LOEWS CORP
Form 10-K/A
May 10, 2005

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

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

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

For the Fiscal Year Ended December 31, 2004

OR

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

For the Transition Period From ____________ to _____________

Commission File Number 1-6541

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

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

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

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

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

Title of each class	**Name of each exchange on which registered**
Loews Common Stock, par value $1.00 per share	New York Stock Exchange
Carolina Group Stock, par value $0.01 per share	New York Stock Exchange

3 1/8% Exchangeable Subordinated Notes Due 2007	New York Stock Exchange

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

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

Yes X No

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

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

Yes X No

The aggregate market value of voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $8,867,000,000.

As of February 18, 2005, there were 185,621,599 shares of Loews common stock and 68,019,435 shares of Carolina Group stock outstanding.

Documents Incorporated by Reference:

Portions of the Registrant's definitive proxy statement intended to be filed by Registrant with the Commission prior to May 2, 2005 are incorporated by reference into Part III of this Report.

Explanatory Note

This amendment on Form 10-K/A reflects solely the restatement of the consolidated financial statements of Loews Corporation (the "Company") as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 to correct the accounting for several reinsurance contracts entered into by a subsidiary of CNA Financial Corporation ("CNA"), a 91%-owned subsidiary, primarily with a former affiliate of CNA, and CNA's equity accounting for that affiliate, as discussed in Note 25 of the Notes to Consolidated Financial Statements included in Item 8 of this report and under the heading "Restatement for Reinsurance and Equity Investee Accounting" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this report. This restatement affects only Items 1 (Supplementary Insurance Data and Schedule of Loss Reserve Development), 6, 7, 8 and 15 of this report.

LOEWS CORPORATION

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

For the Year Ended December 31, 2004

PART I

Item 1. Business.

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation, a 91% 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 55% owned subsidiary); the operation of interstate natural gas transmission pipeline systems (Boardwalk Pipelines, LLC (formerly TGT Pipeline, LLC), a wholly owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation, a wholly owned subsidiary).

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

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

CAROLINA GROUP TRACKING STOCK

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

The Company has attributed the following assets and liabilities to the Carolina Group:

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

(b) notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021 (as of February 18, 2005, $1.8 billion was outstanding);

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

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

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

As of February 18, 2005, there were 68,019,435 shares of Carolina Group stock outstanding representing a 39.21% economic interest in the Carolina Group.

The Loews Group consists of all of the Company’s assets and liabilities other than the 39.21% 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.

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

CNA FINANCIAL CORPORATION

CNA Financial Corporation (together with its subsidiaries, "CNA") was incorporated in 1967 and is an insurance holding company. CNA's property and casualty insurance operations are conducted by Continental Casualty Company ("CCC"), incorporated in 1897, and its affiliates, and The Continental Insurance Company ("CIC"), organized in 1853, and its affiliates. CIC became an affiliate of CNA in 1995 as a result of the acquisition of The Continental Corporation ("Continental"). Life and group insurance operations, which were either sold or are being managed as a run-off operation, are conducted within CCC and Continental Assurance Company ("CAC"). The Company owned approximately 91% of the outstanding common stock and 100% of the Series H preferred stock of CNA as of December 31, 2004. CNA accounted for 65.18%, 71.27% and 70.40% of the Company's consolidated total revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

CNA serves a wide variety of customers, including small, medium and large businesses; associations; professionals; and groups and individuals. Insurance products primarily include property and casualty coverages. CNA services include risk management, information services, warranty and claims administration. CNA products and services are marketed through independent agents, brokers, managing general agents and direct sales.

During 2003, CNA completed a strategic review of its operations and decided to concentrate its efforts on the property and casualty business. As a result of this review, the following actions in relation to CNA's insurance operations were taken:

On April 30, 2004, CNA sold its individual life insurance business. The business sold included term, universal and permanent life insurance policies and individual annuity products. CNA's individual long term care and structured settlement businesses were excluded from the sale.

On December 31, 2003, CNA sold the majority of its group benefits business. The business sold included group life and accident, short and long term disability and certain other products. CNA's group long term care and specialty medical businesses were excluded from the sale.

CNA is continuing to service its existing group and individual long term care commitments and is managing these businesses as a run-off operation.

During 2003, CNA sold the renewal rights for most of the treaty business of CNA Re and withdrew from the assumed reinsurance business. CNA is managing the run-off of its retained liabilities.

On August 1, 2004, CNA sold its retirement plan trust and recordkeeping business portfolio.

See Note 14 of the Notes to Consolidated Financial Statements included under Item 8 for additional information.

As a result of the strategic review described above, in 2004 CNA changed how it manages its core operations and makes business decisions. Accordingly, the Company revised its reportable business segment structure to reflect these changes. CNA's core operations, property and casualty operations, are now reported in two business segments: Standard Lines and Specialty Lines. CNA's non-core operations are managed in two segments: Life and Group Non-Core and Other Insurance. Prior period segment disclosures have been conformed to the current year presentation. See Note 23 of the Notes to Consolidated Financial Statements included under Item 8 for additional information.

Standard Lines

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

Standard Lines includes Property, Casualty and CNA Global.

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

Casualty: Casualty provides standard casualty insurance products such as workers compensation, general and product liability and commercial auto coverage through traditional products to a wide range of businesses. The majority of Casualty customers are small and middle-market businesses, with less than $1.0 million in annual insurance premiums. Most insurance programs are provided on a guaranteed cost basis; however, Casualty has the capability to offer specialized, loss-sensitive insurance programs to those customers viewed as higher risk and less predictable in exposure.

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

Property and Casualty: P&C's field structure consists of 33 branch locations across the country organized into 4 regions. Each branch provides the marketing, underwriting and risk control expertise on the entire portfolio of products. The Centralized Processing Operation for small and middle-market customers, located in Maitland, Florida, handles policy processing and accounting, and also acts as a call center to optimize customer service. The claims field structure consists of 26 locations organized into two zones, East and West. Also, Standard Lines, primarily through a wholly owned subsidiary, ClaimsPlus, Inc., a third party administrator, began providing total risk management services relating to claim services, risk control, cost management and information services to the large commercial insurance marketplace in 2003.

CNA Global: CNA Global consists of Marine and Global Standard Lines.

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

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

Specialty Lines

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

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

Professional Liability Insurance ("CNA Pro"): CNA Pro provides management and professional liability insurance and risk management services, primarily in the United States. This unit provides professional liability coverages to

Item 1. Business
CNA Financial Corporation - (Continued)

various professional firms, including architects and engineers, realtors, non-Big Four accounting firms, law firms and technology firms. CNA Pro also has market positions in directors and officers ("D&O"), errors and omissions, employment practices, fiduciary and fidelity coverages. Specific areas of focus include larger firms as well as privately held firms and not-for-profit organizations where CNA offers tailored products for this client segment. Products within CNA Pro are distributed through brokers, agents and managing general underwriters.

CNA Pro, through CNA HealthPro, also offers insurance products to serve the healthcare delivery system. Products are distributed on a national basis through a variety of channels including brokers, agents and managing general underwriters. Key customer segments include long term care facilities, allied healthcare providers, life sciences, dental professionals and mid-size and large healthcare facilities and delivery systems.

Surety: Surety consists primarily of CNA Surety and its insurance subsidiaries and offers small, medium and large contract and commercial surety bonds. CNA Surety provides surety and fidelity bonds in all 50 states through a combined network of independent agencies. CNA owns approximately 64% of CNA Surety.

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

Life and Group Non-Core

The Life and Group Non-Core segment consists of Group Operations and Life Operations (formerly separate reportable segments) including the run-off of the related group and life products that have been combined into one reportable segment. Additionally, other run-off life and group operations that were previously reported in the Other Insurance segment, including group reinsurance, are also included in the Life and Group Non-Core segment. The segment includes operating results for periods prior to the sale and the realized gain/loss from the sale for the group benefits business that was sold on December 31, 2003, the individual life business that was sold on April 30, 2004, the CNA Trust business that was sold on August 1, 2004 and the effects of the shared corporate overhead expenses which continue to be allocated to the sold businesses. Additionally, on July 1, 2002, CNA sold its federal health plan administrator, Claims Administration Corporation, and transferred the Mail Handlers Plan to First Health Group.

Life and Group Non-Core includes the following lines of business: Life & Annuity, Health and Other.

Life & Annuity: Life & Annuity consists primarily of individual term, universal life and permanent life insurance products, guaranteed investment contracts, as well as individual and group annuity products. As discussed above, on April 30, 2004, certain of these products were sold. The remaining businesses are being managed as a run-off operation; however certain businesses focused on institutional investors are accepting new deposits from existing customers.

Health: Health consists primarily of the Group Benefits business, group long term care, individual long term care and specialty medical products and related services. On December 31, 2003, CNA completed the sale of the Group Benefits business. CNA is continuing to service its existing group and individual long term care commitments and is managing these businesses as a run-off operation. In January of 2005, the specialty medical business was sold to Aetna. This business contributed $14.6 million, $8.1 million and $1.8 million of net income for 2004, 2003 and 2002.

Other: Other consists primarily of group reinsurance and life settlement contracts. These businesses are being managed as a run-off operation.

Other Insurance

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

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

Supplementary Insurance Data

The following table sets forth supplementary insurance data:

Year Ended December 31 **(In millions, except ratio information)**	**2004** **Restated (a)**	2003 Restated (a)	2002 Restated (a)
Trade Ratios - GAAP basis (b):			
Loss and loss adjustment expense ratio	**74.6%**	111.8%	79.6%
Expense ratio	**31.5**	37.3	28.9
Dividend ratio	**0.2**	1.4	0.9
Combined ratio	**106.3%**	150.5%	109.4%
Trade Ratios - Statutory basis (b):			
Loss and loss adjustment expense ratio	**78.1%**	118.1%	79.2%
Expense ratio	**27.2**	34.6	30.1
Dividend ratio	**0.6**	1.2	1.0
Combined ratio	**105.9%**	153.9%	110.3%
Individual Life and Group Life Insurance Inforce (e):			
Individual Life	**$ 11,566.0**	$ 330,805.0	$ 345,272.0
Group Life	**45,079.0**	58,163.0	92,479.0
Total	**$ 56,645.0**	$ 388,968.0	$ 437,751.0
Other Data - Statutory basis (c):			
Property and casualty companies' capital and surplus (d)	**$ 6,998.0**	$ 6,170.0	$ 6,836.0
Life and group companies' capital and surplus	**1,178.0**	707.0	1,645.0
Property and casualty companies' written premium to surplus ratio	**1.0**	1.1	1.3
Life companies' capital and surplus-percent to total liabilities	**56.0%**	13.0%	21.0%
Participating policyholders-percent of gross life insurance inforce	**1.4%**	0.5%	0.4%

(a) Restated to correct CNA's accounting for several reinsurance agreements, primarily with a former affiliate, and equity accounting for that affiliate. See Note 25 of the Notes to Consolidated Financial Statements included under Item 8 for further discussion.

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

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

(d) Surplus includes the property and casualty companies' equity ownership of the life and group companies' capital and surplus.

(e) The decline in gross inforce is attributable to the sales of the group benefits and the individual life businesses. See Note 14 of the Notes to Consolidated Financial Statements included under Item 8 for additional inforce information.

8

Item 1. Business
CNA Financial Corporation - (Continued)

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

Year Ended December 31	**2004**	2003	2002
California	**9.3%**	8.5%	7.7%
New York	**7.9**	7.3	7.2
Florida	**7.1**	7.6	6.7
Texas	**5.4**	5.7	6.2
New Jersey	**5.3**	4.5	4.6
Illinois	**5.1**	9.3	9.1
Pennsylvania	**4.7**	4.2	4.5
Massachusetts	**3.2**	3.1	2.8
All other states, countries or political subdivisions (a)	**52.0**	49.8	51.2
	100.0%	100.0%	100.0%

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

Approximately 5.0%, 3.2% and 3.5% of CNA's gross written premiums were derived from outside of the United States for the years ended December 31, 2004, 2003 and 2002. Gross written premiums from the United Kingdom were approximately 2.3%, 1.8% and 1.7% of CNA's premiums for the years ended December 31, 2004, 2003 and 2002. Premiums from any individual foreign country excluding the United Kingdom were not significant.

Property and Casualty Claim and Claim Adjustment Expenses

The following loss reserve development table illustrates the change over time of reserves established for property and casualty claim and claim adjustment expenses at the end of the preceding ten calendar years for CNA's property and casualty insurance operations. The table excludes the life subsidiaries, and as such, the carried reserves will not agree to the Consolidated Financial Statements included under Item 8. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to the originally reported reserve liability. The third section, reading down, shows re-estimates of the originally recorded reserves as of the end of each successive year, which is the result of CNA's property and casualty insurance subsidiaries' expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserves to the reserves originally established, and indicates whether the original reserves were adequate or inadequate to cover the estimated costs of unsettled claims.

The loss reserve development table for property and casualty companies is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Additionally, the development amounts in the table below are the amounts prior to consideration of any related reinsurance bad debt allowance impacts.

Item 1. Business
CNA Financial Corporation - (Continued)

Schedule of Loss Reserve Development

Year Ended December 31 (In millions of dollars)	1994(b)	1995(c) Restated (a)	1996 Restated (a)	1997 Restated (a)	1998 Restated (a)	1999(d) Restated (a)	2000 Restated (a)	2001(e) Restated (a)	2002(f) Restated (a)	2003 Restated (a)	**2004** Restated (a)
Originally reported gross reserves for unpaid claim and claim adjustment expenses	21,639	31,296	29,559	28,731	28,506	26,850	26,510	29,649	25,719	31,283	**31,204**
Originally reported ceded recoverable	2,705	5,784	5,385	5,056	5,182	6,091	7,333	11,703	10,490	13,846	**13,682**
Originally reported net reserves for unpaid claim and claim adjustment expenses	18,934	25,512	24,174	23,675	23,324	20,759	19,177	17,946	15,229	17,437	**17,522**
Cumulative net paid as of:											
One year later	3,656	6,594	5,851	5,954	7,321	6,547	7,686	5,981	5,373	4,382	**-**
Two years later	7,087	10,635	9,796	11,394	12,241	11,937	11,992	10,355	8,768	-	**-**
Three years later	9,195	13,516	13,602	14,423	16,020	15,256	15,291	12,954	-	-	**-**
Four years later	10,624	16,454	15,793	17,042	18,271	18,151	17,333	-	-	-	**-**
Five years later	12,577	18,179	17,736	18,568	20,779	19,686	-	-	-	-	**-**
Six years later	13,472	19,697	18,878	20,723	21,970	-	-	-	-	-	**-**
Seven years later	14,394	20,642	20,828	21,649	-	-	-	-	-	-	**-**
Eight years later	15,024	22,469	21,609	-	-	-	-	-	-	-	**-**
Nine years later	15,602	23,156	-	-	-	-	-	-	-	-	**-**
Ten years later	16,158	-	-	-	-	-	-	-	-	-	**-**
Net reserves re-estimated as of:											
End of initial year	18,934	25,512	24,174	23,675	23,324	20,759	19,177	17,946	15,229	17,437	**17,522**
One year later	18,922	25,388	23,970	23,904	24,306	21,163	21,502	17,980	17,650	17,671	**-**

Two years later	18,500	24,859	23,610	24,106	24,134	23,217	21,555	20,533	18,248	-	-
Three years later	18,088	24,363	23,735	23,776	26,038	23,081	24,058	21,109	-	-	-
Four years later	17,354	24,597	23,417	25,067	25,711	25,590	24,587	-	-	-	-
Five years later	17,506	24,344	24,499	24,636	27,754	26,000	-	-	-	-	-
Six years later	17,248	25,345	24,120	26,338	28,078	-	-	-	-	-	-
Seven years later	17,751	25,086	25,629	26,537	-	-	-	-	-	-	-
Eight years later	17,650	26,475	25,813	-	-	-	-	-	-	-	-
Nine years later	18,193	26,618	-	-	-	-	-	-	-	-	-
Ten years later	18,230	-	-	-	-	-	-	-	-	-	-
Total net (deficiency) redundancy	704	(1,106)	(1,639)	(2,862)	(4,754)	(5,241)	(5,410)	(3,163)	(3,019)	(234)	-
Reconciliation to gross											
re-estimated reserves:											
Net reserves re-estimated	18,230	26,618	25,813	26,537	28,078	26,000	24,587	21,109	18,248	17,671	-
Re-estimated ceded recoverable	2,992	8,524	7,695	7,097	7,520	9,786	10,779	16,571	15,895	14,457	-
Total gross re-estimated reserves	21,222	35,142	33,508	33,634	35,598	35,786	35,366	37,680	34,143	32,128	-
Net (deficiency) redundancy											
related to:											
Asbestos claims	(2,126)	(2,354)	(2,456)	(2,354)	(2,111)	(1,534)	(1,469)	(697)	(696)	(54)	-
Environmental and mass tort											
claims	(727)	(770)	(715)	(739)	(520)	(620)	(610)	(148)	(151)	(1)	-
Total asbestos, environmental											
and mass tort	(2,853)	(3,124)	(3,171)	(3,093)	(2,631)	(2,154)	(2,079)	(845)	(847)	(55)	-
Other claims	3,557	2,018	1,532	231	(2,123)	(3,087)	(3,331)	(2,318)	(2,172)	(179)	-
Total net (deficiency) redundancy	704	(1,106)	(1,639)	(2,862)	(4,754)	(5,241)	(5,410)	(3,163)	(3,019)	(234)	-

(a) Restated to correct CNA's accounting for several reinsurance agreements, primarily with a former affiliate, and equity accounting for that affiliate. See Note 25 of the Notes to Consolidated Financial Statements included under Item 8 for further discussion.

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

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

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

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

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

Item 1. Business
CNA Financial Corporation - (Continued)

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

Investments

See Item 7, MD&A - Investments and Notes 1, 2, 3 and 4 of the Notes to Consolidated Financial Statements, included in Item 8, for information regarding CNA's investment portfolio.

Other

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

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

There are approximately 2,400 individual companies that sell property and casualty insurance in the United States. CNA's consolidated property and casualty subsidiaries ranked as the fourteenth largest property and casualty insurance organization in the United States based upon 2003 statutory net written premiums.

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

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

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

Reform of the U.S. tort liability system is another issue facing the insurance industry. Over the last decade, many states have passed some type of reform. In 2004, for example, significant tort reform measures were enacted in Ohio and Mississippi. Nevertheless, a number of state courts have recently modified or overturned such reforms.

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

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

Act for state oversight of insurance, additional financial services modernization legislation could include provisions for an alternate federal system of regulation for insurance companies.

On February 18, 2005, President Bush signed into law the Class Action Fairness Act of 2005, which, with limited exceptions, confers federal jurisdiction over any class action filed after its enactment involving a putative class of 100 or more members if all aggregated claims exceed $5.0 million and at least one claimant has diverse residence, for jurisdictional purposes, from at least one defendant. Federal jurisdiction under the Act may be mandatory, discretionary or disallowed depending on the composition and citizenship of the class members and certain defendants. The Act also applies to some individual personal injury lawsuits in which the claims of 100 or more plaintiffs against the same company have been joined for trial. Certain types of class actions are exempt from the jurisdictional provisions of the Act, including those against government defendants, those that involve only a claim regarding a company's internal affairs and certain types of securities litigation. Closer scrutiny is required of class actions in which the benefit reaching the class consists of a coupon or voucher, especially where attorneys' fees by class counsel have been requested as part of such a settlement, and a duty on defendants to notify federal and state officials of every class action settlement is imposed.

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 risk-based capital requirements specifies various factors, weighted based on the perceived degree of risk, which are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital requirements, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which determines a specified level of regulatory attention applicable to a company. As of December 31, 2004 and 2003, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Subsidiaries with insurance operations outside the United States are also subject to regulation in the countries in which they operate. CNA has operations in the United Kingdom, Canada and other countries.

Terrorism Insurance: Information related to terrorism insurance is set forth in Item 7, MD&A.

Reinsurance: See Item 7, MD&A, and Notes 1 and 19 of the Notes to Consolidated Financial Statements, included in Item 8, for information related to CNA's reinsurance activities.

Item 1. Business
CNA Financial Corporation - (Continued)

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

Location	Size (square feet)	Principal Usage
Owned:		
CNA Center 333 S. Wabash Chicago, Illinois	897,490	Principal executive offices of CNA
1111 E. Broad Street Columbus, Ohio	83,702	Property and casualty insurance offices
401 Penn Street Reading, Pennsylvania	71,178	Property and casualty insurance offices
Leased:		
2405 Lucien Way Maitland, Florida	128,267	Property and casualty insurance offices
40 Wall Street New York, New York	126,147	Property and casualty insurance offices
3500 Lacey Road Downers Grove, Illinois	117,749	Property and casualty insurance offices
600 N. Pearl Street Dallas, Texas	95,828	Property and casualty insurance offices
675 Placentia Avenue Brea, California	88,031	Property and casualty insurance offices
1100 Cornwall Road Monmouth Junction, New Jersey	46,515	Property and casualty insurance offices
100 CNA Drive Nashville, Tennessee	19,981	Life insurance offices

LORILLARD, INC.

Lorillard, Inc. (“Lorillard”), is engaged, through its subsidiaries, in the production and sale of cigarettes. The principal cigarette brand names of Lorillard are Newport, Kent, True, Maverick and Old Gold. Lorillard’s largest selling brand is Newport, the second largest selling cigarette brand in the United States and the largest selling brand in the menthol segment of the U.S. cigarette market in 2004. Newport accounted for approximately 91.0% of Lorillard’s sales in 2004.

Substantially all of Lorillard’s sales are in the United States, Puerto Rico and certain U.S. territories. Lorillard’s major trademarks outside of the United States were sold in 1977. Lorillard accounted for 22.20%, 19.95% and 22.22% of the Company’s consolidated total revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

The major tobacco companies in the United States, including Lorillard, continue to be faced with a number of issues that have adversely impacted their business, results of operations and financial condition. These issues include substantial litigation seeking damages aggregating into the billions of dollars, as well as other relief; substantial annual payments and marketing and advertising restrictions provided for in the settlement agreements with each of the 50 states and certain other jurisdictions; the continuing contraction of the U.S. cigarette market; competition from other major cigarette manufacturers and deep discount manufacturers and resultant increases in industry-wide promotional expenses and sales incentives; substantial and potentially increasing federal, state and local excise taxes; regulation of the manufacture, sale, distribution, advertising, labeling and use of tobacco products; and increasing sales of counterfeit cigarettes in the United States. See Results of Operations-Lorillard, and Liquidity and Capital Resources-Lorillard included in Item 7 of this Report. See also Item 3 of this Report, and Note 21 of the Notes to Consolidated Financial Statements included in Item 8 of this Report.

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

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

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

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

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

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

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

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

Item 1. Business
Lorillard, Inc. - (Continued)

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

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

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

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

In September of 1997, the California Environmental Protection Agency released a report (the "Cal/EPA Report") concluding that ETS causes specified development, respiratory, carcinogenic and cardiovascular effects including lung and nasal sinus cancer, heart disease, sudden infant death syndrome, respiratory infections and asthma induction and exacerbation in children. The Cal/EPA Report was subsequently released as a monograph by the National Cancer Institute in November of 1999. The California Air Resources Board is in the process of determining whether to identify ETS as a toxic air contaminant. If that state does so, it could adopt measures to reduce or eliminate emissions, including further restrictions regarding venues where smoking is permitted or controls on cigarette emissions.

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

A New York law requires cigarettes sold in that state to meet a mandated standard for ignition propensity. Such ignition propensity standards were established in 2003 and became effective in June of 2004. Lorillard developed proprietary technology to comply with the standards and was compliant by the effective date.

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

Excise Taxes: Cigarettes are subject to substantial federal, state and local excise taxes in the United States and, in general, such taxes have been increasing. The federal excise tax on cigarettes is $19.50 per thousand cigarettes (or $0.39 per pack of 20 cigarettes). State excise taxes, which are levied upon and paid by the distributors, are also in effect in the fifty states, the District of Columbia and many municipalities. Increases in state excise taxes on cigarette sales in 2004 ranged from $0.10 per pack to $0.75 per pack in 7 states. The average state excise tax, including the District of Columbia, increased to $0.78 per pack (of 20 cigarettes) in 2004 from $0.73 in 2003. Proposals for additional increases in federal, state and local excise taxes continue to be considered. The combined state and municipal taxes range from $0.03 to $3.00 per pack of cigarettes.

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

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

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

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

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

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

As of December 31, 2004, Lorillard had approximately 700 direct buying customers servicing more than 400,000 retail accounts. Lorillard does not sell cigarettes directly to consumers. During 2004, 2003 and 2002, sales made by Lorillard to McLane Company, Inc., comprised 20%, 20% and 17%, respectively, of Lorillard's revenues. No other customer accounted for more than 10% of 2004, 2003 or 2002 sales. Lorillard does not have any backlog orders.

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

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

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

Due to the varying size and quality of annual crops and other economic factors, tobacco prices have historically fluctuated. The passage of “The American Jobs Creation Act of 2004” (also known as the FSC-ETI bill) on October 22, 2004 eliminated historical U.S. price supports that accompanied production controls which inflated the market price of U.S. tobacco. Lorillard believes the elimination of production controls and price supports will favorably impact the cost of U.S. tobacco.

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

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

Prices: Lorillard believes that the volume of U.S. cigarette sales is sensitive to price changes. Changes in pricing by Lorillard or other cigarette manufacturers could have an adverse impact on Lorillard’s volume of units sold, 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. In addition, Lorillard and other cigarette manufacturers, from time to time, engage in significant promotional activities. These sales promotion costs are accounted for as a reduction in net sales revenue and therefore impact average prices.

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

Lorillard’s principal properties are owned in fee. With minor exceptions, Lorillard owns all of the machinery it uses. Lorillard believes that its properties and machinery are in generally good condition. Lorillard leases sales offices in major cities throughout the United States, a cold-storage facility in Greensboro and warehousing space in 25 public distributing warehouses located throughout the United States.

Competition: The domestic U.S. market for cigarettes is highly competitive. Competition is primarily based on a brand’s price, including level of discounting and other promotional activities, positioning, consumer loyalty, retail display, quality and taste. Lorillard’s principal competitors are the two other major U.S. cigarette manufacturers, Philip Morris (“PM”) and Reynolds American Inc. (“RAI”).

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

Lorillard's 8.8% market share of the 2004 U.S. domestic cigarette industry was third highest overall. Philip Morris and RAI accounted for approximately 47.4% and 28.8%, respectively, of wholesale shipments in 2004. Among the three major manufacturers, Lorillard ranked third behind Philip Morris and RAI with a 12.0% share of the premium segment in 2004.

In July of 2004, RJR, the second largest cigarette manufacturer in the United States, and B&W, the third largest cigarette manufacturer were combined. The consolidation of these two competitors as RAI has resulted in further concentration of the U.S. tobacco industry, with the top two companies, Philip Morris USA and the newly created RAI, having a combined market share of approximately 76.2%. In addition, this transaction combines in one company the third and fourth leading menthol brands, Kool and Salem, which have a combined share of the menthol segment of approximately 19.7%. This concentration of U.S. market share could make it more difficult for Lorillard and others to compete for shelf space in retail outlets and could impact price competition among menthol brands, either of which could have a material adverse effect on the results of operations and financial condition of the Company.

See Item 7, MD&A - Results of Operations - Lorillard for information regarding the business environment, including selected market share data for Lorillard.

Item 1. Business

LOEWS HOTELS HOLDING CORPORATION

The subsidiaries of Loews Hotels Holding Corporation (“Loews Hotels”), a wholly owned subsidiary of the Company, presently operate the following 20 hotels. Loews Hotels accounted for 2.07%, 1.74% and 1.53% of the Company’s consolidated total revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

Name and Location	Number of Rooms	Owned, Leased or Managed
Loews Annapolis Annapolis, Maryland	220	Owned
Loews Beverly Hills Hotel Beverly Hills, California	137	Management contract expiring 2008 (a)
Loews Coronado Bay Resort San Diego, California	440	Land lease expiring 2034
Loews Denver Denver, Colorado	185	Owned
Don CeSar Beach Resort, a Loews Hotel St. Pete Beach, Florida	347	Management contract (a)(b)
Hard Rock Hotel, at Universal Orlando Orlando, Florida	650	Management contract (c)
House of Blues Hotel, a Loews Hotel Chicago, Illinois	370	Management contract expiring 2005 (a)
The Jefferson, a Loews Hotel Washington, D.C.	100	Management contract expiring 2010 (a)
Loews Le Concorde Quebec City, Canada	405	Land lease expiring 2069
Loews L’Enfant Plaza Washington, D.C.	370	Management contract expiring 2005 (a)
Loews Miami Beach Hotel Miami Beach, Florida	790	Land lease expiring 2096
Loews New Orleans Hotel New Orleans, Louisiana	285	Management contract expiring 2018 (a)
Loews Philadelphia Hotel Philadelphia, Pennsylvania	585	Owned
Portofino Bay Hotel, at Universal Orlando, a Loews Hotel Orlando, Florida	750	Management contract (c)
The Regency, a Loews Hotel New York, New York	350	Land lease expiring 2013, with renewal option for 47 years
Royal Pacific Resort	1,000	Management contract (c)

at Universal Orlando, a Loews Hotel Orlando, Florida		
Loews Santa Monica Beach Santa Monica, California	340	Management contract expiring 2018, with renewal option for 5 years (a)
Loews Vanderbilt Plaza Nashville, Tennessee	340	Owned
Loews Ventana Canyon Resort Tucson, Arizona	400	Management contract expiring 2009, with renewal options for 5 years (a)
Loews Hotel Vogue Montreal, Canada	140	Owned

(a) These management contracts are subject to termination rights.
(b) A Loews Hotels subsidiary is a 20% owner of the hotel, which is being operated by Loews Hotels pursuant to a management contract.
(c) A Loews Hotels subsidiary is a 50% owner of these hotels located at the Universal Orlando theme park, through a joint venture with Universal Studios and the Rank Group. The hotels are constructed on land leased by the joint venture from the resort's owners and are being operated by Loews Hotels pursuant to a management contract.

The hotels owned by Loews Hotels are subject to mortgage indebtedness aggregating approximately $144.4 million at December 31, 2004 with interest rates ranging from 3.4% to 6.3%, and maturing between 2006 and 2028. In addition, certain hotels are held under leases which are subject to formula derived rental increases, with rentals aggregating approximately $13.7 million for the year ended December 31, 2004.

Competition from other hotels and lodging facilities is vigorous in all areas in which Loews Hotels operates. The demand for hotel rooms in many areas is seasonal and dependent on general and local economic conditions. Loews Hotels properties also compete with facilities offering similar services in locations other than those in which its hotels are located. Competition among luxury hotels is based primarily on location and service. Competition among resort and commercial hotels is based on price as well as location and service. Because of the competitive nature of the industry, hotels must continually make expenditures for updating, 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 owns 45 offshore rigs. Diamond Offshore accounted for 5.48%, 4.18% and 4.70% of the Company's consolidated total revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

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

Diamond Offshore owns and operates nine high specification semisubmersibles. These semisubmersibles have high-capacity deck loads and are generally capable of working in water depths of 4,000 feet or greater or in harsh environments and have other advanced features. As of January 31, 2005, six of the nine high specification semisubmersibles were located in the U.S. Gulf of Mexico, while the remaining three rigs were located offshore Brazil, Indonesia and Malaysia.

Diamond Offshore owns and operates 21 other semisubmersibles which generally work in maximum water depths up to 4,000 feet and many have diverse capabilities that enable them to provide both shallow and deep water service in the U.S. and in other markets outside the U.S. As of January 31, 2005, Diamond Offshore was actively marketing 18 of these semisubmersibles. Four of these semisubmersibles were located in the U.S. Gulf of Mexico; four were located offshore Mexico; four were located in the North Sea; three were located offshore Australia; two were located offshore Brazil; and one was located offshore Korea.

Diamond Offshore currently has three cold-stacked semi-submersible rigs. When Diamond Offshore anticipates that a rig will be idle for an extended period of time, it cold stacks the unit by removing the crew and ceasing to actively market the rig. This reduces expenditures associated with keeping the rig ready to go to work. One of Diamond Offshore's semisubmersibles has been cold stacked in the Gulf of Mexico since December 2002, and Diamond Offshore is marketing another cold stacked semisubmersible, the *Ocean Liberator*, for sale to a third party. The remaining cold-

Item 1. Business
Diamond Offshore Drilling, Inc. - (Continued)

stacked semisubmersible, the *Ocean Endeavor,* will undergo a major upgrade for ultra-deepwater service commencing in the second quarter of 2005.

Diamond Offshore owns 14 jack-ups, all of which were being actively marketed as of January 31, 2005. Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor until a foundation is established to support the drilling platform. The rig hull includes the drilling rig, jacking system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, heliport and other related equipment. Diamond Offshore's jack-ups are used for drilling in water depths from 20 feet to 350 feet. The water depth limit of a particular rig is principally determined by the length of the rig's legs. A jack-up rig is towed to the drillsite with its hull riding in the sea, as a vessel, with its legs retracted. Once over a drillsite, the legs are lowered until they rest on the seabed and jacking continues until the hull is elevated above the surface of the water. After completion of drilling operations, the hull is lowered until it rests in the water and then the legs are retracted for relocation to another drillsite.

As of January 31, 2005, 12 of Diamond Offshore's jack-up rigs were located in the Gulf of Mexico. Of these rigs, nine are independent-leg cantilevered units, two are mat-supported cantilevered units, and one is a mat-supported slot unit. Both of Diamond Offshore's remaining jack-up rigs are internationally based and are independent-leg cantilevered rigs; one was located offshore Bangladesh, and the other was located offshore India as of January 31, 2005.

Diamond Offshore has one drillship, the *Ocean Clipper,* which was located offshore Brazil as of January 31, 2005. Drillships, which are typically self-propelled, are positioned over a drillsite through the use of either an anchoring system or a dynamic-positioning system similar to those used on certain semisubmersible rigs. Deep water drillships compete in many of the same markets as do high specification semisubmersible rigs.

Markets: Diamond Offshore's principal markets for its offshore contract drilling services are the Gulf of Mexico, including the United States and Mexico, Europe, principally the U.K. and Norway, South America, Africa and Australia/Southeast Asia. Diamond Offshore actively markets its rigs worldwide. From time to time Diamond Offshore's fleet operates in various other markets throughout the world as the market demands.

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

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

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or 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 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. To the extent possible, Diamond Offshore seeks to have a foundation of long-term contracts with a reasonable balance of single-well, well-to-well and short-term contracts to minimize the downside impact of a decline in the market while still participating in the benefit of increasing dayrates in a rising market. However, no assurance can be given that Diamond Offshore will be able to achieve or maintain such a balance from time to time.

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 2004, Diamond Offshore performed services for 53 different customers with Petróleo Brasileiro S. A. ("Petrobras") and PEMEX - Exploración Y Producción ("PEMEX") accounting for 12.6% and 10.5% of Diamond Offshore's annual total consolidated revenues, respectively. During 2003, Diamond Offshore performed services for 52 different customers with Petrobras and BP P.L.C. ("BP") accounting for 20.3% and 11.9% of Diamond Offshore's annual total consolidated revenues, respectively. During 2002, Diamond Offshore performed services for 46 different customers with Petrobras, BP, and Murphy Exploration and Production Company accounting for 19.0%, 18.9% and 10.4% of Diamond Offshore's annual total consolidated revenues, respectively. During 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 offshore contract drilling industry is highly competitive and is influenced by a number of factors, including the current and anticipated prices of oil and natural gas, the expenditures by oil and gas companies for exploration and development of oil and natural gas and the availability of drilling rigs. In addition, demand for drilling services remains dependent on a variety of political and economic factors beyond Diamond Offshore's control, including worldwide demand for oil and natural gas, the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of the various governments regarding exploration and development of their oil and natural gas reserves.

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

Regulation: Diamond Offshore's operations are subject to numerous international, U.S., 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 and 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

Item 1. Business
Diamond Offshore Drilling, Inc. - (Continued)

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 customer's or a third party's property or equipment. Damage to the environment could also result from Diamond Offshore's operations, particularly through oil spillage or uncontrolled fires. In addition, offshore drilling operations are subject to perils peculiar to marine operations, including capsizing, grounding, collision and loss or damage from severe weather. Diamond Offshore has insurance coverage and contractual indemnification for certain risks, but there can be no assurance that such coverage or indemnification will adequately cover Diamond Offshore's loss or liability in certain circumstances or that Diamond Offshore will continue to carry such insurance or receive such indemnification.

Diamond Offshore's retention of liability for property damage is between $1.0 million and $2.5 million per incident, depending on the value of the equipment, with an additional aggregate annual deductible of $4.5 million.

Operations Outside the United States: Operations outside the United States accounted for approximately 56.0%, 51.6% and 55.5% of Diamond Offshore's total consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. Diamond Offshore's non-U.S. operations are subject to certain political, economic and other uncertainties not normally encountered in U.S. operations, including risks of war and civil disturbances (or other risks that may limit or disrupt markets), expropriation and the general hazards associated with the assertion of national sovereignty over certain areas in which operations are conducted. No prediction can be made as to what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. Diamond Offshore's operations outside the United States may also face the additional risk of fluctuating currency values, hard currency shortages, controls of currency exchange and repatriation of income or capital.

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

Properties: Diamond Offshore owns an eight-story office building containing approximately 182,000-net rentable square feet on approximately 6.2 acres of land located in Houston, Texas, where Diamond Offshore has its corporate headquarters, two buildings totaling 39,000 square feet and 20 acres of land in New Iberia, Louisiana, for its offshore drilling warehouse and storage facility, and a 13,000-square foot building and five acres of land in Aberdeen, Scotland, for its North Sea operations. Additionally, Diamond Offshore currently leases various office, warehouse and storage facilities in Louisiana, Australia, Brazil, Indonesia, Scotland, Norway, Vietnam, Netherlands, Malaysia, Bangladesh, India, Korea, Singapore and Mexico to support its offshore drilling operations.

BOARDWALK PIPELINES, LLC

Boardwalk Pipelines, LLC (formerly TGT Pipelines, LLC, "Boardwalk Pipelines") is engaged, through its subsidiaries, in the operation of interstate natural gas transmission pipeline systems. Boardwalk Pipelines includes Texas Gas

Transmission, LLC (“Texas Gas”), acquired in May of 2003, and Gulf South Pipeline Company, LP (“Gulf South”), acquired in December of 2004. Boardwalk Pipelines accounted for 1.74% and 0.87% of the Company’s consolidated total revenue for the years ended December 31, 2004 and 2003, respectively.

Texas Gas

Texas Gas owns and operates a natural gas pipeline system originating in the Louisiana Gulf Coast area and in East Texas and running north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois.

Texas Gas' pipeline transmission system is composed of: approximately 5,900 miles of mainline, storage, and branch transmission pipelines, having a mainline delivery capacity of approximately 2.8 billion cubic feet ("Bcf") of gas per day; 31 compressor stations; and natural gas storage reservoirs in nine underground storage fields located in Indiana and Kentucky, having storage capacity of approximately 178 Bcf of gas, of which approximately 55 Bcf is working gas.

Recent requests for additional storage capacity have exceeded the physical capabilities of Texas Gas' system, thereby prompting Texas Gas to expand its storage facilities. In February, Texas Gas received Federal Energy Regulatory Commission ("FERC") approval to commence expansion of its Western Kentucky storage complex for service to two customers beginning November 1, 2005. Texas Gas estimates that this project will cost approximately $20.7 million and will allow the additional withdrawal of 82,000 MMBtu per day.

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

Texas Gas' direct market area encompasses eight states in the South and Midwest and includes the Memphis, Tennessee; Louisville, Kentucky; Cincinnati, Ohio; and the Evansville and Indianapolis, Indiana metropolitan areas. Texas Gas also has indirect market access to the Northeast through interconnections with unaffiliated pipelines. At December 31, 2004, Texas Gas had transportation contracts with approximately 500 shippers, including distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers.

Gulf South

Gulf South owns and operates a natural gas pipeline and gathering system located in parts of Texas, Louisiana, Mississippi, Alabama and Florida. Gulf South is connected to several major regional supply hubs and market centers for natural gas, including Aqua Dulce, Carthage, Venice, Mobile Bay, Perryville and the Henry Hub, which serves as the designated delivery point for natural gas futures contracts traded on the New York Mercantile Exchange.

Gulf South's pipeline system is composed of: approximately 6,800 miles of transmission pipeline, having a peak day delivery capacity of approximately 3.0 Bcf of gas per day, and 1,200 miles of gathering pipeline; 32 compressor stations; and natural gas storage reservoirs in two underground storage fields located in Louisiana and Mississippi having working gas storage capacity of approximately 68.5 Bcf of gas.

Gulf South uses its storage gas to offer customers flexibility in meeting peak day delivery requirements. Gulf South currently sells firm and interruptible storage services at its Bistineau gas storage facility located in north central Louisiana under market-based rates. Gulf South is developing a large, high-deliverability storage cavern at a leased facility located in Napoleonville, Louisiana that, when operational, is expected to add up to 6.0 Bcf of firm working gas capacity. This facility is expected to be in service and available for sale at market-based rates in the fourth quarter of 2008.

Gulf South transports natural gas to a broad mix of customers throughout the Gulf Coast region. At December 31, 2004, Gulf South had transportation contracts with approximately 200 shippers, including local distribution companies, municipalities, intrastate and interstate pipelines, direct industrial users, electrical generators, marketers and producers.

Regulation: The natural gas pipeline operations of Boardwalk Pipelines are subject to regulation by the FERC under the Natural Gas Act of 1938 ("NGA") and Natural Gas Policy Act of 1978 ("NGPA"). They are also subject to the Natural Gas Pipeline Safety Act of 1968, as amended by Title I of the Pipeline Safety Act of 1979, which regulates safety requirements in the design, construction, operation and maintenance of interstate natural gas pipelines. The FERC regulates, among other things, the rates and charges for the transportation and storage of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and the financial accounting of regulated pipeline companies.

Item 1. Business
Boardwalk Pipelines, LLC - (Continued)

The maximum rates that may be charged by Texas Gas and Gulf South for their gas transportation and storage services are established through the FERC ratemaking process. Key determinants in the ratemaking process are costs of providing service, allowed rate of return and volume throughout assumptions. The allowed rate of return must be approved by the FERC in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. Texas Gas is currently obligated to file a new rate case with the FERC, with rates to be effective no later than November 1, 2005. Gulf South currently has no obligation to file a new rate case. Most of Gulf South's transportation services are provided at less than the current maximum applicable rates allowed by its tariff. Gulf South charges market based rates for that portion of its storage services provided from its Bistineau gas storage facility (and those it will provide at the storage field it is developing in Louisiana) pursuant to authority granted to it by the FERC.

Competition: Boardwalk Pipelines competes primarily with other interstate and intrastate pipeline systems in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, access to supply basins, and flexibility and reliability of service. In addition, the FERC's continuing efforts to increase competition in the natural gas industry are having the effect of increasing the natural gas transportation options of the traditional customer bases of Texas Gas and Gulf South. As a result, segmentation and capacity release have created an active secondary market which is increasingly competitive with them. The business of Boardwalk Pipelines is, in part, dependent on the volumes of natural gas consumed in the United States. Natural gas competes with other forms of energy available to their customers, including electricity, coal, and fuel oils.

Properties: The operating subsidiaries of Boardwalk Pipelines own their respective pipeline systems in fee, with certain immaterial portions, such as offshore assets, being held jointly with third parties. A substantial portion of these systems is constructed and maintained pursuant to rights-of-way, easements, permits, and licenses or consents on and across property owned by others. Texas Gas owns its main office building and other facilities located in Owensboro, Kentucky. Gulf South maintains its headquarters facilities in approximately 55,000 square feet of leased office space located in Houston, Texas. Storage facilities are either owned or contracted for under long-term leases.

BULOVA CORPORATION

Bulova Corporation ("Bulova") is engaged in the distribution and sale of watches, clocks and timepiece parts for consumer use. Bulova accounted for 1.16%, 1.01% and 0.95% of the Company's consolidated total revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

Bulova's principal watch brands are Bulova, Caravelle, Wittnauer and Accutron. Clocks are principally sold under the Bulova brand name. All watches and substantially all clocks are purchased from foreign suppliers. Bulova's principal markets are the United States, Canada and Mexico. Bulova's product breakdown includes luxury watch lines represented by Wittnauer and Accutron, a mid-priced watch line represented by Bulova, and a lower-priced watch line represented by Caravelle.

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

EMPLOYEE RELATIONS

The Company, inclusive of its operating subsidiaries as described below, employed approximately 22,000 persons at December 31, 2004.

CNA employed approximately 10,600 full-time equivalent employees and has experienced satisfactory labor relations.

Lorillard employed approximately 3,100 persons. Approximately 1,100 of these employees are represented by labor unions covered by three collective bargaining agreements.

Lorillard has collective bargaining agreements covering hourly rated production and service employees at various Lorillard plants with the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union, and the National Conference of Fireman and Oilers/SEIU.

Loews Hotels employed approximately 2,100 persons, approximately 700 of whom are union members covered under collective bargaining agreements. Loews Hotels has experienced satisfactory labor relations.

Diamond Offshore employed approximately 4,200 persons including international crew personnel furnished through independent labor contractors. Diamond Offshore has experienced satisfactory labor relations and does not currently consider the possibility of a shortage of qualified personnel to be a material factor in its business.

Boardwalk Pipelines employed approximately 1,100 persons, approximately 115 of which are covered by a collective bargaining agreement. Boardwalk Pipelines has experienced satisfactory labor relations.

Bulova employed approximately 550 persons, approximately 180 of whom are union members. Bulova has experienced satisfactory labor relations.

AVAILABLE INFORMATION

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

Item 2. Properties.

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

Item 3. Legal Proceedings.

Insurance Related - Information with respect to insurance related legal proceedings is incorporated by reference to Note 21, "Legal Proceedings - Insurance Related" of the Notes to Consolidated Financial Statements included in Item 8.

Tobacco Related - Approximately 4,075 product liability cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 3,750 of these cases. The Company is a defendant in five of the pending cases. Information with respect to tobacco related legal proceedings is incorporated by reference to Note 21, "Legal Proceedings - Tobacco Related" of the Notes to Consolidated Financial Statements included in Item 8. Additional information regarding tobacco related legal proceedings is contained below and in Exhibit 99.01.

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

"Conventional product liability cases" are brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or by exposure to environmental tobacco smoke. Approximately 1,350 cases are pending, including approximately 1,065 cases against Lorillard. The 1,350 cases include approximately 1,020 cases pending in a single West Virginia court that have been consolidated for trial. Lorillard is a defendant in nearly 940 of the 1,020 consolidated West Virginia cases. The Company is a defendant in two of the conventional product liability cases and is not a party to any of the consolidated West Virginia cases.

"Class action cases" are purported to be brought on behalf of large numbers of individuals for damages allegedly caused by smoking. Eleven of these cases are pending against Lorillard. One of these cases, *Schwab v. Philip Morris USA, Inc., et al.*, is on behalf of a purported nationwide class composed of purchasers of "light" cigarettes. The Company is a defendant in two of the class action cases. Lorillard is not a defendant in approximately 30 additional "lights" class action cases that are pending against other cigarette manufacturers. Reference is made to Exhibit 99.01 to this Report for a list of pending Class Action Cases in which Lorillard is a party.

Item 3. Legal Proceedings
Tobacco Related - (Continued)

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

Included in this category is the suit filed by the federal government, *United States of America v. Philip Morris USA, Inc., et al.*, that sought disgorgement and injunctive relief. Trial of this matter began during September of 2004 and is proceeding. During February of 2005, an appellate court ruled that the government may not seek disgorgement of profits, although this order is not final because the government has advised the court that it will seek rehearing of this decision.

"Contribution cases" are brought by private companies, such as asbestos manufacturers or their insurers, who are seeking contribution or indemnity for court claims they incurred on behalf of individuals injured by their products but who also allegedly were injured by smoking cigarettes. One such case is pending against Lorillard and other cigarette manufacturers. The Company is not a defendant in this matter. Reference is made to Exhibit 99.01 to this Report for the identity of the pending Contribution case in which Lorillard is a party.

"Flight Attendant cases" are brought by non-smoking flight attendants alleging injury from exposure to environmental smoke in the cabins of aircraft. Plaintiffs in these cases may not seek punitive damages for injuries that arose prior to January 15, 1997. Lorillard is a defendant in each of the approximately 2,665 pending Flight Attendant cases. The Company is not a defendant in any of the Flight Attendant cases.

Excluding the flight attendant and the consolidated West Virginia suits, approximately 400 product liability cases are pending against cigarette manufacturers in U.S. courts. Lorillard is a defendant in approximately 150 of the 400 cases. The Company, which is not a defendant in any of the flight attendant or the consolidated West Virginia matters, is a defendant in five of the actions.

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

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

None

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Position and Offices Held	Age	First Became Officer
Gary W. Garson	Senior Vice President, General Counsel and Secretary	58	1988

Herbert C. Hofmann	Senior Vice President	62	1979
Peter W. Keegan	Senior Vice President and Chief Financial Officer	60	1997
Arthur L. Rebell	Senior Vice President	63	1998
Andrew H. Tisch	Office of the President and Chairman of the Executive Committee	55	1985
James S. Tisch	Office of the President, President and Chief Executive Officer	52	1981
Jonathan M. Tisch	Office of the President	51	1987
Preston R. Tisch	Chairman of the Board	78	1960

Item 4. Submission of Matters to a Vote of Security Holders
Executive Officers of the Registrant - (Continued)

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

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

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

PART II

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

Price Range of Common Stock

Loews common stock

Loews Corporation's common stock is listed on the New York Stock Exchange. The following table sets forth the reported high and low sales prices in each calendar quarter of 2004 and 2003:

	2004		2003	
	High	**Low**	High	Low
First Quarter	**$ 63.20**	**$ 49.07**	$ 47.90	$ 39.65
Second Quarter	**61.35**	**55.45**	49.02	38.25
Third Quarter	**60.16**	**53.35**	49.18	40.10
Fourth Quarter	**71.01**	**55.54**	49.48	38.80

Carolina Group stock

Carolina Group stock is listed on the New York Stock Exchange. The following table sets forth the reported high and low sales prices in each calendar quarter of 2004 and 2003:

	2004		2003	
	High	**Low**	High	Low
First Quarter	**$ 29.85**	**$ 24.46**	$ 22.95	$ 18.00
Second Quarter	**27.90**	**22.49**	27.18	16.86
Third Quarter	**25.04**	**22.92**	28.10	20.70
Fourth Quarter	**30.00**	**24.05**	25.70	22.49

Dividend Information

The Company has paid quarterly cash dividends on Loews common stock in each year since 1967. Regular dividends of $0.15 per share of Loews common stock were paid in each calendar quarter of 2004 and 2003.

The Company paid quarterly cash dividends on Carolina Group stock of $0.445 per share beginning in the second quarter of 2002. The Company increased its quarterly cash dividend on Carolina Group stock to $0.455 per share beginning in the second quarter of 2003. Regular dividends were paid in each calendar quarter of 2004 and 2003.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides certain information as of December 31, 2004 with respect to the Company’s equity compensation plans under which equity securities of the Company are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Loews common stock:			
Equity compensation plans approved by security holders (a)	1,257,775	$50.302	573,450
Carolina Group stock:			
Equity compensation plans approved by security holders (b)	560,000	$25.230	937,750
Equity compensation plans not approved by security holders (c)	N/A	N/A	N/A

(a) Consists of the Loews Corporation 2000 Stock Option Plan.
(b) Consists of the Carolina Group 2002 Stock Option Plan.
(c) The Company has no equity compensation plans that have not been authorized by its stockholders.

Approximate Number of Equity Security Holders

The Company has approximately 1,770 holders of record of Loews common stock and approximately 90 holders of record of Carolina Group stock.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. Management excluded from this assessment the business of Gulf South, which was acquired on December 29, 2004 and which was immaterial to the Company's 2004 consolidated financial results. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework*. Based on this assessment, the Company's management believes that, as of December 31, 2004, the Company's internal control over financial reporting was effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company's financial statements included in this Annual Report on Form 10-K/A, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. The attestation report of Deloitte & Touche LLP follows this report.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Loews Corporation:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Loews Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework issued* by COSO. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control-Integrated Framework issued* by COSO.

We have also audited, in accordance with the standards of the PCAOB, the Company's consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2004 and our report dated February 28, 2005 (May 5, 2005 as to the effects of the restatement described in Note 25) expressed an unqualified opinion on those consolidated financial statements and financial statement schedules.

Deloitte & Touche LLP
New York, New York
February 28, 2005

31

Item 6. Selected Financial Data.

Year Ended December 31	**2004**	2003	2002	2001	2000
(In millions, except per share data)	**Restated (a)**	Restated (a)	Restated (a)	Restated (a)	Restated (a)
Results of Operations:					
Revenues	**$ 15,248.5**	$ 16,472.0	$ 17,463.9	$ 18,736.2	$ 20,695.0
Income (loss) before taxes and minority interest	**$ 1,828.8**	$ (1,357.1)	$ 1,666.1	$ (764.5)	$ 3,174.4
Income (loss) from continuing operations	**$ 1,235.3**	$ (654.0)	$ 993.5	$ (510.4)	$ 1,857.3
Discontinued operations - net		55.4	(27.0)	13.9	13.1
Cumulative effect of changes in accounting principles - net			(39.6)	(53.3)	
Net income (loss)	**$ 1,235.3**	$ (598.6)	$ 926.9	$ (549.8)	$ 1,870.4
Income (loss) attributable to:					
Loews common stock:					
Income (loss) from continuing operations	**$ 1,050.8**	$ (769.2)	$ 852.8	$ (510.4)	$ 1,857.3
Discontinued operations - net		55.4	(27.0)	13.9	13.1
Cumulative effect of changes in accounting principles - net			(39.6)	(53.3)	
Loews common stock	**1,050.8**	(713.8)	786.2	(549.8)	1,870.4
Carolina Group stock	**184.5**	115.2	140.7		
Net income (loss)	**$ 1,235.3**	$ (598.6)	$ 926.9	$ (549.8)	$ 1,870.4
Income (Loss) Per Share:					
Loews common stock:					
Income (loss) from continuing operations	**$ 5.66**	$ (4.15)	$ 4.54	$ (2.61)	$ 9.35
Discontinued operations - net		0.30	(0.14)	0.07	0.06
Cumulative effect of changes in accounting principles - net			(0.21)	(0.27)	
Net income (loss)	**$ 5.66**	$ (3.85)	$ 4.19	$ (2.81)	$ 9.41
Carolina Group stock	**$ 3.15**	$ 2.76	$ 3.50		
Financial Position:					
Investments	**$ 44,298.5**	$ 42,514.8	$ 40,136.7	$ 41,159.1	$ 41,332.7
Total assets	**73,634.9**	77,857.3	70,448.1	74,941.0	71,363.7
Debt	**6,990.3**	5,820.2	5,651.9	5,920.3	6,040.0
Shareholders' equity	**12,156.0**	11,023.0	11,191.8	9,371.0	10,873.5
Cash dividends per share:					
Loews common stock	**0.60**	0.60	0.60	0.58	0.50
Carolina Group stock	**1.82**	1.81	1.34		

Book value per share of Loews common					
stock	**66.56**	60.75	61.45	48.94	55.15
Shares outstanding:					
Loews common stock	**185.58**	185.45	185.44	191.49	197.23
Carolina Group stock	**67.97**	57.97	39.91		

(a) Restated to correct CNA's accounting for several reinsurance agreements primarily with a former affiliate and equity accounting for that affiliate. See Note 25 of the Notes to Consolidated Financial Statements included under Item 8 for further discussion.

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

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

OVERVIEW

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial insurance (CNA Financial Corporation ("CNA"), a 91% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc. ("Lorillard"), a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ("Diamond Offshore"), a 55% owned subsidiary); the operation of interstate natural gas transmission pipeline systems (Boardwalk Pipelines, LLC ("Boardwalk Pipelines"), a wholly owned subsidiary) and the distribution and sale of watches and clocks (Bulova Corporation ("Bulova"), a wholly owned subsidiary). Unless the context otherwise requires, the terms "Company," "Loews" and "Registrant" as used herein mean Loews Corporation excluding its subsidiaries.

33

Restatement for Reinsurance and Equity Investee Accounting

This amendment on Form 10-K/A reflects solely the restatement of the consolidated financial statements of Loews Corporation as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 to correct the accounting for several reinsurance contracts entered into by a subsidiary of CNA, primarily with a former affiliate of CNA, and CNA's equity accounting for that affiliate, as discussed in Note 25 of the Notes to Consolidated Financial Statements. This Management's Discussion and Analysis ("MD&A") gives effect to the restatement of the Consolidated Financial Statements.

As previously reported, CNA continues to respond to various subpoenas, interrogatories and other requests for information received from state and federal regulatory authorities relating to on-going insurance industry investigations of non-traditional insurance products, including finite reinsurance. As also previously reported, CNA agreed to undergo a state regulatory financial examination of Continental Casualty Company and its insurance subsidiaries as of December 31, 2003. Such review includes examination of certain of the finite reinsurance contracts entered into by CNA and whether such contracts possess sufficient risk transfer characteristics necessary to qualify for accounting treatment as reinsurance. In the course of complying with these requests, CNA conducted a comprehensive review of its finite reinsurance relationships, including contracts with a former affiliate. CNA's analyses of, or accounting treatment for, other finite reinsurance contracts could be questioned or disputed in the context of the referenced state regulatory examination, and further restatements of the Company's financial results are possible as a consequence, which could have a material adverse impact on the Company's financial condition.

The effect of the restatement is included in the table below. Additionally, the Consolidated Statements of Shareholders' Equity reflects a decrease in the Company's retained earnings of $58.3 million as of January 1, 2002.

December 31	**2004**		**2003**	
(In millions)	**Previously Reported**	**Restated**	**Previously Reported**	**Restated**
Consolidated Balance Sheets:				
Receivables	**$ 18,807.2**	**$ 18,696.2**	$ 20,479.2	$ 20,328.5
Deferred income taxes	**624.9**	**640.9**	530.2	548.7
Claim and claim adjustment expense	**31,520.5**	**31,523.0**	31,730.2	31,731.7
Reinsurance balances payable	**3,043.1**	**2,980.8**	3,432.0	3,332.7
Earnings retained in the business	**9,616.6**	**9,589.3**	8,602.1	8,570.8

Year Ended December 31	**2004**		**2003**		**2002**	
(In millions, except per share data)	**Previously Reported**	**Restated**	**Previously Reported**	**Restated**	**Previously Reported**	**Restated**
Consolidated Statements of Operations:						
Insurance premiums	**$ 8,205.0**	**$ 8,205.2**	$ 9,209.8	$ 9,211.6	$ 10,209.9	$ 10,209.9
Net investment income	**1,869.3**	**1,875.3**	1,849.9	1,859.1	1,789.2	1,796.6

Insurance claims and policyholders’ benefits	**6,445.6**	**6,445.0**	10,286.5	10,276.2	8,420.3	8,402.3
Income tax expense (benefit)	**533.8**	**536.2**	(534.1)	(526.6)	579.8	588.7
Net income (loss)	**1,231.3**	**1,235.3**	(610.7)	(598.6)	912.0	926.9
Net income (loss) per Loews common share	**$ 5.64**	**$ 5.66**	$ (3.91)	$ (3.85)	$ 4.11	$ 4.19

The restatement had no effect on total cash flows from operating, investing or financing activities as shown in the Consolidated Statements of Cash Flows.

34

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

Consolidated Financial Results

Consolidated net income (including both the Loews Group and Carolina Group) for the year ended December 31, 2004 was $1,235.3 million, compared to a net loss of $598.6 million in the prior year.

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

Year Ended December 31		**2004**		2003
(In millions, except per share data)				
Net income (loss) attributable to Loews common stock:				
Income (loss) before net investment gains (losses) (a)	**$**	**1,195.7**	$	(1,032.3)
Net investment gains (losses) (b)		**(144.9)**		263.1
Income (loss) from continuing operations		**1,050.8**		(769.2)
Discontinued operations-net		**-**		55.4
Net income (loss) attributable to Loews common stock		**1,050.8**		(713.8)
Net income attributable to Carolina Group stock		**184.5**		115.2
Consolidated net income (loss)	**$**	**1,235.3**	$	(598.6)
Per share:				
Income (loss) per share of Loews common stock:				
Income (loss) from continuing operations	**$**	**5.66**	$	(4.15)
Discontinued operations-net		**-**		0.30
Net income (loss) per share of Loews common stock	**$**	**5.66**	$	(3.85)
Net income per share of Carolina Group stock	**$**	**3.15**	$	2.76

(a) *Includes income of $116.5 (after tax) for the year ended December 31, 2004 from an investee's sale of four ultra large crude oil tankers.*
(b) *Includes a loss of $352.9 (after tax and minority interest) for the year ended December 31, 2004 related to CNA's sale of its individual life insurance business and a loss of $116.4 (after tax and minority interest) for the year ended December 31, 2003 related to CNA's sale of its Group Benefits business.*

Net income attributable to Loews common stock for the year ended 2004 amounted to $1,050.8 million or $5.66 per share, compared to a loss of $713.8 million or $3.85 per share in the prior year.

Income before net investment gains (losses) attributable to Loews common stock amounted to $1,195.7 million in the year ended 2004 compared to a loss of $1,032.3 million in the prior year. Results for 2004 include charges at CNA of $162.5 million (after tax and minority interest) due to the impact of the Hurricanes Charley, Frances, Ivan and Jeanne, partially offset by income of $116.5 million (after taxes) from Hellespont Shipping Corporation, a 49%-owned company, following the sale of its four ultra-large oil tankers. The 2003 results include charges by CNA for net prior year development of $1,667.4 million (after tax and minority interest) and an increase in bad debt reserves for insurance and reinsurance receivables of $356.9 million (after tax and minority interest).

Net income attributable to Loews common stock includes net investment losses of $144.9 million (after tax and minority interest), compared to net investment gains of $263.1 million (after tax and minority interest) in the prior year. Net investment losses in 2004 are due primarily to a loss of $352.9 million (after tax and minority interest) from CNA's sale of its individual life insurance business.

Carolina Group net income for 2004 was $545.9 million, compared to $468.3 million in the prior year. Net income for 2003 included a $27.5 million charge ($17.1 million after taxes) to settle litigation with tobacco growers and a $28.0 million charge ($17.5 million after taxes) to resolve indemnification claims and trademark matters in connection with the 1977 sale by Lorillard of its international business. Net income attributable to Carolina Group stock for 2004 was $184.5 million, or $3.15 per share of Carolina Group stock, compared to $115.2 million, or $2.76 per share of Carolina Group stock in the prior year.

Consolidated revenues for the year ended 2004 amounted to $15.2 billion compared to $16.5 billion in the prior year. The decline in revenues reflects CNA's sale of its Group Benefits business in December of 2003 and the sale of the individual life insurance business in April of 2004.

Acquisition of Interstate Natural Gas Pipelines

In May of 2003, Boardwalk Pipelines acquired Texas Gas for approximately $1.05 billion, including assumed debt. Texas Gas is an interstate natural gas transmission company which owns and operates a natural gas pipeline system originating in the Louisiana Gulf Coast area and in East Texas and running north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois.

The Texas Gas pipeline transmission system has a mainline delivery capacity of approximately 2.8 billion cubic feet ("Bcf") of gas per day and is composed of approximately 5,900 miles of mainline, storage, and branch transmission pipelines and 31 compressor stations. Texas Gas owns and operates natural gas storage reservoirs in nine underground storage fields located in Indiana and Kentucky. The certificated storage capacity of Texas Gas's fields is approximately 178 Bcf of gas, of which approximately 55 Bcf is working gas.

In December of 2004, Boardwalk Pipelines acquired Gulf South for approximately $1.14 billion. Gulf South is an interstate natural gas transmission company that owns and operates a natural gas pipeline and gathering system located in parts of Texas, Louisiana, Mississippi, Alabama and Florida. Gulf South's pipeline transmission system is composed of approximately 6,800 miles of transmission pipelines, 1,200 miles of gathering pipeline and 32 compressor stations. Gulf South has 68.5 Bcf of working gas storage capacity.

See Note 14 of the Notes to Consolidated Financial Statements in Item 8 for further information.

CNA Recent Developments

During 2003, CNA completed a strategic review of its operations and decided to concentrate efforts on its property and casualty business. As a result of this review and several significant charges in 2003, a capital plan was developed to replenish statutory capital of the property and casualty subsidiaries. A summary of the capital plan, related actions and other significant business decisions is discussed below:

On April 30, 2004, CNA sold its individual life insurance business. The business sold included term, universal and permanent life insurance policies and individual annuity products. CNA's individual long term care and structured settlement businesses were excluded from the sale.

On December 31, 2003, CNA sold the majority of its group benefits business. The business sold included group life and accident, short and long term disability and certain other products. CNA's group long term care and specialty medical businesses were excluded from the sale.

During 2003, CNA sold the renewal rights for most of the treaty business of CNA Re and withdrew from the assumed reinsurance business. CNA is managing the run-off of its retained liabilities.

See Note 14 of the Notes to Consolidated Financial Statements in Item 8 for further information.

During 2003, CNA undertook an expense initiative, of which the primary components were a reduction of the workforce by approximately five percent, lower commissions and other acquisition costs, principally related to workers compensation, and reduced spending in other areas. CNA achieved the targeted workforce reduction in 2003. Actions related to reducing commissions and other acquisition expenses began in 2003 and were completed in 2004.

During 2004, CNA undertook additional expense initiatives that produced expense savings of approximately $100.0 million. The primary components of the expense initiatives were a reduction in certain business expenses through more stringent expense policies and guidelines, reduced facilities cost through consolidation of locations, and to a lesser extent, workforce reductions. CNA is currently formulating plans to reach its goal of an additional $100.0 million of expense reductions in 2005.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
CNA Recent Developments - (Continued)

In November of 2003, CNA established a capital plan to replenish statutory capital impacted by the strategic review and charges for prior year development and related matters. Under the capital plan, in November of 2003, CNA sold to Loews $750.0 million of a new series of convertible preferred stock which converted into 32,327,015 shares of CNA common stock in April of 2004, and received commitments from Loews for additional capital support of up to $650.0 million through the purchase of surplus notes of Continental Casualty Company ("CCC"), CNA's principal insurance subsidiary, in the event certain additions to CCC's statutory capital were not achieved through asset sales. As a result of this commitment, Loews purchased $300.0 million principal amount of surplus notes in February of 2004 in relation to CNA's sale of the individual life business and $46.0 million principal amount of surplus notes in February of 2004 in relation to the sale of the group benefits business. The $300.0 million surplus note was repaid in June of 2004, and the $46.0 million surplus note was repaid in December of 2004, thereby fulfilling all of the commitments under the capital plan.

Classes of Common Stock

The issuance of Carolina Group stock has resulted in a two class common stock structure for Loews Corporation. Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. The principal assets and liabilities attributed to the Carolina Group are (a) the Company's 100% stock ownership interest in Lorillard, Inc.; (b) notional, intergroup debt owed by the Carolina Group to the Loews Group ($1.9 billion outstanding at December 31, 2004), bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and (c) any and all liabilities, costs and expenses arising out of or related to tobacco or tobacco-related businesses.

As of December 31, 2004, the outstanding Carolina Group stock represents a 39.19% economic interest in the economic performance of the Carolina Group. The Loews Group consists of all the Company's assets and liabilities other than the 39.19% economic interest represented by the outstanding Carolina Group stock, and includes as an asset the notional, intergroup debt of the Carolina Group.

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

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

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

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

Parent Company Structure

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

At December 31, 2004, the book value per share of Loews common stock was $66.56, compared to $60.75 at December 31, 2003.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires 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.

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

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

Insurance Reserves

Insurance reserves are established for both short and long-duration insurance contracts. Short-duration contracts are primarily related to property and casualty insurance policies where the reserving process is based on actuarial estimates of the amount of loss, including amounts for known and unknown claims. Long-duration contracts typically include long term care products and are estimated using actuarial estimates about mortality and morbidity, as well as assumptions about expected investment returns. Workers compensation lifetime claim reserves and accident and health claim reserves are calculated using mortality and morbidity assumptions based on CNA and industry experience, and are discounted at interest rates that range from 3.5% to 6.5% at December 31, 2004 and 2003. The reserve for unearned premiums on property and casualty and accident and health contracts represents the portion of premiums written related to the unexpired terms of coverage. The inherent risks associated with the reserving process are discussed in the Reserves - Estimates and Uncertainties section below.

Reinsurance

Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves and are reported as receivables in the Consolidated Balance Sheets. The ceding of insurance does not discharge the primary liability of CNA. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. Further information on reinsurance is provided in the Reinsurance section below.

Tobacco and Other Litigation

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

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent the Company is a defendant in any of the lawsuits, the Company believes that it is not a proper defendant in these matters and has moved or plans to move for dismissal of all such claims against it. While Lorillard intends to defend vigorously all tobacco products liability litigation, it is not possible to

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Critical Accounting Estimates - (Continued)

predict the outcome of any of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

On May 21, 2003 the Florida Third District Court of Appeal vacated the judgment entered in favor of a class of Florida smokers in the case of *Engle v. R.J. Reynolds Tobacco Co., et al*. The judgment reflected an award of punitive damages to the class of approximately $145.0 billion, including $16.3 billion against Lorillard. The court of appeals also decertified the class ordered during pre-trial proceedings. Plaintiffs are seeking review of the case by the Florida Supreme Court. The Company and Lorillard believe that the appeals court's decision should be upheld upon further appeals.

During May of 2004, a jury in the Circuit Court of Louisiana, Orleans Parish, awarded $591.0 million to fund cessation programs for Louisiana smokers in the case of *Scott v. The American Tobacco Company, et al.* The jury was not asked to apportion damages in its verdict so Lorillard's share of the judgment has not been determined. The court denied defendants' motion for judgment notwithstanding the verdict or, in the alternative, for new trial. Lorillard and the other defendants in this matter have initiated an appeal from the judgment to the Louisiana Court of Appeals. Pursuant to Louisiana law, the trial court entered an order setting the amount of the appeal bond at $50.0 million for all defendants, of which Lorillard secured $12.5 million. While Lorillard believes the limitation on the appeal bond amount is valid and required by Louisiana law, and that any challenges to the amount of the bond would fail, in the event of a successful challenge the amount of the appeal bond could be set as high as 150% of the judgment and judicial interest combined. If such an event occurred, Lorillard's share of the appeal bond is uncertain.

Except for the impact of the State Settlement Agreements as described in Note 21 of the Notes to Consolidated Financial Statements included in Item 8 of this Report, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation and, therefore, no provision has been made in the Consolidated Financial Statements for any unfavorable outcome. It is possible that the Company's results of operations, cash flows and its financial position could be materially adversely affected by an unfavorable outcome of certain pending or future litigation.

CNA is also involved in various legal proceedings that have arisen during the ordinary course of business. CNA evaluates the facts and circumstances of each situation, and when CNA determines it necessary, a liability is estimated and recorded.

Valuation of Investments and Impairment of Securities

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

The Company's investment portfolio is subject to market declines below book value that may be other-than-temporary. CNA has an impairment committee, which reviews its investment portfolio on a quarterly basis with ongoing analysis as new information becomes available. Any decline that is determined to be other-than-temporary is recorded as an impairment loss in the results of operations in the period in which the determination occurred.

The Company continues to monitor potential changes in authoritative guidance related to recognizing other-than-temporary impairments. Any such changes may cause the Company to recognize impairment losses in results of operations which would not be recognized under the current guidance, or to recognize such losses in earlier periods, especially those due to increases in interest rates. Such changes could also impact the recognition of investment income on impaired securities. While the impact of changes in authoritative guidance could increase earnings volatility in future periods, because fluctuations in the fair value of securities are already reflected in shareholders' equity, any changes would not be expected to have a significant impact on equity. Further information on CNA's process for evaluating impairments is provided in the "Investments - CNA" section below.

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

Long Term Care Products

CNA's reserves and deferred acquisition costs for its long term care product offerings are based on certain assumptions including morbidity, policy persistency and interest rates. Actual experience may differ from these assumptions. The recoverability of deferred acquisition costs and the adequacy of the reserves are contingent on actual experience related to these key assumptions and other factors including potential future premium increases and future health care cost trends. The Company's results of operations and/or equity may be materially, adversely affected if actual experience varies significantly from these assumptions.

Pension and Postretirement Benefit Obligations

The Company is required to make a significant number of assumptions in order to estimate the liabilities and costs related to its pension and postretirement benefit obligations to employees under its benefit plans. The assumptions that have the most impact on pension costs are the discount rate, the expected return on plan assets and the rate of compensation increases. These assumptions are evaluated relative to current market factors such as inflation, interest rates and fiscal and monetary policies. Changes in these assumptions can have a material impact on pension obligations and pension expense. Further information on the Company's pension and postretirement benefit obligations is included in Note 18 of the Notes to Consolidated Financial Statements included under Item 8.

Loans to National Contractor

CNA Surety Corporation ("CNA Surety") has provided significant surety bond protection for a large national contractor that undertakes projects for the construction of government and private facilities, a substantial portion of which have been reinsured by CCC. In order to help this contractor meet its liquidity needs and complete projects which had been bonded by CNA Surety, commencing in 2003 CNA has provided loans to the contractor through a credit facility. In December of 2004, the credit facility was amended to increase the maximum available loans to $106.0 million from $86.0 million. The amendment also provides that CNA may in its sole discretion further increase the amounts available for loans under the credit facility, up to an aggregate maximum of $126.0 million. As of December 31, 2004 and 2003, there were $99.0 million and $80.0 million of total debt outstanding under the credit facility. Additional loans in January and February of 2005 brought the total debt outstanding under the credit facility, less accrued interest, to $104.0 million as of February 24, 2005. The Company, through a participation agreement with CNA, provided funds for and owned a participation of $29.0 million and $25.0 million of the loans outstanding as of December 31, 2004 and 2003, and has agreed to participation of one-third of any additional loans which may be made above the original $86.0 million credit facility limit up to the $126.0 million maximum available line.

In connection with the amendment to increase the maximum available line under the credit facility in December of 2004, the term of the loan under the credit facility was extended to mature in March of 2009 and the interest rate was reduced prospectively from 6.0% over prime rate to 5.0% per annum, effective as of December 27, 2004, with an additional 3.0% interest accrual when borrowings under the facility are at or below the original $86.0 million limit. Loans under the credit facility are secured by a pledge of substantially all of the assets of the contractor and certain of its affiliates. In connection with the credit facility, CNA has also guaranteed or provided collateral for letters of credit which are charged against the maximum available line and, if drawn upon, would be treated as loans under the credit facility. As of December 31, 2004 and 2003, these guarantees and collateral obligations aggregated $13.0 million and $7.0 million.

The contractor implemented a restructuring plan intended to reduce costs and improve cash flow, and appointed a chief restructuring officer to manage execution of the plan. In the course of addressing various expense, operational and strategic issues, however, the contractor has decided to substantially reduce the scope of its original business and to concentrate on those segments determined to be potentially profitable. As a consequence, operating cash flow, and in turn the capacity to service debt, has been reduced below previous levels. Restructuring plans have also been extended to accommodate these circumstances. In light of these developments, the Company has taken an impairment charge of $80.5 million pretax ($48.8 million after-tax and minority interest) for the fourth quarter of 2004 with respect to amounts loaned under the facility. Any draws under the credit facility beyond $106.0 million or further changes in the national contractor's business plan or projections may necessitate further impairment charges. Indemnification and subrogation rights, including rights to contract proceeds on construction projects in the event of default, exist that reduce CNA Surety's and ultimately the Company's exposure to loss. While CNA believes that the contractor's restructuring efforts may be successful and provide sufficient cash flow for its operations, the contractor's failure to achieve its restructuring plan or perform its contractual obligations under the credit facility or under CNA's surety bonds could have a material adverse effect on the Company's results of operations and/or equity. If such failures occur, CNA estimates the surety loss, net of indemnification and subrogation recoveries, but before the effects of minority interest, to be approximately $200.0 million pretax. In addition, such failures could cause the remaining unimpaired amount due under the credit facility to be uncollectible.

Further information on the Company's exposure to this national contractor and this credit agreement is provided in Note 22 of the Notes to Consolidated Financial Statements included under Item 8 and the Liquidity and Capital Resources section below.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

As a result of the strategic review and other actions described above in "CNA Recent Developments," in 2004 CNA changed how it manages its core operations and makes business decisions. Accordingly, the Company and CNA have revised the reportable business segment structure to reflect these changes.

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

The changes made to the Company's reportable segments were as follows: (1) Standard Lines and Specialty Lines (formerly included in the Property and Casualty segment) are now reported as separate individual segments; (2) CNA Global (formerly included in Specialty Lines) which consists of marine and global standard lines is now included in Standard Lines; (3) CNA Guaranty and Credit (formerly included in Specialty Lines) is currently in run-off and is now included in the Other Insurance segment; (4) CNA Re (formerly included in the Property and Casualty segment) is currently in run-off and is also now included in the Other Insurance segment; (5) Group Operations and Life Operations (formerly separate reportable segments) have now been combined into one reportable segment where the run-off of the retained group and life products will be managed; and (6) certain run-off life and group operations (formerly included in the Other Insurance segment) are now included in the Life and Group Non-Core segment.

Throughout this MD&A the results of operations include discussion and results for all of CNA's businesses, including those sold or exited as described above.

In 2004, expenses incurred related to uncollectible reinsurance receivables were reclassified from “Other operating expenses” to “Insurance claims and policyholders’ benefits.” This change in expenses incurred related to uncollectible reinsurance receivables impacted the loss and loss adjustment expense and the expense ratios. In addition, investment gains (losses) related to the Corporate trading portfolio were reclassified to net investment income on the Consolidated Statements of Operations. Prior period amounts and ratios have been reclassified to conform to the current year presentation. These reclassifications had no impact on net income (loss) or the combined ratios in any period.

In addition, until 2003, the operations of Bulova were formerly reported in its own operating segment and are now included in the Corporate and Other segment. Prior period segment disclosures have been conformed to the current year presentation.

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is a 91% owned subsidiary of the Company.

Net Prior Year Development

The results of operations for the years ended December 31, 2004, 2003 and 2002 were impacted by net prior year development recorded for the property and casualty and the Other Insurance segments. Changes in estimates of claim and allocated claim adjustment expense reserves and premium accruals for prior accident years are defined as net prior year development within this MD&A. These changes can be favorable or unfavorable. The development discussed below is the amount prior to consideration of any related reinsurance allowance impacts.

The following tables summarize pretax net prior year development by segment for the property and casualty segments and the Other Insurance segment for the years ended December 31, 2004, 2003 and 2002.

Year Ended December 31, 2004	**Standard Lines**	**Specialty Lines**	**Other Insurance**	**Total**
(In millions)				
Pretax unfavorable net prior year claim and allocated claim adjustment expense development excluding the impact of corporate aggregate reinsurance treaties:				
Property and casualty, excluding APMT	**$ 107.0**	**$ 75.0**	**$ 20.0**	**$ 202.0**
APMT			**55.0**	**55.0**
Total	**107.0**	**75.0**	**75.0**	**257.0**
Ceded losses related to corporate aggregate reinsurance treaties	**8.0**	**(17.0)**	**9.0**	
Pretax unfavorable net prior year development before impact of premium development	**115.0**	**58.0**	**84.0**	**257.0**
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaties	**(96.0)**	**(33.0)**	**12.0**	**(117.0)**
Ceded premiums related to corporate aggregate reinsurance treaties	**(1.0)**	**5.0**	**(3.0)**	**1.0**

Pretax unfavorable (favorable) premium development		**(97.0)**		**(28.0)**		**9.0**		**(116.0)**
Total 2004 unfavorable net prior year development (pretax)	**$**	**18.0**	**$**	**30.0**	**$**	**93.0**	**$**	**141.0**
Total 2004 unfavorable net prior year development (after-tax and minority interest)	**$**	**11.0**	**$**	**18.3**	**$**	**54.8**	**$**	**84.1**

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

Year Ended December 31, 2003	Standard Lines	Specialty Lines	Other Insurance	Total
(In millions)				
Pretax unfavorable net prior year claim and allocated claim adjustment expense development excluding the impact of corporate aggregate reinsurance treaties:				
Property and casualty, excluding APMT	$ 1,423.0	$ 313.0	$ 346.0	$ 2,082.0
APMT			795.0	795.0
Total	1,423.0	313.0	1,141.0	2,877.0
Ceded losses related to corporate aggregate reinsurance treaties	(485.0)	(56.0)	(102.0)	(643.0)
Pretax unfavorable net prior year development before impact of premium development	938.0	257.0	1,039.0	2,234.0
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaties	209.0	6.0	(32.0)	183.0
Ceded premiums related to corporate aggregate reinsurance treaties	269.0	31.0	58.0	358.0
Pretax unfavorable premium development	478.0	37.0	26.0	541.0
Total 2003 unfavorable net prior year development (pretax)	$ 1,416.0	$ 294.0	$ 1,065.0	$ 2,775.0
Total 2003 unfavorable net prior year development (after-tax and minority interest)	$ 829.5	$ 172.2	$ 624.0	$ 1,625.7

Year Ended December 31, 2002				
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense development excluding the impact of corporate aggregate reinsurance treaties:				

Property and casualty, excluding APMT	$ (189.0)	$ 55.0	$ 228.0	$ 94.0
Ceded losses related to corporate aggregate reinsurance treaties	(14.0)	(41.0)	(93.0)	(148.0)
Pretax (favorable) unfavorable net prior year development before impact of premium development	(203.0)	14.0	135.0	(54.0)
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaties	76.0	17.0	(103.0)	(10.0)
Ceded premiums related to corporate aggregate reinsurance treaties	10.0	29.0	62.0	101.0
Pretax unfavorable (favorable) premium development	86.0	46.0	(41.0)	91.0
Total 2002 unfavorable (favorable) net prior year development (pretax)	$ (117.0)	$ 60.0	$ 94.0	$ 37.0
Total 2002 unfavorable (favorable) net prior year development (after-tax and minority interest)	$ (68.0)	$ 34.9	$ 54.5	$ 21.4

43

Reserves - Estimates and Uncertainties

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

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

Among the many uncertain future events about which CNA makes assumptions and estimates, many of which have become increasingly unpredictable, are claims severity, frequency of claims, mortality, morbidity, expected interest rates, inflation, claims handling and case reserving policies and procedures, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time it is ultimately settled, referred to in the insurance industry as the "tail." These factors must be individually considered in relation to CNA's evaluation of each type of business. Many of these uncertainties are not precisely quantifiable, particularly on a prospective basis, and require significant management judgment.

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

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

- increases in the number and size of water damage claims, including those related to expenses for testing and remediation of mold conditions;
- increases in the number and size of claims relating to injuries from medical products, and exposure to lead;
- the effects of accounting and financial reporting scandals and other major corporate governance failures, which have resulted in an increase in the number and size of claims, including director and officer and errors and omissions insurance claims;

- class action litigation relating to claims handling and other practices;
- increases in the number of construction defect claims, including claims for a broad range of additional insured endorsements on policies; and
- increases in the number of claims alleging abuse by members of the clergy.

44

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

The impact of these and other unforeseen emerging or potential claims and coverage issues is difficult to predict and could materially adversely affect the adequacy of CNA's claim and claim adjustment expense reserves and could lead to future reserve additions. See the Insurance Segment Results sections of this MD&A for a discussion of changes in reserve estimates and the impact on the Company's results of operations.

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

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

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

Due to the factors described above, among others, establishing reserves for APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimation techniques and methodologies, many of which involve significant judgments that are required of management. Due to the inherent uncertainties in estimating reserves for APMT claim and claim adjustment expenses and the degree of variability due to, among other things, the factors described above, CNA may be required to record material changes in its claim and claim adjustment expense reserves in the future, should new information become available or other developments emerge. See the APMT Reserves section of this MD&A for additional information relating to APMT claims and reserves.

CNA's recorded reserves, including APMT reserves, reflect management's best estimate as of a particular point in time based upon known facts, current law and management's judgment. The reserve analyses performed by CNA's actuaries result in point estimates. Management uses these point estimates as the primary factor in determining the carried reserve. The carried reserve may differ from the actuarial point estimate as the result of management's consideration of the factors noted above including, but not limited to, the potential volatility of the projections associated with the specific product being analyzed and the effects of changes in claims handling, underwriting and other factors impacting claims costs that may not be quantifiable through actuarial analysis. For APMT reserves, the reserve analysis performed by CNA's actuaries results in both a point estimate and a range. Management uses the point estimate as the primary factor in determining the carried reserve but also considers the range given the volatility of APMT exposures, as noted above.

For Standard Lines, the December 31, 2004 carried net claim and claim adjustment expense reserve is slightly higher than the actuarial point estimate. For Specialty Lines, the December 31, 2004 carried net claim and claim adjustment expense reserve is also slightly higher than the actuarial point estimate. For both Standard Lines and Specialty Lines, the difference is primarily due to the 2004 accident year. The data from the current accident year is very immature from a claim and claim adjustment expense point of view so it is prudent to wait until experience confirms that the loss ratios should be adjusted. For Other Insurance, the December 31, 2004 carried net claim and claim adjustment expense reserve is slightly higher than the actuarial point estimate. While the actuarial estimates for APMT exposures reflect current knowledge, CNA management feels it is prudent, based on the history of developments in this area, to reflect some volatility in the carried reserve until the ultimate outcome of the issues associated with these exposures is clearer.

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

The following table presents estimated volatility in carried claim and claim adjustment expense reserves for the Standard Lines, Specialty Lines and Other Insurance segments. In addition to the gross carried loss reserves presented below, Claim and Claim Adjustment Expense Reserves as reflected on the Consolidated Balance Sheet include $3,680.0 million at December 31, 2004, related to the Life and Group Non-Core segment.

December 31, 2004	**Gross Carried Loss Reserves**	**Estimated Volatility in Reserves**

(In millions, except %)			
Standard Lines	**$**	**14,302.0**	**+/- 7.0%**
Specialty Lines		**4,860.0**	**+/- 7.0%**
Other Insurance		**8,681.0**	**+/- 25.0%**

The estimated volatility noted above does not represent an actuarial range around CNA’s gross loss reserves, and it does not represent the range of all possible outcomes. The volatility represents an estimate of the inherent volatility associated with estimating loss reserves for the specific type of business written by each segment, and along with the associated reserve balances, allows for the quantification of potential earnings impacts in future reporting periods. The primary characteristics influencing the estimated level of volatility are the length of the claim settlement period, the potential for changes in medical and other claim costs, changes in the level of litigation or other dispute resolution processes, changes in the legal environment and the potential for different types of injuries emerging. Ceded reinsurance arrangements may reduce the volatility. Since ceded reinsurance arrangements vary by year, volatility in gross reserves may not result in comparable impacts to net income or shareholders' equity.

Reinsurance

CNA assumes and cedes reinsurance to other insurers, reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. The ceding of insurance does not discharge the primary liability of CNA. Therefore, a credit exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet the obligations or to the extent that the reinsurer disputes the liabilities assumed under reinsurance agreements.

Property and casualty reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Treaty reinsurance is purchased to protect specific lines of business such as property, workers' compensation and professional liability. Corporate catastrophe reinsurance is also purchased for property and workers' compensation exposure. Most treaty reinsurance is purchased on an excess of loss basis. CNA also utilizes facultative reinsurance in certain lines.

CNA's overall reinsurance program includes certain property and casualty contracts, such as the corporate aggregate reinsurance treaties discussed in more detail later in this section, that are entered into and accounted for on a "funds withheld" basis. Under the funds withheld basis, CNA records the cash remitted to the reinsurer for the reinsurer's margin, or cost of the reinsurance contract, as ceded premiums. The remainder of the premiums ceded under the reinsurance contract not remitted in cash is recorded as funds withheld liabilities. CNA is required to increase the funds withheld balance at stated interest crediting rates applied to the funds withheld balance or as otherwise specified under the terms of the contract. The funds withheld liability 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, interest crediting will cease and additional claim payments are recoverable from the reinsurer. The funds withheld liability is recorded in reinsurance balances payable in the Consolidated Balance Sheets.

Interest cost on funds withheld and other deposits is credited during all periods in which a funds withheld liability exists. Pretax interest cost, which is included in net investment income, was $261.0 million, $335.0 million and $232.0 million in 2004, 2003 and 2002. The amount subject to interest crediting rates on such contracts was $2,564.0 million and $2,782.0 million at December 31, 2004 and 2003. Certain funds withheld reinsurance contracts, including the corporate aggregate reinsurance treaties, require interest on additional premiums arising from ceded losses as if those premiums were payable at the inception of the contract. Additionally, on the corporate aggregate reinsurance treaties discussed below, if CNA exceeds certain aggregate loss ratio thresholds, the rate at which interest charges are accrued would increase and be retroactively applied to the inception of the contract or to a specified date. Any such retroactive interest is accrued in the period the additional premiums arise or the loss ratio thresholds are met. The amount of retroactive interest, included in the totals above, was $46.0 million, $147.0 million and $10.0 million in 2004, 2003 and 2002.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

The following table summarizes the amounts receivable from reinsurers at December 31, 2004 and 2003.

December 31, (In millions)		2004		2003
Reinsurance receivables related to insurance reserves:				
Ceded claim and claim adjustment expense	$	13,878.4	$	14,065.2
Ceded future policy benefits		1,259.6		1,218.2
Ceded policyholders' funds		64.8		6.6
Billed reinsurance receivables		685.2		813.1
Reinsurance receivables		15,888.0		16,103.1
Allowance for uncollectible reinsurance		(531.1)		(572.6)
Reinsurance receivables, net of allowance for uncollectible reinsurance	$	15,356.9	$	15,530.5

CNA has established an allowance for uncollectible reinsurance receivables. The allowance for uncollectible reinsurance receivables was $531.1 million and $572.6 million at December 31, 2004 and December 31, 2003. The net decrease in the allowance was primarily due to a release of a previously established allowance related to The Trenwick Group resulting from the execution of commutation agreements in 2004, partially offset by a net increase in the allowance for other reinsurance receivables. The provision incurred related to uncollectible reinsurance receivables is presented as a component of "Insurance claims and policyholders' benefits" on the Consolidated Statements of Operations.

Prior to the April of 2004 sale of its individual life and annuity business to Swiss Re Life & Health America Inc. ("Swiss Re"), CNA had reinsured a portion of this business through coinsurance, yearly renewable term and facultative programs to various reinsurers. As a result of the sale of the individual life and annuity business, 100% of the net reserves were reinsured to Swiss Re. Subject to certain exceptions, Swiss Re assumed the credit risk of the business that was previously reinsured to other carriers. As of December 31, 2004, CNA ceded $1,012.0 million of future policy benefits to Swiss Re. In connection with the sale of the group benefits business, CNA ceded insurance reserves to Hartford Financial Services, Inc. ("Hartford"). As of December 31, 2004 and 2003, these ceded reserves were $1,726.0 million and $1,473.0 million.

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 $4,561.0 million and $5,255.0 million at December 31, 2004 and 2003.

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

In 2003, CNA commuted all remaining ceded and assumed reinsurance contracts with four Gerling entities. The commutations resulted in a pretax loss of $109.0 million, which was net of a previously established allowance for doubtful accounts of $47.0 million. CNA has no further exposure to the Gerling companies that are in run-off.

CNA’s largest recoverables from a single reinsurer at December 31, 2004, including prepaid reinsurance premiums, were approximately $2,236.0 million from subsidiaries of The Allstate Corporation, $2,163.0 million from subsidiaries of Swiss Reinsurance Group, $1,843.0 million from subsidiaries of Hannover Reinsurance (Ireland), Ltd., $1,726.0 million from Hartford Life Group Insurance Company, $944.0 million from American Reinsurance Company, and $603.0 million from subsidiaries of the Berkshire Hathaway Group.

In 2002, CNA entered into a corporate aggregate reinsurance treaty covering substantially all of CNA’s property and casualty lines of business (the “2002 Cover”). Ceded premium related to the reinsurer’s margin of $10.0 million was recorded in 2002. No losses were ceded during 2002 under this contract, and the 2002 Cover was commuted as of December 31, 2002.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

CNA has an aggregate reinsurance treaty related to the 1999 through 2001 accident years that covers substantially all of CNA's property and casualty lines of business (the "Aggregate Cover"). The Aggregate Cover provides for two sections of coverage. These coverages attach at defined loss ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the treaty, has a $500.0 million limit per accident year of ceded losses and an aggregate limit of $1.0 billion of ceded losses for the three accident years. The ceded premiums associated with the first section are a percentage of ceded losses and for each $500.0 million of limit the ceded premium is $230.0 million. The second section of the Aggregate Cover, which only relates to accident year 2001, provides additional coverage of up to $510.0 million of ceded losses for a maximum ceded premium of $310.0 million. Under the Aggregate Cover, interest charges on the funds withheld liability accrue at 8.0% per annum. The aggregate loss ratio for the three-year period has exceeded certain thresholds which requires additional premiums to be paid and an increase in the rate at which interest charges are accrued. This rate will increase to 8.25% per annum commencing in 2006. Also, if an additional aggregate loss ratio threshold is exceeded, additional premiums of 10.0% of amounts in excess of the aggregate loss ratio threshold are to be paid retroactively with interest. Any such premiums would be recorded in the period in which the loss ratio threshold is met.

During 2003, as a result of the unfavorable net prior year development recorded related to accident years 2000 and 2001, the $500.0 million limit related to the 2000 and 2001 accident years under the first section was fully utilized and losses of $500.0 million were ceded under the first section of the Aggregate Cover. In 2001, as a result of reserve additions including those related to accident year 1999, the $500.0 million limit related to the 1999 accident year under the first section was fully utilized and losses of $510.0 million were ceded under the second section as a result of losses related to the World Trade Center ("WTC") event. The aggregate limits for the Aggregate Cover have been fully utilized.

The impact of the Aggregate Cover was as follows:

Year Ended December 31		**2004**		2003		2002
(In millions)						
Ceded earned premium	**$**	**(1.0)**	$	(258.0)		
Ceded claim and claim adjustment expenses				500.0		
Interest charges		**(82.0)**		(147.0)	$	(51.0)
Pretax (expense) benefit	**$**	**(83.0)**	$	95.0	$	(51.0)

In 2001, CNA entered into a one-year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property and casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $761.0 million of ceded losses. The ceded premiums are a percentage of ceded losses. The ceded premium related to full utilization of the $761.0 million of limit is $456.0 million. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. During 2003, the CCC Cover was fully utilized. 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. In 2004, the aggregate loss ratio exceeded this threshold which required the interest rate to increase retroactively to the beginning of the contract, generating retroactive interest charges of $46.0 million which were recorded in 2004.

At CNA's discretion, the contract can be commuted annually on the anniversary date of the contract. The CCC Cover requires mandatory commutation on December 31, 2010, if the agreement has not been commuted on or before such date. Upon mandatory commutation of the CCC Cover, the reinsurer is required to release to CNA the existing balance of the funds withheld account if the unpaid ultimate ceded losses at the time of commutation are less than or equal to the funds withheld account balance. If the unpaid ultimate ceded losses at the time of commutation are greater than the funds withheld account balance, the reinsurer will release the existing balance of the funds withheld account and pay CNA the present value of the projected amount the reinsurer would have had to pay from its own funds absent a commutation. The present value is calculated using 1-year London InterBank Offered Rate ("LIBOR") as of the date of the commutation.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

The impact of the CCC Cover was as follows:

Year Ended December 31 (In millions)	**2004**	2003	2002
Ceded earned premium		$ (100.0)	$ (101.0)
Ceded claim and claim adjustment expenses		143.0	148.0
Interest charges	**$ (91.0)**	(59.0)	(37.0)
Pretax (expense) benefit	**$ (91.0)**	$ (16.0)	$ 10.0

The impact by segment of the Aggregate Cover and the CCC Cover was as follows:

Years Ended December 31 (In millions)	**2004**	2003	2002
Standard Lines	**$ (114.0)**	$ 70.0	$ (53.0)
Specialty Lines	**(1.0)**	9.0	3.0
Other Insurance	**(59.0)**		9.0
Pretax (expense) benefit	**$ (174.0)**	$ 79.0	$ (41.0)

Terrorism Insurance

CNA and the insurance industry incurred substantial losses related to the 2001 WTC event. For the most part, 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 Terrorism Risk Insurance Act of 2002 (the "Act") established a program within the Department of the Treasury under which the federal government will share the risk of loss by commercial property and casualty insurers arising from future terrorist attacks. The Act expires on December 31, 2005. Each participating insurance company must pay a deductible, ranging from 7.0% of direct earned premiums from commercial insurance lines in 2003 to 15.0% in 2005, before federal government assistance becomes available. For losses in excess of a company's deductible, the federal government will cover 90.0% of the excess losses, while companies retain the remaining 10.0%. Losses covered by the program will be capped annually at $100.0 billion; above this amount, insurers are not liable for covered losses and Congress is to determine the procedures for and the source of any payments. Amounts paid by the federal government under the program over certain phased limits are to be recouped by the Department of the Treasury through policy surcharges, which cannot exceed 3.0% of annual premium.

CNA is required to participate in the program, but it does not cover life or health insurance products. State law limitations applying to premiums and policies for terrorism coverage are not generally affected under the program. The Act requires insurers to offer terrorism coverage through 2004. On June 18, 2004, the Department of the Treasury announced its decision to extend this offer requirement until December 31, 2005.

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

Terrorism-related reinsurance losses are not covered by the Act. CNA's assumed reinsurance arrangements either exclude terrorism coverage or significantly limit the level of coverage.

The bills described above would extend the Act for two additional years and require that terrorism coverage be made available for all years. Deductibles under the bills would be held at 15.0% in 2006 and raised to 20.0% in 2007. Notwithstanding these developments, enactment of a law extending the Act is not assured.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

If the Act is not extended CNA will, among other steps, seek to exclude risks with perceived terrorism exposure, to the extent permitted by law. Strict underwriting standards and risk avoidance measures will be taken where exclusions are not permitted. Annual policy renewals with effective dates of January 1, 2005 or later will be underwritten with the assumption that the Act will not be extended and that no Federal backstop for terrorism exposure will be available. In July 2004, the National Association of Insurance Commissioners adopted a Model Bulletin available for use in states that intend to approve terrorism coverage limitations in the event the Act is not reauthorized. Since that time, a number of states have announced that they will approve, on an expedited basis, conditional exclusions which fall within certain limitations. Other states appear unlikely to approve terrorism exclusions. There is no assurance that CNA will be able to eliminate or limit terrorism exposure risks in coverages, or that regulatory authorities will approve policy exclusions for terrorism.

Restructuring

In 2001, CNA finalized and approved two separate restructuring plans. The first plan related to CNA's Information Technology operations. The remaining accrual of $3.0 million was released during 2004. The second plan related to restructuring the property and casualty segments and Life and Group Non-Core segment, discontinuation of the variable life and annuity business and consolidation of real estate locations (the "2001 Plan").

2001 Plan

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

During 2002, $32.0 million pretax, or $18.4 million after-tax and minority interest, of this accrual was reduced. No restructuring or other related charges or releases related to the 2001 Plan were incurred in 2003 or 2004.

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 and Group Non-Core segment, 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 related 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

The following tables summarize the 2001 Plan Initial Accrual and the activity in that accrual through December 31, 2004 by type of restructuring cost and by segment.

(In millions)	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
Costs that did not require cash				(35.0)	(35.0)
Payments charged against liability	(2.0)				(2.0)
Accrued costs at December 31, 2001	66.0	56.0	30.0		152.0
Costs that did not require cash	(1.0)	(3.0)	(9.0)		(13.0)
Payments charged against liability	(53.0)	(12.0)	(4.0)		(69.0)
Reduction of accrual	(10.0)	(7.0)	(15.0)		(32.0)
Accrued costs at December 31, 2002	2.0	34.0	2.0		38.0
Costs that did not require cash			(1.0)		(1.0)
Payments charged against liability	(2.0)	(15.0)			(17.0)
Accrued costs at December 31, 2003		19.0	1.0		20.0
Payments charged against liability		**(5.0)**			**(5.0)**
Accrued costs at December 31, 2004		**$ 14.0**	**$ 1.0**		**$ 15.0**

(In millions)	Standard Lines	Specialty Lines	Life and Group Non-Core	Other Insurance	Total
2001 Plan Initial Accrual	$ 42.0	$ 4.0	$ 54.0	$ 89.0	$ 189.0
Costs that did not require cash			(35.0)		(35.0)
Payments charged against liability				(2.0)	(2.0)
Accrued costs at December 31, 2001	42.0	4.0	19.0	87.0	152.0
Costs that did not require cash				(13.0)	(13.0)
Payments charged against liability	(34.0)	(1.0)	(18.0)	(16.0)	(69.0)
Reduction of accrual	(7.0)	(2.0)	(1.0)	(22.0)	(32.0)
Accrued costs at December 31, 2002	1.0	1.0		36.0	38.0
Costs that did not require cash				(1.0)	(1.0)
Payments charged against liability	(1.0)	(1.0)		(15.0)	(17.0)
Accrued costs at December 31, 2003				20.0	20.0
Payments charged against liability				**(5.0)**	**(5.0)**
Accrued costs at December 31, 2004	$	**$**	$	**$ 15.0**	**$ 15.0**

Approximately $3.0 million of the remaining accrual for the 2001 Plan, primarily related to lease termination costs, is expected to be paid in 2005.

Segment Results

The following is a discussion of the results of operations for CNA's operating segments. In evaluating the results of the Standard Lines and Specialty Lines, management utilizes the combined ratio, the loss ratio, the expense ratio, and the dividend ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

52

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

Standard Lines

The following table summarizes the results of operations for Standard Lines for the years ended December 31, 2004, 2003 and 2002.

Year Ended December 31	**2004**	2003	2002
(In millions, except %)			
Net written premiums	**$ 4,582.0**	$ 4,563.0	$ 4,755.0
Net earned premiums	**4,917.0**	4,532.0	4,678.0
Income (loss) before net realized investment gains (losses)	**201.2**	(853.2)	151.1
Net realized investment gains (losses)	**126.2**	211.1	(71.1)
Net income (loss)	**327.4**	(642.1)	41.8
Ratios:			
Loss and loss adjustment expense	**70.8%**	98.0%	73.1%
Expense	**34.6**	42.7	31.5
Dividend	**0.2**	2.2	1.6
Combined	**105.6%**	142.9%	106.2%

2004 Compared with 2003

Net results increased $969.5 million in 2004 as compared with 2003. This improvement was due primarily to decreased unfavorable net prior year development of $828.8 million after-tax and minority interest ($1,398.0 million pretax), a decrease in the bad debt provision recorded for insurance receivables of $52.0 million after-tax and minority interest ($88.0 million pretax), a decrease in the bad debt provision for reinsurance receivables of $43.8 million after-tax and minority interest ($74.0 million pretax), decreased dividend development of $41.1 million after-tax and minority interest ($69.0 million pretax), a decrease in certain insurance related assessments of $31.9 million after-tax and minority interest ($54.0 million pretax) and increased net investment income of $52.0 million after-tax and minority interest ($88.0 million pretax), primarily due to reduced interest charges of $57.5 million after-tax and minority interest ($97.0 million pretax) related to the corporate aggregate and other reinsurance treaties. These favorable items were partially offset by decreased net realized investment results of $84.9 million after-tax and minority interest ($142.0 million pretax) and increased catastrophe losses in 2004. The impact of catastrophes was $167.0 million after-tax and minority interest ($282.0 million pretax) and $64.0 million after-tax and minority interest ($110.0 million pretax) for 2004 and 2003, as discussed below. These catastrophe impacts are net of anticipated reinsurance recoveries, and include the effect of reinstatement premiums and estimated insurance assessments. See the Investments section of the MD&A for further discussion on net investment income and net realized investment gains (losses).

Net written premiums for Standard Lines increased $19.0 million in 2004 as compared with 2003. This increase was primarily driven by decreased premiums ceded of $270.0 million to corporate aggregate and other reinsurance treaties in 2004 as compared with 2003. The 2003 cessions were principally due to the unfavorable net prior year development recorded in 2003. This favorable impact was partially offset by lower new business as competition increases and carriers protect renewals, as well as intentional underwriting actions in business classified as high hazard. Specifically impacting retention was the impact of intentional underwriting actions, including reductions in certain silica-related risks and workers compensation policies classified as high hazard. The net written premium results are consistent with CNA's strategy of portfolio optimization. CNA's priority is a diversified portfolio in profitable classes of business.

Standard Lines averaged rate increases of 4.0%, 16.0% and 25.0% for 2004, 2003 and 2002 for the contracts that renewed during those periods. Retention rates of 70.0%, 72.0% and 69.0% were achieved for those contracts that were up for renewal. Competitive market pressures are expected to continue to contribute to the moderation in rate increases as the property and casualty market pricing continues to soften.

Net earned premiums increased $385.0 million in 2004 as compared with 2003. This increase was primarily driven by decreased ceded premiums of $270.0 million related to corporate aggregate and other reinsurance treaties.

The combined ratio decreased 37.3 points in 2004 as compared with 2003. The loss ratio decreased 27.2 points in 2004 as compared with 2003. These improvements were primarily due to decreased net unfavorable prior year development of $1,398.0 million and a decrease in the bad debt provision recorded for reinsurance receivables of $74.0 million. These favorable impacts on the 2004 loss ratio were partially offset by increased catastrophe losses. Catastrophe losses of $260.0 million and $110.0 million were recorded in 2004 and 2003. The increased 2004 catastrophe losses were primarily due to a $235.0 million loss resulting from Hurricanes Charley, Frances, Ivan and Jeanne.

Unfavorable net prior year development of $18.0 million was recorded in 2004, including $115.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $97.0 million of favorable premium development. Unfavorable net prior year development of $1,416.0 million, including $938.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $478.0 million of unfavorable premium development, was recorded in 2003.

The following table summarizes the gross and net carried reserves as of December 31, 2004 and 2003 for Standard Lines.

December 31 **(In millions)**		**2004**		2003
Gross Case Reserves	**$**	**6,904.0**	$	6,416.0
Gross IBNR Reserves		**7,398.0**		7,866.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$**	**14,302.0**	$	14,282.0
Net Case Reserves	**$**	**4,761.0**	$	4,590.0
Net IBNR Reserves		**4,547.0**		4,383.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$**	**9,308.0**	$	8,973.0

Approximately $190.0 million of unfavorable net prior year claim and allocated claim adjustment expense development recorded during 2004 resulted from increased severity trends for workers compensation on large account policies primarily in accident years 2002 and prior. Favorable premium development on retrospectively rated large account policies of $50.0 million was recorded in relation to this unfavorable net prior year claim and allocated claims adjustment expense development.

Approximately $60.0 million of unfavorable net prior year claim and allocated claim adjustment expense development was recorded in involuntary pools in which CNA's participation is mandatory and primarily based on premium writings. Approximately $15.0 million of this unfavorable net prior year claim and allocated claim adjustment expense development was related to CNA's share of the National Workers Compensation Reinsurance Pool ("NWCRP"). During 2004, the NWCRP reached an agreement with a former pool member to settle their pool liabilities at an amount less than their established share. The result of this settlement will be a higher allocation to the remaining pool members, including CNA. The remainder of this unfavorable net prior year claim and allocated claim adjustment expense development was primarily due to increased severity trends for workers compensation exposures in older years.

Approximately $60.0 million of unfavorable net prior year claim and allocated claim adjustment expense development resulted from the change in estimates due to increased severity trends for excess and surplus business driven by excess liability, liquor liability and coverages provided to apartment and condominium complexes. Approximately $105.0 million of favorable net prior year claim and allocated claim adjustment expense development resulted from reserve studies of commercial auto liability policies and the liability portion of package policies. The change was due to improvement in the severity and number of claims for this business. Approximately $85.0 million of favorable net prior year claim and allocated claim adjustment expense development was due to improvement in the severity and number of claims for property coverages primarily in accident year 2003.

Other favorable net prior year premium development of approximately $50.0 million resulted primarily from higher audit and endorsement premiums on workers compensation policies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - CNA Financial - (Continued)

In addition to the above, during 2004, CNA executed commutation agreements with several members of the Trenwick Group. These commutations resulted in unfavorable claim and claim adjustment expense reserve development which was more than offset by a release of a previously established allowance for uncollectible reinsurance.

The following discusses net prior year development for Standard Lines recorded in 2003.

Approximately $495.0 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded related to construction defect claims in 2003. Based on analyses completed during the third quarter of 2003, it became apparent that the assumptions regarding the number of claims, which were used to estimate the expected losses, were no longer appropriate. The analyses indicated that the number of claims reported was higher than expected primarily in states other than California. States where this activity is most evident include Texas, Arizona, Nevada, Washington and Colorado. The number of claims reported in states other than California during the first six months of 2003 was almost 35.0% higher than the last six months of 2002. The number of claims reported during the last six months of 2002 increased by less than 10.0% from the first six months of 2002. In California, claims resulting from additional insured endorsements increased throughout 2003. Additional insured endorsements are regularly included on policies provided to subcontractors. The additional insured endorsement names general contractors and developers as additional insureds covered by the policy. Current California case law (*Presley Homes, Inc. v. American States Insurance Company,* (June 11, 2001) 90 Cal App. 4th 571, 108 Cal. Rptr. 2d 686) specifies that an individual subcontractor with an additional insured obligation has a duty to defend the additional insured in the entire action, subject to contribution or recovery later. In addition, the additional insured is allowed to choose one specific carrier to defend the entire action. These a