

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 March 31, 1999

OR

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

For the transition period from _____ to _____

Commission file number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

13-2646102

(State or other jurisdiction of
incorporation or organization)
no.)

(I.R.S. employer
identification

667 MADISON AVENUE, NEW YORK, N.Y. 10021-8087

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant's telephone number, including area code)

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 X No

Class	Outstanding at May 3, 1999
-----	-----
Common stock, \$1 par value	109,244,800 shares

Page 1

INDEX

Part I. Financial Information Page No.

Item 1. Financial Statements -----

Consolidated Condensed Balance Sheets-- March 31, 1999 and December 31, 1998	3
Consolidated Condensed Statements of Operations-- Three months ended March 31, 1999 and 1998	4
Consolidated Condensed Statements of Cash Flows-- Three months ended March 31, 1999 and 1998	5
Notes to Consolidated Condensed Financial Statements	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Item 3. Quantitative and Qualitative Disclosures about Market Risk	58
Part II. Other Information	
Item 1. Legal Proceedings	62
Item 6. Exhibits and Reports on Form 8-K	62

Page 2

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in millions of dollars)	March 31, 1999	December 31, 1998
Assets:		
Investments:		
Fixed maturities, amortized cost of \$31,759.3 and \$30,850.3	\$31,926.4	\$31,409.4
Equity securities, cost of \$1,669.8 and \$1,624.7	3,860.9	2,380.7
Other investments	1,183.2	1,123.0
Short-term investments	7,774.1	7,792.1
Total investments	44,744.6	42,705.2
Cash	400.9	287.4
Receivables-net	14,734.0	14,163.4
Property, plant and equipment-net	2,942.4	2,848.3
Deferred income taxes	682.2	872.6
Goodwill and other intangible assets-net	482.1	489.4
Other assets	1,774.0	1,915.1
Deferred policy acquisition costs of insurance subsidiaries	2,490.2	2,422.2
Separate Account business	5,049.6	5,202.8
Total assets	\$73,300.0	\$70,906.4
Liabilities and Shareholders' Equity:		
Insurance reserves and claims	\$41,109.4	\$40,438.5
Payable to brokers	1,442.8	1,160.8
Securities sold under repurchase agreements ..	1,342.5	579.5
Long-term debt, less unamortized discount	5,943.2	5,966.7
Other liabilities	5,179.8	4,879.6
Separate Account business	5,049.6	5,202.8
Total liabilities	60,067.3	58,227.9
Minority interest	2,606.9	2,477.3
Shareholders' equity	10,625.8	10,201.2
Total liabilities and shareholders' equity	\$73,300.0	\$70,906.4

See accompanying Notes to Consolidated Condensed Financial Statements.

Page 3

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Operations

(In millions, except per share data)	Three Months Ended March 31, 1999	1998
--------------------------------------	--------------------------------------	------

Revenues:		
Insurance premiums	\$3,438.0	\$3,430.0
Investment income, net of expenses	564.4	630.6
Investment gains (losses)	81.2	(354.5)
Manufactured products (including excise taxes of \$119.1 and \$109.0)	930.0	596.7
Other	545.5	522.4
Total	5,559.1	4,825.2
Expenses:		
Insurance claims and policyholders' benefits	2,869.7	2,847.9
Amortization of deferred policy acquisition costs	576.6	490.3
Cost of manufactured products sold	252.0	234.6
Selling, operating, advertising and administrative expenses	1,159.9	1,043.6
Tobacco litigation settlements	226.4	142.4
Interest	113.7	93.8
Total	5,198.3	4,852.6
	360.8	(27.4)
Income tax expense (benefit)	99.5	(21.7)
Minority interest	58.0	78.0
Total	157.5	56.3
Income (loss) before cumulative effect of changes in accounting principles	203.3	(83.7)
Cumulative effect of changes in accounting principles-net	(157.9)	
Net income (loss)	\$ 45.4	\$ (83.7)
Net income (loss) per share:		
Income (loss) before cumulative effect of changes in accounting principles	\$ 1.82	\$ (.73)
Cumulative effect of changes in accounting principles-net	(1.41)	
Net income (loss).....	\$.41	\$ (.73)
Cash dividends per share	\$.25	\$.25
Weighted average number of shares outstanding	111.8	115.0

See accompanying Notes to Consolidated Condensed Financial Statements.

Page 4

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(Amounts in millions)	Three Months Ended March 31, 1999	1998
Operating Activities:		
Net income (loss)	\$ 45.4	\$ (83.7)
Adjustments to reconcile net income (loss) to net cash used by operating activities-net cumulative effect of changes in accounting principles	23.0	463.8
Changes in assets and liabilities-net:		
Reinsurance receivable	(317.8)	(47.0)
Other receivables	33.8	(743.8)
Deferred policy acquisition costs	(68.0)	(149.4)
Insurance reserves and claims	674.8	916.1
Other liabilities	140.0	(254.5)
Trading securities	(185.7)	(415.7)
Other-net	(59.7)	22.3

	443.7	(291.9)
Investing Activities:		
Purchases of fixed maturities	(16,837.0)	(11,365.8)
Proceeds from sales of fixed maturities	15,790.7	10,240.9
Proceeds from maturities of fixed maturities	888.8	676.1
Change in securities sold under repurchase		
agreements	763.0	393.2
Purchases of equity securities	(143.7)	(307.0)
Proceeds from sales of equity securities ...	184.0	192.5
Change in short-term investments	(557.2)	535.8
Purchases of property, plant and equipment .	(209.9)	(99.5)
Change in other investments	40.8	(125.7)
	(80.5)	140.5
Financing Activities:		
Dividends paid to shareholders	(28.0)	(28.8)
Dividends paid to minority interest	(9.9)	(10.0)
Purchases of treasury shares	(183.6)	
Issuance of long-term debt	191.8	297.7
Principal payments on long-term debt	(216.2)	(301.6)
Receipts credited to policyholders5	1.5
Withdrawals of policyholder account balances	(4.3)	(6.4)
	(249.7)	(47.6)
Net change in cash	113.5	(199.0)
Cash, beginning of period	287.4	497.8
Cash, end of period	\$ 400.9	\$ 298.8

See accompanying Notes to Consolidated Condensed Financial Statements.

Page 5

Loews Corporation and Subsidiaries
Notes to Consolidated Condensed Financial Statements

(Dollars in millions, except per share data)

1. General:

Reference is made to the Notes to Consolidated Financial Statements in the 1998 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.

Accounting Changes

Effective January 1, 1999, the Company adopted, the AICPA's Accounting Standards Executive Committee SOP 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments" and SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 97-3 requires insurance companies to recognize liabilities for insurance-related assessments when an assessment has been imposed or it is probable that it will be imposed, when it can be reasonably estimated, and when the event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements. The Company had previously accounted for these assessments as they were paid. The Company does not expect the on-going effect of adopting SOP 97-3 to have a material impact on its results of operations.

SOP 98-5 requires costs of start-up activities and organization costs, as defined, to be expensed as incurred. The Company had previously deferred recognition of these costs and amortized them over a period following the completion of the start-up activities. The Company does not expect the on-going effect of adopting SOP 98-5 to have a material impact on its results of operations.

The cumulative effect of these accounting changes resulted in a charge as follows:

Accounting by Insurance and Other Enterprises for
Insurance-Related Assessments (net of income taxes)

and minority interest of \$95.4 and \$26.5)	\$150.8
Costs of Start-Up Activities (net of income taxes of \$3.8).	7.1

	\$157.9
	=====

Comprehensive income

Comprehensive income includes all changes to shareholders' equity, including net income (loss), except those resulting from investments by owners and distributions to owners. For the three months ended March 31, 1999 and 1998, comprehensive income (loss) totaled \$636.2 and \$(106.9), respectively. Comprehensive income (loss) includes net income (loss), unrealized appreciation (depreciation) and foreign currency translation gains or losses.

Net income (loss) per share

Companies with complex capital structures are required to present basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares 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. The Company does not have any dilutive instruments related to its common shares. Accordingly, basic and diluted earnings per share are the same.

Reclassifications

Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 1999.

2. Reinsurance:

CNA assumes and cedes insurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk and minimize exposures on larger risks. The reinsurance coverages are tailored to the specific risk characteristics of each product line with CNA's retained amount varying by type of coverage. Generally, reinsurance coverage for property risks is on an excess of loss, per risk basis. Liability coverages are generally reinsured on a quota share basis in excess of CNA's retained risk.

The ceding of insurance does not discharge the primary liability of the original insurer. CNA places reinsurance with other carriers only after careful review of the nature of the contract and a thorough assessment of the reinsurers' credit quality and claim settlement performance. Further, for carriers that are not authorized reinsurers in CNA's states of domicile, CNA receives collateral, primarily in the form of bank letters of credit, securing a large portion of the recoverables.

The effects of reinsurance on earned premiums, are as follows:

	Direct	Assumed	Ceded	Net	% Assumed

Three Months Ended March 31, 1999					

Property and casualty	\$2,275.0	\$362.0	\$268.0	\$2,369.0	15.3%
Accident and health	927.0	36.0	96.0	867.0	4.1
Life	259.0	40.0	97.0	202.0	19.8

Total	\$3,461.0	\$438.0	\$461.0	\$3,438.0	12.7%
=====					

Three Months Ended March 31, 1998

Property and casualty	\$2,018.0	\$433.0	\$147.0	\$2,304.0	18.8%
Accident and health	904.0	75.0	91.0	888.0	8.4

Life	251.0	36.0	49.0	238.0	15.1
Total	\$3,173.0	\$544.0	\$287.0	\$3,430.0	15.9%

In the above table, life premiums are principally from long duration contracts, property and casualty earned premiums are from short duration contracts and approximately 75% of accident and health earned premiums are from short duration contracts.

Insurance claims and policyholders' benefits are net of reinsurance recoveries of \$324.0 and \$179.0 for the three months ended March 31, 1999 and 1998, respectively.

3. Receivables:

The Company's receivables are comprised of the following:

	March 31, 1999	December 31, 1998
Reinsurance	\$ 6,682.6	\$ 6,364.8
Other insurance	7,100.9	6,803.8
Security sales	551.9	276.4
Accrued investment income	396.4	409.8
Other	346.6	652.4
Total	15,078.4	14,507.2
Less allowance for doubtful accounts and cash discounts	344.4	343.8
Receivables-net	\$14,734.0	\$14,163.4

4. Shareholders' equity:

	March 31, 1999	December 31, 1998
Preferred stock, \$.10 par value, Authorized--100,000,000 shares		
Common stock, \$1 par value: Authorized--400,000,000 shares		
Issued--112,582,300 shares	\$ 112.6	\$ 112.6
Additional paid-in capital	162.3	162.3
Earnings retained in the business	9,050.9	9,033.5
Accumulated other comprehensive income	1,483.6	892.8
Total	10,809.4	10,201.2
Less common stock (2,267,400 shares) held in treasury, at cost	183.6	
Total shareholders' equity	\$10,625.8	\$10,201.2

5. Restructuring and Other Related Charges:

As part of CNA's restructuring plan that was initiated in August of 1998, restructuring related charges of \$35.0 were recorded in the first quarter of 1999. These charges did not qualify for accrual under generally accepted accounting principles at the end of the third quarter of 1998 when the initial restructuring and other related charges were taken, and therefore, were expensed as incurred. The charges included the following:

In the first quarter of 1999, restructuring related charges for CNA's property and casualty Agency Market Operations totaled approximately \$21.0. The charges included employee related costs of \$10.0 related to the planned net reduction in the workforce. The Agency Market Operations charges also

included consulting costs of \$1.0 and parallel processing charges of \$3.0. Other charges, including relocation and facility charges, totaled approximately \$7.0.

In the first quarter of 1999, restructuring related charges for CNA's property and casualty Risk Management business totaled approximately \$5.0. The charges included consulting costs of approximately \$2.0 and parallel processing and other charges totaling approximately \$3.0.

In the first quarter of 1999, restructuring related charges for Group Operations totaled approximately \$5.0. These charges relate to employee related costs.

For the other segments of CNA, restructuring related charges totaled approximately \$4.0 for the first quarter of 1999. Charges related primarily to employee related costs.

The following table sets forth the major categories of the accrued restructuring related charges at December 31, 1998, and the activity in the accrual for such costs during 1999.

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Business Exit Costs	Total
Accrued costs at December 31, 1998	\$37.0	\$42.0	\$32.0	\$111.0
Less payments charged against liability	(4.0)	(1.0)	-	(5.0)
Accrued costs at March 31, 1999 . .	\$33.0	\$41.0	\$32.0	\$106.0

6. Business Segments:

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: property, casualty and life insurance (CNA Financial Corporation, an 85% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc., a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation, a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc., a 52% owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation, a 97% owned subsidiary). Each operating entity is responsible for the operation of its specialized business and is headed

by a chief executive officer having the duties and authority commensurate with that position.

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, 1998. 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.

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

Three Months Ended March 31,	
1999	1998
(In millions)	

Revenues (a):		
CNA Financial:		
Property and casualty	\$3,015.8	\$2,876.9
Life	396.0	437.9
Group	919.9	953.5
Other Insurance	93.8	89.4
	-----	-----
Total CNA Financial	4,425.5	4,357.7
Lorillard	912.4	575.7
Loews Hotels	60.4	48.5
Diamond Offshore	236.4	292.6
Bulova	30.2	32.3
Corporate	(105.8)	(481.6)
	-----	-----
Total	\$5,559.1	\$4,825.2
	=====	=====

Income before taxes, minority interest and cumulative effect of changes in accounting principles (a):

CNA Financial:		
Property and casualty	\$ 233.7	\$ 261.8
Life	73.3	101.6
Group	13.8	22.7
Other Insurance	(107.4)	(54.6)
	-----	-----
Total CNA Financial	213.4	331.5
Lorillard	207.7	36.6
Loews Hotels	2.5	3.4
Diamond Offshore	79.7	124.6
Bulova	4.2	4.4
Corporate	(146.7)	(527.9)
	-----	-----
Total	\$ 360.8	\$ (27.4)
	=====	=====

Net income (loss) (a):

CNA Financial:		
Property and casualty	\$ 141.2	\$ 160.0
Life	40.9	54.6
Group	8.7	13.7
Other Insurance	(45.2)	(32.8)
	-----	-----
Total CNA Financial	145.6	195.5
Lorillard	124.0	22.1
Loews Hotels	1.6	1.5
Diamond Offshore	25.5	37.8
Bulova	2.2	2.3
Corporate	(95.6)	(342.9)
	-----	-----
	203.3	(83.7)
Cumulative effect of changes in accounting principles	(157.9)	
	-----	-----
Total	\$ 45.4	\$ (83.7)
	=====	=====

(a) Investment gains (losses) included in Revenues, Income before taxes, minority interest and cumulative effect of changes in accounting principles, and Net income (loss) are as follows:

Three Months Ended
March 31,

-----	-----
1999	1998
-----	-----

Revenues:		
CNA Financial:		
Property and casualty	\$ 183.2	\$ 108.2
Life	17.7	55.4
Group	11.3	10.5
Other Insurance	10.0	5.1
	-----	-----
Total CNA Financial	222.2	179.2

Corporate	(141.0)	(533.7)
Total	\$ 81.2	\$(354.5)

Income before taxes, minority interest and cumulative effect of changes in accounting principles:

CNA Financial:		
Property and casualty	\$ 183.2	\$ 108.2
Life	17.7	55.4
Group	11.3	10.5
Other Insurance	10.0	5.1
Total CNA Financial	222.2	179.2
Corporate	(141.0)	(533.7)
Total	\$ 81.2	\$(354.5)

Net income (loss):

CNA Financial:		
Property and casualty	\$ 101.3	\$ 59.3
Life	9.8	30.4
Group	6.2	5.7
Other Insurance	5.3	2.8
Total CNA Financial	122.6	98.2
Corporate	(91.7)	(346.9)
Total	\$ 30.9	\$(248.7)

7. Legal Proceedings and Contingent Liabilities:

INSURANCE RELATED

Fibreboard Litigation

CNA's primary property and casualty subsidiary, Continental Casualty Company ("Casualty"), has been party to litigation with Fibreboard Corporation ("Fibreboard") involving coverage for certain asbestos-related claims and defense costs (San Francisco Superior Court, Judicial Council Coordination Proceeding 1072). As described below, Casualty, Fibreboard, another insurer (Pacific Indemnity, a subsidiary of the Chubb Corporation), and a negotiating committee of asbestos claimant attorneys (collectively referred to as "Settling Parties") have reached an agreement (the "Global Settlement Agreement") to resolve all future asbestos-related bodily injury

claims involving Fibreboard. The Global Settlement Agreement is subject to court approval.

Casualty, Fibreboard and Pacific Indemnity have also reached an agreement (the "Trilateral Agreement"), on a settlement to resolve the coverage litigation in the event the Global Settlement Agreement does not obtain final court approval.

On July 27, 1995, the United States District Court for the Eastern District of Texas entered judgment approving the Global Settlement Agreement and the Trilateral Agreement. As expected, appeals were filed with respect to both of these decisions. On July 25, 1996, a panel of the United States Fifth Circuit Court of Appeals in New Orleans affirmed the judgment approving the Global Settlement Agreement by a 2 to 1 vote and affirmed the judgment approving the Trilateral Agreement by a 3 to 0 vote. Petitions for rehearing by the panel and suggestions for rehearing by the entire Fifth Circuit Court of Appeals as to the decision on the Global Settlement Agreement were denied. Two petitions for certiorari were filed in the Supreme Court as to the Global Settlement Agreement. On June 27, 1997, the Supreme Court granted these petitions, vacated the Fifth Circuit's judgment as to the Global Settlement Agreement, and remanded the matter to the Fifth Circuit for reconsideration in light of the Supreme Court's decision in Amchem Products Co. v. Windsor.

On January 27, 1998, a panel of the United States Fifth Circuit Court of Appeals again approved the Global Settlement Agreement by a 2 to 1 vote. Two sets of objectors filed petitions for certiorari, which were docketed on April 16 and 17, 1998, by the United States Supreme Court. On June 22, 1998, the Supreme Court granted the petition for certiorari filed by one

set of objectors. The Supreme Court heard oral arguments on December 8, 1998. No opinion has yet been released.

No further appeal was filed with respect to the Trilateral Agreement; therefore, court approval of the Trilateral Agreement has become final.

Settlement Agreements - On April 9, 1993, Casualty and Fibreboard entered into an agreement pursuant to which, among other things, the parties agreed to use their best efforts to negotiate and finalize a global class action settlement with asbestos-related bodily injury and death claimants.

On August 27, 1993, the Settling Parties reached an agreement in principle for an omnibus settlement to resolve all future asbestos-related bodily injury claims involving Fibreboard. The Global Settlement Agreement was executed on December 23, 1993. The agreement calls for contribution by Casualty and Pacific Indemnity of an aggregate of \$1,525.0 to a trust fund for a class of all future asbestos claimants, defined generally as those persons whose claims against Fibreboard were neither filed nor settled before August 27, 1993. (As used in this note, "present" claims generally refers to asbestos claims filed against Fibreboard, on or before August 27, 1993.) An additional \$10.0 is to be contributed to the fund by Fibreboard. As indicated above, the Global Settlement Agreement has been approved by the Fifth Circuit a second time, but the Supreme Court granted a petition for certiorari and is currently reviewing the Fifth Circuit decision.

On October 12, 1993, Casualty, Pacific Indemnity and Fibreboard entered into the Trilateral Agreement to settle the coverage litigation to operate in the event that the Global Settlement Agreement is disapproved. The Trilateral Agreement calls for payment by Casualty and Pacific Indemnity of an aggregate \$2,000.0, of which Casualty's portion is approximately \$1,460.0, to Fibreboard to resolve all claims by Fibreboard and all future

Page 13

and certain present asbestos claims arising under the policy issued to Fibreboard by Casualty.

Under either the Global Settlement Agreement or the Trilateral Agreement, Casualty is also obligated to pay prior settlements of present asbestos claims. As a result of the final approval of the Trilateral Agreement, such obligation has become final. Through March 31, 1999, Casualty, Fibreboard and plaintiff attorneys had reached settlements with respect to approximately 133,000 claims, for an estimated settlement amount of approximately \$1,630.0 plus any applicable interest. Final court approval of the Trilateral Agreement obligated Casualty to pay under these settlements. Approximately \$1,700.0 (including interest of \$185.0) was paid through March 31, 1999. Such payments have been partially recovered from Pacific Indemnity. Casualty may negotiate other agreements for unsettled claims.

Final court approval of the Trilateral Agreement and its implementation has substantially resolved Casualty's exposure with respect to asbestos claims involving Fibreboard. While there does exist the possibility of further adverse developments with respect to Fibreboard claims, management does not anticipate subsequent reserve adjustments, if any, to materially affect the equity of the Company. Management will continue to monitor the potential liabilities with respect to Fibreboard asbestos claims and will make adjustments to claim reserves if warranted.

Tobacco Litigation -----

In 1997, CNA's primary property/casualty subsidiaries were named as part of a "direct action" lawsuit, Richard P. Ieyoub v. The American Tobacco Company, et al., filed by the Attorney General for the State of Louisiana, in state court, Calcasieu Parish, Louisiana ("The Ieyoub Litigation"). In that suit, filed against certain manufacturers and distributors of tobacco products and over 100 insurance companies, the State of Louisiana sought to recover medical expenses allegedly incurred by the State as a result of tobacco related illnesses.

On November 23, 1998, the major United States cigarette manufacturers and the attorneys general for 46 states and six other governmental entities reached an agreement regarding resolution of their health care cost reimbursement claims (four other states had previously settled). The manufacturers have agreed to make annual payments totaling approximately \$206,000.0 through 2025. In exchange, the states and other governmental entities have agreed to release their claims against the manufacturers and have further agreed to release any claims that they may have against distributors, retailers, component part manufacturers and the manufacturers' insurers. None of these latter entities are parties to the

settlement agreement. As part of the settlement, the State of Louisiana dismissed with prejudice the Ieyoub Litigation. However, the November 1998 settlement did not preclude the manufacturers or other entities named as defendants in the various reimbursement lawsuits from seeking coverage under insurance policies that may have been issued to them. Management is unable to make a meaningful estimate of the amount or range of any loss that could result from any claim that the manufacturers may assert in the future.

Page 14

Environmental Pollution and Other Mass Tort and Asbestos

The CNA property and casualty insurance companies have potential exposures related to environmental pollution and other mass tort and asbestos claims.

Environmental pollution clean-up is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to clean-up. 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-Superfund") govern the clean-up and restoration of abandoned toxic waste sites and formalize the concept of legal liability for clean-up and restoration by potentially responsible parties ("PRP's"). Superfund and the mini-Superfunds establish mechanisms to pay for clean-up of waste sites if PRP's fail to do so, and to assign liability to PRP's. The extent of liability to be allocated to a PRP is dependent on a variety of factors. Further, the number of waste sites subject to clean-up is unknown. To date, approximately 1,300 clean-up sites have been identified by the Environmental Protection Agency ("EPA") on its National Priorities List ("NPL"). The addition of new clean-up sites to the NPL has slowed in recent years. Many clean-up sites have been designated by state authorities as well.

Many policyholders have made claims against various CNA insurance subsidiaries for defense costs and indemnification in connection with environmental pollution matters. These claims relate to accident years 1989 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form which included an absolute pollution exclusion. CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether clean-up 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 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 in 1998 and it is unclear as to what positions the Congress or the Administration will take and what legislation, if any, will result. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental clean-up 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 clean-up statutes and regulations. There can be no meaningful prediction of regulation that would result.

Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to clean-up, and the standards for clean-up and liability, CNA's ultimate liability for environmental pollution claims may vary substantially from the amount currently recorded.

As of March 31, 1999 and December 31, 1998, CNA carried approximately \$740.0 and \$787.0, respectively, of claim and claim expense reserves, net

Page 15

of reinsurance recoverables, for reported and unreported environmental pollution and other mass tort claims. There was no environmental pollution and other mass tort reserve development for the three months ended March 31, 1999 and 1998.

CNA's property/casualty insurance subsidiaries have exposure to asbestos

claims, including those attributable to CNA's litigation with Fibreboard Corporation. Estimation of asbestos claim 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, missing policies and proof of coverage. As of March 31, 1999 and December 31, 1998, CNA carried approximately \$1,432.0 and \$1,456.0, respectively, of claim and claim expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. Unfavorable asbestos claim reserve development for the three months ended March 31, 1999 and 1998 totaled \$34.0 and \$14.0, respectively.

The following table provides additional data related to CNA's environmental pollution, other mass tort and asbestos-related claims activity.

	March 31, 1999		December 31, 1998	
	Environmental Pollution and Other Mass Tort	Asbestos	Environmental Pollution and Other Mass Tort	Asbestos
Reported Claims:				
Gross reserves	\$291.0	\$1,349.0	\$ 291.0	\$1,305.0
Less reinsurance recoverable	(38.0)	(115.0)	(41.0)	(91.0)
Net reported claims	253.0	1,234.0	250.0	1,214.0
Net unreported claims	487.0	198.0	537.0	242.0
Net reserves	\$740.0	\$1,432.0	\$ 787.0	\$1,456.0

The results of operations in future years may continue to be adversely affected by environmental pollution and asbestos claims and claim expenses. Management will continue to monitor these liabilities and make further adjustments as warranted.

NON-INSURANCE

Tobacco Litigation -- Lawsuits continue to be filed with increasing frequency against Lorillard and other manufacturers of tobacco products. Since January 1, 1998, approximately 450 product liability cases have been filed and served in United States courts against U.S. cigarette manufacturers. Lorillard has been named as a defendant in approximately 280 of these actions. Cases also have been filed with greater frequency against the Company. A total of approximately 875 product liability cases are pending against U.S. cigarette manufacturers; of these, Lorillard is a defendant in approximately 475.

Tobacco litigation includes various types of claims. In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages in amounts ranging into the billions of dollars. These claims are based on a number of legal theories including, among other things, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty,

enterprise liability, civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, and failure to warn of the allegedly harmful and/or addictive nature of tobacco products.

Some cases have been brought by individual plaintiffs who allege cancer and/or other health effects claimed to have resulted from an individual's use of cigarettes, addiction to smoking, or exposure to environmental tobacco smoke ("Conventional Product Liability Cases"). Approximately 295 such actions are pending against Lorillard. In other cases, plaintiffs have brought claims as class actions on behalf of large numbers of individuals for damages allegedly caused by smoking ("Class Actions"). Approximately 60 such cases are pending against Lorillard. In some cases, plaintiffs are governmental entities or others, such as labor unions, private companies, Indian Tribes, or private citizens suing on behalf of taxpayers, who seek reimbursement of health care costs allegedly incurred as a result of smoking, as well as other alleged damages ("Reimbursement Cases"). Approximately 105 such cases are pending, excluding some of the actions brought by certain governmental entities that have not been formally concluded but are subject to the November 23, 1998 Master Settlement Agreement discussed below. There also are claims for contribution and/or

indemnity in relation to asbestos claims filed by asbestos manufacturers or the insurers of asbestos manufacturers ("Claims for Contribution"). Approximately 10 such actions are pending against Lorillard.

In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard ("Filter Cases"); there has not been a noticeable increase in the filing of these suits during the past few years, and approximately 20 such actions are pending. The Company is named as a defendant in two of the cases.

On November 23, 1998, Lorillard and other manufacturers of tobacco products entered into a Master Settlement Agreement ("MSA") with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (the "Settling States"). The MSA provides, among other things, that the Settling States shall release and discharge all of their health care cost recovery claims against the manufacturers in consideration for the implementation of tobacco-related health measures, as well as payments to be made by the manufacturers. The MSA purports to settle a number of cases listed below, including, but not limited to, the Reimbursement Cases filed on behalf of state governmental entities. Certain suits have been filed that contest various aspects of the MSA or seek to intervene in cases governed by the MSA in order to achieve a different distribution of the funds allocated to the state governments.

CONVENTIONAL PRODUCT LIABILITY CASES - There are approximately 670 cases filed by individual plaintiffs against manufacturers of tobacco products pending in the United States federal and state courts in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, or due to nicotine dependence. Lorillard is a defendant in approximately 295 of these cases. The Company is a defendant in 11 of the cases, although eight have not been served.

Plaintiffs in these cases seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as \$100.0 in compensatory damages and \$600.0 in punitive damages.

Page 17

On February 9 and 10, 1999, a jury in the Superior Court of San Francisco County, California, returned verdicts in favor of an individual plaintiff and awarded her \$1.5 in actual damages and \$50.0 in punitive damages from the only defendant in the action, Philip Morris Incorporated. The court reduced the punitive damages award to \$25.0. Philip Morris has noticed an appeal from the final judgment to the California Court of Appeals.

On March 30, 1999, a jury in the Circuit Court of Multnomah County, Oregon, returned a verdict in favor of an individual plaintiff and awarded her \$.8 in actual damages and \$79.5 in punitive damages from the only defendant in the case, Philip Morris Incorporated. The court reduced the punitive damages to \$32.0. In the event Philip Morris is not successful in its attempts to reverse the trial court's final judgment in favor of the plaintiff, we understand that Philip Morris will notice an appeal to the Oregon Court of Appeals.

On May 10, 1999, a jury returned a verdict in favor of Philip Morris, R.J. Reynolds and Brown & Williamson in a consolidated trial involving four cases before the Circuit Court of Shelby County, Tennessee (Karney v. Philip Morris Incorporated; McDaniels v. Brown & Williamson, et al; Newcomb v. Brown & Williamson, et al; and Settle v. Brown & Williamson, et al.). Neither Lorillard nor the Company are defendants in these matters. It is not known whether plaintiffs will file any post-trial motions contesting the verdict or if they will notice an appeal to the Tennessee Court of Appeals.

On May 13, 1999, a jury in the United States District Court for the Western District of Missouri returned a defense verdict in the case of Steele v. Brown & Williamson Tobacco Corporation. Neither the Company nor Lorillard was a defendant in the case. It is not known whether plaintiffs will file any post-trial motions contesting the verdict or notice an appeal to the United States Court of Appeals for the Eighth Circuit.

As of May 13, 1999, trial was proceeding in one Conventional Product Liability Case, Butler v. Philip Morris, Inc., et al., pending before the Circuit Court of Jones County, Mississippi. Lorillard is a defendant in the case. Plaintiffs allege their decedent died as a result of exposure to

environmental tobacco smoke. Additional trials are scheduled during 1999, and it appears that cases will be tried with greater frequency than in the past.

On March 18, 1998, the jury in *Dunn v. RJR Nabisco Holdings Corporation, et al.* (Superior Court, Delaware County, Indiana, filed May 28, 1993) returned a unanimous verdict in favor of the defendant cigarette manufacturers and their parent entities, including the Company, in the trial of a suit brought by the family of a woman who died of cancer, allegedly caused by exposure to environmental tobacco smoke. The court denied plaintiffs' motion for new trial. Plaintiffs did not notice an appeal.

During 1998, a jury in the Circuit Court of Duval County, Florida, returned a verdict in favor of plaintiffs in a smoking and health case in which Lorillard was not a party, *Widdick v. Brown & Williamson Tobacco Corporation* (verdict returned June 10, 1998). The jury awarded plaintiffs \$1.1 million in actual damages and punitive damages. The First District of the Florida Court of Appeal set aside the trial court's final judgment in favor of plaintiff and directed the Circuit Court of Duval County, Florida to transfer the case either to the Circuit Court of Broward County, Florida or the Circuit Court of Palm Beach County, Florida. The court has transferred the case to the Circuit Court of Palm Beach County, Florida.

Page 18

The Florida Court of Appeals issued a ruling in the case of *Carter v. Brown & Williamson Tobacco Corporation*, filed in the Circuit Court of Duval County, Florida, that reversed a 1996 verdict entered in favor of plaintiffs in which they were awarded a total of seven hundred fifty thousand dollars in actual damages. The Court of Appeals directed that judgment be entered in favor of *Brown & Williamson Tobacco Corporation* by the trial court. The Court of Appeals denied plaintiffs' motion for reconsideration. Plaintiffs are seeking review by the Florida Supreme Court. Lorillard was not a party to *Carter v. Brown & Williamson Tobacco Corporation*.

CLASS ACTIONS - There are approximately 75 purported class actions pending against cigarette manufacturers and other defendants, including the Company. Two cases have not been served. Most of the suits seek class certification on behalf of residents of the states in which the cases have been filed, although some suits seek class certification on behalf of residents of multiple states. All but one of the purported class actions seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke.

One of the cases seeks class certification on behalf of individuals who have paid insurance premiums to Blue Cross and Blue Shield organizations. Plaintiffs in a number of Reimbursement Cases also seek certification as class actions (see Reimbursement Cases, below).

Theories of liability asserted in the purported class actions include a broad range of product liability theories, including those based on consumer protection statutes and fraud and misrepresentation. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Plaintiffs in several of the purported class actions are represented by a well-funded and coordinated consortium of over 60 law firms from throughout the United States. Lorillard is a defendant in approximately 60 of the approximately 75 cases seeking class certification. The Company is a defendant in 21 of the purported class actions, three of which have not been served. Many of the purported class actions are in the pre-trial, discovery stage.

Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, October 31, 1991). On October 10, 1997, the parties to this class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke executed a settlement agreement, which was approved by the trial court on February 3, 1998. The settlement agreement requires Lorillard and three other cigarette manufacturers jointly to pay \$300.0 in three annual installments to create and endow a research institute to study diseases associated with cigarette smoke. None of these payments are to be made until all appeals have been exhausted and judgment becomes final. The amount to be paid by Lorillard is based upon each of the four settling defendants' then share of the United States market for the sale of cigarettes. Lorillard had approximately 8.8% of the cigarette market in the United States. Based on this calculation, Lorillard is expected to pay approximately \$26.4 of the proposed settlement amount. The plaintiff class members are permitted to file individual suits, but these individuals may not seek punitive damages for injuries that arose

prior to January 15, 1997, which enabled them to be members of the class. The defendants that executed the settlement agreement will pay a total of \$49.0 as fees and expenses of the attorneys who represented plaintiffs. Certain of the absent class members objected to the settlement agreement and appealed to the Florida Court of Appeals. The Court of Appeals has affirmed the trial court's order that approved the parties' settlement

Page 19

agreement and the award of attorneys' fees. The Court of Appeals also largely affirmed the trial court's orders denying the objectors' motions to intervene, but reversed the rulings as to eight of the objectors, holding either that these eight had timely filed motions to intervene and had provided sufficient supporting documentation, or that the court had abused its discretion in denying their motions. The Court of Appeals further held that the remaining objectors to the settlement may be entitled to pursue claims as class members. Various parties have filed motions for clarification or rehearing, which remain pending before the Court of Appeals.

Castano, et al. v. The American Tobacco Company, Inc. et al. (U.S. District Court, Eastern District, Louisiana, March 29, 1994). This case was initiated as a class action on behalf of nicotine dependent smokers in the United States. During 1998, Lorillard and certain other cigarette manufacturer defendants agreed with the plaintiffs to dismiss this action without prejudice and to toll the statute of limitations as to the named plaintiffs' claims. Lorillard paid \$1.0 to reimburse the costs and expenses of plaintiffs' counsel.

Granier v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed September 26, 1994).

Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994). Trial began during July 1998 in this case, which is pending in a Florida state court. Plaintiffs have been granted class certification on behalf of Florida residents and citizens, and survivors of such individuals, who allege injury or have died from and medical conditions caused by their addiction to cigarettes containing nicotine. The Florida Supreme Court denied defendants' appeals from the class certification orders. Plaintiffs seek actual damages and punitive damages estimated to be in the billions of dollars. Plaintiffs also seek equitable relief including, but not limited to, a fund to enable Florida smokers' medical condition to be monitored for future health care costs, attorneys' fees, and court costs.

The case is to be tried in three phases, although the court has stated that it may modify its trial plan order. In the first phase, which is proceeding, plaintiffs have submitted evidence as to certain issues common to the class and their causes of action. At the conclusion of the first phase, the jury will not award any compensatory or punitive damages. However, the jury is expected to decide whether there is a factual basis for awarding punitive damages in subsequent phases.

The next two phases of the trial will proceed only if plaintiffs prevail during the first phase. In the second phase, the jury will determine liability and compensatory damages as to each named class representative in the case. If the jury awards punitive damages to the class representatives, it will also be asked to set a percentage, or ratio, of punitive damages to be awarded to absent class members in the third phase.

The third and final phase of the trial will address absent class members' claims, which include issues of specific causation and damages. This portion of the trial will be held before a separate jury.

Norton v. RJR Nabisco Holdings Corporation, et al. (Superior Court, Madison County, Indiana, filed May 3, 1996). The Company is a defendant in the case.

Richardson v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 24, 1996). During January of 1998, the

Page 20

court granted plaintiffs' motion for class certification on behalf of Maryland residents who had, presently have, or died from diseases, medical conditions or injuries caused by smoking cigarettes or using smokeless tobacco products; nicotine dependent persons in Maryland who have purchased and used cigarettes and smokeless tobacco products manufactured by the defendants; and Maryland residents who require medical monitoring. Defendants have filed a petition for writ of mandamus or prohibition from the class certification order with the Maryland Court of Special Appeals.

Scott v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed May 24, 1996). The Company is a defendant in the case. Class certification has been granted on behalf of Louisiana citizens who require medical monitoring. The class certification order was affirmed on appeal by the Louisiana Court of Appeals, and the Louisiana Supreme Court denied further review of the class certification order.

Small v. Lorillard Tobacco Company, Inc., et al., Hoskins v. R.J. Reynolds Tobacco Company, et al., Frosina v. Philip Morris Incorporated, et al., Hoberman v. Brown & Williamson Tobacco Corporation, et al., and Zito v. American Tobacco Company, et al. (Supreme Court, New York County, New York, filed June 19, 1996). Small is the only one of these cases to name Lorillard as a defendant. Small formerly was known as Mroczowski. Plaintiffs' motions for class certification on behalf of New York residents who are nicotine dependent was granted. On appeal, the Appellate Division of the New York Supreme Court reversed the trial court's class certification order and directed the trial court to enter judgment in favor of the defendants. The New York Court of Appeals has agreed to review the Appellate Division's ruling.

Reed v. Philip Morris Incorporated, et al. (Superior Court, District of Columbia, filed June 21, 1996). The court has denied plaintiff's motion for class certification, although briefing is proceeding as to plaintiffs' renewed motion for class certification.

Barnes v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Pennsylvania, filed August 8, 1996). The District Court vacated its prior order that granted class certification on behalf of Pennsylvania smokers who require medical monitoring. The court also granted defendants' motion for summary judgment. The Third Circuit Court of Appeals affirmed the trial court's class certification ruling and the order granting the summary judgment motion, and has rejected plaintiffs' petition for rehearing. Plaintiffs have filed a petition for writ of certiorari with the United States Supreme Court that seeks review of the class certification and summary judgment rulings. As of May 7, 1999, the Supreme Court had not ruled as to whether it will grant review of the petition.

Lyons v. The American Tobacco Company, et al. (U.S. District Court, Southern District, Alabama, filed August 8, 1996).

Chamberlain v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio, filed August 14, 1996). The Company is a defendant in the case. The court has denied plaintiffs' motion for class certification.

Thompson v. American Tobacco Company, Inc., et al. (U.S. District Court, Minnesota, filed September 4, 1996). The Company is a defendant in the case. The court has directed that this matter be ready for trial by March 1, 2000.

Page 21

Perry v. The American Tobacco Company, et al. (Circuit Court, Coffee County, Tennessee, filed September 30, 1996). Plaintiffs seek class certification on behalf of individuals who have paid medical insurance premiums to a Blue Cross and Blue Shield organization.

Connor v. The American Tobacco Company, et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1996).

Ruiz v. The American Tobacco Company, et al. (U.S. District Court, Puerto Rico, filed October 23, 1996). The court denied plaintiffs' motion for class certification.

Hansen v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Arkansas, filed November 4, 1996). The Company is a defendant in the case. The parties have completed briefing of plaintiffs' motion for class certification but the court has not scheduled argument on the issue.

McCune v. American Tobacco Company, et al. (Circuit Court, Kanawha County, West Virginia, filed January 31, 1997). The Company is a defendant in the case.

Muncy v. Philip Morris Incorporated, et al. (Circuit Court, McDowell County, West Virginia, filed February 4, 1997). This matter formerly was known as Woods.

Peterson v. American Tobacco Company, et al. (U.S. District Court,

Hawaii, filed February 6, 1997). The Company is a defendant in the case.

Walls v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Oklahoma, filed February 6, 1997). The court has heard argument on plaintiffs' motion for class certification. The court has certified certain questions of Oklahoma law to the Oklahoma Supreme Court to guide it in its class certification ruling.

Selcer v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Nevada, filed March 3, 1997). The Company is a defendant in the case. Briefing of plaintiffs' motion for class certification has been completed. It is not known whether the court will hear argument on the motion, and it is possible it will be decided on the briefs.

Geiger v. The American Tobacco Company, et al. (Supreme Court, Queens County, New York, filed April 30, 1997). The trial court granted on an interim basis plaintiffs' motion for class certification on behalf of New York residents who allege lung cancer or throat cancer as a result of smoking cigarettes. The Appellate Division of the New York Supreme Court reversed the class certification order and directed the trial court to allow the parties to conduct additional proceedings on the class certification motion. The court has heard argument on plaintiffs' renewed motion for class certification.

Cole v. The Tobacco Institute, Inc., et al. (U.S. District Court, Eastern District, Texas, Texarkana Division, filed May 5, 1997).

Clay v. The American Tobacco Company, Inc., et al. (U.S. District Court, Southern District, Illinois, Benton Division, filed May 22, 1997). Trial in this matter is scheduled to begin on an unspecified date during August 1999.

Page 22

Anderson v. The American Tobacco Company, Inc., et al. (U.S. District Court, Eastern District, Tennessee, filed May 23, 1997). The Company is a defendant in the case.

Taylor v. The American Tobacco Company, Inc., et al. (Circuit Court, Wayne County, Michigan, filed May 23, 1997).

Cosentino v. Philip Morris Incorporated, et al. (Superior Court, Middlesex County, New Jersey, filed May 28, 1997). The court has denied plaintiffs' motion for class certification and plaintiffs' motion for reconsideration. The New Jersey Court of Appeals declined to review the class certification rulings. Plaintiffs have asked the New Jersey Supreme Court to consider the decisions, but the Court has not announced whether it will grant review.

Kirstein v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed May 28, 1997). The court has denied plaintiffs' motion for class certification and plaintiffs' motion for reconsideration. The New Jersey Court of Appeals declined to review the class certification rulings. Plaintiffs have asked the New Jersey Supreme Court to consider the decisions, but the Court has not announced whether it will grant review.

Tepper v. Philip Morris Incorporated, et al. (Superior Court, Bergen County, New Jersey, filed May 28, 1997). The court has denied plaintiffs' motion for class certification and plaintiffs' motion for reconsideration. The New Jersey Court of Appeals declined to review the class certification rulings. Plaintiffs have asked the New Jersey Supreme Court to consider the decisions, but the Court has not announced whether it will grant review.

Brown v. The American Tobacco Company, Inc., et al. (Superior Court, San Diego County, California, filed June 10, 1997).

Lippincott v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed June 13, 1997). The court has denied plaintiffs' motion for class certification and plaintiffs' motion for reconsideration. The New Jersey Court of Appeals declined to review the class certification rulings. Plaintiffs have asked the New Jersey Supreme Court to consider the decisions, but the Court has not announced whether it will grant review.

Brammer v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Southern District, Iowa, filed June 20, 1997).

Daley v. American Brands, Inc., et al. (U.S. District Court, Northern District, Illinois, filed July 7, 1997).

Piscitello v. Philip Morris, Incorporated, et al. (Superior Court, Middlesex County, New Jersey, filed July 28, 1997). The Company is a defendant in the case. The court has denied plaintiffs' motion for class certification and plaintiffs' motion for reconsideration. The New Jersey Court of Appeals declined to review the class certification rulings. Plaintiffs have asked the New Jersey Supreme Court to consider the decisions, but the Court has not announced whether it will grant review.

Bush v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, Texas, filed September 10, 1997).

Nwanze v. Philip Morris Companies Inc., et al. (U.S. District Court, Southern District, New York, filed September 29, 1997). The Company is a

Page 23

defendant in the case. The court denied plaintiffs' motion for class certification.

Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997). The Company is a defendant in the case. Briefing of plaintiffs' motion for class certification has been completed. It is not known whether the court will hear argument on the motion, and it is possible it will be decided on the briefs.

Newborn v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Western District, Tennessee, filed October 9, 1997).

Young v. The American Tobacco Company, et al. (Civil District Court, Orleans Parish, Louisiana, filed November 12, 1997). The Company is a defendant in the case.

Aksamit v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, South Carolina, filed November 20, 1997).

DiEnno v. Liggett Group, Inc., et al. (U.S. District Court, Nevada, filed December 22, 1997).

Jackson v. Philip Morris Incorporated, et al. (U.S. District Court, Central District, Utah, filed on or about February 13, 1998). The Company is a defendant in the case.

Parsons v. AC&S, et al. (Circuit Court, Kanawha County, West Virginia, filed February 27, 1998).

Basik v. Lorillard Tobacco Company, et al. (U.S. District Court, Northern District, Illinois, filed March 17, 1998).

Daniels v. Philip Morris Companies, Inc., et al. (Superior Court, San Diego County, California, filed April 2, 1998).

Christensen v. Philip Morris Companies, Inc., et al. (U.S. District Court, Nevada, filed April 3, 1998). The Company is a defendant in the case. To date, none of the defendants have received service of process.

Avallone v. The American Tobacco Company, Inc., et al. (Superior Court, Middlesex County, New Jersey, filed April 23, 1998). The Company is a defendant in the case. The court has denied plaintiffs' motion for class certification.

Cleary v. Philip Morris Incorporated, et al. (Circuit Court, Cook County, Illinois, filed June 5, 1998).

Vaughan v. Philip Morris Incorporated, et al. (U.S. District Court, Western District, Virginia, filed June 30, 1998).

Creekmore v. Brown & Williamson Tobacco Corporation, et al. (Superior Court, Buncombe County, North Carolina, filed July 31, 1998).

Smokers for Fairness v. British American Tobacco Company, et al. (Superior Court, Los Angeles County, California, filed September 25, 1998).

Sweeney v. American Tobacco Company, et al. (Court of Common Pleas, Allegheny County, Pennsylvania, filed October 15, 1998).

Brown v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Pennsylvania, filed October 16, 1998).

Page 24

Gatlin v. American Tobacco Company, et al. (U.S. District Court, Eastern

District, Missouri, filed December 21, 1998). The Company is a defendant in the case.

Jones v. The American Tobacco Company, Inc., et al. (Circuit Court, Jackson County, Missouri, filed December 22, 1998). The Company is a defendant in the case. To date, none of the defendants have received service of process.

Tobacco Consumers Group No. 3 v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Massachusetts, filed March 22, 1999).

Sturgeon v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed April 9, 1999).

Julian v. Philip Morris Companies Inc., et al. (Circuit Court, Montgomery County, Alabama, filed April 14, 1999).

REIMBURSEMENT CASES - Suits brought by 46 state governments and six other governmental entities are governed by the Master Settlement Agreement. In addition to these, approximately 105 other suits are pending, comprised of approximately 75 union cases, and cases brought by Indian tribes, private companies and foreign governments filing suit in U.S. courts, in which plaintiffs seek recovery of funds expended by them to provide health care to individuals with injuries or other health effects allegedly caused by use of tobacco products or exposure to cigarette smoke. These cases are based on, among other things, equitable claims, including indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs in a number of these actions seek certification as class actions. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Lorillard is named as a defendant in all such actions except for some of those filed in U.S. courts by nations in which Lorillard does not conduct business (The Republic of Guatemala, Republic of Nicaragua and the Kingdom of Thailand). The Company is named as a defendant in 13 of them, although the Company was named as a defendant in several of the cases dismissed as a result of the MSA.

Governmental Reimbursement Cases - The Master Settlement Agreement is expected to resolve the cases filed by 46 state governments and six other governmental entities. Since January 1, 1997, cases brought by four state governments, Florida, Minnesota, Mississippi and Texas, were settled in separate agreements. Lorillard was a defendant in each of the 46 cases filed by state governments and in the six cases brought by other governmental entities, as well as in the four cases governed by the separate settlement agreements. Suits by seven local governments are pending against cigarette manufacturers, although the MSA purportedly resolves those actions. In addition to these suits, cases have been brought in U.S. courts by the nations of Bolivia, Guatemala, Nicaragua, Panama, Thailand and Venezuela, although none of the defendants have received service to date of the case filed by Venezuela. Lorillard is a defendant in some of these actions, although it does not sell cigarettes outside the United States. The Company is named as a defendant in the cases filed by Bolivia, Panama and Venezuela.

Moore v. The American Tobacco Company, et al. (Chancery Court, Jackson County, Mississippi, filed May 23, 1994). On July 2, 1997, Lorillard and other defendants entered into a Memorandum of Understanding with the State of Mississippi which settled the State's claims for monetary damages.

Page 25

State of Minnesota, et al. v. Philip Morris Incorporated, et al., (District Court, Ramsey County, Minnesota, filed August 17, 1994). Blue Cross and Blue Shield of Minnesota ("Blue Cross") also is plaintiff in the case. On May 8, 1998, the parties reached an agreement to settle the matter.

McGraw v. The American Tobacco Company, et al. (Circuit Court, Kanawha County, West Virginia, filed September 20, 1994 by the West Virginia Attorney General and state agencies). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

The State of Florida, et al. v. The American Tobacco Company, et al. (Circuit Court, Palm Beach County, Florida, filed February 21, 1995). The trial court granted the Company's motion to dismiss. The Florida Court of Appeal affirmed the order dismissing the Company. On August 25, 1997, Lorillard Tobacco Company and other defendants entered into a Memorandum of Understanding with the State of Florida which settled the State's claims

for monetary damages. The remaining claims have now been dismissed.

Commonwealth of Massachusetts v. Philip Morris Inc., et al. (Superior Court, Middlesex County, Massachusetts, filed December 19, 1995). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Ieyoub v. The American Tobacco Company, et al. (U.S. District Court, Western District, Louisiana, filed March 13, 1996 by the Louisiana Attorney General). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

The State of Texas v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Texas, filed March 28, 1996). On January 16, 1998, Lorillard Tobacco Company and other defendants entered into a Memorandum of Understanding with the State of Texas which settled the State's claims for monetary damages.

State of Maryland v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 1, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Washington v. The American Tobacco Company, et al. (Superior Court, King County, Washington, filed June 5, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

City and County of San Francisco, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Northern District, California, filed June 6, 1996 by various California cities and counties).

State of Connecticut v. Philip Morris Incorporated, et al. (Superior Court, Litchfield District, Connecticut, filed July 18, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

County of Los Angeles v. R.J. Reynolds Tobacco Company, et al. (Superior Court, San Diego County, filed August 5, 1996). Plaintiffs voluntarily dismissed this action on December 22, 1998.

Page 26

State of Arizona v. The American Tobacco Company, et al. (Superior Court, Maricopa County, Arizona, filed August 20, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Kansas v. R.J. Reynolds Tobacco Company, et al. (District Court, Shawnee County, Kansas, filed August 20, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Kelley v. Philip Morris Incorporated, et al. (Circuit Court, Ingham County, Michigan, filed August 21, 1996 by the Attorney General of Michigan). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Oklahoma, et al. v. R.J. Reynolds Tobacco Company, et al. (District Court, Cleveland County, Oklahoma, filed August 22, 1996). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

People of the State of California v. Philip Morris Incorporated, et al. (Superior Court, San Francisco County, California, filed September 5, 1996 by various California counties and cities and local chapters of various medical societies and associations).

State of New Jersey v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Middlesex County, New Jersey, filed September 10, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Utah v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Central Division, Utah, filed September 30, 1996). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

City of New York, et al. v. The Tobacco Institute, et al. (Supreme Court, New York County, filed October 17, 1996).

People of the State of Illinois v. Philip Morris, Inc., et al. (Circuit Court, Cook County, Illinois, filed November 12, 1996). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Iowa v. R.J. Reynolds Tobacco Company, et al. (District Court, Fifth Judicial District, Polk County, Iowa, filed November 27, 1996). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

County of Erie v. The Tobacco Institute, Inc., et al. (Supreme Court, Erie County, New York, filed January 14, 1997).

State of New York v. The American Tobacco Company, et al. (Supreme Court, New York County, New York, filed January 21, 1997). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Hawaii v. Brown & Williamson Tobacco Corporation, et al. (Circuit Court, First Circuit, Hawaii, filed January 31, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Page 27

State of Wisconsin v. Philip Morris Incorporated, et al. (Circuit Court, Dane County, Wisconsin, filed February 5, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Indiana v. Philip Morris Incorporated, et al. (Superior Court, Marion County, Indiana, filed February 19, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Alaska v. Philip Morris, Incorporated, et al. (Superior Court, First Judicial District, Alaska, filed April 14, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

County of Cook v. Philip Morris, Incorporated, et al. (Circuit Court, Cook County, Illinois, filed April 18, 1997).

Commonwealth of Pennsylvania v. Philip Morris, Inc., et al. (Court of Common Pleas, Philadelphia County, Pennsylvania, filed April 23, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Arkansas v. The American Tobacco Company, et al. (Sixth Division, Chancery Court, Pulaski County, Arkansas, filed May 5, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Montana v. Philip Morris, Incorporated, et al. (First Judicial Court, Lewis and Clark County, Montana, filed May 5, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Ohio v. Philip Morris, Incorporated, et al. (Court of Common Pleas, Franklin County, Ohio, filed on May 8, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Missouri v. American Tobacco Company, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed May 12, 1997). The Company was a defendant in the case. The court has entered an order dismissing the action. The dismissal order reflects but is not consistent with the MSA. Judgment is not yet final.

State of South Carolina v. Brown & Williamson Tobacco Corporation, et al. (Court of Common Pleas, Richland County, South Carolina, filed May 12, 1997). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Nevada v. Philip Morris, Incorporated, et al. (Second Judicial District, Washoe County, Nevada, filed May 21, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

University of South Alabama v. The American Tobacco Company, et al. (U.S. District Court, Southern District, Alabama, filed May 23, 1997). The Company is a defendant in the case. Plaintiff noticed an appeal to the U.S. Court of Appeals for the Eleventh Circuit from the trial court's order that dismissed the action. The Eleventh Circuit returned the case to the trial court and ordered the case remanded to state court.

Page 28

State of New Mexico v. The American Tobacco Company, et al. (First Judicial District Court, Santa Fe County, New Mexico, filed May 27, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

City of Birmingham, Alabama, and The Greene County Racing Commission v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Alabama, filed May 28, 1997). The Company is a defendant in the case. The court granted defendants' motion to strike the complaint. Plaintiffs have noticed an appeal to the United States Court of Appeals for the Eleventh Circuit.

State of Vermont v. Philip Morris, Incorporated, et al. (Superior Court, Chittenden County, Vermont, filed May 29, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of New Hampshire v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Merrimack County, New Hampshire, filed June 4, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Colorado v. R.J. Reynolds Tobacco Co., et al. (District Court, City and County of Denver, Colorado, filed June 5, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Idaho v. Philip Morris, Inc., et al. (District Court, Fourth Judicial District, Ada County, Idaho, filed June 9, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Oregon v. The American Tobacco Company, et al. (Circuit Court, Multnomah County, Oregon, filed June 9, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

People of the State of California v. Philip Morris, Inc., et al. (Superior Court, Sacramento County, California, filed June 12, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Maine v. Philip Morris, Incorporated, et al. (Superior Court, Kennebec County, Maine, filed June 17, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Rossello, et al. v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Puerto Rico, filed June 17, 1997). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Rhode Island v. American Tobacco Company, Inc., et al. (Superior Court, Providence, Rhode Island, filed June 17, 1997). The Company was a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Georgia v. Philip Morris, Inc., et al. (Superior Court, Fulton County, Georgia, filed August 29, 1997). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Page 29

Republic of the Marshall Islands v. The American Tobacco Company, et al. (High Court, Republic of the Marshall Islands, filed October 20, 1997). The court granted motions to dismiss filed by Lorillard and the Company.

State of South Dakota and South Dakota Department of Social Services v. Philip Morris, Inc., et al. (Circuit Court, Sixth Judicial Circuit, Hughes County, South Dakota, filed February 23, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter

is final.

The Republic of Guatemala v. The Tobacco Institute, Inc., et al. (U.S. District Court, District of Columbia, filed May 11, 1998). Neither Lorillard nor the Company are named as defendants in the matter. Certain defendants have filed a motion to transfer this and other matters filed by non-U.S. governments in U.S. courts to the United States Panel on Multi-District Litigation.

State of Vermont v. Philip Morris, Incorporated, et al. (Superior Court, Chittenden County, Vermont, filed July 7, 1998). Plaintiff asserted different claims in this suit than in the one filed on May 29, 1997, that is listed above. Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Nebraska v. R.J. Reynolds Tobacco Company, et al. (District Court, Lancaster County, Nebraska, filed August 21, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Republic of Panama v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed October 16, 1998). The Company is a defendant in the case. Certain defendants have filed a motion to transfer this and other matters filed by non-U.S. governments in U.S. courts to the United States Panel on Multi-District Litigation.

State of Alabama (by Attorney General Pryor) v. Philip Morris Incorporated, et al. (Circuit Court, Montgomery County, Alabama, filed November 12, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

State of Alabama (by Governor James) v. The American Tobacco Company, et al. (Circuit Court, Montgomery County, Alabama, filed November 12, 1998). The Company is a defendant in the case. Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

American Samoa v. Philip Morris Incorporated, et al. (U.S. District Court, Northern District, Illinois, filed November 20, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

The Republic of Nicaragua v. Liggett Group, Inc., et al (U.S. District Court, Puerto Rico, filed December 10, 1998). Neither Lorillard nor the Company are named as defendants in this matter. Certain defendants have filed a motion to transfer this and other matters filed by non-U.S. governments in U.S. courts to the United States Panel on Multi-District Litigation.

Commonwealth of Kentucky v. Philip Morris Incorporated, et al. (Circuit Court, Franklin County, Kentucky, filed December 18, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Page 30

The United States Virgin Islands v. Philip Morris Incorporated, et al. (U.S. District Court, United States Virgin Islands, filed December 18, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Wyoming v. Philip Morris Incorporated, et al. (First Judicial District, Laramie County, Wyoming, filed December 18, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Delaware v. Philip Morris Incorporated, et al. (Chancery Court, New Castle County, Delaware, filed December 21, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Government of Guam v. Philip Morris Incorporated, et al. (Superior Court, Hagatina, Guam, filed December 21, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of North Carolina v. Philip Morris Incorporated, et al. (Superior Court, Wake County, North Carolina, filed December 21, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of North Dakota v. Philip Morris Incorporated, et al. (District

Court, Cass County, North Dakota, filed December 21, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

State of Tennessee v. Brown & Williamson Tobacco Corporation, et al. (Chancery Court, Davidson County, Tennessee, filed December 21, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

District of Columbia v. Philip Morris Incorporated, et al. (Superior Court, District of Columbia, filed December 23, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Commonwealth of the Northern Mariana Islands v. Brown & Williamson Tobacco Corporation, et al. (Superior Court of the Commonwealth of the Northern Mariana Islands, filed on or about December 23, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment in this matter is final.

Commonwealth of Virginia v. Brown & Williamson Tobacco Corporation, et al. (Circuit Court, City of Richmond, Virginia, filed December 23, 1998). Consistent with the MSA, the court has entered an order dismissing the action. Judgment is not yet final.

The Republic of Bolivia v. Philip Morris Companies, Inc., et al. (U.S. District Court, District of Columbia, filed on January 20, 1999). The Company is a defendant in the case. The United States District Court for the Southern District of Texas transferred this matter sua sponte to the United States District Court for the District of Columbia. Certain defendants have filed a motion to transfer this and other matters filed by non-U.S. governments in U.S. courts to the United States Panel on Multi-District Litigation.

Page 31

Republic of Venezuela v. Philip Morris Companies, et al. (Circuit Court, Dade County, Florida, filed January 27, 1999). The Company is a defendant in the case. To date, none of the defendants have received service of process. Certain defendants have filed a motion to transfer this and other matters filed by non-U.S. governments in U.S. courts to the United States Panel on Multi-District Litigation.

The Kingdom of Thailand v. The Tobacco Institute, Inc., et al. (U.S. District Court, Southern District, Texas, filed January 29, 1999). Neither Lorillard nor the Company are named as defendants in this matter. Certain defendants have filed a motion to transfer this and other matters filed by non-U.S. governments in U.S. courts to the United States Panel on Multi-District Litigation.

In addition to these reimbursement cases, some suits have been filed contesting, in various methods, the Master Settlement Agreement. Certain other actions have been filed in which plaintiffs seek to intervene in cases governed by the Master Settlement Agreement in order to achieve a different distribution of the funds allocated by the MSA to the respective states. Lorillard has been named as a defendant in several of the cases filed to date. The Company has been named as a defendant in one of them.

The President of the United States stated in the State of the Union address on January 19, 1999, that he had authorized the United States Justice Department to initiate a reimbursement litigation lawsuit against United States cigarette manufacturers. The Attorney General of the United States has subsequently stated publicly that the Justice Department intends to pursue such litigation. No such federal lawsuit has been filed to date.

Private Citizens' Reimbursement Cases - There are five suits pending in which plaintiffs are private citizens. Four of the suits have been filed by private citizens on behalf of taxpayers of their respective states, although governmental entities have filed a reimbursement suit in one of the four states. The Company is a defendant in two of the five pending private citizen Reimbursement Cases. Lorillard is a defendant in each of the cases. Each of these cases is in the pre-trial discovery stage.

Coyne v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio, filed September 17, 1996). The Company is a defendant in the case. The suit is on behalf of taxpayers of Ohio. The court has granted defendants' motion to dismiss. The plaintiffs have noticed an appeal from the court's order granting a motion to dismiss.

Beckom v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Tennessee, filed May 8, 1997). The Company is a defendant

in the case. The suit is on behalf of taxpayers of Tennessee. The court has granted defendants' motion to dismiss. The plaintiffs have noticed an appeal from the order that granted the motion to dismiss.

Mason v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Texas, filed December 23, 1997). The suit is on behalf of taxpayers of the U.S. as to funds expended by the Medicare program.

The State of North Carolina, et al. v. The American Tobacco Company, et al. (U.S. District Court, Middle District, North Carolina, filed February 13, 1998). The suit is on behalf of taxpayers of North Carolina.

Wynn v. Philip Morris, Inc., et al. (Circuit Court, Jefferson County, Alabama, filed May 27, 1998). The suit is on behalf of taxpayers of Alabama.

Page 32

Reimbursement Cases By Indian Tribes - Indian Tribes have filed ten reimbursement suits, three of which have been dismissed. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the tribal suits filed to date. Each of the pending cases is in the pre-trial, discovery stage.

The Lower Brule Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Lower Brule Sioux Tribe, filed on an unknown date, first amended complaint filed May 28, 1997).

Muscogee Creek Nation v. The American Tobacco Company, et al. (District Court, Muscogee Creek Nation, Okmulgee District, filed June 20, 1997).

Crow Creek Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Crow Creek Sioux Tribe, filed September 14, 1997).

The Standing Rock Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Standing Rock Sioux Tribe, filed May 8, 1998).

The Sisseton-Wahpeton Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Sisseton-Wahpeton Sioux Tribe, filed May 12, 1998).

Pechanga Band of Luiseno Mission Indians, et al. v. Philip Morris, Inc., et al. (Superior Court, San Diego County, California, filed October 30, 1998).

Yukon-Kuskokwim Health Corporation v. Philip Morris, Incorporated, et al. (Superior Court, Fourth Judicial District, Alaska, filed April 5, 1999). To date, none of the defendants have received service of process.

Reimbursement Cases By Labor Unions - Labor unions have filed approximately 75 reimbursement suits in various states in federal or state courts. In 24 of these cases, plaintiffs seek class certification. Lorillard is named as a defendant in each of the suits filed to date by unions. The Company is a defendant in three of the pending suits. Six of the approximately 75 cases are on appeal from final judgments entered in defendants' favor by the trial courts.

On March 18, 1999, the jury in Iron Workers Local Union No. 17 Insurance Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Ohio, Eastern Division, filed May 20, 1997) returned a verdict in favor of the defendants, which included Lorillard, on all counts of plaintiffs' complaint. The trial was the first against cigarette manufacturers by union trust funds. During pre-trial proceedings, the court granted plaintiffs' motion for class certification on behalf of funds in Ohio established under the Taft-Hartley Act. Plaintiffs' motion for new trial has been denied. The time for plaintiffs' to notice an appeal has not expired.

Each of the remaining cases is in the pre-trial, discovery stage.

Stationary Engineers Local 39 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, California, filed April 25, 1997).

Northwest Laborers-Employers Health and Security Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Western District, Washington, filed May 21, 1997). The court has granted plaintiffs' motion for class certification on behalf of "all existing jointly-administered and collectively bargained-for health and welfare trusts in [the State of] Washington, and/or the trustees of such entities, that have provided or

Page 33

paid for health care and/or addiction treatment costs or services for employees or other beneficiaries." The United States Court of Appeals for the Ninth Circuit has declined to review the ruling at this time. Trial in this matter is scheduled to begin on September 7, 1999.

Massachusetts Laborers Health and Welfare Fund v. Philip Morris Inc., et al. (U.S. District Court, Massachusetts, filed June 2, 1997).

Central Laborers Welfare Fund, et al. v. Philip Morris, Inc., et al. Circuit Court, Madison County, Illinois, filed on or about June 9, 1997).

Hawaii Health and Welfare Trust Fund for Operating Engineers v. Philip Morris, Inc., et al. (U.S. District Court, Hawaii, filed June 13, 1997). The court has entered an order granting defendants' motion to dismiss. Judgment in favor of the defendants is final but the deadline for plaintiff to notice an appeal has not expired.

Laborers Local 17 Health and Benefit Fund and The Transport Workers Union New York City Private Bus Lines Health Benefit Trust v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, New York, filed June 19, 1997). The United States Court of Appeals for the Second Circuit has directed the trial court to enter an order dismissing the case. Plaintiffs have filed a motion for reconsideration of the decision.

Ark-La-Miss Laborers Welfare Fund v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Louisiana, filed June 20, 1997).

Kentucky Laborers District Council Health and Welfare Trust Fund v. Hill & Knowlton, Inc., et al. (U.S. District Court, Western District, Kentucky, Louisville Division, filed June 20, 1997).

Oregon Laborers-- Employers Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Oregon, filed June 20, 1997). The court granted defendants' motion for judgment on the pleadings, which dismissed the case. Plaintiffs have noticed an appeal to the United States Court of Appeals for the Ninth Circuit. The Ninth Circuit has heard argument in the appeal and taken it under advisement.

United Federation of Teachers Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, New York, filed June 25, 1997).

Laborers and Operating Engineers Utility Agreement Health and Welfare Trust Fund for Arizona v. Philip Morris Incorporated, et al. (U.S. District Court, Arizona, filed July 7, 1997). The court has entered an order granting in its entirety defendants' motion to dismiss. Plaintiff has noticed an appeal to the United States Court of Appeal for the Ninth Circuit.

International Union of Operating Engineers Local 132 v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, West Virginia, Huntington Division, filed July 11, 1997). This matter formerly was known as West Virginia Laborers Pension Fund.

Rhode Island Laborers Health and Welfare Fund v. Philip Morris Incorporated, et al. (U.S. District Court, Rhode Island, filed July 20, 1997).

Eastern States Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed July 28, 1997).

Page 34

Asbestos Workers Local 53 Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Louisiana, filed August 15, 1997). This action has been consolidated with the case of Ark-La-Miss Laborers Welfare Fund.

Steamfitters Local Union No. 420 Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Pennsylvania, filed August 21, 1997). The court granted defendants' motion to dismiss the case. Plaintiffs noticed an appeal to the United States Court of Appeals for the Third Circuit. The Third Circuit affirmed the trial court's order dismissing the case, and has denied plaintiffs' motion for reconsideration of its ruling.

Construction Laborers of Greater St. Louis Welfare Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed September 2, 1997). The Company is a defendant in the case.

Arkansas Carpenters Health & Welfare Fund v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Arkansas, filed September 4, 1997).

West Virginia--Ohio Valley Area International Brotherhood of Electrical Workers Welfare Fund v. The American Tobacco Company, et al. (U.S. District Court, West Virginia, filed September 11, 1997). The court has scheduled trial in this matter to begin on March 7, 2000.

Teamsters Union No. 142, Health and Welfare Trust Fund and Sheet Metal Workers Local Union No. 20 Welfare and Benefit Fund v. Philip Morris Incorporated, et al. (Circuit Court, St. Joseph County, Indiana, filed September 12, 1997).

Operating Engineers Local 12 Health and Welfare Trust v. American Tobacco Company, et al. (Superior Court, Los Angeles County, California, filed September 16, 1997).

Puerto Rican ILGWU Health & Welfare Fund v. Philip Morris Inc., et al. (Supreme Court, New York County, New York, filed September 17, 1997).

New Jersey Carpenters Health Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, New Jersey, filed September 25, 1997).

New Mexico and West Texas Multi-Craft Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1997). The court has granted defendants' motion to dismiss and has entered final judgment in favor of the defendants. Plaintiffs have noticed an appeal to the New Mexico Court of Appeals.

Central States Joint Board v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Illinois, filed October 20, 1997). The court has granted defendants' motion to dismiss and has entered final judgment in favor of the defendants. Plaintiff has noticed an appeal from the judgment to the United States Court of Appeals for the Seventh Circuit.

International Brotherhood of Teamsters Local 734 v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Illinois, filed October 20, 1997). The court has granted defendants' motion to dismiss and has entered final judgment in favor of the defendants. Plaintiff has noticed an appeal from the judgment to the United States Court of Appeals for the Seventh Circuit.

Page 35

Texas Carpenters Health Benefit Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Texas, Beaumont Division, filed October 31, 1997). The court granted defendants' motion to dismiss. Plaintiff has noticed an appeal to the United States Court of Appeals for the Fifth Circuit.

United Food and Commercial Workers Unions and Employers Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Alabama, filed November 13, 1997).

Screen Actors Guild-Producers Health Plan, et al. v. Philip Morris, Inc., et al. (Superior Court, Los Angeles County, California, filed November 20, 1997).

IBEW Local 25 Health and Benefit Fund v. Philip Morris, Inc. et al. (Supreme Court, New York County, New York, filed November 25, 1997).

IBEW Local 363 Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Local 138, 138A and 138B International Union of Operating Engineers Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Local 840, International Brotherhood of Teamsters Health and Insurance Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Long Island Council of Regional Carpenters Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Day Care Council - Local 205 D.C. 1707 Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed December 8, 1997).

Local 1199 Home Care Industry Benefit Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed December 8, 1997).

Local 1199 National Benefit Fund for Health and Human Services Employees v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed December 8, 1997).

Operating Engineers Local 324 Health Care Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, Wayne County, Michigan, filed December 30, 1997). The court granted defendants' motion to dismiss and entered judgment in favor of defendants. Plaintiffs have noticed an appeal to the Michigan Court of Appeals.

Carpenters & Joiners Welfare Fund, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed December 31, 1997). The court has granted defendants' motion to dismiss the complaint. The time for plaintiff to notice an appeal from the ruling has not expired.

Steamfitters Local Union No. 614 Health & Welfare Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, Thirteenth Judicial District, Tennessee, filed January 7, 1998).

National Asbestos Workers, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed February 27, 1998). The Company is a defendant in the case. Trial in this matter is scheduled to begin on April 5, 2000.

Page 36

Milwaukee Carpenters, et al. v. Philip Morris, Incorporated, et al. (Circuit Court, Milwaukee County, Wisconsin, filed March 4, 1998). To date, none of the defendants have received service of process.

Service Employees International Union Health & Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed March 19, 1998).

Milwaukee Carpenters, et al. v. Philip Morris, Incorporated, et al. (Circuit Court, Milwaukee County, Wisconsin, filed March 30, 1998).

United Association of Plumbing and Pipefitters Industry Local 467, et al. v. Philip Morris Incorporated, et al. (Superior Court, San Mateo County, California, filed March 31, 1998).

Newspaper Periodical Drivers Local 921 San Francisco Newspaper Agency Health & Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Mateo County, California, filed April 15, 1998).

Teamsters Benefit Trust v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 15, 1998).

United Association Local 159 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 15, 1998).

Bay Area Automotive Group Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 16, 1998).

Bay Area Delivery Drivers Security Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 16, 1998).

Pipe Trades District Council No. 36 Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 16, 1998).

Sign, Pictorial and Display Industry Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 16, 1998).

United Association Local No. 343 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 16, 1998).

San Francisco Newspaper Publishers and Northern California Newspaper Guild Health & Welfare Trust v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 17, 1998).

North Coast Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 24, 1998).

Northern California Bakery Drivers Security Fund v. Philip Morris, Inc.,

et al. (Superior Court, Alameda County, California, filed April 24, 1998).

Northern California Plasterers Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed May 21, 1998).

Page 37

U.A. Local No. 393 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed May 21, 1998).

Northern California General Teamsters Security Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed May 22, 1998).

Utah Laborers Health & Welfare Trust Fund, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Utah, Central Division, filed June 4, 1998). The Company is a defendant in the case.

Joint Benefit Trust v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed June 15, 1998).

Northern California Pipe Trades Health and Welfare Trust v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed June 18, 1998).

S.E.I.U. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed June 22, 1998). To date, none of the defendants have received service of process.

Plastering Industry Welfare Trust Fund v. Philip Morris, Inc. et al. (Superior Court, San Francisco County, California, filed July 1, 1998).

Central Valley Painting & Decorating Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed July 6, 1998).

Holland, et al., Trustees of United Mine Workers v. Philip Morris Incorporated, et al. (U.S. District Court, District of Columbia, filed July 9, 1998).

Northern California Tile Industry Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed July 29, 1998).

San Francisco Culinary, Bartenders and Service Employees Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed July 30, 1998).

IBEW Local 595 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed July 30, 1998).

Shop Ironworkers Local 790 Welfare Plan v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed July 31, 1998).

Central Coast Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed September 30, 1998).

Reimbursement Cases By Private Companies - Private companies have filed six Reimbursement Cases to date, although one of the cases has been dismissed. Lorillard is named as a defendant in each of the cases filed by private companies. The Company is not a defendant in the cases filed by private companies.

Group Health Plan, Inc., et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed March 11, 1998). The court has directed that this matter be ready for trial by March 1, 2000.

Page 38

Conwed Corporation, et al. v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Minnesota, filed April 10, 1998). The court has granted defendants' motion to dismiss the complaint. The time for plaintiff to notice an appeal from the ruling has not expired.

Arkansas Blue Cross and Blue Shield, et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Northern District, Illinois, filed April 29, 1998).

Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Eastern District, New York,

filed April 29, 1998). This case has been set for trial on January 12, 2000.

Regence Blueshield, et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Western District, Washington, filed April 29, 1998). The court has granted defendants' motion to dismiss and has entered final judgment in defendants' favor. Plaintiff has noticed an appeal from the final judgment to the United States Court of Appeals for the Ninth Circuit.

CONTRIBUTION CLAIMS - In addition to the foregoing cases, ten cases are pending in which private companies 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. Two of the cases have not been served. Lorillard is named as a defendant in each action. The Company is named as a defendant in four of the cases but has not received service of process in three of them. Each of these cases is in the pre-trial, discovery stage.

Raymark Industries v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Duval County, Florida, filed September 15, 1997). The Company is a defendant in the case but has not received service of process to date.

Fibreboard Corporation and Owens-Corning v. The American Tobacco Company, et al. (Superior Court, Alameda County, California, filed December 11, 1997).

Keene Creditors Trust v. Brown & Williamson Tobacco Corporation, et al. (Supreme Court, New York County, New York, filed December 19, 1997). The Company is a defendant in the case.

Falise, et al., as Trustees of the Manville Personal Injury Settlement Trust v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed December 31, 1997). This case has been set for trial on November 18, 1999.

H.K. Porter Company v. B.A.T. Industries, PLC, et al. (U.S. District Court, Eastern District, New York, filed December 31, 1997).

Raymark Industries v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Duval County, Florida, filed December 31, 1997). To date, none of the defendants have received service of process.

Raymark Industries v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed January 30, 1998).

Thomas v. R.J. Reynolds Tobacco Company, et al., (Circuit Court of Jefferson County, Mississippi, filed August 21, 1998). The complaint asserts contribution claims on behalf of Owens Corning as well as conventional product liability claims on behalf of an individual. The

Page 39

Company is a defendant in the case. The court has scheduled this case for trial February 14, 2000.

The Seibels Bruce Group, Inc. v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Northern District, filed December 30, 1998).

UNR Asbestos-Disease Claims Trust v. Brown & Williamson Tobacco Corporation, et al. (Supreme Court, New York County, New York, filed March 15, 1999). The Company is a defendant in this case.

FILTER CASES - A number of cases have been filed against Lorillard seeking damages for cancer and other health effects claimed to have resulted from exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than forty years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Twenty-one such cases, including one that also includes allegations that plaintiff also was injured as a result of smoking cigarettes, are pending in federal and state courts. The Company is a defendant in two of the cases. Allegations of liability include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as \$10.0 in compensatory damages and \$100.0 in punitive damages. Trials have been held in twelve such cases, including two to date in 1999. Verdicts have been returned in favor of Lorillard Inc. or Lorillard Tobacco Company in nine of the twelve cases. Three verdicts have been returned in plaintiffs' favor, including one of the two cases tried to date during 1999. In the case tried to a plaintiffs' verdict during 1999, plaintiffs were awarded \$2.2 in actual damages. The time for Lorillard to contest the award or to notice an

appeal has not expired. In one of the two remaining trials, plaintiffs were awarded one-hundred-forty thousand dollars in actual damages from Lorillard in a 1996 trial, although this amount was reduced to approximately seventy thousand dollars. Appeals from this judgment have been decided in favor of plaintiffs. In the second such action, a jury awarded plaintiffs approximately \$2.0 in actual damages and punitive damages following a 1995 trial. A court of appeal decided Lorillard's appeal in favor of the plaintiffs.

OTHER TOBACCO-RELATED LITIGATION - In addition to the foregoing litigation, two California cities, Los Angeles and San Jose, suing on behalf of The People of the State of California, have filed suits alleging cigarette manufacturers, including Lorillard, have violated a California statute, commonly known as "Proposition 65," that requires California residents to be informed if they are exposed to substances that are alleged to cause cancer or birth defects. Plaintiffs in both suits allege that non-smokers have not been warned by cigarette manufacturers that exposure to environmental tobacco smoke may cause illness. Plaintiffs in both suits further allege defendants violated certain provisions of the California Business and Professions Code (The People of the State of California, and American Environmental Safety Institute v. Philip Morris Incorporated, et al. (Superior Court, Los Angeles County, California, filed July 14, 1998) and The People of the State of California, the City of San Jose and Paul Dowhall v. Brown & Williamson Tobacco Corporation, et al. (Superior Court, San Francisco County, California, filed July 28, 1998)). Trial in the latter matter has been scheduled to begin on June 28, 1999.

SETTLEMENT OF STATE REIMBURSEMENT LITIGATION - As previously discussed, Lorillard, and certain other United States tobacco product manufacturers, entered into agreements to settle State reimbursement litigation and an ETS smoking and health class action brought on behalf of airline flight attendants. The State settlement agreements and certain ancillary

Page 40

agreements are filed as exhibits to various of the Company's reports filed with the Securities and Exchange Commission.

DEFENSES - One of the defenses raised by Lorillard in certain cases is preemption by the Federal Cigarette Labeling and Advertising Act (the "Labeling Act"). In the case of Cipollone v. Liggett Group, Inc., et al., the United States Supreme Court held that the Labeling Act, as amended in 1969, preempts claims against tobacco companies arising after July 1, 1969, which assert that the tobacco companies failed to adequately warn of the alleged health risks of cigarettes, sought to undermine or neutralize the Labeling Act's mandatory health warnings, or concealed material facts concerning the health effects of smoking in their advertising and promotion of cigarettes. The Supreme Court held that claims against tobacco companies based on fraudulent misrepresentation, breach of express warranty, or conspiracy to misrepresent material facts concerning the alleged health effects of smoking are not preempted by the Labeling Act.

Lorillard believes that it has a number of defenses to pending cases, in addition to defenses based on preemption described above, and Lorillard will continue to maintain a vigorous defense in all such litigation. These defenses, where applicable, include, among others, statutes of limitations or repose, assumption of the risk, comparative fault, the lack of proximate causation, and the lack of any defect in the product alleged by a plaintiff. Lorillard believes that some or all of these defenses may, in many of the pending or anticipated cases, be found by a jury or court to bar recovery by a plaintiff. Application of various defenses, including those based on preemption, are likely to be the subject of further legal proceedings in the litigation.

While Lorillard intends to defend vigorously all smoking and health related litigation which may be brought against it, 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.

Many of the recent developments in relation to smoking and health discussed above have received wide-spread media attention including the release of industry documents. These developments may reflect adversely on the tobacco industry and could have adverse effects on the ability of Lorillard and other cigarette manufacturers to prevail in smoking and health litigation.

Except for the impact of the State settlement agreements as previously discussed, 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. 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 Legal Proceedings: In September 1997, a purported class action was commenced by private plaintiffs in Alabama state court alleging that the U.S. tobacco companies and others conspired to fix cigarette prices in Alabama, that agreements leading to price increases were reached during the negotiations in efforts to reach a settlement of tobacco claims through federal legislation, and that prices were increased pursuant to the alleged conspiracy in 1997 (Mosley, et al. v. Philip Morris Companies Inc., et al.). The parties have settled this action for a payment by defendants in an aggregate amount approximating sixty thousand dollars to cover costs incurred by plaintiff's counsel.

Page 41

Department of Justice Investigations - Early in 1994, the Energy and Commerce Subcommittee on Health and the Environment of the U.S. House of Representatives (the "Subcommittee") launched an oversight investigation into tobacco products, including possible regulation of nicotine-containing cigarettes as drugs. During the course of such investigation, the Subcommittee held hearings at which executives of each of the major tobacco manufacturers testified. Following the November 1994 elections, the incoming Chairman of the Energy and Commerce Committee indicated that this investigation by the Subcommittee would not continue, and on December 20, 1994, the outgoing majority staff of the Subcommittee issued two final reports. One of these reports questioned the scientific practices of what it characterized as the tobacco industry's "long-running campaign" related to ETS, but reached no final conclusions. The second report asserted that documents obtained from American Tobacco Company, a competitor of Lorillard, "reflect an intense research and commercial interest in nicotine."

The U.S. Department of Justice is investigating allegations of perjury in connection with the testimony provided by tobacco industry executives, including Lorillard executives, to the Subcommittee in April 1994. Lorillard has not received any request for documents or testimony. It is impossible at this time to predict the outcome of this investigation.

In 1996 Lorillard responded to a grand jury subpoena for documents in connection with a grand jury investigation commenced in 1992 by the United States Attorney's Office for the Eastern District of New York regarding possible fraud by Lorillard and other tobacco companies relating to smoking and health research undertaken or administered by the Council for Tobacco Research - USA, Inc. There have been no requests for any testimony by any Lorillard personnel. At the present time, Lorillard is unable to predict whether the United States Attorney's Office will ultimately determine to bring any proceeding against Lorillard. An adverse outcome of this investigation could result in criminal, administrative or other proceedings against Lorillard.

In March 1996, the Company and Lorillard each received a grand jury subpoena duces tecum from the United States Attorney's Office for the Southern District of New York seeking documents, advertisements or related materials distributed by the Company and Lorillard to members of the general public relating to, among other things, the health effects of cigarettes, nicotine or tobacco products, the addictiveness of such products, and Congressional hearings relating to cigarettes or the tobacco industry. The Company and Lorillard responded to the subpoena. The Company and Lorillard were informed in the latter part of 1996 that responsibility for this investigation has been transferred from the United States Attorney's Office for the Southern District of New York to the United States Department of Justice in Washington, D.C. It is impossible at this time to predict the ultimate outcome of this investigation.

On September 18, 1998, Lorillard was served with a grand jury subpoena for documents in connection with an investigation being conducted by the Middle Atlantic Office of the Antitrust Division of the United States Department of Justice. Similar subpoenas have been served on other tobacco companies and tobacco leaf purchasers. The investigation concerns possible violations of the antitrust laws in connection with the purchase of tobacco leaf in the United States. At the present time, Lorillard is unable to predict whether the Department of Justice will ultimately determine to bring any proceedings against Lorillard arising out of this investigation. An adverse outcome of this investigation could result in criminal, civil or other proceedings against Lorillard.

Page 42

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.

8. 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 March 31, 1999 and December 31, 1998 and the results of operations and changes in cash flows for the three months ended March 31, 1999 and 1998, respectively.

Results of operations for the first three months of each of the years is not necessarily indicative of results of operations for that entire year.

Page 43

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

OVERVIEW

Loews Corporation (the "Company") reported net operating income, excluding net investment gains and losses and accounting changes, for the quarter ended March 31, 1999 of \$172.4 million, or \$1.54 per share, compared to \$165.0 million, or \$1.43 per share, for the 1998 period.

Net income for the 1999 first quarter amounted to \$45.4 million, or \$.41 per share, compared to a net loss of \$83.7 million, or \$.73 per share, in the 1998 first quarter. Net income in the 1999 first quarter includes net investment gains of \$30.9 million, or \$.28 per share, compared to net investment losses of \$248.7 million, or \$2.16 per share, in the comparable period of the prior year. Net income in the 1999 first quarter also includes a charge for accounting changes of \$157.9 million, or \$1.41 per share, primarily related to accounting for insurance-related assessments at the CNA Financial Corporation subsidiary.

Gross revenues amounted to \$5.6 billion in the 1999 quarter, compared to \$4.8 billion in the prior period.

At March 31, 1999, the Company's book value per share amounted to \$96.32, compared to \$90.61 per share at December 31, 1998.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is an 85% owned subsidiary of the Company.

Property and Casualty

The property and casualty segment is comprised of the following operating units of CNA: Agency Market Operations, Risk Management, Specialty Operations, Global Operations, and Reinsurance Operations.

A competitive pricing environment continues to affect the overall profitability in CNA's Agency Market Operations, which includes commercial and personal property and casualty operations. In addition, pre-tax restructuring related charges of \$31.0 million, which includes \$10.8 million related to non-insurance operations, and increased catastrophe losses contributed to the lower results for the three months ended March 31, 1999, as compared to the corresponding period of the prior year.

Written premium for the property/casualty segment decreased \$140.9 million for the first quarter of 1999 as compared with the same period in 1998. The decrease in written premiums was comprised primarily of a decrease in Commercial Insurance of \$114.0 million and a decrease of \$100.7 million in Risk Management. These decreases were partially offset by an increase in written premium in Global Operations of \$45.1 million and Personal Insurance of \$29.6 million.

The decline in Commercial Insurance written premiums was mainly due to continued pressures on pricing and Commercial Insurance's unwillingness to write business if appropriate rates are not obtained. The decrease in Risk Management written premium was primarily due to Risk Management's decision to

Page 44

increase its utilization of reinsurance and the redesign of existing risk

management programs. The increase in written premium in Global Operations was primarily due to an increase of \$22.7 million stemming from the acquisition of Maritime, an \$8.0 million increase in Global Operations' other international lines of business and an increase in CNA Surety of \$8.3 million. The increase in Personal Insurance can be attributed mainly to increases in agency premium volume, new agency relationships and new agent incentives.

Underwriting results deteriorated by \$75.1 million for the period ended March 31, 1999 as compared with the same period in 1998. The combined ratio increased 1.4 points to 110.8% for the quarter ended March 31, 1999 from 109.4% for the same period in 1998. This decline is due to an increase in the loss ratio of .6 points to 78.6 for the quarter ended March 31, 1999 from 78.0 for the same period in 1998. This increase is due primarily to higher catastrophe losses of \$44.0 million for the first quarter of 1999, an increase of \$19.9 million as compared with the first quarter of 1998. Also contributing to the increase in the combined ratio is an increase in the expense ratio of .8 points to 32.2 for the quarter ended March 31, 1999 from 31.4 for the same period in 1998. Restructuring related charges of \$20.2 million for the first quarter of 1999 was the primary reason for the increase in the expense ratio.

Initial estimates of CNA's catastrophe losses from the May 1999 Midwest tornadoes are approximately \$17.0 million. The initial estimates are based upon preliminary information and are subject to the inherent uncertainties of the loss reserve estimation process. CNA believes that the ultimate losses should not have a significant impact on the equity of CNA.

Life
- ----

Life Operations' premiums decreased \$22.0 million for the first quarter of 1999 as compared with the same period in 1998. This decline is due to the increased use of reinsurance for term insurance in the first quarter of 1999, as well as lower sales within the Retirement Services business.

Net operating income for the first quarter of 1999 was higher than net operating income for the same period in 1998 due to a combination of reduced overall operating expenses and better than expected investment results in one of the plans sold to institutional markets. This improvement was partially offset by higher mortality experience for the first quarter of 1999, as compared with the same period in 1998.

Group
- -----

Group Operations' premiums decreased \$35.0 million for the first quarter of 1999 as compared with the same period in 1998. This decline is due to the decision to exit the Employer Health and Affinity lines of businesses that resulted in a decrease in premiums of \$85.0 million, partially offset by growth in other lines of business, primarily in Provider Markets and Special Benefits businesses. Growth in Provider Markets was primarily driven by employer stop loss business while the growth in Special Benefits was mainly attributable to disability and accident special risk lines of business.

Net operating income declined by \$6.0 million in the first quarter of 1999, as compared to 1998. Partially offsetting the decrease in premiums was an overall improvement in benefits and expenses of approximately \$25.0 million, attributable primarily to a decrease in current year losses as a result of Group Operations' decision to exit certain lines of business, as mentioned above.

Other Insurance
- -----

The Other Insurance segment contains CNA's corporate interest expense, run-off insurance operations, asbestos claims related to Fibreboard Corporation, financial guarantee insurance contracts and certain non-insurance operations, principally the operations of Agency Management Systems, Inc. ("AMS"), an information technology and agency software development company.

Pre-tax operating losses for the first quarter of 1999 increased by approximately \$60.0 million as compared with the first quarter of 1998. The increase was principally attributable to unfavorable loss reserve development in run-off insurance lines as well as increased interest expenses, an increase in computer system related expenses and restructuring related charges for the quarter.

Lorillard
- -----

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

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" and, together with Liggett Group, Inc. and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into a Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those states. The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota. See Item 1-Business-Lorillard, Inc.-Settlement of State Reimbursement Litigation-in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 for a more detailed discussion.

The MSA is subject to final judicial approval in each of the Settling States. If a Settling State does not obtain final judicial approval by December 31, 2001, the MSA will be terminated with respect to such state. The MSA, however, will remain in effect as to each Settling State in which final judicial approval is obtained. The MSA provides that it is not an admission or concession or evidence of any liability or wrongdoing on the part of any party, and was entered into by the Original Participating Manufacturers to avoid the further expense, inconvenience, burden and uncertainty of litigation.

The MSA mandates significant changes in the advertising and marketing of tobacco products in the Settling States and otherwise restricts the activities of Lorillard and other Participating Manufacturers. It also requires the industry to pay more than \$206 billion through 2025, including (i) more than \$12.7 billion in initial payments over the first five years (including \$2.4 billion paid in December 1998); (ii) annual payments commencing in 2000 in the initial amount of \$4.5 billion and increasing periodically to \$9 billion in 2018 and thereafter in perpetuity, and (iii) \$1.7 billion over ten years for a national public education fund, the largest portion of which is due during the first five years. The \$2.4 billion payment was allocated among the Original Participating Manufacturers based on relative market capitalization. All other payments are allocated among the Original Participating Manufacturers based on

Page 46

their relative unit volume of domestic cigarette shipments and are subject to adjustment for inflation and volume changes and for participation by less than all the states and for other adjustments and offsets described in the MSA.

Lorillard's share of the \$2.4 billion payment amounted to \$175.2 million which was charged to expense in the fourth quarter of 1998 and paid from Lorillard's available cash. The Company incurred an additional charge to expense in the fourth quarter of 1998 of \$150.0 million to cover Lorillard's fixed and determinable costs associated with the MSA, such as payments due in 1999 for the benefit of the national public education fund. As a result, the Company's fourth quarter pre-tax charge amounted to approximately \$325.2 million. The Company anticipates that Lorillard's share of future annual industry payments related to cigarette sales would be charged to expense as the related sales occur and may be funded through price increases. On November 23, 1998, Lorillard increased the list price of all of its brands by \$22.50 per thousand cigarettes (\$0.45 per pack of 20 cigarettes).

The Company believes that the implementation of the MSA 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 United States cigarette sales in the full price and discount segments, Lorillard's share of the domestic full price and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to the MSA.

Revenues and net income increased by \$336.7 million, or 58.5%, and \$101.9 million, respectively, for the three months ended March 31, 1999 as compared to the corresponding period of the prior year.

The increase in revenues is primarily composed of an increase of approximately \$257.8 million, or 45.6%, due to higher average unit prices and an increase in unit sales volume of approximately \$77.6 million, or 13.7%, for the three months ended March 31, 1999, as compared to the prior year.

Net income for the three months ended March 31, 1999 and 1998 includes a pre-tax charge of \$226.4 and \$142.4 million (\$135.4 and \$85.1 million after

taxes), respectively, related to the settlement of tobacco litigation. Excluding this charge, net income would have increased by \$152.2 million as a result of the improved revenues, partially offset by higher sales promotion expenses.

Lorillard's unit sales volume increased by 9.5%, while Newport's unit sales volume decreased by 1.6%, for the quarter ended March 31, 1999, as compared to the corresponding period of the prior year. The increase in Lorillard's unit sales volume reflects higher unit sales of its Maverick and Old Gold brands in the discount market segment, and increased sales promotion activities for these brands.

Newport's decline in unit sales volume reflects the effect of the November 1998 cigarette price increase of \$0.45 per pack that followed the MSA. While Newport's unit sales volume has declined, its market share has increased to 7.32% at March 31, 1999, as compared to 7.05% at December 31, 1998. Overall industry unit sales volume is down by 10.4% year to date. Newport, a full price brand, accounted for 70.2% of Lorillard's unit sales. Discount brand sales have decreased from an average of 31.4% of industry sales during 1994 to an average of 26.2% during 1998. At March 31, 1999, they represented 25.8% of industry sales.

Page 47

Loews Hotels

- - - - -

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

Revenues increased by \$11.9 million, or 24.5%, and income before cumulative effect of changes in accounting principles increased by \$0.1 million, or 6.7%, respectively, for the three months ended March 31, 1999, as compared to the corresponding period of the prior year.

Revenues increased primarily due to the operations of the Loews Miami Beach Hotel which opened in December 1998. In addition, higher overall average room rates and occupancy rates contributed to the improved revenues. These increases were partially offset by the sale of the Loews Monte Carlo Hotel in November 1998 and a lower number of rooms available at the Regency Hotel due to the continuing major renovation program. The renovation program at the Regency will be completed in the second quarter of 1999.

Net income includes a charge of \$7.1 million to reflect the cumulative effect of a change in accounting principles with respect to preopening expenses. Excluding this charge, net income increased due to the higher revenues discussed above, offset by preopening costs incurred and expensed in 1999.

Diamond Offshore

- - - - -

Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore Drilling, Inc. is a 52% owned subsidiary of the Company.

Revenues and net income decreased by \$56.2 and \$12.3 million, or 19.2% and 32.5%, respectively, for the three months ended March 31, 1999, as compared to the prior year.

Revenues from semisubmersible rigs decreased by \$20.8 million, or 7.1%, due to decreased utilization rates (\$28.8 million) recognized by semisubmersible rigs located in the Gulf of Mexico, partially offset by higher dayrates. Revenues from jackup rigs decreased by \$36.0 million, or 12.3%, due to a decline in dayrates, primarily in the Gulf of Mexico (\$16.0 million) and decreased utilization rates (\$14.6 million).

Net income for the three months ended March 31, 1999 decreased due primarily to the lower overall utilization rates and lower dayrates for jackup rigs discussed above.

Bulova

- - - - -

Bulova Corporation and subsidiaries ("Bulova"). Bulova Corporation is a 97% owned subsidiary of the Company.

Revenues and net income decreased by \$2.1 and \$0.1 million, or 6.5% and 4.3%, respectively, for the three months ended March 31, 1999 as compared to the prior year, due primarily to decreased watch unit prices and sales volume. Net income decreased due to higher advertising costs, partially offset by a higher gross margin reflecting an improved product sales mix.

Corporate

Corporate operations consist primarily of investment income, including investment gains (losses) from the Company's investment portfolio, as well as corporate interest expenses and other corporate overhead costs.

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

	Three Months Ended March 31,	
	1999	1998
	----- (In millions) -----	
Revenues:		
Derivative instruments (1)	\$(107.5)	\$(378.9)
Fixed maturities	(.4)	(8.4)
Equity securities, including short positions (1)	(41.6)	(146.5)
Short-term investments, primarily U.S. government securities	8.5	.1
	-----	-----
	(141.0)	(533.7)
Income tax benefit	49.3	186.8
	-----	-----
Net loss	\$ (91.7)	\$(346.9)
	=====	=====

(1) Includes losses on short sales, equity index futures and options aggregating \$148.1 and \$542.3 for the three months ended March 31, 1999 and 1998, respectively.

Exclusive of securities transactions, revenues and net income decreased \$16.9 and \$7.9 million, respectively, for the three months ended March 31, 1999 due primarily to lower investment income.

Liquidity and Capital Resources:

CNA Financial

The statutory surplus of the property and casualty insurance subsidiaries was approximately \$9.1 billion at March 31, 1999 and \$7.6 billion at December 31, 1998. Statutory surplus increased by net income of \$118.0 million and a change in net unrealized investment gains of \$1.6 billion primarily related to Global Crossing and Canary Wharf. These increases were partially offset by a \$112.0 million reduction in surplus, primarily dividends. The statutory surplus of the life insurance subsidiaries was approximately \$1.1 billion at March 31, 1999 and December 31, 1998.

The liquidity requirements of CNA have been met primarily by funds generated from operating, investing and financing activities. The principal cash flow sources of CNA's property and casualty and life insurance subsidiaries are premiums, investment income, and sales and maturities of investments. The

primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the three months ended March 31, 1999, CNA's operating cash flows were a positive \$32.0 million, compared to negative cash flows of \$240.6 million in 1998.

Net cash flows from operations are primarily invested in marketable securities. Investment strategies employed by CNA's insurance subsidiaries consider the cash flow requirements of the insurance products sold and the tax attributes of the various types of marketable investments.

On April 15, 1999, CNA paid \$100.0 million to retire its 8.25% Senior Notes on the maturity date.

CNA and the insurance industry are exposed to liability for environmental pollution, primarily related to toxic waste site clean-up. See Note 7 of the Notes to Consolidated Condensed Financial Statements for further discussion of environmental pollution exposures.

Lorillard
- -----

Lorillard and other cigarette manufacturers continue to be confronted with an increasing level of litigation and regulatory issues.

The volume of lawsuits against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from an individual's use of cigarettes, addiction to smoking, or exposure to environmental tobacco smoke has increased substantially since 1997. See Note 7 of the Notes to Consolidated Condensed Financial Statements. In a number of cases, the Company is named as a defendant. Tobacco litigation includes claims brought by individual plaintiffs and claims brought as class actions on behalf of large numbers of individuals for damages allegedly caused by smoking; and claims brought on behalf of governmental entities, private citizens, or other organizations seeking reimbursement of health care costs allegedly incurred as a result of smoking. In the foregoing actions, plaintiffs claim substantial compensatory and punitive damages in amounts ranging into the billions of dollars. In addition, claims have been brought against Lorillard seeking damages resulting from exposure to asbestos fibers which had been incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard.

In 1998, Lorillard, together with other tobacco product manufacturers, entered into the MSA described above. The terms of the MSA require significant payments to be made to the Settling States beginning in 1998 and continuing in perpetuity. See "Results of Operations," above, and Note 17 of the Notes to Consolidated Financial Statements to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 for additional information regarding this settlement.

It has also been reported that the Executive branch of the government has urged the U.S. Justice Department to commence an action against the tobacco industry seeking reimbursement of Medicare expenditures resulting from injuries or other health effects allegedly caused by use of tobacco products.

Cigarette Excise Tax

The United States federal excise tax on cigarettes is presently \$12 per 1,000 cigarettes (\$0.24 per pack of 20 cigarettes). An increase in the federal

excise tax on cigarettes is scheduled to be phased in at a rate of \$5.00 per 1,000 cigarettes in the year 2000 and an additional \$2.50 per 1,000 cigarettes in the year 2002. Various states have proposed, and certain states have recently passed, increases in their state tobacco excise taxes. Such actions may adversely affect Lorillard's volume, operating revenues and operating income.

Loews Hotels
- -----

A Loews Hotels subsidiary has entered into an agreement with the owners of the Universal Studios Escape resort in Orlando, Florida to develop three hotels at the resort. In addition, a Loews Hotels subsidiary is developing a convention center hotel in Philadelphia. Capital expenditures in relation to these hotel projects are being funded by a combination of equity and mortgages.

Funds from operations continue to exceed operating requirements. Funds for other capital expenditures and working capital requirements are expected to be provided from operations. Loews Hotels will obtain its share of the equity contributions for the development of hotels in Orlando and Philadelphia under arrangements with the Company.

Diamond Offshore
- -----

Despite improvements in product prices and a recent agreement by major OPEC and non-OPEC producers to cut production and support world oil prices, dayrates and utilization have continued to decline, primarily in shallow water markets such as the Gulf of Mexico. Diamond Offshore has removed five additional jack-up rigs located in the Gulf of Mexico from service in the

first quarter of 1999. The removal of these rigs from service is in addition to two low-end specification semisubmersible rigs and one jack-up rig located in the Gulf of Mexico which were cold stacked in 1998. In addition, due to the excess rig supply, several of Diamond Offshore's rigs are idle in the Gulf of Mexico and other markets. Diamond Offshore will continue to assess the need to cold stack additional rigs depending on market conditions. Many drilling contracts expire during 1999 and renewal rates could be significantly lower than those previously recognized. These trends in market conditions are expected to adversely affect Diamond Offshore's future results of operations, although the extent of such effect cannot be accurately predicted.

Depressed conditions in the oil and gas industry have also increased the susceptibility of term contracts, previously committed at dayrates in excess of current market rates to be terminated or renegotiated by the customer. Most drilling contracts allow for termination if drilling operations are suspended for a period of time as a result of a breakdown of equipment or by giving notice in connection with payment of an early termination fee by the customer. Diamond Offshore continuously focuses on maintaining its rigs to contract specifications and its relationships with its customers in order to avoid exposure to termination of its term contracts.

Increased rig construction and enhancement programs are also ongoing by Diamond Offshore's competitors. This increase in the supply of technologically advanced rigs capable of drilling in deep water has produced a marginal oversupply of such equipment in current market conditions and, in turn, adversely affected the utilization level and average operating dayrates available for Diamond Offshore's rigs, particularly its higher specification semisubmersible units.

Page 51

Diamond Offshore continues to enhance its fleet to meet customer demand for diverse drilling capabilities, including those required for deep water and harsh environment operations. Funds required for these capital expenditures have been provided by internally generated funds.

Historically, the offshore contract drilling industry has been highly competitive and cyclical, and Diamond Offshore cannot predict whether current conditions will continue.

Bulova
- - - - -

Funds from operations continue to exceed operating requirements. Bulova's cash and cash equivalents, and investments amounted to \$40.1 million at March 31, 1999, as compared to \$25.7 million at December 31, 1998. Funds for other capital expenditures and working capital requirements are expected to be provided from operations.

Parent Company
- - - - -

During the three months ended March 31, 1999, the Company purchased 2,267,400 shares of its outstanding Common Stock at an aggregate cost of approximately \$183.6 million and purchased 302,400 shares of CNA Financial common stock at an aggregate cost of approximately \$11.4 million. Depending on market conditions, the Company from time to time purchases additional shares in the open market or otherwise.

Investments:
- - - - -

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments. Equity securities, which are considered part of the Company's trading portfolio, short sales and derivative instruments are marked to market and reported as investment gains or losses in the income statement. The remaining securities are carried at fair value which approximated carrying value at March 31, 1999 and December 31, 1998.

The Company enters into short sales and invests in certain derivative instruments for a number of purposes, including: (i) for its asset and liability management activities, (ii) for income enhancements for its portfolio management strategy, and (iii) to benefit from anticipated future movements in the underlying markets that Company management expects to occur. If such movements do not occur or if the market moves in the opposite direction than what management expects, significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company's portfolio strategy.

The credit exposure associated with these instruments is generally limited to the positive market value of the instruments and will vary based on changes in market prices. The Company enters into these transactions with large financial institutions and considers the risk of nonperformance to be remote.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain imbedded leverage features which would expose the Company to a higher degree of risk. See "Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" for additional information with respect to derivative

instruments, including recognized gains and losses on these instruments. See also Note 4 of the Notes to Consolidated Financial Statements in the 1998 Annual Report on Form 10-K.

Insurance

A summary of CNA's general account investments, at carrying value, are as follows:

	March 31, 1999	December 31, 1998	Change in Unrealized Gains (Losses)

(In millions)			

Fixed income securities:			
U.S. Treasury securities and obligations of government agencies .	\$ 8,777.0	\$ 7,734.0	\$ (139.0)
Asset-backed securities	8,003.0	8,214.0	(48.0)
Tax exempt securities	5,899.0	6,321.0	(84.0)
Taxable	7,658.0	7,804.0	(121.0)

Total fixed income securities ..	30,337.0	30,073.0	(392.0)
Equity securities	3,389.0	1,970.0	1,437.0
Short-term and other investments.....	5,989.0	5,134.0	22.0

Total	\$39,715.0	\$37,177.0	\$ 1,067.0
=====			
Short-term and other investments:			
Commercial paper	\$ 1,536.0	\$ 1,398.0	
Security repurchase collateral	1,349.0	132.0	
Escrow	1,009.0	1,011.0	
U.S. Treasuries	113.0	506.0	
Money Market	331.0	401.0	
Others	494.0	589.0	
Other investments	1,157.0	1,097.0	

Total short-term and other investments	\$ 5,989.0	\$ 5,134.0	
=====			

CNA's general account investment portfolio consists primarily of publicly traded government bonds, asset-backed securities, mortgage-backed securities, municipal bonds, and corporate bonds. CNA's investment policies for both the general and separate accounts emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

CNA believes it has the capacity to hold its fixed maturity portfolio to maturity. However, fixed maturity securities may be sold as part of CNA's asset/liability strategies or to take advantage of investment opportunities generated by changing interest rates, tax and credit considerations, or other similar factors. Accordingly, the fixed maturity securities are classified as available for sale.

CNA invests in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk). CNA considers its derivatives as being held for

purposes other than trading. Derivative securities, except for interest rate swaps associated with certain corporate borrowings, are recorded at fair value at the reporting date with changes in market value reflected in investment gains and losses. The interest rate swaps on corporate borrowings are accounted for on the accrual basis with the related income or expense recorded as an adjustment to interest expense; the changes in fair value are not recorded. CNA also uses derivatives to mitigate the risk associated with its indexed group annuity contract by purchasing S&P 500 futures contracts in a notional amount equal to the contract liability relating to the S&P 500 exposure.

The general account portfolio consists primarily of high quality (BBB or higher) marketable fixed maturity securities, approximately 94.4% of which are rated as investment grade. At March 31, 1999, tax exempt securities and short-term investments excluding collateral for securities sold under repurchase agreements, comprised approximately 14.9% and 8.8%, respectively, of the general account's total investment portfolio compared to 17.0% and 10.5%, respectively, at December 31, 1998. Historically, CNA has maintained short-term assets at a level that provided for liquidity to meet its short-term obligations, as well as reasonable contingencies and anticipated claim payout patterns. Short-term investments at both March 31, 1999 and December 31, 1998 are substantially higher than historical levels in anticipation of Fibreboard-related claim payments. At March 31, 1999, the short-term investment portfolio consisted primarily of high-grade commercial paper.

As of March 31, 1999, the market value of CNA's general account investments in fixed maturities was \$30.3 billion with net unrealized investment gains of approximately \$169.0 million. This compares to a market value of \$30.1 billion and approximately \$562.0 million of net unrealized investment gains at December 31, 1998. The gross unrealized investment gains and losses for the fixed maturity securities portfolio at March 31, 1999 were \$520.0 and \$350.0 million, respectively, compared to \$818.0 and \$256.0 million, respectively, at December 31, 1998.

Net unrealized investment gains on general account fixed maturities at March 31, 1999 include net unrealized investment losses on high yield securities of \$104.0 million, compared to net unrealized investment losses of \$101.0 million on such securities at December 31, 1998. High yield securities are bonds rated as below investment grade by bond rating agencies, plus private placements and other unrated securities which, in the opinion of management, are below investment grade (below BBB). CNA's investment in high yield securities in the general account decreased \$295.0 million to approximately \$1.7 billion at March 31, 1999, as compared to December 31, 1998.

The Company's largest equity holding (held by CNA) in a single issuer is Global Crossing, Ltd. ("Global Crossing") common stock. As of March 31, 1999, the Company owned 40,075,170 shares (after a 2-for-1 split effective on March 10, 1999), or 9.7% of the outstanding common stock which was valued at \$1,854.0 million. Net unrealized gains associated with this security approximated \$1,791.0 million at March 31, 1999. Without registration or an exemption from registration, sales to the public of the Company's holdings of Global Crossing are governed by Rule 144 of the Securities Act of 1933 (the "Act") and may not commence until August 13, 1999. The Company has the right after August 13, 1999 to require Global Crossing to register under the Act up to 25% of the Company's holdings prior to December 31, 1999.

On March 25, 1999, Canary Wharf Group P.L.C. ("CWG") shares were sold in an initial public offering at a price of 3.30 British Pounds per share and listed

on the London Stock Exchange. CNA received approximately 100 million shares of CWG stock and approximately \$144.0 million in cash. At March 31, 1999, CNA had an approximate 15% ownership interest in CWG accounted for as an available for sale security, with a carrying value of approximately \$539.0 million. The original investors, including CNA, have entered into an agreement with the underwriters, under which they may not sell their shares of CWG prior to September 30, 1999.

At March 31, 1999, total Separate Account cash and investments amounted to approximately \$4.9 billion with taxable fixed maturity securities representing approximately 77.5% of the Separate Accounts' portfolios. Approximately 61.1% of Separate Account investments are used to fund guaranteed investment contracts for which CNA's life insurance affiliate guarantees principal and a specified rate of return to the contract holders. The duration of fixed maturity securities included in the guaranteed investment contract portfolio is generally matched with the corresponding payout pattern of the liabilities of the guaranteed investment contracts. The fair value of all fixed maturity securities in the guaranteed investment contract portfolio was \$2.9 billion at March 31, 1999 and \$3.2 billion at December 31, 1998. At March 31, 1999, net unrealized gains were approximately \$20.0 million compared with a net

unrealized gain of approximately \$64.0 million at December 31, 1998. The gross unrealized investment gains and losses for the guaranteed investment contract fixed maturity securities portfolio at March 31, 1999 were \$49.0 and \$29.0 million, respectively, as compared to an unrealized gain of \$84.0 million and an unrealized loss of \$20.0 million at December 31, 1998.

High yield securities generally involve a greater degree of risk than that of investment grade securities. Expected returns should, however, compensate for the added risk. The risk is also considered in the interest rate assumptions in the underlying insurance products. Carrying values of high yield securities in the guaranteed investment contract portfolio were \$159.0 and \$269.0 million at March 31, 1999 and December 31, 1998, respectively. Net unrealized investment losses on high yield securities held in such Separate Accounts were \$28.0 million at March 31, 1999, compared to \$11.0 million at December 31, 1998.

At March 31, 1999, CNA's concentration in high yield bonds, including Separate Accounts, was approximately 3.2% of its total assets, compared to 4.0% at December 31, 1998.

Included in CNA's fixed maturity securities at March 31, 1999 (general and guaranteed investment portfolios) are \$9.9 billion of asset-backed securities, consisting of approximately 53.6% in collateralized mortgage obligations ("CMO's"), 15.2% in corporate asset-backed obligations, 13.3% in corporate mortgage backed security pass-through obligations, and 17.9% in U.S. government agency issued pass-through certificates. The majority of CMO's held are corporate mortgaged backed securities, which are actively traded in liquid markets and are priced by broker-dealers. At March 31, 1999, the net unrealized gain related to asset-backed securities was approximately \$96.0 million compared with \$163.0 million at December 31, 1998. CNA limits the risks associated with interest rate fluctuations and prepayments by concentrating its CMO investments in early planned amortization classes with relatively short principal repayment windows.

At March 31, 1999, 35.2% of the general account's fixed maturity securities portfolio was invested in U.S. government securities, 35.1% in other AAA rated securities and 15.9% in AA and A rated securities. CNA's guaranteed investment fixed maturity securities portfolio is comprised of 3.9% U.S. government securities, 63.1% in other AAA rated securities and 15.9% in AA and A rated securities. These ratings are primarily from Standard and Poor's.

Year 2000 Issue

The widespread use of computer programs, both in the United States and internationally, that rely on two digit date fields to perform computations and decision making functions may cause computer systems to malfunction when processing information involving dates beginning in 1999. Such malfunctions could lead to business delays and disruptions. The Company renovated or replaced many of its legacy systems and upgraded its systems to accommodate business for the Year 2000 and beyond. In addition, the Company is checking embedded systems in computer hardware and other infrastructure such as elevators, heating and ventilating systems, and security systems.

Based upon its current assessment, the Company estimates that the total cost to replace and upgrade its systems to accommodate Year 2000 processing is expected to be approximately \$80.0 million. As of March 31, 1999, approximately \$65.0 million has been spent. However, prior to 1997, the Company did not specifically separate technology charges for Year 2000 from other information technology charges. In addition, while some hardware charges are included in the budget figures, the Company's hardware costs are typically included as part of ongoing technology updates and not specifically as part of the Year 2000 project. All funds spent and to be spent have been or will be financed from current operating funds.

The Company believes that it will be able to resolve the Year 2000 issue in a timely manner. As of December 31, 1998, the Company has certified internally over 95% of its internal applications and systems as being ready for the year 2000. For an internal system to be certified Year 2000 ready by the Company, it had to be tested and accepted as capable of receiving, processing and providing dates and date-related data from, into and between the years 1999 and 2000, and beyond, including leap year calculations.

Due to the interdependent nature of computer systems, there may be an adverse impact on the Company if banks, independent agents, vendors, insurance agents, third party administrators, various governmental agencies and other business partners fail to successfully address the Year 2000 issue. CNA has sent Year 2000 information packages to more than 12,000 independent agents to encourage them to become Year 2000 ready on a timely basis. CNA also sent Year

2000 information to almost 300,000 business policyholders to increase their awareness of the Year 2000 issue. Similar information packages have been sent to health care providers, lawyers and others with whom CNA has business relationships. Because of the interdependent nature of the issue, the Company cannot be sure that there will not be a disruption to its business. To mitigate this impact, the Company is communicating with these various entities to coordinate Year 2000 conversion.

As business conditions change, CNA may respond by revising previous Year 2000 strategies or solutions affecting specific systems. In limited cases, a system that was to have been replaced, may instead be renovated to become Year 2000 ready prior to January 1, 2000. The Company believes that these changes will not have a material impact.

In addition, certain of CNA's non-insurance affiliates are not yet Year 2000 ready, but they are expected to be ready on a timely basis. In the event that they are not, it is unclear at this time whether the impact on CNA would be material. To mitigate this impact, CNA is communicating with these non-insurance affiliates to coordinate Year 2000 conversion.

The Company also has developed business resumption plans to ensure that the Company is able to continue critical processes through other means in the event that it becomes necessary to do so. Formal strategies have been

Page 56

developed within each business unit and support organization to include appropriate recovery processes and use of alternative vendors. More than 200 strategies have been developed to address all the recovery plans for approximately 400 processes. These plans are being updated quarterly.

In addition, property and casualty insurance subsidiaries may have an underwriting exposure related to the Year 2000 issue. There can be no assurances that policyholders will not suffer losses resulting from Year 2000 issues and seek indemnification under insurance policies underwritten by CNA underwriting companies. Coverage, if any, will depend on the facts and circumstances of the claim and the provisions of the policy. The range of potential insurance exposure created by the Year 2000 problem is sufficiently broad that it is impossible to estimate with any degree of accuracy the extent to which various types of policies issued by CNA may afford coverage for loss or claims. At this time, in the absence of any meaningful claims experience, CNA is unable to forecast the nature and range of the losses, the availability of coverage for the losses, or the likelihood of significant claims. As a result, CNA is unable to determine whether the adverse impact, if any, in connection with the foregoing circumstances would be material to it.

Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is currently evaluating the effects of this Statement on its accounting and reporting for derivative securities and hedging activities.

In October 1998, the AICPA's Accounting Standards Executive Committee issued SOP 98-7, "Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk." The guidance excludes long-duration life and health insurance contracts from its scope. This statement is effective for financial statements in the year 2000, with early adoption encouraged. The Company is currently evaluating the effects of this Statement.

Forward-Looking Statements

When included in this Report, the words "believes," "expects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements. Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ

materially from those projected. Such risks and uncertainties include, among others, the impact of competitive products, policies and pricing; product and policy demand and market responses; development of claims and the effect on loss reserves; the performance of reinsurance companies under reinsurance contract with the Company; general economic and business conditions; changes in financial markets (interest rate, credit, currency, commodities and

equities) or in the value of specific investments held by the Company; changes in foreign, political, social and economic conditions; regulatory initiatives and compliance with governmental regulations; judicial decisions and rulings in smoking and health litigation, the impact of tobacco settlement agreements and any future settlements of tobacco-related litigation, the impact of bills introduced in Congress in relation to tobacco operations, changes in foreign and domestic oil and gas exploration and production activity, rating agency policies and practices; the results of financing efforts; the actual closing of contemplated transactions and agreements and various other matters and risks, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of this Report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is a large diversified financial services company. As such, it has 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 income statement. Market risk exposure is presented for each class of financial instrument held by the Company at March 31, 1999 and December 31, 1998, 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.

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		Market Risk	
	Asset	(Liability)	Asset	(Liability)
	March 31, 1999	December 31, 1998	March 31, 1999	December 31, 1998
(In millions)				
Equity markets (1):				
Equity securities	\$ 181.1	\$ 198.1	\$ 45.3	\$ 49.8
Options purchased	291.1	212.5	(266.7)	(173.1)
Options written	(45.3)	(39.7)	24.8	9.2
Futures-long			38.0	46.6
Futures-short			(1.3)	(60.3)
Short sales	(618.1)	(657.7)	(154.5)	(164.4)
Short sales of U.S. government securities (2)	(.8)	(125.3)	(16.2)	(135.6)
Commodities:				
Energy purchase obligations (3)	(9.9)	(16.9)	(6.8)	(5.4)
Gold (4):				
Options purchased	19.5	17.5	(19.5)	(17.5)

Options written	(4.3)	(3.7)	4.3	3.7
Other (5)	(.5)		(.9)	(.5)

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) an increase in equity prices of 25%, (2) a decrease in interest rates of 100 basis points, (3) a decline in oil prices of 20%, (4) an increase in gold prices of 20% and (5) a decrease of 10%. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

The most significant areas of market risk in the Company's trading portfolio result from positions held in S&P futures contracts, short sales of certain equity securities and put options purchased on the S&P 500 index. The Company enters into these positions primarily to benefit from anticipated future movements in the underlying markets that Company management expects to occur. If such movements do not occur or if the market moves in the opposite direction from what management expects, significant losses 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.

Page 59

Other than trading portfolio:

Category of risk exposure:	Fair Value		Market Risk	
	Asset	Liability		
	March 31, 1999	December 31, 1998	March 31, 1999	December 31, 1998
(In millions)				
Equity market (1):				
Equity securities:				
CNA Financial general accounts (a)	\$3,388.7	\$ 1,970.1	\$ (848.0)	\$ (493.0)
CNA Financial separate accounts	254.0	297.0	(63.0)	(74.0)
Equity index futures, separate accounts (b)			(239.0)	(229.0)
Interest rate (2):				
Fixed maturities (a)	31,926.4	31,409.4	(1,608.0)	(1,574.0)
Short-term investments (a)	7,774.1	7,792.1	(5.0)	(21.0)
Interest rate swaps	(2.0)	(20.0)	8.0	9.0
Other derivative securities	21.0	6.0	6.0	10.0
Separate Accounts (a):				
Fixed maturities	3,829.0	4,155.0	(158.0)	(176.0)
Short-term investments	508.0	473.0		
Long-term debt	(5,940.3)	(5,791.9)		

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 \$(255.0) and \$(441.0) at March 31, 1999 and December 31, 1998, respectively.

(b) This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

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 that 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 March 31, 1999 and December 31, 1998, 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

Page 60

sensitivity to interest rate risk by evaluating the change in its financial assets and liabilities relative to fluctuations in interest rates. The evaluation is made using an instantaneous change in interest rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the Company's market value at risk 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 March 31, 1999 and December 31, 1998 due to instantaneous parallel changes in the yield curve at the end of the period. Also, 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 debt, including certain related interest rate swap agreements, as of March 31, 1999 and December 31, 1998 are 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 \$360.1 and \$331.0 million at March 31, 1999 and December 31, 1998, respectively. A 100 basis point decrease would result in an increase in market value of \$402.6 and \$429.4 million at March 31, 1999 and December 31, 1998, respectively.

The sensitivity analysis assumes an instantaneous shift in market rates increasing 100 basis points from their levels at March 31, 1999 and December 31, 1998, with all other variables held constant.

Foreign Exchange 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 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, German Marks, Chilean Pesos, Argentinean Pesos and Japanese Yen. The sensitivity analysis also assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at March 31, 1999 and December 31, 1998, with all other variables held constant.

Commodity Price Risk - The Company has exposure to commodity price risk as a result of its investments in oil energy purchase obligations, gold options and other investments. 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% for oil and gold, and 10% in the value of other underlying commodities.

Page 61

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. CNA is involved in various lawsuits involving environmental pollution claims and litigation with Fibreboard Corporation. Information involving such lawsuits is incorporated by reference to Note 7 of the Notes to Consolidated Condensed Financial Statements in Part I.

2. Lorillard is involved in various lawsuits involving tobacco products seeking damages for cancer and other health effects claimed to have resulted from the use of cigarettes or from exposure to tobacco smoke. Information involving such lawsuits is incorporated by reference to Note 7 of the Notes to Consolidated Condensed Financial Statements in Part I.

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

(a) Exhibits--

(27.1) Financial Data Schedule for the three months ended March 31, 1999.

(b) Current reports on Form 8-K--There were no reports on Form 8-K filed for the three months ended March 31, 1999.

Page 62

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: May 17, 1999

By /s/ Peter W. Keegan

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

Page 63

5
1,000

	3-MOS
	DEC-31-1999
	MAR-31-1999
	400,900
	43,561,400
	15,078,400
	344,400
	333,800
	0
	4,553,000
	1,610,600
	72,615,700
	0
	5,943,200
	0
	0
	112,600
	10,513,200
72,615,700	
	930,000
	5,559,100
	252,000
	3,698,300
	0
	0
	113,700
	360,800
	99,500
203,300	
	0
	0
	(157,900)
	45,400
	.41
	.41