at which policyholders report claims to CNA, the impact of judicial decisions, the impact of underwriting changes and other factors. An average claim size is determined from past experience and applied to the number of unreported claims to estimate reserves for these claims.

For many exposures, especially those that can be considered long-tail, a particular accident year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, CNA’s actuaries typically assign more weight to the incurred development method than to the paid development method. As claims continue to settle and the volume of paid loss increases, the actuaries may assign additional weight to the paid development method. For most of CNA’s products, even the incurred losses for accident years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, CNA will not assign any weight to the paid and incurred development methods. CNA will use loss ratio, Bornhuetter-Ferguson and average loss methods. For short-tail exposures, the paid and incurred development methods can often be relied on sooner primarily because our history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, CNA may also use loss ratio, Bornhuetter-Ferguson and average loss methods for short-tail exposures.

Periodic Reserve Reviews

The reserve analyses performed by CNA’s actuaries result in point estimates. Each quarter, the results of the detailed reserve reviews are summarized and discussed with CNA senior management to determine the best estimate of reserves. This group considers many factors in making this decision. The factors include, but are not limited to, the historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and incurred loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, and overall pricing and underwriting trends in the insurance market.

CNA’s recorded reserves reflect its best estimate as of a particular point in time based upon known facts, current law and our judgment. The carried reserve may differ from the actuarial point estimate as the result of CNA’s consideration of the factors noted above as well as the potential volatility of the projections associated with the specific product being analyzed and other factors impacting claims costs that may not be quantifiable through actuarial analysis. This process results in CNA management’s best estimate which is then recorded as the loss reserve.

Currently, CNA’s reserves are slightly higher than the actuarial point estimate. CNA does not establish a specific provision for uncertainty. For Standard and Specialty Lines, the difference between CNA’s reserves and the actuarial point estimate is due to the two most recent complete accident years. The claim data from these accident years is very immature. CNA believes it is prudent to wait until actual experience confirms that the loss reserves should be adjusted. For Other Insurance, the carried reserve is slightly higher than the actuarial point estimate. While the actuarial estimates for APMT exposures reflect current knowledge, CNA feels it is prudent, based on the history of developments in this area, to reflect some margin in the carried reserve until the ultimate outcome of the issues associated with these exposures is clearer.

The key assumptions fundamental to the reserving process are often different for various products and accident years. Some of these assumptions are explicit assumptions that are required of a particular method, but most of the assumptions are implicit and cannot be precisely quantified. An example of an explicit assumption is the pattern employed in the paid development method. However, the assumed pattern is itself based on several implicit assumptions such as the impact of inflation on medical costs and the rate at which claim professionals close claims. As a result, the effect on reserve estimates of a particular change in assumptions usually cannot be specifically quantified, and changes in these assumptions cannot be tracked over time.

CNA’s recorded reserves are CNA management’s best estimate. In order to provide an indication of the variability associated with CNA’s net reserves, the following discussion provides a sensitivity analysis that shows the approximate estimated impact of variations in the most significant factor affecting CNA’s reserve estimates for particular types of business. These significant factors are the ones that could most likely materially impact the reserves. This discussion covers the major types of business for which CNA believes a material deviation to CNA's reserves is reasonably possible. There can be no assurance that actual experience will be consistent with the current assumptions or with the variation indicated by the discussion. In addition, there can be no assurance that other factors and assumptions will not have a material impact on CNA’s reserves.

Within Standard Lines, the two types of business for which CNA believes a material deviation to its net reserves is reasonably possible are workers’ compensation and general liability.

For Standard Lines workers’ compensation, since many years will pass from the time the business is written until all claim payments have been made, claim cost inflation on claim payments is the most significant factor affecting workers’ compensation reserve estimates. Workers’ compensation claim cost inflation is driven by the cost of medical care, the cost of wage replacement, expected claimant lifetimes, judicial decisions, legislative changes and other factors. If estimated workers’ compensation claim cost inflation increases by one point for the entire period over which claim payments will be made, CNA estimates that its net reserves would increase by approximately $500.0 million. If estimated workers’ compensation claim cost inflation decreases by one point for the entire period over which claim payments will be made, CNA estimates that its net reserves would decrease by approximately $450.0 million. CNA’s net reserves for Standard Lines workers’ compensation were approximately $4.4 billion at December 31, 2006.

For Standard Lines general liability, the predominant method used for estimating reserves is the incurred development method. Changes in the cost to repair or replace property, the cost of medical care, the cost of wage replacement, judicial decisions, legislation and other factors all impact the pattern selected in this method. The pattern selected results in the incurred development factor that estimates future changes in case incurred loss. If the estimated incurred development factor for general liability increases by 15.0%, CNA estimates that its net reserves would increase by approximately $370.0 million. If the estimated incurred development factor for general liability decreases by 13.0%, CNA estimates that its net reserves would decrease by approximately $320.0 million. CNA’s net reserves for Standard Lines general liability were approximately $4.0 billion at December 31, 2006.

Within Specialty Lines, CNA believes a material deviation to its net reserves is reasonably possible for the US Specialty Lines group. This group provides professional liability coverages to various professional firms, including architects, realtors, small and mid-sized accounting firms, law firms and technology firms. US Specialty Lines also provide D&O, employment practices, fiduciary and fidelity coverages. US Specialty Lines also offers insurance products to serve the healthcare delivery system. The most significant factor affecting US Specialty Lines reserve estimates is claim severity. Claim severity for US Specialty Lines is driven by the cost of medical care, the cost of wage replacement, legal fees, judicial decisions, legislation and other factors. Underwriting and claim handling decisions such as the classes of business written and individual claim settlement decisions can also impact claim severity. If the estimated claim severity for US Specialty Lines increases by 7.0%, CNA estimates that US Specialty Lines net reserves would increase by approximately $270.0 million. If the estimated claim severity for US Specialty Lines decreases by 3.0%, CNA estimates that US Specialty Lines net reserves would decrease by approximately $110.0 million. CNA’s net reserves for US Specialty Lines were approximately $3.9 billion at December 31, 2006.

Within Other Insurance, the two types of business for which CNA believes a material deviation to its net reserves is reasonably possible are CNA Re and APMT.

For CNA Re, the predominant method used for estimating reserves is the incurred development method. Changes in the cost to repair or replace property, the cost of medical care, the cost of wage replacement, the rate at which ceding companies report claims, judicial decisions, legislation and other factors all impact the incurred development pattern for CNA Re. The pattern selected results in the incurred development factor that estimates future changes in case incurred loss. If the estimated incurred development factor for CNA Re increases by 21.0%, CNA estimates that its net reserves for CNA Re would increase by approximately $150.0 million. If the estimated incurred development factor for CNA Re decreases by 21.0%, CNA estimates that it’s net reserves would decrease by approximately $150.0 million. CNA net reserves for CNA Re were approximately $1.2 billion at December 31, 2006.

For APMT, the most significant factor affecting reserve estimates is overall account size trend. Overall account size trend for APMT reflects the combined impact of economic trends (inflation), changes in the types of defendants involved, the expected mix of asbestos disease types, judicial decisions, legislation and other factors. If the estimated overall account size trend for APMT increases by 4 points, CNA estimates that its APMT net reserves would increase by approximately $700.0 million. If the estimated overall account size trend for APMT decreases by 4 points, CNA estimates that its APMT net reserves would decrease by approximately $400.0 million. CNA’s net reserves for APMT were approximately $1.9 billion at December 31, 2006.

Given the factors described above, it is not possible to quantify precisely the ultimate exposure represented by claims and related litigation. As a result, CNA regularly reviews the adequacy of its reserves and reassesses its reserve estimates as historical loss experience develops, additional claims are reported and settled and additional information becomes available in subsequent periods.

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, CNA reviews its reserve estimates on a regular basis and make adjustments in the period that the need for such adjustments is determined. These reviews have resulted in CNA’s identification of information and trends that have caused CNA to increase its reserves in prior periods and could lead to the identification of a need for additional material increases in claim and claim adjustment expense reserves, which could materially adversely affect CNA’s business and insurer financial strength and debt ratings and our results of operations and equity. See the Ratings section of this MD&A for further information regarding our financial strength and debt ratings.

Reinsurance

Due to significant catastrophes during 2005, the cost of CNA’s catastrophe reinsurance program has increased. CNA’s catastrophe reinsurance protection cost CNA premiums of approximately $64.0 million in 2005, including reinstatement premiums and cost approximately $79.0 million in 2006, which did not include any reinstatement premiums. During 2007, CNA’s catastrophe reinsurance program will cost $89.0 million before the impact of any reinstatement premiums.

The terms of CNA’s 2007 catastrophe programs are different than those of its 2006 programs. The Corporate Property Catastrophe treaty provides coverage for the accumulation of losses between $300.0 million and $1.0 billion arising out of a single catastrophe occurrence in the United States, its territories and possessions, and Canada. CNA’s co-participation is 50.0% of the first $100.0 million layer and 10.0% of the remaining layer. In addition, CNA previously purchased an aggregate property catastrophe treaty to obtain reinsurance protection against the aggregation of losses from multiple catastrophic events. CNA did not purchase an aggregate property catastrophe treaty for 2007.

In certain circumstances, including significant deterioration of a reinsurer’s financial strength ratings, CNA may engage in commutation discussions with individual reinsurers. The outcome of such discussions may result in a lump sum settlement that is less than the recorded receivable, net of any applicable allowance for doubtful accounts. Losses arising from commutations could have an adverse material impact on our results of operations or equity.

In 2001, CNA entered into a one-year corporate aggregate reinsurance treaty related to the 2001 accident year covering substantially all property and casualty lines of business in the Continental Casualty Company pool (the “CCC Cover”). The CCC Cover was fully utilized in 2003. In 2006, CNA commuted its CCC Cover. This commutation had no impact on the Consolidated Statements of Income for the year ended December 31, 2006.

Also in 2006, CNA commuted several reinsurance treaties, including several finite treaties, with a European reinsurance group. This commutation resulted in a pretax loss, net of allowance for uncollectible reinsurance, of $48.0 million. CNA received $35.0 million of cash in connection with this significant commutation.

As of December 31, 2006 and 2005, there were one and thirteen ceded reinsurance treaties inforce, respectively, that CNA considers to be finite reinsurance. In 2003, CNA discontinued purchases of such contracts. The remaining treaty at December 31, 2006 provides reinsurance protection for the 1999 accident year on specified portions of CNA’s domestic property and casualty business and is fully utilized. Therefore, CNA does not expect to cede any additional losses under finite reinsurance contracts in future periods nor incur interest costs.

Further information on CNA's reinsurance program is included in Note 18 of the Notes to Consolidated Financial Statements included under Item 8.

Terrorism Insurance

CNA and the insurance industry incurred substantial losses related to the 2001 World Trade Center event. The Terrorism Risk Insurance Act of 2002 ("TRIA") established a program within the Department of the Treasury under which insurers are required to offer terrorism insurance and the federal government will share the risk of loss by commercial property and casualty insurers arising from future terrorist attacks. Although TRIA expired on December 31, 2005, the Terrorism Risk Insurance Extension Act of 2005 ("TRIEA") extended this program through December 31, 2007 with changes such as the lines of business covered, the deductible amount that must be paid by the insurance company and the aggregate industry loss prior to federal government assistance becoming available.

While TRIEA provides the property and casualty industry with an increased ability to withstand the effect of a terrorist event through 2007, given the unpredictability of the nature, targets, severity or frequency of potential terrorist events, our results of operations or equity could nevertheless be materially adversely impacted by them. CNA is attempting to mitigate this exposure through its underwriting practices, as well as policy terms and conditions (where applicable). Under the laws of certain states, CNA is generally prohibited from excluding terrorism exposure from its primary workers' compensation policies. Further, in those states that mandate property insurance coverage of damage from fire following a loss, CNA is prohibited from excluding terrorism exposure.

Over the past several years, CNA has been underwriting its business to manage its terrorism exposure through strict underwriting standards, risk avoidance measures and conditional terrorism exclusions where permitted by law. There is substantial uncertainty as to CNA's ability to effectively contain its terrorism exposure since, notwithstanding the efforts described above, CNA continues to issue forms of coverage, in particular, workers' compensation, that are exposed to risk of loss from a terrorism event.

Restructuring

In 2001, CNA finalized and approved a plan related to restructuring the property and casualty segments and Life and Group Non-Core segment, discontinuation of the variable life and annuity business and consolidation of real estate locations. During 2006, CNA reevaluated the sufficiency of the remaining accrual, which related to lease termination costs, and determined that the liability is no longer required as CNA has completed its lease obligations. As a result, the excess remaining accrual was released in 2006, resulting in income of $7.3 million after-tax and minority interest for the year ended December 31, 2006.

Further information on the restructuring plan is included in Note 15 of the Notes to Consolidated Financial Statements included under Item 8.

Segment Results

The following discusses the results of operations for CNA's operating segments. CNA utilizes the net operating income financial measure to monitor its operations. Net operating income is calculated by excluding from net income the after-tax and minority interest effects of (1) net realized investment gains or losses, (2) income or loss from discontinued operations, and (3) cumulative effects of changes in accounting principles. In evaluating the results of the Standard Lines and Specialty Lines, CNA management utilizes the combined ratio, the loss ratio, the expense ratio and the dividend ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

Standard Lines

The following table summarizes the results of operations for Standard Lines for the years ended December 31, 2006, 2005 and 2004.

Year Ended December 31	**2006**	2005	2004
(In millions, except %)			
Net written premiums	**$ 4,433.0**	$ 4,382.0	$ 4,582.0
Net earned premiums	**4,413.0**	4,410.0	4,917.0
Net investment income	**990.6**	766.9	495.8
Net operating income (loss)	**557.9**	(37.7)	201.2
Net realized investment gains	**48.0**	8.5	126.2
Net income (loss)	**605.9**	(29.2)	327.4
Ratios:			
Loss and loss adjustment expense	**70.1%**	87.5%	70.8%
Expense	**31.1**	32.4	34.6
Dividend	**0.4**	0.4	0.2
Combined	**101.6%**	120.3%	105.6%

2006 Compared with 2005

Net written premiums for Standard Lines increased $51.0 million in 2006 as compared with 2005. This increase was primarily driven by favorable new business, rate and retention in the Property lines of business. Net earned premiums increased $3.0 million in 2006 as compared with 2005. Net earned premiums were impacted by decreased favorable premium development in 2006 as compared to 2005, as discussed below. CNA continues to focus on portfolio optimization.

Standard Lines averaged flat rates for 2006, as compared to average rate decreases of 1.0% for 2005 for the contracts that renewed during those periods. Retention rates of 81.0% and 77.0% were achieved for those contracts that were up for renewal in each period.

Net results increased $635.1 million in 2006 as compared with 2005. This increase was attributable to increases in net operating results and net realized investment gains. See the Investments section of this MD&A for further discussion of net investment income and net realized investment gains.

Net operating results increased $595.6 million in 2006 as compared with 2005. This increase was primarily driven by significantly reduced catastrophe losses in 2006, an increase in net investment income and a decrease in unfavorable net prior year development as discussed below. The 2006 net operating results included catastrophe impacts of $28.0 million after-tax and minority interest. The 2005 net operating results included catastrophe impacts of $290.3 million after-tax and minority interest related to Hurricanes Katrina, Wilma, Rita, Dennis and Ophelia, net of reinsurance recoveries.

The combined ratio improved 18.7 points in 2006 as compared with 2005. The loss ratio improved 17.4 points due to decreased unfavorable net prior year development as discussed below and decreased catastrophe losses in 2006. The 2006 and 2005 loss ratios included 1.3 and 11.1 points related to the impact of catastrophes.

The expense ratio improved 1.3 points in 2006 as compared with 2005. This improvement was primarily due to a decrease in the provision for insurance bad debt. In addition, the 2005 ratio included increased ceded commissions as a result of an unfavorable arbitration ruling related to two reinsurance treaties. Changes in estimates for premium taxes partially offset these favorable impacts.

Unfavorable net prior year development of $69.0 million was recorded in 2006, including $157.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $88.0 million of favorable premium development. Unfavorable net prior year development of $452.0 million, including $559.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $107.0 million of favorable premium development, was recorded in 2005. Further information on Standard Lines Net Prior Year Development for 2006 and 2005 is included in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

During 2006 and 2005, CNA commuted several significant reinsurance contracts that resulted in unfavorable development of $110.0 million and $285.0 million, which is included in the development above, and which was partially offset by the release of previously established allowance for uncollectible reinsurance. These commutations resulted in an unfavorable after-tax and minority interest impact of $28.0 million and $157.9 million in 2006 and 2005. Several of the commuted contracts contained interest crediting provisions. The interest charges associated with the reinsurance contracts commuted were $8.1 million and $31.9 million after-tax and minority interest in 2006 and 2005. The 2005 amount includes the interest charges associated with the contract commuted in 2006. There will be no further interest crediting charges related to these commuted contracts in future periods.

The following table summarizes the gross and net carried reserves as of December 31, 2006 and 2005 for Standard Lines.

December 31		**2006**		2005
(In millions)				
Gross Case Reserves	**$**	**6,746.0**	$	7,033.0
Gross IBNR Reserves		**8,188.0**		8,051.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$**	**14,934.0**	$	15,084.0
Net Case Reserves	**$**	**5,234.0**	$	5,165.0
Net IBNR Reserves		**6,632.0**		6,081.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$**	**11,866.0**	$	11,246.0

2005 Compared with 2004

Net written premiums for Standard Lines decreased $200.0 million in 2005 as compared with 2004. This decrease was primarily driven by decreased premium writings in our casualty lines of business, increased reinstatement premium in 2005 related to catastrophe losses and decreased rates as discussed further below. Net earned premiums decreased $507.0 million in 2005 as compared with 2004. This decrease was primarily driven by the decline in premiums written. The lower premium is consistent with CNA's strategy of portfolio optimization. CNA's priority is a diversified portfolio in profitable classes of business.

Standard Lines averaged rate decreases of 1.0% for 2005, as compared to average rate increases of 4.0% for 2004 for the contracts that renewed during those periods. Retention rates of 77.0% and 70.0% were achieved for those contracts that were up for renewal in each period.

Net results decreased $356.6 million in 2005 as compared with 2004. This decrease was attributable to declines in both net operating results and net realized investment results. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating results decreased $238.9 million in 2005 as compared with 2004. This decrease was due primarily to increased unfavorable net prior year development of $257.3 million after-tax and minority interest including $168.8 million after-tax and minority interest related to significant commutations in 2005, a $123.2 million after-tax and minority interest increase in catastrophe losses, the decreased earned premium as discussed above and decreased current accident year results. These unfavorable items were partially offset by a $271.1 million increase in net investment income and a decrease in the provision for insurance bad debt.

Unfavorable net prior year development of $452.0 million was recorded in 2005, including $559.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $107.0 million of favorable premium development. Unfavorable net prior year development of $18.0 million, including $115.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $97.0 million of favorable premium development, was recorded in 2004. Further information on Standard Lines Net Prior Year Development for 2005 and 2004 is included in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

During 2005 and 2004, CNA commuted several significant reinsurance contracts that resulted in unfavorable development of $285.0 million and $5.0 million, which is included in the development above, and which was partially offset by the release of previously established allowance for uncollectible reinsurance. These commutations resulted in an unfavorable impact of $157.9 million after-tax and minority interest and favorable impact of $3.7 million after-tax and minority interest in 2005 and 2004. These contracts contained interest crediting provisions. The interest charges associated with the reinsurance contracts commuted were $42.0 million and $110.0 million in 2005 and 2004. There will be no further interest crediting charges related to these commuted contracts in future periods.

The impact of catastrophes was $290.3 million and $167.0 million after-tax and minority interest for 2005 and 2004, net of anticipated reinsurance recoveries.

The combined ratio increased 14.7 points in 2005 as compared with 2004. The loss ratio increased 16.7 points in 2005 as compared with 2004. These increases were primarily due to increased net prior year development, increased catastrophe losses and decreased current accident year results. Catastrophe losses of $470.0 million and $260.0 million were recorded in 2005 and 2004.

The expense ratio improved 2.2 points in 2005 as compared with 2004. This improvement was primarily due to a decrease in the provision for insurance bad debt.

The dividend ratio increased 0.2 points in 2005 as compared with 2004. The 2004 ratio was impacted by favorable dividend development, partially offset by decreased participation in dividend plans and lower dividend amounts related to the current accident year.

Specialty Lines

The following table summarizes the results of operations for Specialty Lines for the years ended December 31, 2006, 2005 and 2004.

Year Ended December 31	**2006**	2005	2004
(In millions, except %)			
Net written premiums	**$ 2,596.0**	$ 2,463.0	$ 2,391.0
Net earned premiums	**2,555.0**	2,475.0	2,277.0
Net investment income	**403.1**	281.3	245.5
Net operating income	**419.3**	306.7	295.3
Net realized investment gains	**16.2**	10.7	49.6
Net income	**435.5**	317.4	344.9
Ratios:			
Loss and loss adjustment expense	**60.5%**	65.3%	63.3%
Expense	**26.7**	26.1	26.1
Dividend	**0.2**	0.2	0.2
Combined	**87.4%**	91.6%	89.6%

2006 Compared with 2005

Net written premiums for Specialty Lines increased $133.0 million in 2006 as compared with 2005. This increase was primarily due to improved production across certain lines of business. Net earned premiums increased $80.0 million in 2006 as compared with 2005, consistent with the increased premium written.

Specialty Lines averaged flat rates for 2006, as compared to average rate increases of 1.0% for 2005 for the contracts that renewed during those periods. Retention rates of 87.0% and 86.0% were achieved for those contracts that were up for renewal in each period.

Net income increased $118.1 million in 2006 as compared with 2005. This increase was attributable to increases in net operating income and realized investment gains. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $112.6 million in 2006 as compared with 2005. This improvement was primarily driven by an increase in net investment income, a decrease in net prior year development as discussed below and reduced catastrophe impacts in 2006. Catastrophe impacts were $0.9 million after-tax and minority interest for the year ended December 31, 2006, as compared to $14.6 million after-tax and minority interest for the year ended December 31, 2005. Also, the 2005 results included a $53.9 million loss, after taxes and minority interests, in the surety line of business related to a large national contractor. Further information related to the large national contractor is included in Note 21 of the Notes to Consolidated Financial Statements included under Item 8.

The combined ratio improved 4.2 points in 2006 as compared with 2005. The loss ratio improved 4.8 points, due to improved current accident year impacts and decreased net prior year development as discussed below. The 2005 loss ratio was unfavorably impacted by surety losses of $110.0 million, before taxes and minority interest, related to a national contractor as discussed above. Partially offsetting this favorable impact was less favorable current accident year loss ratios across several other lines of business in 2006.

Unfavorable net prior year development of $15.0 million was recorded in 2006, including $10.0 million of favorable claim and allocated claim adjustment expense reserve development and $25.0 million of unfavorable premium development. Unfavorable net prior year development of $54.0 million, including $47.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $7.0 million of unfavorable premium development, was recorded in 2005. Further information on Specialty Lines Net Prior Year Development for 2006 and 2005 is included in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

The following table summarizes the gross and net carried reserves as of December 31, 2006 and 2005 for Specialty Lines.

December 31		**2006**		2005
(In millions)				
Gross Case Reserves	**$**	**1,715.0**	$	1,907.0
Gross IBNR Reserves		**3,814.0**		3,298.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$**	**5,529.0**	$	5,205.0
Net Case Reserves	**$**	**1,350.0**	$	1,442.0
Net IBNR Reserves		**2,921.0**		2,352.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$**	**4,271.0**	$	3,794.0

2005 Compared with 2004

Net written premiums for Specialty Lines increased $72.0 million in 2005 as compared with 2004. This increase was primarily due to improved retention across most professional liability insurance lines of business. These favorable impacts were partially offset by increased ceded premiums for certain professional liability lines of business and decreased premiums for the warranty business. Due to a change in 2005 in the warranty product offering, fees related to the new warranty product are included within other revenues. Written premiums for the warranty line of business decreased $70.0 million in 2005 as compared to 2004. Net earned premiums increased $198.0 million in 2005 as compared with 2004, which reflects the increased premium written trend over several prior quarters in Specialty Lines.

Specialty Lines averaged rate increases of 1.0% and 9.0% in 2005 and 2004 for the contracts that renewed during those periods. Retention rates of 86.0% and 83.0% were achieved for those contracts that were up for renewal in each period.

Net income decreased $27.5 million in 2005 as compared with 2004. This decrease was due primarily to a $38.9 million decrease in net realized investment gains partially offset by increased net operating income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $11.4 million in 2005 as compared with 2004. This increase was primarily driven by an increase in net investment income and increased earned premiums. These increases to operating income were partially offset by decreased current accident year results. Additionally, 2004 results were favorably impacted by the release of a previously established reinsurance bad debt allowance as the result of a significant commutation. Catastrophe impacts were $14.6 million and $10.0 million after-tax and minority interest for the years ended December 31, 2005 and 2004.

The combined ratio increased 2.0 points in 2005 as compared with 2004. The loss ratio increased 2.0 points. The 2004 loss ratio was favorably impacted by the release of reinsurance bad debt reserve as discussed above. Additionally, the 2005 loss ratio was unfavorably impacted by increased current year accident losses. This was driven by increased surety losses of $110.0 million related to a national contractor, before taxes and minority interest, as discussed in further detail in Note 21 of the Consolidated Financial Statements included under Item 8, partially offset by improved current accident year loss ratios in several professional liability lines of business.

Unfavorable net prior year development of $54.0 million was recorded in 2005, including $47.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $7.0 million of unfavorable premium development. Unfavorable net prior year development of $30.0 million, including $58.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $28.0 million of favorable premium development, was recorded in 2004. Further information on Specialty Lines Net Prior Year Development for 2005 and 2004 is included in Note 9 of the Consolidated Financial Statements included under Item 8.

The expense ratio was the same in 2005 as compared with 2004. The 2005 ratio was impacted by a change in estimate related to profit commissions in the warranty line of business, which was offset by the impact of the increased earned premium base.

Life and Group Non-Core

The following table summarizes the results of operations for Life and Group Non-Core.

Year Ended December 31	**2006**	2005	2004
(In millions)			
Net earned premiums	**$ 641.0**	$ 704.0	$ 921.0
Net investment income	**698.3**	593.4	691.8
Net operating loss	**(12.9)**	(46.7)	(26.2)
Net realized investment losses	**(29.9)**	(17.6)	(349.0)
Net income (loss)	**(42.8)**	(64.3)	(375.2)

2006 Compared with 2005

Net earned premiums for Life and Group Non-Core decreased $63.0 million in 2006 as compared with 2005. The 2006 and 2005 net earned premiums relate primarily to the group and individual long term care businesses.

Net results increased $21.5 million in 2006 as compared with 2005, driven by increased net investment income. A significant portion of the increase in net investment income was offset by a corresponding increase in the policyholders’ funds reserves supported by the trading portfolio. The portion not offset by the policyholders’ funds reserves increased by $22.6 million. Also impacting net results was $13.6 million of income related to the resolution of contingencies and the absence of a $15.4 million provision recorded in 2005 for estimated indemnification liabilities related to the sold individual life business. Partially offsetting these favorable impacts were increased net realized investment losses and the absence of income related to agreements with buyers of sold businesses which ended as of December 31, 2005. In addition, the 2005 net results included a change in estimate, which reduced a prior accrual of state premium taxes. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

2005 Compared with 2004

Net earned premiums for Life and Group Non-Core decreased $217.0 million in 2005 as compared with 2004. The premiums in 2004 include $115.0 million from the individual life business and $165.0 million from the specialty medical business.

Net results improved by $310.9 million in 2005 as compared with 2004. The improvement in net results related primarily to a $352.9 million realized loss on the sale of the individual life business in 2004. Also contributing to the improvement in net results was the reduction in 2005 of significant 2004 items related to certain assumed reinsurance exposures. Additionally, 2005 results included $11.9 million income related to a service agreement with a purchaser for sold businesses. These agreements have expired. These results were partially offset by a decline in net investment income of $98.4 million. This included a decrease of approximately $64.0 million from the trading portfolio which was largely offset by a corresponding decrease in the policyholders' funds reserves supported by the trading portfolio. In addition, it included the absence of favorable results from sold insurance operations. Also unfavorably impacting the 2005 results was a $15.3 million provision increase for estimated indemnification liabilities related to the sold individual life business and unfavorable results related to the long term care business. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Other Insurance

The following table summarizes the results of operations for the Other Insurance segment, including APMT and intrasegment eliminations.

Year Ended December 31	**2006**	2005	2004
(In millions)			
Net investment income	**$ 320.1**	$ 250.3	$ 246.4
Revenues	**312.1**	313.8	358.2
Net operating income	**14.0**	24.4	91.8
Net realized investment gains (losses)	**28.6**	(8.5)	36.1
Net income	**42.6**	15.9	127.9

2006 Compared with 2005

Revenues decreased $1.7 million in 2006 as compared with 2005. Revenues in 2006 and 2005 included interest income related to federal income tax settlements of $4.0 million and $121.0 million as further discussed in Note 11 of the Notes to Consolidated Financial Statements included under Item 8. This decrease was substantially offset by increased net investment income and improved realized investment results. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net results increased $26.7 million in 2006 as compared with 2005. The improvement was primarily driven by a decrease in unfavorable net prior year development as discussed further below. Offsetting this favorable impact was an increase in current accident year losses related to mass torts, discontinuation of royalty income related to a sold business and increased interest costs related to the issuance of $750.0 million of senior notes in August of 2006.

Unfavorable net prior year development of $88.0 million was recorded during 2006, including $86.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $2.0 million of unfavorable premium development. Unfavorable net prior year development of $306.0 million was recorded in 2005, including $291.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $15.0 million of unfavorable premium development. Further information on Corporate and Other Non-Core's Net Prior Year Development for 2006 and 2005 is included in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

The following table summarizes the gross and net carried reserves as of December 31, 2006 and 2005 for the Other Insurance segment.

December 31	**2006**	2005
(In millions)		
Gross Case Reserves	**$ 2,511.0**	$ 3,297.0
Gross IBNR Reserves	**3,528.0**	4,075.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 6,039.0**	$ 7,372.0
Net Case Reserves	**$ 1,453.0**	$ 1,554.0
Net IBNR Reserves	**1,999.0**	1,902.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 3,452.0**	$ 3,456.0

2005 Compared with 2004

Revenues decreased $44.4 million in 2005 as compared with 2004. The decrease in revenues was primarily due to reduced net earned premiums in CNA Re of $134.0 million due to the exit from the assumed reinsurance business in 2003 and decreased net realized investment results. Partially offsetting these decreases was $121.0 million of interest income related to a federal income tax settlement. See Note 11 of the Notes to Consolidated Financial Statements included under Item 8 for further information.

Net results decreased $112.0 million in 2005 as compared with 2004. The decrease in net results was primarily due to a $126.9 million after-tax and minority interest increase in unfavorable net prior year development related primarily to commutations and reserve strengthening, a $44.6 million decrease in net realized investment results and a decrease in the provision recorded for uncollectible reinsurance. Net realized investment results for the year ended December 31, 2005 and 2004 included a $20.1 million and $32.9 million after-tax and minority interest impairment related to a national contractor. See Note 21 of the Notes to Consolidated Financial Statements included under Item 8 for additional information regarding the national contractor. Partially offsetting these decreases was a $105.0 million after-tax and minority interest benefit related to a federal income tax settlement and release of federal income tax reserves.

Unfavorable net prior year development of $306.0 million was recorded during 2005, including $291.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $15.0 million of unfavorable premium development. Unfavorable net prior year development of $93.0 million was recorded in 2004, including $84.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $9.0 million of unfavorable premium development. Further information on Corporate and Other Non-Core’s Net Prior Year Development for 2005 and 2004 is included in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

During 2005 and 2004, CNA commuted several significant reinsurance contracts that resulted in unfavorable development of $118.0 million and $39.0 million, which is included in the development above, and which was partially offset by the release in 2004 of a previously established allowance for uncollectible reinsurance. These commutations resulted in unfavorable impacts of $64.8 million and $4.6 million after-tax and minority interest in 2005 and 2004. These contracts contained interest crediting provisions and maintenance charges. Interest charges associated with the reinsurance contracts commuted were $11.9 million and $10.0 million after-tax and minority interest in 2005 and 2004. There will be no further interest crediting charges or other charges related to these commuted contracts in future periods.

APMT Reserves

CNA’s property and casualty insurance subsidiaries have actual and potential exposures related to APMT claims.

Establishing reserves for APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial, and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimating techniques and methodologies, many of which involve significant judgments that are required on our part. Accordingly, a high degree of uncertainty remains for CNA's ultimate liability for APMT claim and claim adjustment expenses.

In addition to the difficulties described above, estimating the ultimate cost of both reported and unreported APMT claims is subject to a higher degree of variability due to a number of additional factors, including among others: the number and outcome of direct actions against CNA; coverage issues, including whether certain costs are covered under the policies and whether policy limits apply; allocation of liability among numerous parties, some of whom may be in bankruptcy proceedings, and in particular the application of "joint and several" liability to specific insurers on a risk; inconsistent court decisions and developing legal theories; continuing aggressive tactics of plaintiffs' lawyers; the risks and lack of predictability inherent in major litigation; enactment of state and federal legislation to address asbestos claims; the potential for increases and decreases in asbestos, environmental pollution and mass tort claims which cannot now be anticipated; the potential for increases and decreases in costs to defend asbestos, pollution and mass tort claims; the possibility of expanding theories of liability against CNA's policyholders in environmental and mass tort matters; possible exhaustion of underlying umbrella and excess coverage; and future developments pertaining to CNA's ability to recover reinsurance for asbestos, pollution and mass tort claims.

Due to the inherent uncertainties in estimating claim and claim adjustment expense reserves for APMT and due to the significant uncertainties described related to APMT claims, CNA's ultimate liability for these cases, both individually and in aggregate, may exceed the recorded reserves. Any such potential additional liability, or any range of potential additional amounts, cannot be reasonably estimated currently, but could be material to CNA's business, insurer financial strength and debt ratings and our results of operations and equity. Due to, among other things, the factors described above, it may be necessary for CNA to record material changes in its APMT claim and claim adjustment expense reserves in the future, should new information become available or other developments emerge.

CNA has annually performed ground up reviews of all open APMT claims to evaluate the adequacy of its APMT reserves. In performing the comprehensive ground up analysis, CNA considers input from its professionals with direct responsibility for the claims, inside and outside counsel with responsibility for its representation and its actuarial staff. These professionals consider, among many factors, the policyholder's present and predicted future exposures, including such factors as claims volume, trial conditions, prior settlement history, settlement demands and defense costs; the impact of asbestos defendant bankruptcies on the policyholder; facts or allegations regarding the policies CNA issued or are alleged to have issued, including such factors as aggregate or per occurrence limits, whether the policy is primary, umbrella or excess, and the existence of policyholder retentions and/or deductibles; the policyholders' allegations; the existence of other insurance; and reinsurance arrangements.

Further information on APMT Net Prior Year Development is included in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

The following table provides data related to CNA's APMT claim and claim adjustment expense reserves.

December 31	**2006**		2005	
	Asbestos	**Environmental Pollution and Mass Tort**	Asbestos	Environmental Pollution and Mass Tort
(In millions)				
Gross reserves	**$ 2,635.0**	**$ 647.0**	$ 2,992.0	$ 680.0
Ceded reserves	**(1,183.0)**	**(231.0)**	(1,438.0)	(257.0)
Net reserves	**$ 1,452.0**	**$ 416.0**	$ 1,554.0	$ 423.0

Asbestos

In the past several years, CNA has experienced, at certain points in time, significant increases in claim counts for asbestos-related claims. The factors that led to these increases included, among other things, intensive advertising campaigns by lawyers for asbestos claimants, mass medical screening programs sponsored by plaintiff lawyers and the addition of new defendants such as the distributors and installers of products containing asbestos. In recent years, the rate of new filings has decreased. Various challenges to mass screening claimants have been successful. Historically, the majority of asbestos bodily injury claims have been filed by persons exhibiting few, if any, disease symptoms. Studies have concluded that the percentage of unimpaired claimants to total claimants ranges between 66.0% and up to 90.0%. Some courts and some state statutes mandate that so-called “unimpaired” claimants may not recover unless at some point the claimant’s condition worsens to the point of impairment. Some plaintiffs classified as “unimpaired” continue to challenge those orders and statutes. Therefore, the ultimate impact of the orders and statutes on future asbestos claims remains uncertain.

Several factors are, in CNA’s view, negatively impacting asbestos claim trends. Plaintiff attorneys who previously sued entities that are now bankrupt continue to seek other viable targets. As a result, companies with few or no previous asbestos claims are becoming targets in asbestos litigation and, although they may have little or no liability, nevertheless must be defended. Additionally, plaintiff attorneys and trustees for future claimants are demanding that policy limits be paid lump-sum into the bankruptcy asbestos trusts prior to presentation of valid claims and medical proof of these claims. Various challenges to these practices have succeeded in litigation, and are continuing to be litigated. Plaintiff attorneys and trustees for future claimants are also attempting to devise claims payment procedures for bankruptcy trusts that would allow asbestos claims to be paid under lax standards for injury, exposure and causation. This also presents the potential for exhausting policy limits in an accelerated fashion. Challenges to these practices are being mounted, though the ultimate impact or success of these tactics remains uncertain.

As a result of bankruptcies and insolvencies, CNA had in the past observed an increase in the total number of policyholders with current asbestos claims as additional defendants are added to existing lawsuits and are named in new asbestos bodily injury lawsuits. During the last few years the rate of new bodily injury claims had moderated, and most recently the new claims filing rate has decreased although the number of policyholders claiming coverage for asbestos related claims has remained relatively constant in the past several years.

CNA has resolved a number of its large asbestos accounts by negotiating settlement agreements. Structured settlement agreements provide for payments over multiple years as set forth in each individual agreement.

In 1985, 47 asbestos producers and their insurers, including The Continental Insurance Company (“CIC”), executed the Wellington Agreement. The agreement was intended to resolve all issues and litigation related to coverage for asbestos exposures. Under this agreement, signatory insurers committed scheduled policy limits and made the limits available to pay asbestos claims based upon coverage blocks designated by the policyholders in 1985, subject to extension by policyholders. CIC was a signatory insurer to the Wellington Agreement.

CNA has also used coverage in place agreements to resolve large asbestos exposures. Coverage in place agreements are typically agreements between CNA and its policyholders identifying the policies and the terms for payment of asbestos related liabilities. Claims payments are contingent on presentation of adequate documentation showing exposure during the policy periods and other documentation supporting the demand for claims payment. Coverage in place agreements may have annual payment caps. Coverage in place agreements are evaluated based on claims filings trends and severities.

CNA categorizes active asbestos accounts as large or small accounts. CNA defines a large account as an active account with more than $100,000 of cumulative paid losses. CNA has made closing large accounts a significant management priority. Small accounts are defined as active accounts with $100,000 or less of cumulative paid losses. Approximately 79.6% and 81.0% of CNA’s total active asbestos accounts are classified as small accounts at December 31, 2006 and 2005.

CNA also evaluates its asbestos liabilities arising from its assumed reinsurance business and its participation in various pools, including Excess & Casualty Reinsurance Association (“ECRA”).

IBNR reserves relate to potential development on accounts that have not settled and potential future claims from unidentified policyholders.

The tables below depict CNA's overall pending asbestos accounts and associated reserves at December 31, 2006 and 2005.

December 31, 2006	**Number of Policyholders**	**Net Paid (Recovered) Losses**	**Net Asbestos Reserves**	**Percent of Asbestos Net Reserves**
(In millions of dollars)				
Policyholders with settlement agreements				
Structured settlements	**15**	**$ 22.0**	**$ 171.0**	**11.8%**
Wellington	**3**	**(1.0)**	**14.0**	**1.0**
Coverage in place	**37**	**(18.0)**	**79.0**	**5.4**
Fibreboard	**1**		**53.0**	**3.6**
Total with settlement agreements	**56**	**3.0**	**317.0**	**21.8**
Other policyholders with active accounts				
Large asbestos accounts	**220**	**76.0**	**254.0**	**17.5**
Small asbestos accounts	**1,080**	**17.0**	**101.0**	**7.0**
Total other policyholders	**1,300**	**93.0**	**355.0**	**24.5**
Assumed reinsurance and pools		**6.0**	**141.0**	**9.7**
Unassigned IBNR			**639.0**	**44.0**
Total	**1,356**	**$ 102.0**	**$ 1,452.0**	**100.0%**

December 31, 2005				
Policyholders with settlement agreements				
Structured settlements	13	$ 30.0	$ 167.0	10.7%
Wellington	4	2.0	15.0	1.0
Coverage in place	34	13.0	58.0	3.7
Fibreboard	1		54.0	3.5
Total with settlement agreements	52	45.0	294.0	18.9
Other policyholders with active accounts				
Large asbestos accounts	199	68.0	273.0	17.6
Small asbestos accounts	1,073	23.0	135.0	8.7
Total other policyholders	1,272	91.0	408.0	26.3
Assumed reinsurance and pools		6.0	143.0	9.2
Unassigned IBNR			709.0	45.6
Total	1,324	$ 142.0	$ 1,554.0	100.0%

Some asbestos-related defendants have asserted that their insurance policies are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called "non-products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non-products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non-products" claims outside the products liability aggregate will succeed. CNA's policies also contain other limits applicable to these claims and CNA has additional coverage defenses to certain claims. CNA has attempted to manage its asbestos exposure by aggressively seeking to settle claims on acceptable terms. There can be no assurance that any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to CNA. Where CNA cannot settle a claim on acceptable terms, CNA aggressively litigates the claim. However, adverse developments with respect to such matters could have a material adverse effect on our results of operations and/or equity.

As a result of the uncertainties and complexities involved, reserves for asbestos claims cannot be estimated with traditional actuarial techniques that rely on historical accident year loss development factors. In establishing asbestos reserves, CNA evaluates the exposure presented by each insured. As part of this evaluation, CNA considers the available insurance coverage; limits and deductibles; the potential role of other insurance, particularly underlying coverage below any of its excess liability policies; and applicable coverage defenses, including asbestos exclusions. Estimation of asbestos-related claim and claim adjustment expense reserves involves a high degree of judgment on CNA's part and consideration of many complex factors, including: inconsistency of court decisions, jury attitudes and future court decisions; specific policy provisions; allocation of liability among insurers and insureds; missing policies and proof of coverage; the proliferation of bankruptcy proceedings and attendant uncertainties; novel theories asserted by policyholders and their counsel; the targeting of a broader range of businesses and entities as defendants; the uncertainty as to which other insureds may be targeted in the future and the uncertainties inherent in predicting the number of future claims; volatility in claim numbers and settlement demands; increases in the number of non-impaired claimants and the extent to which they can be precluded from making claims; the efforts by insureds to obtain coverage not subject to aggregate limits; long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims; medical inflation trends; the mix of asbestos-related diseases presented and the ability to recover reinsurance.

CNA is involved in significant asbestos-related claim litigation, which is described in Note 9 of the Notes to Consolidated Financial Statements included under Item 8.

Environmental Pollution and Mass Tort

Environmental pollution cleanup is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to cleanup. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfunds") govern the cleanup and restoration of toxic waste sites and formalize the concept of legal liability for cleanup and restoration by "Potentially Responsible Parties" ("PRPs"). Superfund and the mini-Superfunds establish mechanisms to pay for cleanup of waste sites if PRPs fail to do so and assign liability to PRPs. The extent of liability to be allocated to a PRP is dependent upon a variety of factors. Further, the number of waste sites subject to cleanup is unknown. To date, approximately 1,500 cleanup sites have been identified by the Environmental Protection Agency ("EPA") and included on its National Priorities List ("NPL"). State authorities have designated many cleanup sites as well.

Many policyholders have made claims against CNA for defense costs and indemnification in connection with environmental pollution matters. The vast majority of these claims relate to accident years 1989 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form, which includes what is referred to in the industry as absolute pollution exclusion. CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether cleanup costs are considered damages under the policies, trigger of coverage, allocation of liability among triggered policies, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and the definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.

CNA has made resolution of large environmental pollution exposures a management priority. CNA has resolved a number of its large environmental accounts by negotiating settlement agreements. In its settlements, CNA sought to resolve those exposures and obtain the broadest release language to avoid future claims from the same policyholders seeking coverage for sites or claims that had not emerged at the time CNA settled with its policyholder. While the terms of each settlement agreement vary, CNA sought to obtain broad environmental releases that include known and unknown sites, claims and policies. The broad scope of the release provisions contained in those settlement agreements should, in many cases, prevent future exposure from settled policyholders. It remains uncertain, however, whether a court interpreting the language of the settlement agreements will adhere to the intent of the parties and uphold the broad scope of language of the agreements.

CNA classifies its environmental pollution accounts into several categories, which include structured settlements, coverage in place agreements and active accounts. Structured settlement agreements provide for payments over multiple years as set forth in each individual agreement.

CNA has also used coverage in place agreements to resolve pollution exposures. Coverage in place agreements are typically agreements between CNA and its policyholders identifying the policies and the terms for payment of pollution related liabilities. Claims payments are contingent on presentation of adequate documentation of damages during the policy periods and other documentation supporting the demand for claims payment. Coverage in place agreements may have annual payment caps.

CNA categorizes active accounts as large or small accounts in the pollution area. CNA defines a large account as an active account with more than $100,000 cumulative paid losses. CNA has made closing large accounts a significant management priority. Small accounts are defined as active accounts with $100,000 or less cumulative paid losses.

CNA also evaluates its environmental pollution exposures arising from its assumed reinsurance and our participation in various pools, including ECRA.

CNA carries unassigned IBNR reserves for environmental pollution. These reserves relate to potential development on accounts that have not settled and potential future claims from unidentified policyholders.

The tables below depict CNA's overall pending environmental pollution accounts and associated reserves at December 31, 2006 and 2005.

December 31, 2006	Number of Policyholders	Net Paid Losses	Net Environmental Pollution Reserves	Percent of Environmental Pollution Net Reserve
(In millions of dollars)				
Policyholders with Settlement Agreements				
Structured settlements	**11**	**$ 16.0**	**$ 9.0**	**3.2%**
Coverage in place	**18**	**5.0**	**14.0**	**4.9**
Total with Settlement Agreements	**29**	**21.0**	**23.0**	**8.1**
Other Policyholders with Active Accounts				
Large pollution accounts	**115**	**20.0**	**58.0**	**20.4**
Small pollution accounts	**346**	**9.0**	**46.0**	**16.1**
Total Other Policyholders	**461**	**29.0**	**104.0**	**36.5**
Assumed Reinsurance & Pools		**1.0**	**32.0**	**11.2**
Unassigned IBNR			**126.0**	**44.2**
Total	**490**	**$ 51.0**	**$ 285.0**	**100.0%**

December 31, 2005	Number of Policyholders	Net Paid Losses	Net Environmental Pollution Reserves	Percent of Environmental Pollution Net Reserve
(In millions of dollars)				
Policyholders with Settlement Agreements				
Structured settlements	6	$ 10.0	$ 17.0	5.1%
Coverage in place	16	10.0	23.0	6.8
Total with Settlement Agreements	22	20.0	40.0	11.9
Other Policyholders with Active Accounts				
Large pollution accounts	120	18.0	63.0	18.8
Small pollution accounts	362	15.0	50.0	14.9
Total Other Policyholders	482	33.0	113.0	33.7
Assumed Reinsurance & Pools		3.0	33.0	9.8
Unassigned IBNR			150.0	44.6
Total	504	$ 56.0	$ 336.0	100.0%

Lorillard

Lorillard, Inc. and subsidiaries ("Lorillard"). Lorillard, Inc. is a wholly owned subsidiary.

The following table summarizes the results of operations for Lorillard for the years ended December 31, 2006, 2005 and 2004 as presented in Note 24 of the Notes to Consolidated Financial Statements included in Item 8:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Revenues:			
Manufactured products	**$ 3,754.9**	$ 3,567.8	$ 3,347.8
Net investment income	**103.7**	63.6	36.6
Investment gains (losses)	**(0.5)**	(2.1)	1.4
Other		6.0	
Total	**3,858.1**	3,635.3	3,385.8
Expenses:			
Cost of sales	**2,159.5**	2,114.4	1,965.6
Other operating	**354.1**	369.1	380.6
Interest	**0.3**	0.5	
Total	**2,513.9**	2,484.0	2,346.2
	1,344.2	1,151.3	1,039.6
Income tax expense	**518.0**	444.9	397.3
Net income	**$ 826.2**	$ 706.4	$ 642.3

2006 Compared with 2005

Revenues increased by $222.8 million or 6.1% and net income increased by $119.8 million or 17.0% in 2006 as compared to 2005.

The increase in revenues in 2006, as compared to 2005, is primarily due to higher net sales of $187.1 million and higher investment income of $41.7 million, partially offset by a decrease in other income of $6.0 million. Net sales revenue increased $144.4 million due to increased unit sales volume, assuming prices were unchanged from the prior year and $42.6 million due to higher effective unit prices reflecting lower sales promotion expenses. Other revenues in 2005 included interest of $6.0 million relating to a refund of income taxes paid in prior years. Effective December 15, 2006, Lorillard increased the list price of its Newport Brand by $5.00 per thousand cigarettes ($.10 per pack of 20 cigarettes) and its Kent, True, Max and Satin Brands by $3.75 per thousand cigarettes ($.075 per pack of 20 cigarettes).

Net income increased in 2006, as compared to the prior year, due primarily to the higher revenues discussed above, and an $8.3 million reduction in promotional expenses included in cost of sales and lower pretax charges of $13.1 million due to a federal assessment relating to the repeal of the federal supply management program for tobacco growers, partially offset by higher State Settlement Agreement costs and higher other operating expenses as described below.

Lorillard recorded pretax charges of $911.4 million and $876.4 million. ($560.2 million and $537.7 million after taxes) for 2006 and 2005, to record its obligations under settlement agreements entered into between the major cigarette manufacturers, including Lorillard, and each of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico and certain U.S. territories (together, the “State Settlement Agreements”). Lorillard’s portion of ongoing adjusted settlement payments and related legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portion of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. The $35.0 million pretax increase in tobacco settlement costs in 2006, as compared to 2005, is due to the impact of the inflation adjustment ($24.5 million) and charges for higher gross unit sales ($22.6 million), partially offset by other adjustments ($12.1 million) under the State Settlement Agreements.

In April of 2006, Lorillard commenced a restructuring of its sales and market research organization and offered an early retirement program to eligible employees. As a result, in 2006 Lorillard recorded restructuring costs of $20.1 million in other operating expenses primarily for early retirement and curtailment charges on pension and other postretirement benefit plans.

Lorillard regularly reviews results of its promotional spending activities and adjusts its promotional spending programs in an effort to maintain its competitive position. Accordingly, unit sales volume and sales promotion costs in any particular period are not necessarily indicative of sales and costs that may be realized in subsequent periods.

Overall, domestic industry unit sales volume decreased 2.4% in 2006, as compared with the prior year. Industry sales for premium brands were 72.5% of the total market in 2006, as compared to 71.1% for 2005.

Lorillard’s total (domestic, Puerto Rico and certain U.S. Territories) gross unit sales volume increased 2.6% in 2006, as compared to 2005. Domestic wholesale volume increased 2.7% in 2006, as compared to the prior year. Total and domestic Newport unit sales volume increased 2.9% in 2006, as compared with 2005. These results continue to be affected by on-going competitive promotions and the availability of deep discount brands.

Deep discount brands are produced by manufacturers that are subject to lower payment obligations under State Settlement Agreements. This cost advantage enables them to price their brands more than 50% lower than the list prices of premium brand offerings from major manufacturers. As a result of this price differential, deep discount brands have grown from an estimated share in 1998 of less than 1.5% to an estimated 12.4% for 2006. Although deep discount brands have shown a decrease of 0.9% for 2006 versus 2005, these brands continue to be a significant competitive factor in the domestic U.S. market.

The costs of litigating and administering product liability claims, as well as other legal expenses, are included in other operating expenses. Lorillard’s outside legal fees and other external product liability defense costs were $57.2 million, $82.6 million, and $83.5 million for 2006, 2005 and 2004, respectively. Numerous factors affect product liability defense costs. The principal factors are as follows:

- the number and types of cases filed and appealed;
- the number of cases tried and appealed;
- the development of the law;

- the application of new or different theories of liability by plaintiffs and their counsel; and

- litigation strategy and tactics.

Please read Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for detailed information regarding tobacco litigation. The factors that have influenced past product liability defense costs are expected to continue to influence future costs. Although Lorillard does not expect that product liability defense costs will increase significantly in the future, it is possible that adverse developments in the factors discussed above, as well as other circumstances beyond the control of Lorillard, could have a material adverse effect on our financial condition, results of operations or cash flows.

2005 Compared with 2004

Revenues increased by $249.5 million, or 7.4% and net income increased by $64.1 million, or 10.0% in 2005 as compared to 2004.

The increase in revenues in 2005, as compared to the prior year, is primarily due to higher net sales of $220.0 million and higher investment and other income of $29.5 million. Net sales revenue increased by $123.0 million due to increased unit sales volume, assuming prices were unchanged from the prior year and $97.0 million due to higher effective unit prices reflecting lower sales promotion expenses (accounted for as a reduction to net sales). Net investment income increased due primarily to higher yields on invested cash balances and includes $16.8 million from limited partnerships in 2005, as compared to $18.0 million in 2004.

Net income increased in 2005, as compared to 2004, due primarily to the higher revenues discussed above and a $26.8 million reduction in promotional expenses included in cost of sales, partially offset by higher State Settlement Agreement costs as described above, and charges of $100.4 million pretax due to a federal assessment (including $26.4 million of charges in relation to losses by grower related entities from the sale of surplus tobacco) relating to the repeal of the federal supply management program for tobacco growers. Lorillard recorded pretax charges of $876.4 million and $845.9 million ($537.7 million and $522.6 million after taxes) for 2005 and 2004, respectively, to record its obligations under the State Settlement Agreements. The $30.5 million pretax increase in tobacco settlement costs in 2005 is due to the impact of the inflation adjustment ($26.2 million), charges for higher gross unit sales ($16.2 million) under the State Settlement Agreements and other adjustments ($21.8 million), partially offset by the elimination of Lorillard's payment obligations under the national Tobacco Growers Settlement Trust ($33.7 million).

Overall, domestic industry unit sales volume decreased 3.2% in 2005 as compared with 2004. Industry sales for premium brands were 71.1% of the total market in 2005 as compared to 69.6% in 2004.

Lorillard's total (domestic, Puerto Rico and certain U.S. Territories) gross unit sales volume increased 1.9% in 2005 as compared to 2004. Domestic wholesale volume increased 2.0% in 2005 as compared to 2004. Total Newport unit sales volume increased 2.5% in 2005 and domestic volume increased 2.6% in 2005 as compared with 2004.

Deep discount brands are produced by manufacturers that are subject to lower payment obligations under the State Settlement Agreements. Deep discount brands increased from an estimated market share in 1998 of less than 1.5% to an estimated 13.3% for 2005.

Selected Market Share Data

Year Ended December 31	2006	2005	2004
(Units in billions)			
Total Lorillard domestic unit volume (1)	**36.131**	35.193	34.503
Total industry domestic unit volume (1)	**372.503**	381.728	394.487
Lorillard's share of the domestic market (1)	**9.7%**	9.2%	8.8%
Lorillard's premium segment as a percentage of its total domestic volume (1)	**94.8%**	95.2%	95.4%
Lorillard's share of the premium segment (1)	**12.7%**	12.3%	12.0%
Newport share of the domestic market (1)	**8.9%**	8.4%	7.9%
Newport share of the premium segment (1)	**12.3%**	11.9%	11.4%
Total menthol segment market share for the industry (2)	**27.7%**	27.1%	26.9%
Total discount segment market share for the industry (1)	**27.5%**	28.9%	30.4%
Newport's share of the menthol segment (2)	**33.1%**	32.5%	31.3%
Newport as a percentage of Lorillard's (3):			
Total volume	**91.8%**	91.6%	91.0%
Net sales	**93.3%**	92.8%	92.2%

Sources:
(1) Management Science Associates, Inc.
(2) Lorillard proprietary data
(3) Lorillard shipment reports

Unless otherwise specified, market share data in this MD&A is based on data made available by Management Science Associates, Inc. ("MSAI"), an independent third-party database management organization that collects wholesale shipment data from various cigarette manufacturers. MSAI divides the cigarette market into two price segments, the premium price segment and the discount or reduced price segment. 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 continues to believe that volume and market share information for deep discount manufacturers are understated and, correspondingly, share information for the larger manufacturers, including Lorillard, are overstated by MSAI.

Business Environment

The tobacco industry in the United States, including Lorillard, continues to be faced with a number of issues that have impacted or may adversely impact the business, results of operations and financial condition of Lorillard and us, including the following:

- A substantial volume of litigation seeking compensatory and punitive damages ranging into the billions of dollars, as well as equitable and injunctive relief, arising out of allegations of cancer and other health effects resulting from the use of cigarettes, addiction to smoking or exposure to environmental tobacco smoke, including claims for reimbursement of health care costs allegedly incurred as a result of smoking, as well as other alleged damages. Please read Item 3 - Legal Proceedings and Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for information with respect to litigation and the State Settlement Agreements.

- Substantial annual payments by Lorillard, continuing in perpetuity, and significant restrictions on marketing and advertising agreed to under the terms of the State Settlement Agreements. The State Settlement Agreements impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers and place significant restrictions on their ability to market and sell cigarettes.

- The continuing contraction of the U.S. cigarette market, in which Lorillard currently conducts its only significant business. As a result of price increases, restrictions on advertising and promotions, increases in regulation and excise taxes, health concerns, a decline in the social acceptability of smoking, increased pressure from anti-tobacco groups and other factors, U.S. cigarette shipments have decreased at a compound annual rate of approximately 2.6% over the period 1997 through 2006 according to information provided by MSAI.

- Substantial federal, state and local excise taxes which are reflected in the retail price of cigarettes. In 2006, the federal excise tax was $0.39 per pack and combined state and local excise taxes ranged from $0.07 to $3.66 per pack. In 2006, excise tax increases ranging from $0.05 to $1.00 per pack were implemented in six states and two municipalities. Proposals continue to be made to increase federal, state and local excise taxes. Lorillard believes that increases in excise and similar taxes have had an adverse impact on sales of cigarettes and that future increases, the extent of which cannot be predicted, could result in further volume declines for the cigarette industry, including Lorillard, and an increased sales shift toward lower priced discount cigarettes rather than premium brands. In addition, Lorillard and other cigarette manufacturers are required to pay an assessment under a federal law designed to fund payments to tobacco quota holders and growers.

- Substantial and increasing regulation of the tobacco industry and governmental restrictions on smoking. Bills have been introduced in the U.S. Congress to grant the Food and Drug Administration (“FDA”) authority to regulate tobacco products. Lorillard believes that FDA regulations, if enacted, could among other things result in new restrictions on the manner in which cigarettes can be advertised and marketed, and may alter the way cigarette products are developed and manufactured. Lorillard also believes that any such proposals, if enacted, would provide Philip Morris, as the largest tobacco company in the country, with a competitive advantage.

Boardwalk Pipeline

Boardwalk Pipeline Partners, LP and subsidiaries (“Boardwalk Pipeline”). Boardwalk Pipeline Partners, LP is an 80% owned subsidiary.

The following table summarizes the results of operations for Boardwalk Pipeline for the years ended December 31, 2006, 2005 and 2004 as presented in Note 24 of the Notes to Consolidated Financial Statements included in Item 8:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Revenues:			
Operating	**$ 614.2**	$ 569.8	$ 264.4
Net investment income	**4.2**	1.5	0.7
Total	**618.4**	571.3	265.1
Expenses:			
Operating	**358.6**	353.1	153.9
Interest	**62.1**	60.1	30.1
Total	**420.7**	413.2	184.0
	197.7	158.1	81.1
Income tax expense	**64.2**	60.8	32.3
Minority interest	**30.3**	5.2	
Net income	**$ 103.2**	$ 92.1	$ 48.8

Boardwalk Pipeline derives revenues primarily from the interstate transportation and storage of natural gas for third parties. Transportation and storage services are provided under firm service and interruptible service agreements. Transportation and storage rates and general terms and conditions of service are established by, and subject to review and revision by, the Federal Energy Regulatory Commission (“FERC”).

Under firm transportation agreements, customers generally pay a fixed "capacity reservation" fee to reserve pipeline capacity at certain receipt and delivery points, plus a commodity and fuel charge paid on the volume of gas actually transported. Firm storage customers reserve a specific amount of storage capacity and generally pay a capacity reservation charge based on the amount of capacity being reserved plus an injection and/or withdrawal fee. Capacity reservation revenues derived from a firm service contract is consistent from year to year, but is generally higher in winter peak periods (November through March) than off-peak periods resulting in a seasonal earnings pattern where the majority of earnings are generated in the first and fourth quarters of a calendar year.

Interruptible transportation and storage service is typically short-term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. Customers pay for interruptible services when capacity is used.

Boardwalk Pipeline's parking and lending ("PAL") service is an interruptible service offered to customers providing them the ability to park (inject) or borrow (withdraw) gas into or out of Boardwalk Pipeline's storage facilities at a specific location for a specific period of time. Customers pay for PAL service in advance or on a monthly basis depending on the terms of the agreement.

Operating expenses typically do not vary significantly based upon the amount of gas transported with the exception of gas consumed by Gulf South's compressor stations. Gulf South's fuel recoveries are included as part of transportation revenues.

Revenues and net income for 2004 reflect operations of Gulf South from December 29, 2004, the date of acquisition. See Note 14 of the Notes to Consolidated Financial Statements.

2006 Compared with 2005

Total revenues increased by $47.1 million to $618.4 million in 2006, compared to $571.3 million for 2005. Storage and PAL services improved revenues by $38.5 million primarily due to favorable natural gas price spreads and volatility in forward gas prices. In addition, operating revenues increased due to higher firm transportation revenues of $26.0 million, excluding fuel, primarily related to higher reservation rates and additional capacity reserved by shippers due to higher production in the East Texas region, and $5.3 million due to hurricane insurance recoveries in 2006 and gas lost in 2005 related to Hurricanes Katrina and Rita. These increases were partially offset by the absence of a $12.2 million gain from the sale of storage gas related to Phase I of Boardwalk Pipeline's Western Kentucky storage expansion project that occurred in 2005, a $10.5 million decrease in interruptible transportation services due to unseasonably warm weather in Boardwalk Pipeline's market areas during the fourth quarter of 2006, higher interruptible revenues in the third and fourth quarters of 2005 due to supply disruptions caused by Hurricanes Katrina and Rita, a $7.1 million decrease in fuel retained due to lower realized natural gas prices and reduced throughput, and a $5.5 million decrease in revenues for a reduction in the amortization of acquired executory contracts.

Net income increased by $11.1 million to $103.2 million in 2006, as compared to $92.1 million in 2005, primarily due to the increased revenues discussed above, partially offset by a $25.0 million increase in minority interest expense and a $5.5 million increase in operating expenses. Operating expenses in 2006, as compared to 2005, include a $12.6 million increase in outside services and overhead mainly due to growth in operations and regulatory compliance, a $10.2 million increase in employee labor and benefits costs due primarily to a rate case settlement and a special termination benefit charge recognized as a result of an early retirement incentive program. Operating expenses also reflect a $3.7 million increase in depreciation and amortization and a $2.6 million expense from the lease of third-party pipeline capacity. These increases were partially offset by a $18.2 million reduction in hurricane-related expense as compared to 2005, and a $14.9 million decrease in company-used gas due to operational efficiencies, lower natural gas prices and reduced throughput resulting in decreased usage. Interest expense for 2006 increased by $2.0 million, primarily due to borrowings under a credit facility that occurred in November of 2005 and senior notes issued in November of 2006.

2005 Compared with 2004

Total revenues increased by $306.2 million to $571.3 million for 2005, compared to $265.1 million for 2004.

Gas transportation revenues increased by $273.1 million to $526.6 million for 2005, substantially all of which was attributable to Gulf South, compared to $253.5 million for 2004. Revenues at Texas Gas remained essentially flat due to contract renewals and related discounting at the Lebanon terminus that were partially offset by new FERC rates, subject to refund, implemented on November 1, 2005, the completion of the Western Kentucky area storage expansion project on November 1, 2005 and the associated transportation agreements, contributed an increase of approximately $2.0 million in revenues, and the leasing of additional capacity on a third party pipeline in Carthage, Texas on December 1, 2005 which contributed an increase of approximately $1.0 million in revenues.

Gas storage revenues increased by $14.4 million to $21.7 million for 2005, of which $16.3 million was attributable to Gulf South, compared to $7.3 million for 2004. Storage revenues decreased at Texas Gas by $2.0 million due to unusually high interruptible storage revenue generated in 2004 from favorable market conditions.

Other revenues increased by $17.9 million to $21.5 million for 2005, of which $11.1 million was attributable to Gulf South, compared to $3.6 million for 2004. The balance of the increase was due primarily to a $12.2 million gain on the sale of storage gas related to the Western Kentucky storage expansion.

Operating expenses increased by $199.2 million to $353.1 million for 2005, of which $207.4 million was attributable to Gulf South, compared to $153.9 million for 2004.

Interest expense increased by $30.0 million to $60.1 million for the full year ended December 31, 2005, due to higher interest expense primarily related to $575.0 million of debt incurred in 2004 to fund the Gulf South acquisition, compared to $30.1 million for 2004.

Diamond Offshore

Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore is a 51% owned subsidiary.

The following table summarizes the results of operations for Diamond Offshore for the years ended December 31, 2006, 2005 and 2004 as presented in Note 24 of the Notes to Consolidated Financial Statements included in Item 8:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Revenues:			
Operating	**$ 2,064.1**	$ 1,268.1	$ 823.4
Net investment income	**37.9**	26.0	12.2
Investment gains (losses)		(1.2)	0.3
Total	**2,102.0**	1,292.9	835.9
Expenses:			
Operating	**1,117.9**	901.3	815.2
Interest	**24.0**	41.8	30.2
Total	**1,141.9**	943.1	845.4
	960.1	349.8	(9.5)
Income tax expense	**285.0**	104.3	3.0
Minority interest	**323.1**	118.6	(3.3)
Net income (loss)	**$ 352.0**	$ 126.9	$ (9.2)

Diamond Offshore's revenues vary based upon demand, which affects the number of days the fleet is utilized and the dayrates earned. When a rig is idle, no dayrate is earned and revenues will decrease as a result. Revenues can also be affected as a result of the acquisition or disposal of rigs, required surveys and shipyard upgrades. In order to improve utilization or realize higher dayrates, Diamond Offshore may mobilize its rigs from one market to another. However, during periods of unpaid mobilization, revenues may be adversely affected. As a response to changes in demand, Diamond Offshore may withdraw a rig from the market by stacking it or may reactivate a rig stacked previously, which may decrease or increase revenues, respectively.

The two most significant variables affecting revenues are dayrates for rigs and rig utilization rates, each of which is a function of rig supply and demand in the marketplace. As utilization rates increase, dayrates tend to increase as well, reflecting the lower supply of available rigs, and vice versa. Demand for drilling services is dependent upon the level of expenditures set by oil and gas companies for offshore exploration and development as well as a variety of political and economic factors. The availability of rigs in a particular geographical region also affects both dayrates and utilization rates. These factors are not within Diamond Offshore’s control and are difficult to predict.

Diamond Offshore’s operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Diamond Offshore’s operating expenses represent all direct and indirect costs associated with the operation and maintenance of its drilling equipment. The principal components of Diamond Offshore’s operating costs are, among other things, direct and indirect costs of labor and benefits, repairs and maintenance, freight, regulatory inspections, boat and helicopter rentals and insurance. Labor and repair and maintenance costs represent the most significant components of operating expenses. In the current period of high, sustained utilization, maintenance and repairs costs may increase in order to maintain Diamond Offshore’s equipment in proper, working order. In general, Diamond Offshore’s labor costs increase primarily due to higher salary levels, rig staffing requirements, inflation and costs associated with labor regulations in the geographic regions in which Diamond Offshore’s rigs operate. Diamond Offshore has experienced and continues to experience upward pressure on salaries and wages as a result of the strengthening offshore drilling market and increased competition for skilled workers. In response to these market conditions, Diamond Offshore has implemented retention programs, including increases in compensation. Costs to repair and maintain equipment fluctuate depending upon the type of activity the drilling unit is performing, as well as the age and condition of the equipment.

Operating expenses generally are not affected by changes in dayrates and may not be significantly affected by short-term fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, few decreases in operating expenses may actually occur since the rig is typically maintained in a prepared or “ready stacked” state with a full crew. In addition, when a rig is idle, Diamond Offshore is responsible for certain operating expenses such as rig fuel and supply boat costs, which are typically a cost of the operator when a rig is under contract. However, if the rig is to be idle for an extended period of time, Diamond Offshore may reduce the size of a rig’s crew and take steps to “cold stack” the rig, which lowers expenses and partially offsets the impact on operating income.

Operating income is also negatively impacted when Diamond Offshore performs certain regulatory inspections that are due every five years (“5-year survey”) for each of Diamond Offshore’s rigs as well as intermediate surveys, which are performed at interim periods between 5-year surveys. Operating revenue decreases because these surveys are performed during scheduled down-time in a shipyard. Operating expenses increase as a result of these surveys due to the cost to mobilize the rigs to a shipyard, inspection costs incurred and repair and maintenance costs. Repair and maintenance costs may be required resulting from the survey or may have been previously planned to take place during this mandatory down-time. The number of rigs undergoing a 5-year survey will vary from year to year.

During 2007, Diamond Offshore expects to spend an aggregate of approximately $46.0 million for 5-year surveys and intermediate surveys, including estimated mobilization costs, but excluding any resulting repair and maintenance costs, which could be significant. Costs of mobilizing Diamond Offshore’s rigs to shipyards for scheduled surveys, which were a major component of its survey-related costs during 2006, are indicative of higher prices commanded by support businesses to the offshore drilling industry. Diamond Offshore expects mobilization costs to be a significant component of its survey-related costs in 2007.

2006 Compared with 2005

Revenues increased by $809.1 million, or 62.6%, and net income increased by $225.1 million in 2006, as compared to 2005.

Revenues from high specification floaters and intermediate semisubmersible rigs increased by $646.2 million or 71.4% in 2006, as compared to 2005. The increase primarily reflects increased dayrates of $545.2 million and improved utilization of $100.9 million.

Revenues from jack-up rigs increased $163.4 million, or 60.1%, in 2006, as compared to 2005, due primarily to increased dayrates of $197.4 million, partially offset by decreased utilization of $24.8 million, respectively. In addition, there was a $2.6 million reduction in the amortization of deferred mobilization revenue for 2006.

In the third quarter of 2005, one of Diamond Offshore's jack-up drilling rigs, the *Ocean Warwick*, was damaged beyond repair during Hurricane Katrina and other rigs in Diamond Offshore's fleet sustained lesser damage in Hurricanes Katrina or Rita, or in some cases from both storms. Diamond Offshore believes the physical damage to its rigs, as well as any related removal and recovery costs, are covered by insurance, after applicable deductibles. Diamond Offshore recognized a $33.6 million casualty gain during the third quarter of 2005 as a result of the constructive total loss of the *Ocean Warwick*. During 2005, this drilling unit generated $11.8 million in revenues.

Investment income increased by $11.9 million for 2006, primarily due to the combined effect of higher interest rates earned on higher average cash balances in 2006, as compared to the prior year.

Interest expense decreased $17.8 million in 2006, primarily due to the 2005 redemption of zero coupon debentures, partially offset by the additional expense related to the 2005 issuance of 4.9% senior unsecured notes. In 2005, interest expense included a write-off of $6.9 million of debt issuance costs associated with the partial repurchase of Diamond Offshore's Zero Coupon Debentures.

Net income increased in 2006 due primarily to the increased revenues noted above, and reduced interest expense, partially offset by increased contract drilling expenses driven by higher labor and benefit costs as a result of wage increases and other compensation enhancement programs implemented subsequent to the second quarter of 2005. In addition, Diamond Offshore incurred higher repair and maintenance costs for most of its rigs primarily due to the high utilization of its fleet and higher prices experienced throughout the offshore drilling industry and support businesses.

2005 Compared with 2004

Revenues increased by $457.0 million, or 54.7% and net income increased by $136.1 million in the year ended December 31, 2005, as compared to 2004. Revenues increased primarily due to an overall increase in rig utilization rates and dayrates for all classes of rigs.

Diamond Offshore recognized a $33.6 million casualty gain during the third quarter of 2005 as a result of the constructive total loss of the *Ocean Warwick*. During 2005, this drilling unit generated $11.8 million in revenues compared to $9.3 million in 2004 primarily due to a higher average operating dayrate earned during 2005, as compared to 2004.

Revenues from high-specification floaters and other semisubmersible rigs increased $304.8 million in 2005 due primarily to increased dayrates of $242.0 million as compared to 2004. Utilization improved in 2005, which generated an additional $58.3 million in revenue as compared to 2004.

Revenues from jack-up rigs increased by $93.4 million in the year ended December 31, 2005, as compared to 2004. The increase primarily reflects increased dayrates of $89.5 million and improved utilization of $11.3 million, partially offset by a decrease of $7.4 million in rig mobilization fees.

Net investment income increased by $13.8 million, primarily due to interest earned on higher average cash and investment balances in 2005 as compared to 2004.

Interest expense increased $11.6 million in 2005, primarily due to the additional expense related to the issuance of 5.2% and 4.9% senior unsecured notes, partially offset by redemption of zero coupon debentures. In 2005, interest expense included a write-off of $6.9 million of debt issuance costs associated with the partial repurchase of Diamond Offshore's Zero Coupon Debentures.

Net income increased in 2005 due primarily to the higher revenues discussed above, partially offset by increased contract drilling expenses and interest expense noted above.

Loews Hotels

Loews Hotels Holding Corporation and subsidiaries ("Loews Hotels"). Loews Hotels is a wholly owned subsidiary.

The following table summarizes the results of operations for Loews Hotels for the years ended December 31, 2006, 2005 and 2004 as presented in Note 24 of the Notes to Consolidated Financial Statements included in Item 8:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Revenues:			
Operating	**$ 370.1**	$ 344.5	$ 312.9
Net investment income	**1.2**	6.0	2.3
Total	**371.3**	350.5	315.2
Expenses:			
Operating	**311.4**	289.6	278.3
Interest	**11.9**	10.9	5.7
Total	**323.3**	300.5	284.0
	48.0	50.0	31.2
Income tax expense	**18.6**	18.8	9.8
Net income	**$ 29.4**	$ 31.2	$ 21.4

2006 Compared with 2005

Revenues increased by $20.8 million, or 5.9% and net income decreased by $1.8 million, or 5.8%, in 2006, as compared to 2005.

Revenues increased in 2006, as compared with 2005, due primarily to an increase in revenue per available room of $16.51, or 10.9%, to $168.40, from $151.89 in the prior year. Revenue per available room increased due to higher average room rates, which increased $20.39, or 10.2%, and a 0.7% increase in occupancy rates for 2006. These increases were partially offset by a non-recurring pretax gain in 2005 of $4.5 million from the early repayment of a note in connection with the sale of a hotel property and lower equity income of $3.6 million due primarily to higher land rent at the Orlando property.

Revenue per available room is an industry measure of the combined effect of occupancy rates and average room rates on room revenues. Other hotel operating revenues primarily include guest charges for food and beverages.

Net income for 2006 decreased primarily due to the non-recurring gain in 2005 discussed above and increased costs related to linen and service upgrades, partially offset by the increase in revenue per available room.

2005 Compared with 2004

Revenues increased by $35.3 million, or 11.2% and net income increased by $9.8 million in 2005, as compared to 2004.

Revenues increased in 2005, as compared to 2004, due primarily to an increase in revenue per available room of $16.20, or 11.9%, to $151.89 from $135.69 in the prior year. Revenue per available room increased due to higher average room rates, which increased $20.01, or 11.1% and a 0.8% increase in occupancy rates for 2005. In addition, higher equity income from joint ventures reflecting increased average room rates at the Universal Orlando properties and increased investment income as a result of the early repayment of a note received in connection with the sale of a hotel property contributed $7.1 million to the increase.

Net income for 2005 increased due to the higher revenues discussed above, partially offset by increased interest and operating expenses.

Corporate and Other

Corporate operations consist primarily of investment income, including investment gains (losses) from non-insurance subsidiaries, the operations of Bulova, equity earnings from Majestic Shipping Corporation (“Majestic”), corporate interest expenses and other corporate administrative costs. Majestic, a wholly owned subsidiary, owns a 49% common stock interest in Hellespont Shipping Corporation (“Hellespont”).

The following table summarizes the results of operations for Corporate and Other for the years ended December 31, 2006, 2005 and 2004 as presented in Note 24 of the Notes to Consolidated Financial Statements included in Item 8:

Year Ended December 31	2006	2005	2004
(In millions)			
Revenues:			
Manufactured products	**$ 206.9**	$ 184.6	$ 167.4
Net investment income	**351.9**	109.8	144.0
Investment gains (losses)	**9.1**	(3.4)	(13.2)
Other	**11.6**	11.7	208.5
Total	**579.5**	302.7	506.7
Expenses:			
Cost of sales	**102.2**	87.9	79.8
Operating	**147.2**	129.7	127.8
Interest	**75.2**	126.6	134.2
Total	**324.6**	344.2	341.8
	254.9	(41.5)	164.9
Income tax expense (benefit)	**89.9**	(38.0)	57.6
Minority interest			0.3
Net income (loss)	**$ 165.0**	$ (3.5)	$ 107.0

2006 Compared with 2005

Revenues increased by $276.8 million, or 91.4%, and net income increased by $168.5 million in December 31, 2006, compared to 2005.

Revenues increased in 2006, as compared to 2005, due primarily to higher net investment income of $242.1 million and increased investment gains of $12.5 million. Net investment income includes income from the trading portfolio of $223.7 million and $42.8 million ($146.1 million and $27.8 million after taxes) for 2006 and 2005. In addition, interest income in 2006 increased due to improved yields and higher invested amounts.

Net income increased in 2006 due primarily to the increased revenues discussed above and the absence of costs ($23.1 million after taxes) incurred in 2005 associated with the early retirement of our $400.0 million principal amount of 7.0% senior notes due 2023 and $1,150.0 million principal amount of 3.1% exchangeable subordinated notes due 2007, as well as reduced interest expense. Net income for 2005 also reflected a lower effective tax rate related to the federal income tax settlement as discussed below.

The lower income tax expense in 2005 was primarily due to a review of tax liabilities we performed subsequent to the settlement of our 1998 through 2001 tax returns with the Internal Revenue Service. As a result, we reduced our deferred tax liabilities by $24.4 million in 2005.

2005 Compared with 2004

Revenues decreased by $204.0 million and net income decreased by $110.5 million in the year ended December 31, 2005, compared to 2004.

Revenues decreased in 2005, as compared to 2004, due primarily to a reduction in equity income of $188.2 million from shipping operations, and decreased net investment income of $34.2 million in 2005.

In 2004, Hellespont sold all of its ultra-large crude oil tankers. We received cash distributions from Hellespont and recognized income of $179.3 million ($116.5 million after taxes). Hellespont had been engaged in the business of owning and operating four ultra-large crude oil tankers that were 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.

Net investment income includes income from the trading portfolio of $42.8 million and $105.9 million ($27.8 million and $68.9 million after taxes) for the years ended December 31, 2005 and 2004, respectively.

Net income decreased in 2005 due primarily to the reduced revenues discussed above, partially offset by lower income tax expense related to the federal income tax settlement discussed above. Net income for 2005 also included charges of $23.1 million related to the early retirement of our $400.0 million principal amount of 7.0% senior notes due 2023 and $1,150.0 million principal amount of 3.1% exchangeable subordinated notes due 2007. Net income for 2004 included $11.1 million related to charges from the early retirement of our $300.0 million principal amount of 7.6% senior notes due 2023.

LIQUIDITY AND CAPITAL RESOURCES

CNA Financial

Cash Flow

CNA’s principal operating cash flow sources are premiums and investment income from its insurance subsidiaries. CNA’s primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For 2006, net cash provided by operating activities was $2,250.0 million as compared to $2,169.0 million in 2005. Cash provided by operating activities was favorably impacted by increased net sales of trading securities to fund policyholder withdrawals of investment contract products issued by CNA and increased investment income receipts. Policyholder fund withdrawals are reflected as financing cash flows. Cash provided by operating activities was unfavorably impacted by decreased premium collections, increased tax payments, and increased loss payments.

For 2005, net cash provided by operating activities was $2,169.0 million as compared to $1,968.0 million in 2004. The increase in cash provided by operations was primarily driven by a reduction in claims and expense payments, including the impact of $446.0 million related to commutations. Also impacting operating cash flows were net tax payments of $164.0 million in 2005 as compared with net tax refunds of $627.0 million in 2004. In addition, CNA received cash of $121.0 million related to interest on a federal income tax settlement in 2005.

Cash flows from investing activities include the purchase and sale of financial instruments, as well as the purchase and sale of businesses, land, buildings, equipment and other assets not generally held for resale.

Net cash used for investing activities was $1,646.0 million, $1,316.0 million, and $2,084.0 million for 2006, 2005, and 2004. Cash flows used by investing activities related principally to purchases of fixed maturity securities and short term investments.

The cash flow from investing activities is impacted by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management. A consideration in management of the portfolio is the characteristics of the underlying liabilities and the ability to align the duration of the portfolio to those liabilities to meet future liquidity needs and minimize interest rate risk. For portfolios where future liability cash flows are determinable and are generally long term in nature, management segregates assets and related liabilities for asset/liability management purposes. The asset/liability management strategy is used to mitigate valuation changes due to interest rate risk in those specific portfolios. Another consideration in the asset/liability matched portfolios is to maintain a level of income sufficient to support the underlying insurance liabilities.

For those securities in the portfolio that are not part of a segregated asset/liability management strategy, CNA typically manages the portfolio to a target duration range dictated by the underlying insurance liabilities. In managing these portfolios, securities are bought and sold based on individual security value assessments made, but with the overall goal of meeting the duration targets.

For 2006 and 2005, net cash used for financing activities was $605.0 million and $837.0 million as compared with net cash provided from financing activities of $61.0 million in 2004. Net cash flows used by financing activities in 2006 were primarily related to the return of investment contract balances. Additionally, CNA issued long-term debt and common stock, the proceeds of which were used to repurchase the Series H Cumulative Preferred Stock Issue (Series H Issue) and to repay its 6.75% notes. See the CNA Series H Preferred Stock section below for further discussion.

CNA believes that its present cash flows from operating, investing and financing activities are sufficient to fund its working capital needs.

CNA has an effective shelf registration statement under which it may issue debt or equity securities.

CNA Series H Preferred Stock

In December of 2002, CNA sold $750.0 million of a new issue of preferred stock, the Series H Issue, to us. The Series H Issue accrued cumulative dividends at an initial rate of 8.0% per year, compounded annually. In August of 2006, CNA repurchased the Series H Issue for approximately $993.0 million, a price equal to the liquidation preference.

CNA financed the repurchase of the Series H Issue with the proceeds from its sales of: (i) 7.0 million shares of CNA’s common stock in a public offering for approximately $235.5 million; (ii) $400.0 million of new 6.0% five-year senior notes and $350.0 million of new 6.5% ten-year senior notes in a public offering; and (iii) 7.86 million shares of CNA’s common stock to us in a private placement for approximately $264.5 million. CNA used the proceeds in excess of the amount used to repurchase the Series H Issue to fund the repayment of its $250.0 million outstanding 6.75% senior notes in November of 2006.

Commitments, Contingencies and Guarantees

CNA has various commitments, contingencies and guarantees which it becomes involved with during the ordinary course of business. The impact of these commitments, contingencies and guarantees should be considered when evaluating CNA’s liquidity and capital resources.

Regulatory Matters

CNA previously established a plan to reorganize and streamline its U.S. property and casualty insurance legal entity structure in order to realize capital, operational, and cost efficiencies. Another phase of this multi-year plan has been completed with the mergers of thirteen of CNA’s U.S. property and casualty insurance entities into other CNA insurance entities. Effective December 31, 2006, twelve companies merged, either directly or indirectly, with and into CIC, and one company merged directly into CCC. CNA also reduced the number of states in which these entities are domiciled as part of this phase. Previous phases of this plan served to consolidate CNA’s U.S. property and casualty insurance risks into CCC, as well as realign the capital supporting these risks. In order to facilitate the execution of this plan, CNA has agreed to participate in a working group consisting of several states of the NAIC. Pursuant to CNA’s participation in this working group, CNA has agreed to certain time frames and informational provisions in relation to the reorganization plan.

Along with other companies in the industry, CNA has received subpoenas, interrogatories and inquiries from: (i) California, Connecticut, Delaware, Florida, Hawaii, Illinois, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, West Virginia and the Canadian Council of Insurance Regulators concerning investigations into practices including contingent compensation arrangements, fictitious quotes and tying arrangements; (ii) the SEC, the New York State Attorney General, the United States Attorney for the Southern District of New York, the Connecticut Attorney General, the Connecticut Department of Insurance, the Delaware Department of Insurance, the Georgia Office of Insurance and Safety Fire Commissioner and the California Department of Insurance concerning reinsurance products and finite insurance products purchased and sold by CNA; (iii) the Massachusetts Attorney General and the Connecticut Attorney General concerning investigations into anti-competitive practices; and (iv) the New York State Attorney General concerning declinations of attorney malpractice insurance. CNA continues to respond to these subpoenas, interrogatories and inquiries to the extent they are still open.

Subsequent to receipt of the SEC subpoena, CNA produced documents and provided additional information at the SEC's request. In addition, the SEC and representatives of the United States Attorney's Office for the Southern District of New York conducted interviews with several of CNA's current and former executives relating to the restatement of CNA's financial results for 2004, including CNA's relationship with and accounting for transactions with an affiliate that were the basis for the restatement. The SEC also requested information relating to CNA's restatement in 2006 of prior period results. It is possible that CNA's analyses of, or accounting treatment for, finite reinsurance contracts or discontinued operations could be questioned or disputed by regulatory authorities. As a result, further restatements of the financial results is possible.

Ratings

Ratings are an important factor in establishing the competitive position of insurance companies. CNA's insurance company subsidiaries are rated by major rating agencies, and these ratings reflect the rating agency's opinion of the insurance company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating. One or more of these agencies could take action in the future to change the ratings of CNA's insurance subsidiaries.

The table below reflects the various group ratings issued by A.M. Best Company ("A.M. Best"), Standard & Poor's ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") as of January 24, 2007 for the Property and Casualty and Life companies. The table also includes the ratings for CNA's senior debt and Continental senior debt.

	Insurance Financial Strength Ratings (a)		Debt Ratings (a)	
	Property & Casualty	Life	CNA	Continental
	CCC Group	CAC	Senior Debt	Senior Debt
A.M. Best	A	A-	bbb	Not rated
Fitch	A-	A-	BBB-	BBB-
Moody's	A3	Baa1	Baa3	Baa3
S&P	A-	BBB+	BBB-	BBB-

(a) A.M. Best, Fitch, Moody's and Standard & Poor's outlooks are stable for CNA's debt and insurance financial strength ratings.

If CNA's property and casualty insurance financial strength ratings were downgraded below current levels, CNA's business and our results of operations could be materially adversely affected. The severity of the impact on CNA's business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of CNA's insurance products to certain markets and the required collateralization of certain future payment obligations or reserves.

In addition, we believe that a lowering of our debt ratings by certain of these agencies could result in an adverse impact on CNA's ratings, independent of any change in circumstances at CNA. None of the major rating agencies which rates us currently maintains a negative outlook or has us on negative Credit Watch.

CNA has entered into several settlement agreements and assumed reinsurance contracts that require collateralization of future payment obligations and assumed reserves if CNA's ratings or other specific criteria fall below certain thresholds. The ratings triggers are generally more than one level below CNA's current ratings.

Dividend Paying Ability

CNA’s ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNA by its insurance subsidiaries without prior approval of the insurance department of each subsidiary’s domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Further information on CNA’s dividends from subsidiaries is provided in Note 16 of the Notes to Consolidated Financial Statements included under Item 8.

Lorillard

Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation. Plaintiffs in most of the cases seek unspecified amounts of compensatory damages and punitive damages, although some seek damages ranging into the billions of dollars. Plaintiffs in some of the cases seek treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring, among other damages.

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent we are a defendant in any of the lawsuits, we believe that we are not a proper defendant in these matters and have moved or plan to move for dismissal of all such claims against us. While Lorillard intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

Except for the impact of the State Settlement Agreements as described below, we are unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending tobacco related litigation and, therefore, no provision has been made in the Consolidated Financial Statements for any unfavorable outcome. It is possible that our results of operations, cash flows and our financial position could be materially adversely affected by an unfavorable outcome of certain pending litigation.

The State Settlement Agreements require Lorillard and the other Original Participating Manufacturers (“OPMs”) to make aggregate annual payments of $8.4 billion through 2007 and $9.4 billion thereafter, subject to adjustment for several factors described below. In addition, the OPMs are required to pay plaintiffs’ attorneys’ fees, subject to an aggregate annual cap of $500.0 million, as well as an additional aggregate amount of up to $125.0 million in each year through 2008. These payment obligations are the several and not joint obligations of each of the OPMs. We believe that Lorillard’s obligations under the State Settlement Agreements will materially adversely affect our cash flows and operating income in future years.

Both the aggregate payment obligations of the OPMs, and the payment obligations of Lorillard, individually, under the State Settlement Agreements are subject to adjustment for several factors which include:

- inflation;
- aggregate volume of domestic cigarette shipments;
- market share; and
- industry operating income.

The inflation adjustment increases payments on a compounded annual basis by the greater of 3.0% or the actual total percentage change in the consumer price index for the preceding year. The inflation adjustment is measured starting with inflation for 1999. The volume adjustment increases or decreases payments based on the increase or decrease in the total number of cigarettes shipped in or to the 50 U.S. states, the District of Columbia and Puerto Rico by the OPMs during the preceding year, as compared to the 1997 base year shipments. If volume has increased, the volume adjustment would increase the annual payment by the same percentage as the number of cigarettes shipped exceeds the 1997 base number.

If volume has decreased, the volume adjustment would decrease the annual payment by 98.0% of the percentage reduction in volume. In addition, downward adjustments to the annual payments for changes in volume may, subject to specified conditions and exceptions, be reduced in the event of an increase in the OPMs aggregate operating income from domestic sales of cigarettes over base year levels established in the State Settlement Agreements, adjusted for inflation. Any adjustments resulting from increases in operating income would be allocated among those OPMs who have had increases.

Lorillard's cash payment under the State Settlement Agreements in 2006 was $889.9 million including Lorillard's deposit of $108.0 million in an interest-bearing escrow account in accordance with procedures established in the MSA pending resolution of a claim by Lorillard and the OPMs that they are entitled to reduce their MSA payments based on a loss of market share to non-participating manufacturers. Most of the states that are parties to the MSA are disputing the availability of the reduction and Lorillard believes that this dispute will ultimately be resolved by judicial and arbitration proceedings. Lorillard's $108.0 million reduction is based upon the OPMs collective loss of market share in 2003.

Lorillard and the OPMs have the right to claim additional reductions of MSA payments in subsequent years under provisions of the MSA. Lorillard anticipates the amount payable in 2007 will be approximately $925.0 million to $975.0 million, primarily based on 2006 estimated industry volume.

See Item 3 - Legal Proceedings and Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for additional information regarding this settlement and other litigation matters.

Lorillard's cash and investments, net of receivables and payables, totaled $1,768.7 million and $1,750.1 million at December 31, 2006 and 2005, respectively. At December 31, 2006, 87.2% of Lorillard's cash and investments were invested in short-term securities.

The principal source of liquidity for Lorillard's business and operating needs is internally generated funds from its operations. Lorillard's operating activities resulted in a net cash inflow of approximately $778.2 million for the year ended December 31, 2006, compared to $820.3 million for the prior year. Lorillard believes, based on current conditions, that cash flows from operating activities will be sufficient to enable it to meet its obligations under the State Settlement Agreements and to fund its capital expenditures. Lorillard cannot predict the impact on its cash flows of cash requirements related to any future settlements or judgments, including cash required to bond any appeals, if necessary, or the impact of subsequent legislative actions, and thus can give no assurance that it will be able to meet all of those requirements.

Boardwalk Pipeline

At December 31, 2006 and 2005, cash and investments amounted to $399.0 million and $65.8 million, respectively. Funds from operations for the year ended December 31, 2006 amounted to $255.6 million, compared to $218.7 million in 2005. In 2006 and 2005, Boardwalk Pipeline's capital expenditures were $196.7 million and $83.0 million, respectively.

In June of 2006, Boardwalk Pipeline and certain of its subsidiaries entered into a $400.0 million unsecured revolving credit facility which amended and restated the previous $200.0 million facility entered into at the time of its initial public offering. Interest on amounts drawn under the credit facility is payable at a floating rate equal to an applicable spread per annum over the London Interbank Offered Rate ("LIBOR") or a base rate defined as the greater of the prime rate or the Federal funds rate plus 50 basis points. As of December 31, 2006, Boardwalk Pipeline was in compliance with all the covenant requirements under its credit agreement and no funds were drawn under this facility. The revolving credit facility has a maturity date of June 29, 2011.

In the fourth quarter of 2006, Boardwalk Pipeline sold 6,900,000 common units at a price of $29.65 per unit in a public offering and received net proceeds of $195.2 million. In addition, we contributed $4.2 million to maintain our 2.0% general partner interest.

In November of 2006, Boardwalk Pipeline completed an offering of $250.0 million of 5.9% senior notes due 2016 and received net proceeds of approximately $248.3 million. To hedge the risk attributable to changes in the risk-free component of forward 10-year interest rates through December 1, 2006, on October 5, 2006 Boardwalk Pipeline entered into a Treasury rate lock for a notional amount of $250.0 million of principal. The reference rate on the Treasury rate lock was 4.6%. The Treasury rate lock was settled at the time of the closing of its debt offering in November of 2006. Boardwalk Pipeline received $0.9 million from the counterparty as a result of the settlement of the Treasury rate lock, which has been recorded as a component of accumulated other comprehensive income. The amount of the credit in accumulated other comprehensive income will be recognized in income as a reduction to interest expense on a straight-line basis over the 10-year term of the 5.9% senior notes.

The proceeds of the equity and debt offerings will be used to finance its expansion activities. Boardwalk Pipeline used $90.0 million of the proceeds to repay outstanding borrowings under its revolving credit facility which had been used to finance expansion activities.

Boardwalk Pipeline is currently engaged in several major pipeline and storage expansion projects that will require the investment of approximately $3.3 billion of capital resources from 2007 to 2009 (before taking into account equity that would be contributed by the purchaser of a 49.0% interest in Gulf Crossing Pipeline). The pipeline expansion projects will transport natural gas supplies from the Bossier Sands, Barnett Shale, Fayetteville Shale and the Caney/Woodford Shale areas in East Texas, Arkansas and Oklahoma to existing or new assets and third-party interstate pipeline interconnects. For more information on Boardwalk Pipeline’s expansion projects, please read “Expansion Projects” in Item 1 of this Report.

For the year ending December 31, 2007, Boardwalk Pipeline expects to make capital expenditures of approximately $1.7 billion, of which it expects approximately $1.6 billion for the expansion projects discussed in Item 1 and approximately $60.0 million to be for maintenance capital. The amount of expansion capital Boardwalk Pipeline expends in 2007 could vary significantly depending on the progress made with these projects, the number and types of other capital projects Boardwalk Pipeline decides to pursue, the timing of any of those projects and numerous other factors beyond Boardwalk Pipeline’s control.

Boardwalk Pipeline entered into Treasury rate locks with two counterparties in August of 2006 each for a notional amount of $100.0 million of principal to hedge the risk attributable to changes in the risk-free component of forward 10-year interest rates through August 1, 2007. The reference rates on the Treasury rate locks were 5.0%. Under the terms of the Treasury rate locks, settlement amounts will be paid to either Boardwalk Pipeline or the counterparties depending on the movement of the 10-year Treasury rate versus the reference rates.

Boardwalk Pipeline expects to fund its 2007 maintenance capital expenditures from operating cash flows and its 2007 expansion capital expenditures with a combination of borrowings under the revolving credit facility and proceeds from sales of debt and equity securities.

During the year ended December 31, 2006, Boardwalk Pipeline paid cash distributions of $1.3188 per unit. In February of 2007, Boardwalk Pipeline declared a quarterly distribution of $0.415 per unit.

Diamond Offshore

Cash and investments, net of receivables and payables, totaled $825.8 million at December 31, 2006 compared to $844.8 at December 31, 2005. Cash provided by operating activities was $760.1 million in 2006, compared to $388.6 million in 2005. The increase in cash flow from operations in 2006 is the result of higher utilization and average dayrates earned by Diamond Offshore’s drilling units as a result of an increase in overall demand for offshore contract drilling services.

Diamond Offshore estimates that capital expenditures for rig modifications and new construction in 2007 and 2008 will be approximately $456.0 million. As of December 31, 2006, Diamond Offshore spent approximately $418.4 million for the upgrade of two rigs and construction of two new jack-up rigs.

Diamond Offshore estimates that capital expenditures in 2007 associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements will be approximately $316.0 million. In 2006, Diamond Offshore spent approximately $273.2 million for capital additions.

In November of 2006, Diamond Offshore entered into a $285.0 million syndicated, 5-year senior unsecured revolving credit facility for general corporate purposes, including loans and performance or standby letters of credit. As of December 31, 2006, there were no amounts outstanding under this credit facility.

Diamond Offshore's liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures and debt service requirements. Cash required to meet Diamond Offshore's capital commitments is determined by evaluating the need to upgrade rigs to meet specific customer requirements and by evaluating Diamond Offshore's ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability upgrades. It is the opinion of Diamond Offshore's management that its operating cash flows and cash reserves will be sufficient to meet these capital commitments; however, Diamond Offshore will continue to make periodic assessments based on industry conditions.

When Diamond Offshore renewed its principal insurance policies effective May 1, 2006, coverage for offshore drilling rigs, if available, was offered at substantially higher premiums than in the past and subject to an increasing number of coverage limitations, due in part to underwriting losses suffered by the insurance industry as a result of damage caused by hurricanes in the Gulf of Mexico in 2004 and 2005. In some cases, quoted renewal premiums increased by more than 200%, with the addition of substantial deductibles and limits on the amount of claims payable for losses arising from named windstorms. In light of these factors, Diamond Offshore determined that retention of additional risk was preferable to paying dramatically higher premiums for limited coverage. Accordingly, Diamond Offshore elected to self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico. For other physical damage coverage, its deductible is $150.0 million per occurrence. As a result of Diamond Offshore's reduced coverage, premiums for this coverage were reduced from the amounts paid in 2005 and were lower than the renewal rates quoted by its insurance carriers. Diamond Offshore also renewed its liability policies in May of 2006, with an increase in premiums and deductibles. The new deductibles under these policies have generally increased to $5.0 million per occurrence, but Diamond Offshore's deductibles arising in connection with certain liabilities relating to named windstorms in the U.S. Gulf of Mexico have increased to $10.0 million per occurrence, with no annual aggregate deductible. In addition, Diamond Offshore elected to self-insure a portion of its excess liability coverage related to named windstorms in the U.S. Gulf of Mexico. To the extent that Diamond Offshore incurs liabilities related to named windstorms in the U.S. Gulf of Mexico in excess of $75.0 million, Diamond Offshore is self-insured for up to a maximum retention of $17.5 million per occurrence in addition to these deductibles. Diamond Offshore is currently in the early stages of renewing its insurance policies that expire on May 1, 2007. Diamond Offshore is unable to predict what changes, if any, it may make to its insurance coverage effective May 1, 2007. If named windstorms in the U.S. Gulf of Mexico cause significant damage to its rigs or equipment, or to the property of others for which Diamond Offshore may be liable, it could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In the first quarter of 2006, Diamond Offshore paid a special cash dividend of $1.50 per share. In addition, Diamond Offshore paid regular quarterly cash dividends aggregating $0.50 per share during the year ended December 31, 2006. In the first quarter of 2007, Diamond Offshore declared a special cash dividend of $4.00 per share of its common stock payable on March 1, 2007 to shareholders of record on February 14, 2007.

Subsequent to December 31, 2006 and through February 14, 2007, the holders of $438.4 million in principal amount of Diamond Offshore's 1.5% Debentures converted their outstanding debentures into 8,943,284 shares of Diamond Offshore's common stock. As a result of these conversions, $21.5 million aggregate principal amount of the 1.5% Debentures remained outstanding as of February 14, 2007. The cash requirements for the interest payable to holders of its 1.5% debentures will be reduced due to the decrease in the outstanding principal amount.

Loews Hotels

Cash and short-term investments increased to $24.5 million at December 31, 2006 from $19.1 million at December 31, 2005. Funds from operations continue to exceed operating requirements. Funds for other capital expenditures and working capital requirements are expected to be provided from existing cash balances and operations.

In October of 2006, Loews Hotels entered into a joint venture with a single investor to fund acquisitions and/or develop hotels. Loews Hotels will manage the operations of all hotels acquired by the joint venture. As of December 31, 2006, Loews Hotels has invested approximately $14.6 million in the joint venture in connection with its acquisition of the 493 room Loews Lake Las Vegas Hotel.

Corporate and Other

Parent Company cash and investments, net of receivables and payables, at December 31, 2006 totaled $5.3 billion, as compared to $2.9 billion at December 31, 2005. The increase in net cash and investments is primarily due to the receipt of $1,306.4 million in dividends from subsidiaries and net proceeds of $728.4 million from CNA's repurchase of its Series H preferred stock. We also received net proceeds of $876.8 million and $751.5 million from the sale of 15,000,000 shares of Carolina Group stock in each of August and May of 2006. During 2006 we paid out $307.7 million of dividends to our shareholders, $509.8 million to repurchase Loews common stock and $300.0 million to repay at maturity our principal amount of 6.8% senior notes.

As of December 31, 2006, there were 544,203,457 shares of Loews common stock outstanding and 108,325,806 shares of Carolina Group stock outstanding. Depending on market and other conditions, we may purchase shares of our, and our subsidiaries', outstanding common stock in the open market or otherwise. During 2006, we purchased 13,934,500 shares of Loews common stock at an aggregate cost of $509.8 million.

We have an effective Registration Statement on Form S-3 registering the future sale of an unlimited amount of our debt and equity securities.

We continue to pursue conservative financial strategies while seeking opportunities for responsible growth. These include the expansion of existing businesses, full or partial acquisitions and dispositions, and opportunities for efficiencies and economies of scale.

Off-Balance Sheet Arrangements

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of December 31, 2006, the aggregate amount of quantifiable indemnification agreements in effect for sales of CNA business entities, assets, and third party loans was $933.0 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of December 31, 2006, CNA had outstanding unlimited indemnifications in connection with the sales of certain of their business entities or assets that included tax liabilities arising from prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases, losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statues of limitation expire, or until the agreed upon contract terms expire. As of December 31, 2006, CNA has recorded approximately $28.0 million of liabilities related to the CNA indemnification agreements.

At December 31, 2006 and 2005, we had no other off-balance sheet debt or other arrangements.

Contractual Cash Payment Obligations

Our contractual cash payment obligations are as follows:

	Payments Due by Period				
December 31, 2006	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
(In millions)					
Debt (a)	**$ 8,672.8**	**$ 317.7**	**$ 1,541.3**	**$ 1,137.9**	**$ 5,675.9**
Operating leases	**381.4**	**70.0**	**112.9**	**83.4**	**115.1**
Claim and claim expense reserves (b)	**31,398.0**	**7,147.0**	**9,341.0**	**4,810.0**	**10,100.0**
Future policy benefits reserves (c)	**10,803.0**	**346.0**	**348.0**	**337.0**	**9,772.0**
Policyholder funds reserves (c)	**994.0**	**382.0**	**454.0**	**9.0**	**149.0**
Purchase obligations (d)	**949.0**	**745.3**	**202.3**	**0.6**	**0.8**
Total	**$ 53,198.2**	**$ 9,008.0**	**$ 11,999.5**	**$ 6,377.9**	**$ 25,812.8**

(a) Includes estimated future interest payments, but does not include original issue discount. Please see Note 25 of the Notes to Consolidated Financial Statements included in Item 8 of this report and Liquidity and Capital Resources-Diamond Offshore, above, for discussion of changes in Diamond Offshore's long-term debt subsequent to December 31, 2006.

(b) Claim and claim adjustment expense reserves are not discounted and represent CNA's estimate of the amount and timing of the ultimate settlement and administration of claims based on its assessment of facts and circumstances known as of December 31, 2006. See the Reserves - Estimates and Uncertainties section of this MD&A for further information. Claim and claim adjustment expense reserves of $12.0 million related to business which has been 100% ceded to unaffiliated parties in connection with the individual life sale are not included.

(c) Future policy benefits and policyholder funds reserves are not discounted and represent CNA's estimate of the ultimate amount and timing of the settlement of benefits based on its assessment of facts and circumstances known as of December 31, 2006. Future policy benefit reserves of $891.0 million and policyholder fund reserves of $47.0 million related to business which has been 100% ceded to unaffiliated parties in connection with the individual life sale are not included. Additional information on future policy benefits and policyholder funds reserves is included in Note 1 of the Notes to Consolidated Financial Statements included under Item 8.

(d) Consists primarily of obligations aggregating approximately $456.0 million relating to Diamond Offshores' major upgrade of its *Ocean Endeavor* and *Ocean Monarch* rigs and construction of two new jack-up rigs, the *Ocean Scepter* and *Ocean Shield*. In addition, the table above includes $409.1 million related to Boardwalk Pipeline's expansion projects as previously discussed in Item 1. - Business.

In addition, as previously discussed, Lorillard has entered into the State Settlement Agreements which impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers. Lorillard's portion of ongoing adjusted settlement payments, including fees to settling plaintiffs' attorneys, are based on a number of factors which are described under "Liquidity and Capital Resources - Lorillard," above. Lorillard's cash payment in 2006 amounted to approximately $889.9 million and Lorillard estimates its cash payments in 2007 will be approximately $925.0 million to $975.0 million, primarily based on 2006 estimated industry volume. Payment obligations are not incurred until the related sales occur and therefore are not reflected in the above table.

INVESTMENTS

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments, and are carried at fair value. Equity securities, which are considered part of our trading portfolio, short sales and derivative instruments are marked to market and reported as net investment income in the Consolidated Statements of Income.

We enter into short sales and invest in certain derivative instruments that are used for asset and liability management activities, income enhancements to our portfolio management strategy and to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur. Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with our portfolio strategy.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized change in fair value of the derivative instruments recognized in the Consolidated Balance Sheets. We mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counter-parties. We occasionally require collateral from our derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty.

We do not believe that any of the derivative instruments we use are unusually complex, nor do the use of these instruments, in our opinion, result in a higher degree of risk. See "Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and Note 4 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for additional information with respect to derivative instruments, including recognized gains and losses on these instruments.

Insurance

Net Investment Income

The significant components of CNA's net investment income are presented in the following table:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Fixed maturity securities	**$ 1,841.9**	$ 1,607.5	$ 1,571.2
Short-term investments	**248.3**	146.6	56.1
Limited partnerships	**287.6**	254.4	212.0
Equity securities	**23.1**	25.0	13.8
Income from trading portfolio (a)	**102.6**	46.7	110.2
Interest on funds withheld and other deposits	**(68.1)**	(165.8)	(261.1)
Other	**18.9**	19.7	17.1
Total investment income	**2,454.3**	1,934.1	1,719.3
Investment expenses	**(42.1)**	(42.2)	(39.8)
Net investment income	**$ 2,412.2**	$ 1,891.9	$ 1,679.5

(a) There was no change in net unrealized gains (losses) on trading securities included in net investment income for the year ended December 31, 2006. The change in net unrealized gains (losses) on trading securities, included in net investment income, was $(7.0) and $2.0 million for the years ended December 31, 2005 and 2004.

Net investment income increased by $520.3 million for 2006 compared with 2005. The improvement was primarily driven by interest rate increases across fixed maturity securities and short term investments, an increase in the overall invested asset base resulting from improved cash flow and a reduction of interest expense on funds withheld and other deposits. During 2006 and 2005, CNA commuted several significant finite reinsurance contracts which contained interest crediting provisions and as a result, interest expense on funds withheld has declined significantly. No further interest expense is due on the funds withheld on the commuted contracts. The pretax interest expense on funds withheld related to these significant commuted contracts was $14.0 million, $84.0 million and $146.0 million for December 31, 2006, 2005 and 2004, and was reflected as a component of Net investment income in our Consolidated Statements of Income. The 2005 and 2004 amounts include the interest charges associated with the contract commuted in 2006. See Note 18 of the Notes to Consolidated Financial Statements included under Item 8 for additional information for interest costs on funds withheld and other deposits. Also impacting net investment income was increased income from the trading portfolio of $55.9 million. The increased income from the trading portfolio was largely offset by a corresponding increase in the policyholders' funds reserves supported by the trading portfolio, which is included in Insurance claims and policyholders' benefits on the Consolidated Statements of Income.

Net investment income increased by $212.4 million for 2005 compared with 2004. This increase was due to the reduced interest expense on funds withheld and other deposits discussed above and improved results across all other available-for-sale asset classes, especially short term investments, due to the improved period over period yields. This improvement was partly offset by decreases in investment income from the trading portfolio.

The bond segment of the investment portfolio yielded 5.6% in 2006, 4.9% in 2005 and 4.6% in 2004.

Net Realized Investment Gains (Losses)

The components of CNA's net realized investment gains (losses) are presented in the following table:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Realized investment gains (losses):			
Fixed maturity securities:			
U.S. government bonds	**$ 61.7**	$ (32.8)	$ 10.4
Corporate and other taxable bonds	**(98.2)**	(86.1)	122.8
Tax-exempt bonds	**53.5**	12.2	42.4
Asset-backed bonds	**(8.8)**	13.7	52.8
Redeemable preferred stock	**(2.9)**	2.5	18.7
Total fixed maturity securities	**5.3**	(90.5)	247.1
Equity securities	**15.6**	38.2	202.2
Derivative securities	**18.5**	49.1	(84.1)
Short-term investments	**(5.5)**	0.5	(3.4)
Other invested assets, including dispositions	**58.5**	(6.5)	(597.3)
Allocated to participating policyholders' and minority interests	**(0.5)**	2.7	(9.0)
Total realized investment gains (losses)	**91.9**	(6.5)	(244.5)
Income tax (expense) benefit	**(20.5)**	(1.3)	94.1
Minority interest	**(8.5)**	0.9	13.3
Net realized investment gains (losses)	**$ 62.9**	$ (6.9)	$ (137.1)

Net realized investment results increased by $69.8 million for 2006 compared with 2005. The increase in net realized investment results was primarily driven by improved results in fixed maturity securities, partially offset by increases in interest rate related other-than-temporary impairment ("OTTI") losses for which CNA did not assert an intent to hold until an anticipated recovery in value. For 2006, OTTI losses of $101.2 million were recorded primarily in the corporate and other taxable bonds sector. Other realized investment gains (losses) for the year ended December 31, 2006, included a $33.4 million pretax gain related to a settlement received as a result of bankruptcy litigation of a major telecommunications corporation.

Net realized investment results improved $130.2 million in 2005 compared with 2004. This improvement was primarily the result of a 2004 loss of $352.9 million on the sale of the individual life insurance business, partly offset by reduced gains for equities securities. Equity results in 2004 included a gain of $95.8 million related to CNA's investment in Canary Wharf Group PLC, a London-based real estate company. Also impacting results for 2005 versus 2004 were decreased results in the overall fixed maturity asset class partly offset by improved results for the derivatives asset class. OTTI losses of $63.9 million were recorded in 2005 across various sectors, including an OTTI loss of $20.1 million related to loans made under a credit facility to a national contractor, that are classified as fixed maturities. OTTI losses of $54.8 million were recorded in 2004 across various sectors, including an OTTI loss of $32.9 million related to loans to the national contractor. For additional information on loans to the national contractor, see Note 21 of the Notes to Consolidated Financial Statements included under Item 8. Other realized investment gains (losses) for the year ended December 31, 2005 and 2004 include gains and losses related to the sales of certain operations or affiliates that are described in Note 14 of the Notes to Consolidated Financial Statements included under Item 8.

A primary objective in the management of the fixed maturity and equity portfolios is to optimize return relative to underlying liabilities and respective liquidity needs. CNA's views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions, and the domestic and global economic conditions, are some of the factors that enter into an investment decision. CNA also continually monitors exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on its views of a specific issuer or industry sector.

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in Item 7A - Quantitative and Qualitative Disclosures about Market Risk included herein.

CNA invests in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk) and credit risk (risk of nonperformance of underlying obligor). Derivative securities are recorded at fair value at the reporting date. CNA also uses derivatives to mitigate market risk by purchasing S&P 500 index futures in a notional amount equal to the contract liability relating to Life and Group Non-Core indexed group annuity contracts. CNA provided collateral to satisfy margin deposits on exchange-traded derivatives totaling $27.0 million as of December 31, 2006. For over-the-counter derivative transactions CNA utilizes International Swaps and Derivatives Association ("ISDA") Master Agreements that specify certain limits over which collateral is exchanged. As of December 31, 2006, we provided $31.0 million of cash as collateral for over-the-counter derivative instruments.

A further consideration in the management of the investment portfolio is the characteristics of the underlying liabilities and the ability to align the duration of the portfolio to those liabilities to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and long term in nature, CNA segregates assets for asset liability management purposes.

CNA classifies its fixed maturity securities (bonds and redeemable preferred stocks) and its equity securities as either available-for-sale or trading, and as such, they are carried at fair value. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, which is included in net investment income. Changes in fair value related to available-for-sale securities are reported as a component of other comprehensive income. Changes in fair value of trading securities are reported within net investment income.

The following table provides further detail of gross realized gains and losses on available-for-sale fixed maturity and equity securities, which include OTTI losses:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Net realized gains (losses) on fixed maturity and equity securities:			
Fixed maturity securities:			
Gross realized gains	**$ 382.2**	$ 360.7	$ 703.9
Gross realized losses	**(377.0)**	(451.2)	(456.8)
Net realized gains (losses) on fixed maturity securities	**5.2**	(90.5)	247.1
Equity securities:			
Gross realized gains	**23.3**	73.2	225.3
Gross realized losses	**(7.6)**	(35.0)	(23.1)
Net realized gains on equity securities	**15.7**	38.2	202.2
Net realized gains (losses) on fixed maturity and equity securities	**$ 20.9**	$ (52.3)	$ 449.3

The following table provides details of the largest realized losses from sales of securities aggregated by issuer including: the fair value of the securities at date of sale, the amount of the loss recorded and the period of time that the security had been in an unrealized loss position prior to sale. The period of time that the security had been in an unrealized loss position prior to sale can vary due to the timing of individual security purchases. Also included is a narrative providing the industry sector along with the facts and circumstances giving rise to the loss.

Issuer Description and Discussion	Fair Value Date of Sale	Loss On Sale	Months in Unrealized Loss Prior To Sale (a)
(In millions)			
Various notes and bonds issued by the United States Treasury. Securities sold due to outlook on interest rates and inflation.	**$ 4,529.0**	**$ 18.0**	**0-6**
State issued revenue bonds. Positions were sold as part of a broader initiative to reduce municipal holdings.	**289.0**	**6.0**	**0-12**
Financial services group that provides property and casualty, managed care, life and various other insurance products in the United States. Position was sold to reduce exposure to the issuer and sector.	**56.0**	**5.0**	**0-6**
Company in the advertising industry, utilizing various venues including television, radio, outdoor displays, and live entertainment. The company has entered into an agreement to be acquired. Position was reduced in response to the announced transaction.	**66.0**	**5.0**	**0-12+**
Company develops and operates broadband cable communications networks, high-speed internet service and digital video applications. Position was sold in response to newly issued debt.	**92.0**	**5.0**	**0-6**
Total	**$ 5,032.0**	**$ 39.0**	

(a) Represents the range of consecutive months the various positions were in an unrealized loss prior to sale. 0-12+ means certain positions were less than 12 months, while others were greater than 12 months.

Valuation and Impairment of Investments

The following table details the carrying value of CNA's general account investments:

December 31		**2006**			2005	
(In millions of dollars)						
General account investments:						
Fixed maturity securities available-for-sale:						
U.S. Treasury securities and obligations of government agencies	$	**5,138.0**	**11.6%**	$	1,469.0	3.7%
Asset-backed securities		**13,677.0**	**31.0**		12,859.0	32.4
States, municipalities and political subdivisions-tax-exempt		**5,146.0**	**11.7**		9,209.0	23.2
Corporate securities		**7,132.0**	**16.2**		6,165.0	15.5
Other debt securities		**3,642.0**	**8.2**		3,044.0	7.7
Redeemable preferred stock		**912.0**	**2.1**		216.0	0.5
Options embedded in convertible debt securities					1.0	
Total fixed maturity securities available-for-sale		**35,647.0**	**80.8**		32,963.0	83.0
Fixed maturity securities trading:						
U.S. Treasury securities and obligations of government agencies		**2.0**			4.0	
Asset-backed securities		**55.0**	**0.1**		87.0	0.2
Corporate securities		**133.0**	**0.3**		154.0	0.4
Other debt securities		**14.0**			26.0	0.1
Total fixed maturity securities trading		**204.0**	**0.4**		271.0	0.7
Equity securities available-for-sale:						
Common stock		**452.0**	**1.0**		289.0	0.7
Preferred stock		**145.0**	**0.4**		343.0	0.9
Total equity securities available-for-sale		**597.0**	**1.4**		632.0	1.6
Equity securities trading		**60.0**	**0.1**		49.0	0.1
Short-term investments available-for-sale		**5,538.0**	**12.6**		3,870.0	9.8
Short-term investments trading		**172.0**	**0.4**		368.0	0.9
Limited partnerships		**1,852.0**	**4.2**		1,509.0	3.8
Other investments		**26.0**	**0.1**		33.0	0.1
Total general account investments	$	**44,096.0**	**100.0%**	$	39,695.0	100.0%

CNA's general account investments consist primarily of asset-backed securities, corporate securities, short term investments, municipal and U.S. treasury securities.

A significant judgment in the valuation of investments is the determination of when an OTTI has occurred. CNA analyzes securities on at least a quarterly basis. Part of this analysis is to monitor the length of time and severity of the decline below book value for those securities in an unrealized loss position. Information on CNA's OTTI process is set forth in Note 2 of the Notes to Consolidated Financial Statements included under Item 8.

Investments in the general account had a total net unrealized gain of $966.0 million at December 31, 2006 compared with $787.0 million at December 31, 2005. The unrealized position at December 31, 2006 was comprised of a net unrealized gain of $716.0 million for fixed maturities, a net unrealized gain of $249.0 million for equity securities, and a net unrealized gain of $1.0 million for short term securities. The unrealized position at December 31, 2005 was comprised of a net unrealized gain of $618.0 million for fixed maturities, a net unrealized gain of $170.0 million for equity securities, and a net unrealized loss of $1.0 million for short term securities. See Note 2 of the Notes of

Consolidated Financial Statements included under Item 8 for further detail on the unrealized position of CNA's general account investment portfolio.

CNA's investment policies for both the general account and separate account emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

The following table provides the composition of fixed maturity securities with an unrealized loss at December 31, 2006 in relation to the total of all fixed maturity securities with an unrealized loss by maturity profile. Securities not due at a single date are allocated based on weighted average life.

	Percent of Market Value	Percent of Unrealized Loss
Due in one year or less	**5.0%**	**3.0%**
Due after one year through five years	**44.0**	**50.0**
Due after five years through ten years	**33.0**	**24.0**
Due after ten years	**18.0**	**23.0**
Total	**100.0%**	**100.0%**

CNA's non-investment grade fixed maturity securities available-for-sale as of December 31, 2006 that were in a gross unrealized loss position had a fair value of $622.0 million. The following tables summarize the fair value and gross unrealized loss of non-investment grade securities categorized by the length of time those securities have been in a continuous unrealized loss position and further categorized by the severity of the unrealized loss position in 10.0% increments as of December 31, 2006 and 2005.

	Estimated	Fair Value as a Percentage of Book Value				Gross Unrealized
December 31, 2006	**Fair Value**	**90-99%**	**80-89%**	**70-79%**	**<70%**	**Loss**
(In millions)						
Fixed maturity securities:						
Non-investment grade:						
0-6 months	**$ 509.0**	**$ 2.0**				**$ 2.0**
7-12 months	**87.0**	**1.0**	**$ 1.0**			**2.0**
13-24 months	**24.0**					
Greater than 24 months	**2.0**					
Total non-investment grade	**$ 622.0**	**$ 3.0**	**$ 1.0**	**$ -**	**$ -**	**$ 4.0**
December 31, 2005						
Fixed maturity securities:						
Non- investment grade:						
0-6 months	$ 632.0	$ 20.0	$ 8.0	$ 1.0		$ 29.0
7-12 months	118.0	4.0	6.0			10.0
13-24 months	122.0	3.0				3.0
Greater than 24 months	2.0					
Total non-investment grade	$ 874.0	$ 27.0	$ 14.0	$ 1.0	$ -	$ 42.0

As part of the ongoing OTTI monitoring process, CNA evaluated the facts and circumstances based on available information for each of the non-investment grade securities and determined that the securities presented in the above tables were temporarily impaired when evaluated at December 31, 2006 and 2005. This determination was based on a number of factors that CNA regularly considers including, but not limited to: the issuers' ability to meet current and future interest and principal payments, an evaluation of the issuers' financial condition and near term prospects, CNA's assessment of the sector outlook and estimates of the fair value of any underlying collateral. In all cases where a decline in value is judged to be temporary, CNA has the intent and ability to hold these securities for a period of time sufficient to recover the book value of its investment through an anticipated recovery in the fair value of such securities or by holding the securities to maturity. In many cases, the securities held are matched to liabilities as part of ongoing asset/liability duration management. As such, CNA continually assesses its ability to hold securities for a time sufficient to recover any temporary loss in value or until maturity. CNA believes it has sufficient levels of liquidity so as to not impact the asset/liability management process.

CNA's equity securities classified as available-for-sale as of December 31, 2006 that were in an unrealized loss position had a fair value of $14.0 million and unrealized losses of $1 million. Under the same process as followed for fixed maturity securities, CNA monitors the equity securities for other-than-temporary declines in value. In all cases where a decline in value is judged to be temporary, CNA has the intent and ability to hold these securities for a period of time sufficient to recover the book value of its investment through anticipated recovery in the fair value of such securities.

Invested assets are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the value of these assets, it is possible that changes in these risks in the near term, including increases in interest rates, could have an adverse material impact on our results of operations or equity.

The general account portfolio consists primarily of high quality bonds, 90.9% and 92.1% of which were rated as investment grade (rated BBB or higher) at December 31, 2006 and 2005. The following table summarizes the ratings of CNA's general account bond portfolio at carrying value:

December 31		**2006**			2005	
(In millions of dollars)						
U.S. Government and affiliated agency securities	**$**	**5,285.0**	**15.1%**	$	1,628.0	4.9%
Other AAA rated		**16,311.0**	**46.7**		18,233.0	55.2
AA and A rated		**5,222.0**	**15.0**		6,046.0	18.3
BBB rated		**4,933.0**	**14.1**		4,499.0	13.7
Non investment-grade		**3,188.0**	**9.1**		2,612.0	7.9
Total	**$**	**34,939.0**	**100.0%**	$	33,018.0	100.0%

At December 31, 2006 and 2005, approximately 96.0% and 95.0% of the general account portfolio was issued by U.S. Government agencies or was rated by S&P or Moody's. The remaining bonds were rated by other rating agencies or CNA.

The following table summarizes the bond ratings of the investments supporting CNA's separate account products, which guarantee principal and a specified rate of interest:

December 31		**2006**			2005	
(In millions of dollars)						
Other AAA rated	**$**	**111.0**	**25.6%**	$	120.0	25.8%
AA and A rated		**242.0**	**55.8**		193.0	41.4
BBB rated		**75.0**	**17.3**		142.0	30.4
Non investment-grade		**6.0**	**1.3**		11.0	2.4
Total	**$**	**434.0**	**100.0%**	$	466.0	100.0%

At December 31, 2006 and 2005, 100.0% and 98.0% of the separate account portfolio was issued by U.S. Government and affiliated agencies or was rated by S&P or Moody's. The remaining bonds were rated by other rating agencies or CNA.

Non investment-grade bonds, as presented in the tables above, are high-yield securities rated below BBB by bond rating agencies, as well as other unrated securities that, in CNA's opinion, are below investment-grade. High-yield securities generally involve a greater degree of risk than investment-grade securities. However, expected returns should compensate for the added risk. This risk is also considered in the interest rate assumptions for the underlying insurance products.

The carrying value of securities that are either subject to trading restrictions or trade in illiquid private placement markets at December 31, 2006 was $191.0 million, which represents 0.4% of our total investment portfolio. These securities were in a net unrealized gain position of $143.0 million at December 31, 2006. Of these securities, 80.0% are priced by unrelated third party sources.

Included in CNA's general account fixed maturity securities at December 31, 2006 were $13,732.0 million of asset-backed securities, at fair value, consisting of approximately 63.0% in collateralized mortgage obligations ("CMOs"), 21.0% in corporate asset-backed obligations, 14.0% in corporate mortgage-backed pass-through certificates and 2.0% in U.S. Government agency issued pass-through certificates. The majority of CMOs held are actively traded in liquid markets and are primarily priced by a third party pricing service.

The carrying value of the components of the general account short-term investment portfolio is presented in the following table:

December 31	**2006**	2005
(In millions)		
Short-term investments available-for-sale:		
Commercial paper	**$ 923.0**	$ 1,906.0
U.S. Treasury securities	**1,093.0**	251.0
Money market funds	**196.0**	294.0
Other, including collateral held related to securities lending	**3,326.0**	1,419.0
Total short-term investments available-for-sale	**5,538.0**	3,870.0
Short-term investments trading:		
Commercial paper	**43.0**	94.0
U.S. Treasury securities	**2.0**	64.0
Money market funds	**127.0**	200.0
Other		10.0
Total short-term investments trading	**172.0**	368.0
Total short-term investments	**$ 5,710.0**	$ 4,238.0

The fair value of collateral held related to securities lending, included in other short-term investments, was $2,850.9 million and $767.4 million at December 31, 2006 and 2005.

ACCOUNTING STANDARDS

In September of 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS No. 157 retains the exchange price notion in the definition of fair value and clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS No. 157 expands disclosures surrounding the use of fair value to measure assets and liabilities and specifically focuses on the sources used to measure fair value. In instances of recurring use of fair value measures using unobservable inputs, SFAS No. 157 requires separate disclosure of the effect on earnings for the period. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that adopting SFAS No. 157 will have on our results of operations and equity.

In July of 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109." FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact that adopting FIN 48 will have and expect an impact to operations and equity of approximately $40.0 million, after minority interest.

In March of 2006, the FASB issued FASB Staff Position (“FSP”) 85-4-1, “Accounting for Life Settlement Contracts by Third-Party Investors.” A life settlement contract for purposes of FSP 85-4-1 is a contract between the owner of a life insurance policy (the “policy owner”) and a third-party investor (“investor”). The previous accounting guidance, FASB Technical Bulletin (“FTB”) No. 85-4, “Accounting for Purchases of Life Insurance”, required the purchaser of life insurance contracts to account for the life insurance contract at its cash surrender value. Because life insurance contracts are purchased in the secondary market at amounts in excess of the policies’ cash surrender values, the application of guidance in FTB 85-4 created a loss upon acquisition of the policy. FSP 85-4-1 provides initial and subsequent measurement guidance and financial statement presentation and disclosure guidance for investments by third-party investors in life settlement contracts. FSP 85-4-1 allows an investor to elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election shall be made on an instrument-by-instrument basis and is irrevocable. FSP 85-4-1 is effective for fiscal years beginning after June 15, 2006. CNA has elected to account for its investment in life settlement contracts using the fair value method and the initial expected impact upon adoption under the fair value method will be an increase to retained earnings as of January 1, 2007 of approximately $34.0 million.

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (“SOP”) 05-01, “Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts.” SOP 05-01 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, “Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments.” SOP 05-01 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-01 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Adoption of SOP 05-01 is not expected to have a material impact on our results of operations or financial condition.

FORWARD-LOOKING STATEMENTS DISCLAIMER

Investors are cautioned that certain statements contained in this document as well as some statements in periodic press releases and some oral statements made by our officials and our subsidiaries during presentations about us, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will be,” “will continue,” “will likely result,” and similar expressions. In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries, which may be provided by management are also forward-looking statements as defined by the Act.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or projected. These risks and uncertainties include, among others:

Risks and uncertainties primarily affecting us and our insurance subsidiaries

- the impact of competitive products, policies and pricing and the competitive environment in which CNA operates, including changes in CNA’s book of business;

- product and policy availability and demand and market responses, including the level of CNA's ability to obtain rate increases and decline or non-renew underpriced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;

- development of claims and the impact on loss reserves, including changes in claim settlement policies;

- the performance of reinsurance companies under reinsurance contracts with CNA;

- the effects upon insurance markets and upon industry business practices and relationships of current litigation, investigations and regulatory activity by the New York State Attorney General's office and other authorities concerning contingent commission arrangements with brokers and bid solicitation activities;

- legal and regulatory activities with respect to certain non-traditional and finite-risk insurance products, and possible resulting changes in accounting and financial reporting in relation to such products, including our restatement of financial results in May of 2005 and CNA's relationship with an affiliate, Accord Re Ltd., as disclosed in connection with that restatement;

- regulatory limitations, impositions and restrictions upon CNA, including the effects of assessments and other surcharges for guaranty funds and second-injury funds and other mandatory pooling arrangements;

- weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, as well as of natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow;

- man-made disasters, including the possible occurrence of terrorist attacks and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;

- the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to CNA's ability to contain its terrorism exposure effectively, notwithstanding the extension until 2007 of the Terrorism Risk Insurance Act of 2002;

- the occurrence of epidemics;

- exposure to liabilities due to claims made by insureds and others relating to asbestos remediation and health-based asbestos impairments, as well as exposure to liabilities for environmental pollution, mass tort and construction defect claims and exposure to liabilities due to claims made by insureds and others relating to lead-based paint;

- whether a national privately financed trust to replace litigation of asbestos claims with payments to claimants from the trust will be established or approved through federal legislation, or, if established and approved, whether it will contain funding requirements in excess of CNA's established loss reserves or carried loss reserves;

- the sufficiency of CNA's loss reserves and the possibility of future increases in reserves:

- regulatory limitations and restrictions, including limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies and minimum risk-based capital standards established by the National Association of Insurance Commissioners;

- the risks and uncertainties associated with CNA's loss reserves as outlined in the Critical Accounting Estimates, Reserves - Estimates and Uncertainties section of this MD&A;

- the level of success in integrating acquired businesses and operations, and in consolidating, or selling existing ones;

- the possibility of further changes in CNA's ratings by ratings agencies, including the inability to access certain markets or distribution channels, and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices;
- the effects of corporate bankruptcies and accounting errors, such as Enron and WorldCom, on capital markets and on the markets for directors and officers and errors and omissions coverages;
- general economic and business conditions, including inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;
- the effectiveness of current initiatives by claims management to reduce the loss and expense ratios through more efficacious claims handling techniques; and
- changes in the composition of CNA's operating segments.

Risks and uncertainties primarily affecting us and our tobacco subsidiaries

- health concerns, claims and regulations relating to the use of tobacco products and exposure to environmental tobacco smoke;
- legislation, including actual and potential excise tax increases, and the effects of tobacco litigation settlements on pricing and consumption rates;
- continued intense competition from other cigarette manufacturers, including significant levels of promotional activities and the presence of a sizable deep-discount category;
- the continuing decline in volume in the domestic cigarette industry;
- increasing marketing and regulatory restrictions, governmental regulation and privately imposed smoking restrictions;
- litigation, including risks associated with adverse jury and judicial determinations, courts reaching conclusions at variance with the general understandings of applicable law, bonding requirements and the absence of adequate appellate remedies to get timely relief from any of the foregoing; and
- the impact of each of the factors described under "Results of Operations—Lorillard" in the MD&A portion of this Report.

Risks and uncertainties primarily affecting us and our energy subsidiaries

- the impact of changes in demand for oil and natural gas and oil and gas price fluctuations on exploration and production activity;
- costs and timing of rig upgrades;
- utilization levels and dayrates for offshore oil and gas drilling rigs;
- the availability and cost of insurance, and the risks associated with self-insurance, covering drilling rigs;
- regulatory issues affecting natural gas transmission, including ratemaking and other proceedings particularly affecting our gas transmission subsidiaries;
- the ability of Texas Gas and Gulf South to renegotiate, extend or replace existing customer contracts on favorable terms;

- the successful development and projected cost of planned expansion projects and investments; and
- the development of additional natural gas reserves and the completion of projected new liquefied natural gas facilities and expansion of existing facilities.

Risks and uncertainties affecting us and our subsidiaries generally

- general economic and business conditions;
- changes in financial markets (such as interest rate, credit, currency, commodities and equities markets) or in the value of specific investments;
- changes in domestic and foreign political, social and economic conditions, including the impact of the global war on terrorism, the war in Iraq, the future outbreak of hostilities and future acts of terrorism;
- the economic effects of the September 11, 2001 terrorist attacks, other terrorist attacks and the war in Iraq;
- potential changes in accounting policies by the Financial Accounting Standards Board (the "FASB"), the SEC or regulatory agencies for any of our subsidiaries' industries which may cause us or our subsidiaries to revise their financial accounting and/or disclosures in the future, and which may change the way analysts measure our and our subsidiaries business or financial performance;
- the impact of regulatory initiatives and compliance with governmental regulations, judicial rulings and jury verdicts;
- the results of financing efforts;
- the closing of any contemplated transactions and agreements; and
- the outcome of pending litigation.

Developments in any of these areas, which are more fully described elsewhere in this Report, could cause our results to differ materially from results that have been or may be anticipated or projected. Forward-looking statements speak only as of the date of this Report and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

SUPPLEMENTAL FINANCIAL INFORMATION

The following supplemental condensed financial information reflects the financial position, results of operations and cash flows of Loews Corporation with our investments in CNA and Diamond Offshore accounted for on an equity basis rather than as consolidated subsidiaries. It does not purport to present our financial position, results of operations and cash flows in accordance with generally accepted accounting principles because it does not comply with SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." We believe, however, that this disaggregated financial data enhances an understanding of the consolidated financial statements by providing users with a format that our management uses in assessing our performance. See Notes 1 and 24 of the Notes to Consolidated Financial Statements included in Item 8.

Condensed Balance Sheet Information

Loews Corporation and Subsidiaries
(Including CNA and Diamond Offshore on the Equity Method)

December 31		**2006**		2005
(In millions)				
Assets:				
Current assets	**$**	**997.4**	$	1,006.9
Investments, primarily short-term instruments		**8,979.0**		4,883.2
Total current assets and investments in securities		**9,976.4**		5,890.1
Investment in CNA		**8,706.3**		8,245.2
Investment in Diamond Offshore		**1,304.8**		1,039.7
Property, plant and equipment		**2,606.6**		2,469.3
Other assets		**560.2**		602.4
Total assets	**$**	**23,154.3**	$	18,246.7
Liabilities and Shareholders' Equity:				
Current liabilities	**$**	**2,996.4**	$	2,047.8
Long-term debt, less current maturities and unamortized discount		**2,448.0**		2,202.4
Other liabilities		**1,208.1**		904.4
Total liabilities		**6,652.5**		5,154.6
Shareholders' equity		**16,501.8**		13,092.1
Total liabilities and shareholders' equity	**$**	**23,154.3**	$	18,246.7

Condensed Statements of Income Information

Loews Corporation and Subsidiaries
(Including CNA and Diamond Offshore on the Equity Method)

Year Ended December 31	2006	2005	2004
(In millions)			
Revenues:			
Manufactured products and other	**$ 4,957.9**	$ 4,684.4	$ 4,304.7
Net investment income	**461.0**	180.9	189.9
Investment gains (losses)	**8.6**	(5.5)	(11.8)
Total	**5,427.5**	4,859.8	4,482.8
Expenses:			
Cost of manufactured products sold and other	**3,463.4**	3,349.0	2,990.0
Interest	**149.5**	198.1	176.3
Income tax expense	**690.8**	486.5	497.0
Total	**4,303.7**	4,033.6	3,663.3
Income from operations	**1,123.8**	826.2	819.5
Equity in income (loss) of:			
CNA	**1,041.2**	239.8	425.0
Diamond Offshore	**352.0**	126.9	(9.2)
Income from continuing operations	**2,517.0**	1,192.9	1,235.3
Discontinued operations, net	**(25.7)**	18.7	(19.5)
Net income	**$ 2,491.3**	$ 1,211.6	$ 1,215.8

Condensed Statements of Cash Flow Information

Loews Corporation and Subsidiaries
(Including CNA and Diamond Offshore on the Equity Method)

Year Ended December 31	**2006**	2005	2004
(In millions)			
Operating Activities:			
Net income	**$ 2,491.3**	$ 1,211.6	$ 1,215.8
Adjustments to reconcile net income to net cash provided by			
operating activities:			
Undistributed earnings of CNA and Diamond Offshore	**(984.4)**	(359.1)	(378.8)
Investment (gains) losses	**(8.6)**	5.5	11.8
Other	**253.1**	184.7	81.5
Changes in assets and liabilities-net			
Trading securities	**(1,848.6)**	(290.6)	105.8
Other-net	**(109.5)**	136.9	(37.7)
Total	**(206.7)**	889.0	998.4
Investing Activities:			
Net increase in investments	**(1,690.7)**	(261.5)	(361.5)
Change in collateral on loaned securities	**750.6**		
Redemption of CNA preferred stock	**750.0**		
Purchase of CNA common stock	**(264.5)**		
Acquisition of Gas Pipelines-net of cash			(1,111.4)
Other	**(238.1)**	(116.0)	(101.4)
Net cash flow investing activities - continuing operations	**(692.7)**	(377.5)	(1,574.3)
Net cash flow investing activities - discontinued operations		8.4	
Net cash flow investing activities - total	**(692.7)**	(369.1)	(1,574.3)
Financing Activities:			
Dividends paid to shareholders	**(307.7)**	(239.9)	(216.8)
Dividends paid to minority interests	**(19.8)**		
Purchases of treasury shares	**(509.8)**		
Increase (decrease) in long-term debt-net	**(97.4)**	(1,025.6)	555.8
Issuance of common stock	**1,641.8**	432.5	287.8
Proceeds from subsidiary stock offering	**195.2**	271.4	
Excess tax benefits from share-based payment arrangements	**4.9**		
Total	**907.2**	(561.6)	626.8
Net change in cash	**7.8**	(41.7)	50.9
Net cash transactions from:			
Continuing operations to discontinued operations		8.4	
Discontinued operations to continuing operations		(8.4)	
Cash, beginning of year	**31.8**	73.5	22.6
Cash, end of year	**$ 39.6**	$ 31.8	$ 73.5

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are a large diversified financial services company. As such, we and our subsidiaries have significant amounts of financial instruments that involve market risk. Our measure of market risk exposure represents an estimate of the change in fair value of our financial instruments. Changes in the trading portfolio are recognized in the Consolidated Statements of Income. Market risk exposure is presented for each class of financial instrument held by us at December 31, assuming immediate adverse market movements of the magnitude described below. We believe that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since our investment portfolio is subject to change based on our portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

Exposure to market risk is managed and monitored by senior management. Senior management approves our overall investment strategy and has responsibility to ensure that the investment positions are consistent with that strategy with an acceptable level of risk. We may manage risk by buying or selling instruments or entering into offsetting positions.

Interest Rate Risk - We have exposure to interest rate risk arising from changes in the level or volatility of interest rates. We attempt to mitigate our exposure to interest rate risk by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. We monitor our sensitivity to interest rate risk by evaluating the change in the value of our financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates by varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of our investments and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of our financial instruments to selected changes in market rates and prices which we believe are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of our interest sensitive assets and liabilities that were held on December 31, 2006 and 2005 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.

The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly, the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes of market interest rates on our earnings or shareholders' equity. Further, the computations do not contemplate any actions we could undertake in response to changes in interest rates.

Our debt is denominated in U.S. Dollars and has been primarily issued at fixed rates, therefore, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $559.9 million and $528.5 million at December 31, 2006 and 2005, respectively. The impact of a 100 basis point decrease would result in an increase in market value of $352.9 million and $328.4 million at December 31, 2006 and 2005 respectively.

Equity Price Risk - We have exposure to equity price risk as a result of our investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes. Equity price risk was measured assuming an instantaneous 25% decrease in the underlying reference price or index from its level at December 31, 2006 and 2005, with all other variables held constant.

Foreign Exchange Rate Risk - Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. We have foreign exchange rate exposure when we buy or sell foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by our asset/liability matching strategy and through the use of futures for those instruments which are not matched. Our foreign transactions are primarily denominated in Australian dollars, Canadian dollars, British pounds, Japanese yen and the European Monetary Unit. The sensitivity analysis assumes an instantaneous 20% decrease in the foreign currency exchange rates versus the U.S. dollar from their levels at December 31, 2006 and 2005, with all other variables held constant.

Commodity Price Risk - We have exposure to price risk as a result of our investments in commodities. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous increase in commodity prices of 20% from their levels at December 31, 2006 and an instantaneous decrease in commodity prices of 20% from their levels at December 31, 2005.

Credit Risk - We are exposed to credit risk which relates to the risk of loss resulting from the nonperformance by a customer of its contractual obligations. Boardwalk Pipeline has exposure related to receivables for services provided, as well as volumes owed by customers for imbalances or gas lent by Boardwalk Pipeline to them generally under parking and lending services and no-notice services. Boardwalk Pipeline maintains credit policies intended to minimize this risk and actively monitors these policies. Natural gas price volatility has increased dramatically in recent years, which has materially increased Boardwalk Pipeline's credit risk related to gas loaned to its customers. As of December 31, 2006, the amount of gas loaned out was approximately 15.1 trillion British thermal units ("TBtu") and, assuming an average market price during December 2006 of $6.81 per million British thermal units ("MMBtu"), the market value of gas loaned out at December 31, 2006 would have been approximately $102.8 million. If any significant customer should have credit or financial problems resulting in a delay or failure to repay the gas it owes Boardwalk Pipeline, it could have a material adverse effect on our financial condition, results of operations and cash flows.

The following tables present our market risk by category (equity markets, interest rates, foreign currency exchange rates and commodity prices) on the basis of those entered into for trading purposes and other than trading purposes.

Trading portfolio:

Category of risk exposure:	**Fair Value Asset (Liability)**		**Market Risk**	
December 31	**2006**	2005	**2006**	2005
(Amounts in millions)				
Equity markets (1):				
Equity securities (a)	**$ 685.5**	$ 441.8	**$ (171.0)**	$ (110.0)
Options-purchased	**25.9**	33.5	**(1.0)**	(1.0)
-written	**(13.0)**	(9.1)	**9.0**	2.0
Warrants	**0.4**	0.1		
Short sales	**(61.9)**	(67.3)	**15.0**	17.0
Limited partnership investments	**343.2**	371.7	**(27.0)**	(25.0)
Interest rate (2):				
Treasury - short		(78.6)		(7.0)
Futures − long			**(29.0)**	
Futures - short			**21.0**	(10.0)
Interest rate swaps − long	**(0.5)**		**(4.0)**	
Interest rate swaps − short		(0.1)		(2.0)
Short sales-foreign		(19.9)		(2.0)
Fixed maturities	**1,921.7**	415.7	**(38.0)**	3.0
Short-term investments	**4,385.5**	367.7		
Other derivatives	**2.2**	0.1	**9.0**	(3.0)
Commodities (3):				
Options-purchased	**0.5**	0.5	**(1.0)**	10.0
-written	**(0.1)**	(0.7)	**1.0**	(14.0)

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25%, (2) an increase in interest rates of 100 basis points in 2006 and a decrease in interest rates of 100 basis points in 2005 and (3) an increase in commodity prices of 20% in 2006 and a decrease in commodity prices of 20% in 2005. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

(a) A decrease in equity prices of 25% would result in market risk amounting to $(162.0) and $(255.0) at December 31, 2006 and 2005, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Other than trading portfolio:

Category of risk exposure:	**Fair Value Asset (Liability)**		**Market Risk**	
December 31	**2006**	2005	**2006**	2005
(Amounts in millions)				
Equity markets (1):				
Equity securities:				
General accounts (a)	**$ 597.0**	$ 631.8	**$ (149.0)**	$ (158.0)
Separate accounts	**41.4**	43.5	**(10.0)**	(11.0)
Limited partnership investments	**1,817.3**	1,397.3	**(143.0)**	(112.0)
Interest rate (2):				
Fixed maturities (a)(b)	**35,648.0**	32,965.5	**(1,959.0)**	(1,897.0)
Short-term investments (a)	**8,436.9**	8,738.9	**(5.0)**	(4.0)
Other invested assets	**21.3**	27.8		
Other derivative securities	**4.6**	3.6	**190.0**	66.0
Separate accounts (a):				
Fixed maturities	**433.5**	466.1	**(21.0)**	(23.0)
Short-term investments	**21.4**	36.2		
Debt	**(5,443.0)**	(5,530.0)		

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25% and (2) an increase in interest rates of 100 basis points.

(a) Certain securities are denominated in foreign currencies. An assumed 20% decline in the underlying exchange rates would result in an aggregate foreign currency exchange rate risk of $(283.0) and $(245.0) at December 31, 2006 and 2005, respectively.

(b) Certain fixed maturities positions include options embedded in convertible debt securities. A decrease in underlying equity prices of 25% would result in market risk amounting to $(227.0) and $(54.0) at December 31, 2006 and 2005, respectively.

Item 8. Financial Statements and Supplementary Data.

Financial Statements and Supplementary Data are comprised of the following sections:

Loews Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

Assets:

December 31		**2006**		2005
(Dollar amounts in millions, except per share data)				
Investments (Notes 1, 2, 3 and 4):				
Fixed maturities, amortized cost of $36,852.6 and $32,759.0	**$**	**37,569.7**	$	33,381.2
Equity securities, cost of $967.0 and $903.5		**1,308.8**		1,107.2
Limited partnership investments		**2,160.5**		1,769.0
Other investments		**27.4**		32.0
Short-term investments		**12,822.4**		9,106.6
Total investments		**53,888.8**		45,396.0
Cash		**133.8**		153.1
Receivables (Notes 1 and 7)		**13,027.3**		15,543.9
Property, plant and equipment (Notes 1 and 8)		**5,501.3**		4,951.6
Deferred income taxes (Note 11)		**620.9**		905.3
Goodwill and other intangible assets (Note 1)		**298.9**		297.4
Other assets (Notes 1, 14, 17 and 18)		**1,716.5**		1,909.6
Deferred acquisition costs of insurance subsidiaries (Note 1)		**1,190.4**		1,197.4
Separate account business (Notes 1, 3 and 4)		**503.0**		551.5
Total assets	**$**	**76,880.9**	$	70,905.8

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity:

December 31		**2006**		2005
(Dollar amounts in millions, except per share data)				
Insurance reserves (Notes 1 and 9):				
Claim and claim adjustment expense	**$**	**29,636.0**	$	30,938.0
Future policy benefits		**6,644.7**		6,297.2
Unearned premiums		**3,783.8**		3,705.7
Policyholders' funds		**1,015.4**		1,495.3
Total insurance reserves		**41,079.9**		42,436.2
Payable for securities purchased (Note 4)		**1,046.7**		401.7
Collateral on loaned securities (Notes 1 and 2)		**3,601.5**		767.4
Short-term debt (Notes 3 and 12)		**4.6**		598.2
Long-term debt (Notes 3 and 12)		**5,567.8**		4,608.6
Reinsurance balances payable (Notes 1, 14 and 18)		**539.1**		1,636.2
Other liabilities (Notes 1, 3, 15 and 17)		**5,140.2**		4,755.0
Separate account business (Notes 1, 3 and 4)		**503.0**		551.5
Total liabilities		**57,482.8**		55,754.8
Minority interest		**2,896.3**		2,058.9
Commitments and contingent liabilities				
(Notes 1, 2, 4, 9, 10, 11, 12, 14, 15, 16, 17, 18, 20 and 21)				
Shareholders' equity (Notes 1, 2, 5, 12 and 13):				
Preferred stock, $0.10 par value:				
Authorized - 100,000,000 shares				
Loews common stock, $0.01 par value:				
Authorized - 1,800,000,000 shares				
Issued and outstanding - 544,203,457 and 557,540,667 shares		**5.4**		5.6
Carolina Group stock, $0.01 par value:				
Authorized - 600,000,000 shares				
Issued - 108,665,806 and 78,531,678 shares		**1.1**		0.8
Additional paid-in capital		**4,017.6**		2,417.9
Earnings retained in the business		**12,098.7**		10,364.4
Accumulated other comprehensive income		**386.7**		311.1
		16,509.5		13,099.8
Less treasury stock, at cost (340,000 shares of Carolina Group stock as of December 31, 2006 and 2005)		**7.7**		7.7
Total shareholders' equity		**16,501.8**		13,092.1
Total liabilities and shareholders' equity	**$**	**76,880.9**	$	70,905.8

See Notes to Consolidated Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31	**2006**	2005	2004
(In millions, except per share data)			
Revenues (Note 1):			
Insurance premiums (Note 18)	**$ 7,603.1**	$ 7,568.6	$ 8,205.2
Net investment income (Note 2)	**2,911.1**	2,098.8	1,875.3
Investment gains (losses) (Note 2)	**91.5**	(13.2)	(256.0)
Gain on issuance of subsidiary stock (Note 14)	**9.0**		
Manufactured products (including excise taxes of $698.5, $676.1 and $658.1)	**3,961.8**	3,752.4	3,515.2
Other	**3,334.5**	2,611.2	1,897.2
Total	**17,911.0**	16,017.8	15,236.9
Expenses (Note 1):			
Insurance claims and policyholders' benefits (Notes 9 and 18)	**6,046.2**	6,998.7	6,445.0
Amortization of deferred acquisition costs	**1,534.2**	1,542.6	1,679.8
Cost of manufactured products sold (Note 20)	**2,261.7**	2,202.3	2,045.4
Other operating expenses	**3,305.6**	3,063.5	2,913.8
Restructuring and other related charges (Note 15)	**(12.9)**		
Interest	**304.1**	364.2	324.1
Total	**13,438.9**	14,171.3	13,408.1
	4,472.1	1,846.5	1,828.8
Income tax expense (Note 11)	**1,450.7**	490.4	536.2
Minority interest	**504.4**	163.2	57.3
Total	**1,955.1**	653.6	593.5
Income from continuing operations	**2,517.0**	1,192.9	1,235.3
Discontinued operations, net (Note 22)	**(25.7)**	18.7	(19.5)
Net income	**$ 2,491.3**	$ 1,211.6	$ 1,215.8
Net income attributable to (Note 5):			
Loews common stock:			
Income from continuing operations	**$ 2,100.6**	$ 941.6	$ 1,050.8
Discontinued operations, net	**(25.7)**	18.7	(19.5)
Loews common stock	**2,074.9**	960.3	1,031.3
Carolina Group stock	**416.4**	251.3	184.5
Total	**$ 2,491.3**	$ 1,211.6	$ 1,215.8
Basic and diluted net income per Loews common share (Note 5):			
Income from continuing operations	**$ 3.80**	$ 1.69	$ 1.89
Discontinued operations, net	**(0.05)**	0.03	(0.04)
Net income	**$ 3.75**	$ 1.72	$ 1.85
Basic and diluted net income per Carolina Group share (Note 5)	**$ 4.46**	$ 3.62	$ 3.15
Basic weighted average number of shares outstanding:			
Loews common stock	**552.68**	557.10	556.50
Carolina Group stock	**93.37**	69.40	58.49
Diluted weighted average number of shares outstanding:			
Loews common stock	**553.54**	557.96	556.93
Carolina Group stock	**93.47**	69.49	58.50

See Notes to Consolidated Financial Statements.

(In millions, except per share data)	Comprehensive Income (Loss)	Loews Common Stock	Carolina Group Stock	Additional Paid-in Capital	Earnings Retained in the Business	Accumulated Other Comprehensive Income	Common Stock Held in Treasury
Balance, January 1, 2004, as previously reported		$ 185.4	$ 0.6	$ 1,513.7	$ 8,393.7	$ 769.5	$ (7.7)
Par value adjustment, Loews common stock		(550.7)		550.7			
Three-for-one stock split		370.9		(370.9)			
Balance, January 1, 2004 as Adjusted		5.6	0.6	1,693.5	8,393.7	769.5	(7.7)
Comprehensive Income:							
Net income	$ 1,215.8				1,215.8		
Other comprehensive losses	(172.1)					(172.1)	
Comprehensive income	$ 1,043.7						
Dividends paid:							
Loews common stock, $0.20 per share					(111.3)		
Carolina Group stock, $1.82 per share					(105.5)		
Issuance of Loews common stock				6.4			
Issuance of Carolina Group stock (Note 6)			0.1	281.3			
Balance, December 31, 2004		5.6	0.7	1,981.2	9,392.7	597.4	(7.7)
Comprehensive income:							
Net income	$ 1,211.6				1,211.6		
Other comprehensive losses	(286.3)					(286.3)	
Comprehensive income	$ 925.3						
Dividends paid:							
Loews common stock, $0.20 per share					(111.4)		
Carolina Group stock, $1.82 per share					(128.5)		
Issuance of Loews common stock				15.5			
Issuance of Carolina Group stock (Note 6)			0.1	421.2			
Balance, December 31, 2005		5.6	0.8	2,417.9	10,364.4	311.1	(7.7)
Comprehensive income:							
Net income	**$ 2,491.3**				**2,491.3**		
Other comprehensive gains	**218.7**					**218.7**	
Comprehensive income	**$ 2,710.0**						
Adjustment to initially apply SFAS No. 158 (Note 17)						**(143.1)**	
Dividends paid:							
Loews common stock, $0.24 per share					**(131.1)**		
Carolina Group stock, $1.82 per share					**(176.6)**		
Purchase of Loews treasury stock							**(509.8)**
Retirement of treasury stock		**(0.2)**		**(60.3)**	**(449.3)**		**509.8**
Issuance of Loews common stock				**17.1**			
Issuance of Carolina Group stock (Note 6)			**0.3**	**1,630.9**			
Stock-based compensation				**9.4**			
Other				**2.6**			
Balance, December 31, 2006		**$ 5.4**	**$ 1.1**	**$ 4,017.6**	**$ 12,098.7**	**$ 386.7**	**$ (7.7)**

See Notes to Consolidated Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2006	2005	2004
(In millions)			
Operating Activities:			
Net income	**$ 2,491.3**	$ 1,211.6	$ 1,215.8
Adjustments to reconcile net income to net cash provided			
(used) by operating activities:			
Income (loss) from discontinued operations	**25.7**	(18.7)	19.5
Provision for doubtful accounts and cash discounts	**210.6**	52.7	228.2
Investment (gains) losses	**(100.5)**	13.2	256.0
Undistributed earnings	**(205.8)**	(79.2)	(42.2)
Provision for minority interest	**504.4**	163.2	57.3
Amortization of investments	**(407.5)**	(207.6)	(21.5)
Depreciation and amortization	**399.5**	382.1	350.8
Provision for deferred income taxes	**254.5**	(109.6)	55.1
Other non-cash items	**1.8**	(2.3)	62.4
Changes in operating assets and liabilities-net:			
Reinsurance receivables	**2,489.4**	3,451.3	(971.7)
Other receivables	**(461.1)**	315.1	156.3
Prepaid reinsurance premiums	**(2.9)**	789.3	233.7
Deferred acquisition costs	**7.0**	70.7	193.6
Insurance reserves and claims	**(771.1)**	(942.3)	1,075.4
Reinsurance balances payable	**(1,097.1)**	(1,344.6)	(317.8)
Other liabilities	**388.5**	11.9	465.1
Trading securities	**(2,023.6)**	(125.7)	13.1
Other, net	**22.6**	(216.2)	169.2
Net cash flow operating activities - continuing operations	**1,725.7**	3,414.9	3,198.3
Net cash flow operating activities - discontinued operations	**(11.0)**	(47.8)	(16.8)
Net cash flow operating activities - total	**1,714.7**	3,367.1	3,181.5
Investing Activities:			
Purchases of fixed maturities	**(63,517.0)**	(80,805.2)	(76,690.4)
Proceeds from sales of fixed maturities	**52,413.4**	68,771.8	60,229.9
Proceeds from maturities of fixed maturities	**9,090.1**	11,298.8	9,257.3
Purchases of equity securities	**(351.8)**	(482.1)	(386.8)
Proceeds from sales of equity securities	**220.8**	317.2	547.8
Purchases of property and equipment	**(934.6)**	(477.8)	(267.0)
Proceeds from sales of property and equipment	**24.0**	85.0	52.7
Change in collateral on loaned securities	**2,834.1**	(150.6)	476.2
Change in short-term investments	**(2,272.5)**	(646.4)	3,307.4
Sales of businesses, net of cash		57.3	648.0
Change in other investments	**(179.3)**	229.2	(123.5)
Acquisition of Gas Pipelines, net of cash			(1,111.4)
Net cash flow investing activities - continuing operations	**(2,672.8)**	(1,802.8)	(4,059.8)
Net cash flow investing activities - discontinued operations	**36.1**	28.3	18.0
Net cash flow investing activities - total	**(2,636.7)**	(1,774.5)	(4,041.8)

Year Ended December 31	**2006**	2005	2004
(In millions)			
Financing Activities:			
Dividends paid	**$ (307.7)**	$ (239.9)	$ (216.8)
Dividends paid to minority interests	**(137.7)**	(22.0)	(14.8)
Purchases of treasury shares	**(509.8)**		
Purchases of treasury shares by subsidiaries			(17.6)
Issuance of common stock	**1,641.8**	432.5	287.8
Proceeds from subsidiary stock offering	**429.7**	271.4	
Principal payments on debt	**(730.2)**	(3,277.7)	(606.0)
Issuance of debt	**1,096.9**	1,460.1	1,747.9
Receipts of policyholder account balances on investment contracts	**3.7**	6.6	180.8
Withdrawals of policyholder account balances on investment contracts	**(588.9)**	(281.2)	(479.4)
Excess tax benefits from share-based payment arrangements	**6.7**		
Other	**9.5**	5.6	6.5
Net cash flow financing activities - continuing operations	**914.0**	(1,644.6)	888.4
Net change in cash	**(8.0)**	(52.0)	28.1
Net cash transactions from:			
Continuing operations to discontinued operations	**13.8**	(34.3)	12.2
Discontinued operations to continuing operations	**(13.8)**	34.3	(12.2)
Cash, beginning of year	**182.0**	234.0	205.9
Cash, end of year	**$ 174.0**	$ 182.0	$ 234.0
Cash, end of year:			
Continuing operations	**$ 133.8**	$ 153.1	$ 219.9
Discontinued operations	**40.2**	28.9	14.1
Total	**$ 174.0**	$ 182.0	$ 234.0

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Basis of presentation - Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation ("CNA"), an 89% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc. ("Lorillard"), a wholly owned subsidiary); the operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP ("Boardwalk Pipeline"), an 80% owned subsidiary) the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ("Diamond Offshore"), a 51% owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation ("Bulova"), a wholly owned subsidiary). Unless the context otherwise requires, the terms "Company," "Loews" and "Registrant" as used herein mean Loews Corporation excluding its subsidiaries.

On May 8, 2006, the Company effected a three-for-one stock split of Loews common stock to shareholders of record on April 24, 2006. On August 3, 2006, the Company's shareholders approved amendments to its certificate of incorporation increasing the number of shares of Loews common stock authorized for issuance from 600 million to 1.8 billion shares and reducing the par value per share of Loews common stock from $1.00 to $0.01 per share. All share and per share information has been retroactively adjusted to reflect these events.

Principles of consolidation - The consolidated financial statements include all significant subsidiaries and all material intercompany accounts and transactions have been eliminated. The equity method of accounting is used for investments in associated companies in which the Company generally has an interest of 20% to 50%.

Accounting estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

Accounting changes - In November of 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," as applicable to debt and equity securities that are within the scope of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and equity securities that are accounted for using the cost method specified in Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." FSP 115-1 nullifies certain requirements of Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," which provided guidance on determining whether an impairment is other-than-temporary. FSP 115-1 replaces guidance set forth in EITF No. 03-1 with references to existing other-than-temporary impairment guidance and clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. FSP 115-1 carries forward the requirements in EITF No. 03-1 regarding required disclosures in the financial statements and requires additional disclosure related to factors considered in reaching the conclusion that the impairment is not other-than-temporary. In addition, in periods subsequent to the recognition of an other-than-temporary impairment loss for debt securities, the discount or reduced premium would be amortized over the remaining life of the security based on future estimated cash flows. FSP 115-1 was effective for reporting periods beginning after December 15, 2005 and was adopted by the Company as of January 1, 2006. Adoption of this standard increased income by approximately $3.0 million for the year ended December 31, 2006, related to the amortization of discount or reduced premium resulting from prior impairments. The Company has included the required additional disclosures in these financial statements.

In September of 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." This bulletin summarizes the SEC staff's views regarding the process of quantifying financial statement misstatements. Implementation of SAB No. 108 did not have a material impact on the Company's results of operations or equity.

In September of 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” SFAS No. 158 requires an employer to recognize the funded status of a defined benefit postretirement plan in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company adopted SFAS No. 158 in December of 2006. Adoption of the pronouncement decreased equity by $143.1 million as of December 31, 2006. See Note 17 for additional information on the Company’s benefit plans.

Investments - Investments in securities are carried as follows:

The Company classifies its fixed maturity securities (bonds and redeemable preferred stocks) and its equity securities held principally by insurance subsidiaries as either available-for-sale or trading, and as such, they are carried at fair value. Changes in fair value of trading securities are reported within net investment income. The amortized cost of fixed maturity securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, which are included in net investment income. Changes in fair value related to available-for-sale securities are reported as a component of Other comprehensive income in Shareholders’ equity. Investments are written down to fair value and losses are recognized in the income statement when a decline in value is determined to be other-than-temporary. See Note 2 for information related to the Company’s impairment charges.

For asset-backed securities included in fixed maturity securities, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reflected in net investment income.

Real estate investments are carried at the lower of cost or market value. These items are included in “Other investments” in the Consolidated Balance Sheets.

Short-term investments consist primarily of U.S. government securities, money market funds and commercial paper. These investments are generally carried at fair value, which approximates amortized cost.

All securities transactions are recorded on the trade date. The cost of securities sold is generally determined by the identified certificate method.

The Company’s limited partnership investments are recorded at fair value typically reflecting a reporting lag of up to three months, with changes in fair value reported in net investment income. Fair value of the Company’s limited partnership investments represents the Company’s equity in the partnership’s net assets as determined by the general partner. The carrying value of the Company’s limited partnership investments was $2,160.5 million and $1,769.0 million as of December 31, 2006 and 2005, respectively. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. The Company is primarily a passive investor in such partnerships and does not have influence over the partnerships’ management, who are committed to operate them according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships. In accordance with FASB Interpretation No. (“FIN”) 46R, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,” the Company consolidated three limited partnerships, which were previously accounted for using the equity method.

Other investments also include certain derivative securities. Investments in derivative securities are carried at fair value with changes in fair value reported as a component of investment gains or losses or other comprehensive income, depending on their hedge designation. Changes in the fair value of derivative securities which are not designated as hedges, are reported as a component of investment gains or losses in the Consolidated Statements of Income. A derivative is typically defined as an instrument whose value is “derived” from an underlying instrument, index or rate, has a notional amount, requires little or no initial investment, and can be net settled. Derivatives include, but are not limited to, the following types of investments: interest rate swaps, interest rate caps and floors, put and call options, warrants, futures, forwards, commitments to purchase securities, and combinations of the foregoing. Derivatives embedded within non-derivative instruments (such as call options embedded in convertible bonds) must be split from the host instrument when the embedded derivative is not clearly and closely related to the host instrument.

The Company's derivatives are reported as other invested assets or other liabilities. Embedded derivative instruments subject to bifurcation are reported together with the host contract, at fair value. If certain criteria are met, a derivative may be specifically designated as a hedge of exposures to changes in fair value, cash flows or foreign currency exchange rates. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative, the nature of any hedge designation thereon and whether the derivative was transacted in a designated trading portfolio.

The Company's accounting for changes in the fair value of derivative instruments is as follows:

Nature of Hedge Designation	Derivative's Change in Fair Value Reflected in
No hedge designation	Investment gains (losses).
Fair value	Investment gains (losses), along with the change in fair value of the hedged asset or liability that is attributable to the hedged risk.
Cash flow	Other comprehensive income (loss), with subsequent reclassification to earnings when the hedged transaction, asset or liability impacts earnings.
Foreign currency	Consistent with fair value or cash flow above, depending on the nature of the hedging relationship.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedging transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative for which hedge accounting has been designated is not (or ceases to be) highly effective, the Company discontinues hedge accounting prospectively.

Separate account investments held in designated trading portfolios are carried at fair value with changes therein reflected in investment income. Hedge accounting on derivatives in these separate accounts is generally not applicable.

Securities lending and repurchase activities - The Company lends securities to unrelated parties, primarily major brokerage firms. Borrowers of these securities must deposit collateral with the Company of at least 102% of the fair value of the securities loaned if the collateral is cash or securities. The Company maintains effective control over all loaned securities and, therefore, continues to report such securities as Fixed maturity securities in the Consolidated Balance Sheets.

Cash collateral received on these transactions is invested in short-term investments with an offsetting liability recognized for the obligation to return the collateral. Non-cash collateral, such as securities or letters of credit, received by the Company are not reflected as assets of the Company as there exists no right to sell or re-pledge the collateral. The fair value of collateral held and included in short-term investments was $3,601.5 million and $767.4 million at December 31, 2006 and 2005. The fair value of non-cash collateral was $385.0 million and $138.0 million at December 31, 2006 and 2005.

Revenue Recognition

Insurance premiums on property and casualty and accident and health insurance contracts are recognized in proportion to the underlying risk insured which principally are earned ratably over the duration of the policies after deductions for ceded insurance premiums. The reserve for unearned premiums on these contracts represents the portion of premiums written relating to the unexpired terms of coverage.

An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due currently or in the future from insureds, including amounts due from insureds related to losses under high deductible policies, management's experience and current economic conditions.

Property and casualty contracts that are retrospectively rated contain provisions that result in an adjustment to the initial policy premium depending on the contract provisions and loss experience of the insured during the experience period. For such contracts, CNA estimates the amount of ultimate premiums that CNA may earn upon completion of the experience period and recognizes either an asset or a liability for the difference between the initial policy premium and the estimated ultimate premium. CNA adjusts such estimated ultimate premium amounts during the course of the experience period based on actual results to date. The resulting adjustment is recorded as either a reduction of or an increase to the earned premiums for the period.

Premiums for life insurance products and annuities are recognized as revenue when due after deductions for ceded insurance premiums.

Revenue from cigarette sales is recognized upon shipment of goods, when title and risk of loss passes to customers.

Revenue from dayrate drilling contracts is recognized as services are performed. In connection with such drilling contracts, Diamond Offshore may receive lump-sum fees for the mobilization of equipment. These fees are earned as services are performed over the initial term of the related drilling contracts. Absent a contract, mobilization costs are recognized currently. From time to time, Diamond Offshore may receive fees from its customers for capital improvements to their rigs. Diamond Offshore defers such fees received and recognizes these fees into revenue on a straight-line basis over the period of the related drilling contract. Diamond Offshore capitalizes the costs of such capital improvements and depreciates them over the estimated useful life of the improvement.

Revenues from the transportation of gas are recognized in the period the service is provided based on contractual terms and the related transported volumes. Revenues from storage services are recognized over the term of the contract. Texas Gas is subject to Federal Energy Regulatory Commission ("FERC") regulations and, accordingly, certain revenues collected may be subject to possible refunds upon final orders in pending cases. An estimated refund liability is recorded considering regulatory proceedings, advice of counsel and estimated total exposure.

Insurance Operations

Claim and claim adjustment expense reserves — Claim and claim adjustment expense reserves, except reserves for structured settlements not associated with asbestos and environmental pollution and mass tort ("APMT"), workers' compensation lifetime claims, accident and health claims and certain claims associated with discontinued operations, are not discounted and are based on 1) case basis estimates for losses reported on direct business, adjusted in the aggregate for ultimate loss expectations; 2) estimates of incurred but not reported losses; 3) estimates of losses on assumed reinsurance; 4) estimates of future expenses to be incurred in the settlement of claims; 5) estimates of salvage and subrogation recoveries and 6) estimates of amounts due from insureds related to losses under high deductible policies. CNA management considers current conditions and trends as well as past CNA and industry experience in establishing these estimates. The effects of inflation, which can be significant, are implicitly considered in the reserving process and are part of the recorded reserve balance. Ceded claim and claim adjustment expense reserves are reported as a component of Reinsurance receivables in the Consolidated Balance Sheets. See Note 22 for further information on claim and claim adjustment expense reserves for discontinued operations.

Claim and claim adjustment expense reserves are presented net of anticipated amounts due from insureds related to losses under high deductible policies of $2.5 billion and $2.8 billion as of December 31, 2006 and 2005. A portion of these amounts is supported by collateral. CNA also has an allowance for uncollectible deductible amounts, which is presented as a component of the allowance for doubtful accounts included in the Insurance receivables on the Consolidated Balance Sheets.

Structured settlements have been negotiated for certain property and casualty insurance claims. Structured settlements are agreements to provide fixed periodic payments to claimants. Certain structured settlements are funded by annuities purchased from Continental Assurance Company ("CAC") for which the related annuity obligations are reported in future policy benefits reserves. Obligations for structured settlements not funded by annuities are included in claim and claim adjustment expense reserves and carried at present values determined using interest rates ranging from 4.6% to 7.5% at December 31, 2006 and 2005. At December 31, 2006 and 2005, the discounted reserves for unfunded structured settlements were $814.0 million and $843.0 million, net of discount of $1,250.0 million and $1,309.0 million.

Workers' compensation lifetime claim reserves are calculated using mortality assumptions determined through statutory regulation and economic factors. Accident and health claim reserves are calculated using mortality and morbidity assumptions based on Company and industry experience. Workers' compensation lifetime claim reserves and accident and health claim reserves are discounted at interest rates that range from 3.5% to 6.5% at December 31, 2006 and 2005. At December 31, 2006 and 2005, such discounted reserves totaled $1,284.0 million and $1,238.0 million, net of discount of $416.0 million and $430.0 million.

Future policy benefits reserves ─ Reserves for long term care products are computed using the net level premium method, which incorporates actuarial assumptions as to interest rates, mortality, morbidity, persistency, withdrawals and expenses. Actuarial assumptions generally vary by plan, age at issue and policy duration, and include a margin for adverse deviation. Interest rates range from 6.0% to 8.6% at December 31, 2006 and 2005, and mortality, morbidity and withdrawal assumptions are based on CNA and industry experience prevailing at the time of issue. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium paying period. The net reserves for traditional life insurance products (whole and term life products) including interest-sensitive contracts were ceded on a 100% indemnity reinsurance basis to Swiss Re in connection with the sale of the individual life insurance business. See Note 14 for further information.

Policyholders' funds reserves ─ Policyholders' funds reserves primarily include reserves for investment contracts without life contingencies. For these contracts, policyholder liabilities are equal to the accumulated policy account values, which consist of an accumulation of deposit payments plus credited interest, less withdrawals and amounts assessed through the end of the period.

Guaranty fund and other insurance-related assessments ─ Liabilities for guaranty fund and other insurance-related assessments are accrued when an assessment is probable, when it can be reasonably estimated, and when the event obligating the entity to pay an imposed or probable assessment has occurred. Liabilities for guaranty funds and other insurance-related assessments are not discounted and are included as part of Other liabilities in the Consolidated Balance Sheets. As of December 31, 2006 and 2005, the liability balances were $189.0 and $185.0 million. As of December 31, 2006 and 2005, included in other assets were $7.0 million and $10.0 million of related assets for premium tax offsets. The related asset is limited to the amount that is able to be assessed on future premium collections from business written or committed to be written.

Reinsurance ─ Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves and are reported as receivables in the Consolidated Balance Sheets. The cost of reinsurance is primarily accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. The ceding of insurance does not discharge the primary liability of CNA. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. The expenses incurred related to uncollectible reinsurance receivables are presented as a component of Insurance claims and policyholders' benefits in the Consolidated Statements of Income.

Reinsurance contracts that do not effectively transfer the underlying economic risk of loss on policies written by CNA are recorded using the deposit method of accounting, which requires that premium paid or received by the ceding company or assuming company be accounted for as a deposit asset or liability. At December 31, 2006 and 2005, CNA had approximately $104.0 million and $171.0 million recorded as deposit assets and $71.0 million and $111.0 million recorded as deposit liabilities.

Income on reinsurance contracts accounted for under the deposit method is recognized using an effective yield based on the anticipated timing of payments and the remaining life of the contract. When the estimate of timing of payments changes, the effective yield is recalculated to reflect actual payments to date and the estimated timing of future payments. The deposit asset or liability is adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. This adjustment is reflected in other revenue or other operating expense as appropriate.

Participating insurance ─ Policyholder dividends are accrued using an estimate of the amount to be paid based on underlying contractual obligations under policies and applicable state laws. When limitations exist on the amount of net income from participating life insurance contracts that may be distributed to shareholders, the share of net income on those policies that cannot be distributed to shareholders is excluded from stockholders' equity by a charge to operations and the establishment of a corresponding liability.

Deferred acquisition costs ─ Acquisition costs include commissions, premium taxes and certain underwriting and policy issuance costs which vary with and are related primarily to the acquisition of business. Such costs related to property and casualty business are deferred and amortized ratably over the period the related premiums are earned.

Deferred acquisition costs related to accident and health insurance are amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefits reserves for such contracts. Assumptions as to anticipated premiums are made at the date of policy issuance or acquisition and are consistently applied during the lives of the contracts. Deviations from estimated experience are included in results of operations when they occur. For these contracts, the amortization period is typically the estimated life of the policy.

Anticipated investment income is considered in the determination of the recoverability of deferred acquisition costs. Deferred acquisition costs are recorded net of ceding commissions and other ceded acquisition costs. CNA evaluates deferred acquisition costs for recoverability. Adjustments, if necessary, are recorded in current results of operations.

Investments in life settlement contracts and related revenue recognition ─ CNA has purchased investments in life settlement contracts. Under a life settlement contract, CNA obtains the rights of being the owner and beneficiary to an underlying life insurance policy. The carrying value of each contract at purchase and at the end of each reporting period is equal to the cash surrender value of the policy. Amounts paid to purchase these contracts that are in excess of the cash surrender value, at the date of purchase, were expensed immediately. Periodic maintenance costs, such as premiums, necessary to keep the underlying policy inforce are expensed as incurred and are included in other operating expenses. Revenue is recognized and included in Other revenue in the Consolidated Statements of Income when the life insurance policy underlying the life settlement contract matures. See the New Accounting Pronouncements Not Yet Adopted section of this note for further discussion of FASB Staff Position (“FSP”) 85-4-1, “Accounting for Life Settlement Contracts by Third-Party Investors.”

Separate Account Business ─ Separate account assets and liabilities represent contract holder funds related to investment and annuity products, which are segregated into accounts with specific underlying investment objectives. The assets and liabilities of these contracts are legally segregated and reported as assets and liabilities of the separate account business. Substantially all assets of the separate account business are carried at fair value. Separate account liabilities are carried at contract values. Net income accruing to CNA related to separate accounts is primarily included within Other revenue in the Consolidated Statements of Income.

Tobacco product inventories - These inventories, aggregating $182.9 million and $181.6 million at December 31, 2006 and 2005, respectively, are stated at the lower of cost or market, using the last-in, first-out (LIFO) method and primarily consist of leaf tobacco. If the average cost method of accounting had been used for tobacco inventories instead of the LIFO method, such inventories would have been $156.4 million and $161.4 million higher at December 31, 2006 and 2005, respectively.

Watch and clock inventories - These inventories, aggregating $70.3 million and $68.3 million at December 31, 2006 and 2005, respectively, are stated at the lower of cost or market, using the first-in, first-out (FIFO) method.

Goodwill and other intangible assets - Goodwill and other intangible assets with indefinite lives are annually tested for impairment. Goodwill represents the excess of purchase price over fair value of net assets of acquired entities. Impairment losses, if any, are included in the Consolidated Statements of Income.

Property, plant and equipment - Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the various classes of properties. Leaseholds and leasehold improvements are depreciated or amortized over the terms of the related leases (including optional renewal periods where appropriate) or the estimated lives of improvements, if less than the lease term.

The principal service lives used in computing provisions for depreciation are as follows:

	Years
Buildings and building equipment	40
Building fixtures	10 to 20
Offshore drilling equipment	15 to 30
Pipeline equipment	40 to 50
Machinery and equipment	5 to 12
Hotel equipment	4 to 12
Computer equipment and software	3 to 5

Impairment of long-lived assets - The Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets and intangibles with finite lives, under certain circumstances, are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value less cost to sell.

Stock option plans - In December of 2004, the FASB issued a complete replacement of SFAS No. 123, “Share-Based Payment” (“SFAS No. 123R”), which covers a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R requires companies to use the fair value method in accounting for employee stock options which results in compensation expense recorded in the income statement. Compensation expense is measured at the grant date using an option-pricing model and is recognized over the service period.

Effective January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective transition method. The Company applied the transition method in calculating its pool of excess tax benefits available to absorb future tax deficiencies as provided by FSP FAS 123(R)-3, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.” Adoption of SFAS No. 123R decreased net income attributable to Loews common stock by $6.5 million for the year ended December 31, 2006, or $0.01 per Loews common share. Net income attributable to Carolina Group stock decreased by $0.3 million for the year ended December 31, 2006. There was no impact per Carolina Group share. Several of the Company’s subsidiaries also maintain their own stock option plans. The amounts reported above include the Company’s share of expense related to its subsidiaries’ plans as well.

Prior to the adoption of SFAS No. 123R, the Company elected to follow Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees” and related interpretations in accounting for its employee stock options and awards. Under APB No. 25, no compensation expense was recognized when the exercise prices of options equaled the fair value (market price) of the underlying stock on the date of grant. SFAS No. 123, “Accounting for Stock-Based Compensation,” required the Company to disclose pro forma information regarding option grants made to its employees. SFAS No. 123 specified certain valuation techniques that produced estimated compensation charges for purposes of valuing stock option grants. These amounts were not included in the Company’s Consolidated Statements of Income, in accordance with APB No. 25. The pro forma effect of applying SFAS No. 123 included the Company’s share of expense related to its subsidiaries’ plans as well. The Company’s pro forma net income and the related basic and diluted income per Loews common and Carolina Group shares would have been as follows:

Year Ended December 31		2005		2004
(In millions, except per share data)				
Net income:				
Loews common stock:				
Net income as reported	$	960.3	$	1,031.3
Deduct: Total stock-based employee compensation expense determined under the fair value based method, net		(5.4)		(5.2)
Pro forma net income	$	954.9	$	1,026.1
Carolina Group stock:				
Net income as reported	$	251.3	$	184.5
Deduct: Total stock-based employee compensation expense determined under the fair value based method, net		(0.2)		(0.1)
Pro forma net income	$	251.1	$	184.4
Basic and diluted net income per share:				
Loews common stock:				
As reported	$	1.72	$	1.85
Pro forma		1.71		1.84
Carolina Group stock:				
As reported		3.62		3.15
Pro forma		3.62		3.15

Regulatory accounting - The FERC regulates the operations of Texas Gas. SFAS No. 71, “Accounting for the Effects of Certain Types of Regulation,” requires Texas Gas to report assets and liabilities consistent with the economic effect of the manner in which independent third-party regulators establish rates. Accordingly, certain costs and benefits are capitalized as regulatory assets and liabilities in order to provide for recovery from or refund to customers in future periods.

Supplementary cash flow information - Cash payments made for interest on long-term debt, including capitalized interest and commitment fees, amounted to approximately $351.7 million, $405.2 million and $295.7 million for the years ended December 31, 2006, 2005 and 2004, respectively. Cash payments (refunds) for federal, foreign, state and local income taxes amounted to approximately $1,160.4 million, $504.2 million and $(73.7) million for the years ended December 31, 2006, 2005 and 2004, respectively.

New accounting pronouncements not yet adopted - In September of 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (“SOP”) 05-01, “Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts.” SOP 05-01 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, “Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments.” SOP 05-01 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-01 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Adoption of SOP 05-01 is not expected to have a material impact on the Company’s results of operations or financial condition.

In January of 2006, the FASB issued SFAS No.155, “Accounting for Certain Hybrid Financial Instruments.” SFAS No. 155 amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS No. 155 also resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, “Application of Statement

133 to Beneficial Interests in Securitized Financial Assets.” SFAS No. 155 eliminates the exemption from applying SFAS No.133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS No.155 allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of SFAS No. 155 may also be applied upon adoption of SFAS No. 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of this Statement. Earlier adoption is permitted as of the beginning of an entity’s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Provisions of SFAS No. 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. Adoption of this standard is not expected to have a material impact on the carrying value of securities held or acquired subsequent to January 1, 2007.

In March of 2006, the FASB issued FSP 85-4-1, “Accounting for Life Settlement Contracts by Third-Party Investors.” A life settlement contract for purposes of FSP 85-4-1 is a contract between the owner of a life insurance policy (the “policy owner”) and a third-party investor (“investor”). The previous accounting guidance, FASB Technical Bulletin (“FTB”) No. 85-4, “Accounting for Purchases of Life Insurance”, required the purchaser of life insurance contracts to account for the life insurance contract at its cash surrender value. Because life insurance contracts are purchased in the secondary market at amounts in excess of the policies’ cash surrender values, the application of guidance in FTB 85-4 created a loss upon acquisition of the policy. FSP 85-4-1 provides initial and subsequent measurement guidance and financial statement presentation and disclosure guidance for investments by third-party investors in life settlement contracts. FSP 85-4-1 allows an investor to elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election shall be made on an instrument-by-instrument basis and is irrevocable. FSP 85-4-1 is effective for fiscal years beginning after June 15, 2006. CNA has elected to account for its investment in life settlement contracts using the fair value method and the initial expected impact upon adoption under the fair value method will be an increase to retained earnings as of January 1, 2007 of approximately $34.0 million.

In July of 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.” FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that adopting FIN 48 will have and expects an impact to operations and equity of approximately $40.0 million, after minority interest.

In September of 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS No. 157 retains the exchange price notion in the definition of fair value and clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In addition, the price that would be paid to acquire an asset or received to assume a liability should be considered in determining fair value. SFAS No. 157 expands disclosures surrounding the use of fair value to measure assets and liabilities and specifically focuses on the sources used to measure fair value. In instances of recurring use of fair value measures based on management’s assumptions to set market pricing for the asset or liability derived from available market data or selected best information, SFAS No. 157 requires separate disclosure of the effect on earnings for the period. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that adopting SFAS No. 157 will have on its results of operations and equity.

Reclassifications - Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 2006. The amounts presented on the December 31, 2005 Consolidated Balance Sheet related to Receivables and Other liabilities have been corrected from $15,313.7 million and $4,524.8 million to $15,543.9 million and $4,755.0 million, to conform to the 2006 presentation. The correction of $230.2 million relates to balances payable to insureds that were previously reflected as a deduction from insurance receivables and are currently reflected as liabilities. The balances are principally related to amounts deposited with CNA by customers, such as amounts related to the funding of deductible obligations.

Note 2. Investments

Year Ended December 31		**2006**		2005		2004
(In millions)						
Investment income consisted of:						
Fixed maturity securities	**$**	**1,860.6**	$	1,644.4	$	1,593.1
Short-term investments		**373.2**		191.0		71.8
Limited partnerships		**313.6**		270.7		238.5
Equity securities		**28.8**		30.4		18.4
Income from trading portfolio		**326.3**		89.5		208.5
Interest expense on funds withheld and other deposits		**(68.1)**		(165.8)		(261.1)
Other		**122.1**		90.9		57.6
Total investment income		**2,956.5**		2,151.1		1,926.8
Investment expenses		**(45.4)**		(52.3)		(51.5)
Net investment income	**$**	**2,911.1**	$	2,098.8	$	1,875.3
Investment gains (losses) are as follows:						
Fixed maturities	**$**	**0.9**	$	(98.9)	$	233.7
Equity securities, including short positions		**21.6**		43.2		202.2
Derivative instruments		**18.5**		49.1		(84.1)
Short-term investments		**(6.0)**		(2.8)		(1.5)
Other, including guaranteed separate account business (a)		**56.5**		(3.8)		(606.3)
Investment gains (losses)		**91.5**		(13.2)		(256.0)
Gains on issuance of subsidiary stock		**9.0**				
		100.5		(13.2)		(256.0)
Income tax (expense) benefit		**(23.5)**		1.2		98.1
Minority interest		**(8.5)**		1.2		13.3
Investment gains (losses), net	**$**	**68.5**	$	(10.8)	$	(144.6)

(a) Includes a pretax loss of $618.6 ($352.9 after tax and minority interest) related to CNA's sale of its individual life insurance business for the year ended December 31, 2004. See Note 14.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in these risk factors in the near term could have an adverse material impact on the Company's results of operations or equity.

The Company's investment policies emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

Realized investment losses included $173.0 million, $120.4 million and $117.5 million of other-than-temporary impairment ("OTTI") losses for the years ended December 31, 2006, 2005 and 2004. The 2006, 2005 and 2004 OTTI losses were recorded across various sectors. The increase in OTTI losses for 2006 was primarily driven by an increase in interest rate related OTTI losses on securities for which the Company did not assert an intent to hold until an anticipated recovery in value. The 2005 and 2004 OTTI losses included $47.0 million and $80.5 million related to loans made under a credit facility to a national contractor, that are classified as fixed maturity securities. See Note 21 for additional information on loans to the national contractor.

The amortized cost and market values of securities are as follows:

			Gross Unrealized Losses		
December 31, 2006	**Amortized Cost**	**Unrealized Gains**	**Less than 12 Months**	**Greater than 12 Months**	**Fair Value**
(In millions)					
Fixed maturity securities:					
U.S. government and obligations of government agencies	**$ 5,055.6**	**$ 86.2**	**$ 2.6**	**$ 1.6**	**$ 5,137.6**
Asset-backed securities	**13,822.8**	**27.7**	**20.8**	**151.0**	**13,678.7**
States, municipalities and political subdivisions-tax exempt	**4,915.2**	**236.9**	**1.2**	**4.6**	**5,146.3**
Corporate	**6,810.8**	**337.8**	**7.5**	**9.7**	**7,131.4**
Other debt	**3,442.7**	**207.6**	**6.6**	**2.0**	**3,641.7**
Redeemable preferred stocks	**885.0**	**27.8**	**0.5**		**912.3**
Fixed maturities available-for-sale	**34,932.1**	**924.0**	**39.2**	**168.9**	**35,648.0**
Fixed maturity trading securities	**1,920.5**	**6.0**	**4.4**	**0.4**	**1,921.7**
Total fixed maturities	**36,852.6**	**930.0**	**43.6**	**169.3**	**37,569.7**
Equity securities:					
Equity securities available-for-sale	**348.4**	**249.0**	**0.2**	**0.2**	**597.0**
Equity securities trading portfolio	**618.6**	**111.6**	**10.4**	**8.0**	**711.8**
Total equity securities	**967.0**	**360.6**	**10.6**	**8.2**	**1,308.8**
Short-term investments:					
Short-term investments available-for-sale	**8,436.9**				**8,436.9**
Short-term investments trading portfolio	**4,385.2**	**0.4**	**0.1**		**4,385.5**
Total short-term investments	**12,822.1**	**0.4**	**0.1**	**–**	**12,822.4**
Total	**$ 50,641.7**	**$ 1,291.0**	**$ 54.3**	**$ 177.5**	**$ 51,700.9**

December 31, 2005	Amortized Cost	Unrealized Gains	Gross Unrealized Losses: Less than 12 Months	Gross Unrealized Losses: Greater than 12 Months	Fair Value
(In millions)					
Fixed maturity securities:					
U.S. government and obligations of government agencies	$ 1,357.2	$ 119.1	$ 3.4	$ 1.2	$ 1,471.7
Asset-backed securities	12,985.8	43.6	136.7	33.1	12,859.6
States, municipalities and political subdivisions-tax exempt	9,054.3	192.5	31.2	6.9	9,208.7
Corporate	5,905.7	322.2	51.9	11.0	6,165.0
Other debt	2,830.3	233.9	17.9	2.3	3,044.0
Redeemable preferred stocks	213.3	3.5	0.4	0.7	215.7
Options embedded in convertible debt securities	0.8				0.8
Fixed maturities available-for-sale	32,347.4	914.8	241.5	55.2	32,965.5
Fixed maturity trading securities	411.6	6.7	1.5	1.1	415.7
Total fixed maturities	32,759.0	921.5	243.0	56.3	33,381.2
Equity Securities:					
Equity securities available-for-sale	461.7	172.6	2.0		632.3
Equity securities, trading portfolio	441.8	58.1	15.2	9.8	474.9
Total equity securities	903.5	230.7	17.2	9.8	1,107.2
Short-term investments available-for-sale	9,106.6	-	-	-	9,106.6
Total	$ 42,769.1	$ 1,152.2	$ 260.2	$ 66.1	$ 43,595.0

The following table summarizes fixed maturity and equity securities in an unrealized loss position at December 31, 2006 and 2005, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

December 31	**2006**		2005	
	Estimated Fair Value	**Gross Unrealized Loss**	Estimated Fair Value	Gross Unrealized Loss
(In millions)				
Fixed maturity securities:				
Investment grade:				
0-6 months	**$ 9,829.3**	**$ 23.7**	$ 9,976.0	$ 141.7
7-12 months	**1,267.1**	**11.8**	2,739.0	61.0
13-24 months	**5,247.9**	**127.4**	1,400.0	45.0
Greater than 24 months	**1,021.4**	**41.1**	219.0	7.0
Total investment grade	**17,365.7**	**204.0**	14,334.0	254.7
Non-investment grade:				
0-6 months	**509.0**	**2.1**	632.0	29.0
7-12 months	**87.3**	**1.5**	118.0	10.0
13-24 months	**23.9**	**0.5**	122.0	3.0
Greater than 24 months	**2.3**		2.0	
Total non-investment grade	**622.5**	**4.1**	874.0	42.0
Total fixed maturity securities	**17,988.2**	**208.1**	15,208.0	296.7

December 31	**2006**		2005	
	Estimated Fair Value	**Gross Unrealized Loss**	Estimated Fair Value	Gross Unrealized Loss
(In millions)				
Equity securities:				
0-6 months	**9.8**	**0.2**	49.0	2.0
7-12 months	**0.7**		1.0	
13-24 months				
Greater than 24 months	**2.9**	**0.2**	3.0	
Total equity securities	**13.4**	**0.4**	53.0	2.0
Total fixed maturity and equity securities	**$ 18,001.6**	**$ 208.5**	$ 15,261.0	$ 298.7

An investment is impaired if the fair value of the investment is less than its cost adjusted for accretion, amortization, previous OTTI and hedging, otherwise defined as an unrealized loss. When an investment is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary.

A significant judgment in the valuation of investments is the determination of when an OTTI has occurred. CNA follows a consistent and systematic process for determining and recording an OTTI. CNA has established a committee responsible for the OTTI process. This committee, referred to as the Impairment Committee, is made up of three officers appointed by CNA's Chief Financial Officer. The Impairment Committee is responsible for analyzing watch list securities on at least a quarterly basis. The watch list includes individual securities that fall below certain thresholds or that exhibit evidence of OTTI indicators including, but not limited to, a significant adverse change in the financial condition and near term prospects of the issuer or a significant adverse change in legal factors, the business climate or credit ratings.

When a security is placed on the watch list, it is monitored for further market value changes and additional information related to the issuer's financial condition. The focus is on objective evidence that may influence the evaluation of OTTI factors.

The decision to record an OTTI incorporates both quantitative criteria and qualitative information. The Impairment Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than book value, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments and (e) general market conditions and industry or sector specific factors.

The Impairment Committee's decision to record an OTTI loss is primarily based on whether the security's fair value is likely to recover to its book value in light of all of the factors considered. For securities considered to be OTTI, the security is adjusted to fair value and the resulting losses are recognized in Investment gains (losses) on the Consolidated Statements of Income.

At December 31, 2006, the carrying value of available-for-sale fixed maturities was $35,648.0 million, representing 66.2% of the total investment portfolio. The net unrealized position associated with the available-for-sale fixed maturity portfolio included $208.1 million in gross unrealized losses, consisting of asset-backed securities which represented 82.6%, corporate bonds which represented 8.3%, municipal securities which represented 2.8%, and all other fixed maturity securities which represented 6.3%. The gross unrealized loss for any single issuer was no greater than 0.1% of the carrying value of the total available-for-sale fixed maturity portfolio. The total available-for-sale fixed maturity portfolio gross unrealized losses included 1,492 securities which were, in aggregate, approximately 1.0% below amortized cost.

The gross unrealized losses on available-for-sale equity securities were less than $1.0 million, including 105 securities which, in aggregate, were below cost by approximately 3.0%.

Given the current facts and circumstances, the Impairment Committee has determined that the securities presented in the above unrealized gain/loss tables were temporarily impaired when evaluated at December 31, 2006 or December 31, 2005, and therefore no related realized losses were recorded. A discussion of some of the factors reviewed in making that determination is presented below by major security type. The unrealized loss related to any single issuer is not considered to be significant.

Asset-Backed Securities

The unrealized losses on the Company's investments in asset-backed securities were caused primarily by a change in interest rates. This category includes mortgage-backed securities guaranteed by an agency of the U.S. government. There were 477 agency mortgage-backed pass-through securities and 3 agency collateralized mortgage obligations ("CMOs") in an unrealized loss position as of December 31, 2006. The aggregate severity of the unrealized loss on these securities was approximately 3.0% of amortized cost. These securities do not tend to be influenced by the credit of the issuer but rather the characteristics and projected principal payments of the underlying collateral.

The remainder of the holdings in this category are corporate mortgage-backed pass-through, CMOs and corporate asset-backed structured securities. The holdings in these sectors include 493 securities in an unrealized loss position with over 92.0% of these unrealized losses related to securities rated AAA. The aggregate severity of the unrealized loss was approximately 2.0% of amortized cost. The contractual cash flows on the asset-backed structured securities are pass-through but may be structured into classes of preference. The structured securities held are generally secured by over collateralization or default protection provided by subordinated tranches. Within this category, securities subject to EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," are monitored for adverse changes in cash flow projections. If there are adverse changes in cash flows the amount of accretable yield is prospectively adjusted and an OTTI loss is recognized. As of December 31, 2006, there was no adverse change in estimated cash flows noted for the EITF No. 99-20 securities, which have an aggregate unrealized loss of $9.0 million and an aggregate severity of the unrealized loss of approximately 1.0% of amortized cost.

Because the decline in fair value was primarily attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold those investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at December 31, 2006.

Corporate Securities

The Company's portfolio management objective for corporate bonds focuses on sector and issuer exposures and value analysis within sectors. In order to maximize investment objectives, corporate bonds are analyzed on a risk adjusted basis compared to other opportunities that are available in the market. Trading decisions may be made based on an issuer that may be overvalued in the Company's portfolio compared to a like issuer that may be undervalued in the market. The Company also monitors issuer exposure and broader industry sector exposures and may reduce exposures based on its current view of a specific issuer or sector.

Of the unrealized losses in this category, approximately 81.0% relate to securities rated as investment grade (rated BBB or higher). The total holdings in this category are diversified across 10 industry sectors and 220 securities. The aggregate severity of the unrealized loss was approximately 1.0% of amortized cost. Within corporate bonds, the largest industry sectors were financial and consumer cyclical, which as a percentage of total gross unrealized losses were approximately 64.0% and 12.0% at December 31, 2006. The decline in fair value is primarily attributable to changes in interest rates and macro conditions in certain sectors that the market views as temporarily out of favor. Because the decline is not related to specific credit quality issues, and because the Company has the ability and intent to hold those investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at December 31, 2006.

The following tables summarize available-for-sale fixed maturity securities by contractual maturity at December 31, 2006 and 2005. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

December 31	**2006**		2005	
	Amortized Cost	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	**$ 1,599.2**	**$ 1,601.2**	$ 953.3	$ 954.8
Due after one year through five years	**13,023.3**	**13,039.1**	11,374.7	11,320.0
Due after five years through ten years	**9,554.6**	**9,618.8**	6,176.1	6,280.4
Due after ten years	**10,755.0**	**11,388.9**	13,843.3	14,410.3
Total	**$ 34,932.1**	**$ 35,648.0**	$ 32,347.4	$ 32,965.5

The carrying value of fixed maturity investments that did not produce income during 2006 and 2005 was $26.8 million and $42.2 million. At December 31, 2006 and 2005, no investments, other than investments in U.S. government treasury and U.S. government agency securities, respectively, exceeded 10.0% of shareholders' equity.

Investment Commitments

As of December 31, 2006 and 2005, the Company had committed approximately $109.0 million and $191.0 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loan participations as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlement is made. As of December 31, 2006 and 2005, the Company had commitments to purchase $64.0 million and $135.3 million and sell $23.7 million and $26.3 million of various bank loan participations. When loan participation purchases are settled and recorded they may contain both funded and unfunded amounts. An unfunded loan represents an obligation by the Company to provide additional amounts under the terms of the loan participation. The funded portions are reflected on the Consolidated Balance Sheets, while any unfunded amounts are not recorded until a draw is made under the loan facility. As of December 31, 2006 and December 31, 2005, the Company had obligations on unfunded bank loan participations in the amount of $29.0 million and $21.0 million.

Investments on Deposit

CNA may from time to time invest in securities that may be restricted in whole or in part. As of December 31, 2006 and 2005, CNA did not hold any significant positions in investments whose sale was restricted.

Cash and securities with carrying values of approximately $2.5 billion and $2.4 billion were deposited by CNA's insurance subsidiaries under requirements of regulatory authorities as of December 31, 2006 and 2005.

The Company's investments in limited partnerships contain withdrawal provisions that typically require advanced written notice of up to 90 days for withdrawals. The carrying value of these investments, reported as a separate line item in the Consolidated Balance Sheets, is $2,160.5 million and $1,769.0 million as of December 31, 2006 and 2005.

Cash and securities with carrying values of approximately $11.0 million and $13.0 million were deposited with financial institutions as collateral for letters of credit as of December 31, 2006 and 2005. In addition, cash and securities were deposited in trusts with financial institutions to secure reinsurance obligations with various third parties. The carrying values of these deposits were approximately $327.0 million and $356.0 million as of December 31, 2006 and 2005.

Note 3. Fair Value of Financial Instruments

December 31	**2006**		2005	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
(In millions)				
Financial assets:				
Other investments	**$ 12.0**	**$ 12.0**	$ 3.0	$ 3.0
Separate account business:				
Fixed maturities securities	**434.0**	**434.0**	466.0	466.0
Equity securities	**41.0**	**41.0**	44.0	44.0
Financial liabilities:				
Premium deposits and annuity contracts	**898.0**	**899.0**	1,363.0	1,359.0
Short-term debt	**4.6**	**4.6**	598.2	603.0
Long-term debt	**5,567.8**	**5,438.8**	4,608.6	4,926.8
Separate account business:				
Variable separate accounts	**52.0**	**52.0**	53.0	53.0
Other	**448.0**	**448.0**	491.0	491.0

In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. These techniques are significantly affected by management's assumptions, including discount rates and estimates of future cash flows. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The amounts reported in the Consolidated Balance Sheets for fixed maturity securities, equity securities, derivative instruments, short-term investments and collateral on loaned securities are at fair value. As such, these financial instruments are not shown in the table above. See Note 4 for the fair value of derivative instruments. Since the disclosure excludes certain financial instruments and non-financial instruments such as real estate, deferred acquisition costs and insurance reserves, the aggregate fair value amounts cannot be summed to determine the underlying economic value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

The fair values of fixed maturity securities and equity securities were based on quoted market prices, where available. For securities not actively traded, fair values were estimated using values obtained from independent pricing services or quoted market prices of comparable instruments.

Other investments consist of mortgage loans and notes receivable, policy loans, investments in limited partnerships and various miscellaneous assets. Valuation techniques to determine fair value of limited partnership investments, other investments and other separate account assets consisted of discounting cash flows, obtaining quoted market prices of the investments and comparing the investments to similar instruments or to the comparable underlying assets of the investments.

Premium deposits and annuity contracts were valued based on cash surrender values, estimated fair values or policyholder liabilities, net of amounts ceded related to sold businesses.

Fair value of debt was based on quoted market prices when available. When quoted market prices were not available, the fair value for debt was based on quoted market prices of comparable instruments adjusted for differences between the quoted instruments and the instruments being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

Note 4. Derivative Financial Instruments

The Company invests in certain derivative instruments for a number of purposes, including: (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy, and (iii) benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company's portfolio strategy.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain embedded leverage features which would expose the Company to a higher degree of risk.

CNA uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (principally interest rate risk, equity stock price risk and foreign currency risk) stemming from various assets and liabilities and credit risk (the ability of an obligor to make timely payment of principal and/or interest). CNA's principal objective under such risk strategies is to achieve the desired reduction in economic risk, even if the position will not receive hedge accounting treatment.

CNA's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Derivatives entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates to the underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained through securities lending, to engage in derivative transactions.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized in the Consolidated Balance Sheets. The Company mitigates the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement, and exchanges collateral under the terms of these arrangements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level or volatility of interest rates. The Company attempts to mitigate its exposure to interest rate risk through portfolio management, which includes rebalancing its existing portfolios of assets and liabilities, as well as changing the characteristics of investments to be purchased or sold in the future. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or market values, to shorten or lengthen durations of fixed maturity securities or investment contracts, or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt. The Company has used these types of instruments as designated hedges against specific assets or liabilities on an infrequent basis.

The Company is exposed to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held. CNA uses derivatives in one of its separate accounts to mitigate equity price risk associated with its indexed group annuity contracts by purchasing Standard & Poor's 500 ("S&P 500") index futures contracts in a notional amount equal to the contract holder liability.

The Company has exposure to credit risk arising from the uncertainty associated with a financial instrument obligor's ability to make timely principal and/or interest payments. The Company attempts to mitigate this risk by limiting credit concentrations, practicing diversification, and frequently monitoring the credit quality of issuers and counterparties. In addition, the Company may utilize credit derivatives such as credit default swaps to modify the credit risk inherent in certain investments. Credit default swaps involve a transfer of credit risk from one party to another in exchange for periodic payments. The Company infrequently designates these types of instruments as hedges against specific assets.

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in Australian dollars, Canadian dollars, British pounds, Japanese yen and the European Monetary Unit. The Company typically manages this risk via asset/liability matching and through the use of foreign currency futures and forwards. The Company has infrequently designated these types of instruments as hedges against specific assets or liabilities.

The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these instruments. Interest rates, equity prices, foreign currency exchange rates and commodity prices affect the fair value of derivatives. The fair values generally represent the estimated amounts that the Company would expect to receive or pay upon termination of the contracts at the reporting date. Dealer quotes are available for substantially all of the Company's derivatives. For derivative instruments not actively traded, fair values are estimated using values obtained from independent pricing services, costs to settle or quoted market prices of comparable instruments.

The Company is required to provide collateral for all exchange-traded futures and options contracts. These margin requirements are determined by the individual exchanges based on the fair value of the open positions and are in the custody of the exchange. Collateral may also be required for over-the-counter contracts such as interest rate swaps, credit default swaps and currency forwards per the ISDA agreements in place. The fair value of collateral provided was $58.0 million at December 31, 2006 and consisted primarily of cash. The fair value of the collateral at December 31, 2005 was $66.0 million and consisted primarily of U.S. Treasury Bills, which the Company had access to subject to replacement and therefore remained recorded as a component of Short term investments on the Consolidated Balance Sheets.

December 31, 2006		**Contractual/ Notional Value**		**Fair Value Asset (Liability)**		**Recognized Gain (Loss)**
(In millions)						
Equity markets:						
Options - purchased	**$**	**170.9**	**$**	**25.9**	**$**	**(16.5)**
- written		**235.6**		**(13.0)**		**6.0**
Index futures - long		**652.3**		**(2.5)**		**66.4**
- short		**14.3**				**(4.2)**
Equity warrants		**5.9**		**2.5**		**(0.2)**
Options embedded in convertible debt securities		**9.0**				**0.1**
Separate accounts - options written		**1.0**				**0.4**
Currency forwards - long		**463.2**		**(2.2)**		**(1.9)**
- short		**116.2**		**(0.5)**		**(4.9)**
Interest rate risk:						
Commitments to purchase government and municipal securities						
securities						**1.8**
Interest rate swaps - long		**4,959.8**		**(29.7)**		**4.9**
- short						**13.9**
Options on government securities - short						**1.4**
Futures - long		**1,461.3**		**0.2**		**(3.3)**
- short		**1,771.9**		**(0.2)**		**26.7**
Gold options - purchased						**(1.1)**
- written						**1.2**
Other		**41.8**		**2.0**		**(8.2)**
Total	**$**	**9,903.2**	**$**	**(17.5)**	**$**	**82.5**

December 31, 2005						
Equity markets:						
Options - purchased	$	180.3	$	33.5	$	2.3
- written		241.0		(9.1)		4.9
Index futures - long		1,019.7				24.0
- short		3.9				(0.6)
Equity warrants		5.9		2.5		0.5
Options embedded in convertible debt securities		12.0		0.8		(32.9)
Separate accounts - options written		7.0		(0.3)		0.1
Currency forwards - long		456.4		(0.7)		(22.3)
- short		217.2		1.8		12.0
Interest rate risk:						
Commitments to purchase government and municipal securities						
securities		21.0				1.0
Interest rate swaps - long		1,076.7		(7.6)		37.8
- short		15.2				(1.7)
Futures - long		633.4				1.8
- short		1,643.9				(6.9)
Gold options - purchased		175.5		0.6		(3.3)
- written		342.4		(0.7)		3.2
Other		44.0				0.5
Total	$	6,095.5	$	20.8	$	20.4

December 31, 2004	Contractual/ Notional Value	Fair Value Asset (Liability)	Recognized Gain (Loss)
(In millions)			
Equity markets:			
Options - purchased	$ 240.2	$ 20.5	$ (8.2)
- written	200.1	(2.9)	10.7
Index futures - long	1,155.7		99.0
Equity warrants	11.8	1.6	0.5
Options embedded in convertible debt securities	700.8	234.3	23.7
Separate accounts - options written	8.8	(0.1)	0.8
Currency forwards - long	497.2	6.0	32.9
- short	140.6	(3.6)	(0.2)
Interest rate risk:			
Commitments to purchase government and municipal securities	25.0		(7.8)
Interest rate swaps	989.2	(513.4)	18.4
Futures - long	715.0		(3.8)
- short	887.2		(107.3)
Gold options - purchased	116.0	0.2	(6.6)
- written	225.7	(0.1)	5.8
Other	39.2		5.4
Total	$ 5,952.5	$ (257.5)	$ 63.3

Options embedded in convertible debt securities are classified as fixed maturity securities in the Consolidated Balance Sheets, consistent with the host instruments.

Fair value hedges - The Company's hedging activities primarily involve hedging risk exposures to interest rate and foreign currency risks on various assets and liabilities. The Company periodically enters into interest rate swaps to modify the interest rate exposures of designated invested assets. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged asset that are attributable to the hedged risk, are recorded as Investment gains (losses) in the Consolidated Statements of Income. For the year ended December 31, 2005, CNA recognized a net gain of $0.3 million, which represents the ineffective portion of all fair value hedges. There was no gain or loss on the ineffective portion of the fair value hedges for the years ended December 31, 2006 and 2004, because CNA did not designate derivatives as fair value hedges in those years.

Cash flow hedges − Boardwalk Pipeline entered into a Treasury rate lock in October of 2006 for a notional amount of $250.0 million of principal to hedge the risk attributable to changes in the risk-free component of forward 10-year interest rates through the issuance of its $250.0 million senior unsecured notes, which was settled at the time of the closing of the debt offering in November of 2006. Boardwalk Pipeline received $0.9 million from the counterparty as a result of the settlement of the instrument, which was recorded as a component of Accumulated other comprehensive income and will be recognized in income as a reduction to interest expense on a straight-line basis over the 10-year term of the 5.9% senior notes.

In August of 2006, Boardwalk Pipeline entered into Treasury rate locks with two counterparties each for a notional amount of $100.0 million of principal to hedge the risk attributable to changes in the risk-free component of forward 10-year interest rates through August 1, 2007. The reference rate on the rate locks is 5.0%.

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. These sales resulted in proceeds of $53.8 million and $153.0 million with fair value liabilities of $61.9 million and $165.9 million at December 31, 2006 and 2005, respectively. These positions are marked to market and investment gains or losses are included in the Consolidated Statements of Income.

Note 5. Earnings Per Share

Companies with complex capital structures are required to present basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income attributable to each class of common stock by the weighted average number of common shares of each class of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Certain options were not included in the diluted weighted shares amount due to the exercise price being greater than the average stock price for the respective periods. The number of shares not included in the diluted computations is as follows:

Year Ended December 31	**2006**	2005	2004
Loews common stock	**59,744**	59,862	130,848
Carolina Group stock	**12,650**	13,058	207,963

The attribution of income to each class of common stock for the years ended December 31, 2006, 2005 and 2004, was as follows:

Year Ended December 31		**2006**		2005		2004
(In millions)						
Loews common stock:						
Consolidated net income	**$**	**2,491.3**	$	1,211.6	$	1,215.8
Less income attributable to Carolina Group stock		**416.4**		251.3		184.5
Income attributable to Loews common stock	**$**	**2,074.9**	$	960.3	$	1,031.3
Carolina Group stock:						
Income available to Carolina Group stock	**$**	**760.2**	$	623.1	$	545.9
Weighted average economic interest of the Carolina Group		**54.78%**		40.34%		33.80%
Income attributable to Carolina Group stock	**$**	**416.4**	$	251.3	$	184.5

For the years ended December 31, 2006, 2005, and 2004 net income per common share attributable to Loews common stock and Carolina Group stock assuming dilution is the same as basic net income per share because the impact of securities that could potentially dilute basic net income per common share was insignificant or antidilutive for the periods presented.

Note 6. Loews and Carolina Group Consolidating Condensed Financial Information

The issuance of Carolina Group stock has resulted in a two class common stock structure for the Company. 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. The principal assets and liabilities attributed to the Carolina Group are the Company's 100% stock ownership interest in Lorillard, Inc.; notional, intergroup debt owed by the Carolina Group to the Loews Group ($1.2 billion outstanding at December 31, 2006), bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and any and all liabilities, costs and expenses of the Company and Lorillard arising out of or related to tobacco or tobacco-related businesses.

As of December 31, 2006, the outstanding Carolina Group stock represents a 62.34% economic interest in the economic performance of the Carolina Group. The Loews Group consists of all of the Company's assets and liabilities other than the 62.34% economic interest represented by the outstanding Carolina Group stock, and includes as an asset the notional, intergroup debt of the Carolina Group. 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. Each outstanding share of Carolina Group stock has 3/10 of a vote per share.

In August of 2006, May of 2006, November of 2005 and December of 2004, the Company sold an additional 15 million, 15 million, 10 million and 10 million shares of Carolina Group stock for net proceeds of $876.8 million, $751.5 million, $415.1 million and $281.9 million, respectively.

The Company has separated, for financial reporting purposes, the Carolina Group and Loews Group. The following schedules present the consolidating condensed financial information for these individual groups. Neither group is a separate company or legal entity. Rather, each group is intended to reflect a defined set of assets and liabilities.

Loews and Carolina Group
Consolidating Condensed Balance Sheet Information

	Carolina Group				Adjustments	
				Loews	and	
December 31, 2006	**Lorillard**	**Other**	**Consolidated**	**Group**	**Eliminations**	**Total**
(In millions)						
Assets:						
Investments	**$ 1,767.5**	**$ 101.0**	**$ 1,868.5**	**$ 52,020.3**		**$ 53,888.8**
Cash	**1.2**	**0.3**	**1.5**	**132.3**		**133.8**
Receivables	**15.6**	**0.4**	**16.0**	**13,028.2**	**$ (16.9) (a)**	**13,027.3**
Property, plant and equipment	**196.4**		**196.4**	**5,304.9**		**5,501.3**
Deferred income taxes	**495.7**		**495.7**	**125.2**		**620.9**
Goodwill and other intangible assets				**298.9**		**298.9**
Other assets	**282.8**		**282.8**	**1,433.7**		**1,716.5**
Investment in combined attributed net assets of the Carolina Group				**1,288.3**	**(1,229.7) (a)**	
					(58.6) (b)	
Deferred acquisition costs of insurance subsidiaries				**1,190.4**		**1,190.4**
Separate account business				**503.0**		**503.0**
Total assets	**$ 2,759.2**	**$ 101.7**	**$ 2,860.9**	**$ 75,325.2**	**$ (1,305.2)**	**$ 76,880.9**
Liabilities and Shareholders' Equity:						
Insurance reserves				**$ 41,079.9**		**$ 41,079.9**
Payable for securities purchased				**1,046.7**		**1,046.7**
Collateral on loaned securities				**3,601.5**		**3,601.5**
Short-term debt				**4.6**		**4.6**
Long-term debt		**$ 1,229.7**	**$ 1,229.7**	**5,567.8**	**$ (1,229.7) (a)**	**5,567.8**
Reinsurance balances payable				**539.1**		**539.1**
Other liabilities	**$ 1,463.9**	**11.5**	**1,475.4**	**3,681.7**	**(16.9) (a)**	**5,140.2**
Separate account business				**503.0**		**503.0**
Total liabilities	**1,463.9**	**1,241.2**	**2,705.1**	**56,024.3**	**(1,246.6)**	**57,482.8**
Minority interest				**2,896.3**		**2,896.3**
Shareholders' equity	**1,295.3**	**(1,139.5)**	**155.8**	**16,404.6**	**(58.6) (b)**	**16,501.8**
Total liabilities and shareholders' equity	**$ 2,759.2**	**$ 101.7**	**$ 2,860.9**	**$ 75,325.2**	**$ (1,305.2)**	**$ 76,880.9**

(a) To eliminate the intergroup notional debt and interest payable/receivable.
(b) To eliminate the Loews Group's 37.66% equity interest in the combined attributed net assets of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Balance Sheet Information

	Carolina Group			Loews	Adjustments and	
December 31, 2005	Lorillard	Other	Consolidated	Group	Eliminations	Total
(In millions)						
Assets:						
Investments	$ 1,747.7	$ 101.0	$ 1,848.7	$ 43,547.3		$ 45,396.0
Cash	2.4	0.1	2.5	150.6		153.1
Receivables	25.5	0.2	25.7	15,540.2	$ (22.0) (a)	15,543.9
Property, plant and equipment	213.9		213.9	4,737.7		4,951.6
Deferred income taxes	428.5		428.5	476.8		905.3
Goodwill and other intangible assets				297.4		297.4
Other assets	377.5		377.5	1,532.1		1,909.6
Investment in combined attributed net assets of the Carolina Group				1,516.6	(1,626.9) (a)	
					110.3 (b)	
Deferred acquisition costs of insurance subsidiaries				1,197.4		1,197.4
Separate account business				551.5		551.5
Total assets	$ 2,795.5	$ 101.3	$ 2,896.8	$ 69,547.6	$ (1,538.6)	$ 70,905.8
Liabilities and Shareholders' Equity:						
Insurance reserves				$ 42,436.2		$ 42,436.2
Payable for securities purchased				401.7		401.7
Collateral on loaned securities				767.4		767.4
Short-term debt				598.2		598.2
Long-term debt		$ 1,626.9	$ 1,626.9	4,608.6	$ (1,626.9) (a)	4,608.6
Reinsurance balances payable				1,636.2		1,636.2
Other liabilities	$ 1,455.7	14.7	1,470.4	3,306.6	(22.0) (a)	4,755.0
Separate account business				551.5		551.5
Total liabilities	1,455.7	1,641.6	3,097.3	54,306.4	(1,648.9)	55,754.8
Minority interest				2,058.9		2,058.9
Shareholders' equity	1,339.8	(1,540.3)	(200.5)	13,182.3	110.3 (b)	13,092.1
Total liabilities and shareholders' equity	$ 2,795.5	$ 101.3	$ 2,896.8	$ 69,547.6	$ (1,538.6)	$ 70,905.8

(a) To eliminate the intergroup notional debt and interest payable/receivable.
(b) To eliminate the Loews Group's 54.97% equity interest in the combined attributed net assets of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Operations Information

Year Ended December 31, 2006	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Revenues:						
Insurance premiums				$ 7,603.1		$ 7,603.1
Net investment income	$ 103.7	$ 8.2	$ 111.9	2,914.6	$ (115.4) (a)	2,911.1
Investment gains (losses)	(0.5)		(0.5)	92.0		91.5
Gain on issuance of subsidiary stock				9.0		9.0
Manufactured products	3,754.9		3,754.9	206.9		3,961.8
Other				3,334.5		3,334.5
Total	3,858.1	8.2	3,866.3	14,160.1	(115.4)	17,911.0
Expenses:						
Insurance claims and policyholders' benefits				6,046.2		6,046.2
Amortization of deferred acquisition costs				1,534.2		1,534.2
Cost of manufactured products sold	2,159.5		2,159.5	102.2		2,261.7
Other operating expenses	354.1	0.3	354.4	2,951.2		3,305.6
Restructuring and other related charges				(12.9)		(12.9)
Interest	0.3	115.3	115.6	303.9	(115.4) (a)	304.1
Total	2,513.9	115.6	2,629.5	10,924.8	(115.4)	13,438.9
	1,344.2	(107.4)	1,236.8	3,235.3	-	4,472.1
Income tax expense (benefit)	518.0	(41.4)	476.6	974.1		1,450.7
Minority interest				504.4	-	504.4
Total	518.0	(41.4)	476.6	1,478.5	-	1,955.1
Income (loss) from operations	826.2	(66.0)	760.2	1,756.8		2,517.0
Equity in earnings of the Carolina Group				343.8	(343.8) (b)	
Income (loss) from continuing operations	826.2	(66.0)	760.2	2,100.6	(343.8)	2,517.0
Discontinued operations, net				(25.7)		(25.7)
Net income (loss)	$ 826.2	$ (66.0)	$ 760.2	$ 2,074.9	$ (343.8)	$ 2,491.3

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Operations Information

	Carolina Group			Loews	Adjustments and	
Year Ended December 31, 2005	Lorillard	Other	Consolidated	Group	Eliminations	Total
(In millions)						
Revenues:						
Insurance premiums				$ 7,568.6		$ 7,568.6
Net investment income	$ 63.6	$ 5.0	$ 68.6	2,170.6	$ (140.4) (a)	2,098.8
Investment losses	(2.1)		(2.1)	(11.1)		(13.2)
Manufactured products	3,567.8		3,567.8	184.6		3,752.4
Other	6.0		6.0	2,605.2		2,611.2
Total	3,635.3	5.0	3,640.3	12,517.9	(140.4)	16,017.8
Expenses:						
Insurance claims and policyholders' benefits				6,998.7		6,998.7
Amortization of deferred acquisition costs				1,542.6		1,542.6
Cost of manufactured products sold	2,114.4		2,114.4	87.9		2,202.3
Other operating expenses	369.1	0.4	369.5	2,694.0		3,063.5
Interest	0.5	140.4	140.9	363.7	(140.4) (a)	364.2
Total	2,484.0	140.8	2,624.8	11,686.9	(140.4)	14,171.3
	1,151.3	(135.8)	1,015.5	831.0	-	1,846.5
Income tax expense (benefit)	444.9	(52.5)	392.4	98.0		490.4
Minority interest				163.2		163.2
Total	444.9	(52.5)	392.4	261.2	-	653.6
Income (loss) from operations	706.4	(83.3)	623.1	569.8	-	1,192.9
Equity in earnings of the Carolina Group				371.8	(371.8) (b)	
Income (loss) from continuing operations	706.4	(83.3)	623.1	941.6	(371.8)	1,192.9
Discontinued operations, net				18.7		18.7
Net income (loss)	$ 706.4	$ (83.3)	$ 623.1	$ 960.3	$ (371.8)	$ 1,211.6

Loews and Carolina Group
Consolidating Condensed Statement of Operations Information

	Carolina Group			Loews	Adjustments and	
Year Ended December 31, 2004	Lorillard	Other	Consolidated	Group	Eliminations	Total
(In millions)						
Revenues:						
Insurance premiums				$ 8,205.2		$ 8,205.2
Net investment income	$ 36.6	$ 2.0	$ 38.6	1,994.2	$ (157.5) (a)	1,875.3
Investment gains (losses)	1.4		1.4	(257.4)		(256.0)
Manufactured products	3,347.8		3,347.8	167.4		3,515.2
Other				1,897.2		1,897.2
Total	3,385.8	2.0	3,387.8	12,006.6	(157.5)	15,236.9
Expenses:						
Insurance claims and policyholders' benefits				6,445.0		6,445.0
Amortization of deferred acquisition costs				1,679.8		1,679.8
Cost of manufactured products sold	1,965.6		1,965.6	79.8		2,045.4
Other operating expenses	380.6	0.5	381.1	2,532.7		2,913.8
Interest		157.5	157.5	324.1	(157.5) (a)	324.1
Total	2,346.2	158.0	2,504.2	11,061.4	(157.5)	13,408.1
	1,039.6	(156.0)	883.6	945.2	-	1,828.8
Income tax expense (benefit)	397.3	(59.6)	337.7	198.5		536.2
Minority interest				57.3		57.3
Total	397.3	(59.6)	337.7	255.8	-	593.5
Income (loss) from operations	642.3	(96.4)	545.9	689.4	-	1,235.3
Equity in earnings of the Carolina Group				361.4	(361.4) (b)	
Income (loss) from continuing operations	642.3	(96.4)	545.9	1,050.8	(361.4)	1,235.3
Discontinued operations, net				(19.5)		(19.5)
Net income (loss)	$ 642.3	$ (96.4)	$ 545.9	$ 1,031.3	$ (361.4)	$ 1,215.8

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Cash Flows Information

	Carolina Group			Loews	Adjustments and	
Year Ended December 31, 2006	**Lorillard**	**Other**	**Consolidated**	**Group**	**Eliminations**	**Total**
(In millions)						
Net cash provided by operating activities	$ 778.2	$ (69.4)	$ 708.8	$ 1,145.5	$ (139.6)	$ 1,714.7
Investing activities:						
Purchases of property and equipment	(29.7)		(29.7)	(904.9)		(934.6)
Change in short-term investments	416.8		416.8	(2,689.3)		(2,272.5)
Other investing activities	(384.9)		(384.9)	1,352.5	(397.2)	570.4
	2.2	-	2.2	(2,241.7)	(397.2)	(2,636.7)
Financing activities:						
Dividends paid to shareholders	(783.0)	466.8	(316.2)	(131.1)	139.6	(307.7)
Reduction of intergroup notional debt		(397.2)	(397.2)		397.2	
Excess tax benefits from share-based compensation	1.4		1.4	5.3		6.7
Other financing activities				1,215.0		1,215.0
	(781.6)	69.6	(712.0)	1,089.2	536.8	914.0
Net change in cash	(1.2)	0.2	(1.0)	(7.0)	-	(8.0)
Net cash transactions from:						
Continuing operations to discontinued operations				13.8		13.8
Discontinued operations to continuing operations				(13.8)		(13.8)
Cash, beginning of year	2.4	0.1	2.5	179.5		182.0
Cash, end of year	$ 1.2	$ 0.3	$ 1.5	$ 172.5	$ -	$ 174.0

Loews and Carolina Group
Consolidating Condensed Statement of Cash Flows Information

	Carolina Group			Loews	Adjustments and	
Year Ended December 31, 2005	Lorillard	Other	Consolidated	Group	Eliminations	Total
(In millions)						
Net cash provided by operating activities	$ 820.3	$ (85.2)	$ 735.1	$ 2,819.4	$ (187.4)	$ 3,367.1
Investing activities:						
Purchases of property and equipment	(31.2)		(31.2)	(446.6)		(477.8)
Change in short-term investments	(176.6)	(0.9)	(177.5)	(468.9)		(646.4)
Other investing activities	0.4		0.4	(406.3)	(244.4)	(650.3)
	(207.4)	(0.9)	(208.3)	(1,321.8)	(244.4)	(1,774.5)
Financing activities:						
Dividends paid to shareholders	(646.0)	330.1	(315.9)	(111.4)	187.4	(239.9)
Reduction of intergroup notional debt		(244.4)	(244.4)		244.4	
Other financing activities				(1,404.7)		(1,404.7)
	(646.0)	85.7	(560.3)	(1,516.1)	431.8	(1,644.6)
Net change in cash	(33.1)	(0.4)	(33.5)	(18.5)	-	(52.0)
Net cash transactions from:						
Continuing operations to discontinued operations				(34.3)		(34.3)
Discontinued operations to continuing operations				34.3		34.3
Cash, beginning of year	35.5	0.5	36.0	198.0		234.0
Cash, end of year	$ 2.4	$ 0.1	$ 2.5	$ 179.5	$ -	$ 182.0

Loews and Carolina Group
Consolidating Condensed Statement of Cash Flows Information

	Carolina Group			Loews	Adjustments and	
Year Ended December 31, 2004	Lorillard	Other	Consolidated	Group	Eliminations	Total
(In millions)						
Net cash provided by operating activities	$ 631.9	$ (97.4)	$ 534.5	$ 2,857.1	$ (210.1)	$ 3,181.5
Investing activities:						
Purchases of property and equipment	(50.8)		(50.8)	(216.2)		(267.0)
Change in short-term investments	26.3		26.3	3,281.1		3,307.4
Other investing activities	0.6		0.6	(6,921.9)	(160.9)	(7,082.2)
	(23.9)	-	(23.9)	(3,857.0)	(160.9)	(4,041.8)
Financing activities:						
Dividends paid to shareholders	(574.0)	258.4	(315.6)	(111.3)	210.1	(216.8)
Reduction of intergroup notional debt		(160.9)	(160.9)		160.9	
Other financing activities				1,105.2		1,105.2
	(574.0)	97.5	(476.5)	993.9	371.0	888.4
Net change in cash	34.0	0.1	34.1	(6.0)	-	28.1
Net cash transactions from:						
Continuing operations to discontinued operations				12.2		12.2
Discontinued operations to continuing operations				(12.2)		(12.2)
Cash, beginning of year	1.5	0.4	1.9	204.0		205.9
Cash, end of year	$ 35.5	$ 0.5	$ 36.0	$ 198.0	$ -	$ 234.0

Note 7. Receivables

December 31	**2006**	2005
(In millions)		
Reinsurance	**$ 9,947.3**	$ 12,436.7
Other insurance	**2,475.8**	2,540.8
Security sales	**325.9**	604.9
Accrued investment income	**331.4**	322.2
Other	**810.8**	612.6
Total	**13,891.2**	16,517.2
Less: allowance for doubtful accounts on reinsurance receivables	**469.6**	519.3
allowance for other doubtful accounts and cash discounts	**394.3**	454.0
Receivables	**$ 13,027.3**	$ 15,543.9

Note 8. Property, Plant and Equipment

December 31	2006	2005
(In millions)		
Land	$ 71.1	$ 77.9
Buildings and building equipment	716.6	609.6
Offshore drilling rigs and equipment	4,356.4	3,903.0
Machinery and equipment	1,412.4	1,268.0
Pipeline equipment	2,067.0	1,829.9
Leaseholds and leasehold improvements	70.5	66.3
Total	8,694.0	7,754.7
Less accumulated depreciation and amortization	3,192.7	2,803.1
Property, plant and equipment	$ 5,501.3	$ 4,951.6

Depreciation and amortization expense, including amortization of intangibles, and capital expenditures, are as follows:

Year Ended December 31	2006		2005		2004	
	Depr. & Amort.	Capital Expend.	Depr. & Amort.	Capital Expend.	Depr. & Amort.	Capital Expend.
(In millions)						
CNA Financial	$ 41.7	$ 131.0	$ 41.7	$ 45.4	$ 61.1	$ 40.9
Lorillard	47.2	29.7	48.3	31.3	39.7	50.8
Loews Hotels	24.9	20.5	26.6	16.0	27.3	35.0
Diamond Offshore	206.8	551.2	190.1	297.5	184.9	93.7
Boardwalk Pipeline	75.1	196.7	72.1	84.5	34.0	41.2
Corporate and other	3.8	5.5	3.3	3.1	3.8	5.4
Total	$ 399.5	$ 934.6	$ 382.1	$ 477.8	$ 350.8	$ 267.0

Note 9. Claim and Claim Adjustment Expense Reserves

CNA's property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to settle all outstanding claims, including claims that are incurred but not reported ("IBNR") as of the reporting date. CNA's reserve projections are based primarily on detailed analysis of the facts in each case, CNA's experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. Catastrophe losses, net of reinsurance, were $59.0 million, $493.0 million and $278.0 million for the years ended December 31, 2006, 2005 and 2004. The catastrophe losses in 2005 related primarily to Hurricanes Katrina, Wilma, Rita, Dennis and Ophelia.

The catastrophe losses in 2004 related primarily to Hurricanes Charley, Frances, Ivan and Jeanne. There can be no assurance that CNA's ultimate cost for these catastrophes will not exceed current estimates.

Commercial catastrophe losses, gross of reinsurance, were $59.0 million, $976.0 million and $308.0 million for the years ended December 31, 2006, 2005 and 2004.

The table below provides a reconciliation between beginning and ending claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves of the life companies.

Year Ended December 31	**2006**	2005	2004
(In millions)			
Reserves, beginning of year:			
Gross	**$ 30,938.0**	$ 31,523.0	$ 31,732.0
Ceded	**10,605.0**	13,879.0	14,066.0
Net reserves, beginning of year	**20,333.0**	17,644.0	17,666.0
Reduction of net reserves (a)			(42.0)
Net incurred claim and claim adjustment expenses:			
Provision for insured events of current year	**4,840.0**	5,516.0	6,062.0
Increase in provision for insured events of prior years	**361.0**	1,100.0	240.0
Amortization of discount	**121.0**	115.0	135.0
Total net incurred (b)	**5,322.0**	6,731.0	6,437.0
Net payments attributable to:			
Current year events (c)	**784.0**	1,341.0	1,936.0
Prior year events	**3,439.0**	2,711.0	4,522.0
Reinsurance recoverable against net reserve transferred under retroactive reinsurance agreements	**(13.0)**	(10.0)	(41.0)
Total net payments	**4,210.0**	4,042.0	6,417.0
Net reserves, end of year	**21,445.0**	20,333.0	17,644.0
Ceded reserves, end of year	**8,191.0**	10,605.0	13,879.0
Gross reserves, end of year	**$ 29,636.0**	$ 30,938.0	$ 31,523.0

(a) In 2004, the net reserves were reduced by $42.0 as a result of the sale of the individual life insurance business. See Note 14 for further discussion of this sale.
(b) Total net incurred above does not agree to Insurance claims and policyholders' benefits as reflected in the Consolidated Statements of Income due to expenses incurred related to uncollectible reinsurance receivables and benefit expenses related to future policy benefits and policyholders' funds which are not reflected in the table above.
(c) In 2006, net payments were decreased by $935.0 million due to the impact of significant commutations. In 2005, net payments were decreased by $1,581.0 due to the impact of significant commutations. See Note 18 for further discussion related to commutations.

The changes in provision for insured events of prior years (net prior year claim and claim adjustment expense reserve development) were as follows:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Environmental pollution and mass tort	**$ 63.0**	$ 53.0	$ 1.0
Asbestos		10.0	54.0
Other	**269.0**	1,044.0	179.0
Property and casualty reserve development	**332.0**	1,107.0	234.0
Life reserve development in life company	**29.0**	(7.0)	6.0
Total	**$ 361.0**	$ 1,100.0	$ 240.0

The following tables summarize the gross and net carried reserves as of December 31, 2006 and 2005.

December 31, 2006	**Standard Lines**	**Specialty Lines**	**Life and Group Non-Core**	**Other Insurance**	**Total**
(In millions)					
Gross Case Reserves	**$ 6,746.0**	**$ 1,715.0**	**$ 2,366.0**	**$ 2,511.0**	**$ 13,338.0**
Gross IBNR Reserves	**8,188.0**	**3,814.0**	**768.0**	**3,528.0**	**16,298.0**
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 14,934.0**	**$ 5,529.0**	**$ 3,134.0**	**$ 6,039.0**	**$ 29,636.0**
Net Case Reserves	**$ 5,234.0**	**$ 1,350.0**	**$ 1,496.0**	**$ 1,453.0**	**$ 9,533.0**
Net IBNR Reserves	**6,632.0**	**2,921.0**	**360.0**	**1,999.0**	**11,912.0**
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 11,866.0**	**$ 4,271.0**	**$ 1,856.0**	**$ 3,452.0**	**$ 21,445.0**
December 31, 2005					
Gross Case Reserves	$ 7,033.0	$ 1,907.0	$ 2,542.0	$ 3,297.0	$ 14,779.0
Gross IBNR Reserves	8,051.0	3,298.0	735.0	4,075.0	16,159.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 15,084.0	$ 5,205.0	$ 3,277.0	$ 7,372.0	$ 30,938.0
Net Case Reserves	$ 5,165.0	$ 1,442.0	$ 1,456.0	$ 1,554.0	$ 9,617.0
Net IBNR Reserves	6,081.0	2,352.0	381.0	1,902.0	10,716.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 11,246.0	$ 3,794.0	$ 1,837.0	$ 3,456.0	$ 20,333.0

The following provides discussion of CNA’s Asbestos, Environmental Pollution and Mass Tort (“APMT”) and core reserves.

APMT Reserves

CNA’s property and casualty insurance subsidiaries have actual and potential exposures related to APMT claims.

Establishing reserves for APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimating techniques and methodologies, many of which involve significant judgments that are required of management. Accordingly, a high degree of uncertainty remains for CNA’s ultimate liability for APMT claim and claim adjustment expenses.

In addition to the difficulties described above, estimating the ultimate cost of both reported and unreported APMT claims is subject to a higher degree of variability due to a number of additional factors, including among others: the number and outcome of direct actions against CNA; coverage issues, including whether certain costs are covered under the policies and whether policy limits apply; allocation of liability among numerous parties, some of whom may be in bankruptcy proceedings, and in particular the application of “joint and several” liability to specific insurers on a risk; inconsistent court decisions and developing legal theories; continuing aggressive tactics of plaintiffs' lawyers; the risks and lack of predictability inherent in major litigation; enactment of state and federal legislation to address asbestos claims; increases and decreases in asbestos, environmental pollution and mass tort claims which cannot now be anticipated; increases and decreases in costs to defend asbestos, pollution and mass tort claims; changing liability theories against CNA's policyholders in environmental and mass tort matters; possible exhaustion of underlying umbrella and excess coverage; and future developments pertaining to CNA's ability to recover reinsurance for asbestos, pollution and mass tort claims.

CNA has annually performed ground up reviews of all open APMT claims to evaluate the adequacy of CNA's APMT reserves. In performing its comprehensive ground up analysis, CNA considers input from its professionals with direct responsibility for the claims, inside and outside counsel with responsibility for representation of CNA and its actuarial staff. These professionals review, among many factors, the policyholder's present and predicted future exposures, including such factors as claims volume, trial conditions, prior settlement history, settlement demands and defense costs; the impact of asbestos defendant bankruptcies on the policyholder; the policies issued by CNA, including such factors as aggregate or per occurrence limits, whether the policy is primary, umbrella or excess, and the existence of policyholder retentions and/or deductibles; the existence of other insurance; and reinsurance arrangements.

The following table provides data related to CNA's APMT claim and claim adjustment expense reserves.

December 31	2006		2005	
	Asbestos	**Environmental Pollution and Mass Tort**	Asbestos	Environmental Pollution and Mass Tort
(In millions)				
Gross reserves	**$ 2,635.0**	**$ 647.0**	$ 2,992.0	$ 680.0
Ceded reserves	**(1,183.0)**	**(231.0)**	(1,438.0)	(257.0)
Net reserves	**$ 1,452.0**	**$ 416.0**	$ 1,554.0	$ 423.0

Asbestos

CNA's property and casualty insurance subsidiaries have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves limitations such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future and the uncertainties inherent in predicting the number of future claims.

As of December 31, 2006 and 2005, CNA carried approximately $1,452.0 million and $1,554.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. CNA recorded no asbestos-related net claim and claim adjustment expense reserve development for the year ended December 31, 2006. For the years ended December 31, 2005 and 2004, CNA recorded $10.0 million and $54.0 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development. The 2004 unfavorable net prior year development was primarily related to a loss from the commutation of reinsurance treaties with The Trenwick Group ("Trenwick"). CNA paid asbestos-related claims, net of reinsurance recoveries, of $102.0 million, $142.0 million and $135.0 million for the years ended December 31, 2006, 2005 and 2004.

Certain asbestos claim litigation in which CNA is currently engaged is described below:

The ultimate cost of reported claims, and in particular APMT claims, is subject to a great many uncertainties, including future developments of various kinds that CNA does not control and that are difficult or impossible to foresee accurately. With respect to the litigation identified below in particular, numerous factual and legal issues remain unresolved. Rulings on those issues by the courts are critical to the evaluation of the ultimate cost to CNA. The outcome of the litigation cannot be predicted with any reliability. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

On February 13, 2003, CNA announced it had resolved asbestos related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow − Liptak Corporation. Under the agreement, CNA is required to pay $74.0 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy plan of reorganization. The settlement resolves CNA's liabilities for all pending and future asbestos and silica claims involving A.P. Green Industries, Bigelow − Liptak Corporation and related subsidiaries, including alleged "non-products" exposures. The settlement received initial bankruptcy court approval on August 18, 2003. The court has held a confirmation hearing on the bankruptcy plan containing an injunction to protect CNA from any future claims and the parties are awaiting a ruling on confirmation.

CNA is engaged in insurance coverage litigation in New York State Court, filed in 2003, with a defendant class of underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company ("Keasbey") *(Continental Casualty Co. v. Employers Ins. of Wausau et al.*, No. 601037/03 (N.Y. County)). Keasbey, a currently dissolved corporation, was a seller and installer of asbestos-containing insulation products in New York and New Jersey. Thousands of plaintiffs have filed bodily injury claims against Keasbey; however, Keasbey's involvement at a number of work sites is a highly contested issue. Therefore, the defense disputes the percentage of valid claims against Keasbey. CNA issued Keasbey primary policies for 1970-1987 and excess policies for 1972-1978. CNA has paid an amount substantially equal to the policies' aggregate limits for products and completed operations claims in the confirmed CNA policies. Claimants against Keasbey allege, among other things, that CNA owes coverage under sections of the policies not subject to the aggregate limits, an allegation CNA vigorously contests in the lawsuit. In the litigation, CNA and the claimants seek declaratory relief as to the interpretation of various policy provisions. The court dismissed a claim alleging bad faith and seeking unspecified damages on March 21, 2004; that ruling was affirmed on March 31, 2005 by Appellate Division, First Department. The trial in the Keasbey coverage action commenced on July 13, 2005; closing arguments concluded on October 28, 2005. The Court reopened the record in January 2006 for additional evidentiary submissions and briefing, and additional closing arguments were held March 27, 2006. It is unclear when CNA will have a decision from the trial court. With respect to this litigation in particular, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include, among others: (a) whether CNA has any further responsibility to compensate claimants against Keasbey under its policies and, if so, under which policies; (b) whether CNA's responsibilities extend to a particular claimant's entire claim or only to a limited percentage of the claim; (c) whether CNA's responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (d) whether certain exclusions in some of the policies apply to exclude certain claims; (e) the extent to which claimants can establish exposures to asbestos materials as to which Keasbey has any responsibility; (f) the legal theories which must be pursued by such claimants to establish the liability of Keasbey and whether such theories can, in fact, be established; (g) the diseases and damages alleged by such claimants; and (h) the extent that such liability would be shared with other responsible parties. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA has insurance coverage disputes related to asbestos bodily injury claims against a bankrupt insured, Burns & Roe Enterprises, Inc. ("Burns & Roe"). These disputes are currently part of coverage litigation (stayed in view of the bankruptcy) and an adversary proceeding in *In re: Burns & Roe Enterprises, Inc*., pending in the U.S. Bankruptcy Court for the District of New Jersey, No. 00-41610. Burns & Roe provided engineering and related services in connection with construction projects. At the time of its bankruptcy filing, on December 4, 2000, Burns & Roe asserted that it faced approximately 11,000 claims alleging bodily injury resulting from exposure to asbestos as a result of construction projects in which Burns & Roe was involved. CNA allegedly provided primary liability coverage to Burns & Roe from 1956-1969 and 1971-1974, along with certain project-specific policies from 1964-1970. The litigation involves disputes over the confirmation of the Plan of Reorganization in bankruptcy, the scope and extent of coverage, if any, afforded to Burns & Roe for its asbestos liabilities. On December 5, 2005, Burns & Roe filed its Third Amended Plan of Reorganization ("Plan"). A confirmation hearing relating to that Plan is anticipated in 2007. Coverage issues will be determined in a later proceeding. With respect to both confirmation of the Plan and coverage issues, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include, among others: (a) whether CNA has any further responsibility to compensate claimants against Burns & Roe under its policies and, if so, under which; (b) whether CNA's responsibilities under its policies extend to a particular claimant's entire claim or only to a limited percentage of the claim; (c) whether CNA's responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (d) whether certain exclusions, including professional liability exclusions, in some of CNA's policies apply to exclude certain claims; (e) the extent to which claimants can establish exposure to asbestos materials as to which Burns & Roe has any responsibility; (f) the legal theories which must be pursued by such claimants to establish the liability of Burns & Roe and whether such theories can, in fact, be established; (g) the diseases and damages alleged by such claimants; (h) the extent that any liability of Burns & Roe would be shared with other potentially responsible parties; and (i) the impact of bankruptcy proceedings on claims and coverage issue resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Suits have also been initiated directly against the CNA companies and numerous other insurers in three jurisdictions: Texas, West Virginia and Montana. Lawsuits were filed in Texas beginning in 2002, against two CNA companies and numerous other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos (E.g. *Boson v. Union Carbide Corp.*, (Nueces County, Texas)). During 2003, many of the Texas suits were dismissed as time-barred by the applicable Statute of Limitations. In other suits, the carriers argued that they did not owe any duty to the plaintiffs or the general public to advise the world generally or the plaintiffs particularly of the effects of asbestos and that Texas statutes precluded liability for such claims, and two Texas courts dismissed these suits. Certain of the Texas courts' rulings were appealed, but plaintiffs later dismissed their appeals. A different Texas court denied similar motions seeking dismissal at the pleading stage, allowing limited discovery to proceed. After that court denied a related challenge to jurisdiction, the insurers transferred those cases, among others, to a state multi-district litigation court in Harris County charged with handling asbestos cases, and the cases remain in that court. The insurers have petitioned the appellate court in Houston for an order of mandamus, requiring the multi-district litigation court to dismiss the cases on jurisdictional and substantive grounds. With respect to this litigation in particular, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the speculative nature and unclear scope of any alleged duties owed to individuals exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the fact that imposing such duties on all insurer and non-insurer corporate defendants would be unprecedented and, therefore, the legal boundaries of recovery are difficult to estimate; (c) the fact that many of the claims brought to date are barred by various Statutes of Limitation and it is unclear whether future claims would also be barred; (d) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; and (e) the existence of hundreds of co-defendants in some of the suits and the applicability of the legal theories pled by the claimants to thousands of potential defendants. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Continental Casualty Company ("CCC") was named in *Adams v. Aetna, Inc., et al*. (Circuit Court of Kanawha County, West Virginia, Nos, 0-2C-1708 to -1719, filed June 28, 2002), a purported class action against CCC and other insurers, alleging that the defendants violated West Virginia's Unfair Trade Practices Act ("UTPA") in handling and resolving asbestos claims against their insureds. In September 2006, CCC entered into a settlement with plaintiffs and on November 15, 2006, the Circuit Court of Kanawha County dismissed plaintiffs' claims against CCC. While no party filed an opposition to the settlement, the time for seeking leave to appeal that dismissal order to the West Virginia Supreme Court of Appeals has not yet expired. In the event the dismissal order is appealed to the West Virginia Supreme Court and the dismissal order is set aside, numerous factual and legal issues would determine the final result in Adams, the outcome of which cannot be predicted with any reliability. These issues include: (a) the legal sufficiency and factual validity of the novel statutory claims pled by the claimants; (b) the applicability of claimants' legal theories to insurers who issued excess policies and/or neither defended nor controlled the defense of certain policyholders; (c) the possibility that certain of the claims are barred by various Statutes of Limitation; (d) the fact that the imposition of duties would interfere with the attorney-client privilege and the contractual rights and responsibilities of the parties to CNA's insurance policies; (e) whether plaintiffs' claims are barred in whole or in part by injunctions that have been issued by bankruptcy courts that are overseeing, or that have overseen, the bankruptcies of various insureds; (f) whether some or all of the named plaintiffs or members of the plaintiff class have released CCC from the claims alleged in the Amended Complaint when they resolved their underlying asbestos claims; (g) the appropriateness of the case for class action treatment; and (h) the potential and relative magnitude of liabilities of co-defendants. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

On March 22, 2002, a direct action was filed in Montana (*Pennock, et al. v. Maryland Casualty, et al.* First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. ("W.R. Grace")) and their spouses against CNA, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace's pending bankruptcy. With respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA is vigorously defending these and other cases and believes that it has meritorious defenses to the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure represented by these matters. Adverse developments with respect to any of these matters could have a material adverse effect on CNA's business and insurer financial strength and debt ratings and the Company's results of operations and/or equity.

Environmental Pollution and Mass Tort

As of December 31, 2006 and 2005, CNA carried approximately $416.0 million and $423.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was $63.0 million, $53.0 million and $1.0 million of unfavorable environmental pollution and mass tort net claim and claim adjustment expense reserve development recorded for the years ended December 31, 2006, 2005 and 2004. CNA recorded $40.0 million, $20.0 million and $15.0 million of current accident year losses related to mass tort for the years ended December 31, 2006, 2005 and 2004. CNA paid environmental pollution-related claims and mass tort-related claims, net of reinsurance recoveries, of $110.0 million, $147.0 million and $96.0 million for the years ended December 31, 2006, 2005 and 2004.

In addition to mass tort claims arising from exposure to asbestos as discussed above, CNA also has exposure arising from other mass tort claims. Such claims typically involve allegations by multiple plaintiffs alleging injury resulting from exposure to or use of similar substances or products over multiple policy periods. Examples include, but are not limited to, lead paint claims, hardboard siding, polybutylene pipe, mold, silica, latex gloves, benzene products, welding rods, diet drugs, breast implants, medical devices, and various other toxic chemical exposures. During CNA's 2006 ground up review, CNA noted adverse development in various mass tort accounts. The adverse development results primarily from increases related to defense costs in a small number of accounts arising out of various substances and products. As a result, CNA increased mass tort reserves for prior accident years by $63.0 million in 2006.

CNA noted adverse development in various pollution accounts in its 2005 ground up review. In the course of its review, CNA did not observe a negative trend or deterioration in the underlying pollution claims environment. Rather, individual account estimates changed due to changes in liability and/or coverage circumstances particular to those accounts. As a result, CNA increased pollution reserves for prior accident years by $50.0 million in 2005.

Net Prior Year Development

Unfavorable net prior year development of $185.0 million, including $251.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $66.0 million of favorable premium development, was recorded in 2006. Unfavorable net prior year development of $807.0 million, including $945.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $138.0 million of favorable premium development, was recorded in 2005. Unfavorable net prior year development of $134.0 million, including $250.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $116.0 million of favorable premium development, was recorded in 2004.

The development discussed below includes premium development due to its direct relationship to claim and claim adjustment expense reserve development. The development discussed below excludes the impact of the provision for uncollectible reinsurance, but includes the impact of commutations. See Note 8 for further discussion of the provision for uncollectible reinsurance.

In 2005 and 2004, CNA recorded favorable or unfavorable premium and claim and claim adjustment expense reserve development related to the corporate aggregate reinsurance treaties as movements in the claim and allocated claim adjustment expense reserves for the accident years covered by the corporate aggregate reinsurance treaties indicated such development was required. While the available limit of these treaties was fully utilized in 2003, the ceded premiums and losses for an individual segment changed in subsequent years because of the re-estimation of the subject losses or commutations of the underlying contracts. In 2005, CNA commuted a significant corporate aggregate reinsurance treaty and in 2006, CNA commuted its remaining corporate aggregate reinsurance treaty. See Note 18 for further discussion of the corporate aggregate reinsurance treaties.

The following tables and discussion include the net prior year development recorded for Standard Lines, Specialty Lines and Other Insurance for the years ended December 31, 2006, 2005 and 2004. Unfavorable net prior year development of $13.0 million was recorded in the Life and Group Non-Core segment for the year ended December 31, 2006. Favorable net prior year development of $5.0 million and $7.0 million was recorded in the Life and Group Non-Core segment for the years ended December 31, 2005 and 2004.

Year Ended December 31, 2006	**Standard Lines**	**Specialty Lines**	**Other Insurance**	**Total**
(In millions)				
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development				
Core (Non-APMT)	**$ 157.0**	**$ (10.0)**	**$ 23.0**	**$ 170.0**
APMT			**63.0**	**63.0**
Pretax unfavorable (favorable) net prior year development before impact of premium development	**157.0**	**(10.0)**	**86.0**	**233.0**
Total unfavorable (favorable) premium development	**(88.0)**	**25.0**	**2.0**	**(61.0)**
Total 2006 unfavorable net prior year development (pretax)	**$ 69.0**	**$ 15.0**	**$ 88.0**	**$ 172.0**

Year Ended December 31, 2005	Standard Lines	Specialty Lines	Other Insurance	Total
(In millions)				
Pretax unfavorable net prior year claim and allocated claim adjustment expense reserve development excluding the impact of corporate aggregate reinsurance treaties:				
Core (Non-APMT)	$ 376.0	$ 42.0	$ 171.0	$ 589.0
APMT			63.0	63.0
Total	376.0	42.0	234.0	652.0
Ceded losses related to corporate aggregate reinsurance treaties	183.0	5.0	57.0	245.0
Pretax unfavorable net prior year development before impact of premium development	559.0	47.0	291.0	897.0
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaties	(101.0)	(12.0)	11.0	(102.0)
Ceded premiums related to corporate aggregate reinsurance treaties	(6.0)	19.0	4.0	17.0
Total unfavorable (favorable) premium development	(107.0)	7.0	15.0	(85.0)
Total 2005 unfavorable net prior year development (pretax)	$ 452.0	$ 54.0	$ 306.0	$ 812.0

Year Ended December 31, 2004				
Pretax unfavorable net prior year claim and allocated claim adjustment expense reserve development excluding the impact of corporate aggregate reinsurance treaties:				
Core (Non-APMT)	$ 107.0	$ 75.0	$ 20.0	$ 202.0
APMT			55.0	55.0
Total	107.0	75.0	75.0	257.0
Ceded losses related to corporate aggregate reinsurance treaties	8.0	(17.0)	9.0	
Pretax unfavorable net prior year development before impact of premium development	115.0	58.0	84.0	257.0
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaties	(96.0)	(33.0)	12.0	(117.0)
Ceded premiums related to corporate aggregate reinsurance treaties	(1.0)	5.0	(3.0)	1.0
Total unfavorable (favorable) premium development	(97.0)	(28.0)	9.0	(116.0)
Total 2004 unfavorable net prior year development (pretax)	$ 18.0	$ 30.0	$ 93.0	$ 141.0

2006 Net Prior Year Development

Standard Lines

Approximately $119.0 million of unfavorable claim and allocated claim adjustment expense reserve development was due to reinsurance commutation activity that took place in the fourth quarter of 2006. Approximately $82.0 million of unfavorable claim and allocated claim adjustment expense reserve development was related to casualty lines of business, primarily workers' compensation, due to continued claim cost inflation in older accident years, primarily 2002 and prior. The primary drivers of the continuing claim cost inflation are medical inflation and advances in medical care.

Favorable claim and allocated claim adjustment expense reserve development of approximately $88.0 million was recorded in relation to the short-tail coverages such as property and marine, primarily in accident years 2004 and 2005. The favorable results are primarily due to the underwriting actions taken by CNA that have significantly improved the results on this business and favorable outcomes on individual claims.

The majority of the favorable premium development was due to additional premium primarily resulting from audits and changes to premium on several ceded reinsurance agreements. Business impacted included various middle market liability coverages, workers' compensation, property, and large accounts. This favorable premium development was partially offset by approximately $44.0 million of unfavorable claim and allocated claim adjustment expense reserve development recorded as a result of this favorable premium development.

Specialty Lines

Approximately $55.0 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded due to increased claim adjustment expenses and increased severities in the architects and engineers book of business in accident years 2003 and prior. Previous reviews assumed that incurred severities had increased, at least in part, due to increases in the adequacy of case reserve estimates with relatively minor changes in underlying severity. Subsequent changes in paid and case incurred losses have shown that more of the change was due to underlying increases in verdict and settlement size for these accident years rather than increases in case reserve adequacy, resulting in higher ultimate losses. One of the primary drivers of these larger verdicts and settlements is the continuing general increase in commercial and private real estate values.

Approximately $60.0 million of favorable claim and allocated claim adjustment expense reserve development was due to improved claim severity and claim frequency in the healthcare professional liability business, primarily in dental, nursing home liability, physicians and other healthcare facilities. The improved severity and frequency are due to underwriting changes. CNA no longer writes large national nursing home chains and focuses on smaller insureds in selected areas of the country. These changes have resulted in business that experiences fewer large claims.

Approximately $15.0 million of unfavorable claim and allocated claim adjustment expense reserve development was primarily related to increased severity on individual large claims from large law firm errors and omissions ("E&O"), and directors and officers ("D&O") coverages. These increases result in higher ultimate loss projections from the average loss methods used by the Company's actuaries.

Approximately $17.0 million of favorable claim and allocated claim adjustment expense reserve development was recorded in the warranty line of business for accident years 2004 and 2005. The reserves for this business are initially estimated based on the loss ratio expected for the business. Subsequent estimates rely more heavily on the actual case incurred losses due to the short-tail nature of this business. The short-tail nature of the business is due to the short period of time that passes between the time the business is written and the time when all claims are known and settled. Case incurred loss for the most recent accident year has been lower than indicated by the initial loss ratio.

The majority of the unfavorable premium development was related to ceded reinsurance activity.

Other Insurance

The majority of the unfavorable claim and allocated claim adjustment expense reserve development was related to CNA's exposure arising from other mass tort claims. Such claims typically involve allegations by multiple plaintiffs alleging injury resulting from exposure to or use of similar substances or products over multiple policy periods. Examples include, but are not limited to, lead paint claims, hardboard siding, polybutylene pipe, mold, silica, latex gloves, benzene products, welding rods, diet drugs, breast implants, medical devices, and various other toxic chemical exposures. During CNA's 2006 ground up review, CNA noted adverse development in various mass tort accounts. The adverse development results primarily from increases related to defense costs in a small number of accounts arising out of various substances and products.

2005 Net Prior Year Development

Standard Lines

During the fourth quarter of 2005, CNA executed commutation agreements with certain reinsurers, including the commutation of a corporate aggregate reinsurance agreement. These agreements resulted in approximately $285.0 million of unfavorable claim and allocated claim adjustment expense reserve development. This unfavorable claim and allocated claim adjustment expense reserve development was partially offset by a release of a previously established allowance for uncollectible reinsurance.

Also, in the fourth quarter of 2005, reserve reviews of certain products were conducted and changes in reserve estimates were recorded. Approximately $102.0 million of unfavorable claim and allocated claim adjustment expense reserve development was due to higher frequency and severity on claims related to excess workers’ compensation, particularly in accident years 2003 and prior. The primary drivers of the higher frequency and severity were increasing medical inflation and advances in medical care. Medical inflation increases the cost of claims resulting in more claims reaching the excess layers covered by CNA. Medical inflation also increases the size of claims in CNA’s layers. Similarly, advances in medical care extend the life expectancies of claimants again resulting in additional costs to be covered by CNA as well as more claims reaching the excess layers covered by CNA.

In addition, approximately $4.0 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded due to increased severity on known claims on package policies provided to small businesses in accident years 2002 and 2003. Approximately $10.0 million of favorable claim and allocated claim adjustment expense reserve development was due to lower severities in the excess and surplus lines runoff business in accident years 2001 and prior. These severity changes were driven primarily by judicial decisions and settlement activities on individual cases.

Approximately $23.0 million of favorable claim and allocated claim adjustment expense reserve development was related to favorable loss trends on accident years 2002 and subsequent in CNA’s international business, specifically Europe and Canada, primarily in property, cargo and marine coverages. Approximately $4.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development was due to less than expected losses in involuntary business.

Approximately $140.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to improvement in the severity and number of claims for property coverages and marine business, primarily in accident year 2004. The improvements in severity and frequency are substantially due to underwriting actions taken by CNA that have significantly improved the results on this business.

Approximately $126.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from increased severity trends for workers’ compensation, primarily in accident year 2002 and prior. The primary drivers of the higher severity trends were increasing medical inflation and advances in medical care. Medical inflation increases the cost of medical services, and advances in medical care extend the life expectancies of claimants resulting in additional costs to be covered by CNA.

Approximately $15.0 million of unfavorable premium development was recorded in relation to this unfavorable net prior year claim and allocated claim adjustment expense reserve development which resulted from additional ceded reinsurance premium on agreements where the ceded premium is impacted by the level of ceded losses.

Approximately $90.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $83.0 million of favorable net prior year premium development resulted from an unfavorable arbitration ruling on two reinsurance treaties.

Approximately $76.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was attributed to increased severity in liability coverages for large account policies. These increases are driven by increasing medical inflation and larger verdicts than anticipated, both of which increase the severity of these claims.

Approximately $53.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was related to reviews of liquor liability, trucking and habitational business that indicated that the number of large claims was higher than previously expected in recent accident years. The remainder of the favorable net prior year claim and allocated claim adjustment expense reserve development was primarily a result of improved experience on several coverages on middle market business, mainly in accident year 2004.

Favorable net prior year premium development was recorded primarily as a result of additional premium resulting from audits on recent policies, primarily workers' compensation.

Additionally, there was $19.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $6.0 million of favorable premium development related to the corporate aggregate reinsurance treaties, excluding the impact of a corporate aggregate reinsurance commutation as discussed above.

Specialty Lines

Approximately $60.0 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded due to increased claim adjustment expenses and increased severities in the architects and engineers book of business, in accident years 2000 through 2003. Previous reviews assumed that severities had increased, at least in part, due to increases in the adequacy of case reserve estimates. Subsequent changes in paid and incurred loss have shown that more of the change was due to larger verdicts and settlements during these accident years. One of the primary drivers of these larger verdicts and settlements is the continuing general increase in real estate values. Favorable net prior year premium development of approximately $10.0 million was recorded in relation to this unfavorable claim and allocated claim adjustment expense reserve development.

Approximately $45.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was related to large D&O claims assumed from a London syndicate, primarily in accident years 2001 and prior. Approximately $43.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to large claims under excess coverages provided to health care facilities.

Approximately $32.0 million of favorable claim and allocated claim adjustment expense reserve development related to surety business was due to a favorable outcome on several specific large claims and lower than expected emergence of additional large claims related to accident years 1999 through 2003.

Approximately $30.0 million of unfavorable claim and allocated claim adjustment expense reserve development was related to a commutation agreement executed in the fourth quarter of 2005 of a corporate aggregate reinsurance agreement. This unfavorable claim and allocated claim adjustment expense reserve development was partially offset by a release of a previously established allowance for uncollectible reinsurance.

Approximately $24.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded as a result of improvements in the claim severity and claim frequency, mainly in recent accident years, from nursing home businesses. The improved severity and frequency are due to underwriting changes in this business. CNA no longer writes large national chains and focuses on smaller insureds in selected areas of the country. These changes have resulted in business that experiences fewer large claims.

Approximately $14.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to lower severity in the dental program. The lower severity is driven by efforts to resolve a higher percentage of claims without a resulting indemnity payment.

The remainder of the favorable net prior year claim and allocated claim adjustment expense reserve development was primarily attributed to favorable experience in the warranty line of business, partially offset by unfavorable net prior year claim and allocated claim adjustment expense reserve development attributed to other large D&O claims.

Additionally, there was approximately $25.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development and $19.0 million of unfavorable premium development related to the corporate aggregate reinsurance treaties in 2005, excluding the impact of a corporate aggregate reinsurance commutation as discussed above.

Other Insurance

Approximately $157.0 million of unfavorable claim and allocated claim adjustment expense reserve development was attributable to CNA's assumed reinsurance operations, driven by a significant increase in large claim activity during 2005 across multiple accident years. This development was concentrated in the proportional liability, excess of loss liability, and professional liability businesses, which impact underlying coverages that include general liability, umbrella, E&O and D&O. CNA's assumed reinsurance operations were put in run-off in 2003.

During the fourth quarter of 2005, CNA executed significant commutation agreements with certain reinsurers, including the commutation of a corporate aggregate reinsurance agreement. These agreements resulted in approximately $62.0 million of unfavorable claim and allocated claim adjustment expense reserve development.

Approximately $56.0 million of unfavorable claim and allocated claim adjustment expense reserve development recorded in 2005 was a result of a second quarter commutation of a finite reinsurance contract put in place in 1992. CNA recaptured $400.0 million of losses and received $344.0 million of cash. The commutation was economically attractive because of the reinsurance agreement's contractual interest rate and maintenance charges.

Approximately $6.0 million of unfavorable claim and allocated claim adjustment expense reserve development was related to the corporate aggregate reinsurance treaties, excluding the impact of a corporate aggregate reinsurance commutation as discussed above. The unfavorable premium development was driven by $10.0 million of additional ceded reinsurance premium on agreements where the ceded premium depends on the ceded loss and $4.0 million of additional premium ceded to the corporate aggregate reinsurance treaties.

CNA noted adverse development in various pollution accounts in its most recent ground up review. In the course of its review, CNA did not observe a negative trend or deterioration in the underlying pollution claims environment. Rather, individual account estimates changed due to changes in liability and/or coverage circumstances particular to those accounts. As a result, CNA increased pollution reserves by $50.0 million in 2005.

The overall unfavorable claim and allocated claim adjustment expense reserve development was partially decreased by favorable claim and allocated claim adjustment expense reserve development in various other programs in runoff, including Financial Guarantee, Guarantee and Credit, and Mortgage Guarantee. These programs have recently exhibited favorable trends due to offsetting recoveries and commutations, leading to reductions in the estimated liabilities.

2004 Net Prior Year Development

Standard Lines

Approximately $190.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development recorded during 2004 resulted from increased severity trends for workers' compensation on large account policies primarily in accident years 2002 and prior. The primary drivers of the higher severity trends were increasing medical inflation and advances in medical care. Medical inflation increases the cost of medical services, and advances in medical care extend the life expectancies of claimants resulting in additional costs to be covered by CNA. Favorable premium development on retrospectively rated large account policies of $50.0 million was recorded in relation to this unfavorable net prior year claim and allocated claims adjustment expense reserve development.

Approximately $60.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded in involuntary pools in which CNA's participation is mandatory and primarily based on premium writings. Approximately $15.0 million of this unfavorable net prior year claim and allocated claim adjustment expense reserve development was related to CNA's share of the National Workers' Compensation Reinsurance Pool ("NWCRP"). During 2004, the NWCRP reached an agreement with a former pool member to settle their pool liabilities at an amount less than their established share. The result of this settlement is a higher allocation to the remaining pool members, including CNA. The remainder of this unfavorable net prior year claim and allocated claim adjustment expense reserve development was primarily due to increased severity trends for workers' compensation exposures in older years.

Approximately $60.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from the change in estimates due to increased severity trends for excess and surplus business driven by excess liability, liquor liability and coverages provided to apartment and condominium complexes. These severity changes were driven primarily by judicial decisions and settlement activities on individual cases.

Approximately $105.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development resulted from reserve studies of commercial auto liability policies and the liability portion of package policies. The change was due to improvement in the severity and number of claims for this business. This is primarily due to a lower than expected number of large claims. Approximately $85.0 million of favorable net prior year claim and allocated claim adjustment expense reserve development was due to improvement in the severity and number of claims for property coverages primarily in accident year 2003. The improvements in severity and frequency are substantially due to underwriting actions taken by the Company that have significantly improved the results on this business. Other favorable net prior year premium development of approximately $50.0 million resulted primarily from higher audit and endorsement premiums on workers' compensation policies.

During 2004, CNA executed commutation agreements with several members of Trenwick. These commutations resulted in unfavorable claim and claim adjustment expense reserve development which was more than offset by a release of a previously established allowance for uncollectible reinsurance.

Specialty Lines

CNA executed commutation agreements with several members of Trenwick during 2004. These commutations resulted in unfavorable claim and claim adjustment expense reserve development which was more than offset by a release of a previously established allowance for uncollectible reinsurance. Additionally, unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from the increased emergence of several large D&O claims, primarily in recent accident years.

Other Insurance

In 2004, CNA executed commutation agreements with several members of Trenwick. These commutations resulted in unfavorable net prior claim and allocated claim adjustment expense reserve development partially offset by a release of a previously established allowance for uncollectible reinsurance. The remainder of the unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from several other small commutations and increases to net reserves due to reducing ceded losses, partially offset by a release of a previously established allowance for uncollectible reinsurance.

Note 10. Leases

The Company's hotels in some instances are constructed on leased land. Other leases cover office facilities, computer and transportation equipment. Rent expense amounted to $80.5 million, $97.8 million and $101.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The table below presents the future minimum lease payments to be made under non-cancelable operating leases along with lease and sublease minimum receipts to be received on owned and leased properties.

Year Ended December 31	Future Minimum Lease Payments	Future Minimum Lease Receipts
(In millions)		
2007	$ 70.0	$ 6.7
2008	61.8	6.0
2009	51.1	5.4
2010	46.4	5.1
2011	37.0	3.5
Thereafter	115.1	5.6
Total	$ 381.4	$ 32.3

Note 11. Income Taxes

The Company and its eligible subsidiaries file a consolidated federal income tax return. The Company has entered into a separate tax allocation agreement with CNA, a majority-owned subsidiary in which its ownership exceeds 80%. The agreement provides that the Company will (i) pay to CNA the amount, if any, by which the Company's consolidated federal income tax is reduced by virtue of inclusion of CNA in the Company's return, or (ii) be paid by CNA an amount, if any, equal to the federal income tax that would have been payable by CNA if it had filed a separate consolidated return. The agreement may be canceled by either of the parties upon thirty days' written notice.

The Company's consolidated federal income tax returns for 2002 through 2004 have been settled with the Internal Revenue Service ("IRS"), including related carryback claims for refund which were approved by the Joint Committee on Taxation. As a result, the Company recorded a federal income tax benefit of $9.1 million and net refund interest of $2.3 million, net of tax and minority interest, in the year ended December 31, 2006.

In 2005, the Company's consolidated federal income tax returns were settled with the IRS through 2001 as the tax returns for 1998 through 2001, including related carryback claims and prior claims for refund, were approved by the Joint Committee on Taxation in the second quarter of 2005. As a result, the Company recorded net refund interest of $130.6 million that is included in Other Revenues in the Consolidated Statements of Income. Subsequent to this settlement, a review of tax liabilities was performed and the Company reduced its deferred tax liabilities by $58.5 million for the year ended December 31, 2005. The tax benefit related primarily to the release of federal income tax reserves.

The Company's consolidated federal income tax return for 2005 is currently under examination by the IRS. The Company believes the outcome of this examination will not have a material effect on the financial condition or results of operations of the Company. In addition, for 2007, the IRS has invited the Company and its eligible tax consolidated subsidiaries to participate in the Compliance Assurance Process ("CAP") which is a voluntary program for a limited number of large corporations. Under CAP, the IRS conducts a real-time audit and works contemporaneously with the Company to resolve any issues prior to the filing of the 2007 tax return. The Company has agreed to participate. The Company believes that this approach should reduce tax-related uncertainties, if any.

Provision has been made for the expected U.S. federal income tax liabilities applicable to undistributed earnings of subsidiaries, except for certain subsidiaries for which the Company intends to invest the undistributed earnings indefinitely, or recover such undistributed earnings tax-free. At December 31, 2006, the Company has not provided deferred taxes of $104.0 million, if sold through a taxable sale, on $297.0 million of undistributed earnings related to a domestic affiliate. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings of foreign subsidiaries is not practicable.

Total income tax expense for the years ended December 31, 2006, 2005 and 2004, was different than the amounts of $1,565.2 million, $646.3 million and $640.1 million, computed by applying the statutory U.S. federal income tax rate of 35% to income before income taxes and minority interest for each of the years.

A reconciliation between the statutory federal income tax rate and the Company's effective income tax rate as a percentage of income (loss) before income tax expense (benefit) and minority interest is as follows:

Year Ended December 31	**2006**	2005	2004
Statutory rate	**35%**	35%	35%
Increase (decrease) in income tax rate resulting from:			
Exempt interest and dividends received deduction	**(2)**	(6)	(6)
State and city income taxes	**1**	3	3
Foreign earnings indefinitely reinvested	**(1)**		
Prior year tax settlements		(3)	
Other	**(1)**	(2)	(3)
Effective income tax rate	**32%**	27%	29%

The current and deferred components of income tax expense (benefit), excluding taxes on discontinued operations and the cumulative effect of the changes in accounting principles, are as follows:

Year Ended December 31 **(In millions)**	**2006**	2005	2004
Income tax expense (benefit):			
Federal:			
Current	**$ 1,072.7**	$ 521.6	$ 425.8
Deferred	**250.7**	(117.3)	43.3
State and city:			
Current	**97.9**	72.6	54.7
Deferred	**3.8**	7.7	11.8
Foreign	**25.6**	5.8	0.6
Total	**$ 1,450.7**	$ 490.4	$ 536.2

Deferred tax assets (liabilities) are as follows:

December 31 **(In millions)**	**2006**	2005
Deferred tax assets:		
Insurance reserves:		
Property and casualty claim and claim adjustment expense reserves	**$ 775.3**	$ 807.4
Unearned premium reserves	**244.8**	232.4
Life reserve differences	**132.6**	186.6
Other insurance reserves	**25.9**	24.3
Receivables	**247.7**	292.2
Tobacco settlements	**436.0**	421.5
Employee benefits	**347.0**	293.6
Life settlement contracts	**102.0**	102.2
Investment valuation differences	**92.9**	130.2
Net operating loss carried forward	**26.1**	56.9
Basis differential in investment in subsidiary	**33.6**	42.2
Other	**247.5**	373.7
Gross deferred tax assets	**2,711.4**	2,963.2
Valuation allowance		(31.2)
Deferred tax assets after valuation allowance	**$ 2,711.4**	$ 2,932.0

December 31	**2006**	2005
(In millions)		
Deferred tax liabilities:		
Deferred acquisition costs	**$ (647.6)**	$ (651.3)
Net unrealized gains	**(364.4)**	(276.6)
Property, plant and equipment	**(523.6)**	(545.9)
Foreign and other affiliates	**(10.7)**	(15.4)
Basis differential in investment in subsidiary	**(230.8)**	(210.4)
Contingent interest	**(53.4)**	(42.6)
Other liabilities	**(260.0)**	(284.5)
Gross deferred tax liabilities	**(2,090.5)**	(2,026.7)
Net deferred tax assets	**$ 620.9**	$ 905.3

At December 31, 2005, a valuation allowance of $31.2 million related to certain foreign subsidiaries remained outstanding, due to uncertainty in the ability of the foreign subsidiaries to generate sufficient future income. During 2006, the Company reconsidered the need for this allowance in light of recent earnings levels and anticipated future earnings and determined the allowance was no longer required. Therefore, the allowance was released in 2006. Although realization of deferred tax assets is not assured, management believes it is more likely than not that the recognized net deferred tax asset will be realized through future earnings, including but not limited to future income from continuing operations, reversal of existing temporary differences, and available tax planning strategies.

At December 31, 2006, Diamond Offshore, which is not included in the Company’s consolidated federal income tax return, had a net operating loss carryforward of approximately $7.9 million which will expire by 2010. It is expected that the net operating loss carryforward will be fully utilized by Diamond Offshore in future years.

Note 12. Debt

December 31, 2006	**Principal**	**Unamortized Discount**	**Net**	**Short-Term Debt**	**Long-Term Debt**
(In millions)					
Loews Corporation	**$ 875.0**	**$ 9.6**	**$ 865.4**		**$ 865.4**
CNA Financial	**2,167.3**	**11.5**	**2,155.8**	**$ 0.3**	**2,155.5**
Diamond Offshore	**965.3**	**1.0**	**964.3**		**964.3**
Boardwalk Pipeline	**1,360.0**	**9.1**	**1,350.9**		**1,350.9**
Loews Hotels	**236.0**		**236.0**	**4.3**	**231.7**
Total	**$ 5,603.6**	**$ 31.2**	**$ 5,572.4**	**$ 4.6**	**$ 5,567.8**

December 31	2006	2005
(In millions)		
Loews Corporation (Parent Company):		
Senior:		
6.8% notes due 2006 (effective interest rate of 6.8%) (authorized, $300)		$ 300.0
8.9% debentures due 2011 (effective interest rate of 9.0%) (authorized, $175)	**$ 175.0**	175.0
5.3% notes due 2016 (effective interest rate of 5.4%) (authorized, $400) (a)	**400.0**	400.0
6.0% notes due 2035 (effective interest rate of 6.2%) (authorized, $300) (a)	**300.0**	300.0
CNA Financial:		
Senior:		
6.8% notes due 2006 (effective interest rate of 6.8%) (authorized, $250)		250.0
6.5% notes due 2008 (effective interest rate of 6.6%) (authorized, $150)	**150.0**	150.0
6.6% notes due 2008 (effective interest rate of 6.7%) (authorized, $200)	**200.0**	200.0
6.0% notes due 2011(effective interest rate of 6.1%) (authorized, $400)	**400.0**	
8.4% notes due 2012 (effective interest rate of 8.6%) (authorized, $100)	**69.6**	69.6
5.9% notes due 2014 (effective interest rate of 6.0%) (authorized $549)	**549.0**	549.0
6.5% notes due 2016 (effective interest rate of 6.6%) (authorized, $350)	**350.0**	
7.0% notes due 2018 (effective interest rate of 7.1%) (authorized, $150)	**150.0**	150.0
7.3% debentures due 2023 (effective interest rate of 7.3%) (authorized, $250)	**243.0**	243.0
5.1% debentures due 2034 (effective interest rate of 5.1%) (authorized, $31)	**30.9**	30.9
Revolving credit facility due 2008 (effective interest rate of 5.0%)		20.0
Other senior debt (effective interest rates approximate 5.0% and 5.8%)	**24.8**	36.9
Diamond Offshore:		
Senior:		
5.2% notes, due 2014 (effective interest rate of 5.2%) (authorized, $250) (a)	**250.0**	250.0
4.9% notes, due 2015 (effective interest rate of 5.0%) (authorized, $250) (a)	**250.0**	250.0
Zero coupon convertible debentures due 2020, net of discount of $3.2 and $12.2 (effective interest rate of 3.6%) (b)	**5.3**	18.7
1.5 % convertible senior debentures due 2031 (effective interest rate of 1.6%) (authorized $460) (c)	**460.0**	460.0
Boardwalk Pipeline:		
Senior:		
5.9% notes due 2016 (effective interest of 6.0%) (authorized, $250)	**250.0**	
5.5% notes due 2017 (effective interest rate of 5.6%) (authorized, $300) (a)	**300.0**	300.0
5.2% notes due 2018 (effective interest rate of 5.4%) (authorized, $185) (a)	**185.0**	185.0
Revolving credit facility due 2010 (effective interest rate of 5.2%)		42.1
Texas Gas:		
Senior:		
4.6% notes due 2015 (effective interest rate of 5.1%) (authorized, $250) (a)	**250.0**	250.0
7.3% debentures due 2027 (effective interest rate of 8.1%) (authorized, $100)	**100.0**	100.0
Gulf South:		
Senior:		
5.1% notes due 2015 (effective interest rate of 5.2%) (authorized, $275) (a)	**275.0**	275.0
Loews Hotels:		
Senior debt, principally mortgages (effective interest rates approximate 4.8% and 4.8%)	**236.0**	240.1
	5,603.6	5,245.3
Less unamortized discount	**31.2**	38.5
Debt	**$ 5,572.4**	$ 5,206.8

(a) Redeemable in whole or in part at the greater of the principal amount or the net present value of scheduled payments discounted at the specified treasury rate plus a margin.
(b) The debentures are convertible into Diamond Offshore's common stock at the rate of 8.6075 shares per one thousand dollars principal amount, subject to adjustment. Each debenture will be purchased by Diamond Offshore at the option of the holder on the tenth and fifteenth anniversaries of issuance at the accreted value through the date of repurchase. The debentures were issued on June 6, 2000. Diamond Offshore, at its option, may elect to pay the purchase price in cash or shares of common stock, or in certain combinations thereof. The debentures are redeemable at the option of Diamond Offshore at any time at prices which reflect a yield of 3.5% to the holder.
(c) The debentures are convertible into Diamond Offshore's common stock at the rate of 20.3978 shares per one thousand dollars principal amount, subject to adjustment in certain circumstances. Upon conversion, Diamond Offshore has the right to deliver cash in lieu of shares of its common stock. Diamond Offshore may redeem all or a portion of the debentures at any time on or after April 15, 2008 at a price equal to 100% of the principal amount. Holders may require Diamond Offshore to purchase all or a portion of the debentures on April 15, 2008, at a price equal to 100% of the principal amount. Diamond Offshore, at its option, may elect to pay the purchase price in cash or shares of common stock, or in certain combinations thereof.

In June of 2006, Boardwalk Pipeline entered into a $400.0 million unsecured revolving credit facility.

In August of 2006, CNA issued $400.0 million of 6.0% five-year senior notes due August 15, 2011 and $350.0 million of 6.5% ten-year senior notes due August 15, 2016 in a public offering. CNA used part of the proceeds to fund repayment of its $250.0 million 6.75% senior notes at maturity in November of 2006.

In November of 2006, Boardwalk Pipeline issued $250.0 million of 5.9% ten-year senior notes due November 15, 2016.

In November of 2006, Diamond Offshore entered into a $285.0 million syndicated, 5-year senior unsecured revolving credit facility, for general corporate purposes, including loans and performance or standby letters of credit.

At December 31, 2006, the aggregate of long-term debt maturing in each of the next five years is approximately as follows: $4.6 million in 2007, $814.7 million in 2008, $71.9 million in 2009, $9.6 million in 2010 and $579.5 million in 2011. The aggregate of long-term debt maturing in each of the next five years, after giving effect to the conversions during 2007 as discussed in Note 25, is as follows: $4.6 million in 2007, $376.3 million in 2008, $71.9 million in 2009, $8.1 million in 2010 and $579.5 million in 2011.

Note 13. Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows:

	Unrealized Gains (Losses) on Investments	Foreign Currency	Pension Liability	Accumulated Other Comprehensive Income (Loss)
(In millions)				
Balance, January 1, 2004	$ 846.0	$ 46.0	$ (122.5)	$ 769.5
Unrealized holding gains, net of tax of $169.0	244.0			244.0
Adjustment for items included in net income, net of tax of $222.6	(377.2)			(377.2)
Foreign currency translation adjustment, net of tax of $1.6		23.3		23.3
Minimum pension liability adjustment, net of tax of $37.4			(62.2)	(62.2)
Balance, December 31, 2004	712.8	69.3	(184.7)	597.4
Unrealized holding gains, net of tax of $87.7	(102.9)			(102.9)
Adjustment for items included in net income, net of tax of $71.1	(120.5)			(120.5)
Foreign currency translation adjustment, net of tax of $1.8		(20.8)		(20.8)
Minimum pension liability adjustment, net of tax of $24.2			(42.1)	(42.1)
Balance, December 31, 2005	489.4	48.5	(226.8)	311.1
Unrealized holding gains, net of tax of $66.6	**105.5**			**105.5**
Adjustment for items included in net income, net of tax of $6.3	**(10.5)**			**(10.5)**
Foreign currency translation adjustment, net of tax of $0.3		**36.7**		**36.7**
Minimum pension liability adjustment, net of tax of $49.2			**87.0**	**87.0**
Adjustment to initially apply SFAS No. 158, net of tax of $77.5			**(143.1)**	**(143.1)**
Balance, December 31, 2006	**$ 584.4**	**$ 85.2**	**$ (282.9)**	**$ 386.7**

Note 14. Significant Transactions

Gain on Issuance of Subsidiary Stock

In August of 2006, CNA completed a public offering of 7.0 million shares of its common stock. In addition, the Company purchased 7.86 million shares of CNA's common stock in a private offering at the same price. As a result of these transactions, the Company's ownership percentage in CNA declined from 91% to 89% and the Company recorded a pretax gain of $9.0 million including purchase accounting adjustments ($5.9 million after provision for deferred income taxes).

In November of 2005, a wholly owned subsidiary of the Company, Boardwalk Pipeline, completed an initial public offering of 15,000,000 common limited partnership units at a price of $19.50 per common unit, representing a 14.5% limited partnership interest. In connection with the closing of this offering, the Company contributed, through a wholly owned subsidiary, its ownership interest in Boardwalk Pipelines, LLC, together with certain of its liabilities to Boardwalk Pipeline and received 53,256,122 common and 33,093,878 subordinated units representing an aggregate 83.5% limited partner interest. In addition, the Company's subsidiary received a 2% general partnership interest and incentive distribution rights, which entitles the Company to an increasing percentage of the cash that is distributed in excess of $0.4025 per unit per quarter. Boardwalk Pipeline used the net proceeds of approximately

$271.4 million to fund the repayment of its intercompany debt ($250.0 million) relating to the acquisition of Gulf South and to provide additional working capital.

In the fourth quarter of 2006, Boardwalk Pipeline sold an additional 6,900,000 common units, respectively, at a price of $29.65 per unit in a public offering and received net proceeds of $195.2 million. In addition, the Company contributed $4.2 million to maintain its 2.0% general partner interest.

The subordinated units have secondary distribution rights during the subordination period and will convert to common units at the earliest date subsequent to which Boardwalk Pipeline has paid a $0.35 minimum quarterly distribution for twelve consecutive quarters, or minimum quarterly distributions in the amount of $0.525 per unit for four consecutive quarters.

The issuance prices of the common units exceeded the Company’s carrying amount, resulting in cumulative pretax gains of approximately $234.6 million and $133.1 million at December 31, 2006 and 2005, respectively. In accordance with SEC Staff Accounting Bulletin No. 51, “Accounting for Sales of Stock by a Subsidiary,” recognition of a gain is only appropriate if the class of securities sold by the subsidiary does not contain any preference over the subsidiary’s other classes of securities. As a result, the Company will defer gain recognition until the subordinated units are converted into common units.

Acquisition of Gulf South

The Company, through its subsidiary Boardwalk Pipelines, LLC acquired Gulf South Pipeline, LP (“Gulf South”) from Entergy-Koch, LP, a venture between Entergy Corporation and Koch Energy, Inc., a subsidiary of privately-owned Koch Industries, Inc., in December of 2004. The Company funded the $1.14 billion purchase price, including transaction costs and closing adjustments, with $575.0 million of proceeds from an interim loan and the remaining approximately $561.0 million from its available cash. In January of 2005, Boardwalk Pipelines, LLC and Gulf South issued long-term debt and used the proceeds to repay the $575.0 million interim loan.

Gulf South owns and operates a 7,500-mile interstate natural gas pipeline and storage system located in the states of Texas, Louisiana, Mississippi, Alabama and Florida. The Gulf South pipeline system is comprised of the interstate transmission pipeline and 83.0 billion cubic feet (“Bcf”) of working gas storage capacity.

The allocation of purchase price to the assets and liabilities acquired was as follows:

		Gulf South
(In millions)		
Current assets	$	77.4
Property, plant and equipment		1,159.0
Other non-current assets		28.3
Current liabilities		(108.7)
Other liabilities and deferred credits		(34.8)
	$	1,121.2

The following unaudited pro forma financial information assumes that Gulf South had been acquired as of January 1, 2004. The pro forma amounts include certain adjustments, including an adjustment to depreciation expense based on the preliminary allocation of purchase price to property, plant and equipment; adjustment of interest expense to reflect the issuance of debt in the acquisitions; and the related tax effect of these items.

Year Ended December 31		2004
(In millions, except per share data)		
Total revenues	$	15,477.8
Income from continuing operations		1,260.0
Net income		1,240.5
Basic and diluted income per share of Loews common stock:		
Income from continuing operations	$	2.26
Net income		2.23

The pro forma information does not necessarily reflect the actual results that would have occurred had the companies been combined during the periods presented, nor is it necessarily indicative of future results of operations.

Sale of Oil Tankers

Hellespont Shipping Corporation (“Hellespont”), in which the Company, through Majestic Shipping Corporation (“Majestic”), a wholly owned subsidiary, has a 49% common stock interest, sold all of its ultra-large crude oil tankers in July of 2004. Majestic received cash distributions from Hellespont and recognized income of $179.3 million ($116.5 million after taxes) for the year ended December 31, 2004.

Specialty Medical Business

On January 6, 2005, CNA completed the sale of its specialty medical business to Aetna Inc. As a result of the sale, CNA recorded a realized gain of approximately $8.2 million after-tax and minority interest in 2005. The revenues of the business sold were $17.0 million and $166.0 million for the years ended December 31, 2005 and 2004. Net income related to this business was $16.4 million and $14.6 million for the years ended December 31, 2005 and 2004.

Individual Life Sale

On April 30, 2004, CNA completed the sale of its individual life insurance business to Swiss Re. The business sold included term, universal and permanent life insurance policies and individual annuity products. CNA’s individual long term care and structured settlement businesses were excluded from the sale. Swiss Re acquired VFL and CNA’s Nashville, Tennessee insurance servicing and administration building as part of the sale. In connection with the sale, CNA entered into a reinsurance agreement in which CAC ceded its individual life insurance business to Swiss Re on a 100% indemnity reinsurance basis. Subject to certain exceptions, Swiss Re assumed the credit risk of the business that was previously reinsured to other carriers. As a result of this reinsurance agreement with Swiss Re, approximately $1.0 billion of future policy benefit reserves were ceded to Swiss Re. CNA received consideration of approximately $700.0 million and recorded a realized investment loss of $622.0 million pretax ($352.9 million after-tax and minority interest).

The revenues of the individual life business through the sale date were $151.0 million for the year ended December 31, 2004. The net results for this business through the sale date were a net loss of $5.5 million for the year ended December 31, 2004.

Note 15. Restructuring and Other Related Charges

In 2001, CNA finalized and approved two separate restructuring plans. The first plan related to CNA's Information Technology operations. The initial restructuring and other related charges amounted to $62.0 million in 2001. The remaining accrual related to this restructuring charge of $3.0 million was released in 2004.

The second plan related to restructuring the property and casualty segments and Life and Group Non-Core segment, discontinuation of the variable life and annuity business and consolidation of real estate locations. During the second quarter of 2006, CNA management reevaluated the sufficiency of the remaining accrual, which related to lease termination costs, and determined that the liability is no longer required as CNA has completed its lease obligations. As a result, the excess remaining accrual was released in 2006, resulting in pretax income of $12.9 million for the year ended December 31, 2006. During 2005 and 2004, approximately $1.0 million and $5.0 million of costs were paid. The initial restructuring and other related charges amounted to $189.0 million in 2001.

Note 16. Statutory Accounting Practices (Unaudited)

CNA's domestic insurance subsidiaries maintain their accounts in conformity with accounting practices prescribed or permitted by insurance regulatory authorities, which vary in certain respects from GAAP. In converting from statutory accounting principles to GAAP, typical adjustments include deferral of policy acquisition costs and the inclusion of net unrealized holding gains or losses in shareholders' equity relating to certain fixed maturity securities. The National Association of Insurance Commissioners ("NAIC") has codified statutory accounting principles to foster more consistency among the states for accounting guidelines and reporting.

CNA's insurance subsidiaries are domiciled in various jurisdictions. These subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the respective jurisdictions' insurance regulators. Prescribed statutory accounting practices are set forth in a variety of publications of the NAIC as well as state laws, regulations and general administrative rules.

CCC follows a permitted practice related to the statutory provision for reinsurance, or the uncollectible reinsurance reserve. This permitted practice allows CCC to record an additional uncollectible reinsurance reserve amount through a different financial statement line item than the prescribed statutory convention. This permitted practice had no effect on CCC's statutory surplus in 2006 or 2005.

CNA's ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNA by its insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Dividends from CCC are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Illinois Department of Financial and Professional Regulation - Division of Insurance (the "Department"), may be paid only from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of December 31, 2006, CCC is in a positive earned surplus position, enabling CCC to pay approximately $556.0 million of dividend payments during 2007 that would not be subject to the Department's prior approval. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

CNA's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the 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, which 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 requires specified corrective action. As of December 31, 2006 and 2005, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Combined statutory capital and surplus and net income, determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities, for the property and casualty and the life and group insurance subsidiaries, were as follows:

	Statutory Capital and Surplus		Statutory Net Income		
	December 31 (a)		Year Ended December 31		
Unaudited	**2006**	2005	**2006**	2005	2004
(In millions)					
Property and casualty companies	**$ 8,137.0**	$ 6,940.0	**$ 721.0**	$ 550.0	$ 694.0
Life and group insurance companies	**687.0**	627.0	**67.0**	65.0	334.0

(a) Surplus includes the property and casualty companies' equity ownership of the life and company's capital and surplus.

Note 17. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. The benefits for certain plans which cover salaried employees and certain union employees are based on formulas which include, among others, years of service and average pay. The benefits for one plan which covers union workers under various union contracts and certain salaried employees are based on years of service multiplied by a stated amount. Benefits for another plan are determined annually based on a specified percentage of annual earnings (based on the participant's age) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The Company's funding policy is to make contributions in accordance with applicable governmental regulatory requirements.

Other Postretirement Benefit Plans - The Company has several postretirement benefit plans covering eligible employees and retirees. Participants generally become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

Benefits for retirees reaching age 65 are generally integrated with Medicare. Other retirees, based on plan provisions, must use Medicare as their primary coverage, with the Company reimbursing a portion of the unpaid amount; or are reimbursed for the Medicare Part B premium or have no Company coverage. The benefits provided by the Company are basically health and, for certain retirees, life insurance type benefits.

The Company funds certain of these benefit plans and accrues postretirement benefits during the active service of those employees who would become eligible for such benefits when they retire.

The Company uses December 31 as the measurement date for the majority of its plans.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits			Other Postretirement Benefits		
December 31	**2006**	2005	2004	**2006**	2005	2004
Discount rate	**5.7%**	5.6%	5.9%	**5.7%**	5.5%	5.9%
Rate of compensation increase	**4.0 % to 7.0%**	4.0% to 7.0%	4.0% to 7.0%			

Weighted-average assumptions used to determine net periodic benefit cost:

	Pension Benefits			Other Postretirement Benefits		
Year Ended December 31	**2006**	2005	2004	**2006**	2005	2004
Discount rate	**5.6%**	5.9%	6.2% to 6.3%	**5.5%**	5.9%	5.9% to 6.2%
Expected long-term rate of return on plan assets	**7.0% to 8.0%**	7.0% to 8.0%	7.5% to 8.0%			
Rate of compensation increase	**4.0% to 7.0%**	4.0% to 7.0%	4.0% to 7.0%			

The long-term rate of return for plan assets is determined based on widely-accepted capital market principles, long-term return analysis for global fixed income and equity markets as well as the active total return oriented portfolio management style. Long-term trends are evaluated relative to market factors such as inflation, interest rates and fiscal and monetary policies, in order to assess the capital market assumptions as applied to the plan. Consideration of diversification needs and rebalancing is maintained.

Assumed health care cost trend rates:

December 31	**2006**	2005	2004
Health care cost trend rate assumed for next year	**4% to 10.5%**	4% to 11%	4% to 11.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4% to 5%**	4% to 5%	4% to 5%
Year that the rate reaches the ultimate trend rate	**2007-2018**	2006-2018	2005-2018

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point	
	Increase	**Decrease**
(In millions)		
Effect on total of service and interest cost	**$ 2.5**	**$ (1.4)**
Effect on postretirement benefit obligation	**20.8**	**(7.9)**

Net periodic benefit cost components:

	Pension Benefits			**Other Postretirement Benefits**		
Year Ended December 31	**2006**	2005	2004	**2006**	2005	2004
(In millions)						
Service cost	**$ 54.2**	$ 54.5	$ 58.2	**$ 9.4**	$ 10.6	$ 11.3
Interest cost	**212.2**	212.3	211.7	**27.5**	30.7	35.7
Expected return on plan assets	**(244.1)**	(236.6)	(230.7)	**(4.6)**	(4.6)	(5.3)
Amortization of unrecognized net loss	**33.2**	27.5	16.3	**4.5**	5.1	2.1
Amortization of unrecognized prior service cost	**7.5**	7.5	7.5	**(33.8)**	(29.8)	(21.6)
Special termination benefit	**6.0**	0.4		**2.2**		
Settlement loss			4.5			
Curtailment loss				**3.0**		
Regulatory asset decrease (increase)	**(4.0)**			**7.3**		
Net periodic benefit cost	**$ 65.0**	$ 65.6	$ 67.5	**$ 15.5**	$ 12.0	$ 22.2

Additional Information:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	**2006**	2005
(In millions)				
Increase (decrease) in minimum liability included in Accumulated other comprehensive income (prior to adoption of SFAS No. 158)	**$ (139.1)**	$ 67.2		
Increase (decrease) in SFAS No. 158 liability included in Accumulated other comprehensive income	**359.3**		**$ (134.5)**	
Total increase (decrease)	**$ 220.2**	$ 67.2	**$ (134.5)**	$ -

The following provides a reconciliation of benefit obligations:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	**2006**	2005
(In millions)				
Change in benefit obligation:				
Benefit obligation at January 1	**$ 3,885.1**	$ 3,700.8	**$ 575.3**	$ 535.9
Service cost	**54.2**	54.5	**9.4**	10.6
Interest cost	**212.2**	212.3	**27.5**	30.7
Plan participants' contributions	**0.4**	0.2	**14.7**	14.7
Amendments	**7.7**	1.0	**(75.2)**	(3.8)
Actuarial (gain) loss	**(59.2)**	134.9	**(35.6)**	27.7
Benefits paid from plan assets	**(221.3)**	(213.5)	**(47.1)**	(40.5)
Curtailment	**1.6**		**3.0**	
Special termination benefit	**15.7**	0.4	**2.2**	
Foreign exchange	**8.2**	(5.5)	**1.3**	
Retiree drug subsidy			**0.3**	
Benefit obligation at December 31	**3,904.6**	3,885.1	**475.8**	575.3
Change in plan assets:				
Fair value of plan assets at January 1	**3,235.8**	3,132.6	**79.5**	76.5
Actual return on plan assets	**345.7**	247.8	**6.5**	5.2
Company contributions	**105.4**	73.1	**26.6**	23.6
Plan participants' contributions	**0.4**	0.3	**14.7**	14.7
Curtailment				
Benefits paid from plan assets	**(221.4)**	(213.5)	**(47.1)**	(40.5)
Foreign exchange	**(2.6)**	(4.5)		
Fair value of plan assets at December 31	**3,463.3**	3,235.8	**80.2**	79.5
Funded status	**(441.3)**	(649.3)	**(395.6)**	(495.8)
Unrecognized net actuarial loss		753.1		116.5
Unrecognized prior service cost (benefit)		36.5		(183.0)
(Accrued) prepaid benefit cost	**$ (441.3)**	$ 140.3	**$ (395.6)**	$ (562.3)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost		$ 204.0		
Other assets	**$ 88.9**		**$ 18.6**	
Accrued benefit liability		(454.5)		$ (562.3)
Intangible asset		12.5		
Other liabilities	**(530.2)**		**(414.2)**	
Accumulated other comprehensive income		378.3		
Net amount recognized	**$ (441.3)**	$ 140.3	**$ (395.6)**	$ (562.3)

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	**2006**	2005
(In millions)				
Amounts recognized in Accumulated other comprehensive income, not yet recognized in net periodic benefit cost:				
Net transition asset	**$ (0.8)**			
Prior service cost (credit)	**36.3**		**$ (223.9)**	
Costs recoverable from customers			**15.5**	
Net actuarial loss	**561.5**		**73.9**	
Net amount recognized	**$ 597.0**	$ -	**$ (134.5)**	$ -

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

December 31	**2006**	2005
(In millions)		
Projected benefit obligation	**$ 3,178.1**	$ 3,294.4
Accumulated benefit obligation	**2,961.8**	3,038.4
Fair value of plan assets	**2,666.3**	2,599.0

As discussed in Note 1, the Company adopted SFAS No. 158 as of December 31, 2006. The incremental effect of applying SFAS No. 158 on individual line items in the Consolidated Balance Sheet is presented in the following table.

December 31, 2006	**Before Application SFAS No. 158**	**Adjustments**	**After Application SFAS No. 158**
(In millions)			
Deferred income taxes	**$ 543.4**	**$ 77.5**	**$ 620.9**
Other assets	**1,826.1**	**(109.6)**	**1,716.5**
Total assets	**76,913.0**	**(32.1)**	**76,880.9**
Other liabilities	**5,025.0**	**115.2**	**5,140.2**
Total liabilities	**57,367.6**	**115.2**	**57,482.8**
Minority interest	**2,900.5**	**(4.2)**	**2,896.3**
Accumulated other comprehensive income	**529.8**	**(143.1)**	**386.7**
Total shareholders’ equity	**16,644.9**	**(143.1)**	**16,501.8**

The Company employs a total return approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of the plan liabilities, plan funded status and corporate financial conditions. The investment portfolio contains a diversified blend of U.S. and non-U.S. fixed income and equity investments. Alternative investments, including hedge funds, are used judiciously to enhance risk adjusted long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews.

The Company's pension plan and other postretirement benefit weighted-average asset allocation at December 31, 2006 and 2005, by asset category are as follows:

	Percentage of Pension Plan Assets		Percentage of Other Postretirement Benefits Plan Assets	
December 31	**2006**	2005	**2006**	2005
Asset Category:				
Equity securities	**29.3%**	27.4%		
Debt securities	**49.4**	37.1	**100%**	100.0%
Limited Partnerships	**17.7**	12.1		
Other	**3.6**	23.4		
Total	**100.0%**	100.0%	**100%**	100.0%

The table below presents the estimated amounts to be recognized from accumulated other comprehensive income into net periodic benefit cost during 2007.

	Pension Benefits	Postretirement Benefits
(In millions)		
Amortization of net actuarial loss	$ 16.0	$ 3.5
Amortization of net transition asset	(0.3)	(0.1)
Amortization of prior service cost (benefit)	6.8	(27.0)
Total estimated amounts to be recognized	$ 22.5	$ (23.6)

The table below presents the estimated future minimum benefit payments at December 31, 2006.

Expected future benefit payments	**Pension Benefits**	**Postretirement Benefits**	**Less Medicare Subsidy**	**Net**
2007	**$ 265.4**	**$ 35.5**	**$ 1.8**	**$ 33.7**
2008	**226.6**	**36.3**	**1.9**	**34.4**
2009	**230.3**	**37.3**	**2.0**	**35.3**
2010	**234.6**	**38.3**	**2.1**	**36.2**
2011	**239.7**	**39.7**	**2.1**	**37.6**
Thereafter	**1,316.0**	**205.3**	**9.1**	**196.2**
	$ 2,512.6	**$ 392.4**	**$ 19.0**	**$ 373.4**

In 2007, it is expected that contributions of $64.2 million will be made to pension plans and $27.3 million to postretirement healthcare and life insurance benefit plans.

Savings Plans - The Company and its subsidiaries have several contributory savings plans which allow employees to make regular contributions based upon a percentage of their salaries. Matching contributions are made up to specified percentages of employees' contributions. The contributions by the Company and its subsidiaries to these plans amounted to $72.9 million, $40.1 million and $64.4 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Stock Option Plans - In 2005, shareholders approved the amended and restated Loews Corporation 2000 Stock Option Plan (the "Loews Plan"). The aggregate number of shares of Loews common stock for which options or stock appreciation rights ("SARs") may be granted under the Loews Plan is 12,000,000 shares, and the maximum number of shares of Loews common stock with respect to which options or SARs may be granted to any individual in any calendar year is 1,200,000 shares. The exercise price per share may not be less than the fair value of the common stock on the date of grant. Generally, options and SARs vest ratably over a four-year period and expire in ten years.

A summary of the stock option and SAR transactions for the Loews Plan follows:

	2006		2005		2004	
	Number of Awards	**Weighted Average Exercise Price**	Number of Awards	Weighted Average Exercise Price	Number of Awards	Weighted Average Exercise Price
Awards outstanding, January 1	**3,856,974**	**$ 19.340**	3,773,325	$ 16.767	3,382,350	$ 15.559
Granted	**945,300**	**35.205**	957,825	26.180	919,875	19.174
Exercised	**(597,300)**	**17.802**	(786,942)	15.253	(412,575)	12.119
Canceled	**(94,532)**	**23.158**	(87,234)	20.018	(116,325)	17.165
Awards outstanding, December 31	**4,110,442**	**23.124**	3,856,974	19.340	3,773,325	16.767
Awards exercisable, December 31	**2,023,065**	**$ 18.361**	1,747,083	$ 16.791	1,671,075	$ 15.417
Shares available for grant, December 31	**5,998,991**		6,849,759		1,720,350	

The following table summarizes information about the Company's stock options and SARs outstanding in connection with the Loews Plan at December 31, 2006:

	Awards Outstanding			**Awards Exercisable**	
Range of exercise prices	**Number of Shares**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**
$10.050	**199,500**	**3.0**	**$ 10.050**	**199,500**	**$ 10.050**
10.051-16.400	**917,675**	**5.5**	**15.552**	**732,575**	**15.537**
16.401-20.340	**1,174,235**	**6.3**	**19.329**	**788,751**	**19.430**
20.341-30.000	**653,922**	**8.0**	**24.623**	**184,806**	**24.554**
30.001-41.850	**1,165,110**	**8.9**	**34.310**	**117,433**	**33.173**

In 2006, the Company awarded SARs totaling 933,300 shares. In accordance with the Loews Plan, the Company has the ability to settle SARs in shares or cash and has the intention to settle in shares. The SARs balance at December 31, 2006 was 922,800 shares with 10,500 shares forfeited during 2006.

The weighted average remaining contractual terms of awards outstanding and exercisable as of December 31, 2006, were 7.0 years and 5.8 years. The aggregate intrinsic values of awards outstanding and exercisable at December 31, 2006 were $75.4 million and $46.8 million. The total intrinsic value of awards exercised during 2006 was $10.5 million.

The Company recorded stock-based compensation expense of $4.9 million related to the Loews Plan for the year ended December 31, 2006. The related income tax benefits recognized were $1.7 million. At December 31, 2006, the compensation cost related to nonvested awards not yet recognized was $11.6 million, and the weighted average period over which it is expected to be recognized is 1.6 years.

In February of 2002, shareholders approved the Carolina Group 2002 Stock Option Plan (the "Carolina Group Plan") in connection with the issuance of Carolina Group stock. The aggregate number of shares of Carolina Group stock for which options or SARs may be granted under the Carolina Group Plan is 1,500,000 shares; and the maximum number of shares of Carolina Group stock with respect to which options or SARs may be granted to any individual in any calendar year is 200,000 shares. The exercise price per share may not be less than the fair value of the stock on the date of the grant. Generally, options and SARs vest ratably over a four-year period and expire in ten years.

A summary of the stock option and SAR transactions for the Carolina Group Plan follows:

	2006		2005		2004	
	Number of Awards	**Weighted Average Exercise Price**	Number of Awards	Weighted Average Exercise Price	Number of Awards	Weighted Average Exercise Price
Awards outstanding, January 1	**536,572**	**$ 28.526**	560,000	$ 25.230	389,250	$ 25.216
Granted	**202,000**	**50.234**	212,000	34.164	209,500	25.181
Exercised	**(134,128)**	**27.008**	(224,428)	25.684	(2,250)	22.740
Canceled	**(22,750)**	**33.045**	(11,000)	27.403	(36,500)	24.947
Awards outstanding, December 31	**581,694**	**36.237**	536,572	28.526	560,000	25.230
Awards exercisable, December 31	**97,684**	**$ 27.695**	45,310	$ 25.697	135,750	$ 26.276
Shares available for grant, December 31	**557,500**		736,750		937,750	

The following table summarizes information about the Company's stock options and SARs outstanding in connection with the Carolina Group Plan at December 31, 2006:

	Awards Outstanding			**Awards Exercisable**	
Range of exercise prices	**Number of Shares**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**
$22.740 - 27.990	**187,566**	**6.6**	**$ 24.324**	**48,566**	**$ 23.990**
28.000 - 34.990	**154,065**	**7.5**	**31.878**	**42,870**	**30.209**
35.000 - 44.990	**42,063**	**8.0**	**39.250**	**6,248**	**39.250**
45.000 - 55.350	**198,000**	**9.1**	**50.275**		

During 2006, the Company awarded SARs totaling 202,000 shares. In accordance with the Carolina Group Plan, the Company has the ability to settle SARs in shares or cash and has the intention to settle in shares. The SARs balance at December 31, 2006 was 198,000 shares with 4,000 shares forfeited during 2006.

The weighted average remaining contractual term of awards outstanding and exercisable as of December 31, 2006, was 7.8 years and 6.4 years. The aggregate intrinsic value of awards outstanding and exercisable at December 31, 2006 was $16.4 million and $3.6 million. The total intrinsic value of awards exercised during the year ended December 31, 2006 was $3.2 million.

The Company recorded stock-based compensation expense of $1.0 million related to the Carolina Group Plan during 2006. The related income tax benefits recognized were $0.4 million. At December 31, 2006, the compensation cost related to nonvested awards not yet recognized was $2.9 million, and the weighted average period over which it is expected to be recognized is 1.6 years.

The fair value of granted options and SARs for the Loews Plan and Carolina Group Plan were estimated at the grant date using the Black-Scholes pricing model with the following assumptions and results:

Year Ended December 31	**2006**	2005	2004
Loews Plan:			
Expected dividend yield	**0.6%**	0.8%	1.0%
Expected volatility	**23.9%**	19.6%	23.1%
Weighted average risk-free interest rate	**4.7%**	3.9%	3.4%
Expected holding period (in years)	**5.0**	5.0	5.0
Weighted average fair value of awards	**$ 10.02**	$ 6.39	$ 4.73
Carolina Group Plan:			
Expected dividend yield	**3.6%**	5.4%	7.1%
Expected volatility	**31.4%**	31.2%	30.1%
Weighted average risk-free interest rate	**4.7%**	3.9%	3.4%
Expected holding period (in years)	**5.0**	5.0	5.0
Weighted average fair value of awards	**$ 12.28**	$ 6.57	$ 3.75

Note 18. Reinsurance

CNA cedes insurance to reinsurers to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. The ceding of insurance does not discharge the primary liability of CNA. Therefore, a credit exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet its obligations or to the extent that the reinsurer disputes the liabilities assumed under reinsurance agreements. Property and casualty reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Reinsurance contracts are purchased to protect specific lines of business such as property, workers' compensation and professional liability. Corporate catastrophe reinsurance is also purchased for property and workers' compensation exposure. Most reinsurance contracts are purchased on an excess of loss basis. CNA also utilizes facultative reinsurance in certain lines. In addition, CNA assumes reinsurance as a member of various reinsurance pools and associations.

The following table summarizes the amounts receivable from reinsurers at December 31, 2006 and 2005.

December 31	**2006**	2005
(In millions)		
Reinsurance receivables related to insurance reserves:		
Ceded claim and claim adjustment expense	**$ 8,191.5**	$ 10,605.2
Ceded future policy benefits	**1,050.1**	1,192.9
Ceded policyholders' funds	**47.7**	56.3
Reinsurance receivables related to paid losses	**658.0**	582.3
Reinsurance receivables	**9,947.3**	12,436.7
Allowance for uncollectible reinsurance	**(469.6)**	(519.3)
Reinsurance receivables, net of allowance for uncollectible reinsurance	**$ 9,477.7**	$ 11,917.4

Ceded claim and claim adjustment expense related reinsurance receivables were reduced by $1,162.0 million and $2,007.0 million in 2006 and 2005 due to the impact of commutations. The funds withheld liability, which is included in Reinsurance balances payable on the Consolidated Balance Sheets had a corresponding reduction of $942.0 million and $1,126.0 million in 2006 and 2005. See further discussion related to commutations below.

The net decrease in the allowance for uncollectible reinsurance was primarily due to a release of a previously established allowance due to the execution of a significant commutation agreement, as discussed further below. The provision for uncollectible reinsurance was $23.0 million, $35.0 million and $95.0 million in 2006, 2005 and 2004.

CNA attempts to mitigate its credit risk related to reinsurance by entering into reinsurance arrangements with reinsurers that have credit ratings above certain levels and by obtaining collateral. The primary methods of obtaining collateral are through reinsurance trusts, letters of credit and funds withheld balances. Such collateral was approximately $2.6 billion and $4.3 billion at December 31, 2006 and 2005. On a more limited basis, CNA may enter into reinsurance agreements with reinsurers that are not rated.

In 2001, CNA entered into a one-year corporate aggregate reinsurance treaty related to the 2001 accident year covering substantially all property and casualty lines of business in the Continental Casualty Company pool (the “CCC Cover”). The CCC Cover was fully utilized in 2003 and interest charges accrued on the related funds held balance at 8.0% per annum. In 2006, CNA commuted the CCC Cover. This commutation had no impact on the Consolidated Statements of Income for the year ended December 31, 2006.

Also, in 2006, CNA commuted several reinsurance treaties, including several finite treaties, with a European reinsurance group. This commutation resulted in a pretax loss, net of allowance for uncollectible reinsurance, of $48.0 million. CNA received $35.0 million of cash in connection with this significant commutation.

In 2005, CNA entered into several significant commutation agreements, including the commutation of the Aggregate Cover, which was a corporate aggregate reinsurance treaty related to the 1999 through 2001 accident years and covered substantially all of CNA’s property and casualty lines of business. These commutations resulted in an unfavorable pretax impact of $399.0 million and CNA received $446.0 million of cash in connection with these significant commutations.

In 2004, CNA executed commutation agreements with several members of The Trenwick Group. These commutations resulted in unfavorable claim and claim adjustment expense reserve development which was more than offset by a release of previously established allowance of uncollectible reinsurance. These commutations resulted in a pretax favorable impact of $28.0 million and CNA received $69.0 million of cash.

CNA’s largest recoverables from a single reinsurer at December 31, 2006, including prepaid reinsurance premiums, were approximately $1,574.0 million from subsidiaries of Swiss Reinsurance Group, $1,013.0 million from subsidiaries of The Hartford Life Group Insurance Company, $911.0 million from subsidiaries of Muenchener Rueckversicherungs, $574.0 million from The Allstate Corporation (“Allstate”), and $535.0 million from syndicates of Equitas.

Prior to the April 2004 sale of its individual life and annuity business to Swiss Re, CNA had reinsured a portion of this business through coinsurance, yearly renewable term and facultative programs to various reinsurers. As a result of the sale of the individual life and annuity business, 100% of the net reserves were reinsured to Swiss Re. As of December 31, 2006 and 2005, CNA ceded $891.0 million and $968.0 million of future policy benefits to Swiss Re. Subject to certain exceptions, Swiss Re assumed the credit risk of the business that was previously reinsured to other carriers. As of December 31, 2006 and 2005, the assumed credit risk was $28.0 million.

On December 31, 2003, the Company completed the sale of the majority of its Group Benefits business to The Hartford Financial Services Group, Inc. (“The Hartford”). In connection with the sale, CNA ceded insurance reserves to The Hartford. As of December 31, 2006 and 2005, ceded claim and claim adjustment expense reserves, ceded policyholder benefits and ceded policyholder funds were $1,029.0 million and $1,347.0 million. Subject to certain exceptions, The Hartford assumed 50.0% of the credit risk of the business that was previously reinsured to other carriers. As of December 31, 2006 and 2005, the assumed credit risk was $21.0 million and $26.0 million.

Insurance claims and policyholders’ benefits reported in the Consolidated Statements of Income are net of reinsurance recoveries of $1,314.0 million, $1,459.0 million and $4,626.0 million for 2006, 2005 and 2004.

The effects of reinsurance on earned premiums for the years ended December 31, 2006, 2005 and 2004 are shown in the following table:

	Direct	Assumed	Ceded	Net	Assumed/ Net %
(In millions)					
Year Ended December 31, 2006					
Property and casualty	**$ 9,125.0**	**$ 120.0**	**$ 2,283.0**	**$ 6,962.0**	**1.7%**
Accident and health	**718.0**	**59.0**	**138.0**	**639.0**	**9.2**
Life	**100.0**		**98.0**	**2.0**	
Total	**$ 9,943.0**	**$ 179.0**	**$ 2,519.0**	**$ 7,603.0**	**2.4%**
Year Ended December 31, 2005					
Property and casualty	$ 10,354.0	$ 186.0	$ 3,675.0	$ 6,865.0	2.7%
Accident and health	1,040.0	60.0	400.0	700.0	8.6
Life	140.0		136.0	4.0	
Total	$ 11,534.0	$ 246.0	$ 4,211.0	$ 7,569.0	3.3%
Year Ended December 31, 2004					
Property and casualty	$ 10,739.0	$ 199.0	$ 3,634.0	$ 7,304.0	2.7%
Accident and health	1,228.0	63.0	507.0	784.0	8.0
Life	419.0		298.0	121.0	
Total	$ 12,386.0	$ 262.0	$ 4,439.0	$ 8,209.0	3.2%

Included in the direct and ceded earned premiums for the years ended December 31, 2006, 2005 and 2004 are $1,489.0 million, $3,306.0 million and $3,293.0 million related to business that is 100% reinsured as a result of business dispositions and a significant captive program.

The impact of reinsurance on life insurance inforce at December 31, 2006, 2005 and 2004 is shown in the following table:

December 31	Direct	Assumed	Ceded	Net
(In millions)				
2006	**$ 15,652.0**	**$ 1.0**	**$ 15,633.0**	**$ 20.0**
2005	20,548.0	1.0	20,528.0	21.0
2004	56,610.0	35.0	54,486.0	2,159.0

Life and accident and health premiums are primarily from long duration contracts; property and casualty premiums are primarily from short duration contracts.

Reinsurance accounting allows for contractual cash flows to be reflected as premiums and losses, as compared to deposit accounting, which requires cash flows to be reflected as assets and liabilities. To qualify for reinsurance accounting, reinsurance agreements must include risk transfer. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. Reinsurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience, and relatively low policy limits as evidenced by a high proportion of maximum premium assessments to loss limits, may require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite products, CNA assesses risk transfer for each contract generally by developing quantitative analyses at contract inception which measure the present value of reinsurer losses as compared to the present value of the related premium. In 2003, CNA discontinued purchases of finite contracts.

Funds Withheld Reinsurance Arrangements

CNA's overall reinsurance program has included certain property and casualty contracts, such as the commuted CCC and Aggregate Covers that were entered into and accounted for on a "funds withheld" basis and which are deemed to be finite reinsurance. Under the funds withheld basis, CNA recorded the cash remitted to the reinsurer for the reinsurer's margin, or cost of the reinsurance contract, as ceded premiums. The remainder of the premiums ceded under the reinsurance contract not remitted in cash was recorded as funds withheld liabilities. CNA was required to increase the funds withheld balance at stated interest crediting rates applied to the funds withheld balance or as otherwise specified under the terms of the contract. The funds withheld liability was reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability was exhausted, interest crediting would cease and additional claim payments would be recoverable from the reinsurer. The funds withheld liability is recorded in Reinsurance balances payable on the Consolidated Balance Sheets.

Interest cost on reinsurance contracts accounted for on a funds withheld basis is incurred during all periods in which a funds withheld liability exists and is included in net investment income. There were no amounts subject to such interest crediting at December 31, 2006. The amount subject to interest crediting rates was $1,050.0 million at December 31, 2005.

As of December 31, 2006 and 2005, there were one and thirteen ceded reinsurance treaties inforce respectively that CNA considers to be finite reinsurance. The remaining treaty at December 31, 2006 provides reinsurance protection for the 1999 accident year on specified portions of CNA's domestic property and casualty business. The remaining treaty is fully utilized and had no related funds withheld liability at December 31, 2006. In 2003, CNA discontinued purchases of such contracts. The following table summarizes the pretax impact of contracts accounted for on a funds withheld basis, including the commuted Aggregate and CCC Covers discussed above.

Year Ended December 31, 2006	**Aggregate Cover**	**CCC Cover**	**All Other**	**Total**
(In millions)				
Ceded earned premium			**$ (11.0)**	**$ (11.0)**
Ceded claim and claim adjustment expense			**(113.0)**	**(113.0)**
Ceding commissions				
Interest charges		**$ (40.0)**	**(19.0)**	**(59.0)**
Pretax expense	**$ –**	**$ (40.0)**	**$ (143.0)**	**$ (183.0)**
Year Ended December 31, 2005				
Ceded earned premium	$ (17.0)		$ 48.0	$ 31.0
Ceded claim and claim adjustment expense	(244.0)		(154.0)	(398.0)
Ceding commissions			(27.0)	(27.0)
Interest charges	(57.0)	$ (66.0)	(34.0)	(157.0)
Pretax expense	$ (318.0)	$ (66.0)	$ (167.0)	$ (551.0)
Year Ended December 31, 2004				
Ceded earned premium	$ (1.0)		$ (19.0)	$ (20.0)
Ceded claim and claim adjustment expense			15.0	15.0
Ceding commissions			2.0	2.0
Interest charges	(82.0)	$ (91.0)	(72.0)	(245.0)
Pretax expense	$ (83.0)	$ (91.0)	$ (74.0)	$ (248.0)

Included in "All Other" above for the year ended December 31, 2006 is $110.0 million of unfavorable development resulting from a commutation, which is included in the ceded claim and claim adjustment expenses above. This unfavorable development was partially offset by the release of previously established allowance for uncollectible reinsurance, resulting in an unfavorable impact of $48.0 million.

Included in “All Other” above for the year ended December 31, 2005 is approximately $24.0 million of pretax expense related to Standard Lines which resulted from an unfavorable arbitration ruling on two reinsurance treaties impacting ceded earned premiums, ceded claim and claim adjustment expenses, ceding commissions and interest charges. This unfavorable outcome was partially offset by a release of previously established reinsurance bad debt reserves resulting in a net impact from the arbitration ruling of $10.0 million pretax expense for the year ended December 31, 2005.

The pretax impact by operating segment of CNA’s funds withheld reinsurance arrangements was as follows:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Standard Lines	**$ (155.0)**	$ (399.0)	$ (185.0)
Specialty Lines	**(4.0)**	(41.0)	(1.0)
Other Insurance	**(24.0)**	(111.0)	(62.0)
Pretax expense	**$ (183.0)**	$ (551.0)	$ (248.0)

Note 19. Quarterly Financial Data (Unaudited)

2006 Quarter Ended	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**
(In millions, except per share data)				
Total revenues	**$ 4,882.0**	**$ 4,507.2**	**$ 4,277.3**	**$ 4,244.5**
Income attributable to:				
Loews common stock:				
Income from continuing operations	**633.4**	**511.5**	**477.3**	**478.4**
Per share-basic	**1.15**	**0.93**	**0.86**	**0.86**
Per share-diluted	**1.15**	**0.93**	**0.85**	**0.86**
Discontinued operations, net	**(24.0)**	**5.7**	**(2.4)**	**(5.0)**
Per share-basic	**(0.04)**	**0.01**		**(0.01)**
Per share-diluted	**(0.04)**	**0.01**		**(0.01)**
Net income	**609.4**	**517.2**	**474.9**	**473.4**
Per share-basic	**1.11**	**0.94**	**0.86**	**0.85**
Per share-diluted	**1.11**	**0.94**	**0.85**	**0.85**
Carolina Group stock:				
Net income	**137.1**	**117.9**	**93.8**	**67.6**
Per share-basic and diluted	**1.26**	**1.17**	**1.09**	**0.86**

2005 Quarter Ended	Dec. 31	Sept. 30	June 30	March 31
(In millions, except per share data)				
Total revenues	$ 4,108.0	$ 4,137.9	$ 4,030.7	$ 3,741.2
Income attributable to:				
Loews common stock:				
Income from continuing operations	37.8	232.5	378.1	293.2
Per share-basic and diluted	0.07	0.42	0.68	0.53
Discontinued operations, net	8.2	2.2	1.8	6.6
Per share-basic and diluted	0.01			0.01
Net income	46.0	234.7	379.9	299.8
Per share-basic and diluted	0.08	0.42	0.68	0.54
Carolina Group stock:				
Net income	81.6	67.5	55.7	46.5
Per share-basic and diluted	1.11	0.99	0.82	0.68

Note 20. Legal Proceedings

INSURANCE RELATED

California Long Term Care Litigation

Shaffer v. Continental Casualty Company, et al., U.S. District Court, Central District of California, CV06-2235 RGK, is a class action on behalf of certain California long-term health care policyholders, alleging that CCC knowingly used unrealistic actuarial assumptions in pricing these policies, which according to plaintiff, would inevitably necessitate premium increases. The plaintiff asserts claims for intentional fraud, negligent misrepresentation, and violations of various California statutes. On January 26, 2007, the court certified the case to proceed as a class action, although CCC is currently seeking review of that decision in the Ninth Circuit Court of Appeals. CCC has denied the material allegations of the amended complaint and intends to vigorously contest the claims. Numerous unresolved factual and legal issues remain that are critical to the final result, the outcome of which cannot be predicted with any reliability. Accordingly, the extent of losses are not readily determinable at this time. However, based on facts and circumstances presently known in the opinion of management, an unfavorable outcome would not materially adversely affect the equity of the Company, although the results of operations may be adversely affected.

Insurance Brokerage Antitrust Litigation

On August 1, 2005, CNA and several of its insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 (FSH). The plaintiffs in this litigation allege improprieties in the payment of contingent commissions to brokers and bid rigging in connection with the sale of various lines of insurance. The plaintiffs further allege the existence of a conspiracy and assert claims for federal and state antitrust law violations, for violations of the federal Racketeer Influenced and Corrupt Organizations Act and for recovery under various state common law theories. By an order entered on October 3, 2006, the Court required the plaintiffs to supplement their pleadings with a statement setting forth the details of their claims. CNA believes it has meritorious defenses to this action and intends to defend the case vigorously.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

Global Crossing Limited Litigation

CCC has been named as a defendant in an action brought by the bankruptcy estate of Global Crossing Limited (“Global Crossing”) in the United States Bankruptcy Court for the Southern District of New York. In the Complaint, served on CCC on May 24, 2005, plaintiff seeks unspecified monetary damages from CCC and the other defendants for alleged fraudulent transfers and alleged breaches of fiduciary duties arising from actions taken by Global Crossing while CCC was a shareholder of Global Crossing. On August 3, 2006, the Court granted in part and denied in part CCC’s motion to dismiss the Estate Representative’s Amended Complaint. CCC believes it has meritorious defenses to the remaining claims in this action and intends to defend the case vigorously.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

IGI Contingency

In 1997, CNA Reinsurance Company Limited (“CNA Re Ltd”.) entered into an arrangement with IOA Global, Ltd. (“IOA”), an independent managing general agent based in Philadelphia, Pennsylvania, to develop and manage a book of accident and health coverages. Pursuant to this arrangement, IGI Underwriting Agencies, Ltd. (“IGI”), a personal accident reinsurance managing general underwriter, was appointed to underwrite and market the book under the supervision of IOA. Between April 1, 1997 and December 1, 1999, IGI underwrote a number of reinsurance arrangements with respect to personal accident insurance worldwide (the “IGI Program”). Under various arrangements, CNA Re Ltd. both assumed risks as a reinsurer and also ceded a substantial portion of those risks to other companies, including other CNA insurance subsidiaries and ultimately to a group of reinsurers participating in a reinsurance pool known as the Associated Accident and Health Reinsurance Underwriters (“AAHRU”) Facility. CNA's group operations business unit participated as a pool member in the AAHRU Facility in varying percentages between 1997 and 1999.

A portion of the premiums assumed under the IGI Program related to United States workers’ compensation “carve-out” business. Some of these premiums were received from John Hancock Mutual Life Insurance Company (“John Hancock”) under four excess of loss reinsurance treaties (the “Treaties”) issued by CNA Re Ltd. While John Hancock has indicated that it is not able to accurately quantify its potential exposure to its cedents on business which is retroceded to CNA, John Hancock has reported $280.0 million of paid and unpaid losses under these Treaties. John Hancock is disputing portions of its assumed obligations resulting in these reported losses, and has advised CNA that it is, or has been, involved in multiple arbitrations with its own cedents, in which proceedings John Hancock is seeking to avoid and/or reduce risks that would otherwise arguably be ceded to CNA through the Treaties. John Hancock has further informed CNA that it has settled several of these disputes, but has not provided CNA with details of the settlements. To the extent that John Hancock is successful in reducing its liabilities in these disputes, that development may have an impact on the recoveries it is seeking under the Treaties from CNA.

As indicated, CNA arranged substantial reinsurance protection to manage its exposures under the IGI Program, including the United States workers’ compensation “carve-out” business ceded from John Hancock and other reinsurers. While certain reinsurers of CNA, including participants in the AAHRU Facility, disputed their liabilities under the reinsurance contracts with respect to the IGI Program, those disputes have been resolved and substantial reinsurance coverage exists for those exposures.

CNA has instituted arbitration proceedings against John Hancock in which CNA is seeking rescission of the Treaties as well as access to and the right to inspect the books and records relating to the Treaties. Discovery is ongoing in that arbitration proceeding and a hearing is currently scheduled for April of 2007. Based on information known at this time, CNA believes it has strong grounds to successfully challenge its alleged exposure derived from John Hancock through the ongoing arbitration proceedings. CNA has also undertaken legal action seeking to avoid portions of the remaining exposure arising out of the IGI Program.

CNA has established reserves for its estimated exposure under the IGI Program, other than that derived from John Hancock, and an estimate for recoverables from retrocessionaires. CNA has not established any reserve for any exposure derived from John Hancock because, as indicated, CNA believes the contract will be rescinded. Although the results of CNA's various loss mitigation strategies with respect to the entire IGI Program to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty due to the complexities described above, and CNA's inability to guarantee any outcome in the arbitration proceedings. As a result of these uncertainties, the results of operations in future periods may be adversely affected by potentially significant reserve additions. However, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time. Management does not believe that any such reserve additions would be material to the equity of the Company. CNA's position in relation to the IGI Program was unaffected by the sale of CNA Re Ltd. in 2002.

New Jersey Wage and Hour Litigation

W. Curtis Himmelman, individually and on behalf of all others similarly situated v. Continental Casualty Company, Civil Action: 06-166, District Court of New Jersey (Trenton Division) is a purported class action and representative action brought on behalf of present and former CNA environmental claims analysts and workers' compensation claims analysts asserting they worked hours for which they should have been compensated at a rate of one and one-half times their base hourly wage. The Complaint was filed on January 12, 2006. The claims were originally brought under both federal and New Jersey state wage and hour laws on the basis that the relevant jobs are not exempt from overtime pay because the duties performed are not exempt duties. On August 11, 2006, the Court dismissed plaintiff's New Jersey state law claims. Under federal law, plaintiff seeks to represent others similarly situated who opt in to the action and who also allege they are owed overtime pay for hours worked over eight hours per day and/or forty hours per workweek for the period January 5, 2003 to the entry of judgment. Plaintiff seeks "overtime compensation," "compensatory, punitive and statutory damages, interest, costs and disbursements and attorneys' fees" without specifying any particular amounts (as well as an injunction). CNA denies the material allegations of the Complaint and intends to vigorously contest the claims on numerous substantive and procedural grounds.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

APMT Reserves

CNA is also a party to litigation and claims related to APMT cases arising in the ordinary course of business. See Note 9 for further discussion.

TOBACCO RELATED

Tobacco Related Product Liability Litigation

Approximately 3,960 product liability cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 2,840 of these cases.

The pending product liability cases are composed 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 1,285 cases are pending, including approximately 200 cases against Lorillard. The 1,285 cases include approximately 1,000 cases pending in a single West Virginia court that have been consolidated for trial. Lorillard is a defendant in approximately 75 of the approximately 1,000 consolidated West Virginia cases.

"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 2,625 pending Flight Attendant cases.

"Class action cases" are purported to be brought on behalf of large numbers of individuals for damages allegedly caused by smoking. Ten of these cases are pending against Lorillard. In one of these cases, *Schwab v. Philip Morris USA, Inc., et al.*, the court has certified a nationwide class composed of purchasers of "light" cigarettes. Lorillard is not a defendant in approximately 35 additional "lights" class actions that are pending against other cigarette manufacturers.

"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. Lorillard is a defendant in four of the six Reimbursement cases pending against cigarette manufacturers in the United States. Lorillard and the Company are defendants in an additional case pending in Israel.

Included in this category is the suit filed by the federal government, *United States of America v. Philip Morris USA, Inc., et al.*, that sought disgorgement of profits and injunctive relief. During 2005, an appellate court ruled that the government may not seek disgorgement of profits. During August of 2006, the trial court issued its verdict and granted injunctive relief. The verdict did not award monetary damages. See Reimbursement Cases below.

Excluding the flight attendant and the consolidated West Virginia suits, approximately 330 product liability cases are pending against cigarette manufacturers in U.S. courts. Lorillard is a defendant in approximately 140 of the 330 cases. The Company, which is not a defendant in any of the flight attendant or the consolidated West Virginia matters, is a defendant in four of the actions.

In addition to the above, "Filter cases" are brought by individuals, including former employees of Lorillard, who seek damages resulting from their alleged exposure to asbestos fibers that were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time ending more than 50 years ago. Lorillard is a defendant in approximately 30 such cases.

Plaintiffs assert a broad range of legal theories in these cases, including, among others, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability (including claims asserted under the federal Racketeering Influenced and Corrupt Organizations Act ("RICO")), civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of antitrust statutes, injunctive relief, indemnity, restitution, unjust enrichment, public nuisance, claims based on antitrust laws and state consumer protection acts, and claims based on failure to warn of the harmful or addictive nature of tobacco products.

Plaintiffs in most of the cases seek unspecified amounts of compensatory damages and punitive damages, although some seek damages ranging into the billions of dollars. Plaintiffs in some of the cases seek treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring, among other damages.

CONVENTIONAL PRODUCT LIABILITY CASES - Approximately 1,285 cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 200 of these cases. The Company is a defendant in two of the pending cases.

Approximately 1,000 of the 1,285 cases are pending in a single West Virginia court in a consolidated proceeding known as *West Virginia Individual Personal Injury Cases* or "IPIC." During the third quarter of 2006, the court dismissed Lorillard from approximately 800 IPIC cases because those plaintiffs had not submitted evidence that they had smoked a Lorillard product. These dismissals are not final and it is possible some or all of these 800 dismissals could be contested in subsequent appeals noticed by the plaintiffs. Following these dismissals, Lorillard is a defendant in approximately 75 of the 1,000 IPIC cases. The Company is not a defendant in any of the IPIC cases. The court has entered a trial plan to govern the cases, and the first phase of trial is scheduled to begin on March 17, 2008.

Since January 1, 2005, verdicts have been returned in ten cases. Lorillard was not a defendant in any of these cases. Defense verdicts were returned in eight of the ten trials, while juries found in favor of the plaintiffs and awarded damages in the two other cases. The defendants are pursuing appeals in both of these cases. In rulings addressing cases tried in earlier years, some appellate courts have reversed verdicts returned in favor of the plaintiffs while other judgments that awarded damages to smokers have been affirmed on appeal. Manufacturers have exhausted their appeals in nine Individual cases in recent years and have been required to pay damages to plaintiffs. Punitive damages were paid to the smokers in three of the nine cases. Lorillard was not a party to these nine matters.

Some cases against U.S. cigarette manufacturers are scheduled for trial during 2007 and beyond. Lorillard is a defendant in some of the cases scheduled for trial in 2007. The Company is not a defendant in any of the cases scheduled for trial in 2007. The trial dates are subject to change.

FLIGHT ATTENDANT CASES - Approximately 2,625 Flight Attendant cases are pending. Lorillard and three other cigarette manufacturers are the defendants in each of these matters. The Company is not a defendant in any of these cases. These suits were filed as a result of a settlement agreement by the parties, including Lorillard, in *Broin v. Philip Morris Companies, Inc., et al.* (Circuit Court, Miami-Dade County, Florida, filed October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke. The settlement agreement, among other things, permitted the plaintiff class members to file these individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997.

The judges that have presided over the cases that have been tried have relied upon an order entered during October of 2000 by the Circuit Court of Miami-Dade County, Florida. The October 2000 order has been construed by these judges as holding that the flight attendants are not required to prove the substantive liability elements of their claims for negligence, strict liability and breach of implied warranty in order to recover damages. The court further ruled that the trials of these suits are to address whether the plaintiffs' alleged injuries were caused by their exposure to environmental tobacco smoke and, if so, the amount of damages to be awarded.

Lorillard has been a defendant in each of the seven flight attendant cases in which verdicts have been returned. Defendants have prevailed in six of the seven trials. In the single trial decided for the plaintiff, the jury awarded $5.5 million in damages. The court, however, reduced this award to $500,000. This verdict, as reduced by the trial court, was affirmed on appeal and the defendants have paid the award. Lorillard's share of the judgment in this matter, including interest, was approximately $60,000. In one of the six cases in which a defense verdict was returned, the court granted plaintiff's motion for a new trial and, following appeal, the case has been returned to the trial court for a second trial that has not been scheduled. In another of the cases in which a defense verdict was returned, plaintiff has appealed.

None of the flight attendant cases are scheduled for trial. Trial dates are subject to change.

CLASS ACTION CASES - Lorillard is a defendant in ten pending cases. The Company is a defendant in two of these cases. In most of the pending cases, plaintiffs seek class certification on behalf of groups of cigarette smokers, or the estates of deceased cigarette smokers, who reside in the state in which the case was filed. One of the cases in which Lorillard is a defendant, *Schwab v. Philip Morris USA, Inc., et al.*, is a purported national class action on behalf of purchasers of "light" cigarettes in which plaintiffs' claims are based on defendants' alleged RICO violations. Neither Lorillard nor the Company are defendants in approximately 35 additional class action cases in which plaintiffs assert claims on behalf of smokers or purchasers of "light" cigarettes. These cases are discussed below.

Cigarette manufacturers, including Lorillard, have defeated motions for class certification in a total of 35 cases, 13 of which were in state court and 22 of which were in federal court. Motions for class certification have also been ruled upon in some of the "lights" cases or in other class actions to which Lorillard was not a party. In some of these cases, courts have denied class certification to the plaintiffs, while classes have been certified in other matters.

The *Engle* Case - During 2006, the Florida Supreme Court issued rulings in the case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Miami-Dade County, Florida, filed May 5, 1994), that affirmed the 2003 holding of an intermediate appellate court vacating the $145.0 billion punitive damages award, including approximately $16.3 billion against Lorillard. Prior to trial, *Engle* was certified as a class action on behalf of Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to cigarettes, and the trial was governed by a three-phase trial plan. The Florida Supreme Court determined that the case could not proceed further as a class action and decertified the class. However, the Florida Supreme Court ruling permits members of the now-decertified class a period of one year to file individual claims, including claims for punitive damages. This one-year period expires during January of 2008. The Florida Supreme Court held that these individual plaintiffs are entitled to rely on some of the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial on a number of issues, including, among other things, that smoking cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants, including Lorillard, were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. The 2006 decision by the Florida Supreme Court also reinstated the actual damages awarded during 2000 to two of the three individuals whose claims were heard during the second phase of trial. These awards totaled approximately $2.8 million to one smoker and $4.0 million to the second, and bear interest at the rate of 10.0% per year. Lorillard's share of either of these verdicts, if any, has not been determined. The Florida Supreme Court has formally concluded its consideration of *Engle*, but the opportunity for either the plaintiffs or the defendants to seek review of the case by the U.S. Supreme Court has not expired. Plaintiffs have filed a motion in a Florida trial court seeking an order to publish notice, at defendants' expense, to former class members regarding the one-year period for filing individual claims.

Florida enacted legislation that limits the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. While Lorillard believes this legislation is valid and that any challenges to the possible application or constitutionality of this legislation would fail, Lorillard entered into an agreement with the plaintiffs during May of 2001 in which it contributed $200.0 million to a fund held for the benefit of the *Engle* plaintiffs (the "*Engle* Agreement"). The $200.0 million contribution included the $100.0 million that Lorillard posted as collateral for the appellate bond. Accordingly, Lorillard recorded a pretax charge of $200.0 million in the year ended December 31, 2001. Two other defendants executed agreements with the plaintiffs that were similar to Lorillard's. As a result, the class agreed to a stay of execution, with respect to Lorillard and the two other defendants on its punitive damages judgment until appellate review is completed, including any review by the U.S. Supreme Court.

The *Engle* Agreement provides that in the event that Lorillard, Inc.'s balance sheet net worth falls below $921.2 million (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the stay granted in favor of Lorillard in the *Engle* Agreement would terminate and the class would be free to challenge the Florida legislation. As of December 31, 2006, Lorillard, Inc. had a balance sheet net worth of approximately $1.3 billion. In addition, the *Engle* Agreement requires Lorillard to obtain the written consent of class counsel or the court prior to selling any trademark of or formula comprising a cigarette brand having a U.S. market share of 0.5% or more during the preceding calendar year. The *Engle* Agreement also requires Lorillard to obtain the written consent of the *Engle* class counsel or the court to license to a third party the right to manufacture or sell such a cigarette brand unless the cigarettes to be manufactured under the license will be sold by Lorillard.

The Scott case - Another class action pending against Lorillard is *Scott v. The American Tobacco Company, et al.* (District Court, Orleans Parish, Louisiana, filed May 24, 1996). During 1997, the court certified a class composed of certain cigarette smokers resident in the State of Louisiana who desire to participate in medical monitoring or smoking cessation programs and who began smoking prior to September 1, 1988, or who began smoking prior to May 24, 1996 and allege that defendants undermined compliance with the warnings on cigarette packages.

Trial in *Scott* was heard in two phases. While the jury in its July 2003 Phase I verdict rejected medical monitoring, the primary relief requested by plaintiffs, it returned sufficient findings in favor of the class to proceed to a Phase II trial on plaintiffs' request for a state-wide smoking cessation program.

During May of 2004, the jury returned its verdict in the trial's second phase and awarded approximately $591.0 million to fund cessation programs for Louisiana smokers. The court's final judgment, entered during June of 2004, reflects the jury's award of damages and also awarded prejudgment interest. During February of 2007, the Louisiana Court of Appeal issued a ruling that, among other things, reduced the amount of the award by approximately $312.0 million; struck the award of prejudgment interest, which totaled approximately $440.0 million as of December 31, 2006; and ruled that the only class members who are eligible to participate in the smoking cessation program are those who began smoking by September 1, 1988, and whose claims accrued by September 1, 1988. The Louisiana

Court of Appeal has returned the case to the trial court, for further proceedings. Lorillard’s share of any judgment has not been determined. It is possible that the parties will seek further review of this decision.

The parties filed a stipulation in the trial court agreeing that an article of the Louisiana Code of Civil Procedure, and a Louisiana statute governing the amount of appellate bonds in civil cases involving a signatory to the Master Settlement Agreement, required that the amount of the bond for the appeal be set at $50.0 million for all defendants collectively. The parties further agreed that the plaintiffs have full reservations of rights to contest in the trial court, at a later date, the sufficiency or amount of the bond on any grounds. The trial court entered an order setting the amount of the bond at $50.0 million for all defendants. Defendants collectively posted a surety bond in that amount, of which Lorillard secured 25%, or $12.5 million. While Lorillard believes the limitation on the appeal bond amount is valid as required by Louisiana law, and that any challenges to the amount of the bond would fail, in the event of a successful challenge the amount of the appeal bond could be set as high as 150% of the judgment and judicial interest combined. If such an event occurred, Lorillard’s share of the appeal bond has not been determined.

Other class action cases - Two additional cases are pending against Lorillard in which motions for class certification were granted. In one of them, *Brown v. The American Tobacco Company, Inc., et al.* (Superior Court, San Diego County, California, filed June 10, 1997), a California court granted defendants’ motion to decertify the class. The class decertification order has been affirmed on appeal, but the California Supreme Court has agreed to hear the case. The class originally certified in *Brown* was composed of residents of California who smoked at least one of defendants’ cigarettes between June 10, 1993 and April 23, 2001 and who were exposed to defendants’ marketing and advertising activities in California. In the second case, *Daniels v. Philip Morris, Incorporated, et al.* (Superior Court, San Diego County, California, filed August 2, 1998), the court granted defendants’ motion for summary judgment during 2002 and dismissed the case. Plaintiffs appealed, but the California Court of Appeal affirmed the dismissal during 2004. Plaintiffs are now pursuing an appeal to the California Supreme Court. Prior to granting defendants’ motion for summary judgment, the court had certified a class composed of California residents who, while minors, smoked at least one cigarette between April of 1994 and December 31, 1999 and were exposed to defendants’ marketing and advertising activities in California. It is possible that either or both of these class certification rulings could be reinstated as a result of the pending appeals.

As discussed above, other cigarette manufacturers are defendants in approximately 35 cases in which plaintiffs’ claims are based on the allegedly fraudulent marketing of “lights” or “ultra-lights” cigarettes. Among those “lights” class actions in which neither the Company nor Lorillard are defendants is the case of *Price v. Philip Morris USA* (Circuit Court, Madison County, Illinois, filed February 10, 2000). During March of 2003, the court returned a verdict in favor of the class and awarded it $7.1 billion in actual damages. The court also awarded $3.0 billion in punitive damages to the State of Illinois, which was not a party to the suit, and awarded plaintiffs’ counsel approximately $1.8 billion in fees and costs. During December of 2005, the Illinois Supreme Court vacated the damages awards, decertified the class, and ordered that the case be dismissed. The U.S. Supreme Court declined to review the case, and the Illinois trial court dismissed *Price* in favor of Philip Morris during December of 2006. The court has not ruled on the motion plaintiffs filed during January of 2007 that seeks an order vacating the dismissal. *Price* is the only “lights” class action to have been tried, although classes have been certified in some of the other pending matters.

The Schwab case - Lorillard is a defendant in one “lights” class action, *Schwab v. Philip Morris USA, Inc., et al.* (U.S. District Court, Eastern District, New York, filed May 11, 2004). The Company is not a party to this case. Plaintiffs in *Schwab* base their claims on defendants’ alleged violations of the RICO statute in the manufacture, marketing and sale of “lights” cigarettes. Plaintiffs have estimated damages to the class in the hundreds of billions of dollars. Any damages awarded to the plaintiffs based on defendants’ violation of the RICO statute would be trebled. During September of 2006, the court granted plaintiffs’ motion for class certification and certified a nationwide class action on behalf of purchasers of “light” cigarettes. The federal court of appeals has granted review of the class certification order, and it has ordered that no activity can proceed before the trial court until the appeal is concluded.

REIMBURSEMENT CASES - Although the cases settled by the State Settlement Agreements, as described below, are concluded, certain matters are pending against cigarette manufacturers. The pending cases include Reimbursement cases on file in U.S. courts, a Reimbursement case on file in Israel, and cases challenging the State Settlement Agreements. Lorillard is a defendant in four pending Reimbursement cases in the U.S. and has been named as a party to the case in Israel. The Company also is a party to the case in Israel, but it is not a defendant in any of the Reimbursement cases in the U.S. The four cases pending against Lorillard are brought by a city government and a group of hospitals; a group of taxpayers; an Indian tribe; and the U.S. federal government.

U.S. Federal Government Action - During August of 2006, the U.S. District Court for the District of Columbia issued its final judgment and remedial order in the federal government's reimbursement suit (*United States of America v. Philip Morris USA, Inc., et al.*, U.S. District Court, District of Columbia, filed September 22, 1999). The verdict concluded a bench trial that began in September of 2004. Lorillard, other cigarette manufacturers, two parent companies and two trade associations are defendants in this action. The Company is not a party to this case.

The court determined that the defendants, including Lorillard, violated certain provisions of the RICO statute, that there was a likelihood of present and future RICO violations, and that equitable relief was warranted. Plaintiff was not awarded monetary damages. The equitable relief included permanent injunctions that prohibit the defendants, including Lorillard: from engaging in any act of racketeering, as defined under RICO; from making any material false or deceptive statements concerning cigarettes; from making any express or implied statement about health on cigarette packaging or promotional materials (these prohibitions include a ban on using such descriptors as "low tar," "light," "ultra-light," "mild," or "natural"); and from making any statements that "low tar," "light," "ultra-light," "mild," or "natural" or low-nicotine cigarettes may result in a reduced risk of disease. The final judgment and remedial order also requires the defendants, including Lorillard, to make corrective statements on their websites, in certain media, in point-of-sale advertisements, and on cigarette package "onserts" concerning: the health effects of smoking; the addictiveness of smoking; that there are no significant health benefits to be gained by smoking "low tar," "light," "ultra-light," "mild," or "natural" cigarettes; that cigarette design has been manipulated to ensure optimum nicotine delivery to smokers; and that there are adverse effects from exposure to secondhand smoke. The text of these statements, which have not been determined, are subject to the court's approval. The final judgment and remedial order also requires the defendants, including Lorillard, to maintain and to disclose documents on their internet websites and to continue to place documents in a document depository created in the case of *State of Minnesota v. Philip Morris Inc., et al.* The defendants, including Lorillard, were directed in the final judgment and remedial order to disclose "disaggregated" marketing data. If the final judgment and remedial order are not modified or vacated on appeal, the costs to Lorillard for compliance could exceed $10.0 million. Defendants have noticed an appeal from the final judgment and remedial order to the U.S. Court of Appeals for the District of Columbia Circuit. Defendants have received a stay of the judgment and remedial order from the District of Columbia Court of Appeal that will remain in effect while the appeal is proceeding. The government also has noticed an appeal from the final judgment. As a result of this appeal, it is possible that the District of Columbia Court of Appeals could reinstate certain of the government's claims or damages. While trial was underway, the District of Columbia Court of Appeals ruled that plaintiff may not seek disgorgement of profits, but this appeal was interlocutory in nature and could be reconsidered in the present appeal. Prior to trial, the government had estimated that it was entitled to approximately $280.0 billion from the defendants for its disgorgement of profits claim. In addition, the government sought during trial more than $10.0 billion for the creation of nationwide smoking cessation, public education and counter-marketing programs. In its 2006 verdict, the trial court declined to award such relief. It is possible that these claims could be reinstated on appeal.

In another of the cases, a private insurer in Israel, Clalit Health Services, seeks damages for providing treatment to individuals allegedly injured by cigarette smoking in Israel (*Clalit Health Services v. Philip Morris, Inc., et al.*, District Court of Jerusalem, Israel). The Company was dismissed from this suit during 2005, although plaintiff has appealed this ruling. The case remains pending against Lorillard, other cigarette manufacturers, and other defendants.

SETTLEMENT OF STATE REIMBURSEMENT LITIGATION - On November 23, 1998, Lorillard, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation and R.J. Reynolds Tobacco Company, the "Original Participating Manufacturers," entered into a Master Settlement Agreement ("MSA") with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands to settle the asserted and unasserted health care cost recovery and certain other claims of those states. These settling entities are generally referred to as the "Settling States." The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota, which together with the Master Settlement Agreement are generally referred to as the "State Settlement Agreements."

The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the Original Participating Manufacturers to avoid the further expense, inconvenience, burden and uncertainty of litigation.

Lorillard recorded pretax charges of $911.4 million, $876.4 million and $845.9 million ($560.2 million, $537.7 million and $522.6 million after taxes) for 2006, 2005 and 2004, to accrue its obligations under the State Settlement Agreements. Lorillard’s portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur.

The State Settlement Agreements require that the domestic tobacco industry make annual payments in the following amounts, subject to adjustment for several factors, including inflation, market share and industry volume: $8.4 billion through 2007 and $9.4 billion thereafter. In addition, the domestic tobacco industry is required to pay settling plaintiffs’ attorneys’ fees, subject to an annual cap of $500.0 million, as well as an additional amount of up to $125.0 million in each year through 2008. These payment obligations are the several and not joint obligations of each settling defendant.

The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions. Lorillard and the other Original Participating Manufacturers have notified the States that they intend to seek an adjustment in the amount of payments made in 2003 pursuant to a provision in the MSA that permits such adjustment if the companies can prove that the MSA was a significant factor in their loss of market share to companies not participating in the MSA and that the States failed to diligently enforce certain statutes passed in connection with the MSA. If the Original Participating Manufacturers are ultimately successful, any adjustment would be reflected as a credit against future payments by the Original Participating Manufacturers under the agreement.

From time to time, lawsuits have been brought against Lorillard and other participating manufacturers to the MSA, or against one or more of the states, challenging the validity of that agreement on certain grounds, including as a violation of the antitrust laws. Lorillard is a defendant in one such case, which has been dismissed by the trial court but has been appealed by the plaintiffs. Lorillard understands that additional such cases are proceeding against other defendants.

In addition, in connection with the MSA, the Original Participating Manufacturers entered into an agreement to establish a $5.2 billion trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 states (the “Trust”). Payments to the Trust will no longer be required as a result of an assessment imposed under a new federal law repealing the federal supply management program for tobacco growers, although the states of Maryland and Pennsylvania are contending that payments under the Trust should continue to growers in those states since the new federal law did not cover them, and the matter is being litigated. In 2005 other litigation was resolved over the Trust’s obligation to return payments made by the Original Participating Manufacturers in 2004 or withheld from payment to the Trust for the fourth quarter of 2004, when the North Carolina Supreme Court ruled that such payments were due to the Trust. Lorillard’s share of payments into the Trust in 2004 was approximately $30.0 million and its share of the payment due for the last quarter of that year was approximately $10.0 million. Under the new law, enacted in October of 2004, tobacco quota holders and growers will be compensated with payments totaling $10.1 billion, funded by an assessment on tobacco manufacturers and importers. Payments to qualifying tobacco quota holders and growers commenced in 2005.

The Company believes that the State Settlement Agreements will materially adversely affect its cash flows and operating income in future years. The degree of the adverse impact will depend, among other things, on the rates of decline in U.S. cigarette sales in the premium price and discount price segments, Lorillard’s share of the domestic premium price and discount price cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to significant payment obligations under the State Settlement Agreements.

FILTER CASES - In addition to the above, claims have been brought against Lorillard by individuals who seek damages resulting from their alleged exposure to asbestos fibers that were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time ending more than 50 years ago.

Approximately 30 such matters are pending against Lorillard. The Company is not a defendant in any of these matters. Since January 1, 2005, Lorillard has paid, or has reached agreement to pay, a total of approximately $10.2 million in payments of judgments and settlements to finally resolve approximately 60 claims. No such cases have been tried since January 1, 2005. Trial dates are scheduled in some of the pending cases. Trial dates are subject to change.

Other Tobacco - Related

TOBACCO - RELATED ANTITRUST CASES - Indirect Purchaser Suits - Approximately 30 antitrust suits were filed on behalf of putative classes of consumers in various state courts against Lorillard and its major competitors. The suits all alleged that the defendants entered into agreements to fix the wholesale prices of cigarettes in violation of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. More than 20 states permit such suits. Lorillard was a defendant in all but one of these indirect purchaser cases. The Company was also named as a defendant in most of these indirect purchaser cases, but was voluntarily dismissed without prejudice from all of them. Three indirect purchaser suits, in New York, Florida and Michigan, were dismissed by courts in their entirety and the plaintiffs withdrew their appeals. The actions in all other states except for New Mexico and Kansas, have been voluntarily dismissed.

In the Kansas case, the District Court of Seward County certified a class of Kansas indirect purchasers in 2002. The parties are in the process of litigating certain privilege issues. On July 14, 2006, the Court issued an order confirming that fact discovery is closed, with the exception of privilege issues that the Court determines, based on a Special Master’s report, justify further limited fact discovery. Expert discovery, as necessary, will take place later this year. No date has as yet been set by the Court for dispositive motions and trial.

A decision granting class certification in New Mexico was affirmed by the New Mexico Court of Appeals on February 8, 2005. As ordered by the Court, class notice was sent out on October 30, 2005. The New Mexico plaintiffs were permitted to rely on discovery produced in the Kansas case. On June 30, 2006, the New Mexico Court granted summary judgment to all defendants, and the suit was dismissed. An appeal was filed by the plaintiffs on August 14, 2006, and has not yet been heard.

Tobacco Growers Suit - *DeLoach v. Philip Morris Inc., et al.* (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). On October 1, 2003, the Court approved a settlement by Lorillard with a class consisting of all persons holding a quota (the licenses that a farmer must either own or rent to sell the crop) to grow, and all domestic producers who sold flue-cured or burley tobacco at anytime from February 1996 to present. In addition to payments previously made, Lorillard committed to buy 20 million pounds of domestic tobacco for each crop year through 2012. Pursuant to the terms of the settlement agreement, that obligation was subsequently extended until crop year 2014 as a result of the enactment of the Fair and Equitable Tobacco Reform Act of 2004.

Lorillard has also committed to purchase at least 35% of its annual total requirements for flue-cured and burley tobacco domestically for the same period. The other major domestic tobacco companies and the major leaf buyers were also defendants, and all of the defendants with the exception of R.J. Reynolds were parties to the settlement agreement entered on October 1, 2003. R.J. Reynolds subsequently entered into a settlement agreement with the class and that agreement was approved by the Court. Lorillard contended that the R.J. Reynolds settlement agreement triggered a clause in Lorillard’s settlement agreement that would substantially reduce Lorillard’s commitments to buy domestic tobacco. After Lorillard prevailed on an appeal related to the claimed reduction, the trial court ruled that the leaf commitment will be reduced for Lorillard by approximately 60%, effective in 2006.

MSA Federal Antitrust Suit - *Sanders v. Lockyer, et al.* (U.S. District Court, Northern District of California, filed June 9, 2004). Lorillard and the other major cigarette manufacturers, along with the Attorney General of the State of California, have been sued by a consumer purchaser of cigarettes in a putative class action alleging violations of the Sherman Act and California state antitrust and unfair competition laws. The plaintiff seeks treble damages of an unstated amount for the putative class as well as declaratory and injunctive relief. All claims are based on the assertion that the Master Settlement Agreement that Lorillard and the other cigarette manufacturer defendants entered into with the State of California and more than forty other states, together with certain implementing legislation enacted by California, constitute unlawful restraints of trade. On March 28, 2005 the defendants’ motion to dismiss the suit was granted. Plaintiffs appealed the dismissal to the Court of Appeals for the Ninth Circuit. Argument on the appeal is to be heard on February 15, 2007.

Defenses

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent the Company is a defendant in any of the lawsuits described in this section, the Company believes that it is not a proper defendant in these matters and has moved or plans to move for dismissal of all such claims against it. While Lorillard intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties. Plaintiffs have prevailed in several cases, as noted above. It is possible that one or more of the pending actions could be decided unfavorably as to Lorillard or the other defendants. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

Lorillard cannot predict the outcome of pending litigation. Some plaintiffs have been awarded damages from cigarette manufacturers at trial. While some of these awards have been overturned or reduced, other damages awards have been paid after the manufacturers have exhausted their appeals. These awards and other litigation activities against cigarette manufacturers continue to receive media attention. In addition, health issues related to tobacco products also continue to receive media attention. It is possible, for example, that the 2006 verdict in *United States of America v. Philip Morris USA, Inc., et al.*, which made many adverse findings regarding the conduct of the defendants, including Lorillard, could form the basis of allegations by other plaintiffs or additional judicial findings against cigarette manufacturers. The 2006 decision by the Florida Supreme Court in *Engle* could lead to the filing of many new cases against cigarette manufacturers, including Lorillard. These events could have an adverse affect on the ability of Lorillard to prevail in smoking and health litigation and could influence the filing of new suits against Lorillard or the Company. Lorillard also cannot predict the type or extent of litigation that could be brought against it and other cigarette manufacturers in the future.

Except for the impact of the State Settlement Agreements as described above, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation and, therefore, no provision has been made in the Consolidated Condensed Financial Statements for any unfavorable outcome. It is possible that the Company’s results of operations or cash flows in a particular quarterly or annual period or its financial position could be materially adversely affected by an unfavorable outcome or settlement of certain pending litigation.

OTHER LITIGATION

The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of management, materially affect the Company’s results of operations or equity.

Note 21. Commitments and Contingencies

Guarantees

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of December 31, 2006, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $933.0 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of December 31, 2006, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser’s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire. As of December 31, 2006, CNA has recorded approximately $28.0 million of liabilities related to these indemnification agreements.

In connection with the issuance of preferred securities by CNA Surety Capital Trust I, CNA Surety, a 63% owned and consolidated subsidiary of CNA, issued a guarantee of $75.0 million to guarantee the payment by CNA Surety Capital Trust I of annual dividends of $1.5 million over 30 years and redemption of $30.0 million of preferred securities.

CNA Surety

CNA Surety has provided significant surety bond protection for a large national contractor that undertakes projects for the construction of government and private facilities, a substantial portion of which have been reinsured by CCC. In order to help this contractor meet its liquidity needs and complete projects which had been bonded by CNA Surety, commencing in 2003 CNA provided loans to the contractor through a credit facility. Due to reduced operating cash flow at the contractor these loans were fully impaired through realized investment losses in 2004 and 2005. The Company, through a participation agreement with CNA, has funded and owns an interest in the credit facility. For the years ended December 31, 2005 and 2004, the Company recorded a pretax impairment charge of $47.0 million and $80.5 million. CNA no longer provides additional liquidity to the contractor and has not recognized interest income related to the loans since June 30, 2005.

In addition to the impairment of loans outstanding under the credit facility, CNA determined that the contractor would likely be unable to meet its obligations under the surety bonds. Accordingly, during 2005, CNA Surety established $110.0 million of surety loss reserves in anticipation of future loss payments, $50.0 million of which was ceded to CCC under the reinsurance agreements discussed below. Further deterioration of the contractor’s operating cash flow could result in higher loss estimates and trigger additional reserve actions. If any such reserve additions were required, CCC would have all further surety bond exposure through the reinsurance arrangements. During the years ended December 31, 2006 and 2005, CNA Surety paid $34.0 million and $26.0 million related to surety losses of the contractor.

CNA Surety may provide surety bonds on a limited basis on behalf of the contractor to support its revised restructuring plan, subject to the contractor’s compliance with CNA Surety’s underwriting standards and ongoing management of CNA Surety’s exposure in relation to the contractor. All surety bonds written for the contractor are issued by CCC and its affiliates, other than CNA Surety, and are subject to underlying reinsurance treaties pursuant to which all bonds written on behalf of CNA Surety are 100% reinsured to one of CNA Surety’s insurance subsidiaries.

CCC provides reinsurance protection to CNA Surety for losses in excess of an aggregate of $60.0 million associated with the contractor. This treaty provides coverage for the life of bonds either in force or written from January 1, 2005 to December 31, 2005. CCC and CNA Surety agreed by addendum to extend this contract for twenty four months, expiring on December 31, 2007.

CCC and CNA Surety continue to engage in periodic discussions with insurance regulatory authorities regarding the level of surety bonds provided for this contractor and will continue to apprise those authorities of the status of their ongoing exposure to this account.

Indemnification and subrogation rights, including rights to contract proceeds on construction projects in the event of default, reduce CNA Surety’s and ultimately the Company’s exposure to loss. While CNA believes that the contractor’s continuing restructuring efforts may be successful, the contractor’s failure to ultimately achieve its extended restructuring plan or perform its contractual obligations under CNA’s surety bonds could have a material adverse effect on the Company’s results of operations. If such failures occur, CNA estimates the additional surety loss, net of indemnification and subrogation recoveries, but before the effects of minority interest, could be up to $90.0 million pretax.

CNA has also guaranteed or provided collateral for the contractor’s letters of credit. As of December 31, 2006 and December 31, 2005, these guarantees and collateral obligations aggregated $9.0 million and $13.0 million.

CCC provided an excess of loss reinsurance contract to the insurance subsidiaries of CNA Surety over a period that expired on December 31, 2000 (the “stop loss contract”). The stop loss contract limits the net loss ratios for CNA Surety with respect to certain accounts and lines of insurance business. In the event that CNA Surety’s accident year net loss ratio exceeds 24.0% for 1997 through 2000 (the “contractual loss ratio”), the stop loss contract requires CCC to pay amounts equal to the amount, if any, by which CNA Surety’s actual accident year net loss ratio exceeds the contractual loss ratio multiplied by the applicable net earned premiums. The minority shareholders of CNA Surety do not share in any losses that apply to this contract.

Diamond Offshore Construction Projects

As of December 31, 2006, Diamond Offshore had purchase obligations aggregating approximately $456.0 million related to the major upgrades of the *Ocean Monarch* and the *Ocean Endeavor* and construction of two new jack-up rigs, the *Ocean Scepter* and *Ocean Shield*. Diamond Offshore anticipates that expenditures related to these shipyard projects will be approximately $263.0 million and $193.0 million in 2007 and 2008, respectively. However, the actual timing of these expenditures will vary based on the completion of various construction milestones and the timing of the delivery of equipment, which are beyond Diamond Offshore’s control.

Regulatory and Rate Matters

Texas Gas filed a rate case with FERC in April of 2005, and implemented the new rates on November 1, 2005, subject to refund. As of December 31, 2005, an estimated refund liability of approximately $5.0 million related to Texas Gas’ open general rate case was recorded on the Consolidated Balance Sheet. In June of 2006, the settlement of Texas Gas’ general rate case became final. On June 30, 2006, Texas Gas refunded approximately $6.6 million consisting of $6.4 million in principal and $0.2 million of interest to its customers. In accordance with the terms of the settlement, Texas Gas has no obligation to file a new rate case and is prohibited from placing new rates into effect prior to November 1, 2010. Currently, neither Texas Gas nor Gulf South is involved in an open general rate case.

Pipeline Expansion Projects

Boardwalk Pipeline is engaged in several major expansion projects that will require the investment of significant capital resources. These projects include a 1.7 Bcf pipeline expansion in East Texas/Mississippi, construction of a 1.6 Bcf interstate pipeline from Texas to Louisiana, a 1.2 Bcf pipeline expansion from Mississippi to Alabama, the construction of two laterals connecting its Texas Gas pipeline to transport gas for producers operating in Arkansas and Mississippi and storage expansion projects in western Kentucky and Louisiana. These projects are subject to FERC approval. As of December 31, 2006, Boardwalk Pipeline had purchase commitments of $409.1 million primarily related to its expansion projects.

Other

In the normal course of business, CNA has provided letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At December 31, 2006 and 2005, there were approximately $27.0 million and $30.0 million of outstanding letters of credit.

Note 22. Discontinued Operations

CNA has discontinued operations which consist of run-off insurance operations acquired in its merger with The Continental Corporation in 1995. The business consists of facultative property and casualty, treaty excess casualty and treaty pro-rata reinsurance with underlying exposure to a diverse, multi-line domestic and international book of business encompassing property, casualty, the London Market and marine liabilities. The run-off operations are concentrated in the United Kingdom and Bermuda subsidiaries also acquired in the merger.

CNA has initiated and is actively pursuing a plan to sell a portion of the discontinued operations. CNA expects a sale to be completed in 2007.

Results of CNA's discontinued operations were as follows:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Revenues:			
Net investment income	**$ 17.5**	$ 14.9	$ 17.3
Other	**(2.4)**	6.7	(7.8)
Total revenues	**15.1**	21.6	9.5
Insurance related benefits (expenses)	**(50.6)**	0.5	(29.7)
Income (loss) before income taxes and minority interest	**(35.5)**	22.1	(20.2)
Income tax expense (benefit)	**(6.8)**	1.6	1.2
Minority interest	**(3.0)**	1.8	(1.9)
Net income (loss) from discontinued operations	**$ (25.7)**	$ 18.7	$ (19.5)

The results for 2006 reflect an impairment loss of $26.2 million, after minority interest, related to the anticipated sale of a portion of the discontinued operations. The assets and liabilities that would be subject to a sale were $239.0 million and $157.0 million at December 31, 2006. Excluding the impairment loss on the anticipated sale, net loss for this business was $0.9 million and $2.7 million for the years ended December 31, 2006 and 2004, and net income was $11.9 million for the year ended December 31, 2005. CNA's subsidiary, The Continental Corporation, provides a guarantee for a portion of the subject liabilities related to certain marine products. Any sale is expected to include provisions that would significantly limit CNA's exposure related to this guarantee.

Net assets of discontinued operations, including the assets and liabilities subject to the sale discussed above, are included in Other Assets in the Consolidated Balance Sheets and were as follows:

December 31	**2006**	2005
(In millions)		
Assets:		
Investments	**$ 317.1**	$ 357.8
Reinsurance receivables	**32.8**	77.9
Cash	**40.1**	28.9
Other assets	**2.8**	6.0
Total assets	**392.8**	470.6
Liabilities:		
Insurance reserves	**307.8**	337.9
Other liabilities	**17.2**	19.4
Total liabilities	**325.0**	357.3
Net assets of discontinued operations	**$ 67.8**	$ 113.3

The Accumulated Other Comprehensive Income, net of tax and minority interest, reported in the Consolidated Balance Sheets includes $0.9 million and $10.1 million related to unrealized gains and $13.6 million and $5.0 million related to the cumulative foreign currency translation adjustment for discontinued operations as of December 31, 2006 and 2005.

CNA's accounting and reporting for discontinued operations is in accordance with APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." At December 31, 2006 and 2005, the insurance reserves are net of discount of $94.0 million and $104.9 million. Excluding the impairment loss recorded in 2006 discussed above, the income (loss) from discontinued operations reported above primarily represents the net investment income, realized investment gains and losses, foreign currency gains and losses, effects of the accretion of the loss reserve discount and re-estimation of the ultimate claim and claim adjustment expense of the discontinued operations.

Note 23. Business Segments

The Company's reportable segments are primarily based on its individual operating subsidiaries. Each of the principal operating subsidiaries are headed by a chief executive officer who is responsible for the operation of its business and has the duties and authority commensurate with that position. Investment gains (losses) and the related income taxes, excluding those of CNA Financial, are included in the Corporate and other segment.

CNA manages its property and casualty operations in two operating segments, which represent CNA's core operations: Standard Lines and Specialty Lines. The non-core operations are managed in Life and Group Non-Core segment and Other Insurance segment. Standard Lines includes standard property and casualty coverages sold to small and middle market commercial businesses primarily through an independent agency distribution system, and excess and surplus lines, as well as insurance and risk management products sold to large corporations in the U.S. and globally. Specialty Lines provides professional, financial and specialty property and casualty products and services. Life and Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance primarily includes the results of certain property and casualty lines of business placed in run-off, including CNA Re. This segment also includes the results related to the centralized adjusting and settlement of APMT claims as well as the results of CNA's participation in voluntary insurance pools, which are primarily in run-off and various other non-insurance operations.

Lorillard is engaged in the production and sale of cigarettes with its principal products marketed under the brand names of Newport, Kent, True, Maverick and Old Gold with substantially all of its sales in the United States.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas. This segment consists of two interstate natural gas pipeline systems originating in the Gulf Coast area and running north and east through Texas, Louisiana, Mississippi, Alabama, Florida, Arkansas, Tennessee, Kentucky, Indiana, Ohio and Illinois with approximately 13,400 miles of pipeline.

Diamond Offshore's business primarily consists of operating 44 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. The majority of these rigs are located in the Gulf of Mexico region with the remainder operating in Brazil, the North Sea, and various other foreign markets.

Loews Hotels owns and/or operates 18 hotels, 16 of which are in the United States and two are in Canada.

The Corporate and other segment consists primarily of corporate investment income, including investment gains (losses) from non-insurance subsidiaries, the operations of Bulova Corporation which distributes and sells watches and clocks, equity earnings from shipping operations, as well as corporate interest expenses and other corporate administrative costs.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.

The following tables set forth the Company's consolidated revenues, income and assets by business segment:

Year Ended December 31	**2006**	2005	2004
(In millions)			
Revenues (a):			
CNA Financial:			
Standard Lines	**$ 5,575.5**	$ 5,295.8	$ 5,760.8
Specialty Lines	**3,139.6**	2,893.6	2,716.2
Life and Group Non-Core	**1,354.5**	1,361.9	1,093.0
Other Insurance	**312.1**	313.8	358.2
Total CNA Financial	**10,381.7**	9,865.1	9,928.2
Lorillard	**3,858.6**	3,637.4	3,384.4
Boardwalk Pipeline	**618.4**	571.3	265.1
Diamond Offshore	**2,102.0**	1,294.1	835.6
Loews Hotels	**371.3**	350.5	315.2
Corporate and other	**579.0**	299.4	508.4
Total	**$ 17,911.0**	$ 16,017.8	$ 15,236.9
Pretax income (loss) (a) (c):			
CNA Financial:			
Standard Lines	**$ 962.6**	$ (121.0)	$ 475.4
Specialty Lines	**767.7**	517.8	574.9
Life and Group Non-Core	**(113.2)**	(139.1)	(678.9)
Other Insurance	**50.1**	(78.9)	150.1
Total CNA Financial	**1,667.2**	178.8	521.5
Lorillard (b)	**1,344.7**	1,153.4	1,038.2
Boardwalk Pipeline	**197.7**	158.1	81.1
Diamond Offshore	**960.1**	351.0	(9.8)
Loews Hotels	**48.0**	50.0	31.2
Corporate and other	**254.4**	(44.8)	166.6
Total	**$ 4,472.1**	$ 1,846.5	$ 1,828.8
Net income (loss) (a)(c):			
CNA Financial:			
Standard Lines	**$ 605.9**	$ (29.2)	$ 327.4
Specialty Lines	**435.5**	317.4	344.9
Life and Group Non-Core	**(42.8)**	(64.3)	(375.2)
Other Insurance	**42.6**	15.9	127.9
Total CNA Financial	**1,041.2**	239.8	425.0
Lorillard (b)	**826.5**	707.8	641.4
Boardwalk Pipeline	**103.2**	92.1	48.8
Diamond Offshore	**352.0**	127.3	(9.3)
Loews Hotels	**29.4**	31.2	21.4
Corporate and other	**164.7**	(5.3)	108.0
Income (loss) from continuing operations	**2,517.0**	1,192.9	1,235.3
Discontinued operations	**(25.7)**	18.7	(19.5)
Total	**$ 2,491.3**	$ 1,211.6	$ 1,215.8

(a) Investment gains (losses) included in Revenues, Pretax income (loss) and Net income (loss) are as follows:

Year Ended December 31	2006	2005	2004
Revenues and pretax income (loss):			
CNA Financial:			
Standard Lines	$ 75.5	$ 20.4	$ 218.7
Specialty Lines	27.9	13.7	83.9
Life and Group Non-Core	(50.5)	(29.6)	(611.0)
Other Insurance	39.0	(11.0)	63.9
Total CNA Financial	91.9	(6.5)	(244.5)
Corporate and other	8.6	(6.7)	(11.5)
Total	$ 100.5	$ (13.2)	$ (256.0)
Net income (loss):			
CNA Financial:			
Standard Lines	$ 48.0	$ 8.5	$ 126.2
Specialty Lines	16.2	10.7	49.6
Life and Group Non-Core	(29.9)	(17.6)	(349.0)
Other Insurance	28.6	(8.5)	36.1
Total CNA Financial	62.9	(6.9)	(137.1)
Corporate and other	5.6	(3.9)	(7.5)
Total	$ 68.5	$ (10.8)	$ (144.6)

(b) Includes pretax charges related to the settlement of tobacco litigation of $911.4, $876.4 and $845.9 ($560.2, $537.7 and $522.6 after taxes) for the respective periods.

(c) Income taxes and interest expense are as follows:

Year Ended December 31	2006		2005		2004	
	Income Taxes	Interest Expense	Income Taxes	Interest Expense	Income Taxes	Interest Expense
CNA Financial:						
Standard Lines	$ 278.5	$ 0.9	$ (98.8)	$ 1.5	$ 107.0	$ 0.9
Specialty Lines	254.4	3.7	155.9	3.5	180.0	7.4
Life and Group Non-Core	(66.1)	23.4	(68.6)	24.2	(267.7)	24.9
Other Insurance	8.2	102.6	(88.9)	95.1	16.9	90.7
Total CNA Financial	475.0	130.6	(100.4)	124.3	36.2	123.9
Lorillard	518.2	0.3	445.6	0.5	396.8	
Boardwalk Pipeline	64.2	62.1	60.8	60.1	32.3	30.1
Diamond Offshore	285.0	24.0	104.7	41.8	3.0	30.2
Loews Hotels	18.6	11.9	18.8	10.9	9.8	5.7
Corporate and other	89.7	75.2	(39.1)	126.6	58.1	134.2
Total	$ 1,450.7	$ 304.1	$ 490.4	$ 364.2	$ 536.2	$ 324.1

	Investments		Receivables		Total Assets	
December 31	2006	2005	2006	2005	2006	2005
CNA Financial	$ 44,094.2	$ 39,692.9	$ 12,202.4	$ 14,952.6	$ 60,238.7	$ 58,960.2
Lorillard	1,767.5	1,747.7	15.6	25.5	2,759.2	2,795.5
Boardwalk Pipeline	397.9	65.0	87.7	106.8	2,938.1	2,482.1
Diamond Offshore	815.6	819.9	567.5	357.1	4,170.4	3,646.3
Loews Hotels	9.7	9.5	27.6	21.6	459.1	440.1
Corporate and eliminations	6,803.9	3,061.0	126.5	80.3	6,315.4	2,581.6
Total	$ 53,888.8	$ 45,396.0	$ 13,027.3	$ 15,543.9	$ 76,880.9	$ 70,905.8

Note 24. Consolidating Financial Information

The following schedules present the Company's consolidating balance sheet information at December 31, 2006 and 2005, and consolidating statements of income information for the years ended December 31, 2006, 2005 and 2004. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income taxes and minority interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items. This information also does not reflect the impact of the Company's issuance of Carolina Group stock. Lorillard is reported as a 100% owned subsidiary and does not include any adjustments relating to the tracking stock structure. See Note 6 for consolidating information of the Carolina Group and Loews Group.

The Corporate and Other column primarily reflects the parent company's investment in its subsidiaries, invested cash portfolio, corporate long-term debt and Bulova Corporation, a wholly owned subsidiary. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company's investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

Loews Corporation
Consolidating Balance Sheet Information

December 31, 2006	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Assets:								
Investments	$ 44,094.2	$ 1,767.5	$ 397.9	$ 815.6	$ 9.7	$ 6,803.9		$ 53,888.8
Cash	83.9	1.2	1.1	10.2	14.8	22.6		133.8
Receivables	12,202.4	15.6	87.7	567.5	27.6	128.6	$ (2.1)	13,027.3
Property, plant and equipment	240.9	196.4	2,024.4	2,653.8	362.5	23.3		5,501.3
Deferred income taxes	884.6	495.7				14.8	(774.2)	620.9
Goodwill and other intangible assets	106.0		163.5	21.8	2.6	5.0		298.9
Investments in capital stocks of subsidiaries						12,313.4	(12,313.4)	
Other assets	933.3	282.8	263.5	101.5	41.9	93.5		1,716.5
Deferred acquisition costs of insurance subsidiaries	1,190.4							1,190.4
Separate account business	503.0							503.0
Total assets	$ 60,238.7	$ 2,759.2	$ 2,938.1	$ 4,170.4	$ 459.1	$ 19,405.1	$ (13,089.7)	$ 76,880.9
Liabilities and Shareholders' Equity:								
Insurance reserves	$ 41,079.9							$ 41,079.9
Payable for securities purchased	320.0				$ 0.2	$ 726.5		1,046.7
Collateral on loaned securities	2,850.9					750.6		3,601.5
Short-term debt	0.3				4.3			4.6
Long-term debt	2,155.5		$ 1,350.9	$ 964.3	231.7	865.4		5,567.8
Reinsurance balances payable	539.1							539.1
Deferred income taxes			44.4	438.6	50.0	241.2	$ (774.2)	
Other liabilities	2,734.1	$ 1,463.9	345.4	400.8	4.3	206.7	(15.0)	5,140.2
Separate account business	503.0							503.0
Total liabilities	50,182.8	1,463.9	1,740.7	1,803.7	290.5	2,790.4	(789.2)	57,482.8
Minority interest	1,349.6		484.8	1,061.9				2,896.3
Shareholders' equity	8,706.3	1,295.3	712.6	1,304.8	168.6	16,614.7	(12,300.5)	16,501.8
Total liabilities and shareholders' equity	$ 60,238.7	$ 2,759.2	$ 2,938.1	$ 4,170.4	$ 459.1	$ 19,405.1	$ (13,089.7)	$ 76,880.9

Loews Corporation
Consolidating Balance Sheet Information

December 31, 2005	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Assets:								
Investments	$ 39,692.9	$ 1,747.7	$ 65.0	$ 819.9	$ 9.5	$ 3,061.0		$ 45,396.0
Cash	96.4	2.4	0.8	24.9	9.6	19.0		153.1
Receivables	14,952.6	25.5	106.8	357.1	21.6	145.7	$ (65.4)	15,543.9
Property, plant and equipment	148.5	213.9	1,867.4	2,333.7	366.6	21.5		4,951.6
Deferred income taxes	1,140.5	428.5	16.6			22.2	(702.5)	905.3
Goodwill and other intangible assets	104.5		163.5	21.8	2.6	5.0		297.4
Investments in capital stocks of subsidiaries						11,645.1	(11,645.1)	
Other assets	1,075.9	377.5	262.0	88.9	30.2	75.1		1,909.6
Deferred acquisition costs of insurance subsidiaries	1,197.4							1,197.4
Separate account business	551.5							551.5
Total assets	$ 58,960.2	$ 2,795.5	$ 2,482.1	$ 3,646.3	$ 440.1	$ 14,994.6	$ (12,413.0)	$ 70,905.8
Liabilities and Shareholders' Equity:								
Insurance reserves	$ 42,436.2							$ 42,436.2
Payable for securities purchased	226.5					$ 175.2		401.7
Collateral on loaned securities	767.4							767.4
Short-term debt	252.4		$ 42.1		$ 3.9	299.8		598.2
Long-term debt	1,437.9		1,101.3	$ 968.3	236.2	864.9		4,608.6
Reinsurance balances payable	1,636.2							1,636.2
Deferred income taxes				456.9	50.2	195.4	$ (702.5)	
Other liabilities	2,470.1	$ 1,455.7	347.0	335.8	11.5	206.2	(71.3)	4,755.0
Separate account business	551.5							551.5
Total liabilities	49,778.2	1,455.7	1,490.4	1,761.0	301.8	1,741.5	(773.8)	55,754.8
Minority interest	936.8		276.5	845.6				2,058.9
Shareholders' equity	8,245.2	1,339.8	715.2	1,039.7	138.3	13,253.1	(11,639.2)	13,092.1
Total liabilities and shareholders' equity	$ 58,960.2	$ 2,795.5	$ 2,482.1	$ 3,646.3	$ 440.1	$ 14,994.6	$ (12,413.0)	$ 70,905.8

Loews Corporation
Consolidating Statement of Operations Information

Year Ended December 31, 2006	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 7,603.2						$ (0.1)	$ 7,603.1
Net investment income	2,412.2	$ 103.7	$ 4.2	$ 37.9	$ 1.2	$ 351.9		2,911.1
Intercompany interest and dividends						1,306.4	(1,306.4)	
Investment gains (losses)	90.4	(0.5)				1.6		91.5
Gain on issuance of subsidiary stock	1.5					7.5		9.0
Manufactured products		3,754.9				206.9		3,961.8
Other	274.4		614.2	2,064.1	370.1	11.7		3,334.5
Total	10,381.7	3,858.1	618.4	2,102.0	371.3	1,886.0	(1,306.5)	17,911.0
Expenses:								
Insurance claims and policyholders' benefits	6,046.2							6,046.2
Amortization of deferred acquisition costs	1,534.2							1,534.2
Cost of manufactured products sold		2,159.5				102.2		2,261.7
Other operating expenses	1,016.4	354.1	358.6	1,117.9	311.4	147.3	(0.1)	3,305.6
Restructuring and other related charges	(12.9)							(12.9)
Interest	130.6	0.3	62.1	24.0	11.9	75.2		304.1
Total	8,714.5	2,513.9	420.7	1,141.9	323.3	324.7	(0.1)	13,438.9
	1,667.2	1,344.2	197.7	960.1	48.0	1,561.3	(1,306.4)	4,472.1
Income tax expense	475.0	518.0	64.2	285.0	18.6	89.9		1,450.7
Minority interest	151.0		30.3	323.1				504.4
Total	626.0	518.0	94.5	608.1	18.6	89.9		1,955.1
Income from continuing operations	1,041.2	826.2	103.2	352.0	29.4	1,471.4	(1,306.4)	2,517.0
Discontinued operations, net	(25.7)							(25.7)
Net income	$ 1,015.5	$ 826.2	$ 103.2	$ 352.0	$ 29.4	$ 1,471.4	$ (1,306.4)	$ 2,491.3

Loews Corporation
Consolidating Statement of Operations Information

Year Ended December 31, 2005	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 7,568.7						$ (0.1)	$ 7,568.6
Net investment income	1,891.9	$ 63.6	$ 1.5	$ 26.0	$ 6.0	$ 109.8		2,098.8
Intercompany interest and dividends						937.0	(937.0)	
Investment gains (losses)	(6.5)	(2.1)		(1.2)		(3.4)		(13.2)
Manufactured products		3,567.8				184.6		3,752.4
Other	411.0	6.0	569.8	1,268.1	344.5	11.8		2,611.2
Total	9,865.1	3,635.3	571.3	1,292.9	350.5	1,239.8	(937.1)	16,017.8
Expenses:								
Insurance claims and policyholders' benefits	6,998.7							6,998.7
Amortization of deferred acquisition costs	1,542.6							1,542.6
Cost of manufactured products sold		2,114.4				87.9		2,202.3
Other operating expenses	1,020.7	369.1	353.1	901.3	289.6	129.8	(0.1)	3,063.5
Interest	124.3	0.5	60.1	41.8	10.9	126.6		364.2
Total	9,686.3	2,484.0	413.2	943.1	300.5	344.3	(0.1)	14,171.3
	178.8	1,151.3	158.1	349.8	50.0	895.5	(937.0)	1,846.5
Income tax expense (benefit)	(100.4)	444.9	60.8	104.3	18.8	(38.0)		490.4
Minority interest	39.4		5.2	118.6				163.2
Total	(61.0)	444.9	66.0	222.9	18.8	(38.0)		653.6
Income from continuing operations	239.8	706.4	92.1	126.9	31.2	933.5	(937.0)	1,192.9
Discontinued operations, net	18.7							18.7
Net income	$ 258.5	$ 706.4	$ 92.1	$ 126.9	$ 31.2	$ 933.5	$ (937.0)	$ 1,211.6

Loews Corporation
Consolidating Statement of Operations Information

Year Ended December 31, 2004	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 8,208.9						$ (3.7)	$ 8,205.2
Net investment income	1,679.5	$ 36.6	$ 0.7	$ 12.2	$ 2.3	$ 144.0		1,875.3
Intercompany interest and dividends						919.9	(919.9)	
Investment gains (losses)	(244.5)	1.4		0.3		(13.2)		(256.0)
Manufactured products		3,347.8				167.4		3,515.2
Other	284.3		264.4	823.4	312.9	212.2		1,897.2
Total	9,928.2	3,385.8	265.1	835.9	315.2	1,430.3	(923.6)	15,236.9
Expenses:								
Insurance claims and policyholders' benefits	6,445.0							6,445.0
Amortization of deferred acquisition costs	1,679.8							1,679.8
Cost of manufactured products sold		1,965.6				79.8		2,045.4
Other operating expenses	1,158.0	380.6	153.9	815.2	278.3	131.5	(3.7)	2,913.8
Interest	123.9		30.1	30.2	5.7	140.5	(6.3)	324.1
Total	9,406.7	2,346.2	184.0	845.4	284.0	351.8	(10.0)	13,408.1
	521.5	1,039.6	81.1	(9.5)	31.2	1,078.5	(913.6)	1,828.8
Income tax expense	36.2	397.3	32.3	3.0	9.8	57.6		536.2
Minority interest	60.3			(3.3)		0.3		57.3
Total	96.5	397.3	32.3	(0.3)	9.8	57.9	-	593.5
Income (loss) from continuing operations	425.0	642.3	48.8	(9.2)	21.4	1,020.6	(913.6)	1,235.3
Discontinued operations, net	(19.5)							(19.5)
Net income (loss)	$ 405.5	$ 642.3	$ 48.8	$ (9.2)	$ 21.4	$ 1,020.6	$ (913.6)	$ 1,215.8

Note 25. Subsequent Event

Subsequent to December 31, 2006 and through February 14, 2007, the holders of $438.4 million in principal amount of Diamond Offshore's 1.5% debentures converted their outstanding debentures into 8,943,284 shares of Diamond Offshore's common stock.

Subsequent to December 31, 2006 and through February 14, 2007, the holders of $1.5 million accreted value at the dates of conversion, of $2.4 million aggregate principal amount at maturity, of Diamond Offshore's Zero Coupon Debentures converted their outstanding debentures into 20,658 shares of Diamond Offshore's common stock.

As a result of the conversions of Diamond Offshore's 1.5% debentures, the Company will recognize a deferred tax benefit of approximately $50.0 million in 2007 related to the release of a deferred tax liability from the interest expense imputed on these bonds for U.S. federal income tax return purposes.

The Company's ownership interest in Diamond Offshore declined from approximately 54% to 51% due to these transactions. The Company estimates it will recognize a pretax gain of approximately $135.0 million on the issuance of subsidiary stock in the first quarter of 2007.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) which is designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the federal securities laws, including this report is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company under the federal securities laws is accumulated and communicated to the Company’s management on a timely basis to allow decisions regarding required disclosure.

The Company’s principal executive officer (“CEO”) and principal financial officer (“CFO”) undertook an evaluation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. CNA has engaged in a number of efforts to remediate the two material weaknesses in internal control over financial reporting, described in our Annual Report on Form 10-K for the period ended December 31, 2005. In the opinion of the Company’s management, the revised control processes have now been operating for a sufficient period of time so as to provide reasonable assurance as to their effectiveness and, therefore, the control deficiencies have been fully remediated. As a result, the CEO and CFO have concluded that the Company’s controls and procedures were effective as of December 31, 2006.

Internal Control Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the implementing rules of the Securities and Exchange Commission, the Company included a report of management’s assessment of the design and effectiveness of its internal controls as part of this Annual Report on Form 10-K for the year ended December 31, 2006. The independent registered public accounting firm of the Company also reported on management’s assessment of the effectiveness of internal control over financial reporting. Management’s report and the independent registered public accounting firm’s report are included on pages [58 to 61] under the captions entitled “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” and are incorporated herein by reference.

There were no other changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended December 31, 2006, that have materially affected or that are reasonably likely to materially affect the Company’s internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Except as set forth below and under Executive Officers of the Registrant in Part I of this Report, the information called for by Part III (Items 10, 11, 12, 13 and 14) has been omitted as Registrant intends to include such information in its definitive Proxy Statement to be filed with the Securities and Exchange Commission not later than 120 days after the close of its fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements:

The financial statements appear above under Item 8. The following additional financial data should be read in conjunction with those financial statements. Schedules not included with these additional financial data have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes to consolidated financial statements.

2. Financial Statement Schedules:

	Page Number
Loews Corporation and Subsidiaries:	
Schedule I-Condensed financial information of Registrant for the years ended December 31, 2006, 2005 and 2004	L-1
Schedule II-Valuation and qualifying accounts for the years ended December 31, 2006, 2005 and 2004	L-3
Schedule V-Supplemental information concerning property-casualty insurance operations for the years ended December 31, 2006, 2005 and 2004	L-4

3. Exhibits:

Description	Exhibit Number
(3) Articles of Incorporation and By-Laws	
Restated Certificate of Incorporation of the Registrant, dated April 16, 2002, incorporated herein by reference to Exhibit 3 to registrant's Report on Form 10-Q for the quarter ended March 31, 2002	3.01
Certificate of Amendment of Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Registrant's Report on Form 8-K filed August 3, 2006	3.02
By-Laws of the Registrant as amended through May 10, 2005, incorporated herein by reference to Exhibit 3.1 to Registrant's Report on Form 8-K filed May 13, 2005	3.03
The Carolina Group Policy Statement, incorporated herein by reference to Exhibit 3.03 to Registrant's Report on From 10-K for the year ended December 31, 2005	3.04
(4) Instruments Defining the Rights of Security Holders, Including Indentures	
The Registrant hereby agrees to furnish to the Commission upon request copies of instruments with respect to long-term debt, pursuant to Item 601(b)(4)(iii) of Regulation S-K.	

Description	Exhibit Number
(10) Material Contracts	
Loews Corporation Deferred Compensation Plan amended and restated as of December 31, 2005, incorporated herein by reference to Exhibit 10.01 to Registrant’s Report on Form 10-K for the year ended December 31, 2005	10.01
Amended and Restated Loews Corporation Incentive Compensation Plan for Executive Officers, incorporated herein by reference to Exhibit B to Registrant’s Definitive Proxy Statement filed on March 25, 2005	10.02
Amended and Restated Loews Corporation 2000 Stock Option Plan, incorporated herein by reference to Exhibit A to Registrant’s Definitive Proxy Statement filed on March 25, 2005	10.03
Amended and Restated Carolina Group 2002 Stock Option Plan, incorporated herein by reference to Exhibit 10.04 to Registrant’s Report on Form 10-K for the year ended December 31, 2005	10.04
Comprehensive Settlement Agreement and Release with the State of Florida to settle and resolve with finality all present and future economic claims by the State and its subdivisions relating to the use of or exposure to tobacco products, incorporated herein by reference to Exhibit 10 to Registrant’s Report on Form 8-K filed September 5, 1997	10.05
Comprehensive Settlement Agreement and Release with the State of Texas to settle and resolve with finality all present and future economic claims by the State and its subdivisions relating to the use of or exposure to tobacco products, incorporated herein by reference to Exhibit 10 to Registrant’s Report on Form 8-K filed February 3, 1998	10.06
State of Minnesota Settlement Agreement and Stipulation for Entry of Consent Judgment to settle and resolve with finality all claims of the State of Minnesota relating to the subject matter of this action which have been or could have been asserted by the State, incorporated herein by reference to Exhibit 10.1 to Registrant’s Report on Form 10-Q for the quarter ended March 31, 1998	10.07
State of Minnesota Consent Judgment relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.2 to Registrant’s Report on Form 10-Q for the quarter ended March 31, 1998	10.08
State of Minnesota Settlement Agreement and Release relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.3 to Registrant’s Report on Form 10-Q for the quarter ended March 31, 1998	10.09
State of Minnesota State Escrow Agreement relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.6 to Registrant’s Report on Form 10-Q for the quarter ended March 31, 1998	10.10
Stipulation of Amendment to Settlement Agreement and For Entry of Agreed Order, dated July 2, 1998, regarding the settlement of the State of Mississippi health care cost recovery action, incorporated herein by reference to Exhibit 10.1 to Registrant’s Report on Form 10-Q for the quarter ended June 30, 1998	10.11

Description	Exhibit Number
Mississippi Fee Payment Agreement, dated July 2, 1998, regarding the payment of attorneys' fees, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form10-Q for the quarter ended June 30, 1998	10.12
Stipulation of Amendment to Settlement Agreement and For Entry of Consent Decree, dated July 24, 1998, regarding the settlement of the Texas health care cost recovery action, incorporated herein by reference to Exhibit 10.4 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.13
Texas Fee Payment Agreement, dated July 24, 1998, regarding the payment of attorneys' fees, incorporated herein by reference to Exhibit 10.5 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.14
Stipulation of Amendment to Settlement Agreement and For Entry of Consent Decree, dated September 11, 1998, regarding the settlement of the Florida health care cost recovery action, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q for the quarter ended September 30, 1998	10.15
Florida Fee Payment Agreement, dated September 11, 1998, regarding the payment of attorneys' fees, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q for the quarter ended September 30, 1998	10.16
Master Settlement Agreement with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Marianas to settle the asserted and unasserted health care cost recovery and certain other claims of those states, incorporated herein by reference to Exhibit 10 to Registrant's Report on Form 8-K filed November 25, 1998	10.17
Employment Agreement dated as of January 1, 1999 between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.32 to Registrant's Report on Form 10-K for the year ended December 31, 1998	10.18
Amendment dated January 1, 2002 to Employment Agreement between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.23 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.19
Amendment dated January 1, 2003 to Employment Agreement between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.21 to Registrant's Report on Form 10-K for the year ended December 31, 2002	10.20
Amendment dated January 1, 2004 to Employment Agreement between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.24 to Registrant's Report on Form 10-K for the year ended December 31, 2003	10.21
Amendment dated February 11, 2005, to Employment Agreement between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.24 to Registrant's Report on Form 10-K for the year ended December 31, 2004	10.22
Amendment dated February 15, 2007 to Employment Agreement between Registrant and Andrew H. Tisch	10.23*

Description	Exhibit Number
Supplemental Retirement Agreement dated January 1, 2002 between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.30 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.24
Amendment No. 1 dated January 1, 2003 to Supplemental Retirement Agreement between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.33 to Registrant's Report on Form 10-K for the year ended December 31, 2002	10.25
Amendment No. 2 dated January 1, 2004 to Supplemental Retirement Agreement between Registrant and Andrew H. Tisch, incorporated herein by reference to Exhibit 10.27 to Registrant's Report on Form 10-K for the year ended December 31, 2003	10.26
Employment Agreement dated as of January 1, 1999 between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.32 to Registrant's Report on Form 10-K for the year ended December 31, 1998	10.27
Amendment dated January 1, 2002 to Employment Agreement between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.23 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.28
Amendment dated January 1, 2003 to Employment Agreement between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.23 to Registrant's Report on Form 10-K for the year ended December 31, 2002	10.29
Amendment dated January 1, 2004 to Employment Agreement between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.31 to Registrant's Report on Form 10-K for the year ended December 31, 2003	10.30
Amendment dated February 11, 2005, to Employment Agreement between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.32 to Registrant's Report on Form 10-K for the year ended December 31, 2004	10.31
Amendment dated February 15, 2007 to Employment Agreement between Registrant and James S. Tisch	10.32*
Supplemental Retirement Agreement dated January 1, 2002 between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.31 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.33
Amendment No. 1 dated January 1, 2003 to Supplemental Retirement Agreement between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.35 to Registrant's Report on Form 10-K for the year ended December 31, 2002	10.34
Amendment No. 2 dated January 1, 2004 to Supplemental Retirement Agreement between Registrant and James S. Tisch, incorporated herein by reference to Exhibit 10.34 to Registrant's Report on Form 10-K for the year ended December 31, 2003	10.35
Employment Agreement dated as of January 1, 1999 between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.33 to Registrant's Report on Form 10-K for the year ended December 31, 1998	10.36

Description	Exhibit Number
Amendment dated January 1, 2002 to Employment Agreement between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.24 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.37
Amendment dated January 1, 2003 to Employment Agreement between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.25 to Registrant's Report on Form 10-K for the year ended December 31, 2002	10.38
Amendment dated January 1, 2004 to Employment Agreement between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.38 to Registrant's Report on Form 10-K for the year ended December 31, 2003	10.39
Amendment dated February 11, 2005, to Employment Agreement between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.40 to Registrant's Report on Form 10-K for the year ended December 31, 2004	10.40
Amendment dated February 15, 2007, to Employment Agreement between Registrant and Jonathan M. Tisch	10.41*
Supplemental Retirement Agreement dated January 1, 2002 between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.32 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.42
Amendment No. 1 dated January 1, 2003 to Supplemental Retirement Agreement between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.37 to Registrant's Report on Form 10-K for the year ended December 31, 2002	10.43
Amendment No. 2 dated January 1, 2004 to Supplemental Retirement Agreement between Registrant and Jonathan M. Tisch, incorporated herein by reference to Exhibit 10.41 to Registrant's Report on Form 10-K for the year ended December 31, 2003	10.44
Supplemental Retirement Agreement dated March 24, 2000 between Registrant and Peter W. Keegan, incorporated herein by reference to Exhibit 10.01 to Registrant's Report on Form 10-Q for the quarter ended March 31, 2000	10.45
First Amendment to Supplemental Retirement Agreement dated June 30, 2001 between Registrant and Peter W. Keegan, incorporated herein by reference to Exhibit 10 to Registrant's Report on From 10-Q for the quarter ended March 31, 2002	10.46
Second Amendment to Supplemental Retirement Agreement dated March 25, 2003 between Registrant and Peter W. Keegan and Third Amendment to Supplemental Retirement Agreement dated March 31, 2004 between Registrant and Peter W. Keegan, incorporated herein by reference to Exhibit 10.44 to Registrant's Report on Form 10-K for the year ended December 31, 2005	10.47
Fourth Amendment to Supplemental Retirement Agreement dated December 6, 2005 between Registrant and Peter W. Keegan, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed December 7, 2005	10.48
Supplemental Retirement Agreement dated September 21, 1999 between Registrant and Arthur L. Rebell, incorporated herein by reference to Exhibit 10.28 to Registrant's Report on Form 10-K for the year ended December 31, 1999	10.49

	Description	Exhibit Number
	First Amendment to Supplemental Retirement Agreement dated March 24, 2000 between Registrant and Arthur L. Rebell, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q for the quarter ended March 31, 2000	10.50
	Second Amendment to Supplemental Retirement Agreement dated March 28, 2001 between Registrant and Arthur L. Rebell, incorporated herein by reference to Exhibit 10.28 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.51
	Third Amendment to Supplemental Retirement Agreement dated February 28, 2002 between Registrant and Arthur L. Rebell, incorporated herein by reference to Exhibit 10.33 to Registrant's Report on Form 10-K for the year ended December 31, 2001	10.52
	Fourth Amendment to Supplemental Retirement Agreement dated March 31, 2003 between Registrant and Arthur L. Rebell and Fifth Amendment to Supplemental Retirement Agreement dated March 31, 2004 between Registrant and Arthur L. Rebell, incorporated herein by reference to Exhibit 10.50 to Registrant's Report on Form 10-K for the year ended December 31, 2005	10.53
	Sixth Amendment to Supplemental Retirement Agreement dated December 13, 2005 between Registrant and Arthur L. Rebell, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed December 14, 2005	10.54
	Forms of Stock Option Certificates for grants to executive officers and other employees and to non-employee directors pursuant to the Loews Corporation 2000 Stock Option Plan, incorporated herein by reference to Exhibits 10.1 and 10.2, respectively, to Registrant's Report on Form 8-K filed September 27, 2004	10.55
	Form of Award Certificate for grants of stock appreciation rights to executive officers and other employees pursuant to the Loews Corporation 2000 Stock Option Plan, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed January 31, 2006	10.56
(21)	Subsidiaries of the Registrant	
	List of subsidiaries of Registrant	21.01*
(23)	Consent of Experts and Counsel	
	Consent of Deloitte & Touche LLP	23.01*
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
	Certification by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.01*
	Certification by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.02*
(32)	Section 1350 Certifications	
	Certification by the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.01*

	Description	Exhibit Number
	Certification by the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.02*
(99)	Other	
	Pending Tobacco Litigation	99.01*

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOEWS CORPORATION

Dated: February 23, 2007	By	/s/ Peter W. Keegan **(Peter W. Keegan, Senior Vice President and Chief Financial Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: February 23, 2007	By	/s/ James S. Tisch **(James S. Tisch, President, Chief Executive Officer and Director)**
Dated: February 23, 2007	By	/s/ Peter W. Keegan **(Peter W. Keegan, Senior Vice President and Chief Financial Officer)**
Dated: February 23, 2007	By	/s/ Mark S. Schwartz **(Mark S. Schwartz, Controller)**
Dated: February 23, 2007	By	/s/ Ann E. Berman **(Ann E. Berman, Director)**
Dated: February 23, 2007	By	/s/ Joseph L. Bower **(Joseph L. Bower, Director)**

Dated: February 23, 2007	By	/s/ Charles M. Diker **(Charles M. Diker, Director)**
Dated: February 23, 2007	By	/s/ Paul J. Fribourg **(Paul J. Fribourg, Director)**
Dated: February 23, 2007	By	/s/ Walter L. Harris **(Walter L. Harris, Director)**
Dated: February 23, 2007	By	/s/ Philip A. Laskawy **(Philip A. Laskawy, Director)**
Dated: February 23, 2007	By	/s/ Gloria R. Scott **(Gloria R. Scott, Director)**
Dated: February 23, 2007	By	/s/ Andrew H. Tisch **(Andrew H. Tisch, Director)**
Dated: February 23, 2007	By	/s/ Jonathan M. Tisch **(Jonathan M. Tisch, Director)**

Condensed Financial Information of Registrant

LOEWS CORPORATION
BALANCE SHEETS

ASSETS

December 31	**2006**	2005
(In millions)		
Current assets, principally investment in short-term instruments	**$ 4,472.7**	$ 2,581.0
Investments in securities	**2,470.6**	659.7
Investments in capital stocks of subsidiaries, at equity	**12,313.4**	11,645.1
Other assets	**11.8**	11.4
Total assets	**$ 19,268.5**	$ 14,897.2

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable and accrued liabilities	**$ 928.2**	$ 737.6
Collateral on loaned securities	**750.6**	
Long-term debt	**865.4**	864.9
Deferred income tax and other	**222.5**	202.6
Total liabilities	**2,766.7**	1,805.1
Shareholders' equity	**16,501.8**	13,092.1
Total liabilities and shareholders' equity	**$ 19,268.5**	$ 14,897.2

STATEMENTS OF INCOME

Year Ended December 31	2006	2005	2004
(In millions)			
Revenues:			
Equity in income of subsidiaries (a)	**$ 2,381.3**	$ 1,208.7	$ 1,260.0
Investment gains (losses)	**9.1**	(3.3)	(13.1)
Interest and other	**366.5**	133.1	158.7
Total	**2,756.9**	1,338.5	1,405.6
Expenses:			
Administrative	**61.1**	49.7	45.2
Interest	**74.8**	125.9	140.2
Total	**135.9**	175.6	185.4
	2,621.0	1,162.9	1,220.2
Income tax expense (benefit)	**104.0**	(30.0)	(15.1)
Income from continuing operations	**2,517.0**	1,192.9	1,235.3
Discontinued operations, net	**(25.7)**	18.7	(19.5)
Net income	**$ 2,491.3**	$ 1,211.6	$ 1,215.8

SCHEDULE I
(Continued)

Condensed Financial Information of Registrant

LOEWS CORPORATION
STATEMENTS OF CASH FLOWS

Year Ended December 31	**2006**	2005	2004
(In millions)			
Operating Activities:			
Net income	**$ 2,491.3**	$ 1,211.6	$ 1,215.8
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Undistributed earnings of affiliates	**(1,033.8)**	(358.4)	(317.4)
Investment (gains) losses	**(9.1)**	3.3	13.1
Provision for deferred income taxes	**41.2**	(14.1)	(17.9)
Changes in operating assets and liabilities-net			
Receivables	**13.4**	7.3	27.6
Accounts payable and accrued liabilities	**559.5**	69.0	29.3
Federal income taxes	**(69.1)**	48.9	675.5
Trading securities	**(1,810.9)**	(264.1)	105.7
Other-net	**0.6**	(2.6)	(9.6)
	183.1	700.9	1,722.1
Investing Activities:			
Change in investments and advances to subsidiaries	**(1,948.2)**	249.7	(1,790.1)
Change in collateral on loaned securities	**750.6**		
Redemption of CNA Series H preferred stock	**750.0**		
Purchase of CNA common stock	**(264.5)**		
	(712.1)	249.7	(1,790.1)
Financing Activities:			
Dividends paid to shareholders	**(307.7)**	(239.9)	(216.8)
Issuance of common stock	**1,641.8**	432.5	287.8
Purchases of treasury shares	**(509.8)**		
Excess tax benefits from share-based payment arrangements	**4.9**		
Decrease in long-term debt	**(300.0)**	(1,150.0)	
	529.2	(957.4)	71.0
Net change in cash	**0.2**	(6.8)	3.0
Cash, beginning of year	**0.1**	6.9	3.9
Cash, end of year	**$ 0.3**	$ 0.1	$ 6.9

Notes:

(a) Cash dividends paid to the Company by affiliates amounted to $1,306.4, $937.0, and $913.6 for the years ended December 31, 2006, 2005 and 2004, respectively.

SCHEDULE II

LOEWS CORPORATION AND SUBSIDIARIES

Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
(In millions)					
		For the Year Ended December 31, 2006			
Deducted from assets:					
Allowance for discounts	**$ 1.1**	**$ 136.7**		**$ 137.3(1)**	**$ 0.5**
Allowance for doubtful accounts	**972.2**	**73.9**	**$ 1.2**	**183.9**	**863.4**
Allowance for deferred taxes	**31.2**			**31.2**	**–**
Total	**$ 1,004.5**	**$ 210.6**	**$ 1.2**	**$ 352.4**	**$ 863.9**
		For the Year Ended December 31, 2005			
Deducted from assets:					
Allowance for discounts	$ 1.1	$ 131.6		$ 131.6(1)	$ 1.1
Allowance for doubtful accounts	1,056.1	114.7	$ 0.4	199.0	972.2
Allowance for deferred taxes	43.4			12.2	31.2
Total	$ 1,100.6	$ 246.3	$ 0.4	$ 342.8	$ 1,004.5
		For the Year Ended December 31, 2004			
Deducted from assets:					
Allowance for discounts	$ 1.0	$ 135.2		$ 135.1(1)	$ 1.1
Allowance for doubtful accounts	955.1	317.1	$ 5.6	221.7	1,056.1
Allowance for deferred taxes	10.2	33.1	0.1		43.4
Total	$ 966.3	$ 485.4	$ 5.7	$ 356.8	$ 1,100.6

(1)Discounts allowed.

SCHEDULE V

LOEWS CORPORATION AND SUBSIDIARIES

Supplemental Information Concerning Property and Casualty Insurance Operations

Consolidated Property and Casualty Operations

December 31		2006		2005
(In millions)				
Deferred acquisition costs	$	1,190	$	1,197
Reserves for unpaid claim and claim adjustment expenses		29,459		30,694
Discount deducted from claim and claim adjustment expense reserves above (based on interest rates ranging from 3.5% to 7.5%)		1,648		1,739
Unearned premiums		3,784		3,706

Year Ended December 31		2006		2005		2004
(In millions)						
Net written premiums	$	7,655	$	7,509	$	7,594
Net earned premiums		7,595		7,558		7,925
Net investment income		2,035		1,595		1,266
Incurred claim and claim adjustment expenses related to current year		4,837		5,054		5,118
Incurred claim and claim adjustment expenses related to prior years		332		1,107		234
Amortization of deferred acquisition costs		1,534		1,541		1,641
Paid claim and claim adjustment expenses		4,165		3,541		5,401

Exhibit 10.23

February 15, 2007

Mr. Andrew H. Tisch
667 Madison Avenue
New York, New York 10021

Dear Mr. Tisch:

Reference is made to your Employment Agreement with Loews Corporation (the "Company"), dated January 1, 1999, as amended by agreements dated as of January 1, 2002, January 1, 2003, January 1, 2004 and as of February 11, 2005 (the "Employment Agreement").

This will confirm our agreement that the Employment Agreement is amended as follows:

1. Term of Employment. The period of your employment under and pursuant to the Employment Agreement is hereby extended for an additional period through and including March 31, 2008 upon all the terms, conditions and provisions of the Employment Agreement, as hereby amended.

2. Compensation. You shall be paid as basic compensation (the "Basic Compensation") for your services to the Company and its subsidiaries under and pursuant to the Employment Agreement a salary at the rate of Nine Hundred Seventy-Five Thousand ($975,000) Dollars per annum through March 31, 2008. Basic Compensation shall be payable in accordance with the Company's customary payroll practices as in effect from time to time, and shall be subject to such increases as the Board of Directors of the Company, in its sole discretion, may from time to time determine.

3. Incentive Compensation Plan. In addition to receipt of Basic Compensation under the Employment Agreement, you shall participate in the Incentive Compensation Plan for Executive Officers of the Company (the "Compensation Plan") and shall be eligible to receive incentive compensation under the Compensation Plan as may be awarded in accordance with its terms.

4. Other Compensation. The compensation provided pursuant to this Letter Agreement shall be exclusive of compensation and fees, if any, to which you may be entitled as an officer or director of a subsidiary of the Company.

Except as herein modified or amended, the Employment Agreement shall remain in full force and effect.

If the foregoing is in accordance with your understanding, would you please sign the enclosed duplicate copy of this Letter Agreement at the place indicated below and return the same to us for our records.

Very truly yours,

LOEWS CORPORATION

By: /s/ Gary W. Garson
Gary W. Garson
Senior Vice President

ACCEPTED AND AGREED TO:

/s/ Andrew H. Tisch
Andrew H. Tisch

February 15, 2007

Mr. James S. Tisch
667 Madison Avenue
New York, New York 10021

Dear Mr. Tisch:

Reference is made to your Employment Agreement with Loews Corporation (the “Company”), dated January 1, 1999, as amended by agreements dated as of January 1, 2002, January 1, 2003, January 1, 2004 and as of February 11, 2005 (the “Employment Agreement”).

This will confirm our agreement that the Employment Agreement is amended as follows:

1. Term of Employment. The period of your employment under and pursuant to the Employment Agreement is hereby extended for an additional period through and including March 31, 2008 upon all the terms, conditions and provisions of the Employment Agreement, as hereby amended.

2. Compensation. You shall be paid as basic compensation (the “Basic Compensation”) for your services to the Company and its subsidiaries under and pursuant to the Employment Agreement a salary at the rate of Nine Hundred Seventy-Five Thousand ($975,000) Dollars per annum through March 31, 2008. Basic Compensation shall be payable in accordance with the Company’s customary payroll practices as in effect from time to time, and shall be subject to such increases as the Board of Directors of the Company, in its sole discretion, may from time to time determine.

3. Incentive Compensation Plan. In addition to receipt of Basic Compensation under the Employment Agreement, you shall participate in the Incentive Compensation Plan for Executive Officers of the Company (the “Compensation Plan”) and shall be eligible to receive incentive compensation under the Compensation Plan as may be awarded in accordance with its terms.

4. Other Compensation. The compensation provided pursuant to this Letter Agreement shall be exclusive of compensation and fees, if any, to which you may be entitled as an officer or director of a subsidiary of the Company.

Except as herein modified or amended, the Employment Agreement shall remain in full force and effect.

If the foregoing is in accordance with your understanding, would you please sign the enclosed duplicate copy of this Letter Agreement at the place indicated below and return the same to us for our records.

Very truly yours,

LOEWS CORPORATION

By: /s/ Gary W. Garson
Gary W. Garson
Senior Vice President

ACCEPTED AND AGREED TO:

/s/ James S. Tisch
James S. Tisch

Exhibit 10.41

February 15, 2007

Mr. Jonathan M. Tisch
667 Madison Avenue
New York, New York 10021

Dear Mr. Tisch:

Reference is made to your Employment Agreement with Loews Corporation (the "Company"), dated January 1, 1999, as amended by agreements dated as of January 1, 2002, January 1, 2003, January 1, 2004 and as of February 11, 2005 (the "Employment Agreement").

This will confirm our agreement that the Employment Agreement is amended as follows:

1. Term of Employment. The period of your employment under and pursuant to the Employment Agreement is hereby extended for an additional period through and including March 31, 2008 upon all the terms, conditions and provisions of the Employment Agreement, as hereby amended.

2. Compensation. You shall be paid as basic compensation (the "Basic Compensation") for your services to the Company and its subsidiaries under and pursuant to the Employment Agreement a salary at the rate of Nine Hundred Seventy-Five Thousand ($975,000) Dollars per annum through March 31, 2008. Basic Compensation shall be payable in accordance with the Company's customary payroll practices as in effect from time to time, and shall be subject to such increases as the Board of Directors of the Company, in its sole discretion, may from time to time determine.

3. Incentive Compensation Plan. In addition to receipt of Basic Compensation under the Employment Agreement, you shall participate in the Incentive Compensation Plan for Executive Officers of the Company (the "Compensation Plan") and shall be eligible to receive incentive compensation under the Compensation Plan as may be awarded in accordance with its terms.

4. Other Compensation. The compensation provided pursuant to this Letter Agreement shall be exclusive of compensation and fees, if any, to which you may be entitled as an officer or director of a subsidiary of the Company.

Except as herein modified or amended, the Employment Agreement shall remain in full force and effect.

If the foregoing is in accordance with your understanding, would you please sign the enclosed duplicate copy of this Letter Agreement at the place indicated below and return the same to us for our records.

Very truly yours,

LOEWS CORPORATION

By: /s/ Gary W. Garson
Gary W. Garson
Senior Vice President

ACCEPTED AND AGREED TO:

/s/ Jonathan M. Tisch
Jonathan M. Tisch

Exhibit 21.01

LOEWS CORPORATION

Subsidiaries of the Registrant

December 31, 2006

Name of Subsidiary	Organized Under Laws of		Business Names
CNA Financial Corporation	Delaware	)	
The Continental Corporation	New York	)	CNA Insurance
Continental Casualty Company	Illinois	)	
Lorillard, Inc.	Delaware	)	Lorillard
Lorillard Tobacco Company	Delaware	)	
Diamond Offshore Drilling, Inc.	Delaware	)	Diamond Offshore Drilling, Inc.

The names of certain subsidiaries which, if considered as a single subsidiary, would not constitute a “significant subsidiary” as defined in Regulation S-X, have been omitted.

Exhibit 23.01

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-129772, 333-84084, and 333-33616 on Form S-8 and Registration Statement No. 333-132334 on Form S-3 of our reports dated February 22, 2007 relating to the consolidated financial statements and financial statement schedules of Loews Corporation (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in method of accounting for defined benefit pension and other postretirement plans as described in Note 1) and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Loews Corporation for the year ended December 31, 2006.

DELOITTE & TOUCHE LLP
New York, NY
February 22, 2007

Exhibit 31.01

I, James S. Tisch, certify that:

1. I have reviewed this annual report on Form 10-K of Loews Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: February 23, 2007

By: /s/ James S. Tisch
JAMES S. TISCH
Chief Executive Officer

Exhibit 31.02

I, Peter W. Keegan, certify that:

1. I have reviewed this annual report on Form 10-K of Loews Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 23, 2007

By: /s/ Peter W. Keegan
PETER W. KEEGAN
Chief Financial Officer

Exhibit 32.01

Certification by the Chief Executive Officer
of Loews Corporation pursuant to 18 U.S.C. Section 1350
(as adopted by Section 906 of the
Sarbanes-Oxley Act of 2002)

Pursuant to 18 U.S.C. Section 1350, the undersigned chief executive officer of Loews Corporation (the "Company") hereby certifies, to such officer's knowledge, that the Company's annual report on Form 10-K for the year ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 23, 2007

By: /s/ James S. Tisch
JAMES S. TISCH
Chief Executive Officer

Exhibit 32.02

Certification by the Chief Financial Officer
of Loews Corporation pursuant to 18 U.S.C. Section 1350
(as adopted by Section 906 of the
Sarbanes-Oxley Act of 2002)

Pursuant to 18 U.S.C. Section 1350, the undersigned chief financial officer of Loews Corporation (the “Company”) hereby certifies, to such officer’s knowledge, that the Company’s annual report on Form 10-K for the year ended December 31, 2006 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 23, 2007

By: /s/ Peter W. Keegan
PETER W. KEEGAN
Chief Financial Officer

Exhibit 99.01

PENDING TOBACCO LITIGATION

CLASS ACTION CASES:

The following Class Action cases were pending against Lorillard as of December 31, 2006, through February 16, 2007:

The case of *Willard Brown v. The American Tobacco Company, et al.* (Superior Court, San Diego County, California, filed June 10, 1997).

The case of *Cleary v. Philip Morris Incorporated, et al.* (Circuit Court, Cook County, Illinois, filed June 3, 1998).

The case of *Cypret v. The American Tobacco Company, et al.* (Circuit Court, Jackson County, Missouri, filed May 5, 1999). The Company is a defendant in the case.

The case of *Daniels v. Philip Morris Incorporated, Inc, et al.* (Superior Court, San Diego County, California, filed April 2, 1998).

The case of *Engle v. R.J. Reynolds Tobacco Company, et al.* (Circuit Court, Miami-Dade County, Florida, filed May 5, 1994).

The case of *Lowe v. Philip Morris Incorporated, et al.* (Circuit Court, Multnomah County, Oregon, filed November 19, 2001). During 2003, the court granted defendants' motion to dismiss the complaint. Plaintiffs have appealed.

The case of *Parsons v. AC&S Inc., et al.* (Circuit Court, Ohio County, West Virginia, filed February 27, 1998).

The case of *Schwab v. Philip Morris USA, Inc., et al.* (U.S. District Court, Eastern District, New York, filed May 11, 2004).

The case of *Scott v. The American Tobacco Company, et al.* (District Court, Orleans Parish, Louisiana, filed May 24, 1996).

The case of *Young v. The American Tobacco Company, Inc., et al.* (District Court, Orleans Parish, Louisiana, filed November 12, 1997). The Company is a defendant in the case.

REIMBURSEMENT CASES:

The following Reimbursement cases were pending against Lorillard as of December 31, 2006, through February [date forthcoming], 2007:

The case of *City of St. Louis [Missouri] v. American Tobacco Co., Inc., et al.* (Circuit Court, City of St. Louis, Missouri, filed November 25, 1998). As many as 50 Missouri hospitals or hospital districts also are plaintiffs in this matter.

The case of *Crow Creek Sioux Tribe v. The American Tobacco Company, et al.* (Tribal Court, Crow Creek Sioux Tribe, filed September 14, 1997).

The case of *United Seniors Association, Inc., as a private attorney general v. Philip Morris USA, et al.* (U.S. District Court, Massachusetts, filed August 4, 2005). During 2006, the court granted defendants’ motion to dismiss. Plaintiffs have appealed.

The case of *United States of America v. Philip Morris Incorporated, et al.* (U.S. District Court, District of Columbia, filed September 22, 1999).

In addition, a Private Company Reimbursement Case has been filed outside the U.S.:

Clalit Health Services v. Philip Morris Inc., et al. (District Court, Jerusalem, Israel). The Company is a defendant in this action.

ANTITRUST CLAIMS -

The case of *Romero, et al v. Philip Morris, et al.* (District Court, Rio Arriba County, New Mexico, filed February 9, 2000).

The case of *Smith v. Philip Morris, et al.* (District Court, Seward County, Kansas, filed February 7, 2000).

The case of *Sanders v. Lockyer, et al.* (N.D. Cal., filed June 9, 2004).