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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2001

OR

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

For the Transition Period From ____________ to _____________

Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Loews Common Stock, par value $1.00 per share	New York Stock Exchange
Carolina Group Stock, par value $.01 per share	New York Stock Exchange
3 1/8% Exchangeable Subordinated Notes Due 2007	New York Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ].

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 ____

As of March 1, 2002, 191,135,800 shares of Loews Common Stock and 40,250,000

shares of Carolina Group tracking stock were outstanding. The aggregate market value of voting stock held by non-affiliates was approximately $8,455,154,000 for Loews Common Stock and $1,202,267,000 for Carolina Group Stock.

Documents Incorporated by Reference:

Portions of the definitive Loews Corporation Notice of Annual Meeting of Stockholders and Proxy Statement intended to be filed by Registrant with the Commission prior to April 30, 2002 are incorporated by reference into Part III.

LOEWS CORPORATION

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FORM 10-K FILED WITH THE
SECURITIES AND EXCHANGE COMMISSION

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PART III

Information called for by Part III has been omitted as Registrant intends to file with the Securities and Exchange Commission not later than 120 days after the close of its fiscal year a definitive Proxy Statement pursuant to Regulation 14A.

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PART I

Item 1. Business.

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 89% 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 53% owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation, a 97% owned subsidiary).

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

Information relating to the major business segments from which the Company's consolidated revenues and income are derived is contained in Note 18 of the Notes to Consolidated Financial Statements, included in Item 8.

ISSUANCE OF CAROLINA GROUP TRACKING STOCK

On January 4, 2002 the shareholders of Loews Corporation authorized and approved the creation of a new class of common stock of the Company, called Carolina Group stock, and on February 6, 2002 in an initial public offering the Company issued 40,250,000 shares of Carolina Group stock. See Note 19 of the Notes to Consolidated Financial Statements, included in Item 8.

The Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. The Company has attributed the following assets and liabilities to the Carolina Group:

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

(b) $2.5 billion of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021;

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

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

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

As of March 1, 2002 holders of Carolina Group stock have an approximately 23.17% economic interest in the Carolina Group.

The Loews Group consists of all of the Company's assets and liabilities other than the 23.17% economic interest in the Carolina Group represented by the outstanding Carolina Group stock, and includes as an asset the notional intergroup debt of the Carolina Group referred to above.

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

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

CNA FINANCIAL CORPORATION

CNA Financial Corporation (together with its subsidiaries, "CNA") was incorporated in 1967 and is an insurance holding company whose primary subsidiaries consist of property-casualty and life insurance companies. CNA's property-casualty insurance operations are conducted by Continental Casualty Company ("CCC"), incorporated in 1897, and its affiliates, and The Continental Insurance Company ("CIC"), organized in 1853, and its affiliates. Life insurance operations are conducted by Continental Assurance Company ("CAC"), incorporated in 1911, and its affiliates and CNA Group Life Assurance Company ("CNAGLAC"), incorporated in 2000. CIC became an affiliate of CNA in 1995 as a result of the acquisition of The Continental Corporation ("Continental"). CNA's principal market is the United States with a continued focus on expanding globally to serve those with growing worldwide interests. CNA accounted for 68.00%, 73.07% and 76.39% of the Company's consolidated total revenue for the years ended December 31, 2001, 2000 and 1999, respectively.

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

CNA underwent significant management changes, strategic realignment and restructuring in the second half of 2001. These management changes as well as the strategic realignment and restructuring have changed the way CNA manages its operations and makes business decisions; and therefore, necessitated a change in CNA's reportable segments.

The changes made to CNA's reportable segments were as follows: (i) Commercial Insurance and CNA Excess & Select (formerly included in Agency Market Operations) and Risk Management Operations, were combined into Standard Lines; (ii) CNA Pro, CNA HealthPro, CNA Guaranty and Credit (formerly included in Specialty Operations), and Global Operations, were combined into Specialty Lines; (iii) losses and expenses related to the centralized adjusting and settlement of environmental pollution and other mass tort and asbestos ("APMT") claims previously included in Commercial Insurance, CNA Excess & Select, Risk Management and Global Operations are now included in the Other Insurance segment; and (iv) Personal Insurance, CNA UniSource, agriculture and entertainment insurance and other financial lines were moved from the various property-casualty segments to the Other Insurance segment. CNA Re, Group Operations, and Life Operations remain the same. A more detailed description of each segment follows.

Property-Casualty Operations

Standard Lines

Standard Lines builds on CNA's relationship with the independent agency distribution system and network of brokers to market a broad range of property-casualty insurance products and services to small, mid-size and large businesses. Also, Standard Lines, primarily through RSKCo, provides total risk management services relating to claim services, loss control, cost management and information services to the commercial insurance marketplace.

Standard Lines includes Property and Casualty, Excess & Surplus and RSKCo.

Property and Casualty ("P&C"): P&C provides standard property-casualty insurance products such as workers' compensation, general and product liability, property and commercial auto coverages through traditional and innovative advanced financial risk products to a wide range of businesses. The majority of P&C customers are small- and middle-market businesses, with less than $1 million in annual insurance premiums. Most insurance programs are provided on a guaranteed cost basis; however, P&C has the capability to offer specialized, loss-sensitive insurance programs to those risks viewed as higher risk and less predictable in exposure. The target market for these specialized programs are large accounts within the Fortune 1000 businesses.

P&C has begun streamlining its field structure from 169 branch locations to

five regions consisting of 68 branch locations in 63 cities. Each branch provides the marketing, underwriting and risk control expertise on the entire portfolio of products. In addition, these branches provide claim services through the same regional structure. These branches focus on the total claims outcome through specialized claims handling and timely claims reporting. A centralized processing center for small- and middle-market customers located in Maitland, Florida, handles policy processing and accounting, and also acts as a call center for all branches to optimize customer service. The branches and service centers are all located in the United States.

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

underwriting and claims resources in Chicago, New York City, Denver and Columbus.

RSKCo operates within the same regionalized organization as P&C and provides claim, loss control and related services.

Specialty Lines

Specialty Lines provides professional, financial and specialty property-casualty products and services through a network of brokers, managing general agencies and independent agencies. Specialty Lines clients include architects, engineers, lawyers, health care professionals, financial intermediaries and corporate directors and officers. Product offerings also include surety & fidelity bonds, ocean marine insurance and vehicle and equipment warranty services.

Specialty Lines is composed of the following businesses: CNA Pro, CNA HealthPro, CNA Guaranty and Credit, Surety, CNA Global and Warranty.

CNA Pro: CNA Pro is one of the largest providers of management and professional liability insurance and risk management services in the United States. Products include errors and omissions insurance for professional firms. CNA Pro offers directors and officers, errors and omissions, employment practices liability, fiduciary and fidelity coverages. CNA Pro is the largest insurer of architects and engineers, realtors and non-Big Five accounting firms and is a significant underwriter of law firms.

CNA HealthPro: CNA HealthPro offers insurance products to serve the health care delivery system. Key customer segments include allied health care providers, dental professionals and mid-size and large health care facilities and delivery systems. Additionally, CNA HealthPro offers risk management consulting services. In addition, Caronia Corporation, an affiliate of CNA HealthPro, provides third-party claims administration for healthcare providers and facilities.

CNA Guaranty and Credit: CNA Guaranty and Credit provides credit insurance on short-term trade receivables for domestic and international clients. Products are distributed through captive agents. CNA Guaranty provides reinsurance to insurers who provide financial guarantees to issuers of asset-backed securities, money market funds and investment grade corporate debt securities. The Guaranty business underwritten by CNA's insurance affiliates is currently in run-off, which will be a multi-year process.

Surety: Surety consists primarily of CNA Surety Corporation ("CNA Surety"), and its insurance subsidiaries. CNA Surety is traded on the New York Stock Exchange (SUR). CNA Surety provides surety and fidelity bonds in all 50 states through a combined network of approximately 35,000 independent agencies. CNA owns approximately 64% of CNA Surety.

CNA Global consists of Marine and Global Standard Lines.

Marine: Marine serves domestic and global ocean marine needs, with markets extending across North America, Europe and throughout the world. Marine offers hull, cargo, primary and excess marine liability, marine claims and recovery products and services. Business is sold through national brokers, regional

marine specialty brokers and independent agencies.

Global Standard Lines: Global Standard Lines is responsible for coordinating and managing the direct business of the foreign property-casualty operations of CNA. Global Standard Lines provides United States-based customers expanding their operations overseas with a single source for their commercial insurance needs. Global Standard Lines currently oversees operations in Hawaii, Europe, Latin America, Canada and Asia.

Warranty: Warranty provides vehicle warranty services that protect individuals and businesses from the financial burden associated with breakdown, under-performance or maintenance of a product. Products are distributed via a sales force employed or contracted through a program administrator. Warranty consists primarily of CNA National Warranty Corporation, which sells vehicle warranty services in the United States and Canada.

CNA Re

CNA Re operates globally as a reinsurer in the broker market for treaty products and in the direct market for facultative products.

CNA Re's operations also include the business of CNA Reinsurance Company Limited ("CNA Re U.K."), a United Kingdom reinsurance company. As of the third quarter of 2001, CNA Re's U.K. subsidiaries have ceased new

underwriting activities. CNA plans to dispose of the United Kingdom subsidiaries of CNA Re, with the intent of completing the disposition in 2002. Such a disposition is subject to regulatory approval. See "Management's Discussion and Analysis - Investments" included in Item 7 for additional information.

CNA Re markets products in the following treaty business segments: standard lines, surplus lines, global catastrophe, specialty lines and financial reinsurance. In addition, CNA Re markets property and casualty facultative products directly to clients through its facultative offices, as well as through smartfac.com, CNA Re's online facultative submission site.

Group Operations

Group Operations provides group life and health insurance products and services to employers, affinity groups and other entities that purchase insurance as a group. Products include group term life insurance, short-term and long-term disability, statutory disability, long-term care and accident products. Group Operations also provides health insurance to federal employees.

Group Operations is composed of three principal groups: Group Benefits, Group Reinsurance and Federal Markets.

Group Operations also assumes reinsurance from unaffiliated entities on group life, accident and health products, as well as excess medical risk coverages for self-funded employers.

Group Operations is the second largest provider of health insurance benefits to federal employees, retirees and their families, insuring nearly one million members under the Mail Handlers Benefit Plan offered through the Federal Employees Health Benefit Plan.

Life Operations

Life Operations provides financial protection to individuals through a full product line of term life insurance, universal life insurance, long-term care insurance, annuities and other products. Life Operations also provides retirement services products to institutions in the form of various investment products and administration services. Life Operations has several distribution relationships and partnerships including managing general agencies, other independent agencies working with CNA life sales offices, a network of brokers and dealers and various other independent insurance consultants.

Life Operations is composed of four principal groups: Individual Life, Retirement Services, Long Term Care and Other Operations.

Individual Life: Individual Life primarily offers level premium term life insurance, universal life insurance and related products.

Retirement Services: Retirement Services markets annuities and investment products and services to both retail and institutional customers.

Long Term Care: Long Term Care products provide reimbursement for covered nursing home and home health care expenses incurred due to physical or mental disability.

Other Operations: Other Operations businesses include operations in certain international markets and viatical settlements. Consistent with Life Operations business strategy to sharpen its focus on insurance products and services, CNA has decided to cease purchasing new viatical policies indefinitely.

Other

The Other Insurance segment is principally comprised of Personal Insurance, losses and expenses related to the centralized adjusting and settlement of APMT claims, certain run-off insurance operations and other operations.

On October 1, 1999, certain CNA subsidiaries completed a transaction with The Allstate Corporation ("Allstate") to transfer substantially all of CNA's Personal Insurance lines of business. See Note 12 of the Notes to Consolidated Financial Statements included in Item 8 for discussion of the Personal Insurance transaction.

APMT consists of the losses and expenses related to the centralized adjusting and settlement of APMT claims that were formerly included in the property-casualty segments. See Note 7 of the Notes to Consolidated Financial Statements included in Item 8 for a discussion of APMT reserves.

Run-off insurance operations consists of entertainment insurance, agriculture insurance and other financial lines as well as the direct financial guarantee business underwritten by CNA's insurance affiliates and other insurance run-off operations.

Other operations include CNA's interest expense on corporate borrowings, asbestos claims related to Fibreboard Corporation, eBusiness initiatives, CNA UniSource and inter-company eliminations. CNA UniSource provides human resources, information technology, payroll processing and professional employer organization services.

Supplementary Insurance Data

The following table sets forth supplementary insurance data:

Year Ended December 31	2001	2000	1999
(In millions of dollars, except ratio information)			
Trade Ratios - GAAP basis (a):			
Loss ratio	125.2%	81.1%	87.1%
Expense ratio	36.7	30.4	32.4
Combined ratio (before policyholder dividends)	161.9	111.5	119.5
Policyholder dividend ratio	1.5	.9	.3
Trade Ratios - Statutory basis (a):			
Loss ratio	126.3%	80.4%	87.3%
Expense ratio	32.3	33.3	33.5
Combined ratio (before policyholder dividends)	158.6	113.7	120.8
Policyholder dividend ratio	1.7	1.2	.3
Gross Life Insurance In-Force:			
Life (b)	$426,822.0	$462,799.0	$394,743.0
Group	70,910.0	71,982.0	75,247.0

	$497,732.0	$534,781.0	$469,990.0

Other Data - Statutory basis (c):			
Property-casualty capital and surplus*	$ 6,225.0	$ 8,373.0	$ 8,679.0
Life capital and surplus	1,752.0	1,274.0	1,222.0
Property-casualty written premium to surplus ratio	1.3	1.1	1.0
Life capital and surplus-percent of total liabilities	25.3%	24.5%	21.9%
Participating policyholders-percent of gross life insurance in force	.4%	.4%	.5%

* Surplus includes the property-casualty companies' equity ownership of the life insurance subsidiaries.

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

(b) Lapse ratios for individual life insurance, as measured by surrenders and withdrawals as a percentage of average ordinary life insurance in-force, were 8.7%, 12.7% and 10.9% in 2001, 2000 and 1999, respectively.

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

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

Year Ended December 31	2001	2000	1999
Illinois	8.3%	9.2%	8.6%
New York	7.9	7.3	7.4
California	6.8	6.0	7.1
Florida	6.2	4.8	4.6
Texas	5.8	4.7	5.4
New Jersey	4.4	3.4	3.5
Pennsylvania	4.3	3.8	4.1
Maryland	2.4	5.6	4.5
United Kingdom	3.3	5.3	5.8
All other states, countries or political subdivisions (a)	50.6	49.9	49.0

	100.0%	100.0%	100.0%

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

Approximately 4.8%, 8.2% and 7.6% of CNA's gross written premiums are derived from outside of the United States for the years ended December 31, 2001, 2000 and 1999. Premiums from any individual foreign country excluding the United Kingdom, which is stated in the table above, were not significant.

Property-Casualty Claim and Claim Adjustment Expenses

The following loss reserve development table illustrates the change over time of reserves established for property-casualty claims and claim adjustment expenses at the end of the preceding ten calendar years for CNA's property-casualty operations. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to the originally reported reserve liability. The third section, reading down, shows re-estimates of the originally recorded reserve as of the end of each successive year which is the result of CNA's property-casualty insurance subsidiaries' expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserves to the reserves originally established, and indicates whether the original reserves were adequate or inadequate to cover the estimated costs of unsettled claims. This table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

Schedule of Property-Casualty Loss Reserve Development

Year Ended December 31	1991 (a)	1992 (a)	1993 (a)	1994 (a)	1995 (b)	1996	1997	1998	1999 (c)	2000	2001 (d)
(In millions of dollars)											
Originally reported gross reserves for unpaid claim and claim expenses			20,812	21,639	31,044	29,357	28,533	28,317	26,631	26,408	$29,551
Originally reported ceded recoverable			2,491	2,705	6,089	5,660	5,326	5,424	6,273	7,568	11,798
Originally reported net reserves for unpaid claim and claim expenses	14,415	17,167	18,321	18,934	24,955	23,697	23,207	22,893	20,358	18,840	17,753
Cumulative-net paid as of:											
One year later	3,411	3,706	3,629	3,656	6,510	5,851	5,954	7,321	6,546	7,686	-
Two years later	6,024	6,354	6,143	7,087	10,485	9,796	11,394	12,241	11,935	-	-
Three years later ...	7,946	8,121	8,764	9,195	13,363	13,602	14,423	16,020	-	-	-
Four years later	9,218	10,241	10,318	10,624	16,271	15,793	17,042	-	-	-	-
Five years later	10,950	11,461	11,378	12,577	17,947	17,736	-	-	-	-	-
Six years later	11,951	12,308	13,100	13,472	19,465	-	-	-	-	-	-
Seven years later ...	12,639	13,974	13,848	14,394	-	-	-	-	-	-	-
Eight years later ...	14,271	14,640	14,615	-	-	-	-	-	-	-	-
Nine years later	14,873	15,319	-	-	-	-	-	-	-	-	-
Ten years later	15,476	-	-	-	-	-	-	-	-	-	-
Net reserves re-estimated as of:											
End of initial year .	14,415	17,167	18,321	18,934	24,955	23,697	23,207	22,893	20,358	18,840	17,753
One year later	16,032	17,757	18,250	18,922	24,864	23,441	23,470	23,920	20,785	21,306	-
Two years later	16,810	17,728	18,125	18,500	24,294	23,102	23,717	23,774	22,903	-	-
Three years later ...	16,944	17,823	17,868	18,088	23,814	23,270	23,414	25,724	-	-	-
Four years later	17,376	17,765	17,511	17,354	24,092	22,977	24,751	-	-	-	-
Five years later	17,329	17,560	17,082	17,506	23,854	24,105	-	-	-	-	-
Six years later	17,293	17,285	17,176	17,248	24,883	-	-	-	-	-	-
Seven years later ...	17,069	17,398	17,017	17,751	-	-	-	-	-	-	-

Eight years later ...	17,189	17,354	17,500	-	-	-	-	-	-	-	-
Nine years later	17,174	17,834	-	-	-	-	-	-	-	-	-
Ten years later	17,679	-	-	-	-	-	-	-	-	-	-
Total net (deficiency) redundancy	(3,264)	(667)	821	1,183	72	(408)	(1,544)	(2,831)	(2,545)	(2,466)	-
Reconciliation to gross re-estimated reserves:											
Net reserves re-estimated	17,679	17,834	17,500	17,751	24,883	24,105	24,751	25,724	22,903	21,306	-
Re-estimated ceded recoverable			1,888	2,201	6,191	5,434	4,805	4,925	6,810	8,185	-
Total gross re-estimated reserves	17,679	17,834	19,388	19,952	31,074	29,539	29,556	30,649	29,713	29,491	-
Net (deficiency) redundancy related to:											
Asbestos claims	(3,754)	(2,068)	(1,469)	(1,435)	(1,662)	(1,763)	(1,660)	(1,416)	(837)	(772)	-
Environmental claims	(1,272)	(1,230)	(787)	(619)	(656)	(600)	(617)	(395)	(487)	(473)	-
Total asbestos and environmental	(5,026)	(3,298)	(2,256)	(2,054)	(2,318)	(2,363)	(2,277)	(1,811)	(1,324)	(1,245)	-
Other claims	1,762	2,631	3,077	3,237	2,390	1,955	733	(1,020)	(1,221)	(1,221)	-
Total net (deficiency) redundancy	(3,264)	(667)	821	1,183	72	(408)	(1,544)	(2,831)	(2,545)	(2,466)	-

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

(b) Includes Continental gross reserves of $9,713 million and net reserves of $6,063 million acquired on May 10, 1995 and subsequent development thereon.

(c) Ceded recoverable includes reserves transferred under retroactive reinsurance agreements of $784 million, as of December 31, 1999.

(d) Effective January 1, 2001, CNA established a new life insurance company, CNAGLAC. Further, on January 1, 2001 approximately $1,055 million of reserves were transferred from CCC to CNAGLAC.

See Notes 1 and 7 of the Notes to Consolidated Financial Statements, included in Item 8, for information regarding property-casualty claim and claim adjustment expenses including reserve development for asbestos and environmental claims.

INVESTMENTS

See Notes 2, 3 and 4 of the Notes to Consolidated Financial Statements, incorporated by reference in Item 8, for information regarding the investment portfolio.

Additional information as to the Company's investments is set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and is incorporated by reference.

OTHER

Competition: CNA competes with a large number of stock and mutual insurance and reinsurance companies and other entities for both producers and customers and must continuously allocate resources to refine and improve its insurance and reinsurance products and services.

There are approximately 2,450 individual companies that sell property-casualty insurance in the United States. CNA's consolidated property-casualty subsidiaries ranked as the ninth largest property-casualty insurance organization in the United States based upon 2000 statutory net written premiums. CNA Re ranked as the 14th largest property-casualty reinsurance organization in the United States, based upon 2000 statutory net written premiums, which are significantly higher than net written premiums in 2001.

There are approximately 1,010 companies selling life insurance in the United States. CNA is ranked as the 40th largest life-health insurance organization in the United States based on 2000 consolidated statutory premiums written.

Dividends by Insurance Subsidiaries: The payment of dividends to CNA by its subsidiaries without prior approval of the affiliates' domiciliary state insurance commissioners is limited by formula. This formula varies by state. The formula used by the majority of states provides that the greater of 10% of prior year statutory surplus or prior year statutory net income, less the aggregate of all dividends paid during the 12 months prior to the date of payment is available to be paid as a dividend to the parent company.

Dividends from the CCC Pool are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Illinois Department of Insurance (the "Department") may be paid only from earned surplus, which is calculated by removing unrealized gains (which under statutory accounting includes cumulative earnings of CCC's subsidiaries) from unassigned surplus. As of December 31, 2001, CCC is in a negative earned surplus position. In February of 2002, the Department approved an extraordinary dividend of $117 million to be used to fund CNA's 2002 debt service requirements. Until CCC is in a positive earned surplus position, all dividends require prior approval of the Illinois Insurance Department.

In addition, by agreement with the New Hampshire Insurance Department, as well as certain other state insurance departments, dividend payments for The Continental Insurance Company Pool are restricted to internal and external debt service requirements through September 2003 up to a maximum of $85 million annually, without the prior approval of the New Hampshire Insurance Department.

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

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

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

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

reforms. Additionally, new causes of action and theories of damages continue to be proposed in state court actions or by legislatures. Continued unpredictability in the law means that insurance underwriting and rating is expected to be difficult in commercial lines, professional liability and some specialty coverages.

Although the federal government and its regulatory agencies do not directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance business in a variety of ways. These

initiatives and legislation include tort reform proposals; proposals to overhaul the Superfund hazardous waste removal and liability statute; additional financial services modernization legislation, which could include provisions to have an alternate federal system of regulation for insurance companies; and various tax proposals affecting insurance companies.

CNA's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the National Association of Insurance Commissioners ("NAIC") to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, that are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2001 and 2000, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

CNA Re's principal United Kingdom operations are contained in CNA Reinsurance Company Ltd. The statutory surplus of CNA Reinsurance Company Ltd. is below the required regulatory minimum surplus level at December 31, 2001.

Subsidiaries with insurance operations outside the United States are also subject to regulation in the countries in which they operate.

Reinsurance: See Notes 1 and 15 of the Notes to Consolidated Financial Statements, included in Item 8, for information related to CNA's reinsurance activities.

Properties: CNA Plaza serves as the executive office for CNA and its insurance subsidiaries. An adjacent building (located at 55 E. Jackson Blvd.), jointly owned by Continental Casualty Company and Continental Assurance Company, is partially situated on grounds under leases expiring in 2058. Approximately 45% of the adjacent building is rented to non-affiliates. CNA leases office space in various cities throughout the United States and in other countries. The following table sets forth certain information with respect to the principal office buildings owned or leased by CNA:

Location	Size (square feet)	Principal Usage
Owned:		
CNA Plaza 333 S. Wabash Chicago, Illinois	1,144,378	Principal Executive Offices of CNA
55 E. Jackson Blvd. Chicago, Illinois	440,292	Principal Executive Offices of CNA
100 CNA Drive Nashville, Tennessee	251,363	Life Insurance Offices
1111 E. Broad St. Columbus, Ohio	225,470	Property-Casualty Insurance Offices
1110 Ward Avenue Honolulu, Hawaii	186,687	Property-Casualty Insurance Offices
Leased:		
40 Wall Street New York, New York	199,238	Property-Casualty Insurance Offices
2405 Lucien Way Maitland, Florida	178,744	Property-Casualty Insurance Offices
3500 Lacey Road Downers Grove, Illinois	168,793	Property-Casualty Insurance Offices

333 Glen Street Glens Falls, New York	164,032	Property-Casualty Insurance Offices
1100 Cornwall Road Monmouth Junction, New Jersey	147,884	Property-Casualty Insurance Offices
600 North Pearl Street Dallas, Texas	139,151	Property-Casualty Insurance Offices

LORILLARD, INC.

The Company's wholly owned subsidiary, Lorillard, Inc. ("Lorillard"), is engaged, through its subsidiaries, in the production and sale of cigarettes. The principal cigarette brand names of Lorillard are Newport, Kent, True, Maverick and Old Gold. Lorillard's largest selling brand is Newport, which accounted for approximately 85% of Lorillard's sales in 2001.

Substantially all of Lorillard's sales are in the United States. Lorillard's major trademarks outside of the United States were sold in 1977. Lorillard accounted for 23.32%, 20.43% and 18.96% of the Company's consolidated total revenue for the years ended December 31, 2001, 2000 and 1999, respectively.

For a number of years Lorillard and other cigarette manufacturers have been faced with a number of factors which adversely affect Lorillard's business, including: lawsuits against tobacco manufacturers by private plaintiffs and governmental agencies, some of which have resulted in substantial jury verdicts; enacted and proposed legislation and regulation intended to discourage and restrict the marketing and smoking of cigarettes; and an overall decline in the social acceptability of smoking; coupled with increased pressure from anti-tobacco groups.

See Item 3 of this Report for information with respect to litigation against Lorillard including litigation seeking substantial compensatory and punitive damages for adverse health effects claimed to have resulted from the use of cigarettes and smokeless tobacco, and from exposure to tobacco smoke, and claims brought by cigarette wholesalers and others alleging violations of antitrust laws.

On November 23, 1998, Lorillard, Philip Morris, R.J. Reynolds, Brown & Williamson and other manufacturers of tobacco products 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 Commonwealth of the Northern Mariana Islands (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those states and territories. Lorillard and the other major U.S. tobacco manufacturers had previously settled similar claims brought by Florida, Texas, Minnesota and Mississippi (together with the MSA, the "State Settlement Agreements").

Annual payments under the State Settlement Agreements are expected to be in excess of $1.0 billion in future years. The State Settlement Agreements and certain ancillary agreements are included as exhibits to this Report (Exhibits 10.06 through 10.21) and are incorporated by reference thereto. See also Management's Discussion and Analysis - Results of Operations, included in Item 7.

In addition, pursuant to the terms of the MSA, Lorillard and other industry participants agreed to various restrictions and limitations regarding the advertising, promotion and marketing of tobacco products in the United States.

Legislation and Regulation: Federal Legislation - The Federal Comprehensive Smoking Education Act, which became effective in 1985, requires the use on cigarette packaging and advertising of one of the following four warning statements, on a rotating basis: (1) "SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, And May Complicate Pregnancy." (2) "SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health." (3) "SURGEON GENERAL'S WARNING: Smoking By Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight." (4) "SURGEON GENERAL'S WARNING: Cigarette Smoke Contains Carbon Monoxide." This law also requires that each person who manufactures, packages or imports cigarettes shall annually provide to the Secretary of Health and Human Services a list of the ingredients added to tobacco in the manufacture of cigarettes. This list of ingredients may be submitted in a manner which does

not identify the company which uses the ingredients or the brand of cigarettes which contain the ingredients.

Prior to the effective date of the Federal Comprehensive Smoking Education Act, federal law had, since 1965, required that cigarette packaging bear a warning statement which from 1970 to 1985 was as follows: "Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous To Your Health." In addition, in 1972 Lorillard and other cigarette manufacturers agreed, pursuant to consent orders entered into with the Federal Trade Commission (the "FTC"), to include this health warning statement in print advertising, on billboards and on certain categories of point-of-sale display materials relating to cigarettes. Furthermore, advertising of cigarettes has been prohibited on radio and television since 1971.

From time to time, bills have been introduced in Congress, among other things, to end or limit the price supports for leaf tobacco; to prohibit all tobacco advertising and promotion; to require new health warnings on cigarette packages and advertising; to authorize the establishment of various anti-smoking education programs; to provide that current federal law should not be construed to relieve any person of liability under common or state law; to permit state and local governments to restrict the sale and distribution of cigarettes; concerning the placement of advertising of tobacco

products; to provide that cigarette advertising not be deductible as a business expense; to prohibit the mailing of unsolicited samples of cigarettes and otherwise to restrict the sale or distribution of cigarettes; to impose an additional, or to increase existing, excise taxes on cigarettes; to require that cigarettes be manufactured in a manner that will cause them, under certain circumstances, to be self-extinguishing; and to subject cigarettes to regulation in various ways by the U.S. Department of Health and Human Services or other regulatory agencies, including regulation by the FDA under the Food, Drug and Cosmetics Act.

In 1995, Congress passed legislation prohibiting the sale of cigarettes by vending machines on certain federal property, and the General Services Administration has published implementing regulations. In January 1996, the Substance Abuse and Mental Health Services Administration issued final regulations implementing a 1992 law (Section 1926 of the Public Health Service Act), which requires the states to enforce their tobacco sales minimum age laws as a condition of receiving federal substance abuse block grants.

Food and Drug Administration Regulation of Tobacco Products - In 1996, the FDA published regulations (the "FDA Regulations") which would have severely restricted cigarette advertising and promotion and limited the manner in which tobacco products could be sold. In enacting the FDA Regulations, the FDA determined that nicotine is a drug and that cigarettes are a nicotine delivery system and, accordingly, subject to FDA regulatory authority as medical devices. The FDA premised its regulations on the need to reduce smoking by under age youth and young adults. The FDA Regulations included the following:

(i) Regulations regarding minimum sales age. These regulations would have made unlawful the sale of cigarettes to anyone under age 18. These regulations would have also required proof of age to be demanded from any person under age 27 who attempts to purchase cigarettes.

(ii) Regulations regarding advertising and billboards, vending machines, self-service displays, sampling premiums, and package labels. These regulations would have limited all cigarette advertising to black and white, text only format in most publications and outdoor advertising such as billboards. The regulations also would have prohibited billboards advertising cigarettes within 1,000 feet of a school or playground, required that the established name for the product ("Cigarettes") and an intended use statement ("Nicotine - Delivery Device For Persons 18 or Older") be included on all cigarette packages and advertising, banned vending machine sales, product sampling, and the use of cigarette brand names, logos and trademarks on premium items, and prohibited the furnishing of any premium item in consideration for the purchase of cigarettes or the redemption of proofs-of-purchase coupons.

(iii) Regulations which would have prohibited use of cigarette brand names to sponsor sporting and cultural events and required cigarette manufacturers to comply with certain stringent FDA regulations (known as "good manufacturing practices") governing the manufacture and distribution of medical devices.

Lorillard and other cigarette manufacturers filed a lawsuit in the U.S. District Court in North Carolina challenging the FDA's assertion of jurisdiction over cigarettes. Lower court rulings in this litigation were appealed to the U.S. Supreme Court which, on March 21, 2000, held that Congress did not give the FDA authority to regulate tobacco products under the Federal Food, Drug and Cosmetic Act and, accordingly, the FDA's assertion of jurisdiction over tobacco products was impermissible under that Act. Since the Supreme Court decision, various proposals have been made for federal and state legislation to regulate cigarette manufacturers.

In September of 2000, former President Clinton appointed a Presidential commission to collect information and make recommendations regarding changes in the tobacco farming economy. In May of 2001, the commission issued a final report recommending, among other things, that "Congress authorize the FDA to establish fair and equitable regulatory mechanisms over the manufacture, sale, marketing, distribution and labeling of tobacco products." In addition, the final report recommended a $0.17 increase in the federal excise tax on each pack of cigarettes sold in the United States to fund various of the report's recommendations. Lorillard cannot predict the ultimate outcome of the commission's recommendations.

Congressional advocates of FDA regulation have introduced legislation that would give the FDA authority to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health for consideration by the 107th Congress. Lorillard cannot predict the ultimate outcome of this proposal. In addition, in December of 1999, the FDA requested the Institute of Medicine, a private, non-profit organization which advises the federal government on medical issues, to convene a committee of experts to formulate scientific methods and standards for the assessment of potential reduced-exposure products ("PREPs"), including conventional and alternative cigarettes.

On February 22, 2001, the committee issued a draft report recommending that Congress enact legislation enabling a suitable agency to regulate tobacco-related products that purport to reduce exposure to one or more tobacco toxicants or

to reduce risk of disease, and to implement other policies designed to reduce the harm from tobacco use. The report recommended regulation of all tobacco products, including PREPS. Lorillard cannot predict the ultimate outcome of the recommendations provided in the committee's report.

Environmental Tobacco Smoke - Studies and reports with respect to the alleged health risk to nonsmokers of environmental tobacco smoke ("ETS") have received significant publicity. In 1986, the Surgeon General of the United States and the National Academy of Sciences reported that ETS exposes nonsmokers to an increased risk of lung cancer and respiratory illness. In January of 1993, the United States Environmental Protection Agency released a report (the "EPA Risk Assessment") concluding that ETS is a human lung carcinogen in adults, and causes respiratory effects in children, including increased risk of lower respiratory tract infections, increased prevalence of fluid in the middle ear and additional episodes and increased severity and frequency of asthma. Many scientific papers on ETS have been published since the EPA report, with variable conclusions.

In recent years, many federal, state, local and municipal governments and agencies, as well as private businesses, have adopted legislation, regulations or policies which prohibit or restrict, or are intended to discourage, smoking, including legislation, regulations or policies prohibiting or restricting smoking in various places such as public buildings and facilities, stores and restaurants and on airline flights and in the workplace. This trend has increased significantly since the release of the EPA Risk Assessment. Additional laws, regulations and policies intended to prohibit, restrict or discourage smoking are being proposed or considered by various federal, state and local governments, agencies and private businesses with increasing frequency. In July of 1998, a federal judge struck down the lung cancer related portions of the EPA's scientific risk assessment in an opinion which is currently on appeal.

In September of 1997, the California Environmental Protection Agency released a report (the "Cal/EPA Report"), concluding that ETS causes specified development, respiratory, carcinogenic, and cardiovascular effects including

lung and nasal sinus cancer, heart disease, sudden infant death syndrome, respiratory infections and asthma induction and exacerbation in children. The Cal/EPA Report was subsequently released as a monograph by the National Cancer Institute in November of 1999. In May of 2000, the Department of Health and Human Service's National Toxicology Program listed ETS as "known to be a human carcinogen." Various public health organizations have also issued statements on environmental tobacco smoke and its health effects.

The California Air Resources Board is in the early stages of the process of determining whether to identify ETS as a toxic air contaminant, or "TAC," under the Toxic Air Contaminant Identification and Control Act, referred to as the "Tanner Act." The Children's Environmental Health Protection Act amended the Tanner Act to require a review of TACs for the purpose of ensuring adequate protection of children's health, and to tighten existing controls as needed. If California, on the basis of its assessments of risk and exposure, identifies ETS as a TAC, California could initiate the control phase of the Tanner Act, which involves adoption of measures to reduce or eliminate emissions. These measures could include further restrictions regarding venues where smoking is permitted or controls on product emissions.

Ingredient Disclosure - On August 2, 1996, the Commonwealth of Massachusetts enacted legislation requiring each manufacturer of cigarettes and smokeless tobacco sold in Massachusetts to submit to the Department of Public Health ("DPH") an annual report, beginning in 1997, (1) identifying for each brand sold certain "added constituents," and (2) providing nicotine yield ratings and other information for certain brands based on regulations promulgated by the DPH. The legislation provides for the public release of this information, which includes trade secret ingredients used in cigarettes.

In 1996, several cigarette and smokeless tobacco manufacturers filed suit in federal district court in Boston challenging the legislation. On December 10, 1997, the court issued a preliminary injunction, enjoining the required submission of ingredient data to the DPH. The requirement to submit the nicotine yield ratings and other information was not enjoined, and the cigarette and smokeless tobacco manufacturers submitted their data to the DPH on December 15, 1997 and again on each December 1 since 1998. The district court ruled on September 7, 2000 that the Massachusetts law and its implementing regulations were unconstitutional as to the required submission of ingredient data. The Commonwealth of Massachusetts appealed to the U.S. Circuit Court for the First Circuit, and a three-judge panel of the First Circuit reversed the district court's ruling on October 16, 2001. The cigarette and smokeless tobacco manufacturers filed petitions for an en banc rehearing on October 30, 2001 and the First Circuit subsequently granted the petitions. Oral argument on the rehearing occurred on January 7, 2002. The panel has not yet issued its decision.

Any impact on Lorillard from the legislation and its implementing regulations cannot now be predicted.

Other similar laws and regulations have been enacted or considered by other state governments, and could have a material adverse effect on the financial condition and results of operations of Lorillard and the Company if implemented without adequate provisions to protect the manufacturers' trade secrets from being disclosed. The State of Texas has implemented legislation similar to the Massachusetts measure described above. However, the Texas legislation does not

allow for the public release of trade secret information.

Fire-Safety Standards - In August of 2000, New York State enacted legislation that requires the State's Office of Fire Prevention and Control to promulgate by January 1, 2003 fire-safety standards for cigarettes sold in New York. The legislation requires that cigarettes sold in New York meet ignition propensity performance standards established by the Office of Fire Prevention and Control. All cigarettes sold in New York will be required to meet the established standards within 180 days after the standards are promulgated. Lorillard cannot predict the impact of this law on its business until the standards are published. Similar legislation is being considered in other states and localities and at the federal level.

Advertising and Sales Promotion: Lorillard advertises its products to adult smokers in magazines, newspapers, direct mail and point-of-sale display materials. In addition, Lorillard promotes its cigarette brands to adult

smokers through distribution of store coupons, retail price promotions, and personal contact with distributors and retailers. Lorillard believes that it conducts these activities in accordance with the terms of the MSA and other applicable restrictions.

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

Advertising of tobacco products through television and radio has been prohibited since 1971. In addition, advertising and promotion activities by Lorillard and other major tobacco manufacturers have been severely restricted by the State Settlement Agreements and could be further restricted by proposed federal, state and local laws and regulations. Pursuant to the MSA, Lorillard and the other major tobacco product manufacturers have agreed to various restrictions and limitations regarding the advertising, promotion and marketing of tobacco products in the United States. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each tobacco manufacturer to one event sponsorship during any twelve-month period, which may not include major team sports or events in which the intended audience includes a significant percentage of youth; bans all outdoor advertising of tobacco products with the exception of small signs at retail establishments that sell tobacco products; bans tobacco manufacturers from offering or selling apparel and other merchandise that bears a tobacco brand name, subject to specified exceptions; prohibits the distribution of free samples of tobacco products except within adult-only facilities; prohibits payments for tobacco product placement in various media; and bans gift offers based on the purchase of tobacco products without sufficient proof that the intended gift recipient is an adult.

Many states, cities and counties have enacted legislation or regulations further restricting tobacco advertising.

There may be additional state and federal legislative and regulatory initiatives relating to the advertising and sales promotion of cigarettes in the future. Lorillard cannot predict the impact of such initiatives on its marketing and sales efforts.

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

Introduction of new brands, brand extensions and packings require the expenditures of substantial sums for advertising and sales promotion, with no assurance of consumer acceptance. The advertising media presently used by Lorillard includes magazines, newspapers, direct mail and point-of-sale display materials. Sales promotion activities are conducted by distribution of store coupons, point-of-sale display advertising, advertising of promotions in print media, and personal contact with distributors, retailers and consumers.

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

As of December 31, 2001, Lorillard had approximately 799 direct buying customers servicing more than 400,000 retail accounts. Lorillard does not sell cigarettes directly to consumers. During 2001, 2000 and 1999, sales made by Lorillard to McLane Company, Inc., a wholesale distributor wholly owned by Wal-Mart Stores, Inc., comprised 15%, 15% and 13%, respectively, of Lorillard's revenues. No other customer accounted for more than 10% of 2001, 2000 or 1999 sales. Lorillard does not have any backlog orders.

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

Lorillard's sales personnel monitor inventories, work with retailers on displays and signs, and enter into promotional arrangements with retailers from time to time.

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

Lorillard purchases more than 90% of its domestic leaf tobacco from Dimon International, Inc. Lorillard directs Dimon in the purchase of tobacco according to Lorillard's specifications for quality, grade, yield, chemistry, particle size, moisture content and other characteristics. Dimon purchases and processes the whole leaf and then dries and bundles it for shipment to and storage at Lorillard's Danville facility.

Dimon historically has procured most of Lorillard's leaf tobacco requirements through commission buyers at tobacco auctions. However, the tobacco industry is currently shifting to direct contract purchasing from tobacco farmers. Dimon has stated in its public filings that it believes it is well prepared to participate in direct contracting with tobacco farmers in the United States and that it does not expect any material economic effect from the progressive shift from the auction system to direct contract buying. Lorillard entered into a new contract with Dimon to reflect the transition from auction to direct contract purchasing.

In the event that Dimon becomes unwilling or unable to supply leaf tobacco to Lorillard, Lorillard believes that it can readily obtain high-quality leaf tobacco from well-established, alternative industry sources, including Standard Commercial Corporation and Universal Corporation.

Due to the varying size and quality of annual crops and other economic factors, including U.S. tobacco production controls, tobacco prices have historically fluctuated. The U.S. price supports that accompany production controls have inflated the market price of tobacco. In addition, the transition in tobacco purchasing from auction markets to direct farmer contracting may increase the market price of domestically grown tobacco. However, Lorillard does not believe that this increase, if any, will have a material effect on its business. Over the past five years, prices paid by Lorillard for tobacco have risen less than the U.S. rate of inflation, as measured by the U.S. Consumer Price Index.

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

Lorillard produces cigarettes at its Greensboro manufacturing plant, which has a production capacity of approximately 193 million cigarettes per day and approximately 55 billion cigarettes per year. Through various automated systems and sensors, Lorillard actively monitors all phases of production to promote quality and compliance with applicable regulations.

Prices: Lorillard believes that the volume of U.S. cigarette sales is sensitive to price changes. Changes in pricing by Lorillard or other cigarette manufacturers could have an adverse impact on Lorillard's volume of units sold, which in turn could have an adverse impact on Lorillard's profits and earnings. Lorillard makes independent pricing decisions based on a number of factors. Lorillard cannot predict the potential adverse impact of price changes on industry volume or Lorillard volume, on the mix between premium and discount sales, on Lorillard's market share or on Lorillard's profits and earnings. During 2001, Lorillard increased its net wholesale price of its cigarettes by an aggregate of $13.58 per thousand cigarettes ($0.27 per pack of 20 cigarettes).

Taxes: On January 1, 2002, the federal excise tax on cigarettes increased by

$2.50 per thousand cigarettes. Federal excise taxes included in the price of cigarettes are $19.50 per thousand cigarettes ($0.39 per pack of 20 cigarettes). State excise taxes, which are levied upon and paid by the distributors, are also in effect in the fifty states, the District of Columbia and many municipalities. Various states have proposed, and certain states have recently passed, increases in their state tobacco excise taxes. The state taxes generally range from $.025 to $1.425 per package of twenty cigarettes.

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

Lorillard's executive offices are located in a 130,000 square-foot, four-story office building in Greensboro, North Carolina. Its 79,000 square-foot research facility is also located in Greensboro.

Lorillard's principal properties are owned in fee. With minor exceptions, Lorillard owns all of the machinery used by it. Lorillard believes that its properties and machinery are in generally good condition.

Lorillard leases sales offices in major cities throughout the United States, a cold-storage facility in Greensboro and warehousing space in 34 public distributing warehouses located throughout the United States.

Competition: Lorillard sells its cigarette products in the United States, Puerto Rico and certain U.S. territories. Though the domestic U.S. market is highly competitive, Lorillard believes its ability to compete even more effectively has been restrained by the Philip Morris Retail Leaders program. Competition is primarily based on a brand's price, positioning, consumer loyalty, retail display, promotion, quality and taste. Lorillard's principal competitors are the three other major U.S. cigarette manufacturers, Philip Morris, R.J. Reynolds and Brown & Williamson. Lorillard's 9.5% market share of the 2001 U.S. cigarette industry was fourth highest overall. Philip Morris, R.J. Reynolds and Brown & Williamson accounted for approximately 50.9%, 22.3% and 10.9%, respectively, of wholesale shipments in 2001. Among the four major manufacturers, Lorillard ranked third behind Philip Morris and R.J. Reynolds with an 11.8% share of the premium segment in 2001. Premium cigarette sales accounted for 92.4% of Lorillard's total units shipped in 2001.

The following table sets forth cigarette sales data provided by the industry and by Lorillard to Management Science Associates. For reporting purposes, unit sales by small manufacturers, selling super price discounted brands, many of whom are not currently affected to a significant degree by payment obligations under the State Settlement Agreements are estimated by Management Science Associates. The table below indicates the relative position of Lorillard in the industry. The years 2000 and 2001 have been restated to reflect Management Science Associates' estimates for the small manufacturers' shipments.

Calendar Year	Industry (000)	Lorillard (000)	Lorillard to Industry
2001	406,952,000	38,463,000	9.5%
2000	420,261,000	41,157,000	9.8%
1999	419,455,000	44,257,000	10.6%

Management Science Associates divides the cigarette market into two price segments, the premium price segment and the discount or reduced price segment. According to Management Science Associates, the discount segment share of market decreased from approximately 26.4% in 2000 to 26.1% in 2001. Virtually all of Lorillard's sales are in the full price segment where Lorillard's share amounted to approximately 11.8% in 2001 and 11.6% in 2000, as reported by Management Science Associates.

LOEWS HOTELS HOLDING CORPORATION

The subsidiaries of Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary of the Company, presently operate the following 17 hotels. Loews Hotels accounted for 1.66%, 1.59% and 1.64% of the Company's consolidated total revenue for the years ended December 31, 2001, 2000 and 1999, respectively.

Name and Location	Number of Rooms	Owned, Leased or Managed
Loews Annapolis Annapolis, Maryland	220	Owned
Loews Coronado Bay Resort San Diego, California	440	Land lease expiring 2034
Loews Giorgio Denver, Colorado	185	Owned
Hard Rock Hotel, at Universal Orlando, a Loews Hotel Orlando, Florida	650	Management contract (2)
House of Blues, a Loews Hotel Chicago, Illinois	370	Management contract expiring 2005 (1)
The Jefferson, a Loews Hotel Washington, D.C.	100	Management contract expiring 2010 (1)
Loews Le Concorde Quebec City, Canada	405	Land lease expiring 2069
Loews L'Enfant Plaza Washington, D.C.	370	Management contract expiring 2003 (1)
Loews Miami Beach Hotel Miami Beach, Florida	790	Land lease expiring 2096
The Metropolitan Hotel New York, New York	720	Owned
Loews Philadelphia Hotel Philadelphia, Pennsylvania	585	Owned
The Portofino Bay Hotel, at Universal Orlando, a Loews Hotel Orlando, Florida	750	Management contract (2)
The Regency, a Loews Hotel New York, New York	350	Land lease expiring 2013, with renewal option for 47 years
Loews Santa Monica Beach Santa Monica, California	340	Management contract expiring 2018, with renewal option for 5 years (1)
Loews Vanderbilt Plaza Nashville, Tennessee	340	Owned
Loews Ventana Canyon Resort Tucson, Arizona	400	Management contract expiring 2004, with renewal options for 10 years (1)
Loews Hotel Vogue Montreal, Canada	140	Owned

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(1) These management contracts are subject to termination rights.
(2) A Loews Hotels subsidiary is a 50% owner of the property through a joint venture, discussed below.

Hotels at Universal Orlando: Loews Hotels has a 50% interest in a joint venture with Universal Studios and the Rank Group to develop and construct three hotels having an aggregate of approximately 2,400 rooms at the Universal Orlando theme park in Florida. The hotels will be constructed on land leased by the joint venture from the resort's owners and will be operated by Loews Hotels pursuant to a management contract. The first hotel, the Portofino Bay Hotel, opened in the fall of 1999. The second hotel, the Hard Rock Hotel, a 650 room hotel opened in January 2001. The third hotel, the 1,000 room Royal Pacific is scheduled to open in 2002.

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

The hotels owned by Loews Hotels are subject to mortgage indebtedness aggregating approximately $147.2 million at December 31, 2001 with interest rates ranging from 3.9% to 9.1% and maturing between 2002 and 2028. In addition, certain hotels are held under leases which are subject to formula derived rental increases, with rentals aggregating approximately $7.7 million for the year ended December 31, 2001.

Competition from other hotels, motor hotels and inns, including facilities owned by local interests and by national and international chains, is vigorous in all areas in which Loews Hotels operates. The demand for hotel rooms in many areas is seasonal and dependent on general and local economic conditions. Loews Hotels properties also compete with facilities offering similar services in locations other than those in which its hotels are located. Competition among luxury hotels is based primarily on location and service. Competition among resort and commercial hotels is based on price as well as location and service. Because of the competitive nature of the industry, hotels must continually make expenditures for updating, refurnishing and repairs and maintenance, in order to prevent competitive obsolescence.

DIAMOND OFFSHORE DRILLING, INC.

Diamond Offshore Drilling Inc. ("Diamond Offshore"), is engaged, through its subsidiaries, in the business of owning and operating drilling rigs that are used primarily in the drilling of offshore oil and gas wells on a contract basis for companies engaged in exploration and production of hydrocarbons. Diamond Offshore operates 45 offshore rigs. Diamond Offshore accounted for 4.85%, 3.40% and 3.95% of the Company's consolidated total revenue for the years ended December 31, 2001, 2000 and 1999, respectively.

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

Semisubmersible rigs are supported by large pontoons and are partially submerged during drilling for greater stability. They are generally designed for deep water depths of up to 5,000 feet. Semisubmersibles are typically anchored in position and remain stable for drilling in the semi-submerged floating position due in part to their wave transparency characteristics at the water line. Semisubmersibles can also be held in position through the use of a computer controlled thruster (dynamic-positioning) system to maintain the rig's position over a drillsite. Diamond Offshore has three such semisubmersible rigs. These semisubmersibles are larger than many other semisubmersibles, are capable of working in deep water or harsh environments, and have other advanced features. Diamond Offshore's 30 semisubmersible rigs are currently located as follows: 16 in the Gulf of Mexico, four in Brazil, three in the North Sea and two in Australia, with the remaining rigs located in various foreign markets.

Jack-up rigs stand on the ocean floor with their drilling platforms "jacked up" on support legs above the water. They are used extensively for drilling in water depths from 20 feet to 350 feet. Seven of Diamond Offshore's jack-up rigs are cantilevered rigs capable of over platform development drilling and workover as well as exploratory drilling. Of Diamond Offshore's 14 jack-up rigs, 12 are currently located in the Gulf of Mexico.

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

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

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

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

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

Customers: Diamond Offshore provides offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. Several customers have accounted for 10.0% or more of Diamond Offshore's annual consolidated revenues, although the specific customers may vary from year to year. During 2001, Diamond Offshore performed services for 43 different customers with BP and Petrobraspetroleo Brasileiro SA ("Petrobras") accounting for 22.0% and 17.9% of Diamond Offshore's annual total consolidated revenues, respectively. During 2000, Diamond Offshore performed services for approximately 50 different customers with Petrobras and BP accounting for 25.4% and 20.0% of Diamond Offshore's annual total consolidated revenues, respectively. During 1999, Diamond Offshore performed services for approximately 45 different customers with Petrobras and Shell companies (including domestic and foreign affiliates) accounting for 15.5% and 14.5% of Diamond Offshore's annual total consolidated revenues, respectively. During periods of low demand for offshore drilling rigs, the loss of a single significant customer could have a material adverse effect on Diamond Offshore's results of operations.

Competition: The contract drilling industry is highly competitive. Customers often award contracts on a competitive bid basis, and although a customer selecting a rig may consider, among other things, a contractor's safety

record, crew quality, rig location, and quality of service and equipment, the historical oversupply of rigs has created an intensely competitive market in which price is the primary factor in determining the selection of a drilling contractor. In periods of increased drilling activity, rig availability has, in some cases, also become a consideration, particularly with respect to technologically advanced units. Diamond Offshore believes that competition for drilling contracts will continue to be intense in the foreseeable future. Contractors are also able to adjust localized supply and demand imbalances by moving rigs from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates. Such movements, reactivations or a decrease in drilling activity in any major market could depress dayrates and could adversely affect utilization of Diamond Offshore's rigs.

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

Diamond Offshore to liability for the conduct of or conditions caused by others, or for acts of Diamond Offshore that were in compliance with all applicable laws at the time such acts were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on Diamond Offshore.

The United States Oil Pollution Act of 1990 ("OPA '90"), and similar legislation enacted in Texas, Louisiana and other coastal states addresses oil spill prevention and control and significantly expands liability exposure across all segments of the oil and gas industry. OPA '90, such similar legislation and related regulations impose a variety of obligations on Diamond Offshore related to the prevention of oil spills and liability for damages resulting from such spills. OPA '90 imposes strict and, with limited exceptions, joint and several liability upon each responsible party for oil removal costs and a variety of public and private damages.

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

In September of 2001, Diamond Offshore's Hull and Machinery insurance underwriters notified Diamond Offshore that war risk coverage would be canceled in its physical damage policies unless Diamond Offshore paid significant additional insurance premiums for such coverage. In order to avoid incurring the additional costs, Diamond Offshore has permitted such coverage to terminate and expects to self-insure against physical damage war risk to the extent it is required to do so in the future. Most of Diamond Offshore's drilling contracts did not require Diamond Offshore to carry physical damage war risk insurance. Four drilling contracts did contain a requirement for such coverage and have been amended to permit Diamond Offshore to self-insure against such risks.

Properties: Diamond Offshore owns an eight-story office building located in

Houston, Texas containing approximately 182,000 net rentable square feet, which is used for its corporate headquarters. Diamond Offshore also owns an 18,000 square foot building and 20 acres of land in New Iberia, Louisiana for its offshore drilling warehouse and storage facility, and a 13,000 square foot building and five acres of land in Aberdeen, Scotland for its North Sea operations. In addition, Diamond Offshore leases various office, warehouse and storage facilities in Louisiana, Australia, Brazil, Indonesia, Scotland, Vietnam and Singapore to support its offshore drilling operations.

BULOVA CORPORATION

Bulova Corporation ("Bulova") is engaged in the distribution and sale of watches, clocks and timepiece parts for consumer use. Bulova accounted for .75%, .75% and .65% of the Company's consolidated total revenue for the years ended December 31, 2001, 2000 and 1999, respectively.

In September of 2001, Bulova expanded its product line when it acquired the Wittnauer watch and clock trademarks, related inventory and receivables, from Wittnauer International Inc. and Wittnauer Worldwide, L.P., and their affiliates.

Bulova's principal watch brands are Bulova, Wittnauer, Caravelle and Accutron. Clocks are principally sold under the Bulova brand name. All watches and clocks are purchased from foreign suppliers. Bulova's principal markets are the United States, Canada and Mexico. In most other areas of the world Bulova has appointed licensees who market watches under Bulova's trademarks in return for a royalty. The business is seasonal, with the greatest sales coming in the third and fourth quarters in expectation of the holiday selling season. The business is intensely competitive. The principal methods of competition are price, styling, product availability, aftersale service, warranty and product performance.

Properties: Bulova owns an 80,000 square foot plant in Woodside, New York which is used for its principal executive and sales office, watch distribution, service and warehouse purposes, and also owns a 91,000 square foot plant in Brooklyn, New York for clock service and warehouse purposes. In addition, Bulova leases a 31,000 square foot plant in Toronto, Canada for watch and clock sales and service and leases approximately 5,400 square feet of office space in Mexico, Federal District.

OTHER INTERESTS

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

For information with respect to agreements entered into by Majestic for the newbuilding of up to four ships, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

EMPLOYEE RELATIONS

The Company, inclusive of its operating subsidiaries as described below, employed approximately 27,820 persons at December 31, 2001 and considers its employee relations to be satisfactory.

Lorillard employed approximately 3,300 persons at December 31, 2001. Approximately 1,230 of these employees are represented by labor unions covered by three collective bargaining agreements. Two of the collective bargaining agreements expire in April of 2002; the third agreement expires in March of 2003.

Lorillard has collective bargaining agreements covering hourly rated production and service employees at various Lorillard plants with the Tobacco Workers International Union, the International Brotherhood of Firemen and Oilers, and the International Association of Machinists. Lorillard has experienced satisfactory labor relations and provides a retirement plan, a deferred profit sharing plan, and other benefits for its hourly paid employees who are represented by the foregoing unions. In addition, Lorillard provides

to its salaried employees a retirement plan, group life, disability and health insurance program and a savings plan.

Loews Hotels employed approximately 2,380 persons at December 31, 2001, approximately 900 of whom are union members covered under collective bargaining agreements. Loews Hotels has experienced satisfactory labor relations and provides comprehensive benefit plans for its hourly paid employees.

The Company maintains a retirement plan, group life, disability and health insurance program and a savings plan for salaried employees. Loews Hotels salaried employees also participate in these benefit plans.

CNA employed approximately 17,270 full-time equivalent employees at December 31, 2001 and has experienced satisfactory labor relations. During 2001, CNA announced two restructuring plans, which included a reduction of 2,100 positions. CNA and its subsidiaries have comprehensive benefit plans for substantially all of their employees, including retirement plans, savings plans, disability programs, group life programs and group health care programs.

Diamond Offshore employed approximately 4,100 persons at December 31, 2001 (including international crews furnished through labor contractors), approximately 40 of whom are union members. Diamond Offshore has experienced satisfactory labor relations and provides comprehensive benefit plans for its employees.

Bulova and its subsidiaries employed approximately 520 persons at December 31, 2001, approximately 190 of whom are union members. Bulova and its subsidiaries have experienced satisfactory labor relations. Bulova has comprehensive benefit plans for substantially all employees.

Item 2. Properties.

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

Item 3. 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 Notes 7 and 17 of the Notes to Consolidated Financial Statements included in Item 8.

NON-INSURANCE

The following information supplements the description of tobacco litigation contained in Note 17 of the Notes to Consolidated Financial Statements included in Item 8, which is incorporated herein by reference.

Tobacco Litigation

Approximately 4,675 product liability cases are pending against cigarette manufacturers in the United States; Lorillard is a defendant in approximately 4,275 of these cases. Lawsuits continue to be filed against Lorillard and other manufacturers of tobacco products. Some of the lawsuits also name the Company as a defendant. In certain of these and other cases, Lorillard has agreed, in accordance with the law of the applicable jurisdiction, to pay the cost of defense and to indemnify certain defendants who are not manufacturers of cigarettes, such as sellers of tobacco products, advertisers and others. Among the 4,675 product liability cases, are approximately 1,250 cases pending in a West Virginia court. Another group of approximately 2,835 cases has been brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits and is a defendant in most of the cases pending in West Virginia.

Excluding the flight attendant and West Virginia suits, approximately 575 product liability cases are pending against U.S. cigarette manufacturers. Of these 575 cases, Lorillard is a defendant in approximately 260 cases. The Company is a defendant in approximately 45 of these actions, although it has not received service of process in approximately 10 of them.

Tobacco litigation includes various types of claims. In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages, as well as equitable and injunctive relief, in amounts ranging into the billions of dollars. These claims are based on a number of legal theories including, among other theories, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability (including claims asserted under the Racketeering Influenced and Corrupt Organizations Act), civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of antitrust statutes, and failure to warn of the harmful and/or addictive nature of tobacco products.

In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time, ending more than 40 years ago. These cases are generally referred to as "filter cases." Approximately 25 30 filter cases are pending against Lorillard.

CONVENTIONAL PRODUCT LIABILITY CASES -

Conventional product liability cases are cases in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, due to use of smokeless tobacco products, or due to cigarette or nicotine dependence or addiction. Plaintiffs in most conventional product liability cases seek unspecified amounts in compensatory damages and punitive damages. Lorillard is a defendant in approximately 1,300 of these cases. This total includes approximately 1,150 cases pending in West Virginia that are part of a consolidated proceeding. Additional cases are pending against other cigarette manufacturers. The Company is a defendant in seven of the cases filed by individuals, although four of the cases have not been served on the Company. The Company is not a defendant in any of the conventional product liability cases pending in West Virginia.

FLIGHT ATTENDANT CASES -

There are approximately 2,835 cases pending in the Circuit Court of Dade County, Florida against Lorillard and three other U.S. cigarette manufacturers in which the plaintiffs are present or former flight attendants, or the estates of deceased flight attendants, who allege injury as a result of exposure to environmental tobacco smoke in aircraft cabins. The Company is not a defendant in any of the flight attendant cases.

CLASS ACTION CASES -

Certain cases have been filed against cigarette manufacturers, including Lorillard, in which plaintiffs purport to seek class certification on behalf of groups of cigarette smokers. Lorillard is a defendant in approximately 25 of these cases,

six of which also name the Company as a defendant. Two cases that name both the Company and Lorillard as defendants have not been served on any of the parties. Neither Lorillard nor the Company are defendants in approximately 20 additional class action cases pending against other cigarette manufacturers, many of which assert claims on behalf of smokers of "light" cigarettes. Most of the suits in which Lorillard or the Company is a defendant seek class certification on behalf of residents of the states in which the purported class action cases have been filed, although some suits seek class certification on behalf of residents of multiple states. Plaintiffs in all but two of the purported class action cases seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. In one of the two remaining purported class action cases, plaintiffs seek class certification on behalf of individuals who paid insurance premiums. Plaintiffs in the other remaining suit seek class certification on behalf of U.S. residents under the age of 22 who purchased cigarettes as minors and who do not have personal injury claims. Verdicts have been returned in two of the cases listed below, Engle v. R.J. Reynolds Tobacco Co., et al. and Blankenship v. American Tobacco Company, et al. Trial proceedings are underway in the case of Scott v. The American Tobacco Company, et al. The remaining cases below are in the pre-trial, discovery stage. Plaintiffs in a few of the reimbursement cases, which are discussed below, also seek certification of such cases as class actions.

Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994).

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.

Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996). During February of 2002, the Fourth District of the Louisiana Court of Appeals granted in part defendants' writ application and ordered the removal of one of the jurors. The time for defendants to seek further appellate review of the issue has not expired.

Perry v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Tennessee, filed September 30, 1996). Plaintiffs seek class certification on behalf of Tennessee residents who have paid medical insurance premiums to a Blue Cross and Blue Shield organization. The court granted defendants' motion to dismiss the case and entered final judgment in their favor. Plaintiffs have noticed an appeal from the final judgment to the U.S. Court of Appeals for the Sixth Circuit.

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

Blankenship v. American Tobacco Company, et al. (Circuit Court, County, West Virginia, filed January 31, 1997). This matter was transferred from the Circuit Court of Kanawha County, West Virginia to a coordinated proceeding pending before the Circuit Court of Ohio County, West Virginia.

Muncy v. Philip Morris Incorporated, et al. (Circuit Court, Ohio County, West Virginia, filed February 4, 1997). This matter was transferred from the Circuit Court of McDowell County, West Virginia to a coordinated proceeding pending before the Circuit Court of Ohio County, West Virginia.

Cole v. The Tobacco Institute, Inc., et al. (U.S. District Court, Eastern District, Texas, Texarkana Division, filed May 5, 1997). During 2000, the court dismissed the suit and entered final judgment in favor of the defendants. Plaintiffs noticed an appeal from the judgment to the U.S. Court of Appeals for the Fifth Circuit. During 2001, the Court of Appeals affirmed the final judgment. As of March 1, 2002, the deadline for plaintiffs to file a petition for writ of certiorari with the U.S. Supreme Court had not expired.

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.

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

Mahoney v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Southern District, Iowa, filed June 20, 1997). During 2001, the court denied plaintiffs' motion for class certification. The U.S. Court of Appeals for the Eighth Circuit declined to review the denial of the class certification motion at this stage of the case.

Nwanze v. Philip Morris Companies Inc., et al. (U.S. District Court, Southern District, New York, filed September 29, 1997). The Company is a defendant in the case. The court denied plaintiffs' motion for class certification. During 2000, the court granted defendants' motion to dismiss the complaint and entered final judgment in their favor. Plaintiffs noticed an appeal from the judgment to the U.S. Court of Appeals for the Second Circuit. The Second Circuit affirmed the trial court's final judgment during 2001 and denied plaintiffs' motion for reconsideration of the ruling. The U.S. Supreme

Court denied plaintiffs' petition for writ of certiorari during 2001. The U.S. Supreme Court has not ruled on plaintiffs' motion for reconsideration of the ruling denying their petition for writ of certiorari.

Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997). The Company is a defendant in the case. During 2001, the court denied plaintiffs' motion for class certification. Plaintiffs have asked the U.S. Court of Appeals for the Ninth Circuit to review the class certification decision. The Ninth Circuit has issued an order to show cause

why the appeal should not be dismissed.

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.

Jackson v. Philip Morris Incorporated, et al. (U.S. District Court, Central District, Utah, filed on or about February 13, 1998).

Parsons v. AC&S, et al. (Circuit Court, Ohio County, West Virginia, filed February 27, 1998). This matter was transferred from the Circuit Court of Kanawha County, West Virginia to a coordinated proceeding pending before the Circuit Court of Ohio County, West Virginia.

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. During 2001, the court denied plaintiffs' motion for class certification. Plaintiffs have asked the U.S. Court of Appeals for the Ninth Circuit to review the class certification decision. The Ninth Circuit has issued an order to show cause why the appeal should not be dismissed.

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

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

Cypret 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.

Simon v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed April 9, 1999). During 2000, the court denied plaintiffs' motion for class certification but the court stated that it would "entertain a prompt motion for certification in Simon II." The court further stated that "Simon II should be triable without appreciable delay should it be certified." To date, a trial date has not been set in this matter. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

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

Decie v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed April 21, 2000). This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

Ebert v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed August 9, 2000). The Company is named as a defendant in this matter. To date, none of the defendants have received service of process. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

Vandermeulen v. Philip Morris Companies, Inc., et al. (Circuit Court, Wayne County, Michigan, filed September 18, 2000).

Sims v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed May 23, 2001).

Johnson v. Newport Lorillard, et al. (U.S. District Court, Southern District, New York, filed October 31, 2001).

Lowe v. Philip Morris, Incorporated, et al. (U.S. District Court, Oregon, filed November 19, 2001).

Trivisonno v. Philip Morris, Incorporated, et al. (Court of Common Pleas, Cuyahoga County, Ohio, filed on or about January 14, 2002). As of March 1,

2002, Lorillard had not received service of process of this matter. The complaint

asserts a mixture of product liability claims and claims contending that the Master Settlement Agreement violated various Ohio consumer protection statutes.

REIMBURSEMENT CASES -

Approximately 50 cases are pending that are comprised of cases brought by the U.S. federal government, county governments, city governments, unions, American Indian tribes, hospitals or hospital districts, private companies and foreign governments filing suit in U.S. courts, in which plaintiffs seek recovery of funds allegedly 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 injunctive relief, indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs in some 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 some of the cases seek medical monitoring. Lorillard is named as a defendant in all of the reimbursement cases except for a few of those filed in U.S. courts by foreign governments. The Company is named as a defendant in approximately 30 of the pending reimbursement cases, although it has not received service of four of these matters.

U.S. Federal Government Action - The U.S. federal government filed a reimbursement suit on September 22, 1999 in the U.S. District Court for the District of Columbia against Lorillard, other U.S. cigarette manufacturers, some parent companies and two trade associations. The Company is not a defendant in this action.

U.S. Local Governmental Reimbursement Cases - Four suits filed by local governmental entities are pending against cigarette manufacturers. Lorillard is a defendant in each of the pending matters. The Company is named as a defendant in two of the matters but has not received service of process of one of them.

County of Cook v. Philip Morris, Incorporated, et al. (Circuit Court, Cook County, Illinois, filed April 18, 1997). During 2001, the court granted defendants' motion to dismiss the complaint and entered final judgment in their favor. Plaintiff has noticed an appeal from the final judgment to the Appellate Court of Illinois, First Judicial District. Defendants have noticed a cross-appeal.

City of St. Louis, et al. v. The American Tobacco Company, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed November 25, 1998). The Company is a defendant in the case. Several Missouri hospitals also are plaintiffs in the suit. The Missouri Supreme Court has issued a ruling that the MSA does not impair or impede plaintiffs' ability to protect their interests and that the MSA does not release their claims.

St. Louis County, Missouri v. American Tobacco Company, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed December 3, 1998). The Company is a defendant in the case but has not received service of process to date.

County of Wayne v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, Michigan, filed December 6, 1999. The Michigan Supreme Court, in response to questions certified to it by the trial court, issued an opinion during January of 2002 that the Michigan Attorney General had the authority to release plaintiff's claims in the MSA.

Reimbursement Cases filed by Foreign Governments in U.S. Courts - Cases have been brought in U.S. courts by thirteen nations, 11 Brazilian states, 11 Brazilian cities and one Canadian province. Both the Company and Lorillard are named as defendants in most of the cases. The Company has not received service of process of the cases filed by two of the nations and by one of the Brazilian states.

The Republic of Bolivia v. Philip Morris Companies, Inc., et al. (U.S.

District Court, District of Columbia, filed on January 20, 1999). The U.S. District Court for the Southern District of Texas transferred this matter sua sponte to the U.S. District Court for the District of Columbia. The Company is a defendant in the case. Defendants' motion to transfer this matter to the United States Panel on Multi-District Litigation has been granted.

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 but has not received service of process to date. During 2001, the court granted defendants' motion for judgment on the pleadings and entered final judgment in their favor. Plaintiff has noticed an appeal to the Florida Third District Court of Appeal.

State of Rio de Janeiro of The Federative Republic of Brazil v. Philip Morris Companies, Inc., et al. (District Court, Angelina County, Texas, filed July 12, 1999). The Company is a defendant in the case.

The State of Mato Grosso do Sul, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, District of Columbia, filed July 19, 2000). The Company is a defendant in the case. The case has been transferred to the Multi-

District Litigation Panel pending in the U.S. District Court for the District of Columbia.

The Russian Federation v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed August 25, 2000). The Company is a defendant in the case. The case has been transferred to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

The Republic of Honduras v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed September 29, 2000). The Company is a defendant in the case, although it has not received service of process to date. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

The State of Tocantins, Brazil v. The Brooke Group, Ltd. Inc., et al. (U.S. District Court, Southern District, Florida, filed October 1, 2000). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

The State of Piaui, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed December 13, 2000). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

The Republic of Tajikistan v. The Brooke Group Ltd. Inc., et al., (U.S. District Court, Southern District, Florida, filed January 22, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

The Republic of Belize v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed April 5, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Belford Roxo, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Belo Horizonte, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Carapicuiba, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Duque de Caxias, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Joao Pessoa, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Jundiai, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Mage, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Nilopolis - RJ, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Nova Iguacu, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Rio de Janeiro, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

City of Sao Bernardo do Carmpo, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

State of Para, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

State of Parana, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

State of Rondonia, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed May 8, 2001). The Company is a defendant in the case. Defendants have transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

State of Pernambuco, Brazil v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Florida, filed December 28, 2001). The Company is a defendant in the case. As of March 1, 2002, neither Lorillard nor the Company had received service of process of the complaint in this matter. Defendants have conditionally transferred the case to the Multi-District Litigation Panel pending in the U.S. District Court for the District of Columbia.

Private Citizens' Reimbursement Cases - Two suits are pending in which plaintiffs are private citizens. The Company is named as a defendant in one of these actions.

Mason v. The American Tobacco Company, et al. (filed in U.S. District Court, Northern District, Texas; transferred to U.S. District Court, Eastern District, New York, filed December 23, 1997). The suit is on behalf of taxpayers of the U.S. as to funds expended by the Medicaid program. During 2000, the U.S. District Court for the Northern District of Texas granted plaintiffs' motion to transfer the case to the U.S. District Court for the Eastern District of New York. Defendants' motion to transfer the case to the U.S. District Court for the District of Columbia has been denied. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

Temple v. The State of Tennessee, et al. (U.S. District Court, Middle District, Tennessee, filed as individual smoking and health case on February 7, 2000; amended complaint filed in order to expand plaintiffs' claims, September 11, 2000). Plaintiffs contend that defendant the State of Tennessee has no standing to recover the finds paid to it as compensation for the monies it has paid through its TennCare program for individuals allegedly injured by a smoking-related disease. Plaintiffs further seek a declaration that the MSA is unconstitutional. Plaintiffs' amended complaint also includes claims for class certification on behalf of Tennessee smokers. The Company was named as a defendant in the amended complaint but has not received service of process to date.

Reimbursement Cases by American Indian Tribes - American Indian tribes are the plaintiffs in four pending reimbursement suits. Three of the four cases have been filed in tribal courts. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the pending tribal cases. One of the four cases is pending before a federal court of appeals following plaintiffs' appeal from an order that granted defendants' motion to dismiss the complaint.

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, Standing Rock Sioux Indian Reservation, filed May 8, 1998). Plaintiff voluntarily dismissed the case during February of 2002.

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

The Navajo Nation v. Philip Morris Incorporated, et al. (District Court, Navajo Nation, Judicial District of Window Rock, Arizona, filed August 12, 1999).

The Alabama Coushatta Tribe of Texas v. American Tobacco Company, et al. (U.S. District Court, Eastern District, Texas, filed August 30, 2000). During 2001, the court granted defendants' motion to dismiss the complaint and entered final judgment in their favor. Plaintiff has noticed an appeal from the final judgment to the U.S. Court of Appeals for the Fifth Circuit.

Reimbursement Cases by Private Companies and Health Plans or Hospitals and Hospital Districts - As of March 1, 2002, one case was pending against cigarette manufacturers in which the plaintiff is a not-for-profit insurance company. Lorillard is a defendant in the pending case. The Company is not a defendant in this matter. In addition, two cases are pending in which plaintiffs are hospitals or hospital districts. Lorillard is named as a defendant in both such cases. The Company is not named as a defendant in

either of the cases filed by hospitals or hospital districts. In one additional suit, a city governmental entity and several hospitals or hospital districts are plaintiffs. The Company is a defendant in this case.

Group Health Plan, Inc., et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed March 11, 1998). During January of 2002, the court entered an order granting defendants' motion for summary judgment. Plaintiffs have noticed an appeal to the U.S. Court of Appeals for the Eighth Circuit from the order that granted the motion for summary judgment.

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). During 2000, the court severed the claims of one of the plan plaintiffs, Empire Blue and Blue Shield ("Empire"), from those of the other claimants. On June 4, 2001, the jury returned a verdict awarding damages against the defendants, including Lorillard. In its June 4, 2001 verdict, the jury found in favor of the defendants on some of Empire's claims. One of the jury's findings precluded it from considering Empire's claims for punitive damages. The jury found in favor of Empire on certain other of plaintiff's claims. As a result of these findings, Empire is entitled to an award of approximately $17.8 million in total actual damages, including approximately $1.5 attributable to Lorillard. The court denied plaintiff's post-verdict application for trebling of the damages awarded by the jury. On November 1, 2001, the court entered a final judgment that reflects the jury's verdict. In the final judgment, Empire was awarded approximately $1.5 million in actual damages and approximately fifty-five thousand dollars in pre-judgment interest for a total award against Lorillard of approximately $1.6 million. The defendants, including Lorillard, have noticed an appeal from the final judgment to the United States Court of Appeals for the Second Circuit. Plaintiff's counsel has sought an award of $39.0 million in attorneys' fees. During February of 2002, the court entered an order awarding plaintiffs' counsel approximately $37.8 million in fees. As of March 1, 2002, the deadline for defendants to seek appellate review of this ruling had not expired. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

A.O. Fox Memorial Hospital, et al. v. The American Tobacco Company, et al. (Supreme Court, Nassau County, New York, filed March 30, 2000). Plaintiffs are approximately 175 New York hospitals. During 2001, the court granted defendants' motion to dismiss the complaint and entered final judgment in their favor. Plaintiffs have noticed an appeal from the final judgment to the Appellate Division of the Supreme Court of New York, Second Judicial Department.

County of McHenry, Randolph Hospital District, et al. v. Philip Morris, Inc., et al. (Circuit Court, Cook County, Illinois, filed July 13, 2000).

Betriebskrankenkasse aktiv, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, New York, filed September 8, 2000). Plaintiffs were eight private, not-for-profit German health insurance providers. Plaintiffs voluntarily dismissed the case during February of 2002.

Reimbursement Cases by Labor Unions - Seven reimbursement cases are pending in various federal or state courts in which the plaintiffs are labor unions, their trustees or their trust funds. Lorillard is a defendant in each of these suits. The Company is a defendant in two of the pending suits.

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

Operating Engineers Local 12 Health and Welfare Trust, et al. v. American Tobacco Company, et al. (Superior Court, Los Angeles County, California, filed September 16, 1997). The case was transferred to a coordinated proceeding before the Superior Court of San Diego County, California. During 2000, plaintiffs voluntarily dismissed the case with prejudice. Plaintiffs subsequently noticed an appeal to the California Court of Appeal. In their notice of appeal, plaintiffs stated they voluntarily dismissed the case due to the limitations the trial court's pre-trial rulings placed on their claims. During 2001, the California Court of Appeal affirmed the trial court's final judgment and interlocutory rulings. During 2002, the California Supreme Court agreed to consider plaintiffs' appeal.

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. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

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). During 2001, the U.S. Court of Appeals for the District of Columbia issued a ruling that the trial court erred in not granting in its entirety defendants' motion to dismiss the complaint and remanded the case to the trial court for further proceedings. An order dismissing the action has not been entered to date.

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. During 2001, the U.S. Court of Appeals for the District of Columbia issued a ruling that the trial court erred in not granting in its entirety defendants' motion to dismiss the complaint and remanded the case to the trial court for further proceedings. An order dismissing the action has not been entered to date.

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). During 2001, the U.S. Court of Appeals for the District of Columbia issued a ruling that the trial court erred in not granting in its entirety defendants' motion to dismiss the complaint and remanded the case to the trial court for further proceedings. An order dismissing the action has not been entered to date.

Bergeron, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed September 29, 1999). The Company is a defendant in the case. Plaintiffs are the trustees of the Massachusetts State Carpenters Health Benefits Fund. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

Sheet Metal Workers Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed August 31, 1999). During 2001, the U.S. Court of Appeals for the District of Columbia issued a ruling that the trial court erred in not granting in its entirety defendants' motion to dismiss the complaint and remanded the case to the trial court for further proceedings. An order dismissing the action has not been entered to date.

Post-MSA Cases - In addition to the reimbursement cases, some suits have been filed contesting, in various methods, the 1998 Master Settlement Agreement (the "MSA"). Certain other actions have been filed in which plaintiffs seek to intervene in cases governed by the MSA in order to achieve a different distribution of the funds allocated by the MSA to the respective states. Several of these cases have been dismissed in recent years, either voluntarily by the plaintiffs or on defendants' adversarial motion. Lorillard is a defendant in one such pending case. The Company is not a party to the pending post-MSA case.

CONTRIBUTION CLAIMS -

In addition to the foregoing cases, approximately 15 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. Lorillard is named as a defendant in each action, although it has not received service of process in one of the cases. The Company is named as a defendant in four of the cases but has not received service of process in two of them.

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.

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). This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8.

Owens Corning v. R.J. Reynolds Tobacco Company, et al., (Circuit Court, Jefferson County, Mississippi, filed August 21, 1998). The Company is a defendant in the case. Owens Corning and several individual plaintiffs asserted claims in

the suit. During 2000, the court granted defendants' motion to sever Owens Corning's from those of the individual plaintiffs. During 2001, the court granted defendants' motion for summary judgment as to Owens Corning's claims and entered final judgment in favor of the defendants. Owens Corning has noticed an appeal from the final judgment to the Mississippi Supreme Court.

UNR Asbestos-Disease Claims Trust v. Brown & Williamson Tobacco Corporation, et al. (Supreme Court, New York County, New York, filed March 12, 1999). The Company is a defendant in the case but has not received service of process.

Combustion Engineering, Inc., et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed December 18, 2000).

Gasket Holdings, Inc., et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed December 18, 2000).

Kaiser Aluminum & Chemical Corporation, et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed December 18, 2000).

T&N, Ltd., et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed December 18, 2000).

Gasket Holdings, Inc., et al. v. RJR Nabisco, Inc., et al. (Chancery Court, Claiborne County, Mississippi, filed April 18, 2001).

W.R. Grace & Co. Conn, et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed April 24, 2001).

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 40 years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Approximately 30 filter cases are pending in federal and state courts against Lorillard. The Company is not a defendant in any of the pending filter cases.

In certain of these cases, the manufacturer and supplier of the filter material, Hollingsworth & Vose Company, also is a defendant. In addition, two matters are pending against Hollingsworth & Vose Company in which Lorillard is not a party. Lorillard has agreed to indemnify Hollingsworth & Vose Company with respect to these matters, including the two cases in which Lorillard is not named as a defendant.

TOBACCO-RELATED ANTITRUST CASES -

Wholesalers and Direct Purchaser Suits - Lorillard and other domestic and international cigarette manufacturers and their parent companies, including the Company, were named as defendants in nine separate federal court actions brought by tobacco product wholesalers for violations of U.S. antitrust laws and international law. The complaints allege that defendants conspired to fix the price of cigarettes to wholesalers since 1993 in violation of the Sherman Act. These actions seek certification of a class including all domestic and international wholesalers similarly affected by such alleged conduct, and damages, injunctive relief and attorneys' fees. These actions were consolidated for pre-trial purposes in the U.S. District Court for the

Northern District of Georgia. The Court has granted class certification for a four-year class (beginning in 1996 and ending in 2000) of domestic direct purchasers. In February of 2002, Lorillard and the other defendants filed motions for summary judgment seeking to dismiss the actions in their entirety. The Company has been voluntarily dismissed without prejudice from all direct purchaser cases.

The following suits filed by wholesalers and other direct purchasers of cigarettes have been served:

The case of Amsterdam Tobacco Company, et al. v. Philip Morris Companies, Inc., et al. (U.S. District Court, District of Columbia, filed March 6, 2000). The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard.

The case of I. Goldschlack Company v. Philip Morris Companies, Inc., et al. (U.S. District Court, Eastern District, Pennsylvania, filed March 9, 2000). The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard.

The case of Suwanee Swifty Stores, Inc., et al. v. Philip Morris Companies, Inc., et al. (U.S. District Court, Northern District, Georgia, filed March 14, 2000). The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard.

The case of Holiday Markets, Inc., et al. v. Philip Morris Companies, Inc., et al. (U.S. District Court, Northern District, Georgia, filed March 17, 2000). The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard.

The case of Marcus Distributors v. Philip Morris Companies, Inc., et al. (U.S. District Court, Southern District, Illinois, filed April 25, 2000). The court has approved the plaintiffs' motion to voluntarily dismiss the case without prejudice. The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The case continues as to Lorillard.

The case of Hartz Foods v. Philip Morris Companies, Inc., et al. (U.S. District Court, District of Columbia, filed May 10, 2000). The Company was initially named a defendant, but Plaintiff did not serve the Company. The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The case continues as to Lorillard.

In the case of Buffalo Tobacco Products, et al. v. Philip Morris Companies, Inc., et al. (U.S. District Court, District of Columbia, filed February 8, 2000), the court entered an order granting the parties' stipulation dismissing the Company without prejudice. The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The case continues as to Lorillard.

In the case of Rog-Glo Ltd. v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Southern District, New York, filed February 8, 2000), plaintiff voluntarily dismissed the case without prejudice.

In the case of Williamson Oil Company Inc. v. Philip Morris Companies, Inc., et al. (U.S. District Court, Northern District, Georgia, filed February 28, 2000), the court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case has been transferred to a Multi-District Litigation Proceeding pending in the U.S. District Court for the Northern District of Georgia. The case continues as to Lorillard.

The Company and Lorillard were named as defendants in nine direct purchaser suits alleging price-fixing in connection with the sale of cigarettes and purporting to represent a class of indirect purchasers. The court has granted

the motion of one of the plaintiffs to voluntary dismiss its complaint. The remaining direct purchaser actions were transferred by the Judicial Panel on Multi-District Litigation to the U.S. District Court for the Northern District of Georgia. Plaintiffs subsequently filed a single amended complaint that consolidated the claims of the plaintiffs in the transferred cases into a single class action. The amended complaint names Lorillard but not the Company as a defendant, and the Company has been voluntarily dismissed from the action. The case continues as to Lorillard. The court certified a four-year class of direct purchasers. Pre-trial discovery has been completed. Defendants' filed motions for summary judgment seeking to dismiss the action in its entirety.

Indirect Purchaser Suits - Approximately 30 suits are pending in various state courts alleging violations of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. Approximately 18 states permit such suits. Lorillard is a defendant in all but one of these indirect purchaser cases. Two indirect purchaser suits, in Arizona and New York, have been dismissed in their entirety. The Company was also named as a defendant in most of these indirect purchaser cases but has been voluntarily dismissed without prejudice from all of them.

The case of Smith v. Philip Morris Companies, Inc., et al. (District Court, Seward County, Kansas, filed February 7, 2000). The Company has been dismissed as a defendant in the case. The case continues as to Lorillard. The court denied defendants' motion to dismiss. The court granted certification of a class of consumers and pre-trial discovery is ongoing.

The case of Nierman v. Philip Morris Companies, Inc., et al. (Supreme Court, New York County, New York, filed March 6, 2000). The court dismissed the case in its entirety as to all defendants.

The case of Sylvester v. Philip Morris Companies, Inc., et al. (Supreme Court, New York County, New York, filed March 8, 2000). The court dismissed the case in its entirety as to all defendants.

The case of Taylor v. Philip Morris Companies, et al. (Superior Court, Cumberland County, Maine, filed March 24, 2000). The court has approved the parties' stipulation dismissing the Company from the case without prejudice. The case

continues as to Lorillard. The court denied defendants' motion to dismiss.

The case of Belch v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed April 11, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of Belmonte v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed April 11, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of Shafer v. Philip Morris Companies, Inc., et al. (District Court, South Central Judicial District, Morton County, North Dakota, filed April 18, 2000). The Company was a defendant in the case. The court has entered an order approving plaintiff's motion voluntarily dismissing the Company without prejudice from the case. The court has entered final judgment in favor of the Company reflecting the dismissal order. The case continues as to Lorillard.

The case of Swanson v. Philip Morris Companies, Inc., et al. (Circuit Court, Hughes County, South Dakota, filed April 18, 2000). The court has approved the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard.

The case of Kissel v. Philip Morris Companies, Inc., et al. (Circuit Court, Brooke County, West Virginia, filed May 2, 2000). The court has approved the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard. The court denied defendants' motion to dismiss.

The case of Cusatis v. Philip Morris Companies, Inc., et al. (Circuit Court, Milwaukee County, Wisconsin, filed May 5, 2000). The court has entered an order granting plaintiff's motion to voluntarily dismiss the Company from the case without prejudice. The case continues as to Lorillard.

The case of Barnes v. Philip Morris Companies, Inc., et al. (Superior Court, District of Columbia, filed May 11, 2000). The court has entered an order granting plaintiff's motion to voluntarily dismiss the Company from the case without prejudice. The case continues as to Lorillard.

The case of Aguayo v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed May 15, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of Campe v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed May 15, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of Phillips v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed May 15, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of Lau v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed May 25, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of Unruh v. R.J. Reynolds Tobacco Company, et al. (Second Judicial District Court, Washoe County, Nevada, filed June 9, 2000). The Company is not named as a defendant in this matter. The case continues as to Lorillard. The complaint was amended and the case was renamed Pooler v. R.J. Reynolds Tobacco Co., et al. The court denied defendants' motion to dismiss.

The case of Baker v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Alameda County, California, filed June 15, 2000). The Company was named as a defendant in the case but is no longer a party to the suit. The case continues as to Lorillard. The case has been assigned to a coordinated proceeding in the Superior Court of Alameda County, California.

The case of In re Cigarette Antitrust Cases, (Judicial Counsel Coordination Proceeding 4114, Superior Court of Alameda County, California). Approximately twenty indirect purchaser suits under California state law were filed in state courts in various California counties. The Company and Lorillard were named as defendants in each of the cases. The actions were subsequently transferred for coordination to the Superior Court for Alameda County, California. Plaintiffs have filed a single amended class action complaint with each of the plaintiffs who brought the original complaints named as plaintiffs. The amended complaint names Lorillard as a defendant but did not name the Company, which plaintiffs had dismissed from each of the underlying suits. The case continues as to Lorillard.

In the case of Brownstein v. Philip Morris Companies, Inc., et al. (Circuit Court, Broward County, Florida, filed February 8, 2000), the court has entered a stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard.

In the case of Del Serrone v. Philip Morris Companies, Inc., et al. (Circuit Court, Wayne County, Michigan, filed February 8, 2000), the court has entered a stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard. The court denied defendants' motion to dismiss. Pre-trial discovery has been completed. Class certification proceedings pending and defendants' have filed motions for summary judgment.

In the case of Gray v. Philip Morris Companies, Inc., et al. (Superior Court, Pima County, Arizona, filed February 11, 2000), the court dismissed the case in its entirety as to all defendants. The case is on appeal.

In the case of Lennon v. Philip Morris Companies, Inc., et al. (Supreme Court, New York County, New York, filed February 9, 2000), the court dismissed the case in its entirety as to all defendants.

In the case of Ludke v. Philip Morris Companies, Inc., et al. (District Court, Hennepin County, Minnesota, filed February 14, 2000), the court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard. The court granted defendants' motion to dismiss claims under Minnesota's consumer fraud statute and deceptive trade practices statute. The claim under Minnesota's state antitrust statute remains. The court denied class certification.

In the case of Romero v. Philip Morris Companies, Inc., et al. (U.S. District Court, New Mexico, filed February 9, 2000), the court has entered the parties' stipulation dismissing the Company from the case without prejudice. The case continues as to Lorillard. The court dismissed the claim under New Mexico's deceptive trade practices statute. The claim under New Mexico's state antitrust statute remains.

In the case of Withers v. Philip Morris Companies, Inc., et al. (Circuit Court, Jefferson County, Tennessee, filed February 9, 2000), plaintiffs voluntarily dismissed the case against all defendants without prejudice when the named plaintiff died. The plaintiffs refiled the case, but did not name Lorillard or the Company as a defendant.

Tobacco Growers Suit - DeLoach v. Philip Morris Inc., et al. (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). Lorillard is named as a defendant in a lawsuit that, after several amendments, alleges only antitrust violations. The other major domestic tobacco companies are also presently named as defendants, and the plaintiffs have now added the major leaf buyers as defendants. This case was originally filed in U.S. District Court, District of Columbia, and transferred to a North Carolina federal court upon motion by the defendants. Plaintiffs seek certification of a class including all tobacco growers and quota holders (the licenses that a farmer must either own or rent to sell the crop), who sold tobacco or held quota under the federal tobacco leaf price support program since February of 1996. The plaintiffs' claims relate to the conduct of the companies in the purchase of tobacco through the auction system under the federal program. The suit seeks an unspecified amount of actual damages, trebled under the antitrust laws, and injunctive relief.

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

Set forth below is information relating to the 2002 Special Meeting of Shareholders of the Company.

The special meeting was called to order at 11:00 A.M., January 4, 2002. Represented at the meeting, in person or by proxy, were 165,334,181 shares, approximately 86.3% of the issued and outstanding shares entitled to vote.

The following business was transacted:

Approval of an amendment to the Company's Certificate of Incorporation creating Carolina Group Stock

Approved - 127,671,823 shares voted to approve an amendment to the Company's Certificate of Incorporation by which the Company's Carolina Group Stock was created. 35,760,806 shares voted against, and 1,901,552 shares abstained.

Approval of the Carolina Group 2002 Stock Option Plan

Approved - 116,458,210 shares voted to approve the adoption of the Carolina Group 2002 Stock Option Plan. 47,253,405 shares voted against, and 1,622,565 shares abstained. In addition, there was one share as to which brokers indicated that they did not have authority to vote.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Position and Offices Held	Age	First Became Officer
Susan Becker	Vice President-Tax	41	2002
Jason Boxer	Vice President-Real Estate	31	2001
Gary W. Garson	Vice President and Assistant Secretary	55	1988
Barry Hirsch	Senior Vice President and Secretary	68	1971
Herbert C. Hofmann	Senior Vice President	59	1979
Peter W. Keegan	Senior Vice President and Chief Financial Officer	57	1997
John J. Kenny	Treasurer	64	1991
Guy A. Kwan	Controller	59	1987
Alan Momeyer	Vice President-Human Resources	54	1996
Richard E. Piluso	Vice President-Internal Audit	63	1990
Arthur L. Rebell	Senior Vice President and Chief Investment Officer	60	1998
Andrew H. Tisch	Office of the President and Chairman of the Executive Committee	52	1985
James S. Tisch	Office of the President, President and Chief Executive Officer	49	1981
Jonathan M. Tisch	Office of the President	48	1987
Laurence A. Tisch	Co-Chairman of the Board	79	1959
Preston R. Tisch	Co-Chairman of the Board	75	1960

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

All executive officers of Registrant, except Jason Boxer and Arthur L. Rebell, have been engaged actively and continuously in the business of Registrant for more than the past five years. Prior to being named Vice President - Real Estate in February 2001, Jason Boxer served in various capacities within the Registrant's real estate department since 1998. Prior thereto, he had been an associate attorney with the law firm of Battle Fowler, LLP since 1995. Arthur L. Rebell has been a senior vice president of the Company since June of 1998. Prior to joining Loews, during 1997 and 1998 he was an associate professor of Mergers and Acquisitions at New York University, a Managing Director of Highview Capital and a Partner in Strategic Investors. Prior to that he was a Managing Director of Schroders. Prior to being named Vice President-Tax in 2002, Susan Becker held various positions in Registrant's tax department, most recently as an Assistant Vice President.

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

PART II

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

Price Range of Common Stock*

Loews Corporation's common stock is listed on the New York Stock Exchange. The following table sets forth the reported consolidated tape high and low sales prices in each calendar quarter of 2001 and 2000:

2001		2000	
High	Low	High	Low

First Quarter	$59.95	$44.00	$ 30.56	$19.13
Second Quarter	72.50	56.51	34.06	24.63
Third Quarter	63.82	41.05	44.38	29.81
Fourth Quarter	58.00	44.55	52.47	37.25

Dividend Information*

The Company has paid quarterly cash dividends on its common stock in each year since 1967. Regular dividends of $.13 per share of common stock were paid in each calendar quarter of 2000 and in the first calendar quarter of 2001. The Company increased its dividend to $.15 per share beginning in the second calendar quarter of 2001.

Approximate Number of Equity Security Holders

The Company has approximately 2,100 holders of record of Loews Common Stock and 5 holders of record of Carolina Group stock.

* Per share amounts have been adjusted to give retroactive effect to the two-for-one stock split effective March 21, 2001.

Item 6. Selected Financial Data.

Year Ended December 31	2001	2000	1999	1998	1997
(In millions, except per share data)					
Results of Operations:					
Revenues(1)	$19,417.2	$21,251.2	$21,442.7	$21,296.0	$20,266.6
(Loss) income before taxes, minority interest and cumulative effect of accounting changes-net	$ (813.1)	$ 3,205.9	$ 944.2	$ 1,077.4	$ 1,593.2
(Loss) income before cumulative effect of accounting changes .	$ (535.8)	$ 1,876.7	$ 521.1	$ 464.8	$ 793.6
Cumulative effect of changes in accounting principles-net . .	(53.3)		(157.9)		
Net (loss) income	$ (589.1)	$ 1,876.7	$ 363.2	$ 464.8	$ 793.6
(Loss) Income Per Share (2):					
(Loss) income before cumulative effect of accounting changes .	$ (2.75)	$ 9.44	$ 2.40	$ 2.03	$ 3.45
Cumulative effect of changes in accounting principles-net . .	(.27)		(.73)		
Net (loss) income	$ (3.02)	$ 9.44	$ 1.67	$ 2.03	$ 3.45
Financial Position:					
Investments	$41,159.1	$41,332.7	$40,633.0	$ 42,705.2	$41,619.1
Total assets	75,251.1	71,841.5	69,463.7	70,979.4	69,983.1
Long-term debt	5,920.3	6,040.0	5,706.3	5,966.7	5,752.6
Shareholders' equity	9,649.3	11,191.1	9,977.7	10,201.2	9,665.1
Cash dividends per share (2) . .	.58	.50	.50	.50	.50
Book value per share (2)	50.39	56.74	47.75	45.31	42.02
Shares of common stock Outstanding (2).	191.5	197.2	209.0	225.2	230.0

(1) Certain amounts applicable to prior periods have been reclassified to conform to the presentation followed in 2001.

(2) Share and per share amounts have been adjusted to give retroactive effect to the two-for-

one stock split effective March 21, 2001.

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

OVERVIEW

Loews Corporation reported a loss for the year ended 2001 of $589.1 million or $3.02 per share, compared to net income of $1,876.7 million or $9.44 per share in 2000. The net loss was primarily attributable to CNA's second quarter reserve charge of $1.8 billion and losses of $264.6 million at CNA related to the World Trade Center attack and related events, as well as the fourth quarter restructuring and other charges at CNA, and a charge of $121.0 million after-taxes at Lorillard in the second quarter related to the agreement with the Engle class.

The net loss in 2001 includes net investment gains of $792.2 million or $4.06 per share compared to gains of $577.1 million or $2.90 per share in the prior year. The net loss also includes a charge for an accounting change of $53.3 million or $.27 per share, related to the adoption by CNA of a new accounting standard for derivative instruments.

Net operating income (loss) is calculated by deducting net investment gains or losses (investment gains or losses after deduction of related income taxes and minority interests) and the cumulative effect of a change in accounting principle, net of tax and minority interest, from net income (loss). Analysts following our stock have advised us that such information is meaningful in assisting them in measuring the performance of our insurance subsidiaries. In addition, it is used in management's discussion of the results of operations for the insurance related segments due to the significance of the amount of net investment gains or losses. Net operating income (loss) is also a common measure throughout the insurance industry. Net realized investment gains are excluded from this operating measure because investment gains or losses related to CNA's available-for-sale investment portfolio are largely discretionary, are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not an indication of trends in operations.

Net income for the quarter ended December 31, 2001 was $188.1 million or $.98 per share, compared to $502.9 million or $2.55 per share in 2000. Net investment gains amounted to $236.7 million in the fourth quarter of 2001, compared to gains of $172.6 million in the fourth quarter of 2000.

Net operating loss, which excludes net investment gains and losses, for the fourth quarter was $48.6 million or $.26 per share, compared to net operating income of $330.3 million or $1.67 per share in 2000. The lower results in the current quarter are primarily due to charges of $110.8, $46.1 and $61.2 million, after-taxes and minority interest, at CNA related to restructuring and other related charges, Enron related losses, and reserve strengthening primarily for the current accident year, respectively.

Revenues for the year ended 2001 were $19.4 billion, compared to $21.3 billion in 2000. Revenues for the year ended 2001 declined due primarily to lower earned premiums for CNA's Property-Casualty business.

At year end 2001, Loews Corporation had a book value of $50.39 per share compared to $56.74 per share in 2000.

Issuance Of Carolina Group Tracking Stock

On January 4, 2002 the shareholders of Loews Corporation authorized and approved the creation of a new class of common stock of the Company, called Carolina Group stock and on February 6, 2002 in an initial public offering the Company issued 40.3 million shares of Carolina Group stock.

The Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. The Company has attributed the following assets and liabilities to the Carolina Group:

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

(b) $2.5 billion of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021;

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

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

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

Holders of Carolina Group stock have an approximately 23.17% economic interest in the Carolina Group.

The Loews Group consists of all of the Company's assets and liabilities other than the 23.17% economic interest in the Carolina Group represented by the outstanding Carolina Group stock, and includes as an asset the notional intergroup debt of the Carolina Group referred to above.

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

of each such group as described above. The Carolina Group and the Loews Group are not separate legal entities and the attribution of assets and liabilities to the Loews Group or the Carolina Group does not affect title to the assets or responsibility for the liabilities.

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

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA

Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is an 89% owned subsidiary of the Company.

CNA underwent significant management changes, strategic realignment and restructuring in the second half of 2001. These management changes as well as the strategic realignment and restructuring have changed the way CNA manages its operations and makes business decisions; and therefore, necessitated a change in CNA's reportable segments.

The changes made to CNA's reportable segments were as follows: (i) Commercial Insurance and CNA Excess & Select (formerly included in Agency Market Operations) and Risk Management Operations, were combined into Standard Lines; (ii) CNA Pro, CNA HealthPro, CNA Guaranty and Credit (formerly included in Specialty Operations) and Global Operations were combined into Specialty Lines; (iii) losses and expenses related to the centralized adjusting and settlement of environmental pollution and other mass tort and asbestos ("APMT") claims previously included in Commercial Insurance, CNA Excess & Select, Risk Management and Global Operations are now included in the Other Insurance segment; and (iv) Personal Insurance, CNA UniSource, agriculture insurance, entertainment insurance and other financial lines were moved from

the various property-casualty segments to the Other Insurance segment. CNA Re, Group Operations and Life Operations are unchanged from the prior segment presentation.

CNA now conducts its operations through five operating groups: Standard Lines, Specialty Lines and CNA Re (these groups comprise the Company's Property-Casualty segment); Group Operations and Life Operations. In addition to these five operating segments, certain other activities are reported in the Other Insurance segment. These segments reflect the way CNA manages its operations and makes business decisions. Segment disclosures of prior periods have been modified to conform with the current year presentation.

World Trade Center Event

During the third quarter of 2001, CNA experienced a severe catastrophe loss estimated at $468.0 million pretax, net of reinsurance, related to the September 11, 2001 World Trade Center disaster and related events ("WTC event"). The loss estimate is based on a total industry loss of $50.0 billion and includes all lines of insurance. The current estimate takes into account CNA's substantial reinsurance agreements, including its catastrophe reinsurance program and corporate reinsurance programs. These loss estimates are subject to considerable uncertainty. Subsequent developments on claims arising out of the WTC event, as well as the collectibility of reinsurance recoverables, could result in an increase in the total estimated net loss, which could be material to CNA's results of operations.

The following table provides management's estimate of losses related to the WTC event on a gross basis (before reinsurance) and a net basis (after reinsurance) on CNA's operating segments:

Year Ended December 31, 2001	Gross Losses	Pretax Net Impact (a)	Aggregate Reinsurance Benefit	Total Pretax Impact	Net of Tax and Minority Interest
(In millions)					
Standard Lines	$ 375.0	$ 185.0	$108.0	$ 77.0	$ 44.0
Specialty Lines	214.0	30.0	12.0	18.0	11.0
CNA Re	662.0	410.0	139.0	271.0	154.0
Total Property and Casualty	1,251.0	625.0	259.0	366.0	209.0
Group Operations	322.0	80.0		80.0	46.0
Life Operations	75.0	22.0		22.0	12.0
Total	$1,648.0	$ 727.0	$259.0	$468.0	$267.0

(a) Pretax impact of the WTC event before the corporate aggregate reinsurance treaties. The net impact includes $85.0 of reinstatement and additional premiums.

Second Quarter 2001 Prior Year Reserve Strengthening

During the second quarter of 2001, CNA noted the continued emergence of adverse loss experience across several lines of business related to prior years that are discussed in further detail below. CNA completed a number of reserve studies during the second quarter of 2001 for many of its lines of business, including those in which these adverse trends were noted. With respect to APMT reserves, CNA reviewed internal claims data as well as studies generated by external parties, including a significant industry analysis of asbestos and environmental pollution exposures by an international rating agency. As a result of these various reviews, management concluded that ultimate losses, including losses for APMT claims, would be higher in the range of possible outcomes than previously estimated. CNA recorded charges of $2.6 billion ($1.5 billion after-tax and minority interest), net of the related corporate aggregate reinsurance treaty benefit, to strengthen reserves

associated with a change in estimate of prior year net loss reserves, including $1.2 billion pretax ($.7 billion after-tax and minority interest) related to APMT.

The second quarter 2001 reserve strengthening and related items comprising the amounts noted above are detailed by segment in the following table:

Year Ended December 31, 2001	Standard Lines	Specialty Lines	CNA Re	Other Insurance	Total
(In millions)					
Net reserve strengthening excluding the impact of the corporate aggregate reinsurance treaty:					
APMT			$ 57.0	$ 1,140.0	$1,197.0
Non-APMT	$ 523.0	$407.0	574.0	90.0	1,594.0
Total	523.0	407.0	631.0	1,230.0	2,791.0
Pretax benefit from corporate aggregate reinsurance treaty on accident year 1999	(197.0)		(26.0)		(223.0)*
Accrual for insurance-related assessments	48.0				48.0
Net reserve strengthening and related accruals	374.0	407.0	605.0	1,230.0	2,616.0
Change in estimate of premium accruals	629.0	3.0	(13.0)	(3.0)	616.0
Reduction of related commission accruals	(50.0)				(50.0)
Net premium and related accrual reductions	579.0	3.0	(13.0)	(3.0)	566.0
Total pretax second quarter 2001 reserve strengthening and other related accruals	$ 953.0	$410.0	$ 592.0	$ 1,227.0	$3,182.0
Total after-tax and minority interest second quarter 2001 reserve strengthening and other related accruals	$ 539.0	$241.0	$ 334.0	$ 695.0	$1,809.0

* $500.0 of ceded losses reduced by $230.0 of ceded premiums and $47.0 of interest charges.

The non-APMT adverse loss development was the result of recent analyses of several lines of business. This development related principally to commercial insurance coverages including automobile liability and multiple-peril, as well as assumed reinsurance and health care-related coverages. A brief summary of these lines of business and the associated reserve development is discussed below and in more detail in the discussion of CNA's segments.

Approximately $600.0 million of the adverse loss development, excluding the impact of the corporate aggregate reinsurance treaty, is a result of analyses of several coverages provided to commercial entities written by various segments of CNA. These analyses showed unexpected increases in the size of claims for several lines, including commercial automobile liability, general liability and the liability portion of commercial multiple-peril. In addition, the number of commercial automobile liability claims was higher than expected. Finally, several state-specific factors resulted in higher than anticipated losses, including developments associated with commercial automobile liability coverage in Ohio and general liability coverage provided to contractors in New York.

An analysis of CNA Re's assumed reinsurance business showed that the paid and reported losses for recent accident years were higher than expectations and resulted in an increase of net reserves of approximately $560.0 million, excluding the impact of the corporate aggregate reinsurance treaty. The estimated ultimate loss ratios for these recent accident years have been revised to reflect the paid and reported losses.

Approximately $320.0 million of adverse loss development, excluding the impact of the corporate aggregate reinsurance treaty, occurred in

Specialty Lines and was caused by coverages provided to health care-related entities. The level of paid and reported losses associated with coverages provided to national long-term care facilities was higher than expected. In addition, the average size of claims resulting from coverages provided to physicians and institutions providing health care-related services increased more than expected.

Concurrent with CNA's review of loss reserves, CNA completed comprehensive studies of estimated premium receivable accruals on retrospectively rated insurance policies and involuntary market facilities. As a result, CNA recorded a $.6 billion pretax ($.3 billion after-tax and minority interest) charge related to retrospective premium and other premium accruals ("premium accruals"). The studies included the review of all such retrospectively rated insurance policies and the current estimate of ultimate losses.

As a result of this review and changes in premiums associated with the change in estimates for loss reserves, CNA recorded a pretax reduction in premium accruals of $566.0 million. The effect on net earned premiums was $616.0 million offset by a reduction of accrued commissions of $50.0 million. Approximately $188.0 million of this amount resulted from a change in estimate in premiums related to involuntary market facilities, which had an offsetting impact on net losses and therefore had no impact on the net operating results for the year. Accruals for ceded premiums related to other reinsurance treaties increased $83.0 million due to the reserve strengthening. The remainder of the decrease in premium accruals relates to the change in estimate of the amount of retrospective premium receivables as discussed above.

Aggregate Reinsurance Treaties

In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property-casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss and allocated loss adjustment expense (collectively, "losses") ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 million of ceded losses with an aggregate limit of $1.0 billion of ceded losses for the three-year period. The ceded premiums are a percentage of ceded losses and for each $500.0 million of limit the premium is $230.0 million. The second section of the Aggregate Cover, which is only available for accident year 2001, provides additional coverage of up to $510.0 million of ceded losses for a maximum ceded premium of $310.0 million. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three-year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.3% per annum.

The coverage under the second section of the Aggregate Cover was triggered for the 2001 accident year. As a result of losses related to the WTC event, the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded during 2001, the $500.0 million limit on the 1999 accident year under the first section was also fully utilized. No losses have been ceded to the remaining $500.0 million of limit on accident years 2000 and 2001 under the first section.

In 2001, CNA entered into a one-year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property-casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 million of ceded losses. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds.

The impact of the Aggregate and CCC Cover on pretax operating results for the year ended December 31, 2001, was as follows:

(In millions)	Aggregate Cover	CCC Cover	Total
Ceded earned premiums	$ (543.0)	$(260.0)	$ (803.0)
Ceded losses	1,010.0	470.0	1,480.0
Interest charges	(81.0)	(20.0)	(101.0)
Pretax benefit on operating results	$ 386.0	$ 190.0	$ 576.0

The pretax benefit from the Aggregate Cover and CCC Cover by operating segment on estimated losses related to the second quarter 2001 reserve strengthening, the WTC event and Core operations for the year ended December 31, 2001, was as follows:

(Amounts in millions)	Second Quarter 2001 Reserve Strengthening	WTC Event	Core Operations	Total
Standard Lines	$197.0	$108.0	$76.0	$381.0
Specialty Lines		12.0	21.0	33.0
CNA Re	26.0	139.0	(3.0)	162.0
Pretax benefit on operating results	$223.0	$259.0	$94.0	$576.0

2001 Restructuring

In 2001, CNA finalized and approved two separate restructuring plans. The first plan, which related to CNA's Information Technology operations (the "IT Plan"), was approved in June of 2001. The second plan, which principally relates to restructuring the Property-Casualty segments and Life Operations, discontinuation of variable life and annuity business and consolidation of real estate locations (the "2001 Plan"), was approved in December of 2001.

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitate a strong focus on enterprise-wide system initiatives. The IT Plan had two main components, which include the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that includes common architecture and platform standards that directly support CNA's strategies.

As summarized in the following table, CNA incurred $62.0 million, pretax, of restructuring and other related charges in 2001 for the IT Plan. CNA does not expect to incur significant amounts of additional charges with respect to the IT Plan in any future period and, as a result, does not intend to separately classify such expenses as restructuring and other related charges when they occur.

IT Plan charges by segment for the year ended December 31, 2001, are as follows:

(In millions)	Employee Termination and Related Benefit Costs	Impaired Asset Charges	Other Costs	Total
Standard Lines	$ 5.0	$ 1.0		$ 6.0
Specialty Lines	2.0			2.0
Total Property-Casualty	7.0	1.0		8.0
Life Operations		17.0		17.0
Other Insurance	22.0	14.0	$1.0	37.0
Total	$29.0	$32.0	$1.0	$62.0

In connection with the IT Plan after the write-off of impaired assets, CNA accrued $30.0 million of restructuring and other related charges in 2001 (the "IT Plan Initial Accrual"). These charges primarily related to $29.0 million of workforce reductions of approximately 260 positions gross and 249 positions net and $1.0 million of other costs.

The following table summarizes the IT Plan Initial Accrual and the activity in that accrual during 2001. Approximately $8.0 million of the remaining accrual is expected to be paid out during 2002.

(In millions)	Employee Termination and Related Benefit Costs	Impaired Asset Charges	Other Costs	Total
Initial accrual	$29.0	$ 32.0	$1.0	$ 62.0
Cost that did not require cash		(32.0)		(32.0)
Payments charged against liability	(19.0)			(19.0)
Accrued costs	$10.0		$1.0	$11.0

Through December 31, 2001, approximately 249 employees were released due to the IT Plan, nearly all of whom were technology support staff.

The IT Plan is not expected to result in decreased operating expense in the foreseeable future. This is because savings from the workforce reduction will be offset by new technology-related initiatives.

2001 Plan

The overall goal of the 2001 Plan is to create a simplified and leaner organization for customers and business partners. The major components of the plan include a reduction in the number of strategic business units ("SBUs") in the property-casualty operations, changes in the strategic focus of the Life Operations and consolidation of real estate locations. The reduction in the number of property-casualty SBUs resulted in consolidation of SBU functions, including underwriting, claims, marketing and finance. The strategic changes in Life Operations include a decision to discontinue the variable life and annuity business.

As summarized in the following table, CNA incurred $189.0 million, pretax, of restructuring and other related charges for the 2001 Plan. CNA does not expect

to incur significant amounts of additional charges with respect to the 2001 Plan in any future period and, as a result, does not intend to separately classify such expenses as restructuring and other related charges when they occur.

2001 Plan charges by segment for the year ended December 31, 2001, are as follows:

(In millions)	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Other Costs	Total
Standard Lines	$40.0				$ 40.0
Specialty Lines	7.0	$ 4.0			7.0
CNA Re	2.0				6.0
Total Property-Casualty	49.0	4.0			53.0
Group Operations	1.0				1.0
Life Operations	9.0		$ 9.0	$35.0	53.0
Other Insurance	9.0	52.0	21.0		82.0
Total	$68.0	$56.0	$30.0	$35.0	$189.0

All lease termination costs and impaired asset charges, except lease termination costs incurred by operations in the United Kingdom and software write-offs incurred by Life Operations, were charged to the Other Insurance segment because office closure and consolidation decisions were not within the control of the other segments affected. Lease termination costs incurred in the United Kingdom relate solely to the operations of CNA Re. All other charges were recorded in the segment benefiting from the services or existence of the employee or asset.

The 2001 Plan charges incurred by Standard Lines were $40.0 million, related entirely to employee termination and related benefit costs for planned reductions in the workforce of 1,063 positions, gross and net, of which $27.0 million related to severance and outplacement costs and $13.0 million related to other salary costs. Through December 31, 2001, approximately 510 employees were released due to the 2001 Plan. Approximately 272 of these employees were administrative, technology or financial support staff; approximately 164 of these employees were underwriters, claim adjusters and related insurance services staff; and approximately 74 of these employees were in various other positions.

The 2001 Plan charges incurred by Specialty Lines were $7.0 million, related entirely to employee termination and related benefit costs for planned reductions in the workforce of 177 positions, gross and net, of which $5.0 million related to severance and outplacement costs and $2.0 million related to other salary costs. Through December 31, 2001, approximately 107 employees were released due to the 2001 Plan. Approximately 47 of these employees were administrative, technology or financial support staff; approximately 45 of these employees were underwriters, claim adjusters, and related insurance services staff; and approximately 15 of these employees were in various positions.

The 2001 Plan charges incurred by CNA Re were $6.0 million. Costs related to employee termination and related benefit costs for planned reductions in the workforce of 33 positions, gross and net, amounted to $2.0 million, all of which related to severance and outplacement costs. Through December 31, 2001 no employees in CNA Re were released due to the 2001 Plan. The remaining $4.0 million of charges incurred by CNA Re related to lease termination costs.

The 2001 Plan charges incurred by Group Operations were $1.0 million, related entirely to employee termination and related benefit costs for planned reductions in the workforce of 38 positions, gross and net. Through December 31, 2001 no employees in Group Operations were released due to the 2001 Plan.

The 2001 Plan charges incurred by Life Operations were $53.0 million. Costs related to employee termination and related benefit costs for planned reductions in the workforce of 356 positions, gross and net, amounted to $9.0 million, of which $8.0 million related to severance and outplacement costs and $1.0 million related to other salary costs. Through December 31, 2001, approximately seven positions were released due to the 2001 Plan which were primarily administrative, technology and financial support staff positions. Life Operations incurred $9.0 million of impaired asset charges related to software. Other costs of $35.0 million in Life Operations relate to a write-off of deferred acquisition costs on in-force variable life and annuity contracts as CNA believes that the decision to discontinue these products will negatively impact the persistency of the business.

The 2001 Plan charges incurred by the Other Insurance segment were $82.0 million. Costs related to employee termination and related benefit costs for planned reductions in the workforce of 194 positions, gross and net, amounted to $9.0 million, of which $6.0 million related to severance and outplacement costs and $3.0 million related to other salary costs. Through December 31, 2001, 129 employees were released due to the 2001 Plan. Approximately 114 of these employees were administrative, technology or financial support staff; and approximately 15 of these employees were in various other positions. The Other Insurance segment also incurred $73.0 million of lease termination and asset impairment charges related to office closure and consolidation decisions not within the control of the other segments affected.

In connection with the 2001 Plan, CNA accrued $189.0 million of these restructuring and other related charges (the "2001 Plan Initial Accrual"). These charges include employee termination and related benefit costs, lease termination costs, impaired asset charges and other costs. The following table summarizes the 2001 Plan Initial Accrual and the activity in that accrual during 2001. Approximately $94.0 million of the remaining accrual is expected to be paid out during 2002.

(In millions)	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Other Costs	Total
Initial accrual	$68.0	$ 56.0	$ 30.0	$ 35.0	$ 189.0
Cost that did not require cash				(35.0)	(35.0)
Payments charged against liability	(2.0)				(2.0)
Accrued costs	$66.0	$56.0	$ 30.0		$ 152.0

The majority of the positions impacted by the restructuring that were not released by December 31, 2001 are expected to be released in the first quarter of 2002. The real estate consolidation will occur throughout 2002, however the full level of savings from the consolidation will not be realized until the fourth quarter. Management anticipates that the restructuring activities in 2001 will result in cost savings of approximately $100.0 million in 2002.

Additionally, at December 31, 2000, an accrual of $7.0 million for lease termination costs remained related to the August 1998 restructuring ("1998 Plan"). Approximately $6.0 million of these costs were paid in 2001, resulting in a remaining accrual of $1.0 million at December 31, 2001. No restructuring and other related charges related to the 1998 Plan were incurred during 2001

or 2000. Restructuring and other related charges for the 1998 Plan amounted to $83.0 million in 1999.

Terrorism Exposure

CNA and the insurance industry incurred substantial losses related to the tragic events of September 11, 2001. For the most part, CNA believes the industry was able to absorb the loss of capital from these losses, but the capacity to withstand the effect of any additional terrorism events was significantly diminished. The public debate following September 11 centered on the role, if any, the U.S. federal government should play in providing a "terrorism backstop" for the industry. Several legislative proposals were introduced, but as yet, Congress has not enacted any of the proposed solutions.

Without any federal backstop in place, CNA's businesses are exposed to losses arising from terrorism events. CNA is attempting to mitigate this exposure through its underwriting practices, policy terms and conditions, and use of reinsurance.

While the unexpired portion of CNA's current reinsurance program generally provides coverage for terrorism events, CNA expects that future property-casualty and certain group life and accident reinsurance renewals will either exclude coverage or be significantly limited with respect to terrorism events. CNA does not expect any terrorism exclusion to be included in future individual life reinsurance renewals.

CNA is generally including a terrorism exclusion or sub-limit in its primary and reinsurance assumed policy forms and contracts for large property risks in selected geographic areas. General liability and commercial auto policies for large commercial customers also generally exclude terrorism where permissible by law. The primary property and casualty policy forms applicable to new and renewal policies for small and middle market commercial customers will generally include a terrorism exclusion; however, these policy forms have not yet been approved in all states. CNA is generally prohibited, from excluding terrorism exposure from its primary workers' compensation, individual life and group life and health policies.

2002 Reinsurance Considerations

In addition to the terrorism coverage issues discussed, CNA expects other significant changes related to the reinsurance environment in 2002. Due to the significant increase in reinsurance costs for several lines of insurance, CNA expects to purchase less reinsurance protection in 2002 than in 2001. The amount of reinsurance purchased has a direct impact on the level of gross and net exposure that CNA is willing to underwrite in certain lines. For example, the net retention on a substantial portion of Standard Lines' workers' compensation exposure will generally increase from $500,000 per each loss occurrence in 2001 to $10.0 million per each loss occurrence in 2002. CNA expects to retain approximately $60.0 million more premium in 2002 as a result of this increase in retention in workers' compensation exposure. Other property-casualty exposures expected to be significantly impacted by changes in the level, cost and availability of reinsurance purchased in 2002 include, but are not limited to, surety, workers' compensation, catastrophe and professional liability. CNA has purchased less finite reinsurance in 2002 than in prior years.

The reduced level of reinsurance purchased in 2002 will likely increase the volatility of reported losses; however, CNA will also retain more premium than in prior years.

CNA is currently finalizing its aggregate reinsurance protection for 2002 for a substantial portion of its property-casualty business. The reinsurance protection will be handled on a funds withheld basis.

Property-Casualty

CNA conducts its property-casualty operations through the following operating segments: Standard Lines, Specialty Lines, and CNA Re.

The following table summarizes key components of the Property-Casualty segment operating results for the years ended December 31, 2001, 2000 and 1999.

Year Ended December 31	2001	2000	1999
(In millions)			
Net earned premiums	$ 5,010.0	$6,927.0	$ 7,359.0
Underwriting loss	(3,122.0)	(672.0)	(1,147.0)
Net operating (loss) income	(1,249.1)	412.6	111.3
Ratios:			
Loss and loss adjustment expense ratio	114.6%	77.0%	83.0%
Expense ratio	45.4	31.5	32.2
Dividend ratio	2.3	1.2	.4
Combined ratio	162.3%	109.7%	115.6%

2001 adjusted ratios*	
Loss and loss adjustment expense ratio	77.8%
Expense ratio	35.3
Dividend ratio	1.8
Combined ratio	114.9%
Adjusted underwriting loss*	$ (946.0)

*The adjusted results exclude the impact of the second quarter 2001 reserve strengthening, the WTC event, corporate aggregate reinsurance treaties and restructuring and other related charges.

2001 Compared with 2000

The net operating loss for the Property-Casualty segment was $1,249.1 million in 2001 as compared with net operating income of $412.6 million in 2000. The decline in net operating results was principally due to prior year reserve strengthening of $1,113.7 million recorded in the second quarter of 2001 related to a change in estimate of prior year net loss reserves and retrospective premium accruals, net of the related corporate aggregate reinsurance treaty benefit; estimated losses related to the WTC event of $209.0 million, net of the related corporate aggregate reinsurance treaty benefit, and restructuring and other related charges of $36.8 million recorded in 2001. In addition, net operating results for 2001 decreased $97.1 million due to a decline in investment income from limited partnerships and $61.2 million for reserve strengthening primarily for the current accident year, in the London-based primary commercial and marine operations. Net operating income also decreased $46.1 million related to the recent bankruptcy filing by certain Enron entities recorded in the fourth quarter of 2001. These declines were partially offset by lower prior year adverse loss reserve development (excluding the second quarter 2001 reserve development) and a $52.5 million benefit related to corporate aggregate reinsurance treaties for core operations. Net operating results in 2000 benefited from a change in estimate for certain insurance-related assessments of $52.0 million in 2000.

Net operating results also decreased due to a $141.8 million after-tax charge to strengthen prior underwriting year loss reserves for CNA Reinsurance Company Limited ("CNA Re U.K."). There was no tax benefit related to this charge due to the inability to recover further tax benefits related to the underwriting losses of CNA Re U.K. During the fourth quarter, CNA updated its impairment analysis of subsidiaries held for sale, including the United Kingdom subsidiaries of CNA Re. The updated impairment analysis indicated that the $248.0 million after-tax and minority interest realized loss recorded in the second quarter of 2001 should be reduced by $141.8 million, primarily because the net assets of CNA Re U.K. had been significantly diminished by its operating losses in the second half of 2001. In addition, CNA updated its estimate of disposal costs, including anticipated capital contributions, to reflect changes in the planned structure of the anticipated sale. The sale of

the United Kingdom insurance subsidiaries will be subject to regulatory approval and all sales are expected to be completed in 2002.

Based upon the significance of the charges related to the second quarter 2001 reserve strengthening, WTC event, corporate aggregate reinsurance treaties, and restructuring and other related charges, these items are discussed in the aggregate in the preceding sections. The following discussion compares underwriting results and ratios excluding the effect of these items. The adjusted combined ratio increased 5.2 points in 2001 as compared with 2000 and the adjusted underwriting results for the Property-Casualty segment declined $274.0 million. The adjusted loss ratio increased 0.8 points as a result of the reduced net earned premiums base, losses related to Enron, favorable loss development recorded in 2000 for the architects and engineers business not present in 2001, declined underwriting results in global and marine lines related to current accident year reserve strengthening as discussed above, and the prior underwriting year reserve strengthening of CNA Re U.K. These declines were partially offset by improved underwriting results across most standard lines,

particularly the automobile and packages lines, due to earned rate achievement and re-underwriting efforts undertaken last year, and lower prior year adverse loss development (excluding the second quarter 2001 reserve strengthening). The increase in the adjusted expense ratio of 3.8 points was primarily attributable to the decrease in the net earned premium base, the write-off of unrecoverable deferred acquisition costs in the vehicle warranty line of business, an increase in the accrual for guaranty fund assessments related to the Reliance insolvency, and the decreased impact of the change in estimate for certain insurance-related assessments. The adjusted dividend ratio increased 0.6 points primarily due to adverse development in dividend reserves in Standard Lines in 2001 compared with favorable development taken in 2000.

Net earned premiums for the Property-Casualty segment decreased $1,917.0 million for 2001 compared with 2000. This decline was comprised of decreases in Standard Lines of $1,516.0 million and CNA Re of $448.0 million, partially offset by increased net earned premiums for Specialty Lines of $47.0 million.

Net earned premiums for Standard Lines decreased primarily as a result of $564.0 million of ceded premiums related to the corporate aggregate reinsurance treaties, additional ceded premiums other than the corporate aggregate reinsurance treaties, increased adverse premium development excluding the second quarter 2001 reserve strengthening, a change in estimate for involuntary market premium accruals and additional adverse experience in retrospective premium accruals. The change in estimate related to retrospective premium receivables was based upon CNA's completion of comprehensive studies related to estimated premium receivable accruals on retrospectively rated insurance policies and involuntary market facilities. The studies included the review of all such retrospectively rated insurance policies and the current estimate of ultimate losses.

Net earned premiums for CNA Re decreased as a result of $161.0 million of ceded premiums related to the corporate aggregate reinsurance treaties. In addition, premiums decreased as a result of the announced intention to sell the United Kingdom insurance subsidiaries. These declines were partially offset by reinstatement and additional premiums of $89.0 million related to the WTC event.

Net earned premiums for Specialty Lines increased due to increases in the law firms, the long-term care and architects and engineers products as well as increased rate achievement in Europe, primarily in property lines, the reserve for retrospective premium increase recorded in 2000 and decreased ceded premiums related to reinsurance for the medical professional liability line of business. Partially offsetting these improvements was $77.0 million in additional ceded premiums related to the corporate aggregate reinsurance treaties, declines in the warranty line of business and adverse experience in retrospective premium accruals recorded in the second quarter of 2001 reserve strengthening.

2000 Compared with 1999

Net operating income improved $301.3 million for 2000 as compared with 1999. The net operating income improvements were primarily driven by improved underwriting results partially offset by decreased investment income. In addition, net operating income in both 2000 and 1999 benefited from a change

in estimate for certain insurance-related assessments resulting from regulatory changes in the basis on which certain of these assessments are calculated. The after-tax impact of this change was $52.0 million in 2000 and $43.7 million in 1999.

Underwriting results improved $475.0 million for 2000 as compared with 1999. The combined ratio decreased 5.9 points for the Property-Casualty segment for 2000 as compared with 1999. This decrease reflects an improvement in the loss ratio of 6.0 points which is primarily attributable to significant rate increases across the entire book of business, favorable catastrophe experience, reduced prior year reserve strengthening and the increased use of reinsurance. Catastrophe losses for 2000 improved by $195.0 million for the Property-Casualty segment. In addition to the decrease in the loss ratio, there was a decrease of 0.7 points in the expense ratio to 31.5% due principally to the absence of restructuring-related charges that occurred in 1999 but did not recur in 2000. The dividend ratio increased 0.8 points relating to reduced favorable development in dividend reserves for Standard Lines in 2000 as compared to 1999.

Net earned premiums for the Property-Casualty segment decreased $432.0 million in 2000 as compared with 1999. This decline in net earned premiums was comprised of decreases in Standard Lines of $271.0 million, Specialty Lines of $74.0 million and CNA Re of $87.0 million.

The decrease in net earned premiums in Standard Lines was primarily attributable to continued efforts to re-underwrite business and obtain adequate rates for exposure underwritten and increased use of reinsurance. The net earned premiums decline for Specialty Lines was related principally to (i) active decisions to renew only those accounts which meet current underwriting guidelines supporting the ongoing commitment to underwriting discipline, (ii) an increase in the retrospective return premium relating to favorable loss experience in the retrospectively rated architects' and engineers' business, and (iii) a $30.0 million decline due to the increased use of reinsurance for the medical professional liability lines of CNA HealthPro. These declines were partially offset by growth in the commercial casualty and property lines in the European operations, as well as growth in the commercial warranty and surety lines.

CNA Re experienced a decrease in net earned premiums that reflects decisions not to renew contracts that management believed did not meet profitability targets, partially offset by modest rate increases.

Group

Group Operations provides group life and health insurance products and services to employers, affinity groups and other entities that purchase insurance as a group. Group Operations also provides health insurance to federal employees, as well as life and health reinsurance.

2001 Compared with 2000

Net operating income decreased by $32.0 million in 2001 as compared with 2000. This decrease is related primarily to estimated losses of $45.3 million after-tax and minority interest as a result of the WTC event. Net operating income also declined $20.1 million as a result of the sale of Life Reinsurance and $11.4 million due to a decline in limited partnership income. Life Reinsurance contributed net operating income of $19.0 million in 2000. Partially offsetting these declines were improvements as a result of exiting unprofitable lines of approximately $35.0 million, and increased income in other product lines, primarily the disability and group long-term care lines of $10.0 million.

Net earned premiums for Group Operations decreased $217.0 million in 2001 as compared with 2000. Net earned premiums declined $228.0 million as a result of the sale of Life Reinsurance and $163.0 million in Group Reinsurance primarily as a result of terminating unprofitable contracts with independent underwriting agencies in 2000. These declines were partially offset by increases in Federal Markets of $116.0 million due to increased medical cost trends and growth in Group Benefits of $58.0 million, particularly in the disability and group long term care lines of business.

Group Operations achieved rate increases in 2001 that averaged approximately 4.0% for the disability line of business. Premium persistency rates were in

the mid 80 percent range. For the group life line of business, rate increases averaged 1.0% to 2.0%. Premium persistency rates were in the lower 80% range.

2000 Compared with 1999

Net operating income increased $44.5 million in 2000 as compared with 1999. This increase relates to a $20.9 million improvement in Federal Markets due to the 1999 exit of unprofitable medical lines, a $29.5 million improvement in Group Reinsurance, a $3.5 million improvement in Life Reinsurance and a $6.1 million increase in limited partnership income. These improvements were partially offset by a $15.7 million decline in Group Benefits due to favorable 1999 loss experience in the group life line of business. The improvement associated with Group Reinsurance relates to adverse experience and loss development for the personal accident business recorded in 1999, which exceeded $6.0 million of exit costs incurred from the Management Services Organization ("MSO") business and $11.0 million of adverse development on the medical stop loss business in 2000. The decision to shut down the MSO business was based on lack of demand as providers were backing away from risk contracting.

Net earned premiums for Group Operations in 2000 increased $104.0 million as compared with 1999. This increase was principally a result of a $41.0 million increase in Group Benefits, primarily related to the group life line of business; a $35.0 million increase in Life Reinsurance; an $18.0 million increase in Group Reinsurance, and a $10.0 million increase in Federal Markets. The increases in Group Benefits and Life Reinsurance relate to new business production.

Life

Life Operations provides financial protection to individuals through a full product line of term life insurance, universal life insurance, long term care insurance, annuities and other products. Life Operations also provides retirement services products to institutions in the form of various investment products and administration services.

2001 Compared with 2000

Net operating income decreased by $98.5 million in 2001 as compared with 2000. This decrease relates primarily to restructuring and other related charges of $39.4 million, decreased net investment income from limited partnerships of $19.3 million, estimated losses related to the WTC event of $12.3 million and adverse mortality in the viatical settlement business of $8.8 million. Included in the restructuring and other related charges was a $20.1 million write-off of deferred acquisition costs on in-force variable life and annuity contracts, as CNA believes that its decision to discontinue these products will negatively impact the persistency of the business.

Sales volume for Life Operations decreased by $167.0 million in 2001 as compared with 2000. This decline was driven primarily by declines in the sales of variable annuities and as a result of the decision to cease purchasing new viatical policies. These declines were partially offset by increased renewals and increased new sales in Long Term Care products. Net earned premiums increased $78.0 million in 2001 as compared with 2000. This improvement is attributable primarily to improved sales of structured settlements because of favorable pricing conditions and Long Term Care products, partially offset by a decrease in new Individual Life business.

2000 Compared with 1999

Net operating income increased $31.1 million in 2000 as compared with 1999. The increase was attributable principally to increased earnings in the Index 500 product, the continued growth of Individual Life insurance in-force, favorable investment results in Individual Life and the Retirement Services and increased income from limited partnerships of $7.8 million.

Sales volume for Life Operations declined $478.0 million in 2000 as compared with 1999. Sales volume decreased because of a reduction in Retirement Services' products sold to institutions. These products tend to be "large case" institutional markets' sales, which can be sporadic, opportunistic and sensitive to independent agency ratings. Despite the overall decline, Life Operations' competitively priced product portfolio enabled most of its businesses to experience growth in 2000. Individual Life and Long Term Care products had an increasing base of direct premiums, and variable investment contracts experienced growth of $270.0 million to reach an annual sales level

of $380.0 million in 2000. Net earned premiums declined $60.0 million in 2000 as compared with 1999. This decline was attributable primarily to sales declines in structured settlements and single premium group annuities due to a competitive pricing environment.

These declines were partially offset by a growing in-force block of Long Term Care and annuity products.

Other Insurance

The Other insurance segment contains CNA's corporate interest expense, certain run-off insurance operations, including Personal Insurance, losses and expenses related to the centralized adjusting and settlement of APMT claims, direct financial guarantee business underwritten by CNA's insurance affiliates, certain non-insurance operations, including eBusiness initiatives and CNA UniSource, and eliminations.

2001 Compared with 2000

Net operating results declined $777.5 million in 2001 as compared with 2000. The after-tax impact of the second quarter 2001 reserve strengthening on the Other Insurance segment was $695.2 million, including $644.7 million for APMT. See the following Environmental Pollution and Other Mass Tort and Asbestos Reserves section for a discussion of this charge. Net operating income for 2001 also decreased by $67.4 million for restructuring and other related charges, $39.0 million for the non-recurring ceding commission included in 2000 results related to the transfer of the Personal Insurance business to Allstate in 1999, $30.6 million related to increased eBusiness initiatives in 2001, and $12.3 million due to decreased limited partnership income. These declines were partially offset by lower interest expense on corporate borrowings in 2001 as compared with 2000 and a non-recurring favorable adjustment of expense recoveries under a service contract related to Personal Insurance.

Total operating revenues, excluding eliminations, decreased $104.0 million in 2001 as compared with 2000. This decline was due to a decrease in net investment income and net earned premiums from run-off insurance operations, particularly the entertainment and agriculture insurance lines.

2000 Compared with 1999

Net operating results improved $165.9 million for 2000 as compared with 1999. This improvement is due to lower adverse development related to asbestos claims in 2000 as compared with 1999 and improvements in Personal Insurance, including $45.0 million for non-recurring ceding commission in 2000 as compared with $33.0 million in 1999, partially offset by expenses for CNA's eBusiness initiatives.

Total operating revenues, excluding eliminations, decreased $1,578.0 million in 2000 as compared with 1999. This decline is driven primarily by a $1,421.0 million decrease in net earned premiums attributable primarily to the sale of Personal Insurance to Allstate in 1999. Net earned premiums for 1999 included $1,354.0 million of premiums related to Personal Insurance. The remaining decline in net earned premiums was primarily a result of CNA exiting the entertainment insurance and other financial lines of business. Additionally, operating revenues declined as a result of decreased net investment income.

Environmental Pollution and Other Mass Tort and Asbestos Reserves

CNA's property-casualty insurance subsidiaries have potential exposures related to APMT claims.

Environmental pollution cleanup is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to cleanup. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfunds") govern the cleanup and restoration of toxic waste sites and formalize the concept of legal liability for cleanup and restoration by "Potentially Responsible Parties" ("PRPs"). Superfund and the mini-Superfunds establish mechanisms to pay for cleanup of waste sites if PRPs fail to do so, and to

assign liability to PRPs. The extent of liability to be allocated to a PRP is dependent upon a variety of factors. Further, the number of waste sites subject to cleanup is unknown. To date, approximately 1,500 cleanup sites have been identified by the Environmental Protection Agency ("EPA") and included on its National Priorities List ("NPL"). State authorities have designated many cleanup sites as well.

Many policyholders have made claims against 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 includes what is referred to in the industry as an "absolute pollution exclusion." CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether cleanup costs are considered damages under the policies, trigger of coverage, allocation of liability among triggered policies, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and the definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.

A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress during 2001, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the effect upon CNA's results of operations and/or financial position.

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

As of December 31, 2001 and 2000, CNA carried approximately $617.0 and $347.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and other mass tort claims. Unfavorable environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the year ended December 31, 2001 and 2000 amounted to $473.0 and $17.0 million. Favorable environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the year ended December 31, 1999 amounted to $84.0 million. The Company made environmental pollution-related claim payments and other mass tort-related claim payments, net of reinsurance recoveries, of $203.0, $135.0 and $236.0 million during the years ended December 31, 2001, 2000 and 1999, respectively.

The reserve development during 2001 for environmental pollution and other mass tort reserves was due to reviews completed during the year, which indicated that paid and reported losses were higher than expectations based on prior reviews. Factors that have led to this development include a number of declaratory judgments filed this year due to an increasingly favorable legal environment for policyholders in certain courts and other unfavorable decisions regarding cleanup issues.

CNA's property-casualty insurance subsidiaries also have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future and the uncertainties inherent in predicting the number of future claims.

As of December 31, 2001 and 2000, CNA carried approximately $1,204.0 and

$603.0 million of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. Unfavorable asbestos-related net claim and claim adjustment expense reserve development for the years ended December 31, 2001, 2000 and 1999 amounted to $772.0, $65.0 and $560.0 million, respectively. CNA made asbestos-related claim payments, net of reinsurance, of $171.0, $126.0 and $161.0 million during the years ended December 31, 2001, 2000 and 1999, respectively, excluding payments made in connection with the 1993 settlement of litigation related to Fibreboard Corporation. CNA has attempted to manage its asbestos-related exposures by aggressively resolving old accounts.

The reserve development during 2001 for asbestos-related claims was based on a management review of developments with respect to these exposures conducted during the year. This analysis indicated a significant increase in claim counts for asbestos-related claims. The factors that have led to the deterioration in claim counts include, among other things, intensive advertising campaigns by lawyers for asbestos claimants and the addition of new defendants such as the distributors and installers of products containing asbestos. New claim filings increased significantly in 2000 over 1999 and that trend continued during 2001. The volume of new claims has caused the bankruptcies of numerous asbestos defendants. Those bankruptcies also may result in increased liability for remaining defendants under principles of joint and several liability.

In addition, some asbestos-related defendants have asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA currently has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called "non-products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non-products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non-products" claims outside the products liability aggregate will succeed.

Due to the uncertainties created by volatility in claim numbers and settlement demands, the effect of bankruptcies, the extent to which non-impaired claimants can be precluded from making claims and the efforts by insureds to obtain coverage not subject to aggregate limits, the ultimate liability of CNA for asbestos-related claims may vary substantially from the amount currently recorded. Other variables that will influence CNA's ultimate exposure to asbestos-related claims include medical inflation trends, jury attitudes, the strategies of plaintiff attorneys to broaden the scope of defendants, the mix of asbestos-related diseases presented and the possibility of legislative reform. Adverse developments with respect to such matters discussed herein could have a material adverse effect on CNA's results of operations and/or financial condition.

The results of operations and financial condition of CNA in future years may continue to be adversely affected by environmental pollution and other mass tort and asbestos claim and claim adjustment expenses. Management will continue to review and monitor these liabilities and make further adjustments, including further reserve strengthening as warranted.

Lorillard

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

2001 Compared with 2000

Revenues increased by $186.1 million, or 4.3% and net income decreased $81.7 million, or 10.8%, respectively, in 2001 as compared to 2000.

Net sales increased due to higher average unit prices which would have resulted in an aggregate increase of approximately $543.5 million, or 12.8%, partially offset by a decrease of approximately $336.0 million, or 7.9%, reflecting lower unit sales volume for 2001 as compared to 2000. During 2001, Lorillard increased its net wholesale price of cigarettes by an average of $13.58 per thousand cigarettes ($.27 per pack of 20 cigarettes), or 12.8%. Federal excise taxes are included in the price of cigarettes and have remained constant at $17.00 per thousand units, or $.34 per pack of 20 cigarettes. On

January 1, 2002, the federal excise tax on cigarettes increased by $2.50 per thousand cigarettes ($0.05 per pack of 20 cigarettes). All of the states also levy excise taxes on cigarettes. 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.

Lorillard's overall unit sales volume decreased by 6.5% in 2001, as compared to 2000. Newport's unit sales volume increased by .04% for 2001, primarily as a result of the introduction of the Newport Medium line extension and strengthened promotional support, as compared to 2000. The decrease in Lorillard's overall unit sales volume reflects lower unit sales of its Maverick and Old Gold brands in the discount market segment due primarily to increased competition in the discount segment and continued limitations imposed by Philip Morris's merchandising arrangements and general competitive conditions. Overall, industry unit sales volume decreased by 3.2% for the year ended December 31, 2001.

Lorillard's share of wholesale cigarette shipments was 9.5% in 2001, as compared to 9.8% for 2000. Newport, a premium brand, accounted for approximately 85% of Lorillard's unit sales for the year ended December 31, 2001 compared to 79% in 2000. Newport's market share of the premium segment was 10.9% for the year ended December 31, 2001 compared to 10.5% in 2000.

Lorillard recorded pretax charges of $1,140.4 and $1,076.5 million ($694.2 and $642.3 million after-taxes), for the years ended December 31, 2001 and 2000, respectively, to accrue its obligations under various settlement agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. Funds required for the industry payment obligations have been provided by Lorillard's operating activities. See Note 17 of the Notes to Consolidated Financial Statements.

The State Settlement Agreements impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers and the Master Settlement Agreement places significant restrictions on their ability to market and sell cigarettes. The Company believes that the implementation of the State Settlement Agreements will materially adversely affect its consolidated results of operations and cash flows in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in U.S. cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to the State Settlement Agreements.

Net income declined for the year ended December 31, 2001, due to a charge of $121.0 million (net of taxes) to record the effect of the Engle agreement discussed in Liquidity and Capital Resources. Excluding this charge, net income would have increased by $39.3 million, or 5.2%, for the year ended December 31, 2001, as compared to 2000. This increase in net income was primarily due to the impact of wholesale price increases, partially offset by lower unit sales volume and increased sales promotional expenses, mostly in the form of coupons and other discounts provided to retailers and passed through to the consumer.

In accordance with industry practice, promotional support in the form of coupons and other discounts is recorded as an expense under "Other operating expenses" rather than reducing net sales. In the first quarter of 2002, Lorillard will be required to adopt the provisions of the FASB's Emerging Issues Task Force Issues No. 00-14, "Accounting for Certain Sales Incentives," and No. 00-25, "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." As a result of both issues, promotional expenses historically included in other operating expenses will be reclassified to cost of manufactured products sold, or as reductions of net sales. Beginning with the first quarter of 2002, prior period amounts will be reclassified for comparative purposes.

2000 Compared with 1999

Revenues and net income increased by $277.9 and $102.0 million, or 6.8% and 15.6%, respectively, in 2000 as compared to 1999.

Net sales increased as compared to 1999, by approximately $550.3 million, or

13.8%, due to higher average unit prices, including $200.1 million from the increase in federal excise tax, partially offset by a decrease of approximately $307.8 million, or 7.7%, reflecting lower unit sales volume in 2000. Net investment income contributed $35.9 million to the increased revenues.

During 2000, Lorillard increased the wholesale price of its cigarettes by an aggregate of $16.50 per thousand cigarettes ($0.33 per pack of 20 cigarettes). Federal excise taxes included in the price of cigarettes are $17.00 per thousand cigarettes ($0.34 per pack of 20 cigarettes).

Net income increased due primarily to the increased revenues discussed above, partially offset by the charges for tobacco litigation settlements and higher legal expenses. Net income for the years ended

December 31, 2000 and 1999 includes pretax charges of $1,076.5 and $1,065.8 million ($642.3 and $637.3 million after-taxes), respectively, related to the settlement of tobacco litigation. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. Funds required to meet the industry payment obligations have been provided by Lorillard's operating activities.

Lorillard's overall unit sales volume decreased by 7.0% as compared to 1999. Newport, a full price brand, which accounted for approximately 79% of Lorillard's unit sales in 2000, increased by 1.5% as compared to 1999. Newport's increase in unit sales volume reflects increased promotional activities to the extent practicable in light of existing limitations due to competitive conditions. The decrease in Lorillard's overall unit sales volume reflects lower unit sales of its Maverick and Old Gold brands in the discount market segment. Discount brand sales have remained relatively constant at 26.3%, 26.4% and 26.2% as a percentage of industry sales for 2000, 1999 and 1998, respectively.

Newport's market share increased 0.1% to 7.7% in 2000, as compared to 7.6% in 1999. Overall industry unit sales volume is up by .02% in 2000, as compared to 1999.

Loews Hotels

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

2001 Compared with 2000

Revenues and net income decreased by $16.7 and $7.3 million, or 4.9% and 27.2%, respectively, in 2001 compared to 2000.

Revenues decreased primarily due to lower occupancy rates and lower average room rates, partially offset by the addition of the Philadelphia hotel, which commenced operations in spring of 2000. The decline in revenues reflects the continued economic weakness and the impact that the September 11, 2001 World Trade Center attack had on the travel industry. Net income decreased due primarily to lower revenues and increased depreciation expenses related to the Philadelphia hotel, partially offset by lower advertising and administrative expenses and lower pre-opening costs.

2000 Compared with 1999

Revenues and income before cumulative effect of changes in accounting principles decreased by $13.4 and $43.7 million, or 3.8% and 62.0%, respectively, in 2000 as compared to 1999. Included in 1999 is a gain of $85.1 million ($52.0 million after-taxes) from the sale of two franchised properties. Excluding this gain, revenues and income before cumulative effect of changes in accounting principles increased by $71.7 and $8.3 million, respectively.

Revenues and income before cumulative effect of changes in accounting principles increased due primarily to increased overall average room rates and the addition of two luxury properties to the Loews Hotels portfolio, offsetting the 1999 sale of the two franchised properties. Overall occupancy

rates remained at approximately 78%, essentially unchanged from 1999. Income also benefited from improved operating results of an unconsolidated joint venture whose operations commenced in 1999.

Diamond Offshore

Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore Drilling, Inc. is a 53% owned subsidiary of the Company.

2001 Compared with 2000

Revenues increased by $218.7 million, or 30.2%, and net income increased by $39.0 million, in 2001 as compared to 2000. Revenues and net income included a gain from the sale of a drilling rig of $13.9 and $4.7 million, respectively, for the year ended December 31, 2000.

Revenues from high specification floaters and other semisubmersible rigs increased by $179.3 million, or 24.8%, in 2001 as compared to 2000. These increases reflect higher utilization ($23.6 million) and dayrates ($94.2 million) for 2001 as compared 2000. Revenue generated by the Ocean Confidence, which began a five-year drilling program in the Gulf of Mexico on January 5, 2001 after completion of a conversion to a high specification semisubmersible drilling unit ($61.5 million), also contributed to the increase in revenues.

Revenues from jack-up rigs increased by $55.6 million, or 7.7%, due primarily to increased dayrates ($63.6 million) for 2001, partially offset by lower utilization in 2001.

Net income increased due primarily to the increased revenues discussed above, partially offset by increased interest and depreciation expenses. Depreciation expenses increased in 2001 primarily due to the Ocean Confidence, which completed its conversion from an accommodation vessel to a high specification semisubmersible drilling unit and commenced operations in January 2001. Interest expense increased due also to the Ocean Confidence as a result of less interest capitalized.

2000 Compared with 1999

Revenues and net income decreased by $123.3 and $40.7 million, or 14.6% and 56.0%, respectively, in 2000 as compared to 1999.

Revenues decreased due principally to lower operating dayrates ($143.9 million) and reduced utilization ($50.6 million) for Diamond Offshore's semisubmersible rigs, partially offset by increased utilization ($35.1 million) and higher dayrates ($26.4 million) for jack-up rigs during 2000, as compared to 1999. Revenues also declined by $17.1 million due to the sale of a jack-up rig and $6.0 million due to the mobilization of rigs to new markets during 2000. These declines were partially offset by increased investment income ($14.5 million) and a gain from the sale of a drilling rig of $13.9 million ($4.7 million after-taxes and minority interest) in 2000.

Net income declined due primarily to the lower revenues discussed above and the fact that contract drilling costs remained relatively unchanged. Operating expenses generally are not affected by changes in dayrates, nor are they significantly affected by fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, Diamond Offshore realizes few decreases in operating expenses since the rig is typically maintained in a prepared state with a full crew. In addition, when a rig is idle, Diamond Offshore is responsible for certain operating expenses such as rig fuel and supply boat costs, which are typically charged to the operator under drilling contracts. However, if the rig is to be idle for an extended period of time, Diamond Offshore may reduce the size of a rig's crew and take steps to "cold stack" the rig, which lowers expenses and partially offsets the impact on operating income.

Bulova

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

2001 Compared with 2000

Revenues and net income decreased by $14.0 and $4.9 million, or 8.7% and

32.7%, respectively, in 2001 compared to 2000. Revenues and net income decreased due primarily to royalty income of $5.5 and $3.0 million, respectively, reported in 2000 related to the settlement of a contract dispute. The remaining decline in revenues for 2001 reflects lower watch and clock unit sales volume due primarily to the continued economic downturn, partially offset by higher watch unit prices.

Net income decreased due to the lower revenues and costs incurred during business process reengineering of Bulova's information systems, partially offset by improved gross margins attributable to Bulova's product sales mix.

2000 Compared with 1999

Revenues and net income increased by $21.4 and $.9 million, or 15.4% and 6.4%, respectively, in 2000 as compared to 1999.

Revenues increased due to an increase in royalty income of $5.5 million from the settlement of a contract dispute, and higher watch unit sales volume. These increases were partially offset by lower watch prices and lower clock unit sales in 2000, as compared to 1999. Watch prices declined due primarily to a change in sales mix.

Net income increased due primarily to the higher revenues discussed above, partially offset by increased brand support and advertising expenses, and a lower effective income tax rate in 1999 due to a valuation allowance adjustment related to prior years.

Corporate

Corporate operations consist primarily of investment income, including investment gains (losses) from non-insurance subsidiaries, as well as equity earnings from a shipping joint venture, corporate interest expenses and other corporate administrative costs.

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

Year ended December 31	2001	2000	1999
(In millions)			
Derivative instruments (a)	$18.2	$(146.5)	$(424.1)
Equity securities, including short positions (a)	69.1	125.1	(56.5)
Short-term investments	28.5	(3.3)	9.4
Other	12.6	17.3	(1.6)
	128.4	(7.4)	(472.8)
Income tax (expense) benefit	(45.0)	2.6	172.1
Minority interest	(8.3)		
Net gain (loss)	$75.1	$ (4.8)	$(300.7)

(a) Includes losses on short sales, equity index futures and options aggregating $533.6 for the year ended December 31, 1999. Substantially all of the index short positions were closed during the second quarter of 2000. See "Quantitative and Qualitative Disclosures About Market Risk."

2001 Compared with 2000

Exclusive of investment gains (losses), revenues decreased $19.1 million and net loss increased $3.0 million, or 11.5% and 21.1%, respectively, in 2001 compared to 2000, due primarily to lower investment income. This change was partially offset by increased operating results from a shipping joint venture reflecting increased demand and charter rates in the crude oil tanker markets.

2000 Compared with 1999

Exclusive of investment gains (losses), revenues increased by $42.7 million and net loss decreased by $15.9 million, or 34.7% and 52.0%, respectively, due to higher investment income reflecting an increased base of invested assets, and improved results from a shipping joint venture, partially offset by increased administrative and interest expenses.

LIQUIDITY AND CAPITAL RESOURCES

CNA

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

For the year ended December 31, 2001, net cash used for operating activities was $599.0 million as compared with net cash used of $1,345.5 and $2,823.0 million in 2000 and 1999, respectively. The improvement related primarily to decreased paid claims. The improvement in 2000 relates primarily to significant payments in 1999 for (i) $1.1 billion in cash to Allstate in connection with the transaction involving CNA's Personal Insurance business and (ii) $1.1 billion of claim payments from escrow pursuant to the Fibreboard settlement. See Note 12 of the Notes to Consolidated Financial Statements for discussion of the Personal Insurance transaction. Excluding these significant, non-recurring transactions from 1999, CNA's 2000 cash outflow from operations declined by approximately $600.0 million to an outflow of approximately $1.4 billion. The operating cash flows forgone in 2000 due to the transfer of Personal Insurance in 1999 was approximately $250.0 million. The remainder of the decline related primarily to increased payments of claims and decreased receipts of premiums.

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

For the year ended December 31, 2001, net cash used for investment activities was $205.1 million as compared with net cash inflows of $1,842.0 million in 2000. Cash flows for investing activities were related principally to increased net purchases of invested assets related to investing $1.0 billion of proceeds from the common stock rights offering completed in the third quarter of 2001.

For the year ended December 31, 2000, net cash inflows from investment activities were $1,842.0 million as compared with $3,317.0 million in 1999. Cash flows from investing activities were particularly high in 1999 due to sales of investments to fund the outflows related to the Personal Insurance transaction and Fibreboard claim payments.

Cash flows from financing activities include proceeds from the issuance of debt or equity securities, outflows for dividends or repayment of debt and outlays to reacquire equity instruments. For the year ended December 31, 2001, net cash provided from financing activities was $783.0 million as compared with $487.0 million of net cash used in 2000. CNA completed a common stock rights offering on September 26, 2001, successfully raising $1.0 billion (40.3 million shares sold at $25 per share). Loews purchased 38.3 million shares issued in connection with the rights offering for $957.1 million, and an additional .8 million shares in the open market, increasing its ownership percentage of CNA to 89%. Additionally, CNA borrowed $500.0 million against its bank credit facility. Partially offsetting these cash inflows were reductions to CNA's commercial paper borrowings of $627.0 million.

For the year ended December 31, 2000, net cash used for financing activities was $487.0 million as compared with $558.0 million in 1999. During 2000 and 1999, cash flows for financing activities included the repurchase of preferred and common equity instruments, the retirement or repurchase of senior debt securities and mortgages, the repayment of bank loans and the payment of preferred dividends.

CNA is closely managing the cash flows related to claims and reinsurance recoverables from the WTC event. It is anticipated that significant claim payments will be made prior to receipt of the corresponding reinsurance recoverables. CNA does not anticipate any liquidity problems resulting from these payments. As of March 1, 2002, CNA has paid $273.0 million in claims and

recovered $90.0 million from reinsurers.

CNA's estimated gross pretax losses for the WTC event were $1,648.0 million, ($937.2 million after-tax and minority interest). Net pretax losses before the effect of the corporate aggregate reinsurance treaties were $727.0 million. Approximately 41.0%, 40.0% and 17.0% of the reinsurance recoverables on the estimated losses related to the WTC event are from companies with S&P ratings of AAA, AA or A, respectively.

Effective January 30, 2001, CNA sold the 180 Maiden Lane, New York, facility. The sale of this property provided additional liquidity to CNA with net sale proceeds of $264.0 million.

During 2001, CNA discontinued its commercial paper program and repaid all loans outstanding under the program. The funds used to retire the outstanding commercial paper debt were obtained through the draw down of the full amount available under CNA's $500.0 million revolving credit facility. The facility is composed of two parts: a $250.0 million component with a 364-day expiration date (with an option to convert into a one-year term loan) and a $250.0 million component with a three-year expiration date.

CNA pays a facility fee to the lenders for having funds available for loans under both components of the facility; the fee varies based on the long-term debt ratings of CNA. At December 31, 2001 the facility fee on the 364-day component was 15 basis points and the facility fee on the three-year component was 17.5 basis points.

In addition to the facility fees, CNA pays interest on outstanding debt/borrowings under the facility based on a rate determined using the long-term debt ratings of CNA. The current interest rate is equal to the London Interbank Offering Rate ("LIBOR") plus 60 basis points for the 364-day component and LIBOR plus 57.5 basis points for the

three-year component. Further, if CNA has outstanding loans greater than 50% of the amounts available under the facility, CNA also pays a utilization fee of 12.5 basis points on such loans.

A Moody's downgrade of the CNA senior debt rating from Baa2 to Baa3 would increase the facility fee on the 364-day component of the facility from 15 basis points to 20 basis points, and the facility fee on the three-year component would increase from 17.5 basis points to 25 basis points. The applicable interest rate on the 364-day component would increase from LIBOR plus 60 basis points to LIBOR plus 80 basis points and the applicable interest rate on the three-year component would increase from LIBOR plus 57.5 basis points to LIBOR plus 75 basis points. The utilization fee would remain unchanged on both components at 12.5 basis points.

The $500.0 million revolving credit facility replaced CNA's $750.0 million revolving credit facility (the "Prior Facility"), which was scheduled to expire on May 10, 2001. No loans were outstanding under the Prior Facility anytime during 2001. To offset the variable rate characteristics of the Prior Facility and the interest rate risk associated with periodically reissuing commercial paper, in 1999 and 2000 CNA entered into interest rate swap agreements with several banks. These agreements required CNA to pay interest at a fixed rate in exchange for the receipt of the three-month LIBOR. The effect of the interest rate swap agreements was to decrease interest expense by approximately $2.0 million for the year ended December 31, 2000 and increase interest expense by $4.0 million for the year ended December 31, 1999.

The terms of CNA's credit facility requires CNA to maintain certain financial ratios and combined property-casualty company statutory surplus levels. At December 31, 2001 and 2000, CNA was in compliance with all restrictive debt covenants.

Following the announcement of second quarter 2001 earnings, CNA's commercial paper rating was placed under review by S&P. During the review period, CNA, through an affiliated company held varying amounts of its commercial paper with the intent to put it back into the market after the review was completed. On October 10, 2001, S&P lowered CNA's commercial paper rating from A2 to A3, and maintained the CreditWatch Negative status. On December 28, 2001, Moody's lowered the long-term debt rating from Baa1 to Baa2 and affirmed the P2 short-term debt rating.

The commercial paper rating downgrade, the impacts of the WTC event and an overall decline in the market made it difficult to maintain a commercial paper program. Following consultation with CNA's commercial and investment bankers, management determined that the most economical way to replace the commercial paper was to draw on the revolving bank credit facility.

In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At December 31, 2001 there were approximately $270.0 million of outstanding letters of credit, of which approximately $30.0 million are collateralized with cash and securities.

CNA has committed approximately $152.0 million to future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.

CNA has a commitment to purchase a $100.0 million floating rate note issued by the Californian Earthquake Authority in the event California earthquake related insurance losses exceed $4.9 billion prior to December 31, 2002.

CNA has entered into a limited number of guaranteed payment contracts. These relate primarily to telecom service contracts and amount to payments of approximately $41.0 million guaranteed for 2002 through 2005. Additionally, CNA is obligated to future payments totaling $596.0 million for non-cancelable operating leases expiring from 2002 through 2014 primarily for office space, data processing, office and transportation equipment.

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

The table below reflects ratings issued by A.M. Best, S&P, Moody's and Fitch as of February 13, 2002 for the Continental Casualty Company ("CCC") Pool, the Continental Insurance Company ("CIC") Pool and the Continental Assurance Company ("CAC") Pool. Also rated were CNA's senior debt and commercial paper and The Continental Corporation's ("Continental") senior debt.

	Insurance Ratings			Debt Ratings		
	Financial Strength			CNA		Continental
	CCC Pool	CAC Pool	CIC Pool	Senior Debt	Commercial Paper	Senior Debt
A.M. Best	A	A	A	BBB	AMB-2	BBB-
Fitch	A	AA-	NR	BBB	NR	NR
Moody's	A3	A2 (Negative)*	A3	Baa2	P2	Baa3
S&P	A-	A+	A-	BBB-	A3	BBB-

NR = Not Rated

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

On February 13, 2002, Fitch removed the rating watch negative status and affirmed the insurance financial strength rating of CCC and the senior debt rating of CNA. On September 24, 2001, following the WTC event, Fitch affirmed the ratings of CAC and placed CCC under review.

On February 1, 2002 S&P affirmed the debt and financial strength ratings of CNA and the CNA insurance companies. The outlook was changed from CreditWatch

Negative to stable. This action occurred after management's discussions with S&P in early January of 2002, and upon completion of their evaluation of additional information provided to them with respect to the WTC event reserve estimate (including additional sensitivity analyses of the reserve estimates) and other capital adequacy analyses. Additionally, CNA and S&P-London have agreed to a guarantee of the Continental Insurance Company of Europe ("CIE")/Maritime Insurance Co., Ltd. liabilities by CCC in order to maintain their present rating of "A-". This matter is expected to be concluded by the second quarter of 2002, as the guarantee requires the approval of the Illinois Department of Insurance (the "Department").

On December 28, 2001, Moody's lowered the insurance financial strength rating of the CCC Pool to A3 (stable). In addition, Moody's lowered the CNA long-term debt and preferred stock ratings to Baa2 and Ba1, and the Continental senior debt rating to Baa3. The previously affirmed ratings of CIC, CAC and commercial paper remained unchanged with the rating action. These rating actions concluded the review begun on August 2, 2001 in connection with the second quarter 2001 reserve strengthening. In light of subsequent events, management further discussed with Moody's the WTC event and the fourth quarter restructuring charge. All of these items were contemplated in their current rating opinion and outlook.

CNA held $275.0 million of Continental preferred shares. The $29.0 million annual Continental preferred share dividend was funded by CIC. Although the capital position of the CIC Pool remains strong, CIC's ability to dividend funds to its parent, Continental, is limited by regulatory constraints. In order to alleviate intercompany dividend requirements, the Continental preferred stock has been converted to Continental common stock in the fourth quarter of 2001.

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

Dividends from the CCC Pool are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Department, may be paid only from earned surplus, which is calculated by removing unrealized gains (which under statutory accounting includes cumulative earnings of CCC's subsidiaries) from unassigned surplus. As of December 31, 2001, CCC is in a negative earned surplus position. In February of 2002, the Department approved an extraordinary dividend in the amount of $117.0 million to be used to fund CNA's 2002 debt service requirements. Until CCC is in a positive earned surplus position, all dividends require prior approval of the Department.

In addition, by agreement with the New Hampshire Insurance Department, as well as certain other state insurance departments, dividend payments for the CIC Pool are restricted to internal and external debt service requirements through September 2003 up to a maximum of $85.0 million annually, without the prior approval of the New Hampshire Insurance Department.

Lorillard

Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation and regulatory issues. Lawsuits continue to be filed against Lorillard and other manufacturers of tobacco products. Approximately 4,675 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,250 cases are pending in a West Virginia court, and approximately 2,850 cases are brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits served to date and is a defendant in most of the cases pending in West Virginia.

On July 14, 2000, the jury in Engle v. R.J. Reynolds Tobacco Co., et al. awarded a total of $145.0 billion in punitive damages against all defendants, including $16.3 billion against Lorillard. The judgment also provides that the jury's awards bear interest at the rate of 10% per year. Lorillard remains of the view that the Engle case should not have been certified as a class action. That certification is inconsistent with the majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged class

certification, as well as other numerous legal errors that it believes occurred during the trial. The Company and Lorillard believe that an appeal of these issues on the merits should prevail.

Lorillard noticed an appeal from the final judgment to the Third District of the Florida Court of Appeal and posted its appellate bond in the amount of $100.0 million pursuant to Florida legislation limiting the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. While Lorillard believes this legislation is valid and that any challenges to the possible application or constitutionality of this legislation would fail, during May of 2001, Lorillard and two other defendants jointly contributed a total of $709.0 million to a fund that will not be recoverable by them even if challenges to the judgment are resolved in favor of the defendants. As a result, the class has agreed to a stay of execution on its punitive damages judgment until appellate review is completed, including any review by the U.S. Supreme Court. However, if Lorillard, Inc.'s balance sheet net worth (as determined in accordance

with generally accepted accounting principles in effect as of July 14, 2000) falls below $921.2 million, the stay pursuant to the agreement would terminate and the class would be free to challenge the separate stay granted in favor of Lorillard pursuant to Florida legislation. The Florida legislation limits to $100.0 million the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. Lorillard contributed a total of $200.0 million to this fund, which included the $100.0 million that was initially posted as its appellate bond. Accordingly, results of operations for the year ended December 31, 2001, include Lorillard's second quarter pretax charge of $200.0 million.

The terms of the State Settlement Agreements (see Note 17 of the Notes to Consolidated Financial Statements) require significant payments to be made to the Settling States which began in 1998 and continue in perpetuity. Lorillard expects the cash payment to be made under the State Settlement Agreements in 2001 to be approximately $1.1 billion. See Note 17 of the Notes to Consolidated Financial Statements for additional information regarding this settlement and other litigation matters.

The principal source of liquidity for Lorillard's business and operating needs is internally generated funds from its operations. Lorillard generated net cash flow from operations of approximately $709.7 million for the year ended December 31, 2001, compared to $550.4 million for the prior year. The increased cash flow in 2001 reflects timing differences related to the cash payments for estimated taxes partially offset by the lower net income and additional cash payments related to the Engle agreement. Lorillard believes that cash flows from operating activities will be sufficient for the foreseeable future to enable it to meet its obligations under the State Settlement Agreements and to fund its capital expenditures. Lorillard cannot predict its cash requirements related to any future settlements or judgments, including cash required to bond any appeals, if necessary, and can make no assurance that it will be able to meet all of those requirements.

Loews Hotels

In 2001, Loews Hotels, with its partners, opened a second hotel at Universal Orlando in Florida and is developing a third hotel which is scheduled to open in 2002. Capital expenditures in relation to these hotel projects are being funded by a combination of equity from Loews Hotels and its partners, 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 existing cash balances and operations.

Diamond Offshore

There has historically been a strong correlation between the price of oil and natural gas and the demand for offshore drilling services. As natural gas prices started to decline during the third quarter of 2001, demand for Diamond Offshore's jack-up fleet in the Gulf of Mexico began to soften. Although Diamond Offshore has maintained jack-up fleet utilization higher than the industry average, operating dayrates earned by the fleet have deteriorated. Utilization of Diamond Offshore's intermediate semisubmersible fleet in the

Gulf of Mexico, which had begun to improve during mid-year 2001, declined again during the fourth quarter. Contract renewal dayrates for these rigs have also been lower.

Utilization for Diamond Offshore's high specification floaters has remained strong throughout 2001. However, towards the end of the year, some deep-water capacity has become available in the market, and dayrates have declined slightly. In the international markets, demand has been strong and dayrates have remained at high levels. Diamond Offshore believes that continued strength in both high specification and international markets will depend, in large part, on product prices remaining at current levels. Significant relocations of drilling rigs from the weaker Gulf of Mexico to international markets could also lower dayrates in non-U.S. markets.

At December 31, 2001, cash and marketable securities totaled $1.1 billion, up from $862.1 million at December 31, 2000. Cash provided by operating activities for the year ended December 31, 2001 increased by $177.5 million to $374.0 million, as compared to 2000. The increase in cash flow was primarily due to improved results of operations in 2001.

On April 6, 2001, Diamond Offshore redeemed all of its outstanding 3.75% Convertible Subordinated Notes (the "Notes") in accordance with the indenture under which the Notes were issued. Prior to April 6, 2001, $12.4 million principal amount of the Notes had been converted into 307,071 shares of Diamond Offshore's common stock at the stated conversion price of $40.50 per share. The remaining $387.6 million principal amount of the Notes was redeemed at 102.08% of the principal amount, plus accrued interest, for a total cash payment of $397.7 million.

On April 11, 2001, Diamond Offshore issued $460.0 million principal amount of 1.5% convertible senior debentures (the "1.5% Debentures") due April 15, 2031. The 1.5% Debentures are convertible into shares of Diamond Offshore's common stock at an initial conversion rate of 20.3978 shares per each $1,000 principal amount, subject to adjustment in certain circumstances. Upon conversion, Diamond Offshore has the right to deliver cash in lieu of shares of its common stock. The transaction resulted in net proceeds of approximately $449.1 million.

During 2001, Diamond Offshore purchased 1,403,900 shares of its common stock at an aggregate cost of $37.8 million. Depending on market conditions, Diamond Offshore may, from time to time, purchase shares of its common stock in the open market.

During the year ended December 31, 2001, Diamond Offshore expended $160.4 million, including capitalized interest expense, for rig upgrades. These expenditures were primarily for the deepwater upgrades of the Ocean Baroness ($114.3 million) and the Ocean

Rover ($20.7 million). Included in this amount was $12.6 million for accommodation and stability enhancement upgrades of the Ocean Nomad which were completed in April 2001. In addition, the pre-fabrication of equipment required for the upgrade of six of Diamond Offshore's jack-up rigs accounted for $7.2 million of 2001 rig upgrade expenditures. Diamond Offshore expects to spend approximately $275.0 million for rig upgrade capital expenditures during 2002 which are primarily costs associated with upgrades of the Ocean Rover and six jack-up rigs. Approximately $34.0 million of this amount is expected to be used for the completion of the Ocean Baroness upgrade.

The significant upgrade of Diamond Offshore's semisubmersible, the Ocean Baroness, to high specification capabilities will be completed in early 2002. The approximate cost of the upgrade was $170.0 million. In January 2002, the Ocean Rover arrived at a shipyard in Singapore for a major upgrade to water depths and specifications similar to the enhanced Ocean Baroness. The estimated cost of this upgrade is approximately $200.0 million with approximately $140.0 million to be spent in 2002. The upgrade is expected to take approximately 19 months to complete with delivery estimated to occur in the third quarter of 2003.

Diamond Offshore also plans to spend approximately $93.0 million over the next two years to upgrade six of its jack-up rigs. The equipment necessary for these upgrades will be pre-fabricated and installation is planned to occur during idle time or scheduled surveys to minimize downtime. Diamond Offshore expects to finance these upgrades through the use of existing cash balances or

internally generated funds.

During the year ended December 31, 2001, Diamond Offshore expended $108.2 million for its continuing rig enhancement program and other corporate requirements. Diamond Offshore has budgeted $107.1 million for 2002 capital expenditures associated with these items.

Cash required to meet Diamond Offshore's capital commitments is determined by evaluating rig upgrades to meet specific customer requirements and by evaluating Diamond Offshore's continuing rig enhancement program, including water depth and drilling capability upgrades. It is management's opinion that operating cash flows and Diamond Offshore's cash reserves will be sufficient to meet these capital commitments; however, periodic assessments will be made based on industry conditions. In addition, Diamond Offshore may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses, or for general corporate purposes. Diamond Offshore's ability to effect any such issuance will be dependent on its results of operations, its current financial and market conditions, and other factors beyond its control.

Bulova

For the year ended December 31, 2001, net cash provided for operating activities was $15.9 million as compared with net cash used of $15.9 million in 2000. Bulova's cash and cash equivalents, and investments amounted to $18.9 million at December 31, 2001, compared to $16.9 million in 2000. The increase in net cash flow is primarily the result of a decrease in inventory purchases and a higher collection of accounts receivables as compared to the prior year, partially offset by a change in the timing of accounts payable and accrued expenses. Funds for capital expenditures and working capital requirements are expected to be provided from operations and existing cash balances. No material capital expenditures are anticipated during 2002.

Majestic Shipping

Subsidiaries of Majestic Shipping Corporation ("Majestic"), a wholly owned subsidiary of the Company, entered into agreements with a Korean shipyard for the new building of four 442,500 deadweight ton, ultra-large crude carrying ships ("ULCCs"). Hellespont Shipping Corporation ("Hellespont"), a 49% owned subsidiary of Majestic, also entered into agreements with another Korean shipyard for the new building of four 303,000 deadweight ton, very large crude carrying ships ("VLCCs"). In 2001, Hellespont sold its contracts for construction of four supertankers. The gain on the transaction was not material. The total cost of the four remaining ships to be purchased by the subsidiaries of Majestic is estimated to amount to approximately $360.0 million. The financing for these ships will be provided through equity contributions by the Company and bank debt guaranteed by Majestic. The Company has agreed to provide credit support for Majestic's bank debt by making available to the borrowers limited operating cash flow credit facilities.

Parent Company

During 2001, the Company purchased 5,746,600 shares of its outstanding Common Stock at an aggregate cost of $282.2 million. Depending on market conditions, the Company from time to time purchases shares of its, and its subsidiaries', outstanding common stock in the open market or otherwise.

In September of 2001, the Company paid $957.1 million to purchase 38.3 million shares of CNA common stock at $25 per share in connection with a rights offering. The Company purchased an additional 836,500 shares of CNA common stock for $21.6 million. As result, the Company's ownership percentage of CNA increased to 89%.

On February 6, 2002, the Company sold 40.3 million shares of a new class of its common stock referred to as "Carolina Group" stock for net proceeds of $1.1 billion. Proceeds from this sale have been allocated to the Loews Group and will be used for general corporate purposes.

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

INVESTMENTS

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments, and are carried at fair value. Equity securities, which are considered part of the Company's trading portfolio, short sales and derivative instruments are marked to market and reported as investment gains or losses in the Consolidated Statements of Operations.

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

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with 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 embedded leverage features which would expose the Company to a higher degree of risk. See "Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and Note 4 of the Notes to Consolidated Financial Statements for additional information with respect to derivative instruments, including recognized gains and losses on these instruments.

Insurance

The components of CNA's net investment income for the years ended December 31, 2001, 2000 and 1999 are presented in the following table.

Year Ended December 31	2001	2000	1999
(In millions)			
Fixed maturity securities:			
Bonds:			
Taxable	$1,742.0	$1,549.0	$1,509.0
Tax-exempt	112.0	216.0	267.0
Redeemable preferred stocks	1.0	1.0	
Limited Partnerships	47.0	293.0	115.0
Equity securities	39.0	52.0	36.0
Mortgage loans and real estate	2.0	4.0	4.0
Policy loans	12.0	12.0	11.0
Short-term investments	135.0	201.0	188.0
Securities lending transactions, net	29.0	22.0	25.0
Other, including interest on funds withheld and other deposits	(164.0)	(16.0)	80.0
Gross investment income	1,955.0	2,334.0	2,235.0
Investment expense	(58.0)	(48.0)	(41.0)
Net investment income	$1,897.0	$2,286.0	$2,194.0

During 2001, CNA reclassified equity method income from limited partnership investments. Effective in 2001, equity method income from limited partnership investments is classified in net investment income and amounts in 2000 and 1999 have been reclassified to conform to the new presentation. This income was previously classified in realized investment gains, net of participating policyholders' and minority interests. Income from limited partnership

investments decreased $246.0 million for 2001 compared with 2000 and increased $178.0 million for 2000 compared with 1999. During 2000 market conditions allowed for favorable investment results relative to the investment strategies of certain limited partnership investments. In addition, certain partnerships that were very successful during 2000 have been dissolved. Investment results for the same periods in 2001 were, in general, less than expected.

CNA's reinsurance program includes certain property-casualty contracts, such as the corporate aggregate treaties, that are entered into and accounted for on a funds withheld basis. Under these contracts, CNA records a funds withheld liability for substantially all of the ceded premiums. The reinsurance contract requires CNA to increase the funds withheld balance at a defined interest-crediting rate. The funds withheld liability is reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability is exhausted, additional claim payments are recoverable from the reinsurer.

During 2001, CNA reclassified interest on funds withheld and other deposits. This expense was previously classified in other operating expenses and is now classified in net investment income. Interest on funds withheld and other deposits was $241.0 million in 2001, $87.0 million in 2000 and $22.0 million in 1999.

The amount subject to interest crediting rates on such contracts was $2,724.0 million and $522.0 million at December 31, 2001 and 2000.

CNA experienced lower net investment income in 2001 as compared with 2000 due primarily to the decrease in limited partnership income as well as the increase in interest on funds withheld and other deposits. Net investment income increased in 2000 as compared with 1999 principally as a result of an increase in limited partnership income, partially offset by an increase in interest expense on funds withheld and other deposits. The bond segment of the investment portfolio yielded 6.4% in 2001, 6.7% in 2000 and 6.1% in 1999.

The components of CNA's net investment gains (losses) for the years ended December 31, 2001, 2000 and 1999 are presented in the following table:

Year Ended December 31	2001	2000	1999
(In millions)			
Investment gains (losses):			
Fixed maturity securities:			
U.S. Government bonds	$ 233.4	$ 95.8	$(177.3)
Corporate and other taxable bonds	(3.8)	(171.1)	(78.0)
Tax-exempt bonds	53.9	13.2	(44.5)
Asset-backed bonds	75.6	(65.0)	(13.0)
Redeemable Preferred Stock	(21.5)	(3.2)	1.3
Total fixed maturity securities	337.6	(130.3)	(311.5)
Equity securities	1,096.4	1,116.0	366.3
Derivative securities	(5.0)	10.5	38.6
Other invested assets	(163.7)	32.3	105.9
Total realized investment gains	1,265.3	1,028.5	199.3
Income tax expense	(446.2)	(358.5)	(82.6)
Minority interest	(102.0)	(88.1)	(16.8)
Net investment gains	$ 717.1	$ 581.9	$ 99.9

Net realized investment gains increased $135.2 million in 2001 as compared with 2000. This increase was due primarily to gains (after-tax and minority interest) from the sale of Global Crossing Ltd. common stock ("Global

Crossing") and its related hedge of $566.0 million in 2001 as compared with $274.0 million in 2000, as well as gains of $47.9 million resulting from the sale of a New York real estate property and gains from the sale of fixed maturity security investments. The gains from Global Crossing reported in 2001 are from recognition of hedge arrangements that were entered into in March of 2000. This improvement was partially offset by estimated losses recorded for the planned dispositions of certain operations, principally CNA Re's U.K. subsidiaries described in more detail below as well as decreases in gains from the sale of Canary Wharf Group plc common stock ("Canary Wharf") of $30.0 million (after-tax and minority interest) in 2001 as compared with $251.0 million in 2000.

During the second quarter of 2001, CNA announced its intention to sell certain subsidiaries. The assets being held for disposition include the U.K. subsidiaries of CNA Re and certain other subsidiaries. Based upon the impairment analyses, CNA anticipated that it would realize losses in connection with those planned sales. In determining the anticipated loss from these sales, CNA estimated the net realizable value of each subsidiary being held for sale. An estimated realized loss of $278.4 million (after-tax and minority interest) was initially recorded in the second quarter of 2001 in connection with these planned dispositions.

CNA completed the sale of certain subsidiaries during the fourth quarter of 2001 and updated its impairment analyses of subsidiaries still held for sale, including the United Kingdom subsidiaries of CNA Re. The subsidiaries sold resulted in realized losses of $33.1 million (after-tax and minority interest), all of which was previously recognized as part of the initial impairment loss recorded in the second quarter. The updated impairment analyses indicated that the $278.4 million realized loss (after-tax and minority interest) recorded in the second quarter of 2001 should be reduced, primarily because the net assets of CNA Re U.K. had been significantly diminished by its operating losses in the second half of 2001. In addition, CNA updated its estimate of disposal costs, including anticipated capital contributions, to reflect changes in the planned structure of the anticipated sale. These updated impairment analyses reduced the realized loss by $153.4 million (after-tax and minority interest), including $141.8

million related to the U.K. subsidiaries of CNA Re. The anticipated sale of the U.K. insurance subsidiaries will be subject to regulatory approval and all anticipated sales are expected to be completed in 2002.

Net realized investment gains increased $482.0 million in 2000 as compared with 1999. This increase is related principally to realized gains from Global Crossing and Canary Wharf. The increase in net realized gains for 2000 as compared with 1999 was $149.0 million for Global Crossing and $182.0 million for Canary Wharf. Additionally, a favorable change in market conditions contributed to the results for the bond sector.

A primary objective in the management of the fixed maturity portfolio is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities or credit and tax considerations. This activity will produce realized gains and losses.

CNA classifies its fixed maturity securities (bonds and redeemable preferred stocks) and its equity securities as available-for-sale, and as such, they are carried at fair value. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, which are included in net investment income. Changes in fair value are reported as a component of other comprehensive income. Investments are written down to estimated fair value and losses are recognized in income when a decline in value is determined to be other than temporary.

For asset-backed securities included in fixed maturity securities, CNA recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reflected in net investment income.

Mortgage loans are carried at unpaid principal balances, including unamortized

premium or discount. Real estate is carried at depreciated cost. Policy loans are carried at unpaid balances. Short-term investments are carried at amortized cost, which approximates fair value.

Other invested assets include investments in limited partnerships and certain derivative securities. CNA's limited partnership investments are recorded at fair value and typically reflect a reporting lag of up to three months. Fair value represents CNA's equity in the partnership's net assets as determined by the General Partner.

Limited partnerships are a small portion of CNA's overall investment portfolio. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. CNA is a passive investor and does not have influence over the management of these partnerships that operate according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships.

Investments in derivative securities are carried at fair value with changes in fair value reported as a component of realized gains or losses or other comprehensive income, depending on its hedge designation.

The following table details the carrying value of CNA's general and separate account investment portfolios as of the end of each of the last two years.

General and Separate Account Investments

December 31	2001	%	2000	%
(In millions of dollars)				
General account investments				
Fixed maturity securities:				
Bonds:				
Taxable	$26,396.0	74.0%	$23,249.0	64.0%
Tax-exempt	2,720.0	8.0	3,349.0	9.0
Redeemable preferred stocks	48.0		54.0	
Equity securities:				
Common stocks	996.0	3.0	2,216.0	6.0
Non-redeemable preferred stocks	342.0	1.0	196.0	1.0
Mortgage loans and real estate	35.0		26.0	
Policy loans	194.0		193.0	1.0
Other invested assets	1,355.0	4.0	1,116.0	3.0
Short-term investments	3,740.0	10.0	5,660.0	16.0
Total general account investments	$35,826.0	100.0%	$36,059.0	100.0%
Separate account investments				
Fixed maturity securities:				
Taxable bonds	$2,347.0	62.0%	$ 2,703.0	65.0%
Equity securities:				
Common stocks	149.0	4.0	212.0	5.0
Non-redeemable preferred stocks	12.0		3.0	
Other invested assets	876.0	23.0	849.0	20.0
Short-term investments	394.0	11.0	407.0	10.0
Total separate account investments	$3,778.0	100.0%	$4,174.0	100.0%

Total separate accounts investments at fair value were approximately $3.7 and $4.1 billion at December 31, 2001 and 2000, respectively, with taxable fixed maturities representing approximately 62.0% and 65.0% of the totals,

respectively. Approximately 53.0% and 57.0% of separate accounts investments at December 31, 2001 and 2000, respectively, are used to fund guaranteed investment contracts for which Continental Assurance Company and Valley Forge Life Insurance Company guarantee principal and a specified return to the contract holders (guaranteed investment contracts). The duration of fixed maturity securities included in the guaranteed investment contract portfolio is matched approximately with the corresponding payout pattern of the liabilities of the guaranteed investment contracts.

CNA's investment policies for both the general and separate accounts portfolios emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

The general account portfolio consists primarily of high quality (rated BBB or higher) bonds, 92.0% and 93.0% of which are rated as investment-grade at December 31, 2001 and 2000, respectively.

The following table summarizes the ratings of CNA's general account fixed maturity bond portfolio at fair value:

December 31	2001		2000	
(In millions of dollars)				
U.S. government and affiliated agency securities	$ 5,715.0	19.6%	$ 8,689.0	32.7%
Other AAA rated	9,204.0	31.6	7,120.0	26.8
AA and A rated	6,127.0	21.0	5,954.0	22.4
BBB rated	5,583.0	19.2	3,066.0	11.5
Below investment-grade	2,487.0	8.6	1,769.0	6.6
Total	$29,116.0	100.0%	$26,598.0	100.0%

The following table summarizes the bond ratings of the investments supporting CNA's separate accounts products which guarantee principal and a specified rate of interest:

December 31	2001		2000	
(In millions of dollars)				
U.S. government and affiliated agency securities	$ 214.0	10.5%	$ 224.0	9.8%
Other AAA rated	1,017.0	49.9	1,248.0	54.5
AA and A rated	310.0	15.2	374.0	16.3
BBB rated	421.0	20.6	397.0	17.3
Below investment-grade	77.0	3.8	49.0	2.1
Total	$ 2,039.0	100.0%	$ 2,292.0	100.0%

At December 31, 2001 and 2000, approximately 98.0% of the general account bond portfolio, was U.S. government agency securities or was rated by Standard & Poor's or Moody's Investors Service. Approximately 100.0% and 99.0% of the guaranteed investment contract portfolio bonds were U.S. government agency securities or were rated by S & P or Moody's Investors Service at December 31, 2001 and 2000. The remaining bonds were rated by other rating agencies, outside brokers or CNA's management.

High yield securities are bonds rated as below investment-grade (below BBB) by bond rating agencies and other unrated securities that, in the opinion of management, are below investment grade. High yield securities generally involve a greater degree of risk than investment-grade securities. However, expected returns should compensate for the added risk. This risk is also considered in the interest rate assumptions in the underlying insurance products.

CNA's concentration in high yield bonds was approximately 8.0% and 6.6% of the general account portfolio and 4.0% and 2.1% of the guaranteed investment

contract portion of CNA's separate account bond portfolio as of December 31, 2001 and 2000, respectively.

Included in CNA's general account fixed maturity securities at December 31, 2001 are $7,723.0 million of asset-backed securities, at fair value, consisting of approximately 69.0% in collateralized mortgage obligations ("CMOs"), 14.0% in corporate asset-backed obligations, 13.0% in U.S. government agency issued pass-through certificates, and 4.0% in corporate mortgage-backed pass-through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker-dealers.

At December 31, 2001 and 2000, short-term investments consisted primarily of commercial paper and money market funds.

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 the derivatives in its general account to be held for purposes other than trading. Derivative securities are recorded at fair value at the reporting date.

Most derivatives in separate accounts are held for hedging purposes. CNA uses these derivatives to mitigate market risk by purchasing Standard and Poor's 500 index futures contracts in a notional amount equal to the contract liability relating to Life Operations' Index 500 guaranteed investment contract product.

ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment-only approach. Amortization of goodwill and intangible assets with indefinite lives, including goodwill recorded in past business combinations, will cease upon adoption of SFAS No. 142, which for the Company will be January 1, 2002. The transition adjustment resulting from adoption must be reported in net income as the cumulative effect of a change in accounting principle. In accordance with the transition guidance provided in SFAS No. 142, the Company is in the process of completing goodwill and indefinite-lived intangible asset impairment tests that will be finalized by June 30, 2002. Amortization of goodwill and intangible assets amounted to $22.2, $27.2 and $30.5 million for the years ended December 31, 2001, 2000 and 1999, respectively.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 essentially applies one accounting model for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. Adoption of this Statement is required for fiscal years beginning after December 15, 2001. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

In 2002, the Company is required to implement the provisions of the FASB's Emerging Issues Task Force ("EITF") Issue No. 00-14, "Accounting for Certain Sales Incentives" and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." EITF Issue No. 00-14 addresses the recognition, measurement, and income statement characterization of sales incentives, including rebates, coupons and free products or services, offered voluntarily by a vendor without charge to the customer that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. EITF Issue No. 00-25 addresses

whether consideration from a vendor to a reseller of the vendor's products is (i) an adjustment of the selling prices of the vendor's products and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (ii) a cost incurred by the vendor for assets or services received from the reseller and, therefore, should be included as a cost or an expense when recognized in the vendor's income statement. As a result of both issues, promotional expenses historically included in other operating expenses will be reclassified to cost of manufactured products sold, or as reductions of revenues from manufactured products. Prior period amounts will be reclassified for comparative purposes. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference by the Company in this Report are "forward-looking" statements within the meaning of the federal securities laws. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words "expect", "intend", "plan", "anticipate", "estimate", "believe", "will be", "will continue", "will likely result", and similar expressions. Statements in this report that contain forward-looking statements include, but are not limited to, statements regarding CNA's insurance business relating to asbestos, pollution and mass tort claims, expected cost savings and other results from restructuring activities; statements regarding insurance reserves and statements regarding planned disposition of certain businesses; statements regarding litigation and developments affecting Lorillard's tobacco business including, among other things statements regarding claims, litigation and settlement, and statements regarding regulation of the industry; statements regarding Diamond Offshore's business including, without limitation, statements with respect to expenditures for rig conversion and upgrade, and oil and gas price levels, exploration and production activity.

Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those anticipated or projected. Such risks and uncertainties include, among others, the impact of competitive products, policies and pricing; product and policy availability and demand and market responses, including the effect of the absence of applicable terrorism legislation on coverages; development of claims and the effect on loss reserves; exposure to liabilities due to claims made by insured and others relating to asbestos remediation and health-based asbestos impairments, and exposure to liabilities for environmental pollution and other mass tort claims; the sufficiency of CNA's loss reserves and the possibility of future increases in reserves; the performance of reinsurance companies under reinsurance contracts; the effects of the Enron bankruptcy on energy and capital markets, and on the markets for directors & officers and errors & omissions coverages; limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies; regulatory limitations and restrictions upon CNA and its insurance subsidiaries generally; judicial decisions and rulings; the possibility of downgrades in CNA's ratings by ratings agencies and changes in rating agency policies and practices, and the results of financing efforts.

The tobacco industry continues to be subject to health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke, legislation, including actual and potential excise tax increases, increasing marketing and regulatory restrictions, governmental regulation, privately imposed smoking restrictions, litigation, including risks associated with adverse jury and judicial determinations, courts reaching conclusions at variance with the general understandings of applicable law, bonding requirements and the absence of adequate appellate remedies to get timely relief from any of the foregoing, and the effects of price increases related to concluded tobacco litigation settlements and excise tax increases on consumption rates.

In addition to the factors noted above, all aspects of the operations of the Company and its subsidiaries are affected by the impact of general economic and business conditions, changes in financial markets (interest rate, credit, currency, commodities and equities) or in the value of specific investments; changes in domestic and foreign political, social and economic conditions, the economic effects of the September 11, 2001 terrorist attacks, the impact of judicial rulings and jury verdicts, regulatory initiatives and compliance with

governmental regulations and various other matters, many of which are beyond the control of the Company and its subsidiaries.

Developments in any of these areas, which are more fully described elsewhere in this Report could cause the Company's results to differ materially from results that have been or may be anticipated or projected by or on behalf of the Company and its subsidiaries. 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.

SUPPLEMENTAL FINANCIAL INFORMATION

The following supplemental condensed financial information reflects the financial position, results of operations and cash flows of Loews Corporation with its investments in CNA and Diamond Offshore accounted for on an equity basis rather than as consolidated subsidiaries. It does not purport to present the financial position, results of operations and cash flows of the Company in accordance with generally accepted accounting principles because it does not comply with SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." Management believes, however, that this disaggregated financial data enhances an understanding of the consolidated financial statements by providing users with a format that management uses in assessing the Company.

Condensed Balance Sheet Information

Loews Corporation and Subsidiaries
(Including CNA and Diamond Offshore on the Equity Method)

December 31	2001	2000
(In millions)		
Assets:		
Current assets	$ 1,537.2	$ 579.7
Investments, primarily short-term instruments	4,202.8	4,417.1
Total current assets and investments in securities	5,740.0	4,996.8
Investment in CNA	7,408.0	8,407.1
Investment in Diamond Offshore	1,033.5	975.8
Other assets	1,078.9	1,119.4
Total assets	$15,260.4	$15,499.1
Liabilities and Shareholders' Equity:		
Current liabilities	$ 2,365.7	$ 1,543.3
Securities sold under agreements to repurchase	480.4	
Long-term debt, less current maturities and unamortized discount	2,427.6	2,450.8
Other liabilities	337.4	313.9
Total liabilities	5,611.1	4,308.0
Shareholders' equity	9,649.3	11,191.1
Total liabilities and shareholders' equity	$15,260.4	$15,499.1

Condensed Statements of Operations Information

Loews Corporation and Subsidiaries
(Including CNA and Diamond Offshore on the Equity Method)

Year Ended December 31	2001	2000	1999
(In millions)			
Revenues:			
Manufactured products and other	$4,947.6	$4,751.5	$4,485.9
Investment income	199.1	258.5	198.1
Investment gains (losses)	101.2	(7.4)	(461.7)
Total	5,247.9	5,002.6	4,222.3
Expenses:			
Cost of manufactured products sold and other	3,890.9	3,593.5	3,374.0
Interest	136.6	140.3	143.4
Income tax expense	470.1	492.1	299.7
Total	4,497.6	4,225.9	3,817.1
Income from operations	750.3	776.7	405.2
Equity in (loss) income of:			
CNA	(1,366.5)	1,068.0	43.2
Diamond Offshore	80.4	32.0	72.7
(Loss) income before cumulative effect of changes in accounting principles	(535.8)	1,876.7	521.1
Cumulative effect of changes in accounting principles-net	(53.3)		(157.9)
Net (loss) income	$ (589.1)	$1,876.7	$ 363.2

Condensed Statements of Cash Flow Information

Loews Corporation and Subsidiaries
(Including CNA and Diamond Offshore on the Equity Method)

Year Ended December 31	2001	2000	1999
(In millions)			
Operating Activities:			
Net (loss) income	$ (589.1)	$1,876.7	$ 363.2
Adjustments to reconcile net (loss) income to net cash provided by			

operating activities:			
Undistributed loss (earnings) of CNA and Diamond Offshore	1,321.2	(1,064.9)	(75.4)
Cumulative effect of changes in accounting principles	53.3		157.9
Investment (gains) losses	(101.2)	7.4	461.7
Other	(48.5)	12.5	(23.8)
Changes in assets and liabilities-net	186.7	(88.0)	(376.3)
Total	822.4	743.7	507.3
Investing Activities:			
Net decrease in short-term investments	243.6	193.2	242.9
Securities sold under agreements to repurchase	480.4	(347.8)	(101.9)
Purchases of CNA common stock	(978.7)		(107.0)
Redemption of CNA preferred stock			200.0
Other	(155.7)	(198.1)	(62.0)
Total	(410.4)	(352.7)	172.0
Financing Activities:			
Dividends paid to shareholders	(112.5)	(99.7)	(108.9)
(Decrease) increase in long-term debt-net	(18.2)	26.1	20.5
Purchases of treasury shares	(282.2)	(305.7)	(601.6)
Issuance of common stock	.4		
Total	(412.5)	(379.3)	(690.0)
Net change in cash	(.5)	11.7	(10.7)
Cash, beginning of year	21.6	9.9	20.6
Cash, end of year	$ 21.1	$ 21.6	$ 9.9

7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company is a large diversified financial services company. As such, it and its subsidiaries have significant amounts of financial instruments that involve market risk. The Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Changes in the trading portfolio would be recognized as investment gains (losses) in the Consolidated Statements of Operations. Market risk exposure is presented for each class of financial instrument held by the Company at December 31, assuming immediate adverse market movements of the magnitude described below. The Company believes that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since the Company's investment portfolio is subject to change based on its portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

Exposure to market risk is managed and monitored by senior management. Senior management approves the overall investment strategy employed by the Company and has responsibility to ensure that the investment positions are consistent with that strategy and the level of risk acceptable to it. The Company may manage risk by buying or selling instruments or entering into offsetting positions.

Equity Price Risk - The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes. Equity price risk was measured assuming an instantaneous 25% change in the underlying reference price or index from its level at December 31, 2001 and 2000, with all other variables held constant.

Interest Rate Risk - The Company has exposure to interest rate risk arising from changes in the level or volatility of interest rates. The Company attempts to mitigate its exposure to interest rate risk by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. The Company monitors its sensitivity to interest rate risk by evaluating the change in the value of its financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates by varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of the Company's investments and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices which the Company believes are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on December 31, 2001 and 2000 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.

The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes of market interest rates on the Company's earnings or shareholders' equity. Further, the computations do not contemplate any actions the Company could undertake in response to changes in interest rates.

The Company's long-term debt, including interest rate swap agreements, as of December 31, 2001 and 2000 is denominated in U.S. Dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $395.0 and $352.0 million, respectively. A 100 basis point decrease would result in an increase in market value of $464.6 and $398.8 million, respectively.

Foreign Exchange Rate Risk - Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. The Company has foreign exchange rate exposure when it buys or sells foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by the Company's asset/liability matching strategy and through the use of futures for those instruments which are not matched. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds and the European Monetary Unit. The sensitivity analysis also assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at December 31, 2001 and 2000, with all other variables held constant.

Commodity Price Risk - The Company has exposure to commodity price risk as a result of its investments in gold options. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous change of 20% from their levels at December 31, 2001 and 2000.

The following tables present the Company's market risk by category (equity markets, interest rates, foreign currency exchange rates and commodity prices) on the basis of those entered into for trading purposes and other than trading purposes.

Trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
December 31	2001	2000	2001	2000
(In millions)				
Equity markets (1):				
Equity securities	$ 290.1	$ 248.2	$(73.0)	$ (62.0)
Options - purchased	17.5	22.7	6.0	4.0
- written	(7.8)	(17.5)	(3.0)	(3.0)
Index futures - long			(2.0)	
- short				1.0
Short sales	(193.4)	(201.1)	48.0	50.0
Separate accounts - Equity securities (a)	11.7	2.7	(2.0)	(1.0)
- Other invested assets	342.1	404.3	(6.0)	(7.0)
Interest rate (2):				
Options on government securities - short	(2.5)		(2.0)	
Futures - long			(75.0)	17.0
- short			16.0	(52.0)
Separate accounts - Fixed maturity securities	308.4	410.1	(5.0)	19.0
Gold Options (3) - purchased	2.6	11.8	(3.0)	(12.0)
- written	(.4)			

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25%, (2) an increase in interest rates of 100 basis points at December 31, 2001 and a decrease in interest rates of 100 basis points at December 31, 2000 and (3) an increase in gold prices of 20%. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

(a) In addition, the Separate accounts carry positions in equity index futures. A decrease in equity prices of 25% would result in market risk amounting to $(217.0) and $(245.0) at December 31, 2001 and 2000, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Other than trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
December 31	2001	2000	2001	2000
(In millions)				
Equity markets (1):				
Equity securities:				
General accounts (a)	$1,338.4	$ 2,411.6	$ (322.0)	$(456.0)
Separate accounts	148.6	212.4	(37.0)	(53.0)
Other invested assets	1,306.9	1,333.0	(134.0)	(112.0)
Separate accounts - Other invested assets	533.0	443.4	(133.0)	(111.0)
Interest rate (2):				
Fixed maturities (a) (b)	31,191.0	27,244.3	(1,560.0)	(1,458.0)
Short-term investments (a)	6,734.8	10,037.4	(1.0)	(4.0)
Other derivative instruments	16.3	.7	(19.0)	1.0
Separate accounts (a):				
Fixed maturities	2,038.8	2,292.5	(120.0)	(118.0)
Short-term investments	98.0	177.0		
Long-term debt	(5,399.0)	(5,747.0)		

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25% and (2) an increase in interest rates of 100 basis points.

(a) Certain securities are denominated in foreign currencies. An assumed 20% decline in the underlying exchange rates would result in an aggregate foreign currency exchange rate risk of $(114.0) and $(581.0) at December 31, 2001 and 2000, respectively.

(b) Certain fixed maturities positions include options embedded in convertible debt securities. A decrease in underlying equity prices of 25% would result in market risk amounting to $(50.0) and $(56.0) at December 31, 2001 and 2000, respectively.

Item 8. Financial Statements and Supplementary Data.

Consolidated Balance Sheets

Assets:		
December 31	2001	2000
(Dollar amounts in millions)		
Investments (Notes 1, 2, 3 and 4):		
Fixed maturities, amortized cost of $31,004.1 and $27,167.5	$31,191.0	$27,244.3
Equity securities, cost of $1,457.3 and $1,462.5	1,646.0	2,682.5
Other investments	1,587.3	1,368.5
Short-term investments	6,734.8	10,037.4
Total investments	41,159.1	41,332.7
Cash	181.3	195.2
Receivables-net (Notes 1 and 5)	19,452.8	15,301.6
Property, plant and equipment-net (Notes 1 and 6)	3,075.3	3,206.3
Deferred income taxes (Note 9)	607.0	404.0
Goodwill and other intangible assets-net (Note 1)	323.8	378.7
Other assets (Notes 1, 12, 14 and 15)	4,229.8	4,291.3
Deferred acquisition costs of insurance subsidiaries (Note 1)	2,423.9	2,417.8
Separate account business (Notes 1 and 3)	3,798.1	4,313.9
Total assets	$ 75,251.1	$ 71,841.5

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Liabilities and Shareholders' Equity:		
December 31	2001	2000

(Dollar amounts in millions)

Insurance reserves (Notes 1 and 7):		
Claim and claim adjustment expense	$31,266.2	$26,962.7
Future policy benefits	7,306.4	6,669.5
Unearned premiums	4,505.3	4,820.6
Policyholders' funds	546.0	601.5
Total insurance reserves	43,623.9	39,054.3
Payable for securities purchased (Note 4)	1,365.6	971.4
Securities sold under agreements to repurchase (Notes 1 and 2)	1,602.4	2,245.5
Long-term debt, less unamortized discounts (Notes 3 and 10)	5,920.3	6,040.0
Reinsurance balances payable	2,722.9	1,381.2
Other liabilities (Notes 1, 3 and 14)	4,595.2	4,436.2
Separate account business (Notes 1 and 3)	3,798.1	4,313.9
Total liabilities	63,628.4	58,442.5
Minority interest	1,973.4	2,207.9
Commitments and contingent liabilities (Notes 1, 2, 4, 7, 8, 9, 10, 12, 13, 14, 15 and 17)		
Shareholders' equity (Notes 1, 2, 10 and 11):		
Common stock, $1 par value:		
Authorized - 600,000,000 and 400,000,000 shares		
Issued and outstanding - 191,493,300 and 98,614,000 shares	191.5	98.6
Additional paid-in capital	48.2	144.2
Earnings retained in the business	9,214.9	10,191.6
Accumulated other comprehensive income	194.7	756.7
Total shareholders' equity	9,649.3	11,191.1
Total liabilities and shareholders' equity	$75,251.1	$71,841.5

Consolidated Statements of Operations

Year Ended December 31	2001	2000	1999
(In millions, except per share data)			
Revenues (Note 1):			
Insurance premiums (Note 15)	$ 9,361.4	$11,471.7	$13,276.7
Investment income, net of expenses (Note 2)	2,144.9	2,593.8	2,425.3
Investment gains (losses) (Note 2)	1,393.7	1,021.1	(273.5)
Manufactured products (including excise taxes of $618.1, $667.9 and $512.6)	4,584.1	4,383.6	4,125.3
Other	1,933.1	1,781.0	1,888.9

Total	19,417.2	21,251.2	21,442.7
Expenses (Note 1):			
Insurance claims and policyholders' benefits (Notes 7 and 15)	11,382.8	9,830.8	11,890.3
Amortization of deferred acquisition costs	1,803.9	1,879.8	2,142.6
Cost of manufactured products sold (Note 17)	2,237.1	2,251.1	2,116.4
Other operating expenses	4,223.5	3,726.7	3,911.9
Restructuring and other related charges (Note 13)	251.0		83.0
Interest	332.0	356.9	354.3
Total	20,230.3	18,045.3	20,498.5
	(813.1)	3,205.9	944.2
Income tax (benefit) expense (Note 9)	(175.4)	1,106.9	305.5
Minority interest	(101.9)	222.3	117.6
Total	(277.3)	1,329.2	423.1
(Loss) income before cumulative effect of changes in accounting principles	(535.8)	1,876.7	521.1
Cumulative effect of changes in accounting principles-net (Note 1)	(53.3)		(157.9)
Net (loss) income	$ (589.1)	$ 1,876.7	$363.2
Net (loss) income per share (Note 11):			
(Loss) income before cumulative effect of changes in accounting principles	$(2.75)	$9.44	$2.40
Cumulative effect of changes in accounting principles-net	(.27)		(.73)
Net (loss) income	$(3.02)	$9.44	$ 1.67

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Comprehensive Income	Common Stock	Additional Paid-in Capital	Earnings Retained in the Business	Accumulated Other Comprehensive Income	Common Stock Held in Treasury
(In millions, except per share data)						
Balance, December 31, 1998		$112.6	$162.3	$ 9,033.5	$ 892.8	
Comprehensive income:						
Net income	$ 363.2			363.2		
Other comprehensive income (Note 11)	123.8				123.8	
Comprehensive income	$ 487.0					
Dividends paid, $.50						

per share				(108.9)		
Purchases of common stock						$ (601.6)
Retirement of treasury stock		(8.1)	(11.6)	(581.9)		601.6
Balance, December 31, 1999		104.5	150.7	8,705.9	1,016.6	
Comprehensive income:						
Net income	$ 1,876.7			1,876.7		
Other comprehensive losses (Note 11)	(259.9)				(259.9)	
Comprehensive income	$ 1,616.8					
Dividends paid, $.50 per share				(99.7)		
Purchases of common stock						(305.7)
Retirement of treasury stock		(5.9)	(8.5)	(291.3)		305.7
Equity in certain transactions of subsidiary companies			2.0			
Balance, December 31, 2000		98.6	144.2	10,191.6	756.7	
Comprehensive loss:						
Net loss	$ (589.1)			(589.1)		
Other comprehensive losses (Note 11)	(562.0)				(562.0)	
Comprehensive losses	$(1,151.1)					
Two-for-one stock split		98.6	(98.6)			
Dividends paid, $.58 per share				(112.5)		
Issuance of common stock			.4			
Purchases of common stock						(282.2)
Retirement of treasury stock		(5.7)	(1.4)	(275.1)		282.2
Equity in certain transactions of subsidiary companies			3.6			
Balance, December 31, 2001		$ 191.5	$ 48.2	$ 9,214.9	$194.7	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year Ended December 31	2001	2000	1999
(In millions)			
Operating Activities:			
Net (loss) income	$ (589.1)	$ 1,876.7	$ 363.2
Adjustments to reconcile net (loss) income to net cash used by operating activities:			
Cumulative effect of changes in accounting principles	53.3		157.9
Investment (gains) losses	(1,393.7)	(1,021.1)	273.5
Provision for minority interest	(101.9)	222.3	117.6
Amortization of investments	(316.0)	(370.5)	(301.2)
Depreciation and amortization	374.7	356.6	395.3
Provision for deferred income taxes	76.4	532.7	153.5
Other non-cash items	11.7	(275.1)	(1.8)
Changes in assets and liabilities-net:			
Reinsurance receivables	(4,426.1)	(1,729.2)	615.9
Other receivables	403.1	74.1	(602.8)
Prepaid reinsurance premiums	224.6	10.7	(152.1)
Deferred acquisition costs	(17.3)	(132.2)	(220.8)

Insurance reserves and claims	4,615.8	(127.6)	(1,192.9)
Reinsurance balances payable	1,341.8	717.1	215.9
Other liabilities	55.5	(269.9)	418.8
Trading securities	312.5	(157.5)	(759.0)
Transfer of business-reinsurance		(41.3)	(1,149.2)
Other-net	(86.4)	(104.6)	(289.1)
	538.9	(438.8)	(1,957.3)

Investing Activities:

Purchases of fixed maturities	(75,150.6)	(60,838.3)	(58,532.7)
Proceeds from sales of fixed maturities	67,877.4	58,345.0	57,211.8
Proceeds from maturities of fixed maturities	3,929.7	4,222.3	2,995.5
Purchases of equity securities	(1,287.2)	(1,858.0)	(1,575.4)
Proceeds from sales of equity securities	2,325.2	2,941.6	1,803.4
Purchases of property and equipment	(502.5)	(667.2)	(708.2)
Proceeds from sales of property and equipment	278.4	36.1	99.4
Securities sold under agreements to repurchase	(643.1)	(776.8)	791.8
Change in short-term investments	3,412.6	(687.3)	783.3
Change in other investments	(175.9)	272.2	59.5
	64.0	989.6	2,928.4

Consolidated Statements of Cash Flows

Year Ended December 31	2001	2000	1999
(In millions)			
Financing Activities:			
Dividends paid to shareholders	$ (112.5)	$ (99.7)	$(108.9)
Dividends paid to minority interests	(31.5)	(33.5)	(40.1)
Purchases of treasury shares	(282.2)	(305.7)	(601.6)
Purchases of treasury shares by subsidiaries	(37.8)	(127.9)	
Redemption of preferred stock by subsidiary		(150.0)	
Issuance of common stock	.4		
Issuance of common stock by subsidiary	49.2		
Principal payments on long-term debt	(1,138.2)	(166.6)	(478.1)
Issuance of long-term debt	1,000.1	476.9	225.1
Receipts credited to policyholders	1.7	4.8	7.0
Withdrawals of policyholder account balances	(66.0)	(137.8)	(78.0)
	(616.8)	(539.5)	(1,074.6)
Net change in cash	(13.9)	11.3	(103.5)
Cash, beginning of year	195.2	183.9	287.4
Cash, end of year	$ 181.3	$195.2	$183.9

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data)

Note 1. Summary of Significant Accounting Policies

Principles of consolidation - The consolidated financial statements include all significant subsidiaries and all material intercompany accounts and transactions have been eliminated. Unless the context otherwise requires, the term "Company" means Loews Corporation and its consolidated subsidiaries. The equity method of accounting is used for investments in associated companies in which the Company generally has an interest of 20% to 50%.

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

Accounting changes - In the first quarter of 2001, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as SFAS No. 133). The initial adoption of SFAS No. 133 did not have a significant impact on the equity of the Company; however, adoption of SFAS No. 133 resulted in a charge to 2001 earnings of $53.3, net of income taxes and minority interest of $33.0 and $8.0, respectively, to reflect the change in accounting principle. Of this transition amount, approximately $50.5, net of income taxes and minority interest, related to CNA Financial Corporation's ("CNA"), an 89% owned subsidiary, investments and investment-related derivatives. Because CNA already carried its investment and investment-related derivatives at fair value through other comprehensive income, there was an equal and offsetting favorable adjustment of $50.5 to shareholders' equity (accumulated other comprehensive income). The remainder of the transition adjustment is attributable to collateralized debt obligation products that are derivatives under SFAS No. 133. See Note 4 for a complete discussion of the Company's adoption of these accounting pronouncements.

On April 1, 2001 the Company adopted the FASB's Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." EITF Issue No. 99-20 establishes how a transferor that retains an interest in securitized financial assets or an enterprise that purchases a beneficial interest in securitized financial assets should account for interest income and impairment. The adoption of EITF 99-20 did not have a significant impact on the results of operations or equity of the Company.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations". SFAS No. 141 requires companies to use the purchase method of accounting for business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method of accounting. The Company has adopted this standard for all business combinations subsequent to June 30, 2001.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 140 replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. The adoption of SFAS No. 140 did not have a significant impact on the results of operations or equity of the Company.

Effective January 1, 1999, the Company adopted 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 is probable, 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.

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 pro forma effect of adoption on reported results for prior periods is not significant.

The cumulative effect of these accounting changes resulted in a charge effective January 1, 1999, 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

Investments - Investments in securities, which are held principally by insurance subsidiaries of CNA are carried as follows:

The Company classifies fixed maturity securities (bonds and redeemable preferred stocks) and its equity securities held by insurance subsidiaries as available-for-sale, and are carried at fair value. Changes in fair value are recorded as a component of accumulated

other comprehensive income in shareholders' equity, net of applicable deferred income taxes and participating policyholders' and minority interest. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, which are included in net investment income. Investments are written down to estimated fair values and losses are recognized in income when a decline in value is determined to be other than temporary.

For asset-backed securities included in fixed maturity securities, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reflected in net investment income.

Equity securities in the parent company's investment portfolio are classified as trading securities in order to reflect the Company's investment philosophy. These investments are carried at fair value with the net unrealized gain or loss included in the Consolidated Statements of Operations.

Short-term investments consist primarily of U.S. government securities, repurchase agreements and commercial paper. These investments are generally carried at fair value, which approximates amortized cost.

All securities transactions are recorded on the trade date. The cost of securities sold is determined by the identified certificate method. Investments are written down to estimated fair values, and losses are charged to income when a decline in value is considered to be other than temporary.

Other invested assets include investments in limited partnerships and certain derivative securities. CNA's limited partnership investments are recorded at fair value and typically reflect a reporting lag of up to three months. Fair value represents CNA's equity in the partnership's net assets as determined by the General Partner.

Limited partnerships are a small portion of CNA's overall investment portfolio. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. CNA is a passive investor and does not have influence over the management of these partnerships that operate according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships.

Investments in derivative securities are carried at fair value with changes in fair value reported as a component of realized gains or losses or other comprehensive income, depending on its hedge designation.

Derivative financial investments - Effective January 1, 2001, the Company

accounts for derivative instruments and hedging activities in accordance with SFAS No. 133. A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument, index or rate, has a notional amount, requires no or little initial investment, and can be net settled. Derivatives include, but are not limited to, the following types of investments: interest rate swaps, interest rate caps and floors, put and call options, warrants, futures, forwards and commitments to purchase securities and combinations of the foregoing. Derivatives embedded within non-derivative instruments (such as call options embedded in convertible bonds) must be split from the host instrument and accounted for in accordance with SFAS No. 133 when the embedded derivative is not clearly and closely related to the host instrument. In addition, non-investment instruments, including certain types of insurance contracts that have historically not been considered derivatives, may be derivatives or contain embedded derivatives under SFAS No. 133.

SFAS No. 133 requires that all derivative instruments be recorded in the balance sheet at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge of exposures to changes in fair value, cash flows or foreign currency exchange rates. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the nature of any hedge designation thereon. The Company's accounting for changes in the fair value of derivative instruments is as follows:

Nature of Hedge Designation	Derivative's Change in Fair Value Reflected in:
No hedge designation	Realized investment gains (losses).
Fair value	Realized investment gains (losses), along with the change in fair value of the hedged asset or liability.
Cash flow	Other comprehensive income (loss), with subsequent reclassification to earnings when the hedged transaction, asset or liability impacts earnings.
Foreign currency	Consistent with fair value or cash flow above, depending on the nature of the hedging relationship.

Changes in the fair value of derivatives held in CNA's separate accounts are reflected in separate account earnings. Because separate account investments are generally carried at fair value with changes therein reflected in separate account earnings, hedge accounting is generally not applicable to separate account derivatives.

Securities sold under agreements to repurchase - The Company lends securities to unrelated parties, primarily major brokerage firms. Borrowers of these securities must deposit collateral with the Company of at least 102% of the fair value of the securities loaned, if the

collateral is cash or securities. The Company maintains effective control over all loaned securities and, therefore, continues to report such securities as fixed maturity securities in the Consolidated Balance Sheets. Cash collateral received on these transactions is invested in short-term investments with an offsetting liability recognized for the obligation to return the collateral. The fair value of collateral held and included in short-term investments was $1,591.5 and $1,822.0 at December 31, 2001 and 2000, respectively. Non-cash collateral, such as securities or letters of credit, received by the Company are not reflected as assets of the Company as there exists no right to sell or repledge the collateral. The fair value of non-cash collateral was $413.0 and $391.0 at December 31, 2001 and 2000.

Insurance Operations - Insurance premiums - Insurance premiums on property-casualty, and accident and health insurance contracts are earned ratably over the duration of the policies after deductions for ceded insurance. The reserve

for unearned premium on these contracts represents the portion of premiums written relating to the unexpired terms of coverage.

Property-casualty contracts that are retrospectively rated contain provisions that result in an adjustment to the initial policy premium depending on the contract provisions and loss experience of the insured during the experience period. For such contracts, CNA estimates the amount of ultimate premiums that CNA may earn upon completion of the experience period and recognizes either an asset or a liability for the difference between the initial policy premium and the estimated ultimate premium. CNA adjusts such estimated ultimate premium amounts during the course of the experience period based on actual results to date. The resulting adjustment is recorded as either a reduction of or an increase to the earned premium for the period.

Revenues on interest sensitive contracts are comprised of contract charges and fees, which are recognized over the coverage period. Premiums for other life insurance products and annuities are recognized as revenue when due, after deductions for ceded insurance premiums.

Claim and claim adjustment expense reserves - Claim and claim adjustment expense reserves, except reserves for structured settlements, workers' compensation lifetime claims and accident and health disability claims, are not discounted and are based on (i) case basis estimates for losses reported on direct business, adjusted in the aggregate for ultimate loss expectations, (ii) estimates of incurred but not reported losses ("IBNR"), (iii) estimates of losses on assumed reinsurance, (iv) estimates of future expenses to be incurred in settlement of claims, and (v) estimates of salvage and subrogation recoveries. Management considers current conditions and trends as well as past company and industry experience in establishing these estimates. The effects of inflation, which can be significant, are implicitly considered in the reserving process and are part of the recorded reserve balance. Reinsurance receivables are reported as an asset in the Consolidated Balance Sheets.

Structured settlements have been negotiated for certain property-casualty insurance claims. Structured settlements are agreements to provide fixed periodic payments to claimants. Certain structured settlements are funded by annuities purchased from CNA's life insurance subsidiary for which the related annuity obligations are recorded in future policy benefits reserves. Obligations for structured settlements not funded by annuities are included in claim and claim adjustment expense reserves and carried at present values determined using interest rates ranging from 6.0% to 7.5%. At December 31, 2001 and 2000, the discounted reserves for unfunded structured settlements were $887.0 and $884.0, respectively (net of discounts of $1,478.0 and $1,473.0, respectively).

Workers' compensation lifetime claim reserves and accident and health disability claim reserves are calculated using mortality and morbidity assumptions based on CNA's and industry experience, and are discounted at interest rates allowed by insurance regulators that range from 3.5% to 6.5%. At December 31, 2001 and 2000, such discounted reserves totaled $2,384.0 and $2,205.0, respectively (net of discounts of $978.0 and $940.0, respectively).

Future policy benefits reserves - Reserves for traditional life insurance products (whole and term life products) and long-term care products are computed using the net level premium method, which incorporates actuarial assumptions as to interest rates, mortality, morbidity, withdrawals and expenses. Actuarial assumptions generally vary by plan, age at issue and policy duration and include a margin for adverse deviation. Interest rates range from 3.0% to 9.0%, and mortality, morbidity and withdrawal assumptions are based on CNA and industry experience prevailing at the time of issue. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium paying period. Reserves for interest sensitive contracts are equal to the account balances that accrue to the benefit of the policyholders. Interest crediting rates ranged from 4.3% to 6.5% for the three years ended December 31, 2001.

Guaranty fund and other insurance-related assessments - Effective January 1, 1999, in accordance with SOP 97-3, CNA records liabilities for guaranty fund and other insurance-related assessments when an assessment is probable, when it can be reasonably estimated, and when the event obligating the entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements. Liabilities for guaranty funds and other insurance-related assessments are not discounted or recorded net of premium taxes. These liabilities are included as part of other liabilities in the Consolidated Balance Sheets.

Reinsurance - Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves and are reported as a receivable in the Consolidated Balance Sheets. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Reinsurance contracts that do not meet the criteria for risk transfer are recorded using the deposit method of accounting, which requires that premium paid or received by the ceding company or assuming company be accounted for as a deposit asset or liability. CNA primarily records these deposits as reinsurance receivables for ceded recoverables and other liabilities for assumed liabilities.

Income or reinsurance contracts that do not meet the criteria for risk transfer is recognized using a constant effective yield based on the anticipated timing of payments and the remaining life of the contract. When the estimate of timing of payments changes, the effective yield is recalculated to reflect actual payments to date and the estimated timing of future payments. The deposit asset or liability is adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. This adjustment is reflected in other revenue or other operating expense as appropriate.

Deferred acquisition costs - Costs including commissions, premium taxes, and certain underwriting and policy issuance costs that vary with and are related primarily to the acquisition of property-casualty insurance business are deferred and amortized ratably over the period the related premiums are earned. Anticipated investment income is considered in the determination of the recoverability of deferred acquisition costs.

The excess of first year commissions over renewal commissions, and other first year costs of acquiring life insurance business such as agency and policy issuance expenses, that vary with and are related primarily to the production of new and renewal business, have been deferred and are amortized with interest over the expected life of the related contracts. As an offset to this, the excess of first year costs over renewal ceded expense allowances that also vary with and are related primarily to the production of new and renewal business, have been amortized with interest over the expected life of the related contracts.

Acquisition costs related to non-participating traditional life insurance and accident and health insurance are being amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefits reserves for such contracts. Assumptions as to anticipated premiums are made at the date of policy issuance or acquisition and are consistently applied during the lives of the contracts. Deviations from estimated experience are included in operations when they occur. For these contracts, the amortization period is typically the estimated life of the policy.

For universal life and cash value annuity contracts, the amortization of deferred acquisition costs is recorded in proportion to the present value of estimated gross margins or profits. The gross margins or profits result from actual earned interest minus actual credited interest, actual costs of insurance ("mortality") charges minus expected mortality, actual expense charges minus maintenance expenses and surrender charges. Amortization interest rates are based on rates in effect at the inception or acquisition of the contracts. Actual gross margins or profits can vary from CNA's estimates resulting in increases or decreases in the rate of amortization. When appropriate, CNA revises its assumptions of the estimated gross margins or profits of these contracts, and the cumulative amortization is re-estimated and adjusted through current operations. To the extent that unrealized gains or losses on available-for-sale securities would result in an adjustment of deferred acquisition costs had they actually been realized, an adjustment is recorded to deferred acquisition costs and to unrealized investment gains or losses.

Acquisition costs deferred are recorded net of ceding commissions and other ceded acquisition costs. CNA periodically evaluates deferred acquisition costs for recoverability; adjustments, if necessary, are recorded in current operations.

Investments in life settlement contracts and related revenue recognition - CNA has purchased life insurance policies in the form of life settlement contracts. Under a life settlement contract, CNA purchases an in-force life insurance contract at a substantial discount from the face value of the policy. The carrying value of each contract is determined at the end of each reporting period as the present value of expected proceeds reduced by the present value of future premiums based upon actuarial models that incorporate mortality and interest rate assumptions. The carrying values of these contracts are included in other assets with adjustments to increase the carrying values reflected as other revenues. Mortality and interest rate assumptions are reviewed periodically and adjusted if deemed necessary.

Separate account business - CNA's life insurance subsidiaries, Continental Assurance Company ("CAC") and Valley Forge Life Insurance Company ("VFL"), write investment and annuity contracts. The supporting assets and liabilities of certain of these contracts are legally segregated and reported in the accompanying Consolidated Balance Sheets as assets and liabilities of separate account business. CAC and VFL guarantee principal and a specified return to the contract holders on approximately 53% and 57% of the separate account business at December 31, 2001 and 2000, respectively. Substantially all assets of the separate account business are carried at fair value. Separate account liabilities are carried at contract values.

Statutory accounting practices - CNA's insurance subsidiaries are domiciled in various jurisdictions. These subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by their respective jurisdiction's insurance regulators. Prescribed statutory accounting practices are set forth in a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. CNA's insurance subsidiaries follow two significant permitted accounting practices related to discounting of certain non-tabular workers' compensation claims and the phase in from valuing at par to a market valuation method for recording an affiliated promissory note between CCC ("lender") and Viaticus, Inc.

("borrower"), a wholly owned subsidiary of CNA.

The impact of the permitted practice related to discounting of certain non-tabular workers' compensation claims was to increase statutory surplus by approximately $47.0, $71.0 and $95.0 at December 31, 2001, 2000 and 1999, respectively. This practice was followed by an acquired company, and CNA received permission to eliminate the effect of the permitted practice after a 10-year period, which ends in 2003.

CCC has filed for approval with the Illinois Department of Insurance (the "Department") the affiliated promissory note between CCC and Viaticus, Inc. Review of this note is still ongoing by the Department and formal approval has yet to be received. Therefore, the Department has granted a permitted practice that expires on June 30, 2002 to carry this note at a value of approximately $449.0 as of December 31, 2001. The par value of this note at December 31, 2001 was approximately $464.0. CNA does not believe that the outcome of the Department's review will have a material impact on CCC's results of operations or financial position.

CNA's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the NAIC to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, that are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formulas. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2001 and 2000, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Statutory capital and surplus - Combined statutory capital and surplus and net (loss) income, determined in accordance with accounting practices prescribed or permitted by the regulations and statutes of various insurance regulators, for property and casualty and life insurance subsidiaries, are as follows:

(Unaudited)	Statutory Capital and Surplus		Statutory Net Income (Loss)		
	December 31		Year Ended December 31		
	2001	2000	2001	2000	1999
Property and casualty companies*	$ 6,225.0	$ 8,373.0	$(1,650.0)	$1,067.0	$ 361.0
Life insurance companies	1,752.0	1,274.0	56.0	(47.0)	77.0

*Surplus includes the property and casualty companies' equity ownership of the life insurance subsidiaries.

At December 31, 2001 and 2000, CNA maintained statutory deposits of cash and securities, with carrying values of approximately $2,000.0 and $1,900.0, respectively, under requirements of regulatory authorities.

Cash and securities with carrying values of approximately $30.0 and $41.0 were deposited with financial institutions as collateral for letters of credit at December 31, 2001 and 2000. See Note 17 of the Notes to Consolidated Financial Statements.

Tobacco product inventories - These inventories, aggregating $285.7 and $269.3 at December 31, 2001 and 2000, respectively, are stated at the lower of cost or market, using the last-in, first-out (LIFO) method and primarily consist of leaf tobacco. If the average cost method of accounting had been used for tobacco inventories instead of the LIFO method, such inventories would have been $210.2 and $205.7 higher at December 31, 2001 and 2000, respectively.

Watch and clock inventories - These inventories, aggregating $48.8 and $56.1 at December 31, 2001 and 2000, respectively, are stated at the lower of cost or market, using the first-in, first-out (FIFO) method.

Goodwill and other intangible assets - Goodwill, representing the excess of purchase price over fair value of the net assets of acquired entities, is generally amortized on a straight-line basis over the period of expected benefit ranging from 15 to 30 years. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Accumulated amortization at December 31, 2001 and 2000 was $464.2 and $442.0, respectively. Intangible assets are periodically reviewed to determine whether an impairment in value has occurred.

Property, plant and equipment - Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the various classes of properties. Leaseholds and leasehold improvements are depreciated or amortized over the terms of the related leases (including optional renewal periods where appropriate) or the estimated lives of improvements, if less than the lease term.

The principal service lives used in computing provisions for depreciation are as follows:

	Years
Buildings and building equipment	40
Building fixtures	10 to 20
Machinery and equipment	5 to 12
Hotel equipment	4 to 12
Offshore drilling equipment	10 to 25

Impairment of long-lived assets - The Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets and certain intangibles, under certain circumstances, are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value less cost to sell.

Supplementary cash flow information - Cash payments made for interest on long-term debt, including capitalized interest and commitment fees, amounted to approximately $312.3, $361.3 and $336.9 for the years ended December 31, 2001, 2000 and 1999, respectively. Cash payments made for federal, foreign, state and local income taxes, net of refunds, amounted to approximately $420.7, $227.9 and $205.2 for the years ended December 31, 2001, 2000 and 1999, respectively. In 1999, CNA exchanged its interest in Canary Wharf Limited Partnership into the common stock of Canary Wharf Group, plc. valued at approximately $539.0.

Accounting pronouncements - In 2002, the Company is required to implement the provisions of EITF Issue No. 00-14, "Accounting for Certain Sales Incentives" and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." EITF Issue No. 00-14 addresses the recognition, measurement, and income statement characterization of sales incentives, including rebates, coupons and free products or services, offered voluntarily by a vendor without charge to the customer that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. EITF Issue No. 00-25 addresses whether consideration from a vendor to a reseller of the vendor's products is (i) an adjustment of the selling prices of the vendor's products and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (ii) a cost incurred by the vendor for assets or services received from the reseller and, therefore, should be included as a cost or an expense when recognized in the vendor's income statement. As a result of both issues, promotional expenses historically included in other operating expenses will be reclassified to cost of manufactured products sold, or as reductions of revenues from manufactured products. Prior period amounts will be reclassified for comparative purposes. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment-only approach. Amortization of goodwill and intangible assets with indefinite lives, including goodwill recorded in past business combinations, will cease upon adoption of SFAS No. 142, which for the Company will be January 1, 2002. Amortization of goodwill and intangible assets amounted to $22.2, $27.2 and $30.5 for the years ended December 31, 2001, 2000 and 1999, respectively. Additionally, in accordance with the transition guidance provided in SFAS No. 142, the Company will complete goodwill and other acquired intangible asset impairment tests by June 30, 2002. Any resulting asset impairments will be recorded as a cumulative effect of a change in accounting principle as of January 1, 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 essentially applies one accounting model for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. Adoption of this Statement is required for fiscal years beginning after December 15, 2001. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

Reclassification - Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 2001. During 2001, the Company reclassified equity method income from limited partnership investments. This income was previously classified in realized investment gains and is now classified in net investment income.

Note 2. Investments

Year Ended December 31	2001	2000	1999
Investment income consisted of:			
Fixed maturity securities	$ 1,880.2	$ 1,798.0	$ 1,814.8
Short-term investments	299.9	420.2	362.4
Other	36.7	425.8	306.3
Total investment income	2,216.8	2,644.0	2,483.5
Investment expenses	(71.9)	(50.2)	(58.2)
Investment income-net	$ 2,144.9	$ 2,593.8	$ 2,425.3
Investment gains (losses) are as follows:			
Trading securities:			
Derivative instruments (a)	$ 18.2	$ (135.9)	$ (385.1)
Equity securities, including short positions (a)	62.7	131.2	(47.0)
	80.9	(4.7)	(432.1)
Other than trading:			
Fixed maturities	350.1	(113.0)	(313.1)
Equity securities (b)	1,102.8	1,109.9	356.7
Short-term investments	26.5	(2.4)	19.5
Other, including guaranteed separate account business (c)	(166.6)	31.3	95.5
Investment gains (losses)	1,393.7	1,021.1	(273.5)
Income tax (expense) benefit	(491.1)	(356.0)	89.5
Minority interest	(110.4)	(88.0)	(16.8)
Investment gains (losses)-net	$ 792.2	$ 577.1	$ (200.8)

(a) Includes losses on short sales, equity index futures and options aggregating $533.6 for the year ended December 31, 1999. Substantially all of the index short positions were closed during the second quarter of 2000.

(b) Includes gains on sales of Global Crossing Ltd. ("Global Crossing") common stock of $962.0, $484.9 and $222.1 for the years ended December 31, 2001, 2000 and 1999, respectively, and gains on sales of Canary Wharf of $51.7, $443.9 and $121.9 for the years ended December 31, 2001, 2000 and 1999, respectively. In March of 2000, the Company entered into a hedge arrangement related to its Global Crossing stock. The unrealized appreciation on the stock that was preserved by the hedge was reflected as an unrealized gain in accumulated other comprehensive income at December 31, 2000. The hedge agreements were closed out in 2001 resulting in the realized gain of $962 million.

(c) Includes losses of $136.6 (after-tax and minority interest) related to the planned disposition of certain subsidiary operations, principally the U.K. subsidiaries of CNA Re, for the year ended December 31, 2001.

The carrying value of investments (other than equity securities) that did not

produce income for the last twelve months is $186.0 at December 31, 2001.

Investment gains of $2,383.2, $1,826.3 and $854.0 and losses of $903.8, $831.8 and $790.9 were realized on securities available for sale for the years ended December 31, 2001, 2000 and 1999, respectively. Investment gains (losses) in 2001, 2000 and 1999 also include $18.2 of net unrealized gains, and $16.5 and $306.4 of net unrealized losses on equity securities in the Company's trading portfolio.

The amortized cost and market values of securities are as follows:

December 31, 2001	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government and obligations of government agencies	$ 7,005.4	$ 113.7	$ 41.5	$7,077.6
Asset-backed	7,602.9	139.1	18.9	7,723.1
States, municipalities and political subdivisions-tax exempt	2,748.4	19.1	47.5	2,720.0
Corporate	9,741.4	277.4	259.4	9,759.4
Other debt	3,857.9	172.1	167.1	3,862.9
Redeemable preferred stocks	48.1	.6	.7	48.0
Total fixed maturities available for sale	31,004.1	722.0	535.1	31,191.0
Equity securities available for sale	1,168.0	343.8	173.3	1,338.5
Equity securities, trading portfolio	289.3	44.0	25.8	307.5
Short-term investments available for sale	6,753.3	1.3	19.8	6,734.8
	$39,214.7	1,111.1	754.0	39,571.8
December 31, 2000				
U.S. government and obligations of government agencies	$ 5,666.1	$ 202.9	$ 2.9	$ 5,866.1
Asset-backed	7,548.5	99.8	25.2	7,623.1
States, municipalities and political subdivisions-tax exempt	3,279.3	79.2	9.1	3,349.4
Corporate	7,262.4	149.2	344.0	7,067.6
Other debt	3,357.2	62.5	135.3	3,284.4
Redeemable preferred stocks	54.0	.2	.5	53.7
Total fixed maturities available for sale	27,167.5	593.8	517.0	27,244.3
Equity securities available for sale	1,175.1	1,400.1	163.6	2,411.6
Equity securities, trading portfolio	287.4	58.3	74.8	270.9
Short-term investments available for sale	10,037.8	.6	1.0	10,037.4
	$38,667.8	$2,052.8	$ 756.4	$39,964.2

The amortized cost and market value of fixed maturities at December 31, 2001 and 2000 are shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be called or prepaid with or without call or prepayment penalties.

December 31	2001 Amortized Cost	2001 Market Value	2000 Amortized Cost	2000 Market Value
Due in one year or less	$ 331.5	$ 367.0	$ 1,217.4	$ 1,209.4
Due after one year through five years	6,865.0	6,831.2	5,049.8	5,015.4

Due after five years through ten years	9,662.2	9,667.1	7,241.0	7,138.7
Due after ten years	6,542.5	6,602.6	6,110.8	6,257.7
Asset-backed securities not due at a single maturity date	7,602.9	7,723.1	7,548.5	7,623.1
	$31,004.1	$31,191.0	$27,167.5	$27,244.3

Note 3. Fair Value of Financial Instruments

December 31	2001 Carrying Amount	2001 Estimated Fair Value	2000 Carrying Amount	2000 Estimated Fair Value
Financial assets:				
Other investments	$1,580.0	$ 1,572.0	$1,363.0	$1,351.0
Separate account business:				
Fixed maturities securities	2,347.0	2,347.0	2,703.0	2,703.0
Equity securities	161.0	161.0	215.0	215.0
Other	876.0	876.0	849.0	849.0
Financial liabilities:				
Premium deposits and annuity contracts	1,465.0	1,395.0	1,486.0	1,419.0
Long-term debt	5,882.4	5,399.0	6,000.0	5,747.0
Collateralized debt obligation	38.0	38.0		
Financial guarantee contracts	98.0	96.0	150.0	128.0
Separate account business:				
Guaranteed investment contracts	469.0	492.0	882.0	880.0
Variable separate accounts	1,146.0	1,146.0	1,387.0	1,387.0
Other	622.0	622.0	623.0	623.0

In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. These techniques are significantly affected by management's assumptions, including discount rates and estimates of future cash flows. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The amounts reported in the Consolidated Balance Sheet for fixed maturities securities, equity securities, derivative instruments, short-term investments and securities sold under agreements to repurchase are at fair value. As such, these financial instruments are not shown in the table above. See Note 4 for the value of derivative instruments. Since the disclosure excludes certain financial instruments and nonfinancial instruments such as real estate and insurance reserves, the aggregate fair value amounts cannot be summed to determine the underlying economic value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Fixed maturity securities and equity securities were based on quoted market prices, where available. For securities not actively traded, fair values were estimated using values obtained from independent pricing services or quoted market prices of comparable instruments.

Other investments consist of mortgage loans and notes receivable, policy loans, investments in limited partnerships and various miscellaneous assets. Valuation techniques to determine fair value of other investments and other separate account assets consisted of discounting cash flows and obtaining quoted market prices of the investments, comparable instruments, or underlying assets of the investments.

Premium deposits and annuity contracts were valued based on cash surrender values and the outstanding fund balances.

The fair value of the liability for financial guarantee contracts were estimated on discounted cash flows utilizing interest rates currently being offered for similar contracts.

The fair value of guaranteed investment contracts of the separate accounts business were estimated using discounted cash flow calculations, based on interest rates currently being offered for similar contracts with similar maturities. The fair value of the liabilities for variable separate account business was based on the quoted market values of the underlying assets of each variable separate account. The fair value of other separate account business liabilities approximates carrying value because of their short-term nature.

Fair value of long-term debt was based on quoted market prices when available. The fair value for other long-term debt was based on quoted market prices of comparable instruments adjusted for differences between the quoted instruments and the instruments being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

The fair values of collateralized debt obligation liability contracts are determined largely based on management's estimates using default probabilities of the debt securities underlying the contract, which are obtained from a rating agency, and the term of the contract.

Note 4. Derivative Financial Instruments

The Company 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. If such movements do not occur as anticipated, then significant losses may occur.

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

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain embedded leverage features which would expose the Company to a higher degree of risk.

CNA invests in derivative financial instruments in the normal course of business, primarily to reduce its exposure to market risk (principally interest rate risk, equity stock price risk and foreign currency risk) stemming from various assets and liabilities. CNA's principal objective under such market risk strategies is to achieve the desired reduction in economic risk, even if the position will not receive hedge accounting treatment. CNA may also use derivatives for purposes of income enhancement, primarily via the sale of covered call options.

CNA's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits authorization to initiate derivative transactions to certain personnel. The policy generally prohibits the use of derivatives with a maturity greater than eighteen months, unless the derivative is matched with assets or liabilities having a longer maturity. The policy also prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. Also, the policy prohibits the use of borrowed funds, including funds obtained through repurchase transactions, to engage in derivative transactions.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the gross fair value of the asset related to the instruments recognized in the Consolidated Balance Sheets. The Company mitigates the risk of non-performance by using multiple counterparties and by monitoring their creditworthiness. The Company generally requires collateral from its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level of, or volatility of, interest rates. The Company attempts to mitigate its exposure to interest rate risk through active portfolio management, which includes rebalancing its existing portfolios of assets and liabilities, as well as changing the characteristics of investments to be purchased or sold in the future. In addition, various derivative

financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards, and commitments to purchase securities. These instruments are generally used to lock interest rates or unrealized gains, to shorten or lengthen durations of fixed maturity securities or investment contracts, or to hedge (on an economic basis) interest rate risks associated with investments, variable rate debt and life insurance liabilities. The Company has used these types of instruments as hedges against specific assets or liabilities on an infrequent basis.

The Company is exposed to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held. CNA uses derivatives in one of its separate accounts to mitigate equity price risk associated with its indexed group annuity contracts by purchasing Standard & Poor's 500 ("S&P 500") index futures contracts in a notional amount equal to the contract holder liability, which is calculated using the S&P 500 rate of return.

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds and the European Monetary Unit. The Company manages this risk via asset/liability matching and through the use of foreign currency futures and forwards. The Company has infrequently designated these types of instruments as hedges against specific assets or liabilities.

The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these instruments. Interest rates, equity prices and foreign currency exchange rates affect the fair value of derivatives. The fair values generally represent the estimated amounts that the Company would expect to receive or pay upon termination of the contracts at the reporting date. Dealer quotes are available for substantially all of the Company's derivatives. For derivative instruments not actively traded, fair values are estimated using values obtained from independent pricing services, costs to settle or quoted market prices of comparable instruments.

December 31, 2001	Contractual/ Notional Value	Fair Value Asset (Liability)	Recognized (Loss) Gain
Equity markets:			
Options			
Purchased	$ 145.5	$ 17.8	$ 126.8
Written	161.1	(7.8)	24.4
Index futures - long	7.8		(.6)
Equity warrants	14.8	.7	(2.6)
Options embedded in convertible debt securities	803.0	188.7	9.9
Separate accounts - options purchased	65.4	1.0	(1.3)
- options written	69.6	(.2)	2.4
- equity index futures-long	867.6		(157.3)
- euro dollar futures	16.2		.1
Currency forwards - long			(16.1)
- short	182.7	(1.5)	(5.2)
Interest rate risk:			
Commitments to purchase government and municipal securities	213.0	16.0	16.0
Interest rate swaps	600.1	.7	.7
Interest rate caps	500.0	1.6	1.5
Collateralized debt obligation liabilities	170.0	(38.0)	5.0
Options on government securities - short	255.0	(2.5)	12.2
Futures - long	947.2		11.1

	Contractual/ Notional Value	Fair Value Asset (Liability)	Recognized (Loss) Gain
- short	217.0		(19.0)
Separate accounts - commitments to purchase government and municipal securities	17.0	(.5)	(1.8)
- futures-short	9.8		(1.0)
Commodities:			
Gold options - purchased	122.3	2.6	(.9)
- written	73.5	(.4)	2.3
Other	4.4		.1
Total	$5,463.0	$178.2	$ 6.7

December 31, 2000	Contractual/ Notional Value	Fair Value Asset (Liability)	Recognized (Loss) Gain
Equity markets:			
Options			
Purchased - Global Crossing	$ 1,000.0	$ 664.0	
- other	173.0	23.7	$ (166.3)
Written - Global Crossing	1,256.0	(1.0)	
- other	269.6	(17.5)	39.8
Index futures - long			(2.7)
- short	2.3		.8
Equity warrants	10.0(a)	4.0	
Options embedded in convertible debt securities	845.0(a)	231.0	
Separate accounts - options purchased	110.0	.3	(2.0)
- options written	118.0	(1.0)	4.0
- equity index futures-long	996.0		(172.0)
Interest rate risk:			
Commitments to purchase government and municipal securities			5.0
Interest rate swaps	50.0	(1.4)	12.0
Interest rate caps	500.0	1.0	(3.0)
Collateralized debt obligation liabilities	170.0(a)	(18.0)	
Futures - long	229.0		7.9
- short	806.2		(25.8)
Foreign currency forwards	13.0		44.3
Separate accounts - commitments to purchase government and municipal securities	111.0	1.0	4.0
- futures-short	76.0		(4.0)
Commodities:			
Oil:			
Swaps			(2.1)
Options			2.8
Gold Options - purchased	232.5	11.8	2.4
- written			(5.2)
Other	3.6		1.9
Total	$ 6,971.2	$ 897.9	$ (258.2)

(a) As of January 1, 2001

December 31, 1999	Contractual/ Notional Value	Fair Value Asset (Liability)	Recognized (Loss) Gain
Equity markets:			
Options - purchased	$ 5,279.3	$ 188.9	$ (562.9)

- written	1,097.1	(25.8)	42.1
Index futures - long	204.1		72.3
- short	22.1		(16.7)
Interest rate risk:			
Commitments to purchase government and municipal securities	127.0	(1.0)	(1.0)
Interest rate caps	500.0	4.0	4.0
Futures - long	151.4		(3.6)
- short	560.1		15.1
Foreign currency forwards	591.0	9.0	21.0
Commodities:			
Oil:			
Swaps	6.4	.2	.6
Options	33.0	(.7)	.4
Energy purchase obligations			10.3
Gold Options - purchased	434.5	15.6	5.5
- written	242.9	(5.2)	6.1
Other	94.9	2.9	21.7
Total	$ 9,343.8	$ 187.9	$ (385.1)

Collateralized debt obligation liabilities ("CDOs") represent a credit enhancement product that is typically structured in the form of a swap. CNA has determined that this product is a derivative under SFAS No. 133. Changes in the estimated fair value of CDOs, like other derivative financial instruments with no hedge designation, are recorded in realized gains or losses as appropriate, while reported claims incurred on these instruments are recorded in other expense. CNA incurred approximately $25.0 and $13.0 in claims on these products for the years ended December 31, 2001 and 2000, respectively. There were no claims on these products during 1999. CNA is no longer writing this product.

Options embedded in convertible debt securities are classified as fixed maturity securities in the Consolidated Balance Sheets, consistent with the host instruments.

Fair Value Hedges

As of the adoption date of SFAS No. 133, CNA's collar position related to its investment in Global Crossing common stock was the only derivative position that had been designated as a hedge for accounting purposes. In March of 2000, the Company entered into a hedge arrangement related to its Global Crossing stock. The unrealized appreciation on the stock that was preserved by the hedge was reflected as an unrealized gain in accumulated other comprehensive income at December 31, 2000. The hedge agreements were closed out in 2001 resulting in the realized gain of $962 million.

The effectiveness of this hedge was measured based on changes in the intrinsic value of the collar in relation to changes in the fair value of Global Crossing common stock. Changes in the time value component of the collar's fair value were excluded from the hedge designation and measurement of effectiveness. Up to the date of the sale, the Global Crossing hedge was 100% effective. The change in the time value component of the collar was a pretax gain of $33.0 for the year ended December 31, 2001, and has been recorded as a realized investment gain in the Consolidated Statements of Operations.

CNA's other hedging activities involve primarily hedging risk exposures to interest rate and foreign currency risks. The ineffective portion of the fair value hedges that under SFAS No. 133 meet the criteria for hedge accounting was approximately $0.6 for the year ended December 31, 2001.

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. These sales resulted in proceeds of $183.7 and $224.7 with fair value liabilities of $193.4 and $201.1 at December 31, 2001 and 2000, respectively. These positions are marked to market and investment gains or losses are included in the Consolidated Statements of Operations.

Note 5. Receivables

December 31	2001	2000
Reinsurance	$13,823.4	$ 9,397.3
Other insurance	4,006.4	5,026.3
Security sales	648.1	470.5
Accrued investment income	398.3	424.3
Federal income taxes	586.6	
Other	353.7	331.9
Total	19,816.5	15,650.3
Less allowance for doubtful accounts and cash discounts	363.7	348.7
Receivables-net	$19,452.8	$15,301.6

Reinsurance receivables have increased by $4,426.1 during 2001 primarily due to $1,480.0 related to corporate aggregate reinsurance treaties, $663.0 related to the second quarter of 2001 reserve adjustment (excluding corporate aggregate reinsurance) and $921.0 related to the estimated loss reserves for the WTC event (excluding corporate aggregate reinsurance).

Note 6. Property, Plant and Equipment

December 31	2001	2000
Land	$ 126.5	$ 128.8
Buildings and building equipment	591.0	831.5
Offshore drilling rigs and equipment	2,948.4	2,682.9
Machinery and equipment	1,407.4	1,381.3
Leaseholds and leasehold improvements	149.7	123.2
Total, at cost	5,223.0	5,147.7
Less accumulated depreciation and amortization	2,147.7	1,941.4
Property, plant and equipment-net	$3,075.3	$3,206.3

Depreciation and amortization expense, including amortization of intangibles, and capital expenditures, are as follows:

Year Ended December 31	2001		2000		1999	
	Depr. & Amort.	Capital Expend.	Depr. & Amort.	Capital Expend.	Depr. & Amort.	Capital Expend.
CNA Financial	$ 138.4	$ 124.0	$ 151.0	$ 151.8	$ 199.5	$ 250.2
Lorillard	27.4	41.2	25.0	30.1	23.9	20.7
Loews Hotels	28.4	14.2	24.8	129.1	19.8	110.1
Diamond Offshore	175.3	268.6	148.8	323.9	145.3	324.1
Bulova	.9	1.9	.9	1.1	.7	.7
Corporate	4.3	52.6	6.1	31.2	6.1	2.4
Total	$ 374.7	$ 502.5	$ 356.6	$ 667.2	$ 395.3	$ 708.2

In January 2001, CNA sold the 180 Maiden Lane, New York, facility for net sales proceeds of $264.0, resulting in a gain of $47.9 (after-tax and minority

interest).

In January 2000, Diamond Offshore sold a jack-up drilling rig for $32.0 resulting in a gain of $13.9 ($4.7 after-tax and minority interest).

In December 1999, Loews Hotels sold two franchised hotel properties with net book values of $9.0. Gain on these sales amounted to $85.1 ($52.0 after taxes) for the year ended December 31, 1999.

Note 7. Claim and Claim Adjustment Expense Reserves

CNA's property-casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to settle all outstanding claims, including claims that are incurred but not reported, as of the reporting date. CNA's reserve projections are based primarily on detailed analysis of the facts in each case, CNA's experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in operating results in the period that the need for such adjustments is determined.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and/or financial position of the Company.

During 2001, CNA experienced a severe catastrophe loss estimated at $468.0 pretax, net of reinsurance, related to the WTC event. The loss estimate is based on a total industry loss of $50,000.0 and includes all lines of insurance, including assumed reinsurance. The current estimate takes into account CNA's substantial ceded reinsurance agreements, including its catastrophe reinsurance program and corporate reinsurance programs. These loss estimates are subject to considerable uncertainty. Subsequent developments on claims arising from the WTC event, as well as the collectibility of reinsurance recoverables, could result in changes in the total estimated net loss, which could be material to the Company's results of operations.

The following table provides management's estimate of pretax losses related to the WTC event on a gross basis (before reinsurance) and a net basis (after reinsurance) by line of business for the year ended December 31, 2001:

	Gross Basis	Net Basis
Property-casualty assumed reinsurance	$ 662.0	$ 465.0
Property	282.0	159.0
Workers' compensation	112.0	25.0
Airline hull	194.0	6.0
Commercial auto	1.0	1.0

Total Property-Casualty	1,251.0	656.0
Group	322.0	60.0
Life	75.0	22.0
Total Group and Life	397.0	82.0
Total loss before items below	$1,648.0	738.0
Corporate aggregate reinsurance		(259.0)
Reinstatement and additional premiums and other		(11.0)
Net		$ 468.0

The table below provides a reconciliation between beginning and ending claim and claim adjustment expense reserves for 2001, 2000 and 1999:

Year Ended December 31	2001	2000	1999
Reserves at beginning of year:			
Gross	$26,408.0	$26,631.0	$28,317.0
Ceded	7,568.0	6,273.0	5,424.0
Net reserves at beginning of year	18,840.0	20,358.0	22,893.0
Net reserves transferred under retroactive reinsurance agreements			(1,024.0)
Net reserves transferred to CNA Group Life Assurance Company (a)	(1,055.0)		
Total net adjustments	(1,055.0)		(1,024.0)
Net incurred claim and claim adjustment expenses:			
Provision for insured events of current year	7,192.0	6,331.0	7,287.0
Increase in provision for insured events of prior years	2,466.0	427.0	1,027.0
Amortization of discount	107.0	158.0	139.0
Total net incurred	9,765.0	6,916.0	8,453.0
Net payments attributable to:			
Current year events	2,111.0	1,888.0	2,744.0
Prior year events	7,936.0	6,916.0	7,460.0
Reinsurance recoverable against net reserves transferred under retroactive reinsurance agreements (see Note 12)	(250.0)	(370.0)	(240.0)
Total net payments	9,797.0	8,434.0	9,964.0
Net reserves at end of year	17,753.0	18,840.0	20,358.0
Ceded reserves at end of year	11,798.0	7,568.0	6,273.0
Gross reserves at end of year (b)	$29,551.0	$26,408.0	$26,631.0

(a) Effective January 1, 2001, CNA established a new life insurance company, CNAGLAC. Approximately $1,055.0 of accident and health reserves were transferred from CCC to CNAGLAC on January 1, 2001.

(b) Excludes life claim and claim adjustment expense reserves of $1,715.2, $554.7 and $724.9 as of December 31, 2001, 2000 and 1999, respectively, included in the Consolidated Balance Sheets.

The increase (decrease) in provision for insured events of prior years (reserve development), is comprised of the following components:

Year Ended December 31	2001	2000	1999
Environmental pollution and other mass tort	$ 473.0	$ 17.0	$ (84.0)
Asbestos	772.0	65.0	560.0
Other	1,221.0	345.0	551.0
Total	$2,466.0	$427.0	$1,027.0

Environmental Pollution and Other Mass Tort and Asbestos Reserves

CNA's property-casualty insurance subsidiaries have potential exposures related to environmental pollution and other mass tort and asbestos claims.

The following table provides data related to CNA's environmental pollution, other mass tort and asbestos claim and claim adjustment expense reserves:

December 31	2001		2000	
	Environmental Pollution and Other Mass Tort	Asbestos	Environmental Pollution and Other Mass Tort	Asbestos
Gross reserves	$ 820.0	$1,590.0	$ 493.0	$ 848.0
Less ceded reserves	(203.0)	(386.0)	(146.0)	(245.0)
Net reserves	$ 617.0	$1,204.0	$ 347.0	$ 603.0

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

Many policyholders have made claims against various CNA insurance subsidiaries for defense costs and indemnification in connection with environmental pollution matters. These claims relate to accident years 1989 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability

coverage form, which includes what is referred to in the industry as an "absolute pollution exclusion." CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether cleanup costs are considered damages under the policies, trigger of coverage, allocation of liability among triggered policies, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and the definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.

A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress during 2001, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the effect upon the Company's results of operations and/or financial position.

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

As of December 31, 2001 and 2000, CNA carried approximately $617.0 and $347.0 of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and other mass tort claims. Unfavorable environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the years ended December 31, 2001 and 2000 amounted to $473.0 and $17.0. Favorable environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the year ended December 31, 1999 amounted to $84.0. CNA made environmental pollution-related claim payments and other mass tort-related claim payments, net of reinsurance recoveries, of $203.0, $135.0 and $236.0 during the years ended December 31, 2001, 2000 and 1999.

The reserve development during 2001 for environmental pollution and other mass tort reserves is due to reviews completed during the year, which indicated that paid and reported losses were higher than expectations based on prior reviews. Factors that have led to this development include a number of declaratory judgments filed this year due to an increasingly favorable legal environment for policyholders in certain courts and other unfavorable decisions regarding cleanup issues.

CNA's property-casualty insurance subsidiaries also have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future and the uncertainties inherent in predicting the number of future claims.

As of December 31, 2001 and 2000, CNA carried approximately $1,204.0 and $603.0 of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. Unfavorable asbestos-related net claim and claim adjustment expense reserve development for the years ended December 31, 2001, 2000 and 1999 amounted to $772.0, $65.0 and $560.0. CNA made asbestos-related claim payments, net of reinsurance, of $171.0, $126.0 and $161.0 during the years ended December 31, 2001, 2000 and 1999, excluding payments made in connection with the 1993 settlement of litigation related to Fibreboard Corporation. CNA has attempted to manage its asbestos-related exposures by aggressively resolving old accounts.

The reserve development during 2001 for asbestos-related claims was based on a management review of developments with respect to these exposures conducted during the year. This analysis indicated a significant increase in claim counts for asbestos-related claims. The factors that have led to the

deterioration in claim counts include, among other things, intensive advertising campaigns by lawyers for asbestos claimants and the addition of new defendants such as the distributors and installers of products containing asbestos. New claim filings increased significantly in 2000 over 1999, and that trend continued during 2001. The volume of new claims has caused the bankruptcies of numerous asbestos defendants. Those bankruptcies also may result in increased liability for

remaining defendants under principles of joint and several liability.

In addition, some asbestos-related defendants have asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA currently has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called "non-products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non-products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non-products" claims outside the products liability aggregate will succeed.

Due to the uncertainties created by volatility in claim numbers and settlement demands, the effect of bankruptcies, the extent to which non-impaired claimants can be precluded from making claims and the efforts by insureds to obtain coverage not subject to aggregate limits, the ultimate liability of CNA for asbestos-related claims may vary substantially from the amount currently recorded. Other variables that will influence CNA's ultimate exposure to asbestos-related claims includes medical inflation trends, jury attitudes, the strategies of plaintiff attorneys to broaden the scope of defendants, the mix of asbestos-related diseases presented and the possibility of legislative reform. Adverse developments with respect to such matters discussed herein could have a material adverse effect on the Company's results of operations and/or financial condition.

The results of operations and financial condition of the Company in future years may continue to be adversely affected by environmental pollution and other mass tort and asbestos claim and claim adjustment expenses. Management will continue to review and monitor these liabilities and make further adjustments, including further reserve strengthening as warranted.

Other Reserves

Unfavorable net claim and claim adjustment expense reserve development for other reserves in 2001 of $1,221.0 resulted from several coverages provided to commercial entities underwritten by several segments of CNA.

Approximately $230.0 of the adverse loss development is a result of several coverages provided to commercial entities. Reserve analyses performed during 2001 showed unexpected increases in the size of claims for several lines, including commercial automobile liability, general liability and the liability portion of commercial multiple-peril coverages. In addition, the number of commercial automobile liability claims was higher than expected and several state-specific factors resulted in higher than anticipated losses, including developments associated with commercial automobile liability coverage in Ohio and general liability coverage provided to contractors in New York.

An analysis of assumed reinsurance business showed that the paid and reported losses for recent accident years were higher than expectations, which resulted in management recording net unfavorable development on prior year reserves of approximately $690.0.

Approximately $300.0 of adverse loss development was due to adverse experience in all other lines, primarily in coverages provided to health care-related entities. The level of paid and reported losses associated with coverages provided to national long-term care facilities were higher than expected. In addition, the average size of claims resulting from coverages provided to physicians and institutions providing health care-related services increased more than expected.

Unfavorable net claim and claim adjustment expense reserve development for other reserves in 2000 of $345.0 was due to unfavorable loss experience in standard commercial lines, assumed reinsurance and accident and health lines.

These unfavorable changes were partially offset by favorable development in non-medical professional liability and other casualty lines. The unfavorable development in standard commercial lines can be attributed to adverse claim experience for recent accident years in the commercial auto liability, commercial multiple-peril and workers' compensation lines of business. The unfavorable development in the assumed reinsurance and accident and health lines also resulted from adverse claims experience.

Unfavorable net claim and claim adjustment expense reserve development for other reserves in 1999 of $551.0 was due to unfavorable loss development of approximately $540.0 for standard commercial lines, approximately $60.0 for medical malpractice and approximately $70.0 for accident and health. These unfavorable changes were partially offset by favorable development of approximately $120.0 in non-medical professional liability and assumed reinsurance on older accident years. The unfavorable development in standard commercial lines was due to commercial automobile liability and workers' compensation losses being higher than expected in recent accident years. In addition, the number of claims reported for commercial multiple-peril liability claims from older accident years did not decrease as much as expected. The unfavorable development for medical malpractice was also due to losses being higher than expected for recent accident years. The accident and health unfavorable development was due to higher than expected claim reporting on assumed personal accident coverage in recent accident years.

CNA also has exposure to construction defect losses, principally in its general liability and commercial multiple-peril lines. This exposure relates to claims involving property damage alleging loss of use, damage, destruction or deterioration of land, buildings and other structures involving new construction or major rehabilitation of real property. Many of these claims involve multiple defects and multiple defendants. The majority of losses have been concentrated in a limited number of states, including California. CNA has taken several underwriting actions to mitigate this exposure in the future. Estimation of construction defect losses is subject to a high level of uncertainty due to the long period of time between the accident date and the

reporting of the claim, emerging case law, changing regulatory rules and the allocation of damages to the multiple defendants. Due to the inherent uncertainties noted above, the ultimate liability for construction defect claims may vary substantially from the amount currently recorded.

Financial Guarantee Reserves

CNA, through reinsurance assumed contracts, provides financial guarantees to issuers of asset-backed securities, motion picture finance and money market funds. Premiums are received throughout the exposure period and are recognized as revenue in proportion to the underlying risk insured. In addition, through August 1, 1989, CNA's property-casualty subsidiaries wrote financial guarantee insurance in the form of surety bonds and also insured equity policies. These bonds represented primarily industrial development bond guarantees and, in the case of insured equity policies, typically extended in initial terms from 10 to 13 years. For these guarantees and policies, CNA received an advance premium that is recognized over the exposure period and in proportion to the underlying risk insured.

As of December 31, 2001 and 2000, gross exposure on assumed financial guarantee insurance contracts, credit enhancement products, financial guarantee surety bonds and insured equity policies was approximately $82.0 and $335.0. The degree of risk to CNA related to this exposure is substantially reduced through reinsurance, diversification of exposures and collateral requirements. In addition, security interests in improved real estate are also commonly obtained on these risks. Approximately 26% and 29% of the risks were ceded to reinsurers at December 31, 2001 and 2000. Total exposure, net of reinsurance, amounted to $61.0 and $237.0 as of December 31, 2001 and 2000. At December 31, 2001 and 2000, collateral consisting of letters of credit, cash reserves and debt service reserves amounted to $6.0 and $7.0.

Gross unearned premium reserves for these contracts were $2.0 and $11.0 at December 31, 2001 and 2000. Gross claim and claim adjustment expense reserves totaled $103.0 and $127.0 as of December 31, 2001 and 2000.

Note 8. Leases

The Company's hotels in some instances are constructed on leased land. Other

leases cover office facilities, computer and transportation equipment. Rent expense amounted to $108.8, $93.7 and $94.0 for the years ended December 31, 2001, 2000 and 1999. The table below presents the future minimum lease payments to be made under non-cancelable operating leases along with lease and sublease minimum receipts to be received on owned and leased properties.

Year Ended December 31	Future Minimum Lease Payments	Future Minimum Lease Receipts
2002	$130.0	$ 26.4
2003	108.5	17.9
2004	88.6	14.5
2005	78.5	10.0
2006	60.9	9.3
Thereafter	279.2	41.4
Total	$745.7	$119.5

Note 9. Income Taxes

Year Ended December 31	2001	2000	1999
Income tax (benefit) expense:			
Federal:			
Current	$(358.2)	$ 489.5	$ 17.2
Deferred	90.9	536.1	180.0
State and city:			
Current	91.9	83.2	133.7
Deferred	(14.5)	(3.4)	(26.5)
Foreign	14.5	1.5	1.1
Total	$(175.4)	$1,106.9	$305.5

Deferred tax assets (liabilities) are as follows:

December 31	2001	2000
Insurance reserves:		
Property and casualty claim reserves	$ 697.3	$ 864.1
Unearned premium reserves	331.9	294.2
Life reserve differences	231.2	187.4
Others	18.4	20.9
Deferred acquisition costs	(743.2)	(762.9)
Postretirement benefits other than pensions	176.4	197.4
Property, plant and equipment	(347.7)	(243.7)
Investments	(141.5)	(89.2)
Foreign affiliates related	69.3	110.0
Tobacco litigation settlements	373.4	286.0
Unrealized appreciation	(142.1)	(472.6)
Accrued assessments and guarantees	52.6	43.1
Receivables	100.4	82.5
Restructuring costs	43.9	20.0
AMT credit carried forward	40.0	
Other-net	(153.3)	(133.2)

Deferred tax assets-net	$ 607.0	$ 404.0

Gross deferred tax assets amounted to $2,604.7 and $2,484.7 and liabilities amounted to $1,997.7 and $2,080.7 for the years ended December 31, 2001 and 2000, respectively.

The Company has a history of profitability and as such, management believes it is more likely than not that the net deferred tax assets will be realized. The Company expects to fully utilize its 2001 net operating loss carrybacks.

Total income tax (benefit) expense for the years ended December 31, 2001, 2000 and 1999, was different than the amounts of $(284.6), $1,122.1 and $330.5, computed by applying the statutory U.S. federal income tax rate of 35% to income before income taxes and minority interest for each of the years.

A reconciliation between the statutory federal income tax rate and the Company's effective income tax rate as a percentage of income (loss) before income tax (benefit) expense and minority interest is as follows:

Year Ended December 31	2001	2000	1999
Statutory rate	(35)%	35%	35%
(Decrease) increase in income tax rate resulting from:			
Exempt interest and dividends received deduction	(5)	(2)	(9)
Foreign net operating loss carryforward	11		
State and city income taxes	6	2	7
Other	1		(1)
Effective income tax rate	(22)%	35%	32%

Foreign net operating loss carryforwards reflected above pertain to those foreign subsidiaries for which no tax benefit is expected to be realized.

The Company has entered into a separate tax allocation agreement with CNA, a majority-owned subsidiary in which its ownership exceeds 80% (the "Subsidiary"). The agreement provides that the Company will (i) pay to the Subsidiary the amount, if any, by which the Company's consolidated federal income tax is reduced by virtue of inclusion of the Subsidiary in the Company's return, or (ii) be paid by the Subsidiary an amount, if any, equal to the federal income tax that would have been payable by the Subsidiary if it had filed a separate consolidated return.

Under this agreement, CNA will receive approximately $908.0 for 2001. In 2000 and 1999, CNA paid $64.0 and received $288.0, respectively. The agreement may be canceled by either of the parties upon thirty days' written notice.

The Company's federal income tax returns have been examined through 1997 and settled through 1994. Years 1998 through 2000 are currently under examination. While tax liabilities for subsequent years are subject to audit and final determination, in the opinion of management the amount accrued in the Consolidated Balance Sheet is believed to be adequate to cover any additional assessments which may be made by federal, state and local tax authorities and should not have a material effect on the financial condition or results of operations of the Company.

Note 10. Long-Term Debt

December 31, 2001	Principal	Unamortized Discount	Net	Current Maturities

Loews Corporation	$2,325.0	$31.4	$2,293.6	
CNA	2,578.5	11.6	2,566.9	$329.1
Diamond Offshore	931.1	18.5	912.6	10.4
Other	147.2		147.2	13.1
Total	$5,981.8	$61.5	$5,920.3	$352.6

December 31	2001	2000
Loews Corporation (Parent Company):		
Senior:		
6.8% notes due 2006 (effective interest rate of 6.8%) (authorized, $300)	$ 300.0	$ 300.0
8.9% debentures due 2011 (effective interest rate of 9.0%) (authorized, $175)	175.0	175.0
7.6% notes due 2023 (effective interest rate of 7.8%) (authorized, $300) (a)	300.0	300.0
7.0% notes due 2023 (effective interest rate of 7.2%) (authorized, $400) (b)	400.0	400.0
Subordinated:		
3.1% exchangeable subordinated notes due 2007 (effective interest rate of 3.4%) (authorized, $1,150) (c)	1,150.0	1,150.0
CNA Financial Corporation:		
Senior:		
6.3% notes due 2003 (effective interest rate of 6.4%) (authorized, $250)	250.0	250.0
7.3% notes due 2003 (effective interest rate of 7.8%) (authorized, $150)	134.0	134.0
6.5% notes due 2005 (effective interest rate of 6.6%) (authorized, $500)	492.8	492.8
6.8% notes due 2006 (effective interest rate of 6.8%) (authorized, $250)	250.0	250.0
6.5% notes due 2008 (effective interest rate of 6.6%) (authorized, $150)	150.0	150.0
6.6% notes due 2008 (effective interest rate of 6.7%) (authorized, $200)	200.0	200.0
8.4% notes due 2012 (effective interest rate of 8.6%) (authorized, $100)	69.6	69.6
7.0% notes due 2018 (effective interest rate of 7.1%) (authorized, $150)	150.0	150.0
7.3% debentures due 2023 (effective interest rate of 7.3%) (authorized, $250)	243.0	243.0
Commercial Paper (weighted average yield of 7.2%)		627.1
Revolving credit facility due 2002 through 2004 (effective interest rate of 3.1%)	500.0	
Revolving credit facility due 2002 (effective interest rate of 2.5% and 7.0%)	75.0	100.0
Other senior debt (effective interest rates approximate 7.9% and 7.9%)	64.1	75.6
Diamond Offshore Drilling, Inc.:		
Senior:		
Zero coupon convertible debentures due 2020, net of discount of $380.3 and $394.8 (effective interest rate of 3.6%) (d)	424.7	410.2
1.5% convertible senior debentures due 2031 (effective interest rate of 1.6%) (authorized $460) (e)	460.0	
Subordinated:		
3.8% convertible subordinated notes due 2007 (effective interest rate of 3.9%) (authorized, $400)		400.0
Other subordinated debt due 2005 (effective interest rate of 7.1%)	46.4	56.1
Other senior debt, principally mortgages (effective interest rates approximate 6.4% and 8.5%)	147.2	166.2
	5,981.8	6,099.6
Less unamortized discount	61.5	59.6
Long-term debt, less unamortized discount	$5,920.3	$6,040.0

(a) Redeemable in whole or in part at June 1, 2003 at 103.8%, and decreasing percentages thereafter.

(b) Redeemable in whole or in part at October 15, 2003 at 102.4%, and decreasing percentages

thereafter.

(c) The notes are exchangeable into 15.376 shares of Diamond Offshore's common stock per one thousand dollars principal amount of notes, at a price of $65.04 per share. Redeemable in whole or in part at September 15, 2002 at 101.6%, and decreasing percentages thereafter.

(d) The debentures are convertible into Diamond Offshore's common stock at the rate of 8.6075 shares per one thousand dollars principal amount, subject to adjustment. Each debenture will be purchased by Diamond Offshore at the option of the holder on the fifth, tenth and fifteenth anniversaries of issuance at the accreted value through the date of repurchase. Diamond Offshore, at its option, may elect to pay the purchase price in cash or shares of common stock, or in certain combinations thereof. The debentures are redeemable at the option of Diamond Offshore at any time after June 6, 2005, at prices which reflect a yield of 3.5% to the holder.

(e) The Debentures are convertible into Diamond Offshore's common stock at an initial conversion rate of 20.3978 shares per one thousand dollars principal amount, subject to adjustment in certain circumstances. Upon conversion, Diamond Offshore has the right to deliver cash in lieu of shares of its common stock. Diamond Offshore may redeem all or a portion of the Debentures at any time on or after April 15, 2008 at a price equal to 100% of the principal amount.

On April 6, 2001, Diamond Offshore redeemed all of its outstanding 3.75% Convertible Subordinated Notes (the "Notes") in accordance with the indenture under which the Notes were issued. Prior to April 6, 2001, $12.4 principal amount of the Notes had been converted into 307,071 shares of Diamond Offshore's common stock at the stated conversion price of $40.50 per share. The remaining $387.6 principal amount of the Notes was redeemed at 102.1% of the principal amount, plus accrued interest, for a total cash payment of $397.7.

On April 11, 2001, Diamond Offshore issued $460.0 principal amount of 1.5% convertible senior debentures (the "1.5% Debentures") due April 15, 2031. The transaction resulted in net proceeds of approximately $449.1. Diamond Offshore will pay contingent interest to holders of the 1.5% Debentures during any six-month period commencing after April 15, 2008 if the average market price of a 1.5% Debenture for a measurement period preceding that six-month period equals 120% or more of the principal amount of such 1.5% Debenture and Diamond Offshore pays a regular cash dividend during the six-month period. The contingent interest payable per one thousand dollars principal amount of 1.5% Debentures in respect of any quarterly period will equal 50% of regular cash dividends paid by Diamond Offshore per share on its common stock during that quarterly period multiplied by the conversion rate.

During 2001, CNA discontinued its commercial paper program and repaid all loans outstanding under the program. The weighted average interest rate on commercial paper was 7.2% at December 31, 2000. The funds used to retire the outstanding commercial paper debt were obtained through the draw down of the full amount available under CNA's $500.0 revolving credit facility. The facility is composed of two parts: a $250.0 component with a 364-day expiration date (with an option enabling CNA to convert borrowings into a one-year term loan) and a $250.0 component with a three-year expiration date.

CNA pays a facility fee to the lenders for having funds available for loans under both components of the facility. The fee varies based on the long-term debt ratings of CNA. At December 31, 2001, the facility fee on the 364-day component was 15 basis points and the facility fee on the three-year component was 17.5 basis points.

In addition to the facility fees, CNA pays interest on any outstanding debt/borrowings under the facility based on a rate determined using the long-term debt ratings of CNA. The interest rate is equal to the London Interbank Offering Rate ("LIBOR") plus 60 basis points for the 364-day component and LIBOR plus 57.5 basis points for the three-year component. Further, if CNA has outstanding loans greater than 50% of the amounts available under the facility, CNA also will pay a utilization fee of 12.5 basis points on such loans. At December 31, 2001, the weighted average interest rate on the borrowings under the facility, including facility and utilization fees, was 3.1%.

A Moody's Investors Service ("Moody's") downgrade of the CNA senior debt rating from Baa2 to Baa3 would increase the facility fee on the 364-day component of the facility from 15 basis points to 20 basis points, and the facility fee on the three-year component would increase from 17.5 basis points to 25 basis points. The applicable margin on the 364-day component would increase from LIBOR plus 60 basis points to LIBOR plus 80 basis points and the

applicable margin on the three-year component would increase from LIBOR plus 57.5 basis points to LIBOR plus 75 basis points. The utilization fee would remain unchanged on both components at 12.5 basis points.

The $500.0 revolving credit facility replaced CNA's $750.0 revolving credit facility (the "Prior Facility"), which was scheduled to expire on May 10, 2001. No loans were outstanding under the Prior Facility anytime during 2001. To offset the variable rate characteristics of the Prior Facility and the interest rate risk associated with periodically reissuing commercial paper, in 1999 and 2000, CNA entered into interest rate swap agreements with several banks. These agreements required CNA to pay interest at a fixed rate, in exchange for the receipt of the three month LIBOR. The effect of the interest rate swap agreements decreased interest expense by approximately $2.0 for the year ended December 31, 2000 and increased interest expense by approximately $4.0 for the year ended December 31, 1999.

The combined weighted average interest rate of all short-term debt, including facility fees and commercial paper borrowings of CNA was 7.4% at December 31, 2000.

CNA Surety Corporation ("CNA Surety"), a 64% owned subsidiary of CNA, has a $130.0 revolving credit facility that expires on September 30, 2002. The interest rate on facility borrowings is based on LIBOR plus 20 basis points. Additionally, there is an annual facility fee of 10 basis points on the entire facility. The weighted average interest rate on the borrowings under this facility, including facility fees, was 2.6% and 7.0% at December 31, 2001 and 2000.

The terms of both CNA and CNA Surety's credit facilities require the respective company to maintain certain financial ratios and combined property-casualty company statutory surplus levels. At December 31, 2001 and 2000, both CNA and CNA Surety were in compliance with all restrictive debt covenants.

The aggregate of long-term debt maturing in each of the next five years is approximately as follows: $352.6 in 2002, $388.6 in 2003, $256.0 in 2004, $554.0 in 2005 and $605.5 in 2006.

Payment of dividends by insurance subsidiaries of CNA without prior regulatory approval is limited to certain formula-derived amounts. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Dividends from the CCC Pool are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Department, may be paid only from earned surplus, which is calculated by removing unrealized gains (which under statutory accounting includes cumulative earnings of CCC's subsidiaries) from unassigned surplus.

As of December 31, 2001, CCC is in a negative earned surplus position. In February 2002, the Department approved an extraordinary dividend in the amount of $117.0 to be used to fund CNA's 2002 debt service requirements. Until CCC is in a positive earned surplus position, all dividends require prior approval of the Department.

In addition, by agreement with the New Hampshire Insurance Department, as well as certain other state insurance departments, dividend payments for the CIC Pool are restricted to internal and external debt service requirements through September 2003 up to a maximum of $85.0 annually, without the prior approval of the New Hampshire Insurance Department.

Note 11. Shareholders' Equity and Earnings Per Share

In addition to its common stock, the Company has authorized 100,000,000 shares of preferred stock, $.10 par value.

On February 20, 2001, The Board of Directors declared a two-for-one stock split by way of a stock dividend, effective March 21, 2001. Accordingly, certain share and per share data has been restated to retroactively effect the stock split.

Companies with complex capital structures are required to present basic and diluted income (loss) per share. Basic income (loss) per share excludes

dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) 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. Income (loss) per common share assuming dilution, is not presented because the impact of securities that could potentially dilute basic income (loss) per share would have been antidilutive or insignificant for the periods presented.

Basic income (loss) per share is based on the weighted average number of shares outstanding during each year (195,328,041, 198,732,827 and 217,066,741 for the years ended December 31, 2001, 2000 and 1999, respectively).

The components of accumulated other comprehensive income (loss) are as follows:

	Unrealized Gains (Losses) on Investments	Foreign Currency	Minimum Pension Liability	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 1998	$ 838.8	$ 59.6	$ (5.6)	$ 892.8
Unrealized holding gains, net of tax of $250.8	381.1			381.1
Adjustment for items included in net income, net of tax of $138.8	(224.2)			(224.2)
Foreign currency translation adjustment, net of tax of $.1		(35.1)		(35.1)
Minimum pension liability adjustment, net of tax of $1.1			2.0	2.0
Balance, December 31, 1999	995.7	24.5	(3.6)	1,016.6
Unrealized holding gains, net of tax of $149.4	271.4			271.4
Adjustment for items included in net income, net of tax of $312.9	(506.8)			(506.8)
Foreign currency translation adjustment, net of tax of $.9		(24.2)		(24.2)
Minimum pension liability adjustment, net of tax of $.2			(.3)	(.3)
Balance, December 31, 2000	760.3	.3	(3.9)	756.7
Unrealized holding losses, net of tax of $.8	(1.8)			(1.8)
Adjustment for items included in net loss, net of tax of $367.3	(595.8)			(595.8)
Foreign currency translation adjustment, net of tax of $.4		4.7		4.7
Minimum pension liability adjustment, net of tax of $13.0			(19.6)	(19.6)
Cumulative effect of changes in accounting principles, net of tax of $31.0	50.5			50.5
Balance, December 31, 2001	$213.2	$5.0	$(23.5)	$194.7

Note 12. Significant Transactions

Dispositions and Planned Dispositions of Certain Subsidiaries

During the second quarter of 2001, CNA announced its intention to sell certain subsidiaries. The assets being held for disposition include the United Kingdom subsidiaries of CNA Re and certain other subsidiaries. Based upon impairment analyses, CNA anticipated that it would realize losses in connection with those planned sales. In determining the anticipated loss from these planned dispositions, CNA estimated the net realizable value of each subsidiary held for sale. An estimated realized loss of $278.4 (after-tax and minority interest) was initially recorded in the second quarter of 2001 in connection with these planned dispositions. This loss is reported in other investment

losses.

CNA completed the sale of certain subsidiaries during the fourth quarter of 2001 and updated its impairment analyses of subsidiaries still held for sale, including the United Kingdom subsidiaries of CNA Re. The subsidiaries sold resulted in realized losses of $33.1 (after-tax and minority interest), all of which was previously recognized as part of the initial impairment loss recorded during the second quarter of 2001. The updated impairment analyses performed in the fourth quarter of 2001 indicated that the $278.4 loss (after-tax and minority interest) recorded in the second quarter of 2001 should be reduced, primarily because the net assets of the United Kingdom subsidiaries of CNA Re had been significantly diminished by their operating losses in the second half of 2001. In addition, CNA also updated its estimate of disposal costs, including anticipated capital contributions, to reflect changes in the planned structure of the anticipated sale. These updated impairment analyses reduced the realized loss by $153.4 (after-tax and minority interest), including $141.8 related to the United Kingdom subsidiaries of CNA Re. The anticipated sale of the United Kingdom insurance subsidiaries will be subject to regulatory approval and all sales are expected to be completed in 2002.

CNA Re's principal United Kingdom operations are contained in CNA Reinsurance Company Ltd. The statutory surplus of CNA Reinsurance Company Ltd. is below the required regulatory minimum surplus level at December 31, 2001. CNA is currently pursuing the sale of the United Kingdom subsidiaries of CNA Re and CNA anticipates that additional capital contributions will be made in connection with the planned sale.

The subsidiaries held for sale (including those sold in the second half of 2001), consisting primarily of the United Kingdom subsidiaries of CNA Re, contributed revenues of approximately $419.0 and net operating losses of $337.8 (after-tax and minority interest) for the year ended December 31, 2001. The assets and liabilities of these subsidiaries were approximately $2,622.0 and $2,617.0 as of December 31, 2001.

Individual Life Reinsurance Transaction

Effective December 31, 2000, CNA completed a transaction with Munich American Reassurance Company ("MARC"), whereby MARC acquired CNA's individual life reinsurance business ("CNA Life Re") via an indemnity reinsurance agreement. CNA will continue to accept and retrocede business on existing CNA Life Re contracts until such time that CNA and MARC are able to execute novations of each of CNA Life Re's assumed and retroceded reinsurance contracts.

MARC assumed approximately $294.0 of liabilities (primarily future policy benefits and claim reserves) and approximately $209.0 in assets (primarily uncollected premiums and deferred acquisition costs). The net gain from the reinsurance transaction, which is subject to certain post-closing adjustments, has been recorded as deferred revenue, and will be recognized in income over the next six months as CNA Life Re's assumed contracts are novated to MARC.

The CNA Life Re business contributed net earned premiums of $229.0 and $194.0, and net operating income of $22.0 and $18.0 for the years ended December 31, 2000 and 1999, respectively.

Personal Insurance Transaction

On October 1, 1999, certain subsidiaries of CNA completed a transaction with The Allstate Corporation ("Allstate"), whereby CNA's Personal Insurance lines of business and related employees were transferred to Allstate. Approximately $1,100.0 of cash and $1,100.0 of additional assets (primarily premium receivables and deferred acquisition costs) were transferred to Allstate, and Allstate assumed $2,200.0 of claim and claim adjustment expense reserves and unearned premium reserves. Additionally, CNA received $140.0 in cash which consisted of (i) $120.0 in ceding commission for the reinsurance of the CNA personal insurance business by Allstate, and (ii) $20.0 for an option exercisable during 2002 to purchase 100% of the common stock of five CNA insurance subsidiaries at a price equal to the GAAP carrying value as of the exercise date. Also, CNA invested $75.0 in a 10-year equity-linked note issued by Allstate.

As of December 10, 2001, Allstate and CNA agreed to modify a number of the original terms of the transaction. This modified agreement is pending regulatory approval. The following is an overview of the significant modifications to the terms of the original agreement:

(a) CNA has substituted subsidiaries for the originally named subsidiaries and extended the purchase option period for the substituted subsidiaries through 2004. CNA has compensated Allstate for the postponement of its right to exercise the option due to the substitution of companies in the amount of $6.0, reducing the original payment from Allstate of $20.0 to approximately $14.0. The $14.0 will continue to be deferred and will not be recognized until Allstate exercises its option, at which time it will be recorded as a realized gain.

(b) The $75.0 10-year equity-linked note issued by Allstate in October 1999 will be redeemed by Allstate at par plus accrued interest.

CNA will continue to write new and renewal personal insurance policies and to reinsure this business with Allstate companies until such time as Allstate exercises its option to buy the CNA subsidiaries. CNA continues to have primary liability on policies reinsured by Allstate. Through 2005, CNA will continue to receive a royalty fee based on the volume of personal insurance business sold through CNA agents using the terms of the original agreement.

CNA also shares in any reserve development related to claim and claim adjustment expense reserves transferred to Allstate at the transaction date. Under the reserve development sharing agreement, 80% of any favorable or unfavorable reserve development up to $40.0 and 90% of any favorable or unfavorable reserve development in excess of $40.0 inures to CNA. CNA's obligation with respect to unallocated loss adjustment expense reserves was settled at the transaction date and is therefore not subject to the reserve sharing arrangement.

The retroactive portion of the reinsurance transaction, consisting primarily of the cession of claim and claim adjustment expense reserves approximating $1,000.0, was not recognized as reinsurance because the criteria for risk transfer were not met for this portion of the transaction. The related consideration paid was recorded as a deposit and is included in reinsurance receivables in the Consolidated Balance Sheets. The prospective portion of the transaction, which as of the transaction date consisted primarily of the cession of $1,100.0 of unearned premium reserves, has been recorded as reinsurance. The related consideration paid was recorded as prepaid reinsurance premiums. Premiums ceded after the transaction date follows this same treatment.

CNA recognized a realized loss of approximately $39.0 (after-tax and minority interest) in 1999 related to the transaction, consisting primarily of the accrual of lease obligations and the write-down of assets that related specifically to the Personal Insurance lines of business. The $120.0 ceding commission related to the prospective portion of the transaction has been recognized in proportion to the recognition of the unearned premium reserve to which it relates. Ceding commission earned was $69.0 and $51.0 in 2000 and 1999. Royalty fees earned in 2001, 2000 and 1999 were approximately $26.0, $27.0 and $7.0.

The Personal Insurance lines transferred to Allstate contributed net earned premiums of $1,354.0 and pretax operating income of $89.0 for the year ended December 31, 1999.

Note 13. Restructuring and Other Related Charges

In 2001, CNA finalized and approved two separate restructuring plans. The first plan, which related to CNA's Information Technology operations (the "IT Plan"), was approved in June of 2001. The second plan relates to restructuring the Property-Casualty segment and Life Operations, discontinuation of variable life and annuity business and consolidation of real estate locations (the "2001 Plan"), was approved in December of 2001.

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function and throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitate a strong focus on enterprise-wide system initiatives. The IT Plan had two main components, which include the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that includes common architecture and platform standards that directly support CNA's strategies.

As summarized in the following table, CNA incurred $62.0 of pretax restructuring and other related charges for the IT Plan. CNA does not expect to incur significant amounts of additional charges with respect to the IT Plan in any future period and, as a result, does not intend to separately classify such expenses as restructuring and related charges when they occur.

	Employee Termination and Related Benefit Costs	Impaired Asset Charges	Other Costs	Total
Standard Lines	$ 5.0	$ 1.0		$ 6.0
Specialty Lines	2.0			2.0
Total Property-Casualty	7.0	1.0		8.0
Life Operations		17.0		17.0
Other Insurance	22.0	14.0	$1.0	37.0
Total	$29.0	$32.0	$1.0	$62.0

In connection with the IT Plan, after the write-off of impaired assets, CNA accrued $30.0 of restructuring and other related charges in 2001 (the "IT Plan Initial Accrual"). These charges primarily related to $29.0 of workforce reductions of approximately 260 positions gross and 249 positions net and $1.0 of other costs.

The following table summarizes the IT Plan Initial Accrual and the activity in that accrual during 2001:

	Employee Termination and Related Benefit Costs	Impaired Asset Charges	Other Costs	Total
IT Plan Initial Accrual	$ 29.0	$ 32.0	$ 1.0	$ 62.0
Costs that did not require cash		(32.0)		(32.0)
Payments charged against liability	(19.0)			(19.0)
Accrued costs	$10.0		$ 1.0	$ 11.0

Through December 31, 2001, 249 employees were released due to the IT Plan, nearly all of whom were technology support staff.

2001 Plan

The overall goal of the 2001 Plan is to create a simplified and leaner organization for customers and business partners. The major components of the lan include a reduction in the number of strategic business units ("SBUs") in the property-casualty operations, changes in the strategic focus of the Life Operations and consolidation of real estate locations. The reduction in the number of property-casualty SBUs resulted in consolidation of SBU functions, including underwriting, claims, marketing and finance. The strategic changes in Life Operations include a decision to discontinue the variable life and annuity business.

As summarized in the following table, CNA incurred $189.0 of pretax restructuring and other related charges in 2001. CNA does not expect to incur significant amounts of additional charges with respect to the 2001 Plan in any future period and, as a result, does not intend to separately classify such expenses as restructuring and related charges when they occur.

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Other Costs	Total
Standard Lines	$ 40.0				$ 40.0
Specialty Lines	7.0				7.0
CNA Re	2.0	$ 4.0			6.0
Total Property-Casualty	49.0	4.0			53.0
Group Operations	1.0				1.0
Life Operations	9.0		$ 9.0	$35.0	53.0
Other Insurance	9.0	52.0	21.0		82.0
Total	$ 68.0	$56.0	$30.0	$35.0	$189.0

All lease termination costs and impaired asset charges, except lease termination costs incurred by operations in the United Kingdom and software write-offs incurred by Life Operations, were charged to the Other Insurance segment because office closure and consolidation decisions were not within the control of the other segments affected. Lease termination costs incurred in the United Kingdom relate solely to the operations of CNA Re. All other charges were recorded in the segment benefiting from the services or existence of an employee or an asset.

The 2001 Plan charges incurred by Standard Lines were $40.0, related entirely to employee termination and related benefit costs for planned reductions in the workforce of 1,063 positions, gross and net, of which $27.0 related to severance and outplacement costs and $13.0 related to other salary costs. Through December 31, 2001, approximately 510 employees were released due to the 2001 Plan. Approximately 272 of these employees were administrative, technology or financial support staff; approximately 164 of these employees were underwriters, claim adjusters and related insurance services staff; and approximately 74 employees were in various other positions.

The 2001 Plan charges incurred by Specialty Lines were $7.0, related entirely to employee termination and related benefit costs for planned reductions in the workforce of 177 positions, gross and net, of which $5.0 related to severance and outplacement costs and $2.0 related to other salary costs. Through December 31, 2001, approximately 107 employees were released due to the 2001 Plan. Approximately 47 of these employees were administrative, technology or financial support staff; approximately 45 of these employees were underwriters, claim adjusters and related insurance services staff; and approximately 15 of these employees were in various other positions.

The 2001 Plan charges incurred by CNA Re were $6.0. Costs related to employee termination and benefit costs for planned reductions in the workforce of 33 positions, gross and net, amounted to $2.0, all of which related to severance and outplacement costs. Through December 31, 2001 no employees in CNA Re were released due to the 2001 Plan. The remaining $4.0 of charges incurred by CNA Re related to lease termination costs.

The 2001 Plan charges incurred by Group Operations were $1.0, related entirely to employee termination and related benefit costs for planned reductions in the workforce of 38 positions, gross and net. Through December 31, 2001, no employees in Group Operations were released due to the 2001 Plan.

The 2001 Plan charges incurred by Life Operations were $53.0. Costs related to employee termination and related benefit costs for planned reductions in

workforce of 356 positions, gross and net, amounted to $9.0, of which $8.0 related to severance and outplacement costs and $1.0 related to other salary costs. Through December 31, 2001, seven employees were released due to the 2001 Plan, which were primarily administration, technology, and financial support staff positions. Life Operations incurred $9.0 of impaired asset charges related to software. Other costs of $35.0 in Life Operations related to a write-off of deferred acquisition costs on in-force variable life and annuity contracts, as CNA believes that the decision to discontinue these products will negatively impact the persistency of the business.

The 2001 Plan charges incurred by the Other Insurance segment were $82.0. Costs related to employee termination and related benefit costs for planned reductions in workforce of 194 positions, gross and net, amounted to $9.0, of which $6.0 related to severance and outplacement costs and $3.0 related to other salary costs. Through December 31, 2001, 129 employees were released due to the 2001 Plan. Approximately 114 of these employees were administrative, technology or financial support staff and approximately 15 of these employees were in other positions. The Other Insurance segment also incurred $73.0 of lease termination and asset impairment charges related to office closure and consolidation decisions not within the control of the other segments affected.

In connection with the 2001 Plan, CNA accrued $189.0 of these restructuring and other related charges (the "2001 Plan Initial Accrual"). These charges include employee termination and related benefit costs, lease termination costs, impaired asset charges and other costs.

The following table summarizes the 2001 Plan Initial Accrual and the activity in that accrual during 2001:

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Other Costs	Total
2001 Plan Initial Accrual	$ 68.0	$ 56.0	$ 30.0	$ 35.0	$ 189.0
Cost that did not require cash				(35.0)	(35.0)
Payments charged against liability	(2.0)				(2.0)
Accrued costs	$ 66.0	$ 56.0	$ 30.0		$ 152.0

Additionally, at December 31, 2000, an accrual of $7.0 for lease termination costs remained related to the August 1998 restructuring ("1998 Plan"). Approximately $6.0 of these costs were paid in 2001, resulting in a remaining accrual of $1.0 at December 31, 2001. No restructuring and other related charges were incurred for the 1998 Plan during 2001 or 2000. Restructuring and other related charges for the 1998 Plan amounted to $83.0 in 1999.

Note 14. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. The benefits for certain plans which cover salaried employees and certain union employees are based on formulas which include, among others, years of service and average pay. The benefits for one plan which covers union workers under various union contracts and certain salaried employees are based on years of service multiplied by a stated amount. Benefits for another plan are determined annually based on a specified percentage of annual earnings (based on the participant's age) and a specified interest rate (which is established annually for all participants) applied to accrued balances.

The Company's funding policy is to make contributions in accordance with applicable governmental regulatory requirements. The assets of the plans are invested primarily in interest-bearing obligations and for one plan with an insurance subsidiary of CNA, in its separate account business.

Other Postretirement Benefit Plans - The Company has several postretirement benefit plans covering eligible employees and retirees. Participants generally

become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

Benefits for retirees reaching age 65 are generally integrated with Medicare. Other retirees, based on plan provisions, must use Medicare

as their primary coverage, with the Company reimbursing a portion of the unpaid amount; or are reimbursed for the Medicare Part B premium or have no Company coverage. The benefits provided by the Company are basically health and, for certain retirees, life insurance type benefits.

The Company does not fund any of these benefit plans and accrues postretirement benefits during the active service of those employees who would become eligible for such benefits when they retire.

In 2000, CNA recorded pretax curtailment charges of approximately $13.0 related to employee's elections regarding participation in a defined benefit pension plan. This change resulted in a reduction of the pension benefit obligation of $37.0.

In 1999, CNA recorded pretax curtailment and other related charges of approximately $8.0 related to the transfer of personal lines insurance business to Allstate as discussed in Note 12. This transaction resulted in a reduction of the pension and postretirement benefit obligations of $44.0 and $2.0, respectively.

In 1999, CNA amended certain plans to change, among other things, early retirement eligibility and the level of employer contributions. These actions resulted in a reduction in pension and postretirement benefit obligations of approximately $10.0 and $48.0, respectively.

The weighted average rates used in the actuarial assumptions were:

	Pension Benefits			Other Postretirement Benefits		
Year Ended December 31	2001	2000	1999	2001	2000	1999
Discount rate	7.3%	7.5%	7.8% to 8.0%	7.3%	7.5%	7.8% to 8.0%
Expected return on plan assets	7.5% to 9.0%	7.8% to 8.0%	6.8% to 8.0%			
Rate of compensation increase	5.3% to 5.8%	5.5% to 5.8%	5.5% to 5.7%			

Net periodic benefit cost components:

	Pension Benefits			Other Postretirement Benefits		
Year Ended December 31	2001	2000	1999	2001	2000	1999
Service cost	$ 51.4	$ 45.1	$ 79.6	$ 9.5	$ 10.1	$ 14.8
Interest cost	195.2	187.4	180.9	33.8	33.0	31.4
Expected return on plan assets	(194.5)	(172.2)	(145.3)			
Amortization of unrecognized net asset	.5	5.6	5.6			
Amortization of unrecognized net loss (gain)	2.8	2.5	11.9	(2.7)	(4.4)	(3.4)
Amortization of unrecognized prior service cost	7.6	7.7	9.9	(17.8)	(17.6)	(14.3)
Curtailment loss	2.8	12.9	8.0			
Special termination benefit	1.7					

Net periodic benefit cost	$ 67.5	$ 89.0	$150.6	$ 22.8	$ 21.1	$ 28.5

For measurement purposes, a trend rate for covered costs from 4.0% to 9.0% pre-65 and 11.0% post-65, was used. These trend rates are expected to decrease gradually to an ultimate rate of 4.0% to 5.0% at a rate of .5% per annum. The health care cost trend rate assumption has a significant effect on the amount of the benefit obligation and periodic cost reported. An increase (or decrease) in the assumed health care cost trend rate of 1% would increase (or decrease) the postretirement benefit obligation as of December 31, 2001 by $24.8 (or $22.9) and the total of service and interest cost components of net periodic postretirement benefit cost for 2001 by $1.9 (or $2.0).

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets were $2,202.2, $1,938.3 and $1,951.7, respectively, at December 31, 2001 and $2,019.4, $1,788.4 and $1,779.4, respectively, at December 31, 2000.

The following provides a reconciliation of benefit obligations:

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at January 1	$ 2,668.2	$ 2,533.0	$ 458.6	$ 411.9
Service cost	51.4	45.1	9.5	10.1
Interest cost	195.2	187.4	33.8	33.0
Plan participants' contributions			9.8	8.0
Amendments		4.6	(.7)	(2.8)
Actuarial loss	156.1	108.2	43.3	38.6
Benefits paid from plan assets	(185.6)	(173.1)	(43.5)	(40.2)
Curtailment	(1.3)	(37.0)	(7.0)	
Special termination benefits	1.7			
Benefit obligation at December 31	2,885.7	2,668.2	503.8	458.6
Change in plan assets:				
Fair value of plan assets at January 1	2,481.1	2,104.9		
Actual return on plan assets	213.6	310.4		
Company contributions	214.5	238.9	33.7	32.2
Plan participants' contributions			9.8	8.0
Benefits paid from plan assets	(185.6)	(173.1)	(43.5)	(40.2)
Fair value of plan assets at December 31	2,723.6	2,481.1		
Benefit obligation over plan assets	(162.1)	(187.1)	(503.8)	(458.6)
Unrecognized net actuarial loss (gain)	319.7	188.6	33.6	(5.5)
Unrecognized prior service cost (benefit)	42.1	50.7	(105.7)	(126.3)
Unrecognized net obligation		.4		
Accrued benefit cost	$ 199.7	$ 52.6	$(575.9)	$(590.4)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	$ 278.4	$ 147.0		
Accrued benefit liability	(104.0)	(100.6)	$ (575.9)	$(590.4)
Intangible asset	.2	.2		
Accumulated other comprehensive income	25.1	6.0		
Net amount recognized	$ 199.7	$ 52.6	$ (575.9)	$(590.4)

Savings Plans - The Company and its subsidiaries have several contributory savings plans which allow employees to make regular contributions based upon a percentage of their salaries. Matching contributions are made up to specified percentages of employees' contributions. The contributions by the Company and its subsidiaries to these plans amounted to $67.2, $61.6 and $39.6 for the years ended December 31, 2001, 2000 and 1999, respectively.

Stock Option Plans - In 2000, shareholders approved the Loews Corporation 2000 Stock Option Plan (the "Plan"). The aggregate number of shares of Common Stock for which options may be granted under the Plan is 2,000,000; and the maximum number of shares of Common Stock with respect to which options may be granted to any individual in any calendar year is 400,000. The exercise price per share may not be less than the fair market value of the Common Stock on the date of grant. Generally, options vest ratably over a four-year period and expire in ten years. The Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options and awards. Under APB No. 25, no compensation expense is recognized when the exercise prices of options equals the fair value (market price) of the underlying stock on the date of grant.

A summary of the Company's stock option transactions follows:

	2001		2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, January 1	264,000	$30.140		
Granted	284,800	46.918	264,000	$30.140
Exercised	(11,900)	30.140		
Canceled	(1,200)	55.860		
Options outstanding, December 31	535,700	$39.002	264,000	$30.140
Options exercisable, December 31	66,850	$32.776		
Shares available for grant, December 31	1,452,400		1,736,000	

The following table summarizes information about the Company's stock options outstanding at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2001	Weighted Average Exercise Price
$30.14	252,100	7.9	$30.140	58,750	$30.140
$46.705	270,600	8.9	46.705	2,100	46.705
$45.14 - $63.42	13,000	9.0	50.526	6,000	53.716

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the Company

to disclose pro forma information regarding option grants made to its employees. SFAS No. 123 specifies certain valuation techniques that produce estimated compensation charges for purposes of valuing stock option grants. These amounts have not been included in the Company's Consolidated Statements of Operations, because APB No. 25 specifies that no compensation charge arises when the price of the employees' stock options equal the market value of the underlying stock at the grant date. Several of the Company's subsidiaries also maintain their own stock option plans. The pro forma effect of applying SFAS No. 123 includes the Company's share of expense related to the subsidiaries' plans as well. The Company's pro forma net (loss) income for the years ended December 31, 2001 and 2000, was $(591.5) and $1,875.2 or $(3.03) and $9.44 per share, respectively.

The fair value of granted options was estimated at the grant date using the Black-Scholes option pricing model. The weighted average fair value per share of options granted during 2001 and 2000 was $16.90 and $10.73, respectively. The following weighted average assumptions were used for the years ended December 31, 2001 and 2000: risk free interest rate of 5.3% and 6.7%; expected dividend yield of 1.1% and 1.6%; expected option life of 5 years; and expected stock price volatility of 35.2% and 33.4%, respectively.

Note 15. Reinsurance

CNA assumes and cedes reinsurance 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, minimize exposures on larger risks and to exit certain lines of business. Reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Generally, property risks are reinsured 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. CNA's life reinsurance includes utilization of coinsurance, yearly renewable term and facultative programs. A majority of the reinsurance utilized by CNA's life insurance operations relates to term life insurance policies. Term life insurance policies issued from 1994 onward are generally ceded at 60% to 90% of the face value from first dollar. Universal Life policies issued from 1998 onward are generally ceded at 75% of the face value from first dollar.

CNA's overall reinsurance program includes certain property-casualty contracts, such as the corporate aggregate treaties discussed in more detail later in this section, that are entered into and accounted for on a "funds withheld" basis. Under these contracts, CNA records a funds

withheld liability, which is included in reinsurance balances payable for substantially all of the ceded premiums. These reinsurance contracts require CNA to increase the funds withheld balance at stated interest crediting rates. The funds withheld liability is reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability is exhausted, additional claim payments are recoverable from the reinsurer.

Interest cost on these contracts, which is included in other net investment income, was $241.0, $87.0 and $22.0 in 2001, 2000 and 1999. The amount subject to interest crediting rates on such contracts was $2,724.0 and $522.0 at December 31, 2001 and 2000.

The ceding of insurance does not discharge the primary liability of CNA. Therefore, a credit exposure exists with respect to property, liability and life reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under reinsurance agreements.

Amounts receivable from reinsurers were $13,823.4 and $9,397.3 at December 31, 2001 and 2000. Of these amounts, $838.0 and $821.0 were billed to reinsurers as of December 31, 2001 and 2000, as reinsurance contracts generally require payment of claims by the ceding company before the amount can be billed to the reinsurer. The remaining receivable relates to the estimated case and IBNR reserves and future policyholder benefits ceded under reinsurance contracts.

CNA attempts to mitigate its credit risk related to reinsurance by entering into reinsurance arrangements only with reinsurers that have credit ratings above certain levels and by obtaining substantial amounts of collateral. The primary methods of obtaining collateral are through reinsurance trusts,

letters of credit and funds withheld balances. Such collateral was approximately $3,677.0 and $1,566.0 at December 31, 2001 and 2000. The allowance for doubtful accounts related to reinsurance receivables was $170.0 and $179.0 at December 31, 2001 and 2000.

CNA's largest recoverables from a single reinsurer, including prepaid reinsurance premiums, were approximately $1,487.0, $1,374.0, $889.0 and $463.0 at December 31, 2001 from Hannover Reinsurance (Ireland) Ltd., Allstate Insurance Corporation, American Reinsurance Company, and European Reinsurance Company of Zurich.

Insurance claims and policyholders' benefits reported in the Consolidated Statements of Operations are net of reinsurance recoveries of $7,288.0, $4,863.0 and $3,224.0 for the years ended December 31, 2001, 2000 and 1999.

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

The effects of reinsurance on earned premiums are as follows:

	Direct	Assumed	Ceded	Net
Year Ended December 31, 2001				
Property-casualty	$ 8,708.0	$1,228.0	$4,983.0	$ 4,953.0
Accident and health	3,644.0	176.0	136.0	3,684.0
Life	1,256.0	217.0	745.0	728.0
Total	$13,608.0	$1,621.0	$5,864.0	$ 9,365.0
Year Ended December 31, 2000				
Property-casualty	$ 8,389.0	$1,955.0	$3,421.0	$ 6,923.0
Accident and health	3,644.0	484.0	487.0	3,641.0
Life	1,227.0	220.0	537.0	910.0
Total	$13,260.0	$2,659.0	$4,445.0	$11,474.0
Year Ended December 31, 1999				
Property-casualty	$ 9,158.0	$1,816.0	$2,199.0	$ 8,775.0
Accident and health	3,730.0	198.0	397.0	3,531.0
Life	1,174.0	222.0	420.0	976.0
Total	$14,062.0	$2,236.0	$3,016.0	$13,282.0

In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property-casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss and allocated loss adjustment expense (collectively, "losses") ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 of ceded losses with an aggregate limit of $1,000.0 of ceded losses for the three-year period. The ceded premiums are a percentage of ceded losses and for each $500.0 of limit the ceded premium is $230.0. The second section of the Aggregate Cover, which is only available for accident year 2001, provides additional coverage of up to $510.0 of ceded losses for a maximum ceded premium of $310.0. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three-year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.3% per annum.

The coverage under the second section of the Aggregate Cover was triggered for

the 2001 accident year. As a result of losses related to the WTC event, the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded during 2001, the $500.0 limit on the 1999 accident year under the first section was also fully utilized. No losses have been ceded to the remaining $500.0 of limit on accident years 2000 and 2001 under the first section.

The impact of the Aggregate Cover for the year ended December 31, 2001 was as follows:

Ceded earned premiums	$ (543.0)
Ceded claim and claim adjustment expenses	1,010.0
Interest charges	(81.0)
Pretax benefit on operating results	$ 386.0

In 2001, CNA entered into a one-year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property-casualty lines of business in the Continental Casualty Company Pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 of ceded losses. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds.

The impact of the CCC Cover for the year ended December 31, 2001 was as follows:

Ceded earned premiums	$(260.0)
Ceded claim and claim adjustment expenses	470.0
Interest charges	(20.0)
Pretax benefit on operating results	$ 190.0

Note 16. Quarterly Financial Data (Unaudited)

2001 Quarter Ended	Dec. 31	Sept. 30	June 30	March 31
Total revenues	$5,153.8	$4,840.9	$ 4,318.5	$5,104.0
Income (loss) before cumulative effect of changes in accounting principles	188.1	165.7	(1,415.2)	525.6
Per share	.98	.85	(7.18)	2.67
Net income (loss)	188.1	165.7	(1,415.2)	472.3
Per share	.98	.85	(7.18)	2.40

2000 Quarter Ended	Dec. 31	Sept. 30	June 30	March 31
Total revenues	$5,524.2	$5,757.3	$ 5,314.0	$4,655.7
Net income	502.9	679.6	510.6	183.6
Per share	2.55	3.45	2.59	.90

Note 17. Legal Proceedings and Contingent Liabilities

INSURANCE RELATED

Tobacco Litigation - Four CNA insurance subsidiaries are defendants in a lawsuit arising out of policies allegedly issued to Liggett Group, Inc. ("Liggett"). The lawsuit was filed by Liggett and its current parent, Brooke Group Holding Inc., in the Delaware Superior Court, New Castle County, on January 26, 2000. The lawsuit, which involves numerous insurers, concerns coverage issues relating to over 1,000 tobacco-related claims asserted against Liggett over the past 20 years. However, Liggett only began submitting claims for coverage under the policies in January 2000. The trial court granted the CNA insurance subsidiaries' summary judgment motions asserting that they have no duty to defend or to indemnify as to a number of representative lawsuits. The Delaware Supreme Court has accepted an appeal of these rulings. CNA believes its coverage defenses are strong; and therefore, based on facts and circumstances currently known, management believes that the ultimate outcome of the pending litigation will not materially affect the results of operations and/or financial position of CNA.

IGI Contingency

In 1997, CNA Reinsurance Company Limited ("CNA Re Ltd.") entered into an arrangement with IOA Global, Ltd. ("IOA"), an independent managing general agent based in Philadelphia, Pennsylvania, to develop and manage a book of accident and health coverages. Pursuant to this arrangement, IGI Underwriting Agencies, Ltd. ("IGI"), a personal accident reinsurance managing general underwriter, was appointed to underwrite and market the book under the supervision of IOA. Between April 1, 1997 and December 1, 1999, IGI underwrote a number of reinsurance arrangements with respect to personal accident insurance worldwide (the "IGI Program"). Under various arrangements, CNA Re Ltd. both assumed risks as a reinsurer and also ceded a substantial portion of those risks to other companies, including other CNA insurance subsidiaries and ultimately to a group of reinsurers participating in a reinsurance pool known as the Associated Accident and Health Reinsurance Underwriters ("AAHRU") Facility. CNA's Group Operations business unit participated as a pool member in the AAHRU Facility in varying percentages between 1997 and 1999.

CNA has determined that a small portion of the premiums assumed under the IGI Program related to United States workers' compensation "carve-out" business. CNA is aware that a number of reinsurers with workers' compensation carve-out insurance exposure have disavowed their obligations under various legal theories. If one or more such companies are successful in avoiding or reducing their liabilities, then it is likely that CNA's liability will also be reduced. Moreover, based on information known at this time, CNA reasonably believes it has strong grounds for avoiding a substantial portion of its United States workers' compensation carve-out exposure through legal action.

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

CNA has established reserves for its estimated exposure under the program and an estimate for recoverables from retrocessionaires.

CNA is pursuing a number of loss mitigation strategies. Although the results of these various actions to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty. As a result of these uncertainties, the results of operations in future years may be adversely affected by potentially significant reserve additions. Management does not believe that any such reserve additions will be material to the equity of CNA.

Other Contingencies

In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At December 31, 2001 there were approximately $270.0 of outstanding letters of credit.

CNA has committed approximately $152.0 to future capital calls from various third party limited partnership investments in exchange for an ownership

interest in the related partnerships.

CNA has a commitment to purchase a $100.0 floating rate note issued by the Californian Earthquake Authority in the event California earthquake related insurance losses exceed $4,900.0 prior to December 31, 2002.

CNA has entered into a limited number of guaranteed payment contracts primarily relating to telecommunication services amounting to approximately $41.0. Estimated future minimum purchases under these contracts are as follows: $14.0 in 2002; $14.0 in 2003; $10.0 in 2004; and $3.0 in 2005.

TOBACCO RELATED

Approximately 4,675 product liability cases are pending against cigarette manufacturers in the United States; Lorillard is a defendant in approximately 4,275 of these cases. Lawsuits continue to be filed against Lorillard and other manufacturers of tobacco products. Some of the lawsuits also name the Company as a defendant. Among the 4,675 product liability cases, approximately 1,250 cases are pending in a West Virginia court. Another group of approximately 2,835 cases has been brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits and is a defendant in most of the cases pending in West Virginia.

Excluding the flight attendant and West Virginia suits, approximately 575 product liability cases are pending against U.S. cigarette

manufacturers. Of these 575 cases, Lorillard is a defendant in approximately 275 cases. The Company is a defendant in approximately 45 of these actions, although it has not received service of process in approximately 10 of them.

Tobacco litigation includes various types of claims. In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages, as well as equitable and injunctive relief, in amounts ranging into the billions of dollars. These claims are based on a number of legal theories including, among other theories, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability (including claims asserted under the Racketeering Influenced and Corrupt Organizations Act), civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of antitrust statutes, and failure to warn of the harmful and/or addictive nature of tobacco products.

Some cases have been brought by individual plaintiffs who allege cancer and/or other health effects resulting from an individual's use of cigarettes and/or smokeless tobacco products, addiction to smoking or exposure to environmental tobacco smoke. These cases are generally referred to as "conventional product liability cases." In other cases, plaintiffs have brought claims as purported class actions on behalf of large numbers of individuals for damages allegedly caused by smoking. These cases are generally referred to as "purported class action cases." In other cases, plaintiffs are U.S. and foreign governmental entities or entities such as labor unions, private companies, hospitals or hospital districts, American Indian tribes, or private citizens suing on behalf of taxpayers. Plaintiffs in these cases seek reimbursement of health care costs allegedly incurred as a result of smoking, as well as other alleged damages. These cases are generally referred to as "reimbursement cases." In addition, there are claims for contribution and/or indemnity in relation to asbestos claims filed by asbestos manufacturers or the insurers of asbestos manufacturers. These cases are generally referred to as "claims for contribution."

In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time, ending more than 40 years ago. These cases are generally referred to as "filter cases." Approximately 30 filter cases are pending against Lorillard.

SIGNIFICANT RECENT DEVELOPMENTS - During December of 2001, the Florida Third District Court of Appeal denied defendants' motion for rehearing, for rehearing en banc, and for certification to the Florida Supreme Court of a ruling by the trial court from October of 2000 in the product liability litigation relating to present or former flight attendants. The October of 2000 decision may be construed to hold that the flight attendants are not

required to prove the substantive liability elements of their claims for negligence, strict liability and breach of implied warranty in order to recover damages. During January of 2002, the defendants, which include Lorillard, filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court in order to seek review of the trial court's October of 2000 ruling and the orders by the Florida Third District Court of Appeal that affirmed the October of 2000 decision.

During November of 2001, a jury in the Circuit Court of Ohio County, West Virginia returned a verdict in favor of the defendants, including Lorillard, in the case of Blankenship v. American Tobacco Company, et al. (Circuit Court, Ohio County, West Virginia, filed January 31, 1997), a class action case. The court has denied plaintiffs' motion for new trial. The time for plaintiffs to appeal has not expired.

During November of 2001, the California Court of Appeal, First Appellate District, affirmed the trial court's final judgment in favor of the plaintiff in the case of Henley v. Philip Morris Inc., a conventional product liability case. During 1999, a jury in the Superior Court of California, San Francisco County, found in favor of plaintiff at trial and awarded her $1.5 in actual damages and $50.0 in punitive damages. The trial court subsequently reduced the punitive damages award to $25.0. Philip Morris has filed a petition for review with the California Supreme Court. The California Supreme Court has accepted the case for review. Neither the Company nor Lorillard is a defendant in this matter.

On October 5, 2001, a jury returned a verdict in favor of the defendants in Tompkin v. The American Tobacco Company, et al., a conventional product liability case in the United States District Court for the Northern District of Ohio. Lorillard was a defendant in the case. The court has denied plaintiff's motion for new trial and entered final judgment in favor of the defendants. Plaintiff has noticed an appeal from the judgment to the U.S. Court of Appeals for the Sixth Circuit.

On June 6, 2001, a jury awarded $5.5 in compensatory damages and $3,000.0 in punitive damages to the plaintiff in Boeken v. Philip Morris, Inc., a conventional product liability case in the Superior Court of Los Angeles County, California. The court ruled that it would grant in part Philip Morris's motion for a new trial and hold a new trial limited to plaintiff's punitive damages claim if plaintiff did not consent to a reduction of the award to $100.0. Plaintiff accepted the reduced award and the trial court entered an amended judgment awarding plaintiff $100.0 in punitive damages. Philip Morris has noticed an appeal from the amended judgment to the California Court of Appeals. Neither the Company nor Lorillard was a defendant in this matter.

On June 4, 2001, the jury in the case of Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., a health plan reimbursement case pending in the U.S. District Court for the Eastern District of New York, returned a verdict awarding damages against the defendants, including Lorillard. In this trial, the jury heard evidence as to the claims of only one of the plan plaintiffs, Empire Blue Cross and Blue Shield, referred to as Empire. In its June 4, 2001 verdict, the jury found in favor of the defendants on some of Empire's claims, one of which findings precluded the jury from considering Empire's claims for punitive damages. The jury found in favor of Empire on certain other of plaintiff's claims. As a result of these

findings, Empire is entitled to an award of approximately $17.8 in total actual damages, including approximately $1.5 attributable to Lorillard. The court denied plaintiff's post-verdict application for trebling of the damages awarded by the jury. On November 1, 2001, the court entered a final judgment that reflects the jury's verdict. In the final judgment, Empire was awarded approximately $1.5 in actual damages and approximately fifty-five thousand dollars in pre-judgment interest for a total award against Lorillard of approximately $1.6. The defendants, including Lorillard, have noticed an appeal from the final judgment to the United States Court of Appeals for the Second Circuit. Plaintiff's counsel has sought an award of $39.0 in attorneys' fees. This matter also is a part of the litigation described under the heading "Eastern District of New York Litigation" discussed below.

SETTLEMENT OF STATE REIMBURSEMENT CASES - On November 23, 1998, Lorillard, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation and R.J. Reynolds Tobacco Company, the "Original Participating Manufacturers," entered

into a Master Settlement Agreement with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands to settle the asserted and unasserted health care cost recovery and certain other claims of those states. These settling entities are generally referred to as the "Settling States." The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota, which together with the Master Settlement Agreement are generally referred to as the "State Settlement Agreements."

The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by Lorillard and the other participating manufacturers to avoid the further expense, inconvenience, burden and uncertainty of litigation.

The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions.

In addition, as part of the Master Settlement Agreement, the Original Participating Manufacturers committed to work cooperatively with the tobacco growing community to address concerns about the potential adverse economic impact on that community. On January 21, 1999, the Original Participating Manufacturers reached an agreement to establish a $5,150.0 trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 states. Payments to the trust fund are to be allocated among the Original Participating Manufacturers according to their relative market share of domestic cigarette shipments, except that Philip Morris paid more than its market share in 1999 but will have its payment obligations reduced in 2009 and 2010 to make up for the overpayment. Of the total $5,150.0, a total of $989.0 was paid in 1999, 2000 and 2001, $79.9 of which was paid by Lorillard. Lorillard believes its remaining payments under the agreement will total approximately $435.0. All payments will be adjusted for inflation, changes in the unit volume of domestic cigarette shipments, and the effect of new increases in state or federal excise taxes on tobacco products that benefit the tobacco growing community.

Lorillard believes that the State Settlement Agreements will materially adversely affect its cash flows and operating income in future years. The degree of the adverse impact will depend, among other things, on the rates of decline in U.S. cigarette sales in the premium price and discount price segments, Lorillard's share of the domestic premium price and discount price cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to significant payment obligations under the State Settlement Agreements. Almost all domestic manufacturers have agreed to become subject to the terms of the Master Settlement Agreement.

Lorillard recorded pretax charges of $1,140.4, $1,076.5 and $1,065.8 for the years ended December 31, 2001, 2000 and 1999, respectively, to account for its obligations under the State Settlement Agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur.

CONVENTIONAL PRODUCT LIABILITY CASES - Conventional product liability cases are cases in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, due to use of smokeless tobacco products, or due to cigarette or nicotine dependence or addiction. Plaintiffs in most conventional product liability cases seek unspecified amounts in compensatory damages and punitive damages. Lorillard is a defendant in approximately 1,300 of these cases. This total includes approximately 1,150 cases pending in West Virginia that are part of a consolidated proceeding. Additional cases are pending against other cigarette manufacturers. The Company is a defendant in seven of the cases filed by individuals, although four of the cases have not been served on the Company. The Company is not a defendant in any of the conventional product liability cases pending in West Virginia.

Since January 1, 2000, 13 cases filed by individual plaintiffs have been tried. Lorillard was a defendant in three of the 13 cases, and juries returned verdicts in favor of the defendants in each of these three matters. The Company was not a defendant in any of the 13 conventional product liability

cases tried since January 1, 2000. Trial is proceeding in one matter filed by individuals. Neither Lorillard nor the Company were defendants in this matter.

Lorillard was not a defendant in ten of the individual cases tried since January 1, 2000. Juries have returned verdicts in favor of the defendants in four of the cases. In a fifth case, a court granted the defendant's motion for directed verdict. Five cases have been decided in plaintiffs' favor. Due to various factors, including the filing of

appeals, plaintiffs have not been able to execute on any of the judgments reflecting the adverse verdicts. In a 2002 case, a Kansas jury awarded a plaintiff $0.2 in actual damages and found that plaintiff had presented evidence that entitles him to recover an award for punitive damages. The determination of the punitive damages award will be decided by the court at a later date. No challenges to this verdict have been filed to date. In 2001, a Florida jury awarded a plaintiff $0.17 in actual damages but declined to award punitive damages. The court has not ruled to date on the defendant's post-trial motions. During 2001, a California jury awarded a plaintiff approximately $5.5 in actual damages and $3,000.0 in punitive damages, although the court subsequently reduced the punitive damages award to $100.0. The defendant has noticed an appeal from the final judgment. During 2000, a California jury awarded plaintiffs $21.5. The defendants have noticed an appeal from the final judgment. During 2000, a Florida jury awarded a plaintiff $0.2 in actual damages but it declined to award punitive damages. The trial court subsequently granted the defendant's post-trial motion and entered a final judgment in favor of the defendant. The plaintiff has noticed an appeal.

Appeals also are pending in two cases in which adverse verdicts were returned prior to January 1, 2000. Neither Lorillard nor the Company are defendants in either of these matters. In one of these matters, the California Supreme Court issued a ruling during January of 2002 that accepted for review the defendant's appeal from a 1999 judgment by a California court that reflects an award to a plaintiff of $26.5. The California Court of Appeal, in rulings issued during 2001, affirmed this judgment and subsequently denied the defendant's motion for rehearing. In the second of these matters, the Oregon Court of Appeals, during October of 2001, took under advisement the appeal from the judgment reflecting an award to an Oregon plaintiff of $32.8.

During 2001, another cigarette manufacturer, Brown & Williamson Tobacco Corporation, paid $1.1 in damages and interest to a former smoker and his spouse for injuries incurred as a result of smoking. Carter v. Brown & Williamson Tobacco Corporation (Circuit Court, Duval County, Florida, filed February 10, 1995). In the 1996 trial of that case, the jury awarded plaintiffs a total of $0.8 in damages. Plaintiffs did not seek punitive damages. In 1998, the Florida Court of Appeal reversed the judgment, holding that plaintiffs' claims were barred by the statute of limitations. The Florida Supreme Court, however, reinstated the jury's damages award during 2000 and denied Brown & Williamson's motion for rehearing during 2001. Brown & Williamson's motion to stay the mandate pending the resolution of its petition for writ of certiorari to the U.S. Supreme Court was denied. Brown & Williamson therefore paid approximately $1.1 in damages and interest to the plaintiffs during 2001. Brown & Williamson subsequently filed a petition for writ of certiorari with the U.S. Supreme Court. On June 29, 2001, the U.S. Supreme Court declined to accept for review the petition for writ of certiorari. Lorillard was not a defendant in this matter.

Some cases against U.S. cigarette manufacturers and manufacturers of smokeless tobacco products are scheduled for trial during 2002 and beyond. These trials include a consolidated trial of the cases brought by approximately 1,250 West Virginia smokers or users of smokeless tobacco products that is scheduled to begin during September of 2002. Lorillard is a defendant in some of the cases set for trial, including the consolidated West Virginia trial. The trial dates are subject to change.

The California Supreme Court is reviewing decisions by the California Court of Appeals as to whether a California statute bars claims against cigarette manufacturers if the claims accrued between 1988 and 1998. The California Attorney General has filed an amicus brief with the Supreme Court that supports the position of the plaintiffs in these suits.

Flight Attendant Cases - There are approximately 2,835 cases pending in the Circuit Court of Dade County, Florida against Lorillard and three other U.S.

cigarette manufacturers in which the plaintiffs are present or former flight attendants, or the estates of deceased flight attendants, who allege injury as a result of exposure to environmental tobacco smoke in aircraft cabins. The Company is not a defendant in any of the flight attendant cases.

The suits were filed as a result of a settlement agreement on October 10, 1997 by the parties to Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, filed October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke. The settlement agreement was approved by the trial court on February 3, 1998. Pursuant to the settlement agreement, among other things, Lorillard and three other U.S. cigarette manufacturers paid approximately $300.0 to create and endow a research institute to study diseases associated with cigarette smoke. In addition, the settlement agreement permitted the plaintiff class members to file individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997.

During October of 2000, the Circuit Court of Dade County, Florida entered an order that may be construed to hold that the flight attendants are not required to prove the substantive liability elements of their claims for negligence, strict liability and breach of implied warranty in order to recover damages. The court further ruled that the trials of these suits are to address whether the plaintiffs' alleged injuries were caused by their exposure to environmental tobacco smoke and, if so, the amount of damages to be awarded. It is not clear how the trial judges will apply this order. The Florida Third District Court of Appeal dismissed as premature defendants' appeal from the October of 2000 decision. The Court of Appeal denied defendants' motion for rehearing and for rehearing en banc or, in the alternative, for certification of the October of 2000 ruling to the Florida Supreme Court. During January of 2002, the defendants, which include Lorillard, filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court in order to seek review of the trial court's

October of 2000 ruling and the orders by the Florida Third District Court of Appeal that affirmed the October of 2000 decision.

Trial has been held in one of the flight attendant cases. On April 5, 2001, a jury in the Circuit Court of Dade County, Florida returned a verdict in favor of Lorillard and the other defendants in the case of Fontana v. Philip Morris Incorporated, et al. The court has entered final judgment in favor of the defendants and has denied plaintiff's post-trial motions. Plaintiff has noticed an appeal to the Florida Third District Court of Appeal.

Additional flight attendant cases are set for trial. Approximately 15 such cases are scheduled for trial between April and October of 2002.

CLASS ACTION CASES - Certain cases have been filed against cigarette manufacturers, including Lorillard, in which plaintiffs purport to seek class certification on behalf of groups of cigarette smokers. Lorillard is a defendant in approximately 25 of these cases, six of which also name the Company as a defendant. Two cases that name both the Company and Lorillard as defendants have not been served on any of the parties. Neither Lorillard nor the Company are defendants in approximately 20 additional class action cases pending against other cigarette manufacturers, many of which assert claims on behalf of smokers of "light" cigarettes. As discussed under "Significant Recent Developments," a verdict was returned in favor of defendants in one of those matters, Blankenship v. American Tobacco Company, et al. during November of 2001. Trial proceedings are underway in the case of Scott v. The American Tobacco Company, et al. The remaining cases that are pending before trial courts are in the pre-trial, discovery stage. Most of the suits in which Lorillard or the Company were defendants seek class certification on behalf of residents of the states in which the purported class action cases have been filed, although some suits seek class certification on behalf of residents of multiple states. Plaintiffs in all but two of the purported class action cases seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. In one of the two remaining purported class action cases, plaintiffs seek class certification on behalf of individuals who paid insurance premiums. Plaintiffs in the other remaining suit seek class certification on behalf of U.S. residents under the age of 22 who purchased cigarettes as minors and who do not have personal injury claims. Plaintiffs in a few of the reimbursement cases, which are discussed below, also seek certification of such cases as class actions.

Various courts have ruled on motions for class certification in smoking and health-related cases. In 12 state court cases, which were pending in five states and the District of Columbia, courts have denied plaintiffs' class certification motions. In another 15 cases, cigarette manufacturers have defeated motions for class certification before either federal trial courts or courts of appeal from cases pending in 13 states and the Commonwealth of Puerto Rico. The denial of class certification in a New York federal court case, however, was due to the court's interest in preserving judicial resources for a potentially broader class certification ruling in In re Simon (II) Litigation, which is discussed below. In six cases in which Lorillard is a defendant, plaintiffs' motions for class certification have been granted and appeals either have been rejected at the interlocutory stage, or, in one case, plaintiffs' claims were resolved through a settlement agreement. These six cases are Broin (which is the matter concluded by a settlement agreement and discussed under "Conventional Product Liability Cases -- Flight Attendant Cases"), Engle, Blankenship, Scott, Daniels and Brown. In addition to these six cases, motions for class certification have been granted in as many as five of the "light" cigarette cases. Neither Lorillard nor the Company are defendants in these matters.

Theories of liability asserted in the purported class action cases 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 some of the purported class action cases are represented by a well-funded and coordinated consortium of law firms throughout the United States.

The Engle Case - Trial began during July of 1998 in the case of Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994). The trial court, as amended by the Florida Court of Appeal, granted class certification on behalf of Florida residents and citizens, and survivors of such individuals, who have been injured or have died from medical conditions allegedly caused by their addiction to cigarettes containing nicotine.

The case is being tried in three phases. The first phase began during July of 1998 and involved consideration of certain issues claimed to be common to the members of the class and their asserted causes of action.

On July 7, 1999, the jury returned a verdict against defendants, including Lorillard, at the conclusion of the first phase. The jury found, among other things, that cigarette smoking is addictive and causes lung cancer and a variety of other diseases, that the defendants concealed information about the health risks of smoking, and that defendants' conduct rose to a level that would permit a potential award or entitlement to punitive damages. The verdict permitted the trial to proceed to a second phase. The jury was not asked to award damages in the Phase One verdict.

By order dated July 30, 1999 and supplemented on August 2, 1999, together, the "Punitive Damages Order," the trial judge amended the trial plan with respect to the manner of determining punitive damages. The Punitive Damages Order provided that the jury would determine punitive damages, if any, on a lump-sum dollar amount basis for the entire qualified class. The Third District of the Florida Court of Appeal rejected as premature defendants' appeals from the Punitive Damages Order, and the Florida Supreme Court declined to review the Punitive Damages Order at that time.

The first portion of Phase Two of the trial began on November 1, 1999 before the same jury that returned the verdict in Phase One. In the first part of Phase Two, the jury determined issues of specific causation, reliance, affirmative defenses, and other individual-specific issues related to the claims of three named plaintiffs and their entitlement to damages, if any.

On April 7, 2000, the jury found in favor of the three plaintiffs and awarded them a total of $12.5 in economic damages, pain and suffering damages and damages for loss of consortium. After awarding damages to one of the three plaintiffs, the jury appeared to find that his claims were barred by the statute of limitations. The final judgment entered by the trial court on November 6, 2000 reflected the damages award, and held that only a portion of

this plaintiff's claims were barred by the statute of limitations.

The second part of Phase Two of the trial began on May 22, 2000 and was heard by the same jury that heard the trial's prior phases and considered evidence as to the punitive damages to be awarded to the class. On July 14, 2000, the jury awarded approximately $145,000.0 in punitive damages against all defendants, including $16,250.0 against Lorillard.

On November 6, 2000, the Circuit Court of Dade County, Florida, entered a final judgment in favor of the plaintiffs. The judgment also provides that the jury's awards bear interest at the rate of 10% per year. The court's final judgment denied various of defendants' post-trial motions, which included a motion for new trial and a motion seeking reduction of the punitive damages award. Lorillard has noticed an appeal from the final judgment to the Florida Third District Court of Appeal and has posted its appellate bond in the amount of $100.0 pursuant to Florida legislation enacted in May of 2000 limiting the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. While Lorillard believes this legislation is valid and that any challenges to the possible application or constitutionality of this legislation would fail, during May of 2001, Lorillard and two other defendants jointly contributed a total of $709.0 to a fund (held for the benefit of the Engle plaintiffs) that will not be recoverable by them even if challenges to the judgment are resolved in favor of the defendants. As a result, the class has agreed to a stay of execution, referred to as the Engle agreement, on its punitive damages judgment until appellate review is completed, including any review by the U.S. Supreme Court. Lorillard contributed a total of $200.0 to this fund, which included the $100.0 that was posted as collateral for its appellate bond. Accordingly, Lorillard has recorded a pretax charge of $200.0 in the year ended December 31, 2001.

In the event that Lorillard, Inc.'s balance sheet net worth falls below $921.2 (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the stay granted in favor of Lorillard in the Engle agreement would terminate and the class would be free to challenge the Florida legislation.

In addition, the Engle agreement requires Lorillard to obtain the written consent of class counsel or the court prior to selling any trademark of or formula comprising a cigarette brand having a U.S. market share of 0.5% or more during the preceding calendar year. The Engle agreement also requires Lorillard to obtain the written consent of the Engle class counsel or the court to license to a third party the right to manufacture or sell such a cigarette brand unless the cigarettes to be manufactured under the license will be sold by Lorillard.

Now that the jury has awarded punitive damages and final judgment has been entered, Lorillard believes that it is unclear how the Punitive Damages Order will be implemented. The Punitive Damages Order provides that the lump-sum punitive damages amount, if any, will be allocated equally to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal, i.e., the punitive damages amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The Punitive Damages Order does not address whether defendants would be required to pay the punitive damages award, if any, prior to a determination of claims of all class members, which is Phase Three of the trial plan, a process that could take years to conclude. The final judgment entered by the court on November 6, 2000 directs that the amounts awarded by the jury are to be paid immediately. Phase Three would address potentially hundreds of thousands of other class members' claims, including issues of specific causation, reliance, affirmative defenses and other individual-specific issues regarding entitlement to damages, in individual trials before separate juries.

Lorillard has been named in six separate lawsuits that are pending in the Florida courts in which the plaintiffs claim that they are members of the Engle class, that all liability issues associated with their claims were resolved in the earlier phases of the Engle proceedings, and that trials on their claims should proceed immediately. Lorillard is opposing trials of these actions on the grounds that they should be considered during Phase Three of the Engle case and should be stayed while the Engle appeal is proceeding.

Lorillard remains of the view that the Engle case should not have been certified as a class action. Lorillard believes that class certification in the Engle case is inconsistent with the majority of federal and state court

decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged the class certification, as well as numerous other legal errors that it believes occurred during the trial. Lorillard believes that an appeal of these issues on the merits should prevail.

Other Class Action Cases - On November 14, 2001, a jury in the Circuit Court of Ohio County, West Virginia returned a verdict in favor of the defendants, including Lorillard, in the case of Blankenship v. American Tobacco Company, et al. (Circuit Court, Ohio County, West Virginia, filed January 31, 1997). The court has denied plaintiffs' motion for new trial. The time for plaintiffs to appeal has not expired. During 2000, the court granted plaintiffs' motion for class certification.

The court ruled that the class consisted of West Virginia residents who were cigarette smokers on or after January 31, 1995; who had a minimum of a five pack-year smoking history as of December 4, 2000; who had not been diagnosed with certain medical conditions; and who had not received health care funded by the State of West Virginia. The West Virginia Supreme Court of Appeals declined to review defendants' petition for a writ of prohibition against the class certification ruling. Plaintiffs sought the creation of a fund, the purpose of which would be to pay for class members to receive medical monitoring for chronic obstructive pulmonary disease, emphysema and lung cancer. Lorillard was a defendant in the case.

Jury selection began during June of 2001 in the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996). A twelve-member jury and ten alternate jurors were selected, but the Louisiana Court of Appeals and the Louisiana Court of Appeals, in response to writ applications initiated by the defendants, excused a total of nine jurors or alternate jurors. The Supreme Court directed the trial court to re-open the jury selection process in order to select additional jurors. In their writ applications, defendants contended that several selected jurors had family members who were potential members of the class certified by the trial court, and that the selected jury was biased against the defendants. Nine new alternate jurors were selected by the court in proceedings that concluded during December of 2001. Defendants subsequently filed an application for supervisory writ with the Fourth District of Louisiana Court of Appeals regarding errors in the jury selection process. Defendants contend that some of the newly selected alternate jurors have family members that could benefit from an award to the class certified by the court, and that these jurors have indicated that they want their family members to receive the relief plaintiffs are requesting. The court has not announced when the jury as finally constituted would begin hearing evidence in the trial. The trial court has certified a class comprised of residents of the State of Louisiana who desire to participate in medical monitoring or smoking cessation programs and who began smoking prior to September 1, 1988, or who began smoking prior to May 24, 1996 and allege that defendants undermined compliance with the warnings on cigarette packages. Lorillard is a defendant in the case.

During December of 2000, the Superior Court of San Diego County, California issued an order in the case of Daniels v. Philip Morris, Incorporated, et al. that granted plaintiffs' motion for class certification on behalf of California residents who, while minors, smoked at least one cigarette between April 1994 and December 31, 1999. Trial in this matter is scheduled to begin during July of 2002. Lorillard is a defendant in the case.

During April of 2001, the Superior Court of San Diego County, California in the case of Brown v. The American Tobacco Company, Inc., et al., granted in part plaintiff's motion for class certification and certified a class comprised of adult residents of California who smoked at least one of defendants' cigarettes during the applicable time period and who were exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that defendants violated California Business and Professions Code sections 17200 and 17500. The court subsequently defined the applicable class period for plaintiff's claims, pursuant to a stipulation submitted by the parties, as June 10, 1993 through April 23, 2001. Trial is scheduled to begin during October of 2002. Lorillard is a defendant in the case.

REIMBURSEMENT CASES - In addition to the cases settled by the State Settlement Agreements described above, approximately 50 other suits are pending, comprised of cases brought by the U.S. federal government, county governments,

city governments, unions, American Indian tribes, hospitals or hospital districts, private companies and foreign governments filing suit in U.S. courts, in which plaintiffs seek recovery of funds allegedly 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 injunctive relief, indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs in some 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 some of the cases seek medical monitoring. Lorillard is named as a defendant in all of the reimbursement cases except for a few of those filed in U.S. courts by foreign governments. The Company is named as a defendant in approximately 30 of the pending reimbursement cases, although it has not received service of four of these matters.

U.S. Federal Government Action - The U.S. federal government filed a reimbursement suit on September 22, 1999 in the U.S. District Court for the District of Columbia against Lorillard, other U.S. cigarette manufacturers, some parent companies and two trade associations. The Company is not a defendant in this action. Plaintiff asserted claims under the Medical Care Recovery Act, the Medicare as Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act. The government alleges in the complaint that it has incurred costs of more than $20,000.0 annually in providing health care costs under several federal programs, including Medicare, military and veterans' benefits programs, and the Federal Employee Health Benefits Program. The federal government seeks to recover an unspecified amount of health care costs, and various types of other relief, including disgorgement of profits, injunctive relief and declaratory relief that defendants are liable for the government's future costs of providing health care resulting from the defendants' alleged wrongful conduct.

During September of 2000, the court granted in part and denied in part defendants' motion to dismiss the complaint. The court dismissed plaintiff's claims asserted under the Medical Care Recovery Act as well as those under the Medicare as Secondary Payer provisions of the

Social Security Act. The court denied the motion as to plaintiff's claims under the Racketeering Influenced and Corrupt Organizations Act. Plaintiff sought modification of the trial court's order as it related to the dismissal of the Medical Care Recovery Act claim. In an amended complaint filed during February of 2001, plaintiff attempted to replead the Medicare as Secondary Payer claim. In a July of 2001 decision, the court reaffirmed its dismissal of the Medical Care Recovery Act claims. The court also dismissed plaintiff's reasserted claims under the Medicare as Secondary Payer Act. Trial in this matter is scheduled to begin during June of 2003. The court has denied a motion for intervention and a proposed complaint in intervention filed by the Cherokee Nation Tribe on behalf of a purported nationwide class of American Indian tribes.

In June of 2001, the government invited defendants in the lawsuit, including Lorillard, to meet to discuss the possibility of a settlement of the government's case. Lorillard participated in one such meeting and no further meetings are scheduled.

Reimbursement Cases filed by Foreign Governments in U.S. Courts - Cases have been brought in U.S. courts by 13 nations, 11 Brazilian states, 11 Brazilian cities and one Canadian province. Both the Company and Lorillard are named as defendants in most of the cases. The Company has not received service of process of the cases filed by two of the nations and by one of the Brazilian states. Four of the cases have been voluntarily dismissed. During 2001, a federal court of appeal affirmed orders dismissing three of the cases, and the U.S. Supreme Court denied plaintiffs' petitions for writ of certiorari. During 2001, a Florida court dismissed two of the suits, and the plaintiff in one of the two actions has noticed an appeal. In addition, Lorillard and the Company were dismissed from three suits that remain pending against other defendants.

In 1977, Lorillard sold substantially all of its trademarks outside of the United States and the international business associated with those brands. Performance by Lorillard of obligations under the 1977 agreement reflecting the sale was guaranteed by the Company. Lorillard and the Company have received notice from Brown & Williamson Tobacco Corporation, which claims to

be a successor to the purchaser, that indemnity will be sought under certain indemnification provisions of the 1977 agreement with respect to suits brought by various of the foregoing foreign jurisdictions, and in certain cases brought in foreign countries by individuals concerning periods prior to June 1977 and during portions of 1978.

Reimbursement Cases by American Indian Tribes - American Indian tribes are the plaintiffs in four pending reimbursement suits. Most of these cases have been filed in tribal courts. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the pending tribal cases. One of the four cases is pending before a federal court of appeals following plaintiffs' appeal from an order that granted defendants' motion to dismiss the complaint. The remaining three cases are in the pre-trial, discovery stage.

Reimbursement Cases by Private Companies and Health Plans or Hospitals and Hospital Districts - As of March 1, 2002, one case was pending against cigarette manufacturers in which the plaintiff is a not-for-profit insurance company. Lorillard is a defendant in the pending case. The Company is not a defendant in this matter.

On June 4, 2001, trial concluded in the case of Blue Cross and Blue Shield of New Jersey as to certain of the claims asserted by one of the plan plaintiffs, Empire Blue Cross and Blue Shield. For a discussion of this case, see "Significant Recent Developments."

In addition, one case is pending in which the plaintiff is a group of Illinois hospital districts. Another suit filed by a group of New York hospitals or hospital districts was dismissed by the court during December of 2001, and the plaintiffs have noticed an appeal. Lorillard is named as a defendant in both such cases. The Company is not named as a defendant in either of the cases filed by hospitals or hospital districts. In one additional suit, a city governmental entity and several hospitals or hospital districts are plaintiffs. The Company is a defendant in this case.

Reimbursement Cases by Labor Unions - Seven reimbursement cases are pending in various federal or state courts in which the plaintiffs are labor unions, their trustees or their trust funds. Lorillard is a defendant in each of these suits. The Company is a defendant in two of the pending suits. Approximately 75 union cases have been dismissed in recent years. Some of these cases were dismissed voluntarily, while others were dismissed as a result of defendants' motions. Appeals were sought from some of these dismissal rulings and defendants have prevailed in each of these appeals. The Second, Third, Fifth, Seventh, Eighth, Ninth and Eleventh Circuit Courts of Appeal have found in favor of the defendants in each of the appeals from dismissal orders entered by the federal trial courts that were submitted to them, and the U.S. Supreme Court has denied petitions for writ of certiorari that sought review of some of these decisions. During 2001, an intermediate California court of appeal affirmed the final judgment entered in favor of the defendants in a union case pending in the state. The plaintiffs have sought review of the case by the California Supreme Court. In addition, the Circuit Court of Appeals for the District of Columbia entered a ruling in 2001 that reversed a decision by a district court refusing to dismiss a union case. Several cases pending in state courts also have been dismissed.

Eastern District Of New York Litigation - On April 18, 2000, a federal judge in the Eastern District of New York issued an order that consolidates, for settlement purposes only, ten pending cases involving Lorillard as well as other industry defendants. These cases include three contribution cases (Falise v. The American Tobacco Company, et al., H.K. Porter Company, Inc. v. The American Tobacco Company, Inc., et al. and Raymark Industries, Inc. v. The American Tobacco Company, Inc., et al.), two union cases (Bergeron, et al. v. Philip Morris, Inc., et al. and The National Asbestos Workers Medical Fund, et al. v. Philip Morris Incorporated, et al.), one private company case (Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip

Morris Incorporated, et al.), two smoking and health class actions that have been served on defendants (Decie v. The American Tobacco Company, Inc., et al. and Simon v. Philip Morris Incorporated, et al.), one smoking and health class action in which none of the defendants has received service of process (Ebert v. Philip Morris Incorporated, et al.) and one case that contains elements of both a smoking and health class action and a private citizen reimbursement case (Mason v. The American Tobacco Company, Inc., et al.). The Falise and

H.K. Porter cases have been voluntarily dismissed. The judge's order invited the federal government to join in the settlement discussions. On July 31, 2000, the federal judge orally proposed the formation of a national punitive damages class action for the purposes of settlement. Pursuant to the judge's proposal, Lorillard entered into discussions with a committee of counsel representing a broad-based group of plaintiffs in an effort to arrive at a comprehensive settlement of all exemplary and punitive damage claims, including claims involved in the Engle class action in Florida described above. The parties were unable to reach an understanding and the negotiations were suspended in late 2000.

The federal judge directed that a combined suit be filed encompassing all of the claims pending before him that name cigarette manufacturers as defendants. This matter is styled In re Simon (II) Litigation (U.S. District Court, Eastern District, New York, filed September 6, 2000). The Company and Lorillard are defendants in this proceeding. In a November of 2000 ruling, the court stated that Simon II should be triable without appreciable delay should it be certified. During March of 2001, the court heard argument of plaintiffs' motion for class certification, plaintiffs' motion for appointment of class counsel, and defendants' motion to dismiss the complaint. During December of 2001, the plaintiffs proposed to the court that a test case comprising the claims of 15 individual plaintiffs be tried. Plaintiffs were directed to file a complaint during January of 2002 that asserts claims on behalf of a group of individuals. On January 31, 2002, a complaint on behalf of 13 individual smokers, or the estates of deceased smokers, was filed. Lorillard is named as a defendant in this suit. The Company is not named as a defendant. A trial date of this case has not been scheduled.

Trial was held in two of the matters during 2001. During January of 2001, the court declared a mistrial in the case of Falise v. The American Tobacco Company, et al., a contribution case. The plaintiffs, who were the trustees of the Johns Manville Trust, voluntarily dismissed the case during 2001 and relinquished their right to seek a re-trial. During June of 2001, a verdict was returned in the case of Blue Cross and Blue Shield of New Jersey (trial was limited to the claims of only one plan plaintiff), a reimbursement case described above. Following conclusion of the Blue Cross trial, the U.S. District Judge stayed the claims asserted in the suit by the other plan plaintiffs pending resolution of defendants' appeal. The U.S. District Judge also stayed several of the cases involving cigarette manufacturers pending before the judge.

CONTRIBUTION CLAIMS - In addition to the foregoing cases, approximately 15 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. Lorillard is named as a defendant in each action, although it has not received service of process in one of the cases. The Company is named as a defendant in three of the cases but has not received service of process in one of them. As noted under "Eastern District of New York Litigation," plaintiffs in the Falise case dismissed their suit against all defendants and gave up their right to file suit again in the future. The remaining cases are in the pre-trial, discovery stage.

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 40 years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Approximately 30 filter cases are pending in federal and state courts against Lorillard. In certain of these cases, the manufacturer and supplier of the filter material, Hollingsworth & Vose Company, also is a defendant. In addition, two matters are pending against Hollingsworth & Vose Company in which Lorillard is not a party. Lorillard has agreed to indemnify Hollingsworth & Vose Company with respect to these matters, including the two cases in which Lorillard is not named as a defendant. The Company is not a defendant in any of the pending filter cases. Allegations of liability include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs in most of these cases seek unspecified amounts in compensatory and punitive damages.

Trials have been held in 15 such cases. Five such trials have been held since January 1, 1999. Juries have returned verdicts in favor of Lorillard in 11 of the 15 trials. Four verdicts have been returned in plaintiffs' favor. In a 1995 trial, a California jury awarded plaintiffs approximately $1.2 in actual damages and approximately $0.7 in punitive damages. In a 1996 trial, another California jury awarded plaintiff approximately $0.1 in actual damages. In a

1999 trial, a Maryland jury awarded plaintiff approximately $2.2 in actual damages. In a 2000 trial, a California jury awarded plaintiffs $1.1 in actual damages and the case was settled prior to a determination of punitive damages.

TOBACCO-RELATED ANTITRUST CASES - Wholesalers and Direct Purchaser Suits - Lorillard and other domestic and international cigarette manufacturers and their parent companies, including the Company, were named as defendants in nine separate federal court actions brought by tobacco product wholesalers for violations of U.S. antitrust laws and international law. The complaints allege that defendants conspired to fix the price of cigarettes to wholesalers since 1993 in violation of the Sherman Act. These actions seek certification of a class including all domestic and international wholesalers similarly affected by such alleged conduct, and damages, injunctive relief and attorneys' fees. These actions were consolidated for pre-trial purposes in the U.S. District Court for the Northern District of Georgia. The Court has granted class certification for a four-year class (beginning in 1996 and ending in 2000) of domestic direct purchasers. In February 2002, Lorillard and the other defendants filed motions for summary judgment seeking to dismiss the actions in their entirety. The Company has been voluntarily dismissed without prejudice from all direct purchaser cases.

Indirect Purchaser Suits - Approximately 30 suits are pending in various state courts alleging violations of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. Approximately 18 states permit such suits. Lorillard is a defendant in all but one of these indirect purchaser cases. Two indirect purchaser suits, in Arizona and New York, have been dismissed in their entirety. While one court has granted plaintiffs motion to certify a class of consumers in one of these cases, another court has refused to do so, and other motions seeking class certification have been deferred by other courts pending resolution of the federal case discussed above. The Company was also named as a defendant in most of these indirect purchaser cases but has been voluntarily dismissed without prejudice from all of them.

Tobacco Growers Suit - DeLoach v. Philip Morris Inc., et al. (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). Lorillard is named as a defendant in a lawsuit that, after several amendments, alleges only antitrust violations. The other major domestic tobacco companies are also presently named as defendants, and the plaintiffs have now added the major leaf buyers as defendants. This case was originally filed in U.S. District Court, District of Columbia, and transferred to a North Carolina federal court upon motion by the defendants. Plaintiffs seek certification of a class including all tobacco growers and quota holders (the licenses that a farmer must either own or rent to sell the crop), who sold tobacco or held quota under the federal tobacco leaf price support program since February of 1996. The plaintiffs' claims relate to the conduct of the companies in the purchase of tobacco through the auction system under the federal program. The suit seeks an unspecified amount of actual damages, trebled under the antitrust laws, and injunctive relief.

* * * *

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent the Company is a defendant in any of the lawsuits discussed above, the Company believes that it is not a proper defendant in these matters and has moved or will move for dismissal of such claims against it. Lorillard will continue to maintain a vigorous defense in all such litigation. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

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.

In addition, adverse developments in relation to smoking and health, including the release in 1998 of industry documents, have received widespread media attention. These developments may reflect adversely on the tobacco industry and, together with adverse outcomes in pending cases, could have adverse effects on the ability of Lorillard to prevail in smoking and health litigation and could prompt the filing of additional litigation.

Except for the impact of the State Settlement Agreements as described above, Lorillard 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 TOBACCO-RELATED LITIGATION

Cigarette Smuggling Litigation - Lorillard and other domestic cigarette manufacturers and their parent companies, including the Company, were named as defendants in cases filed in a Florida court by the Republic of Ecuador, the Republic of Honduras and the Republic of Belize. Plaintiffs alleged that the defendants evaded cigarette taxation by engaging in a scheme to smuggle cigarettes into each nation. Plaintiffs contended defendants sold cigarettes to distributors who in turn sold the cigarettes to smugglers. Plaintiffs seek unspecified amounts in actual damages, treble damages, punitive damages and equitable relief in each of the three suits. Lorillard and the Company received service of process in each of the three suits but amended complaints filed in each of the three cases during December of 2001 dropped claims against both Lorillard and the Company. While each of the three matters remains pending against other defendants, neither Lorillard nor the Company is a party to the actions.

Cigarette Advertising Suit - On June 28, 2001, the U.S. Supreme Court voided in large part a Massachusetts law that placed restrictions on cigarette advertising and promotional practices. The Court held that the Federal Cigarette Labeling and Advertising Act preempts many of Massachusetts' regulations governing outdoor and point-of-sale cigarette advertising. The Court also ruled that Massachusetts' outdoor and point-of-sale advertising regulations relating to smokeless tobacco and cigars violate the First Amendment and are unconstitutional. However, the Court held that the prohibition of self-service promotional displays relating to cigarettes, cigars and smokeless tobacco products is constitutional. Such regulations include those designed to prevent the sale of cigarettes to minors or to regulate conduct as it relates to the sale or use of cigarettes.

OTHER LITIGATION

The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of management, materially affect the Company's results of operations or equity.

Note 18. 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 89% 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 53% 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.

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

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

Loews Hotels owns and/or operates 17 hotels, 15 of which are in the United States and two are in Canada. There is also a property in the United States under development with an opening date scheduled in 2002.

Diamond Offshore's business primarily consists of operating 45 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. As of December 31, 2001, 28 of these rigs were located in the Gulf of Mexico, 5 were located in Brazil and the remaining 12 were located in various foreign markets.

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In 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, income and assets by business segment:

Year Ended December 31	2001	2000	1999
Revenues (a):			
CNA Financial:			
Property-Casualty	$ 7,337.5	$ 9,604.7	$ 9,250.5
Life	1,959.9	1,701.0	1,577.8
Group (b)	3,688.4	3,949.4	3,747.3
Other	217.0	272.5	1,804.8
Total CNA Financial	13,202.8	15,527.6	16,380.4
Lorillard	4,528.5	4,342.4	4,064.5
Loews Hotels (c)	321.8	338.5	351.9
Diamond Offshore (d)	942.3	723.6	846.9
Bulova (e)	146.1	160.1	138.7
Corporate	275.7	159.0	(339.7)
Total	$19,417.2	$21,251.2	$21,442.7

Year Ended December 31	2001	2000	1999
(Loss) income before taxes and minority interest and cumulative effect of changes in accounting principles (a)(f):			
CNA Financial:			
Property-Casualty	$(1,260.6)	$ 1,550.4	$ 323.3
Life	287.6	285.8	178.0
Group	53.4	134.2	(10.1)
Other	(1,369.7)	(141.5)	(490.5)
Total CNA Financial	(2,289.3)	1,828.9	.7
Lorillard	1,104.3	1,223.9	1,079.6
Loews Hotels (c)	29.8	47.6	112.5
Diamond Offshore (d)	228.1	107.7	238.0
Bulova (e)	17.8	27.1	20.8
Corporate	96.2	(29.3)	(507.4)
Total	$ (813.1)	$ 3,205.9	$ 944.2

Net (loss) income (a)(f):

CNA Financial:			
Property-Casualty	$ (740.3)	$ 898.3	$ 206.4
Life	164.3	166.0	97.5
Group	34.7	78.8	(1.5)
Other	(825.2)	(75.1)	(259.2)
Total CNA Financial	(1,366.5)	1,068.0	43.2
Lorillard	672.2	753.9	651.9
Loews Hotels (c)	19.5	26.8	70.5
Diamond Offshore (d)	71.0	32.0	72.7
Bulova (e)	10.1	15.0	14.1
Corporate	57.9	(19.0)	(331.3)
	(535.8)	1,876.7	521.1
Cumulative effect of changes in accounting principles	(53.3)		(157.9)
Total	$ (589.1)	$ 1,876.7	$ 363.2

	Investments		Receivables		Total Assets	
December 31	2001	2000	2001	2000	2001	2000
CNA Financial	$35,826.3	$36,059.4	$18,917.4	$14,945.1	$65,914.1	$63,001.6
Lorillard	1,628.9	1,640.9	45.9	68.4	2,769.4	2,671.8
Loews Hotels	98.5	96.5	26.6	42.2	617.9	639.1
Diamond Offshore	1,129.6	851.8	193.7	153.5	3,551.9	3,122.5
Bulova	13.5	12.5	77.4	70.7	194.5	186.7
Corporate and eliminations	2,462.3	2,671.6	191.8	21.7	2,203.3	2,219.8
Total	$41,159.1	$41,332.7	$19,452.8	$15,301.6	$75,251.1	$71,841.5

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

Year Ended December 31	2001	2000	1999
Revenues and pretax (loss) income:			
CNA Financial:			
Property-Casualty	$ 883.5	$ 860.1	$ 170.7
Life	188.2	12.8	(42.8)
Group	40.9	62.2	(1.2)
Other	152.7	93.4	72.6
Total CNA Financial	1,265.3	1,028.5	199.3
Corporate and other	128.4	(7.4)	(472.8)
	$1,393.7	$1,021.1	$(273.5)
Net (loss) income:			
CNA Financial:			
Property-casualty	$ 508.8	$ 485.7	$ 95.1
Life	105.2	8.4	(29.0)
Group	23.0	35.1	(.7)
Other	80.1	52.7	34.5
Total CNA Financial	717.1	581.9	99.9
Corporate and other	75.1	(4.8)	(300.7)

	$792.2	$577.1	$(200.8)

(b) Includes $2,218.0, $2,100.0 and $2,100.0 under contracts covering U.S. government employees and their dependents for the respective periods.
(c) Includes gain from the sale of hotel properties of $85.1 ($52.0 after taxes) for the year ended December 31, 1999.
(d) Includes a gain from the sale of a drilling rig of $13.9 ($4.7 after taxes and minority interest) for the year ended December 31, 2000.
(e) Includes a gain of $5.5 from settlement of a contract dispute ($3.0 after taxes and minority interest) for the year ended December 31, 2000.
(f) Income taxes and interest expense are as follows:

	2001		2000		1999	
Year Ended December 31	Income Taxes	Interest Expense	Income Taxes	Interest Expense	Income Taxes	Interest Expense
CNA Financial:						
Property-Casualty	$ (415.5)	$ 5.5	$ 557.8	$ 17.2	$ (44.3)	$ 13.4
Life	99.1	25.8	94.6	.1	64.1	3.3
Group	13.8	.2	43.6	.3	(8.3)	.2
Other	(435.7)	125.9	(122.2)	188.7	(95.5)	184.8
Total CNA Financial	(738.3)	157.4	573.8	206.3	(84.0)	201.7
Lorillard	432.1	.7	469.8	1.5	427.7	14.9
Loews Hotels	10.3	15.2	20.8	11.2	42.0	2.2
Diamond Offshore	83.2	38.1	41.0	10.3	89.8	9.2
Bulova	7.3		11.6		6.1	
Corporate	30.0	120.6	(10.1)	127.6	(176.1)	126.3
Total	$ (175.4)	$332.0	$1,106.9	$356.9	$ 305.5	$354.3

Note 19. Subsequent Event

On February 6, 2002, the Company sold 40,250,000 shares of a new class of its common stock, referred to as "Carolina Group" stock, for net proceeds of $1,070.5. This stock is designed to track the performance of the Carolina Group, which will initially consist of: the Company's ownership interest in its wholly owned subsidiary, Lorillard, Inc.; $2,500.0 of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and any and all liabilities, costs and expenses of Loews Corporation and Lorillard, Inc. arising out of the past, present or future business of Lorillard, Inc. The assets and liabilities of the Carolina Group also include all net income or net losses from the assets and liabilities attributed to the Carolina Group. Each outstanding share of Carolina Group stock has 1/10 of a vote per share. Holders of Carolina Group stock are common stockholders of Loews Corporation.

The issuance of Carolina Group stock has resulted in a two class common stock structure for Loews Corporation. The outstanding Carolina Group stock represents a 23.17% economic interest in the performance of the Carolina Group. The Loews Group consists of all Loews's assets and liabilities other than the ownership interest represented by the outstanding Carolina Group stock, and will include as an asset the notional, intergroup debt of the Carolina Group.

Consolidating financial statements of Loews Corporation for the years ended December 31, 2001, 2000 and 1999 follows:

CONSOLIDATING STATEMENTS OF OPERATIONS

Year Ended December 31, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$ 9,361.4		$ 9,361.4
Investment income, net of expenses	$ 79.9	2,065.0		2,144.9
Investment gains	1.1	1,392.6		1,393.7
Manufactured products	4,441.3	142.8		4,584.1
Other	7.3	1,925.8		1,933.1
Total	4,529.6	14,887.6		19,417.2
Expenses:				
Insurance claims and policyholders' benefits		11,382.8		11,382.8
Amortization of deferred acquisition costs		1,803.9		1,803.9
Cost of manufactured products sold	2,168.9	68.2		2,237.1
Other operating expenses (a)	1,255.0	2,968.5		4,223.5
Restructuring and other related charges		251.0		251.0
Interest	.7	331.3		332.0
Total	3,424.6	16,805.7		20,230.3
	1,105.0	(1,918.1)		(813.1)
Income tax (benefit) expense	432.3	(607.7)		(175.4)
Minority interest		(101.9)		(101.9)
Total	432.3	(709.6)		(277.3)
Income (loss) from operations	672.7	(1,208.5)		(535.8)
Equity in earnings of the Carolina Group		672.7	$(672.7) (b)	
Income (loss) before cumulative effect of changes in accounting principles	672.7	(535.8)	(672.7)	(535.8)
Cumulative effect of changes in accounting principles - net		(53.3)		(53.3)
Net income (loss)	$ 672.7	$ (589.1)	$(672.7)	$ (589.1)

(a) Includes $2.6 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.2 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina.

CONSOLIDATING STATEMENTS OF OPERATIONS

Year Ended December 31, 2000	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$11,471.7		$11,471.7
Investment income, net of expenses	$ 101.7	2,492.1		2,593.8
Investment (losses) gains	(0.6)	1,021.7		1,021.1
Manufactured products	4,233.8	149.8		4,383.6
Other	6.9	1,774.1		1,781.0
Total	4,341.8	16,909.4		21,251.2

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Expenses:				
Insurance claims and policyholders' benefits		9,830.8		9,830.8
Amortization of deferred acquisition costs		1,879.8		1,879.8
Cost of manufactured products sold	2,178.2	72.9		2,251.1
Other operating expenses (a)	939.8	2,786.9		3,726.7
Interest	1.5	355.4		356.9
Total	3,119.5	14,925.8		18,045.3
	1,222.3	1,983.6		3,205.9
Income taxes	469.5	637.4		1,106.9
Minority interest		222.3		222.3
Total	469.5	859.7		1,329.2
Income from operations	752.8	1,123.9		1,876.7
Equity in earnings of the Carolina Group		752.8	$(752.8) (b)	
Net income	$ 752.8	$1,876.7	$(752.8)	$1,876.7

(a) Includes $2.6 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.2 of expenses allocated by the Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 1999	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$13,276.7		$13,276.7
Investment income, net of expenses	$ 65.7	2,359.6		2,425.3
Investment (losses) gains	1.0	(274.5)		(273.5)
Manufactured products	3,991.3	134.0		4,125.3
Other	6.5	1,882.4		1,888.9
Total	4,064.5	17,378.2		21,442.7
Expenses:				
Insurance claims and policyholders' benefits		11,890.3		11,890.3
Amortization of deferred acquisition costs		2,142.6		2,142.6
Cost of manufactured products sold	2,050.5	65.9		2,116.4
Other operating expenses (a)	919.7	2,992.2		3,911.9
Restructuring and other related charges		83.0		83.0
Interest	14.9	339.4		354.3
Total	2,985.1	17,513.4		20,498.5
	1,079.4	(135.2)		944.2
Income tax (benefit) expense	427.6	(122.1)		305.5
Minority interest		117.6		117.6
Total	427.6	(4.5)		423.1

Income (loss) from operations	651.8	(130.7)		521.1
Equity in earnings of the Carolina Group		651.8	$(651.8) (b)	
Income before cumulative effect of changes in accounting principles	651.8	521.1	(651.8)	521.1
Cumulative effect of changes in accounting principles - net		(157.9)		(157.9)
Net income	$ 651.8	$ 363.2	$(651.8)	$ 363.2

(a) Includes $2.9 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.1 of expenses allocated by the Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING BALANCE SHEET

December 31, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Assets:				
Investments	$1,628.9	$39,530.2		$41,159.1
Cash	1.7	179.6		181.3
Receivables-net	45.9	19,406.9		19,452.8
Property, plant and equipment-net	181.2	2,894.1		3,075.3
Deferred income taxes	426.6	180.4		607.0
Goodwill and other intangible assets-net		323.8		323.8
Other assets	485.1	3,744.7		4,229.8
Investment in combined attributed net assets of the Carolina Group		1,274.5	$(1,274.5) (a)	
Deferred acquisition costs of insurance subsidiaries		2,423.9		2,423.9
Separate account business		3,798.1		3,798.1
Total assets	$2,769.4	$73,756.2	$(1,274.5)	$75,251.1
Liabilities and Shareholders' Equity:				
Insurance reserves		$43,623.9		$43,623.9
Payable for securities purchased		1,365.6		1,365.6
Securities sold under agreements to repurchase		1,602.4		1,602.4
Long-term debt, less unamortized discounts		5,920.3		5,920.3
Reinsurance balances payable		2,722.9		2,722.9
Other liabilities	$1,494.9	3,100.3		4,595.2
Separate account business		3,798.1		3,798.1
Total liabilities	1,494.9	62,133.5		63,628.4
Minority interest		1,973.4		1,973.4
Shareholders' equity:				
Common stock, $1 par value			$ 191.5 (b)	191.5
Additional paid-in capital			48.2 (b)	48.2
Earnings retained in the business			9,214.9 (b)	9,214.9
Accumulated other comprehensive income			194.7 (b)	194.7
Combined attributed net assets	1,274.5	9,649.3	(10,923.8) (b)	

Total shareholders' equity	1,274.5	9,649.3	(1,274.5)	9,649.3
Total liabilities and shareholders' equity	$2,769.4	$73,756.2	$(1,274.5)	$75,251.1

(a) To eliminate the Loews Group's 100% equity interest in the combined attributed net assets of the Carolina Group.
(b) To eliminate the combined attributed net assets of the Carolina Group and the Loews Group, and to record the Loews Corporation consolidated equity accounts at the balance sheet date.

CONSOLIDATING BALANCE SHEET

December 31, 2000	Carolina Group	Loews Group	Adjustments and Eliminations		Consolidated Loews Corporation
Assets:					
Investments	$1,640.9	$39,691.8			$41,332.7
Cash	1.4	193.8			195.2
Receivables-net	68.4	15,233.2			15,301.6
Property, plant and equipment-net	199.5	3,006.8			3,206.3
Deferred income taxes	344.8	59.2			404.0
Goodwill and other intangible assets-net	0.6	378.1			378.7
Other assets	416.2	3,875.1			4,291.3
Investment in combined attributed net assets of the Carolina Group		1,376.8	$(1,376.8)	(a)	
Deferred acquisition costs of insurance subsidiaries		2,417.8			2,417.8
Separate account business		4,313.9			4,313.9
Total assets	$2,671.8	$70,546.5	$(1,376.8)		$71,841.5
Liabilities and Shareholders' Equity:					
Insurance reserves		$39,054.3			$39,054.3
Payable for securities purchased		971.4			971.4
Securities sold under agreements to repurchase		2,245.5			2,245.5
Long-term debt, less unamortized discounts	$ 4.0	6,036.0			6,040.0
Reinsurance balances payable		1,381.2			1,381.2
Other liabilities	1,291.0	3,145.2			4,436.2
Separate account business		4,313.9			4,313.9
Total liabilities	1,295.0	57,147.5			58,442.5
Minority interest		2,207.9			2,207.9
Shareholders' equity:					
Common stock, $1 par value			$ 98.6	(b)	98.6
Additional paid-in capital			144.2	(b)	144.2
Earnings retained in the business			10,191.6	(b)	10,191.6
Accumulated other comprehensive income			756.7	(b)	756.7
Combined attributed net assets	1,376.8	11,191.1	(12,567.9)	(b)	
Total shareholders' equity	1,376.8	11,191.1	(1,376.8)		11,191.1
Total liabilities and shareholders' equity	$2,671.8	$70,546.5	$(1,376.8)		$71,841.5

(a) To eliminate the Loews Group's 100% equity interest in the combined attributed net assets of the Carolina Group.
(b) To eliminate the combined attributed net assets of the Carolina Group and the Loews Group, and to record the Loews Corporation consolidated equity accounts at the balance sheet date.

CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Net cash provided (used) by operating activities	$ 709.7	$ 579.2	$ (750.0)	$ 538.9
Investing activities:				
Purchases of property and equipment	(41.2)	(461.3)		(502.5)
Proceeds from sales of property and equipment	9.1	269.3		278.4
Change in short-term investments	72.7	3,339.9		3,412.6
Other investing activities		(3,124.5)		(3,124.5)
	40.6	23.4		64.0
Financing activities:				
Dividends paid to shareholders	(750.0)	(112.5)	750.0	(112.5)
Other financing activities		(504.3)		(504.3)
	(750.0)	(616.8)	750.0	(616.8)
Net change in cash	0.3	(14.2)		(13.9)
Cash, beginning of year	1.4	193.8		195.2
Cash, end of year	$ 1.7	$ 179.6		$ 181.3

Year Ended December 31, 2000				
Net cash provided (used) by operating activities	$ 550.4	$ (689.2)	$(300.0)	$ (438.8)
Investing activities:				
Purchases of property and equipment	(30.1)	(637.1)		(667.2)
Proceeds from sales of property and equipment	1.4	34.7		36.1
Change in short-term investments	(222.2)	(465.1)		(687.3)
Other investing activities		2,308.0		2,308.0
	(250.9)	1,240.5		989.6
Financing activities:				
Dividends paid to shareholders	(300.0)	(99.7)	300.0	(99.7)
Other financing activities	(0.1)	(439.7)		(439.8)
	(300.1)	(539.4)	300.0	(539.5)

Net change in cash	(0.6)	11.9		11.3
Cash, beginning of year	2.0	181.9		183.9
Cash, end of year	$ 1.4	$ 193.8		$ 195.2

CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 1999	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Net cash provided (used) by operating activities	$1,024.9	$(2,682.2)	$(300.0)	$(1,957.3)
Investing activities:				
Purchases of property and equipment	(20.7)	(687.5)		(708.2)
Proceeds from sales of property and equipment	2.2	97.2		99.4
Change in short-term investments	(706.1)	1,489.4		783.3
Other investing activities		2,753.9		2,753.9
	(724.6)	3,653.0		2,928.4
Financing activities:				
Dividends paid to shareholders	(300.0)	(108.9)	300.0	(108.9)
Other financing activities	(0.1)	(965.6)		(965.7)
	(300.1)	(1,074.5)	300.0	(1,074.6)
Net change in cash	0.2	(103.7)		(103.5)
Cash, beginning of year	1.8	285.6		287.4
Cash, end of year	$ 2.0	$ 181.9		$183.9

* * *

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Information called for by Part III has been omitted as Registrant intends to file with the Securities and Exchange Commission not later than 120 days after the close of its fiscal year a definitive Proxy Statement pursuant to Regulation 14A.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) 1. Financial Statements:

The financial statements appear above under Item 8. The following additional financial data should be read in conjunction with those financial statements. Schedules not included with these additional financial data have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes to consolidated financial

statements.

2. Financial Statement Schedules:

	Page Number
Independent Auditors' Report	L-1
Loews Corporation and Subsidiaries:	
Schedule I-Condensed financial information of Registrant for the years ended December 31, 2001, 2000 and 1999	L-2
Schedule II-Valuation and qualifying accounts for the years ended December 31, 2001, 2000 and 1999	L-6
Schedule V-Supplemental information concerning property-casualty insurance operations for the years ended December 31, 2001, 2000 and 1999	L-7

3. Exhibits:

Description	Exhibit Number
(3) Articles of Incorporation and By-Laws	
Restated Certificate of Incorporation of the Registrant, dated October 20, 1987	3.01*
Certificate of Amendment of Certificate of Incorporation of Registrant, dated May 16, 1996	3.02*
Certificate of Amendment of Certificate of Incorporation of Registrant, dated May 8, 2001	3.03*
Certificate of Amendment of Certificate of Incorporation of Registrant, dated January 30, 2002	3.04*
By-Laws of the Registrant as amended through February 20, 2001, incorporated herein by reference to Exhibit 3.02 to Registrant's Report on Form 10-K for the year ended December 31, 2000	3.05

Description	Exhibit Number
(4) Instruments Defining the Rights of Security Holders, Including Indentures	
The Registrant hereby agrees to furnish to the Commission upon request copies of instruments with respect to long-term debt, pursuant to Item 601(b)(4)(iii) of Regulation S-K.	

Description	Exhibit Number
(10) Material Contracts	
Employment Agreement between Registrant and Laurence A. Tisch dated March 1, 1971 as amended through January 1, 2001, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 10-K for the year ended December 31, 2000	10.01

Description	Exhibit Number
Employment Agreement between Registrant and Preston R. Tisch dated as of March 1, 1988 as amended through January 1, 2001, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-K for the year ended December 31, 2000	10.02
Continuing Service Agreement between a subsidiary of Registrant and Edward J. Noha, dated February 27, 1991, incorporated herein by reference to Exhibit 10.04 to Registrant's Report on Form 10-K for the year ended December 31, 1990	10.03
Loews Corporation Deferred Compensation Plan as amended and restated as of December 31, 1995, incorporated herein by reference to Exhibit 10.05 to Registrant's Report on Form 10-K for the year ended December 31, 1996	10.04
Incentive Compensation Plan, incorporated herein by reference to Exhibit 10.15 to Registrant's Report on Form 10-K for the year ended December 31, 1996	10.05
Comprehensive Settlement Agreement and Release with the State of Florida to settle and resolve with finality all present and future economic claims by the State and its subdivisions relating to the use of or exposure to tobacco products, incorporated herein by reference to Exhibit 10 to Registrant's Report on Form 8-K filed September 5, 1997	10.06
Comprehensive Settlement Agreement and Release with the State of Texas to settle and resolve with finality all present and future economic claims by the State and its subdivisions relating to the use of or exposure to tobacco products, incorporated herein by reference to Exhibit 10 to Registrant's Report on Form 8-K filed February 3, 1998	10.07
State of Minnesota Settlement Agreement and Stipulation for Entry of Consent Judgment to settle and resolve with finality all claims of the State of Minnesota relating to the subject matter of this action which have been or could have been asserted by the State, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998	10.08
State of Minnesota Consent Judgment relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998	10.09

Description	Exhibit Number
State of Minnesota Settlement Agreement and Release relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.3 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998	10.10
Agreement to Pay State of Minnesota Attorneys' Fees and Costs relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.4 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998	10.11
Agreement to Pay Blue Cross and Blue Shield of Minnesota Attorneys' Fees and Costs relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.5 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998	10.12
State of Minnesota State Escrow Agreement relating to the settlement of tobacco litigation, incorporated herein by reference to Exhibit 10.6 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998	10.13

Description	Exhibit Number
Stipulation of Amendment to Settlement Agreement and For Entry of Agreed Order, dated July 2, 1998, regarding the settlement of the State of Mississippi health care cost recovery action, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.14
Mississippi Fee Payment Agreement, dated July 2, 1998, regarding the payment of attorneys' fees, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.15
Mississippi MFN Escrow Agreement, dated July 2, 1998, incorporated herein by reference to Exhibit 10.3 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.16
Stipulation of Amendment to Settlement Agreement and For Entry of Consent Decree, dated July 24, 1998, regarding the settlement of the Texas health care cost recovery action, incorporated herein by reference to Exhibit 10.4 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.17
Texas Fee Payment Agreement, dated July 24, 1998, regarding the payment of attorneys' fees, incorporated herein by reference to Exhibit 10.5 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1998	10.18
Stipulation of Amendment to Settlement Agreement and For Entry of Consent Decree, dated September 11, 1998, regarding the settlement of the Florida health care cost recovery action, incorporated herein by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q for the quarter ended September 30, 1998 ...	10.19
Florida Fee Payment Agreement, dated September 11, 1998, regarding the payment of attorneys' fees, incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q for the quarter ended September 30, 1998	10.20
Master Settlement Agreement with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Marianas to settle the asserted and unasserted health care cost recovery and certain other claims of those states, incorporated herein by reference to Exhibit 10 to Registrant's Report on Form 8-K filed November 25, 1998	10.21
Employment Agreement dated as of January 1, 1999 between Registrant and Andrew H. Tisch is incorporated herein by reference to Exhibit 10.31 to Registrant's Report on Form 10-K for the year ended December 31, 1998 and an amendment dated January 1, 2002 is filed herewith	10.22*
Employment Agreement dated as of January 1, 1999 between Registrant and James S. Tisch is incorporated herein by reference to Exhibit 10.32 to Registrant's Report on Form 10-K for the year ended December 31, 1998 and an amendment dated January 1, 2002 is filed herewith	10.23*
Employment Agreement dated as of January 1, 1999 between Registrant and Jonathan M. Tisch is incorporated herein by reference to Exhibit 10.33 to Registrant's Report on Form 10-K for the year ended December 31, 1998 and an amendment dated January 1, 2002 is filed herewith	10.24*
Supplemental Retirement Agreement dated September 21, 1999 between Registrant and Arthur Rebell is incorporated herein by reference to Exhibit 10.28 to Registrant's Report on Form	

10-K for the year ended December 31, 1999......................	10.25
Loews Corporation 2000 Stock Option Plan is incorporated herein by reference to Exhibit A to Registrant's Definitive Proxy Statement filed on March 29, 2000	10.26

Description	Exhibit Number
First Amendment to Supplemental Retirement Agreement dated March 24, 2000 between Registrant and Arthur L. Rebell is incorporated herein by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q for the quarter ended March 31, 2000	10.27
Second Amendment to Supplemental Retirement Agreement dated March 28, 2001 between Registrant and Arthur L. Rebell	10.28*
Carolina Group 2002 Stock Option Plan	10.29*
Supplemental Retirement Agreement dated January 1, 2002 between Registrant and Andrew H. Tisch	10.30*
Supplemental Retirement Agreement dated January 1, 2002 between Registrant and James S. Tisch	10.31*
Supplemental Retirement Agreement dated Januaury 1, 2002 between Registrant and Jonathan M. Tisch	10.32*
Third Amendment to Supplemental Retirement Agreement dated February 28, 2002 between Registrant and Arthur L. Rebell	10.33*
(21) Subsidiaries of the Registrant	
List of subsidiaries of Registrant	21.01*
(23) Consents of Experts and Counsel	
Consent of Deloitte & Touche LLP	23.01*

* Filed herewith

(b) Reports on Form 8-K - On October 17, 2001 Registrant filed a report on Form 8-K regarding a preliminary proxy statement to create the Carolina Group tracking stock to reflect the performance of Lorillard, Inc., its wholly owned subsidiary.

On December 5, 2001 Registrant filed a report on Form 8-K regarding its subsidiary, CNA Financial Corporation issuing a press release that CNA will record fourth quarter charges relating to restructuring of its Property-Casualty and Life Operations, discontinuation of variable life and annuity business and consolidation of real estate locations and related corporate staff reductions. A second report release announced CNA's estimate for potential losses associated with recent filing by bankrupt Enron entities.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOEWS CORPORATION

Dated: March 8, 2002 By /s/ Peter W. Keegan
(Peter W. Keegan, Senior Vice President and Chief Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 8, 2002 By /s/ James S. Tisch
(James S. Tisch, President and Chief Executive Officer)

Dated: March 8, 2002 By /s/ Peter W. Keegan
(Peter W. Keegan, Senior Vice President and Chief Financial Officer)

Dated: March 8, 2002 By /s/ Guy A. Kwan
(Guy A. Kwan, Controller)

Dated: March 8, 2002 By /s/ Joseph L. Bower
(Joseph L. Bower, Director)

Dated: March 8, 2002 By /s/ John Brademas
(John Brademas, Director)

Dated: March 8, 2002 By /s/ Paul Fribourg
(Paul Fribourg, Director)

Dated: March 8, 2002 By /s/ Bernard Myerson
(Bernard Myerson, Director)

Dated: March 8, 2002 By /s/ Edward J. Noha
(Edward J. Noha, Director)

Dated: March 8, 2002 By /s/ Michael F. Price
(Michael F. Price, Director)

Dated: March 8, 2002 By /s/ Gloria R. Scott
(Gloria R. Scott, Director)

Dated: March 8, 2002 By /s/ Andrew H. Tisch
(Andrew H. Tisch, Director)

Dated: March 8, 2002 By /s/ Jonathan M. Tisch

(Jonathan M. Tisch, Director)

Dated: March 8, 2002 By /s/ Laurence A. Tisch
(Laurence A. Tisch, Director)

Dated: March 8, 2002 By /s/ Preston R. Tisch
(Preston R. Tisch, Director)

Dated: March 8, 2002 By /s/ Fred Wilpon
(Fred Wilpon, Director)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Loews Corporation:

We have audited the accompanying consolidated balance sheets of Loews Corporation and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in the Index at Item 14(a)2. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Loews Corporation and its subsidiaries at December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative instruments and hedging activities.

Deloitte & Touche LLP
New York, New York
February 14, 2002

SCHEDULE I

Condensed Financial Information of Registrant

LOEWS CORPORATION

BALANCE SHEETS

ASSETS

December 31	2001	2000
(In millions)		
Current assets, principally investment in short-term instruments	$ 2,290.9	$ 2,430.2
Investments in securities	985.3	280.7
Investments in capital stocks of subsidiaries, at equity	10,180.1	11,095.4
Other assets	30.5	273.8
Total assets	$13,486.8	$14,080.1

LIABILITIES AND SHAREHOLDERS' EQUITY

	2001	2000
Accounts payable and accrued liabilities	$ 475.7	$ 376.7
Securities sold under agreements to repurchase	480.4	
Long-term debt, less current maturities (a)	2,293.6	2,291.0
Deferred income tax and other	587.8	221.3
Total liabilities	3,837.5	2,889.0
Shareholders' equity	9,649.3	11,191.1
Total liabilities and shareholders' equity	$13,486.8	$14,080.1

Condensed Financial Information of Registrant

LOEWS CORPORATION

STATEMENTS OF OPERATIONS

Year Ended December 31	2001	2000	1999
(In millions)			
Revenues:			
Equity in (losses) income of subsidiaries (b)	$ (528.3)	$1,905.9	$ 867.2
Investment gains (losses)	100.6	(6.6)	(462.6)
Interest and other	118.1	149.8	126.3
Total	(309.6)	2,049.1	530.9

Expenses:			
Administrative	54.8	53.7	40.4
Interest	133.8	128.2	125.9
Total	188.6	181.9	166.3
	(498.2)	1,867.2	364.6
Income tax (benefit) expense (c)	37.6	(9.5)	(156.5)
(Loss) income before cumulative effect of changes in accounting principles	(535.8)	1,876.7	521.1
Cumulative effect of changes in accounting principles-net	(53.3)		(157.9)
Net (loss) income	$ (589.1)	$1,876.7	$ 363.2

SCHEDULE I
(Continued)

Condensed Financial Information of Registrant

LOEWS CORPORATION

STATEMENTS OF CASH FLOWS

Year Ended December 31	2001	2000	1999
(In millions)			
Operating Activities:			
Net (loss) income	$ (589.1)	$ 1,876.7	$ 363.2
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:			
Cumulative effect of changes in accounting principles	53.3		157.9
Undistributed losses (earnings) of affiliates	1,360.9	(1,556.2)	(498.8)
Investment (gains) losses	(100.6)	6.6	462.6
Provision for deferred income taxes	1.6	12.5	119.0
Changes in assets and liabilities-net:			
Receivables	(190.2)	37.3	(17.7)
Accounts payable and accrued liabilities	(4.6)	(3.5)	6.0
Federal income taxes	(104.3)	411.3	(46.1)
Trading securities	340.5	(157.4)	(759.0)
Other-net	3.0	(5.2)	5.0
	770.5	622.1	(207.9)
Investing Activities:			
Investments in and advances to subsidiaries	(101.0)	(281.5)	(293.6)
Reduction of investments and advances to subsidiaries	26.7	41.4	208.5
Net decrease in short-term investments, primarily U.S. government securities	202.3	353.3	1,057.6
Securities sold under agreements to repurchase	480.4	(347.8)	(101.9)

Purchases of CNA common stock	(978.7)		
Change in other investments	(1.2)	17.7	15.2
	(371.5)	(216.9)	885.8
Financing Activities:			
Dividends paid to shareholders	(112.5)	(99.7)	(108.9)
Purchases of treasury shares	(282.2)	(305.7)	(601.6)
Issuance of common stock	.4		
	(394.3)	(405.4)	(710.5)
Net change in cash	4.7	(.2)	(32.6)
Cash, beginning of year	10.2	10.4	43.0
Cash, end of year	$ 14.9	$ 10.2	$ 10.4

Condensed Financial Information of Registrant

Notes:

(a) Long-term debt consisted of:

December 31	2001	2000
6.8% notes due 2006 (effective interest rate of 6.8%) (authorized, $300)	$ 300.0	$ 300.0
3.1% exchangeable subordinated notes due 2007 (effective interest rate of 3.4%) (authorized $1,150) (1)	1,150.0	1,150.0
8.9% debentures due 2011 (effective interest rate of 9.0%) (authorized, $175)	175.0	175.0
7.6% notes due 2023 (effective interest rate of 7.8%) (authorized, $300) (2)	300.0	300.0
7% notes due 2023 (effective interest rate of 7.2%) (authorized, $400) (3)	400.0	400.0
	2,325.0	2,325.0
Less unamortized discount	31.4	34.0
	$ 2,293.6	$ 2,291.0

(1) Redeemable in whole or in part at September 15, 2002, at 101.6%, and decreasing percentages thereafter. The notes are exchangeable into 15.376 shares of Diamond Offshore's common stock per $1,000 principal amount of notes, at a price of $65.04 per share.
(2) Redeemable in whole or in part at June 1, 2003 at 103.8%, and decreasing percentages thereafter.
(3) Redeemable in whole or in part at October 15, 2003 at 102.4%, and decreasing percentages thereafter.

(b) Cash dividends paid to the Company by affiliates amounted to $807.1,

$356.7 and $368.4 for the years ended December 31, 2001, 2000 and 1999, respectively.

(c) The Company is included in a consolidated federal income tax return with certain of its subsidiaries and, accordingly, participates in the allocation of certain components of the consolidated provision for federal income taxes. Such taxes are generally allocated on a separate return bases.

The Company has entered into a separate tax allocation agreement with CNA, a majority-owned subsidiary in which its ownership exceeds 80% (the "Subsidiary"). The agreement provides that the Company will (i) pay to the Subsidiary the amount, if any, by which the Company's consolidated federal income tax is reduced by virtue of inclusion of the Subsidiary in the Company's return, or (ii) be paid by the Subsidiary an amount, if any, equal to the federal income tax which would have been payable by the Subsidiary if it had filed a separate consolidated return.

Under these agreements, CNA will receive approximately $908.0 for 2001. In 2000 and 1999, CNA paid $64.0 and received $288.0, respectively. The agreement may be canceled by either of the parties upon thirty days' written notice. See Note 9 of the Notes to Consolidated Financial Statements of Loews Corporation and subsidiaries included in Item 8.

SCHEDULE II

LOEWS CORPORATION AND SUBSIDIARIES

Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
		(In millions)			
For the Year Ended December 31, 2001					
Deducted from assets:					
Allowance for discounts	$ 2.7	$1746.1		$1746.7(1)	$ 2.1
Allowance for doubtful accounts	345.7	50.5		34.7	361.5
Total	$ 348.4	$224.6		$209.4	$363.6
For the Year Ended December 31, 2000					
Deducted from assets:					
Allowance for discounts	$ 2.7	$165.4		$165.4(1)	$ 2.7
Allowance for doubtful accounts	334.1	19.5		7.9	345.7
Total	$ 336.8	$184.9		$173.3	$348.4

For the Year Ended December 31, 1999

Deducted from assets:					
Allowance for discounts	$ 1.6	$156.8		$155.7(1)	$ 2.7
Allowance for doubtful accounts	342.2	13.2		21.3	334.1
Total	$ 343.8	$170.0		$177.0	$336.8

Notes: (1) Discounts allowed.

SCHEDULE V

LOEWS CORPORATION AND SUBSIDIARIES

Supplemental Information Concerning Property-Casualty Insurance Operations

Consolidated Property-Casualty Entities

Year Ended December 31	2001	2000	1999
(In millions)			
Deferred policy acquisition costs	$ 1,103	$ 1,121	
Reserves for unpaid claim and claim adjustment expenses	29,551	26,408	
Discount deducted from claim and claim adjustment expenses reserves above (based on interest rates ranging from 3.5% to 7.5%)	2,456	2,413	
Unearned premiums	4,505	4,821	
Net earned premiums	7,598	8,847	$ 9,964
Net investment income	1,260	1,740	1,725
Incurred claim and claim adjustment expenses related to current year	7,192	6,331	7,287
Incurred claim and claim adjustment expenses related to prior years	2,466	427	1,027
Amortization of deferred acquisition costs	1,748	1,729	2,005
Paid claim and claim expenses	9,797	8,434	9,964
Net written premiums	8,014	8,640	8,941

Exhibit 3.01

RESTATED CERTIFICATE OF INCORPORATION

OF

LOEWS CORPORATION

It is hereby certified that:

1. (a) The present name of the corporation (hereinafter called the "Corporation") is Loews Corporation.

(b) The name under which the Corporation was originally incorporated is Loew's Corporation; and the date of filing the original certificate of incorporation of the Corporation with the Secretary of State of the State of Delaware is November 12, 1969.

2. The provisions of the certificate of incorporation of the Corporation as heretofore amended and/or supplemented, are hereby restated and integrated into the single instrument which is hereinafter set forth, and which is entitled Restated Certificate of Incorporation of Loews Corporation, without further amendment and without any discrepancy between the provisions of the Certificate of Incorporation as heretofore amended and supplemented and the provisions of the said single instrument hereinafter set forth.

3. The Board of Directors of the Corporation has duly adopted this Restated Certificate of Incorporation pursuant to the provisions of Section 245 of the General Corporation Law of the State of Delaware in the form hereinafter set forth:

RESTATED CERTIFICATE OF INCORPORATION

OF

LOEWS CORPORATION

FIRST: Name. The name of the corporation (the "Corporation") is:

LOEWS CORPORATION

SECOND: Registered Office and Agent. The registered office of the Corporation is 229 South State Street, City of Dover, County of Kent, State of Delaware. The name of its registered agent at such address is UNITED STATES

CORPORATION COMPANY.

THIRD: The nature of the business or purposes of the Corporation are as follows:

(1) to buy, manufacture, sell and otherwise deal in tobacco and tobacco products in any and all forms.

(2) to carry on the business of theatre proprietors, managers and directors, and in particular, to provide for the production, presentation and performance of motion pictures, operas, stage plays, musical comedies, sporting events, radio and television programs of all types and description, and other forms of amusement including amusement parks, carnivals and circuses, and in connection therewith, to own, operate, control, buy, rent, sell, lease, sublease, mortgage, or otherwise acquire or dispose of theatres and other places of entertainment and any and all rights and privileges therein, and real property for the purpose of erecting and operating theatres and other

places of entertainment, and to own, control, buy, sell, rent, lease, sublease, mortgage or otherwise acquire or dispose of all forms of personal property necessary or incidental to the operation and control of theatres and other places of entertainment.

(3) to purchase and otherwise acquire, own, build, lease (either as lessor or lessee), erect, construct, alter, repair, improve, furnish, equip, hold, occupy, maintain, manage, operate, sell, or dispose of hotels, motels, apartment hotels, inns, taverns, lodging houses, hostelries, boardinghouses, apartment houses, restaurants, cafes, bars, cafeterias, garages, and the furniture, furnishings, fixtures and equipment thereof; to engage in and carry on the business of hotel keepers, innkeepers, apartment housekeepers, hostelers, restauranteurs, cafe keepers, cafeteria keepers, garagemen, and also the business of tobacconists, confectioners, dealers in provisions, barbers, hairdressers, manicurists, druggists, florists, stationers, news agents and news, magazine and book dealers; to buy, sell, rent and let for hire automobiles and other means of transportation; the buying and selling of wines, liquors and all other beverages of alcoholic and nonalcoholic contents; to provide and conduct apartments, accommodations, eating places, newspaper rooms, reading and writing rooms, rest rooms, dressing rooms, baths, swimming pools, telephone and other conveniences for the use of the public, and to do every act and thing necessary, convenient or desirable for the furnishing of guests, lodgers, tenants, travelers, and all others who may be received by the corporation, with food, drink, lodging, entertainment and such other services as are commonly rendered as a part of or in connection with, or as incidental to, any of the businesses hereinbefore mentioned; to procure all necessary permits or licenses from municipal or other authorities for the erection and operation of any of the foregoing businesses and to maintain all conveniences necessary thereto, including, but without limitation, elevators, heating, lighting and air conditioning and other refrigerating

apparatus; and to give or grant to others the right, privilege or license to engage in any kind of business on premises owned, leased or managed by it.

(4) to manufacture, process, purchase, sell and generally to trade and deal in and with goods, wares and merchandise of every kind, nature and description, and to engage and participate in any mercantile, industrial or trading business of any kind or character whatsoever.

(5) to purchase, acquire, own, hold, use, lease (either as lessor or lessee), grant, sell, exchange, sub-divide, mortgage, convey in trust, manage, improve, construct, operate and generally deal in any

and all real estate, improved and unimproved, stores, office buildings, dwelling houses, apartment houses, hotels, theatres, manufacturing plants and other buildings, and any and all other property of every kind or description, real, personal and mixed, and wheresoever situated, either in California, other states of the United States, the District of Columbia, territories and colonies of the United States, or foreign countries.

(6) to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 225,000,000 shares, consisting of 200,000,000 shares of Common Stock of the par value of $1.00 per share and 25,000,000 shares of Preferred Stock of the par value of $.10 per share.

The Board of Directors is hereby authorized to issue the Preferred Stock, from time to time, in one or

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more series, on such terms and conditions as it may deem advisable and to fix by resolution the designation of each series and the powers, preferences, and relative, participating, optional or other special rights of the shares of each series, and the qualifications, limitations or restrictions thereof, to the full extent now or hereafter permitted by law. The authority of the Board of Directors with respect to each such series shall include, but not be limited to, determination of the following:

(a) the designation and number of shares comprising such series;

(b) the dividends, if any, which shall be payable on the shares of such series and any preferences and other terms and conditions applicable thereto;

(c) any rights and preferences of the holders of the shares of such series upon the liquidation, dissolution, or winding up of the affairs of, or upon any distribution of the assets of, the Corporation;

(d) the full, limited or special voting rights, if any, of the shares of such series, in addition to voting rights provided by law, and the terms and conditions applicable thereto;

(e) any provision with respect to the conversion of the shares of such series into, or the exchange of such shares for, shares of any other class or classes, or of any other series of any class, of the capital stock of the Corporation and/or any other property or cash, and the terms and conditions applicable to any such conversion or exchange;

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(f) any provision with respect to the redemption, purchase, or retirement of such shares and the terms and conditions applicable thereto;

(g) any provision with respect to the issuance of additional shares of such series or of any other class or series on a parity with or superior to the shares of such series; and

(h) any other relative, participating, optional or special powers, preferences, or rights of, and any other qualifications, limitations, or restrictions with respect to, the shares of such

series as the Board of Directors may deem advisable.

FIFTH: Any director or any officer of the Corporation elected or appointed by the stockholders of the Corporation or by the Board of Directors may be removed at any time in such manner as shall be provided in the By-laws of the Corporation.

SIXTH: In furtherance of and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

To make, alter or repeal the By-laws of the Corporation.

By resolution passed by a majority of the whole Board, to designate one or more committees, each committee to consist of two or more directors of the Corporation, which, to the extent provided in the resolution or in the By-laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the By-laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.

SEVENTH: The principal office of the Corporation shall be located at such place, whether within or without the State of Delaware, as may be provided in the By-laws.

EIGHTH: Unless contrary to statute, the books of the Corporation may be kept outside of the State of Delaware at such place or places as may from time to time be designated by the Board of Directors or in the By-laws of the Corporation.

NINTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

TENTH: No director shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty by such director as a director, except (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

Any repeal or modification of this Article Tenth shall not increase the personal liability of any

director for any occurrence taking place prior to such repeal or modification,

or otherwise adversely affect any right or benefit of a director existing at the time of such repeal or modification.

The provisions of this Article Tenth shall not be deemed to limit or preclude indemnification of a director by the Corporation for any liability which has not been limited by the provisions of this Article Tenth.

Signed and attested to on October 20, 1987.

/s/ Barry Hirsch

Barry Hirsch
Sr. Vice President

Attest:

/s/ Gary W. Garson

Gary W. Garson
Asst. Secretary

Exhibit 3.02

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION

OF

LOEWS CORPORATION

It is hereby certified that:

1. The name of the Corporation (hereinafter called the "Corporation") is Loews Corporation.

2. The certificate of incorporation of the Corporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu of said sentence the following new sentence:

> "FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 500,000,000 shares, consisting of 400,000,000 shares of Common Stock of the par value of $1.00 per share and 100,000,000 shares of Preferred Stock of the par value of $.10 per share."

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Signed and attested to on May 16, 1996.

ATTEST:

/s/ Gary W. Garson	/s/ Barry Hirsch
Gary W. Garson	Barry Hirsch
Assistant Secretary	Senior Vice President
	Loews Corporation

Exhibit 3.03

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION

OF

LOEWS CORPORATION

It is hereby certified that:

1. The name of the Corporation (hereinafter called the "Corporation") is Loews Corporation.

2. The certificate of incorporation of the Corporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu of said sentence the following new sentence:

> "FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 700,000,000 shares, consisting of 600,000,000 shares of Common Stock of the par value of $1.00 per share and 100,000,000 shares of Preferred Stock of the par value of $.10 per share."

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Signed and attested to on May 8, 2001.

/s/ Barry Hirsch

Barry Hirsch
Senior Vice President
Loews Corporation

ATTEST:

/s/ Gary W. Garson

Gary W. Garson
Assistant Secretary

Exhibit 3.04

Certificate of Amendment of the
Restated Certificate of Incorporation of Loews Corporation
under Section 242 of the Delaware General Corporation Law

Pursuant to Section 242 of the General Corporation Law of the State of Delaware, Loews Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

First: The Board of Directors of the Corporation adopted resolutions proposing and declaring advisable an amendment to the Restated Certificate of Incorporation to establish a new class of common stock, Carolina Group stock, having the number, designation, relative rights, preferences, and limitations as set forth herein.

Second: To effect the foregoing, Article FOURTH of the Restated Certificate of Incorporation of the Corporation is hereby amended as set forth in Exhibit A hereto.

Third: At a meeting of stockholders of the Corporation duly held on January 4, 2002, a majority of the outstanding stock of the Corporation entitled to vote voted to approve the foregoing amendment in accordance with the provisions of the Restated Certificate of Incorporation of the Corporation and the General Corporation Law of the State of Delaware.

Fourth: Said amendment was duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Loews Corporation has caused this certificate to be signed by Barry Hirsch, its Senior Vice President, General Counsel and Secretary, this 30th day of January, 2002.

LOEWS CORPORATION

By: /s/ Barry Hirsch

Name: Barry Hirsch
Title: Senior Vice President,
General Counsel and Secretary

Exhibit A

Article Fourth

Article Fourth is hereby amended to read in its entirety as follows:

Fourth: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 1,300,000,000 shares, consisting of 100,000,000 shares of Preferred Stock, par value $.10 per share ("Preferred Stock") and 1,200,000,000 common shares, of which 600,000,000 shall be Loews common stock having a par value of $1.00 per share ("Loews common stock") and 600,000,000 shall be Carolina Group stock having a par value of $0.01 per share ("Carolina Group stock").

Part A: Preferred Stock

The Board of Directors is hereby authorized to issue the Preferred Stock, from time to time, in one or more series, on such terms and conditions as it may deem advisable and to fix by resolution the designation of each series and the powers, preferences, and relative, participating, optional or other special rights of the shares of each series, and the qualifications, limitations or restrictions thereof, to the full extent now or hereafter permitted by law. The authority of the Board of Directors with respect to each such series shall include, but not be limited to, determination of the following:

(a) the designation and number of shares comprising such series;

(b) the dividends, if any, which shall be payable on the shares of such series and any preferences and other terms and conditions applicable thereto;

(c) any rights and preferences of the holders of the shares of such series upon the liquidation, dissolution, or winding up of the affairs of, or upon any distribution of the assets of, the Corporation;

(d) the full, limited or special voting rights, if any, of the shares of such series, in addition to voting rights provided by law, and the terms and conditions applicable thereto;

(e) any provision with respect to the conversion of the shares of such series into, or the exchange of such shares for, shares of any other class or classes, or of any other series of any class, of the capital stock of the Corporation and/or any other property or cash, and the terms and conditions applicable to any such conversion or exchange;

(f) any provision with respect to the redemption, purchase, or retirement of such shares and the terms and conditions applicable thereto;

(g) any provision with respect to the issuance of additional shares of such series or of any other class or series on a parity with or superior to the shares of such series; and

(h) any other relative, participating, optional or special powers, preferences, or rights of, and any other qualifications, limitations, or restrictions with respect to, the shares of such series as the Board of Directors may deem advisable.

Part B: Loews common stock and Carolina Group stock

1. Voting Rights.

(a) Subject to paragraph 1(c) of this Part B of this Article Fourth, holders of Loews common stock shall be entitled to one vote for each share of such stock held and holders of Carolina Group stock shall be entitled to 1/10 of a vote for each share of such stock held on all matters presented to such shareholders.

(b) Except as may otherwise be required by the laws of the State of Delaware or, with respect to additional or special voting rights (which may include, without limitation, rights of any holders of any class or series to elect one or more directors voting separately as a class) of any class or series of Preferred Stock or any other class of common shares in this Certificate of Incorporation as the same may be amended from time to time, the holders of shares of Loews common stock, the holders of shares of Carolina Group stock, the holders of shares of each other class of common shares, if any, entitled to vote thereon, and the holders of shares of each class or series of Preferred Stock, if any, entitled to vote thereon, shall vote as one class with respect to all matters to be voted on by shareholders of the Corporation, and no separate vote or consent of the holders of shares of Loews common stock, the holders of shares of Carolina Group stock or the holders of shares of any such class of common shares or any such class or series of Preferred Stock shall be required for the approval of any such matter.

(c) If the Corporation shall in any manner subdivide (by stock split or otherwise) or combine (by reverse stock split or otherwise) the outstanding shares of Loews common stock or Carolina Group stock, or pay a stock dividend in shares of any class to holders of that class, the per share voting rights of Carolina Group stock specified in paragraph 1(a) of Part B of this Article Fourth shall be appropriately adjusted so as to avoid any dilution in the aggregate voting rights of any one class relative to the other class.

2. Dividends.

(a) Dividends on Loews common stock. Dividends on Loews common stock may be declared and paid only to the extent of (i) the assets of the Corporation

legally available therefor minus (ii) the Carolina Group Available Dividend Amount (such amount available for the payment of dividends on Loews common stock is referred to in this Part B of this Article Fourth as the "Loews Group Available Dividend Amount").

(b) Dividends on Carolina Group stock. Dividends on Carolina Group stock may be declared and paid only out of the lesser of (i) the assets of the Corporation legally available therefor, and (ii) the Carolina Group Available Dividend Amount. Concurrently with the payment of any dividend on shares of Carolina Group stock, at the election of the Board of Directors, either (x) the Loews Group shall receive from the Carolina Group an aggregate payment of the same kind of cash and/or property that is the subject of such dividend, which payment shall be equal to the excess, if any, of (i) the quotient obtained by dividing (A) the

aggregate amount of such dividend, as determined by the Board of Directors, by (B) the Carolina Group Allocation Fraction, over (ii) the aggregate amount of such dividend, as so determined, or (y) the Carolina Group Allocation Fraction will be adjusted as described in paragraph 8 of this Part B of this Article Fourth. The payment to be made to the Loews Group pursuant to the preceding sentence may, at the discretion of the Board of Directors, be reflected by an allocation or by a direct transfer of cash or other property.

(c) Discrimination between or among classes of common shares. The Board of Directors, subject to the provisions of paragraphs 2(a) and 2(b) of this Part B of this Article Fourth, shall have the sole authority and discretion to declare and pay dividends (or to refrain from declaring or paying the same) exclusively to the holders of Loews common stock, exclusively to the holders of Carolina Group stock, exclusively to the holders of any other class of common shares or to the holders of any two or more of such classes in equal or unequal amounts, notwithstanding the relationship between the Loews Group Available Dividend Amount and the Carolina Group Available Dividend Amount, the respective amounts of prior dividends declared on, or the liquidation rights of, Loews common stock or Carolina Group stock, or any other factor.

3. Share Distributions.

Subject to the provisions of paragraph 4 of Part B of this Article Fourth, the Corporation may declare and pay a distribution consisting of shares of Loews common stock, Carolina Group stock or any other securities of the Corporation or any other Person (hereinafter sometimes called a "share distribution") to holders of Loews common stock or Carolina Group stock only in accordance with this paragraph 3 of this Part B of this Article Fourth.

(a) Distributions on Loews common stock or Carolina Group stock. The Corporation may declare and pay a share distribution to holders of Loews common stock, Carolina Group stock or any other class of common shares consisting of any securities of the Corporation, any Subsidiary of the Corporation, or any other Person, including, without limitation, a share distribution consisting of shares of any class or series of Preferred Stock or shares of Loews common stock, Carolina Group stock or any other class of common shares (or Convertible Securities convertible into or exercisable or exchangeable for shares of any class or series of Preferred Stock or shares of Loews common stock, Carolina Group stock or any other class of common shares). However, securities of a group may be distributed to holders of another group only for consideration.

Concurrently with the making of any share distribution with respect to Carolina Group stock, at the election of the Board of Directors, either (x) the Loews Group shall receive from the Carolina Group an aggregate payment of the same kind of property that is the subject of such distribution, which payment shall be equal to the excess, if any, of (i) the quotient obtained by dividing (A) the aggregate amount of such distribution, as determined by the Board of Directors, by (B) the Carolina Group Allocation Fraction, over (ii) the aggregate amount of such distribution, as so determined, or (y) the Carolina Group Allocation Fraction shall be adjusted as described in paragraph 8 of this Part B of this Article Fourth. Any payment to be made to the Loews Group pursuant to the preceding sentence may, at the discretion of the Board of Directors, be reflected by an allocation or by a direct transfer of cash or other property.

(b) Discrimination between or among classes of common shares. The Board of Directors, subject to the foregoing provisions of this paragraph 3 of this Part B of this Article Fourth, shall have the sole authority and discretion to declare and pay (or to refrain from declaring or paying) share distributions exclusively to holders of Loews common stock, exclusively to holders of Carolina Group stock, exclusively to the holders of any other class of common shares or to holders of any two or more of such classes in equal or unequal amounts, notwithstanding the relationship between the Loews Group Available Dividend Amount, the Carolina Group Available Dividend Amount, the respective amounts of prior share distributions declared on, or the liquidation rights of, Loews common stock or Carolina Group stock, or any other factor.

4. Exchange of Carolina Group stock.

(a) Exchange at option of Board of Directors following the occurrence of tax events. At any time following the occurrence of a Tax Event, the Board of Directors, in its sole discretion, may effect a Board Required Exchange by declaring that all of the outstanding shares of Carolina Group stock shall be exchanged for (i) fully paid and nonassessable shares of Loews common stock in accordance with the Tax Event Equity Exchange Rate or (ii) cash, in accordance with the Tax Event Cash Exchange Rate.

(b) Exchange at option of Board of Directors following the second anniversary of the Initial Issuance Date. Following the second anniversary of the Initial Issuance Date until the 90th day following the occurrence of a Significant Transaction, the Board of Directors, in its sole discretion, may effect a Board Required Exchange by declaring that all of the outstanding shares of Carolina Group stock shall be exchanged for (i) fully paid and nonassessable shares of Loews common stock in accordance with the Regular Equity Exchange Rate or (ii) cash in accordance with the Regular Cash Exchange Rate.

(c) Exchange for stock of Qualifying Subsidiaries at option of Board of Directors. At any time following the Initial Issuance Date, so long as all of the assets and liabilities included in the Carolina Group are held, directly or indirectly, by one or more Qualifying Subsidiaries of the Corporation that hold no other material assets or liabilities (the "Carolina Group Subsidiaries"), the Board of Directors may, in its sole discretion, subject to the availability of assets of the Corporation legally available therefor, effect a Board Required Exchange by exchanging, on a pro rata basis, all of the outstanding shares of Carolina Group stock in exchange for an aggregate number of outstanding fully paid and nonassessable shares of common stock of such Carolina Group Subsidiary or Subsidiaries as set forth in Section 4(h) of this Part B of this Article Fourth, provided that no such exchange may occur unless the exchange is tax free to the holders of Carolina Group stock (except with respect to any cash received by such holders in lieu of fractional shares).

(d) Exchange, redemption and/or dividend in connection with certain Significant Transactions. In the event of a Disposition, other than a Carolina Group Related Business Transaction, in a transaction or series of related transactions of all or substantially all of the assets (as defined below) of the Carolina Group to any Person(s) or group(s) of which the Corporation is not a majority owner (whether by merger, consolidation, sale of assets or stock, liquidation, dissolution, winding up or otherwise) (a "Significant Transaction"), effective upon

the consummation of such Disposition, the Corporation may take one of the actions set forth in clauses (i) through (iii) below (each such action, a "Significant Transaction Exchange") on or prior to the 90th day following the consummation of the Significant Transaction; provided, however, that if the Corporation has received any Net Proceeds from the Disposition, and the Corporation has determined not to retain all such amounts as Loews Tobacco Contingency Reserves, the Corporation must effect one of the actions set forth in clauses (i) through (iii) below on or prior to the 90th calendar day following the consummation of the Significant Transaction, which action will be selected in the sole discretion of the Board of Directors:

(i) exchange all outstanding shares of Carolina Group stock, at the sole discretion of the Board of Directors, for fully paid and nonassessable shares of Loews common stock at the Regular Equity

Exchange Rate;

(ii) (x) subject to the limitations described in paragraph 2(b) of this Part B of this Article Fourth and to the other provisions described in this paragraph 4(d) of this Part B of this Article Fourth, declare and pay a dividend in cash and/or in securities (other than Loews common stock) or other property (determined as provided below) to holders of the outstanding shares of Carolina Group stock equally on a share-for-share basis in an aggregate amount equal to the Carolina Group Aggregate Distributable Amount of such Significant Transaction; or (y) provided that there are assets of the Corporation legally available therefor and to the extent the Carolina Group Available Dividend Amount would have been sufficient to pay a dividend in lieu thereof as described in clause (x) of this paragraph 4(d) of this Part B of this Article Fourth, then (A) if such Significant Transaction involves the Disposition of all (not merely substantially all) of the assets of the Carolina Group, redeem all outstanding shares of Carolina Group stock in exchange for cash and/or securities (other than Loews common stock) or other property (determined as provided below) in an aggregate amount equal to the Carolina Group Net Proceeds; or (B) if such Significant Transaction involves the Disposition of substantially all (but not all) of the assets of the Carolina Group, apply an aggregate amount of cash and/or securities (other than Loews common stock) or other property (determined as provided below) equal to the Carolina Group Net Proceeds to the redemption of outstanding shares of Carolina Group stock, the number of shares to be redeemed to equal the lesser of (1) the whole number nearest the number determined by dividing the aggregate amount so allocated to the redemption of Carolina Group stock by the average Market Value of one share of Carolina Group stock during the 20-Trading Day period ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for such Disposition, and (2) the number of shares of Carolina Group stock outstanding; or

(iii) subject to the limitations described in paragraph 2(b) of this Part B of this Article Fourth and to the other provisions described in this paragraph 4(d) of this Part B of this Article Fourth, combine the issuance of shares of Loews common stock in exchange for shares of Carolina Group stock with the payment of a dividend on or the redemption of shares of Carolina Group stock for cash and/or other securities (other than Loews common stock) or other property as described below.

In the event that the Board of Directors elects the option described in clause (iii) of the preceding paragraph, the outstanding shares of Carolina Group stock exchanged for fully paid and nonassessable shares of Loews common stock shall be exchanged at the Regular Equity Exchange Rate and a dividend shall be paid on all the remaining shares of Carolina Group stock equally on a share-for-share basis, or some or all of the remaining outstanding shares of Carolina Group stock shall be redeemed for cash and/or other securities (other than Loews common stock) or other property, as follows: the aggregate amount of such dividend, in the case of a dividend, shall equal (A) an amount equal to the total Carolina Group Aggregate Distributable Amount multiplied by (B) one minus a fraction, the numerator of which shall be the number of shares of Carolina Group stock exchanged for shares of Loews common stock and the denominator of which shall be the total number of outstanding shares of Carolina Group stock prior to such exchange; the portion of the Carolina Group Net Proceeds to be applied to such a redemption, in the case of a redemption, shall equal (A) an amount equal to the total Carolina Group Net Proceeds multiplied by (B) one minus a fraction, the numerator of which shall be the number of shares of Carolina Group stock exchanged for shares of Loews common stock and the denominator of which shall be the total number of outstanding shares of Carolina Group stock prior to such exchange. In the event of a redemption, if the Significant Transaction involves the Disposition of all (not merely substantially all) of the assets of the Carolina Group, then all remaining outstanding shares of Carolina Group stock will be redeemed in exchange for cash and/or securities (other than Loews common stock) or other property in an aggregate amount equal to the portion of the Carolina Group Net Proceeds to be applied to the redemption. In the event of a redemption, if the Significant Transaction involves the Disposition of substantially all (but not all) of the assets of the Carolina Group, then the portion of the Carolina Group Net Proceeds to be applied to the exchange will be used to redeem a number of shares equal to the lesser of (1) the whole number nearest the number determined by dividing the aggregate amount so allocated to the redemption of Carolina Group stock by the average Market Value of one share of

Carolina Group stock during the 20-Trading Day period ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for such Disposition, and (2) the number of shares of Carolina Group stock outstanding.

Notwithstanding the foregoing, the Corporation shall be under no obligation to effect any of the actions described in clauses (i) through (iii) above that it might otherwise be required to effect (x) if the underlying Significant Transaction is conditioned upon the affirmative vote of a majority of the holders of Carolina Group stock, voting as a separate class, (y) in connection with a spin-off or similar disposition of the Carolina Group to the holders of Carolina Group stock and to the Loews Group in respect of its intergroup interest in the Carolina Group, if any, including any such disposition that is made in connection with a Board Required Exchange, or (z) in connection with the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary.

(e) Incremental dividend/final redemption in connection with certain Significant Transactions. In the event of a Significant Transaction, if, on the 91st day following consummation of the Significant Transaction, the Corporation has not redeemed all of the outstanding shares of Carolina Group stock and either (x) Lorillard, Inc. has not distributed to the Corporation 100% of the Net Proceeds, or (y) the Corporation has received from Lorillard, Inc. some or all of the Net Proceeds but has determined to retain some or all of such Net Proceeds as Loews Tobacco Contingency Reserves (the "Trigger Event"), the following principles will

govern: Each time, following the Trigger Event, that the Corporation receives any distributions from Lorillard, Inc. (each such distribution, a "Lorillard Dividend"), the Corporation shall be required to pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a share-for-share basis in an aggregate amount equal to the Carolina Group Incremental Dividend (less any increase in Carolina Group Tobacco Contingency Reserves made in connection with any new Lorillard Dividend). If, and when, the Corporation determines that it can release some or all of the Loews Tobacco Contingency Reserves (such released amounts, "Released Reserves"), the Corporation is required promptly to pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a share-for-share basis in an aggregate amount equal to the Carolina Group Released Reserves. In no event will the Corporation be required to make dividend payments pursuant to this paragraph 4(e) of this Part B of this Article Fourth more frequently than once per fiscal quarter. Any unpaid amounts in any fiscal quarter will be accumulated for payment in the next fiscal quarter. Notwithstanding the foregoing, and whether or not the conditions set forth in clause (x) or (y) of the first sentence of this paragraph 4(e) of this Part B of this Article Fourth are satisfied, at any time after (i) the Corporation has received 100% of the Net Proceeds from the Disposition giving rise to the Significant Transaction Exchange, (ii) there are no remaining Loews Tobacco Contingency Reserves, and (iii) the remaining assets of the Carolina Group consist solely of cash and/or cash equivalents, such amount, the "Final Cash Amount," Loews may redeem all of the outstanding shares of Carolina Group stock for the greater of (x) the Carolina Group Allocated Portion of the Final Cash Amount, divided equally among the outstanding shares of Carolina Group stock, and (y) $.001 per share of Carolina Group stock.

(f) Consummation; convertible securities. For purposes of this paragraph 4 of this Part B of this Article Fourth, in the case of a Significant Transaction involving a Disposition of assets in a series of related transactions, such Disposition shall not be deemed to have been consummated until the consummation of the last of such transactions. Any exchange described in this paragraph 4 of this Part B of this Article Fourth shall be effected in accordance with the applicable provisions set forth in paragraph 5 of this Part B of this Article Fourth. In the event that, at the time of any Significant Transaction, there are outstanding any Convertible Securities convertible into or exercisable for shares of Carolina Group stock that would give the holders rights to receive any dividend or exchange consideration related to the Significant Transaction upon exercise, conversion or otherwise, or would adjust as a result of such dividend or exchange to give the holder equivalent economic rights, then the shares of Carolina Group stock underlying such Convertible Securities will be taken into account for purposes of determining the terms of any dividend payment or exchange effected in lieu of

a Significant Transaction Exchange.

(g) Payment to Loews Group. Concurrently with the payment of any dividend to holders of Carolina Group stock referred to in paragraph 4(d) or 4(e) of this Part B of this Article Fourth, at the election of the Board of Directors, either (A) the Loews Group shall receive from the Carolina Group an aggregate payment of the same kind of property that is the subject of such dividend, which payment shall be equal to the excess of (i) the quotient obtained by dividing (x) the aggregate amount of such dividend, as determined by the Board of Directors, by (y) the Carolina Group Allocation Fraction, over (ii) the aggregate amount of such dividend, as so determined, or (B) the Carolina Group Allocation Fraction will be adjusted as described in

paragraph 8 of this Part B of this Article Fourth. Any payment to be made to the Loews Group pursuant to the preceding sentence may, at the discretion of the Board of Directors, be reflected by an allocation or by a direct transfer of cash or other property.

(h) Exchange rates. For purposes of this paragraph 4 of this Part B of this Article Fourth:

The term "Tax Event Equity Exchange Rate" shall mean the number of Exchange Shares for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange, determined as follows: Each share of Carolina Group stock shall be exchangeable for such number of shares of Loews common stock (calculated to the nearest 1/10,000), subject to paragraph 5 below, equal to 100% of the ratio of the Average Market Price Per Share of such Carolina Group stock to the Average Market Price Per Share of Loews common stock. For purposes of computing the Tax Event Equity Exchange Rate, the "Average Market Price Per Share" of Loews common stock or Carolina Group stock, as the case may be, shall mean the average of the daily Market Value per share for such Loews common stock or Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed.

The term "Tax Event Cash Exchange Rate" shall mean such amount of cash for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange, determined as follows: Each share of Carolina Group stock shall be exchangeable for such amount of cash (calculated to the nearest $.01), subject to paragraph 5 below, equal to 105% of the Average Market Price Per Share of such Carolina Group stock. For purposes of computing the Tax Event Cash Exchange Rate, the "Average Market Price Per Share" of Carolina Group stock, as the case may be, shall mean the average of the daily Market Value per share for such Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed.

The term "Regular Equity Exchange Rate" shall mean the number of Exchange Shares for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange or a Significant Transaction Exchange, determined as follows: If the shares of Carolina Group stock are to be exchanged for shares of Loews common stock, each share of Carolina Group stock shall be exchangeable for such number of shares of Loews common stock (calculated to the nearest 1/10,000), subject to paragraph 5 below, equal to 115% of the ratio of the Average Market Price Per Share of such Carolina Group stock to the Average Market Price Per Share of Loews common stock. For purposes of computing the Regular Equity Exchange Rate, the "Average Market Price Per Share" of Loews common stock or Carolina Group stock, as the case may be, shall mean (i) in the case of a Board Required Exchange, the average of the daily Market Value per share for such Loews common stock or Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed, or (ii) in the case of a Significant Transaction Exchange, the average of the daily Market Value per share for such Loews common stock or Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for the Disposition giving rise to the Significant Transaction Exchange.

The term "Regular Cash Exchange Rate" shall mean such amount of cash for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange, determined as follows: If the shares of Carolina

Group stock are to be exchanged for cash, each share of Carolina Group stock shall be exchangeable for such amount of cash (calculated to the nearest $.01), subject to paragraph 5 below, equal to 120% of the Average Market Price Per Share of such Carolina Group stock. For purposes of computing the Regular Cash Exchange Rate, the "Average Market Price Per Share" of Carolina Group, as the case may be, shall mean the average of the daily Market Value per share for such Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed.

If the shares of Carolina Group stock are to be exchanged for shares of one or more Carolina Group Subsidiaries, such shares of Carolina Group stock shall be exchanged, on a pro rata basis, for an aggregate number of outstanding fully paid and nonassessable shares of common stock of each such Carolina Group Subsidiary equal to the number of outstanding shares of common stock of such Subsidiary held by the Corporation multiplied by the Carolina Group Allocation Fraction and, if the Board of Directors so determines, the remaining shares of such Subsidiary shall be distributed on a pro rata basis to the holders of shares of Loews common stock (or shares of Loews common stock shall be exchanged for such remaining shares of such Subsidiary); provided that no such distribution (or mandatory exchange) may occur unless the distribution (or mandatory exchange) is tax free to the holders of Loews common stock (except with respect to any cash received by such holders in lieu of fractional shares). If at the time of such an exchange for shares of one or more Carolina Group Subsidiaries, there are outstanding any Convertible Securities convertible into or exercisable for shares of Carolina Group stock that would become exercisable or convertible for shares of one or more Carolina Group Subsidiaries as a result of such exchange, and the obligation to issue such shares under such options, warrants, convertible securities or similar rights is not assumed or otherwise provided for by one or more Carolina Group Subsidiaries, then the shares of Carolina Group stock underlying such Convertible Securities will be taken into account for purposes of determining the Carolina Group Allocation Fraction for such exchange.

The phrase "substantially all of the assets" of the Carolina Group as of any date shall mean a portion of such assets that represents at least 80% of the Fair Value of the assets attributed to the Carolina Group as of such date.

The term "Exchange Shares" shall mean the shares of Loews common stock or shares of one or more Carolina Group Subsidiaries, as the case may be, into which shares of Carolina Group stock may be exchanged pursuant to a Board Required Exchange or a Significant Transaction Exchange.

5. Certain Procedures Relating to Exchanges.

(a) The Board of Directors may, in its sole discretion, elect to issue fractional Exchange Shares in connection with an exchange or to make a cash payment in lieu of fractional shares, as described below. If the Board of Directors elects not to issue fractional Exchange Shares, then no such fractional shares shall be issued in connection with the exchange of shares of Carolina Group stock into Exchange Shares, and, in lieu thereof, each holder of Carolina

Group stock who would otherwise be entitled to a fractional interest of an Exchange Share shall, upon surrender of such holder's certificate or certificates representing shares of Carolina Group stock, receive a cash payment (without interest) (the "Fractional Payment") equal to (i) in the case of an exchange for shares of Loews common stock, the product resulting from multiplying (A) the fraction of a share of Loews common stock to which such holder would otherwise have been entitled by (B) the Average Market Price Per Share of Loews common stock on the Exchange Date, or (ii) in the case of an exchange for shares of one or more Carolina Group Subsidiaries, such value as is determined by the Board of Directors.

(b) No adjustments in respect of dividends shall be made upon the exchange of any shares of Carolina Group stock; provided, however, that, if the Exchange Date with respect to Carolina Group stock shall be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto but prior to the payment or distribution thereof, the registered holders of such shares at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such shares on the date set for payment of such dividend or other distribution, notwithstanding the exchange of such shares or the Corporation's

default in payment of the dividend or distribution due on such date.

(c) At such time or times as the Corporation exercises its right to cause a Board Required Exchange, and at the time of any Significant Transaction Exchange, the Corporation shall give notice of such exchange to the holders of Carolina Group stock whose shares are to be exchanged, by mailing by first-class mail a notice of such exchange (an "Exchange Notice"), in the case of an exchange at the discretion of the Board of Directors, not less than 30 nor more than 60 days prior to the date fixed for such exchange (the "Exchange Date"), and, in the case of any other required exchange, as soon as practicable before or after the Exchange Date, in either case, to their last addresses as they appear upon the Corporation's books. Each such Exchange Notice shall specify the Exchange Date and the exchange rate applicable to such exchange, and may be conditioned on or otherwise subject to such terms as the Board of Directors may determine.

(d) In the case of certificated shares, before any holder of shares of Carolina Group stock shall be entitled to receive certificates representing such Exchange Shares, such holder must surrender, at such office as the Corporation shall specify, certificates for such shares of Carolina Group stock duly endorsed to the Corporation or in blank or accompanied by proper instruments of transfer to the Corporation or in blank, unless the Corporation shall waive such requirement. The Corporation shall, as soon as practicable after such surrender of certificates representing such shares of Carolina Group stock, issue and deliver, at the office of the transfer agent for the Exchange Shares, to the holder for whose account such shares of Carolina Group stock were so surrendered, or to such holder's nominee or nominees, certificates representing the number of Exchange Shares to which such holder shall be entitled, together with the Fractional Payment, if any.

(e) From and after any Exchange Date, all rights of a holder of shares of Carolina Group stock shall cease except for the right, upon surrender of the certificates representing such shares of Carolina Group stock, to receive certificates representing Exchange Shares together with a Fractional Payment, if any, as described in paragraphs 5(a) and 5(d) of this Part B of this Article fourth and rights to dividends as described in paragraph 5(b) of this Part B of this Article

Fourth. No holder of a certificate that immediately prior to the applicable Exchange Date represented shares of Carolina Group stock shall be entitled to receive any dividend or other distribution with respect to Exchange Shares until surrender of such holder's certificate for a certificate or certificates representing Exchange Shares. Upon surrender, the holder shall receive the amount of any dividends or other distributions (without interest) that were payable with respect to a record date after the Exchange Date, but that were not paid by reason of the foregoing with respect to the number of Exchange Shares represented by the certificate or certificates issued upon such surrender. From and after an Exchange Date applicable to Carolina Group stock, the Corporation shall, however, be entitled to treat certificates for Carolina Group stock that have not yet been surrendered for exchange as evidencing the ownership of the number of Exchange Shares for which the shares of Carolina Group stock represented by such certificates have been exchanged, notwithstanding the failure to surrender such certificates.

(f) If any certificate for Exchange Shares is to be issued in a name other than that in which the certificate representing shares of Carolina Group stock surrendered in exchange therefor is registered, it shall be a condition of such issuance that the person requesting the issuance pays any transfer or other taxes required by reason of the issuance of certificates for such Exchange Shares in a name other than that of the record holder of the certificate surrendered, or establishes, to the satisfaction of the Corporation or its agent, that such tax has been paid or is not applicable. Under no circumstances shall the Corporation be liable to a holder of shares of Carolina Group stock for any Exchange Shares or dividends or distributions thereon delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(g) At the time an Exchange Notice is delivered with respect to any shares of Carolina Group stock, or at the time of the Exchange Date, if earlier, the Corporation shall have reserved and kept available, solely for the purpose of issuance upon exchange of the outstanding shares of Carolina Group stock, such number of Exchange Shares as shall be issuable upon the exchange of the number of shares of Carolina Group stock specified or to be

specified in the applicable Exchange Notice, provided that the Corporation shall not under any circumstances be precluded from satisfying its obligation in respect of the exchange of the outstanding shares of Carolina Group stock by delivery of purchased Exchange Shares that are held in the treasury of the Corporation.

(h) The Board of Directors may adjust the foregoing procedures as may be appropriate to reflect any ownership of shares through book-entry accounts or otherwise in non-certificated form.

(i) The Corporation will effect any dividend, exchange or redemption on a pro rata basis with respect to each holder of record of Carolina Group stock.

6. Liquidation.

In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and other liabilities of the Corporation and subject to the prior payment in full of the preferential amounts to which any class or series of Preferred Stock is entitled, (a) the holders of the shares of Loews common

stock shall share in the aggregate in a percentage of the funds of the Corporation remaining for distribution to its common shareholders equal to 100% multiplied by the average daily ratio (expressed as a decimal) of X/Z for the 20-Trading Day period ending on the fifth Trading Day immediately prior to the date of the public announcement of such liquidation, dissolution or winding up of the Corporation, (b) the holders of the shares of Carolina Group stock shall share in the aggregate in a percentage of the funds of the Corporation remaining for distribution to its common shareholders equal to 100% multiplied by the average daily ratio (expressed as a decimal) of W/Z for such 20-Trading Day period, and (c) if applicable, the holders of the shares of any other class of common shares of the Corporation (other than Loews common stock or Carolina Group stock), on the basis that may be set forth in this Certificate of Incorporation with respect to any such shares, shall share in the aggregate in a percentage of the funds of the Corporation remaining for distribution to its common shareholders equal to 100% multiplied by the average daily ratio (expressed as a decimal) of V/Z for such 20-Trading Day period, where X is the aggregate Market Capitalization of the Loews common stock, W is the aggregate Market Capitalization of the Carolina Group stock, V is the aggregate Market Capitalization, if applicable, of any other class of common shares (other than Loews common stock and Carolina Group stock), and Z is the aggregate Market Capitalization of (i) the Loews common stock, (ii) the Carolina Group stock and (iii) any other class of common shares of the Corporation (other than Loews common stock and Carolina Group stock). Neither the consolidation or merger of the Corporation with or into any other corporation or corporations nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this paragraph 6 of this Part B of this Article Fourth. Notwithstanding the foregoing, any transaction or series of related transactions that results in all of the assets and liabilities included in the Carolina Group being held by one or more Carolina Group Subsidiaries, and the distribution of some or all of the shares of such Carolina Group Subsidiaries (and no other material assets or liabilities) to the holders of the outstanding Carolina Group stock shall not constitute a voluntary or involuntary liquidation, dissolution or winding up of the Corporation for purposes of this paragraph 6 of this Part B of this Article Fourth, but shall be subject to paragraph 4 of this Part B of this Article Fourth.

7. Determinations by the Board of Directors.

Any determinations made by the Board of Directors under any provision of this Part B of this Article Fourth shall be final and binding on all shareholders of the Corporation, except as may otherwise be required by law. The Corporation shall prepare a statement of any determination by the Board of Directors, respecting the fair market value of any properties, assets or securities, and shall file such statement with the Secretary of the Corporation.

8. Adjustment of the Carolina Group Allocation Fraction.

(a) The denominator of the Carolina Group Allocation Fraction shall be adjusted from time to time as deemed appropriate by the Board of Directors (i) to reflect subdivisions (by stock split or otherwise) and combinations (by reverse stock split or otherwise) of Carolina Group stock and stock dividends payable in shares of Carolina Group stock, (ii) to reflect the fair market value of contributions or allocations by the Corporation of cash or property or other assets or liabilities from the Loews Group to the Carolina Group (or vice versa), or of cash or

property or other assets or liabilities of the Loews Group to, or for the benefit of, employees of businesses attributed to the Carolina Group in connection with employee benefit plans or arrangements of the Corporation or any of its subsidiaries (or vice versa), (iii) to reflect the number of shares of capital stock of the Corporation contributed to, or for the benefit of, employees of businesses attributed to the Carolina Group in connection with benefit plans or arrangements of the Corporation or any of its Subsidiaries, (iv) to reflect repurchases by the Corporation of shares of Carolina Group stock for the account of the Loews Group or the Carolina Group, (v) to reflect issuances of Carolina Group stock for the account of the Carolina Group or the Loews Group, (vi) to reflect dividends or other distributions to holders of the Carolina Group stock to the extent a pro rata payment is not made to the Loews Group, and (vii) under such other circumstances as the Board of Directors determines appropriate to reflect the economic substance of any other event or circumstance, provided that, in each case, the adjustment shall be made in a manner that the Board of Directors determines is fair and equitable to holders of Loews common stock and Carolina Group stock (and intended to reflect the relative deemed economic ownership interest, if any, of the Loews Group in the Carolina Group). Any adjustment made by the Board of Directors pursuant to the preceding sentence shall, subject to the foregoing, be at the sole discretion of the Board of Directors, and all such determinations shall be final and binding on all shareholders of the Corporation. For purposes of this paragraph 8 of this Part B of this Article Fourth, the consideration paid by the Loews Group to acquire any assets or other property contributed or allocated to the Carolina Group shall be presumed to be the "fair market value" as of its acquisition.

(b) Without duplication of any adjustment pursuant to paragraph 8(a) of this Part B of this Article Fourth, in the event that the Corporation shall issue shares of Carolina Group stock for the account of the Carolina Group, then the denominator of the Carolina Group Allocation Fraction shall be increased by the number of shares of Carolina Group stock so issued.

(c) Without duplication of any adjustment pursuant to paragraph 8(a) of this Part B of this Article Fourth, if, in connection with any share issuance described in paragraph 8(b) of this Part B of this Article Fourth, or otherwise, the Corporation contributes or allocates cash or other property or assets from the Loews Group to the Carolina Group, the denominator of the Carolina Group Allocation Fraction shall be increased (or further increased) by an amount obtained by dividing (i) the fair market value of such cash, property or assets (as determined by the Board of Directors) by (ii) the net per share offering price of the Carolina Group stock.

9. Certain Definitions.

Unless the context otherwise requires, the terms defined in this paragraph 9 of this Part B of this Article Fourth shall have, for all purposes of this Part B of this Article Fourth, the meanings herein specified:

"Board Required Exchange" shall mean any exchange effected pursuant to paragraph 4(a), 4(b) or 4(c) of this Part B of this Article Fourth.

"Carolina Group" shall mean, as of any date that any shares of Carolina Group stock have been issued and continue to be outstanding, without duplication, the direct or indirect interest of the Corporation (either itself or through direct or indirect subsidiaries, affiliates, joint ventures or

other investments, or any of their predecessors or successors) in, and the direct or indirect liability of the Corporation (or any such subsidiary, affiliate, joint venture or other investment) for:

(a) Lorillard, Inc.,

(b) any dividend or distribution paid by Lorillard, Inc. following the Initial Issuance Date,

(c) all assets, liabilities and businesses acquired by a member of the Carolina Group or acquired by the Corporation or any of its Subsidiaries for the account of, or contributed, allocated or otherwise transferred to, the Carolina Group (including the net proceeds of any new issuance for the account of the Carolina Group of any new shares of Carolina Group stock or Convertible Securities), in each case, after the Initial Issuance Date and as determined by the Board of Directors in accordance with the provisions of this Part B of this Article Fourth,

(d) all net income or net losses arising after the Initial Issuance Date from the assets and liabilities that are reflected in the Carolina Group and the proceeds of any Disposition of any such assets following the Initial Issuance Date,

(e) notional, intergroup debt owed from the Carolina Group to the Loews Group, in an amount and with terms to be determined by the Board of Directors prior to the Initial Issuance Date, and

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

Notwithstanding the foregoing, the Carolina Group shall not include (1) any assets, liabilities or businesses disposed of after the Initial Issuance Date or (2) any assets, liabilities or businesses allocated to the Loews Group or otherwise distributed, paid or transferred from the Carolina Group, whether to the Loews Group, to holders of shares of Carolina Group stock or otherwise, in each case after the Initial Issuance Date and as determined by the Board of Directors in accordance with the provisions of this Part B of this Article Fourth. Accordingly, the assets of the Carolina Group shall be reduced by, among other things, (x) payments of dividends or distributions to holders of Carolina Group stock or to the Loews Group in respect of its interest in the Carolina Group in connection with any such dividend or distribution, (y) payments of interest or principal on the notional, intergroup debt owed to the Loews Group, and (z) payments in respect of any costs, expenses or other liabilities allocated to the Carolina Group.

"Carolina Group Aggregate Distributable Amount" shall mean the Carolina Group Allocated Portion of the excess of (1) the Net Proceeds received by the Corporation over (2) the Loews Tobacco Contingency Reserves.

"Carolina Group Allocated Portion" shall mean, with respect to the Carolina Group as a whole, or any dividend, distribution, payment, consideration or other amount or allocation requiring apportionment between the holders of Carolina Group stock (other than the Corporation and its Subsidiaries), on the one hand, and the Loews Group, on the other hand, the following: (a) in the case of the Carolina Group as a whole, the proportion of such Group represented by the Carolina Group Allocation Fraction, and (b) in the case of any other amount or allocation, the product of (i) such amount or allocation and (ii) the Carolina Group Allocation Fraction.

"Carolina Group Allocation Fraction" shall mean, as of any date of determination, a fraction, the numerator of which shall be the number of shares of Carolina Group stock outstanding on such date and the denominator of which shall be a number initially determined by the Board of Directors, in its sole discretion, prior to the Initial Issuance Date, subject to adjustment from time to time as described in this Part B of this Article Fourth, provided that such fraction shall in no event be greater than one. If the holders of any securities of the Corporation or any other Person that are convertible into or exercisable or exchangeable for shares of Carolina Group stock are entitled to participate in any dividend or other distribution with respect to

the Carolina Group stock, such shares so issuable upon such conversion, exercise or exchange shall be taken into account in calculating the Carolina Group Allocation Fraction and any amount payable to the Loews Group in such manner as the Board of Directors determines to be appropriate.

"Carolina Group Available Dividend Amount" shall mean, as of any date, the Carolina Group Allocated Portion of (1) the excess of (a) the amount by which the total assets of the Carolina Group exceed the total liabilities of the Carolina Group as of such date over (b) the sum of (i) the par value of all issued shares of Carolina Group stock and each class or series of Preferred Stock attributed to the Carolina Group, (ii) the amount of the consideration received for any shares of Preferred Stock attributed to the Carolina Group without par value that have been issued, except such part of the consideration therefor as may have been allocated to surplus in a manner permitted by law, and (iii) any amount not included in subclauses (i) and (ii) above that the Corporation (by appropriate action of the Board of Directors) has transferred to stated capital specifically in respect of Carolina Group stock, minus (c) all reductions from such sums set forth in clauses (i), (ii) and (iii) above as have been effected in a manner permitted by law, or (2) in case there shall be no excess under clause (1), the net profits of the Carolina Group for the fiscal year in which the dividend is declared and/or the preceding fiscal year; provided, however, that, in the event that the law governing the Corporation changes from that governing the Corporation on the date the adoption of the Amendment to this Certificate of Incorporation pursuant to which the Carolina Group stock was authorized (whether because of amendment of the applicable law or because of a change in the jurisdiction of incorporation of the Corporation through merger or otherwise), the Carolina Group Available Dividend Amount shall mean the amount of dividends, as determined by the Board of Directors, that could be paid by a Corporation (governed under such applicable law) having the assets and liabilities of the Carolina Group, an amount of outstanding common stock (and having an aggregate par value) equal to the amount (and aggregate par value) of the outstanding Carolina Group stock and of each class or series of Preferred Stock attributed to the Carolina Group and having an amount of earnings or loss or other relevant corporate attributes as reasonably determined by the Board of Directors in light of all factors deemed relevant by the Board of Directors.

"Carolina Group Incremental Dividend" shall mean, as of any date, with respect to any Lorillard Dividend, an amount equal to the Carolina Group Allocated Portion of the Lorillard Dividend.

"Carolina Group Net Proceeds" shall mean, as of any date, with respect to any Disposition of any of the assets of the Carolina Group, an amount, if any, equal to the Carolina Group Allocated Portion of the Net Proceeds.

"Carolina Group Related Business Transaction" shall mean any Disposition of all or substantially all the assets attributed to the Carolina Group in a transaction or series of related transactions that results in the Corporation or one or more of its Subsidiaries receiving in consideration of such assets primarily equity securities (including, without limitation, capital stock, debt securities convertible into or exchangeable for equity securities or interests in a general or limited partnership or limited liability company, without regard to the voting power or other management or governance rights associated therewith) of any entity that (a) acquires such properties or assets or succeeds (by merger, formation of a joint venture or otherwise) to the business conducted with such properties or assets or controls such acquiror or successor, and (b) which the Board of Directors determines is primarily engaged or proposes to engage primarily in one or more businesses similar or complementary to the businesses conducted by the Carolina Group prior to such Disposition.

"Carolina Group Released Reserves" shall mean, as of any date, with respect to any Released Reserves, an amount equal to the Carolina Group Allocated Portion of the Released Reserves.

"Carolina Group Tobacco Contingency Reserves" shall mean, as of any date, with respect to any Loews Tobacco Contingency Reserves, an amount equal to the Carolina Group Allocated Portion of the Loews Tobacco Contingency Reserves.

"Convertible Securities" shall mean any securities of the Corporation or any Subsidiary of the Corporation that are convertible into, exchangeable for or evidence the right to purchase any shares of Loews common stock or Carolina Group stock, whether upon conversion, exercise or exchange, or pursuant to

anti-dilution provisions of such securities or otherwise.

"Disposition" shall mean the sale, transfer, assignment or other disposition (whether by merger, consolidation, sale or contribution of assets or stock, or otherwise) by the Corporation or Lorillard, Inc. (or their respective successors) of any of its respective Subsidiaries or properties or assets. Disposition shall not include a merger, consolidation, exchange of shares or other business combination transaction involving the Corporation or Lorillard, Inc. or Lorillard Tobacco Company in which the Corporation or Lorillard, Inc. or Lorillard Tobacco Company (or their respective successors) continues, immediately following such transaction, to hold the same, direct and indirect, interest in the business, assets and liabilities comprising the Carolina Group that it held immediately prior to such transaction (other than as a result of any action by any Person included in the Carolina Group).

"Fair Value" shall mean, in the case of equity securities or debt securities of a class that has previously been publicly traded for a period of at least three months, the Market Value

thereof (if such Market Value, as so defined, can be determined) or, in the case of an equity security or debt security that has not been publicly traded for at least such period, means the fair value per share of stock or per other unit of such other security, on a fully distributed basis, as determined by an independent investment banking firm experienced in the valuation of securities selected in good faith by the Board of Directors; provided, however, that, in the case of property other than securities, the "Fair Value" thereof shall be determined in good faith by the Board of Directors based upon such appraisals or valuation reports of such independent experts as the Board of Directors shall in good faith determine to be appropriate in accordance with good business practice. Any such determination of Fair Value shall be described in a statement filed with the records of the actions of the Board of Directors.

"Fixed Tobacco-Related Liabilities" shall mean noncontingent tobacco-related costs or liabilities in fixed and determinable amounts directly arising from (a) a final and nonappealable award or order of a court of competent jurisdiction or (b) a contractual obligation.

"Group" shall mean the Loews Group or the Carolina Group.

"Initial Issuance Date" shall mean the date of first issuance of any shares of Carolina Group stock.

"Loews Group" shall mean, as of any date, the interest of the Corporation in all of the businesses in which the Corporation is or has been engaged, directly or indirectly (either itself or through direct or indirect subsidiaries, affiliates, joint ventures or other investments or any of their predecessors or successors), and the respective assets and liabilities of the Corporation therein, other than the Carolina Group Allocated Portion of the Carolina Group.

"Loews Tobacco Contingency Reserves" shall mean an amount retained by the Corporation, which the Board of Directors from time to time determines in good faith should be retained for tobacco-related contingencies or other tobacco-related costs or liabilities of any kind (by way of contract, tort, indemnity, guarantee or otherwise), whether or not any such contingency, cost or liability would be deductible as a cost or expense or would qualify for treatment as a reserve under generally accepted accounting principles, in each case, other than any Fixed Tobacco-Related Liabilities.

"Market Capitalization" of any class or series of capital stock of the Corporation on any Trading Day shall mean the product of (a) the Market Value of one share of such class or series on such Trading Day and (b) the number of shares of such class or series outstanding on such Trading Day.

"Market Value" of any class or series of capital stock of the Corporation on any day shall mean the average of the daily closing price of a share of such class or series on such day (if such day is a Trading Day, and, if such day is not a Trading Day, on the Trading Day immediately preceding such day) on the New York Stock Exchange or, if the shares of such class or series are not quoted on the New York Stock Exchange on such Trading Day, on the Nasdaq National Market, or, if the shares of such class or series are not quoted on the Nasdaq National Market on such Trading Day, the average of the closing bid and asked prices of a share of such class or series in the over-the-counter

market on such Trading Day as furnished by any New York Stock

Exchange member firm selected from time to time by the Corporation, or, if such closing bid and asked prices are not made available by any such New York Stock Exchange member firm on such Trading Day (including, without limitation, because such securities are not publicly held), the market value of a share of such class or series as determined by the Board of Directors; provided that, for purposes of determining the ratios set forth in paragraph 6 of this Part B of this Article Fourth, (a) the "Market Value" of any share of Loews common stock or Carolina Group stock on any day prior to the "ex" date or any similar date for any dividend or distribution paid or to be paid with respect to Loews common stock or Carolina Group stock, as applicable, shall be reduced by the fair market value of the per share amount of such dividend or distribution as determined by the Board of Directors, and (b) the "Market Value" of any share of Loews common stock or any share of Carolina Group stock on any day prior to (i) the effective date of any subdivision (by stock split or otherwise) or combination (by reverse stock split or otherwise) of outstanding shares of Loews common stock or Carolina Group stock, as applicable, or (ii) the "ex" date or any similar date for any dividend or distribution with respect to the Loews common stock or Carolina Group stock in shares of Loews common stock or Carolina Group stock, as applicable, shall be appropriately adjusted to reflect such subdivision, combination, dividend or distribution.

"Net Proceeds" shall mean, as of any date, with respect to any Disposition of any of the assets of the Carolina Group, an amount, if any, equal to the gross proceeds of such Disposition after any payment of, or reasonable provision for, (without duplication) (a) any taxes payable by the Corporation or any other member of the Loews Group in respect of such Disposition or in respect of any mandatory dividend or redemption resulting from such Disposition (or that would have been payable but for the utilization of tax benefits attributable to the Loews Group), (b) any transaction costs borne by the Loews Group in connection with such Disposition, including, without limitation, any legal, investment banking and accounting fees and expenses borne by the Loews Group in connection with such Disposition, (c) any Fixed Tobacco-Related Liabilities, (d) any liabilities and other obligations (contingent or otherwise) of the Carolina Group (other than tobacco-related contingencies or other tobacco-related costs or liabilities of any kind (by way of contract, tort, indemnity, guarantee or otherwise) which are not Fixed Tobacco-Related Liabilities, whether or not any such contingency, cost or liability would be deductible as a cost or expense or would qualify for treatment as a reserve under generally accepted accounting principles), including, without limitation, any indemnity or guarantee obligations incurred by the Loews Group in connection with the Disposition or any liabilities assumed by the Loews Group for future purchase price adjustments, (e) any preferential amounts, accumulated and unpaid dividends and other obligations in respect of Preferred Stock attributed to the Carolina Group and (f) repayment of any notional, intergroup debt owed by the Carolina Group to the Loews Group. To the extent the proceeds of any Disposition include any securities (other than Loews common stock) or other property other than cash, the Board of Directors shall determine the value of such securities or property; provided that the value of any marketable securities included in such proceeds shall be the average of the daily Market Value of such securities for the 20-Trading Day period ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for such Disposition.

"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government

or agency or political subdivision thereof, or other entity, whether acting in an individual, fiduciary or other capacity.

"Qualifying Subsidiary" of a Person shall mean a Subsidiary of such Person in which such Person's ownership and voting interest is sufficient to satisfy the ownership and voting requirements of the Internal Revenue Code of 1986, as amended, and the regulations thereunder, for a distribution of such Person's interest in such Subsidiary to the holders of Carolina Group stock and, in the event that the Carolina Group Allocation Fraction is less than one, the holders of Loews common stock (or any such securities into which the Carolina Group stock or the Loews common stock may have been converted, reclassified or

changed or for which they may have been exchanged), as the case may be, to be tax free to such holders.

"Subsidiary" shall mean, with respect to any Person, any corporation, limited liability company or partnership 50% or more of whose outstanding voting securities or membership or partnership interests, as the case may be, are, directly or indirectly, owned by such Person.

"Tax Event" shall mean receipt by the Corporation of an opinion of tax counsel of the Corporation's choice, to the effect that, as a result of any amendment to, clarification of, or change (including a prospective change) in, the laws (or any interpretation or application of the laws) of the United States or any political subdivision or taxing authority thereof or therein (including enactment of any legislation and the publication of any judicial or regulatory decision, determination or pronouncement), which amendment, clarification or change is effective, announced, released, promulgated or issued on or after the date of initial issuance of the Carolina Group stock, regardless of whether such amendment, clarification or change is issued to or in connection with a proceeding involving the Corporation, the Loews Group or the Carolina Group and whether or not subject to appeal, there is more than an insubstantial risk that:

(i) for tax purposes, any issuance of Carolina Group stock would be treated as a sale or other taxable disposition by the Corporation or any of its Subsidiaries of any of the assets, operations or relevant subsidiaries to which the Carolina Group stock relates,

(ii) the existence of the Carolina Group stock would subject the Corporation, its Subsidiaries or affiliates, or any of their respective successors or shareholders to the imposition of tax or to other adverse tax consequences, or

(iii) for tax purposes, either Loews common stock or Carolina Group stock is not or, at any time in the future, would not be treated solely as common stock of the Corporation.

"Trading Day" shall mean each weekday other than any day on which any relevant class or series of capital stock of the Corporation is not available for trading on the New York Stock Exchange or the Nasdaq National Market or in the over-the-counter market.

Exhibit 10.22

[LOGO]

LOEWS
CORPORATION

As of January 1, 2002

Mr. Andrew H. Tisch
667 Madison Avenue
New York, New York 10021

Dear Mr. Tisch:

Reference is made to your Employment Agreement with Loews Corporation (the "Company"), dated January 1, 1999 (the "Employment Agreement").

This will confirm our agreement that the Employment Agreement is amended as follows:

1. Term of Employment. The period of your employment under and pursuant to the Employment Agreement is hereby extended for an additional period through and including December 31, 2002 upon all the terms, conditions and provisions of the Employment Agreement, as hereby amended.

2. Compensation. You shall be paid as basic compensation (the "Basic Compensation") for your services to the Company and its subsidiaries under and pursuant to the Employment Agreement a salary at the rate of Nine Hundred Thousand ($900,000) Dollars per annum for the extension period January 1, 2002 through December 31, 2002. Basic Compensation shall be payable in accordance with the Company's customary payroll practices as in effect from time to time, and shall be subject to such increases as the Board of Directors of the Company, in its sole discretion, may from time to time determine.

3. Incentive Compensation Plan. In addition to receipt of Basic Compensation under the Employment Agreement, you shall participate in the Incentive Compensation Plan for Executive Officers of the Company (the "Compensation Plan") and shall be eligible to receive incentive compensation under the Compensation Plan as may be awarded in accordance with its terms.

4. Other Compensation. The compensation provided pursuant to this Letter Agreement shall be exclusive of compensation and fees, if any, to which you may be entitled as an officer or director of a subsidiary of the Company.

Except as herein modified or amended, the Employment Agreement shall remain in full force and effect.

If the foregoing is in accordance with your understanding, would you please sign the enclosed duplicate copy of this Letter Agreement at the place indicated below and return the same to us for our records.

Very truly yours,

LOEWS CORPORATION

By: /s/ Barry Hirsch

Barry Hirsch
Senior Vice President

ACCEPTED AND AGREED TO:

/s/ Andrew H. Tisch

Andrew H. Tisch

Exhibit 10.23

[LOGO]

LOEWS
CORPORATION

As of January 1, 2002

Mr. James S. Tisch
667 Madison Avenue
New York, New York 10021

Dear Mr. Tisch:

Reference is made to your Employment Agreement with Loews Corporation (the "Company"), dated January 1, 1999 (the "Employment Agreement").

This will confirm our agreement that the Employment Agreement is amended as follows:

1. Term of Employment. The period of your employment under and pursuant to the Employment Agreement is hereby extended for an additional period through and including December 31, 2002 upon all the terms, conditions and provisions of the Employment Agreement, as hereby amended.

2. Compensation. You shall be paid as basic compensation (the "Basic Compensation") for your services to the Company and its subsidiaries under and pursuant to the Employment Agreement a salary at the rate of Nine Hundred Thousand ($900,000) Dollars per annum for the extension period January 1, 2002 through December 31, 2002. Basic Compensation shall be payable in accordance with the Company's customary payroll practices as in effect from time to time, and shall be subject to such increases as the Board of Directors of the Company, in its sole discretion, may from time to time determine.

3. Incentive Compensation Plan. In addition to receipt of Basic Compensation under the Employment Agreement, you shall participate in the Incentive Compensation Plan for Executive Officers of the Company (the "Compensation Plan") and shall be eligible to receive incentive compensation under the Compensation Plan as may be awarded in accordance with its terms.

4. Other Compensation. The compensation provided pursuant to this Letter Agreement shall be exclusive of compensation and fees, if any, to which you may be entitled as an officer or director of a subsidiary of the Company.

Except as herein modified or amended, the Employment Agreement shall remain in full force and effect.

If the foregoing is in accordance with your understanding, would you please sign the enclosed duplicate copy of this Letter Agreement at the place indicated below and return the same to us for our records.

Very truly yours,

LOEWS CORPORATION

By: /s/ Barry Hirsch

Barry Hirsch
Senior Vice President

ACCEPTED AND AGREED TO:

/s/ James S. Tisch

James S. Tisch

Exhibit 10.24

[LOGO]

LOEWS
CORPORATION

As of January 1, 2002

Mr. Jonathan M. Tisch
667 Madison Avenue
New York, New York 10021

Dear Mr. Tisch:

Reference is made to your Employment Agreement with Loews Corporation (the "Company"), dated January 1, 1999 (the "Employment Agreement").

This will confirm our agreement that the Employment Agreement is amended as follows:

1. Term of Employment. The period of your employment under and pursuant to the Employment Agreement is hereby extended for an additional period through and including December 31, 2002 upon all the terms, conditions and provisions of the Employment Agreement, as hereby amended.

2. Compensation. You shall be paid as basic compensation (the "Basic Compensation") for your services to the Company and its subsidiaries under and pursuant to the Employment Agreement a salary at the rate of Nine Hundred Thousand ($900,000) Dollars per annum for the extension period January 1, 2002 through December 31, 2002. Basic Compensation shall be payable in accordance with the Company's customary payroll practices as in effect from time to time, and shall be subject to such increases as the Board of Directors of the Company, in its sole discretion, may from time to time determine.

3. Incentive Compensation Plan. In addition to receipt of Basic Compensation under the Employment Agreement, you shall participate in the Incentive Compensation Plan for Executive Officers of the Company (the "Compensation Plan") and shall be eligible to receive incentive compensation under the Compensation Plan as may be awarded in accordance with its terms.

4. Other Compensation. The compensation provided pursuant to this Letter Agreement shall be exclusive of compensation and fees, if any, to which you may be entitled as an officer or director of a subsidiary of the Company.

Except as herein modified or amended, the Employment Agreement shall remain in full force and effect.

If the foregoing is in accordance with your understanding, would you please sign the enclosed duplicate copy of this Letter Agreement at the place indicated below and return the same to us for our records.

Very truly yours,

LOEWS CORPORATION

By: /s/ Barry Hirsch

Barry Hirsch
Senior Vice President

ACCEPTED AND AGREED TO:

/s/ Jonathan M. Tisch

Jonathan M. Tisch

Exhibit 10.28

SECOND AMENDMENT TO SUPPLEMENTAL RETIREMENT AGREEMENT

This shall constitute the Second Amendment, made as of March 28, 2001, to that Supplemental Retirement Agreement made on September 21, 1999 as amended by the First Amendment thereto, (the "Agreement") between Loews Corporation (the "Company") and Arthur Rebell (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive employee of the Company, and the Company and the Executive desire that the Executive's retirement benefits be supplemented on the terms and conditions set forth herein.

NOW THEREFORE, the parties agree as follows:

Paragraph 1 of the Agreement is hereby amended by adding the following new clause (f):

"(f) Effective as of December 31, 2000 the Account shall be credited in an additional amount of $150,000, and such $150,000 amount shall be eligible for the Pay-Based Credit for calendar year 2000."

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as of the day and year first above written.

LOEWS CORPORATION

By: /s/ James S. Tisch
James S. Tisch
President

Accepted and Agreed to:

/s/ Arthur Rebell
The Executive

Exhibit 10.29

CAROLINA GROUP
2002 STOCK OPTION PLAN

SECTION 1

GENERAL

1.1 Purpose. The Carolina Group 2002 Stock Option Plan (the "Plan") has been established by Loews Corporation (the "Company") to (i) attract and retain persons eligible to participate in the Plan, (ii) motivate Participants, by means of appropriate incentives, to achieve long-term goals of the Carolina Group, and reward Participants for achievement of those goals, and (iii) provide incentive compensation opportunities that are competitive with those of other similar companies, and thereby promote the financial interest of Lorillard, Inc. and its subsidiaries and any companies attributed to the Carolina Group in the future.

1.2 Operation and Administration. The operation and administration of the Plan shall be subject to the provisions of Section 3 (relating to operation and administration). Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of Section 6 of the Plan).

SECTION 2

OPTIONS

2.1 Option Grant. The Committee may grant Options in accordance with this Section 2.

2.2 Definitions. The grant of an "Option" permits the Participant to purchase shares of Stock at an Exercise Price established by the Committee. Any Option granted under the Plan may be either an incentive stock option (an "ISO") or a non-qualified option (an "NQO"), as determined in the discretion of the Committee. An "ISO" is an Option that is intended to be an "incentive stock option" described in section 422(b) of the Code and does in fact satisfy the requirements of that section. An "NQO" is an Option that is not intended to be an "incentive stock option" as that term is described in section 422(b) of the Code, or that fails to satisfy the requirements of that section.

2.3 Exercise Price. The "Exercise Price" of each Option granted under this Section 2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option is granted; except that the Exercise Price shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant (or, if greater, the par value of a share of Stock).

2.4 Vesting and Exercise. An Option shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee.

(a) Unless otherwise provided by the Committee at the time of grant or thereafter, each Option shall vest and become exercisable in four equal annual installments beginning on the first anniversary of the date of grant, and shall thereafter remain exercisable during the Option Term.

(b) Unless otherwise provided by the Committee at the time of grant or thereafter, the Option Term of each Option shall end on the earliest of (1) the date on which such Option has been exercised in full, (2) the date on which the Participant experiences a Termination for Cause or a voluntary Termination, (3) the one-year anniversary of the date on which the Participant experiences a Termination due to death or Disability, (4) the three-year anniversary of the date on which the Participant experiences a Termination due to such person's Retirement, and (5) the

90th day after the Participant experiences a Termination for any other reason; provided, that in no event may the Option Term exceed ten (10) years from the date of grant of the Option. Except as otherwise determined by the Committee at the time of grant or thereafter, upon the occurrence of a Termination of a Participant for any reason, the Option Term of all outstanding Options held by the Participant that are unvested as of the date of such Termination shall thereupon end and such unvested Options shall be forfeited immediately; provided, however, that the Committee may, in its sole discretion, accelerate the vesting of any Option and/or extend the exercise period of any Option (but not beyond the ten-year anniversary of the grant date).

(c) An Option may be exercised and the underlying shares purchased in accordance with this Section 2 at any time after the Option with respect to those shares vests and before the expiration of the Option Term. To exercise an Option, the Participant shall give written notice to the Company stating the number of shares with respect to which the Option is being exercised.

(d) The full Exercise Price for shares of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in the last sentence of this paragraph (d), payment may be made as soon as practicable after the exercise). The Exercise Price shall be payable by check, or such other instrument as the Committee may accept. The Committee may permit a Participant to elect to pay the Exercise Price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise. In the case of any ISO such permission must be provided for at the time of grant and set forth in an Option Certificate. In addition, if approved by the Committee, payment, in full or in part, may also be made in the form of unrestricted Mature Shares, based on the Fair Market Value of the Mature Shares on the date the Option is exercised; provided, however, that, in the case of an ISO the right to make a payment in such Mature Shares may be authorized only at the time the Option is granted.

SECTION 3

OPERATION AND ADMINISTRATION

3.1 Effective Date. The Plan shall be effective as of January 31, 2002 (the "Effective Date"). The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any Options under it are outstanding.

3.2 Shares Subject to Plan. The shares of Stock for which Options may be granted under the Plan shall be subject to the following:

(a) The shares of Stock with respect to which Options may be granted under the Plan shall be shares currently authorized but unissued or currently held or subsequently acquired by the Company as treasury shares, including shares purchased in the open market or in private transactions.

(b) Subject to the following provisions of this subsection 3.2, the maximum number of shares of Stock that may be delivered to Participants and their beneficiaries under the Plan shall be 1,500,000 shares of Stock.

(c) To the extent any shares of Stock covered by an Option are not delivered to a Participant or beneficiary because the Option is forfeited or canceled, or the shares of Stock are used to pay the Exercise Price or satisfy the applicable tax withholding obligation, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

(d) Subject to paragraph 3.2(e), the maximum number of shares that may be covered by Options granted to any one individual during any one calendar year period shall be 200,000 shares.

(e) In the event of a corporate transaction involving the Stock and/or the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the Committee may make adjustments to preserve the benefits or potential benefits of the Plan and outstanding Options. Action by the Committee may include: (i) adjustment of the number and kind of shares which may be delivered under the Plan; (ii) adjustment of the number and kind of shares referred to in Section 3.2(d); (iii) adjustment of the number and kind of shares subject to outstanding Options; (iv) adjustment of the Exercise Price of outstanding Options; (v) settlement in cash or Stock in an amount equal to the excess of the value of the Stock subject to such Option over the aggregate Exercise Price (as determined by the Committee) of such Options; and (vi) any other adjustments that the Committee determines to be equitable.

3.3 General Restrictions. Delivery of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares of Stock under the Plan or make any other distribution of benefits under the Plan unless such delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act of 1933), and the applicable requirements of any securities exchange or similar entity

(b) To the extent that the Plan provides for issuance of stock certificates to reflect the issuance of shares of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

3.4 Tax Withholding. All distributions under the Plan are subject to withholding of all applicable taxes, and the delivery of any shares or other benefits under the Plan shall be conditioned on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Participant, through the surrender of shares of Stock which the Participant already owns, or through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan; provided that surrender of shares may be used only to satisfy the minimum withholding required by law.

3.5 Grant and Use of Options. In the discretion of the Committee, more than one Option may be granted to a Participant. Options may be granted as alternatives to or replacements of Options granted or outstanding under the Plan. Subject to the overall limitation on the number of shares of Stock that may be delivered under the Plan, the Committee may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of Lorillard, Inc. or its subsidiaries or any company attributed to the Carolina Group in the future, including the plans and arrangements of such entities assumed in business combinations. Notwithstanding the foregoing, the assumption by the Company of options in connection with the acquisition of a business or other entity and the conversion of such options into options to acquire Stock shall not be treated as a new grant of Options under the Plan unless specifically so provided by the Committee.

3.6 Settlement of Options. The Committee may from time to time establish procedures pursuant to which a Participant may elect to defer, until a time or times later than the exercise of an Option, receipt of all or a portion of the shares of Stock subject to such Option and/or to receive cash at such later time or times in lieu of such deferred shares, all on such terms and conditions as the Committee shall determine. If any such deferrals are

permitted, then a Participant who elects such deferral shall not have any rights as a stockholder with respect to such deferred shares unless and until shares are actually delivered to the Participant with respect thereto, except to the extent otherwise determined by the Committee.

3.7 Other Plans. Amounts payable under this Plan shall not be taken into account as compensation for purposes of any other employee benefit plan or program of the Company or

any of its Subsidiaries, except to the extent otherwise provided by such plans or programs, or by an agreement between the affected Participant and the Company or Lorillard, Inc. or its subsidiaries or any company attributed to the Carolina Group in the future.

3.8 Heirs and Successors. The terms of the Plan shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

3.9 Transferability. Options granted under the Plan are not transferable except (i) as designated by the Participant by will or by the laws of descent and distribution or (ii) in the case of an NQO, as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to such Participant's immediate family, whether directly or indirectly or by means of a trust or partnership or otherwise. If any rights exercisable by a Participant or benefits deliverable to a Participant under any Option Certificate under the Plan have not been exercised or delivered, respectively, at the time of the Participant's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of the applicable terms of the Option Certificate and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant to receive benefits under the group term life insurance plan of Lorillard, Inc. or any of its subsidiaries or any company attributed to the Carolina Group in the future or such other person or persons as the Participant may designate by notice to the Company. If a deceased Participant fails to have designated a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary's exercise of all rights under the Option Certificate or before the complete distribution of benefits to the Designated Beneficiary under the Option Certificate, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary. All Options shall be exercisable, subject to the terms of this Plan, only by the Participant or any person to whom such Option is transferred pursuant to this paragraph, it being understood that the term Participant shall include such transferee for purposes of the exercise provisions contained herein.

3.10 Notices. Any written notices provided for in the Plan or under any Option Certificate shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by confirmed fax or overnight courier, or by postage paid first class mail. Notice and communications shall be effective when actually received by the addressee. Notices shall be directed, if to the Participant, at the Participant's address indicated in the Option Certificate, or if to the Company, at the Company's principal executive office to the attention of the Company's Secretary.

3.11 Action by Company. Any action required or permitted to be taken by the Company shall be by resolution of the Board, or by action of one or more members of the Board

(including a committee of the Board) who are duly authorized to act for the Board, or by a duly authorized officer of the Company.

3.12 Limitation of Implied Rights.

(a) Neither a Participant nor any other person shall, by reason of participation in the Plan, acquire any right in or title to any assets, funds or property of the Company whatsoever, including, without limitation, any specific funds, assets, or other property which the Company, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the amounts, if any, payable under the Plan, unsecured by any assets of the Company, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company shall be sufficient to pay any benefits to any person.

(b) The Plan does not constitute a contract of employment, and selection as a Participant will not give any Participant the right to be retained in the employ of, or as a director or consultant to, the Company or any Subsidiary, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan.

3.13 Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

3.14 Laws Applicable to Construction. The interpretation, performance and enforcement of this Plan and all Option Certificates shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware.

3.15 Evidence. Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

SECTION 4

COMMITTEE

4.1 Administration. The authority to control and manage the operation and administration of the Plan shall be vested in the Compensation Committee of the Board or such other committee of the Board as the Board may from time to time designate (the "Committee") in accordance with this Section 4. In addition, the Board may exercise any power given to the Committee under the Plan.

4.2 Powers of Committee. The Committee's administration of the Plan shall be subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Grantees those persons who shall receive Options, to determine the grant date of, the number of shares subject to and

the Exercise Price of those Options, to establish all other terms and conditions of such Options, and (subject to the restrictions imposed by Section 5) to cancel or suspend Options.

(b) The Committee will have the authority and discretion to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(c) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

(d) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the charter and by-laws of the Company, and applicable state corporate law.

4.3 Delegation by Committee. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation may be revoked by the Committee at any time.

4.4 Information to be Furnished to Committee. The Company and Subsidiaries shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and Subsidiaries as to an employee's or Participant's employment, engagement, Termination, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined to be incorrect. Participants and other persons eligible for benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

SECTION 5

AMENDMENT AND TERMINATION

The Board may, at any time, amend or terminate the Plan; provided that no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely affect the rights of any Participant or beneficiary under any Option granted under the Plan prior to the date such amendment is adopted by the Board; and further provided that adjustments pursuant to paragraph 3.2(e) shall not be subject to the foregoing limitations of this Section 5.

SECTION 6

DEFINED TERMS

In addition to the other definitions contained herein, the following definitions shall apply:

(a) Board. The term "Board" means the Board of Directors of the Company.

(b) Carolina Group. The term "Carolina Group" shall have the meaning set forth in the Company's Restated Certificate of Incorporation, as amended from time to time.

(c) Cause. The term "Cause" shall have the meaning set forth in the employment or engagement agreement between a Participant and Lorillard, Inc. or its subsidiaries or any company attributed to the Carolina Group in the future, if such an agreement exists and contains a definition of Cause; otherwise Cause shall mean (1) conviction of the Participant for committing a felony under Federal law or the law of the state in which such action occurred, (2) dishonesty in the course of fulfilling a Participant's employment, engagement or directorial duties, (3) willful and deliberate failure on the part of a Participant to perform the Participant's employment, engagement or directorial duties in any material respect or (4) such other events as shall be determined in good faith by the Committee. The Committee shall, unless otherwise provided in the Option Certificate or an employment agreement with the Participant, have the sole discretion to determine whether Cause exists, and its determination shall be final.

(d) Code. The term "Code" means the Internal Revenue Code of 1986, as

amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.

(e) Committee. The term "Committee" shall have the meaning set forth in Section 4.1.

(f) Company. The term "Company" shall have the meaning set forth in Section 1.1.

(g) Designated Beneficiary. The term "Designated Beneficiary" shall have the meaning set forth in Section 3.9.

(h) Disability. The term "Disability" shall mean, unless otherwise provided by the Committee, (1) "Disability" as defined in any individual Option Certificate to which the Participant is a party, or (2) if there is no such Option Certificate or it does not define "Disability," permanent and total disability as determined under the long-term disability plan of Lorillard, Inc. or any of its subsidiaries or any company attributed to the Carolina Group in the future applicable to the Participant.

(i) Effective Date. The term "Effective Date" shall have the meaning set forth in Section 3.1.

(j) Eligible Grantee. The term "Eligible Grantee" shall mean any individual who is employed on a full-time or part-time basis by, or who serves as a consultant to, Lorillard, Inc. or any of its subsidiaries or any company attributed to the Carolina Group in the future and any non-employee director of Lorillard, Inc. or any of its subsidiaries or any company attributed to the Carolina Group in the future. An Option may be granted to an individual in connection with such individual's hiring or engagement prior to the date the individual first performs services for Lorillard, Inc. or any of its subsidiaries or any company attributed to the Carolina Group in the future; provided that the individual will be an Eligible Grantee upon his hiring or engagement; and further provided that such Options shall not become vested prior to the date the individual first performs such services

(k) Exercise Price. The term "Exercise Price" shall have the meaning set forth in Section 2.3.

(l) Fair Market Value. The "Fair Market Value" of a share of Stock shall be, as of any given date, the mean between the highest and lowest reported sales prices during normal trading hours on the immediately preceding date (or, if there are no reported sales on such immediately preceding date, on the last date prior to such date on which there were sales) of the Stock on the New York Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which the Stock is listed or on NASDAQ. If there is no regular public trading market for such Stock, the Fair Market Value of the Stock shall be determined by the Committee in good faith.

(m) ISO. The term "ISO" shall have the meaning set forth in Section 2.2.

(n) Mature Shares. The term "Mature Shares" shall mean shares of Stock that have been owned by the Participant in question for at least six months

(o) NQO. The term "NQO" shall have the meaning set forth in Section 2.2.

(p) Option. The term "Option" shall have the meaning set forth in Section 2.2.

(q) Option Certificate. The term "Option Certificate" shall mean a written Option certificate setting forth the terms and conditions of an Option, in such form as the Committee may from time to time prescribe.

(r) Option Term. The term "Option Term" shall mean the period beginning on the date of grant of an Option and ending on the date the Option expires pursuant to the Plan and the relevant Option Certificate.

(s) Plan. The term "Plan" shall have the meaning set forth in Section

1.1.

(t) Retirement. The term "Retirement" shall mean retirement from active employment with Lorillard, Inc. or its subsidiaries or any company attributed to the Carolina Group in the future pursuant to any retirement plan or program of Lorillard, Inc. or its subsidiaries or any company attributed to the Carolina Group in the future in which the Participant participates. A Termination by a consultant or non-employee director shall in no event be considered a Retirement.

(u) Stock. The term "Stock" shall mean shares of Carolina Group stock, par value, $0.01 per share, of the Company.

(v) Subsidiary. The term "Subsidiary" means any business or entity in which at any relevant time the Company holds at least a 50% equity (voting or non-voting) interest.

(w) Termination. A Participant shall be considered to have experienced a Termination if he or she ceases, for any reason, to be an employee, consultant or non-employee director of Lorillard, Inc. or any of its subsidiaries or any company attributed to the Carolina Group in the future, including, without limitation, as a result of the fact that the entity by which he or she is employed or engaged or of which he or she is a director has ceased to be affiliated with Lorillard, Inc. or its subsidiaries or any company attributed to the Carolina Group in the future.

Exhibit 10.30

SUPPLEMENTAL RETIREMENT AGREEMENT

This SUPPLEMENTAL RETIREMENT AGREEMENT made as of the first day of January, 2002 between LOEWS CORPORATION (the "Company") and ANDREW H. TISCH (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive officer of the Company.

WHEREAS, the Company and the Executive desire that the executive retirement benefits be supplemented on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the Company and the Executive agree as follows:

1. In connection with the Executive's employment with the Company and to provide supplemental retirement benefits to the Executive in addition to the Executive's compensation and other benefits, the Company hereby established an unfunded account (the "Supplemental Retirement Account") within the Loews Corporation Benefit Equalization Plan ("BEP") which shall be credited as follows:

(a) The Supplemental Retirement Account shall be credited with an initial balance of $250,000, effective January 1, 2002 (the "2002 Amount").

(b) On December 31, 2002 the 2002 Amount credited to the Executive's Supplemental Retirement Account shall be credited with the Pay-Based Credit which would have been credited under Section 3.2 of the Loews Corporation Cash Balance Plan (the "Plan") if the definition of "Compensation" under Section 1.9 of the Plan had not included the second sentence thereof.

(c) On December 31, 2002 and each December 31 thereafter which precedes the Executive's retirement under the BEP, the Executive's Supplemental Retirement Account shall be credited with the Interest Credit which would have been credited under Section 3.3 of the Plan.

2. The Executive shall become vested in the Supplemental Retirement Account as of December 31, 2002. At retirement under the BEP, the amount in the Supplemental Retirement Account shall be converted into an actuarially equivalent annuity, payable at the election of the Executive in the form of a single life annuity, a joint and survivor annuity, or a ten-year certain annuity payable monthly as defined in the Plan. Such election shall be independent of any election made under the Plan or under the regular BEP provisions. For purposes of this Agreement, the term "actuarial equivalent" shall have the meaning ascribed to it in Section 1.3 of the Plan

3. In lieu of the benefits provided under paragraph 2 above, the Executive may request (at least one year prior to retirement) to receive the accumulated balance in the Executive's Supplemental Retirement Account in a lump sum upon retirement, provided that such request is approved by the Board of Directors of the Company.

4. If the Executive should die before payments have commenced under paragraph 2 or 3, in lieu of the benefits due under paragraph 2 or 3, as applicable, the accumulated balance in the Supplemental Retirement Account shall be paid as soon as practicable after the Executive's death to his designated beneficiary under the Plan at such time.

5. This Agreement provides an additional benefit to the Executive from the BEP, over and above the amounts payable under the regular provision of the BEP. Accordingly, the contribution to the Executive's Supplemental Retirement Account hereto shall not be deemed "Compensation" in determining benefits under the BEP and benefits hereunder shall not be deducted from the "Equalized Benefit" under the BEP. This Supplemental Retirement Account shall not affect the amounts payable under the Plan and BEP by virtue of the application of Exhibit II of the Plan.

6. This Agreement sets forth the entire understanding between the Company and the Executive with respect to the Supplemental Retirement Benefits which are the subject matter hereof and supercedes all prior understandings and agreements with respect thereto. No change, termination or waiver of any of the provisions hereof shall be binding unless in writing signed by the party against whom the same is sought to be enforced. This Agreement is governed by and shall be construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

LOEWS CORPORATION

By: /s/ Barry Hirsch

/s/ Andrew H. Tisch

ANDREW H. TISCH

Exhibit 10.31

SUPPLEMENTAL RETIREMENT AGREEMENT

This SUPPLEMENTAL RETIREMENT AGREEMENT made as of the first day of January, 2002 between LOEWS CORPORATION (the "Company") and JAMES S. TISCH (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive officer of the Company.

WHEREAS, the Company and the Executive desire that the executive retirement benefits be supplemented on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the Company and the Executive agree as follows:

1. In connection with the Executive's employment with the Company and to provide supplemental retirement benefits to the Executive in addition to the Executive's compensation and other benefits, the Company hereby established an unfunded account (the "Supplemental Retirement Account") within the Loews Corporation Benefit Equalization Plan ("BEP") which shall be credited as follows:

(a) The Supplemental Retirement Account shall be credited with an initial balance of $250,000, effective January 1, 2002 (the "2002 Amount").

(b) On December 31, 2002 the 2002 Amount credited to the Executive's Supplemental Retirement Account shall be credited with the Pay-Based Credit which would have been credited under Section 3.2 of the Loews Corporation Cash Balance Plan (the "Plan") if the definition of "Compensation" under Section 1.9 of the Plan had not included the second sentence thereof.

(c) On December 31, 2002 and each December 31 thereafter which precedes the Executive's retirement under the BEP, the Executive's Supplemental Retirement Account shall be credited with the Interest Credit which would have been credited under Section 3.3 of the Plan.

2. The Executive shall become vested in the Supplemental Retirement Account as of December 31, 2002. At retirement under the BEP, the amount in the Supplemental Retirement Account shall be converted into an actuarially equivalent annuity, payable at the election of the Executive in the form of a single life annuity, a joint and survivor annuity, or a ten-year certain annuity payable monthly as defined in the Plan. Such election shall be independent of any election made under the Plan or under the regular BEP provisions. For purposes of this Agreement, the term "actuarial equivalent" shall have the meaning ascribed to it in Section 1.3 of the Plan

3. In lieu of the benefits provided under paragraph 2 above, the Executive may request (at least one year prior to retirement) to receive the accumulated balance in the Executive's Supplemental Retirement Account in a lump sum upon retirement, provided that such request is approved by the Board of Directors of the Company.

4. If the Executive should die before payments have commenced under paragraph 2 or 3, in lieu of the benefits due under paragraph 2 or 3, as applicable, the accumulated balance in the Supplemental Retirement Account shall be paid as soon as practicable after the Executive's death to his designated beneficiary under the Plan at such time.

5. This Agreement provides an additional benefit to the Executive from the BEP, over and above the amounts payable under the regular provision of the BEP. Accordingly, the contribution to the Executive's Supplemental Retirement Account hereto shall not be deemed "Compensation" in determining benefits under the BEP and benefits hereunder shall not be deducted from the "Equalized Benefit" under the BEP. This Supplemental Retirement Account shall not affect the amounts payable under the Plan and BEP by virtue of the application of Exhibit II of the Plan.

6. This Agreement sets forth the entire understanding between the Company and the Executive with respect to the Supplemental Retirement Benefits which are the subject matter hereof and supercedes all prior understandings and agreements with respect thereto. No change, termination or waiver of any of the provisions hereof shall be binding unless in writing signed by the party against whom the same is sought to be enforced. This Agreement is governed by and shall be construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

LOEWS CORPORATION

By: /s/ Barry Hirsch

/s/ James S. Tisch

JAMES S. TISCH

Exhibit 10.32

SUPPLEMENTAL RETIREMENT AGREEMENT

This SUPPLEMENTAL RETIREMENT AGREEMENT made as of the first day of January, 2002 between LOEWS CORPORATION (the "Company") and JONATHAN M. TISCH (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive officer of the Company.

WHEREAS, the Company and the Executive desire that the executive retirement benefits be supplemented on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the Company and the Executive agree as follows:

1. In connection with the Executive's employment with the Company and to provide supplemental retirement benefits to the Executive in addition to the Executive's compensation and other benefits, the Company hereby established an unfunded account (the "Supplemental Retirement Account") within the Loews Corporation Benefit Equalization Plan ("BEP") which shall be credited as follows:

(a) The Supplemental Retirement Account shall be credited with an initial balance of $250,000, effective January 1, 2002 (the "2002 Amount").

(b) On December 31, 2002 the 2002 Amount credited to the Executive's Supplemental Retirement Account shall be credited with the Pay-Based Credit which would have been credited under Section 3.2 of the Loews Corporation Cash Balance Plan (the "Plan") if the definition of "Compensation" under Section 1.9 of the Plan had not included the second sentence thereof.

(c) On December 31, 2002 and each December 31 thereafter which precedes the Executive's retirement under the BEP, the Executive's Supplemental Retirement Account shall be credited with the Interest Credit which would have been credited under Section 3.3 of the Plan.

2. The Executive shall become vested in the Supplemental Retirement Account as of December 31, 2002. At retirement under the BEP, the amount in the Supplemental Retirement Account shall be converted into an actuarially equivalent annuity, payable at the election of the Executive in the form of a single life annuity, a joint and survivor annuity, or a ten-year certain annuity payable monthly as defined in the Plan. Such election shall be independent of any election made under the Plan or under the regular BEP provisions. For purposes of this Agreement, the term "actuarial equivalent" shall have the meaning ascribed to it in Section 1.3 of the Plan

3. In lieu of the benefits provided under paragraph 2 above, the Executive may request (at least one year prior to retirement) to receive the accumulated balance in the Executive's Supplemental Retirement Account in a lump sum upon retirement, provided that such request is approved by the Board of Directors of the Company.

4. If the Executive should die before payments have commenced under paragraph 2 or 3, in lieu of the benefits due under paragraph 2 or 3, as applicable, the accumulated balance in the Supplemental Retirement Account shall be paid as soon as practicable after the Executive's death to his designated beneficiary under the Plan at such time.

5. This Agreement provides an additional benefit to the Executive from the BEP, over and above the amounts payable under the regular provision of the BEP. Accordingly, the contribution to the Executive's Supplemental Retirement Account hereto shall not be deemed "Compensation" in determining benefits under the BEP and benefits hereunder shall not be deducted from the "Equalized Benefit" under the BEP. This Supplemental Retirement Account shall not affect the amounts payable under the Plan and BEP by virtue of the application of Exhibit II of the Plan.

6. This Agreement sets forth the entire understanding between the Company and the Executive with respect to the Supplemental Retirement Benefits which are the subject matter hereof and supercedes all prior understandings and agreements with respect thereto. No change, termination or waiver of any of the provisions hereof shall be binding unless in writing signed by the party against whom the same is sought to be enforced. This Agreement is governed by and shall be construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

LOEWS CORPORATION

By: /s/ Barry Hirsch

/s/ Jonathan M. Tisch

JONATHAN M. TISCH

Exhibit 10.33

THIRD AMENDMENT TO SUPPLEMENTAL RETIREMENT AGREEMENT

This shall constitute the Third Amendment, made as of February 28, 2002, to that Supplemental Retirement Agreement made on September 21, 1999 as amended (the "Agreement") between Loews Corporation (the "Company") and Arthur Rebell (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive employee of the Company, and the Company and the Executive desire that the Executive's retirement benefits be supplemented on the terms and conditions set forth herein.

NOW THEREFORE, the parties agree as follows:

Paragraph 1 of the Agreement is hereby amended by adding the following new clause (g):

"(g) Effective as of December 31, 2001 the Account shall be credited in an additional amount of $1,200,000, and such $1,200,000 amount shall be eligible for the Pay-Based Credit for calendar year 2001."

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as of the day and year first above written.

LOEWS CORPORATION

By: /s/ James S. Tisch

James S. Tisch
President

Accepted and Agreed to:

/s/ Arthur Rebell

The Executive

Exhibit 21.01

LOEWS CORPORATION

Subsidiaries of the Registrant

December 31, 2001

Name of Subsidiary	Organized Under Laws of		Business Names
CNA Financial Corporation	Delaware	)	
Continental Casualty Company	Illinois	)	
Continental Assurance Company	Illinois	)	
CNA Group Life Assurance Company	Illinois	)	
National Fire Insurance Company of Hartford	Connecticut	)	
American Casualty Company of Reading, Pennsylvania	Pennsylvania	)	CNA Insurance
CNA Surety Corporation	Delaware	)	
The Continental Corporation	New York	)	
The Buckeye Union Insurance Company .	Ohio	)	
Firemen's Insurance Company of Newark, New Jersey	New Jersey	)	
The Continental Insurance Company ...	New Hampshire	)	
Continental Insurance Company of New Jersey	New Jersey	)	
Lorillard, Inc.	Delaware	)	Lorillard
Lorillard Tobacco Company	Delaware	)	
Diamond Offshore Drilling, Inc.	Delaware		Diamond Offshore

The names of certain subsidiaries which, if considered as a single subsidiary, would not constitute a "significant subsidiary" as defined in Regulation S-X, have been omitted.

Exhibit 23.01

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-33616 of Loews Corporation on Form S-8 of our report dated February 14, 2002, appearing in this Annual Report on Form 10-K of Loews Corporation for the year ended December 31, 2001.

DELOITTE & TOUCHE LLP
New York, New York
March 5, 2002