Thank you and good morning.

I’ve always wanted to start a speech off with the following Beatles quote – and today I’m gonna do it: “It’s wonderful to be here; it’s certainly a thrill.” I feel like I am an imposter who is taking my 21-year-old son’s job. You see, at the age of 18, when he was thinking of what he wanted to do for a career, he settled on the profession of keynote speaker. So here I am today, scooping his first gig.

For those of you who may not know, Loews Corporation is a diverse holding company, which owns six very different subsidiary companies – and not one of them sells lumber or shows movies. And while our six subsidiaries may vary, our business strategies are actually quite similar.

At Loews, our investment strategy is based upon analyzing economic variables of a particular industrial sector and then investing for the purpose of long term return on investment to our shareholders. Sounds simple – well, yes and no.

It is simple because we tend to look at investment opportunities using basic microeconomic principles, like supply and demand and, . . . It is not simple because -- as we all know -- investing in industries like energy can be highly cyclical and very risky.

time arbitrage

I said that Loews tends to look for “long term” return on investment; we do that by seeking to acquire businesses that are temporarily undervalued and that have a strong senior management team. We then invest the capital necessary in order to achieve our goal of generating the highest possible returns on our equity investment. This is a strategy that’s been successful for us, and it’s the one that initially led us to explore the energy sector.

Let's go back to 1975, when there was a building boom in supertankers, brought about by relatively low oil prices that had caused large increases in oil demand. A few years later, in the late '70s, there was an oil embargo and resulting oil price hike, which drastically reduced the amount of oil coming out of the Persian Gulf – much less oil, but still lots of tankers, now just bobbing in the water. It was soon afterward, in the early '80s, that we started thinking about buying tankers. We had seen from reading newspapers that the worldwide supply of tankers was vastly overbuilt; according to quoted estimates, ships were trading at scrap value

the market required only 30% of the ships that were afloat. As a result, ships were trading at scrap value. That's right. Perfectly good seven-year-old ships were selling like hamburger meat – dollars per pound of steel on the ship. Or, to put it another way, one was able to buy fabricated steel for the price of scrap steel. We had confidence that with continued scrapping of ships and increased oil demand, one day the remaining ships would be worth far more than their value as scrap. We were sure of three other things: First, by buying at scrap value, there was very little downside. Second, we knew that the ships would not rust cycles and defining the downside!

away while we waited for the cyclical market to turn. And third, we knew that no one would build more ships with existing ships selling at a 90% discount to the new build cost. We were confident that the demand for oil, particularly from the Persian Gulf, would ultimately increase with worldwide economic growth and so the remaining tankers would ultimately be worth much more than their scrap value.

So we did the logical thing -- we took out the yellow pages, looked under “Brokers comma Tankers,” and from there, made our way to Scotland to get a first hand look and “kick the tires” of some of these big ships that are almost four football fields long. And on board one of these massive vessels was formulated the Jim Tisch $5 Million Test. And what is the Jim Tisch $5 Million Test, you may ask? While on the ship you look to the front and then you look to the rear – then take a look to the right and then to the left –then you scratch your head and say to yourself – “Gee! You mean you get all this for $5 million?!” Just to give you some perspective, these ships, capable of hauling 2-3 million barrels of oil, had been built eight years earlier for a cost of over $50 million.

In all, we purchased six tankers in the early 80's, all by using the Jim Tisch $5 Million Test. By 1990, the market had turned, as – you guessed it – too many ships were scrapped and the volume of oil coming out of the Persian Gulf increased. And, as good capitalists, when this happened we sold a 50 percent interest in our ships for 10 times the valuation of our initial investment. 10X
or ten-ex.

Fast-forward to 1997 when opportunity knocked again. We witnessed a set of conditions similar to those of the mid-'70s – little construction of new oil tankers despite increased production of oil from the Persian Gulf.

That year we decided to build four new ships in reaction to the distinct lack of new building. We sold those ships about a year and a half ago – relying on the same principles applied as before, except in reverse. Oil prices were going up, but then, so was the supply of ships. We could sense that the increased prices for oil would negatively affect demand for oil, and ultimately ships, and therefore bring down the value of our ships. We sold -- probably a year too soon -- but in this business, I would prefer to be early rather than late.

In 1988 we saw a similar situation develop in a related industry -- offshore drilling. In the 80's, offshore drilling rigs had declined in value dramatically as oil and gas prices were relatively low and worldwide hydrocarbon reserves were flush. But we saw that the demand for oil and natural gas was increasing as a result of these lower product prices. We knew that the demand for rigs would return, and we knew that – like the tankers before them – the rigs would not rust away in the interim.

So we took a trip to the Gulf of Mexico where we went aboard a jack-up oil rig and, yes, we applied the Jim Tisch $5 Million Dollar Test. Remember? You look to front – you look to the back -- you know the rest. A few weeks later, we had bought an offshore rig company named Diamond M, and became the proud owners of 10 drilling rigs for a total investment of about $50 million.

A few years later, with the business still bouncing along the bottom, we bought another offshore oil drilling company, Odeco, which increased our investment in the rig business tenfold, moving us from a

$50 million investment to an investment worth $500 million. We renamed the company Diamond Offshore.

By 1995, the cyclical drilling market had changed, and we were making some money in the business. So, as good capitalists, we took the company public where we were able to get all of our money back from our initial investment and still retain a 55 percent stake in the company.

Today, Diamond Offshore has a valuation of about $10 billion, $5 ½ billion of which is held directly by Loews.

Oil drilling – like tankers -- is a cyclical business. Our rigs are contracted by oil companies who pay a day rate which is determined by the supply and demand for oil rigs. An oil rig takes at least three years to build, so the supply of these rigs is relatively fixed over the short-to-intermediate term. However, the demand for rigs can gyrate wildly based on the temperament of oil company managements in response to oil prices, world events, and other factors. Day rates can go up or down by a factor of five or more, just as we've seen in the past year and a half. Whereas in mid-2004 we

bottleneck potential

volatility

the "something"

contracted a jack-up rig at $27,000 per day, today that same rig commands over $100,000 per day.

asset play

We got into the business because we believed the rig assets were undervalued. Over time, we were willing to ride out some very lean years, patiently waiting for the turnaround and humming the Ruby and the Romantics standard, "Our Day Will Come". So, while in the first half of 2004 Diamond Offshore was operating at a loss, today Diamond is very much in the black. Analysts predict Diamond's earnings will swell to above $600 million in 2006 and some fearless forecasters see earnings of $1½ billion in ’08 – I hope they are right.

Micro Economics 101

As an undergraduate in college, I majored in Economics and never expected that the basic principles I learned in “Micro-Economics 101” would guide our energy investing philosophy. So much for all that time spent taking the advanced courses. I tell my daughter, who is enrolled in the JD/MBA program at Harvard: you don’t get insights like Ruby and the Romantics or the Jim Tisch $5 Million Test burning the midnight oil in Cambridge.

This brings me to our most recent venture in the energy sector, Boardwalk Pipelines, which is the combination of two pipeline companies, Texas Gas Transmission, and Gulf South Pipelines. Texas Gas – which, despite the name actually calls Owensboro, Kentucky, its home – was acquired by Loews in May of 2003 and operates a 5,900-mile interstate natural gas pipeline and storage system which hauls gas from the Gulf of Mexico and Louisiana up through Ohio.

In an era of one percent money market rates that existed in ‘03 – and that’s pre-tax returns -- we saw an opportunity where we could invest in long term assets and receive double-digit, after-tax, cash-on-cash returns on equity. The point is – we're adaptable to move from the most volatile of assets to some of the most stable of assets.

In December of 2004, we added to our natural gas pipeline interests by purchasing Gulf South Pipeline Company. Gulf South has approximately 8,000 miles of pipeline ringing the Gulf Coast region from south Texas to Pensacola, Florida. When we owned just Texas Gas, it was an orphan investment. Combining Gulf South with Texas Gas enabled us to create a major pipeline system.

We’re always looking for good returns for our shareholders. Sometimes that flavor is volatile and aggressive and sometimes that flavor is caution and stability.

The natural gas transmission industry became attractive to us not because of price or demand for gas, but more so because we were able to buy at distressed prices the quality assets of pipeline owners who had overextended themselves in other areas, and needed liquidity. We have since taken our pipeline investments public in the form of an MLP which today values our investment at more than twice our cost.

KEEP IT SIMPLE

HEURISTICS

But our investments in ships, rigs, and pipelines are history and those investments are not available now at the same bargain basement price. Or, to put it another way, you might ask, "What have you done for me lately?" There are, I believe, a number of lessons that come out of our forays into value investing in the energy field. The first lesson is to keep it simple. In all of our energy investments, the basic analysis was not particularly complicated and the investment decision was driven by a simple view of the respective markets. In the case of ships, we studied the supply and demand for large tankers, taking into account the torrid rate of scrapping and the non-existent order book for new buildings. We concluded that before any new ships would be built, the ships that we bought for scrap would be worth a fortune. Simple. And the same applied to drilling rigs eight years later. No one was going to build new rigs until the existing ones generated earnings. Simple. And in the case of pipelines, we simply compared the double-digit after-tax cash-on-cash return on our equity investment to the 1-percent pre-tax

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return we would have earned if we had not made the investment. Doubly simple.

POINTS OF CHANGE

Besides keeping it simple, it is important to remember that the consensus is oftentimes wrong – not always wrong, but

because the form moves away from the crowd?

often enough. Invariably, analysts do not see changes coming – they tend to do what I call "rear-view mirror analysis" by projecting along a straight line from the most recent past and therefore oftentimes miss some big moves. When it comes to cyclical industries, using the recent past rather than the panorama of multiple cycles as your guide can lead you either to not buying at all or selling too soon. So the ability to foresee changes in cyclical industries when others don’t see them can be worth a fortune.

Finally, patience is one of the most important virtues for making any value investment. Value investments are not fashion investments or momentum investments, and they can take time to develop and mature. So investors have to make sure that they have the courage of their conviction to make the investments, and the patience to wait for the markets to see the value that they so presciently foresaw. In the case of tankers and rigs, that meant using no leverage to buy the assets. As for pipelines, it meant having the financial wherewithal to bail out over-levered borrowers by buying some of their crown jewels.

So, to summarize: Keep it simple, don’t project along a straight line, and patience three attributes necessary for a good value investor. And I am pleased to say that you have been so attentive this morning that I can declare that you all have one of these attributes: patience. Thank you for having it and for listening to me.