Liberty Mutual Holding Company Inc.

Fourth Quarter 2004

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(unaudited)

	Year Ended December 31, 2004	2003	2002
Revenues			
Premiums earned	$ 16,563	$ 13,956	$ 11,902
Net investment income	2,102	1,762	1,590
Fee and other revenues	664	527	524
Net realized investment gains	312	373	274
Total revenues	19,641	16,618	14,290
Claims, Benefits and Expenses			
Benefits, claims and claim adjustment expenses	13,069	11,133	9,882
Insurance operating costs and expenses	2,787	2,620	1,911
Amortization of deferred policy acquisition costs	2,291	1,855	1,661
Other expenses	275	233	225
Total claims, benefits and expenses	18,422	15,841	13,679
Income from continuing operations before income tax expense	1,219	777	611
Federal and foreign income tax expense	-	-	81
Income from continuing operations before extraordinary (loss) gain and discontinued operations	1,219	777	530
Extraordinary (loss) gain, net of tax	(3)	77	-
Discontinued operations, net of tax	29	(3)	(15)
Income before cumulative effect of change in accounting principle	1,245	851	515
Cumulative effect of change in accounting principle	-	-	(7)
Net income	$ 1,245	$ 851	$ 508

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(unaudited)

	December 31, 2004	December 31, 2003
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $34,279 and $30,873)	$ 35,601	$ 32,287
Equity securities, available for sale, at fair value (cost of $1,126 and $813)	1,802	1,346
Trading securities, at fair value (cost of $447 and $203)	457	208
Other investments	990	768
Short-term investments	687	940
Total investments	39,537	35,549
Cash and cash equivalents	2,590	1,999
Premium and other receivables (net of allowance of $137 and $131)	5,642	5,238
Reinsurance recoverables (net of allowance of $349 and $306)	14,209	12,192
Deferred income taxes (net of valuation allowance of $340 and $800)	938	860
Deferred policy acquisition costs	1,354	1,104
Goodwill and intangible assets	824	762
Prepaid reinsurance premiums	1,330	1,280
Other assets	3,572	3,183
Separate account assets	2,363	2,220
Total assets	$ 72,359	$ 64,387
Liabilities:		
Unpaid claims and claim adjustment expense and future policy benefits:		
Property and casualty	$ 33,884	$ 29,952
Life	4,802	3,641
Other policyholder funds and benefits payable	2,290	2,090
Unearned premiums	8,240	7,431
Funds held under reinsurance treaties	1,767	1,902
Short-term debt	253	106
Long-term debt	2,074	1,668
Other liabilities	7,989	7,996
Separate account liabilities	2,363	2,220
Total liabilities	63,662	57,006
Policyholders' Equity:		
Unassigned equity	7,439	6,194
Accumulated other comprehensive income	1,258	1,187
Total policyholders' equity	8,697	7,381
Total liabilities and policyholders' equity	$ 72,359	$ 64,387

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

		Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Cash flows from operating activities:				
Net income from continuing operations	$	1,219	777	530
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		191	130	154
Realized investment gains		(312)	(373)	(274)
Undistributed private equity investment (gains) losses		(141)	-	155
Premium, other receivables, and reinsurance recoverables		(2,589)	(779)	(1,518)
Deferred policy acquisition costs and distribution costs		(246)	(182)	(94)
Liabilities for insurance reserves		5,512	2,998	2,762
Taxes payable, net of deferred		(229)	(68)	54
Other, net		(217)	176	(509)
Total adjustments		1,969	1,902	730
Net cash provided by operating activities		3,188	2,679	1,260
Cash flows from investing activities:				
Purchases of investments		(21,467)	(26,384)	(15,392)
Sales and maturities of investments		18,858	23,432	13,912
Property and equipment purchased, net		(208)	(258)	(169)
Other investing activities		(253)	(225)	(30)
Net cash from acquisitions and dispositions		(79)	(346)	(6)
Net cash used in investing activities		(3,149)	(3,781)	(1,685)
Cash flows from financing activities:				
Net activity in policyholder accounts		109	127	103
Debt financing, net		553	381	(185)
Net security lending activity and other financing actitivites		(146)	(23)	(48)
Other financing activities				(62)
Net cash provided by financing activities		516	485	(192)
Net cash provided by (used in) discontinued operations		36	1	1
Net increase in cash and cash equivalents		591	(616)	(616)
Cash and cash equivalents, beginning of period		1,999	2,615	3,231
Cash and cash equivalents, end of period	$	2,590	1,999	2,615

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(unaudited)

	Unassigned Equity	Accumulated Other Comprehensive Income	Policyholders' Equity
Balance, January 1, 2002	$ 4,835	$ 1,050	$ 5,885
Comprehensive income			
Net Income	508	-	508
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	-	238	238
Less: reclassification adjustment for gains and losses included in net income	-	(177)	(177)
Minimum pension liability	-	(12)	(12)
Foreign currency translation adjustments	-	5	5
Other comprehensive income, net of taxes	-	54	54
Total comprehensive income			562
Balance, December 31, 2002	$ 5,343	$ 1,104	$ 6,447
Comprehensive income			
Net Income	851	-	851
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	-	144	144
Less: reclassification adjustment for gains and losses included in net income	-	(242)	(242)
Minimum pension liability	-	(13)	(13)
Foreign currency translation adjustments	-	194	194
Other comprehensive income, net of taxes	-	83	83
Total comprehensive income			934
Balance, December 31, 2003	$ 6,194	$ 1,187	$ 7,381
Comprehensive income			
Net Income	1,245	-	1,245
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	-	189	189
Less: reclassification adjustment for gains and losses included in net income	-	(203)	(203)
Minimum pension liability	-	(1)	(1)
Foreign currency translation adjustments	-	86	86
Other comprehensive income, net of taxes	-	71	71
Total comprehensive income			1,316
Balance, December 31, 2004	$ 7,439	$ 1,258	$ 8,697

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2003 and 2002 consolidated financial statements to conform with the 2004 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid losses and loss expense reserves, including asbestos and environmental reserves, (2) allowance for uncollectible reinsurance and policyholder receivables, (3) other than temporary impairments to the fair value of the investment portfolio, (4) deferred acquisition costs, and (5) the valuation of goodwill. While management believes that the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided for in the consolidated financial statements.

Adoption of New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "*Goodwill and Other Intangible Assets"* ("FAS 142"). FAS 142 requires companies to perform annual reviews for impairment of goodwill and indefinite lived intangible assets. Impairment exists when the carrying value of the goodwill or intangible assets exceeds the fair value, which is determined based on quoted market prices, discounted cash flows or appraised values. Under the transition provisions of FAS 142, the Company recognized an impairment loss of $7 during 2002 as a cumulative effect of change in accounting principle in the consolidated statements of income.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*" ("FAS 146"). FAS 146 nullifies Emerging Issues Task Force Issue ("EITF") No. 94-3, "*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*" ("EITF 94-3"). The principal difference between FAS 146 and EITF 94-3 relates to the requirement for recognition of costs associated with an exit or disposal activity. Under FAS 146, a liability for costs associated with an exit or disposal activity is recognized when the liability is incurred. Under EITF 94-3, a liability for exit costs was recognized at the date of an entity's commitment to an exit plan. FAS 146 also establishes fair value as the basis for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted FAS 146 on January 1, 2003. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In November 2003, the EITF reached a consensus on the disclosures required for other-than-temporary impairments and continued their discussions on an other-than-temporary impairment model outlined in EITF Issue 03-1, "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" ("EITF 03-1"). EITF 03-1 requires investors to disclose quantitative information about the (1) aggregate amount of unrealized losses, (2) the aggregate related fair values of investments with unrealized losses, segregated into less than and greater than 12 months categories and (3) qualitative information that supports their conclusion that the impairments noted in the quantitative disclosures are not other-than-temporary. The Company implemented the disclosure requirements of EITF 03-1 in Note 4.

In October 2004, the FASB issued Staff Position EITF 03-1-1 *"Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"* ("FSP EITF 03-1-1"). FSP EITF 03-1-1 delayed indefinitely the effective date for the measurement and recognition guidance of EITF 03-1. Companies are still required to determine whether an investment is impaired based on existing impairment guidance and provide disclosures as required under EITF 03-1.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act provides a prescription drug benefit under Medicare Part D and a 28% non-taxable subsidy to sponsors of defined benefit postretirement health plans that are actuarially equivalent to Medicare Part D. In May 2004, the FASB issued Staff Position 106-2, "*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act")*" ("FSP 106-2"). FSP 106-2 supercedes FSP 106-1 and provides guidance on accounting for the effects of the Act. The Company adopted FSP 106-2 in the third quarter of 2004 and, as permitted, elected retroactive application to December 31, 2003 (the measurement date following enactment of the Act). The Company and its actuarial advisors determined that the postretirement medical plans for certain existing retirees and their dependents provide a benefit that is at least actuarially equivalent to Medicare Part D under the Act, and, accordingly, the Company is entitled to the subsidy. Accounting for the effect of the Federal subsidy reduced the Company's accumulated postretirement benefit obligation by $32 at January 1, 2004. As a result of adopting FSP 106-2, the net periodic postretirement benefit costs include a reduction in benefit costs of $2 in 2004.

In November 2002, the FASB issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others*" ("FIN 45"). Along with new disclosure requirements, FIN 45 requires guarantors to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. This differs from the current practice to record a liability only when a loss is probable and reasonably estimable. The recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted FIN 45 on January 1, 2003. The implementation of FIN 45 did not have a material impact on the Company's results of operations, financial condition or liquidity.

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued Statement of Position 03-1, "*Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*" ("SOP 03-1"). SOP 03-1 provides a conceptual framework that facilitates the determination of the proper accounting for various life and annuity products. SOP 03-1 requires (1) the reporting and measurement of separate account assets and liabilities as general account assets and liabilities when specified criteria are not met, (2) the capitalization of sales inducements that meet specified criteria and amortizing such amounts over the life of the contracts using the same methodology as used for amortizing deferred acquisition costs, but immediately expensing sales inducements accrued or credited if such criteria are not met, and (3) the classification and valuation of certain nontraditional long-duration contract liabilities. The Company adopted SOP 03-1 on January 1, 2004. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

Future Adoption of New Accounting Standards

In December 2004, the FASB issued Staff Position 109-2, "*Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*" ("FSP 109-2") to address requirements of The American Jobs Creation Act of 2004 ("the Act") that was signed into law on October 22, 2004. The Act will have a significant impact on taxpayers, including corporations that have foreign U.S. operations. Among the changes to the U.S. tax rules, is the favored repatriation of off-shore earnings, executive compensation and other employee benefits provisions. The Act provides U.S. taxpayers with operations abroad, the ability to claim a one-time 85% deduction for repatriation of earnings previously reinvested in foreign subsidiaries. In order to qualify for the deduction, taxpayers must reinvest the dividends under a properly approved domestic reinvestment plan. FSP 109-2 clarifies that reporting entities that currently reinvest all or part of the dividends from their foreign subsidiaries and do not recognize a deferred tax liability for undistributed earnings as provided under APB 23, Accounting for Income Taxes – Special Areas, have until half way through 2005 to evaluate the impact of the Act.

FSP 109-2 permits additional time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plans for repatriation of unremitted earnings for purposes of applying FAS 109, "*Accounting for Income Taxes*" ("FAS 109"). The Statement requires the recognition of the income tax effect when the decision to reinvest or repatriate the foreign earnings is made. The Company adopted FSP 109-2 on December 21, 2004, the date of issuance, however is still evaluating the repatriation provision, amongst others, of the Act and has included the required disclosures in Note 10. The Company expects to complete its evaluation in 2005.

In January 2003, the FASB issued Interpretation No. 46, "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*" ("FIN 46"). FIN 46 requires certain variable interest entities ("VIEs") to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was revised in late 2003 (FIN 46(R)) and was effective January 1, 2004 for the Company for all new VIEs created or acquired after December 31, 2003. For VIEs created or acquired by the Company prior to December 31, 2003, the provisions of FIN 46 will be applied in 2005.

Significant Accounting Policies
See Note 1 of the Notes to Consolidated Financial Statements included in the Company's 2003 Annual Report for a description of accounting policies.

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

Accumulated Other Comprehensive Income

Other comprehensive income consists of foreign currency translation adjustments, minimum pension liability and unrealized gains and losses on certain investments in debt and equity securities.

The components of accumulated other comprehensive income, net of related deferred acquisition costs and taxes, are as follows:

	2004	2003	2002
Unrealized gains on securities	$1,167	$1,181	$1,279
Foreign currency translation adjustments	117	31	(163)
Minimum pension liability	(26)	(25)	(12)
Accumulated other comprehensive income	$1,258	$1,187	$1,104

(2) DIVESTITURES AND DISCONTINUED OPERATIONS

Divestitures

Effective June 30, 2003, the Company sold its Liberty Health business in Canada, a business line of the International business unit, and received proceeds approximating $98 and realized a gain of $82. This transaction did not meet the requirements for presentation as discontinued operations.

On April 1, 2004, the Company completed the sale of its Canadian personal lines business, consisting of private passenger automobile, homeowners and personal property insurance, to Meloche Monnex, Inc., a member of TD Bank Financial Group ("Meloche Monnex"). The transaction resulted in the transfer of approximately 350,000 automobile and homeowners insurance policies and approximately $300 (C$390) in direct written premiums to Meloche Monnex. The operations were a net gain of $18 and a net loss of $1 and $15, respectively. Neither party has disclosed the financial terms of the transaction, which the Company believes is not material to its business, financial condition or results of operations.

Discontinued Operations

During 2003, the Company's Board of Directors approved a plan to dispose of the operations of a non-insurance subsidiary that had net losses of $(2), and $0 for the years ended December 31, 2003, and 2002, respectively.

In December 2004, the Board of Directors of Seguros Genesis S.A approved a plan to sell the pension externalization business of Seguros Genesis S.A operations. The Company expects to complete the disposition by the end of the first quarter of 2005.

(3) ACQUISITIONS AND GOODWILL

Effective May 2003, the Company acquired 100% of the outstanding shares of Winterthur's Portuguese business units and branch offices, including its subsidiary companies Companhia Europeia de Segueros and Winterthur Pensoes. The transaction resulted in goodwill of $23. The results of operation for the acquired business are included subsequent to May 2003.

On October 31, 2003, LMGI acquired all the outstanding stock of Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (collectively referred to as "PruPac") from Prudential Financial Inc ("Prudential"). The acquisition included PruPac's U.S. personal lines property and casualty business and operations in 47 states, excluding the New Jersey business and also excluding the specialty automobile and affinity business. The cost of PruPac was $520 and consideration was a combination of cash and two series of promissory notes to Prudential. The Series A promissory note had an aggregate principal balance of $130, due on October 31, 2008 and accrues interest annually at an interest rate of 7%. On April 16, 2004, LMGI repaid this note. The Series B promissory note has an aggregate principal balance of $260, matures on October 31, 2013 and accrues interest annually at an interest rate of 8%.

LMGI recorded the acquisition in accordance with Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141") and assigned fair values to the identifiable assets and liabilities of PruPac on October 31, 2003. The excess of the assigned fair value of net assets over the purchase price, or negative goodwill, of $77 was recorded by LMGI as an extraordinary gain in the accompanying consolidated statements of income in 2003. Management completed its allocation of the purchase price in October 2004, which resulted in a decrease of $3 to the previously recognized negative goodwill. Additionally, as part of the transaction and integration of PruPac's operations, $36 of restructuring charges were recorded relating to the acquisition costs of PruPac. The restructuring liability primarily includes severance and retention bonuses for employees that were involuntarily terminated or relocated. At December 31, 2004, $16 remains accrued.

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

In connection with the acquisition, the Company acquired the discontinued channels business of Prudential agency business. Prudential, through its wholly owned subsidiary, Vantage Casualty Insurance Company ("Vantage"), reinsured and guaranteed 100% of the first $50 and 75% of the next $60 of the net losses of the operation. To support the surplus of the Company in writing the discontinued channels business, Prudential provided the Company with a $30 cash payment in exchange for a note that matures on December 31, 2008 and accrues interest at a rate of 5% annually. The note is repaid annually in amounts corresponding to the reduction in the Company's gross written premium in the discontinued channels business. Vantage's obligations are guaranteed by Prudential Financial Inc. Additionally, the discontinued channel runoff business includes performance incentives for the Company. The remaining note payable was $30 at December 31, 2004 and 2003.

In addition to the above-mentioned agreement, certain risks, including, without limitation, asbestos and other environmental risks, assumed reinsurance arrangements, unlimited medical benefits and certain mold claims, and various litigation arising out of or relating to conduct prior to closing have been ceded and transferred by virtue of reinsurance, indemnification and guaranty arrangements with Prudential and certain of its subsidiaries.

Effective January 9, 2004, the Company acquired MetLife's Spanish operations, including its non-life subsidiary, Genesis Seguros Generales, S.A., and its life subsidiary, Seguros Genesis, S.A (collectively referred to as "Genesis"). The transaction resulted in goodwill of $74. Included in the consolidated statement of income is $21 generated from this acquisition.

Effective August 19, 2004, the Company acquired the insurance operations of AGF Allianz Chile S.A., resulting in goodwill of $13. The Company is in the process of finalizing the evaluation of the fair value of the acquired business. Therefore, the allocation of the purchase price is subject to refinement.

(4) DEBT OUTSTANDING

Debt outstanding at December 31, 2004 and 2003 includes the following:

Short-term debt:

	2004	2003
Commercial paper	$147	$ 84
Revolving credit facilities	29	22
Current maturities of long-term debt	77	-
Total short-term debt	$253	$ 106

Long-term debt:

	2004	2003
8.20%, Surplus Notes, due 2007	$121	$ 250
6.75%, Notes, due 2008	15	15
5.00% Notes, due 2008	14	30
7.00% Notes, due 2008	-	130
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	500	-
8.50%, Surplus Notes, due 2025	150	150
7.87%, Surplus Notes, due 2026	250	250
7.63%, Notes, due 2028	3	3
7.00%, Notes due 2034	250	-
7.70%, Surplus Notes, due 2097	500	500
6.76% - 8.10%, Medium Term Notes, with various maturities	27	88
	2,090	1,676
Unamortized discount	(16)	(8)
Total long-term debt excluding current maturities	$2,074	$ 1,668

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 at December 31, 2004 and 2003 and is supported by a $450 line of credit facility. Commercial paper issued and outstanding at December 31, 2004 and 2003 was $147 and $84, respectively. Interest rates ranged from 1.08% to 2.50% in 2004 and 1.03% to 1.55% in 2003.

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

Long-term Debt

Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

On April 12, 2004, LMIC retired approximately $129 of its $250 of 8.20% Surplus Notes due 2007 and realized a loss of approximately $19 on the tender offer As discussed in Note 3, the Company entered into two promissory note agreements with Prudential in conjunction with the acquisition of all the outstanding stock of PruPac. On April 16, 2004, LMGI repaid approximately $130 of these notes.

(5) BENEFIT PLANS

The net benefit costs for the years ended December 31, 2004, 2003, and 2002 included the following components:

December 31, 2004	Pension	Supplemental Pension	Postretirement
Components of net periodic benefit costs			
Service costs	$ 125	$ 7	$ 18
Interest cost	161	12	30
Expected return on plan assets	(208)		(1)
Amortization of unrecognized:			
Net (gain)/loss	-	6	(1)
Prior service cost	5	2	(3)
Net transition (assets)/obligation	(5)	-	9
Net periodic benefit costs	$78	$27	$52
Curtailment (Gain)/Loss	-	15	(1)
Total Expense	$78	$42	$51

December 31, 2003			
Components of net periodic benefit costs			
Service costs	$99	$5	$15
Interest cost	144	11	30
Expected return on plan assets	(203)	–	(1)
Amortization of unrecognized:			
Net (gain)/loss	-	3	–
Prior service cost	5	2	(3)
Net transition (assets)/obligation	(5)	–	9
Net periodic benefit costs	$40	$21	$50

December 31, 2002			
Components of net periodic benefit costs			
Service costs	$88	$4	$13
Interest cost	131	10	29
Expected return on plan assets	(215)	2	(2)
Amortization of unrecognized:			
Net (gain)/loss	(14)	1	(2)
Prior service cost	5	1	(1)
Net transition (assets)/obligation	(7)	1	10
Net periodic benefit costs	($12)	$19	$47

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

Cash Flows
Contributions
The Company contributed $128 to the qualified plans, and directly funded $35 to retirees in the supplemental pension plans in 2004. In addition, the Company directly funded $23 to the postretirement benefit plans in 2004.

The Company expects to contribute $100 to the qualified plan, and directly fund $21 to retirees in the supplemental pension plan in 2005. In addition, the Company expects to directly fund $27 to the postretirement benefit plan in 2005.

(6) COMMITMENTS AND CONTINGENT LIABILITIES

Various lawsuits against the Company have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

The Company has been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. The Company has recently prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. Armstrong has also recently filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. The Company intends to vigorously defend its position. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

At December 31, 2004, the Company had unfunded capital commitments to private equity investments of $646.

At December 31, 2004, the Company had commitments to purchase various mortgage-backed securities settling in 2005, at a cost of $291 with a fair value of $293 and are included as fixed maturities in the consolidated balance sheets.