Liberty Mutual Group Reports 2Q 2004 Net Income of $407 Million

BOSTON, Mass., August 4, 2004 – Liberty Mutual Group ("LMG") today reported net income for the three and six months ended June 30, 2004 of $407 million and $691 million, respectively, representing a $210 million and $480 million increase over the same periods in 2003.

Second Quarter Highlights:

- Revenues for the three months ended June 30, 2004 were $4.781 billion, a $660 million or 16.0% increase over the same period in 2003.
- Net written premium for the three months ended June 30, 2004 was $4.419 billion, a $867 million or 24.4% increase over the same period in 2003.
- Pre-tax operating income for the three months ended June 30, 2004 was $356 million, a $284 million or 394.4% increase over the same period in 2003.
- The combined ratio for the three months ended June 30, 2004 was 98.8%, a 6.5 percentage point improvement over the same period in 2003.
- Cash flow from operations for the three months ended June 30, 2004 was $704 million, a $43 million or 6.5% increase over the same period in 2003.
- On June 17, 2004, A.M. Best Co. affirmed its financial strength ratings of A (Excellent) on Liberty Mutual Insurance Company ("LMIC") and its related property/casualty entities. The rating outlook was revised to stable from negative for all of the property/casualty companies. For a complete list of ratings, visit the Company's Investor Relations web site at www.libertymutual.com/investors.

Year-to-Date Highlights:

- Revenues for the six months ended June 30, 2004 were $9.485 billion, a $1.734 billion or 22.4% increase over the same period in 2003.
- Net written premium for the six months ended June 30, 2004 was $8.989 billion, a $1.632 billion or 22.2% increase over the same period in 2003.
- Pre-tax operating income for the six months ended June 30, 2004 was $581 million, a $416 million or 252.1% increase over the same period in 2003.
- The combined ratio for the six months ended June 30, 2004 was 101.0%, a 4.5 percentage point improvement over the same period in 2003.
- Cash flow from operations for the six months ended June 30, 2004 was $1.553 billion, a $255 million or 19.6% increase over the same period in 2003.

Selected Statistics:

($ in Millions)	**June 30, 2004**	**December 31, 2003**	**Change**
Total investments	$36,408	$35,549	$859
Total assets	68,638	64,422	4,216
Total long term debt	2,091	1,668	423
Policyholders' equity	7,470	7,381	89
Debt to capitalization including AOCI	23.5%	19.4%	4.1 pts
Debt to capitalization excluding AOCI	25.0%	22.3%	2.7 pts

Consolidated Results of Operations for the Three and Six Months Ended June 30, 2004 and 2003

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$4,781	$4,121	16.0%	$9,485	$7,751	22.4%
Pre-tax operating income	356	72	NM	581	165	NM
Realized investment gains (losses), net	37	148	(75.0)	94	74	27.0
Federal and foreign income tax expense	-	(35)	(100.0)	-	(38)	(100.0)
Discontinued operations, net of tax	14	12	16.7	16	10	60.0
Net income	$407	$197	106.6%	$691	$211	NM

NM = Not meaningful (represents increases or decreases greater than 200%, or changes from a net gain to a net loss, or vice versa).

Revenues for the three and six months ended June 30, 2004 were $4.781 billion and $9.485 billion, respectively, representing a $660 million and $1.734 billion increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income, net realized investment gains/losses, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2004 was $4.069 billion and $8.036 billion, respectively, representing a $671 million and $1.485 billion increase over the same periods in 2003. The increase in the quarter and year-to-date reflects acquisition activity, including dispositions and an increase in the retention on the OneBeacon business, of $323 million and $712 million, respectively. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in retention levels on renewal business across many of the Company's major product lines.

Net investment income for the three and six months ended June 30, 2004 was $520 million and $1.022 billion, respectively, representing an $82 million and $170 million increase over the same periods in 2003. The increase in both periods reflects an increase in average invested assets resulting from acquisition activity and improved cash flow from operations, partially offset by lower investment yields. Limited partnership results (largely venture capital and leverage buyout funds) also accounted for $32 million and $70 million of the improvement in the quarter and year-to-date results, respectively.

Net realized investment gains for the three and six months ended June 30, 2004 were $37 million and $94 million, respectively, representing a $111 million decrease and a $20 million increase over the same periods in 2003. In the first quarter of 2004, the Company contributed one of its energy holdings to a new limited partnership in exchange for an interest in the new partnership. The final valuation underlying the accounting by the general partner are expected to be completed in the third quarter of 2004. Upon completion of the merger accounting, the Company could realize a gain on the transaction.

Fee and other revenues for the three and six months ended June 30, 2004 were $155 million and $333 million, respectively, representing a $18 million and $59 million increase over the same periods in 2003. The increase in both periods was primarily attributable to higher fee revenues from the Company's involuntary market servicing carrier operations.

Claims, benefits and expenses for the three and six months ended June 30, 2004 were $4.388 billion and $8.810 billion, respectively, representing a $487 million and $1.298 billion increase over the same periods in 2003. The increase in the quarter and year-to-date primarily reflects acquisition activity, including dispositions and an increase in the retention on the OneBeacon business (including other underwriting expenses), of $314 million and $721 million, respectively, and the non-renewal of certain workers' compensation excess of loss reinsurance treaties, of $46 million and $71 million, respectively. Partially offsetting these increases in the quarter and year-to-date was a decrease in incurred losses attributable to prior years of $107 million and $91 million, respectively, and a decrease in catastrophe losses of $14 million and $16 million, respectively. The balance of the increase in both periods primarily reflects business growth and general cost increases.

CONSOLIDATED	Three Months Ended June 30, 2004	2003	Change (Points)	Six Months Ended June 30, 2004	2003	Change (Points)
Combined ratio before catastrophes and incurred attributable to prior years						
Claims and claim adjustment expense ratio	70.2%	71.9%	(1.7)	71.2%	72.3%	(1.1)
Underwriting expense ratio	25.3	26.7	(1.4)	25.8	27.0	(1.2)
Dividend ratio	0.3	0.5	(0.2)	0.3	0.5	(0.2)
Subtotal	95.8	99.1	(3.3)	97.3	99.8	(2.5)
Catastrophes:						
- Natural	1.4	2.2	(0.8)	1.2	1.8	(0.6)
- September 11, 2001	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	0.1	0.7	(0.6)	0.1	1.1	(1.0)
- All other	0.9	2.8	(1.9)	1.8	2.3	(0.5)
Discount accretion	0.6	0.5	0.1	0.6	0.5	0.1
Total combined ratio[1]	98.8%	105.3%	(6.5)	101.0%	105.5%	(4.5)

[1] The combined claim and expense ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined claim and expense ratio, expressed as a percentage, is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio. Beginning in the second quarter 2004, results of the Company's Group Market operations have been excluded from the above table and related discussion on the combined ratio. Prior periods have been restated to conform to the current presentation.

The consolidated combined ratio for the three and six months ended June 30, 2004 was 98.8% and 101.0%, respectively, representing a 6.5 percentage point and 4.5 percentage point improvement over the same periods in 2003. The improvement in both periods reflects the favorable impact of underwriting and pricing actions taken, a decrease in the amount of catastrophe losses and net incurred losses attributable to prior years and a reduction in claims frequency across major product lines. In addition, higher premium revenue and an increase in revenues related to the Company's involuntary market servicing carrier operations had a positive impact in reducing the expense ratio for both periods.

PTOI for the three and six months ended June 30, 2004 was $356 million and $581 million, respectively, representing a $284 million and $416 million increase over the same periods in 2003.

Net income for the three and six months ended June 30, 2004 was $407 million and $691 million, respectively, representing a $210 million and $480 million increase over the same periods in 2003. The Company recognized no Federal and foreign income tax expense during the first six months of 2004 as it continues to reduce its deferred tax asset valuation allowance. Net income from discontinued operations for 2004 and 2003 primarily reflects the net income from the Company's Canadian personal lines business sold to Meloche Monnex on April 1, 2004.

Financial Information: Liberty Mutual Group's second quarter 2004 financial statements, financial supplement, and management's discussion and analysis are located on the Company's investor relations web site at www.libertymutual.com/investors.

Conference Call Information: At 11:00 a.m. EDT today, Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO, will host a conference call to discuss the company's financial results. To listen to the call and participate in Q&A, please dial 877-825-5811 fifteen minutes before the starting time. A replay will be available until August 11, 2004, at 877-519-4471 using the reservation number 4929538.

About Liberty Mutual Holding Company Inc. and its affiliates

Boston-based Liberty Mutual Holding Company Inc. ("LMG") is a leading global insurer and sixth largest property and casualty insurer in the U.S. whose largest line of business is personal auto based on 2003 direct written premium. As of December 31, 2003, LMG had $64.4 billion in consolidated assets and $16.6 billion in annual consolidated revenue and ranked 116th on the Fortune 500 list of largest corporations in the United States for 2003.

In 2001 and 2002 LMG reorganized into a mutual holding company structure. The three principal mutual companies of the group, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, each became separate stock insurance companies under the indirect ownership of Liberty Mutual Holding Company Inc. This structure provides LMG with better capital market access and greater strategic flexibility to pursue acquisitions and alliances, while aligning its legal structure with its operating structure and preserving mutuality.

LMG offers a wide range of insurance products and services, including personal automobile, homeowners, workers' compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, assumed reinsurance, fire and surety.

LMG employs nearly 38,000 people in nearly 900 offices throughout the world.

Forward-Looking Statements

This press release contains forward-looking statements concerning LMG's future financial and business performance. These statements represent LMG's beliefs concerning future operations, strategies, financial results or other developments, and contain words such as "may," "expects," "should," "believes," "estimates," or similar expressions. Because these forward-looking statements are based on assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond LMG's control or are subject to change, actual results could be materially different. In particular, the sufficiency of LMG's reserves for asbestos, environmental and toxic tort claims, ("A&E"), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the A&E reserves, are subject to a number of potential adverse developments, including adverse developments involving A&E claims and the related outcome of litigation, the willingness of parties to settle disputes, the interpretation of aggregate coverage limits, LMG's ability to recover reinsurance for A&E and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E claims, and the impact of bankruptcies of various asbestos producers and related businesses. Other factors that could cause actual results to differ include: LMG's inability to obtain price increases due to competition or otherwise; the performance of LMG's investment portfolios, weakening U.S. and global economic conditions; insufficiency of loss reserves; the occurrence of natural or man-made catastrophic events exceeding LMG's expectations; adverse changes in loss cost trends, adverse developments in the cost, availability and/or ability to collect reinsurance; the ability of LMG's subsidiaries to pay dividends to LMG; adverse outcomes in legal proceedings; larger than expected assessments for guaranty funds and involuntary market pools; a downgrade in LMG's insurance subsidiaries' ratings; restrictions on LMG's ability to use credit scoring in the pricing and underwriting of personal lines policies; and amendments and changes to the risk-based capital requirements. LMG's forward-looking statements speak only as of the date of this release or as of the date they are made and should be regarded solely as LMG's current estimates and beliefs. LMG undertakes no obligation to update these forward-looking statements. For a further discussion of these and other risks and uncertainties, see LMG's web site at www.libertymutual.com/investors.