

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6541

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-2646102  
(I.R.S. Employer  
Identification No.)

667 Madison Avenue, New York, N.Y.  
(Address of principal executive offices)

10021-8087  
(Zip code)

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

NOT APPLICABLE  
(Former name, former address and former fiscal year, if changed since last  
report)

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 ☒ No ☐  
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Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐  
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Class	Outstanding at August 1, 2003
Common stock, \$1.00 par value	185,447,050 shares
Carolina Group stock, \$0.01 par value	39,910,000 shares

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

Loews Corporation and Subsidiaries  
CONSOLIDATED CONDENSED BALANCE SHEETS

(In millions)

	June 30, 2003	December 31, 2002
<b>Assets</b>		
<b>Investments:</b>		
Fixed maturities, amortized cost of \$20,535.3 and \$26,688.8	\$31,326.0	\$27,433.7
Equity securities, cost of \$743.8 and \$1,002.8	975.4	1,120.5
Other investments	1,522.2	1,420.8
Short term investments	9,192.5	10,161.7
Total investments	43,016.1	40,136.7
Cash	187.7	185.4
Receivables net	17,740.6	16,601.0
Property, plant and equipment net	3,896.2	3,138.2
Deferred income taxes	139.3	627.2
Goodwill	446.7	177.8
Other assets	4,224.3	3,999.2
Deferred acquisition costs of insurance subsidiaries	2,620.2	2,551.4
Separate account business	3,428.9	3,102.7
Total assets	\$75,700.0	\$70,519.6

**Liabilities and Shareholders' Equity:**

<b>Insurance reserves:</b>		
Claim and claim adjustment expense	\$27,943.9	\$27,369.9
Future policy benefits	7,759.2	7,408.9
Unearned premiums	5,198.3	4,820.0
Policyholders' funds	550.2	580.1
Total insurance reserves	41,451.6	40,178.9
Payable for securities purchased	2,118.1	799.1
Securities sold under agreements to repurchase	1,389.9	552.4
Long term debt, less unamortized discount	6,076.4	5,651.9
Reinsurance balances payable	2,840.1	2,763.3
Other liabilities	4,206.4	4,340.8
Separate account business	3,428.9	3,102.7
Total liabilities	61,511.4	57,389.1
Minority interest	1,956.2	1,895.3
Shareholders' equity	12,232.4	11,235.2
Total liabilities and shareholders' equity	\$75,700.0	\$70,519.6

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(Restated)		(Restated)	
<b>Revenues:</b>				
Insurance premiums	\$ 2,195.6	\$ 2,825.3	\$ 4,575.8	\$ 5,661.5
Investment income, net of expense	445.2	539.9	901.8	1,002.9
Investment gains (losses)	419.3	(195.0)	323.7	(171.5)
Manufactured products (including exercise taxes of \$163.4, \$176.1, \$320.3 and \$356.5)	814.3	1,068.0	1,698.3	2,072.8

Other	375.9	413.3	699.9	878.1
Total	4,250.3	4,651.5	8,199.5	9,443.8
<hr/>				
Expenses:				
Insurance claims and policyholders' benefits	2,066.9	2,382.2	3,936.7	4,692.3
Amortization of deferred acquisition costs	481.0	461.4	939.2	901.5
Cost of manufactured products sold	475.7	600.5	956.9	1,208.2
Other operating expenses	848.6	793.5	1,633.0	1,668.8
Interest	75.7	78.2	149.4	154.7
Total	3,947.9	4,315.8	7,615.2	8,625.5
<hr/>				
	302.4	335.7	584.3	818.3
<hr/>				
Income tax expense	87.9	122.6	180.8	293.8
Minority interest	(0.3)	14.3	(1.3)	42.3
Total	87.6	136.9	179.5	336.1
<hr/>				
Income from continuing operations	214.8	198.8	404.8	482.2
Discontinued operations net				(31.0)
Cumulative effect of change in accounting principle net				(39.6)
<hr/>				
Net income	\$ 214.8	\$ 198.8	\$ 404.8	\$ 411.6
<hr/>				
Net income attributable to:				
Loews common stock:				
Income from continuing operations	\$ 189.8	\$ 157.4	\$ 351.2	\$ 422.8
Discontinued operations net				(31.0)
Cumulative effect of change in accounting principle net				(39.6)
<hr/>				
Loews common stock	189.8	157.4	351.2	352.2
Carolina Group stock	25.0	41.4	53.6	59.4
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Total	\$ 214.8	\$ 198.8	\$ 404.8	\$ 411.6
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Loews Corporation and Subsidiaries  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Continued)

(In millions, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Income per share of Loews common stock:				
Income from continuing operations	\$ 1.02	\$ 0.84	\$ 1.89	\$ 2.23
Discontinued operations net				(0.16)
Cumulative effect of change in accounting principle net				(0.21)
Net income	\$ 1.02	\$ 0.84	\$ 1.89	\$ 1.86
<hr/>				
Net income per share of Carolina Group stock	\$ 0.63	\$ 1.03	\$ 1.34	\$ 1.48
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Weighted average number of shares outstanding:

Loews common stock	185.45	188.19	185.45	189.63
Carolina Group stock	39.91	40.25	39.91	40.25

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

Six Months Ended

June 30,

	2003	2002
	Restated	
Operating Activities:		
Net income	\$ 404.8	\$ 411.6
Adjustments to reconcile net income to net cash used in operating activities net	(189.1)	206.8
Loss on disposal of discontinued operations		33.5
Cumulative effect of change in accounting principle net		39.6
Changes in assets and liabilities net:		
Reinsurance receivable	(657.3)	48.2
Other receivables	(26.7)	(36.5)
Federal income taxes	(250.4)	873.0
Prepaid reinsurance premiums	(115.6)	(228.5)
Deferred acquisition costs	(96.7)	(91.7)
Insurance reserves and claims	1,276.2	(225.4)
Reinsurance balances payable	76.8	(4.0)
Other liabilities	(133.9)	(6.2)
Trading securities	206.1	(400.2)
Other net	80.4	172.8
	574.6	793.0

**Investing Activities:**

Purchases of fixed maturities	(39,296.3)	(39,678.8)
Proceeds from sales of fixed maturities	34,363.7	35,840.7
Proceeds from maturities of fixed maturities	3,086.9	2,719.8
Securities sold under agreements to repurchase	837.5	1,530.6
Purchases of equity securities	(203.7)	(548.2)
Proceeds from sales of equity securities	279.2	516.3
Change in short term investments	1,437.1	(1,545.3)
Purchases of property, plant and equipment	(289.7)	(189.8)
Proceeds from sales of property, plant and equipment	3.4	92.8
Change in other investments	(29.4)	(162.4)
Purchase of Texas Gas	(802.8)	
	(614.1)	(1,424.3)

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## Loews Corporation and Subsidiaries

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

	Six Months Ended	
	June 30,	
	2003	2002
	Restated	
Financing Activities:		
Dividends paid to Loews shareholders	\$ (91.6)	\$ (75.0)
Dividends paid to minority interests	(15.1)	(20.0)
Issuance of Loews common stock	0.2	0.5
Issuance of Carolina Group stock		1,069.6
Purchases of Loews treasury shares		(309.2)
Purchases of treasury shares by subsidiaries		(16.9)
Principal payments on long term debt	(543.6)	(0.5)
Issuance of long term debt	706.4	
Receipts credited to policyholders	0.6	0.3
Withdrawals of policyholders account balances	(13.2)	(26.3)
Other	(1.9)	9.6
	41.8	632.1
Net change in cash	2.3	0.8
Cash, beginning of period	185.4	181.3
Cash, end of period	\$ 187.7	\$ 182.1

See accompanying Notes to Consolidated Condensed Financial Statements.

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## Loews Corporation and Subsidiaries

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## 1. Basis of Presentation

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

~~—In May of 2003, a subsidiary of the Company acquired 100% of the capital stock of Texas Gas Transmission Corporation (now known as Texas Gas Transmission, LLC) from The Williams Companies, Inc. The transaction value was approximately \$1.05 billion. See Note 9 for additional discussion of the Texas Gas acquisition.~~

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

~~—In the opinion of management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2003 and December 31, 2002 and the results of operations for the three and six months ended June 30, 2003 and 2002 and changes in cash flows for the six months ended June 30, 2003 and 2002.~~

~~—Results of operations for the second quarter and the first half of each of the years reported herein is not necessarily indicative of results of operations for that entire year.~~

~~—Reference is made to the Notes to Consolidated Financial Statements in the 2002 Annual Report to Shareholders on Form 10-K which should be read in conjunction with these consolidated condensed financial statements.~~

~~—Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 2003.~~

~~—Restatement for CNA's Life Settlement Contract Accounting—As a result of a routine review of CNA's periodic filings by the Division of Corporation Finance of the Securities and Exchange Commission, the Company has restated its results of operations prior to September 30, 2002. The restated financial statements reflect an adjustment to the Company's historical accounting for CNA's investment in life settlement contracts and the related revenue recognition. The impact of this adjustment on operating results was insignificant.~~

~~—Accounting Changes—Effective January 1, 2002, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company recorded a \$39.6 million goodwill impairment charge as a cumulative effect of a change in accounting principle, adjusted to reflect purchase accounting adjustments, net of income taxes and minority~~

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~~interest of \$5.8 and \$6.4 million, respectively, primarily related to CNA's Specialty Lines and Life Operations.~~

~~—In June of 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long lived assets that result from the acquisition, construction, development and/or the normal operation of a long lived asset, except for certain obligations of lessees. Adoption of this Statement in January 2003 has not had a material impact on the Company's results of operations or equity.~~

~~—In January of 2003, the FASB issued Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Prior to the issuance of this Interpretation, ARB No. 51 defined a controlling financial interest as ownership of a majority voting interest. FIN 46 requires an entity to consolidate a variable interest entity even though the entity does not, either directly or indirectly, own more than 50% of the outstanding voting shares. FIN 46 defines a variable interest entity as having one or both of the following characteristics (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (2) the equity investors lack one or more of the following (a) the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, (b) the obligation to absorb the expected losses of the entity, if they occur, which makes it possible for the entity to finance its activities and (c) the right to receive the expected residual returns of the entity, if they occur, which is the compensation for the risk of absorbing the expected losses. FIN 46 applies immediately to variable interest entities created after~~

January 31, 2003, and for variable interest entities created before February 1, 2003, no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The Company is currently evaluating the impact FIN 46 may have on its consolidated financial statements.

On April 30, 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is currently in the process of evaluating the impact SFAS No. 149 may have on its consolidated condensed financial statements.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 modifies the accounting and financial statement disclosures of three types of financial instruments that, under previous guidance, issuers could account for as equity. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003 and to other instruments as of September 1, 2003. The Company does not have any financial instruments outstanding to which the provisions of SFAS No. 150 apply, therefore the adoption of SFAS No. 150 is

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not expected to have a material impact on the equity or results of operations of the Company.

Stock option plans The Company has 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 is recognized when the exercise prices of options equals the fair value (market price) of the underlying stock on the date of grant.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the Company to disclose pro forma information regarding option grants made to its employees. SFAS No. 123 specifies certain valuation techniques that produce estimated compensation charges for purposes of valuing stock option grants. These amounts have not been included in the Company's Consolidated Condensed Statements of Income, in accordance with APB No. 25. Several of the Company's subsidiaries also maintain their own stock option plans. The pro forma effect of applying SFAS No. 123 includes 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 share of Loews common stock and Carolina Group stock would have been as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions, except per share data)				

#### Net income:

#### Loews common stock:

Net income as reported	\$ 189.8	\$ 157.4	\$ 351.2	\$ 352.2
Deduct: Total stock-based employee compensation expense determined under the fair value based method, net	(1.3)	(1.0)	(2.5)	(1.9)
Pro forma net income	\$ 188.5	\$ 156.4	\$ 348.7	\$ 350.3

#### Carolina Group stock:

Net income as reported	\$ 25.0	\$ 41.4	\$ 53.6	\$ 59.4
Deduct: Total stock-based employee compensation expense determined under the fair value based method, net				
Pro forma net income	\$ 25.0	\$ 41.4	\$ 53.6	\$ 59.4

#### Net income per share:

#### Loews common stock:

As reported	\$ 1.02	\$ 0.84	\$ 1.89	\$ 1.86
Pro forma	1.02	0.83	1.88	1.84

#### Carolina Group stock:

As reported	0.63	1.03	1.34	1.48
Pro forma	0.63	1.03	1.34	1.48

~~Comprehensive Income~~ Comprehensive income includes all changes to shareholders' equity, except those resulting from investments by shareholders and distributions to shareholders. For the three and six months ended June 30,

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2003 and 2002, comprehensive income totaled \$703.0, \$408.7, \$1,088.6 and \$380.0 million, respectively. Comprehensive income includes net income, unrealized appreciation (depreciation) of investments and foreign currency translation gains or losses.

## 2. Investments

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	(In millions)			
Investment income consisted of:				
Fixed maturity securities	\$ 426.1	\$ 510.0	\$ 855.5	\$ 967.1
Short term investments	26.0	27.4	54.5	57.8
Limited partnerships	74.4	37.7	97.7	44.6
Equity securities	6.7	8.7	12.0	16.9
Interest expense on funds withheld and other deposits	(93.5)	(56.4)	(140.2)	(114.5)
Other	29.1	27.2	65.5	61.6
Total investment income	468.8	554.6	945.0	1,033.3
Investment expenses	(23.6)	(14.7)	(43.2)	(30.4)
Investment income net	\$ 445.2	\$ 539.9	901.8	\$ 1,002.9
Investment gains (losses) are as follows:				
Trading securities:				
Derivative instruments	\$ (24.3)	\$ (13.2)	\$ (17.6)	\$ (3.2)
Equity securities, including short positions	45.9	(46.4)	8.6	(37.3)
	21.6	(59.6)	(9.0)	(40.5)
Other than trading:				
Fixed maturities	395.9	(170.3)	360.0	(163.4)
Equity securities	58.1	41.7	58.1	48.9
Short-term investments	(1.7)	26.4	3.6	33.7
Other, including guaranteed separate account business	(54.6)	(33.2)	(89.0)	(50.2)
Investment gains (losses)	419.3	(195.0)	323.7	(171.5)
Income tax (expense) benefit	(144.1)	68.4	(110.0)	61.9
Minority interest	(24.5)	8.7	(19.6)	7.5
Investment gains (losses) net	\$ 250.7	\$ (117.9)	\$ 194.1	\$ (102.1)

~~Realized investment losses included \$31.0, \$292.0, \$286.0 and \$310.0 million of pretax other than temporary impairment losses for the three and six months ended June 30, 2003 and 2002. The impairment losses recorded for the three and six months ended June 30, 2003 were primarily for securities in certain market sectors, including the airline, healthcare and energy industries. For the three and six months ended June 30, 2002, the impairment losses recorded related primarily to the credit deterioration of a specific equity holding.~~

## 3. 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~~

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~~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. For the three and six months ended June 30, 2003 and 2002, income per common share assuming dilution is the same as basic income per share because the impact of securities that could potentially dilute basic income per common share is insignificant or antidilutive for the periods presented.~~

~~Options to purchase 0.88, 0.30, 0.84 and 0.25 million shares of Loews common stock were outstanding for the three and six months ended June 30, 2003 and 2002, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the~~

~~The attribution of income to each class of common stock was as follows:~~

~~Loews common stock:~~

~~Carolina Group stock:~~

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#### ~~4. 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. During the year ended December 31, 2002, the Company purchased, for the account of the Carolina Group, 340,000 shares of Carolina Group stock. As of June 30, 2003, the outstanding Carolina Group stock represents a 23.01% 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 23.01% 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.~~

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Carolina Group					Adjustments	
	Lorillard	Other	Consolidated	Loews and Group	Eliminations	Total
June 30, 2003						

(In millions)



## Assets:

Investments	\$1,596.2	\$ 149.8	\$ 1,746.0	\$ 41,270.1		\$43,016.1
Cash	1.4	0.6	2.0	185.7		187.7
Receivables net	26.4	0.2	26.6	17,746.0	\$ (32.0)(a)	17,740.6
Property, plant and equipment net	205.7		205.7	3,690.5		3,896.2
Deferred income taxes	461.9		461.9		(322.6)(c)	139.3
Goodwill				446.7		446.7
Other assets	435.4		435.4	3,788.0		4,224.3
Investment in combined attributed net assets of the Carolina Group				1,714.3	(2,336.0)(a)	621.7 (b)
Deferred acquisition costs of insurance subsidiaries				2,620.2		2,620.2
Separate account business				3,428.0		3,428.0
Total assets	\$2,727.0	\$ 150.6	\$ 2,877.6	\$ 74,891.3	\$ (2,068.9)	\$75,700.0

## Liabilities and Shareholders' Equity:

Insurance reserves				\$ 41,451.6		\$41,451.6
Payable for securities purchased				2,118.1		2,118.1
Securities sold under agreements to repurchase				1,389.0		1,389.0
Long term debt, less unamortized discount		\$ 2,336.0	\$ 2,336.0	6,076.4	\$ (2,336.0)(a)	6,076.4
Deferred income taxes				322.6	(322.6)(c)	
Reinsurance balances payable				2,840.1		2,840.1
Other liabilities	\$1,327.8	21.3	1,349.1	2,889.3	(32.0)(a)	4,206.4
Separate account business				3,428.0		3,428.0
Total liabilities	1,327.8	2,357.3	3,685.1	60,516.9	(2,690.6)	61,511.4
Minority interest				1,956.2		1,956.2
Shareholders' equity	1,399.2	(2,206.7)	(807.5)	12,418.2	621.7 (b)	12,232.4
Total liabilities and shareholders' equity	\$2,727.0	\$ 150.6	\$ 2,877.6	\$ 74,891.3	\$ (2,068.9)	\$75,700.0

(a) To eliminate the intergroup notional debt and interest payable/receivable.

(b) To eliminate the Loews Group's 76.99% equity interest in the combined attributed net assets of the Carolina Group.

(c) To reclass debit and credit balances to the amounts in consolidation.

Loews and Carolina Group  
Consolidating Condensed Balance Sheet Information

	Carolina Group			Adjustments			
	Lorillard	Other	Consolidated	Loews Group	and Eliminations	Total	
(In millions)							
Assets:							
Investments	\$ 1,640.7	\$ 150.3	\$1,791.0	\$38,345.7		\$40,136.7	
Cash	2.0	0.2	2.2	183.2		185.4	
Receivables net	30.2		30.2	16,603.9	\$ (33.1) (a)	16,601.0	
Property, plant and equipment net	197.8		197.8	2,940.4		3,138.2	
Deferred income taxes	437.0		437.0	190.2		627.2	
Goodwill				177.8		177.8	
Other assets	469.2		469.2	3,530.0		3,999.2	
Investment in combined attributed net assets of the Carolina Group				1,757.9	(2,438.1) (a)	680.2 (b)	
Deferred acquisition costs of insurance subsidiaries				2,551.4		2,551.4	
Separate account business				3,102.7		3,102.7	
Total assets	\$ 2,776.9	\$ 150.5	\$2,927.4	\$69,383.2	\$(1,791.0)	\$70,519.6	

## Liabilities and Shareholders' Equity:

Insurance reserves				\$40,178.9		\$40,178.9
Payable for securities						
—purchased				799.1		799.1
Securities sold under						
—agreements to repurchase				552.4		552.4
Long term debt, less						
—unamortized discount	\$ 2,438.1	\$ 2,438.1	5,651.9	\$(2,438.1)	(a)	5,651.9
Reinsurance balances						
—payable				2,763.3		2,763.3
Other liabilities	\$ 1,352.1	20.7	1,372.8	3,001.1	(33.1)	(a) 4,340.8
Separate account business				3,102.7		3,102.7
<hr/>						
Total liabilities	1,352.1	2,458.8	3,810.9	56,049.4	(2,471.2)	57,389.1
Minority interest				1,895.3		1,895.3
Shareholders' equity	1,424.8	(2,308.3)	(883.5)	11,438.5	680.2	(b) 11,235.2
<hr/>						
Total liabilities and						
—shareholders' equity	\$ 2,776.9	\$ 150.5	\$ 2,927.4	\$69,383.2	\$(1,791.0)	\$70,519.6
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(a) To eliminate the intergroup notional debt and interest payable/receivable.

(b) To eliminate the Loews Group's 76.99% equity interest in the combined attributed net assets of the Carolina Group.

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Loews and Carolina Group  
Consolidating Condensed Statement of Income Information

Carolina Group				Adjustments		Total
Three Months Ended				Loews	and	
—June 30, 2003	Lorillard	Other	Consolidated	Group	Eliminations	
(In millions)						
<hr/>						
Revenues:						
<hr/>						
Insurance premiums				\$2,195.6		\$2,195.6
Investment income, net	\$ 10.6	\$ 0.6	\$ 11.2	481.3	\$(47.3)(a)	445.2
Investment (losses) gains	(2.1)		(2.1)	421.4		419.3
Manufactured products	780.9		780.9	33.4		814.3
Other				375.9		375.9
<hr/>						
Total	789.4	0.6	790.0	3,507.6	(47.3)	4,250.3
<hr/>						
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Expenses:						
<hr/>						
Insurance claims and						
—policyholders' Benefits				2,066.0		2,066.0
Amortization of deferred						
—acquisition costs				481.0		481.0
Cost of manufactured						
—products sold	461.7		461.7	14.0		475.7
Other operating expenses (b)	113.4	0.1	113.5	735.1		848.6
Interest		47.3	47.3	75.7	(47.3)(a)	75.7
<hr/>						
Total	575.1	47.4	622.5	3,372.7	(47.3)	3,947.9
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	214.3	(46.8)	167.5	134.9		302.4
<hr/>						
Income tax expense (benefit)	75.7	(16.6)	59.1	28.8		87.9
Minority interest				(0.3)		(0.3)
<hr/>						
Total	75.7	(16.6)	59.1	28.5		87.6
<hr/>						
Income from operations	138.6	(30.2)	108.4	106.4		214.8
Equity in earnings of the						
—Carolina Group				83.4	(83.4)(c)	
<hr/>						
Net income	\$ 138.6	\$(30.2)	\$ 108.4	\$ 189.8	\$(83.4)	\$ 214.8
<hr/>						

(a) To eliminate interest on the intergroup notional debt.

(b) Includes \$0.1 of expenses allocated by the Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.

(c) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

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Loews and Carolina Group  
Consolidating Condensed Statement of Income Information

Three Months Ended June 30, 2002	Carolina Group			Adjustments and		Total
	Lorillard	Other	Consolidated	Loews Group	Eliminations	
(In millions)				(Restated)		(Restated)
Revenues:						
Insurance premiums				\$2,825.3		\$2,825.3
Investment income, net	\$ 10.3	\$ 0.3	\$ 10.6	579.3	\$ (50.0)(a)	539.9
Investment gains (losses)	7.8		7.8	(202.8)		(195.0)
Manufactured products	1,026.9		1,026.9	41.1		1,068.0
Other	0.7		0.7	412.6		413.3
Total	1,045.7	0.3	1,046.0	3,655.5	(50.0)	4,651.5
Expenses:						
Insurance claims and policyholders' benefits				2,382.2		2,382.2
Amortization of deferred acquisition costs				461.4		461.4
Cost of manufactured products sold	580.6		580.6	19.9		600.5
Other operating expenses (b)	119.5		119.5	674.0		793.5
Interest		50.0	50.0	78.2	(50.0)(a)	78.2
Total	700.1	50.0	750.1	3,615.7	(50.0)	4,315.8
	345.6	(49.7)	295.9	39.8		335.7
Income tax expense (benefit)	136.6	(19.5)	117.1	5.5		122.6
Minority interest				14.3		14.3
Total	136.6	(19.5)	117.1	19.8		136.9
Income from operations	209.0	(30.2)	178.8	20.0		198.8
Equity in earnings of the Carolina Group				137.4	(137.4)(c)	
Net income	\$ 209.0	\$(30.2)	\$ 178.8	\$ 157.4	\$(137.4)	\$ 198.8

(a) To eliminate interest on the intergroup notional debt.

(b) Includes \$0.1 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and \$0.1 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.

(c) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

**Loews and Carolina Group  
Consolidating Condensed Statement of Income Information**

Six Months Ended June 30, 2003	Carolina Group			Adjustments and		Total
	Lorillard	Other	Consolidated	Loews Group	Eliminations	
(In millions)						
Revenues:						
Insurance premiums				\$4,575.8		\$4,575.8
Investment income, net	\$ 18.5	\$ 1.2	\$ 19.7	977.6	\$ (95.5)(a)	901.8
Investment (losses) gains	(1.8)		(1.8)	325.5		323.7
Manufactured products	1,625.1		1,625.1	73.2		1,698.3
Other	(0.2)		(0.2)	700.1		699.9
Total	1,641.6	1.2	1,642.8	6,652.2	(95.5)	8,199.5
Expenses:						
Insurance claims and policyholders' benefits				3,936.7		3,936.7
Amortization of deferred acquisition costs				939.2		939.2
Cost of manufactured products sold	921.4		921.4	35.5		956.9
Other operating expenses (b)	254.6	0.2	254.8	1,378.2		1,633.0
Interest		95.5	95.5	149.4	(95.5)(a)	149.4
Total	1,176.0	95.7	1,271.7	6,439.0	(95.5)	7,615.2

	465.6	(94.5)	371.1	213.2	584.3
Income tax expense					
(benefit)	173.5	(35.2)	138.3	42.5	180.8
Minority interest				(1.3)	(1.3)
Total	173.5	(35.2)	138.3	41.2	179.5
Income from operations	292.1	(59.3)	232.8	172.0	404.8
Equity in earnings of the					
Carolina Group				179.2	(179.2)(c)
Net income	\$ 292.1	\$(59.3)	\$ 232.8	\$ 351.2	\$(179.2)
	\$ 404.8				

(a) To eliminate interest on the intergroup notional debt.

(b) Includes \$0.1 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and \$0.1 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a service agreement, which eliminate in these consolidating statements.

(c) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group  
Consolidating Condensed Statement of Income Information

Six Months Ended	Carolina Group			Loews	Adjustments	
June 30, 2002	Lorillard	Other	Consolidated	Group	and Eliminations	Total
(In millions)				(Restated)		(Restated)
Revenues:						
Insurance premiums				\$5,661.5		\$5,661.5
Investment income, net	\$ 21.5	\$ 0.3	\$ 21.8	1,060.1	\$ (79.0)(a)	1,002.9
Investment gains (losses)	10.6		10.6	(182.1)		(171.5)
Manufactured products	2,000.0		2,000.0	72.8		2,072.8
Other	0.7		0.7	877.4		878.1
Total	2,032.8	0.3	2,033.1	7,489.7	(79.0)	9,443.8
Expenses:						
Insurance claims and						
policyholders' benefits				4,692.3		4,692.3
Amortization of deferred						
acquisition costs				901.5		901.5
Cost of manufactured						
products sold	1,172.0		1,172.0	35.3		1,208.2
Other operating expenses (b)	238.9	0.1	239.0	1,429.8		1,668.8
Interest		79.0	79.0	154.7	(79.0)(a)	154.7
Total	1,411.8	79.1	1,490.9	7,213.6	(79.0)	8,625.5
	621.0	(78.8)	542.2	276.1		818.3
Income tax expense (benefit)	243.5	(30.8)	212.7	81.1		293.8
Minority interest				42.3		42.3
Total	243.5	(30.8)	212.7	123.4		336.1
Income from operations	377.5	(48.0)	329.5	152.7		482.2
Equity in earnings of the						
Carolina Group				270.1	(270.1)(c)	
Income from continuing						
operations	377.5	(48.0)	329.5	422.8	(270.1)	482.2
Discontinued operations net				(31.0)		(31.0)
Cumulative effect of						
change in accounting						
principle net				(39.6)		(39.6)
Net income	\$ 377.5	\$(48.0)	\$ 329.5	\$ 352.2	\$(270.1)	\$ 411.6

(a) To eliminate interest on the intergroup notional debt.

(b) Includes \$0.1 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and \$0.1 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.

(c) 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~~

<del>Six Months Ended</del>	<del>Carolina Group</del>			<del>Adjustments</del>		
	<del>Lorillard</del>	<del>Other</del>	<del>Consolidated</del>	<del>Loews and Group</del>	<del>Eliminations</del>	<del>Total</del>
<del>June 30, 2003</del>						
<del>(In millions)</del>						
<del>Net cash provided (used)</del>						
<del>in operating activities</del>	<del>\$ 289.8</del>	<del>\$ (58.9)</del>	<del>\$ 230.9</del>	<del>\$ 463.8</del>	<del>\$(120.1)</del>	<del>\$ 574.6</del>
<del>Investing activities:</del>						
<del>Purchases of property and equipment</del>	<del>(27.8)</del>		<del>(27.8)</del>	<del>(261.9)</del>		<del>(289.7)</del>
<del>Proceeds from sales of property and equipment</del>				<del>3.4</del>		<del>3.4</del>
<del>Change in short-term investments</del>	<del>54.4</del>	<del>0.5</del>	<del>54.9</del>	<del>1,382.2</del>		<del>1,437.1</del>
<del>Other investing activities</del>				<del>(1,662.8)</del>	<del>(102.1)</del>	<del>(1,764.9)</del>
	<del>26.6</del>	<del>0.5</del>	<del>27.1</del>	<del>(539.1)</del>	<del>(102.1)</del>	<del>(614.1)</del>
<del>Financing activities:</del>						
<del>Dividends paid to shareholders</del>	<del>(317.0)</del>	<del>160.9</del>	<del>(156.1)</del>	<del>(55.6)</del>	<del>120.1</del>	<del>(91.6)</del>
<del>Reduction of intergroup notional debt</del>		<del>(102.1)</del>	<del>(102.1)</del>		<del>102.1</del>	
<del>Other financing activities</del>				<del>133.4</del>		<del>133.4</del>
	<del>(317.0)</del>	<del>58.8</del>	<del>(258.2)</del>	<del>77.8</del>	<del>222.2</del>	<del>41.8</del>
<del>Net change in cash</del>	<del>(0.6)</del>	<del>0.4</del>	<del>(0.2)</del>	<del>2.5</del>		<del>2.3</del>
<del>Cash, beginning of period</del>	<del>2.0</del>	<del>0.2</del>	<del>2.2</del>	<del>183.2</del>		<del>185.4</del>
<del>Cash, end of period</del>	<del>\$ 1.4</del>	<del>\$ 0.6</del>	<del>\$ 2.0</del>	<del>\$ 185.7</del>		<del>\$ 187.7</del>

~~Loews and Carolina Group~~  
~~Consolidating Condensed Statement of Cash Flows Information~~

<del>Six Months Ended</del>	<del>Carolina Group</del>			<del>Adjustments</del>		
	<del>Lorillard</del>	<del>Other</del>	<del>Consolidated</del>	<del>Loews and Group</del>	<del>Eliminations</del>	<del>Total</del>
<del>June 30, 2002</del>						
<del>(In millions)</del>						
<del>Net cash provided (used)</del>						
<del>by operating activities</del>	<del>\$ 372.1</del>	<del>\$ (27.8)</del>	<del>\$ 344.3</del>	<del>\$ 608.1</del>	<del>\$ (159.4)</del>	<del>\$ 793.0</del>
<del>Investing activities:</del>						
<del>Purchases of property and equipment</del>	<del>(23.5)</del>		<del>(23.5)</del>	<del>(166.3)</del>		<del>(189.8)</del>
<del>Proceeds from sales of property and equipment</del>	<del>2.6</del>		<del>2.6</del>	<del>90.2</del>		<del>92.8</del>
<del>Change in short-term investments</del>	<del>(98.6)</del>	<del>(47.6)</del>	<del>(146.2)</del>	<del>(1,399.1)</del>		<del>(1,545.3)</del>
<del>Other investing activities</del>				<del>218.0</del>		<del>218.0</del>
	<del>(119.5)</del>	<del>(47.6)</del>	<del>(167.1)</del>	<del>(1,257.2)</del>		<del>(1,424.3)</del>
<del>Financing activities:</del>						
<del>Dividends paid to shareholders</del>	<del>(252.0)</del>	<del>74.7</del>	<del>(177.3)</del>	<del>(57.1)</del>	<del>159.4</del>	<del>(75.0)</del>
<del>Other financing activities</del>				<del>707.1</del>		<del>707.1</del>
	<del>(252.0)</del>	<del>74.7</del>	<del>(177.3)</del>	<del>650.0</del>	<del>159.4</del>	<del>632.1</del>
<del>Net change in cash</del>	<del>0.6</del>	<del>(0.7)</del>	<del>(0.1)</del>	<del>0.9</del>		<del>0.8</del>
<del>Cash, beginning of period</del>	<del>1.0</del>	<del>0.7</del>	<del>1.7</del>	<del>179.6</del>		<del>181.3</del>

Cash, end of period	\$	1.6	\$	1.6	\$	180.5	\$	182.1
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## 5. Reinsurance

~~CNA assumes and cedes reinsurance with other insurers, reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business.~~

~~Interest cost on reinsurance contracts accounted for on a funds withheld basis is credited during all periods in which a funds withheld liability exists. Interest cost, which is included in net investment income, was \$93.5 and \$56.4 million for the three months ended June 30, 2003 and 2002 and \$140.2 and \$114.5 million for the six months ended June 30, 2003 and 2002. The amount subject to interest crediting rates on such contracts was \$2,500.0 and \$2,766.0 million at June 30, 2003 and December 31, 2002.~~

~~The amount subject to interest crediting on these funds withheld contracts will vary over time based on a number of factors, including the timing of loss payments and ultimate gross losses incurred. CNA expects that it will continue to incur significant interest costs on these contracts for several years.~~

~~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 the obligations assumed under reinsurance agreements.~~

~~As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, CNA has reinsurance receivables from several reinsurers who have recently experienced multiple downgrades of their financial strength ratings, have announced that they will no longer accept new business and are placing their books of business into run off. One of CNA's principal credit exposures from these recent events arises from reinsurance receivables from Gerling Global ("Gerling").~~

~~CNA has been in discussions with Gerling with respect to resolving a dispute concerning possession of collateral on three CNA HealthPro treaties, and is in discussions regarding a possible commutation of all other reinsurance arrangements between CNA and Gerling. The three CNA HealthPro treaties were commuted as of June 30, 2003, which resulted in a \$37.0 million pretax loss.~~

~~Life premiums are primarily from long duration contracts, property and casualty premiums and accident and health premiums are primarily from short duration contracts.~~

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~~The effects of reinsurance on earned premiums are shown in the following table.~~

	Direct	Assumed	Ceded	Net
Six Months Ended June 30, 2003				
Property and casualty . . . . .	\$5,281.0	\$376.0	\$2,222.0	\$3,435.0
Accident and health . . . . .	788.0	55.0	20.0	814.0
Life . . . . .	529.0	9.0	211.0	327.0
Total earned premiums . . . . .	\$6,598.0	\$440.0	\$2,462.0	\$4,576.0
Six Months Ended June 30, 2002				
Property and casualty . . . . .	\$ 4,882.0	\$ 400.0	\$1,897.0	\$ 3,394.0
Accident and health . . . . .	1,859.0	75.0	4.0	1,930.0
Life . . . . .	538.0	18.0	218.0	338.0
Total earned premiums . . . . .	\$ 7,279.0	\$ 502.0	\$2,119.0	\$ 5,662.0

~~CNA has an aggregate reinsurance treaty related to the 1999 through 2001 accident years that covers substantially all of CNA's property and casualty lines of business (the "Aggregate Cover"). The Aggregate Cover provides for two sections of coverage. These coverages attach at defined loss ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the treaty, has a \$500.0 million limit per accident year of ceded losses and an aggregate limit of \$1.0 billion of ceded losses for the three accident years. The ceded premiums~~

associated with the first section are a percentage of ceded losses and for each \$500.0 million of limit the ceded premium is \$230.0 million. The second section of the Aggregate Cover, which only relates to accident year 2001, provides additional coverage of up to \$510.0 million of ceded losses for a maximum ceded premium of \$310.0 million. Under the Aggregate Cover, interest charges on the funds withheld liability accrue at 8.0% per annum. If the aggregate loss ratio for the three year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum commencing in 2006.

During the second quarter of 2003, as a result of the unfavorable reserve development recorded related to accident year 2000, losses of \$78.0 million were ceded under the first section of the Aggregate Cover. In 2001, as a result of reserve additions including those related to accident year 1999, the \$500.0 million limit related to the 1999 accident year under the first section was fully utilized and losses of \$510.0 million were ceded under the second section as a result of losses related to the September 11, 2001 World Trade Center Disaster and related events ("WTC event").

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The impact of the Aggregate Cover on pretax results of operations was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Ceded earned premiums	\$ (28.0)		\$ (28.0)	
Ceded claim and claim adjustment expense	78.0		78.0	
Interest charges	(22.0)	\$ (12.0)	(35.0)	\$ (25.0)
Pretax benefit (expense)	\$ 28.0	\$ (12.0)	\$ 15.0	\$ (25.0)
=====				

In 2001, CNA entered into a one year 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 loss protection provided by the CCC Cover has an aggregate limit of approximately \$760.0 million of ceded losses. The ceded premiums are a percentage of ceded losses. The ceded premium related to full utilization of the \$760.0 million of limit is \$456.0 million. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of \$745.0 million have been ceded under the CCC Cover through June 30, 2003.

The impact of the CCC Cover on pretax results of operations was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Ceded earned premiums	\$ (91.0)		\$ (91.0)	\$ (61.0)
Ceded claim and claim adjustment expense	126.0		126.0	93.0
Interest charges	(27.0)	\$ (6.0)	(35.0)	(16.0)
Pretax benefit (expense)	\$ 8.0	\$ (6.0)		\$ 16.0
=====				

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6. Receivables

	June 30,	December 31,
	2003	2002
(In millions)		
Reinsurance	\$13,352.6	\$12,695.3
Other insurance	3,401.4	3,163.2

Security sales	688.5	493.3
Accrued investment income	380.2	316.8
Other	369.9	294.8
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Total	18,192.6	16,963.4
<hr/>		
Less: Allowance for doubtful accounts on reinsurance receivables	239.9	195.7
Allowance for doubtful accounts and cash discounts	212.1	166.7
<hr/>		
Receivables net	\$17,740.6	\$16,601.0
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## ~~7. 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.~~

~~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 workers compensation, 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 equity. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations or equity of the Company.~~

## ~~APMT Reserves~~

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

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~~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 CNA 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; increasingly aggressive tactics of plaintiffs' lawyers; the risks and lack of predictability inherent in major litigation; increased filings of claims in certain states to avoid the application of tort reform statute effective dates; a further increase in asbestos and environmental claims which cannot now be anticipated; continued increase in mass tort claims relating to silica and silica containing products, and the outcome of ongoing disputes as to coverage in relation to these claims; the role the exhaustion of primary limits for certain accounts and increased demands on any umbrella or excess policies CNA has issued; and future developments pertaining to CNA's ability to recover reinsurance for asbestos and environmental claims.~~

~~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, 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.~~

~~— Since 1999, CNA has performed semi annual ground up reviews of all open APMT claims to evaluate the adequacy of CNA's APMT reserves. The completion of a comprehensive ground up analysis of its APMT exposures, previously scheduled for the second quarter, will be completed in the third quarter of 2003. Significant resources were dedicated to the proposed national asbestos reform legislation and to support regulatory reviews. As such, CNA plans to complete its more formal and comprehensive analysis in the third quarter of 2003. CNA considers input from its analyst 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 future exposures, including such factors as claims volume, trial conditions, settlement demands and defense costs; 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.~~

~~— Due to the significant uncertainties previously described related to APMT claims, the 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 the Company's results of operations and equity.~~

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

	June 30, 2003		December 31, 2002	
	Environmental Pollution and		Environmental Pollution and	
	Mass Tort	Asbestos	Mass Tort	Asbestos
(In millions)				
Gross reserves	\$ 780.0	\$1,662.0	\$ 830.0	\$1,758.0
Ceded reserves	(299.0)	(501.0)	(313.0)	(527.0)
Net reserves	\$ 481.0	\$1,161.0	\$ 517.0	\$1,231.0

~~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 to 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 1,200 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 various CNA insurance subsidiaries 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 an "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.~~

~~— A number of proposals to reform Superfund have been made by various parties.~~

~~However no reforms were enacted by Congress during 2002 or during the first six months of 2003, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the possible effect upon the Company's results of operations or equity.~~

~~During 2002 and continuing into 2003, mass tort claims arising from alleged injury due to exposure to silica and silica containing products have been increasing. CNA is monitoring silica mass tort claims to assess what, if any, impact the increased claims may have on mass tort reserves. As to other mass tort subtypes, CNA has not experienced material negative development either in the number of claims or in the emergence of new policyholders seeking coverage for known mass tort sub types. CNA's ultimate liability for its environmental pollution and mass tort claims is impacted by several factors including ongoing disputes with policyholders over scope and meaning of coverage terms and, in the area of environmental pollution, court decisions that continue to restrict the scope and applicability of the absolute pollution exclusion contained in policies issued by CNA post 1989. Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to cleanup, and in the area of environmental pollution, the standards for cleanup and liability, the ultimate liability of CNA for environmental pollution and mass tort claims may vary substantially from the amount currently recorded.~~

~~As of June 30, 2003 and December 31, 2002, CNA carried approximately \$481.0 and \$517.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was no environmental pollution and mass tort net claim and claim adjustment expense reserve development for the three and six months ended June 30, 2003 and 2002. CNA paid environmental pollution related claims and mass tort related claims, net of reinsurance recoveries, of \$36.0 and \$58.0 million for the six months ended June 30, 2003 and 2002.~~

#### Asbestos

~~CNA's property and casualty insurance subsidiaries also have exposure to asbestos related claims. Estimation of asbestos related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, 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.~~

~~In the past several years, CNA has experienced 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. Currently, the majority of asbestos bodily injury claims are filed by persons exhibiting few, if any, disease symptoms. It is estimated that approximately 90% of the current non-malignant asbestos claimants do not meet the American Medical Association's definition of impairment. Some courts, including the federal district court responsible for pre trial proceedings in all federal asbestos bodily injury actions, have ordered that so called "unimpaired" claimants may not recover unless at some point the claimant's condition worsens to the point of impairment.~~

~~Some asbestos related defendants have asserted that their claims for insurance 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 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 it aggressively litigates the claim. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on the Company's results of operations or equity.~~

~~Certain asbestos litigations in which CNA is currently engaged are described below:~~

~~—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 will be required to pay \$74.0 million, net of reinsurance recoveries, over a ten year period. The settlement resolves CNA's liabilities for all pending and future asbestos claims involving A.P. Green Industries, Bigelow Liptak Corporation and related subsidiaries, including alleged "non-products" exposures. The settlement is subject to bankruptcy court approval and confirmation of a bankruptcy plan containing a channeling injunction to protect CNA from any future claims.~~

~~—CNA is engaged in insurance coverage litigation with underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company ("Keasbey") in New York State court (Continental Casualty Co. v. Nationwide Indemnity Co. 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 Keasby. 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~~

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~~products and completed operations claims. 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.~~

~~—CNA has insurance coverage disputes related to asbestos bodily injury claims against Burns & Roe Enterprises, Inc. ("Burns & Roe"). Originally raised in litigation, now stayed, these disputes are currently part of 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, Burns & Roe 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.~~

~~—CIC issued certain primary and excess policies to Bendix Corporation ("Bendix"), now part of Honeywell International Inc. ("Honeywell"). Honeywell faces approximately 50,000 pending asbestos bodily injury claims resulting from alleged exposure to Bendix friction products. CIC's primary policies allegedly covered the period from at least 1939 (when Bendix began to use asbestos in its friction products) to 1983, although the parties disagree about whether CIC's policies provided product liability coverage before 1940 and from 1945 to 1956. CIC asserts that it owes no further material obligations to Bendix under any primary policy. Honeywell alleges that two primary policies issued by CIC covering 1969-1975 contain occurrence limits but not product liability aggregate limits for asbestos bodily injury claims. CIC has asserted, among other things, that even if Honeywell's allegation is correct, which CNA denies, its liability is limited to a single occurrence limit per policy or per year, and in the alternative, a proper allocation of losses would substantially limit its exposure under the 1969-1975 policies to asbestos claims. These and other issues are being litigated in Continental Insurance Co., et al. v. Honeywell International Inc., No. MRS-L-1523-00 (Morris County, New Jersey).~~

~~—Policyholders have also initiated litigation directly against CNA and other insurers in four jurisdictions: Ohio, Texas, West Virginia and Montana. In the Ohio action, plaintiffs allege the defendants negligently performed duties undertaken to protect the public from the effects of asbestos (Varner v. Ford Motor Co., et al., (Cuyahoga County, Ohio)). Similar lawsuits have also been filed in Texas against CNA, and other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos (Boson v. Union Carbide Corp., et al. (District Court of Nueces County, Texas)). CNA has been named in Adams v. Aetna, Inc., et al. (Circuit Court of Kanawha County, West Virginia), a purported class action against CNA and other insurers, alleging that the defendants violated West Virginia's Unfair Trade Practices Act in handling and resolving asbestos claims against their policyholders. A direct action has also been 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 CNA failed to fulfill its obligations as W.R. Grace's Workers Compensation carrier because of the alleged negligent failure of CNA 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. This action is currently stayed as to CNA because of W.R. Grace's pending bankruptcy. On July 23, 2003, the stay of the litigation was lifted by the District Court as to Maryland Casualty. The time~~

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~~for an appeal by Maryland Casualty has not expired. The stay of the litigation may also be lifted as to CNA.~~

~~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, insurer financial strength and debt ratings and 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 CNA 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 the part of management and consideration of many complex factors, including: inconsistency of court decisions, jury attitudes and future court decisions; 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 also monitoring possible legislative reforms, including the possible creation of a national privately financed trust, which if established and approved through federal legislation, could replace litigation of asbestos claims with payments to claimants from the trust. It is uncertain at the present time whether such a trust will be created or, if it is, what will be the terms and conditions of its establishment or its impact on the Company.~~

~~As of June 30, 2003 and December 31, 2002, CNA carried approximately \$1,161.0 and \$1,231.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. There was no asbestos related net claim and claim adjustment expense reserve development for the three and six months ended June 30, 2003 and 2002. CNA paid asbestos related claims, net of reinsurance, of \$70.0 million for the six months ended June 30, 2003 and had net reinsurance recoveries of \$15.0 million for the six months ended June 30, 2002.~~

#### ~~Other Reserves~~

~~Net unfavorable prior year development of \$522.0 million, including \$358.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$164.0 million of unfavorable premium development, was recorded for the six months ended June 30, 2003. The net unfavorable prior~~

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~~year reserve development not associated with the unfavorable premium development was recorded principally in the property and casualty companies. A brief summary of these lines of business and the associated reserve development is discussed below.~~

#### ~~Standard Lines~~

~~The gross carried claim and claim adjustment expense reserves for Standard Lines were \$11,793.0 and \$11,576.0 million at June 30, 2003 and December 31, 2002. The net carried claim and claim adjustment expense reserves for Standard Lines were \$7,127.0 and \$7,262.0 million at June 30, 2003 and December 31, 2002.~~

~~Unfavorable net prior year reserve development of approximately \$310.0 million, including \$233.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$77.0 million of unfavorable premium development, was recorded for large account business, driven by workers compensation exposures. This reserve development resulted from the completion of reserve reviews for large account business where the insured is often responsible for a portion of the losses, and claims are handled by CNA. The review did not cover the large account business where the claims are handled by a third party administrator. Initial reserves for this business are set based on the expected losses associated with the individual accounts covered and the terms of the individual plans. Based on analyses completed during the second quarter, it became apparent that the assumptions regarding the number and size of the losses, which were used to estimate the expected losses were no longer appropriate. The analysis showed that the actual number of claims and the average claim size were larger than expected. The development was recorded in accident years prior to 2002.~~

~~Approximately \$21.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from a program~~

covering facilities that provide services to developmentally disabled individuals. The development was due to an increase in the size of known claims and increases in policyholder defense costs. The reserve development was recorded in accident years prior to 2001.

—Approximately \$25.0 million of unfavorable net prior year premium development was recorded related to a second quarter 2003 reevaluation of losses ceded to a reinsurance contract covering middle market workers compensation exposures. The reevaluation of losses led to a new estimate of the number and dollar amount of claims that would be ceded under the reinsurance contract. As a result of the reevaluation of losses, CNA recorded approximately \$36.0 million of unfavorable claim and allocated claim adjustment expense reserve development, which was ceded under the contract. The development was recorded in accident year 2000.

—Unfavorable net prior year claim and allocated claim adjustment expense reserve development of approximately \$36.0 million was recorded for a program covering tow truck and ambulance operators, primarily impacting the 2001 accident year. CNA had previously expected that loss ratios for this business would be similar to its middle market commercial automobile liability business. During 2002, CNA ceased writing business under this program.

—Offsetting these unfavorable developments was a \$75.0 million underwriting benefit from cessions to corporate aggregate reinsurance treaties. The benefit is comprised of \$180.0 million of ceded losses and \$105.0 million of ceded premiums for accident years 2000 and 2001. See Note 5 for further discussion.

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—Favorable prior year claim and allocated claim adjustment expense reserve development was also recorded in property lines during 2003. The favorable reserve development was principally from accident years 2001 and 2002 and was the result of the lower than expected number of large losses in recent years.

#### Specialty Lines

—The gross carried claim and claim adjustment expense reserves for Specialty Lines were \$6,085.0 and \$5,874.0 million at June 30, 2003 and December 31, 2002. The net carried claim and claim adjustment expense reserves for Specialty Lines were \$3,467.0 and \$3,373.0 million at June 30, 2003 and December 31, 2002.

—Unfavorable net prior year claim and allocated claim adjustment expense reserve development of approximately \$75.0 million was recorded related to a recent adverse arbitration decision involving a single large property and business interruption loss. The decision was rendered against a voluntary insurance pool in which CNA was a participant. The loss was caused by a fire which occurred in 1995. CNA no longer participates in this pool.

—Approximately \$50.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded for directors and officers exposures. The reserve development was a result of a claims review that was completed during the second quarter of 2003. The unfavorable net prior year reserve development was primarily due to securities class action cases related to certain known corporate malfeasance cases and investment banking firms. The reserve development was recorded primarily in accident years 2001 and 2002.

—Approximately \$37.0 million of losses were recorded as the result of a commutation of three ceded reinsurance treaties covering CNA HealthPro relating to accident years 1999 through 2001. See Note 5 for further discussion.

—Approximately \$21.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded in the Surety line of business as the result of recent developments on one large claim.

#### CNA Re

—The gross carried claim and claim adjustment expense reserves for CNA Re were \$2,064.0 and \$2,264.0 million at June 30, 2003 and December 31, 2002. The net carried claim and claim adjustment expense reserves for CNA Re were \$1,217.0 and \$1,362.0 million at June 30, 2003 and December 31, 2002.

—Unfavorable net prior year claim and allocated claim adjustment expense reserve development of approximately \$25.0 million was recorded primarily for directors and officers exposures. The reserve development was a result of a claims review that was completed during the second quarter of 2003. The unfavorable net prior year reserve development was primarily due to securities class action cases related to certain known corporate malfeasance cases and investment banking firms. The reserve development was recorded in accident years 2000 and 2001.

—Offsetting this unfavorable development was a \$10.0 million underwriting benefit from cessions to corporate aggregate reinsurance treaties. The benefit is comprised of \$24.0 million of ceded losses and \$14.0 million of ceded premiums for accident years 2000 and 2001. See Note 5 for further discussion.

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## 8. Shareholders' Equity

	June 30, 2003	December 31, 2002
(In millions of dollars, except per share data)		
Preferred stock, \$0.10 par value, — Authorized — 100,000,000 shares		
Common stock:		
— Loews common stock, \$1.00 par value:		
— Authorized — 600,000,000 shares		
— Issued and outstanding — 185,447,050 and 185,441,200 shares	\$ 185.4	\$ 185.4
— Carolina Group stock, \$0.01 par value:		
— Authorized — 600,000,000 shares		
— Issued — 40,250,000 shares	0.4	0.4
Additional paid in capital	1,114.4	1,114.2
Earnings retained in the business	9,717.8	9,404.6
Accumulated other comprehensive income	1,222.1	538.3
	12,240.1	11,242.9
Less treasury stock, at cost (340,000 shares of Carolina Group stock)	7.7	7.7
Total shareholders' equity	\$12,232.4	\$11,235.2

— Investments in securities, which are held principally by insurance subsidiaries of CNA are considered available for sale, and are carried at fair value. Changes in fair value are recorded as a component of accumulated other comprehensive income in shareholders' equity, net of applicable deferred income taxes and participating policyholders' and minority interest. Investments are written down to estimated fair values and impairment losses are recognized in income when a decline in value is determined to be other than temporary (See Note 2).

## 9. Significant Transactions

### Texas Gas Transmission, LLC

— In May of 2003, the Company, through a wholly owned subsidiary, TGT Pipeline, LLC ("TGT"), acquired Texas Gas from The Williams Companies, Inc. ("Williams"). The transaction value was approximately \$1.05 billion, which included \$250.0 million of existing Texas Gas debt. The results of Texas Gas have been included in the consolidated condensed financial statements from the date of acquisition. The Company funded the approximately \$802.8 million balance of the purchase price, including transaction costs and closing adjustments, with \$527.8 million of its available cash and \$275.0 million of proceeds from an interim loan incurred by Texas Gas.

— Upon completion of the acquisition, TGT, the immediate parent of Texas Gas, issued \$185.0 million of 5.2% Notes due 2018 and Texas Gas Transmission, LLC issued \$250.0 million of 4.6% Notes due 2015. The net offering proceeds of approximately \$431.0 million were used to repay the \$275.0 million interim loan and to retire approximately \$132.7 million principal amount of Texas Gas's existing \$150.0 million of 8.625% Notes due 2004 and to pay related

tender premiums. Texas Gas intends to use the balance of the offering proceeds, together with cash on hand, to retire the remaining 2004 notes.

— Texas Gas owns and operates a 5,800 mile natural gas pipeline system that transports natural gas originating in the Louisiana Gulf Coast and East Texas and running north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois. Texas Gas has a delivery capacity of 2.8 billion cubic feet (Bcf) per day and a working storage capacity of 55 Bcf.

— The preliminary allocation of purchase price to the assets and liabilities of Texas Gas, in millions, pending final purchase value adjustments, which are not expected to be material, is as follows:

Current assets	\$ 81.6
Property, plant and equipment	663.4
Goodwill	280.5
Other non current assets	133.0
Current liabilities	(58.9)
Long term debt, including current portion	(249.0)
Other liabilities and deferred credits	(47.8)

~~The following unaudited pro forma financial information is presented as if Texas Gas had been acquired as of the beginning of each period presented. The pro forma amounts include certain adjustments, including a reduction of 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 by Texas Gas and TGT, and redemption of \$132.7 million principal amount of Texas Gas's existing notes; and the related tax effect of these items. The pro forma amounts do not reflect any adjustments related to the separation of Texas Gas from Williams for certain services provided by Williams under a transition services agreement.~~

~~(In millions, except per share data)~~

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	(Restated)		(Restated)	
Total revenues	\$4,280.6	\$4,703.0	\$8,315.7	\$9,578.7
Income from continuing operations	219.0	202.0	438.3	509.7
Net income	219.0	202.0	438.3	439.1
Income per share of Loews common stock:				
Income from continuing operations	1.05	0.86	2.07	2.37
Net income	1.05	0.86	2.07	2.00

~~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.~~

#### Third Party Risk Management Business

~~During the second quarter of 2003, CNA entered into an agreement, whereby Cunningham Lindsey, U.S. ("Cunningham Lindsey"), a subsidiary of Lindsey Morden Group, Inc. acquired the business of RSKCo Services, Inc. ("RSKCo"). Included in the sale was the RSKCo trademarked name, as well as all claims and other risk management services business provided by RSKCo that is not sold in connection with insurance products of other CNA subsidiaries. After the first anniversary of the sale, CNA will fund a pre-sale capital contribution to RSKCo of \$12.0 million, and will receive sales proceeds determined as a result of gross revenues of the sold business for the first year following the sale, and the agreed fair value of the fixed assets included in the sale. In addition, CNA will provide RSKCo with certain transition services at no charge for the six months following the sale. CNA has recorded an estimated pretax loss on this sale of \$16.0 million. The business sold represented annual revenues of approximately \$40.0 million.~~

~~As a result of this agreement, Cunningham Lindsey assumed assets and liabilities of \$72.0 and \$56.0 million. At December 31, 2002 the assets and liabilities of the RSKCo business sold were \$71.0 and \$54.0 million.~~

#### National Postal Mail Handlers Union Contract Termination

~~During 2002, CNA sold Claims Administration Corporation and transferred the National Postal Mail Handlers Union group benefits plan (the "Mail Handlers Plan") to First Health Group Corporation. Revenues for the Mail Handlers Plan were \$537.0 million for the three months ended June 30, 2002 and \$1,153.0 million for the six months ended June 30, 2002.~~

#### CNA Vida Disposition

~~In the first quarter of 2002, CNA completed the sale of the common stock of CNA Holdings Limited and its subsidiaries ("CNA Vida"), CNA's life operations in Chile, to Consorcio Financiero S.A. ("Consorcio"). In connection with the sale, CNA received proceeds of \$73.0 million and recorded an after tax loss from discontinued operations of \$31.0 million. This loss is composed of \$32.8 million, net of tax, realized loss on the sale of CNA Vida and income of \$1.8 million, net of tax, from CNA Vida's operations for 2002.~~

#### Personal Insurance Transaction

~~CNA entered into a retroactive reinsurance agreement as part of the sale of CNA's personal insurance business to The Allstate Corporation ("Allstate") in 1999. CNA shares in indemnity and claim and allocated claim adjustment expenses if payments related to losses incurred prior to October 1, 1999 on the CNA policies transferred to Allstate exceed the claim and allocated claim adjustment expense reserves of approximately \$1.0 billion at the date of sale. CNA must begin to reimburse Allstate for claim and allocated claim adjustment expense payments when cumulative claim payments after October 1, 1999 on losses occurring prior to that date exceed the \$1.0 billion. CNA's remaining~~

obligation valued under this loss sharing provision as of October 1, 2003, will be settled by agreement of the parties or by an independent actuarial review of the unpaid claim liabilities as of that date. Cumulative payments of indemnity and allocated loss adjustment expenses on such policies exceeded

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~~\$1.0 billion during the second quarter of 2003. CNA has established reserves for its estimated liability under this loss sharing arrangement.~~

#### ~~10. Statutory Accounting Practices~~

~~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 National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations and general administrative rules. CNA's insurance subsidiaries follow one significant permitted accounting practice at June 30, 2003, related to discounting of certain non tabular workers compensation claims. The impact of this permitted practice was to increase statutory surplus by approximately \$31.0 and \$56.0 million at June 30, 2003 and December 31, 2002. This practice was followed by an acquired company, and CNA received permission to eliminate the effect of the permitted practice over a ten year period, which ends in 2003.~~

#### ~~11. Business Segments~~

~~The Company's reportable segments are 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's insurance products include property and casualty coverages; life, accident and health insurance; and retirement products and annuities. CNA's services include risk management, information services, health care management and claims administration. CNA's products and services are marketed through agents, brokers, managing general agents and direct sales.~~

~~The Other Insurance segment is comprised primarily of losses and expenses related to the centralized adjusting and settlement of APMT claims, certain run-off insurance operations and other operations. This segment's results also include interest expense on CNA's corporate borrowings, eBusiness initiatives and CNA UniSource. Beginning in 2003, expenses related to eBusiness were allocated to the operating segments of CNA.~~

~~Lorillard's principal products are cigarettes marketed under the brand names of Newport, Kent, True, Maverick and Old Gold with substantially all of its sales in the United States.~~

~~Loews Hotels owns and/or operates 19 hotels, 17 of which are in the United States and two are in Canada.~~

~~Diamond Offshore's business primarily consists of operating 47 offshore drilling rigs that are chartered on a contract basis by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. As of June 30, 2003, 28 of these rigs were located in the Gulf of Mexico, 5 were located in Brazil and the remaining 14 were located in various other foreign markets.~~

~~Texas Gas owns and operates a 5,800 mile natural gas pipeline system that transports natural gas originating in the Louisiana Gulf Coast and East Texas and running north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines~~

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~~extending into Illinois. Texas Gas has a delivery capacity of 2.8 billion cubic feet ("Bcf") per day and a working storage capacity of 55 Bcf.~~

~~Bulova distributes and sells watches and clocks under the brand names of Bulova, Wittnauer, Caravelle and Accutron with substantially all of its sales in the United States and Canada. Substantially all watches and clocks are purchased from foreign suppliers.~~

~~The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2002. 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, investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.~~

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~~The following tables set forth the Company's consolidated revenues and income by business segment:~~



	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(Restated)		(Restated)	
(In millions)				
Revenues (a):				
CNA Financial:				
Property and casualty	\$ 2,172.6	\$ 2,044.4	\$ 4,293.1	\$ 4,049.1
Life	442.8	344.7	802.5	758.3
Group	433.7	878.5	777.7	1,874.8
Other Insurance	59.2	44.7	80.5	75.8
Total CNA Financial	3,108.3	3,312.3	5,953.8	6,758.0
Lorillard	791.5	1,037.9	1,643.4	2,022.2
Loews Hotels	85.4	82.0	161.8	159.2
Diamond Offshore	167.9	195.8	319.9	407.7
Texas Gas	23.1		23.1	
Bulova	33.7	41.4	74.8	74.1
Corporate and other	40.4	(17.9)	22.7	22.6
Total	\$ 4,250.3	\$ 4,651.5	\$ 8,199.5	\$ 9,443.8
Pretax income (a):				
CNA Financial:				
Property and casualty	\$ (25.1)	\$ 87.2	\$ 128.3	\$ 226.1
Life	51.6	(10.6)	15.3	48.4
Group	57.4	9.6	34.0	46.5
Other Insurance	7.7	(43.5)	22.0	(105.7)
Total CNA Financial	91.6	42.7	199.6	215.3
Lorillard	216.4	337.9	467.4	610.4
Loews Hotels	9.0	10.3	17.0	19.8
Diamond Offshore	(18.9)	8.6	(47.7)	36.3
Texas Gas	2.6		2.6	
Bulova	2.9	4.6	7.2	7.6
Corporate and other	(1.2)	(68.4)	(61.8)	(71.1)
Total	\$ 302.4	\$ 335.7	\$ 584.3	\$ 818.3
Net income (a):				
CNA Financial:				
Property and casualty	\$ (2.1)	\$ 54.8	\$ 99.2	\$ 137.6
Life	31.6	(6.4)	10.8	27.9
Group	34.8	6.3	21.5	27.9
Other Insurance	10.0	(23.9)	22.3	(59.5)
Total CNA Financial	74.3	30.8	153.8	133.9
Lorillard	140.0	203.9	293.3	370.6
Loews Hotels	5.7	6.7	10.8	12.7
Diamond Offshore	(9.3)	1.7	(21.4)	10.4
Texas Gas	1.6		1.6	
Bulova	1.9	2.6	4.9	4.2
Corporate and other	0.6	(46.9)	(38.2)	(49.6)
Income from continuing operations	214.8	198.8	404.8	482.2
Discontinued operations net				(31.0)
Cumulative effect of change in accounting principles net				(39.6)
Total	\$ 214.8	\$ 198.8	\$ 404.8	\$ 411.6

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(a) Investment gains (losses) included in Revenues, Pretax income and Net income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
(In millions)				
Revenues and pretax income:				
CNA Financial:				
Property and casualty	\$ 282.7	\$ (62.7)	\$ 291.4	\$ (51.7)
Life	28.1	(53.3)	(23.2)	(42.0)
Group	20.2	(26.9)	(32.0)	(17.3)
Other Insurance	57.7	(19.4)	76.4	(50.3)

Total CNA Financial	388.7	(162.3)	312.6	(161.3)
Corporate and other	30.6	(32.7)	11.1	(10.2)
<hr/>				
Total	\$ 419.3	\$(195.0)	\$ 323.7	\$(171.5)
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Net income:				
—CNA Financial:				
Property and casualty	\$ 167.7	\$ (36.3)	\$ 173.4	\$ (28.3)
Life	16.4	(30.1)	(13.6)	(23.9)
Group	11.8	(15.5)	(18.7)	(10.0)
Other Insurance	34.5	(12.0)	45.4	(29.5)
<hr/>				
Total CNA Financial	230.4	(93.9)	186.5	(91.7)
Corporate and other	20.3	(24.0)	7.6	(10.4)
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Total	\$ 250.7	\$(117.9)	\$ 194.1	\$(102.1)
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12. Legal Proceedings

Insurance Related

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.~~

~~CNA has determined that 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 Financial Services, Inc. ("John Hancock"). CNA is aware that a number of reinsurers with workers compensation carve out insurance exposure, including John Hancock, have disavowed their obligations under various legal theories. If one or more such companies are successful in avoiding or reducing their liabilities, then it is likely that CNA's potential liability will also be reduced. Moreover, based on information known at this time, CNA believes it has strong grounds to successfully challenge its alleged exposure on a substantial portion of its United States workers compensation carve out business, including all purported exposure derived from John Hancock, through legal action.~~

~~As noted, CNA arranged substantial reinsurance protection to manage its exposures under the IGI Program. CNA believes it has valid and enforceable reinsurance contracts with the AAHRU Facility and other reinsurers with respect to the IGI Program, including the United States workers compensation carve out business. However, certain reinsurers dispute their liabilities to CNA, and CNA has commenced arbitration proceedings against such reinsurers.~~

~~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.~~

~~CNA is pursuing a number of loss mitigation strategies with respect to the entire IGI Program. Although the results of these various actions to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty due to the complexities described above. As a result of these uncertainties, the results of operations in future periods may be adversely affected by potentially significant reserve additions. Management does not believe that any such reserve additions would be material to the equity of CNA, although results of operations may be adversely affected. CNA's position in relation to the IGI Program was unaffected by the sale of CNA Re Ltd. in 2002.~~

California Wage and Hour Litigation

~~In Ernestine Samora, et al. v. CCC, Case No. BC 242487, Superior Court of California, County of Los Angeles, California and Brian Wenzel v. Galway Insurance Company, Superior Court of California, County of Orange No. BC01CC08868 (coordinated), two former CNA employees, filed lawsuits on behalf of purported classes of CNA employees asserting they worked hours for which they should have been compensated at a rate of one and one half times their base hourly wage over a four year period. The cases were coordinated and an~~

~~amended complaint was filed which alleges overtime claims under California law over a four year period. In June 2002, CNA filed a responsive pleading denying the material allegations of the amended complaint. CNA intends to defend this case vigorously. Due to the recent commencement of discovery and the uncertainty of how the courts may interpret California law as applied to the facts of these cases, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time. Based on facts and circumstances presently known, however, in the opinion of management, the outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.~~

#### ~~Voluntary Market Premium Litigation~~

~~CNA, along with dozens of other insurance companies, is a defendant in sixteen purported class action cases brought by large policyholders, which~~

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~~generally allege that the defendants, as part of an industry wide conspiracy, included improper charges in their retrospectively rated and other loss-sensitive insurance premiums. Fourteen lawsuits were brought as class actions in state courts and two in federal court. Among the claims asserted were violations of state antitrust laws, breach of contract, fraud and unjust enrichment. In two of the cases, the defendants won dismissals on motions and, in four others, class certification was denied after hearing. Plaintiffs voluntarily dismissed their claims in four states. In the federal court case, Sandwich Chef of Texas, Inc., et al. v. Reliance National Indemnity Insurance Company, et al., Civil Action No. H-98-1484, United States District Court for the Southern District of Texas, the district court certified a multi state class but was reversed on interlocutory appeal by the U.S. Court of Appeals for the Fifth Circuit. Due to the uncertainty of how the courts may interpret state and federal law as applied to the facts of the cases, the extent of potential losses beyond any amounts that may be accrued are not readily determinable at this time. Based on facts and circumstances presently known, however, in the opinion of management the outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.~~

#### ~~Environmental Pollution and Mass Tort and Asbestos ("APMT") Reserves~~

~~CNA is also a party to litigation and claims related to APMT cases arising in the ordinary course of business. See Note 7 for further discussion.~~

#### ~~Tobacco Related~~

##### ~~Tobacco Related Product Liability Litigation~~

~~Approximately 4,500 product liability cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 4,100 of these cases.~~

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

~~"Conventional product liability cases" are brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or by exposure to environmental tobacco smoke. Approximately 1,600 cases are pending, including approximately 1,175 cases against Lorillard. Included in this group are approximately 1,100 cases pending in a single West Virginia court that has been consolidated for trial. Lorillard is a defendant in approximately 1,000 of the 1,100 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 2,800 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. Approximately 40 of these cases are pending against Lorillard. Lorillard is not a defendant in approximately 25 additional class actions that are pending against other cigarette manufacturers and assert claims on behalf of smokers of "light" cigarettes.~~

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~~"Reimbursement cases" are brought by or on behalf of entities who seek reimbursement of expenses incurred in providing health care to individuals who allegedly were injured by smoking. Plaintiffs in these cases have included the U.S. federal government, U.S. state and local governments, foreign governmental entities, hospitals or hospital districts, American Indian tribes, labor unions, private companies, and private citizens suing on behalf of taxpayers. Lorillard is a defendant in most of the approximately 40 pending Reimbursement cases.~~

~~"Contribution cases" are brought by private companies, such as asbestos manufacturers or their insurers, who are seeking contribution or indemnity for court claims they incurred on behalf of individuals injured by their products but who also allegedly were injured by smoking cigarettes. Lorillard is a~~

defendant in each of the approximately 10 pending Contribution cases.

—Excluding the flight attendant and the consolidated West Virginia suits, approximately 600 product liability cases are pending against U.S. cigarette manufacturers. Lorillard is a defendant in approximately 275 of the 600 cases. The Company, which is not a defendant in any of the flight attendant or the consolidated West Virginia matters, is a defendant in fewer than 35 of the actions.

—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 Racketeering Influenced and Corrupt Organizations Act), 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.

—During July of 2003, the first phase of trial ended in the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana), a class action case in which Lorillard is a defendant. The jury found in favor of the defendants as to the primary relief sought by the certified class, medical monitoring. The jury also rejected plaintiffs' design defect claims. However, the jury returned findings in favor of the class as to certain other issues, such as whether defendants failed to disclose the addictiveness of nicotine, whether defendants marketed to children, and whether cigarette smokers in Louisiana would benefit from smoking cessation aids or programs. The jury was not permitted to award damages in the July verdict and the case is now expected to proceed to additional phases of trial. It is not clear, however, how the subsequent phase or phases of trial will be conducted, nor is it known whether the parties will immediately attempt to pursue an appeal from the July 2003 verdict.

—During May of 2003, the Florida Third District Court of Appeal vacated the judgment entered in favor of a class of Florida smokers in the case of Engle v. R.J. Reynolds Tobacco Co., et al. The judgment reflected an award of punitive damages to the class of approximately \$145.0 billion, including \$16.3 billion against Lorillard. The court of appeals also decertified the class ordered during pre trial proceedings. See "Class Action Cases."

—The Mississippi Supreme Court has issued a ruling in a product liability case brought against cigarette manufacturers in which it held that the Mississippi Product Liability Act "precludes all tobacco cases that are based on products liability." It is uncertain what affect, if any, this ruling will have on litigation against cigarette manufacturers in Mississippi. Neither Lorillard, nor the Company, were parties to this case. Lorillard is a defendant in approximately 40 other cases in Mississippi.

—During March of 2003, a verdict in favor of a class of Illinois residents who smoked Philip Morris' "light" brand cigarettes was returned in Price v. Philip Morris U.S.A. (Circuit Court, Madison County, Illinois). The court awarded the class approximately \$7.1 billion in actual damages. It also awarded \$3.0 billion in punitive damages to the State of Illinois, which was not a party to the suit. The court awarded plaintiffs' counsel approximately \$1.8 billion in fees and costs. Philip Morris USA has noticed an appeal from the judgment to the Illinois Court of Appeals. Pursuant to Philip Morris USA's application, the court reduced the dollar amount of the bond it was required to post in order to pursue the appeal (the "bond reduction order"). Plaintiffs noticed a separate appeal, and the Illinois Court of Appeals has remanded the bond reduction order to the trial court with directions that it reconsider the ruling. Philip Morris USA has appealed the Court of Appeals' decision on the bond reduction order to the Illinois Supreme Court. As of August 1, 2003, the Illinois Supreme Court had not ruled whether it would review the bond reduction order. Philip Morris USA has initiated an action in the Circuit Court of Cook County, Illinois, in which it seeks a declaration that the state has released any right or interest in the punitive damages award. Neither Lorillard nor the Company are parties in this matter. See "Class Action Cases."

CONVENTIONAL PRODUCT LIABILITY CASES — Approximately 1,600 cases are pending, including approximately 1,175 cases against Lorillard. This total includes approximately 1,100 cases pending in a single West Virginia court that have been consolidated for trial. Lorillard is a defendant in approximately 1,000 of the 1,100 consolidated West Virginia cases. The Company, which is not a defendant in any of the consolidated West Virginia cases, is a defendant in five of the pending cases.

—Since January 1, 2001 and through August 1, 2003, verdicts have been returned in 23 matters. Lorillard was a defendant in two of the cases. Defense verdicts were returned in 15 of the cases, including both tried against Lorillard.

~~—Twelve cases are pending in which verdicts have been returned in favor of the plaintiffs. Neither the Company nor Lorillard were defendants in any of these cases. These twelve cases, and the verdict amounts, are below:~~

~~—Boerner v. Brown & Williamson Tobacco Corporation (U.S. District Court, Eastern District, Arkansas). During May of 2003, plaintiffs were awarded \$4.0 million in actual damages and \$15.0 million in punitive damages. Following trial, the court dismissed the punitive damages verdict and entered a final judgment that is limited to the award of actual damages. As of August 1, 2003, the deadline for the parties to seek further relief from the trial court or to pursue an appeal had not expired.~~

~~—Eastman v. Brown & Williamson Tobacco Corporation, et al. (Circuit Court, Pinellas County, Florida). During April of 2003, plaintiff was awarded \$6.5 million in actual damages. Defendants have appealed.~~

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~~—Bullock v. Philip Morris USA (Superior Court, Los Angeles County, California). During September and October of 2002, plaintiff was awarded \$5.5 million in actual damages and \$28.0 billion in punitive damages. The court reduced the punitive damages award to \$28.0 million. Philip Morris has appealed.~~

~~—Figueroa v. R.J. Reynolds Tobacco Company (U.S. District Court, Puerto Rico). During September of 2002, plaintiffs were awarded \$1.0 million in actual damages. The court granted the defendant's motion for judgment as a matter of law and entered a final judgment in favor of R.J. Reynolds. Plaintiffs have appealed.~~

~~—Schwarz v. Philip Morris Incorporated (Circuit Court, Multnomah County, Oregon). During March of 2002, plaintiff was awarded approximately \$120,000 in economic damages, \$50,000 in noneconomic damages and \$150.0 million in punitive damages, although the court subsequently reduced the punitive damages award to \$100.0 million. Many of plaintiff's claims were directed to allegations that the defendant had made false representations regarding the low tar cigarettes smoked by the decedent. Philip Morris has appealed.~~

~~—Burton v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Kansas). During February of 2002, plaintiff was awarded approximately \$200,000 in actual damages and the jury determined that plaintiff was entitled to punitive damages. During June of 2002, the court awarded plaintiff \$15.0 million in punitive damages from R.J. Reynolds. R.J. Reynolds has appealed.~~

~~—Kenyon v. R.J. Reynolds Tobacco Company (Circuit Court, Hillsborough County, Florida). During December of 2001, plaintiff was awarded \$165,000 in actual damages. During May of 2003, the Florida Court of Appeal affirmed the judgment in favor of the plaintiff. R.J. Reynolds has sought reconsideration of the ruling. As of August 1, 2003, the court had not ruled on Reynolds' motion for reconsideration.~~

~~—Boeken v. Philip Morris Incorporated (Superior Court, Los Angeles County, California). During June of 2001, plaintiff was awarded \$5.5 million in actual damages and \$3.0 billion in punitive damages. The court reduced the punitive damages award to \$100.0 million. Philip Morris has appealed.~~

~~—Jones v. R.J. Reynolds Tobacco Co. (Circuit Court, Hillsborough County, Florida). During October of 2000, plaintiff was awarded \$200,000 in actual damages. The court granted the defendant's motion for new trial. The Florida Court of Appeal affirmed this ruling. Plaintiff has filed for permission to appeal to the Florida Supreme Court.~~

~~—Whiteley v. Raybestos Manhattan, Inc., et al. (Superior Court, San Francisco County, California). During March of 2000, plaintiffs were awarded \$1.0 million in economic damages, \$500,000 in noneconomic damages, \$250,000 in loss of consortium and \$20.0 million in punitive damages from Philip Morris and R.J. Reynolds. Both defendants have appealed.~~

~~—Williams v. Philip Morris, Inc. (Circuit Court, Multnomah County, Oregon). During March of 1999, plaintiff was awarded \$21,000 in economic damages, \$800,000 in actual damages and \$79.5 million in punitive damages. The court reduced the punitive damages award to \$32.0 million. During 2002, the Oregon Court of Appeals affirmed the verdict and reinstated the full amount of the punitive damages award. The Oregon Supreme Court declined to review the case. Philip Morris has filed a petition for writ of certiorari with the U.S. Supreme Court. As of August 1, 2003, the Court had not ruled whether it would grant review of the petition.~~

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~~—Henley v. Philip Morris Incorporated (Superior Court, San Francisco County, California). During February of 1999, plaintiff was awarded \$1.5 million in actual damages and \$50.0 million in punitive damages, although the court reduced the latter award to \$25.0 million. The California Court of Appeals affirmed the judgment in two separate rulings issued in 2001 and 2003. The California Supreme Court remanded the case to the Court of Appeals following both decisions and directed to reconsider its rulings. The case is now before the California Court of Appeals.~~

~~—Defense verdicts have been returned in the following 15 matters since January 1, 2001. Unless otherwise noted, neither Lorillard nor the Company was~~

a defendant in these matters:

~~—Reller v. Philip Morris USA (Superior Court, Los Angeles County, California). During July of 2003, the jury found that a smoker's lung cancer was caused by smoking but declined to award damages. As of August 1, 2003, a judgment reflecting the verdict had not been entered.~~

~~—Welch v. Brown & Williamson Tobacco Corporation, et al. (Circuit Court, Jackson County, Missouri). A defense verdict was returned during June of 2003. Plaintiff has filed a motion for new trial. As of August 1, 2003, the court had not ruled on the motion for new trial.~~

~~—Lucier v. Philip Morris USA, et al. (Superior Court, Sacramento County, California). A defense verdict was returned during February of 2003. The court has denied plaintiffs' motion for new trial. Plaintiffs have appealed.~~

~~—Carter v. Philip Morris USA (Court of Common Pleas, Philadelphia County, Pennsylvania). A defense verdict was returned during January of 2003. The court has denied plaintiff's motion for new trial. Plaintiff has appealed.~~

~~—Conley v. R.J. Reynolds Tobacco Co., et al. (U.S. District Court, Northern District of California). A defense verdict was returned during December of 2002. Plaintiffs have appealed.~~

~~—Tompkin v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio). Lorillard is a defendant in this matter. A defense verdict was returned during October of 2001. Plaintiff has appealed.~~

~~—In nine cases in which defendants prevailed at trial after January 1, 2001, plaintiffs either chose not to appeal or have withdrawn their appeals and the cases are concluded. These nine matters and the dates of the verdicts are Allen v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Southern District, Florida, February of 2003); Inzerilla v. The American Tobacco Company, et al. (Supreme Court, Queens County, New York, February of 2003); Tune v. Philip Morris Incorporated (Circuit Court of Pinellas County, Florida, May of 2002); Hyde v. Philip Morris Incorporated (U.S. District Court, Rhode Island, March of 2002); DuJack v. Brown & Williamson Tobacco Corporation (Superior Court of Connecticut at Rockville, November of 2001); Mehlman v. Philip Morris, Inc., et al. (Superior Court, Middlesex County, New Jersey, May of 2001); Grinnell v. The American Tobacco Company (District Court, Jefferson County, Texas, March of 2001); Little v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, South Carolina, February of 2001) and Apostolou v. The American Tobacco Company, et al. (Supreme Court, Kings County, New York, January of 2001). Lorillard was a defendant in one of these nine matters, Apostolou v. The American Tobacco Company, et al.~~

~~—As of August 1, 2003, trial was proceeding in one tobacco product liability case in which neither Lorillard nor the Company were defendants, Eiser v. Brown & Williamson Tobacco Corporation, et al., pending in the Court of Common Pleas of Philadelphia County, Pennsylvania. Some cases against U.S. cigarette manufacturers and manufacturers of smokeless tobacco products are scheduled for trial during the remainder of 2003 and beyond. As of August 1, 2003, Lorillard is a defendant in one trial scheduled for 2003. A consolidated trial involving the approximately 1,000 cases pending against Lorillard in the Circuit Court of Ohio County, West Virginia, had been scheduled for trial during 2003 but that trial date has been vacated. A new date for the consolidated trial was not scheduled as of August 1, 2003 and it is not known whether this trial will begin during 2003. The Company is not a defendant in any of the cases scheduled for trial during 2003 as of August 1, 2003. The trial dates are subject to change.~~

~~FLIGHT ATTENDANT CASES — As of August 1, 2003, approximately 2,800 Flight Attendant cases were 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, 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.~~

~~—During October of 2000, the Circuit Court of Miami Dade County, Florida entered an order that may be construed to hold 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. It is not clear how the trial judges will apply this order. The defendants' appeals were rejected as premature. Defendants retain the right to appeal this order in the future.~~

~~—Verdicts have been returned in five of the flight attendant cases. Lorillard has been a defendant in each of these five cases. In one of the cases, the plaintiff was awarded \$5.5 million in actual damages, although the court reduced the award to \$500,000. Defendants have noticed an appeal from this verdict and plaintiff has noticed a cross appeal. Defendants have prevailed in~~

the four other cases. In one of them, the court granted plaintiff's motion for new trial and defendants have appealed.

—As of August 1, 2003, approximately 10 flight attendant cases were scheduled for trial during 2003 and 2004. Trial dates are subject to change.

CLASS ACTION CASES — Lorillard is a defendant in approximately 40 pending cases. The Company is a defendant in two of these cases. In most of the pending cases, plaintiffs purport to 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. The pending class action cases against Lorillard include approximately 25 separate suits filed in a single Nevada court in which the plaintiffs assert virtually identical class definitions. Neither Lorillard nor the Company are defendants in approximately 25 additional class action cases pending against other cigarette manufacturers

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in various courts throughout the nation. Many of these 25 cases assert claims on behalf of smokers of "light" cigarettes.

—Cigarette manufacturers, including Lorillard, have defeated motions for class certification in a total of 33 cases, 12 of which were in state court and 21 of which were in federal court. These 33 cases were filed in 16 states, the District of Columbia and the Commonwealth of Puerto Rico.

—The Engle Case — One of the class actions pending against Lorillard is Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994), a case in which a jury awarded approximately \$16.3 billion in punitive damages against Lorillard during 2000 as part of a \$145.0 billion verdict against all of the defendants. During May of 2003, a Florida appellate court reversed the judgment and decertified the class. This matter is described below.

—A three phase trial plan governed Engle when trial began in July of 1998. The first phase involved certain issues deemed common to the certified class, which was defined as Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to cigarettes. The trial's first phase ended on July 7, 1999 with findings against the defendants, including Lorillard. Among other things, the jury found that cigarette smoking is addictive and causes lung cancer and a variety of other diseases, that the defendants concealed information about the health risks of smoking, and that defendants' conduct rose to a level that would permit a potential award or entitlement to punitive damages. The jury was not asked to award damages in the Phase One verdict, and the verdict permitted the trial to proceed to a second phase.

—In the first portion of Phase Two, on April 7, 2000, the jury returned a verdict against the defendants and awarded three plaintiffs \$12.5 million in damages for their individual claims.

—In the second part of Phase Two, on July 14, 2000, the jury awarded approximately \$145.0 billion in punitive damages against all defendants, including \$16.3 billion against Lorillard. The judgment provided that the jury's awards bear interest at the rate of 10% per year.

—Lorillard noticed an appeal from the final judgment to the Florida Third District Court of Appeal and posted its appellate bond in the amount of \$100.0 million pursuant to Florida legislation enacted in May of 2000 limiting 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, during May of 2001, Lorillard entered into an agreement with the plaintiffs (the "Engle Agreement") in which it contributed \$200.0 million to a fund held for the benefit of the Engle plaintiffs that may not be recoverable by Lorillard even if the challenges to the judgment are resolved in favor of the defendants. 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 second quarter of the year ended December 31, 2001. Two other defendants executed agreements with the plaintiffs that are similar to Lorillard's. As a result, the class has 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.

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—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 June 30, 2003, Lorillard, Inc. had a balance sheet net worth of approximately \$1.4 billion.

—In addition, the Engle Agreement requires Lorillard to obtain the written consent of class counsel or the court prior to selling any trademark 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. It is not clear how the Engle Agreement is affected by the decertification of the class and by the order vacating the judgment.~~

~~—Lorillard is a defendant in eleven separate cases pending in the Florida courts in which the plaintiffs claim that they are members of the Engle class, that all liability issues associated with their claims were resolved in the earlier phases of the Engle proceedings, and that trials on their claims should proceed immediately. Lorillard is opposing trials of these actions on the grounds that they should be considered during Phase Three of the Engle case and should be stayed while the Engle appeal is proceeding. Additional cases with similar contentions are pending against other cigarette manufacturers. In one of the matters in which Lorillard was not a party, a jury in the Circuit Court of Miami Dade County, Florida returned a verdict in favor of the plaintiffs during June of 2002 in the case of Lukacs v. Brown & Williamson Tobacco Corporation, et al. and awarded them \$500,000 in economic damages, \$24.5 million in noneconomic damages and \$12.5 million in damages for loss of consortium. The court has reduced the loss of consortium award to \$125,000. No post trial motions are scheduled to be filed in Lukacs as a final judgment reflecting the verdict will not be entered until the Engle appeal is resolved.~~

~~—Lorillard believes that the Engle case should not have been certified as a class action. Lorillard further believes that class certification in the Engle case was inconsistent with the majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard, along with the other defendants, appealed to the Florida Third District Court of Appeal and challenged class certification as well as numerous other legal errors it believed occurred during the trial. On May 21, 2003, the court vacated the judgment reflecting the verdicts, including the punitive damages award, and further ordered that the class was to be decertified. Plaintiffs have sought reconsideration of this ruling, including certification of certain issues to the Florida Supreme Court. As of August 1, 2003, the Court of Appeals had not ruled whether it would permit rehearing of its May 21 order.~~

~~Other Class Action Cases — In six additional class actions in which Lorillard is a defendant, courts have granted plaintiffs' motions for class certification. Two of these matters have been resolved in favor of the defendants and plaintiffs' claims in a third case were resolved through a settlement agreement. These six matters are listed below in alphabetical order:~~

~~—Blankenship v. American Tobacco Company, et al. (Circuit Court, Ohio County, West Virginia, filed January 31, 1997). During 2000, the court certified a~~

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~~class comprised of certain West Virginia cigarette smokers who sought, among other things, medical monitoring. During November of 2001, the jury returned a verdict in favor of the defendants, including Lorillard. Plaintiffs have noticed an appeal.~~

~~—Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, filed October 31, 1991). This is the matter concluded by a settlement agreement and discussed under "Flight Attendant Cases" above.~~

~~—Brown v. The American Tobacco Company, Inc., et al. (Superior Court, San Diego County, California, filed June 10, 1997). During 2001, the court certified a class comprised of adult 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. Trial is scheduled to begin during September of 2003. As of August 1, 2003, however, it appeared that the trial would be delayed.~~

~~—Daniels v. Philip Morris, Incorporated, et al. (Superior Court, San Diego County, California, filed August 2, 1998). During 2000, the court certified a class comprised of California residents who, while minors, smoked at least one cigarette between April of 1994 and December 31, 1999. During 2002, the court granted defendants' motion for summary judgment and entered final judgment in their favor. Plaintiffs have appealed.~~

~~—In re: Simon II Litigation v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed September 6, 2000). During 2002, the case was certified as a nationwide non opt out class comprised of the punitive damages claims asserted by individuals who allege certain injuries or medical conditions allegedly caused by smoking. Certain individuals, including those who allege membership in the class certified in Engle v. R.J. Reynolds Tobacco Company, et al., were excluded from the class. Defendants are appealing the ruling.~~

~~—Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996). The court certified a class comprised 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. Jury selection began during 2001, but the jury did not begin hearing evidence until January of 2003. During July of 2003, the jury returned a verdict in the first phase of trial that resolved some of~~



plaintiffs' claims in favor of the defendants but found in favor of the class as to certain other matters. See above for a discussion of the jury's findings.

~~—In addition to the above, motions for class certification have been granted in some cases in which Lorillard is not a defendant. One of these is the case of Price v. Philip Morris USA (Circuit Court, Madison County, Illinois, filed February 10, 2000, and formerly known as Miles). The court in Price certified a class comprised of Illinois residents who smoked Philip Morris' cigarettes labeled as "light" or "ultra light." During 2003, the court returned a verdict in favor of the class; see above for a discussion of the judgment entered in plaintiffs' favor at trial and the developments concerning the defendant's actions to bond and pursue an appeal.~~

~~REIMBURSEMENT CASES —The cases settled by the State Settlement Agreements described below are concluded. Approximately 40 other suits are pending in which Lorillard is a defendant. The Company is a defendant in 26 of the~~

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~~pending cases. Plaintiffs in 28 of the cases are foreign governments that have filed suit in U.S. courts. The plaintiffs in the remaining pending cases include the U.S. federal government, several U.S. county or city governments, American Indian tribes, hospitals or hospital districts, private companies and private citizens suing on behalf of taxpayers. Plaintiffs in some of these cases seek certification as class actions.~~

~~—U.S. Federal Government Action —The U.S. federal government filed a reimbursement suit on September 22, 1999 in the U.S. District Court for the District of Columbia against Lorillard, other U.S. cigarette manufacturers, some parent companies and two trade associations. The Company is not a defendant in this action. Plaintiff asserted claims under the Medical Care Recovery Act, the Medicare as Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act. The court has dismissed plaintiff's Medical Care Recovery Act and the Medicare as Secondary Payer provisions of the Social Security Act claims. In a recent filing, the government stated that it is seeking an aggregate of \$289.0 billion in disgorgement of profits from the defendants, including Lorillard, as well as injunctive relief.~~

~~—Reimbursement Cases filed by Foreign Governments in U.S. Courts —Cases have been brought in U.S. courts by 13 nations, more than 20 Brazilian states or cities, and one Canadian province. Some of the cases have been voluntarily dismissed, while courts have granted defendants' dismissal motions in some of the other matters. Twenty seven of the cases are pending. Both the Company and Lorillard are named as defendants in most of these cases, although both have been dismissed from three suits that remain pending against other defendants.~~

~~—Other pending Reimbursement cases —In addition to the cases described above, approximately 15 Reimbursement cases are pending against Lorillard. Plaintiffs in these suits include U.S. city or county governments, hospitals or hospital districts, American Indian tribes, private companies and private citizens suing on behalf of taxpayers.~~

~~—Excluding the cases filed by U.S. state governments that are described below, defendants have successfully defended many of the Reimbursement cases. For instance, each of the approximately 75 cases filed by labor union health and welfare funds were dismissed, either due to orders that granted defendants' dispositive motions or as the result of plaintiffs voluntarily withdrawing their claims. In addition, various courts of appeal have affirmed orders dismissing cases in favor of the defendants. For instance, during February of 2003, the Appellate Division of the New York Supreme Court affirmed the order dismissing the case filed by approximately 170 New York hospitals or hospital districts, while the U.S. Supreme Court denied the petition for writ of certiorari filed by the plaintiff in one of the tribal cases during January of 2003. During May of 2003, the Florida Supreme Court denied the appeal filed by the Republic of Venezuela that sought review of the orders dismissing the case in favor of the defendants. Many of the cases filed by other foreign governments in U.S. courts are pending in Florida.~~

~~—Since January 1, 2001, one of the Reimbursement cases has been tried. During June of 2001, a jury in the U.S. District Court for the Eastern District of New York returned a verdict in Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., and awarded damages against the defendants, including Lorillard. In this trial, the jury heard evidence as to the claims of only one of the plan plaintiffs, Empire Blue Cross and Blue Shield, referred to as "Empire." In its verdict, the jury found in favor of the defendants on some of Empire's claims, one of which precluded the jury from considering Empire's claims for punitive damages. The jury found in favor~~

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~~of Empire on certain other of plaintiff's claims. As a result of these findings, a final judgment was entered in which Empire was awarded a total of approximately \$17.8 million in actual damages, including approximately \$1.5 million attributable to Lorillard. Empire was awarded approximately \$55,000 in pre-judgment interest for a total award against Lorillard of approximately \$1.6 million. The court has awarded plaintiff's counsel approximately \$38.0 million in attorneys' fees. The defendants have noticed an appeal to the U.S. Court of Appeals for the Second Circuit from the final judgment and from the order awarding plaintiff's counsel attorneys' fees. The Court of Appeals heard~~

~~argument of defendants' appeal during February of 2003.~~

~~—In addition to the above, the District Court of Jerusalem, Israel, has permitted a private insurer in Israel, Clalit Health Services, to make service outside the jurisdiction on the Company and Lorillard with a suit in which Clalit Health Services seeks damages for providing treatment to individuals allegedly injured by cigarette smoking. The Company and Lorillard have separately moved to set aside the order that permitted service outside the jurisdiction. As of August 1, 2003, the court had not ruled on the motions to set aside the attempted service.~~

~~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 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 \$180.1, \$291.9, \$377.6 and \$587.7 million (\$116.3, \$176.5, \$236.9 and \$357.2 million after taxes), for the three and six months ended June 30, 2003 and 2002, respectively, 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: 2003, \$10.9 billion; 2004 through 2007, \$8.4 billion; and thereafter, \$9.4 billion. 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 \$250.0 million in 2003. These payment obligations are the several and not joint obligations of each settling defendant.~~

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~~—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.~~

~~—In addition, as part of the Master Settlement Agreement, the Original Participating Manufacturers committed to work cooperatively with the tobacco growing community to address concerns about the potential adverse economic impact on that community. On January 21, 1999, the Original Participating Manufacturers reached an agreement to establish a \$5.2 billion trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 states. Payments to the trust fund are to be allocated among the Original Participating Manufacturers according to their relative market share of domestic cigarette shipments, except that Philip Morris paid more than its market share in 1999 but will have its payment obligations reduced in 2009 and 2010 to make up for the overpayment. Of the total \$5.2 billion, a total of \$1.6 billion was paid since 1999 through June 30, 2003, \$146.0 million of which was paid by Lorillard. Lorillard believes its remaining payments under the agreement will total approximately \$348.0 million. All payments will be adjusted for inflation, changes in the unit volume of domestic cigarette shipments, and the effect of new increases in state or federal excise taxes on tobacco products that benefit the tobacco growing community.~~

~~—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. Almost all domestic manufacturers have agreed to become subject to the terms of the Master Settlement Agreement, however, under the terms of the Master Settlement Agreement, manufacturers other than the Original Participating Manufacturers retain much of their cost advantage.~~

~~CONTRIBUTION CLAIMS —Approximately 10 cases are pending against Lorillard. The Company is a defendant in one of these cases. Plaintiffs seek recovery of funds expended by them to individuals whose asbestos disease or illness was alleged to have been caused in whole or in part by smoking related illnesses.~~

~~FILTER CASES — Claims have been brought against Lorillard by smokers as well as former employees of Lorillard seeking damages resulting from 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 almost 50 years ago. Approximately 60 such matters are pending against Lorillard. The Company is a defendant in one of these matters. Since January 1, 2000 and through August 1, 2003, Lorillard has paid, or has reached agreement to pay, a total of approximately \$17.8 million in payments of judgments and settlements to finally resolve approximately 45 previously pending claims. In *Sachs v. Lorillard Tobacco Co.*, the only filter case tried to a verdict since January 1, 2001, the jury found in favor of Lorillard.~~

~~Other Tobacco — Related~~

~~—TOBACCO — RELATED ANTITRUST CASES — Wholesalers and Direct Purchaser Suits — Lorillard and other domestic and international cigarette manufacturers and their parent companies, including the Company, were named as defendants in nine separate federal court actions brought by tobacco product wholesalers for violations of U.S. antitrust laws and international law. The complaints allege~~

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~~that defendants conspired to fix the price of cigarettes to wholesalers since 1993 in violation of the Sherman Act. These actions seek certification of a class including all domestic and international wholesalers similarly affected by such alleged conduct, and damages, injunctive relief and attorneys' fees. These actions were consolidated for pre trial purposes in the U.S. District Court for the Northern District of Georgia. The Court granted class certification for a four year class (beginning in 1996 and ending in 2000) of domestic direct purchasers. The Company has been voluntarily dismissed without prejudice from all direct purchaser cases. On July 11, 2002, the Court granted motions for summary judgment filed by Lorillard and all other defendants dismissing the actions in their entirety. Plaintiffs appeal in the U.S. Court of Appeals for the Eleventh Circuit was argued May 1, 2003.~~

~~— Indirect Purchaser Suits — Approximately 30 suits are pending in various state courts alleging violations of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. Approximately 18 states permit such suits. Lorillard is a defendant in all but one of these indirect purchaser cases. Two indirect purchaser suits in New York and Florida, have been dismissed in their entirety and plaintiffs have withdrawn their appeals. The Arizona indirect purchaser suit was dismissed by the trial court, but the dismissal was reversed on appeal, and an appeal from the reversal to the Arizona Supreme Court was argued in January of 2003. While two state courts have granted plaintiffs' motions to certify a class of consumers, two other state courts have refused to do so, and other motions seeking class certification have been deferred by other courts pending resolution of the federal case discussed above. The decision granting certification in New Mexico is being appealed by the defendants. In Kansas, a Motion to Compel against Lorillard (and other defendants) seeking certain documents for which Lorillard has claimed privilege and a motion to extend discovery deadlines are pending before the court. The Company was also named as a defendant in most of these indirect purchaser cases but has been voluntarily dismissed without prejudice from all of them.~~

~~— Tobacco Growers Suit — *DeLoach v. Philip Morris Inc., et al.* (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). Lorillard is named as a defendant in a lawsuit that, after several amendments, alleges only antitrust violations. The other major domestic tobacco companies and the major leaf buyers are also defendants. On April 3, 2002 the court certified 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. All of the defendants, with the exception of R.J. Reynolds Tobacco Company, have entered into an agreement to settle the litigation. Pursuant to the settlement agreement, Lorillard will pay the class \$20.0 million. In addition, Lorillard has committed to buy 20 million pounds of domestic tobacco for each of the next ten years. 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. Lorillard will also be responsible for 10% of the plaintiffs' attorneys' fees, to be determined by the court after class approval. The court has given preliminary approval to the settlement. Class notice and the settlement agreement have been sent to class members. A hearing on whether final approval will be granted is scheduled to be held on October 1, 2003.~~

~~REPARATION CASES — During 2002, the Company was named as a defendant in three cases in which plaintiffs seek reparations for the alleged financial benefits derived from the uncompensated use of slave labor. The Company was named as a defendant in these matters as a result of conduct purportedly engaged in by~~

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~~Lorillard and various other entities. Plaintiffs in these suits seek various types of damages including disgorgement of profits, restitution and punitive damages. Plaintiffs seek class certification on behalf of the descendants of enslaved African Americans.~~

~~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, 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.~~

~~In addition, some developments on health issues related to tobacco products have received widespread media attention, which could have adverse effects on the ability of Lorillard to prevail in smoking and health litigation. These developments also could prompt the filing of additional litigation. These developments include, but are not limited to, the release of industry documents beginning in 1998 and the adverse outcomes in some of the cases tried during the past few years, some of which have resulted in awards to the plaintiffs for billions of dollars. Defendants have appealed, or intend to appeal, each of the verdicts returned to date in which plaintiffs were awarded damages.~~

~~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 affected by an unfavorable outcome 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.~~

### ~~13. Contingencies~~

#### ~~Guarantees~~

~~CNA has provided guarantees related to irrevocable standby letters of credit for certain of its subsidiaries. Certain of these subsidiaries have been sold; however, the irrevocable standby letter of credit guarantees remain in effect. CNA would be required to remit prompt payment on the letters of credit in question if the primary obligor drew down on these letters of credit and failed to repay such loans in accordance with the terms of the letters of credit. The maximum potential amount of future payments that CNA could be required to pay under these guarantees is approximately \$30.0 million at June 30, 2003.~~

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~~CNA holds an investment in a real estate joint venture. In the normal course of business, CNA, on a joint and several basis with other unrelated insurance company shareholders, has committed to continue funding the operating deficits of this joint venture. Additionally, CNA and the other unrelated shareholders, on a joint and several basis, have guaranteed an operating lease for an office building, which expires in 2016.~~

~~The guarantee of the operating lease is a parallel guarantee to the commitment to fund operating deficits; consequently, the separate guarantee to the lessor is not expected to be triggered as long as the joint venture continues to be funded by its shareholders and continues to make its annual lease payments.~~

~~In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, CNA would be required to assume the obligation for the entire office building operating lease. The maximum potential future lease payments at June 30, 2003 that CNA could be required to pay under this guarantee are approximately \$324.0 million. If CNA were required to assume the entire lease obligation, CNA would have the right to pursue reimbursement from the other shareholders and would have the right to all sublease revenues.~~

~~CNA has recorded a liability of approximately \$9.0 and \$10.0 million as of June 30, 2003 and December 31, 2002 for its share of estimated future operating deficits of this joint venture through 2016.~~

~~CNA has provided guarantees of the indebtedness of certain of its independent insurance producers. These guarantees expire in 2003. CNA would be required to remit prompt and complete payment when due, should the primary obligor default. In the event of default on the part of the primary obligor, CNA has a right to any and all shares of common stock of the primary obligor. The maximum potential amount of future payments that CNA could be required to pay under these guarantees is approximately \$7.0 million at June 30, 2003.~~

#### ~~CNA Surety~~

~~CCC provided an excess of loss reinsurance contract to the insurance subsidiaries of CNA Surety Corporation ("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% 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. There were no reinsurance balances payable under this stop loss contract as of June 30, 2003 and December 31, 2002.~~

~~—Effective October 1, 2002, CCC provides an excess of loss protection for new and renewal bonds for CNA Surety for per principal exposures that exceed \$60.0 million since October 1, 2002 in two parts — a) \$40.0 million excess of \$60.0 million and b) \$50.0 million excess of \$100.0 million for CNA Surety. This excess of loss protection is necessary primarily to support new and renewal bonds for contract surety accounts with bonded backlogs or work in process in excess of \$60.0 million. In consideration for the reinsurance coverage provided by the \$40.0 million excess of \$60.0 million contract, CNA Surety will pay to CCC, on a quarterly basis, a premium equal to \$3.0 million. In consideration for the reinsurance coverage provided by the \$50.0 million~~

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~~excess of \$100.0 million, the insurance subsidiaries of CNA Surety will pay \$6.0 million in premium to CCC.~~

~~—In March of 2003, CNA entered into a credit agreement with a large national contractor, which undertakes projects for the construction of government and private facilities, to provide loans to the contractor in a maximum aggregate amount of \$86.4 million (the "Credit Facility"). Of the \$86.4 million capacity, \$62.1 million, including accrued interest, was outstanding at June 30, 2003. The Credit Facility and all related loans will mature in March of 2006. Advances under the Credit Facility bear interest at the prime rate plus 6.0%. Payment of 3.0% of the interest is deferred until the Credit Facility matures, and the remainder is to be paid monthly in cash. Loans under the credit facility are secured by a pledge of substantially all of the assets of the contractor and certain of its affiliates.~~

~~—In addition, in June of 2003, CNA and one of its subsidiaries provided repayment guarantees to certain creditors of the contractor and a subsidiary of the contractor amounting to \$8.7 million. Such guarantees were provided in order to allow the contractor to receive financial accommodations from a creditor and in order to comply with certain regulatory requirements. Under the terms of the guarantees, any payments made by CNA, or any of its subsidiaries, would be considered a draw under the Credit Facility.~~

~~—CNA Surety has provided significant surety bond protection for projects by this contractor through surety bonds underwritten by CCC or its affiliates. The loans were provided by CNA to help the contractor meet its liquidity needs.~~

~~—In March of 2003, CNA also purchased the contractor's outstanding bank debt for \$16.4 million. The contractor retired the bank debt by paying CNA \$16.4 million, with \$11.4 million of the payoff amount being funded under the new Credit Facility and \$5.0 million from money loaned to the contractor by its shareholders. Under its purchase agreement with the banks, CNA is also required to reimburse the banks for any draws upon approximately \$6.5 million in outstanding letters of credit issued by the banks for the contractor's benefit that expire between May and August of 2003. Any amounts paid by CNA to the banks as reimbursements for draws upon the banks' letters of credit will become obligations of the contractor to CNA as draws upon the Credit Facility.~~

~~—The Company has purchased a participation interest in one third of the loans and commitments under the new Credit Facility, on a dollar for dollar basis, up to a maximum of \$25.0 million. Although the Company does not have rights against the contractor directly under the participation agreement, it shares recoveries and certain fees under the Credit Facility proportionally with CNA.~~

~~—The contractor has initiated a restructuring plan that is intended to reduce costs and improve cash flow, and a chief restructuring officer has been appointed to manage execution of the plan. CNA, through its affiliate CNA Surety, intends to continue to provide surety bonds on behalf of the contractor during this restructuring period, subject to the contractor's initial and ongoing compliance with CNA Surety's underwriting standards. Any losses arising from bonds issued or assumed by the insurance subsidiaries of CNA Surety to the contractor are excluded from CNA Surety's \$45.0 million excess of \$15.0 million per principal reinsurance program with unaffiliated reinsurers in place in 2003. As a result, CNA Surety retains the first \$60.0 million of losses on bonds written with an effective date of September 30, 2002 and prior, and CCC will incur 100% of losses above that retention level on bonds with effective dates prior to September 30, 2002. Through facultative reinsurance contracts with CCC, CNA Surety's exposure on bonds written from~~

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~~October 1, 2002 through December 31, 2002 has been limited to \$20.0 million per bond.~~

~~—Indemnification and subrogation rights, including rights to contract proceeds on construction projects in the event of default, exist that reduce~~

~~CNA Surety's and ultimately CNA's exposure to loss. While CNA believes that the contractor's restructuring efforts are expected to be successful and provide sufficient cash flow for its operations and repayment of its borrowings under the credit facility, the contractor's failure to achieve its restructuring plan or perform its contractual obligations under the credit facility and underlying all of CNA's surety bonds could have a material adverse effect on the Company's future results of operations. If such failures occur, CNA estimates the surety loss, net of indemnification and subrogation recoveries, but before the effects of corporate aggregate reinsurance treaties, if any, and minority interest could be up to \$200.0 million.~~

~~Other~~

~~As of June 30, 2003 and December 31, 2002, CNA had committed approximately \$97.0 and \$141.0 million for future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnership.~~

~~CNA 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 June 30, 2003, CNA had commitments to purchase \$157.0 million and commitments to sell \$46.0 million of various bank loan participations.~~

~~In the normal course of investing activities, CCC had committed approximately \$51.0 million as of June 30, 2003 to future capital calls from certain of its unconsolidated affiliates in exchange for an ownership interest in such affiliates.~~

~~In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. As of June 30, 2003 and December 31, 2002 there were approximately \$195.0 and \$222.0 million of outstanding letters of credit.~~

~~CNA has a commitment to purchase up to a \$100.0 million floating rate note issued by the California Earthquake Authority in the event of an earthquake during calendar year 2003 that results in California earthquake related losses greater than \$4.2 billion.~~

~~The Company is obligated to make future payments totaling \$517.6 million for non-cancelable operating leases expiring from 2003 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: \$47.9 million in 2003; \$79.0 million in 2004; \$69.5 million in 2005; \$58.7 million in 2006; \$49.4 million in 2007; and \$213.1 million in 2008 and beyond. Additionally, CNA has entered into a limited number of guaranteed payment contracts, primarily relating to telecommunication services, amounting to approximately \$24.0 million. Estimated future minimum purchases under these contracts are as follows: \$6.0 million in 2003; \$13.0 million in 2004; and \$5.0 million in 2005.~~

~~In the ordinary course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of~~

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~~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 six months following the applicable closing date to the expiration of the relevant statutes of limitation. As of June 30, 2003, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities and assets was \$375.0 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 June 30, 2003, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets for 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. CNA has recorded approximately \$15.0 million of liabilities related to these quantifiable and unquantifiable indemnification agreements.~~

#### 14. Consolidating Financial Information

~~The following schedules present the Company's consolidating balance sheet information at June 30, 2003 and December 31, 2002, and consolidating statements of income information for the six months ended June 30, 2003 and 2002. 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 4 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 and corporate long-term debt. 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.

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Loews Corporation  
Consolidating Balance Sheet Information

	CNA		Loews	Diamond	Texas		Corporate	Elimin-	
June 30, 2003	Financial	Lorillard	Hotels	Offshore	Gas	Bulova	and Other	ations	Total
(In millions)									
<b>Assets:</b>									
Investments	\$37,862.7	\$ 1,596.2	\$ 101.7	\$ 597.3	\$ 35.3	\$ 2.0	\$ 2,820.9		\$43,016.1
Cash	140.3	1.4	8.2	17.6	3.4	7.0	9.8		187.7
Receivables	17,375.3	26.4	26.2	151.0	47.1	76.3	41.5	\$ (3.2)	17,740.6
Property, plant and equipment	284.4	205.7	386.6	2,313.1	658.1	15.7	32.6		3,896.2
Deferred income taxes	222.7	461.9				23.2		(568.5)	139.3
Goodwill	136.0		2.6	27.6	280.5				446.7
Investments in capital stocks of subsidiaries							12,751.8	(12,751.8)	
Other assets	3,203.7	435.4	104.3	87.0	170.3	82.6	458.9	(317.9)	4,224.3
Deferred acquisition costs of insurance subsidiaries	2,620.2								2,620.2
Separate account business	3,428.0								3,428.0
<b>Total assets</b>	<b>\$65,274.2</b>	<b>\$ 2,727.0</b>	<b>\$ 629.6</b>	<b>\$3,193.6</b>	<b>\$1,194.7</b>	<b>\$ 206.8</b>	<b>\$ 16,115.5</b>	<b>\$(13,641.4)</b>	<b>\$75,700.0</b>
=====									
<b>Liabilities and Shareholders' Equity:</b>									
Insurance reserves	\$41,451.6								\$41,451.6
Payable for securities purchased	1,264.0		\$ 2.7				\$ 850.5		2,118.1
Securities sold under agreements to repurchase	985.1						404.8		1,389.9
Long term debt, less unamortized discounts	2,158.2		146.8	\$ 925.9	\$ 807.9		2,297.6	\$ (260.0)	6,076.4
Reinsurance balances payable	2,840.1								2,840.1
Deferred income taxes			37.6	352.5			178.4	(568.5)	
Other liabilities	2,617.6	\$ 1,327.8	193.5	132.0	125.2	\$ 55.0	95.6	(341.2)	4,206.4
Separate account business	3,428.0								3,428.0
<b>Total liabilities</b>	<b>54,746.4</b>	<b>1,327.8</b>	<b>380.6</b>	<b>1,410.4</b>	<b>933.1</b>	<b>55.0</b>	<b>3,826.9</b>	<b>(1,169.7)</b>	<b>61,511.4</b>
Minority interest	1,150.5		0.2	800.6		4.0			1,956.2
Shareholders' equity	9,377.3	1,399.2	248.8	982.6	261.6	146.0	12,288.6	(12,471.7)	12,232.4
<b>Total</b>	<b>\$65,274.2</b>	<b>\$ 2,727.0</b>	<b>\$ 629.6</b>	<b>\$3,193.6</b>	<b>\$1,194.7</b>	<b>\$ 206.8</b>	<b>\$ 16,115.5</b>	<b>\$(13,641.4)</b>	<b>\$75,700.0</b>
=====									

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Loews Corporation  
Consolidating Balance Sheet Information

	CNA		Loews	Diamond		Corporate			
December 31, 2002	Financial	Lorillard	Hotels	Offshore	Bulova	and Other	Eliminations		Total
(In millions)									
<b>Assets:</b>									
Investments	\$35,271.2	\$ 1,640.7	\$ 104.6	\$ 794.1	\$ 1.4	\$ 2,324.7			\$40,136.7
Cash	126.2	2.0	4.8	18.4	8.7	25.3			185.4
Receivables	16,262.1	30.2	24.2	147.0	87.6	52.7	\$ (2.8)		16,601.0
Property, plant and equipment	292.4	197.8	391.2	2,207.5	16.3	33.0			3,138.2
Deferred income taxes	772.2	437.0			22.6	0.3	(604.9)		627.2
Goodwill	140.8		2.6	34.4					177.8

Investments in capital stocks of subsidiaries						11,451.2	(11,451.2)	
Other assets	3,130.1	469.2	95.5	92.2	74.3	160.0	(22.1)	3,999.2
Deferred acquisition costs of insurance subsidiaries	2,551.4							2,551.4
Separate account business	3,102.7							3,102.7
<b>Total assets</b>	<b>\$61,640.1</b>	<b>\$ 2,776.0</b>	<b>\$ 622.0</b>	<b>\$3,293.6</b>	<b>\$210.9</b>	<b>\$14,047.2</b>	<b>\$(12,081.0)</b>	<b>\$70,519.6</b>
<b>Liabilities and Shareholders' Equity:</b>								
Insurance reserves	\$40,178.9							\$40,178.9
Payable for securities purchased	531.2		\$ 4.0			\$ 263.9		799.1
Securities sold under agreements to repurchase	552.4							552.4
Long term debt, less unamortized discounts	2,292.1		145.8	\$ 917.8		2,296.2		5,651.9
Reinsurance balances payable	2,763.3							2,763.3
Deferred income taxes			47.1	374.0		183.8	\$ (604.9)	
Other liabilities	2,659.7	\$ 1,352.1	195.7	141.3	\$ 67.5	87.3	(162.8)	4,340.8
Separate account business	3,102.7							3,102.7
<b>Total liabilities</b>	<b>52,080.3</b>	<b>1,352.1</b>	<b>392.6</b>	<b>1,433.1</b>	<b>67.5</b>	<b>2,831.2</b>	<b>(767.7)</b>	<b>57,389.1</b>
Minority interest	1,055.0		0.2	835.4	4.7			1,895.3
Shareholders' equity	8,513.8	1,424.8	230.1	1,025.1	138.7	11,216.0	(11,313.3)	11,235.2
<b>Total liabilities and shareholders' equity</b>	<b>\$61,640.1</b>	<b>\$ 2,776.0</b>	<b>\$ 622.0</b>	<b>\$3,293.6</b>	<b>\$210.9</b>	<b>\$14,047.2</b>	<b>\$(12,081.0)</b>	<b>\$70,519.6</b>

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Loews Corporation  
Consolidating Statement of Income Information

Six Months Ended	CNA		Loews		Diamond		Texas		Corporate	Elimin-	
June 30, 2003	Financial	Lorillard	Hotels	Offshore	Gas	Bulova	and Other		ations	Total	
(In millions)											
Revenues:											
Insurance premiums	\$ 4,577.6								\$ (1.8)	\$ 4,575.8	
Investment income, net	859.1	\$ 18.5	\$ 0.9	\$ 7.5		\$ 0.1	\$ 15.7			901.8	
Intercompany interest											
and dividends							335.4	(335.4)			
Investment gains (losses)	312.6	(1.8)		(1.1)			14.0			323.7	
Manufactured products		1,625.1				74.4	(1.2)			1,698.3	
Other	204.5	(0.2)	160.9	312.4	\$ 23.1	0.3	(1.1)			699.9	
Total	5,953.8	1,641.6	161.8	318.8	23.1	74.8	362.8	(337.2)		8,199.5	
Expenses:											
Insurance claims and											
policyholders' benefits	3,936.7									3,936.7	
Amortization of deferred											
acquisition costs	939.2									939.2	
Cost of manufactured											
products sold		921.4				35.3	0.2			956.9	
Other operating expenses	811.3	254.6	140.2	356.7	15.8	32.3	23.9	(1.8)		1,633.0	
Interest	67.0		4.6	10.9	4.7		62.2			149.4	
Total	5,754.2	1,176.0	144.8	367.6	20.5	67.6	86.3	(1.8)		7,615.2	
	199.6	465.6	17.0	(48.8)	2.6	7.2	276.5	(335.4)		584.3	
Income tax expense (benefit)	29.6	173.5	6.2	(9.4)	1.0	2.2	(22.3)			180.8	
Minority interest	16.2			(17.6)		0.1				(1.3)	
Total	45.8	173.5	6.2	(27.0)	1.0	2.3	(22.3)			179.5	
Net income	\$ 153.8	\$ 292.1	\$ 10.8	\$ (21.8)	\$ 1.6	\$ 4.9	\$ 298.8	\$(335.4)		\$ 404.8	

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Loews Corporation  
Consolidating Statement of Income Information

Six Months Ended	CNA		Loews	Diamond	Corporate			
June 30, 2002	Financial	Lorillard	Hotels	Offshore	Bulova	and Other	Eliminations	Total



(In millions)	(Restated)							(Restated)
Revenues:								
Insurance premiums	\$ 5,663.3						\$ (1.8)	\$ 5,661.5
Investment income, net	927.9	\$ 21.5	\$ 0.8	\$ 17.2	\$ 0.2	\$ 35.3		1,002.9
Intercompany interest and dividends						255.8	(255.8)	
Investment gains (losses)	(161.3)	10.6		12.2		(33.0)		(171.5)
Manufactured products		2,000.0				72.8		2,072.8
Other	328.1	0.7	158.4	390.5	1.1	(0.7)		878.1
Total	6,758.0	2,032.8	159.2	419.9	74.1	257.4	(257.6)	\$ 9,443.8
Expenses:								
Insurance claims and policyholders' benefits	4,692.3							4,692.3
Amortization of deferred acquisition costs	901.5							901.5
Cost of manufactured products sold		1,172.9			35.3			1,208.2
Other operating expenses	873.8	238.9	134.7	359.6	31.2	32.4	(1.8)	1,668.8
Interest	75.1		4.7	11.8		63.1		154.7
Total	6,542.7	1,411.8	139.4	371.4	66.5	95.5	(1.8)	8,625.5
	215.3	621.0	19.8	48.5	7.6	161.9	(255.8)	818.3
Income tax expense (benefit)	55.5	243.5	7.1	17.7	3.3	(33.3)		293.8
Minority interest	25.9			16.2	0.1	0.1		42.3
Total	81.4	243.5	7.1	33.9	3.4	(33.2)		336.1
Income from continuing operations	133.9	377.5	12.7	14.6	4.2	195.1	(255.8)	482.2
Discontinued operations net	(31.0)							(31.0)
Cumulative effect of change in accounting principle net	(39.6)							(39.6)
Net income	\$ 63.3	\$ 377.5	\$ 12.7	\$ 14.6	\$ 4.2	\$195.1	\$ (255.8)	\$ 411.6

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### OVERVIEW

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

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

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Results of Operations by Business Segment	70
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The following discussion should be read in conjunction with the Company's Consolidated Condensed Financial Statements and Notes thereto.

## CONSOLIDATED FINANCIAL RESULTS

The Company reported consolidated net income (including both the Loews Group and Carolina Group) for the 2003 second quarter of \$214.8 million, compared to \$198.8 million for the second quarter of 2002.

Consolidated net income in the second quarter of 2003 includes net investment gains of \$250.7 million, compared to a loss of \$117.9 million in the second quarter of 2002.

Net income attributable to Loews common stock for the second quarter of 2003 amounted to \$189.8 million or \$1.02 per share, compared to \$157.4 million or \$0.84 per share in the comparable period of the prior year. Net income in the second quarter of 2003 includes net investment gains attributable to Loews common stock of \$251.0 million, compared to losses of \$119.1 million in the comparable period of the prior year.

Results for the quarter ended June 30, 2003, included \$277.3 million (after tax and minority interest) of unfavorable net prior year reserve development in CNA's property and casualty segment, of which approximately 80% relates to accident year 2000 and prior. The significant unfavorable net prior year premium and loss development was recorded primarily for workers compensation, directors and officers coverages, and a recent adverse arbitration decision involving a single large property and business interruption loss that occurred in 1995. The results also included an increase in the bad debt reserves for reinsurance and insurance receivables, catastrophe losses for the Texas tornadoes and Midwest rain storms and decreased net investment income. These adverse items were more than offset by increased net investment gains and strong current accident year results. Results for the quarter were also impacted by lower net income from Lorillard due to an increase in sales promotion expenses and lower total sales unit volume.

Net investment results increased \$368.6 million (after tax and minority interest) in the second quarter of 2003 as compared with the same period in 2002. This increase was due primarily to increased gains on sales of fixed maturity securities and a decrease in investment related impairment charges in the second quarter of 2003. Investment related impairment losses (after tax and minority interest) were \$18.0 million for the second quarter of 2003 as compared with \$169.2 million for the same period in 2002.

Net income attributable to Carolina Group stock for the second quarter of 2003 was \$25.0 million or \$0.63 per Carolina Group share, compared to \$41.4 million, or \$1.03 per Carolina Group share in the second quarter of 2002.

## Six Months Ended June 30, 2003 Compared With 2002

Net income for the first half of 2002 included a loss from discontinued operations at CNA of \$31.0 million or \$0.16 per share of Loews common stock and a charge for accounting changes of \$39.6 million or \$0.21 per share of Loews common stock, related to accounting for goodwill and other intangible assets at CNA.

Consolidated income from continuing operations for the first half of 2003 was \$404.8 million, compared to \$482.2 million in the comparable period of the

prior year. Income from continuing operations includes net investment gains of \$194.1 million (after tax and minority interest), compared to a loss of \$102.1 million (after tax and minority interest) in the comparable period of the prior year. The lower results reflect the unfavorable net prior year premium and loss development recorded in the second quarter of 2003 for the property and casualty segment as discussed above and the lower results from Lorillard, partially offset by the improvement in net investment gains.

~~Income from continuing operations attributable to Loews common stock for the first half of 2003 amounted to \$351.2 million or \$1.89 per share, compared to \$422.8 million or \$2.23 per share in the comparable period of the prior year. Income from continuing operations includes net investment gains attributable to Loews common stock of \$194.4 million, compared to losses of \$103.6 million in the comparable period of the prior year.~~

~~Net income attributable to Carolina Group stock for the first half of 2003 amounted to \$53.6 million or \$1.34 per Carolina Group share, compared to \$59.4 million or \$1.48 per share in the comparable period of the prior year.~~

#### ~~Components of Net Income~~

~~The following table provides a reconciliation of net income attributable to Loews common stock:~~

	June 30,	
	Three Months	Six Months
	2003	2002
	2003	2002

~~(In millions)~~

Income (loss) before net investment				
gains (losses) attributable to				
Loews common stock	\$ (61.2)	\$ 276.5	\$ 156.8	\$ 526.4
Net investment gains (losses)	251.0	(119.1)	194.4	(103.6)
Income from continuing operations	189.8	157.4	351.2	422.8
Discontinued operations net (a)				(31.0)
Cumulative effect of changes				
in accounting principle net (b)				(39.6)
Net income attributable to				
Loews common stock	\$ 189.8	\$ 157.4	\$ 351.2	\$ 352.2

~~(a) In the first quarter of 2002, CNA sold its life operations in Chile.~~

~~(b) Represents the effect of the adoption of SFAS No. 142, which was a change in accounting for goodwill and other intangible assets at CNA.~~

#### ~~CLASSES OF COMMON STOCK~~

~~The issuance of Carolina Group stock has resulted in a two class common stock structure for Loews Corporation. Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. The principal assets and liabilities attributed to the Carolina Group are (a) the Company's 100% stock ownership interest in Lorillard, Inc.; (b) notional, intergroup debt owed by the Carolina Group to the Loews Group (\$2.3 billion outstanding at June 30, 2003), bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and (c) any and all liabilities, costs and expenses arising out of or related to tobacco or tobacco related businesses.~~

~~As of June 30, 2003, the outstanding Carolina Group stock represents a 23.01% economic interest in the economic performance of the Carolina Group. The Loews Group consists of all the Company's assets and liabilities other than the 23.01% 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, the Company's board of directors could, in its sole discretion, from time to time, make determinations or implement policies that affect disproportionately the groups or the different classes of stock. For example, Loews's board of directors may decide to reallocate assets, liabilities, revenue, 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 Loews's 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 the Company's ownership of Lorillard, Inc. or Lorillard, Inc.'s status as a separate legal entity. The Carolina Group and the Loews Group are notional groups that are intended to reflect the performance of the defined sets of assets and liabilities of each such group as described above. The Carolina Group and the Loews Group are not separate legal entities and the~~

~~attribution of 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 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.~~

#### ~~PARENT COMPANY STRUCTURE~~

~~—The Company is a holding company and derives substantially all of its cash flow from its subsidiaries, principally Lorillard. The Company relies upon its invested cash balances and distributions from its subsidiaries to generate the funds necessary to meet its obligations and to declare and pay any dividends to its stockholders. The ability of the Company's subsidiaries to pay dividends is subject to, among other things, (i) the availability of sufficient funds in such subsidiaries, (ii) applicable state laws, (iii) in~~

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~~the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies (see Liquidity and Capital Resources — CNA, below), and (iv) any agreements by the subsidiaries restricting the payment of dividends. Claims of creditors of the Company's subsidiaries will generally have priority as to the assets of such subsidiaries over the claims of the Company and its creditors and stockholders.~~

~~—At June 30, 2003, the book value per share of Loews common stock was \$66.96, compared to \$61.68 at December 31, 2002.~~

#### ~~CRITICAL 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 condensed financial statements and the related notes. Actual results could differ from those estimates.~~

~~—The consolidated condensed financial statements and accompanying notes have been prepared in accordance with GAAP, applied on a consistent basis. The Company continually evaluates the accounting policies and estimates used to prepare the consolidated condensed financial statements. In general, management's estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that are believed to be reasonable under the known facts and circumstances.~~

~~—The accounting estimates discussed below are considered by management to be critical to an understanding of the Company's financial statements as their application places the most significant demands on management's judgment. Due to the inherent uncertainties involved with this type of judgment, actual results could differ significantly from estimates and have a material adverse impact on the Company's results of operations 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 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 inherent risks associated with the reserving process are discussed below, in Reserves — Estimates and Uncertainties. Additionally, a review of Results of Operations for CNA's segment results, Environmental Pollution and Mass Tort and Asbestos Reserves, and Third Quarter Reserve Review sections is necessary to understand the sensitivity of management's estimate.~~

#### ~~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 a receivable in the Consolidated Condensed Balance Sheets. The cost of reinsurance related to long duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.~~

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~~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. Further information on reinsurance is provided in the Reinsurance section that follows.~~

#### ~~Tobacco 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 the Company is a defendant in any of the lawsuits, 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, 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.~~

~~—On May 21, 2003 a three judge panel of the Third District Court of Appeal in Miami, Florida reversed a trial court's certification of a statewide class and dismissed the Engle class action in its entirety. A \$16.3 billion punitive damage judgment against Lorillard had been awarded by a jury in this case, in July of 2000, as part of the juries' award of \$145.0 billion in punitive damages against the major cigarette companies. Plaintiffs are seeking reconsideration of the panel's decision and to have certain questions of law certified for decision to the Florida Supreme Court. The Company and Lorillard believe that the panel's decision should be upheld on further appeals.~~

~~—Except for the impact of the State Settlement Agreements as described in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 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 condensed financial statements for any unfavorable outcome. It is possible that the Company's results of operations, cash flows and its financial position could be materially affected by an unfavorable outcome of certain pending litigation.~~

#### ~~Valuation of Investments and Impairment of Securities~~

~~—The Company classifies its holdings of fixed maturity securities (bonds and redeemable preferred stocks) and equity securities, which are held principally by insurance subsidiaries, as available for sale, and are carried at fair value. Changes in fair value are recorded as a component of accumulated other comprehensive income in shareholders' equity, net of applicable deferred income taxes and participating policyholders' and minority interest. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, which are included in investment income.~~

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~~—The Company's investment portfolio is subject to market declines below book value that may be other than temporary. CNA has an Impairment Committee, which reviews its 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 impairment loss in the period in which the determination occurred. See "Investments — CNA" in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 2 of the Notes to Consolidated Condensed Financial Statements included in Item 1 for information related to the Company's impairment charges.~~

~~—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 the Company's investment philosophy. These investments are carried at fair value with the net unrealized gain or loss included in the Consolidated Condensed Statements of Income.~~

#### ~~RESULTS OF OPERATIONS BY BUSINESS SEGMENT~~

##### ~~CNA Financial~~

~~—CNA conducts its operations through five operating groups: Standard Lines, Specialty Lines and CNA Re (these groups comprise the Company's Property-Casualty segment); Group Operations and Life Operations. In addition to these five operating segments, certain other activities are reported in the Other Insurance segment.~~

~~—During 2002, CNA underwent management changes and strategic realignment. These events have changed the way CNA manages its operations and makes business decisions and, therefore, necessitated a change in CNA's reportable segments. The financial results for the segment changes are reflected throughout the MD&A.~~

~~—The Other Insurance segment is principally comprised of losses and expenses related to the centralized adjusting and settlement of APMT claims, certain run-off insurance operations and other operations including CNA's interest expense on its corporate borrowings.~~

~~—Certain amounts applicable to prior periods have been reclassified to conform to the current period presentation.~~

~~CNA maintains reserves to cover its estimated ultimate unpaid liability for claim and claim adjustment expenses and future policy benefits, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled and claims that have been incurred but not reported. Claim and claim adjustment expense and future policy benefit reserves are reflected as liabilities on the Consolidated Condensed Balance Sheets under the heading "Insurance Reserves." Adjustments to prior year reserve estimates, if necessary, are reflected in results of operations in the period that the need for such adjustments is determined.~~

~~The level of Insurance Reserves maintained by CNA represents management's 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. Insurance Reserves are not an exact calculation of liability but instead are complex estimates that are derived by CNA, generally utilizing a variety of actuarial reserve estimation~~

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~~techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain.~~

~~Among the many uncertain future events about which CNA makes assumptions and estimates, many of which have become increasingly unpredictable, are 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 it is ultimately settled, referred to in the insurance industry as the "tail." These factors must be individually considered in relation to the Company's evaluation of each type of business. Many of these uncertainties are not precisely quantifiable, particularly on a prospective basis, and require significant judgment on the part of CNA's management.~~

~~Given the factors described above, it is not possible to quantify precisely the ultimate exposure or range of exposures 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 and additional claims are reported and settled or additional information becomes available in subsequent periods.~~

~~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. Recent examples of emerging or potential claims and coverage issues include:~~

- ~~· increases in the number and size of water damage claims, including those related to expenses for testing and remediation of mold conditions;~~
- ~~· increases in the number and size of claims relating to injuries from medical products, and exposure to lead;~~
- ~~· changes in interpretation of the named insured provision with respect to the uninsured/underinsured motorist coverage in commercial automobile policies;~~
- ~~· the effects of recently uncovered 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; and~~
- ~~· a growing trend of plaintiffs targeting insurers in class action litigation relating to claims handling and other practices; and~~
- ~~· increases in the number of construction defect claims.~~

~~The future 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 CNA's Segment Results for a discussion of changes in reserve estimates and the impact on CNA's results of operations.~~

~~CNA's experience has been that establishing reserves for casualty coverages relating to APMT claim and claim adjustment expenses is subject to~~

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~~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;~~

- ~~— the 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;~~
- ~~— increasingly aggressive tactics of plaintiffs' lawyers;~~
- ~~— increased filings of claims in certain states to avoid the application of tort reform statute effective dates;~~
- ~~— the risks and lack of predictability inherent in major litigation;~~
- ~~— a further increase or decrease in asbestos and environmental claims which cannot now be anticipated;~~
- ~~— continued increase in mass tort claims relating to silica and silica-containing products, and the outcome of ongoing disputes as to coverage in relation to these claims;~~
- ~~— the role the exhaustion of primary limits for certain accounts and increased demands of any umbrella or excess policies CNA has issued;~~
- ~~— the number and outcome of direct actions against CNA; and~~
- ~~— future developments pertaining to CNA's ability to recover reinsurance for asbestos and environmental claims.~~

~~—It is also not possible to predict changes in the legal and legislative environment and their 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.~~

~~—Due to the factors described above, among others, 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 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~~

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~~traditional actuarial methods and techniques are necessarily supplemented with additional estimating techniques and methodologies, many of which involve significant judgments that are required of CNA management. 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 Environmental Pollution and Mass Tort and Asbestos Reserves section of the MD&A for additional information relating to APMT claims and reserves.~~

~~—CNA's recorded Insurance Reserves, including APMT reserves, reflect management's best estimate as of a particular point in time based upon known facts, current law and management's judgment. 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 makes adjustments in the period that the need for such adjustments is determined. These reviews have resulted in CNA identifying 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, insurer financial strength and debt ratings and the Company's results of operations or equity.~~

#### ~~Third Quarter Reserve Review~~

~~—Adverse trends in APMT and certain non-APMT property and casualty segments continue to impact the property and casualty insurance industry. As noted in Reserves—Estimates and Uncertainties, CNA reviews its Insurance Reserves on a regular basis. As part of these reviews, CNA has noted an increase in reported construction defect claims. In addition, other volatile exposures will also be reviewed on a comprehensive basis in the third quarter.~~

~~—While CNA continues to monitor and evaluate its APMT exposures on a regular basis, the completion of a comprehensive ground up analysis of its APMT exposures, previously scheduled for the second quarter, will be completed in~~

the third quarter of 2003. Significant resources were dedicated to the proposed national asbestos reform legislation, as discussed in Reserves—Estimates and Uncertainties section of the MD&A, and to support the regulatory reviews described below. As such, CNA plans to complete its more formal and comprehensive analysis in the third quarter of 2003.

—In addition, in connection with routine state regulatory exams of Continental Casualty Company ("CCC") and Continental Insurance Company ("CIC"), an independent actuarial firm is in the process of reviewing CNA's property and casualty Insurance Reserves as of December 31, 2001. CNA intends to have the independent actuarial firm update its review to include an assessment of its December 31, 2002 property and casualty Insurance Reserves using more recent data. These independent reviews are expected to be completed by December 31, 2003. CNA will consider the results of these independent actuarial reviews in the reserving process. It is uncertain as to what action, if any, the state departments of insurance may take as a result of these examinations.

—While CNA management believes that CNA's property and casualty Insurance Reserves as of June 30, 2003 are appropriate and represent CNA management's best estimate of what the ultimate settlement and administration of claims will cost based on its assessment of facts and circumstances known at that time, CNA, as a result of the Third Quarter Reviews, the reviews being

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conducted by the independent actuarial firm and other factors deemed relevant by the Company, may in future periods determine that its recorded Insurance Reserves are not sufficient and may need to increase its reserves by amounts that may be material, which could adversely affect CNA's business, insurer financial strength and debt ratings (see the Ratings section of Liquidity—CNA, in the MD&A) and the Company's results of operations and equity. 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.

#### Reinsurance

—CNA assumes and cedes reinsurance with other insurers, reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business.

—Interest cost on reinsurance contracts accounted for on a funds withheld basis is credited during all periods in which a funds withheld liability exists. Interest cost, which is included in net investment income, was \$93.5 and \$56.4 million for the three months ended June 30, 2003 and 2002 and \$140.2 and \$114.5 million for the six months ended June 30, 2003 and 2002. The amount subject to interest crediting rates on such contracts was \$2,500.0 and \$2,766.0 million at June 30, 2003 and December 31, 2002.

—The amount subject to interest crediting on these funds withheld contracts will vary over time based on a number of factors, including the timing of loss payments and ultimate gross losses incurred. CNA expects that it will continue to incur significant interest costs on these contracts for several years.

—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 the obligations assumed under reinsurance agreements.

—As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, CNA has reinsurance receivables from several reinsurers who have recently experienced multiple downgrades of their financial strength ratings, have announced that they will no longer accept new business and are placing their books of business into run off. One of CNA's principal credit exposures from these recent events arises from reinsurance receivables from Gerling Global ("Gerling").

—CNA has been in discussions with Gerling with respect to resolving a dispute concerning possession of collateral on three CNA HealthPro treaties, and is in discussions regarding a possible commutation of all other reinsurance arrangements between CNA and Gerling. The three CNA HealthPro treaties were commuted as of June 30, 2003, which resulted in a \$37.0 million pretax loss. CNA estimates that these commutations will reduce pretax interest expense related to these treaties by approximately \$8.0 million over the balance of 2003 and \$11.0 million in 2004.

—In certain circumstances, including significant deterioration of a reinsurer's financial strength ratings, CNA may engage in other 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

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commutations, including any related to Gerling, could have an adverse material impact on the Company's results of operations or equity.

—CNA has established an allowance for doubtful accounts to provide for



estimated uncollectible reinsurance receivables. The allowance for doubtful accounts was \$239.9 and \$195.7 million at June 30, 2003 and December 31, 2002. CNA increased the allowance by \$40.0 million in the second quarter of 2003 in recognition of deterioration of the financial strength ratings of several reinsurers. While CNA believes the allowance for doubtful accounts is adequate based on existing collateral and information currently available, failure of reinsurers to meet their obligations could have a material adverse impact on the Company's results of operations or equity.

CNA has an aggregate reinsurance treaty related to the 1999 through 2001 accident years that covers substantially all of CNA's property and casualty lines of business (the "Aggregate Cover"). The Aggregate Cover provides for two sections of coverage. These coverages attach at defined loss ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the treaty, has a \$500.0 million limit per accident year of ceded losses and an aggregate limit of \$1.0 billion of ceded losses for the three accident years. The ceded premiums associated with the first section are a percentage of ceded losses and for each \$500.0 million of limit the ceded premium is \$230.0 million. The second section of the Aggregate Cover, which only relates to accident year 2001, provides additional coverage of up to \$510.0 million of ceded losses for a maximum ceded premium of \$310.0 million. Under the Aggregate Cover, interest charges on the funds withheld liability accrue at 8% per annum. If the aggregate loss ratio for the three year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum commencing in 2006.

During the second quarter of 2003, as a result of the unfavorable reserve development recorded related to accident year 2000, losses of \$78.0 million were ceded under the first section of the Aggregate Cover. In 2001, as a result of reserve additions including those related to accident year 1999, the \$500.0 million limit related to the 1999 accident year under the first section was fully utilized and losses of \$510.0 million were ceded under the second section as a result of losses related to the September 11, 2001 World Trade Center Disaster and related events ("WTC event").

The impact of the Aggregate Cover on pretax results of operations was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Ceded earned premiums	\$ (28.0)		\$ (28.0)	
Ceded claim and claim adjustment expense	78.0		78.0	
Interest charges (included in net investment income)	(22.0)	\$ (12.0)	(35.0)	\$ (25.0)
Pretax benefit (expense)	\$ 28.0	\$ (12.0)	\$ 15.0	\$ (25.0)
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In 2001, CNA entered into a one year 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 loss protection provided by the CCC Cover has an aggregate limit of approximately \$760.0 million of ceded losses. The ceded premiums are a percentage of ceded losses. The ceded premium related to full utilization of the \$760.0 million of limit is \$456.0 million. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of \$745.0 million have been ceded under the CCC Cover through June 30, 2003.

The impact of the CCC Cover on pretax results of operations was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Ceded earned premiums	\$ (91.0)		\$ (91.0)	\$ (61.0)
Ceded claim and claim adjustment expenses	126.0		126.0	93.0
Interest charges	(27.0)	\$ (6.0)	(35.0)	(16.0)
Pretax benefit (expense)	\$ 8.0	\$ (6.0)		\$ 16.0

~~—The impact by operating segment of the Aggregate Cover and the CCC Cover on results of operations was as follows:~~

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
(In millions)				
Standard Lines	\$ 36.0	\$ (13.0)	\$ 23.0	\$ (25.0)
Specialty Lines	(2.0)	(2.0)	(4.0)	(4.0)
CNA Re	2.0	(3.0)	(3.0)	20.0
Total Property and Casualty	36.0	(18.0)	16.0	(9.0)
Corporate and Other			(1.0)	
Pretax benefit (expense)	\$ 36.0	\$ (18.0)	\$ 15.0	\$ (9.0)

#### ~~Terrorism Exposure~~

~~—CNA and the insurance industry incurred substantial losses related to the WTC event. For the most part, the industry was able to absorb the loss of~~

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~~capital from these losses, but the capacity to withstand the effect of any additional terrorism events was significantly diminished.~~

~~—On November 26, 2002, the President of the United States of America, signed into law the Terrorism Risk Insurance Act of 2002 (the "Act"), which established a program within the Department of the Treasury under which the federal government will share the risk of loss from future terrorist attacks with the insurance industry. The Act terminates on December 31, 2005. Each participating insurance company must pay a deductible before federal government assistance becomes available. This deductible is based on a percentage of direct earned premiums for commercial insurance lines from the previous calendar year, and rises from 1.0% from date of enactment to December 31, 2002 (the "Transition Period") to 7.0% during the first subsequent calendar year, 10.0% in year two and 15.0% in year three. For losses in excess of a company's deductible, the federal government will cover 90.0% of the excess losses, while companies retain the remaining 10.0%. Losses covered by the program will be capped annually at \$100.0 billion; above this amount, insurers are not liable for covered losses and Congress is to determine the procedures for and the source of any payments. Amounts paid by the federal government under the program over certain phased limits are to be recouped by the Department of the Treasury through policy surcharges, which cannot exceed 3.0% of annual premium.~~

~~—Insurance companies providing commercial property and casualty insurance are required to participate in the program, but it does not cover life or health insurance products. State law limitations applying to premiums and policies for terrorism coverage are not generally affected under the program, but they are pre-empted in relation to prior approval requirements for rates and forms. The Act has policyholder notice requirements in order for insurers to be reimbursed for terrorism related losses and, from the date of enactment until December 31, 2004, a mandatory offer requirement for terrorism coverage, although the coverage may be rejected by insureds. The Secretary of the Department of the Treasury has discretion to extend this offer requirement until December 31, 2005.~~

~~—While the Act provides the property and casualty industry with an increased ability to withstand the effect of a terrorist event through 2005, given the unpredictability of the nature, targets, severity or frequency of potential terrorist events, the Company's results of operations or equity could nevertheless be materially adversely impacted by them. CNA is attempting to mitigate this exposure through its underwriting practices, policy terms and conditions (where applicable) and the use of reinsurance. In addition, under state laws, CNA is generally prohibited from excluding terrorism exposure from its primary workers compensation, individual life and group life and health policies. In those states that mandate property insurance coverage of damage from fire following a loss, CNA is also prohibited from excluding terrorism exposure under such coverage.~~

~~—Reinsurers' obligations for terrorism related losses under reinsurance agreements are not covered by the Act. CNA's current reinsurance arrangements either exclude terrorism coverage or significantly limit the level of coverage.~~

#### ~~Restructuring~~

~~—As previously reported in the Company's Annual Report on Form 10-K for the~~

year ended December 31, 2002, CNA finalized and approved two separate restructuring plans in 2001. The first plan related to CNA's Information Technology operations (the "IT Plan"). The second plan related to

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restructuring the property and casualty segments and Life Operations, discontinuation of the variable life and annuity business and consolidation of real estate locations (the "2001 Plan").

No restructuring and other related charges related to the IT Plan were incurred for the three and six months ended June 30, 2003 and 2002. During 2003, \$1.0 million in payments were charged against the liability. As of June 30, 2003, the accrued liability relating to employee termination and related benefit costs was \$4.0 million. The remaining accrual is expected to be paid through 2004.

No restructuring and other related charges related to the 2001 Plan were incurred for the three and six months ended June 30, 2003 and 2002. During 2003, \$11.0 million in payments for occupancy and employee related costs and \$1.0 million of other restructuring costs were charged against the liability. As of June 30, 2003, the accrued liability, relating primarily to lease termination costs, was \$26.0 million. Of the remaining accrual, approximately \$6.0 million is expected to be paid in the remainder of 2003.

#### Expense Initiatives

CNA has launched a \$200.0 million expense reduction initiative. The primary components of the initiative are a reduction of the current workforce by approximately five percent, lower commissions and other acquisition costs, principally related to workers compensation, and reduced spending in other areas. Strategies expected to realize such savings are anticipated to be implemented over the next year.

#### Non-GAAP Financial Measures

The MD&A discusses certain GAAP and non-GAAP financial measures in order to provide information used by CNA management to monitor CNA's operating performance. Management utilizes various financial measures to monitor CNA's insurance operations and investment portfolio. Underwriting results, which are derived from certain income statement amounts, are considered non-GAAP financial measures and are used by management to monitor performance of CNA's insurance operations. CNA's investment portfolio is monitored through analysis of various quantitative and qualitative factors and certain decisions related to the sale or impairment of investments that produce realized gains and losses. Net realized investment gains and losses, which are comprised of after-tax realized investment gains and losses net of participating policyholders' and minority interest are a non-GAAP financial measure.

Underwriting results are computed as net earned premiums less net incurred claims and the cost incurred to settle these claims, acquisition expenses, underwriting expenses, and dividend expenses. CNA's management uses underwriting results to monitor its insurance operations' results without the impact of certain factors, including investment income, other revenues, other expenses, minority interest, income tax benefit (expense) and net realized investment gains or losses. Management excludes these factors in order to analyze the direct relationship between the net earned premiums and the related claims and the cost incurred to settle these claims, acquisition expenses, underwriting expenses and dividend expenses.

Management excludes after-tax net realized investment gains or losses when analyzing the insurance operations because net realized investment gains or losses related to CNA's available for sale investment portfolio are largely discretionary, except for losses related to other than temporary impairments,

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and are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance.

Operating ratios are calculated using insurance results and are used by the insurance industry and regulators such as state departments of insurance and the National Association of Insurance Commissioners for financial regulation and as a basis of comparison among companies. The ratios discussed in CNA's MD&A are calculated using GAAP financial results and include the loss and loss adjustment expense ratio ("loss ratio") as well as the expense, dividend and combined ratios. 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 underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

CNA's investment portfolio is monitored by management through analyses of various factors including unrealized gains and losses on securities, portfolio duration and exposure to interest rate, market and credit risk. Based on such analyses, CNA may impair an investment security in accordance with its policy, or sell a security. Such activities will produce realized gains and losses.

While management uses various non-GAAP financial measures to monitor various aspects of CNA's performance, relying on any measure other than net income,

which is the most directly comparable GAAP measure to underwriting results and realized gains and losses, is not a complete representation of financial performance. Management believes that its process of evaluating performance through the use of these non-GAAP financial measures provides a basis for understanding the operations and the impact to net income as a whole. Management also believes that investors find these non-GAAP financial measures described above useful to help interpret the underlying trends and performance, as well as to provide visibility into the significant components of net income.

— Throughout the MD&A, CNA's business segment results are discussed using Underwriting Results, which as described above is a non-GAAP measure. The following reconciliations are provided in order to understand the differences between Underwriting Results and net income (loss).

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Underwriting loss	\$(493.0)	\$(125.0)	\$(568.0)	\$(229.0)
Net investment income	185.0	257.0	389.0	453.0
Other revenues	85.0	113.0	177.0	251.0
Other expenses	(84.0)	(95.0)	(161.0)	(197.0)
(Loss) income, before income tax				
— benefit (expense), minority interest				
and net realized investment gains (losses)	(307.0)	150.0	(163.0)	278.0
Income tax expense (benefit)	120.0	(41.0)	85.0	(80.0)
Minority interest	17.2	(17.9)	3.8	(32.1)
Operating (loss) income	(169.8)	91.1	(74.2)	165.9
Realized investment gains (losses), net of				
— participating policyholders' and				
— minority interest	264.2	(58.3)	272.2	(48.3)
Income tax (benefit) expense on realized				
— investment gains (losses)	(96.5)	22.0	(98.8)	20.0
(Loss) income from continuing operations	(2.1)	54.8	99.2	137.6
Cumulative effect of change in accounting				
— principle net				(33.3)
Net (loss) income	\$ (2.1)	\$ 54.8	\$ 99.2	\$ 104.3
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## Operating Results

### Property and Casualty

— CNA conducts its property and casualty operations through the following operating segments: Standard Lines, Specialty Lines and CNA Re. In addition to those operating segments, certain other are reported in the Other segment.

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— The following table summarizes key components of the Property and Casualty Segment results of operations for the three and six months ended June 30, 2003 and 2002:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Net written premiums	\$ 1,694.0	\$ 1,788.0	\$ 3,667.0	\$ 3,578.0
Net earned premiums	1,621.0	1,735.0	3,437.0	3,396.0
Underwriting loss	(493.0)	(125.0)	(568.0)	(229.0)
(Loss) income before net realized				
— investment gains (losses)	(169.8)	91.1	(74.2)	165.9
Net realized investment gains (losses)	167.7	(36.3)	173.4	(28.3)
(Loss) income from continuing operations	(2.1)	54.8	99.2	137.6
Ratios				
— Loss and loss adjustment expense	91.6%	76.0%	81.0%	74.3%
— Expense	38.1	30.3	34.7	31.5
— Dividend	0.7	0.9	0.8	1.0

<del>Combined</del>	<del>130.4%</del>	<del>107.2%</del>	<del>116.5%</del>	<del>106.8%</del>
=====	=====	=====	=====	=====

### Three Months Ended June 30, 2003 Compared with 2002

~~Net written premiums for the Property Casualty Segment decreased \$94.0 million and net earned premiums decreased \$114.0 million for the three months ended June 30, 2003 as compared with the same period in 2002. These decreases were due primarily to increased ceded premiums related to corporate aggregate and other reinsurance treaties. Partially offsetting these items were rate and production increases and new business through out the Property Casualty segment.~~

~~Standard Lines averaged rate increases of 17.0% and 28.0% for the three months ended June 30, 2003 and 2002 for the contracts that renewed during the period. Retention rates of 74.0% and 66.0% were achieved for those contracts that were up for renewal.~~

~~Specialty Lines averaged rate increases of 24.0% for the three months ended June 30, 2003 and 2002 for the contracts that renewed during the period. Retention rates of 80.0% and 76.0% were achieved for those contracts that were up for renewal.~~

~~Income from continuing operations decreased \$56.0 million for the three months ended June 30, 2003 as compared with the same period in 2002. The decrease in results was primarily due to decreased underwriting results and decreased net investment income, partially offset by increased net realized investment gains.~~

~~The combined ratio increased 23.2 points and underwriting results decreased \$368.0 million for the three months ended June 30, 2003 as compared with the same period in 2002. This change was due to increases in the loss and expense ratios. The loss ratio increased 15.6 points due principally to unfavorable net prior year development discussed below and \$59.0 million of catastrophe~~

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~~losses, primarily related to Texas tornadoes and Midwest rain storms in 2003. Catastrophe losses were \$6.0 million for the three months ended June 30, 2002. Partially offsetting these items were improvements in the current net accident year loss ratio and cessions to corporate aggregate reinsurance treaties.~~

~~The expense ratio increased 7.8 points as a result of a decreased net earned premium base and a \$39.0 million increase in pretax bad debt expense, primarily related to Excess and Surplus ("E&S") lines. Based on recent experience with troubled unsecured creditors, an increase in the bad debt reserve was deemed appropriate. Also increasing the expense ratio was approximately \$17.0 million of expenses related to eBusiness in 2003. The 2002 eBusiness expenses were included in the Other Insurance segment.~~

~~Unfavorable net prior year development, including premium and claim and allocated claim adjustment expense reserve development, of \$485.0 million, including \$254.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$231.0 million of unfavorable premium development, was recorded for the three months ended June 30, 2003. Unfavorable net prior year development of \$49.0 million, including \$51.0 million of unfavorable claim and claim adjustment expense reserve development and \$2.0 million of favorable premium development, was recorded for the same period in 2002.~~

~~Unfavorable net prior year development of approximately \$310.0 million, including \$233.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$77.0 million of unfavorable premium development, was recorded for large account business, driven by workers compensation exposures. This development resulted from the completion of reserve reviews for large account business where the insured is often responsible for a portion of the losses, and claims are handled by CNA. The review did not cover the large account business where claims are handled by a third party administrator ("TPA"). Initial reserves for this business are set based on the expected losses associated with the individual accounts covered and the terms of the individual plans. Based on analyses completed during the second quarter, it became apparent that the assumptions regarding the number and size of the losses, which were used to estimate the expected losses were no longer appropriate. The analysis showed that the actual number of claims and the average claim size were larger than expected. The development was recorded in accident years prior to 2002.~~

~~Unfavorable net prior year claim and allocated claim adjustment expense reserve development of approximately \$75.0 million was recorded related to a recent adverse arbitration decision involving a single large property and business interruption loss. The decision was rendered against a voluntary insurance pool in which CNA was a participant. The loss was caused by a fire which occurred in 1995. CNA no longer participates in this pool.~~

~~Unfavorable net prior year claim and allocated claim adjustment expense reserve development of approximately \$75.0 million was recorded primarily for directors and officers exposures. The reserve development was a result of a claims review in the second quarter of 2003 of securities class action cases related to certain known corporate malfeasance cases and investment banking~~

firms. The development was recorded in accident years 2000 through 2002.

—Approximately \$37.0 million of losses were recorded as the result of a commutation of three ceded reinsurance treaties covering CNA HealthPro related to accident years 1999 through 2001. Further information regarding this commutation is provided in the Reinsurance section of the MD&A.

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—Approximately \$25.0 million of unfavorable net prior year premium development was recorded related to a second quarter 2003 reevaluation of losses ceded to a reinsurance contract covering middle market workers compensation exposures. The reevaluation of losses led to a new estimate of the number and dollar amount of claims that would be ceded under the reinsurance contract. As a result of the reevaluation of losses, CNA recorded approximately \$36.0 million of unfavorable claim and allocated claim adjustment expense reserve development, which was ceded under this contract. The development was recorded in accident year 2000.

—Approximately \$21.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded in the Surety line of business as the result of recent developments on one large claim.

—Approximately \$11.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from a program covering facilities that provide services to developmentally disabled individuals. This development was due to an increase in the size of known claims and increases in policyholder defense costs. The reserve development was recorded to accident years prior to 2001.

—Unfavorable net prior year claim and claim adjustment expense reserve development of approximately \$11.0 million was recorded for a program covering tow truck and ambulance operators, primarily impacting the 2001 accident year. CNA had previously expected that loss ratios for this business would be similar to its middle market commercial automobile liability business. During 2002, CNA ceased writing business under this program.

—Offsetting these unfavorable reserve developments was an \$85.0 million underwriting benefit from cessions to corporate aggregate reinsurance treaties. The benefit is comprised of \$204.0 million of ceded losses and \$119.0 million of ceded premiums for accident years 2000 and 2001. See the Reinsurance section of the MD&A for further discussion of CNA's aggregate reinsurance treaties.

—Recent concerns about reinsurance security, prompted in part by rating agency downgrades of several reinsurer's financial strength ratings, have impacted the reinsurance marketplace. Many ceding companies are seeking provisions for the collateralization of assumed reserves in the event of a financial strength ratings downgrade or other triggers. CNA Re has been impacted by this trend and has entered into several contracts with rating or other triggers. See the Ratings section of the MD&A for more information.

#### Six Months Ended June 30, 2003 Compared with 2002

—Net written premiums for the Property Casualty Segment increased \$89.0 million and net earned premiums increased \$41.0 million for the six months ended June 30, 2003 as compared with the same period in 2002. These increases were due primarily to increased ceded premiums related to corporate and other aggregate reinsurance treaties. Partially offsetting this item were rate and production increases and new business through out the Property Casualty segment.

—Standard Lines averaged rate increases of 19.0% and 29.0% for the six months ended June 30, 2003 and 2002 for the contracts that renewed during the period. Retention rates of 73.0% and 66.0% were achieved for those contracts that were up for renewal.

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—Specialty Lines averaged rate increases of 27.0% and 21.0% for the six months ended June 30, 2003 and 2002 for the contracts that renewed during the period. Retention rates of 80.0% and 76.0% were achieved for those contracts that were up for renewal.

—Income from continuing operations decreased \$38.4 million for the six months ended June 30, 2003 as compared with the same period in 2002. The decrease in net income was primarily due to decreased underwriting results and decreased net investment income partially offset by increased net realized investment gains.

—In addition, net income for the first quarter of 2002 included a non-recurring currency translation gain on U.S. dollar denominated investments held by an Argentinean subsidiary. The Argentine government changed its local currency and required conversion of all U.S. denominated investments to Argentine Pesos. This conversion resulted in a translation gain of \$18.0 million, which was partially offset by a write off of the goodwill of that entity in the amount of \$10.0 million.

—The combined ratio increased 9.7 points and underwriting results decreased \$339.0 million for the six months ended June 30, 2003 as compared with the

~~same period in 2002. This change was due to increases in the loss and expense ratios. The loss ratio increased 6.7 points due principally to unfavorable net prior year development discussed below and \$72.0 million of catastrophe losses, primarily related to Texas tornadoes and Midwest rain storms. Catastrophe losses were \$9.0 million for the six months ended June 30, 2002. Partially offsetting these declines were improvements in the current net accident year loss ratio and cessions to corporate aggregate reinsurance treaties.~~

~~—The expense ratio increased 3.2 points as a result of a decreased net earned premium base and a \$39.0 million increase in pretax bad debt expense, primarily related to Excess and Surplus ("E&S") lines. Based on recent experience with troubled unsecured creditors, an increase in the bad debt reserve was deemed appropriate. Also increasing the expense ratio was approximately \$33.0 million of expenses related to eBusiness in 2003. The 2002 eBusiness expenses were included in the Other Insurance segment.~~

~~—Unfavorable net prior year development, including premium and claim and allocated claim adjustment expense reserve development, of \$514.0 million, including \$343.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$171.0 million of unfavorable premium development, was recorded for the three months ended June 30, 2003. Unfavorable net prior year reserve development of \$10.0 million, including \$13.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$3.0 million of favorable premium development, was recorded for the same period in 2002, of which \$32.0 million of favorable development, including \$93.0 million of favorable claim and allocated claim adjustment expense reserve development and \$61.0 million of unfavorable premium development, related primarily to the corporate aggregate reinsurance treaties discussed below. The gross carried claim and allocated claim adjustment expense reserve was \$19,942.0 and \$19,714.0 million at June 30, 2003 and December 31, 2002. The net carried claim and claim adjustment expense reserve was \$11,811.0 and \$11,997.0 million at June 30, 2003 and December 31, 2002.~~

~~—Unfavorable net prior year development of approximately \$310.0 million, including \$233.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$77.0 million of unfavorable premium~~

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~~development, was recorded for large account business, driven by workers compensation exposures. This reserve development resulted from the completion of reserve reviews for large account business where the insured is often responsible for a portion of the losses, and claims are handled by CNA. The review did not cover the large account business where claims are handled by a TPA. Initial reserves for this business are set based on the expected losses associated with the individual accounts covered and the terms of the individual plans. Based on analyses completed during the second quarter, it became apparent that the assumptions regarding the number and size of the losses, which were used to estimate the expected losses were no longer appropriate. The analysis showed that the actual number of claims and the average claim size were larger than expected. The development was recorded in accident years prior to 2002.~~

~~—Unfavorable net prior year reserve claim and allocated claim adjustment reserve development of approximately \$75.0 million was recorded related to a recent adverse arbitration decision involving a single large property and business interruption loss. The decision was rendered against a voluntary insurance pool in which CNA was a participant. The loss was caused by a fire which occurred in 1995. CNA no longer participates in this pool.~~

~~—Unfavorable net prior year claim and allocated claim adjustment expense development of approximately \$75.0 million was recorded primarily for directors and officers exposures. The reserve development was a result of a claims review in the second quarter of 2003 of securities class action cases related to certain known corporate malfeasance cases and investment banking firms. The reserve development was recorded in accident years 2000 through 2002.~~

~~—Approximately \$37.0 million of losses were recorded as the result of a commutation of three ceded reinsurance treaties covering CNA HealthPro related to accident years 1999 through 2001. Further information regarding this commutation is provided in the Reinsurance section of the MD&A.~~

~~—Unfavorable net prior year claim and allocated claim adjustment expense reserve development of approximately \$36.0 million was recorded for a program covering tow truck and ambulance operators, primarily impacting the 2001 accident year. CNA had previously expected that loss ratios for this business would be similar to its middle market commercial automobile liability business. During 2002, CNA ceased writing business under this program.~~

~~—Approximately \$25.0 million of unfavorable net prior year premium development was recorded related to a second quarter 2003 reevaluation of losses ceded to a reinsurance contract covering middle market workers compensation exposures. The reevaluation of losses led to a new estimate of the number and dollar amount of claims that would be ceded under the reinsurance contract. As a result of the reevaluation of losses, CNA recorded approximately \$36.0 million of unfavorable claim and allocated claim adjustment expense reserve development, which was ceded under this contract. The development was recorded in accident year 2000.~~

~~—Approximately \$21.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded in the Surety line of business as the result of recent developments on one large claim.~~

~~—Approximately \$21.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from a program covering facilities that provide services to developmentally disabled~~

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~~individuals. The development was due to an increase in the size of known claims and increases in policyholder defense costs. The reserve development was recorded in accident years prior to 2001.~~

~~—Favorable prior year claim and allocated claim adjustment expense reserve development was recorded in property lines primarily in the first quarter of 2003. The favorable reserve development was principally from accident years 2001 and 2002 and was the result of the lower than expected number of large losses in recent years.~~

~~—Offsetting these unfavorable developments was an \$85.0 million underwriting benefit from cessions to corporate aggregate reinsurance treaties. The benefit is comprised of \$204.0 million of ceded losses and \$119.0 million of ceded premiums for accident years 2000 and 2001. Favorable development of \$32.0 million, including \$93.0 million of favorable claim and allocated claim adjustment expense reserve development and \$61.0 million of unfavorable premium development, was recorded for the six months ended June 30, 2002, related primarily to the WTC event discussed below. See Reinsurance for further discussion of CNA's aggregate reinsurance treaties.~~

~~—During the first quarter of 2002, CNA Re revised its estimate of premiums and losses related to the WTC event. In estimating CNA Re's WTC event losses, CNA performed a treaty-by-treaty analysis of exposure. CNA's original loss estimate was based on a number of assumptions including the loss to the industry, the loss to individual lines of business and the market share of CNA Re's cedants. Information that became available in the first quarter of 2002 resulted in CNA Re increasing its estimate of WTC event related premiums and losses on its property facultative and property catastrophe business. The impact of increasing the estimate of gross WTC event losses by \$144.0 million was fully offset on a net of reinsurance basis (before the impact of the CCG Cover) by higher reinstatement premiums and a reduction of return premiums. As a result, additional cessions were recorded to the CCC Cover.~~

#### Group

##### Three Months Ended June 30, 2003 Compared with 2002

~~—Net earned premiums for Group Operations decreased \$491.0 million for the three months ended June 30, 2003 as compared with the same period in 2002. The decrease in net earned premiums was due primarily to the transfer of the Mail Handlers Plan. Net earned premiums for the Mail Handlers Plan were \$535.0 million for the three months ended June 30, 2002. This item was partially offset by premium growth in the disability, life and long term care products within Group Benefits due to increased new sales and rate increases.~~

~~—Group Operations achieved rate increases that averaged approximately 7.0% and 6.0% for the three months ended June 30, 2003 and 2002 for the disability, accident and life lines of business within Group Benefits for those contracts that were renewed during the period. Premium persistency rates of approximately 84.0% and 83.0% were achieved for those contracts that were up for renewal for the three months ended June 30, 2003 and 2002.~~

~~—Income from continuing operations increased by \$28.5 million for the three months ended June 30, 2003 as compared with the same period in 2002. The increase in net operating income related primarily to an increase in net realized investment gains, the positive impact of premium growth within Group Benefits and the absence of unfavorable net operating results related to the variable products business, which was sold to The Phoenix Companies, Inc. in the third quarter of 2002. These items were partially offset by the absence of~~

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~~net income related to the Mail Handlers Plan. See Investments for further discussion on net investment income and net realized gains (losses).~~

##### Six Months Ended June 30, 2003 Compared with 2002

~~—Net earned premiums for Group Operations decreased \$1,081.0 million for the six months ended June 30, 2003 as compared with the same period in 2002. The decrease in net earned premiums was due primarily to the transfer of the Mail Handlers Plan. Net earned premiums for the Mail Handlers Plan were \$1,151.0 million for the six months ended June 30, 2002. This item was partially offset by premium growth in the disability, life and long term care products within Group Benefits due to increased new sales and rate increases.~~

~~—Group Operations achieved rate increases that averaged approximately 6.0% and 5.0% for the six months ended June 30, 2003 and 2002 for the disability, accident and life lines of business within Group Benefits of those contracts that were renewed during the period. Premium persistency rates of~~



approximately 86.0% and 79.0% were achieved for those contracts that were up for renewal for the six months ended June 30, 2003 and 2002.

Income from continuing operations decreased by \$6.4 million for the six months ended June 30, 2003 as compared with the same period in 2002. The decrease in net income related primarily to increased net realized investment losses and the absence of net income related to the Mail Handlers Plan. These items were partially offset by the absence of unfavorable results related to the variable products business, which was sold to The Phoenix Companies, Inc. in the third quarter of 2002, the positive impact of premium growth within Group Benefits and favorable single premium guaranteed annuities mortality. See Investments for further discussion of net investment income and net realized gains (losses).

## Life

### Three Months Ended June 30, 2003 Compared with 2002

Net earned premiums for Life Operations increased \$29.0 million for the three months ended June 30, 2003 as compared with the same period in 2002. The increase in net earned premiums was due primarily to higher sales of structured settlement annuities and growth in the individual long term care and life insurance products.

During the three months ended June 30, 2003, CNA completed a review of its individual long term care product offerings. The focus of the review was to determine whether the current products provide adequate pricing flexibility under the range of reasonably possible claims experience levels. Based on the review and current market conditions, CNA decided to significantly reduce new sales of this product and certain infrastructure costs, and recorded \$4.0 million pretax of associated severance costs in the second quarter of 2003. Premium will continue to be received on inforce business, but the actions to reduce new business will lower the rate of overall premium growth for this line. CNA does not expect these actions to have a material adverse impact on the results of operations.

Income from continuing operations increased by \$38.0 million for the three months ended June 30, 2003 as compared with the same period in 2002. The increase in net income related primarily to increased net realized investment gains and a \$2.7 million improvement in net operating results for life settlement contracts. Partially offsetting these items were unfavorable individual long term care morbidity due to increased severity, the severance

costs noted above and decreased net investment income. See Investments for further discussion on net investment income and net realized gains (losses).

### Six Months Ended June 30, 2003 Compared with 2002

Net earned premiums for Life Operations increased \$45.0 million for the six months ended June 30, 2003 as compared with the same period in 2002. The increase in net earned premiums was due primarily to growth in the individual long term care product, higher sales of structured settlement annuities and growth in life insurance products.

Income from continuing operations decreased by \$17.1 million for the six months ended June 30, 2003 as compared with the same period in 2002. The decrease in net income related primarily to unfavorable individual long term care morbidity, due to increased severity, the write off of \$4.5 million after tax of capitalized software costs and lower net investment income, partially offset by increased net realized investment gains and a \$3.6 million improvement in results for life settlement contracts. Also contributing to the decrease were severance costs related to the individual long term care product. See Investments for further discussion on net investment income and net realized gains (losses).

## Other Insurance

### Three Months Ended June 30, 2003 Compared with 2002

Total revenues, which include net earned premiums, net investment income, other revenue and realized investment gains, increased \$14.5 million for the three months ended June 30, 2003 as compared with the same period in 2002. The increase in total revenues was due primarily to increased realized investment gains, partially offset by reduced revenues from CNA UniSource and reduced net earned premiums in group reinsurance due to the exit of these businesses in 2002.

Income from continuing operations increased \$33.9 million for the three months ended June 30, 2003 as compared with the same period in 2002. The increase was due primarily to increased net realized investment gains, partially offset by a \$23.4 million addition (after tax and minority interest) to the allowance for doubtful accounts in recognition of deterioration of the financial strength rating of several reinsurers. The 2003 results were favorably impacted by the absence of eBusiness expenses, which beginning in 2003 were included in the property and casualty operating segments of CNA. In addition, reduced losses from CNA UniSource favorably impacted net income. See Investments for further discussion of net investment income and net realized gains (losses).

~~Unfavorable net prior year claim and allocated claim adjustment expense reserve development of \$6.0 million related to certain run off operations was recorded for the three months ended June 30, 2003. Favorable net prior year claim and allocated claim adjustment expense reserve development of \$12.0 million was recorded for the same period in 2002.~~

#### ~~Six Months Ended June 30, 2003 Compared with 2002~~

~~Total revenues, which include net earned premiums, net investment income, other revenue and realized investment gains, increased \$4.7 million for the six months ended June 30, 2003 as compared with the same period in 2002. The increase in total revenues was due primarily to increased realized investment gains, partially offset by reduced revenues from CNA UniSource and reduced net~~

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~~earned premiums in group reinsurance due to the exit of these businesses in 2002.~~

~~Income from continuing operations improved \$81.8 million for the six months ended June 30, 2003 as compared with the same period in 2002. The 2003 income from continuing operations was favorably impacted by increased net realized investment gains and the absence of eBusiness expenses, which beginning in 2003 were included in the property and casualty operating segments of the Company. In addition, reduced losses from CNA UniSource favorably impacted the results from operations. Partially offsetting these increases was a \$23.4 million after tax addition to the allowance for doubtful accounts in recognition of deterioration of the financial strength rating of several reinsurers. See Investments for further discussion on net investment income and net realized gains (losses).~~

~~Unfavorable net prior year development, including premium and claim and allocated claim adjustment expense reserve development, of \$3.0 million, including \$0.0 million of unfavorable claim and allocated claim adjustment expense reserve development and \$6.0 million of favorable premium development, related to certain run off operations was recorded for the six months ended June 30, 2003. Favorable net prior year development of \$13.0 million, including \$10.0 million of favorable claim and claim adjustment expense reserve development and \$3.0 million of favorable premium development, was recorded for the same period in 2002. The gross carried claim and allocated claim adjustment expense reserve was \$5,077.0 and \$4,847.0 million at June 30, 2003 and December 31, 2002. The net carried claim and claim adjustment expense reserve was \$1,896.0 and \$2,002.0 million for June 30, 2003 and December 31, 2002.~~

~~CNA entered into a retroactive reinsurance agreement as part of the sale of CNA's personal insurance business to The Allstate Corporation ("Allstate") in 1999. CNA shares in indemnity and claim and allocated claim adjustment expenses if payments related to losses incurred prior to October 1, 1999 on the CNA policies transferred to Allstate exceed the claim and allocated claim adjustment expense reserves of approximately \$1.0 billion at the date of sale. CNA must begin to reimburse Allstate for claim and allocated claim adjustment expense payments when cumulative claim payments after October 1, 1999 on losses occurring prior to that date exceed the \$1.0 billion. CNA's remaining obligation valued under this loss sharing provision as of October 1, 2003, will be settled by agreement of the parties or by an independent actuarial review of the unpaid claim liabilities as of that date. Cumulative payments of indemnity and allocated loss adjustment expenses on such policies exceeded \$1.0 billion during the second quarter of 2003. CNA has established reserves for its estimated liability under this loss sharing arrangement.~~

#### ~~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 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~~

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~~methodologies, many of which involve significant judgments that are required of CNA 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; increasingly aggressive tactics~~

~~of plaintiffs' lawyers; the risks and lack of predictability inherent in major litigation; increased filings of claims in certain states to avoid the application of tort reform statute effective dates; a further increase in asbestos and environmental claims which cannot now be anticipated; continued increase in mass tort claims relating to silica and silica-containing products, and the outcome of ongoing disputes as to coverage in relation to these claims; the role the exhaustion of primary limits for certain accounts and increased demands on any umbrella or excess policies CNA has issued; and future developments pertaining to CNA's ability to recover reinsurance for asbestos and environmental claims.~~

~~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, 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.~~

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

	June 30, 2003		December 31, 2002	
	Environmental		Environmental	
	Pollution and		Pollution and	
	Mass Tort	Asbestos	Mass Tort	Asbestos
(In millions)				
Gross reserves	\$ 780.0	\$1,662.0	\$ 830.0	\$1,758.0
Ceded reserves	(299.0)	(501.0)	(313.0)	(527.0)
Net reserves	\$ 481.0	\$1,161.0	\$ 517.0	\$1,231.0
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~~Since 1999, CNA has performed semi-annual ground-up reviews of all open APMT claims to evaluate the adequacy of CNA's APMT reserves. As noted in Third Quarter Reserve Reviews, CNA is currently undergoing a ground-up review of all open APMT claims. In doing so, CNA considers input from its analyst 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~~

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~~present and future exposures, including such factors as claims volume, trial conditions, settlement demands and defense costs; 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.~~

~~Due to significant uncertainties previously described related to APMT claims, the ultimate liability for these cases, both individually and in aggregate, may exceed the recorded reserves. Prior reviews have at times resulted in CNA strengthening its APMT reserves and management may strengthen CNA's reserves as a result of the Third Quarter Reserve Reviews and any subsequent reserve studies. Any such potential additional liability or 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 the Company's results of operations and equity.~~

~~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 to 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 1,200 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 various CNA insurance subsidiaries 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 an "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.

A number of proposals to reform Superfund have been made by various parties. However no reforms were enacted by Congress during 2002 or during the first six months of 2003, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental

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cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the possible effect upon the Company's results of operations or equity.

During 2002 and continuing into 2003, mass tort claims arising from alleged injury due to exposure to silica and silica containing products have been increasing. CNA is monitoring silica mass tort claims to assess what, if any, impact the increased claims may have on mass tort reserves. As to other mass tort subtypes, CNA has not experienced material negative development either in the number of claims or in the emergence of new policyholders seeking coverage for known mass tort sub types. CNA's ultimate liability for its environmental pollution and mass tort claims is impacted by several factors including ongoing disputes with policyholders over scope and meaning of coverage terms and, in the area of environmental pollution, court decisions that continue to restrict the scope and applicability of the absolute pollution exclusion contained in policies issued by CNA post 1989. Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to cleanup, and in the area of environmental pollution, the standards for cleanup and liability, the ultimate liability of CNA for environmental pollution and mass tort claims may vary substantially from the amount currently recorded.

As of June 30, 2003 and December 31, 2002, CNA carried approximately \$481.0 and \$517.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was no environmental pollution and mass tort net claim and claim adjustment expense reserve development for the three and six months ended June 30, 2003 and 2002. CNA paid environmental pollution related claims and mass tort related claims, net of reinsurance recoveries, of \$36.0 and \$58.0 million for the six months ended June 30, 2003 and 2002.

#### Asbestos

CNA's property and casualty insurance subsidiaries also have exposure to asbestos related claims. Estimation of asbestos related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, 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.

In the past several years, CNA has experienced 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. Currently, the majority of asbestos bodily injury claims are filed by persons exhibiting few, if any, disease symptoms. It is estimated that approximately 90% of the current non-malignant asbestos claimants do not meet the American Medical Association's definition of impairment. Some courts, including the federal district court responsible for pre trial proceedings in all federal asbestos bodily injury actions, have ordered that so called "unimpaired" claimants may not recover

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unless at some point the claimant's condition worsens to the point of impairment.

Since 2002, at least 17 companies filed for bankruptcy protection citing costs associated with asbestos claims litigation as a basis for filing. Since 1982, at least 67 companies, including the 17 companies that filed since 2002, that mined asbestos, or manufactured or used asbestos containing products,

have filed for bankruptcy. This phenomenon has prompted plaintiff attorneys to file claims against companies that had only peripheral involvement with asbestos. Many of these defendants were users or distributors of asbestos-containing products, or manufacturers of products in which asbestos was encapsulated. These defendants include equipment manufacturers, brake, gasket, and sealant manufacturers, and general construction contractors. According to a comprehensive report on asbestos litigation recently released by the Rand Corporation, over 6,000 companies have been named as defendants in asbestos lawsuits, with 75 out of 83 different types of industries in the United States impacted by asbestos litigation. The study found that a typical claimant names 70 to 80 defendants, up from an average of 20 in the early years of asbestos litigation.

—Some asbestos related defendants have asserted that their claims for insurance 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 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 it aggressively litigates the claim. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on CNA's results of operations or equity.

—Certain asbestos litigations in which CNA is currently engaged are described below:

—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 will be required to pay \$74.0 million, net of reinsurance recoveries, over a ten year period. The settlement resolves CNA's liabilities for all pending and future asbestos claims involving A.P. Green Industries, Bigelow Liptak Corporation and related subsidiaries, including alleged "non products" exposures. The settlement is subject to bankruptcy court approval and confirmation of a bankruptcy plan containing a channeling injunction to protect CNA from any future claims.

—CNA is engaged in insurance coverage litigation with underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company ("Keasbey") in New York State court (Continental Casualty Co. v. Nationwide Indemnity Co. 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 worksites is a highly contested issue. Therefore, the defense disputes the percentage of such claimants with possibly 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. 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.

—CNA has insurance coverage disputes related to asbestos bodily injury claims against Burns & Roe Enterprises, Inc. ("Burns & Roe"). Originally raised in litigation, now stayed, these disputes are currently part of 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, Burns & Roe 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 1956-1960 and 1971-1974, along with certain project specific policies from 1964-1970.

—CIC issued certain primary and excess policies to Bendix Corporation ("Bendix"), now part of Honeywell International Inc. ("Honeywell"). Honeywell faces approximately 50,000 pending asbestos bodily injury claims resulting from alleged exposure to Bendix friction products. CIC's primary policies allegedly covered the period from at least 1939 (when Bendix began to use asbestos in its friction products) to 1983, although the parties disagree about whether CIC's policies provided product liability coverage before 1940 and from 1945 to 1956. CIC asserts that it owes no further material obligations to Bendix under any primary policy. Honeywell alleges that two primary policies issued by CIC covering 1969-75 contain occurrence limits but not product liability aggregate limits for asbestos bodily injury claims. CIC has asserted, among other things, that even if Honeywell's allegation is correct, which CNA denies, its liability is limited to a single occurrence limit per policy or per year, and in the alternative, a proper allocation of

losses would substantially limit its exposure under the 1969-75 policies to asbestos claims. These and other issues are being litigated in Continental Insurance Co., et al. v. Honeywell International Inc., No. MRS-L 1523-00 (Morris County, New Jersey).

—Policyholders have also initiated litigation directly against CNA and other insurers in four jurisdictions: Ohio, Texas, West Virginia and Montana. In the Ohio action, plaintiffs allege the defendants negligently performed duties undertaken to protect the public from the effects of asbestos (Varner v. Ford Motor Co., et al., (Cuyahoga County, Ohio)). Similar lawsuits have also been filed in Texas against CNA, and other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos (Boson v. Union Carbide Corp., et al. (District Court of Nueces County, Texas)). CNA has been named in Adams v. Aetna, Inc., et al. (Circuit Court of Kanawha County, West Virginia), a purported class action against CNA and other insurers, alleging that the defendants violated West Virginia's Unfair Trade Practices Act in handling and resolving asbestos claims against their policyholders. A direct action has also been 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 CNA failed to fulfill its obligations as W.R. Grace's Workers Compensation carrier because of the

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alleged negligent failure of CNA 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. This action is currently stayed as to CNA because of W.R. Grace's pending bankruptcy. On July 23, 2003, the stay of the litigation was lifted by the District Court as to Maryland Casualty. The time for an appeal by Maryland Casualty has not expired. The stay of the litigation may also be lifted as to CNA. It is difficult to predict the outcome or financial exposure represented by this type of litigation in light of the broad nature of the relief requested and the novel theories asserted.

—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, insurer financial strength and debt ratings and CNA's 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 CNA 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 the part of management 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

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— for individual claims;

— . medical inflation trends;

~~the mix of asbestos related diseases presented and~~

~~the ability to recover reinsurance.~~

~~CNA is also monitoring possible legislative reforms, including the possible creation of a national privately financed trust, which if established and approved through federal legislation, could replace litigation of asbestos claims with payments to claimants from the trust. It is uncertain at the present time whether such a trust will be created or, if it is, what will be the terms and conditions of its establishment or its impact on CNA.~~

~~As of June 30, 2003 and December 31, 2002, CNA carried approximately \$1,161.0 and \$1,231.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos related claims. There was no asbestos related net claim and claim adjustment expense reserve development for the three and six months ended June 30, 2003 and 2002. CNA paid asbestos related claims, net of reinsurance, of \$70.0 million for the six months ended June 30, 2003 and had net reinsurance recoveries of \$15.0 million for the six months ended June 30, 2002.~~

#### ~~Lorillard~~

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

~~A \$16.3 billion punitive damage judgment against Lorillard in Engle v. R.J. Reynolds Tobacco Company, et al., a class action case in state court in Florida in which the jury awarded a total of \$145.0 billion in punitive damages against all the defendants. On May 21, 2003 a three judge panel of the Third District Court of Appeal reversed the trial court's certification of the class and dismissed the case. On July 16, 2003 the plaintiff class filed a motion seeking reconsideration of the panel's decision and seeking to have certain questions of law certified for decision to the Florida Supreme Court.~~

~~Substantial annual payments by Lorillard, continuing in perpetuity, and restrictions on marketing and advertising agreed to under the terms of the 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 other U.S. territories (together, the "State Settlement Agreements").~~

~~Increases in state excise taxes and laws restricting smoking in public places continue to adversely impact cigarette sales in the United States. In the second quarter of 2003, domestic United States cigarette volume~~

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~~declined by 2.5% for the industry and 8.4% for Lorillard as compared to the second quarter of 2002 (a decline of 7.8% and 10.9% respectively for the first half of 2003 compared to the first half of 2002), according to information provided by Management Science Associates, Inc. ("MSAI").~~

~~Increases in industry wide promotional expenses and sales incentives implemented in reaction to the volume declines and impact of state excise tax increases, and continuing intense competition among the four largest cigarette manufacturers, including Lorillard, and many smaller participants who have gained market share in recent years, principally in the discount and deep discount cigarette segment. Reflecting this, market share for the deep discount brands increased 0.50 share points from 7.25% in the second quarter of 2002 to 7.75% in the second quarter of 2003, as estimated by MSAI.~~

~~Continuing increases in state excise taxes on cigarette sales in the second quarter of 2003, ranging from \$0.25 per pack to \$0.52 per pack, in four states, as well as scheduled increases in other states throughout 2003 and proposals for additional increases in 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.~~

~~Increasing sales of counterfeit cigarettes in the United States, which adversely impact sales by the manufacturer of the counterfeited brands and potentially damage the value and reputation of those brands.~~

~~Increases in actual and proposed federal, state and local regulation of the tobacco industry and governmental restrictions on smoking.~~

~~— See Part II, Item 1 — Legal Proceedings and Note 12 of the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1 of this Report, for information with respect to the Engle action and other litigation against cigarette manufacturers and the State Settlement Agreements.~~

~~— Revenues decreased by \$246.4 and \$378.8 million, or 23.7% and 18.7%, and net income decreased by \$63.9 and \$77.3 million, or 31.4% and 20.9%, for the three and six months ended June 30, 2003, respectively, as compared to the corresponding periods of the prior year.~~

~~— Net income for the three months ended June 30, 2003 was reduced by a charge of \$16.8 million (net of taxes) related to the tobacco growers settlement discussed in Liquidity and Capital Resources. Excluding that charge, net income would have decreased by \$47.1 million or 23.1%. Net income for the six months ended June 30, 2003 included charges of \$16.8 million in the second quarter and \$17.1 million in the first quarter of 2003 (net of taxes) related to the tobacco growers settlement and an agreement with the Brown & Williamson Corporation (the "B&W Agreement"). Excluding these charges, net income would have decreased by \$43.4 million, or 11.7% for the six months ended June 30, 2003.~~

~~— The decline in revenues and net income reflect lower net sales of \$246.0 and \$374.9 million due to decreased unit sales volume of approximately \$58.4 and \$164.7 million and lower average unit prices which decreased revenues by approximately \$197.6 and \$210.2 million. Unit sales volume declined 8.2% and 10.1% and sales promotion expenses increased for the three and six months~~

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~~ended June 30, 2003 as compared to the comparable periods of the prior year. Lorillard increased promotional expenses in the second quarter of 2003 in response to higher competitive premium brand promotional spending and price pressure due to the continued increases in state excise taxes.~~

~~— The decline in net income also reflects charges for the tobacco growers settlement and the B&W Agreement, partially offset by reduced tobacco settlement costs. The \$111.8 and \$210.1 million decrease in tobacco settlement costs for the three and six months ended June 30, 2003, as compared to the comparable periods of the prior year, is due to the expiration of up front payments (\$50.8 and \$92.3 million), reduced charges for lower unit sales volume (\$15.6 and \$42.2 million) and other adjustments (\$45.4 and \$75.6 million).~~

~~— For the six months ended June 30, 2003, Lorillard's net wholesale price of cigarettes increased by an average of \$2.03 per thousand cigarettes (\$0.04 per pack of 20 cigarettes), or 1.6%, before the impact of any promotional activities. Federal excise taxes are included in the price of cigarettes and remained at \$19.50 per thousand cigarettes (\$0.39 per pack of 20 cigarettes).~~

~~— The decreased unit prices reflect the increase in promotional expenses, mostly in the form of retail/price promotions and other discounts provided to retailers and passed through to the consumer, partially offset by the higher average net wholesale prices in 2003.~~

~~— Lorillard's total (U.S. domestic, Puerto Rico and certain U.S. Territories) unit sales volume decreased 8.2% and 10.1% for the three and six months ended June 30, 2003 as compared to the same periods a year ago while domestic wholesale volume decreased 8.4% and 10.9% for the three and six months ended June 30, 2003, as compared to the corresponding periods in 2002. Total Newport's unit sales volume decreased by 6.5% and 7.9% for the three and six months ended June 30, 2003 and domestic U.S. volume declined 6.7% and 8.9% for the three and six months ended June 30, 2003 as compared to the corresponding periods in 2002. In addition to pricing pressure due to the increases in state excise taxes and the competitive impact of deep discount brands, Lorillard's volume for the six months ended June 30, 2003 was affected by generally weak economic conditions and ongoing limitations imposed by Philip Morris' retail merchandising arrangements.~~

~~— On May 5, 2003 Lorillard lowered the wholesale list price of its discount brand, Maverick, by \$11.00 per thousand cigarettes in an effort to reposition the brand to be more competitive in the deep discount price cigarette segment.~~

~~— Deep discount price brands produced by manufacturers who are not obligated by the same payment terms of the State Settlement Agreements have continued to increase their market share, which increased by 1.19 share points for the six months ended June 30, 2003 to 7.91% of the domestic market. As a result of lower payments, these companies can price their brands at a significant advantage, by as much as 66%, as compared with offerings from the major cigarette manufacturers.~~

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Three Months Ended		Six Months Ended	
June 30,		June 30,	
2003	2002	2003	2002



Lorillard's share of the domestic market (1)	8.96%	9.55%	9.17%	9.50%
Lorillard's premium segment as a percentage of its total domestic volume (1)	95.5%	94.5%	95.7%	94.5%
Newport share of the premium segment (1)	10.9%	11.7%	11.2%	11.4%
Total menthol segment market share for the industry (2)	26.6%	26.0%	26.7%	26.2%
Newport's share of the menthol segment	30.4%	29.8%	30.1%	30.3%
Newport as a percentage of Lorillard's (3):				
— Total volume	89.9%	88.2%	90.2%	88.1%
— Net sales	89.1%	89.0%	91.3%	91.6%

Sources:

(1)Management Science Associates

(2)Excel — Retail Shipment Data (proprietary Lorillard data)

(3)Lorillard Shipment Reports

—Total Lorillard and Newport second quarter 2003 share of domestic wholesale shipments compared unfavorably with the prior year's quarter due to heavy buying by wholesalers in the second quarter of 2002 in anticipation of numerous state excise tax increases. Major introductions of competitive premium brands in the second quarter 2003 disproportionately affected all other shares, and the continued competitive price promotional pressures were also contributing factors.

—Lorillard's premium products sold as a percent of its total domestic volume remained relatively flat for the three and six months ended June 30, 2003 as compared to the same period of 2002.

—Menthol cigarettes as a percent of the total industry remained relatively flat. Newport, the industry's largest menthol brand, share of the menthol segment improved to 30.4% in the second quarter of 2003, versus 29.8% in the comparable period of 2002 and maintained an approximate 30% share of the menthol segment in the first half of 2003.

—Newport, a premium brand, accounted for approximately 90% of Lorillard's unit sales for the three and six months ended June 30, 2003 as compared to approximately 88% for the comparable periods of 2002.

—Overall, domestic industry unit sales volume decreased 2.5% and 7.8% for the three and six months ended June 30, 2003 as compared with corresponding periods of 2002. Industry sales for premium brands were 73.8% and 73.4% of the total domestic market for the three and six months ended June 30, 2003, as compared to 72.0% and 73.3% of the total domestic market in the comparable periods of 2002. Industry and Lorillard sales volume comparisons for the three and six months ended June 30, 2003 were negatively impacted due to wholesaler inventory adjustments during the first half of 2002. Wholesale inventories increased in January of 2002 following the inventory reduction in the fourth quarter of 2001 as a result of the federal excise tax increase that took effect on January 1, 2002. In addition, wholesale inventories increased during February and March of 2002 in anticipation of an industry price increase that occurred in early April of 2002. After inventory reductions in April of 2002,

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wholesale inventories increased in May and June in anticipation of numerous state excise tax increases scheduled for June 1 and July 1 of 2002.

—Lorillard recorded pretax charges of \$180.1, \$291.9, \$377.6 and \$587.7 million (\$116.3, \$176.5, \$236.9 and \$357.2 million after taxes), for the three and six months ended June 30, 2003 and 2002, respectively, to record its obligations under various settlement agreements. Lorillard's portion of ongoing adjusted settlement payments and related legal fees are 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 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 Company believes that the implementation of the State Settlement Agreements will materially adversely affect its consolidated results of operations and cash flows in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in U.S. cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to all of the payments of the State Settlement Agreements.

Loews Hotels

—Revenues increased by \$3.4 and \$2.6 million, or 4.1% and 1.6%, and net income decreased by \$1.0 and \$1.9 million or 14.9% and 15.0%, respectively, for the three and six months ended June 30, 2003 as compared to the corresponding periods of the prior year.

—Revenues increased for the three and six months ended June 30, 2003, as compared to 2002, due primarily to an increase in equity income from the Universal Orlando properties reflecting the opening of the Royal Pacific

Hotel, partially offset by a decline in revenue per available room and lower other hotel operating revenues. Revenue per available room decreased by \$8.42 and \$5.57, or 6.6% and 4.5%, to \$118.24 and \$117.72, respectively, due primarily to lower occupancy rates, reflecting the continued economic weakness and its impact on the travel industry.

—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 include, among other items, guest charges for food and beverages, telecommunication services, garage and parking fees.

—Net income decreased for the three and six months ended June 30, 2003, due to the reduction in revenue per available room, partially offset by the addition of the Royal Pacific Hotel at the Universal Orlando properties.

#### Diamond Offshore

—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 increase or decrease as a result of the acquisition or disposal of rigs. In order to improve utilization or realize higher dayrates, Diamond Offshore may mobilize its rigs from one market to another. During periods of mobilization, however, revenues may be adversely affected. As a response to changes in

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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.

—Operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Operating expenses generally are not affected by changes in dayrates and may not be significantly affected by fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, Diamond Offshore may realize few decreases in operating expenses since the rig is typically maintained in a prepared 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 under drilling contracts. 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.

—Revenues decreased by \$27.9 and \$87.8 million, or 14.2% and 21.5%, and net income decreased by \$11.0 and \$31.8 million for the three and six months ended June 30, 2003, as compared to the corresponding periods of the prior year. Revenues decreased due primarily to lower contract drilling revenue of \$22.6 and \$76.4 million, reduced investment income of \$4.3 and \$9.7 million, and lower revenues from reimbursable expenses.

—Revenues from high specification floaters and other semisubmersible rigs decreased by \$15.8 and \$63.2 million, or 8.1% and 15.5%, for the three and six months ended June 30, 2003, as compared to the corresponding periods of the prior year. The decrease reflects lower dayrates (\$19.7 and \$44.2 million) and lower utilization (\$1.5 and \$23.8 million), partially offset by revenues generated by the Ocean Patriot and the Ocean Vanguard (\$5.4 and \$6.3 million), which were acquired in March 2003 and December 2002.

—Revenues from jack up rigs decreased \$3.7 and \$9.7 million, or 1.9% and 2.4%, due primarily to decreased dayrates (\$1.5 and \$3.8 million) and decreased utilization (\$2.2 and \$5.9 million) for the three and six months ended June 30, 2003, compared to the corresponding periods of 2002.

—Investment income decreased by \$4.3 and \$9.7 million, or 56.4% and 56.5%, for the three and six months ended June 30, 2003, primarily due to a reduction in marketable securities held and lower yields on cash and marketable securities for the three and six months ended June 30, 2003, compared to the corresponding periods of 2002.

—Net income decreased due primarily to the lower revenues for the three and six months ended June 30, 2003 as discussed above and, for the three months ended June 30, 2003, increased contract drilling expenses, partially offset by a reduction in depreciation expense related to a change in the estimated useful lives and salvage values of Diamond Offshore's drilling rigs.

#### Texas Gas

—Revenues and net income for the three and six months ended June 30, 2003 reflect six weeks of operations from May 17, 2003, the date of acquisition. See Note 9 of the Notes to Consolidated Condensed Financial Statements.

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#### Bulova

—Revenues and net income decreased by \$7.7 and \$0.7 million, or 18.6% and 26.9%, for the three months ended June 30, 2003 as compared to the corresponding period of the prior year. Revenues and net income increased by \$0.7 and \$0.7 million, or 0.9% and 16.7%, for the six months ended June 30, 2003, as compared to the corresponding period of the prior year.

~~—Net sales decreased \$7.7 million, or 18.8%, and increased \$1.6 million, or 2.2%, for the three and six months ended June 30, 2003, as compared to the corresponding periods of the prior year. The decrease in sales for the quarter ended June 30, 2003 is primarily attributable to a decline in watch and clock unit volume, partially offset by an increase in watch and clock selling prices, respectively, as compared to the corresponding period of the prior year. The increase in sales for the six months ended June 30, 2003 is attributable to higher watch selling prices and clock unit sales volume, partially offset by a decline in watch unit sales volume and clock selling prices, as compared to the corresponding period of the prior year.~~

~~—Net income for the three months ended June 30, 2003 decreased primarily due to the decline in net sales discussed above. Net income for the six months ended June 30, 2003 increased due primarily to the increased net sales and a lower effective tax rate reflecting a settlement of prior years' franchise taxes, partially offset by lower royalty income.~~

## Corporate

~~—Corporate operations consist primarily of investment income, including investment gains (losses) from non insurance subsidiaries, as well as equity earnings from a shipping joint venture through Majestic Shipping Corporation ("Majestic"), corporate interest expenses and other corporate administrative costs. Majestic, a wholly owned subsidiary, owns a 49% common stock interest in Hellenpont Shipping Corporation ("Hellenpont"). Hellenpont is engaged in the business of owning and operating six ultra large crude oil tankers that are used primarily to transport crude oil from the Persian Gulf to a limited number of ports in the Far East, Northern Europe and the United States.~~

~~—Exclusive of investment gains (losses), revenues declined by \$5.0 million and net loss decreased by \$3.2 million for the three months ended June 30, 2003, and revenues decreased by \$21.2 million and net loss increased by \$6.6 million for the six months ended June 30, 2003, as compared to the corresponding periods of the prior year.~~

~~—Revenues decreased for the three months ended June 30, 2003 due primarily to lower investment income of \$15.9 million, partially offset by improved results from shipping operations of \$9.5 million. Net loss decreased for the three months ended June 30, 2003 due to improved results from shipping operations of \$6.2 million, partially offset by the reduced investment income. Revenues decreased and net loss increased for the six months ended June 30, 2003 due primarily to lower investment income of \$21.3 million (\$8.6 million after taxes) reflecting reduced yields on invested assets and lower results from shipping operations of \$4.1 million (\$2.7 million after taxes).~~

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~~—The components of investment gains (losses) included in Corporate operations are as follows:~~

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Derivative instruments	\$ (24.3)	\$ (13.2)	\$ (17.6)	\$ (3.2)
Equity securities, including short positions	45.9	(46.4)	8.6	(37.3)
Short term investments	(7.9)	16.8	(6.7)	24.1
Other	16.9	10.1	26.8	6.2
	30.6	(32.7)	11.1	(10.2)
Income tax (expense) benefit	(10.6)	11.4	(3.8)	3.5
Minority interest	0.3	(2.7)	0.3	(3.7)
Net gain (loss)	\$ 20.3	\$ (24.0)	\$ 7.6	\$ (10.4)
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## LIQUIDITY AND CAPITAL RESOURCES

### CNA

~~—The principal operating cash flow sources of CNA's property and casualty and life insurance subsidiaries are premiums and investment income. The primary operating cash flow uses are payments for claims, policy benefits and operating expenses.~~

~~—For the six months ended June 30, 2003, net cash provided by operating activities was \$115.0 million as compared with \$435.0 million for the same period in 2002. The decrease related primarily to lower federal income tax refunds in 2003 as compared with 2002.~~

~~—Cash flows from investing activities include purchases and sales of financial instruments, as well as the purchase and sale of land, buildings,~~

equipment and other assets not generally held for resale.

—For the six months ended June 30, 2003, net cash provided by investing activities was \$48.0 million as compared with net cash used by investing activities of \$410.0 million for the same period in 2002. This improvement related principally to sales of fixed maturity securities.

—Cash flows from financing activities include proceeds from the issuance of debt or equity securities, outflows for dividends or repayment of debt and outlays to reacquire equity instruments.

—For the six months ended June 30, 2003, net cash used by financing activities was \$149.0 million as compared with \$22.0 million for the same period in 2002. Cash flows used by financing activities were related principally to repayment of debt.

—CNA is closely managing the cash flows related to claims and reinsurance recoverables from the WTC event. It is anticipated that significant claim payments will be made prior to receipt of the corresponding reinsurance

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recoverables. CNA does not anticipate any liquidity problems resulting from these payments. As of July 3, 2003, CNA has paid \$533.0 million in claims and recovered \$363.0 million from reinsurers.

—CNA's estimated gross pretax losses for the WTC event were \$1,648.0 million pretax (\$958.3 million after tax and minority interest). Net pretax losses before the effect of corporate aggregate reinsurance treaties were \$727.0 million. Approximately 1.0%, 72.0% and 21.0% of the reinsurance recoverables on the estimated losses related to the WTC event are from companies with S&P ratings of AAA, AA or A.

#### Debt Financing

—CNA has an existing shelf registration statement under which it may issue an aggregate of \$549.0 million of debt or equity securities, declared effective by the SEC.

—See the Company's Annual Report on Form 10 K for the year ended December 31, 2002 for a detailed discussion of the Company's debt.

—During the first quarter of 2003, The Continental Corporation ("Continental") repaid its \$128.0 million, 7.250% Senior Note, due March 1, 2003.

—CNA pays a facility fee to the lenders for having funds available for loans under the credit facility maturing April 30, 2004. The fee varies based on the long term debt ratings of CNA. At June 30, 2003 and December 31, 2002, the facility fee was 17.5 basis points.

—CNA pays interest on any outstanding debt/borrowings under the facility based on a rate determined using the long term debt ratings of CNA. The interest rate is equal to the London Interbank Offering Rate ("LIBOR") plus 57.5 basis points. Further, if CNA has outstanding loans greater than 50.0% of the amounts available under the facility, CNA will also pay a utilization fee of 12.5 basis points on such loans. At June 30, 2003 and December 31, 2002, the weighted average interest rate on the borrowings under the facility, including facility fees and utilization fees, was 2.2% and 2.3%.

—A Moody's downgrade of the CNA senior debt rating from Baa2 to Baa3 would increase the facility fee from 17.5 basis points to 25.0 basis points. The applicable interest rate would increase from LIBOR plus 57.5 basis points to LIBOR plus 75.0 basis points. The utilization fee would remain unchanged on the facility at 12.5 basis points.

—CNA Surety Corporation ("CNA Surety"), a 64.0% owned and consolidated subsidiary of CNA, pays interest on any outstanding borrowings under its credit agreement based on an applicable margin determined by the amount of leverage of CNA. The current interest rate on any borrowings under the facility is LIBOR plus 45.0 basis points. In addition, CNA Surety pays a facility fee that is currently 12.5 basis points. If the utilization of the credit facility is greater than 50.0% of the amount available under the facility, an additional fee of 5.0 basis points will be incurred. At June 30, 2003, the aggregate commitment of the term loan component of the credit agreement was reduced by \$5.0 million to an aggregate commitment of \$25.0 million. Effective January 30, 2003, CNA Surety entered into an interest rate swap on the term loan portion of its credit agreement, which uses the 3-month LIBOR to determine the swap increment. The term loan interest rate on June 30, 2003 was 2.6%. At June 30, 2003, the weighted average interest rate on the \$55.0 million of outstanding borrowings under the credit agreement, including

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facility fees and utilization fees was 2.3%. At December 31, 2002, the weighted average interest rate on the \$60.0 million of outstanding borrowings under the credit agreement, including facility fees and utilization fees was 2.0%. At June 30, 2003 and December 31, 2002, CNA Surety was in compliance with all restrictive debt covenants.

#### Commitments and Contingencies

~~— See Note 13 of the Notes to the Consolidated Condensed Financial Statements for information related to CNA Surety's related party transactions with CNA. The impact of these transactions should be considered when evaluating CNA's liquidity and capital resources.~~

~~— See Note 13 of the Notes to the Consolidated Condensed Financial Statements for information related to CNA's commitments and contingencies. The impact of these commitments and contingencies should be considered when evaluating CNA's liquidity and capital resources.~~

~~— CNA has commitments and contingencies that should be considered when evaluating liquidity and capital resources.~~

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.~~

~~— 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 Insurance, may be paid only from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of June 30, 2003, CCC's earned surplus was in a positive position, thereby enabling CCC to pay approximately \$1,258.0 million of dividend payments during 2003 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.~~

~~— In addition, by agreement with the New Hampshire Insurance Department, as well as certain other state insurance departments, dividend payments for the CIC pool are restricted to internal and external debt service requirements through September 2003 up to a maximum of \$85.0 million annually, without the prior approval of the New Hampshire Insurance Department. CNA is currently in discussions with the New Hampshire Insurance Department, which may result in the extension of the term of this agreement through September 2004.~~

Ratings

~~— Ratings have become an increasingly 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~~

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~~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 actions that can be taken by rating agencies are changes in ratings or modifiers. "On Review," "Credit Watch" and "Rating Watch" are modifiers used by the ratings agencies to alert those parties relying on CNA's ratings of the possibility of a rating change in the near term. Modifiers are utilized when the agencies are uncertain as to the impact of a Company action or initiative, which could prove to be material to the current rating level. Modifiers are generally used to indicate a possible change in rating within ninety days.~~

~~— On August 7, 2003, the rating agencies took various actions with respect to CNA's ratings. AM Best confirmed that the existing CNA insurance financial strength and debt ratings remained unchanged. S&P placed all of CNA's insurance financial strength and debt rating on Credit Watch with negative implications. Moody's placed all of CNA's insurance financial strength and debt ratings on review for possible downgrade. Fitch has lowered the insurance financial strength ratings and senior debt ratings one level and placed all of the ratings on Rating Watch Negative status.~~

~~— The table below reflects the various group ratings issued by A.M. Best, S&P, Moody's and Fitch as of August 7, 2003 for the Property and Casualty and Life and Group companies. The table also includes the ratings for CNA's senior debt and Continental senior debt.~~

Insurance Financial Strength Ratings				Debt Ratings	
Property and Casualty		Life & Group		CNA	Continental
CCC	CIC			Senior	Senior
Group	Group	CAC/VFL	CNAGLA	Debt	Debt

A.M. Best	A	A	A	A	bbb	bbb
Fitch	A	A	A+	A	BBB	BBB
Moody's	A3	A3	A2*	NR	Baa2	Baa3
S&P	A	A	A	NR	BBB	BBB

NR = Not Rated

~~All modifiers for the insurance financial strength and debt ratings as evaluated by Fitch are Rating Watch Negative, as evaluated by Moody's are on review for possible downgrade, and as evaluated by S&P are Credit Watch with negative implications.~~

~~\*Continental Assurance Corporation ("CAC") and Valley Forge Life Insurance Company ("VFL") are rated separately by Moody's and both have an A2 rating.~~

~~If CNA's ratings were downgraded, the Company's results of operations and/or equity could be materially adversely affected. Among potential adverse effects in the event of such downgrading would be the inability of CNA to access certain markets or distribution channels, and also the required collateralization of future payment obligations or reserves.~~

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~~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 August 7, 2003 ratings.~~

#### Lorillard

~~Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation and regulatory issues. Approximately 4,500 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,100 cases are pending in a West Virginia court, and approximately 2,800 cases have been brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits served to date and is a defendant in most of the cases pending in West Virginia. Except for the impact of the State Settlement Agreements as described in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 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 condensed financial statements for any unfavorable outcome. It is possible that the Company's results of operations, cash flows and its financial position could be materially affected by an unfavorable outcome of certain pending litigation.~~

~~The terms of the State Settlement Agreements require significant payments to be made to the Settling States which began in 1998 and continue in perpetuity. Lorillard's cash payment under the State Settlement Agreements in the first six months of 2003 was approximately \$617.7 million. In 2003, Lorillard anticipates its total payments under the State Settlement Agreements to range from \$750.0 to \$800.0 million in accordance with the terms of those agreements.~~

~~See Part II, Item 1 Legal Proceedings and Note 12 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report for additional information regarding this settlement and other litigation matters.~~

~~In 1977, Lorillard sold substantially all of its cigarette trademarks outside of the United States and the international business associated with those brands. Lorillard received notice from Brown & Williamson Tobacco Corporation ("B&W"), a successor to the purchaser, that sought indemnity under certain provisions of the 1977 Agreement with respect to suits brought by various foreign jurisdictions, and certain cases brought in foreign countries by individuals concerning periods prior to June 1977 and during portions of 1978. In 2003, Lorillard entered into a settlement agreement with B&W and paid \$28.0 million to B&W for a release of all indemnity obligations and the agreement by B&W and its affiliates to terminate all rights to use the Lorillard name within 18 months.~~

~~On May 16, 2003, Lorillard and several other tobacco manufacturers and tobacco leaf buyers reached a settlement with a class of U.S. tobacco growers and quota holders who filed suit alleging antitrust violations in the purchasing of domestic tobacco leaf. The settlement calls for Lorillard to pay the class \$20.0 million and requires that Lorillard purchase at least 20 million pounds of U.S. leaf tobacco each year through 2013. Lorillard has committed to purchase at least 35% of its annual total requirements for flue-cured and burley tobacco domestically for the same period. Lorillard will also~~

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~~be responsible for 10% of the plaintiffs' attorneys' fees, to be determined by the court after class approval. The settlement has received preliminary~~

approval from the court and still must be approved by members of the class.

—Lorillard's marketable securities totaled \$1,596.2 and \$1,640.7 million at June 30, 2003 and December 31, 2002. At June 30, 2003, fixed maturity securities represented 93.8% of the total investment in marketable securities including 9.5% invested in Treasury Notes with an average duration of approximately 10 years, 21.9% invested in overnight repurchase agreements and 62.5% invested in money market accounts.

—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 \$289.8 million for the six months ended June 30, 2003, compared to \$372.1 million for the corresponding period of 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.

#### Loews Hotels

—In July of 2003 Loews Hotels sold a New York City property, the Metropolitan Hotel, for approximately \$109.0 million. The Company expects to record a pretax gain of approximately \$90.0 million in the third quarter of 2003.

—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.

#### Diamond Offshore

—At June 30, 2003, Diamond Offshore's cash and marketable securities totaled \$614.9 million, down from \$812.5 million at December 31, 2002. Cash provided by operating activities for the six months ended June 30, 2003 decreased by \$129.2 million to \$36.4 million, compared to \$165.6 million in 2002. The decrease in cash flow from operating activities is primarily due to a decline in results of operations in 2003, as compared to the prior year. Diamond Offshore also paid \$63.5 million in 2003 to acquire the Ocean Patriot.

—During the first six months of 2003, Diamond Offshore spent \$81.4 million, including capitalized interest expense, for rig upgrades. These expenditures were primarily for the deepwater upgrade of the Ocean Rover (\$56.1 million), and upgrades to three of Diamond Offshore's jack ups (\$25.2 million). Two of these upgrades were completed in the first half of 2003 and one is expected to be completed during the fourth quarter of 2003. Diamond Offshore expects to spend approximately \$115.0 million for rig upgrade capital expenditures during 2003 for the completion of the Ocean Rover upgrade (\$70.0 million) and the three remaining jack up upgrades (\$45.0 million).

—The upgrade of the Ocean Rover, which began in January 2002, was completed early in July 2003 on time and under budget. The project was completed for approximately \$189.0 million, below management's original estimated cost of \$200.0 million. The rig commenced its contract with Murphy Sabah Oil Company,

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Ltd. on July 10, 2003 for a minimum three well drilling program offshore Malaysia.

—During the six months ended June 30, 2003, Diamond Offshore spent \$52.7 million in association with its ongoing rig equipment replacement and enhancement programs and to meet other corporate requirements. In addition Diamond Offshore spent \$65.0 million (\$63.5 million capitalized to rig equipment) for the purchase of the third generation semisubmersible drilling rig, Omega, renamed the Ocean Patriot. Diamond Offshore has budgeted approximately \$100.0 to \$110.0 million in 2003 for capital expenditures associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements.

—Cash required to meet Diamond Offshore's capital commitments is determined by evaluating rig upgrades 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 operating cash flows and existing cash reserves will be sufficient to meet these capital commitments; however, periodic assessments will be made based on industry conditions. In addition, Diamond Offshore may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes. Diamond Offshore's ability to issue any such securities will be dependent on Diamond Offshore's results of operations, its current financial condition, current market conditions and other factors beyond its control.

#### Texas Gas

—In May of 2003, the Company acquired Texas Gas from The Williams Companies, Inc. The transaction value was approximately \$1.05 billion, which included \$250.0 million of existing Texas Gas debt. The Company funded the

~~approximately \$802.8 million balance of the purchase price, including transaction costs and closing adjustments, with \$527.8 million of its available cash and \$275.0 million of proceeds from an interim loan incurred at the subsidiary level.~~

~~—Upon completion of the acquisition, TGT Pipeline, LLC, a wholly owned subsidiary of the Company and the immediate parent of Texas Gas, issued \$185.0 million of 5.2% Notes due 2018 and Texas Gas issued \$250.0 million of 4.6% Notes due 2015. The net offering proceeds of approximately \$431.0 million were used to repay the \$275.0 million interim loan and to retire approximately \$132.7 million principal amount of Texas Gas's existing \$150.0 million of 8.625% Notes due 2004. Texas Gas intends to use the balance of the offering proceeds, together with cash on hand, to retire the remaining 2004 notes.~~

**Bulova**

~~—At June 30, 2003, Bulova's cash and marketable securities totaled \$9.0 million, down from \$10.2 million at December 31, 2002. Bulova does not currently expect to incur any material capital expenditures.~~

**Majestic Shipping**

~~—As previously reported in the Company's 2002 Annual Report on Form 10-K, in 2002 and 2003, subsidiaries of Hellespont acquired four new supertankers for approximately \$370.8 million. Hellespont issued to Majestic a \$57.5 million promissory note. The ships were financed by bank debt of up to \$200.0 million,~~

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~~guaranteed by Hellespont. As of June 30, 2003, the full \$200.0 million principal amount of this debt was outstanding. The Company has agreed to provide credit support for this bank debt by making available to the borrowers an operating cash flow credit facility of up to an aggregate amount of \$25.0 million, none of which is outstanding.~~

**Corporate**

~~—On April 25, 2003, the Company filed a shelf Registration Statement on Form S-3 registering the future sale of up to \$1.5 billion of debt and/or equity securities, which was declared effective by the Securities and Exchange Commission on May 6, 2003.~~

~~—As of June 30, 2003, there were 185,447,050 shares of Loews common stock outstanding and 39,910,000 shares of Carolina Group stock outstanding. Depending on market conditions, the Company from time to time may purchase shares of its, and its subsidiaries', outstanding common stock in the open market or otherwise.~~

~~—In December of 2002, the Company purchased from CNA \$750.0 million of CNA series H cumulative preferred stock. (the "Preferred Issue"). CNA used \$250.0 million of the proceeds from the Preferred Issue to prepay a \$250.0 million one year bank term loan due April 29, 2003 and an additional \$250.0 million was contributed to CCG to improve its statutory surplus.~~

~~—CNA completed a common stock rights offering in September of 2001, successfully raising \$1,006.0 million (40.3 million shares sold at \$25.00 per share). The Company purchased 38.3 million shares issued in connection with the rights offering for \$957.0 million.~~

~~—The Company has been a major source of capital for CNA's liquidity and capital resource needs.~~

~~—The Company continues to pursue conservative financial strategies while seeking opportunities for responsible growth.~~

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**INVESTMENTS**

**Insurance**

~~—The significant components of CNA's investment income are presented in the following table:~~

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Fixed maturity securities	\$ 422.0	\$ 496.0	\$ 842.0	\$ 943.0
Short term investments	12.0	11.0	32.0	27.0
Limited partnerships	75.0	37.0	98.0	44.0
Equity securities	4.0	8.0	9.0	15.0
Interest on funds withheld and other deposits	(93.0)	(56.0)	(140.0)	(114.0)
Other	18.0	18.0	43.0	39.0



Gross investment income	438.0	514.0	884.0	954.0
Investment expense	(11.0)	(12.0)	(25.0)	(26.0)
Net investment income	\$ 427.0	\$ 502.0	\$ 859.0	\$ 928.0
=====				

—CNA experienced lower net investment income for the three and six months ended June 30, 2003 as compared with the same periods in 2002. The decrease was due primarily to lower investment yields on fixed maturity securities and increased interest costs on funds withheld and other deposits, partially offset by increased limited partnership income. The interest costs on funds withheld and other deposits increased principally as a result of additional cessions to the corporate aggregate reinsurance and other treaties due to additional development recorded for the three months ended June 30, 2003. See the Reinsurance section for further discussion of CNA's aggregate reinsurance treaties.

—The bond segment of the investment portfolio yielded 5.4% and 6.1% for the six months ended June 30, 2003 and 2002.

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—The components of net realized investment gains (losses) are presented in the following table:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
(In millions)				
Realized investment gains (losses):				
Fixed maturity securities:				
—U.S. Government bonds	\$ 37.2	\$ 43.9	\$ 75.3	\$ 49.0
—Corporate and other taxable bonds	244.5	(257.7)	126.3	(249.1)
—Tax exempt bonds	75.1	13.9	94.5	15.7
—Asset backed bonds	23.6	18.5	41.5	28.0
—Redeemable preferred stock	(5.3)	(1.0)	(10.4)	(15.1)
Total fixed maturity securities	375.1	(182.4)	327.2	(171.5)
Equity securities	58.1	41.8	58.1	49.0
Derivative securities	(54.5)	(12.8)	(76.7)	(34.0)
Other invested assets	12.0	(7.9)	3.0	(3.8)
Allocated to participating policyholders' and minority interest	(2.0)	(1.0)	1.0	(1.0)
Total investment gains (losses)	388.7	(162.3)	312.6	(161.3)
Income tax benefit (expense)	(133.5)	57.0	(106.2)	58.4
Minority Interest	(24.8)	11.4	(19.9)	11.2
Net realized investment gains (losses)	\$ 230.4	\$ (93.9)	\$ 186.5	\$ (91.7)
=====				

—Net realized investment results increased \$324.3 million (after tax and minority interest) for the three months ended June 30, 2003 as compared with the same period in 2002. This change was due primarily to increased net gains on sales of fixed maturity securities and a reduction in after tax impairment losses, partially offset by increased realized losses for derivative securities. Impairment losses of \$18.0 million (after tax and minority interest) were recorded across several sectors for the three months ended June 30, 2003. Impairment losses of \$169.2 million (after tax and minority interest) were recorded primarily in the communications sector for the same period in 2002.

—Net realized investment results increased \$278.2 million (after tax and minority interest) for the six months ended June 30, 2003 as compared with the same period in 2002. This change was due primarily to increased net gains on sales of fixed maturity securities and a \$13.5 million reduction in impairment losses (after tax and minority interest), partially offset by increased realized losses for derivative securities. Impairment losses of \$167.4 million (after tax and minority interest) were recorded across several sectors, including the airline, healthcare and energy industries, for the six months ended June 30, 2003. Impairment losses of \$179.6 million (after tax and minority interest) were recorded primarily in the communications sector for the same period in 2002.

—A primary objective in the management of the fixed maturity and equity portfolios is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take

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advantage of market conditions or other investment opportunities or for credit or tax considerations. This activity will produce realized gains and losses.

~~CNA classifies its fixed maturity securities (bonds and redeemable preferred stocks) and its equity securities as available for sale, 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 are reported as a component of other comprehensive income.~~

~~The following table provides further detail of gross realized gains and gross realized losses on fixed maturity securities and equity securities:~~

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
(In millions)				
<del>Net realized gains (losses) on fixed maturity securities and equity securities:</del>				
<del>Fixed maturity securities:</del>				
Gross realized gains	\$ 410.0	\$ 217.0	\$ 695.0	\$ 357.0
Gross realized losses	35.0	399.0	368.0	528.0
<del>Net realized gains (losses) on fixed maturity securities</del>				
	375.0	(182.0)	327.0	(171.0)
<del>Equity securities:</del>				
Gross realized gains	58.0	74.0	70.0	133.0
Gross realized losses		32.0	12.0	84.0
Net realized gains on equity securities	58.0	42.0	58.0	49.0
<del>Net realized gains (losses) on fixed maturity and equity securities</del>				
	\$ 433.0	\$(140.0)	\$ 385.0	\$(122.0)

~~The following table provides details of the largest realized losses from sales of securities aggregated by issuer for the three and six months ended June 30, 2003, including: the fair value of the securities at sales date, 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 footnoted is a narrative providing the industry sector along with the facts and circumstances giving rise to the loss.~~

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Issuer Description and Discussion	Fair	Months in	
	Value at	Unrealized	
	Date of	Loss	Loss Prior
	Sale	On Sale	To Sale
(In millions)			
<del>A company which operates supermarkets and discount stores in the U.S. and Europe. Also supplies food to institutional foodservice companies (a)</del>			
	\$ 34.0	\$12.0	0-6
<del>A company which manufactures rubber and rubber related chemicals. They also manufacture and distribute tires (b)</del>			
	23.0	9.0	Various, 0-24
<del>A company which provides and operates a network of in-patient and outpatient surgery and rehabilitation facilities (c)</del>			
	122.0	8.0	Various, 0-12
<del>A company which provides wholesale financing and capital loans to auto retail dealerships and vehicle leasing companies (d)</del>			
	18.0	7.0	Various, 0-12
	\$197.0	\$36.0	

~~(a) The issuer is under investigation for accounting fraud. Losses relate to trades that took place to reduce issuer exposure.~~

~~(b) These losses relate to trades that took place to reduce issuer exposure. Remaining holdings have been impaired in the first quarter of 2003.~~

~~(c) The issuer is under investigation for accounting fraud and various security issues relating to management. These losses relate to trades that took place to reduce issuer exposure. Remaining holdings have been impaired in the first quarter of 2003.~~

~~(d) The issuer's financial condition is in good standing and is investment grade quality. A decision was made to reduce the portfolio's overall exposure to this issuer.~~

~~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 risks in the near term could have an adverse material impact on CNA's results of operations or equity.~~

~~A significant judgment in the valuation of investments is the determination of when an other than temporary decline in value has occurred. CNA follows a consistent and systematic process for impairing securities that sustain other than temporary declines in value. CNA has established a committee responsible for the impairment 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 impairment indicators including, but not limited to, a significant adverse change in the financial condition and near term prospects of the investment 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 news related to the issuer's financial~~

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~~condition. The focus is on objective evidence that may influence the evaluation of impairment factors.~~

~~The decision to impair a security incorporates both quantitative criteria and qualitative information. The Impairment Committee considers a number of factors including, but not limited to: (1) the length of time and the extent to which the market value has been less than book value, (2) the financial condition and near term prospects of the issuer, (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in value, (4) whether the debtor is current on interest and principal payments and (5) general market conditions and industry or sector specific factors. The Impairment Committee's decision to impair a security is primarily based on whether the security's fair value is likely to remain significantly below its book value in light of all of the factors considered above. For securities that are impaired, the security is written down to fair value and the resulting losses are recognized in realized gains/losses in the Consolidated Condensed Statements of Operations.~~

~~Substantially all invested assets are marketable securities classified as available for sale in the accompanying Consolidated Condensed Financial Statements. Accordingly, changes in fair value for these securities are reported in other comprehensive income.~~

~~The following table details the carrying value of CNA's general account investment portfolios:~~

	June 30, 2003		December 31, 2002	
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(In millions)

General account investments:

Fixed maturity securities:

U.S. Treasury securities and obligations of

government agencies	\$ 2,501.0	6.6%	\$ 1,376.0	3.0%
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Asset backed securities	7,598.0	20.1	8,208.0	23.2
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States, municipalities and political subdivisions

tax exempt	8,388.0	22.2	5,074.0	14.4
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Corporate securities	7,579.0	20.0	7,591.0	21.5
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Other debt securities	4,101.0	10.8	3,827.0	10.8
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Redeemable preferred stock	135.0	0.4	69.0	0.2
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Options embedded in convertible debt securities	185.0	0.5	130.0	0.4
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Total fixed maturity securities	30,487.0	80.6	26,275.0	74.4
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Equity securities:

Common stock	476.0	1.3	461.0	1.3
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Non-redeemable preferred stock	171.0	0.5	205.0	0.6
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Total equity securities	647.0	1.8	666.0	1.9
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Short term investments	5,335.0	14.1	7,008.0	19.0
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Limited partnerships	1,146.0	3.0	1,060.0	3.0
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Other investments	231.0	0.5	284.0	0.8
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Total general account investments	\$37,846.0	100.0%	\$35,293.0	100.0%
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~~CNA's general account investment portfolio consists primarily of publicly traded government bonds, asset backed securities, mortgage backed securities, municipal bonds and corporate bonds.~~

~~Investments in the general account had a total net unrealized gain of \$2,019.0 million at June 30, 2003 compared with \$887.0 million at December 31, 2002. The net unrealized position at June 30, 2003 was composed of a net unrealized gain of \$1,796.0 million for fixed maturities, a net unrealized gain of \$221.0 million for equity securities and a net unrealized gain of \$2.0 million for short term securities. The net unrealized position at December 31, 2002 was composed of a net unrealized gain of \$742.0 million for fixed maturities, a net unrealized gain of \$147.0 million for equity securities and a net unrealized loss of \$2.0 million for short term securities.~~

~~Unrealized gains (losses) on fixed maturity and equity securities are presented in the following tables:~~

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain
June 30, 2003				
(In millions)				
<del>Fixed maturity securities:</del>				
<del>U.S. Treasury securities and obligations of</del>				
<del>government agencies</del>	<del>\$ 2,404.0</del>	<del>\$ 128.0</del>	<del>\$ 31.0</del>	<del>\$ 97.0</del>
<del>Asset backed securities</del>	<del>7,374.0</del>	<del>234.0</del>	<del>10.0</del>	<del>224.0</del>
<del>States, municipalities and political subdivisions</del>				
<del>tax exempt</del>	<del>8,122.0</del>	<del>290.0</del>	<del>24.0</del>	<del>266.0</del>
<del>Corporate securities</del>	<del>6,885.0</del>	<del>763.0</del>	<del>69.0</del>	<del>694.0</del>
<del>Other debt securities</del>	<del>3,595.0</del>	<del>529.0</del>	<del>23.0</del>	<del>506.0</del>
<del>Redeemable preferred stock</del>	<del>126.0</del>	<del>10.0</del>	<del>1.0</del>	<del>9.0</del>
<del>Options embedded in convertible debt securities</del>	<del>185.0</del>			
Total fixed maturity securities	28,691.0	1,954.0	158.0	1,796.0
<del>Equity securities:</del>				
<del>Common stock</del>	<del>272.0</del>	<del>212.0</del>	<del>8.0</del>	<del>204.0</del>
<del>Non-redeemable preferred stock</del>	<del>154.0</del>	<del>18.0</del>	<del>1.0</del>	<del>17.0</del>
Total equity securities	426.0	230.0	9.0	221.0
Total fixed maturity and equity securities	\$20,117.0	\$2,184.0	\$167.0	\$2,017.0
=====				

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain (Loss)
June 30, 2002				
(In millions)				
<del>Fixed maturity securities:</del>				
<del>U.S. Treasury securities and obligations of</del>				
<del>government agencies</del>	<del>\$ 1,266.0</del>	<del>\$ 114.0</del>	<del>\$ 4.0</del>	<del>\$ 110.0</del>
<del>Asset backed securities</del>	<del>7,888.0</del>	<del>336.0</del>	<del>16.0</del>	<del>320.0</del>
<del>States, municipalities and political subdivisions</del>				
<del>tax exempt</del>	<del>4,966.0</del>	<del>151.0</del>	<del>43.0</del>	<del>108.0</del>
<del>Corporate securities</del>	<del>7,439.0</del>	<del>487.0</del>	<del>335.0</del>	<del>152.0</del>
<del>Other debt securities</del>	<del>3,780.0</del>	<del>284.0</del>	<del>237.0</del>	<del>47.0</del>
<del>Redeemable preferred stock</del>	<del>64.0</del>	<del>5.0</del>		<del>5.0</del>
<del>Options embedded in convertible debt securities</del>	<del>130.0</del>			
Total fixed maturity securities	25,533.0	1,377.0	635.0	742.0
<del>Equity securities:</del>				
<del>Common stock</del>	<del>310.0</del>	<del>166.0</del>	<del>15.0</del>	<del>151.0</del>
<del>Non-redeemable preferred stock</del>	<del>209.0</del>	<del>3.0</del>	<del>7.0</del>	<del>(4.0)</del>
Total equity securities	519.0	169.0	22.0	147.0
Total fixed maturity and equity securities	\$26,052.0	\$1,546.0	\$657.0	\$ 889.0
=====				

~~CNA's investment policies for the general account emphasizes 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.

At June 30, 2003, the carrying value of the general account fixed maturities was \$30,487.0 million, representing 81.0% of the total investment portfolio. The net unrealized gain related to this fixed maturity portfolio was \$1,796.0 million, comprising gross unrealized gains of \$1,954.0 million and gross unrealized losses of \$158.0 million. Corporate bonds represented 44.0%, other fixed maturity securities represented 26.0%, municipal securities represented 15.0%, and other debt securities, which includes public utility and foreign government bonds, represented 15.0% of the gross unrealized losses. Within corporate bonds, the largest industry sectors were consumer cyclical and financial, which represented 25.0% and 27.0% of the gross unrealized losses. Gross unrealized losses in any single issuer were less than 0.1% of the carrying value of the total general account fixed maturity portfolio.

If the deterioration in these industry sectors continues in future periods and CNA continues to hold these securities, CNA is likely to have additional impairments in the future.

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The following table provides the composition of fixed maturity securities with an unrealized loss in relation to the total of all fixed maturity securities with an unrealized loss by contractual maturities:

	Percent of Market Value	Percent of Unrealized Loss
June 30, 2003		
Due in one year or less	1.0%	3.0%
Due after one year through five years	7.0	15.0
Due after five years through ten years	35.0	32.0
Due after ten years	37.0	44.0
Asset backed securities	20.0	6.0
Total	100.0%	100.0%

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The following tables summarize, for fixed maturity and equity securities in an unrealized loss position at June 30, 2003 and December 31, 2002, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

	June 30, 2003		December 31, 2002	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss

(In millions)

#### Fixed maturity securities:

##### Investment grade:

0-6 months	\$4,815.0	\$ 70.0	\$2,632.0	\$ 100.0
7-12 months	212.0	16.0	361.0	30.0
13-24 months	126.0	9.0	163.0	21.0
Greater than 24 months	47.0	8.0	172.0	20.0
Total investment grade	5,200.0	103.0	3,328.0	171.0

##### Non-investment grade:

0-6 months	432.0	16.0	892.0	119.0
7-12 months	144.0	7.0	473.0	115.0
13-24 months	203.0	16.0	458.0	157.0
Greater than 24 months	118.0	16.0	169.0	73.0
Total non-investment grade	897.0	55.0	1,992.0	464.0

Total fixed maturity securities 6,097.0 158.0 5,320.0 635.0

#### Equity securities:

0-6 months	21.0	3.0	119.0	13.0
7-12 months	13.0	4.0	79.0	9.0
13-24 months	11.0	2.0	4.0	
Greater than 24 months	8.0		4.0	
Total equity securities	53.0	9.0	206.0	22.0

Total fixed maturity and equity securities	\$6,150.0	\$167.0	\$5,526.0	\$ 657.0
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—CNA's non-investment grade fixed maturity securities held as of June 30, 2003 that were in a gross unrealized loss position had a fair value of \$897.0 million. As discussed previously, a significant judgment in the valuation of investments is the determination of when an other than temporary impairment has occurred. CNA's Impairment Committee analyzes securities placed on the watch list 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 of the watch list securities. 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 June 30, 2003 and December 31, 2002.

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	Fair Value as a Percentage of Book Value	Gross
Estimated		Unrealized
June 30, 2003	Fair Value 90-99% 80-89% 70-79% <70%	Loss

(In millions)

Fixed maturity securities:

Non-investment grade:

0-6 months	\$ 432.0	\$ 8.0	\$ 7.0	\$ 1.0	\$ 16.0
7-12 months	144.0	2.0	5.0		7.0
13-24 months	203.0	8.0	6.0	\$ 2.0	16.0
Greater than 24 months	118.0	3.0	5.0	5.0	16.0

Total non-investment grade	\$ 897.0	\$21.0	\$23.0	\$ 7.0	\$ 4.0	\$ 55.0
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	Fair Value as a Percentage of Book Value	Gross
Estimated		Unrealized
December 31, 2002	Fair Value 90-99% 80-89% 70-79% <70%	Loss

(In millions)

Fixed maturity securities:

Non-investment grade:

0-6 months	\$ 892.0	\$30.0	\$28.0	\$ 28.0	\$ 33.0	\$119.0
7-12 months	473.0	9.0	12.0	24.0	70.0	115.0
13-24 months	458.0	5.0	12.0	50.0	90.0	157.0
Greater than 24 months	169.0	2.0	6.0	15.0	50.0	73.0

Total non-investment grade	\$1,992.0	\$46.0	\$58.0	\$117.0	\$243.0	\$464.0
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—The non-investment grade securities that were in an unrealized loss severity of less than 70.0% for greater than 24 months as of June 30, 2003 primarily consisted of a financial sector security which represented less than 2.0% of the gross unrealized loss for the total fixed maturity portfolio.

—As part of the ongoing impairment monitoring process, the Impairment Committee has evaluated the facts and circumstances based on available information for each of these non-investment grade securities and determined that no further impairments were appropriate at June 30, 2003. This determination was based on a number of factors that the Impairment Committee 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 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 had the intent and ability to hold these securities for a period of time sufficient to recover the book value of its investment through a recovery in the market 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 the Impairment Committee continually assesses its ability to hold securities for a time sufficient to recover any temporary loss in value or until maturity. CNA maintains sufficient levels of liquidity so as to not impact the asset/liability management process.

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—CNA's equity securities held as of June 30, 2003 that were in a gross unrealized loss position had a fair value of \$53.0 million. CNA's Impairment Committee, under the same process as fixed maturity securities, 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 expects to recover the

book value of its investment through a recovery in the market value of the security.

The general account portfolio consists primarily of high quality (rated BBB or higher) bonds, 89.4% of which were rated as investment grade at June 30, 2003 and December 31, 2002. The following table summarizes the ratings of CNA's general account bond portfolio at carrying value.

	June 30, 2003		December 31, 2002	
(In millions)				
U.S. Government and affiliated agency				
—securities	\$ 2,987.0	10.0%	\$ 1,908.0	7.0%
Other AAA rated	12,919.0	42.0	10,856.0	41.0
AA and A rated	6,037.0	20.0	5,730.0	22.0
BBB rated	5,061.0	17.0	4,930.0	19.0
Below investment grade	3,348.0	11.0	2,782.0	11.0
Total	\$30,352.0	100.0%	\$26,206.0	100.0%

At June 30, 2003 and December 31, 2002, approximately 97.0% of the general account portfolio was U.S. Government and affiliated agency securities or was rated by Standard & Poor's ("S&P") or Moody's Investors Service ("Moody's"). The remaining bonds were rated by other rating agencies or Company management.

Non-investment grade bonds, as presented in the table above, are high yield securities rated below BBB by bond rating agencies, as well as other unrated securities that, in the opinion of management, 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 private placement securities at June 30, 2003 was \$264.0 million which represents 0.7% of CNA's total investment portfolio. These securities were in a net unrealized gain position of \$50.0 million at June 30, 2003. Of the non-traded securities, 53.0% are priced by unrelated third party sources.

The carrying value of non-traded securities at December 31, 2002 was \$237.0 million which represents 0.7% of CNA's total investment portfolio. These securities were in a net unrealized loss position of \$0.4 million at December 31, 2002. Of the non-traded securities, 78.0% are priced by unrelated third party sources.

Included in CNA's general account fixed maturity securities at June 30, 2003 are \$7,598.0 million of asset backed securities, at fair value, consisting of approximately 62.0% in collateralized mortgage obligations ("CMOs"), 12.0% in corporate asset backed obligations, 5.0% in U.S. Government agency issued

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pass through certificates and 21.0% in corporate mortgage backed pass through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker dealers.

Included in CNA's general account fixed maturity securities at December 31, 2002 are \$8,208.0 million of asset backed securities, at fair value, consisting of approximately 67.0% in collateralized mortgage obligations ("CMOs"), 11.0% in corporate asset backed obligations, 7.0% in U.S. Government agency issued pass through certificates and 15.0% in corporate mortgage backed pass through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker dealers.

The carrying value of the components of the general account short term investment portfolio is presented in the following table:

	June 30 2003	December 31 2002
(In millions)		
Money market funds	\$ 2,617.0	\$ 2,161.0
Commercial paper	1,826.0	1,141.0
U.S. Treasury securities	248.0	2,756.0
Other	644.0	950.0
Total short term investments	\$ 5,335.0	\$ 7,008.0

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 non performance of underlying obligor). CNA considers the derivatives in its general account to be held for purposes other than trading. Derivative securities are recorded at fair value at the reporting date.

— Most derivatives in separate accounts are held for hedging purposes. CNA uses these derivatives to mitigate market risk by purchasing S&P 500 index futures in a notional amount equal to the contract liability relating to Group Operations' Index 500 guaranteed investment contract product.

#### ACCOUNTING STANDARDS

— In January of 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Prior to the issuance of this Interpretation, ARB No. 51 defined a controlling financial interest as ownership of a majority voting interest. FIN 46 requires an entity to consolidate a variable interest entity even though the entity does not, either directly or indirectly, own more than 50% of the outstanding voting shares. FIN 46 defines a variable interest entity as having one or both of the following characteristics (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (2) the equity investors lack one or

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more of the following (a) the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, (b) the obligation to absorb the expected losses of the entity, if they occur, which makes it possible for the entity to finance its activities and (c) the right to receive the expected residual returns of the entity, if they occur, which is the compensation for the risk of absorbing the expected losses. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and for variable interest entities created before February 1, 2003, no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The Company is currently evaluating the impact FIN 46 may have on its consolidated condensed financial statements.

— In April of 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is currently in the process of evaluating the impact SFAS No. 149 may have on its consolidated condensed financial statements.

— On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003 and to other instruments as of September 1, 2003. Adoption of these provisions is not expected to have a material impact on the equity or results of operations of the Company.

#### 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 officials of the Company and its subsidiaries during presentations about the Company, 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 by the Company or its 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 the Company's control, that could cause actual results to differ materially from those anticipated or projected. These risks and uncertainties include, among others:

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Risks and uncertainties primarily affecting the Company and the Company's

insurance subsidiaries



- ~~. the impact of competitive products, policies and pricing, including the ability to implement and maintain price increases;~~
- ~~. product and policy availability and demand and market responses, including the effect of the absence of applicable terrorism legislation on coverages;~~
- ~~. development of claims, the effect on loss reserves and additional charges to earnings if loss reserves are insufficient, including among others, loss reserves related to APMT exposure which are more uncertain and therefore more difficult to estimate than loss reserves respecting traditional property and casualty exposures;~~
- ~~. the impact of the insurance reserve reviews being conducted by CNA and an independent actuarial firm, the ongoing state regulatory exams of CNA's primary insurance company subsidiaries, and CNA's responses to the results of those reviews and exams;~~
- ~~. exposure to catastrophic events, natural and man made, which are inherently unpredictable, with a frequency or severity that exceeds CNA's expectations and results in material losses;~~
- ~~. exposure to liabilities due to claims made by insured and others relating to asbestos remediation and health based asbestos impairments, and exposure to liabilities for environmental pollution and mass tort claims;~~
- ~~. the possible creation through federal legislation of a national privately financed trust to replace litigation of asbestos claims with payments to claimants from the trust and the uncertain funding requirements of any such trust, including requirements possibly in excess of CNA's established loss reserve or carried loss reserve;~~
- ~~. the availability and adequacy of reinsurance and the creditworthiness and performance of reinsurance companies under reinsurance contracts;~~
- ~~. limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies;~~
- ~~. regulatory limitations and restrictions upon CNA and its insurance subsidiaries generally;~~
- ~~. 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/or accounting restatements (such as Enron and WorldCom) on the financial markets, and the resulting decline in value of securities held and possible additional charges for impairments;~~
- ~~. the effects of corporate bankruptcies and/or accounting restatements on the markets for directors and officers and errors and omissions~~

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~~coverages;~~

- ~~. the effects of assessments and other surcharges for guaranty funds and second injury funds and other mandatory pooling arrangements; and~~
- ~~. the impact of the current economic climate on companies on whose behalf CNA's subsidiaries have issued surety bonds;~~

~~Risks and uncertainties primarily affecting the Company and the Company's 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 increased promotional activity and the continued growth of the 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;~~

~~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 the Company and the Company's~~

~~energy subsidiaries~~

~~the impact on worldwide 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;~~

~~future demand for and supplies of natural gas impacting natural gas  
pipeline transmission demand and rates;~~

~~governmental or regulatory developments affecting natural gas  
transmission, including rate making and other proceedings particularly  
affecting the Company's gas transmission subsidiary;~~

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~~Risks and uncertainties affecting the Company and its 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;~~

~~the impact of regulatory initiatives and compliance with governmental  
regulations, judicial rulings and jury verdicts;~~

~~the results of financing efforts; and~~

~~the actual closing of contemplated transactions and agreements.~~

~~Developments in any of these areas, which are more fully described elsewhere  
in this Report, could cause the Company's 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 the Company expressly  
disclaims any obligation or undertaking to update these statements to reflect  
any change in the Company's expectations or beliefs or any change in events,  
conditions or circumstances on which any forward looking statement is based.~~

~~Item 3. Quantitative and Qualitative Disclosures about Market Risk.~~

~~The Company is a large diversified financial services company. As such, it  
and its subsidiaries have significant amounts of financial instruments that  
involve market risk. The Company's measure of market risk exposure represents  
an estimate of the change in fair value of its financial instruments. Changes  
in the trading portfolio would be recognized as investment gains (losses) in  
the Consolidated Condensed Statements of Income. Market risk exposure is  
presented for each class of financial instrument held by the Company at June  
30, 2003 and December 31, 2002, assuming immediate adverse market movements of  
the magnitude described below. The Company believes 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 the Company's investment portfolio is subject to change based  
on its 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 the overall investment strategy employed by the  
Company and has responsibility to ensure that the investment positions are  
consistent with that strategy and the level of risk acceptable to it. The  
Company may manage risk by buying or selling instruments or entering into  
offsetting positions.~~

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~~Equity Price Risk — The Company has exposure 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 or indexes. Equity price risk was measured assuming an instantaneous 25% change in the underlying reference price or index from its level at June 30, 2003 and December 31, 2002, with all other variables held constant.

—Interest Rate Risk—The Company has exposure 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 by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. The Company monitors its sensitivity to interest rate risk by evaluating the change in the value of its 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 the Company's investments and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices which the Company believes are reasonably possible over a one-year period.

—The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on June 30, 2003 and December 31, 2002 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 the Company's earnings or shareholders' equity. Further, the computations do not contemplate any actions the Company could undertake in response to changes in interest rates.

—The Company's long term debt, as of June 30, 2003 and December 31, 2002 is denominated in U.S. Dollars. The Company's debt has been primarily issued at fixed rates, and as such, 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 \$408.4 and \$374.6 million, respectively. A 100 basis point decrease would result in an increase in market value of \$478.9 and \$440.1 million, respectively.

—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. The Company has foreign exchange rate exposure when it buys or sells foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by the Company's asset/liability matching strategy and through the use of futures for those instruments which are not matched. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds and the European Monetary Unit. The sensitivity analysis assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at June 30, 2003 and December 31, 2002, with all other variables held constant.

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—Commodity Price Risk—The Company has exposure to commodity price risk as a result of its investments in gold options. 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 change of 20% from their levels at June 30, 2003 and December 31, 2002.

—The following tables present the Company's 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	
June 30	December 31	June 30	December 31
2003	2002	2003	2002

(Amounts in millions)

Equity markets (1)				
Equity securities	\$ 305.1	\$ 430.7	\$ (76.0)	\$ (108.0)
Option purchased	23.2	23.7	7.0	3.0
written	(7.0)	(19.2)	2.0	2.0
Short sales	(120.8)	(200.7)	30.0	50.0
Separate accounts—Equity securities (a)	0.4	6.3		(2.0)

Other invested				
assets	363.7	326.5	(6.0)	(5.0)
Interest rate (2):				
Interest rate swaps	(51.4)	(7.1)	(125.0)	(31.0)
Separate accounts				
Fixed maturities	295.9	145.4	4.0	3.0
Short term investments	314.9	166.6		
Commodities:				
Gold (3):				
options purchased	1.1	0.6	19.0	14.0
written	(1.2)	(0.7)	(30.0)	(20.0)

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) a decrease in interest rates of 100 basis points and (3) a decrease in gold prices of 20%. 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) In addition, the Separate accounts carry positions in equity index futures. A decrease in equity prices of 25% would result in market risk amounting to \$(225.0) and \$(151.0) at June 30, 2003 and December 31, 2002. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

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#### Category of risk exposure:

	Fair Value Asset (Liability)		Market Risk	
	June 30 2003	December 31 2002	June 30 2003	December 31 2002

(Amounts in millions)

#### Equity markets (1)

Equity securities				
General accounts (a)	\$ 647.1	\$ 666.1	\$ (156.0)	\$ (166.0)
Separate accounts	112.5	112.0	(28.0)	(28.0)
Other invested assets	1,293.9	1,157.6	(71.0)	(133.0)
Separate accounts Other invested assets	395.2	387.3	(99.0)	(97.0)
Interest rate (2):				
Fixed maturities (a) (b)	31,326.0	27,433.7	(1,997.0)	(1,650.0)
Short term investments (a)	9,192.5	10,161.7	(2.0)	(6.0)
Other assets	245.8	263.0		
Other derivative securities	(17.7)	18.0	85.0	(47.0)
Separate accounts (a):				
Fixed maturities	1,881.2	1,868.1	(110.0)	(96.0)
Short term investments	97.4	109.5		
Long term debt	(6,120.0)	(5,558.0)		

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 \$(149.0) and \$(148.0) at June 30, 2003 and December 31, 2002.

(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 \$(42.0) and \$(24.0) at June 30, 2003 and December 31, 2002.

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#### Item 4. Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures which are 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 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 and its principal financial

~~officer 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 and concluded that the Company's controls and procedures were effective.~~

~~Management, in consultation with the Company's independent accountants, identified deficiencies in certain aspects of initial policy set up and processing for large account property and casualty business in CNA's Standard Lines segment which constitute a "Reportable Condition" under standards established by the American Institute of Certified Public Accountants. These deficiencies impacted the quality of the claim data used by CNA's actuaries as the basis for their comprehensive actuarial reviews, and hampered the timeliness of these reviews.~~

~~This matter, as well as CNA's action plan for remediation, have been discussed with the Company's Audit Committee. CNA has made substantial progress towards remediation, and expects to complete its action plan by the end of 2003.~~

~~There was no other change in the Company's internal control over financial reporting identified in connection with the foregoing evaluation that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.~~

## ~~PART II. OTHER INFORMATION~~

### ~~Item 1. Legal Proceedings~~

~~1. Insurance Related. Information with respect to insurance related legal proceedings is incorporated by reference to Note 12 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

~~2. Tobacco Related. Information with respect to tobacco related legal proceedings is incorporated by reference to Item 3, Legal Proceedings, and Exhibit 99.01, Tobacco Pending Litigation, of the Company's Report on Form 10-K for the year ended December 31, 2002. Additional developments in relation to the foregoing are described below and incorporated by reference to Note 12 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

### ~~CLASS ACTIONS~~

~~In the case of Cahn v. United States, et al. (U.S. District Court, New Jersey, July 29, 2002), the court has dismissed the case and plaintiffs will not appeal.~~

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~~In the case of Deller v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 9, 2002), the court has denied plaintiff's motion for class certification.~~

~~In the case of Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Miami Dade County, Florida), the Florida Third District Court of Appeal reversed the judgment in favor of the plaintiffs, which included, among other things, an award of approximately \$16.0 billion in punitive damages from Lorillard, and decertified the class. See "Class Action Cases" above.~~

~~In the case of Ellington v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed July 31, 2002), the court has denied plaintiff's motion for class certification.~~

~~In the case of Hudson v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 9, 2002), the court has denied plaintiff's motion for class certification.~~

~~In the case of Martinez v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 4, 2002), the court has denied plaintiff's motion for class certification.~~

~~In the case of Perry v. The American Tobacco Co., Inc., et al. (U.S. District Court, Eastern District, Tennessee, filed September 30, 1996), the U.S. Court of Appeals for the Sixth Circuit entered an order during 2003 that affirmed the order dismissing the case.~~

~~In the case of Ramsden v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 6, 2002), the court has denied plaintiff's motion for class certification.~~

~~In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), the jury returned a verdict in the first phase of trial that resolved some of plaintiffs' claims in favor of the defendants but found in favor of the class as to certain other issues.~~

~~The following Class Actions have been filed:~~

~~The case of Jose Martinez v. Philip Morris Incorporated, et al. (U.S. District Court, Utah, filed January 7, 2003).~~

~~—The case of Charlene Brown v. Philip Morris Incorporated, et al. (U.S. District Court, Massachusetts, filed January 10, 2003).~~

#### ~~REIMBURSEMENT CASES~~

##### ~~Reimbursement Cases by Foreign Governments in U.S. Courts~~

~~—In the case of Republic of Venezuela v. Philip Morris Companies, et al. (Circuit Court, Eleventh Judicial Circuit, Miami Dade County, Florida, filed January 27, 1999), the Florida Supreme Court denied plaintiff's appeal, which was taken from the 2001 ruling that granted defendants' motion to dismiss the case and the 2002 decision by the Florida Court of Appeal that affirmed the dismissal. The Company was a defendant in the case.~~

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##### ~~Reimbursement Cases by Hospitals or Hospital Districts~~

~~—In the case of A.O. Fox Memorial Hospital v. Brown & Williamson Tobacco Corporation, et al. (Supreme Court, Nassau County, New York, filed April 17, 2000), the New York Court of Appeals denied plaintiffs' appeal from the rulings that dismissed the case in favor of the defendants.~~

~~—In the case of Jefferson County (Alabama) v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Alabama, filed October 10, 2002), the court granted from the bench defendants' motion to dismiss the case. Plaintiff did not appeal.~~

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

~~—Set forth below is information relating to the 2003 Annual Meeting of Shareholders of the Registrant.~~

~~—The annual meeting was called to order at 11:00 A.M., May 13, 2003. Represented at the meeting, in person or by proxy, were shares representing 174,017,263 votes, approximately 91.9% of the votes represented by issued and outstanding shares entitled to vote.~~

~~—The following business was transacted:~~

##### ~~Election of Directors~~

~~—Over 86% of the votes cast for directors were voted for the election of the following directors. The number of votes for and withheld with respect to each director was as follows:~~

	Votes For	Votes Withheld
Joseph L. Bower	170,153,268	3,863,995
John Brademas	170,074,257	3,943,006
Paul J. Fribourg	165,997,471	8,019,792
Philip A. Laskawy	166,167,098	7,850,165
Gloria R. Scott	165,020,361	8,996,902
Andrew H. Tisch	149,224,677	24,792,586
James S. Tisch	149,258,748	24,758,515
Jonathan M. Tisch	149,184,253	24,833,010
Laurence A. Tisch	149,158,895	24,858,368
Preston R. Tisch	149,183,773	24,833,490
Fred Wilpon	170,085,630	3,931,633

##### ~~Ratification of the appointment of Independent Certified Public Accountants~~

~~—Approved —161,436,512 votes, approximately 92.8% of the votes cast, voted to ratify the appointment of Deloitte & Touche, LLP as independent certified public accountants for the Company. 11,511,379 votes, approximately 6.6% of the votes cast, voted against, and shares representing 1,069,371 votes, approximately 0.6% of the votes cast, abstained. In addition, there were shares representing one vote as to which a broker indicated that it did not have authority to vote (a "broker non vote").~~

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##### ~~Shareholder proposal relating to cumulative voting~~

~~—Rejected —106,469,411 votes, approximately 66.4% of the votes cast, voted against this shareholder proposal. 51,158,696 votes, approximately 31.9% of the votes cast, were cast for, and shares representing 2,830,972 votes, approximately 1.8% of the votes cast, abstained. In addition, there were 13,558,184 broker non votes.~~

##### ~~Shareholder proposal relating to auditor conflicts~~

~~—Rejected —114,310,070 votes, approximately 71.2% of the votes cast, voted against this shareholder proposal. 44,686,777 votes, approximately 27.9% of the votes cast, were cast for, and shares representing 1,462,231 votes,~~

approximately 0.0% of the votes cast, abstained. In addition, there were 13,558,185 broker non votes.

Shareholder proposal relating to environmental tobacco smoke

~~—Rejected— 126,413,300 votes, approximately 78.8% of the votes cast, voted against this shareholder proposal. 20,093,680 votes, approximately 12.5% of the votes cast, were cast for, and shares representing 13,952,098 votes, approximately 8.7% of the votes cast, abstained. In addition, there were 13,558,185 broker non votes.~~

Shareholder proposal relating to cigarette sales over the internet

~~—Rejected— 147,387,661 votes, approximately 91.0% of the votes cast, voted against this shareholder proposal. 5,634,430 votes, approximately 3.5% of the votes cast, were cast for, and shares representing 7,436,989 votes, approximately 4.6% of the votes cast, abstained. In addition, there were 13,558,183 broker non votes.~~

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Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits—

Description of Exhibit	Number
Certification dated August 8, 2003, by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.1*
Certification dated August 8, 2003, by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.2*
Certification dated August 8, 2003, 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)	32.1*
Certification dated August 8, 2003, 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)	32.2*
Tobacco Pending Litigation, incorporated herein by reference to Exhibit 99.01 to Registrant's Report on Form 10-K for the year ended December 31, 2002	99.1

\* Filed or furnished herewith

(b) Current reports on Form 8-K—

~~—On April 3, 2003 Registrant filed a report on Form 8-K announcing its auditor's Deloitte & Touche LLP had terminated its plan to separate Deloitte Consulting from their firm.~~

~~—On April 14, 2003, Registrant filed a report on Form 8-K announcing the purchase of Texas Gas Transmission Corporation from The Williams Companies, Inc.~~

~~—On May 8, 2003, Registrant filed a report on Form 8-K regarding the first quarter of 2003 earnings release for the Loews Corporation and the Carolina Group.~~

~~—On June 2, 2003, Registrant filed a report on Form 8-K regarding Registrant's 90% owned subsidiary, CNA Financial Corporation, announcement of an after tax charge of approximately \$49.0 million in the second quarter of 2003 for its Specialty Lines segment.~~

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SIGNATURES

~~—Pursuant to the requirements 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

(Registrant)

Dated: August 8, 2003 By: /s/ Peter W. Keegan

PETER W. KEEGAN  
Senior Vice President and  
Chief Financial Officer  
(Duly authorized officer  
and principal financial





I, James S. Tisch, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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(c) and 15d-15(c)) 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) 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
  - (c) 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.

Date: August 8, 2003 /s/ James S. Tisch

James S. Tisch  
Chief Executive Officer

I, ~~Peter W. Keegan~~, certify that:

1. ~~I have reviewed this quarterly report on Form 10-Q 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(c) and 15d-15(c)) 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) 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~~
  - ~~(c) 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.~~

Date: ~~August 8, 2003~~ /s/ ~~Peter W. Keegan~~

~~Peter W. Keegan~~  
~~Chief Financial Officer~~

~~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 Quarterly Report on Form 10-Q for the quarter  
ended June 30, 2003 (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: August 8, 2003 /s/ James S. Tisch~~

~~James S. Tisch  
Chief Executive Officer~~

~~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 Quarterly Report on Form 10-Q for the quarter  
ended June 30, 2003 (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: August 8, 2003~~ ~~/s/ Peter W. Keegan~~

~~Peter W. Keegan  
Chief Financial Officer~~