1978

TO OUR SHAREHOLDERS AND EMPLOYEES:

Since the beginning of 1978 management has been engaged in continuous efforts to restructure the debt and capital of Talcott National Corporation and its operating finance subsidiary, James Talcott, Inc. We are pleased to report that the Restructuring Plan announced in November, 1978 for the comprehensive refinancing of certain outstanding debt and preferred shares was successfully completed on April 30, 1979.

The Restructuring Plan, as consummated, resulted in the payment by James Talcott of $99,694,000 to debtholders and preferred shareholders in satisfaction of $127,126,000 of debt and preferred stock, at redemption value. James Talcott also has called for the redemption, at par, on June 5, 1979, of its 5½% Senior Notes due December 1, 1979 and its 5½% Senior Notes due June 1, 1980 totaling $3,700,000. The cash required for these payments was generated, in substantial part, from sales, basically at book value, of the assets of James Talcott's Business Finance Division.

These payments, coupled with other transactions resulting from the Restructuring Plan, increased James Talcott's net worth, which was $56,600,000 at December 31, 1978, by approximately $6,700,000 and increased National's net worth, which was $1,000,000 at December 31, 1978, by approximately $26,700,000.

James Talcott's bank revolving credit arrangement which under the previous agreement permitted maximum borrowings of $240,000,000, with interest at 120% of prime, now provides for borrowings of up to $188,400,000 through May 31, 1982, with interest at 125% of prime, and with no compensating balances required under either credit agreement. The agreement provides that the revolving credit arrangement on that date will be extended annually or be converted to a five-year revolving term loan with 5% quarterly reductions of the original commitment.

James Talcott also now has outstanding $963,000 of senior notes due 1979-85; $1,229,000 subordinated and capital notes due 1983-89; and $757,000 of preferred stock, at redemption value, subject to mandatory redemption in 1985-90. The amounts outstanding on these notes and preferred shares prior to the restructuring aggregated approximately $100,000,000. James Talcott's Series A Junior Preferred Shares scheduled for redemption in 1980-82, an aggregate of $1,200,000, are not affected by the Restructuring Plan.

National's senior debt of $6,300,000 has been reduced to $2,900,000 and the maturity extended to the years 1985 to 1991. National's 6% Convertible Subordinated Debentures due 1994, amounting to $25 million, were not changed by the Restructuring Plan but, as announced on April 12, 1979, National intends to make an exchange offer to these holders. Under the proposed exchange offer, which will only be made by means of a prospectus or offering circular as required by applicable securities laws, holders of outstanding 6% Debentures would be offered an opportunity to exchange such debentures for a new issue of National debt which would be non-convertible, senior to the outstanding 6% Debentures and subordinated to the senior debt of National. Although the terms of the exchange offer have not been completed, it is presently intended to offer approximately $600 of principal amount of new debt in exchange for each $1,000 face amount of outstanding 6% Debentures with a coupon rate consistent with current market yield on comparable securities and with maturity dates yet to be determined. Management estimates this offer will probably be made later in 1979. The closing price of the 6% Debentures on the New York Stock Exchange on April 11, 1979 was $490 per $1,000 principal amount.

In addition, National intends to offer its Series C preferred shareholders the opportunity to exchange their shares, which had an aggregate redemption value of $7,090,000 and accrued dividends of $1,385,000 at December 31, 1978, for 7½% Junior Subordinated Notes payable over 3 years in the aggregate amount of $3,360,000.

The remaining continuing businesses of Talcott National Corporation are consumer finance and factoring. James Talcott's Factoring Division has been separately incorporated as an independent subsidiary to be known as James Talcott Factors, Inc. Its shares, along with those of City Finance Company, James Talcott's consumer finance subsidiary, are being pledged as security for the revolving credit arrangement and for the other senior debt. The assets of James Talcott Factors, Inc. and City Finance Company have not been pledged. An additional $20,000,000 line of credit has been arranged for James Talcott Factors to provide for its periodic needs.

A report on City Finance Company's 1978 performance by Robert P. Brock, chairman, appears on page 5.

A report on The Factoring Division's 1978 performance by William R. Gruttemeyer, chairman and president of James Talcott Factors, Inc., is on page 4.

For the year 1978 Talcott National Corporation reported income from continuing operations, exclusive of an extraordinary tax credit of $639,000, or $.09 per common share. This compares to a 1977 loss from continuing operations of $198,000, or $.19 per common share.

After giving effect to discontinued operations and the extraordinary tax credit, Talcott National Corporation in 1978 had a net loss of $1,846,000, or $.74 per common share, compared to a net loss of $7,995,000, or $2.79 per common share in 1977.

For the fourth quarter ended December 31, 1978, Talcott National Corporation showed a loss of $584,000, or $.23 per common share as against a net loss of $2,326,000, or $.81 per common share for the same period of 1977.

The fourth quarter 1978 results included a loss from continuing operations of $186,000 or $.09 per common share, exclusive of an extraordinary tax credit of $165,000, or $.05 per common share, compared to a gain of $507,000 or $.13 per common share for the same period in 1977.

The company's wholly-owned subsidiary, James Talcott, Inc., for the year 1978 had income from continuing operations, exclusive of the extraordinary credit, of $3,846,000, as against $2,830,000 for 1977. Net income in 1978 amounted to $1,361,000, including the extraordinary tax credit of $734,000, compared to a 1977 net loss of $4,968,000.

James Talcott's income from continuing operations exclusive of extraordinary item for the fourth quarter of 1978 was $649,000 versus $1,255,000 for the comparable period of 1977. Fourth quarter 1978 net income was $251,000, including an extraordinary tax credit of $165,000. For the fourth quarter of 1977, James Talcott, Inc., had a net loss of $1,578,000. The loss on discontinued operations for the fourth quarter of 1978 was $563,000, as against $2,833,000 for the same period of 1977.

In the accompanying financial statements, the Company has treated its real estate portfolio and Business Finance Division as discontinued operations.

Substantial progress was made during 1978 in the management of the Company's real estate assets. During the past year, the positive net cash flow from real estate assets was $9,000,000 as against $6,700,000 in the preceding year. During the year $7,000,000 was provided in additional allowances for losses and estimated future holding costs for the non-earning real estate finance receivables and owned properties held for sale. This compares with $10,500,000 provided in 1977 for this purpose.

The net investment in real estate in 1978 declined by $12,600,000. While significant reductions in real estate investment have been accomplished during the past two years, it must be noted that satisfactory resolution of the real estate problems will require an extended period of time and is dependent, to a great extent, upon market conditions and the outcome of pending litigation.

During 1978 several management changes took place. Ian M. Cumming was elected chairman of the Board of Directors and president of Talcott National Corporation in June, 1978, and chairman of the Board of Directors and president of James Talcott, Inc. in August, 1978. In December, 1978, Joseph S. Steinberg was elected to the Board of Directors of Talcott National Corporation and James Talcott, Inc., and in January, 1979 was named president of both Talcott National Corporation and James Talcott, Inc.

Effective May 16, 1979, John W. Jordan, II, vice president, Carl Marks & Co., Inc. and Lawrence D. Glaubinger, chairman, Stern & Stern Textiles, Inc. were elected directors of Talcott National Corporation and James Talcott, Inc. Messrs. Jordan and Glaubinger are associated with Marks Investing Corporation, which together with Messrs. Cumming and Steinberg, indirectly acquired 1,600,000 shares of Talcott National Corporation on April 30, 1979.

We wish to thank our clients, creditors, employees and shareholders for their loyalty and support.

Ian M. Cumming
Chairman of the Board

Joseph S. Steinberg
President

The recent successful closing of the Restructuring Plan has had an important effect on our factoring operations and offers new opportunity and increased potential for improving performance in the years ahead.

Under terms of the Plan, the factoring business, which has been operating as a division of James Talcott, Inc., has been incorporated as a separate company to be known as James Talcott Factors, Inc. One immediate direct benefit of this move is the establishment of one of the strongest balance sheets in the factoring industry.

This, along with other advantages derived from the restructuring, considerably strengthens our position and gives tacit assurance to present and prospective clients of our ability to provide more and better services.

James Talcott Factors, Inc., is a unique new company that is actually 125 years old in terms of its history, tradition and experience. 1979 marks the Silvertennial anniversary of the founding of our factoring business which was begun in 1854.

In 1978 The Factoring Division enjoyed one of the best years in our long, proud history, and achieved an increase, over 1977, of $1.8 million in pretax income, exclusive of a $1.4 million non-recurring insurance recovery related to a Swiss factoring office which was discontinued in 1976.

Our stated pretax profit objective for 1978 was to exceed 4% of average funds employed. Actual 1978 pretax earnings, excluding the insurance recovery, amounted to 5.7% of average investment.

The high profit yield was attained as the result of several contributing elements but was due principally to substantially reduced purchased receivable losses and an increase in average investment of approximately $9 million.

Net purchased receivable write-offs in 1978 were .05% of factored volume, compared to .18% of factored volume in 1977, a reduction of 72%. This substantial improvement was directly attributable to three major causes.

First, most customers improved inventory control and reduced purchase commitments which enabled them to maintain better financial positions. Second, we continued to improve the performance of our customer credit administration. And lastly, recoveries from amounts written off in prior years increased as a percentage of gross write-offs.

The provision for client losses increased 50% in 1978 to .3% of average funds employed from .2% in 1977. This increase, while anticipated, is still well under the accepted industry standard of approximately .5% of average funds employed. This lower than normal incidence of client losses reflects the effective client administration and sound marketing standards and practices of our account executives.

Direct expenses rose approximately 9% in 1978 as against a pretax earnings increase of 49%. The increase in direct costs was attributable, in part, to inflationary pressures and had been anticipated. A considerable amount of these higher costs related to the development of new data processing systems. This expenditure is regarded as an investment which will help to increase our operating efficiencies in the years ahead by providing improved on-line application systems which are, and will continue to be, among the most advanced in the industry.

Over the past several years we have been able to substantially and consistently improve our earnings. Our average factored investment has grown steadily each year since 1975 and in 1978 rose 10.1% over the previous year. James Talcott Factors, Inc.'s return on funds employed is believed to be among the highest in the industry. We have been able to achieve these results while also furnishing responsive, timely, innovative and liberal financial and credit related services to our clients and their customers.

Our goals for 1979 are for moderate increases in volume and average investment and for pretax earnings to again exceed 4% of average funds employed. In the coming year we expect an increase in purchased receivable losses to a mo[illegible] traditional level of about .15% of factored sales volume. Fra[illegible]tional increases are also anticipated in client losses and direct expenses.

The added benefits to our factoring business resulting from the restructuring give us encouragement for attaining both our short-term and long-term objectives.

Further, the substantial increase in the net worth of Talcott National Corporation and James Talcott, Inc., should enable James Talcott Factors, Inc. to obtain funding in amounts adequate to service its existing portfolio and to provide for planned growth.

Additionally, as a result of the successful completion of the restructuring, the executives and operating personnel of James Talcott Factors, Inc., are now free to devote their full attention to the expansion and refinement of our factoring services.

Throughout the recent period of uncertainty, we managed to retain our reputation for integrity, quality of performance and profitability. We are now better geared to move forward. With the continued support of our factored clients and traditional referral sources such as accountants, attorneys and bankers, we are confident that we will regain our position of eminent leadership in the field.

Our Financial Statements begin on page 34.

W. R. Gruttemeyer

William R. Gruttemeyer
Chairman and President
James Talcott Factors, Inc.

For 1978 receivables, representing cash instalment loans made directly to customers and retail instalment contracts purchased from dealers, were at a record high $102,615,000. This represents an increase of $17,158,000, or 20% over the 1977 receivables. The volume of receivables for 1978 also rose to $120,618,000 which is an increase of 25% over the previous year.

As a result of only limited funds being available for expansion, City Finance Company continued to conduct its consumer finance operation from 102 branch offices located in eight states, primarily in the Southeastern part of the country.

In 1978, pretax income was $3,583,483, a decrease of 26% from the record $4,853,200 of 1977. 1978 net income represented a 4.9% return on average net receivables, compared to 7% for 1977. The decline in net income was attributable principally to three factors. First, interest expense increased due to a higher prime rate by $1,422,000, or 34%, on an increase in average net receivables of 5%. Second, provision for losses increased $842,000 over 1977, though actual net credit losses were reduced. Third, a reduction in gross income of approximately $1,000,000 was caused by an adverse Tennessee Supreme Court decision limiting the interest charged on Tennessee originated loans to 10% per year. City operating expenses as a percentage of gross income were reduced. Despite the negative factors, income before taxes and interest expense stated as a percentage of average net receivables was 12.6% in 1978, the second highest return in recent years.

The high quality of City's receivables was again very evident. The ratio of net credit losses to average outstanding loan receivables was 1.11% and net credit losses to liquidations on dealer contracts was .78% compared to 1.23% and .86%, respectively, in 1977. Delinquencies continue favorable. Loans delinquent 60 days or more on a contractual basis were 1.66% in 1978 compared to 1.85% in 1977 and on a recency of payments basis, 1.70% in 1978 compared to 1.74% in 1977. At December 31, unearned interest on precomputed loans receivable as a percentage of gross outstandings at year-end 1978, increased by 15% to 21.4%. The unearned premium on credit related insurance increased by more than $1,000,000. These two deferred items represent revenues which will be reflected in future earnings.

As noted above, financial and operating results for 1978 were affected by our Tennessee operations. Because of a Tennessee Supreme Court decision in August, 1977 declaring parts of the State Loan Act to be unconstitutional, City suspended its lending activities in that state from August, 1977 to April, 1978. However, an amendment to the State Constitution was passed in March, 1978, allowing all provisions of existing statutes regulating rates of interest and other charges to remain in full force and effect until July 1, 1980. Following that amendment, City once again became active in making consumer loans in Tennessee. At the time of the August, 1977 Supreme Court decision, City had $27,257,000 in Tennessee loan receivables. Suspending lending activities for the seven-month period resulted in a reduction to $16,585,000 by April, 1978 when we reactivated operations in Tennessee. An active solicitation program to regain the lost loan receivables was successful and, at the 1978 year end, Tennessee loan receivables had increased to $28,397,000.

New legislation was recently enacted in Tennessee to be effective July 1, 1979, which permits the same interest and loan charge rates as contained in the loan act under which we are now operating and with a permitted increase in maximum maturities. This law removes one of the uncertainties affecting our future operations.

Continued high interest cost will adversely affect 1979 profits. However, with the increase in deferred revenues, enactment of the aforementioned Tennessee legislation, a portfolio of high quality receivables and a commitment to cost control, we are optimistic that 1979 will be a good year.

Our Financial Statements begin on page 40.

Robert P. Brock

Robert P. Brock
Chairman
City Finance Company

TO OUR SHAREHOLDERS AND EMPLOYEES:

The year 1979 saw substantial progress in management's continuing efforts to restructure the debt and capital of Talcott National Corporation and its operating finance subsidiary, James Talcott, Inc. (Talcott).

The Restructuring Plan as ultimately consummated on April 30, 1979, resulted in the payment by the Company of $131,624,000 to debtholders and preferred shareholders in satisfaction of $160,750,000 of debt and preferred stock. The cash required for these payments was generated primarily from the sale of the assets of Talcott's Business Finance Division. As a result of the Restructuring Plan, the Company's common shareholder's equity was increased by approximately $26,700,000. Further increases in common shareholders' equity subsequently resulted (a) in the amount of $5,408,000 from the exchange of 7½% Junior Subordinated Instalment Notes for 96.5% of the then outstanding Series C Preferred Shares and (b) in the amount of $5,004,000 from the exchange of $8,185,000 principal amount of 13¾% Senior Subordinated Debentures for $13,641,000 (54.6%) of the Company's then outstanding 6% Convertible Subordinated Debentures.

These transactions placed the Company and Talcott in a much stronger financial position than at any time in recent years although the high cost of bank borrowings and the provisions related to these borrowings substantially limited the ability of the Company to finance the growth of both the factoring and consumer finance businesses. With this background, an agreement to sell the factoring business conducted by a subsidiary, James Talcott Factors, Inc., was entered into by management in October 1979 with Lloyds and Scottish Limited. Stockholders approved this sale at a special meeting held on February 13, 1980. Detailed information about the sale can be found in the proxy statement relating to that meeting. The sale was consummated in late May 1980. As a result, the Company has changed its name to Leucadia National Corporation and Talcott has changed its name to Leucadia, Inc. The new symbol on the New York Stock Exchange for the Company's common shares is "LUK".

The proceeds from the sale have been used to reduce Talcott's senior debt. The senior debt remaining after the sale has been successfully refinanced with a smaller number of banks at a lower interest rate and with the elimination of certain restrictive covenants.

For the year ended December 31, 1979, the Company reported net income of $19,310,000 or $5.81 per common and dilutive common equivalent share ($5.02 on a fully diluted basis). Included in this amount was an extraordinary credit of $25,644,000 or $7.72 per common and dilutive common equivalent share ($6.26 on a fully diluted basis) resulting from the settlement of debt described above. This compares with a net loss for 1978 of $1,846,000 or $.74 per common share. The Company, for 1979, reported a loss from continuing operations of $1,347,000 or $.41 per common and dilutive common equivalent share ($.02 on a fully diluted basis). Losses from discontinued operations for 1979 were $4,987,000 or $1.50 per common and dilutive common equivalent share ($1.22 on a fully diluted basis) compared to income in 1978 of $742,000 or $.25 per share.

Talcott reported net income for the year ended December 31, 1979 of $15,157,000, including an extraordinary credit resulting from settlement of debt of $18,936,000. This compared with net income in 1978 of $1,361,000, including an extraordinary tax credit of $734,000. Income from continuing operations amounted to $669,000 in 1979 compared with $364,000 for 1978. Talcott's discontinued operations in 1979 reported a loss of $4,447,000 in contrast to income of $263,000 in 1978.

City Finance Company, Talcott's wholly-owned consumer finance subsidiary, reported income before income taxes of $4,154,000 in 1979 compared with $3,583,000 in 1978. Revenues for 1979 were $25,407,000, an increase from $20,782,000 in 1978 or an increase of more than 22%.

A report on City Finance Company's 1979 performance by Robert P. Brock, Chairman appears on page 42.

In spite of additional provisions for losses and future holding costs of $5,271,000 in 1979, continued progress has been made in the management of the Company's real estate assets. Realization on the real estate portfolio produced a net positive cash flow of $8,000,000 in 1979 and $9,000,000 in 1978. Management expects the orderly liquidation of the real estate portfolio to continue during the coming year.

Although we are heartened by 1979's progress, it must be noted that we are affected to a considerable degree by market conditions and high interest costs. A continuation of these historically high interest rates could adversely affect our results of operations and financial position—particularly in the consumer finance business where increased borrowing costs are not readily passed along. Furthermore these high interest costs coupled with a depressed economy could result in increased credit losses.

We wish to thank the many lending institutions, employees and shareholders who have continued to provide their support to the Company and its management.

Ian M. Cumming Chairman	Joseph S. Steinberg President

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND PRESIDENT:

The 126th year of our Company was a busy one which included significant changes in our businesses. We entered the year with an agreement to sell our factoring subsidiary, James Talcott Factors, Inc., to Lloyds and Scottish Limited. The closing of the sale occurred later than anticipated due to delays in obtaining regulatory approval. Unfortunately, the period from year-end to the sale date was a period of high interest rates and an unfavorable economy, particularly in the industries served by the factoring operations. The deterioration in the financial condition of several factoring clients resulted in our establishing substantial provisions for losses prior to the sale. However, on May 27, 1980, the sale was consummated. We sincerely miss our friends at James Talcott Factors and are very appreciative of the support of their employees and management throughout the years. One result of that sale was the elimination of the James Talcott name under which the Company had operated since its inception.

Another major development, on December 3, 1980, we acquired American Investment Company (AIC), a holding company engaged in consumer financing and insurance activities. Through City Finance Company we have been actively engaged in consumer financing for some years; however, insurance not related to consumer financing is a new business to us. We are very pleased with the insurance operations. The comments of Lawrence L. Hoffman, Chief Operating Officer of the insurance operations, are included in this portion of the annual report.

Our consumer finance operations are headed by Robert P. Brock, Chairman of City Finance Company since 1978. City Finance, which is now part of AIC, had an outstanding year in 1980. The depth of experienced management at City Finance enabled us to begin to integrate the operations of City Finance and AIC and to eliminate duplications. We have found in AIC an experienced, dedicated and very able consumer lending group and look forward to the results of integrated operations. A report by Mr. Brock on the consumer finance operations is also included in this section of the annual report.

In 1980, and in 1981 to date, substantial litigation related to our real estate has been resolved. The resolution of one potential problem enabled our independent auditors to render an unqualified opinion on our financial statements for the first time since 1975.

For the year ended December 31, 1980, the Company had income from continuing operations of $662,000 or $.21 per common and dilutive common equivalent share; income from discontinued operations of $477,000 or $.15 per common and dilutive common equivalent share; an extraordinary credit from use of net operating loss carryforwards of

$753,000 or $.23 per common and dilutive common equivalent share and net income of $1,892,000 or $.59 per common and dilutive common equivalent share. The 1980 results include AIC's operating results since its acquisition on December 3, 1980.

For 1979, the Company had a loss from continuing operations of $1,347,000 or $.41 per common and dilutive common equivalent share ($.02 on a fully diluted basis); loss from discontinued operations of $4,987,000 or $1.50 per common and dilutive common equivalent share ($1.22 on a fully diluted basis); extraordinary credits from implementation of the Restructuring Plan and the debt exchange offer of $25,644,000 or $7.72 per common and dilutive common equivalent share ($6.26 on a fully diluted basis) and net income of $19,310,000 or $5.81 per common and dilutive common equivalent share ($5.02 on a fully diluted basis).

In December 1980, management announced that it was exploring the feasibility of and various techniques to accomplish a transaction or series of transactions that might result in its common stockholders being afforded the opportunity to receive approximately $9 in cash or preferred stock, the terms of which had not yet been determined, in exchange for each share of common stock. Management currently is exploring the feasibility of an exchange offer that would afford holders of up to 1,400,000 shares of its common stock the opportunity to receive preferred stock of the Company, the terms of which have not yet been determined, in exchange for their shares. Such exchange offer would be made only by means of a prospectus as required by applicable securities laws. We will keep you informed as to decisions taken in this regard.

The accomplishments of 1980 required a tremendous effort on the part of our officers and employees. We sincerely thank them for their unselfish efforts and the many sacrifices made on behalf of the Company.

We also are very appreciative of the support of our lenders. We made many requests of them, often on short notice, and they invariably responded in a positive and constructive manner.

This year, for the first time, we are including the annual report filed with the Securities and Exchange Commission on Form 10-K as an integral part of our shareholders' report. This presentation will provide our shareholders with more detailed descriptions of our business, statistical data and financial statements than previously were available in our annual reports.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

REPORT ON CONSUMER FINANCE OPERATIONS:

The 1980 year proved to be a very challenging but rewarding one for City Finance Company which, until the acquisition of AIC on December 3, 1980, comprised the Company's consumer finance operations. During the first half of the year, we restricted the growth of our receivables, due to the federal government's credit restraint program. This was followed by management's decision to continue the restriction, due to limited availability of funds and the record-high cost of borrowed funds. We concluded the year with a great deal of our energy directed toward the closing of the acquisition of AIC with its very large receivable base.

In spite of the above restraints, the diversion of attention to the AIC acquisition and a depressed economy, City Finance Company had record earnings for the year. Net income amounted to a record $2,865,000, a gain of 33% over 1979 net income of $2,152,000. These figures do not include the results of AIC's operations which are included in the financial statements of Leucadia National Corporation from December 3, 1980 to the end of calendar 1980.

City Finance's income before income taxes and interest expense expressed as a percentage of average net receivables also set a record high, at 15.03%. This compares to 14.43% in 1979. This percentage return continues to be unusually high for the consumer finance industry.

Income and expense items are also best analyzed by relating them to average net receivables. On this basis, net revenues were 28.7% of average net receivables in 1980, compared to 28.9% of average net receivables in 1979 and operating expenses decreased to 10.4% of average net receivables in 1980 from 10.9% in 1979.

City Finance's contractual delinquency of 60 days or more was 2.19% of outstanding receivables, an increase from 1.78% in 1979. Net credit losses to average net direct consumer loans outstanding were 1.90% in 1980, compared to 1.22% in 1979. Credit losses on dealer instalment contracts were .90% of liquidations as compared to 1.06% in 1979. The increase in our delinquency and charge-off rates were a direct result of the depressed economy with its accompanying heavy unemployment, and the increased use of the liberalized exemptions offered in the new bankruptcy code. Although the above delinquency and charge-off ratios show an increase for 1980, they are still among the lowest in the industry.

Although AIC has not experienced earnings on its receivables as favorable as has City Finance, we believe the profile of the average AIC customer is essentially similar to a City Finance customer. Accordingly, I am very optimistic about the great potential offered by the AIC acquisition, and the addition of its experienced personnel, who after several years of an uncertain future with other potential AIC merger partners, are eager to return to the normal routine of the consumer finance business. With AIC's large receivable customer base to work with, our future growth appears to be most promising.

Our management team feels very confident in its ability to improve both the quality of the receivables and earnings. We will, assuming the availability of reasonably priced money, direct our attention to expanding our receivables in those states offering the best gross income yields and strive to continue to decrease our direct costs as a percentage of the net receivables employed.

On balance, 1981 should be a good year for the consumer finance operations.

Robert P. Brock
Chairman of City Finance Company and
Chief Operating Officer of the Consumer
Finance Operations.

REPORT ON INSURANCE OPERATIONS:

The purchase of AIC resulted in Leucadia National Corporation entering the non-credit related insurance business through AIC's subsidiary, Charter National Life Insurance Company, and its subsidiary, Charter American Insurance Company. In addition, City Life Insurance Company, a former subsidiary of City Finance Company, became a subsidiary of Charter American and these three companies now comprise the insurance operations of Leucadia National Corporation.

The purpose of this report is to acquaint you with these companies. The figures mentioned below reflect amounts for all of 1980's operations, though, except for City Life, the earnings of the insurance operations are included only in Leucadia National's consolidated financial statements from December 3, 1980.

CHARTER NATIONAL LIFE INSURANCE COMPANY

During the past decade, a handful of the more than 1,800 life insurance companies in the United States and Canada have effectively reshaped the insurance marketplace and have established themselves as an important part of the insurance industry. Charter National Life is one of these companies, and is recognized as one of the country's most innovative insurance marketers, operating in the highly competitive life brokerage market and specializing in the underwriting of impaired risk or hard to insure cases, and in the development of innovative life insurance products. The company is licensed in 49 states, the District of Columbia, Canada, and Puerto Rico.

Its most recent product innovations include Single Premium Interest Adjustable Life (SPIAL), a paid-up life insurance policy which utilizes today's high interest rates to produce a lower cost for the consumer. Under this program, Charter may adjust benefits upward or downward every five years, depending upon changes in interest rates. First introduced in late 1979, SPIAL accounted for 44.1% of the Company's new ordinary business written in 1980.

Another new program is the Retired Lives Reserves ("RLR"), a product which provides the equivalent of paid-up group life insurance at retirement to employees of small to medium-size corporations. Charter National offers several versions of this program, one of which was unique to the industry when first offered by Charter National in late 1978. The Company has pioneered other aspects of RLR, including lifetime funding and excess interest crediting. RLR accounted for 21.5% of the Company's new business in 1980.

The balance of Charter's business results from aggressive underwriting of impaired risk or rated business. The Company uses a highly skilled team of professional underwriters and medical personnel, together with access to domestic and international reinsurance markets, to arrive at an acceptable price for the buyer. This insurance specialty is confined to only a few companies, and Charter National has been in this business since 1967.

Credit insurance operations of Charter National Life have been conducted in two parts, captive and non-captive. The captive credit business is written for customers of the AIC consumer finance operations and the non-captive business is written for non-related parties. Leucadia is not new to the captive business, since City Life has been involved in captive credit insurance for a number of years.

CHARTER AMERICAN INSURANCE COMPANY

Charter American is the property and casualty subsidiary of Charter National Life, and is licensed to operate in 33 states. Except for its credit property lines (household goods and lenders' collateral protection), most other major lines have been historically unprofitable. In 1979, the Company began a planned program of curtailing and/or discontinuing major lines of business which were unprofitable, due to high claim reserves and extraordinary losses. This program should be completed as of May 31, 1981. Charter American expects to eventually confine its activities primarily to credit property lines as a reinsurer.

We in the Charter group look forward to contributing to the operations of Leucadia and believe we will make an important contribution to its future earnings.

Lawrence L. Hoffman, CLU
President of Charter National Life Insurance Company and Charter American Insurance Company and Chief Operating Officer of the Insurance Operations

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND PRESIDENT:

1981 was another year of continuing improvement in your Company's financial condition.

During the year the capitalization of the Company was substantially changed by (i) the retirement, at discount, of the Company's 8-¾% Senior Note, (ii) the Exchange Offer whereby 656,301 Series E $1.85 Cumulative Preferred Shares were issued in exchange for an equal number of common shares, (iii) the cash tender offer for 6% Convertible Subordinated Debentures which was started in 1981 and completed in 1982 and (iv) the substantial reductions in bank and short-term debt more fully described below. Perhaps most importantly, we have fully digested the acquisition of American Investment Company ("AIC"), which took place on December 3, 1980, and have positioned the Company to take advantage of opportunities as they appear.

Shortly after the AIC acquisition was consummated, we concluded that it was not desirable to finance consumer finance receivables (which are essentially long-term, fixed rate obligations) with bank borrowings (which are essentially volatile, variable rate obligations). Accordingly, we determined to reduce the investment in consumer finance receivables by approximately $125,000,000. This was principally accomplished by sales of receivables completed in March and April 1981 and the recently completed sale to an affiliate of Manufacturers Hanover Trust Company. Since completion of that sale, our consumer finance operations have been essentially free of variable rate indebtedness and principally financed by long-term indebtedness that had an average stated interest rate of 6.58%. We are also very pleased that during 1981 AIC, for the first time in many years, was able to sell a substantial amount of commercial paper. This form of temporary financing is much less expensive than bank borrowings. Although AIC has no current need to issue commercial paper, we believe it has the ability to issue commercial paper at any time if desired.

As you know, prior to the acquisition of AIC we were not involved in non-credit related insurance operations. During 1981, we studied the industry in detail, had actuarial studies pertaining to our insurance operations prepared and engaged an investment banker to advise us. We then concluded that the potential sales value of the life insurance operations was sufficiently attractive for us to pursue a sale. To date, no sales agreement has been entered into and no assurance can be given that any sale will result.

We also determined to sell the casualty insurance operations since the risks inherent in that type of business are greater than we care to assume. The sale of these operations, which is scheduled to close in early April, will result in a gain which will be reflected in 1982 results of operations.

Our real estate operations, which are classified for financial reporting purposes as a discontinued operation, had an operating loss in 1981. However, we did receive over $11,000,000 in proceeds from the sale of properties. We also reinvested over $7,200,000 in a New York City commercial office building which we have been involved with for many years and which, because of the booming New York City commercial real estate market, has increased in value. We are now in the process of leasing available space in that building which should further increase its value. To date in 1982 we have sold properties which had a book value of $1,900,000 for $9,300,000. The gain on these sales will be reflected in 1982 results of discontinued operations.

Consolidated net income for the year ended December 31, 1981 was $7,835,000 compared to net income for the year ended December 31, 1980 of $1,892,000. Income from continuing operations in 1981 was $5,056,000 compared to $662,000 in 1980. The 1981 results include AIC for the entire year but for 1980 AIC is only included for approximately one month. Discontinued operations had a loss of $1,700,000 in 1981 and income of $477,000 in 1980. The 1980 discontinued operations include the gain on the sale of James Talcott Factors, Inc. Extraordinary credits totaled $4,479,000 in 1981 and $753,000 in 1980. The 1981 extraordinary credits included a gain of $1,021,000 on repurchase of the Company's Senior Note and $1,100,000 representing a portion of the gain resulting from the cash tender offer for 6% Convertible Subordinated Debentures. In 1982, the Company will report an additional extraordinary gain resulting from that offer. Other extraordinary items result from utilization of tax loss carryforwards.

We are very optimistic about the future of our Company. We believe that the consumer finance operations are efficiently managed and, in this period of record high interest rates, properly financed; that our insurance operations should, if not sold, continue to be profitable and to offer innovative products; and that the Company is prepared to take advantage of opportunities.

Further, in March 1982, we acquired, principally through a cash tender offer, 57% of the outstanding common shares of TFI Companies, Incorporated ("TFI"). TFI is an American Stock Exchange listed company primarily engaged in the manufacture and distribution of building materials and the processing and distribution of meat products. Although, we are just becoming familiar with TFI, we believe we have made a wise investment in that company.

The comments of our chief operating officers are included in this portion of our annual report. We have also included the Form 10-K as filed with the Securities and Exchange Commission, which includes the annual audited consolidated financial statments and statistical and other data.

During the year we again made many requests of our bankers, often on very short notice. Again, they responded in a timely, efficient and positive manner. Many of our accomplishments would not have happened without their support.

The demands made on our officers and employees during 1981 were extreme and we cannot thank them enough for their efforts on behalf of our Company.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

REPORT ON CONSUMER FINANCE OPERATIONS:

In looking back at the operations of the consumer finance group in 1981, one thing becomes crystal clear—it will not be quickly forgotten by this writer.

The acquisition of AIC on December 3, 1980 increased our consumer finance operation from 103 offices operating in 8 states with net receivables of approximately $124 million at December 31, 1979 to 358 offices operating in 25 states with approximately $427 million in receivables at December 31, 1980. Moreover, the consumer finance group entered 1981 operating from two home office locations, with different operating and financial reporting staffs and different operating procedures and philosophies.

As we entered 1981, we became convinced that we could no longer make consumer loans (which have long-term maturities and fixed rates) by funding them with bank loans particularly in a period of extremely volatile interest rates. From this conclusion our operating policy for 1981 was developed. That was to reduce our dependence upon expensive debt through a reduction in our outstanding receivables. Additionally, we determined to reduce our home office operating expenses by consolidating the two separate home office locations under City Finance and to implement the operating policies throughout all our operations that had made City Finance so successful in the past.

To achieve the reduction in such debt, we immediately set upon a program that would reduce receivables by approximately $125 million. This reduction was accomplished primarily through the sale of receivables to four different companies in a program which has only recently been completed. Upon the completion of the sale of our West Coast offices to Manufacturers Hanover Consumer Services, Inc. on February 1, 1982, our consumer finance receivables had been reduced from $427 million at the beginning of 1981 to $199 million.

Consolidation of the two home offices was accomplished in two stages. First, in early 1981, operational control of consumer finance offices in several Southeastern states was transferred from Saint Louis to City Finance in Memphis. Then, in July, the remaining operations were transferred to Memphis. The consolidation resulted in a substantial reduction in home office personnel and overhead expenses. Of at least equal importance, this consolidation enabled us to blend the operations and achieve greater uniformity and improved operating control.

Our operating and financial results for 1981 are difficult to compare to 1980 due to the acquisition of AIC; however, the following should be noted:

- ☐ contractual delinquency of 60 days or more stated as a percentage of outstanding receivables was down 30%, from 8.00% in 1980 to 5.56% in 1981,
- ☐ credit losses increased from 2.11% in 1980 to 3.35% in 1981 and
- ☐ earnings in the acquired AIC offices increased substantially.

The heavy credit losses are continued evidence of a depressed economy with an ever increasing percentage of unemployed in our nation's work force. Also adversely affecting our credit losses is the continuing high number of bankruptcies filed as a result of the liberal exemptions allowed under the bankruptcy code.

We will continue to reduce receivables principally through liquidations in our generally less profitable Northeastern offices. The remaining receivables will be used as a solid base for our ongoing operations. New growth through acquisitions will be pursued as opportunities arise provided we obtain acceptable financing.

With the reduction in receivables, with some recovery in our economy and with encouragement that the abuses permitted by the bankruptcy code will be corrected I am optimistic about the potential improvement in all phases of our operations for 1982. We should then be positioned to enter 1983 with receivables of excellent quality and high yields and should produce an outstanding profit contribution for the Company.

Our efforts will be dedicated toward that end.

Robert P. Brock

Robert P. Brock
Chairman of the Board
City Finance Company

Message from The Chairman of The Board and The President:

The 1982 year was an outstanding year in the 128 year history of your Company. Many events, the foundation for which had been laid during the last few years, came to fruition in 1982. In addition, the Company took advantage of other opportunities as they arose to improve the Company's financial condition and to lay the foundation for future growth.

Although the 1982 consolidated results of operations reflect several significant transactions recorded as extraordinary or non-recurring items in the consolidated income statement, perhaps the most significant transaction was the sale in early February of approximately $65,000,000 of such receivables. This sale completed the planned $125,000,000 reduction of consumer finance receivables. The funds from this sale were utilized to retire substantially all of the American Investment Company ("AIC") variable rate indebtedness and ultimately to acquire a portion of AIC's long-term indebtedness at a substantial discount. After completing this sale, the Company's consumer finance operations were principally located in those states where City Finance Company has historically operated most successfully.

We are committed to the consumer finance industry and believe there is a substantial opportunity for growth and future profits. Our consumer finance operations are headed by Robert Brock and supported by a highly competent and experienced staff. His report on the consumer finance operations is separately included.

During 1982 we had discussions with several potential buyers for Charter National Life Insurance Company ("Charter") our life insurance subsidiary. However, we have decided not to sell Charter. We determined that its profitability was being substantially reduced by excessive overhead. David Cumming, Vice President and General Counsel of your Company, was elected Chairman and President of Charter with instructions to reduce the excessive overhead and develop new life insurance products. We are happy to report that progress is being made in that regard.

In 1982, Charter introduced its TAPLAN product, which is discussed in more depth in David Cumming's report on the insurance operations. In summary, sales of TAPLAN in 1982 were approximately $63,971,000. However, inasmuch as TAPLAN has characteristics substantially different from that of other insurance products sold by Charter, we have decided to defer recognition of all income related to TAPLAN until we have had more experience with it. Our experience to date has been satisfactory and we believe it is likely that TAPLAN and other similar products will add substantially to our future profits.

We see Charter as a provider of specialty insurance products that include increasing cash value features and hope to significantly expand this area of our business.

In the spring of 1982 we perceived an opportunity to retire AIC's low rate long-term indebtedness at a substantial discount from principal amount principally using cash generated from the sale of the consumer finance receivables. We believed that interest rates were declining from historically high levels and that AIC would be able to borrow in the future at lower rates—particularly in light of the substantial improvement in AIC's operations and capitalization. Cash tender offers for AIC and the Company's debt resulted in an aggregate $42,036,000 principal amount of indebtedness being acquired for approximately $30,161,000.

The 1982 results of operations include extraordinary credits aggregating $24,192,000 and non-recurring credits including a gain from settling a long-outstanding federal income tax matter. Discontinued operations include gains of $7,200,000 from the sale of certain real estate properties and approximately $1,600,000 from the sale of the casualty insurance subsidiary. In 1983, we expect, AIC's dividends and earnings will enable the Company to reduce a substantial portion of the Company's outstanding bank indebtedness.

The Company was involved in several acquisitions in 1982. It acquired 57% of the outstanding common shares and certain convertible and non-convertible debt of Cardiff Equities Corporation ("Cardiff"), formerly TFI Companies, Incorporated, an American Stock Exchange company with remaining interests in building materials distribution and manufacturing. As we expected at the time of the tender, Cardiff has not operated profitably since acquisition, principally because of the depressed economy. Since Cardiff was purchased at less than the reported book value and is independently financed, our financial exposure is limited to our relatively modest remaining investment. We ultimately expect Cardiff to be a positive contributor to earnings and a vehicle for growth in the non-financial area. Cardiff has required a disproportionate amount of management's time and attention and in retrospect, our timing of this acquisition could have been better.

In mid-December, the Company acquired Terracor, a company which had been in chapter 11 bankruptcy proceedings and formerly controlled by your Company's Chairman. Prior to approving the acquisition, the Board of Directors appointed a committee of independent directors and engaged real estate appraisers and independent investment bankers to review the transaction. We believe we acquired Terracor's assets at less than fair value and ended litigation that was occupying substantial management time. We also became a partner with John W. Jordan II, a Director of the Company, in The Jordan Company, a firm specializing in structuring leveraged buy-outs. As a result during 1982, we became a 22-30% equity owner in four companies. These companies have operated profitably since acquisition and the Company recorded its portion of their earnings in results of operations.

AIC terminated its bank credit agreement early in 1983 and in related transactions (i) entered into a $25,000,000 7½ year credit agreement with a bank and (ii) participated in a relatively new form of financing called an "interest rate swap". These related transactions have the effect of converting the variable rate credit agreement borrowings into a 12.2% maximum fixed rate financing. The Company a called for redemption, on March 1, 1983, its 6% Convertible Subordinated Debentures.

On March 10, 1983, the Board of Directors declared a two-for-one stock split to be effecte in the form of a 100% stock dividend payable April 6, 1983 to stockholders of record on Marc 23, 1983.

We are very appreciative of the support of our bank lenders who have again responded to our frequent requests in a constructive and innovative manner, often on very short notice. We are also thankful for our very capable employe and professional advisors of whom we often ma unreasonable requests, but who always fulfill su requests in an unfailing manner while continuin to perform their more routine assignments in an extraordinary fashion.

1982 was an extraordinary year which we cannot expect will soon be repeated. It has provided a strong financial foundation which wi be a basis for future earnings growth. It was a year our loyal shareholders deserved.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Message from The Chairman of The Board and the President

1983

Your Company finished its 129th year, with its common shareholders' equity at an all-time high of $73,498,000. The Company's capital base (common shareholders' equity, preferred shares and subordinated indebtedness) was strengthened by the successful completion of two public offerings of preferred stock: $30,000,000 of Series F $2.00 Convertible Exchangeable Preferred Stock in May 1983 through Merrill Lynch White Weld Capital Markets Group; and $50,000,000 of Series G Adjustable Rate Cumulative Preferred Stock in December 1983 through Drexel Burnham Lambert Incorporated. This gives us $179,622,000 of capital base. The capital base is particularly important to finance companies since lenders generally permit senior indebtedness to be a multiple of the capital base.

The 1983 consolidated results of operations reflected improvement in continuing operations. Income from continuing operations in 1983 was $15,596,000 or $2.41 per common share as compared to $10,455,000 or $1.75 per common share in 1982. 1983 extraordinary credits and discontinued operations were $5,126,000 or $.96 per common share. Extraordinary credits and discontinued operations include utilization of tax loss carryforwards and gains on sale of the discontinued real estate finance assets.

A number of other significant events occurred in 1983 and early in 1984:

We have paid off all debt remaining from the 1979 restructuring plan.

A two-for-one stock split in the form of a 100% stock dividend was effected in April 1983.

Our subsidiary, American Investment Company ("AIC"), terminated its bank credit agreement early in 1983 and entered into a $25,000,000 7½ year credit agreement with a bank and participated in a relatively new form of financing called an "interest rate swap". A second $25,000,000 "interest rate swap" was entered into in November and a second $25,000,000 credit agreement was entered into in March 1984. The effect of the interest rate swap agreements and related credit agreements is to effectively convert variable rate debt to a fixed rate which is designed to more appropriately finance our consumer finance operations.

Our Board of Directors authorized the purchase of up to 300,000 common shares. Through March 12, 1984 we have acquired 250,215 common shares at an average cost of $18.47 per share. We consider this an excellent investment for the Company.

On April 2, 1984, our Utah based industrial loan and thrift company was converted into a national bank which will take money market and other non-demand deposits insured by the Federal Deposit Insurance Corporation ("FDIC").

On March 23, 1984, we placed an $18,300,000 non-recourse mortgage on our New York City headquarters building. We also have received several offers, which we are currently evaluating, to sell the building for approximately $18,000,000 in excess of its book value.

On March 29, 1984, we announced that a letter of intent had been signed to acquire Columbia National Life Insurance Company for $18,000,000. Completion of the acquisition is subject to certain conditions.

We continue to be committed to the consumer finance industry and believe that there is a substantial opportunity for growth and future profits. The report of Robert Brock, Chairman of City Finance Company, who leads our consumer finance operations is separately included.

Our life insurance operations are principally conducted through Charter National Life Insurance Company ("Charter"). As we indicated last year, our strategy was to create new life insurance products and to reduce the excessive overhead at Charter. Progress has been made in both areas as is reflected in the report of Charter's chief executive officer, David Cumming, also included separately. In 1983 we continued to defer recognition of all income related to our TAPLAN product, a single premium increasing whole life insurance product. Premiums from TAPLAN were $63,971,000 in 1982 and $57,697,000 in 1983. Experience to date has been satisfactory and we presently expect to consider recognizing income with respect to TAPLAN during 1984.

As reported last year, the Company acquired a majority interest in Cardiff Equities Corporation ("Cardiff"), an AMEX company whose continuing operations are principally in the manufacturing of vanities and electrical cord sets. Our efforts to restructure Cardiff and have it contribute to Leucadia's future profits were significantly advanced in 1983 and should be completed in 1984.

The 1983 year profited from two other bright spots:

Through our partnership in The Jordan Company we have acquired interests sufficient to permit the Company to record our investments under the equity method of accounting in eight companies engaged in various businesses. The Jordan Company is a firm managed by one of our directors, John Jordan II, that specializes in structuring leveraged buy-outs in which we become equity participants with only a modest cash investment. The Company's share of the earnings of those companies included in results of operations was $2,606,000 for 1983 compared to $700,000 for 1982. In addition, included in the 1983 results is a non-cash, non-operating pre-tax gain of $1,350,000 as a result of the successful public offering of its common shares by one of these companies, Bench Craft, Inc., in December 1983.

Terracor was acquired late in 1982 by the Company furnishing the $5,932,000 required to fund its chapter 11 bankruptcy plan. During 1983, Terracor realized proceeds of $5,308,000 from the sale of properties and the collection of instalment notes receivable. Terracor has substantial assets remaining which should provide profits from time to time. In late December, Terracor acquired a small consumer finance company, Town Enterprises, Inc., for $2,500,000.

We remain appreciative of our lenders, capable employees and professional advisors who again performed yeoman service in 1983.

1982 was a year of extraordinary gains. 1983 in many ways was even better because our profits from continuing operations again improved. We are pleased for our loyal shareholders and we hope that our shareholders are pleased as well.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Report on Consumer Finance Operations

It is with a great deal of pleasure that I report to you on the record results of our operations during the 1983 year.

Highlights of our year were:

- Record financial results
  - Increased gross income
  - Reduced operating expenses
- Increased investment in receivables
  - Receivables increased 26% in operating branches
  - Seven new offices were opened
  - Town Enterprises, Inc. was acquired on December 30, 1983
- Reduced delinquency and losses
  - a 34% reduction in the percentage of direct loans contractually delinquent by 60 days or more
  - a 42% reduction in the loss ratio
  - a 30% reduction in the provision for bad debt losses

In my report to you last year, I stated that we were entering 1983 with receivables of excellent quality and high yields, which should result in an outstanding profit contribution for the Company. Our results were even better than anticipated. Based on operating data we use in the management of the business, earnings before deducting interest expense and income taxes stated as a percentage of average gross receivables was 16.1% in 1983 compared to 13.25% in 1982, a 22% increase, and a record percentage return on our investment for the Company. This was accomplished by increasing our gross income and by reducing both operating expenses and bad debt losses.

Consumer finance receivables increased by $49,100,000 in 1983. This represents an increase of $55,508,000 in the operating branches and a reduction of $6,408,000 in the liquidating branches. We added 7 operating branches during the year and now conduct business in 157 locations in 16 states. Our average net receivable per operating branch was $1,822,000 at December 31, 1983 compared to $1,485,000 at December 31, 1982.

Continued improvement in delinquency resulted in increased collections which improved gross income. Contractual delinquency on direct loans 60 days or more past due continued to show improvement from 4.68% in 1982 to 3.09% in 1983. These ratios are considerably better than industry averages and once again show that we continue to maintain excellent quality receivables. We hope to have continued low bad debt write-offs and high yields.

Bad debt charge-offs were lower in 1983 than in 1982, going from 2.9% to 1.7%, for a 42% reduction. We hope for continued improvement in this ratio in 1984.

The consumer finance business made a strong showing in 1983. The consumer regained confidence in the future of the economy and re-entered the marketplace in increased numbers. As a result, our volume of sales finance and direct loan business increased, which led to the increase in our receivables. I do not anticipate any slowdown in 1984, as bargains in the marketplace continue to appeal to the consumer. We intend to actively solicit consumers in our servicing areas and hope to continue the growth achieved in 1983. We believe growth is the key to continued reduction in operating expense through the handling of more dollars in earning assets in each branch location.

As I see it, the biggest challenge facing us in 1984 is to maintain the spread between gross income and the cost of funds. Competition in the form of reduced rates has been widely noted during the last half of 1983 and will likely expand further in 1984 if the lower cost of short-term funds continues. We, however, will continue to exercise careful judgement in properly matching both the pricing and the maturity of our loans with the cost and term of borrowed funds.

Despite the problem of a possible squeeze on gross income in 1984, we are very optimistic of our continued ability to show additional improvements in our financial results as well as in our operating ratios. With increased receivables and reduced delinquency, we are positioned for additional record profits in 1984 and look forward with a great deal of enthusiasm to being a major contributor to the profits of Leucadia.

Robert P. Brock

Robert P. Brock
Chairman of the Board
City Finance Company

Report on Insurance Operations

The non-captive insurance business of Leucadia is principally conducted through Charter National Life Insurance Company, which is licensed in all states (except New York), the District of Columbia, Puerto Rico and in seven provinces of Canada.

Life insurance as a business has been dramatically changed over the last decade by external events. The marketplace has shown increasing sensitivity to the investment elements of life insurance products as interest rates have fluctuated. Life insurance products have become much more flexible as computer software and hardware have been created to administer complex contracts.

The combination of high interest rates and automated administration has permitted smaller companies such as Charter to compete effectively with the very large companies; the general level of competition has become very intense. Charter has responded to these changes in several ways though none of these changes are designed to put Charter in direct competition with the largest companies for the mass market.

TAPLAN, our single premium increasing whole life product, was the major new business producer in 1983 as it was in 1982. Premium revenues were $57,697,000 for 1983. TAPLAN combines increasing death benefits with significant cash values which increase at rates competitive with other tax-deferred investments.

For financial reporting purposes, Charter has continued to defer recognition of all operating income applicable to TAPLAN. Though we have been pleased with TAPLAN's experience, we can not yet be certain what profits will be because of uncertainties as to future interest rates, mortality and, particularly, persistency. We intend to reevaluate our TAPLAN experience in 1984 and may then begin to recognize profits.

Proposed tax legislation makes it likely that TAPLAN will not be sold in the future. In order to provide a saleable contract to satisfy demands for a TAPLAN like policy, CHART-A-PLAN was introduced in January 1984. This is a flexible premium life policy with significant cash values, designed to meet the requirements of the proposed new law.

In addition to TAPLAN and CHART-A-PLAN, Charter has continued to be innovative and to introduce new products.

> In 1983 Charter began marketing immediate and structured settlement annuities. These types of products produced $6,477,000 in premium revenues. Our modest result has made it clear that success in this area will require a more effective marketing effort.
>
> Credit insurance is generally issued with little or no regard for the health of the insured. It is therefore very expensive and essentially unsaleable to sophisticated consumers obtaining large loans. Charter is developing an inexpensive decreasing term contract for larger size loans which would justify the underwriting effort. Charter hopes to market the contract initially through tax shelter syndicators. Charter, has in the past and in 1984, will market traditional credit insurance, primarily through small banks in conjunction with consumer loans.
>
> Charter has commenced selling inexpensive term insurance with annual commissions. The Company hopes to market this product through broker-dealers.

During 1983, Charter continued to have significant success in decreasing overhead. General expenses in 1983 were 25% less than in 1982. The Company anticipates further decreases though they will be less dramatic. Despite the decrease in overhead, the Company continues to improve its performance and service standards.

The 1983 results reflect significant progress toward establishing Charter as a profitable company with innovative products. We are also actively seeking to acquire other life insurance companies. The expected benefits of such acquisitions are (1) purchase of life insurance contracts at a cost lower than that of obtaining new business in traditional ways (2) efficiencies created by eliminating duplication of policy maintenance costs and (3) new product opportunities.

We hope to make Charter a stronger and more profitable company in 1984.

David Cumming
President

1984

Message From the Chairman of the Board and the President

Our Company completed its 131st year with common shareholders' equity at a record high of $151,033,000 and book value per common share at a record high of $19.88.

The year saw a number of notable transactions, including the significant expansion of our manufacturing operations and our entry into the field of equipment leasing.

In January, we received an additional payment of approximately $39,800,000 related to our 1984 investment in Avco Corporation.

In March, Cardiff Equities Corporation, then our majority-owned subsidiary, completed the acquisition of Conwed Corporation for a total purchase price of approximately $45,350,000. Conwed is engaged in manufacturing industrial products, including proprietary plastic netting, for various uses. Two of its other operations were sold during 1985 for a total of approximately $42,500,000 and part of the proceeds of these sales were used to retire substantially all bank debt incurred for the acquisition. Because of the increased significance of the manufacturing operations following the acquisition of Conwed, the Company's financial statements were restated in 1985 to reflect Cardiff as a consolidated subsidiary. The Company recently acquired the balance of the equity interest in Cardiff by means of a tender offer and a merger.

In April, we sold our equity interest in one of the Associated Companies in which we have acquired interests by virtue of our partnership interest in The Jordan Company. We received aggregate consideration valued at approximately $16,000,000 and reported a pre-tax gain of approximately $12,000,000 from this sale. We also entered into another partnership agreement with the partners of The Jordan Company for leveraged buy-outs generally smaller than those currently being done by The Jordan Company.

In September, we entered into an agreement with National Intergroup, Inc. ("NII") pursuant to which, on January 2, 1986, NII purchased 75% of our NII common stock for $32,819,400 in cash plus warrants to purchase the same number of NII shares as were sold. As a result, the Company significantly reduced its cash investment in NII while retaining the opportunity to participate in appreciation in the market value of NII common stock. Because the cash consideration received and the value of the warrants approximated the cost of the NII shares sold, no pre-tax gain or loss will be recognized. However, the transaction will result in certain tax benefits that will be reflected in 1986 results of operations. The agreement with NII also contains certain standstill provisions. During 1985 the Company had conducted two proxy solicitations in opposition to NII's Board of Directors and had proposed a business combination with NII, subject to certain conditions, which the NII Board rejected.

In September, the Company also commenced equipment leasing operations when a subsidiary became a co-general partner of a partnership formed to lease aircraft and aircraft equipment. In November, we acquired O.P.M. Leasing Services, Inc. following its reorganization under Chapter 11 of the Bankruptcy Code. This subsidiary, which has been renamed AIC Leasing Services, Inc., is engaged in computer leasing and remarketing. We subsequently acquired 48% of the outstanding common stock of Brae Corporation, a public company principally engaged in the leasing and management of railcars. Executive officers of the Company now serve as directors of Brae.

During 1985, we made significant acquisitions of both equity interest in other companies and of our own equity securities. At present, we beneficially own more than 5% of the outstanding common stock of the following public companies: Minstar, Inc. (10.5%), GATX Corpr n (8.9%), NII (7.8%), Brae (48%), Britis d of America (16.5%) and Prudential Finar ervices Corporation (19.8%). Sharel ders who have been following our involvement with GATX are referred to the discussion beginning on page 1 of the accompanying Form 10-K. During the year, we acquired, directly and indirectly, an aggregate of 1,098,108 of our own Common Shares at an average cost of approximately $19.37 per share, which is less than book value per share at year-end. In addition, we repurchased substantially all of our Series G Adjustable Rate Cumulative Preferred Stock and called for redemption all of our Series F $2.00 Convertible Exchangeable Preferred Stock. Substantially all the Series F Preferred Shares were converted into a total of 1,426,131 Common Shares.

During 1985 and early 1986, we also completed a number of financings designed to increase our financial resources. These included public offerings of $75,000,000 principal amount of 14% Senior Subordinated Notes, $30,000,000 principal amount of 7¾% Convertible Subordinated Debentures and $37,100,000 principal amount of Subordinated Swiss Franc Bonds that (after giving effect to a hedging transaction) bear interest at an effective annual rate of 10.8%. In addition, we added a third $25,000,000 bank revolving credit agreement and entered into amendments that permit subordinated debt to be treated as capital for certain ratio purposes.

The many transactions mentioned above tend to obscure the achievements of our basic operations — consumer finance, life insurance and manufacturing. Each had a very successful year and we are including separate reports from the executives with primary responsibility for them. We believe these businesses are properly financed and conservatively managed and we are proud of their achievements.

Once again we wish to express our appreciation to our employees, lenders, investment bankers and professional advisors who, in a challenging yet fruitful year, assisted us in creating further value for our shareholders.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Report on Consumer Finance Operations

The year 1985 was one of continued progress for our Company. We accomplished record earnings, expansion of our branch network, and an increase in finance receivables.

During 1985, we continued to follow our policy of orderly expansion, adding 12 locations and ending the year with 173 operating branches located in thirteen states, primarily in the Southeastern part of the country. The development costs for these new locations whose earnings level has not yet attained that of our established offices is included in results of operations.

Principally due to the increases in the number of offices, the Company's gross receivables continued to grow. During 1985, consumer finance receivables increased $34,200,000 to $363,600,000 compared to $222,800,000 at the 1982 year end for a 63% increase in this three year period.

Income before income taxes for the consumer finance operations (including related credit insurance) increased in 1985 by approximately 17% from the 1984 level. Income from consumer operations before interest and taxes also reached record levels. We believe the most important measure and the principal measure used in the management of the business is net income before interest and taxes stated as a percentage of average outstanding consumer finance receivables ("NIBIT"). The NIBIT was 17.2% in 1985 and continued to place us at the top of our industry among those companies with outstanding net receivables of our size or larger. A primary reason for our continued success has been our ability to maintain our gross income percentage while reducing our operating expenses as a percentage of funds employed.

City Finance is exclusively in the consumer finance business. Ninety-one percent of our receivables are in loans made direct to the consumer and the remaining nine percent are in dealer acquired sales finance contracts (primarily of a non-automobile variety). At December 31, 1985, forty-five percent of the direct loan receivables were secured by either a first or second mortgage on real estate, with the remainder primarily secured by automobiles and/or miscellaneous consumer goods.

A very important part of the finance business is the sale of credit related insurance, including credit life, credit disability, and various types of property insurance designed to protect the collateral used as security for the loan. Approximately 12% of our total gross income originated from commissions and premiums earned from the sale of this insurance.

Our operating strategy in 1985 was affected by a tremendous increase beginning in the last quarter of 1984 in the amount of lendable funds being offered to the consumer, primarily through unsolicited credit cards. This has led to a concern that the consumer may be overloaded with debt. Also, some of our competition began offering unrealistically low rates of interest.

As a result, during 1985 we directed our personnel to use caution in our loan granting, paying particular attention to those individuals with excessive obligations. In addition, we continued to price our interest charge on extended term real estate loans to realistically match our long-term cost of funds. We were determined not to price our interest charge on loans, which are essentially long-term in nature, by reference to short-term rates.

Market conditions and competition created a difficult operating environment which had a negative impact on the volume of new real estate loans that we were able to generate during the year and increased bankruptcy filings throughout the country had a negative impact on delinquency and bad debt charge-off ratios. In addition, the reduced rates offered by some of our competitors resulted in retirement of an unusual number of our existing loans. In spite of this, we were successful in maintaining a high percentage of real estate secured loans and, in fact, had a gain of $6,200,000 in this category of receivable during the year. Sixty day contractual delinquency increased from 3.01% at December 31, 1984 to 3.25% at December 31, 1985 and the loss ratio (write-offs less recoveries) was 1.44% in 1985 up from .94% in 1984. Both of these ratios are still well in line with industry average and are better than our Company's historical averages.

As we look forward to 1986, we have mixed emotions. On the one hand, we continue to believe that excessive funds in the consumer marketplace will result in a greater number of individuals becoming over-obligated, bringing about higher delinquency and a subsequent rise in personal bankruptcies. Also, rate competition may possibly become even more aggressive and make it more difficult to maintain an increased level of realistically priced consumer finance loans. On the other hand, the over-obligation by consumers will also offer opportunities to work with individuals in restructuring their debts by more properly matching their debt to their incomes. This should be an excellent source of new business if properly qualified and adequately secured.

We have initiated a training program which will educate our loan personnel to look for and recognize these opportunities. They will be trained to give professional counseling to the consumer, urging awareness of their indebtedness and, where advisable, recommend a restructure of their payment schedule to obtain current payment performance.

With our expanding branch network and increased portfolio of receivables, we are in an extremely good position for a continued increase in our gross income and a reduction in our operating expense as percentage of funds employed. This should enable us to once again show improvement in our profit contribution.

We are proud of our consistent earnings performance and of the high quality of our assets. Our employees are dedicated and hard-working and are determined to be tops in their industry. We will continue to train them for new opportunities that arise in today's competitive and complex consumer finance market. Again, we are most appreciative of the unfailing encouragement that we receive from our parent company and, with their ongoing support, we are committed toward enhancing the quality of our assets while continuing to make a significant profit contribution.

Robert P. Brock

Robert P. Brock
Chairman of the Board
City Finance Company

Report on Insurance Operations

The insurance business of Leucadia is principally conducted through Charter National Life Insurance Company, which is licensed in all states (except New York), the District of Columbia, Puerto Rico and seven provinces of Canada.

Charter's major line of business since 1982 has been investment oriented life insurance ("IOL") products. These policies have varying characteristics but are similar in that they have significant cash values and are sold principally on the basis of the tax deferral of the increases in their cash values.

After a lackluster year in 1984 ($23.6 million of new IOL premium) Charter determined in the spring of 1985 to change its marketing approach. Marketing of IOL products had been through independent wholesaling organizations. Representation by these organizations was not exclusive which created chronic problems for the Company. In May 1985, Charter hired a national sales manager for the IOL products. The effect of this change in strategy was quickly evident as our 1985 new premium production from these products was $69.0 million, the highest annual production to date.

A significant ongoing problem for the Company with the IOL products has been changes in the tax laws which have required changes in the products. In 1985, further changes in the tax code affecting these products were proposed but were ultimately not adopted in the tax reform bill which was passed by the House of Representatives. The Company does not expect that provisions which materially affect IOL products will be introduced into the bill in the Senate.

Charter has recognized no income on its IOL products although experience to date has been satisfactory. It seemed clear to us when we first started to sell IOL products that the then prevailing accounting treatment (recognition of the present value of all anticipated future profits at the time the premium is received) was not prudent and did not properly reflect the economic realities of the product. In the last four years the financial troubles of companies which have reported substantial income on similar products have done much to change acceptable accounting procedures. As of early 1986, the Financial Accounting Standards Board was considering new accounting methods which would require recognition of income as it is realized through interest margins, mortality and expense margins and surrender charges. This is in accord with our view of a sensible method of accounting for this product. We will begin to recognize income on certain of our IOL products starting in 1986 utilizing a method which will reflect the earnings over time.

Overhead, which decreased significantly at Charter in 1982 and 1983, remained essentially level in 1984 and increased slightly in 1985. The 1985 increase was a result of substituting in-house expenses for the outside commission expense of the third party wholesalers. We expect that overhead will be level or increase very slightly in 1986 despite what we hope will be another year of substantial new business.

Competition has increased markedly over the last year. The number of companies selling products essentially similar to Charter's has increased roughly four-fold in 1985 and there are now approximately fifty companies selling similar products. Many of these companies have attempted (some with success) to capture market share by selling policies with artificially high rates. Our success in 1985 indicates that we can be successful in this market with sensible rates as long as we provide good marketing and service.

In February 1986, Charter introduced new IOL products which permit additional premium payments after the first year, add an option to index interest credits to Treasury paper, and add a policy with an optional additional death benefit.

During 1986, Charter expects to begin marketing variable life insurance through its existing distribution channels. Premiums from variable life insurance policies will be invested through a "separate account" of Charter in unaffiliated mutual funds. Gains and losses from mutual fund investments will be for the account of the policyholders.

At the end of 1984, Leucadia wrote off $16 million of value of life insurance in force because of unsatisfactory experience with the block of traditional life insurance policies which Charter had at the time it was acquired by Leucadia. Actuarial studies at the end of 1985 indicate that this block has stabilized.

We hope that our reorganized marketing and sales effort will make 1986 another successful year for Charter.

David Cumming
President
Charter National Life Insurance Company

Report on Manufacturing Division

The manufacturing operations of Leucadia are conducted through Cardiff Equities Corporation, which was acquired in March of 1982. Since that time we have continuously evaluated the operations applying our long established criteria in regards to market share, margins, and return on investment.

In 1984, after several poor earnings years, Cardiff determined it should concentrate its resources in the manufacturing portion of its business which had historically been profitable. Accordingly, in mid-1984, Cardiff sold the last non-manufacturing subsidiary that it owned. In late 1984, Cardiff began an acquisition of Conwed Corporation which was completed in March 1985 for a purchase price of $45.4 million. The acquisition of Conwed added four manufacturing businesses to the two that Cardiff already owned. It also was the main factor in Cardiff's achieving record operating results in 1985 as pre-tax income from continuing operations before income taxes and minority interest rose to $6.7 million.

The six manufacturing operations consist of the following product lines: Plastic Netting, Bonded Fiber Products, Hydraulic Mulch, Office Partitions and Workstations, Power Cord Sets, and Bathroom Vanities and Cultured Marble Tops.

After completing the acquisition, Cardiff applied the same criteria to each of the Conwed businesses as it had in the past. As a result, two businesses whose margins and returns were inadequate were sold, allowing Cardiff to reduce bank debt by $19.1 million.

Our plastics business, part of Conwed, manufactures proprietary plastic netting for various industrial and agricultural uses. 1985 was an excellent year with operating profit up 33% on a sales increase of 13% compared to pre-acquisition 1984. We are a significant force in the markets in which we compete, and we expend substantial research dollars to both improve market positions and to develop new markets. While we do anticipate greater competition in 1986, we are looking at certain alternative production techniques which will allow us to supplement our existing product lines.

Two of our other Conwed businesses, Bonded Fibers Products and Hydraulic Mulch, consolidated production from two manufacturing facilities into one during 1985. Bonded Fibers manufactures insulated pads for sale to, among others, the bedding and automotive industries. The Mulch division produces hydraulic mulch for use in turf establishment markets. This production consolidation was necessitated by the sale of a facility in northern Minnesota which had contained production for several different businesses including these two. The consolidation of production caused us to curtail sales efforts in certain geographic regions, as these products are freight sensitive and would no longer be competitive. Sales in these two divisions fell 8% from pre-acquisition 1984 levels with operating profits down 14%. The disruption caused by the move of certain Bonded Fibers production equipment had a detrimental effect on margins. In both divisions we are industry leaders and have a commanding market position, particularly in the bedding and turf establishment markets. In 1986, we are committing substantial effort to the development of new products for the Bonded Fibers automotive market.

Our office partition business, acquired with Conwed, manufactures and markets freestanding office partitions and workstations to office furniture wholesalers and dealers. Workstation systems and panels for open-office design is the largest and fastest growing segment of the office furniture business. New products designed to target the commodity segment of the market are expected to improve 1986 operating results.

Our cord set business produces electric power cord sets sold to manufacturers of a wide range of products from small tools to personal computers. This business services a highly competitive market and experienced a decline in sales and margins during 1985. Foreign competition had a particularly adverse effect on this business, which we expect to continue until the dollar reaches a more competitive level.

Cardiff's vanity business manufactures bathroom vanities (hardwood cabinets and cultured marble tops) for sale to home improvement centers and other retailers specializing in the do-it-yourself market. We hold a strong position in the bathroom vanity market which is a market served by several national and many regional suppliers. During 1985, this business added a second production facility which will help to counteract strong regional competition in future years. In 1985, operating income declined from the prior year despite sales remaining unchanged.

Competition from both domestic and foreign suppliers had a negative impact on margins as did certain start-up costs associated with the new facility. The substantial increase in production capabilities will improve operating results in the near future.

We believe that each of our businesses has excellent growth and earnings potential. We hope that, during 1986, emphasis on new product development and return on investment will produce another fine year for Cardiff.

Thomas E. Mara
Chief Operating Officer
Manufacturing Division

Message from the Chairman of the Board and the President

Your Company completed its 130th year with its common shareholders' equity at an all time high. The net income achieved for 1984 was also a record. Though the April 30, 1979 restructuring seems ancient history today fewer than six years have actually passed. At the time of the restructuring we had a common shareholders' deficit of approximately $7,680,000 compared to our positive common shareholders' equity of $126,097,000 at December 31, 1984. The book value per common share at April 30, 1979 was a negative of approximately $.85 compared to a positive book value per common share of $17.70 at December 31, 1984, or an increase of $18.55 per common share.

Clearly the most significant event that occurred during the year was our $77,475,000 investment in the undervalued equity securities of Avco Corporation. Prior to our entering into commitments for financing sufficient to seek control of Avco, Avco offered to buy our position at the existing market price, which was substantially above our cost, plus reimbursement of expenses. We accepted the offer subject to a provision in the repurchase agreement that if Avco were acquired within a specified period we would receive an additional payment measured by the difference between the price at which our Avco shares were repurchased and the acquisition price. As you are aware, Avco was subsequently acquired by Textron Inc. and we received the additional payments called for by the repurchase agreement. As a result of our Avco investment we realized pre-tax income in 1984 of about $61,000,000, exclusive of interest and other related costs.

The success of the Avco transaction should not hide the many other important events of 1984 and early 1985, most of which were positive:

Our consumer finance operations had the finest year in their history. Almost all measures of operating performance were at record levels. This was particularly true of the "NIBIT" discussed in Robert Brock's report, which was at a record high 17.74% of average investment in consumer finance receivables. We also increased our average investment in consumer finance receivables by 24%. We believe there is no company of comparable size in the consumer finance industry which can match our performance. Your attention is directed to the report of Robert Brock for more details.

Since the beginning of 1984 we have added bank credit facilities of over $150,000,000, including $75,000,000 at the parent company level. Consistent with our policy of properly matching interest rates and maturities, during the year we had in place interest rate "swap" and interest rate "cap" agreements covering over $110,000,000.

During 1984 we sold our headquarters building at 315 Park Avenue South in New York City, and realized a pre-tax gain of approximately $16,000,000.

During 1984 and continuing into 1985 we made investments in equity securities of a number of companies we believed represented undervalued situations. We currently hold equity positions of more than 5% in the following companies: Bench Craft, Inc. (OTC), British Land of America (NYSE), Minstar, Inc. (OTC), National Intergroup, Inc. (NYSE) and Prudential Financial Services, Inc. (OTC). The investment in Bench Craft, Inc., results from our partnership interest in The Jordan Company and the investment in British Land of America results from the sale of our headquarters building.

During 1984 we looked at many potential acquisitions. While none were completed during 1984, our unconsolidated subsidiary, Cardiff Equities Corporation, recently completed the acquisition of Conwed Corporation. Conwed, which has headquarters in St. Paul, Minnesota, manufactures coordinated ceiling and furniture products for commercial interiors as well as various industrial products.

As of February 14, 1985, our common shares were split three-for-two. This was effected by means of a 50% stock dividend distributed to holders of our common shares.

Among the investments we made during 1984 were investments in our own common stock. During the year we acquired directly or indirectly 964,958 common shares at an average price of $12.00.

During 1984 we redeemed all our outstanding Series E $1.85 Cumulative Preferred Shares and acquired an aggregate of 272,400 Series F Convertible Exchangeable Preferred Shares for $6,262,000. In March 1985 we called for redemption all remaining Series F Preferred Shares; we expect substantially all such shares to be converted into common shares prior to redemption. In early 1985 we also began to acquire Series G Adjustable Rate Cumulative Preferred Shares. The acquisitions and redemptions of preferred shares were done in large part because of our changed tax situation due to the succession of profitable years. When our tax loss carryforwards were available we were not concerned about the non-deductibility of the dividends. On an after-tax basis, however, the preferred dividends became too costly.

During 1984 our sales of investment oriented insurance products declined from the 1983 levels. We believe the decline is explained in part by the well publicized financial difficulties of two single premium insurance issuers. We also believe the favorable stock market conditions and lower interest rates of 1984 had a negative effect on sales of these products.

At the end of 1984 we determined to reduce the carrying value of Charter to reflect the unfavorable experience of certain traditional life insurance products sold by Charter principally prior to our acquisition of the Company at the end of 1980. These write-downs, which approximated $16,000,000, should have a favorable effect on future results since Charter will not bear the expense that arises when insurance policies are terminated earlier than expected.

It should be noted that the experience on our investment oriented insurance products such as TAPLAN, CHART-A-PLAN, Competitor and Competitor II, has been satisfactory and we expect to begin to recognize profits on these policies in 1985. It should also be noted that the amount of reserves and investments should compound every year if the business is retained, and therefore provide an increasing amount of future income. The report of David Cumming on the insurance operations is included as a separate section of this report.

We are pleased to note that during 1984 The Jordan Company partnership agreement was extended through 1986. The amended agreement provides for increased cash contributions and lower profit participations by the Company. In addition to the earnings from the ten companies in which we have equity interests as a result of our interest in The Jordan Company, we also receive investment banking and management fees. During 1984 our share of the profits of these companies was $4,807,000 and our share of the fees earned in 1984 was approximately $415,000. As reported last year one of these companies went public in 1983. Discussions are in progress for our sale at a substantial profit of our interest in another of the companies.

We are again appreciative of our lenders, investment bankers, employees and professional advisors who have continued to perform in an extraordinary way to help us achieve more for our loyal shareholders.

We do not promise that 1985 will be better—or even as profitable—as 1984, but we do believe our consumer finance and life insurance operations are properly and conservatively managed. The Company also has the financial resources and management ability to take advantage of opportunities as they arise.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Report on Consumer Finance Operations

I am pleased to report continued progress in our operation during the 1984 year. Record high yields were obtained on our invested funds. This, coupled with greater control of our operating expenses and record-low bad debt losses, resulted in record earnings, both in dollars and as a percentage of average net receivables before interest expenses and income taxes.

Progress was made both in increasing our total receivables and in opening new branch locations. Gross receivables were up 21% over the previous year, to $329,400,000 at year end. Delinquency on direct loans, 60 days and over, as reported on original contractual terms, showed continued improvement, reducing to 3.01% at year end. Net bad debts charged off for the year were at a record low .94% of average net receivables during the year.

Our receivables at the end of 1981 were $339,800,000, reduced to $222,800,000 at December 31, 1982 principally as a result of the sale of certain selected receivables to reduce dependence on short-term variable rate debt. Having achieved that reduction, we then had an increase in 1983 to $271,900,000, which continued during 1984. As a result, our total gross receivables which were $222,800,000 at December 31, 1982 had increased 48% to $329,400,000 at the end of 1984. Our receivable base at the end of 1981 listed 34% of our receivables in loans secured by real estate. This has increased to 48% at the 1984 year end. Also, our dealer retail sales contracts, which were 5% of total receivables in 1981 are now 9%.

Contractual delinquency on direct loans has shown continued improvement, starting at 5.56% at the 1981 year end and steadily dropping to 3.01% at the 1984 year end.

Also showing great improvement was the bad debt loss ratio, going from 3.4% in 1981 to a record low .94% in 1984. The provision for bad debts, of course, is in part controlled by the receivable base and is generally higher when receivables are growing and lower when receivables are declining.

The final and most important measure, and the principal measure used in the management of the business, is net income before interest and taxes ("NIBIT") stated as a percentage of average net receivables. The NIBIT was 10.91% in 1981, our first year with the AIC receivables, and has improved steadily to its present 17.74%, a record high for our Company, and the best percentage return on invested funds that I have seen in any consumer finance company of comparable size!!!

Forecasts for 1985 continue to project a moderate expansion in our economy. Our charge is to make certain that we obtain our fair share of this business and increase the size of our receivable base for continued increase in our earnings. Even under this optimistic projection, we will still be tested in using our expertise. I am convinced that credit grantors will be tested in our loan approval guidelines during the year, which will require keeping a watchful eye on overloading of debt by consumers. It is no secret that the present availability and reduced cost of funds have made vast amounts of funds available to the consumer.

Plastic cards, with very generous credit lines attached, are being received, unsolicited, by a very large number of average consumers. If these consumers become liberal users of these sources of credit, we will be faced with notable increases in our delinquency and quite possibly, an increase in bankruptcy and bad debt losses. This would also reduce the presence of these individuals in the consumer retail market, with its adverse effect on sales. We will be aware of this in our loan approval guidelines and will seek to further strengthen our loans with added security to protect us from those debtors who over-obligate themselves after we have closed our loan with them.

Another area of concern for 1985 is the March 1 effective date of the FTC Trade Regulation Rule on Credit Practices, which among other things, limits our ability to take certain non-purchase liens on household goods furnishings. We have surveyed a cross section of our customers regarding their reaction to a substitution of household goods items that are not in the restricted area and the response from our customers has been most encouraging. Substitution of collateral could enable us to continue uninterrupted our present method of making small size consumer loans that have historically been secured by household goods furnishings that are exempt under the new rule.

An expansion of our office network, increasing the receivables within the existing branches and maintaining gross yields will be our main objectives in 1985. This will require a concerted effort toward training the necessary employees to staff the management positions of these new locations. We realize that increasing receivables in the branches is the answer to controlling operating expenses in the branch as a percentage of funds employed, and we are determined to see that this is done. This, coupled with the added earnings from growth of our receivables, should give us the added earnings that we hope to generate in 1985.

We are very proud of our accomplishments in 1984. Our employees are hard-working and dedicated to the best interests of the Company. We feel they are exceptionally well trained and capable of competing successfully with any credit grantor in the consumer finance market. With their fine efforts and the continued support that we have enjoyed from our corporate headquarters, I am very optimistic about our ability to continue to show progress in 1985.

Robert P. Brock

Robert P. Brock
Chairman and Chief Executive Officer
City Finance Company
Memphis, Tennessee

Report on Insurance Operations

In 1984, the non-captive insurance business of Leucadia was conducted through Charter National Life Insurance Company, which is licensed in all states (except New York), the District of Columbia, Puerto Rico, and seven provinces of Canada.

Charter National's core business is in single premium life insurance which has been principally sold through securities brokers. Over the last few years there have been a series of changes in the tax treatment of life insurance. In addition, the public's awareness of the financial troubles of several deferred annuity companies have focused attention on the fact that the GAAP basis financial statements are sometimes not useful in determining whether a life insurance company is solvent. Since most securities brokers have a limited ability to do due diligence based on statutory financial statements, many of them have adopted a very cautious attitude toward the insurance industry. This change in attitude has been bad for sales for life insurance through broker dealers for Charter National and virtually all other companies. Only at the very end of 1984 was there any sign of a return of the stock brokers to life insurance sales.

During 1984, Charter developed a strategy to respond to the changes in the market-place. We had only moderate success. Charter's new single and flexible premium production was $23,641,000 in 1984 compared to $57,697,000 for 1983. Indeed, the change is more dramatic than initially appears since the 1984 production from securities dealers was down nearly 90% from the 1983 level.

We see early signs that Charter's production in the securities dealer market will increase again in 1985. The amount of that production will depend on two factors. The first is the amount of adverse publicity the insurance industry receives as a result of insolvencies. The second is the strength of the stock and bond markets, since securities dealers generally turn more to insurance products when their primary markets are slack.

Charter National continues to have excellent experience with the single premium block of business it has written. A comprehensive review of our persistency and mortality experience has been made, and we expect to begin recognizing GAAP income on this block of business during 1985. When Charter instituted its policy of deferring income on single premium business, it was virtually alone in an industry which preferred to recognize future income in the greatest amount possible in the year in which a policy was issued. Since that time, the instability of companies which followed this accounting procedure has caused a major shift in accounting policy so that many companies now defer earnings to one degree or another.

After a significant drop in overhead in 1983, expenses remained constant in 1984. With a reorganization of our staff and continued automation, we hope for renewed reduction of our expense levels in 1985.

As in the last few years, competition in life insurance is very intense. Many companies, in search of dramatic increases in sales volume, are selling life insurance products with inadequate profit margins. Charter has consciously decided not to pursue sales unless the profits appear to be adequate. Because of this decision, we frequently do not match our competition when they make what we view as ill-advised pricing decisions. In turn, this fact will tend to make Charter's growth slower than it would otherwise be and somewhat irregular. One beneficial effect of this slower pattern of growth is that Charter's statutory capital and surplus will be less strained by the volume of new business. In addition, our profitability should improve steadily as we accumulate a larger and larger block of business.

During 1984, Charter and Leucadia reviewed many possible acquisitions in the life insurance industry. In particular we were looking for companies which could be consolidated with Charter to create a significant benefit by decreasing aggregate overhead expense. Although there were no acquisitions in 1984, we will continue to review potential companies while keeping in mind that it is more important to avoid mistakes than to complete a transaction.

In addition to single premium whole life, Charter continues to market immediate annuities, structured settlement annuities, and 10-year level term insurance and intends to market pure endowments in 1985. We have achieved only moderate success in these lines to date, and they will require greater effort in 1985.

The experience on certain traditional life insurance policies principally written prior to the acquisition of Charter by Leucadia has not been satisfactory. Accordingly, during 1984, based on actuarial studies which reflect the adverse experience of recent years, we decided to write-off value of life insurance in force related to this line of business amounting to $16,000,000. We expect that earnings in the next few years will benefit, since the excess lapses and unfavorable mortality related to this line of business should no longer adversely affect our earnings.

We confidently expect to return to higher levels of new premium production and to contribute to the Company's profitability.

David Cumming
President
Charter National Life Insurance Company
St. Louis, Missouri

1986

Message from the Chairman and President

We are pleased to report that we finished our 132nd year with common shareholders' equity at $214,587,000, an all time high. We are pleased with this achievement because our goal is to increase shareholders' equity and to invest that equity in assets which will increase it further in the future.

The market price of our common stock began the year at $11.63 and finished at $17.00. During 1986, the Board of Directors authorized a 2-for-1 stock split effective in January 1987. Share prices included in this report reflect this split.

The most significant event during 1986 was the sale of our consumer finance operations for a pre-tax gain of $72 million. We believed that increased participation in the consumer finance business by large financial institutions was increasing the competitive pressure on interest rates resulting in decreased interest spreads and decreased profitability. There is a time to sow and a time to reap. The price was irresistable. The management of City Finance concurred in our judgement; we will miss them.

During 1986, we made substantial investments in the common shares of Enron Corporation and Minstar, Inc. We sold all or a substantial portion of those investments and realized pre-tax gains of $32 million. Subsequently we acquired additional shares of Minstar, Inc. and presently hold about 7.2%. During 1986, we also sold our investment in Bench Craft, Inc. and, in an initial public offering, sold one-third of our interest in Carmike Cinemas, Inc. We realized pre-tax gains of $4.2 million from these two sales. The interests in Bench Craft and Carmike Cinemas were acquired as a result of our participation as a partner in The Jordan Company.

Not all investments, however, are completely successful. In January 1986, we acquired a 45% interest (49% at December 31, 1986) in BRAE Corporation for about $26 million. Since that time, BRAE has not operated as we had expected, and we currently believe the prospects for BRAE, particularly as they relate to its electronic sign manufacturing subsidiary, are considerably less favorable than they appeared when we made that investment. Accordingly, in the 1986 financial statements, we wrote down the investment by approximately $15,607,000.

During 1985, we made a merger proposal to National Intergroup, Inc. ("NII") and engaged in two unsuccessful proxy contests. As previously reported, we then agreed to sell a substantial portion of our investment to NII for cash and warrants. We made a decision to maintain an interest in NII common stock and warrants because we believed there was potential for substantial appreciation. Unfortunately, NII made several business decisions that have adversely impacted its operating results and stock price. The loss in market value, which we recognized in the 1986 financial statements, was largely offset by tax benefits related to the transaction.

During 1986, we also made a merger proposal to GATX Corporation. The merger was never consummated and we sold our stock investment at an amount that approximated its cost. We did, however, incur costs of about $1.7 million.

Our insurance operations, which are conducted through Charter National Life Insurance Company of St. Louis, had a very good year. We started to recognize earnings on the Single Premium Whole Life ("SPWL") products we have been selling since 1982 using a conservative accounting method that should provide increasing amounts of income in future years. Premiums on SPWL products were $99.5 million in 1986 compared to $69 million in 1985. In 1986, Charter introduced a variable life product. We are very optimistic about this product and believe it is likely to result in substantial future sales. A report on the insurance operations by David Cumming, President of Charter National, follows.

Our manufacturing operations also had a fine year. During 1986, we acquired the minority interest in Cardiff Equities Corporation, our manufacturing subsidiary. A report on the manufacturing operations by Thomas Mara is also included.

In November, we acquired claims from certain claimants in the reorganization proceedings of Baldwin-United Corporation for about $107 million. Upon effectiveness of the reorganization plan, Baldwin-United changed its name to PHLCORP, Inc. For our claims we received 39% of PHLCORP's common shares, two series of zero coupon bonds and a 57% interest in a liquidating trust. Leucadia's nominees were recently elected as PHLCORP's Board of Directors and the Company's Chairman and President as well as other officers of the Company were elected to similar positions at PHLCORP. We believe we have made a good investment in PHLCORP.

As we start into 1987, we are a somewhat different Company than when we entered 1986. However, our fundamental goal of increasing shareholder values remains unchanged. We will continue to work hard to increase the value of our existing assets and to look for new opportunities in both the financial and non-financial areas. We believe we have the support of our commercial and investment bankers that will permit us to take advantage of any opportunities that might appear.

Our 1986 year made heavy demands on our officers, employees, bankers and professional advisors. We thank them for their efforts on your behalf.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Report on Insurance Operations

In 1986, the insurance business of Leucadia was conducted through Charter National Life Insurance Company, which is licensed in all states (except New York), the District of Columbia, Puerto Rico and seven provinces of Canada. During 1986, the captive credit business was terminated in connection with Leucadia's sale of the consumer finance operations.

Charter's major business since 1982 has been investment oriented life insurance ("IOL"), principally Single Premium Whole Life ("SPWL") products. These policies have varying characteristics but all have significant cash values and are sold principally on the basis of the tax deferral of increases in life insurance cash values.

Charter's production of SPWL in 1985 was $69 million of premium, which was the best production year to date. In 1986, production of these products increased by 44% to $99.5 million. The increase in production has resulted from a successful program, initiated in 1985, to market through national and regional sales managers who represent Charter exclusively.

During 1986, Charter introduced Life inVest, a flexible premium variable life policy. Policyholders' cash values are invested in mutual funds managed by Scudder, Stevens & Clark. Production was $2.7 million for 1986, $.8 million of this in December. Charter hopes to sell large volumes of this product in the next few years.

After several years in which new tax rules were enacted every year, we had no change in the tax treatment of life insurance during 1986. There are, however, early indications that this issue will receive attention in the Congress again in 1987.

From 1982 until 1986, Charter did not recognize income on SPWL business because it felt that it did not have sufficient experience with the product. Beginning in 1986 Charter has recognized income on the earliest policies written. Charter will recognize income on an as-earned basis although it will continue to defer earnings in the first three years after a policy is issued. Acquisition costs will be written-off over a ten-year period. As more policies age, the existing block of SPWL policies should contribute increasing amounts to the earnings of Charter.

Competition in the SPWL market has become very intense as this product has become more and more common. Charter makes no effort to compete on crediting rates because it does not believe that the companies offering the highest rates are writing profitable business. We endeavor to offer a sensible rate and we work hard on marketing and customer service. Our 1986 production shows that this is a viable strategy.

Variable life products are not as competitive as IOL products. While our competitors in IOL number in the hundreds, there are still fewer than a dozen companies writing comparable variable life policies and even fewer than that attempting to sell the product through the same channels we are trying to cultivate. For this reason, we have decided to place a heavy emphasis in 1987 on building our variable life business.

Overhead expense remained essentially the same from 1985 to 1986. In 1986, Charter simplified its business by reinsuring its health insurance and juvenile paid-up term business with another carrier. It is Charter's intention to continue to simplify its business and products and to offer a narrow range of products. By following this course, we believe that we can greatly increase our productivity and continue to make significant strides in increasing our production without materially increasing overhead.

David T. Cumming
President
Charter National
Life Insurance Company

Report on Manufacturing Division

The manufacturing division of Leucadia is comprised of six manufacturing businesses consisting of the following product lines: plastic netting, bonded fiber products, hydraulic mulch, office partitions and workstations, power cord sets and bathroom vanities (including cultured marble tops). Prior to 1986 these operations were conducted through Cardiff Equities Corporation, a publicly-held company, in which Leucadia owned a majority interest. During 1986, after evaluating the growth and earnings potential of these operations, we acquired the remainder of Cardiff held by the public.

1986 was a strong year for the manufacturing business with pre-tax income improving to $8.5 million on revenues of $83.1 million. In 1985 Cardiff completed the acquisition of Conwed Corporation, which ultimately added four manufacturing operations to the two Cardiff already owned. Subsequent to the acquisition, we began to restructure Conwed's operations and decentralize its corporate administrative functions. This reorganization, which was completed in 1986, is expected to reduce administrative expenses by approximately $750,000 annually.

Our plastics business manufactures proprietary plastic netting for various industrial and agricultural uses. This business experienced another excellent year in 1986 with annual sales and operating profit both increasing compared to 1985. In December 1986, we acquired manufacturing equipment and other related assets from a company which produces plastic netting products primarily for the citrus and poultry markets. We are currently adding 60,000 square feet of manufacturing space to our Athens, Georgia facility to house the equipment and support this business. We believe future sales and earnings will be significantly improved by this acquisition.

The bonded fiber's business manufactures fiber insulator pads for sale to, among others, the bedding and automotive industries. In 1986, annual sales declined although operating earnings increased from annual 1985 levels. The increase was, however, below our expectations as we continued to have difficulties with manufacturing equipment moved from a Minnesota facility which we had sold in 1985. We are confident we have now solved our production problems and look forward to a significant improvement in operating performance in 1987. In 1986 we developed several new products, primarily for the automotive market. In 1987, in addition to continuing our new product development efforts, we are investigating several different production techniques which would offer us new market opportunities altogether. The vanity business manufactures bathroom vanities (hardwood cabinets and cultured marble tops) for sale to home improvement centers and other retailers specializing in the do-it-yourself market. Our operating profit in 1986 rose significantly on a modest sales increase. Gross margins improved during 1986 as production efficiencies at our Hornell, New York plant, opened in 1985, rose to expected levels. Additionally, the reduction of waste generated in the production process at both manufacturing locations was a significant factor in our increased profitability. We are presently involved in expanding our manufacturing capability to produce some of the more costly raw material components for our cabinets. In addition, we are investigating the feasibility of purchasing certain automated production equipment to improve product quality and to better control costs.

Our cord set business produces power cord sets sold to manufacturers of a wide range of products from small tools to personal computers. Foreign competition continues to have an adverse impact on this business which we expect will continue until the dollar reaches a more competitive level. We are presently looking to automate certain aspects of our production process to improve product quality and reduce costs.

In our mulch business, which produces hydraulic mulch for use in turf establishments and juice processing markets, we committed significant dollars to refurbishing our manufacturing equipment to improve plant production.

Our office partition business, which manufactures freestanding office partitions and workstations which it sells to office furniture wholesalers and dealers, is continuing to develop new products targeted primarily to the commodity segment of the market.

We continue to evaluate our businesses on the basis of market share, margins and return on investment. In 1987 we hope to continue a steady growth in sales and earnings by emphasizing new product development, improved product quality and reduced production costs. Investment in "state-of-the-art" production equipment will be an important ingredient in reaching our goals. If successful, we should enjoy another fine year in 1987.

Thomas E. Mara
President

Message from the Chairman and President

1987 was a disappointing year for your Company. Although total revenues increased by approximately $47 million from 1986 to 1987, we had a net loss of $18.1 million compared to net income of $78.2 million in 1986 and $25.9 million in 1985. The reasons for the loss are explained later in this letter.

Since this management acquired its interest in Leucadia in April 1979, your Company has evolved from a financially troubled factoring and finance concern to its present form as a holding company with more than $1 billion in assets. Our subsidiaries are engaged principally in life insurance, manufacturing and other financial services (banking, real estate and equipment leasing). Through our 63% interest in PHLCORP, Inc., we are also engaged in trading stamps, motivation services, life insurance and property and casualty insurance and, through our 74% interest in BRAE Corporation, we are engaged in leasing and management of railcars and the manufacture and leasing of electronic visual displays. In addition, your Company has equity interests in a number of other publicly and privately held companies.

Although considerable income is generated from operations of our subsidiaries, a large portion of our net income in recent years has been derived from the sale of investments, and, in some cases, assets. We did not dispose of any major assets in 1987 and consequently did not generate significant income from such sales. However, we have never managed the Company with an emphasis on reported quarterly or annual earnings. By and large, we are pleased with our accomplishments to date. It is, however, an unpredictable enterprise from one year to the next.

Several factors contributed to the 1987 results. Unlike 1986, when Leucadia sold its consumer finance business, there were no sales of significant assets in 1987. At year end, as a result of the October 19 market collapse, we determined to write down our equities portfolio by $9.1 million (as of today, the market value has increased to more than the written down amount). A substantial portion of our assets are invested in assets which are currently non-earning or earning at a low rate. Much of that amount is invested in Phlcorp, and we remain excited and optimistic about its future. (For more on Phlcorp, consult its annual report).

Our manufacturing companies had a fine year earning 27% on net invested capital. We expect solid growth and performance in the years to come. A report by Thomas E. Mara, Executive Vice President of Leucadia who is responsible for these operations, is included in the next few pages.

Our life insurance operations are principally conducted by Charter National Life Insurance Company of St. Louis. Our sales of investment oriented life insurance increased substantially from 1986, although sales of a newly introduced variable life insurance product, while substantial, were disappointing. A report on Charter National Life by David Cumming is also separately presented.

We also had substantial growth in our banking/lending operations. Our customer banking deposits, all of which are FDIC insured, increased from $40.6 million at December 31, 1986 to $118.3 million a year later. Most of these funds are invested in loans to individuals, including a $42 million portfolio acquired during the year. Earnings have not yet followed the increase in deposits; we are investing heavily in the growth and expansion of the bank which is compromising current earnings.

As mentioned, we spent a significant amount of time on our investment in Phlcorp. We owned 39% of its common shares throughout 1987, and in February 1988, we increased our ownership to 63% of Phlcorp's common shares as a result of a tender offer. In 1988, Phlcorp converted its holdings in surplus notes of Empire Insurance Company into 70% of the outstanding common shares of Empire (which was converted into a stock company from a mutual company on January 1, 1988). Empire is a New York domiciled property and casualty insurer. We are optimistic about Empire's prospects. The Company received a cash distribution of $24 million from its interest in the Phlcorp liquidating trust and a cash payment of approximately $18 million upon the retirement by Phlcorp of all of its outstanding zero coupon notes. Starting in 1988, Phlcorp will be a consolidated subsidiary and we believe a positive contributor to operations.

In April 1988 we invested an additional $10 million in BRAE Corporation which increased our ownership to 74%. As a result, Brae will become a consolidated subsidiary in 1988. Brae has restructured its manufacturing operations and will be a positive contributor to our earnings.

During 1987 (mostly after the October market decline) we acquired 828,602 common shares at an average price of $11.85 per common share. We believe this is a good investment for your Company.

We have sought to keep our balance sheet strong and conservative and believe that is true today. Our operations are sound and conservatively managed and we believe have the ability to continue to grow profitably.

As usual, we thank our officers and loyal employees, our bankers, and our professional advisors for their efforts. We also thank you, our loyal stockholders, for your continued support.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Report on Insurance Operations

During 1987, Charter National Life Insurance Company continued to make solid progress despite some disappointments. We continued to control costs by simplifying our product offerings and increasing volume in a limited portfolio of products. During 1987, sales advanced to another record. On the other hand, the company's sales of its variable life product, although substantial, fell short of our goals.

We believe that small to medium sized life insurance companies can operate efficiently only if they concentrate on a narrow range of products. By offering a limited range of similar and relatively simple products, Charter expects to continue rapid growth of its assets and earnings without a significant increase in overhead expenses. In 1987, sales of investment oriented life insurance ("IOL") increased by 68% to $171.5 million, while overhead expenses increased moderately.

Our business is to sell insurance policies which are purchased as much for their investment characteristics as for the death benefits. Charter's profit results from the spread between our investment earnings and the rate which we credit to policyholders. The fixed costs of doing this business are fairly high and the marginal costs, once a company is in the business, are quite low. For this reason, many companies have followed a strategy of offering very high crediting rates in order to write large volumes of business and decrease their unit costs. We believe that many of our competitors have, through this strategy, decreased their spread more than they have decreased their costs. Charter insists upon maintaining a satisfactory spread and therefore sells less than it otherwise might; it accordingly benefits somewhat less than its competitors from reduced unit costs. As we see it, if a product is priced with little or no profit, the company will be hard pressed to "make it up in volume."

We began selling a variable life product in 1986 and the sales volume in the product, although substantial, has been lower than we had hoped to achieve. Sales of variable life were $2.7 million in 1986 and $33.4 million in 1987. Charter had hoped to produce $100 million or more in variable premium in 1987. In 1988, we will try several new approaches to selling variable products. At the same time, we will continue to trim our expense structure.

An on-going problem for the life insurance industry has been frequent changes in the tax law. Congress is again considering changes which may require changes in Charter's business. These changes are sometimes expensive and occasionally cause interruptions in our marketing momentum. This is an uncertainty which appears to have become a permanent part of Charter's business.

We continue to account conservatively for IOL business, writing off acquisition expense more rapidly than most companies and deferring earnings for three years on most of our business. While these accounting policies reduce current earnings, they benefit the company by providing earnings which are unlikely to be reversed by future events.

Charter's pre-tax earnings decreased from $15.4 million in 1986 to $5.6 million in 1987. Pre-tax income in 1986 included $8 million of realized investment gains compared to only $0.2 million in 1987. Exclusive of securities gains, pre-tax income increased from $5.4 million in 1986 to $7.4 million in 1987. A major factor determining such earnings has been the company's practice of deferring earnings for three years on new single premium life business. As the block of business which is more than three years old grows, significant improvements in earnings should result.

We have sold increasing volumes of business each year while maintaining adequate margins. Each successful year not only increases our block of profitable business but drives down our unit costs of administering policies. We look forward to another successful year in 1988.

David T. Cumming
Chairman and President
Charter National Life Insurance Company

Report on Manufacturing Division

Leucadia's six manufacturing companies make the following products: bathroom vanities (with cultured marble tops), plastic netting, bonded fiber products, power cord sets, hydraulic mulch, and office partitions and furniture.

In 1987 the Manufacturing Division enjoyed a fine year with pre-tax income of $11.9 million on revenues of $94.2 million. For 1986, pre-tax income was $8.5 million and revenues were $83.1 million. We began the year emphasizing improvements in product quality and reduction of production costs. Investment in new plant and equipment was an integral part of our plan to improve quality and lower cost.

During 1987, acquisitions for both our bathroom vanity and plastic netting businesses affected our results. The bathroom vanity acquisition, completed in November, allows us to produce vanity cabinet doors, one of the more costly material components of our bathroom vanity products. This acquisition will help improve product quality and reduce cost. Our plastic netting product line was expanded as a result of a December 1986 acquisition for which a new facility came on stream in 1987. The plastic netting products are used in the citrus and poultry packaging industries. Both acquisitions provide us with additional product development opportunities.

The vanity business manufactures hardwood cabinets and cultured marble tops for sale to home improvement centers and other retailers specializing in the do-it-yourself market. Both sales and operating profits rose dramatically over 1986 levels. We were successful in attracting several large home improvement center chains as new customers. With existing customers, we increased our share of their vanity programs. During 1988 we plan to develop several new products.

Our plastic netting business manufactures proprietary plastic netting for various industrial and agricultural uses. Although 1987 sales were significantly ahead of the prior year, operating profits were flat. Start-up losses relating to the new acquisition were a significant factor in reduced gross margins, as was a 30% increase in the cost of our primary raw material. We believe that raw material prices have stabilized for 1988 and price increases will gain back some of our lost margin. New product opportunities in highway construction and maintenance hold promise for 1988.

The bonded fibers business produces fiber insulator pads for sale to, among others, the bedding and automotive industries. During 1987, we eliminated business with high freight costs which resulted in lower gross margins than we were willing to accept. As such, sales were below those of the previous year. However, operating profit was substantially improved over 1986, as new products enjoyed high margins. In 1988, we intend to develop several products for markets other than bedding and automotive.

The power cord set business produces power cord sets for manufacturers of a wide variety of consumer and industrial products. During the past several years, this business has suffered from strong foreign competition as a result of a strong dollar overseas. This situation has eased somewhat and the business was more profitable in 1987. We are continuing to automate certain aspects of our production process to improve quality and reduce costs.

In our mulch business we manufacture hydraulic mulch for use in turf establishment and juice processing markets. During the last two years, we have significantly refurbished much of our manufacturing equipment. This has resulted in improved plant production and operating profitability in 1987.

Our office partition business manufactures freestanding office partitions, workstations and furniture products which it sells to office furniture wholesalers and dealers. During 1987, a major product line was redesigned and a new office furniture line was created. This new product development effort, targeted mainly to the commodity segment of the market, will continue in the coming year.

We continue to be alert to growth opportunities while being diligent in monitoring our market shares, gross margins and investment returns. For 1988, we are emphasizing the development of new products and markets as well as continuing to work towards ever higher quality and service. We are prepared to make capital investments where necessary to achieve our goals. We will continue to be prudent in our decision-making, especially in view of a risk of recession in the near future. However, if the overall economy does not stumble in 1988, we look forward to another fine year.

Thomas E. Mara
President
Manufacturing Division

1988

Message from the Chairman and President

We are pleased to report an earnings recovery in 1988 as compared with our 1987 loss. Income before a change in accounting for income taxes was $23,733,000 in 1988 ($1.80 per common share or $1.75 per fully diluted share) compared to a loss of $18,144,000 ($1.32 per common share) in 1987. This past year securities gains were a major factor with recorded net pre-tax gains of $21,099,000 from securities transactions compared to net losses of $3,848,000 in 1987. The increased earnings also reflect the effects of our additional investments in PHLCORP, Inc. ("Phlcorp") and BRAE Corporation ("Brae") which in 1988 became consolidated subsidiaries. At December 31, 1988 consolidated assets exceeded $2 billion.

During 1988 many significant transactions occurred. In February we completed a tender offer for additional Phlcorp common shares and Leucadia's interest in Phlcorp increased from 39% at December 31, 1987 to 64% at December 31, 1988. We invested additional funds in Brae and increased our ownership from 49% at December 31, 1987 to 74% (79% if certain warrants are exercised) at December 31, 1988. As a result of the conversion of the Empire Insurance Company ("Empire") from a mutual company to a stock company and other transactions, Leucadia had an effective interest in Empire of 58% at the end of 1988. During 1988 Leucadia also sold at a profit all or a portion of its interests in the common stock of Minstar, Inc., Oxford First Corp. and several of the companies we had interests in as a result of our association with The Jordan Company. We also entered into an agreement to sell our interest in certain properties located in San Luis Obispo County, California for $22,000,000; we expect the sale to close in the second quarter of 1989 for a pre-tax gain in excess of $16,000,000.

During 1989 we acquired additional shares in Cambrian & General Securities p.l.c. ("Cambrian") which, when added to our holdings at December 31, 1988 represent approximately 74% of Cambrian's voting interest. Funding for this investment was through a special purpose bank facility. We believe that our investment in Cambrian will prove to be profitable.

The Annual Report on Form 10-K filed with the SEC is a part of this report. You are referred there for additional information. However, certain comments on each of our operating divisions follows.

Life Insurance:

Our life insurance operations are principally conducted through Charter National Life Insurance Company of St. Louis ("Charter"), which sells a variety of tax advantaged life insurance products. The tax treatment of Charter's most successful product was changed during the year on a prospective basis. In anticipation of such change, we emphasized the sale of another product which was not subject to this tax uncertainty. The net result was a small decrease in premium revenues from 1987 levels. We account for our insurance products on a very conservative basis and will continue to do so when new accounting principles, which are required for 1989, are implemented. Including a subsidiary, Charter now writes business in all 50 states. In 1989 Charter expects to market a tax advantaged policy which will meet the requirements of the new tax law.

Property And Casualty Insurance:

During 1988 Empire became a consolidated subsidiary. Empire writes personal and commercial lines of insurance almost exclusively in New York. Empire is an unusual casualty company in that it does not sacrifice profitability for market share; in addition, it has been very successful at controlling operating costs. While earnings in 1988 were excellent, the casualty insurance business has historically been very cyclical. Nevertheless, we are cautiously optimistic about the future.

Manufacturing:

The Manufacturing Division produces a variety of products including bathroom vanities, bonded fiber products, plastic netting products, insulation products, electrical cord sets, bulk wood fiber, office divider panels and electronic signs. Brae's subsidiary, American Sign & Indicator Corporation, joined the group in 1988. Although the Manufacturing Division had lower profits in 1988 (due to higher raw material costs and start up costs of new equipment and facilities resulting in manufacturing inefficiencies) we remain encouraged by the division's excellent return on investment and this years prospects.

Banking, Real Estate and Leasing:

This division includes our Salt Lake City based national bank and thrift operations, the railcar leasing business, principally conducted through Brae, and computer leasing. The national bank had a higher average investment in loans during 1988 and also opened a new branch and several loan production offices. During 1989 the bank intends to expand by making automobile financing loans to individuals with prior credit problems. We believe this business, properly controlled, can be successful. We also invested additional funds in owned railcars and, as a result of the additional investment in Brae, increased our interest in its railcars.

Trading Stamps:

The trading stamps business is conducted by The Sperry and Hutchinson Company, Inc. ("S&H"), a subsidiary of Phlcorp. Although the trading stamps industry has been in a declining trend for a number of years, and S&H has reduced its operations in response, 1988 operating results were good. In 1989 S&H was informed that its largest customer would discontinue the distribution of trading stamps in the second quarter. S&H believes it will be able to develop plans which will reduce, but not eliminate, the effect of this lost business.

Motivation Services:

The motivation services business is conducted through S&H Motivation, Inc., a subsidiary of Phlcorp. This segment operated at a break-even in 1988 after instituting a cost cutting program. New management has implemented plans which we believe will lead to future growth and profitability.

A frequent comment concerning Leucadia is that our financial statements and reports are complicated and difficult to understand. We agree, but unfortunately this complexity follows from our business strategy. We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. We then work at improving the acquired operations with a view to increasing cash flow and profitability. From time to time we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long term track record. We are not income statement driven and do not run your Company with an undue emphasis on either quarterly or annual earnings. We believe that we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.

The accomplishments of this year required great effort on the part of many. We thank our employees and advisors for the work they have done on behalf of our shareholders. We also thank our bank lenders for their continuing support. We continue to be optimistic about the future of your Company.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Message from the Chairman and President

Net income for 1989 was $64,311,000. This is a 31% return on the December 31, 1988 shareholders' equity. We are pleased with this result.

During the last ten years our shareholders' equity has increased at a compounded annual rate of 27.4%. We are obviously also pleased with that. We would, however, caution against any extrapolation. Every year the hurdle gets higher. We will, however, continue to try. Our shareholders' equity increased by $50,823,000 during the year. The changes in shareholders' equity are shown on page F-6 of the Form 10-K for the year ended December 31, 1989, which is included elsewhere in this Annual Report.

A frequent comment concerning Leucadia is that our financial statements and reports are complicated and difficult to understand. We agree. Mixing the balance sheets of insurance companies –both life and casualty– banking, six different manufacturing operations, trading stamps and motivation services makes for a confusing financial stew. What follows is an attempt to look at the balance sheet in a different way. This somewhat unorthodox presentation is based on the segment data included on page 3 of the Form 10-K and is designed to approximate the net investment in our different activities. It is how we look at our balance sheet. We hope it is helpful and illuminating to you.

Segments:	
Life Insurance	$ 106.3
Property and Casualty Insurance	60.9
Banking, Real Estate and Leasing	55.2
Manufacturing	52.1
Trading Stamps	(27.5)
Motivation Services	4.1
Corporate and Other	122.0
	373.1
Corporate Debt:	
Bank Debt	-0-
14% Senior Subordinated Notes	(67.3)
6% Subordinated Swiss Franc Bonds	(43.1)
Other Debt	(5.0)
Total Corporate Debt	(115.4)
Shareholders' Equity	$ 257.7

What follows are comments on each of our businesses.

Life Insurance:

Our life insurance operations are conducted through Charter National Life Insurance Company of St. Louis, which sells a variety of tax advantaged life insurance and annuity products. Charter, directly and through a subsidiary, writes business in all fifty states. The tax treatment of Charter's most successful product was changed in 1988 and Charter experienced reduced premium receipts as it emphasized alternative products. By the end of 1989 new products were introduced, including a life insurance product designed to meet the current definition of life insurance for federal income tax purposes. In 1989 Charter implemented, on a very conservative basis, the accounting required by FASB 97. Segment results for 1989 reflect the negative effect on earnings of (a) securities losses of $3.8 million compared to gains of $2.8 million in 1988 and $.5 million in 1987, (b) implementation on a conservative basis of FASB 97 and (c) reduced investment income resulting from increased investments in cash equivalents. At year end the cost and market value of Charter's investment portfolio were approximately the same. At the present time, we do not believe the life insurance business is particularly attractive.

Property and Casualty Insurance:

The Company's property and casualty insurance business is conducted by the Empire Insurance Group, a subsidiary of our 66% owned subsidiary, PHLCORP, Inc. Empire writes personal and commercial lines of insurance almost exclusively in New York. Empire had superb financial results for the year. During 1989, Empire took the opportunity to dispose of a substantial portion of its municipal bond portfolio resulting in a loss for statutory accounting purposes and a profit for financial accounting purposes. At December 31, 1989 the market value of the Empire Group's bond portfolio exceeded the carrying value.

The property and casualty insurance business has been treacherously cyclical. Ollie Patrell, Empire's Chairman, and his excellent management team continue to do a superb job of managing this business. In spite of the industry's historic difficulties we are cautiously enthusiastic about Empire's future.

Banking, Real Estate and Leasing:

The Company's banking operations are conducted through our national bank subsidiary, American Investment Bank, N.A. and several other wholly and partially owned subsidiaries. Consolidated instalment loans outstanding were $135,624,000 at December 31, 1989, an increase of $18,194,000 from last year. These subsidiaries specialize in making consumer loans and have 27 offices in Oklahoma, Tennessee, Mississippi, South Carolina, Oregon and Virginia. We expect to open another 20 offices in 1990.

The cost of opening new offices plus the cost of setting up adequate loan loss reserves, which stood at 3.8% of net outstanding loans at year end, has depressed earnings and will continue to do so. We are investing in future growth and, hopefully, profits.

In April of 1989, we completed the sale of our 90% interest in land in San Luis Obispo County, California and a related condominium project. As a result, during 1989 we realized profits of $18,295,000.

Manufacturing:

The manufacturing division produces a variety of products including bathroom vanities, bonded fiber products, plastic netting products, insulation products, electric cord sets, bulk wood fiber and office dividers. We have been working hard for the last several years at improving the gross margins of these businesses by investing in manufacturing efficiencies. 1989 reaped the fruits of these efforts and this division provided excellent earnings. We will continue to concentrate on gross margin while adding a special effort to get closer to our customers. Hopefully, thereby we will learn how to further improve our products and be better competitors.

We are aggressively seeking to grow these businesses and have added several employees whose primary responsibility is to find profitable acquisitions for the manufacturing operations. If you know of any attractive acquisition candidates please contact Blake Winchell at (415) 677-1700.

Trading Stamps:

The trading stamp business is conducted by The Sperry and Hutchinson Company, Inc., a subsidiary of Phlcorp. The traditional trading stamp business continues to decline. We are attempting to manage the decline so as to minimize the adverse financial impact. S&H is attempting to expand its business through the development of an electronic database marketing program. It is too early to comment on its likely success.

Motivation Services:

The motivation services business is conducted through S & H Motivation Inc., another Phlcorp subsidiary. This is a very competitive business and our subsidiary is struggling towards profitability. We have encouraged further investment in an expanded marketing effort in hopes of increasing volume and profitability.

Corporate Assets and Other Things:

In October 1989, the Company sold its railcar leasing and management operations, principally conducted through BRAE Corporation and in December 1989 sold Brae's only other operation which had no continuing value. As a result of these sales the Company realized a net pre-tax gain of $47,300,000. In 1990 Leucadia acquired all the common shares of Brae that it did not already own.

At December 31, 1988 the Company owned approximately 31% of Cambrian & General Securities, then a United Kingdom investment trust. During 1989, we acquired substantially all of the remaining equity interest in Cambrian. At December 31, 1989 the Company's investment in Cambrian was approximately $27,700,000 less than Cambrian's net assets. In addition, we received $12,500,000 in January related to a prior Cambrian investment which is not reflected in the excess amount referred to above. As stated in the financial statements the Company will reflect this excess in future earnings.

During 1989 and early 1990 several transactions resulted in the reduction of 1,371,000 of the Company's outstanding common shares and warrants to acquire 786,000 of the Company's common shares. The aggregate cost of these transactions was approximately $37,000,000, equivalent to an average cost of $19.21 per common share.

We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. We then work at improving the acquired operations with a view to increasing cash flow and profitability. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. In 1989 we did all of these things. With the help of our hard working employees, advisers and the continued support of our bankers we had a good year. We hope you are pleased. We are cautiously optimistic about the future in spite of the uncertain economic times.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

1990

Message from the Chairman and President

Net income for 1990 was $47,340,000, an 18% return on average equity. During the preceding eleven year period of 1980 to 1990, we have increased our shareholders' equity from $22,945,000 to $268,567,000 and our book value per common share from $1.27 to $23.64, which represents a 30.4% annual compounded rate of return. During this period, when opportune, the Company repurchased 8,539,997 shares of common stock for $95,569,000 (an average price of $11.19 per share).

In an ongoing effort to keep hubris at bay, we would like to point out the following: Rising tides raise all boats. The economy was buoyant. Money was easy to come by. To this we added energy, enthusiasm and some perspicacity, and our boat, buoyant in the rising tide produced the aforementioned results.

However, we are reminded of Pharoah's dream interpreted by Joseph to mean that seven years of famine will surely follow seven years of plenty. Unfortunately, the previous seven years of plenty have been largely financed by debt which the nation cannot over time sustain. In the coming years, a correction is inevitable.

A wise man once said that you become more conservative when you have something to conserve. We view our job as having become more difficult. We will continue to endeavor to compound our shareholders' equity at an attractive rate, but with considerable caution.

Last year we included a table, presented again below, which attempts to look at our balance sheet in a comprehensible manner. This presentation is based on the segment data included on page 3 of the Form 10-K and is designed to approximate the net investment in our different activities. Our consolidated balance sheet is a very confusing financial stew, mixing as it does many different businesses. We have $463.9 million invested in our various business segments financed by $195.3 million of borrowed money and $268.6 million of shareholders' money.

Segments:	(In millions)
Life Insurance	$ 88.8
Property and Casualty Insurance	118.8
Banking, Real Estate and Leasing	65.2
Manufacturing	54.6
Trading Stamps	(31.9)
Motivation Services	2.9
Corporate and Other	165.5
	463.9
Corporate Debt:	
Bank Debt	(94.0)
14% Senior Subordinated Notes	(45.8)
6% Subordinated Swiss Franc Bonds	(41.0)
Other Debt	(14.5)
Total Corporate Debt	(195.3)
Shareholders' Equity	$ 268.6

What follows are comments on each of these segments. We recommend the attached Form 10-K for a more detailed discussion.

Life Insurance:

Our life insurance operations are principally conducted through Charter National Life Insurance Company of St. Louis, Missouri.

For the last several years, Charter has sold various investment oriented products. Certain of these products have become difficult to sell as their design has become contorted because of frequently changing tax requirements. In the marketplace, competitors have underpriced these products to gain cash or market share. As this mispricing caught up with one company, others entered the market to take their place. We learned that the net spread between money earned on investments and money credited to the policyholder left no room for an expensive sales effort. Recently, we have ceased selling these products and will concentrate on servicing our existing customers and marketing "variable" annuities through unaffiliated mutual fund management companies.

Charter, unlike many insurance companies, does not rely on non-investment grade debt to support its liabilities. In retrospect we were both lucky and smart.

During 1990, Charter determined that it would be in its best interest to dispose of a very old block of traditional life insurance business. It had not sold similar products for many years. The Company recorded a loss of $16,857,000 on the sale. This was not Charter's finest hour.

Charter has a very capable back office operation and hopes to buy blocks of investment oriented policies which will utilize the same fixed overhead to efficiently service more policies.

Property and Casualty Insurance:

Our property and casualty insurance operations are conducted by The Empire Group, a subsidiary of Phlcorp. Empire writes personal and commercial insurance principally in the New York metropolitan area. Empire enjoyed another year of excellent operating results in 1990. Earned premiums were up and losses were acceptable. Empire is very conservatively managed and has tight control of its costs. Empire's focus on urban insurance provides expertise in risk management that many other companies do not have. In addition, Empire, unlike many insurers in this cyclical industry, declines to write business when adequate profit margins are not obtainable. Substantially all of Empire's investments are in U.S. government issued or guaranteed securities and investment grade debt obligations.

Banking and Lending:

The Company's banking and lending operations are conducted through American Investment Bank, N.A., two other F.D.I.C. insured industrial banks located in Salt Lake City, Utah and other subsidiaries involved in consumer lending. At December 31, 1990, the banking and lending operations had outstanding loans (net of unearned finance charges) of $202,781,000 compared to $135,624,000 at December 31, 1989.

The Company expanded its consumer lending operations in 1990 by opening 30 new offices for a total of 57 offices located in Alabama, Kentucky, Mississippi, Oklahoma, Oregon, South Carolina, Tennessee and Virginia. Opening new offices is expensive and will burden the banking and lending operations' profitability until each office reaches maturity in several years. We plan to open 20 additional offices in 1991. Loan loss reserves stood at $6,782,000 or 3.3% of outstanding loans at December 31, 1990.

Manufacturing:

During 1990, the earnings of the manufacturing companies were depressed by expenditures for new products, market development costs and the general economic slowdown in the second half of the year. However, the return on investment was still excellent.

We also purchased three small companies which manufacture electrical cable, folding doors and bathroom medicine cabinets.

Trading Stamps:

The trading stamp business is conducted by a Phlcorp subsidiary, The Sperry and Hutchinson Company, Inc. The traditional Green Stamp business continued its decline which began in 1969. Barring a miraculous change, we expect this trend to continue.

During 1990, we noted that the liability for unredeemed trading stamps at December 31, 1989 may be approximately $34,000,000 in excess of the amount that ultimately will be required to redeem outstanding trading stamps and determined to recognize the apparent excess over five years. A more complete discussion of this complicated subject occurs in the Form 10-K.

Motivation Services:

Motivation services are provided by another Phlcorp subsidiary, S&H Motivation, Inc. ("SHM"). Fifty-three percent of SHM's sales in 1990 were to the automobile industry. The automobile industry had a bad year, which adversely affected SHM, as did the Gulf crisis which reduced motivational travel programs.

Other Items:

During the year we recognized income resulting from our prior acquisition of Cambrian & General Securities in the amount of $43,000,000. As a result of certain recent legal proceedings we are hopeful that additional income will be recorded in 1991.

Also during 1990, the long pending rehabilitation of the various Wisconsin insurance companies owned by Phlcorp moved forward including the return of certain of these companies. As a result, we recorded income of $9,696,000 in 1990. It is possible that further assets will be returned in 1991.

During 1990, we acquired approximately 46.6% of the outstanding ordinary shares of Molins PLC, a United Kingdom company engaged in manufacturing, for approximately $63,115,000. In spite of our large minority position, we have been unable to exercise any significant influence on Molins' management. At December 31, 1990 the quoted market price for Molins' shares exceeded our cost. We are considering our future course of action.

On March 7, 1991, Leucadia made a proposal to Phlcorp's Board of Directors that Phlcorp acquire all of Leucadia's outstanding common shares in a merger transaction in which Leucadia shareholders would receive two common shares of Phlcorp for each Leucadia common share. Consequently, Leucadia's present equity securityholders would own, as a result of the proposed merger, approximately 81% of Phlcorp's then outstanding common shares on a fully diluted basis. Phlcorp has formed a special committee of independent directors unaffiliated with Leucadia to consider the proposal.

On April 5, 1991, as we are writing this to you, Leucadia announced the execution of an agreement to acquire the Colonial Penn Insurance Group. The purchase price consists of $100,000,000 in cash and a $50,000,000 ten year 12% subordinated Leucadia note, which may be retired for $30,000,000 up to one year after the transaction closes. We believe it will take several months to receive the necessary regulatory approvals before this transaction can be concluded.

We are often asked to describe our corporate strategy and long-term goals for Leucadia. Amended by the caution we noted earlier, the best explanation we are able to give is to repeat what we said in our 1988 letter to shareholders:

We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. We then work at improving the acquired operations with a view to increasing cash flow and profitability. From time to time we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your Company with an undue emphasis on either quarterly or annual earnings. We believe that we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.

Our operating companies are decentralized. We believe that our businesses should operate without undue interference from the owners. We, therefore, depend on the excellent management teams that run these companies. They do a superb job. We are available to help solve problems which inevitably arise, to allocate capital and to plan for the future.

We continue to look for acquisitions that are reasonably priced. If you know of anything of interest please call Larry Hershfield or Blake Winchell at (415) 677-1700.

1991 will be a busy year completing the Colonial Penn acquisition. It is our largest acquisition to date. We will be relying again on our hard working and dedicated employees and advisors. A special thanks to our bankers, some of whom have had their own business travails during 1990, but who have continued to be very supportive.

Last year we were cautiously optimistic about the future in spite of the uncertain economic times. This year we are more cautious and less optimistic, but there are still opportunities to be pursued.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Message from the Chairman and President

To Our Shareholders,

1991 was a successful year for Leucadia. We reported $94,380,000 ($7.89 per share) in earnings from continuing operations after income taxes, a 35.1% return on last year's ending equity and the highest earnings since this management took over thirteen years ago. In those same thirteen years, our common shareholders' equity has gone from a negative $7,657,000 ($.43 per share) to $365,495,000 ($31.77 per share) at year end 1991.

On December 31, 1978, the stock was selling for $0.32 a share (adjusted for subsequent stock splits) and at December 31, 1991 it was quoted at $36.88 a share, a 44% compounded rate of appreciation.

1991 was, in addition, a very important year for our future. But first, let us explain how we got to where we are. In the 1988 report to stockholders, we elucidated a strategy repeated below, which has been responsible for the above mentioned results.

> We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your Company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.

In pursuit of that strategy, on August 16, 1991, we purchased Colonial Penn Insurance Group for $127,863,000 in cash. The Colonial Penn Insurance Group had a prepurchase GAAP net worth of approximately $391,000,000. More about the financial effect of this below. After working diligently for the last eight months at restructuring Colonial Penn, we have had no significant unpleasant surprises and believe we have made an outstanding acquisition.

Our future results will be assisted by strong recurring earnings from our much enlarged insurance groups. The addition of Colonial Penn Life, with the life business of Charter National, will form the Life Insurance Group with just over $2.0 billion in assets employed. Empire Insurance Group, wholly owned by Phlcorp (our 63% owned subsidiary), and Colonial Penn Insurance Company constitute the Casualty Insurance Group which have just under $2.0 billion in assets employed.

The prospect of significant recurring earnings will be a joy and a significant relief. Your management sometimes feels like gerbils running around the inside of a revolving cage. Although enjoyable, it will be nice to occasionally get off for a rest. Nonetheless, we will continue to look for more undervalued opportunities, as well as tending to the businesses we already own.

What follows are more details on the Colonial Penn acquisition and comments on the state of our other businesses.

The Acquisition of Colonial Penn

At the date of acquisition, Colonial Penn had a GAAP net worth of $390,878,000 for which we paid $127,863,000, leaving $263,015,000 to be allocated. This "Bargain" results in the following changes in Colonial Penn's historical balance sheet.

		(In thousands)
Colonial Penn Group GAAP net worth at acquisition		$390,878
Less cost of acquisition		127,863
"Bargain" to be allocated		$263,015
First, intangible and depreciable assets are written off:		
Deferred policy acquisition costs	$139,809	
Insurance in force	20,064	
Fixed assets	24,915	$184,788
Next, provisions are recorded for restructuring costs:		
Severance costs	9,277	
Costs of getting out of unnecessary leases	19,855	
Relocation costs	1,438	
Post employment benefits	7,000	37,570
Next, increases in policy reserves, mostly belt and suspenders reserve strengthening:		
Annuities	5,800	
Accident and health	10,000	
Property and casualty	33,005	48,805
Finally, taxes not required because of indemnification from the seller and other write offs, net		(8,148)
		$263,015

The result of all this is that costs and expenses going forward will be substantially reduced (see page 5 of the attached 10-K) from Colonial Penn's past. An analogous situation would be a manufacturing company with no depreciation. In fact, we have written off all fixed assets and the unamortized balance ($160,000,000) Colonial Penn spent to create its existing business. If what we believe is true comes to pass, Leucadia will recover the "Bargain" in future income.

Life Insurance Group

This group is composed of the Colonial Penn Life companies and Charter National Life. These companies sell a number of different life and health products, which are described in greater detail in the attached 10-K. Our plans for these products will continue to be driven, as they have been in the past, by persistency and profitability and not by premium growth. Profitability will be monitored continually and if the requisite profits are not available in the marketplace, sales will cease and attention turned to preservation of existing policies and premium flows. You will recall that several years ago we ceased new sales of Single Premium Whole Life (SPWL) at Charter when competition drove profitability from that line of product. We have been successful at preserving that block of business while not writing new business. The combining of the operations of these two companies is underway.

Property and Casualty Group

Empire Group, the property and casualty insurer, owned by Phlcorp, our 63% subsidiary, had an excellent year. It is a niche company specializing in risks in the Boroughs of New York. Empire does what it does very well and, hopefully, will continue to do so. They too are dedicated to profitability and will not sacrifice profit for premiums or market share.

Colonial Penn Property and Casualty has two parts. A special risk portfolio with a madcap assortment of risks, which is being liquidated and which, in our opinion is adequately reserved. By far the larger business segment, which we believe has an exciting future, is the direct response automobile insurance business.

Much appears these days in the business press about automobile insurance. Various states are at odds with the industry and have mandated lower rates. Many states have had plebiscites seeking to roll back rates. All this we think begets an opportunity—the opportunity to be among the low cost producers. Colonial Penn provides such an opportunity. It is a direct marketer without the costs of a sales force. The direct marketing operation has been successful in the past. Sophisticated procedures and equipment are in place. The senior management which we have installed is cautiously optimistic that over the next five years Colonial Penn can become a significant player in its market place. We share their enthusiasm for these prospects.

The investment portfolios of both the life and casualty groups, which total $3.1 billion, are almost entirely invested in U.S. government and agencies and investment grade bonds. There are no real estate loans, real estate owned or other problem assets. We intend to continue to conservatively manage the portfolio. At December 31, 1991, these portfolios had a market value of $3.2 billion ($115,000,000 in excess of their book value). The well reported asset problems of the insurance industry do not apply to us.

Banking and Lending

In 1984, we obtained from the Controller of the Currency a national banking license. These licenses were available to corporations engaged in general commerce. The resulting banks are called Consumer Banks, or Non-Bank Banks. For several years after the issuance of the license, we went about developing a consumer lending business in our consumer bank. Shortly thereafter, we acquired Utah industrial loan corporations with FDIC insurance to do more of the same business. The banking and lending operations have done well on balance. Several of the product lines are doing extremely well—two not so well. One of those has been discontinued and one is being trimmed back. We do not expect any significant losses and when mature, we expect these product lines will result in a very profitable operation.

Manufacturing

The manufacturing division lost a small amount of money last year. There were three reasons: The economy is slow (particularly in our markets), we have a large plant under construction and management problems.

The new plant is a few months from coming on line. The manufacturing division has a new structure and a full-time general manager and, if the economy recovers, the companies should return to profitability and, we are hopeful, to the high return on invested assets from whence they came.

Incentive Services

Incentive services are conducted by Phlcorp's subsidiaries, Sperry and Hutchinson Green Stamps and S&H Motivation. The Green Stamp business continues to shrink, but shrink profitably. The Motivation business made a tiny profit. We have discontinued our efforts to develop an electronic database marketing and incentive program. All costs of that mistaken effort have been expensed. Results from the latest statistical study of redemptions indicate that at December 31, 1990, there may be approximately $55,000,000 in excess stamp reserves. Because the amount of the excess may be different than indicated by the study, we are amortizing the apparent excess to income over a five year period.

Other Matters

After three years of attempting to take over Molins PLC, a United Kingdom based engineering company, we accepted an offer for our shares arranged by Molins and recognized a $18,437,000 profit.

We were able to recognize another $9,359,000 in income from Cambrian & General as a result of settlement of certain litigation, elimination of reserves no longer required and receipt of cash distributions on a related prior investment.

After four long years of negotiation, a settlement was reached with El Salvador on the expropriation of our power company, CAESS, 44% owned by Phlcorp. President Cristiani has conducted the negotiations in a businesslike fashion and legislation authorizing payment of $35,340,000 to CAESS shareholders over the next four years has recently been approved by the Legislative Assembly of El Salvador. If a closing occurs, Phlcorp's ultimate share will be approximately $4,000,000 in cash in 1992, and the balance in $12,000,000 6% U.S. dollar denominated Government of El Salvador 4-year bonds. The gains will be recorded as cash is received.

The accounting profession has been busy. The Statement of Financial Accounting Standards (SFAS No. 106) "Employers' Accounting for Postretirement Benefits Other Than Pensions" must be adopted no later than 1993. The Company's liability for benefits to retired persons that we will recognize (net of minority interest) amounts to approximately $6.5 million and that amount will be recognized in 1992. We feel it is best to recognize this liability in one year rather than amortize it over the 20 years that the rules optionally permit.

SFAS 109 "Accounting for Income Taxes" was issued in February 1992. This requires that accounting and tax loss carryforwards be calculated and recorded as an asset. For those of you who have waded through the tax section of the 10-K for the past number of years, you will recognize that we have significant tax loss carryforwards. We are trying as best we can to comply with SFAS 109. It requires, among other things, that we determine whether we will have sufficient earnings in the future. We are trying very hard given the uncertainties inherent in the process to come up with the best estimate consistent with our conservative bent towards our balance sheet. This is not an accounting exercise, but some form of alchemy and should have been relegated to the notes to the financial statements and not to the financial statements themselves. At this writing, it appears the number will be substantial. It will be recognized in 1992 as an item of income.

1991 was a watershed year. Our insurance groups should provide a firm foundation for a more certain future. Our balance sheet is strong and conservatively presented. The problems we have identified in the other operating businesses are being addressed. We hope satisfactorily.

Although optimistic about Leucadia and its future, we are greatly concerned about the domestic economy. Most worrisome of all is seeing our inability as a nation to address our problems in a coherent fashion and move in some rational way toward solving them. Hopefully, we will muddle through without any financial accidents more severe than hundreds of congressmen writing checks on each other's balances.

Many thanks again to employees, advisors, banks and all others who have worked very hard to accomplish this record year. It could not have been achieved without them.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Letter from the Chairman and President

To Our Shareholders,

Shareholders' equity at December 31, 1992 was a positive $618,161,000. Shareholders' equity at December 31, 1978 was a deficit of $7,657,000. This date is important because your Chairman became chairman the previous June and your President became president in January of 1979. During the 14 years from 1978-1992, book value per share (adjusted for stock splits) was increased from a negative $.22 to a positive $22.12. The stock price (adjusted for stock splits) for that same period went from $.16 to $39.50, a compound rate of 47.8% per annum.

Earnings for the year were $130,607,000, or $5.33 per share. This is a 36% return on last year's ending equity. Obviously, as book value increases, obtaining similar returns will become increasingly difficult. But, we will continue to try, consistent with prudence and with a heightened concern about the economic environment, about which more later.

At the year end 1992, we had $4,330,580,000 of assets employed in the following fashion:

	(In millions)
Property and Casualty Insurance	$1,843.3
Life Insurance	1,857.0
Banking and Lending	268.9
Incentive Services	41.2
Manufacturing	105.8
Corporate and Other*	214.4
	$4,330.6

* Principally consists of cash, investments and receivables.

As mentioned in our letter to shareholders last year, and as is borne out by the numbers above, we are now an insurance group. "The prospect of significant recurrent earnings will be a joy and a significant relief", we said last year. Thankfully, it has become true.

Before describing what went on in 1992 in the segments above, a brief update on the August 1991 acquisition of Colonial Penn Group. The Colonial Penn assets are included above in the Property and Casualty and Life Insurance numbers. We paid $128,000,000 for Colonial Penn and between August 16, 1991 and December 31, 1992, it earned pre-tax $191,752,000, which included $39,866,000 of securities gains. This is a remarkable result that we may never repeat.

Property and Casualty Insurance Group

Colonial Penn's direct response automobile insurance group, under the superb direction of Ollie Patrell, is aggressively pursuing an inexpensive way to acquire new business. The direct marketing operations of Colonial Penn, prior to our acquisition, were too expensive and during 1992 we adopted a new, lower cost marketing strategy. Although this resulted in a decrease in premium volume for 1992, we are pleased with the new cost structure and with the increasingly profitable premium volume that we hope will result. We cautiously expect to generate sufficient volume by the end of 1993 to replace lapses and to produce significant growth in the future. Our objective on an ongoing basis is a combined ratio of less than 100%. For 1992, it was about 103%, which includes the effect of Hurricane Andrew.

Hurricane Andrew cost the Company about $36,000,000, of which $30,000,000 was reinsured to other insurers, so the net result was tolerable. Ollie, sensing the market for catastrophe insurance would tighten, scurried off to Europe for a week and replaced our catastrophe coverage, albeit more expensively and with a higher retention level. Hurricane Andrew also initiated a detailed study of our auto and homeowners exposure in certain geographic areas where these storms occur and we have introduced procedures to avoid dangerous geographic concentrations. Our goal for this segment is to be the low cost producer in our market.

1992

The Colonial Penn special risks portfolio continues to be liquidated and is in our opinion adequately reserved. There may even be a reserve recovery somewhere in the distant future. We believe we are also adequately reserved for the well known problems in California and New Jersey.

The Empire Insurance Group is a property and casualty insurer primarily in the Boroughs of New York. It specializes in small residential and commercial real estate, automobile and taxi cab insurance. Empire is a niche player and has been in the same niche for many years and does its business well. In addition, the Empire Group does a considerable amount of service work for other insurers. This includes administration services, including processing, underwriting and collection activities for the New York Public Automobile Pool and assigned risk business from other insurers. This service work helps amortize back office expenses and does not generally involve the assumption of underwriting risk. Under the very capable direction of Andy Attivissimo, Empire has experienced management at all levels and is growing nicely.

Life Insurance Group

As we described in last year's report, the life operations of Charter National Life and the various life companies of the Colonial Penn Group have been combined under one management ably lead by Rich Petitt. Rather than discuss the life companies themselves it will be clearer to discuss the life product lines.

Graded Benefit Life

Graded Benefit Life is a guaranteed issue, modified benefit policy offered without medical exams or evidence of insurability in amounts of $350 to $10,000 to persons between 50 and 80 years of age by direct response, principally generated by television advertisements. Those of you with insomnia may recognize the television ads featuring Ed McMahon that often play late at night. There are over 900,000 policies in force, which have a low lapse rate and an extremely predictable mortality experience.

Consistent with the policies described above for Property and Casualty, during 1992 we revamped the marketing effort in order to lower costs and to increase profitability. We hope to soon generate premiums sufficient to maintain the size of the book. Perhaps by next year, we will have developed techniques sufficient to show modest growth.

This is a predictable, low risk, useful and profitable product line. We like this business very much.

Investment Oriented Products

The only significant product offered in 1992 was a no-load variable annuity product. This is a tax deferred life product where the premiums are invested, at the direction of the policyholder, in a choice of mutual funds offered by Scudder, Stevens & Clark. The policyholder bears the entire investment risk. We like the product very much, but have been unable to figure out a way to sell it in significant volume. Premium receipts for 1992 were only $58,207,000. We are continuing to investigate ways to increase volume.

Until 1991, we profitably sold other tax advantaged life products, mainly single premium whole life (SPWL) and single premium deferred annuities (SPDA). Given our conservative investment bent, the potential volatility of interest rates, the expected new rules about marking to market "trading" portfolios (as the SEC defines them) and the willingness of competitors to offer crediting rates that imply investments at very high rates, we found ourselves unable to compete prudently. During 1992, after lowering crediting rates, the Company began a program of selling these blocks and asking policyholders to consider moving to another company. At the date of this writing, if the SPWL block that is currently subject to a letter of intent closes, we will have reduced our assets employed in the life group by about $900,000,000. It is a difficult and unpleasant task to reduce the size of a business, with the inevitable disruption to the lives of the hard working and loyal employees.

All of the above notwithstanding, in the years ahead when tax rates will be considerably higher, these tax deferred and, in the case of death, tax sheltered products will continue to be attractive to consumers. We may not be at the end of this tale.

Investments

The investment portfolio is managed by several investment advisors. We carefully monitor their efforts and provide clear strategic direction. As a result, at year end 97% of the insurance operations investment portfolio was in U.S. Government, investment grade fixed income securities and policyholder loans. This portfolio had an approximate 7.3% yield to maturity and an estimated remaining life for the bonds of 6 years and a market value of approximately $54.7 million above book value. Thanks to our substantial tax loss carryforwards, we were able to harvest substantial capital gains from our investment portfolios, which fits very well with our worries about future interest rate increases.

Guiding Principles

We thought it might be helpful to list some of the principles that guide our approach to the insurance business.

1. We are driven by a search for profitability, not for volume or market share and, as a result, sometimes the best strategy is to retreat.
2. We would rather reserve conservatively and be required to release reserves than to underreserve and be required belatedly to report losses.
3. We search for niches, not dominance, on the theory that the world can tolerate many mice but few elephants.
4. We invest the portfolios conservatively. We are willing to give up marginal yield for predictability, safety and a good night's sleep. This general conservatism helped us survive the '80s. There is no such thing as a free lunch: Either it isn't lunch or it isn't free.
5. We face the responsibility of managing so much of other people's money with constant vigilance and trepidation. The insurance reserves do not belong to the shareholders, only the capital does.

Banking and Lending

The Company has three small banking and lending operations in Salt Lake City, Utah. American Investment Bank, N.A. (AIB) is a national bank primarily regulated by the Comptroller of the Currency and insured by the Federal Deposit Insurance Corporation (FDIC). American Investment Financial (AIF) and Governor Financial (GF) are two Utah State chartered industrial loan companies, whose deposits are also insured by the FDIC.

GF was in the business of making difficult first and second mortgages at above market rates. This business did not meet our expectations and is being wound down. Under the capable direction of Leonard Sebesta, our continuing lending operations are in the business of making unsecured loans by mail to doctors, investors and executives and automobile loans to less credit worthy borrowers. These businesses are doing very well and have above average returns on equity and total assets after conservative loan loss provisions. Until the latter part of 1992, the banking and lending operations were also in the consumer finance business, financing consumer paper generated by affiliated loan development offices in the southeastern United States. We determined that this business was not sufficiently profitable and sold all of the receivables and related offices for a $12,100,000 profit.

AIB and AIF had the following ratios for and at the end of 1992 (exclusive of gain from sale of the consumer loan offices): Tier I Capital as a percentage of risk weighted assets–20.5% and 37.1%; net income as a percent of total average assets–3.0% and 3.2%; net income as a percent of average equity–25.7% and 21.7%; and, loan loss reserves as a percent of total loans–3.5% and 1.9%.

AIF is in a fight with the FDIC. They insist that the borrowers are not fit borrowers from a federally insured institution and that the institution is unsafe and unsound. We do not agree. The numbers and results to date do not bear these assertions out and we are going to resist the threatened supervisory action to the fullest extent possible. We believe the FDIC's position is not borne out by the facts. They suffer from S&L induced post-trauma syndrome.

If we are unsuccessful in defending our position and give up the licenses of AIF and GF, we will fund these businesses from other sources.

Incentive Services

Incentive services are conducted by The Sperry and Hutchinson Company, Inc. (S&H) and S&H Motivation, Inc. (SHM). Early in 1993 we contributed the net assets of SHM to a joint venture with an unrelated motivation services company in exchange for a 45% equity interest in the joint operation. This may be an instance where one and one is more than two, but we will see. In any event, our investment is not large.

The Green Stamp business conducted by S&H continues to shrink, but shrink profitably under the management of Joe Orlando. The liability for unredeemed trading stamps on the balance sheet at December 31, 1992 was $74,964,000. The latest statistical studies of redemption patterns show that approximately $29,203,000 may be excess at December 31, 1992. Because the ultimate excess may be different than indicated by these studies, we are amortizing the apparent excess into income over the remaining two–three year period. We will continue to operate this business as long as it makes an operating profit.

Manufacturing Group

The manufacturing business, we hope, will be profitable this year. Whether it can make an adequate return on our invested capital remains to be seen.

Other Matters

On June 10, 1992, we sold $125,000,000 of 10⅜% Senior Subordinated Notes due in 2002. These notes were subsequently rated as "Investment Grade" by Standard & Poors and Duff & Phelps. Somewhat wistfully, we leave the realm of junk bond issuers.

On February 8, 1993, we sold $100,000,000 of newly authorized 5¼% Convertible Subordinated Debentures due in 2003. The debentures are convertible into common shares at $57.50 per share. The proceeds from this issue were added to working capital and are currently invested in a spread of 1-5 year treasuries. These debentures were rated as "Investment Grade" by Standard & Poors.

On December 31, 1992, we finally completed the merger of Phlcorp into a wholly owned subsidiary of Leucadia. As part of this transaction, on January 8, 1993, the Company effected a 2 for 1 stock split in the form of a stock dividend. This last split means that if you bought one share in 1979 when we took over, you now have 12 shares.

In connection with the Phlcorp merger, the Company paid a $.20 per share dividend on the split shares. We further agreed to consider future dividends. Late this year, when results for the year become apparent, we will give consideration to another annual dividend.

On March 30, 1993 we received the $5,300,000 in cash and $12,000,000 6% U.S. dollar denominated Government of El Salvador bonds. This ends a long saga that began with the expropriation of the electric utility, CAESS, 44% owned by Phlcorp, on November 15, 1986. Many thanks are due to the U.S. State Department and the congressmen and senators who were consistently helpful. Special thanks also to our attorney, J.A. Uribe of MacArthur & Uribe and to Vice President Mark Hornstein, both of whom have been to El Salvador on our behalf many, many frustrating times.

At December 31, 1992, the Company had aggregate minimum tax loss carryforwards of $344,000,000.

We told you in our last report that the SFAS 109 "Accounting for Income Taxes" would be adopted in 1992. We did not adopt it in 1992, but will adopt it in the first quarter of 1993, recording an asset of $170,000,000. It will be reported as $128,000,000 of income from a change in accounting principles, a

$9,000,000 direct increase in shareholders' equity and the elimination of $33,000,000 of intangibles. We are confused too.

1992 was a good year for Leucadia. We had record earnings and made significant progress in our insurance operations that we hope will grow and become increasingly profitable. Some of the problem businesses outside the main thrust of our operations were satisfactorily resolved. Our balance sheet is strong and conservatively stated and we have sufficient cash and credit to take advantage of future opportunities.

We are, however, worried about the U.S. economy. We have as a national family been living far beyond our means. For years we have had inadequate savings, investment and productivity growth. We borrowed to support our standard of living. The good times for the past 10–12 years were accomplished by both lowering taxes and increasing spending. We must pay the piper and balance our budget. The current plan is to do that by raising taxes and cutting spending a little. Can these opposite fiscal policies provide both growth and abundance? We doubt it. We believe that this nation must give up its profligate ways and live more within its means, but we worry that the process of getting there will be painful, for it will require our national standard of living to fall.

It is with these concerns in mind that we will go forward and attempt to design strategies first to protect and secondly to increase shareholders' wealth.

Many thanks again to our employees, advisors, bankers and all those who have worked very hard to accomplish this record year. It could not have been achieved without them.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Letter from the Chairman and President

To Our Shareholders,

1993 was a good year for Leucadia. Earnings were $245,454,000, or $8.09 per share, a 40% return on last year's ending equity. Net worth was $907,856,000 or $32.54 per share. This compares with a negative $.22 per share at December 31, 1978, when the present management took over. The stock price (adjusted for stock splits) for that same period went from $.16 to $41.00 per share, a compound rate of 44.7% per annum over those 15 years. We are pleased with this achievement; we hope you are. We doubt we will do as well in 1994.

The results for 1993 require some special explanation. The accounting elves have been working overtime again this year and, as a result, our report to you includes an inordinate number of accounting changes, some of which are quite complicated, but none of which change the excellent results. First, we will attempt to explain why the numbers appear as they do so that you can understand what actually happened to our businesses.

There are various components to the $245.5 million of earnings. To reconcile that number to the increase in net worth requires an explanation to show the effect of all the accounting changes on the income statement and the balance sheet.

	1993	1992 (In millions)	1991
Income before taxes	$176.9	$143.5	$95.0
Provision for taxes currently payable	25.3	12.9	.2
Applied to deferred taxes	35.3	–	–
Income before accounting changes	116.3	130.6	94.8
Accounting changes	129.2	–	–
Net income	$245.5	$130.6	$94.8

Several comments are in order. Pre-tax operating income is progressing quite nicely. The $129.2 million of income from accounting changes is, for the most part, the result of capitalizing our tax loss carryforwards (NOLs) and other future tax deductions as required by SFAS 109. "Taxes Currently Payable" are, for the most part, taxes payable in cash and include state income taxes, federal minimum taxes and tax sharing payments to the I.R.S. (resulting from the use of Phlcorp NOLs). The $35.3 million of deferred tax expense, which is not a cash expense, is applied to reduce the deferred tax asset account which appears on the balance sheet.

For those of you interested in a more detailed explanation of SFAS 109, you may get some satisfaction from reading Note 13 to the financials. We have disparaged this accounting change in our letters to you in the past and our attitude remains the same. The attempt of SFAS 109 to improve precision in accounting has rendered the results inexplicable to all but the most sophisticated readers of financial statements. In a very imprecise way, SFAS 109 requires that the future benefit of our NOLs and other tax deductions be estimated and put on the balance sheet as an asset called "Deferred Income Taxes." In 1993, this estimation and capitalization increased our earnings significantly. In the future, for as long as we have NOLs, we will report income tax expense far greater than we pay, and will reduce the previously capitalized deferred tax asset. To make matters even more confusing, every year we must re-estimate the usability of our remaining NOLs and other tax deductions and, if necessary, adjust the deferred tax asset. We preferred the pre-SFAS 109 reporting in 1991 and 1992. We reported paying very little tax and disclosed in a note to the financial statements that we had NOLs. Simple. Too much complexity robs simplicity and thus understanding.

1993

Here in simplified form is the effect on net income and shareholders' equity of all of the accounting changes. Additional information on the accounting changes may be found in Note 1 to the financials.

Accounting Change	P&L at 1/1/93	Direct Equity	Total Equity	Future Impact
	(In millions)			
SFAS 109 "Accounting for Income Taxes"	$127.2	$ 9.4	$136.6	Confusion and annual readjustments
SFAS 106 "Employers' Accounting for Postretirement Benefits other than Pensions"	(4.5)	–	(4.5)	Minimal
SFAS 112 "Employers' Accounting for Postemployment Benefits"	(3.2)	–	(3.2)	Minimal
SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities"	–	49.5	49.5	Changes with market
EITF 93-6 "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises"	9.7	–	9.7	Less conservative balance sheet
	$129.2	$58.9	$188.1	

The $49.5 million increase directly to equity is the accounting elves at work again. Heretofore debt securities were generally held at amortized cost on our balance sheet and current market value stated in a footnote. Under SFAS 115, changes in market value will go through net worth. This is a change that enlightens no one and will have the unintended consequence of encouraging financial institutions to change investment strategy in not necessarily beneficial ways. Why this is a good thing is beyond our understanding.

The $9.7 million equity increase comes about through the release of insurance reserves. The accountants do not share our conservatism.

To summarize, the $289.7 million increase in net worth from December 31, 1992 to December 31, 1993 is composed of the following (in millions):

Income before accounting changes	$116.3
Accounting changes	188.1
Purchase of stock for treasury	(10.8)
Dividends paid	(7.0)
Exercise of options	2.3
Other	.8
Total	$289.7

The responsibility for explaining our corporate accounting now belongs to Joe Orlando in our New York office. He has replaced Norman Kiken as our principal accounting officer. Norman, clutching the gains from his many years of faithful service, has escaped to California to start a winery. From accounting to farming, Norman does love a challenge! Through all the late nights, the impossible deadlines, truculent tax lawyers, opaque accounting rules, and junk food at the printers, Norman never lost his good cheer, improved his penmanship or remembered his calculator! We wish him the very best for the successful fulfillment of his dream. He will be greatly missed.

Property and Casualty Insurance Group

The Property and Casualty Insurance Group has two operating companies—Colonial Penn Insurance and the Empire Insurance Group. Colonial Penn, headquartered in Valley Forge, Pennsylvania, is licensed in all 50 states and provides private passenger automobile and homeowners insurance to the age 50+ population. Colonial Penn, as a direct marketer, does not sell through agents and strives to be the lowest cost provider to this market segment. Colonial Penn had total net earned premiums of $452.6 million in 1993.

The Empire Insurance Group, headquartered in New York City, operates in the New York metropolitan area. Through a network of independent agents and brokers, Empire provides both personal and commercial insurance products and continues to be successful in identifying and developing niche programs. In addition, Empire's expertise in its market has allowed it to secure a considerable amount of service work which complements its voluntary insurance operations. Empire had total net earned premiums of $259.4 million in 1993.

In our property and casualty operations, we strive for profitability, not market share or volume. To that end, we emphasize high quality underwriting, expense containment and careful claims control. The ratios below illustrate the results of our property and casualty operations as compared to the industry as a whole:

	Combined Ratio		
	1993	1992	1991[1]
GAAP (Generally accepted accounting principles)	96.9%	101.7%	102.1%
SAP (Statutory accounting principles)	93.7%	102.8%	103.3%
Industry (SAP basis)	106.9%	115.7%	108.8%

[1]Includes Colonial Penn from date of acquisition.

Our goal, which we have stated before, is to have a combined ratio of no more than 100%. A combined ratio of 100% means that premiums equal the sum of claims, related expenses and underwriting expenses. Thus, if the combined ratio is 100% or less the shareholders keep the after tax earnings on the invested reserves and equity, which can be quite substantial on $1.7 billion of investments. We exceeded that goal in 1993, as the severity of claims were down and prior years' claims were settled under our new procedures at less than the reserved amounts. Unusual catastrophic losses will make it difficult to achieve our combined ratio goal of 100%.

As we also mentioned in the past, we discontinued Colonial Penn's marketing operations shortly after the acquisition because it was too expensive. When we resumed marketing in 1992, with new, lower cost programs, new premiums were not sufficient to maintain the size of the company. However, at this writing, we have significantly narrowed the gap and the volume generated from new premiums is nearly replacing lapses. We hope to report absolute growth in 1994.

Prior to our acquisition of Colonial Penn, the company wrote certain commercial lines of insurance. This closed block of business continues its satisfactory liquidation. We believe it is adequately reserved. Some day there may be a recovery.

1993 was a far gentler year than 1992 when Hurricane Andrew and other storms in the Northeast strained the world's catastrophic reinsurance capacity. Property and casualty earnings were impacted by winter storms in the first quarter but subsequent months sailed by without major incident. In 1993, no deductibles were breached giving our reinsurers a breather to recover from the shellacking they took in 1992.

Catastrophe insurance renewals for 1994 were negotiated in the latter part of last year and were oversubscribed at essentially the same rates. Colonial Penn continued its $11 million deductible program in light of continuing high rates for lower retentions. Our statutory surplus at Colonial Penn is much higher after two years of solid earnings and therefore a higher retention limit makes sense.

Life Insurance Group

We conduct our life insurance business through Colonial Penn Life headquartered in Philadelphia, Pennsylvania, Charter National Life in St. Louis, Missouri, and Intramerica Life Insurance in New York, New York. The principal life insurance product is a guaranteed issue policy sold directly to persons age 50 to 80 in face amounts of $350 to $10,000, issued without a medical examination or evidence of insurability. We have over 900,000 policies in force. This is a predictable and profitable block of business where the laws of large numbers operate in our favor. Ed McMahon is a spokesperson on television and via direct mail.

In 1992, we sold $10.9 million of new annualized premium (NAP). In 1993, we sold $16.9 million of NAP. At approximately $15 million in NAP, the business starts to grow. We are hoping to do better in 1994.

Critical to the success of this business is the cost of acquiring new business. We have managed to reduce our costs to about one-half of the costs previously incurred, which is a credit to the perspicacity of Colonial Penn Life's management.

Charter sells a no-load variable annuity product. Premiums from variable annuity products are invested at the direction of the policyholder in a series of unaffiliated mutual funds (managed by Scudder, Stevens and Clark) where the policyholder bears the entire investment risk. This no-load/no sales charge product is an excellent retirement savings vehicle. It allows the policyholder to choose from a variety of investment vehicles and have the gains accrue without taxation. The investment performance, for which we are not responsible, has been excellent. Premium receipts were $81.5 million in 1993 versus $58.2 million in 1992. We are hopeful that further growth will occur in 1994. One of the few benefits of higher taxes is that this product becomes more appealing. This was a tiny business which has now become a small business. Total assets related to this product have grown from zero in 1986 to $262.9 million at the end of 1993.

Investments

As we mentioned above, if you astutely manage a casualty company, the earnings on invested reserves and equity belong to the shareholders. In the life insurance business, we earn a profit after death claims, crediting rates and expenses are paid. In our life and casualty operations we have $2.4 billion of investments, of which 96% is invested in U.S. Government and agency paper and other investment grade investments. The portfolio had a 6.2% average yield and estimated average remaining life of 4.7 years and a duration of 2.9 as of December 31, 1993. We have been managing the portfolio for some time with higher rates in mind. We were prepared for the current uptick in interest rates. Our outside investment advisors have done a magnificent job. Our boat is stable, on course, and in no foreseeable danger of sinking.

Last year we included a list of guiding principles. We are repeating these here again and adding some others.

1. We are driven by a search for profitability, not for volume or market share and, as a result, sometimes the best strategy is to retreat.

2. We would rather reserve conservatively and be required to release reserves than to under reserve and be required belatedly to report losses.

3. We search for niches, not dominance, on the theory that the world can tolerate many mice but few elephants.

4. We invest the portfolios conservatively. We are willing to give up marginal yield for predictability, safety and a good night's sleep. This general conservatism helped us survive the '80s. There is no such thing as a free lunch—either it isn't lunch or it isn't free.

5. We face the responsibility of managing so much of other people's money with constant vigilance and trepidation. The insurance reserves do not belong to the shareholders, only the capital does.

To the above, we add the following:

6. We invest in shorter maturity bonds. In the long run, stocks do better but over shorter periods of time they are not predictable. The obligations to our insureds are predictable. We best fulfill our obligations by investing in bonds.

7. We are afraid of long-term bonds.

8. We do not invest the insurance portfolios in uninsured real estate loans, junk bonds or exotic securities.

9. We do not reinsure other insurers risks. Our plate is full with our own risks.

10. We increase our shareholders' wealth by buying businesses at the right price—not by speculating in portfolio securities.

Banking and Lending

The Company's banking and lending operations are conducted through its national bank subsidiary, American Investment Bank, N.A. (AIB), and a wholly owned industrial loan corporation, American Investment Financial (AIF). These institutions have deposit insurance from the Federal Deposit Insurance Corporation (FDIC). Our relationship with the FDIC has improved and is satisfactory. Loans receivable were $188 million at year end, pre-tax earnings were $12 million, pre-tax return on assets was 4.48% and pre-tax return on equity was 26.32%.

These institutions are continuing to grow in 1994. AIB was a startup in 1980 and is developing into a significant source of our earnings. The principal businesses are executive lending by mail and auto lending to borrowers with prior credit problems.

Incentive Service

The Company's incentive services are carried on by The Sperry and Hutchinson Company, Inc. (S&H). Since 1969 when the annual sales peaked, the stamp business has been steadily declining. S&H manages the shrinkage of its business profitably.

At December 31, 1993, the liability for unredeemed trading stamps was $58.5 million. Because the business is shrinking, the historical stamp redemption patterns may have changed—this amount may be in excess of what is required. The latest statistical studies indicate that approximately $17.1 million may be excess at December 31, 1993, which we continue to amortize into income.

For those of you who are old enough to remember collecting green stamps, licking and sticking them into book after book all in aid of a new toaster, the decline of S & H will feel like the loss of an old friend. "The old order changeth, yielding place to new. . . ."[2]

Manufacturing Group

The manufacturing companies continue making progress on their return to profitability.

Other Matters

During 1993 interest rates came down to levels where it was advantageous to replenish our coffers. In February 1993, we sold $100 million principal amount of 5¼% Convertible Subordinated Debentures

[2]Alfred, Lord Tennyson

due 2003. In August 1993, the Company sold $100 million principal amount of 7¾% of Senior Notes due 2013. At this writing, most of this money is available. Although it is invested at a slightly negative spread, it is, in our opinion, a modest price to pay for increased liquidity, which along with $150 million in unused bank lines gives us the ability to take advantage of opportunities.

On June 23, 1993, we completed the sale of certain tax advantaged life products to John Hancock Mutual Life Insurance Company. We reported a pre-tax gain of $16.7 million. As we mentioned last year, these products were unattractive to us in an environment where competition was willing to take interest rate risks that we found unacceptable.

At the end of 1993, we declared a $.25 per share annual dividend up from $.20 per share in 1992. Towards the end of the year, as the results from 1994 become apparent, we will again consider a dividend.

Latin America

On March 30, 1993, the Company received cash of $5.3 million and $12 million principal amount of 6% U.S. dollar denominated El Salvador Government bonds, due in instalments through 1996. This ended a long saga that began with the expropriation of the electric utility, Compañia de Alumbrado Eléctrico de San Salvador (CAESS). At this writing, we have sold the remaining bonds in the market at a modest discount. In the first quarter of 1994, the Company will report a pre-tax gain of approximately $8.5 million on this transaction.

In November of 1993, the Bolivian Power Company was listed on the New York Stock Exchange and sold 1,250,000 shares of newly issued stock for $28.3 million to finance future growth. This is the first company operating principally in Bolivia to be listed on the New York Stock Exchange. Leucadia sold 750,000 of its shares in the same offering for $17 million and reported a $13 million pre-tax gain. We still own 719,206 shares representing 17% of the outstanding common shares. Our holdings in the Barbados Light and Power Company remain unchanged.

During 1994, we acquired 30% of Caja de Ahorro y Seguro, S.A. (the "Caja") for $46 million along with a local partner who also purchased 30% on the same terms. The "Caja" is Argentina's largest insurance company with 55 branches and an important presence throughout the country. It is the major direct writer of group life insurance and an important automobile insurer. It also operates a small bank.

The Argentine economy is revitalizing. The "Caja" is a household name with a tremendous market share. We are hopeful that, together with our local partners, newly hired senior management and our Leucadia insurance staff, the "Caja" can be developed into a profitable growing business. Time will tell. To date, we have realized through hard work and good luck $45 million of value from our other Latin American investments.

Our shareholders should not conclude from the last few paragraphs that we plan to report to you next year in Spanish, though one of us will study Spanish for three weeks this summer. Our investments in Latin America came about either by happenstance, as in the case of Bolivia, El Salvador and Barbados, or in our usual opportunistic way, as in Argentina.

1993 was a year of accounting changes, of increased liquidity and continued improvements in our insurance operations and banking business. One of the undersigned is more pessimistic than the other, seeing as he does, higher taxes, higher interest rates and potential financial accidents around every corner. The other's point of view is that the globalization of the world's economy and the desire of peoples all over the world to partake in the higher standard of living, as advertised on CNN, presents an opportunity for the United States to profitably provide the capital, goods and services necessary for improving education, health and industrialization worldwide.

The optimism of one, however, is greatly cautioned by the gloom of the other. We have collected a large pile of coconuts and our job is in no small part conservation as well as growth. First, we will endeavor to keep the coconuts we have then add to the pile. As in the past, we debate endlessly but proceed cautiously.

We are exceptionally well assisted by our employees, advisors, bankers and all those who work hard in our common enterprise. We are most grateful.

IAN M. CUMMING
Chairman

JOSEPH S. STEINBERG
President

Letter from the Chairman and President

To Our Shareholders,

1994 was a difficult year. We successfully avoided the major potholes. We suffered no derivative disasters or mortgage backed security fiascoes. Interest rates, however, rose sharply and that had a significant effect on our ability to realize security gains. With a bond portfolio accounting for 96% of our investments, we are a reluctant hostage to the bond market. Fortunately, good portfolio management by our investment advisors and staff enabled us to escape almost unscathed from rising rates. As you will see from the chart and discussion below, security gains accounted in great measure for the difference in earnings from 1993. After tax earnings were $70,836,000, or $2.41 a fully diluted share, which does not reflect the benefit of our net operating loss carryforwards. This is only an 8% after tax return on last year's ending equity. Not adequate by itself, but when taken in the context of the 1994 bond market and averaged with the 15 previous years, it is satisfactory. Net worth, adjusted for splits, was a negative $.22 per share 16 years ago, and at December 1994 net worth was $31.44 per share. The stock price adjusted for splits during the same period went from $.16 to $44.50 per share, a compound rate of return of 42% per annum over those 16 years.

Below is a list of earnings of our various business units. We remind everyone that we are highly decentralized. These numbers include all the costs up to and including those of the Presidents and Chairmen of the business units. There are no allocated costs for the undersigned or the other 43 people in the Corporate and Executive headquarters (see Corporate and Other below). Corporate expenses include interest, results of corporate security transactions, as well as overhead associated with accounting, portfolio management, taxes and the significant costs associated with pursuing new opportunities. We refer to this chart throughout this letter. Income (loss) by business segment is as follows (in thousands):

	1994	1993	*Prospects*
Property & Casualty Insurance:			
Operations	**$ 99,840**	$113,431	*Showing signs of growth*
Net securities gains (losses)	**(3,448)**	14,563	
Life Insurance:			
Operations	**53,052**	30,168	*Growing*
Net securities gains (losses)	**(3,941)**	31,867	
Banking and Lending:			
Operations	**16,302**	12,542	*Growing*
Net securities gains (losses)	**(2)**	46	
Incentive Services:			
Operations	**10,335**	13,121	*Hanging on*
Net securities gains (losses)	**0**	776	
Manufacturing	**(11,758)**	(2,239)	*Broken*
Corporate and Other:			
Operations	**(55,449)**	(42,078)	*Tomorrow's opportunities*
Net securities gains (losses)	**(4,613)**	4,671	
Subtotal income before tax:			
Operations	**112,322**	124,945	
Net securities gains (losses)	**(12,004)**	51,923	
Total pre-tax	**100,318**	176,868	
Tax provision[1]	**(29,482)**	(60,609)	
Total after tax	**$ 70,836**	$116,259	

[1]Does not reflect the benefit of net operating loss carryforwards. See Note 13 of Notes to Consolidated Financial Statements for an explanation of our net operating loss carryforwards.

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Although we are not happy with last year's results, there is a time to reap and a time to sow. Rising interest rates made the harvest difficult last year, but we were able to invest in several opportunities for the future, about which more later.

In late 1993 we became convinced that interest rates would increase in 1994. Subsequently, the Federal Reserve increased the discount rate six times, from 3.0% to 5.5% and the long bond lost 15% of its value. To illustrate the magnitude of this movement, if you took our investment portfolio at January 1, 1994 and froze it, buying nothing and selling nothing, by December 31, 1994 the portfolio would have lost $187 million in value. Since we lacked the courage to go into cash on January 1, 1994, during the year we shortened the average life of the $2.4 billion portfolio from 4.7 to 3.6 years. By reinvesting the proceeds of sales, the yield to maturity increased from 6.2% at December 31, 1993 to 6.4% at December 31, 1994. The increase in yield will recoup the realized losses within two years. The total return on our portfolio was a negative .58% last year compared to the Salomon 5-year treasury index of a negative 4.05%. Furthermore, since we are not certain that rates will remain at present levels for the foreseeable future, the current portfolio is defensively postured against another increase in interest rates. The interest rate sword has two edges; in 1993 we benefited from one edge and in 1994 we suffered from the other. 1995 will be a challenge. It is a lot more fun taking gains as rates fall than preserving capital as rates rise.

On the financing front, things were quiet in 1994. We purchased an option for $2.6 million, exercisable in August 1996, to fix an interest rate of 8.39% on $50 million of borrowings for an eight year term.

Property and Casualty Insurance Group

The Property and Casualty Insurance Group has two operating groups, Colonial Penn and Empire. Colonial Penn, headquartered in Valley Forge, Pennsylvania, is licensed in all 50 states and provides private passenger automobile and homeowners insurance to the mature adult population. Colonial Penn, as a direct marketer, deals directly with the public and endeavors to be the lowest cost provider to this market segment.

Empire, headquartered in New York City, operates in the New York metropolitan area. Through a network of independent agents and brokers, Empire provides both personal and commercial insurance products and continues to be successful in identifying and developing niche programs. Empire's expertise in its market has allowed it to secure a considerable amount of service work, which complements its voluntary insurance operations.

In property and casualty operations we strive for profitability not market share or volume. To that end, we emphasize high quality underwriting, expense containment and careful claims control. The ratios below illustrate the results of our property and casualty operations as compared to the industry as a whole:

	Combined Ratio		
	1994	1993	1992
GAAP (Generally accepted accounting principles)	**99.1%**	96.9%	101.7%
SAP (Statutory accounting principles)	**98.8%**	93.7%	102.8%
Industry (SAP Basis)	**N/A**	106.9%	115.7%

Our goal, which we have stated before, is to have a combined ratio of no more than 100%. A combined ratio of 100% means that premiums equal the sum of claims, administrative expenses and underwriting expenses. Thus, if the combined ratio is 100% or less, the shareholders keep the after tax earnings on the invested reserves and the equity, which can be quite substantial on $1.6 billion of investments. We exceeded that goal in 1994 and 1993 with a combined ratio of under 100%.

From the segment data you will note that the Property and Casualty operations' profitability was $113.4 million in 1993 and $99.8 million in 1994. This needs further explanation. From experience we estimate the claims and expenses so that the aggregate reserves will be sufficient to pay over time for all the crumpled fenders and bumped heads. Keep in mind that insurance only works if you have a large number of policies over which individual claims can be averaged. In 1993, as in 1991 and 1992, we concluded that too much had been previously reserved as a result of our advantageous purchase of Colonial Penn in 1991. Excess claim reserves were released and operating earnings were higher. As all good things end, the "bargain" associated with the purchase of Colonial Penn is over.

In 1994, the casualty companies' total net losses and expenses, after reinsurance, from earthquakes and storms were $18.3 million. In 1993, similar events cost us $10.9 million. The most spectacular loss in 1994 was from the Northridge, California earthquake which cost the industry $11 billion. Several major companies found their surplus impaired. Colonial Penn fared better than most with a net loss of $11.7 million. Our losses have not significantly increased from earlier estimates because we reserve conservatively. California is a remarkable place. In spite of the fact that it burns, slides, shakes and floods, it is the seventh[2] largest economy in the world.

Starting with the devastation of Hurricane Andrew in 1992, the cost and availability of catastrophe reinsurance has gone up or is no longer available[3]. Nevertheless, we have been able to complete our reinsurance treaties over the last three years but at a higher cost. As our surplus has grown, we have increased retentions and used the savings to increase reinsurance at upper levels.

Colonial Penn and Empire are also in the business of servicing other insurance companies' policies. Empire was one of the first companies in New York State to do so. Servicing companies assume assigned risk business from other insurance companies and receive a fee in addition to policyholder premiums. At present we service approximately $200 million of annualized premium of this type business, all with insurance risk. Empire also performs administrative services for the New York Public Automobile Pool without insurance risk. This activity is profitable in its own right and absorbs fixed costs.

For 1993 (the latest data available) Colonial Penn, GEICO, Liberty Mutual and USAA had the lowest expense ratios among national automobile insurers. In 15 states, our new business rates are 30% below our largest competitors. There is, however, a conundrum here: Why are we not growing faster? If we have built a better mouse trap, where are the mice? The answer is that we have faith in financial gravity. If we are 30% cheaper, as we are in 15 states, we believe the customers will eventually find their way to us past the downfield blocking of commission salesmen and higher advertising budgets. Our competition is not other direct response companies but rather insurance agents whom we can profitably underprice. The results are beginning to show. As of this writing we are adding more auto policies than are lapsing. We remain enthusiastic about the auto insurance business. The success of no load mutual funds and discount brokers is comforting. Keep the faith.

New York City and its Boroughs, where Empire lives and works, is an interesting and appealing place. So many people in so little space is a siren song to aggressive insurers. Inevitably bruised by the tough urban milieu, poorer and wiser, some of them leave. Empire knows this pattern well. We do not chase price. We pleasantly say good-bye when prices go down and expect to see the clients again when the market tightens. In 1994, several competitors decided they had had enough and withdrew. Empire profitability grew by 19%.

We have settled our obligations to the New Jersey Joint Underwriting Association within the amount we reserved. We expect a similar result in regard to Proposition 103 in California. We are encouraged that state regulators are seeming to realize that when a car runs into a tree it costs money to adjust the claim, fix the car and settle third-party claims. By and large, the marketplace is pretty good at allocating these costs and prices. Neither irresponsible political rhetoric nor propositional dicta can change these facts.

When we acquired Colonial Penn, we inherited a batch of difficult commercial lines and reinsurance receivables which we continue to satisfactorily resolve. There may be a recovery some day.

[2]World Bank Atlas 1994.

[3]For example, Barbados Light and Power Company has been unable to get any catastrophe insurance on its distribution assets. 37.4% of Barbados Light and Power's common stock is owned by Canadian International Power Liquidating Trust. Leucadia National Corporation owns 57.3% of the Trust which is recorded at $2 million at December 31, 1994.

Life Insurance Group

We conduct our life insurance business through Colonial Penn Life headquartered in Philadelphia, Pennsylvania; Charter National Life in St. Louis, Missouri; and Intramerica Life Insurance in Pearl River, New York. Our principal life insurance product is a guaranteed issue policy sold directly to persons age 50 to 80 in face amounts of $350 to $10,000. We have over 900,000 polices in force. This is a predictable and profitable block of business where the laws of large numbers operate in our favor. Ed McMahon is our spokesperson on television and through direct mail.

In 1992, we sold $12.7 million of new annualized premium (NAP), $17 million in 1993 and $20.5 million in 1994. At approximately $15 million in NAP, the business grows. Critical to success is the cost of acquiring new business. Since 1991, we have managed to reduce acquisition costs by almost 50%. This growth was achieved by adhering, with religious fervor, to a pre-defined acquisition cost structure. We are pleased with the 1994 result.

Charter sells a no-load variable annuity product. Premiums are invested at the direction of the policyholder in a series of unaffiliated mutual funds (managed by Scudder, Stevens and Clark) where the policyholder bears the entire investment risk. Total assets are $295 million.

Banking and Lending

The Company's banking and lending activities are conducted through its national bank subsidiary, American Investment Bank, N.A., (AIB); a Utah State chartered industrial loan corporation, American Investment Financial (AIF); and a New York based SSBIC, Transportation Capital Corp. (TCC).

During 1994, these companies produced $16 million in pre-tax earnings with outstanding loans receivable of $264 million. Pre-tax return on assets was 6.2%, pre-tax return on equity was 31%. AIB paid a $5.8 million dividend to Leucadia.

AIB and AIF offer executive and professional loans primarily by mail. AIB also offers auto loans to people with less than sterling credit. We operate the auto loan program in ten states and continue to cautiously expand. There is significant competition coming into this market. We intend to maintain our concentration on careful underwriting to avoid losses. TCC makes loans secured by taxicab medallions in New York, Boston and Chicago. AIB and AIF deposits are insured by the FDIC, with whom, for the time being, we are at peace.

Incentive Services

Leucadia's incentive services are carried on by The Sperry and Hutchinson Company, Inc. (S&H). Since 1969, when annual sales peaked, the stamp business has been declining. S&H has managed to shrink profitably. By adding a new, much less expensive computer system and by utilizing a third-party fulfillment operator (they mail the toasters to the customers), we will generate further expense savings in 1995. As long as our customers continue to buy stamps, S&H will continue to redeem them through the catalog.

At December 31, 1994, the liability for unredeemed stamps was $42 million. Latest statistical studies indicate that approximately $5.4 million of this liability will not be required; it will be amortized into income next year.

Manufacturing

In 1994, manufacturing was a disaster. More precisely, one company, our bathroom vanity division, was a self-inflicted, unmitigated disaster. The other manufacturing companies did reasonably well. Here is the story.

This division makes bathroom vanities and cultured marble (i.e., plastic) sinks for the top of the vanities. In 1991, we decided to consolidate several facilities into one and install new semi-automated production equipment in the hopes of increasing efficiency. Two bad things happened; one strategic, one tactical. The market is moving away from solid wood, fully assembled cabinets to paper and wood veneer, home-assembled cabinets. The new plant presently makes the former, not the latter. The implementation of this flawed strategy was also atrocious. As a result, we have a new President of the Manufacturing Group and have, we hope, written off all of our past mistakes. We are paying close attention. Our apologies to the shareholders. Hopefully, better news next year.

Real Estate

Until recently our real estate interests came about as a result of other acquisitions whereby we ended up with surplus property. Recently, however, this has changed. "We tend to be buyers of assets that are troubled or out of favor, and as a result, are selling at substantially below the values which we believe are there."[4] Our theory is that a well located property bought in a bad market will, in a good market, appreciate to at least replacement cost. Here is what we have done.

We purchased for $50.8 million in cash a 615,000 square foot building at 685 Third Avenue in New York City, which formerly was the corporate headquarters of American Home Products. 405,000 square feet are available for rent, of which 355,000 square feet are contiguous. Empire Insurance will very shortly be in need of 200,000 square feet. With Empire as a tenant, the building has sufficient cash flow, after expenses, to justify a long-term mortgage in excess of the purchase price. Other potential tenants will probably pay more rent for space near Grand Central where the availability of large blocks of contiguous space is shrinking. This will have an even better financial outcome. If another tenant appears, Empire can move to the Wall Street area where there are also many interesting opportunities.

We purchased, out of bankruptcy, two 41-story luxury San Diego condominium towers known as The Harbor Club, located across the street from the Convention Center, with expansive views of the harbor! The buildings have 350,000 square feet, of which 42,000 is commercial, and 202 residential units. We purchased the buildings for $120 a square foot and are marketing the 180 remaining residential units at an average price of $345 per square foot, before the cost of models, management and sales. If the reader is interested in a beautiful San Diego condominium, please call![5]

We are conditionally committed to purchase (again, out of bankruptcy) a 3,400 lot subdivision in Southern California in an area where home builders are in need of lots. We are working with the City of San Marcos to finalize details of the entitlement process before moving forward. We may end up with a national home builder as a partner.

In another complicated bankruptcy transaction, we invested $21 millon in HomeFed Corporation bonds (the parent of HomeFed Bank, which was seized by the RTC). Under the bankruptcy reorganization plan, we expect to receive approximately 40% of HomeFed as well as a convertible note that would allow us to increase our ownership to approximately 89% in three years. HomeFed owns several single family developments which will be completed.

We also purchased a 46% interest in 30 North LaSalle Street in Chicago. The building cost $63.8 million, $16 million in cash and the balance with excellent non-recourse financing. The building has 926,000 square feet and shortly will be fully leased.

During 1994, Colonial Penn Life took advantage of the soft real estate market in Philadelphia and acquired a 127,000 square foot office building in the Philadelphia historic section for $4.2 million or $33 per square foot. On March 20, 1995, the company occupied 60% of the space with expansion room for the future as the current tenants' leases expire. Colonial Penn Property and Casualty also purchased a 104,000 square foot building in Valley Forge, Pennsylvania for $6 million for its own use.

[4]Report to the shareholders 1988, 1990 and 1991.

[5]Our goofy lawyers insist we state that this sentence does not constitute an offer, which can only be made through a written prospectus.

Latin America

In the first quarter of 1994, we completed the sale of the bonds we received from the expropriation of the Compania de Alumbrado Electrico de San Salvador in 1986. We reported an $8.5 million gain.

In the fourth quarter of 1994, we completed the sale of our remaining interest in the Bolivian Power Company and reported a $14.5 million gain. The Government of Bolivia is pursuing polices in the electric sector with which we disagree. This was clearly a time to reap. Since 1986, we have realized value of $63.7 million from our Latin American investments.

During 1994 we were, along with local partners, the successful bidder in the privatization of Caja de Ahorro y Seguro, S.A. ("Caja"), a company with insurance and banking operations formerly owned by the Argentine government. We purchased 30% for $46 million, our local partner purchased 30% for the same amount, and the government retained the remaining 40%. Caja is Argentina's largest insurance company with 55 branches located throughout the country. The restructuring is proceeding nicely. Hopefully, 1995 will report profits.

Argentina is being buffeted by the back wash from the Mexican financial crisis. They call it the "tequila effect" in Buenos Aires. There is likely to be tough sailing. Bank liquidity is tight and Argentina owes a lot of money abroad.

Since we are already in the Argentine boat, we look on the bright side. There is not a lot of money moving South and we are already committed. It is unlikely that much foreign competition will appear this year. This is good for Caja, as we will be able to complete the planned restructuring, move to new headquarters, and solidify our market share. Caja has revenues of $535 million, insures approximately 311,000 automobiles and has group life insurance policies covering 4 million lives. Not a small company.

Russia

In June of 1994 we went to the world's largest garage sale. Russia put 15,000 companies up for privatization. We invested $25 million and are accounting for this on a cost recovery basis. We have taken $5.4 million out and our year-end book value is $19.6 million invested in 32 companies.

As previously reported, we are drilling for oil in Siberia and supplying raw materials to an aluminum smelter in Tajikistan.

As a result of this activity, we have opened an office in Moscow to look after these investments and to look for other opportunities. Larry Hershfield, Executive Vice President, has moved to Moscow with his family to head up this operation.

Time and space preclude us from telling you much about our attitude toward the future of Russia or the former Soviet Union. It is, however, the sixth largest population on the globe. The technical and engineering education is first-rate. Many factories have up-to-date western equipment. What is missing is the legal, financial and marketing infrastructure necessary for a functioning free market. It is reminiscent of the Wild West. Companies are extremely inexpensive compared to similar companies in the West. There is little working capital available. If there is political stability, the market will flourish and we will do very well. High risk, high reward. If not, the losses will be tolerable.

A vignette: each Russian citizen was given a voucher, which looks like a small stock certificate. Vouchers were the only currency allowed in the privatization auctions. A voucher market developed whereby people like us purchased vouchers for between $15 and $25 U.S. each. We visited the voucher auction market in downtown Moscow one day and on the way out noticed an older lady wearing a babushka trying to sell one voucher. We negotiated the purchase of her voucher. When the transaction was complete, she said to us with great conviction: "There are two things Russia will never be without, bad roads and fools."[6] We have been warned!

[6]Attributed to Nikolai Gogol, a Russian author born on April 1, 1809.

Other Things

1994 was both a difficult and a successful year. Interest rate increases are the nemesis of bond portfolios and we have a big one. The bathroom vanity division is a problem and an embarrassment. Our other operating companies are doing well and most are showing signs of growth. We made several investments which should bear fruit in the future.

In Genesis, Chapter 41, Joseph interpreted Pharaoh's dream of the lean cows eating the fat cows to mean that seven lean years would follow seven fat years. There has been an almost continuous bull market since 1980, 15 fat years! We worry that the bears are out there somewhere and they must be very hungry! We hope we are prepared for their arrival. There are opportunities in bear markets, too.

Thanks to our loyal employees, advisors, and banks for their hard work and good cheer in a difficult year.

IAN M. CUMMING
Chairman

JOSEPH S. STEINBERG
President

Letter from the Chairman and President

To Our Shareholders,

Earnings for 1995 were $107,503,000 or $1.81 per share after taxes, a 12.2% return on last year's ending equity. Net worth was $1,111,491,000 or $18.47 per share. This compares with a negative net worth of ($7,657,000) or ($.11) per share at December 31, 1978, when we began managing the Company. The stock price for the same period (adjusted for stock splits) went from $.08 to $25.00 per share, a compound rate of 40.2% per annum for those 17 years.

In annual reports in years past we have taken great delight in occasionally reporting after tax rates of return on prior year's ending equity in the 30% plus range (see below). At the same time, we have warned that these high rates of return were not sustainable over time.

Leucadia's After Tax Rates of Return

1990	1991	1992	1993	1994	1995
18.4%	35.3%	35.7%	39.7%	7.8%	12.2%

There are several factors which affect the up and down nature of these returns. With the increasing size of our net worth, given what we do and how we do it (more later), it becomes ever harder for us to maintain very high rates of return. The chart below demonstrates that all asset classes have trouble managing high returns over time. As the amount of our capital increases, the returns will inevitably tend to regress to the averages. This is a law of nature. The second reason is that we have significant assets invested in future opportunities. These assets have little or no returns during their incubation. When they hatch, if we have done a good job, the progeny will sell at a good price or have high rates of return. Lastly, some of our operating companies are worth significantly more than book value, which has not been realized.

Market Rates of Return

	70 Years 1926-95	Recent Decade 1986-95	1980s	1990s 1990-95
Leucadia Stock Price	(a)	21.8%	31.0%	29.3%
S&P 500	10.5%	14.8%	17.5%	13.0%
Small Company	12.5%	11.9%	15.8%	15.3%
Long-Term Corporates	5.7%	11.3%	13.0%	11.3%
Long-Term Government	5.2%	11.9%	12.6%	11.9%
Short-Term Government	5.3%	9.1%	11.9%	9.0%
Treasury Bills	3.7%	5.6%	8.9%	4.9%
Inflation	3.1%	3.5%	5.1%	3.4%

(a) Leucadia's stock price since our tenure began (1978) has grown at a compound annual rate of 40.2%.

Further complicating the business of investing, is the fact that since 1980 there has been significant inflation in the price of financial assets. Mutual fund assets have grown from $135 billion to $2,162 billion, U.S. Government securities from $1 trillion to $5 trillion and the S&P 500 Market Cap from $926 billion to $4,588 billion. There was $27 billion of funds raised last year which was invested in leveraged buyouts (LBO) and private equity transactions[1]. In 1980 no one had heard of an LBO fund. There is too much money chasing too few opportunities which has driven down returns. However, this is not all bad, even truffle hunters need a rest.

Our corporate strategy explains what we do.

> "We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated."[2]

Because we buy "companies that are troubled or out of favor...," when these companies are acquired they may provide no or very low rates of return until they become profitable or are sold. Because "we are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual returns," the annual returns are often erratic. Since we have not realized substantial gains from sales of operating companies in the last few years, nor have we had significant increases in operating income from incubator assets, human nature is such that we are slightly embarrassed by 8% and 12% annual returns.

One of us will soon be 56 years of age, the other just turned 52. We are too young to quit, and too old to change our ways. Therefore, we will proceed doing what we know best—buying assets cheap and selling them when someone else wants them more than we do. If asset valuations remain unrealistically high in the United States and other suitable investments, such as foreign investments, do not become available, we will keep our money in the bank or conclude that we have too much capital and should return some of it to the shareholders. A mechanism more tax efficient than doubling the dividend, as we did last year, would be appropriate. Both of us think, however, that this era of overly generous asset prices will pass. When there is the inevitable correction, people will think truffles are but a fungus and we will be in the truffle business again.

We think of Leucadia as two companies: a group of Operating Companies and a collection of opportunistic investments in the future, i.e., Work in Progress assets, as shown below.

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[1] *Return on Investment* magazine, January/February 1996.
[2] Originally reported in the 1988 annual report.

Leucadia's Return on Investment

	Investment 12/31/95	Pre-tax Results 1995	1995 Return on 1994 Investment (b)
	(Dollars in thousands)		
Operating Companies:			
Colonial Penn P&C	$ 342,005	$ 68,851	26.28%
Empire P&C	231,205	10,091	5.04%
Life Insurance	159,590	53,647	35.12%
Subtotal, Insurance	732,800	132,589	21.56%
Banking and Lending (a)	62,481	16,736	26.59%
Manufacturing	58,497	(18,044)	(27.75%)
Subtotal, Operating Companies	853,778	131,281	17.67%
Corporate Assets:			
The WMAC Companies	48,648	41,030	257.45%
Work in Progress assets	411,712	16,263	5.74%
Other Corporate (including deferred taxes and cash)	298,300	(17,400)	(7.07%)
Corporate Debt	(500,947)	(38,992)	(9.59%)
Subtotal, Corporate	257,713	901	0.65%
Consolidated	$1,111,491	$132,182	14.99%

(a) Banking and Lending investment at December 31, 1995 excludes $55,301,000 invested by non-bank subsidiaries in auto loans, but pre-tax results include the profits from such loans.

(b) We ask you to pay attention here; these return percentages are based on the year end 1994 investment balance.

The assets under Subtotal, Operating Companies are mature Operating Companies. In spite of the fact that one of them, Manufacturing, is still broken (more later), and Empire had a hiccup in 1995 (more later), these companies in total did well. When these two problems are resolved, they should do even better. The Operating Companies are completely decentralized and in the hands of managers of our choosing, who on most occasions do an outstanding job.

The second "company" is represented by the $411,712,000 invested in Work in Progress assets. These assets are in two categories: working assets and incubator assets. Some of the working assets are for sale, but not until we get a price which we believe represents their intrinsic value, others are being held because we believe their value will improve. The WMAC Companies are a good example of working assets. On the chart above they are reported separately for illustrative purposes. These two insurance companies were under the control of the Wisconsin Insurance Commissioner since we bought them with the Baldwin-United acquisition in 1986. We worked for nine years to get them liberated. In 1995 the Wisconsin Insurance Commissioner returned them to us and we reported a $41 million gain, which is not taxable.

The balance of the Work in Progress assets are incubator assets. These are assets which we think will grow over time; we give them attention and tender loving care. The real estate, Argentina, Russian and Jordan Company investments fit in this category as do occasional stock and bond investments, such as our holdings in the Rockefeller Center REIT, which is mentioned later.

In summary, our Operating Companies have high rates of return. Occasionally someone offers us a price significantly in excess of book value, which results in a very high return in the year this occurs, and is hopefully sheltered from tax by our net operating loss carryforwards and other tax attributes. We have Work in Progress assets which have low rates of return. Sometimes they are sold at a profit or metamorphose into high yielding Operating Companies; sometimes we sell them at a loss. These phenomena have resulted in annual rates of return which vary year to year but have over time produced satisfactory results. Hopefully this process will go on unabated.

Below is a chart of our earnings by business unit and following the chart, a discussion of each unit. There are no allocated costs for interest, accounting, portfolio management or for the 48 people in the corporate and executive headquarters which include the undersigned. These costs and the net costs associated with Work in Progress assets are accounted for in the Corporate section.

	1995	1994
	(Dollars in thousands)	
Property and Casualty Insurance:		
Colonial Penn:		
Operations	**$ 65,724**	$ 62,897
Net securities gains (losses)	**3,127**	(1,021)
Empire Insurance Company:		
Operations	**10,543**	36,943
Net securities gains (losses)	**(452)**	(2,427)
Total Property and Casualty Insurance:		
Operations	**76,267**	99,840
Net securities gains (losses)	**2,675**	(3,448)
Life Insurance:		
Operations	**51,848**	53,052
Net securities gains (losses)	**1,799**	(3,941)
Banking and Lending:		
Operations	**16,736**	16,302
Net securities gains (losses)	**0**	(2)
Manufacturing	**(18,044)**	(11,758)
Corporate and Other:		
Operations	**(14,652)**	(45,114)
Net securities gains (losses)	**15,553**	(4,613)
Subtotal, Income before tax:		
Operations	**112,155**	112,322
Net securities gains (losses)	**20,027**	(12,004)
Total pre-tax	**132,182**	100,318
Tax provision (a)	**(24,679)**	(29,482)
Total after tax	**$107,503**	$ 70,836

(a) Does not reflect the benefit of net operating loss carryforwards. See Note 14 of Notes to Consolidated Financial Statements for the excruciating explanation of our net operating loss carryforwards.

Property and Casualty Insurance Group

The Property and Casualty Insurance Group has two operating groups: Colonial Penn and Empire. Colonial Penn, headquartered in Valley Forge, Pennsylvania, is licensed in all 50 states and provides private passenger automobile and homeowners insurance to the mature adult population. Colonial Penn, as a direct marketer, deals directly with the public and endeavors to be the lowest cost provider to this market segment.

Empire, headquartered in New York City, operates in the New York metropolitan area. Through a network of independent agents and brokers, Empire provides both personal and commercial insurance products and continues to be successful in identifying and developing niche programs. Empire's expertise in its market has allowed it to secure a considerable amount of service work from other insurers which complements its voluntary insurance operations.

Property and Casualty Insurance Group Combined Ratio

	1995	1994	1993
Colonial Penn Group:			
Statutory accounting principles	**97.3%**	97.1%	89.7%
Generally accepted accounting principles	**97.0%**	96.1%	92.2%
Empire Group:			
Statutory accounting principles	**107.4%**	101.3%	101.4%
Generally accepted accounting principles	**113.0%**	103.5%	104.9%
Property and Casualty Insurance Group:			
Statutory accounting principles	**101.2%**	98.8%	93.7%
Generally accepted accounting principles	**103.5%**	99.1%	96.9%
Industry:			
Statutory accounting principles	**N/A**	108.5%	106.9%

Our goal, which we have stated before, is to have a combined ratio of no more than 100%. A combined ratio of 100% means that premiums equal the sum of claims, administrative expenses and underwriting expenses. Thus, if the combined ratio is 100% or less, the shareholders keep the after tax earnings on the invested reserves and the equity, which can be quite substantial on $1.9 billion of investments. Colonial Penn accomplished this goal for all three years while Empire struggles toward achieving the same goal. Normally, the industry as a whole does not do as well as either Colonial Penn or Empire.

Colonial Penn Property and Casualty

Colonial Penn Property and Casualty had a good year. A.M. Best upgraded the company to an A-. California did not fall into the Pacific Ocean and our part of Florida did not blow away, thus the year was relatively free of any major catastrophes which cost

$4.5 million for 1995, $17.4 million for 1994 and $7.2 million for 1993. The reinsurers had fewer losses in 1995 and we have reduced our exposures somewhat. As a result, we were able to buy more catastrophic coverage in 1996 for less money! We settled the California Proposition 103 litigation for an amount that was within our reserves.

Total written premiums have grown by 9%. Most importantly, voluntary auto reached crossover. At the end of the year we had 1% more voluntary auto policies than at the beginning of the year, with premium volume up 5.7%. Volume was up more than policyholder count because we are insuring slightly younger drivers with newer or more cars. This is a good thing. 1996 is an important year for Colonial Penn. The restructuring is complete. Harry Wulsin and his team have demonstrated their ability to grow the portfolio inexpensively. During 1996, their challenge is to increase the rate of growth without disrupting the excellent expense structure.

Empire

Empire had a dyspeptic year; here is what happened. For the last four years, Empire's premium volume has increased at a 10% average annual rate from $243.1 million in 1992 to $326.1 million in 1995. This caused an undue strain on our people and some of the systems proved to be antiquated. This is an old story in the P&C business and, with 20/20 hindsight, we might have known better and caught it sooner. Early in the year the New York State Insurance Department finalized a market conduct review which brought to light problems in our claims department. Further investigation verified these findings and corrective action was taken. In addition to paying a fine, Empire was required to reopen closed claim files. Significant additional claim amounts were paid and charged to expense. All this resulted in operating earnings of $10.5 million in 1995, as opposed to $36.9 million in 1994.

Given what had happened, we asked our actuaries what these difficulties implied about our level of reserves for existing claims and what it implied about the likely occurrence of future claims. Both of these questions are of vital interest to us and to them. It is central to the accuracy of our accounting.

Actuaries predict the future, not with a crystal ball, but rather by looking out the rear window of a fast moving car. If the car gets to its destination safely everything is fine. If it crashes, it's not their fault. Someone else was the driver. Three actuaries participated: our new actuary (the old one became a lawyer) and two actuarial consultants. It was reminiscent of the first act of *A Midsummer Night's Dream.* Actuaries are mathematical types, they are peculiarly inarticulate (think of the combination of Forrest Gump and the Rain Man) and their language is impenetrable to a lay person. After many meetings they agreed with one another that the reserve strengthening which ran through the income statement in 1995, along with the extra claims expense, has left Empire adequately reserved. We will watch very closely and hope to return to being so conservatively reserved that the other merry band of back seat drivers, the accountants, will complain! Rich Petitt has been named Chairman and Chief Executive of Empire. He has done a splendid job leading the Life Insurance Companies to profitability and growth. We are confident that Rich will do a similar job at Empire.

Life Insurance Group

We conduct our life insurance business through Colonial Penn Life headquartered in Philadelphia, Pennsylvania; Charter National Life in St. Louis, Missouri; and Intramerica Life Insurance in Pearl River, New York. Our principal life insurance product is a guaranteed issue policy sold directly to persons age 50 to 80 in face amounts of $350 to $10,000. We have over 900,000 policies in force. This is a predictable and profitable block of business.

In 1992, we sold $10.9 million of new annualized premium, $17 million in 1993, $20.5 million in 1994 and $21.8 million in 1995. At approximately $15 million per annum, the business grows. Critical to success is the cost of acquiring new business. Since our purchase of Colonial Penn in 1991, we have been able to add new premiums at half the previous acquisition cost. Business in 1995 produced 90,000 new policies.

Ed McMahon and Alex Trebeck are our spokesmen on television and through direct mail. Television is our primary source of leads.

The Life Insurance Group sells a no-load variable annuity product. Premiums are invested at the direction of the policyholder in a series of unaffiliated mutual funds (managed by Scudder, Stevens and Clark), where the policyholder bears the entire investment risk. Total assets were $323.2 million at the end of 1994 and $374.7 million at the end of this year.

Banking and Lending

The Company's banking and lending activities are conducted through its national bank subsidiary, American Investment Bank, N.A. (AIB); a Utah State chartered industrial loan corporation, American Investment Financial (AIF); and Transportation Capital Corp. (TCC), a New York based SSBIC.

AIB and AIF make auto, executive and professional loans primarily by mail. TCC makes loans secured by taxicab medallions in New York, Boston, Cambridge and Chicago. AIB and AIF deposits are insured by the FDIC.

AIB primarily offers auto loans to people with bad credit reports. We have done quite well with the program over the years and offer this service in 14 states throughout the country. In the last couple of years, significant competition began to enter the market. Several large, well financed financial institutions entered the market or bought competitors (at very large premiums) and several initial public offerings were funded. The competition has become increasingly intense, rates have fallen in the market and loan losses are up. From the borrowers point-of-view the choice is simple, go with the lower rate. We have decided not to lower rates but to let the business shrink. As a result, our volumes have fallen significantly. We have seen the arrival of inexperienced money before. This is a difficult business. Higher rates are required to make money. Over the next few years we hope that the competition will dwindle and our volumes will slowly return. If not, we will go on to something else. We have no desire to be a slender lender, a lender at inadequate rates.

This segment earned $16.7 million in 1995. We do not expect to do as well in 1996. Warren Mino and his team have their work cut out for them, for these may be the beginning of seven lean cow years.

Manufacturing

We have done very poorly with the manufacturing operations for the last several years and to our chagrin they have lost a lot of money. Operations were better in 1995 than the numbers suggest, as we explain below. Stephen C. Perry is the President of the Manufacturing Division with one year's tenure. So far, in spite of the dreadful results which he inherited from us, he is doing a superior job of returning these companies to profitability or selling them. This effort is continuing.

We have learned an expensive lesson in the last few years. We purchased these manufacturing companies inexpensively. We worked on them until they were in the aggregate making high returns on net invested assets. They performed admirably for a number of years. We were off doing other things. The scent of truffles is intoxicating. Then we made a series of disastrous personnel choices and a poorly executed facilities expansion, which we believe are now behind us. If you take our explanation with a grain of salt, we won't mind.

General Marble is the largest operating unit and the cause of much of the problems in recent years. Its primary product lines are cabinets and cultured marble sinktops for the bathroom sold primarily by home centers. For the first time since 1991, General Marble achieved profitability at the end of 1995, but incurred a loss for the year. Steve expects General Marble to be profitable in 1996. Our fingers are crossed.

The other large manufacturing unit is Conwed Plastics which makes plastic netting in configurations which allow it to be used for bagging, wrapping, bird and trellis netting, filtration, carpet backing, fencing, padding and various other products. Conwed Plastics enjoys a strong position in a number of its markets. It has been profitable for a number of years and is expected to remain so. It provides a satisfactory return on investment.

While the Manufacturing Division as a whole incurred a substantial loss once again in 1995, more than half of the loss was associated with Conwed Fibers, including $6 million related to the fire and closure of a plant in Riverside, New Jersey. Late in 1995, we decided to close the facility, pay the shutdown costs and sell the building and equipment. It made little sense to us to take what little insurance proceeds were left after the building was repaired and invest it in an operation with a suspect future. Several other units showed improvements in 1995; nevertheless, some declined in performance and will require Steve's increased attention in 1996. One of the small units, Designscape, was sold at a loss of $1.1 million.

Incentive Services

Leucadia's incentive services are offered by The Sperry and Hutchinson Company, Inc. (S&H). Since 1969, when annual sales peaked, the stamp business has been declining. It continues to do so profitably. As long as people continue to buy stamps and we can sell them profitably, we will continue to do so. Redemption of stamps is by mail or through redemption centers. Incentive services is now reported as part of Work in Progress assets. There it will live out its remaining years with other relics from previous acquisitions.

Real Estate

Last year we reported the acquisition of significant real estate investments. Since then prices have risen and we are no longer finding attractive purchases. We are concentrating on renovating, developing and marketing these properties for sale into what we hope will be a rising market. The condominiums on Harbor Drive in San Diego are selling reasonably well and the renovation of 685 Third Avenue in New York City is complete and marketing of the building will begin shortly.

Our last foray into real estate was Rockefeller Center Properties, Inc. We thought it was a good value up to $5.00 per share. We purchased 2.7 million shares at an average price of approximately $4.70 per share before the market went over $5.00 per share at which time we quit buying. An offer was made by a group headed by Goldman Sachs and David Rockefeller for $8.00 per share. We voted yes.

Most of the real estate projects are proceeding acceptably and hopefully will provide pleasant surprises in the future. Because real estate values can be so fickle, we are recognizing income conservatively. Real estate assets totaling $144 million live with the Work in Progress assets.

Russia

We have modified our strategy in Russia. When we began investing we bought positions in 31 companies for $25.0 million. Our book value of investments at year end is $39.7 million, accounted for on the cost recovery basis. Our intention was to investigate these companies, decide which were the most interesting, perhaps invest more, and give them help in obtaining access to western capital and expertise. The strategy was that of a merchant banker.

We are now investing in a larger opportunity with a more active operational responsibility (discussed below). We intend to reduce the number of portfolio investments to a smaller number of positions in larger companies that we expect to do well as the Russian economy grows. We are cheered by the prospects of investing in emerging markets and cautioned by the obvious risks.

We signed a letter of intent to become a 75% partner with PepsiCo, Inc. to become the Pepsi bottler for a large portion of central and eastern Russia plus Kazakhstan and Kyrgyzstan in Central Asia. This territory contains 92.0 million, hopefully thirsty people. This will be a significant investment for us ($79 million) and an exciting opportunity. Larry Hershfield will head this enterprise from his base in Moscow. We will keep you informed of our progress.

We own a significant position in Bratsky LPK, a large pulp and forestry operation in Siberia. At full output this facility can produce 2% of the world pulp demand with adequate forestry reserves to supply it. We would like to team up with an industry partner who would take a similar stake in the company and help them raise debt financing to upgrade the facilities. The facilities in question have a replacement cost of approximately $1.5 billion not including the forest reserves. We paid a modest amount for our stock.

Our 50% interest in Symskaya Exploration, Inc., a joint venture with Equity Oil Company (EQTY)[3], continues to drill its first exploratory well on a 1,100,000 acre license in the Karasnoyarsk region of Siberia. The well, to be drilled to 14,000 feet, is nearing total depth. We are drilling on a huge closed anticline. Logs and cores show the presence of hydrocarbon. We have not yet obtained evidence that we have discovered a commercial well. For a wildcat well in a wildcat basin, so far so good.

Our general attitude about Russia, which we expressed in last year's Report to Shareholders, has not changed. Russia is a place that is "out of favor" with companies "that are troubled" and are "selling substantially below the values which we believe are there." We may be a minority in believing that the current politics will not significantly change the ultimate transformation of Russia to a market economy. Time will tell if we are correct. Our Russian investments are in Work in Progress assets.

Latin America

We own a 30% investment in La Caja de Ahorro y Seguro, the largest insurance company in Argentina, and an over 23% position in Barbados Light and Power (not technically in Latin America, but close). Barbados provides about $500,000 in dividends on a $2 million investment.

La Caja has been completely restructured and during 1996 should contribute a decent return on our $45 million investment. Growth prospects for La Caja are attractive. We have maintained our 50% market share in the life business and have increased our auto business by $13 million per annum (approximately 7% growth) which puts us in the top three in market share. La Caja is starting a workers' compensation company in a joint venture with an experienced Chilean partner. Total revenues for 1995 were approximately $550 million. We did not report any earnings during the restructuring period. Argentina is just beginning to recover from a severe recession and the outlook is positive. These investments are in the Work in Progress assets category.

Other

Our investment portfolio of the insurance subsidiaries remain very defensively positioned with 94.2% in governments and investment grade credits with a duration of 3.2 years. The recent runup in interest rates reminds us that interest rates do not fall forever as they have been tending to do consistently since 1982. On balance, we prefer caution. In our investment portfolio, as in the truffle hunting business, there is too much money chasing too little yield.

We purchased 46.4% of MK Gold for $22.5 million or $2.50 per share. MK Gold has ownership interests in two gold mines in California. We are delighted that Frank Joklik,

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[3] Our fellow Director, Paul Dougan, is President/Chief Executive of Equity Oil Co.

recently retired Chief Executive of Kennecott Copper Corporation, has become Chief Executive of MK Gold. Frank is an energetic and gifted executive. We hope that under his leadership we can expand MK Gold's horizons geographically and metallurgically; although one of us is a gold bug and would be content to stay with gold.

In June of 1995 we sold $100,000,000 of 8.25% ten year senior subordinated notes.

Our relationship with the Jordan Company entities continues profitably.

In September of 1995 the Company netted $43.7 million, after expenses, from the exercise of warrants held by the undersigned and the sale of 478,200 shares by the Company. This transaction also resulted in a $20.1 million tax benefit to the Company.

On November 15, 1995 the Company split its common stock two-for-one and the $.25 per share dividend remained the same, thereby doubling it. Though our cash dividends only slightly affects overall return, many shareholders (including the two of us) love them.

Ollie Patrell, our P&C mentor and friend, retired at the end of the year. Ollie engineered a turnaround at Empire in 1982, before we purchased Baldwin-United. He was a key player in the acquisition and restructuring of Colonial Penn and La Caja. Ollie will remain a director of the P&C companies. We wish him and his wife Kay well in retirement.

To those of you who have read these missives for the last several years, we must appear to be genetically gloomy about the future. We are unreconstructed. We fear for the diminishment of our capital. Our government in Washington is disheveled. We observe with wonder and amazement the longest bull market in this century. Our investment advisor guru calculated the S&P 500's fifty year averages for price/dividends, price/book, price/earnings and price/cash flow ratios. At year end 1995, the S&P would have to fall anywhere from 21% to 52% to return to these historic averages. How high can up be? When will the business cycle bicycle in the other direction? We are greatly assisted in these deliberations by Leucadia's hard working employees and our patient advisors.

More next year.

IAN M. CUMMING
Chairman

JOSEPH S. STEINBERG
President

1996

Letter from the Chairman and President

To Our Shareholders,

We are writing to you at the beginning of September. In prior years we would have held our annual meeting by this time. We delayed the annual meeting and this report to the shareholders due to the pending sales of the Colonial Penn companies.

In 1996, we earned $48,677,000 after tax, or $.80 per share, an anemic 4.4% return on 1995's ending equity. Net worth was $1.118 billion or $18.51 per share. The stock price at the end of the year was $26.75. This represents a 27.0% return per annum on book value per share since December 31, 1979, shortly after this management took over, and a 28.8% return per annum on the stock price since December 31, 1979. (The net worth on December 31, 1978 was a negative $7.7 million; it is impossible to calculate a compounding rate of return on a negative number.)

While the return for 1996 was less than we would have liked, we are still satisfied with the long-term results. We have been following the same strategy for six months shy of 20 years. We repeat that strategy below. To our long-term shareholders we apologize for the endless repetition of the explanation of Leucadia's strategy, but it best explains what we do.

> "We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated."[1]

We have been single-minded in the implementation of this strategy. When we have strayed from this philosophy, more often than not, we have regretted it.

The chart which follows chronicles the results since we began. Some years are good and some years are terrible, but we hope you are pleased with the overall results. We are.

[1] Originally reported in the 1988 annual report. Subsequently repeated in 1990, 1991 and 1995 annual reports.

	Book Value Per Share	Book Value % Change	Market Price Per Share	Market Price % Change	Equity	Annual Return on Beginning Equity	Net Income (Loss)
	(Dollars in thousands, except per share amounts)						
Historical:							
1978	$(0.11)	NA	$ 0.08	NA	$ (7,657)	NA	$ (2,225)
1979	0.32	NM	0.36	350.0 %	22,945	NM	19,058
1980	0.34	6.3 %	0.28	(22.2)%	24,917	8.2 %	1,879
1981	0.42	23.5 %	0.55	96.4 %	23,997	30.2 %	7,519
1982	1.07	154.8 %	0.97	76.4 %	61,178	153.6 %	36,866
1983	1.28	19.6 %	1.42	46.4 %	73,498	29.4 %	18,009
1984	2.22	73.4 %	2.39	68.3 %	126,097	82.8 %	60,891
1985	2.49	12.2 %	2.91	21.8 %	151,033	18.6 %	23,503
1986	3.79	52.2 %	4.25	46.0 %	214,587	51.7 %	78,151
1987	3.34	(11.9)%	2.44	(42.6)%	180,408	(8.5)%	(18,144)
1988	3.84	15.0 %	3.59	47.1 %	206,912	11.8 %	21,333
1989	4.92	28.1 %	5.34	48.7 %	257,735	31.1 %	64,311
1990	5.91	20.1 %	5.69	6.6 %	268,567	18.4 %	47,340
1991	7.95	34.5 %	9.22	62.0 %	365,495	35.3 %	94,830
1992	11.06	39.1 %	19.75	114.2 %	618,161	35.7 %	130,607
1993	16.27	47.1 %	20.50	3.8 %	907,856	39.7 %	245,454
1994	15.72	(3.4)%	22.25	8.5 %	881,815	7.8 %	70,836
1995	18.47	17.5 %	25.00	12.4 %	1,111,491	12.2 %	107,503
1996	18.51	0.2 %	26.75	7.0 %	1,118,107	4.4 %	48,677
Pro Forma June 30, 1997 (a)	29.60	59.9 %	30.94	15.7 %	1,822,153	60.8 %	680,052
CAGR (1979-96) (b)(c)		27.0 %		28.8 %		25.7 %	
CAGR (1979-Pro Forma June 30, 1997) (a)(b)(c)		29.5 %		29.0 %		28.4 %	

(a) The pro forma amounts shown above for June 30, 1997 (other than market price per share) reflect the pending sale of the Colonial Penn Life Group and the proposed sale of the Colonial Penn P&C Group as if such transactions had been consummated on June 30, 1997.
(b) A negative number cannot be compounded; therefore, we have used 1979.
(c) Compounded Annual Growth Rate (CAGR)

The line in the chart above, "Pro Forma June 30, 1997," requires an explanation. On April 2, 1997, we issued a press release stating that we were in discussions with potential purchasers of one or more of our insurance companies. These negotiations resulted in the signing of contracts for the sale of both of the Colonial Penn companies for proceeds in excess of $1.4 billion. The Pro Forma June 30, 1997 line reflects information as if these sales would have been recorded on June 30, 1997. It shows net income of $680 million and a 60.8% increase in beginning equity to $1.822 billion. Both sales are currently expected to close by the end of October or early November.

Since we bought the Colonial Penn companies in the summer of 1991 for $127.9 million, they have been ably managed by Ollie Patrell, Harry Wulsin, Rich Petitt, Greg Barstead, and others. Together we have all worked very hard to make these entities more profitable. The companies have paid to Leucadia tax-sharing payments, management fees, interest, and dividends totaling $300 million. This, plus the proceeds from the sales, adds up to approximately $1.77 billion pre-tax. In addition, we retain ownership of a small insurance company with a $33 million GAAP net worth at June 30, 1997. This is a remarkable result and a significant return on investment, approximately 75% per annum.

In the venture capital business, where we began our careers, we developed the belief that the science is in investing and the art is in selling. Art in the sense of the ineffable human ability to collect and integrate vast amounts of unrelated information and in some mysterious way arrive at an opinion as to whether to hold or to sell. Over the years, we have learned to depend upon this process.

In deciding whether or not to sell the Colonial Penn companies, we availed ourselves to both science and art. We hired Jefferies & Company to provide a fairness opinion on one of these transactions. The results of their analysis can be found in the proxy statement.

Our personal thinking went something like this. Colonial Penn Property & Casualty sells auto insurance direct to the consumer. Current conventional wisdom is that direct marketing of insurance is the wave of the future. Direct marketing companies are much in demand and lots of money is pouring into the business. GEICO, General Electric, Progressive, and others will become ferocious competitors. When the giants start to rumble, price pressure cannot be far behind. Large marketing expenses in the hope of establishing large market share and increased profitability is not our forte. Several times we have participated in market segments into which large amounts of new capital flowed. The first time was when we owned James Talcott Factors in the early 1980s. The big banks decided to go into factoring and the business became less profitable. The current example is the substandard credit auto lending business. Too much capital flowing into market niches makes for a miserable, frustrating experience.

Since auto insurance is not a particularly growing market, the only place to get new customers is from a competitor. We are afraid that in the future making money in the auto insurance business will be like picking up pennies in front of a steamroller—dangerous and not significantly rewarding. For a total of over one billion dollars, 2.6 times GAAP book, 3.2 times statutory book, and 24.1 times after-tax earnings, a sale was the better part of valor.

Colonial Penn Life has one principal product line, Graded Benefit Life, which is a guaranteed issue, modified whole life policy offered to individuals 50 to 80 years of age, principally in face amounts of $350 to $10,000. The target market is small, price sensitive, and over the last five years has grown slowly. In 1996, new premium was $22 million; it takes $15 million per year just to maintain the book of business. Without new products and a massive investment in marketing, against the significant headwind from already better established competitors, we did not think we could make the life company grow in a meaningful way. We are finders of undervalued investments and fixers of things, not great marketers. $460 million is 3.1 times GAAP book, 5.8 times statutory book, and 14.7 times 1996 earnings after tax. Looks good to us.

After analyzing the marketplace to compare prices paid for similar companies and gazing into the future as best we could, we decided that prices had reached advantageous levels and thus decided to sell. The ugly ducklings had become swans.

The chart which follows shows, on a pro forma basis, the effect of the sales on the balance sheet, followed by a review of our remaining companies and assets.

Unaudited Pro Forma Consolidated Balance Sheet
June 30, 1997

	Historical (a)	Adjustments for Colonial Penn Life Sale	Adjustments for Colonial Penn Property & Casualty Sale	Pro Forma After Both Sales
		(In thousands)		
Assets:				
Investments	$3,011,487	$(660,568)	$(997,279)	$1,353,640
Cash and cash equivalents	361,106	(41,798)	928,885	1,248,193
Reinsurance receivable, net	265,242	(18,585)	(61,811)	184,846
Conseco notes secured by letters of credit		400,000		400,000
Trade, notes and other receivables, net	569,379	(3,836)	(151,241)	414,302
Prepaids and other assets	195,254	(1,131)	(10,655)	183,468
Property, equipment and leasehold improvements, net	99,384	(9,992)	(19,595)	69,797
Deferred policy acquisition costs	112,112	(69,591)	(15,372)	27,149
Separate and variable accounts	622,022	(114,419)		507,603
Investments in associated companies	207,874		(3,842)	204,032
Total assets	$5,443,860	$(519,920)	$(330,910)	$4,593,030
Liabilities:				
Customer banking deposits	$ 200,170			$ 200,170
Trade payables and expense accruals	201,975	$ (30,423)	$ (41,564)	129,988
Other liabilities	139,184	(9,942)	(39,173)	90,069
Income taxes payable	51,536	14,067	166,978	232,581
Deferred income taxes	(99,137)	95,020	58,487	54,370
Policy reserves	1,934,592	(683,473)	(582,353)	668,766
Unearned premiums	463,978	(8,301)	(304,113)	151,564
Separate and variable accounts	622,022	(114,419)		507,603
Debt, including current maturities	581,653	(2,269)	(3,135)	576,249
Total liabilities	4,095,973	(739,740)	(744,873)	2,611,360
Minority interest	9,517	—	—	9,517
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debt securities of the Company	150,000	—	—	150,000
Shareholders' equity:				
Common shares	61,553			61,553
Additional paid-in capital	190,674			190,674
Net unrealized (loss) on investments	(5,030)			(5,030)
Retained earnings	941,173	219,820	413,963	1,574,956
Total shareholders' equity	1,188,370	219,820	413,963	1,822,153
Total	$5,443,860	$(519,920)	$(330,910)	$4,593,030

(a) The "Historical" column has been adjusted as if the Colonial Penn Life Group were a continuing operation; this is not in accordance with generally accepted accounting principles.

(b) As in the past, this report to you is accompanied by a copy of our 1996 Form 10-K which we issued in March 1997. The Proxy Statement also incorporates a copy of our 1996 Form 10-K, as well as a set of restated 1996 financial statements that reflect the sale of the Colonial Penn Life Group as a discontinued operation. In the near future, we will restate the restated 1996 financial statements to reflect the sale of the Colonial Penn Property & Casualty Group as a discontinued operation. All of these sets of numbers are required by SEC rules in order to keep our shareholders well informed. If you feel more confused than informed, we understand.

Empire Insurance Company

Last year we told you Empire had dyspepsia and explained what we thought had happened. We reported that in 1995, we added $35 million to reserves and that such an adjustment would be sufficient. Regrettably, this year we are reporting we were wrong. We have added an additional $28 million to reserves and, as a result, Empire reported only $11 million of operating earnings.

In March 1996, Rich Petitt, a long-time Leucadia executive was asked to run Empire and turn over day-to-day supervision of Colonial Penn Life to others. He and his new team initiated a thorough review of the company, paying particular attention to why there had been a need for such extensive reserve strengthening.

Are the problems behind us? The new management has done a detailed file review to ascertain if the amount of claim reserves are at realistic levels. Reserves were increased when found to be inadequate. Another step was to accelerate claim handling. Settlements are now being made through more efficient use of personnel, innovative evaluation and disposition techniques, and better supervision. Early 1997 indications are that adverse claim development in primarily 1995 and older accident years continues. By the end of 1997, however, things should be clearer. Will further reserve strengthening be necessary? Until the majority of these old claims with inadequate reserves are worked through the system we will not know for sure.

In addition to the above, and adding to the difficulties, was a woefully inadequate management information system. New software has been ordered and is being installed. More competent MIS management has been hired.

All of the above dishevelment and change has been difficult. We are grateful to Rich Petitt and his team for the long, frustrating hours of digging, diagnosing and designing the cure. The necessary changes and improvements are well underway.

Empire is in a specialized market: Manhattan and the other boroughs of New York City. If we can become the most efficient and lowest cost producer in that huge market, we will do very well. Time will tell—we have been sorely disappointed and embarrassed.

Banking and Lending

The Company's banking and lending operations are conducted through its national bank subsidiary, American Investment Bank, N.A. (AIB), and a Utah state chartered industrial loan corporation, American Investment Financial (AIF). AIB and AIF both make executive and professional loans primarily by mail. Subprime auto loans make up about one-third of AIB's assets. AIF has shifted its attention to boat and recreation vehicle loan products, in addition to beginning to cautiously make Small Business Administration (SBA) guaranteed loans. Conway Hansen has joined our organization with 16 years of experience in this field. We are optimistic that this will be a profitable addition to our niche banking activities.

One depressing tangible illustration, however, of the current state of consumer banking is the number of mailers each of us receives offering credit cards, home equity loans, and unsecured lines of credit. In our view, the consumer lending business has become overly competitive and the returns do not warrant the risks. Lenders are in a bidding war to convince customers at virtually every income level to borrow more and more. This easy access to credit allows borrowers to control their own debt ratios to an unprecedented degree. Not surprisingly, we now read of skyrocketing delinquencies and bankruptcies.

These trends have hit our subprime auto program especially hard. In keeping with the plan we announced last year, we are shrinking the portfolio rather than chase after business with inadequate rates and excessive losses. Most of our competition securitizes their loans. As capital markets respond to the poor performance of the loans backing these securities, we expect funds available in the market to dwindle and rates to rise. Until then, we intend to approve loans cautiously, make prudent program changes, increase our loan loss reserves, closely monitor the debt ratios of our borrowers, and pay even more attention to servicing and collecting our existing portfolio. This will reduce earnings in the short run but will position our lending operations to take advantage of opportunities arising from the inevitable shakeout in the industry. These same problems are evident, but to a lesser degree, in our executive loan programs. We persevere by keeping rates and underwriting standards where they need to be, even if it means shrinking the portfolios. We don't expect any improvement in the auto loan business in 1997. Three large auto competitors have gone bankrupt, but there is still no shortage of silly money about. Wall Street has yet to feel the pain; when it does, the business will improve. We maintain the perhaps naive hope that this Alice in Wonderland substandard lending market will return to economic rationality.

Our banking and lending operations had operating earnings of $14.5 million in 1996. We do not expect to do as well in 1997.

We changed management at American Investment Bank. H.E. Scruggs is the new CEO. He and his new team have their work cut out for them.

Manufacturing

Since 1991, we have been making excuses for the manufacturing companies. We promised that if we couldn't make them sufficiently profitable we would sell or liquidate them. There used to be nine companies, now there are three and they are profitable. In 1996, this division made a tiny profit. Stephen C. Perry, president of the manufacturing division, continues to do yeoman service cleaning up a mess not of his making. The problems are not all behind us.

Conwed Plastics, a maker of plastic netting, while adequately profitable, is not growing fast enough. General Marble was bestowed a "Partner of the Year Award" by The Home Depot, our largest customer. General Marble's hardworking management is to be commended. They have come a long way in producing a quality product with fast and responsive delivery, but we must continue to improve and broaden our customer base. It is, however, akin to being given a prize by a scorpion. Prizes today, and then ruthless demands for price reduction tomorrow. Electri-Cord, albeit profitable, is not predictably so. Management is currently negotiating to purchase the company.

Steve has also taken on responsibility for what remains of the Sperry and Hutchinson Company and the wineries (more later). He has become a valuable addition to our executive ranks.

Wineries

Several years ago we made a small investment in a winery purchased from the FDIC. Over the years our investment has grown and we are now the proud principal owners, together with Gary and Nancy Andrus, of Pine Ridge Winery located in Napa Valley, California. We are also developing a new winery, Archery Summit, in Dayton, Oregon. Both wineries produce premium wines. Pine Ridge produces 75,000 cases per year and has sufficient capacity, in a theoretically perfect year, to produce up to 100,000 cases of Cabernet, Merlot, Chardonnay, and Chenin Blanc. Archery Summit, when at full production, will produce 15,000 cases of very expensive, exquisite Pinot Noir.

We have been buying land and shortly will have enough of our own grapes to meet all our needs. We made a small operating profit in 1996 which we expect will increase. There is a shortage of premium wine in the market and Pine Ridge has been able to raise prices. Our managing partner Gary Andrus is a gifted winemaker and his wife Nancy, when not on her motorcycle, is a very effective head of marketing.

We encourage our shareholders to entreat your favorite restaurant and wine store to carry these delicious wines! If you cannot find the wine locally, telephone the winery at 1-800-486-0503, or stop by and visit the beautiful tasting rooms and caves.

Russia

Our participation in the Russian economy is in two parts. We have an investment portfolio of traded equity securities intended to track the hoped for improvements in the Russian economy. We account for these securities on a cost recovery basis, i.e., on a sale no profit is recognized, if there be one. Instead, when securities are sold, the proceeds are applied to the cost of the portfolio, thereby reducing our carrying value. At June 30, 1997, our net cost in the portfolio was $22.3 million and its approximate market value was $83.4 million. These are chickens we don't count before they hatch.

In April 1996, we formed a joint venture with the Pepsi Cola Company. We have 75% and have expended $79.5 million. Pepsi has 25% and has invested $26.5 million in our joint company, Pepsi International Bottlers. In July 1997, Leucadia, PepsiCo and Pepsi International Bottlers entered into loan agreements with third-party lenders, primarily the European Bank for Reconstruction and Development and the International Finance Corporation (a subsidiary of the World Bank), to provide $90 million in additional financing.

Larry Hershfield is putting together an excellent team in Russia. The difficulties, however, of installing a manufacturing and distribution operation that spans nine time zones, from just east of Moscow to Vladivostok, cannot be underestimated. For 70 years this was a centrally-planned economy. Now it has opened itself up to the rough and tumble of the free market. Old regulations die a slow death and don't apply to the current realities. By and large, the Russian bureaucracy recognizes the need to change—they just don't know what to do while they wait. New laws and regulations are desperately needed but are painfully slow in coming. These problems, not to mention Coke, make life interesting, albeit frustrating. At June 30, 1997, our investment was $44.7 million, net of operating losses to date. We expect to invest further in this venture. Per capita soft drink consumption is only 35 servings in our market area versus 850 in the

United States and 270 in Hungary. As the economy improves, we expect the consumer to become thirstier.

Argentina

The Company owns a 30% interest in La Caja de Ahorro y Seguro S.A. ("La Caja"), a holding company for a life insurance company, a property and casualty insurance company, and a bank. Our Argentine partners, the Werthein family, also hold a 30% interest.

La Caja, from its offices nationwide, distributes auto and life insurance on a direct basis (not paying commissions to agents) and is a leader in its markets. The company has total annual premiums of $500 million and total assets of $640 million. La Caja was acquired in 1995 in a privatization in which the government of Argentina retains 30% and the employees 10%. Much work has been done by La Caja's excellent management to improve all aspects of the company's operations, including strengthening insurance reserves. At December 31, 1996, the investment was carried on our books at $44.3 million. Leucadia's equity in La Caja's results of operations since acquisition is not material. We expect significant progress in the next few years.

Real Estate

In July 1996, we committed to invest $25 million in a mixed use project known as Renaissance Plaza in Brooklyn, New York. We own a 57.5% equity interest in the 809,000 square foot office building and garage, and a 16% interest in the 384 room Marriott Hotel. Completion is scheduled for 1998. The Empire Insurance Group and the City of New York will be the major tenants in the building. Empire will receive $36 million in present value benefits, primarily from New York City, plus a very favorable long-term lease.

In 1994, we purchased for $50.8 million a 615,000 square foot building at 685 Third Avenue in New York City. We invested in a new lobby and reskinned the outside of the building. On June 30, 1997, the building was sold for $100 million and a $35.6 million pre-tax gain was recorded.

Also in 1994, we purchased out-of-bankruptcy two 41-story condominium towers across from the convention center in San Diego, California, known as The Harbor Club. Of the 201 residential units in the building, 127 have been sold or are under contract for sale. Of the 42,000 square feet of commercial space, 7,500 square feet is leased. It now appears that when this project is complete, the return will be in the single digits. We paid too much!

Our 46% interest in 30 North LaSalle in Chicago, Illinois, was sold for a pre-tax profit of $8 million which is a 30% return per annum on our investment.

Several small parcels of land have been sold. A large land development project, again purchased out-of-bankruptcy, in San Diego County, California, with 3,400 lots, is perilously close to the completion of entitlements. When entitlements are final, we will determine whether to sell the project or to partially develop it for sale to builders. There is a shortage of entitled lots in San Diego.

Real estate prices are high and going higher—we are sellers. We have approximately $99 million invested in real estate at June 30, 1997.

Money

In October 1996, the Company sold $135 million of 7⅞% Senior Subordinated Notes, due in 2006. This money was used to purchase $102.7 million of the Company's 10⅜% Senior Subordinated Notes, due in 2002. This redemption resulted in a fourth quarter 1996 loss of $6.8 million, net of income tax. The remaining 10⅜% Notes were redeemed or bought in the open market by June 1997. This refinancing will result in an annual expense savings of $2.6 million. In January 1997, the Company sold $150 million of 8.65% trust issued preferred securities, due in January 2027, of its wholly-owned subsidiary Leucadia Capital Trust I. The Company fully and unconditionally guarantees the Trust's obligations.

In March 1997, the Company called for redemption all of its outstanding $100 million 5¼% Convertible Subordinated Debentures due 2003, at a redemption price of 102.625%. We issued 3,258,145 new shares and $6.3 million par value we redeemed for cash. We wish to welcome those of you who are new shareholders.

Our relationship with The Jordan Company and its affiliates has been renewed for three more years and continues harmoniously and successfully. Thank you Jay Jordan and David Zalaznick.

MK Gold, of which we own 46%, has one gold mine in operation at present and is prospecting for opportunities. Gold prices are down, which makes new developments more difficult.

During 1996, the Company did not use its $150 million credit agreement. In February 1997, we replaced this credit facility with a new contractual bank credit facility of $200 million, bearing interest at prime or LIBOR, which will mature in February 2002. When both insurance company transactions close, we will need to renegotiate our bank lines.

We have been asked several times whether success has dampened our enthusiasm and motivation to continue. We have both become vastly more successful (politically correct-speak for richer) than we ever dreamed. We have smart employees, energetic advisors, capital galore, companies, real estate, Barbados Power, Argentine investments, banks and insurance companies, vineyards, gold mines, bottling plants, and unprecedented opportunities. We are in a period of global expansion, free market economics are in vogue and we are enthusiastic practitioners thereof. The global sand pile is an interesting place and, until slowed by the vicissitudes of old age, the current plan is to continue. Why not, this is fun! If we decide to stop, you will be told immediately.

A note of caution to the above enthusiasm is in order. Valuations of almost everything are at an all time high or thereabouts. The investing we do is difficult in times like these. After the sale transactions close, we will be a company with piles of cash, credit availability, and various operating businesses and investments. We will not let the money burn a hole in our pockets. Circumstances may dictate inaction for a considerable period. We are prepared for that—you should be, too.

A very special thank you to the hardworking, intelligent and dedicated employees of the Colonial Penn companies. They are largely responsible for making these companies so valuable. We wish them well. Usually at the end of this report to you we discuss our attitude toward the economy, interest rates, and price levels. This year our actions speak louder than words.

We regret to report the recent death of our Vice President and Corporate Secretary, Ruth Klindtworth. Ruth joined the Company in 1960, long before either of us. She was loyal, capable, and hardworking. In our early days at Talcott one of us, in a moment of poor judgment, tried to fire Ruth. She indignantly refused to be fired and put the offender in his proper place—thank goodness. She was our historian and friend. We will miss her.

As we approach our twentieth anniversary of directing Leucadia's affairs, a special thanks to all those who help with long hours, weekend interruptions, and holiday cancellations. Without them, it would not have been possible.

IAN M. CUMMING
Chairman

JOSEPH S. STEINBERG
President

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Letter from the Chairman and President

To Our Shareholders

In 1997, the Company earned $661.8 million after tax, or $10.64 per share, an extraordinary 59% return on 1996 ending equity. Net worth at year end was $1.9 billion or $29.17 per share. The stock price as of this writing is $38.38 per share, compared with $26.75 per share at the end of 1996.

We are writing to you in early April this year, back to the old rhythm of a spring shareholders' meeting which was pleasantly disrupted by the pending sales last year of the Colonial Penn Life and Colonial Penn Property & Casualty companies. The good fortune of these sales, which were discussed in last year's report, are recapped on page 1 of the 10-K, which is attached to this report.

We are reminded that current senior management started this adventure in 1978, one of us in June and the other in December; it is our twentieth anniversary at the helm of Leucadia. What follows is a chart which reviews those twenty years. Since December 1979, equity has compounded from $22.9 million to $1.9 billion, a 27.7% compounded annual rate of return. The stock price, adjusted for stock splits, increased from $0.08 to $34.50, a 37.6% compounded return (see chart below). Some of those years were lean and others fat; we are pleased with the overall results and hope you are as well. We doubt we can do as well in the future; this engenders some interesting questions, which we will discuss later.

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	Market Price Per Share	Market Price % Change	Equity	Annual Return on Beginning Equity	Net Income (Loss)
1978	$ (0.11)	NA	$ 0.08	NA	$ (7,657)	NA	$ (2,225)
1979	0.32	NM	0.36	350.0 %	22,945	NM	19,058
1980	0.34	6.3 %	0.28	(22.2)%	24,917	8.2 %	1,879
1981	0.42	23.5 %	0.55	96.4 %	23,997	30.2 %	7,519
1982	1.07	154.8 %	0.97	76.4 %	61,178	153.6 %	36,866
1983	1.28	19.6 %	1.42	46.4 %	73,498	29.4 %	18,009
1984	2.22	73.4 %	2.39	68.3 %	126,097	82.8 %	60,891
1985	2.49	12.2 %	2.91	21.8 %	151,033	18.6 %	23,503
1986	3.79	52.2 %	4.25	46.0 %	214,587	51.7 %	78,151
1987	3.34	(11.9)%	2.44	(42.6)%	180,408	(8.5)%	(18,144)
1988	3.84	15.0 %	3.59	47.1 %	206,912	11.8 %	21,333
1989	4.92	28.1 %	5.34	48.7 %	257,735	31.1 %	64,311
1990	5.91	20.1 %	5.69	6.6 %	268,567	18.4 %	47,340
1991	7.95	34.5 %	9.22	62.0 %	365,495	35.3 %	94,830
1992	11.06	39.1 %	19.75	114.2 %	618,161	35.7 %	130,607
1993	16.27	47.1 %	20.50	3.8 %	907,856	39.7 %	245,454
1994	15.72	(3.4)%	22.25	8.5 %	881,815	7.8 %	70,836
1995	18.47	17.5 %	25.00	12.4 %	1,111,491	12.2 %	107,503
1996	18.51	0.2 %	26.75	7.0 %	1,118,107	4.4 %	48,677
1997	29.17	57.6 %	34.50	29.0 %	1,863,531	59.2 %	661,815
CAGR (1978-1997) (a)			37.6%				
CAGR (1979-1997) (a)(b)	28.5%				27.7%		

(a) Compounded Annual Growth Rate (CAGR)
(b) A negative number cannot be compounded; therefore, we have used 1979.

Empire Insurance Company

In 1995, we told you Empire had dyspepsia and we reported having to strengthen reserves by $35 million. In 1996, we reported we were again strengthening reserves by $28 million. This year we are reporting the addition of another $27 million to reserves. As you might suppose, adding to reserves reduces reported income by a like amount. At this point, you ought to be exasperated at our inability to get this right! We are also exasperated and embarrassed. What follows is a progress report.

For the last three years at Empire, when the actuaries looked at current results versus what we and they had expected, claims were higher and the costs associated with settling the claims higher as well. This result has a nasty two-pronged effect. Not only must reserves for past years be revised upward, but it also calls into question the accuracy of the reserves being established on current business and the pricing of that business. What caused this to happen?

Empire's earned premiums grew from $211 million in 1991 to $326 million in 1995. Rapid growth is a good thing only if people, systems and procedures are in place to handle the increasing volume and, most importantly, only if appropriate prices are charged. In retrospect, we were chasing unprofitable business and our systems and people were not up to the challenge. Without realizing it, Empire was having a sale. Not surprisingly, customers took advantage. To make matters worse, a few of our less than faithful agents, sensing weakness and wanting to take advantage of our inadequate pricing, sent us business that we should have turned down, but did not.

We are improving all the working parts of Empire. Are we making progress—yes. Are we there—we don't know. Tomorrow's settlements will provide statistical fodder to test the accuracy of current pricing, underwriting, etc. In the midst of these problems, Empire eked out a small profit in 1997 of $1.4 million pre-tax. Rich Petitt and his team continue working long hours to complete the task; there are signs of progress and we are cautiously optimistic. More next year.

Banking and Lending

The Company's banking and lending operations, with assets of $265 million at the end of 1997, are conducted through its national bank subsidiary, American Investment Bank, N.A. (AIB) and a Utah-State chartered Industrial Loan Corporation, American Investment Financial (AIF).

AIB and AIF are in semi-hibernation. In the past, in addition to other products, both made executive and professional loans by mail. While these programs were very profitable for many years, the huge number of credit offers which flood your mail box should give a clue as to why we have discontinued this business; too much money chasing too many over-borrowed borrowers. Subsequent to the end of 1997, substantially all of the executive and professional loans were sold at a premium. With these sales, subprime auto loans now make up the bulk of AIB's outstandings. AIB must struggle to reduce overhead without rendering itself incapable of growing if the market justifies expansion.

There may be some good news. AIB is in a strong position to maximize its opportunities arising from the shakeout underway in the subprime auto lending industry. In last year's report, we declared our hope that this Alice in Wonderland substandard lending market would return to economic rationality. Early indications suggest our hope was well placed and our strategy well timed. Volume is increasing and losses are under control. We did not surrender good judgment when the market was running away and we do not intend to do so now that it is heading in our direction. As other subprime auto lenders have faltered, we have been bidding on portfolios of loans. Reality is coming slowly to this market; we have not yet been successful bidders. Substandard auto portfolios looking for a new home, call Bud Scruggs at (801) 297-1040. Bud and his new team are doing a good job.

The largest threat to both banks is a rapid deterioration in the credit climate. With 1.4 million bankruptcies filed in 1997, and 1998 on pace to exceed that record, anyone involved in consumer lending must keep an eye on the courthouse.

The biggest disappointment in 1997 was the settlement of a lawsuit against AIB, related to loans AIB purchased from a real estate syndicator who proved to be a crook and now resides in jail. We expected to be protected by our holder-in-due-course status. However, our lawyers were overly optimistic; the litigation went poorly enough so that we decided to settle rather than trust our fate to a class action lawsuit and a jury trial. The settlement and related legal expenses reduced AIB's 1997 pre-tax earnings by 38%. Our combined banking earnings for 1997 were $5.8 million pre-tax.

Manufacturing

Once there were nine small companies; now there is one: Conwed Plastics. All the other manufacturing companies have been sold or liquidated since they did not produce an adequate return on equity. Steve Perry, who competently managed these sales, has decided to pursue other career interests. We are grateful for his help.

Conwed Plastics earned $8.9 million pre-tax last year, a 38.4% return on equity. Our challenge is to increase Conwed's growth rate. Such challenges have not been our forte, but hope springs eternal! We are ably assisted by John Rosenberger and his experienced team.

Wineries

The wineries, Pine Ridge in Napa Valley, California, and Archery Summit in the Willamette Valley of Oregon, performed according to plan. Five years ago, cows grazed where now Archery Summit vineyards produce glorious Pinot Noir. Pine Ridge is continuing vineyard development to reach its planned capacity of 100,000 cases of high quality Cabernet and Chardonnay from our own vineyards. Though profitable, one juvenescent and one expanding winery are hard on earnings and cash flow in the short term.

Our wines offer extraordinary taste and value. We hope you will encourage your local restaurants and liquor stores to carry both wines. If you are in Napa Valley or Western Oregon, please call 1-800-486-0503 to arrange a visit to the caves and tasting rooms, or to locate availability in your area. You will surely enjoy the visit and the wine.

Gary and Nancy Andrus make the wine, sell the wine and create the buzz, which keeps our caves almost empty.

Russia

In April 1996, we formed a 75%/25% joint venture with the Pepsi Cola Company called Pepsi International Bottlers to manufacture and distribute Pepsi products in Russia, east of Moscow. This was a disappointing investment for us. Together with Pepsi, we determined that a merger with Pepsi's Moscow region made more sense than proceeding independently. The investment required for the future was beyond our willingness to participate.

Pepsi has an option to buy our remaining interest for a sum which exceeds our remaining book value by $25.3 million at December 31, 1997. We have a similar put right exercisable in 2000.

Our other Russian investments are shares in publicly traded companies and Russian government and corporate bonds. At December 31, 1997, the securities had a book value of $36 million and a market value of $85.5 million. These securities are a bet on the future of Russia and we remain cautiously optimistic.

Larry Hershfield, our Executive Vice President, has been living in Moscow since February 1995. He will continue on in Russia for the time being searching for new investments and minding the current ones.

Argentina

The Company owns a 30% interest in La Caja de Ahorro y Seguro S.A. (La Caja), a holding company for life insurance, property and casualty insurance, workers' compensation insurance and a bank.

We, along with our Argentine partners, the Werthein family, who also own 30%, were the successful bidders in the 1994 privatization of the government owned La Caja. The government retained 30% ownership and the employees 10%.

From its offices nationwide, La Caja distributes auto and life insurance on a direct basis (not paying commissions to agents) and is the leader in the Argentine market. A reminder, the Colonial Penn companies were also direct marketers.

In 1997, La Caja had total annual premiums of $586 million and total assets of $692 million, including banking operations. This investment is carried on our books at $45 million. In the three years since the privatization of this previously government-managed enterprise, La Caja has been subjected to a complete renovation. The initial head count was cut by 50%, systems and procedures overhauled, new accounting systems installed, new computer systems installed, and the main office moved from antiquated offices on Plaza de Congreso to new office space which was converted from industrial space to award-winning functional offices.

Ever mindful of the problems discussed in the Empire section of this report, at La Caja we are concentrating on efficient claims' handling and building reserves. We are not eager to recognize income until we and the actuaries are highly confident that the reserving practices are conservative and profits real.

Real Estate

As we mentioned last year, 685 Third Avenue in Manhattan, which we purchased in 1994, was sold on June 30, 1997 for $100 million. We recorded a $35.6 million pre-tax gain.

In 1994, we purchased out of bankruptcy two forty-one story condominium towers across from the convention center in San Diego, California. Of the 201 residential units in the building, at this writing 168 have been sold or are under contract for sale. Morton's of Chicago is our first commercial tenant. Our recent sellout rate has been faster than we expected. Kudos to Paul Borden and his team.

San Elijo Ranch, a very large land development project in San Diego County, California, purchased out of bankruptcy with 3,400 single family lots, is almost fully entitled. Lot sales should begin this year. The sooner the better—there is a shortage of single family lots in this particular part of California, interest rates are low, etc. After location, location, location—timing is everything.

Last year we told you of our commitment in July 1996 to invest up to $25 million in a mixed use project known as Renaissance Plaza, located in downtown Brooklyn, New York. The project consists of an 809,000 square foot office building, a 384 room Marriott Hotel, and an 1,100 space parking garage. We own 57.5% of the office building and garage and 16% of the hotel. Empire Insurance and the City of New York are the major tenants. Empire, to date, has received approximately $8 million of the approximately $36 million of present value benefits to which it is entitled for relocating to this site.

The project is on schedule for completion in September 1998. The parking garage is open, the hotel is scheduled for a July 4th grand opening, the City has started moving in, and Empire will relocate in September 1998. Barring unforeseen circumstances, this should be an excellent investment. Josh Muss, Luis Medeiros, Zalman Jacobs, Tom Mara and Mark Hornstein dreamed it, schemed it, and executed it!

Early in 1998, in another bankruptcy transaction, we purchased two buildings in Washington, D.C., hard by the U.S. Capitol, with approximately 630,000 square feet of office space for $23 million. The District of Columbia has committed to a ten-year lease and substantial renovation work will begin shortly. Our partner in this transaction is our old friend Chip Akridge, a surviving Washington real estate developer.

A lot development program on the beach in Rosemary Beach, Florida, ably managed by Patrick Bienvenue, is about to reach the magical cash break-even. Money will roll in from here on. We bought this real estate at a time when prices were advantageous—we are now sellers. And so the wheel turns.

At December 31, 1997, Leucadia's total investment in real estate was $93 million compared to $142 million at December 31, 1996.

Money and Other Things

In March 1997, we called the 5¼% debentures. $94 million was converted to 3,258,145 of common shares and $6 million was redeemed.

In January 1997, the Company sold $150 million aggregate liquidation amount of 8.65% trust issued preferred securities (TRUPS) of its wholly-owned subsidiary, Leucadia Capital Trust I, the dividends on which are tax deductible to the Company. These securities have an effective maturity date of January 15, 2027.

In February 1998, we agreed to reinsure our remaining life insurance business to Allstate Life Insurance Company for a premium of $30 million. The transaction should close in the second quarter of 1998. Under the accounting rules, we will not show any profit when the transaction closes. The profit will be reflected in the income statement over a number of years.

Our relationship with The Jordan Company was again very successful and extends through 1999. Jay Jordan and David Zalaznick manage a very successful LBO business, in which we participate.

At the time of this writing, the parent company had about $1.6 billion in cash, cash equivalents, and marketable liquid securities, plus $411 million of notes issued by Conseco, Inc. due in 2003, backed by bank letters of credit. A simplified way to look at Leucadia National at this time would be (in millions):

Corporate cash, cash equivalents and marketable securities	$ 1,579
Conseco notes receivable backed by bank letters of credit	411
Operating companies and other investments, net of certain liabilities	367
Total	2,357
Less: Debt	343
TRUPS	150
Net Worth	$ 1,864

(Actual at December 31, 1997 with certain pro forma adjustments.)

The investment in operating companies and other investments listed above are at cost, adjusted for earnings and dividends since acquisition. If the world doesn't change significantly, there are potential gains therein.

The Future Conundrum

For the past twenty years, we have done the same thing over and over again: purchased assets or companies which we thought to be undervalued and then worked hard to improve their cash flows and to realize the inherent value. If someone came along and offered us more than we felt those assets were worth in our hands, we sold, e.g., Colonial Penn.

The process has worked well for 20 years. Even through the boisterous '80s, when money was abundant and prices were rising, we still found nuggets of value. During the '90s, mining for value has become increasingly difficult. Prices are higher still and more money is created every day as the markets of the world continue to rise. An undervalued asset is like finding the proverbial needle in a haystack. We are going blind.

Higher prices inevitably mean lower returns. The consequences of miscalculation or mistake become more deadly as prices increase. Extreme caution is in order.

Since we are inherently curious and peripatetic, in the last few years, in search of higher returns, we have been to Russia, Guyana, Argentina, South Korea, Angola, the Kyrghyz Republic, Germany, Panama, the Congo, Holland, and other places. The story is much the same. On a risk-adjusted basis, returns are generally too low to justify investment. There is a vast amount of money sloshing around the world. As hard as we run, the hot money has beat us there. One of us predicts a very unhappy ending to this exuberance; the other doesn't know what to think.

Thus is our conundrum. Several alternatives are available.

- Do nothing. Keep our cash short and safe and wait until the old world returns. In the meantime, low returns are guaranteed.
- Do the above, but give the shareholders back a significant portion of their money. Perhaps individually you can do better than we think we can. At least we will worry less.
- Stop the merry-go-round and give all the money back on the theory that a 20-year run is a good one; the old world is unlikely to return soon, but for certain it will not be in exactly the same form. These dogs may be too old for new tricks.
- Some combination of the above.

We have been ruminating much about this of late. We are dithering; we will continue our ruminations. As soon as we have arrived at a conclusion, we will let you know. Call us if you have an opinion. A note of caution – if the right rabbit jumped in front of us, we might be singing a very different tune.

The past 20 years have been exhilarating and at times exhausting, but always fun and interesting, and our friendship goes on unabated. Without the constant loyalty and hard work of our employees and advisors, it would not have been possible nor as much fun. Our lawyer, trusted friend and advisor, Steve Jacobs, has blown retreat on his silver bugle many times and we have listened more often than not. For the above and much more, we are thankful.

Leucadia's stock price has enabled our fellow stockholder, friend and 14-year veteran, Rich Petitt, to leave Leucadia as soon as we find his replacement as CEO of Empire Insurance. He plans to go into business with his children, to build with them something he can leave with them. He richly deserves to pursue his dreams – we wish him much success and thanks.

Also, a special thank you this year to Assunta Leto, our long-suffering, multilingual assistant in New York who is the Leucadia employee with the greatest seniority. Since she is younger than her years, we won't mention exactly when she joined the Company.

Thanks also to our shareholders, many of you have been around since the beginning.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

PART II

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

(a) Market Information.

The Common Shares of the Company are traded on the New York Stock Exchange and Pacific Stock Exchange under the symbol LUK. The following table sets forth, for the calendar periods indicated, the high and low sales price per Common Share on the consolidated transaction reporting system, as reported by the Dow Jones Historical Stock Quote Reporter Service.

	Common Share	
	High	Low
1997		
First Quarter	$29.00	$25.75
Second Quarter	31.88	27.38
Third Quarter	34.75	31.00
Fourth Quarter	36.63	33.00
1998		
First Quarter	$41.13	$33.56
Second Quarter	40.13	32.81
Third Quarter	34.75	27.63
Fourth Quarter	32.38	26.25
1999		
First Quarter (through March 12, 1999)	$33.06	$29.50

(b) Holders.

As of March 12, 1999, there were approximately 3,685 record holders of the Common Shares.

(c) Dividends.

The Company paid a cash dividend of $.25 per Common Share on December 31, 1997. The payment of dividends in the future is subject to the discretion of the Board of Directors and will depend upon general business conditions, legal and contractual restrictions on the payment of dividends and other factors that the Board of Directors may deem to be relevant.

The HomeFed Dividend. The Company acquired a 41.2% interest in HomeFed in 1995. HomeFed is a publicly traded real estate development company (OTC (Non-NASDAQ): "HFDC") with its principal office at 1903 Wright Place, Suite 220, Carlsbad, California 92008 (telephone number 760-918-8200).

In 1998, the Company distributed to its shareholders of record on August 25, 1998 (the "HomeFed Dividend Holders") a pro rata dividend of all of the beneficial interests in a trust that holds 41.2% of the common stock of HomeFed and contracts to increase that ownership to 89.6% of HomeFed. This dividend resulted in 1998 dividend income to the HomeFed Dividend Holders of $.1426 for each Common Share of the Company held on August 25, 1998, even though no physical distribution was made because the trust interests are uncertificated. A Form 1099-DIV was sent to HomeFed Dividend Holders reflecting this distribution.

The Company anticipates that, following effectiveness of a registration statement to be filed with respect to the HomeFed shares, the HomeFed Dividend Holders will receive 1.0 share of HomeFed

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Ian M. Cumming, Chairman
Jeff K. Storey, President
(918) 547-6000

Health Services
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The Common Stock is listed for trading on the New York and Pacific Stock Exchanges under the symbol "LUK."

The 7¾% Senior Notes due 2013, the 7⅞% Senior Subordinated Notes due 2006 and the 8¼% Senior Subordinated Notes due 2005 are listed for trading on the New York Stock Exchange under the symbol "LUK."

The trademark is registered in the United States Patent and Trademark office.

1998

Financial Highlights

	1998	1997	1996
Revenues	$ 530,506,000	$ 630,737,000	$ 670,443,000
Net securities gains (losses)	$ (60,871,000)	$ 3,249,000	$ 24,117,000
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and extraordinary loss	$ 29,377,000	$ (24,238,000)	$ (48,187,000)
Income tax benefit	$ (25,073,000)	$ (9,891,000)	$ (19,326,000)
Minority expense of trust preferred securities, net of taxes	$ (8,248,000)	$ (7,942,000)	$ –
Income (loss) from continuing operations before extraordinary loss	$ 46,202,000	$ (22,289,000)	$ (28,861,000)
Income from discontinued operations, net of taxes	$ 8,141,000	$ 58,516,000	$ 84,376,000
Gain on disposal of discontinued operations, net of taxes	$ –	$ 627,645,000	$ –
Income before extraordinary loss	$ 54,343,000	$ 663,872,000	$ 55,515,000
Extraordinary loss from early extinguishment of debt, net of taxes	$ –	$ (2,057,000)	$ (6,838,000)
Net income	$ 54,343,000	$ 661,815,000	$ 48,677,000
Earnings (loss) per common share:			
Basic: Income (loss) from continuing operations before extraordinary loss	$ .73	$ (.36)	$ (.48)
Income from discontinued operations	$ .13	$ .94	$ 1.40
Gain on disposal of discontinued operations	$ –	$ 10.09	$ –
Extraordinary loss	$ –	$ (.03)	$ (.11)
Net income	$ .86	$ 10.64	$ .81
Diluted: Income (loss) from continuing operations before extraordinary loss	$ .73	$ (.36)	$ (.48)
Income from discontinued operations	$ .13	$ .94	$ 1.40
Gain on disposal of discontinued operations	$ –	$ 10.09	$ –
Extraordinary loss	$ –	$ (.03)	$ (.11)
Net income	$ .86	$ 10.64	$ .81
Total assets	$ 3,958,951,000	$ 3,745,336,000	$ 2,776,591,000
Cash and investments	$ 2,229,895,000	$ 2,453,555,000	$ 1,246,220,000
Common shareholders' equity	$ 1,853,159,000	$ 1,863,531,000	$ 1,118,107,000
Book value per common share	$ 29.90	$ 29.17	$ 18.51

Letter from the Chairman and President

To Our Shareholders

In 1998, the Company earned $54.3 million after tax, or $.86 per share, a 2.9% return on ending equity. Net worth ended the year at $1.85 billion or $29.90 per share. This represents a 27% return per annum of book value per share since December 31, 1979, shortly after this management took over. Market price of the stock was $31.50 at December 31, 1998 versus $34.50 at year-end 1997. During the waning months of 1998, and up until March 17, 1999, the Company purchased 3,734,970 Leucadia common shares in the open market at an average price of $29.50. Since 1978, and as of December 31, 1998, we have repurchased 37,316,491 shares (adjusted for splits), at an average price of $4.65. In addition to the repurchase of these shares, we have decided to dividend to the shareholders 44% of the 1998 year ending net worth as a capital gain. More about that, and plans for the future, after reviewing recent developments and current operations.

Empire Insurance Company

Empire Insurance has become our bête noir. Beginning in 1995, we have strengthened reserves by $131.5 million. It reminds us of the street in front of Empire's former office on Fifth Avenue in New York. A huge pothole appeared due to a large water main break. It took days and days to stop the flow of water and many tons of fill and asphalt to repair the street. We have periodically filled our pothole with money called reserves, but we are not sure the repair is going to hold. Empire, if nothing else, is a testimony to our persistence, if not our competence.

For the last four years, when the actuaries looked at current results and compared them with our previous predictions, they found more claims than expected, with the cost of settling the claims higher as well. These adverse developments have a nasty result. Reserves must be adjusted upward for past business and the loss predictions being used for current business are put in doubt.

Actuaries are naturally conservative folks. They are not interested in optimistic forecasts. This means that Empire will not be reporting earnings until we and they are sure the reserving problems are behind us. We hope that the understandable conservatism of our current reserving practices will have happier results in the future.

We continue to work on improving all the moving parts at Empire. To that end, we have hired Robert Toppi as the CEO. He has 30 years of insurance experience, a considerable amount of it in the New York City market. He is working hard to stabilize, reengineer and lower costs to fit a smaller sized operation, which will be the inevitable result of proper reserving and profitable pricing of our insurance products. Empire has in the past covered some of its overhead by acting as a servicing carrier for others and by purchasing assigned risk business. These opportunities have been dramatically reduced and are slowly disappearing. Empire's restructuring is made more difficult by the excess of capital in the property and casualty industry. As a result, many competitors are reaching for the incremental premium dollar hoping it will be marginally profitable. All of us involved in the Empire restructuring hope we are nearing the end of these difficult times. Let us pray!

Banking and Lending

The Company's banking and lending operations are conducted by its national bank subsidiary, American Investment Bank, N.A. (AIB), and a Utah state chartered Industrial Loan Corporation, American Investment Financial (AIF). This segment at December 31, 1998, had total assets of $269.3 million and total capital of $49.5 million.

AIB and AIF have been hibernating for the past several years. AIB's largest market segment, sub-prime auto lending, became inundated with competitors making substandard loans at standard interest rates, with, as you might expect, disastrous consequences. When this phenomenon began four years ago, AIB retreated and waited. During 1998, two things happened. The most irrational participants either withdrew from the market or were carried off by their creditors; those who remain have been pricing more sensibly. During this interregnum, AIB has improved its collection methods and has added a three-tiered risk-based pricing structure, installed new technology, paid great attention to static pool analysis (business is tracked every quarter throughout its life), and improved operating procedures. By the end of 1998, AIB and AIF were able to double their monthly loan volume. Preliminary review indicates the results are adequate and improving–the good economy has helped. Also during 1998, AIB acquired at a discount a $37 million portfolio of subprime auto loans, which will increase yield on assets and help amortize fixed costs. AIF's boat and recreational vehicle programs reached profitability. The Small Business Administration lending program is advancing slowly.

We have spoken before about the state of consumer banking. It has become overly competitive and over-loaned to already financially burdened consumers. In response to this problem, AIB and AIF made a timely exit from their executive and professional loan programs by selling in 1998 substantially all of their portfolios for a pre-tax gain of $6.5 million. In preparation for the meeting to consider the sale of executive and professional loan portfolios, AIB's chairman, H.E. "Bud" Scruggs, was overheard mumbling something about "credit Armageddon." Leucadia's general caution, conservatism, and fear for the future of financial assets is alive and well.

The banking entities posted pre-tax earnings of $13.9 million for 1998. Management, ably led by Bud Scruggs, maintained credit quality and managed risks, while taking advantage of windows of opportunity.

Manufacturing

Having sold all of our other manufacturing companies, Conwed Plastics is our only remaining manufacturing company. Its sales were up 11% year-over-year and profitability was up 10%. Lower raw material prices have provided an offset for higher depreciation costs resulting from needed plant expansions. Several new products have been introduced and we hope to increase efficiencies as Conwed continues to grow moderately. Congratulations to John Rosenberger and his team.

Winery

Our wineries, Pine Ridge in Napa Valley, California, and Archery Summit in the Willamette Valley of Oregon, performed according to plan. We continue to reinvest all of their cashflow in the improvements and expansion necessary to get to our target of about 115,000 cases of estate-bottled wine per year. At these levels, we believe there is an effective utilization of fixed assets. Last year we sold 62,000 cases of primarily estate-bottled wine. Estate–bottled wine, for you non-wine "geeks," is defined as wine made by the winery from grapes grown on vineyards farmed by the winery.

We are proud that the Pine Ridge 1996 Carneros Merlot was featured on the March 1999 cover of *Wine Enthusiast*, along with several other world-class wines, including Petrus. Call 1-800-486-0503 to arrange a visit to either winery or to locate suppliers in your area. Our wines are exceptional and you will bring glory to your name by encouraging your local restaurant and liquor store to carry both brands!

Gary and Nancy Andrus and their extraordinary staff continue to make, sell and improve the wine. The cellars are almost bare.

Argentina

Until March 18, 1999, the Company owned a 30% interest in Caja de Ahorro y Seguro, S.A. (La Caja), a Buenos Aires based holding company for life insurance, property and casualty insurance, workers' compensation insurance and a small bank. We acquired this interest for $46 million in 1994 along with our Argentine partner, the Werthein family, who also purchased a similar interest.

We have sold our interest to the Italian insurance company, Assicurazioni Generali Group, for $166 million, which includes cash and a $40 million secured note from our Argentine partner, due April 2001. In 1999, we will report a pre-tax gain of $120 million on this sale. Our experiences in Argentina were altogether pleasant, except for the commute, which leaves something to be desired. Tom Mara, our executive vice president and 20-year colleague, has been to Argentina more times than either he or his family cares to remember. He did an outstanding job supervising this investment.

Real Estate

At December 31, 1998, the carrying value of the Company's real estate investments totaled $397 million versus $93 million at year-end 1997. We have previously reported that we are sellers of real estate. As fast as we sell, other good opportunities have appeared. What follows is a description of the largest of these investments.

Of the $397 million, $246 million is represented by our new consolidated 95.4% French subsidiary, Compagnie Fonciere FIDEI (Fidei). The assets of Fidei consist of 150 buildings, and condominium interests in buildings, located primarily in Paris, France, and its environs, which aggregate more than 3,500,000 square feet. We paid $62.3 million for this equity stake and we have put all of Fidei's real estate holdings up for sale in an orderly manner. So far, most sale prices have been at or greater than were projected. So far so good!

In 1994, we purchased out of bankruptcy two 41-story condominium towers across from the convention center in San Diego, California. All but two of the 201 residential units have been sold or are under contract, and a portion of the commercial space is rented to the splendid restaurant Morton's of Chicago, at which we are two regular patrons. We paid too much for this property, but thanks to the efforts of Paul Borden and many others, the investment has a high single-digit return. All of our bad deals should be so good!

We have distributed to our shareholders of record as of August 25, 1998, a pro rata dividend of beneficial interests in a trust that holds 41.2% of the common stock of HomeFed Corporation and contracts which will increase that ownership to 89.6%. This dividend resulted in 1998 income of $.1426 for each common share of Leucadia held by you on August 25, 1998, even though there has been no physical distribution of shares. The effective date of a Securities and Exchange Commission registration statement with respect to HomeFed shares is expected to occur later this year. Once that occurs, Leucadia shareholders as of the record date of August 25, 1998 will receive 1.0 share of HomeFed common stock for each 1.26 common shares of Leucadia. By the time you read this, shareholders of record as of August 25, 1998 should have received a Form 1099-DIV for the amount of this dividend. However, as of this writing, it has come to our attention that several financial institutions have not yet sent out these forms. You may want to contact your broker.

HomeFed is a real estate development company based in San Diego County, California. Its main project is San Elijo Hills, a fully entitled 3,400 single-family home development located in San Marcos, California. Grading and infrastructure construction are underway, and hopefully the first 750 homesites will be sold to builders during 1999.

In October of 1998, HomeFed purchased 4,800 acres in the Otay Ranch south and east of San Diego, in Chula Vista, California, for $19.5 million. Now begins the long, arduous, difficult and frustrating process of getting the land zoned and permitted. In the future, you will hear about HomeFed from the HomeFed management.

Last year, in another bankruptcy transaction, Leucadia purchased 630,000 square feet of empty office space in Washington, D.C., for $23 million. Renovations are all but complete and the City of Washington, D.C. has leased this space and is currently moving in. The opportunity and land exists to build another 250,000 square foot building on this site. Several offers to purchase the property for a handsome return are being considered. Our vice president, Mark Hornstein, and our old friend and partner in this venture, Chip Akridge, have done a great job.

Renaissance Plaza, which was completed in 1998, is located in downtown Brooklyn, New York. It is a mixed-use project consisting of 809,000 square feet of office space, a very successful 384 room Marriott Hotel, and 1,100 indoor parking spaces. We own 57.5% of the office building and garage and 16% of the hotel. Empire Insurance has moved into its beautiful new quarters along with the other tenant, the City of New York. Leucadia is obligated to invest up to $25 million in the project and to date has invested $5 million.

Our community development project in Rosemary Beach, Florida, continues to do well. Sales to date have returned substantially all of our investment and sales in the future will, after costs and expenses, contribute profits. The Home and Garden cable channel recently purchased one of the lots on which they built a house to give away in its March lottery. Kudos to Patrick Bienvenue and his crew.

With our partner and old friend, Denis Sullivan, we have developed and are beginning to sell a 372-lot subdivision surrounding a golf course near San Luis Obispo, California. For the time being, we are keeping and operating the golf course. Again, this project is expected to have a very satisfactory return. This will be the second successful partnership we have done with Denis. We hope there will be more, if we can pry him away from the golf course.

Russia

We first went to Russia in 1994. We purchased $25 million in common shares of a wide-range of companies by participating in the voucher auctions. We still hold most of these shares. We have sold some, bought others, and our current book value of this portfolio is $8.5 million. During 1998, the Company recorded a $75 million pre-tax write down of its Russian and Polish debt and equity securities. Ouch!

We just recently completed our sale of Pepsi International Bottlers back to PepsiCo. In 1999, we will report a $29.5 million pre-tax gain on the sale. On a cash basis, however, we lost $40 million in our attempt to become the Pepsi bottler for two-thirds of Russia. When at bat, sometimes you strike out!

Larry Hershfield has moved back to the United States and will continue to monitor Russia from home. Our remaining $8.5 million portfolio of securities is mainly concentrated in larger Russian companies such as the telephone company, the national electrical utility, and several oil and gas companies. Our theory is that if Russia succeeds, this is a bet with a very large upside. As we write this, there are no immediate signs that cause us to be optimistic. It is, however, a large country with abundant resources and an educated workforce.

Money and Other Things

In a remarkable windfall, the Company was able to repurchase for $42.2 million, $51.8 million liquidation amount of 8.65% trust issued preferred securities of Leucadia Capital Trust I (TRUPS) as a result of the demise of an unfortunately over-leveraged hedge fund. The difference between the book value and the amount paid was added directly to shareholders' equity.

Under its $100 million bank credit facility, the Company borrowed $62.3 million to finance the acquisition of Fidei. The Company entered into a currency swap to hedge most of this currency exposure.

During 1998, the Company bought 1,996,400 of its common shares for $58.1 million, and in 1999 bought an additional 1,738,570 shares for $52.1 million as of March 17, 1999. These share purchases were funded from cash on the balance sheet.

In December of 1998, the Company entered into an agreement to sell its remaining life insurance subsidiaries to Allstate for statutory capital, plus $3.6 million. The expected pre-tax gain from this transaction is approximately $20 million, which is expected to close in 1999, after receiving regulatory approval.

In February of 1999, the Company sold the S & H Green Stamps Company back to its founder's family, the Beineckes, who have their own plans for its rebirth. The Company will recognize a $19 million pre-tax gain on the sale.

We believe the year 2000 problem is under control.

The Future

Last year in these ruminations we described to you some of the frustrations we felt in trying to keep the large amount of shareholders' money to work at above average rates of return in these crazed economic times. We have concluded that for us this is impossible.

Our mail room manager, on the other hand, is a day trader in high tech stocks and has done very well—he thinks we are crazy for working so hard. E-Bay and amazon.com are not our forte (see below). In the process of deciding what to do, not surprisingly, we rediscovered our history. As we have told you many times, what we do is:

> We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.[1]

We have stuck with this strategy single-mindedly, and we hope you would agree, successfully. Most importantly, we have enjoyed it, prospered doing it, and don't want to quit. We have, however, too much money to effectively invest for you and for us!

Therefore, as we write this letter, we expect to return to the shareholders a dividend of $812 million, or $13.48 per share, and, for the foreseeable future, we will continue to manage Leucadia. The Company has received a ruling from the I.R.S. providing that any gain realized on such a dividend will be treated as a capital gain. After the dividend and certain 1999 first quarter asset sales, the Company will have a $1.13 billion net worth and $900 million in cash, marketable securities and collateralized notes. Under some of our bond covenants, this distribution will require the Company to tender at 101% for its 8¼% and 7⅞% Senior Subordinated Debt with an aggregate principal amount of $235 million. This may leave the Company with less cash, depending on the number of bonds tendered. With all of the activity that has occurred so far in 1999, which we have reported herein, this year has the potential to be a good one. Whether it will continue, we knoweth not! If opportunities do not present themselves, we intend to consider other alternatives to benefit shareholders.

[1] Originally reported in the 1988, and repeated in 1990, 1991, 1995 and 1996 annual reports.

As we head off for our second 20 years together, one of us is excited and energized by the opportunities at hand, the other is hunkered down for fear a tsunami resulting from the next Kondratief Long Cycle[2] will wash us all into poverty. Hopefully, somewhere in between lies the truth. We have enjoyed this journey and each other and plan to continue until one of us doesn't enjoy one or the other!

This year, Andrea Bernstein deserves special thanks. She has labored long and hard as an associate at Weil, Gotshal & Millionaire working on our legal affairs. She is a newly minted partner and it is richly deserved. Almost twenty years ago on April 29, 1979, we purchased our interest in Leucadia (then Talcott National Corporation), with Andrea's mentor, Steve Jacobs, at our side then, as he is now. They are an extraordinary team!

For the first time, in the last year we hired a number of new people who didn't come with acquired businesses. We welcome them and commend to them our long-serving colleagues for advice and comfort. Many at Leucadia work long hours and sacrifice much. To our senior colleagues, we thank you. Without you and our advisors, none of this is possible.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

[2] Russian economist Nikolai Kondratief pioneered the concept of long wave cycles in 1926.

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Financial Highlights

		1999	1998	1997
Revenues		**$ 706,632,000**	$ 530,506,000	$ 630,737,000
Net securities gains (losses)		**$ 10,885,000**	$ (60,871,000)	$ 3,249,000
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and extraordinary loss		**$ 243,471,000**	$ 29,377,000	$ (24,238,000)
Income tax provision (benefit)		**$ 44,521,000**	$ (25,073,000)	$ (9,891,000)
Minority expense of trust preferred securities, net of taxes		**$ (5,521,000)**	$ (8,248,000)	$ (7,942,000)
Income (loss) from continuing operations before extraordinary loss		**$ 193,429,000**	$ 46,202,000	$ (22,289,000)
Income from discontinued operations, net of taxes		**$ 8,619,000**	$ 8,141,000	$ 58,516,000
Gain on disposal of discontinued operations, net of taxes		**$ 15,582,000**	$ –	$ 627,645,000
Income before extraordinary loss		**$ 217,630,000**	$ 54,343,000	$ 663,872,000
Extraordinary loss from early extinguishment of debt, net of taxes		**$ (2,588,000)**	$ –	$ (2,057,000)
Net income		**$ 215,042,000**	$ 54,343,000	$ 661,815,000
Earnings (loss) per common share:				
Basic:	Income (loss) from continuing operations before extraordinary loss	**$ 3.26**	$ .73	$ (.36)
	Income from discontinued operations	**$ .14**	$ .13	$ .94
	Gain on disposal of discontinued operations	**$ .26**	$ –	$ 10.09
	Extraordinary loss	**$ (.04)**	$ –	$ (.03)
	Net income	**$ 3.62**	$ .86	$ 10.64
Diluted:	Income (loss) from continuing operations before extraordinary loss	**$ 3.26**	$ .73	$ (.36)
	Income from discontinued operations	**$ .14**	$ .13	$ .94
	Gain on disposal of discontinued operations	**$ .26**	$ –	$ 10.09
	Extraordinary loss	**$ (.04)**	$ –	$ (.03)
	Net income	**$ 3.62**	$ .86	$ 10.64
Total assets		**$ 3,070,227,000**	$ 3,958,951,000	$ 3,745,336,000
Cash and investments		**$ 1,466,551,000**	$ 2,229,895,000	$ 2,453,555,000
Common shareholders' equity		**$ 1,121,988,000**	$ 1,853,159,000	$ 1,863,531,000
Book value per common share		**$ 19.75**	$ 29.90	$ 29.17
Cash dividends per common share		**$ 13.58**	$ –	$ .25

Letter from the Chairman and President

To Our Shareholders

In 1999, the Company earned $215 million after tax, or $3.62 per share, which is a 19.2% return on ending equity of $1.1 billion. In May and December, the Company distributed to shareholders an aggregate capital gains distribution of $13.58 per share totaling $811.9 million, 43.8% of our December 31, 1998 net worth.

As major shareholders, we are happy to have some of our personal money off the table and invested in mostly munis, which by today's standards are mundane and somnolent. Does anyone else remember municipal bonds? On a risk adjusted basis, munis feel good to us. Shareholders now have the proceeds from the two dividends to pursue otherthings.com!

Presented with the opportunity to return money to our shareholders in a tax-advantaged way, blessed by the I.R.S., we could not imagine a better thing to do. These aging dogs didn't believe they could keep $2 billion in equity effectively invested, let alone employ the additional funds available to Leucadia in the capital markets. With our net worth of $1.1 billion and substantial liquidity, we remain hard at work foraging in the financial ecology for the sweet smell of undervalued assets! More about this later.

For the past several annual meetings, shareholders have asked why we missed the bull market in the S&P 500, and the roiling and boiling internet and biotech markets on the NASDAQ. Our answer has been that is not what we do. For new shareholders, here is what we do:

> We tend to be buyers of assets and companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.[1]

To mutilate a hackneyed phrase, we are old dogs and we can't learn new tricks—we believe the ones we learned over the last 30 years continue to work just fine.

A few words now about the Company's operations and then some thoughts about the future.

Empire Insurance Company

Between 1991 and 1995 Empire's annual earned premiums increased from $210.7 million to $326.1 million. This undue growth brought to light significant deficiencies in personnel, systems, underwriting, claims and reserves. In 1995, we added $34.5 million to reserves and began the slow, arduous and often disheartening process of examining the deficiencies and correcting them. That process continues today and is far from complete.

From 1995 to 1999 earned premiums decreased from $326.1 million per annum to $145.2 million per annum, almost a round trip. During this period, as we were tightening underwriting and increasing prices, the market was lowering prices as competition became fiercer. This is an industry with too much capital chasing too little business. A catastrophe or two would be good for the industry, although not for society.

[1] Originally reported in the 1988, and repeated in the 1990, 1991, 1995, 1996 and 1998 annual reports.

When we began restructuring Empire, we did not foresee such a precipitous drop in volume; which ballooned overhead out of proportion to revenues. This will take time to fix. Most importantly, the Internet is hanging like the sword of Damocles over all property and casualty companies as Internet-based "virtual" companies edge closer to reality. We hope the Internet will make our agents more effective, but time will tell whether agent-based companies will provide enough value to customers. We are working hard to merit their business.

If this sounds depressing, it sometimes feels that way. We are, however, making some progress and fortunately have sufficient capital to see the problem through to the end. Since 1995, we have added $149.8 million to reserves and reported $3.8 million in GAAP pre-tax losses.

This has been a difficult and thankless task for Bob Toppi and his crew. They have done, and continue to do, yeoman service fixing a problem not of their making.

Banking and Lending

The Company's banking and lending operations are principally conducted through American Investment Bank, N.A. (AIB), a national bank subsidiary, and American Investment Financial (AIF), an industrial loan corporation. AIB and AIF are insured by the FDIC. AIB's largest market segment is sub-prime auto loans, making loans to individuals to buy a car who are not the best credit risks. For taking this risk, AIB charges a higher rate of interest. AIF is a small lender to sub-prime boat and recreational vehicle buyers and also makes Small Business Administration guaranteed loans.

Up until 1995, the sub-prime auto business had been very profitable for AIB. In 1995, money poured into this challenging market and some competitors cut interest rates to unacceptable levels. AIB believed the better part of valor was not to reduce rates, but to retire from the field in good order. As a result, volume fell and AIB went into a prolonged hibernation while working on collections, underwriting and improving the electronic platforms from which the business is controlled.

By 1998, rationality began to return to the sub-prime automobile market. Several players who thought they could defy financial gravity ended up in bankruptcy. The acquisition in late 1998 of a $36.9 million portfolio of sub-prime auto loans, purchased at a discount, jumpstarted AIB's return to the market.

In 1999, AIB acquired Tranex Credit Corp., a sub-prime auto lender based in Indianapolis, along with its $67.9 million portfolio. Another subsidiary of Leucadia purchased from Tranex $44.2 million of residual interests and excess servicing assets of related securitized trusts and $12 million of other assets. Gary Levine, the Chairman/President of Tranex, has joined the bank as an Executive Vice President to manage AIB's auto program. As a result of all of this, banking and lending operations had loans outstanding of $339.8 million at December 31, 1999 versus $185.2 million at the end of the previous year.

AIB is actively back in the sub-prime business and generating nearly $300 million in loans per annum from 29 states with an anticipated average life of 22 months. While these loans are not as profitable as in the pre-1995 era, the risk/reward relationship makes sense. Operating results for 1999 decreased due to provisions for loan losses on the growing portfolio of loans and because there were no earnings from the executive and professional loan portfolio which was sold in 1998 resulting in a non-recurring gain of $6.5 million. We will continue to keep in mind the lessons of the past, and should events warrant, AIB will go back into its cave.

H.E. "Bud" Scruggs and Randy Jenson, who joined Leucadia in 1997 after graduating from Harvard Business School, have orchestrated this resurrection. Recently, in recognition of his accomplishments, Randy was promoted to President of AIB, Bud Scruggs remains as Chairman. Congratulations are due to both of them and their staffs who have assisted them through a difficult period.

Manufacturing

Conwed Plastics manufactures and markets proprietary plastic netting for a variety of industrial uses including construction, agriculture, packaging, carpet padding and filtration. Conwed has plants in Minneapolis, Minnesota and in Athens, Georgia. Results are below:

(In millions)	1997	1998	1999
Sales	$50.9	$56.6	$64.0
Pre-tax profits	8.9	10.1	11.9
Return on net invested assets	32.5%	29.5%	31.9%
Return on average equity	37.8%	39.7%	42.2%

Business has been great under the bright skies of a long expanding business cycle—rising tides lift all boats.

Although this is a mundane old-economy business, it provides a very high return on net invested assets (total assets minus current liabilities) and has some internal growth potential.

Our worries are everybody's: when the new economy stumbles for whatever reason, will it bring down the old economy as well? An added worry, Conwed's raw material is polypropylene and polypropylene prices are rising as they must unavoidably do when petroleum prices rise. Not good.

John Rosenberger and his crew have done a remarkable job of increasing productivity in both plants and have given us a banner year. Had they not applied their innovative minds to the problems, we would have had capacity constraints before now. Kudos to all for working smart!

Winery

The Company has a 90% interest in two wineries: Pine Ridge Winery in Napa Valley, California, which was acquired in 1991, and Archery Summit located in the Willamette Valley, Oregon, which the Company started from scratch in 1993. These wineries primarily sell super-ultra-premium wines (wines that sell at retail from $25 to $125 per bottle).

During 1999, the wineries sold 76,300 9-liter equivalent cases versus 62,000 cases in 1998. As a result of our investments over the past few years in land and facilities, we are closer to our target of producing approximately 100,000 cases per year. At this level, we will balance our sales, grape production and winery capacity to produce all estate bottled wine. (Estate bottled wines are made from grapes farmed on vineyards owned by the winery.) At December 31, 1999, our combined investment in these wineries was $51.9 million. We believe our purchases of land to implement this plan were made at attractive prices.

Our partners, Gary and Nancy Andrus are extraordinary. They have the knowledge and enthusiasm to make and sell great wine. Call (800) 486-0503, if you would like to visit the wineries or to find out where you can buy Pine Ridge or Archery Summit near where you live. Depending upon your state's liquor laws, wine may be ordered through the mail at (800) 575-9777 or through the Internet store at www.pineridgewinery.com or www.archerysummit.com. Remember, in moderate quantities, wine is a medicinal food!

MK Gold

We have increased our stake in MK Gold to 72.5% through the purchase of additional shares for $15.8 million. During 1999, these funds, plus a $20 million loan from Leucadia and $6.2 million of their own money, were used to acquire Cobre Las Cruces S.A., a Spanish company that holds the mineral rights to the Las Cruces copper deposit in the pyrite belt of Spain. Two hundred seventy-nine drill holes totaling 272,000 feet have indicated the existence of a 15.2 million metric ton resource containing approximately 6.1% copper overlain by 150 meters of unconsolidated overburden. Actual mining will be subject to significant financing, permitting, engineering and construction. An unaffiliated company has a one-year option to purchase 35% of Cobre Las Cruces at MK Gold's cost plus interest. Assets at historically low prices are investments we like best.

MK Gold has a 25% equity interest in, and the mining contract for, a small California gold mine. MK Gold is actively looking for further opportunities to do contract mining and make equity investments in the mining sector.

Frank Joklik and his team of very experienced mining executives ably lead MK Gold.

Fidei

Fidei is a 100% owned French subsidiary, which was found and acquired for Leucadia by our esteemed colleagues Zalman Jacobs and Luis Medeiros. Its head office is in Paris.

When we acquired it, the Company had over 150 investments in real estate, mostly in Paris and its environs. Since acquisition, Fidei has had all of its real estate holdings for sale, and during 1999 sold 62 properties for a pre-tax gain of $37.9 million. At December 31, 1999, there were 88 properties remaining available for sale, representing 2,100,000 square feet, with a book value of $87.6 million. Our net investment in Fidei at December 31, 1999, was $38.1 million, after reporting profits of $33 million and receiving a return of capital of $41.4 million. Fidei has cash of $125.6 million and long-term debt of $214.6 million as of the end of 1999. We are currently looking at further opportunities in Europe for Fidei. This was and is a good investment.

Real Estate

At December 31, 1999, we had domestic real estate investments totaling $196.5 million versus $151.5 million at December 31, 1998.

Renaissance Plaza, completed in 1998, is located in downtown Brooklyn, New York. It is 809,000 square feet of office space, a 376 room Marriott Hotel and 1,100 indoor parking spaces. After all our investment is returned, together with a 12.5% per annum preferred return, we own 57.5% of the office building and parking spaces and 16% of the hotel. The hotel is enjoying a 92% occupancy rate and the office space is 100% leased. Consideration is being given by the partners to add approximately 280 additional hotel rooms.

The Rosemary Beach, Florida community development continues to do well. The project is cash positive with more to sell. We have a property management company to rent the homes when the owners wish. This horizontal hotel will eventually have approximately 2,000 beds. Rosemary Beach is a gorgeous community on a beautiful white beach on the Florida panhandle. Contact Patrick Bienvenue at (801) 521-5400, who has ably guided this project from the beginning, if you would like a brochure.

Union Square in Washington, D.C., not far from the U.S. Capitol Building, is 630,000 square feet of office buildings we purchased out of bankruptcy and completely renovated. It is leased to the District of Columbia. We have $76.5 million invested with a net operating income of $11.4 million. Mark Hornstein and our partner Chip Akridge did a great job of untangling, renovating and leasing this project.

At Cypress Ridge, near San Luis Obispo, California, our partner Denis Sullivan is struggling to get final approval for the sale of 378 completed lots. One hundred of these lots are under contract for sale. The golf course is approaching its second year and is wonderful. If you would like to play Cypress Ridge, call the Pro Shop at (805) 474-7979. If you want to retire to a beautiful central California climate, call Denis at (805) 489-2781.

One Harbor Drive in San Diego, California, is complete. The last commercial unit is in escrow. In 1994, we paid too much, $42 million, to buy the project out of bankruptcy. We have realized an 11% return—all of our bad deals should go so well!

A reminder to our shareholders of record on August 25, 1998, you should have received your shares of HomeFed Corporation, which were distributed as a special dividend in October 1999. If you did not receive those shares, please contact Laura Ulbrandt at (212) 460-1900.

HomeFed is a real estate company in Carlsbad, California, which manages San Elijo Hills, a fully entitled master-planned community of 3,400 homes and apartments located in San Marcos, California, which owes Leucadia $71.4 million including its preferred return. HomeFed also purchased (in partnership with Leucadia) 4,800 acres in the Otay Ranch master-planned community southeast of San Diego for $19.5 million. Leucadia provided financing for this project and is owed $11.2 million including its preferred return. If you haven't sold your shares in HomeFed, you will hear more about these projects from them. Contact Paul Borden, President of HomeFed, at (760) 918-8200, if you would like more information about this project.

Money and Other Things

Investment and other income in 1999 included the gains on the sale of La Caja of $120.8 million (our formerly 30% owned Argentina insurance company), The Sperry and Hutchinson Company, Inc., $18.7 million, and Pepsi International Bottlers, $29.5 million; Fidei rental income and gains on sales of properties, $60.4 million; corporate investment income, $77.9 million; and the gain on sale of an equity interest in an associated company, $8.7 million.

The increase in selling, general and other expense is related to Fidei's expenses, higher provisions for loan losses at AIB on the growing portfolio of loans and the inevitable legal and other expenses from developing the plan to pay the $811.9 million dividend.

Income taxes for 1999 reflect a benefit of $40.1 million from the use of capital loss carryforwards.

Payment of the $811.9 million dividend to the shareholders required the Company to make an offer to repurchase all of its Senior Subordinated Notes, with an aggregate principal outstanding of $235 million, plus accrued interest. We purchased $194.2 million of these bonds.

In previous years we wrote down our ill-fated investments in Russian and Polish securities to $10 million, the current book value. At December 31, 1999, these investments had a value of $36.4 million—subject to change without notice! For the time being, we are leaving this long-term bet on the table, primarily in basic industries of those two countries.

During 1999, we repurchased 5,182,958 Leucadia shares for $125.5 million (8.4% of the shares outstanding). From January 1, 2000 to March 13, 2000, we repurchased 1,505,000 shares for $32.1 million (2.6% of the shares outstanding). We invest in Leucadia stock when shareholders want to sell and we think the price is attractive. After all, of all possible investments, we know Leucadia best.

In the first quarter of 2000, Leucadia will record a $24.6 million gain from the sale of certain securities of Jordan Telecommunication Products, Inc., and may receive $7.5 million more, subject to resolution of certain contingencies. A long, pleasurable and profitable relationship with Jay Jordan and David Zalaznick continues unabated. They are very gifted investors.

Earlier this year we made an arrangement with our old friends and advisors at Jefferies & Company to share with them some of their adventures in the junk bond markets. (High yield bonds to those with delicate ears.) The junk bond market is in disarray and presents opportunities.

We invested in shares of Fidelity National Financial, Inc. (FNF) and Chicago Title Corporation during and after the pendency of their merger, which created a position in the combined company, FNF, of 9.9% of the shares. We view this position as an interesting investment.

The Future

1999 was a good year. In fact, it was the second best since we began this journey in 1979. The distribution to the shareholders was the right thing to do; we are properly sized for our appetites. However, as long as the madness in the public markets persists, it will be difficult to invest. Some companies are trading at market capitalizations that suggest they will become more valuable than the GDP of most Western economies. We say this realizing the enormous wealth that has been created for others and the opportunities we may have missed, but we are sticking to our knitting. Several people have pointed out that the market is bifurcated—new economy stocks are high, everything else is low. What worries us is that when the bubble bursts, every boat, large or small, will sink regardless of its intrinsic value. These are perilous times. Taking into account the distribution of $811.9 million to our shareholders and the repurchase of Leucadia stock, since 1979 we have compounded Leucadia's equity at 21.5%. This used to be a respectable record!

Over the past several years we have added several freshly-minted MBAs. They are leavening the loaf and looking at things with new eyes while adding to the corporate vigor, soaking up our eccentric culture and, most importantly, collecting frequent flyer miles on young bottoms! One, Randy Jenson, graduated into an important operating position at American Investment Bank.

We found Thomas Mara, our Executive Vice President, at Talcott National (Leucadia's predecessor) when we arrived in 1978. He has been a constant force for order in our ever-changing environment. We appreciate him greatly and thank his family for their forbearance during his 74 round trips to Buenos Aires over the last five years, let alone trips to Israel, Japan, Croatia and many other exotic and not so exotic destinations. Without him, these past 21 years would not have been possible.

As usual, we are ably assisted by our staff and advisors also without whom none of this would have been possible!

One of us had a dream.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Financial Highlights

	2000	1999	1998
Revenues	**$ 715,487,000**	$ 706,632,000	$ 530,506,000
Net securities gains (losses)	**$ 123,225,000**	$ 10,885,000	$ (60,871,000)
Income from continuing operations before income taxes, minority expense of trust preferred securities and extraordinary gain (loss)	**$ 193,302,000**	$ 243,471,000	$ 29,377,000
Income tax provision (benefit)	**$ 72,756,000**	$ 44,521,000	$ (25,073,000)
Minority expense of trust preferred securities, net of taxes	**$ (5,521,000)**	$ (5,521,000)	$ (8,248,000)
Income from continuing operations before extraordinary gain (loss)	**$ 115,025,000**	$ 193,429,000	$ 46,202,000
Income from discontinued operations, net of taxes	**$ –**	$ 8,619,000	$ 8,141,000
Gain on disposal of discontinued operations, net of taxes	**$ –**	$ 15,582,000	$ –
Income before extraordinary gain (loss)	**$ 115,025,000**	$ 217,630,000	$ 54,343,000
Extraordinary gain (loss) from early extinguishment of debt, net of taxes	**$ 983,000**	$ (2,588,000)	$ –
Net income	**$ 116,008,000**	$ 215,042,000	$ 54,343,000
Earnings (loss) per common share:			
Basic: Income from continuing operations before extraordinary gain (loss)	**$ 2.07**	$ 3.26	$ .73
Income from discontinued operations	**$ –**	$ .14	$ .13
Gain on disposal of discontinued operations	**$ –**	$ .26	$ –
Extraordinary gain (loss)	**$ .02**	$ (.04)	$ –
Net income	**$ 2.09**	$ 3.62	$ .86
Diluted: Income from continuing operations before extraordinary gain (loss)	**$ 2.07**	$ 3.26	$ .73
Income from discontinued operations	**$ –**	$ .14	$ .13
Gain on disposal of discontinued operations	**$ –**	$ .26	$ –
Extraordinary gain (loss)	**$ .02**	$ (.04)	$ –
Net income	**$ 2.09**	$ 3.62	$ .86
Total assets	**$ 3,143,637,000**	$ 3,070,227,000	$ 3,958,951,000
Cash and investments	**$ 1,612,576,000**	$ 1,466,551,000	$ 2,229,895,000
Common shareholders' equity	**$ 1,204,241,000**	$ 1,121,988,000	$ 1,853,159,000
Book value per common share	**$ 21.78**	$ 19.75	$ 29.90
Cash dividends per common share	**$ .25**	$ 13.58	$ –

Letter from the Chairman and President

To Our Shareholders

In 2000, Leucadia earned $116 million after tax, or $2.09 per diluted common share, which is a 10% return on average equity or a 9.6% return on ending equity of $1.2 billion.

The following chart reflects the results of this management's efforts beginning 22-plus years ago. We clutched Talcott National Corporation and its subsidiaries (founded in 1854) from the brink of bankruptcy and transformed it into Leucadia National Corporation. The pro forma compound annual growth rate ("CAGR") line at the bottom adds back, for comparison purposes, the effect of the $811.9 million capital gain dividends distributed in 1999.

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	Market Price Per Share	Market Price % Change	Equity	Net Income (Loss)	Return on Average Equity
Historical:							
1978	$ (0.11)	NA	$ 0.05	NA	$ (7,657)	$ (2,225)	NA
1979	0.32	NM	0.21	320.0%	22,945	19,058	249.3%
1980	0.34	6.3%	0.16	(23.8%)	24,917	1,879	7.9%
1981	0.42	23.5%	0.32	100.0%	23,997	7,519	30.7%
1982	1.07	154.8%	0.56	75.0%	61,178	36,866	86.6%
1983	1.28	19.6%	0.82	46.4%	73,498	18,009	26.7%
1984	2.22	73.4%	1.39	69.5%	126,097	60,891	61.0%
1985	2.49	12.2%	1.69	21.6%	151,033	23,503	17.0%
1986	3.79	52.2%	2.47	46.2%	214,587	78,151	42.7%
1987	3.34	(11.9%)	1.42	(42.5%)	180,408	(18,144)	(9.2%)
1988	3.84	15.0%	2.09	47.2%	206,912	21,333	11.0%
1989	4.92	28.1%	3.11	48.8%	257,735	64,311	27.7%
1990	5.91	20.1%	3.31	6.4%	268,567	47,340	18.0%
1991	7.95	34.5%	5.36	61.9%	365,495	94,830	29.9%
1992	11.06	39.1%	11.48	114.2%	618,161	130,607	26.6%
1993	16.27	47.1%	11.92	3.8%	907,856	245,454	32.2%
1994	15.72	(3.4%)	12.94	8.6%	881,815	70,836	7.9%
1995	18.47	17.5%	14.53	12.3%	1,111,491	107,503	10.8%
1996	18.51	0.2%	15.55	7.0%	1,118,107	48,677	4.4%
1997	29.17	57.6%	20.06	29.0%	1,863,531	661,815	44.4%
1998	29.90	2.5%	18.31	(8.7%)	1,853,159	54,343	2.9%
1999	19.75[b]	(33.9%)	23.13	26.3%	1,121,988[b]	215,042	14.5%
2000	21.78	10.3%	35.44	53.2%	1,204,241	116,008	10.0%
Pro forma 2000	37.32[c]				2,063,812[c]		
CAGR (1978–2000)			34.8%				
CAGR (1979–2000)[a]	22.3%				20.8%		
Pro forma CAGR (1979–2000)[a] [c]	25.4%				23.9%		

(a) A negative number cannot be compounded; therefore, we have used 1979.

(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $13.58 per share.

(c) Pro forma to add back dividend payments in 1999 totaling $811.9 million plus estimated after tax interest on dividend of $.86 per share.

The preceding chart raises the question, why have Leucadia's returns gone down over the last several years? First, it is more difficult to compound large amounts of money at high rates than smaller amounts. Back in the early years, Leucadia's net worth was so miniscule that almost any successful investment would produce a very high return. Second, as we mentioned in previous letters, Leucadia has been almost in hibernation for the last few years, not seeing the kind of opportunities where the upside potential and the downside risk made sense. And lastly, we have probably gotten more risk adverse over the years. Back in 1979, there wasn't much to risk.

2000 was a tumultuous year for the United States financial markets. The "irrational exuberance" pronounced several years ago by Federal Reserve Chairman Greenspan has turned into a virus causing much pain in 2000. Between first uttering these words and the continued implacable rise in equity valuations, even Dr. Greenspan became a reluctant believer in the new economy.

Pontification is not our normal line of work. We must, however, express a certain satisfaction from having steadfastly argued over the last many years that we were witness to an old-fashioned financial frenzy that would not and could not continue. Economics has its own gravitation-like forces that work over time and can only be ignored at the investors' peril.

So that our shareholders might know how we think about such things, here is what we think happened and what is likely to happen in the future.

In the early 1980s, the U.S. economy found itself increasingly uncompetitive and inefficient. The Japanese miracle was much heralded in the financial press. The U.S. auto industry blamed Japan for all of its troubles—imagine, better quality cars at a lower price! Eventually American industry woke up. Rather than cursing the darkness, the mantra became: productivity! Not unexpectedly, in this boisterous, robust, self-renewing country of ours, when the national ethos is infused with a common goal, great things can happen. Productivity replaced Japan-bashing as corporate America's preoccupation. No more sucking our thumbs in the corner blaming the Japanese miracle for all of our economic troubles.[1]

At about the same time, a huge new innovation was coming of age. It was, and is, of revolutionary proportions. It began with the discovery of the transistor and continues today as the Digital Age. At the same time, as industry and commerce were looking for ways to be more efficient, Tim Berners-Lee[2] was thinking away at CERN, the European Particle Physics Laboratory, in Geneva, Switzerland. At the time, there was an Internet; it was a physical thing, a bunch of fiber optic cables connecting a bunch of computers at universities and research labs around the world. These computers had no way of looking for information on any of the other computers and, even if they did, had no standard way to send the information in a form that could be interpreted. Tim Berners-Lee had a vision—the WWW (World Wide Web) and the first search engine, "Enquire Within Upon Everything" was born. Now computers could communicate; we had the Internet and all that has flowed to this date.

[1] Incidentally, the Japanese have their own problems. Their stock market peaked in 1989 and has stubbornly remained moribund since then. Japan's banks, even after writeoffs in the many billions, are loaded with nonperforming or underperforming loans. Real estate prices are estimated to be down 90% from their peak and bankruptcies are at an all time high. The long delayed and ever expected restructuring of Japan, Inc., has still not taken place. Based on the Japanese experience, our reading of U.S. history post the 1929 crash and our own biases, we believe that our homegrown irrational exuberance virus will work slowly and that a quick and painless recovery is unlikely.

[2] For further information on Tim Berners-Lee, read *Weaving the Web* by Tim Berners-Lee with Mark Fischetti, published by Harper San Francisco.

Information is like inventory—the more turns you get, the more productive you are. With this new Internet tool, the whole world sped up and time and space shrunk. So, at the same time the American economy was focused on becoming more efficient, along came this world-shrinking, timesaving communication device. The digital economy races ahead at lightning speed. New concepts, products, ideas, software, hardware, glass transmission, and telecommunication advances are born and continue to evolve to this day. The whole of the American economy was being reshaped and retooled at the speed of Internet communication. The confluence of these two events: efficiency-driven American industry and the advent of the Digital Age, gave new meaning to synergy. The exuberant markets reacted to the new age with unlimited enthusiasm and for ten-plus years we had a boom.

Although this analysis is incomplete, our belief is that these two phenomena were major drivers of the boom. Booms lead to busts, and we got one of those as well. In 2000, the air started to come out of the over-inflated equity markets, particularly in the NASDAQ, home of the Digital Age.

Currently, the price earnings ratio ("P.E.") for the Dow Jones Industrial Average is 20, for the NASDAQ it is 167 and for the S&P 500 it is 24. Historically, the mean P.E. for the DOW is 17 (from 1930 to the present date); the NASDAQ is 53 (from December 1985 to present), and the S&P 500 is 15 (from 1935 to present). Over time there will be a recovery, but when speculation becomes a frenzy and markets are pushed far beyond their historical mean, the correction can be very sudden and cause much financial pain. Making the collapse even more painful, after a speculative period stocks often fall considerably below their historical mean. Exacerbating the pain, they usually stay below the mean for an extended period of time. And for the highfliers, we doubt that many of those will be around to enjoy the recovery when it does come. We hold these truths to be self-evident, that all speculative bubbles end up the same way—with a bust. This is financial gravity—to be ignored at our peril.

Leucadia's management wakes up every morning with several hundred million dollars invested in risk free treasury bills. Think of us as groundhogs with a daily habit. We pop out of our holes each and every morning and look around the marketplace for investment opportunities. The first question we ask is: "Do we see anything that can earn more than the risk free rate, adjusted for risk?" When the markets are as high as they have been in the last many years, we saw very little of interest and went back down our holes. In fact, we successfully offered most of our assets for sale to others at what we felt were irrationally exuberant prices. After distributing $811.9 million to shareholders, Leucadia is left with plenty of liquidity, the same old overhead and small recurring earnings. Our job for the next few years is to buy recurring earnings and prepare those assets for the next frenzy. Patience is required for this process, but it is not complicated!

Adventures in the Insurance Game and Empire

Over time Leucadia has owned a number of insurance companies. In 1980, Leucadia bought American Investment Company, which was a small loan company on the NYSE, headquartered in St. Louis, Missouri. Charter National Life, a credit life company, was resident therein. In the late 1980s, Charter got into the tax-advantaged single premium whole life business. Several years later, while we were being hypnotized by the theoretical potential of single premium whole life and the testosterone-driven forecasts of Charter's marketing department, we received an offer of $150 million. We tried to get more and drove off the buyer. Five or six years later we managed to get almost as much money as we had been offered years before. A lucky save, but an expensive lesson in our own irrational exuberance.

In 1986, Leucadia purchased the residue of Baldwin-United Corporation from the Bankruptcy Court. Empire Insurance Company was one of the many assets resident therein. When Leucadia gained control of Empire in the first quarter of 1988, Empire had a statutory net worth of $63.2 million. That statutory net worth peaked at $180.2 million on December 31, 1997. At the end of 2000, statutory net worth at Empire had fallen to $76.9 million, and first quarter developments indicate it is continuing to shrink in 2001. What happened?

Empire Insurance Company started out life as a "subway" mutual company, so described because nearly all the customers could be reached by subway in the boroughs of New York. By year end 1995, net earned premiums had grown to $326.1 million from $140.2 million in 1986. We now realize that this increase overwhelmed the back office, the information systems and the management, while at the same time price competition became fierce in the New York area. What resulted was a death spiral that Empire could not get ahead of. Raising prices, competition and poor customer service lowered volume, lower volume reduced contribution margin, which overwhelmed Empire's ability to cut costs in a timely manner, cutting costs disrupted day-to-day operations and the spiral continued inexorably downward. This has been our worst setback in 22 years. While it cost no cash, it was a desperate loss of opportunity, hopefully not to be repeated.[3]

In the summer of 1991, Leucadia bought the Colonial Penn Life and Colonial Penn Casualty companies for approximately $128 million. These companies had been for sale a long time and the selling price had come down to an attractive level. The problem was a portfolio of casualty insurance risks in niche markets that appeared very scary. The seller strengthened reserves several times. After exhaustive due diligence, we determined that it was most likely properly reserved and made the purchase. We worked very hard over the next six years to make these companies more profitable. During those six years, Leucadia received approximately $300 million in management fees, interest, dividends and tax sharing payments, and in 1997, sold both companies for $1.5 billion. Now that is the way it is supposed to work!

Our last adventure in the insurance game was the 1994 purchase for $46 million of a 30% interest in Caja de Ahorro y Seguro S.A. (La Caja), a Buenos Aires based insurance holding company, in a privatization sale by the Argentine government. Many trips later from New York and Salt Lake City to Buenos Aires, entailing a complete restructuring of La Caja, resulted in the sale of our interest for $166 million in 1999.

Colonial Penn was a grand slam, La Caja a home run, Charter a base hit, and Empire a strike out. You might wonder why we spend so much time regurgitating history. It is out of fear that we will repeat it. It is cathartic and educational to have to explain mistakes!

Banking and Lending

Leucadia's banking and lending operations are principally conducted through American Investment Bank, N.A. (AIB), a national banking subsidiary, and American Investment Financial (AIF), an industrial loan corporation. AIB and AIF deposits are insured by the FDIC. Together AIB and AIF have deposits of $526.2 million at December 31, 2000. Consolidated loans of the two entities at December 31, 2000, were $515.8 million. AIB's largest market segment is sub-prime auto loans, making loans to individuals who have difficulty obtaining credit with the principal secured by used and moderately priced automobiles. For taking this risk, AIB charges higher rates of interest.

AIF is a small lender to non-prime boat and recreational vehicle buyers and also makes loans guaranteed by the Small Business Administration.

[3] You can read all of the gory details in the 10-K.

The operations of Tranex Credit Corp., also a sub-prime lender, acquired by AIB in September 1999, have now been integrated. It has been a difficult transition. Our forecasts were too ambitious, we executed too slowly and we have been adversely affected by a slowing economy. The $67.9 million portfolio purchased as part of the transaction has performed below our expectations. This experience has provided a valuable reminder that conservative assumptions are often not conservative enough.

Beginning in the second half of 2000, we noticed an increase in losses and delinquency in the auto portfolio. This increase, we think, can be partially explained by the deteriorating economic conditions in the United States. Customers who are at the bottom of the economic ladder have little protection in the face of a slowing economy and their behavior represents a leading indicator of things to come. In response, we will reduce loan originations significantly by tightening underwriting standards and eliminating marginal auto dealer relationships and territories. We anticipate that AIB's assets will be flat in 2001, after growing 55% to $544 million in 2000. We have been working hard to reduce overhead expenses to accommodate a smaller operation. We believe the economic slowdown will create opportunities for AIB to do business with more credit-worthy customers at more sensible prices. Some of AIB's competitors who are addicted to growth and have chosen to price sub-prime credit risks unrealistically will have a difficult time surviving. We have confidence that we can profitably weather the storm, but we remain mindful of the lessons of the past, and should events warrant, we will hasten our retreat. AIB's after tax return on assets for the year 2000 was 0.15% and the return on average equity was 1.0%. AIF's return on assets for the same year was 2.35% and its return on average equity was 12.26%.

Manufacturing

Through Conwed Plastics, Leucadia manufactures and markets proprietary lightweight plastic netting used for a variety of purposes including, among other things, construction, agriculture, packaging, carpet padding, filtration and consumer products. Fifteen percent of its 2000 sales were exported to Europe, Latin American, Japan and Australia. Results are below:

(In millions)	1997	1998	1999	2000
Sales	$50.9	$56.6	$64.0	$65.0
Pre-tax profits	8.9	10.1	11.9	11.3
Return on net invested assets	32.5%	29.5%	31.9%	23.3%
Return on average equity	37.8%	39.7%	42.2%	28.7%

Operating at capacity, and in order to meet product demand, Conwed is constructing an $18.5 million manufacturing facility in Belgium, which is expected to be operational in the third quarter of 2001. The Belgium facility will service customers in the European and Asian markets, which are currently being supplied by Conwed's domestic manufacturing facilities. It turns out it is cheaper to ship to Asia from Europe than from the United States. When fully operational, the facility is expected to increase capacity by approximately 20%.

During the second half of last year, volume fell and orders slowed down as the economy began to weaken. Raw material prices rose with oil prices, which has made things worse. Conwed is now scrambling to prepare for a further slowdown and, as is likely to become apparent, Leucadia will suffer from an unfortunately timed, but necessary in the long run, increase in capital committed to this business.

Conwed is Leucadia's old economy canary! Miners used to take canaries in small cages with them into mines. If their singing stopped and their feet pointed upward, it was a sign of poisonous gas; the feet pointed the way to the surface!

Winery

Leucadia has a 90% interest in two wineries: Pine Ridge in Napa Valley, California and Archery Summit in the Willamette Valley, Oregon. Pine Ridge was acquired in 1991 and Archery Summit was started from dense Oregon forest in 1993. These wineries produce and sell super-ultra-premium wines—wine talk for expensive. During 1999, these wineries sold 75,900 nine-liter equivalent cases of wine for $12.5 million, and during 2000, sold 79,300 cases for $14.4 million.

Since acquisition, Leucadia has invested $53.2 million, principally to fund the acquisition of land for new vineyards, vineyard development and winemaking equipment. About $16.7 million of that is related to Archery Summit, whose production is only at about one-half design capacity and will still be in the development stage for the next several years.

In 2000, earnings before interest and taxes ("EBIT"), was $3.7 million or a return on ending equity of about 7%. If prices and demand don't collapse, EBIT will continue to increase as the vineyards mature and production increases.

Despite the pleasures of owning wineries, during 2000 Leucadia engaged an investment banking firm to put the wineries up for sale. We did not receive offers which we considered adequate and don't intend to sell the wineries at this time. To assure shareholders of the integrity of Leucadia's balance sheet, the offers were considerably in excess of its investment.

Our partners, Gary and Nancy Andrus, continue to make and sell great wines! Thus, the great prices for super-ultra-premium wines: $25–$135 per bottle. Call 800-486-0503, if you care to visit the wineries or find out where you can buy the wine near where you live. Depending on your state liquor laws, you may order wine through the mail or through the Internet at www.pineridgewinery.com or www.archerysummit.com. Remember, moderate use of wine—one glass each of Pine Ridge and Archery Summit per day—extends life, reduces stress and makes your fellow shareholders happy.

MK Gold

MK Gold is traded on the NASD OTC Bulletin Board; Leucadia owns 72.9%. MK Gold has a 25% equity interest in, and the mining contract for, a small gold mine in California. MK Gold also owns Cobre Las Cruces, S.A., a Spanish company that holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. A feasibility study has been completed by Bechtel International, Inc., which reports proven and probable reserve estimates of 15.8 million metric tonnes grading 5.94% copper that are overlain by a gold-bearing gossan (which has not been evaluated). This reserve calculation was based upon the analysis of approximately 280 drill holes totaling over 82,000 meters. The feasibility study estimates the capital cost will be approximately $290 million to bring the mine into production. Mining will be subject to permitting (currently underway), obtaining both debt and equity financing for the project, engineering and construction. A mining concession application, accompanied by the feasibility study and environmental impact studies, was submitted to the applicable Spanish and Andalusian governmental agencies during the first quarter of 2001. We shall see; nothing ventured, nothing gained!

Frank Joklik, MK Gold's very experienced chairman, leads this able team. We are grateful for their efforts.

Real Estate

FIDEI is a 100%-owned French subsidiary headquartered in Paris. When acquired, FIDEI had over 150 investments in real estate, mostly in Paris and its environs. In 1999, FIDEI sold 62 properties for a pre-tax gain of $37.9 million, and in 2000, sold 38 properties for a pre-tax gain of $27.1 million. At December 31, 2000, 53 properties remain for sale aggregating approximately 1,300,000 square feet. FIDEI has certain pleasant tax attributes and is looking for further opportunities in Europe.

At December 31, 2000, Leucadia had $166.5 million invested in domestic real estate. This represents investments in office buildings, shopping centers, residential real estate projects, and unimproved land, all in various stages of development and all doing fine.

During 2000, Leucadia received $94.3 million in proceeds on a non-recourse loan from a third party lender on an office complex in Washington, D.C., not far from the U.S. Capitol, which when added to the amounts previously received fully repaid Leucadia's investment, plus a 17.5% preferred return. Leucadia retains a 50% interest in the complex and additional land for further development.

Real estate values may fall in the economic downturn ahead, but Leucadia is well positioned to weather the storm and to purchase additional assets.

FINOVA

We are encouraged that opportunities may once again be coming our way. The first may be the arrival of an investment opportunity in The FINOVA Group Inc. FINOVA, based in Scottsdale, Arizona, is a lender to middle market companies with $12 billion of assets at book value.[4] FINOVA had been funding itself in the commercial paper market, and as a result of a loss of market confidence, its access to the commercial paper market evaporated. Ultimately, FINOVA ended up in default on its $11.3 billion of borrowings, which included over 55 financial institutions providing bank credit facilities and countless owners of bonds.

Last year, Larry Hershfield, one of Leucadia's executives, brought this opportunity to our attention several times during FINOVA's search for either a purchaser or an investor. We conducted considerable due diligence following which we negotiated a transaction whereby Leucadia would have invested up to $350 million in new equity subject to the approval of creditors. After several meetings with creditors, it became apparent that the creditors were not interested in this particular proposal and the transaction was mutually terminated.

Not to let sleeping groundhogs lie, we continued to think about various possibilities for restructuring FINOVA's debts. Finally, in February 2001, Leucadia and Berkshire Hathaway Inc. formed a jointly owned company, Berkadia LLC, and agreed with FINOVA that Berkadia would lend it $6 billion on a senior secured basis to facilitate a Chapter 11 reorganization. The balance of FINOVA's debt would be paid in the form of new debt. The commitment to lend expires August 31, 2001 and is subject to numerous usual conditions, including confirmation of the Chapter 11 plan approved by Berkadia.

Berkadia's commitment is 90% guaranteed by Berkshire Hathaway and 10% by Leucadia, with Berkshire Hathaway guaranteeing Leucadia's portion. In consideration for making the loan, Berkadia will also receive 51% of the stock of FINOVA and will designate a majority of its directors. In conjunction with the commitment, FINOVA paid to Berkadia a fee of $60 million. Leucadia also entered into a ten-year management agreement with FINOVA, for which a non-refundable $8 million fee was paid to the Berkadia partners as compensation for the first year's services.

[4] This investment is really going back to our roots. Talcott National, from which Leucadia evolved, was in the same business as FINOVA and had many of the same problems.

Under the direction of FINOVA's board, Larry Hershfield spends all of his time at FINOVA working on the development of the Chapter 11 plan and advising FINOVA's new CEO, Bill Hallinan. Tom Mara and Joe Orlando, Leucadia's EVP and CFO, respectively, also are devoting a considerable amount of their time to FINOVA as well. The Chapter 11 reorganization plan will have been filed by the time you read this and we are hopeful the plan will be confirmed this summer.

For those of you unfamiliar with Federal bankruptcy procedures, it is an orderly process, guided by a Federal judge, who weighs the interests of stockholders as well as creditors. In most cases, the approval of creditors is required to confirm a plan of reorganization. The process is often full of sound and fury, but usually results in a sensible outcome. Lawyers, accountants and investment bankers make a lot of money. We are hopeful that FINOVA's plan will be confirmed. At the present time, it is the only plan before the court and has the endorsement of FINOVA's Board of Directors. However, it is possible other bidders may arrive on the scene or the creditors may choose to go in a different direction.

Working with Warren Buffett has been a delight for both of us. Berkshire's lawyers, led by Bob Denham and his team, equally so.

Money and Other Things

At December 31, 2000, excluding amounts held by regulated subsidiaries, Leucadia had cash, cash equivalents and marketable securities of $643.4 million, plus $156.8 million in marketable securities collateralizing letters of credit, plus $183.1 million of cash, cash equivalents and marketable securities held by FIDEI.

In late 1999 and 2000, Leucadia purchased $89 million of securities of Fidelity National Financial, Inc., a publicly traded title insurance company and later in the year sold the stock for $179.9 million.

The outstanding promissory note due to Leucadia by Conseco, Inc., for $250 million, was paid in full in the third quarter of 2000, plus a $7.5 million prepayment penalty.

In June 2000, Leucadia replaced its bank credit facility of $100 million with a new facility of $152.5 million. At December 31, 2000, no amounts were outstanding. Total parent company debt, which excludes non-recourse debt of subsidiaries, was $147.1 million.

During 2000, Leucadia invested $100 million in JPOF II, a limited liability company that is a registered broker-dealer. JPOF II is managed and controlled by Jefferies & Company, and is a market maker in high yield debt ("junk bonds"). For the year ended December 31, 2000, Leucadia recorded $17.3 million in pre-tax income from this investment.

In January 2000, Leucadia's 10% equity interest in Jordan Telecommunication Products, Inc. was sold for a pre-tax gain of $24.8 million. Plus Leucadia may receive additional contingent payments in the future.

In October 2000, Leucadia committed to invest $75 million in convertible preferred shares of White Mountains Insurance Group, Ltd. (WTM-NYSE), representing approximately 4% of the common stock when converted. WTM is buying the property and casualty insurance company CGU Corporation, the U.S. portion of the English company CGNU plc. This acquisition should close later this year. WTM is controlled and directed by Jack Byrne, an able and experienced insurance executive, long admired by the undersigned.

During 2000, Leucadia repurchased 1,505,000 of its common shares for $32.1 million at an average price of $21.33 per share.

The Future

The year 2000 was, we think, a transitional year. In the euphoria of the last several years, we were able to sell many of Leucadia's assets at advantageous prices. This has left us in a position we have not experienced since the late 1980s where Leucadia's recurring earnings barely cover its overhead and must rely on deals and investments for earnings. Hopefully, this problem will rectify itself as declining prices allow us to sniff out value and purchase good companies at attractive prices.

We think equity markets will continue to fall toward or below their historical means and that this process will take considerable time. Falling markets, financial sorrow and woe, perhaps not good for the nation, are the garden in which these groundhogs thrive!

We will continue to work hard, hopefully continue to be lucky and be ably assisted by the same staff and advisors who have been around for many, many years, and without whom, none of this would have been possible.

When we first arrived at Talcott National in 1978, the company was in financial extremis. Our now friend, Stephen E. Jacobs, Head of the Corporate Department of Weil, Gotshal & Manges, was on the scene and has been present at every take off and crash landing that the two of us have conceived of since then. After 38 years in the New York office of Weil, Gotshal & Manges, Steve is taking his act to his firm's London office. We will miss his intense day-to-day involvement in our affairs. Rest assured we will consult with him on anything important and will continue to rely on his more than capable partner, Andrea Bernstein, and on his trusty trumpet to blow the sound of retreat as he has so many times in the past.

We wish Steve and wife Sherry the best and intend to drop in for tea from time to time.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Quid quid bonum pro Leucadia bonum est!

2001

Letter from the Chairman and President

To Our Shareholders

In 2001, Leucadia lost $7.5 million, the third loss in the 24 years we have been managing this enterprise. We have an explanation, which does not excuse the loss. It involves the arcane intricacies invented by the accounting profession to supposedly make financial reporting more realistic. In 2001, the fruits of their efforts resulted in our only picking up as income a small portion of the $60 million in cash we received from the FINOVA transaction (described in our SEC filings) and requiring us to write off $94.4 million of investment in FINOVA stock we got for free and never thought was worth much to begin with. To further complicate matters (which are not the accountants' doing) we wrote off our remaining investment in Empire Insurance Group, about which more later. Empire resulted in an after-tax loss of $72.7 million. On the plus side was the release of $36.2 million of previously accrued tax contingencies that are no longer necessary. Happily the $60 million and the $94.4 million from the FINOVA transaction are being recognized in income as FINOVA repays its loan. The detailed footnotes are on pages F-12 through F-14. The chart below attempts to explain the P & L in greater detail.

Here is what happened.

(In millions)	
Revenues [a] [b]	$375.3
Expenses	(321.6)
Income	53.7
Taxes, net [c]	16.6
Income after tax	70.3
Other:	
Minority expense	(5.5)
Empire losses [d]	(72.7)
Accounting changes	.4
Net Loss as reported (GAAP)	$(7.5)
Earnings to be reported in future periods as the Berkadia loan is repaid:	
FINOVA stock loss	$82.1
Accrued FINOVA cash fees	52.2
Taxes at 35%	(47.0)
After-tax future earnings	$87.3

(a) Includes a loss of $94.4 million on 25% of FINOVA's common stock, acquired for no additional consideration in connection with Berkadia's loan to FINOVA, which will be amortized back into income as the Berkadia loan is paid down by FINOVA. $12.3 million of this amount was amortized into income in 2001.

(b) Includes just $7.8 million of the $60 million of cash fee (points) paid to Leucadia for Berkadia's loan to FINOVA. The balance was deferred and will be amortized into income as the FINOVA loan is repaid.

(c) Includes $36.2 million release of previously accrued tax contingencies.

(d) This is all related to Empire, which is being discontinued. See Empire below.

Empire

First, a mercifully short history of the rise and fall of the Empire Insurance Group. We obtained control of Empire in early 1988, it had a statutory net worth of $63.2 million. By December 31, 1997, its statutory net worth peaked at $180 million. A good portion of the increase in net worth resulted from redundant reserves (which means we paid less in claims than we had originally expected to pay). The redundancies began to evaporate in 1995, but we did not realize the importance of this fact at the time. A couple of years earlier we had made what became the fatal decision. We dramatically expanded our private passenger auto book of business in New York City, the Bermuda Triangle for insurance companies. We believed we could underwrite bad drivers at high prices and make money. We were wrong. Looking through the rear view mirror, our prices were not high enough to overcome bad drivers, endemic medical fraud, poor systems and equally overconfident competitors. At December 31, 2001, the statutory net worth was $23.2 million and shrinking. Our decision to discontinue Empire's operations and Empire's operating loss resulted in a total loss of $72.7 million for the year. If there is a recovery at the end of this saga, it will be a tiny one and a miracle. The best thing about this unfortunate journey is that it is over.

This difficult job has been accomplished under the leadership of Bud Scruggs and a remarkable group of young executives he has recruited and mentored. Bud has been heard to muse: "This job feels like following elephants in a parade!"

Bermuda

You are being asked at the shareholders' meeting to consider changes to allow Leucadia to move its domicile to Bermuda. The proxy statement has a detailed description of what needs to be done to accomplish this. There is also an explanation of how the move will affect shareholders.

Why are we advocating this? Over the years, we have made successful investments not only in the United States, but also in England, France, Argentina, Barbados, Bolivia and El Salvador. We currently have ongoing investments in Barbados, France, Spain and Russia; in Russia we have lost money so far. When the successful investments were realized, we would have paid tax on the gain, were it not for our net operating loss carryforwards. Those loss carryforwards are gone now and are irreplaceable. As a Bermuda company, Leucadia would be able to reinvest these profits without an intervening U.S. corporate level tax. This resulting benefit is at the heart of what we are paid to do–increase shareholder value. The United States is almost alone in taxing corporate worldwide income even if earned outside the United States. Putting this in dollars and cents means that if we make a good investment from Bermuda and sell the investment at a gain, there will be no corporate level tax due on the profit. If, for example, as a Bermuda company we were to make a profit of $500 million on the sale of a particularly successful investment, Leucadia would save more than $175 million in corporate level taxes (at current U.S. rates), or over $3.00 per share. Shareholders will continue to be liable for taxes on dividends and capital gains. Leucadia will continue to pay taxes on its U.S. operations.

If approved at our shareholders meeting in May, the move to Bermuda may not take place immediately. There is a U.S. tax to be paid by the Company at the time of the move to Bermuda that is dependent on the price of our stock versus the value of our assets. We do not intend to implement the move unless the tax cost is reasonable. Furthermore, the move to Bermuda will also impose some additional restrictions on stockholders owning more than 1% of the shares of the Company (currently 553,000 shares equals one percent). Existing shareholders will not be required to sell any stock. The purpose of these additional restrictions also has to do with taxes. The proxy statement goes into this in greater detail. Please read it carefully before voting. We're voting "yes".

Recently, there has been much sound and fury about Bermuda from several politicians, both Republican and Democrat. They claim that such moves are in some way nefarious and even un-American. We strenuously disagree.

The United States is a nation of laws. Our elected representatives make the laws and we obey them. We don't make laws, they do, and we don't interpret laws, judges do. In 1947, Judge Learned Hand wrote, "Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich and poor, and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions."[1]

Even before Judge Hand's learned opinion, Justice George Sutherland delivered an opinion of the U.S. Supreme Court which in part read, "The legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted."[2]

Banking and Lending

Leucadia's banking and lending operations are principally conducted through American Investment Bank, N.A. (AIB), a national bank subsidiary, and American Investment Financial (AIF), an industrial loan corporation. AIB and AIF deposits are insured by the FDIC. Together AIB and AIF had deposits of $476.5 million at December 31, 2001. Consolidated loans of the two entities at December 31, 2001, were $521.2 million. AIB's largest market segment is sub-prime auto loans, consisting of loans to individuals who have difficulty obtaining credit, with the principal secured by used and moderately priced automobiles. For taking this risk, AIB charges higher rates of interest. In 2001 the average initial loan balance was $12,250 and the yield was 21.5%; in an earlier day competition allowed 24%.

AIF is a small lender to non-prime boat and recreational vehicle buyers and also, until recently, made loans guaranteed by the Small Business Administration.

Beginning in the second half of 2000, we noticed an increase in losses and delinquencies in the auto portfolio. This increase, we thought, could be explained by the deteriorating economic conditions in the United States. Customers who are at the bottom of the economic ladder have little protection in the face of a slowing economy and their behavior represents a leading indicator of things to come. In response, we reduced loan originations significantly by tightening underwriting standards and eliminated marginal auto dealer relationships and territories. We managed the business so that AIB's assets would be flat in 2001, after growing 55% to $544 million in 2000. Caution was in order.

However, the adverse trends continued during 2001, and despite our efforts of cutting costs and being more selective in underwriting loans, profitability continued to deteriorate.

As a result, in September 2001, AIB stopped originating new sub-prime automobile loans. At year-end 2001, additional reserves were added to account for the closing of the Indianapolis collection office. This has not been a bad business, just not good enough for the current risks versus the rewards.

We continue to service our existing loan portfolios. We will also seek to acquire loan portfolios that meet our credit criteria. If over the next several years these institutions cannot find profitable lending niches, or portfolio purchases, the invested capital should be repatriated to Leucadia.

[1] COMMISSIONER V. NEWMAN, 159 F2D 848, 850-851 (CA2 1947)

[2] GREGORY V. HELVERING, Commissioner of Internal Revenue, 293 U.S. 465, 468 (1935)

Manufacturing

Conwed Plastics is a leading manufacturer of proprietary lightweight plastic netting used for a variety of purposes including construction, agriculture, packaging, carpet padding, filtration and consumer products. The products are primarily used to add strength to other materials as in carpet padding, or to act as a barrier as in warning fences, or as crop protection from birds. This is a business where Conwed's netting is engineered into 1000's of other manufacturers' products.

Conwed markets its products both domestically and internationally, with approximately 13% of its 2001 sales exported to Europe, Latin America, Japan and Australia. The Company primarily sells its products through an employee sales force, which is located in the United States and Europe.

Results are as follows.

(In millions)	1997	1998	1999	2000	2001
Sales	$50.9	$56.6	$64.0	$65.0	$53.7
Pre-tax profits	8.9	10.1	11.9	11.3	7.8
Return on net invested assets	32.5%	29.5%	31.9%	23.3%	13.8%
Return on average equity	37.8%	39.7%	42.2%	28.7%	16.5%

Conwed is our old economy thermometer. As you can see from the chart above, it tracks what is going on in the real economy, not to be confused with the enthusiast's economy, which resides on Wall Street.

Conwed continues to be profitable and is working on being more so–dedicated to the proposition that being a low cost producer is great in good times and bad. Some of the erosion in the return on average equity and return on net invested assets is the result of our increased investment in the Belgium plant. We decided, probably prematurely, to build a European plant in 1999. It is up and running, but does not yet have enough business to be profitable. We think it was the right decision, which will eventually pay off.

There is a recent small but measurable increase in our sales to carpet cushion manufacturers over same period sales to this segment last year. This might indicate a slight uptick in the old economy or might indicate that new carpeting is an affordable luxury in a down economy.

Kudos to Conwed for leading the way in the fight to keep as many costs variable and to exact more productivity from the costs that are not!

Winery

Leucadia owns two wineries: Pine Ridge in Napa Valley, California and Archery Summit in the Willamette Valley, Oregon. Pine Ridge was acquired in 1991 and Archery Summit was started from scratch in 1993. The wineries produce and sell ultra-premium and luxury wines, $25–$135 per bottle. Archery Summit's case sales are less than its production capacity. To date, Archery Summit has been able to sell all its production at very high prices. The challenge will be to continue to do so as production continues to increase.

In 2001, Gary and Nancy Andrus, our partners and founders of Pine Ridge, decided they wanted to sell out. Leucadia agreed to buy their interest and now owns 100%. Gary is going to pursue other interests and we wish him well. Nancy will continue on at Pine Ridge in marketing.

During 2000, these wineries sold 79,300 9-liter equivalent cases for $14.4 million. During 2001, 68,900 9-liter equivalent cases were sold for $12.8 million. The fourth quarter is usually a large revenue period for our wineries, and the events of 9/11 certainly resulted in lower wine sales, which has continued in 2002.

George Scheppler has joined us as the new President and CEO of the wineries. George's entire career has been spent in the wine business. For sixteen years, George has been working for the wine interests of the Baron Philippe de Rothschild, with the last 10 of those years as co-CEO of Opus One, a French/American joint venture winery and preeminent luxury goods wine brand. We welcome him and look forward to the implementation of his exciting plans for the future. In the meantime, wines of both Pine Ridge Winery and Archery Summit Winery continue to receive great reviews by the wine press.

Remember—wine is food; it has biblical antecedents. One glass each day of Pine Ridge or Archery Summit wine extends life and makes your fellow shareholders happy.

Depending upon your state liquor laws, you may order wine through the mail or on the Internet at *www.pineridgewinery.com* or *www.archerysummit.com*. Both wineries are quite beautiful from spring through the fall grape crush. Come visit and taste! Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822 and tell them you are a shareholder and ask for a tour.

MK Gold

MK Gold is traded on the NASD OTC Bulletin Board; Leucadia owns 72.8%. MK Gold owns Cobre Las Cruces, S.A., a Spanish company that owns the Las Cruces copper deposit in the Pyrite Belt of Spain. As a result of approximately 280 drill holes totaling over 82,000 meters, proven and probable reserves are estimated at 15.8 million metric tonnes grading 5.94% copper. A feasibility study completed by Bechtel International, Inc., estimates the capital cost will be approximately $290 million to bring the mine into production. Operating costs are estimated at $.33/lb of copper. Mining will be subject to permitting and obtaining both debt and equity financing for the project. A mining concession application, accompanied by the feasibility study and an environmental impact study, was submitted to the applicable governmental agencies during the first quarter of 2001. As of this writing at the end of March 2002, the process of obtaining the permits continues. There is no reason to believe it will not be issued, but we knoweth not when. Prayers for high copper prices are also in order.

FINOVA

FINOVA, a financial services holding company that emerged from bankruptcy in August 2001, is 50% owned by Berkadia, a joint company owned by Berkshire Hathaway Inc. and Leucadia. Berkadia made FINOVA a $5.6 billion loan to finance FINOVA's chapter 11 plan. Leucadia has guaranteed 10% of Berkadia's borrowings to fund the FINOVA loan. Leucadia has a ten-year management agreement with FINOVA and Larry Hershfield, a Leucadia employee, is the chief executive of FINOVA.

Leucadia owns, through Berkadia, 25% of FINOVA's common stock, receives $4 million of the management fee yearly, plus interest received on 10% of the Berkadia loan, less 10% of Berkadia's cost of funds. Leucadia also received $60 million of the $120 million in fees charged to FINOVA for the loan.

Since its chapter 11 restructuring, FINOVA's business activities have been limited to the orderly collection and liquidation of its assets and is not engaged in any new lending activities. Cash generated by these activities is used to pay operating expenses and interest on all the FINOVA debt and then the principal of the Berkadia loan. As of this writing, the loan is paid down to $3.9 billion.

The bulk of FINOVA's loans were to less than prime credits. After 9/11, significant additional reserves for impairment were taken, mainly on the hospitality and transportation portfolios. It is Leucadia's belief that the Berkadia loan will be paid in full, but FINOVA's other outstanding debt is substantially impaired and there will be nothing left for FINOVA's shareholders.[3]

Real Estate

FIDEI is a 100%-owned French subsidiary headquartered in Paris. When acquired, the Company had over 150 properties:

1999: 62 properties sold for pretax gain of $37.9 million

2000: 38 properties sold for pretax gain of $27.1 million

2001: 26 properties sold for pretax gain of $8.2 million

At December 31, 2001, 27 properties aggregating 858,000 square feet remain, with a book value of $28.7 million. These remaining properties should be sold during 2002. While the real estate is being liquidated, we are investigating selling the company, which has some French tax attributes. So far we have enjoyed a return of 19.7% on our original investment of $67 million. Our thanks to Zalmie Jacobs, Luis Medeiros, Jean-François Delepoulle and Jean-Frédéric Lambert.

At December 31, 2001, the Company's domestic real estate had a book value of $146 million. The most significant real estate investments are:

- A loan to and a residual equity interest in a master-planned community in San Diego County with 3,400 entitled residential units that are being developed by HomeFed Corporation. We also have a loan to HomeFed and a preferred equity interest in one of their projects.
- A 719-room hotel located on Waikiki Beach, called the Aston Waikiki Beach Hotel, which is being renovated. Rooms are available from $65 to $95 per night on Expedia.com and are selling briskly.
- Several small shopping centers that we are in the process of selling.
- Partial interest in the Brooklyn Marriott Hotel and an adjoining office building and parking structure. Empire profitably sublet its space in the office building to the United States Secret Service, who needed the space subsequent to 9/11, and to the New York City Board of Education.

We believe that these properties are worth something more than their carrying value.

Money and Other Things

At December 31, 2001, excluding amounts held by regulated subsidiaries, Leucadia has cash, cash equivalents and marketable securities of $805 million, plus $163.8 million in cash and securities collateralizing letters of credit. At December 31, 2001, Leucadia had credit facilities of $152.5 million, of which none was drawn. Total parent company debt, which excludes non-recourse debt of subsidiaries, was $194.5 million. Except for our investment in Berkadia described above, we are not responsible for the indebtedness of any of the partnerships and other companies in which we have investments.

During 2001, we repurchased none of our common stock.

[3] The stock is on our books for zero.

In 2000, Leucadia invested $100 million in JPOF II, a limited liability company that is a registered broker-dealer. JPOF II is managed and controlled by Jefferies & Company, and makes markets in high yield bonds. For the year ended December 31, 2001, Leucadia recorded $27.1 million of pretax income from this investment. Our thanks to the team.

In 2001, we invested $75 million in White Mountains Insurance Group, Ltd. (WTM-NYSE), for 375,000 common shares or about 4% of this Bermuda-domiciled financial services holding company. At December 31, 2001, these shares had a market value of $130.5 million.

In 2001, the Company invested $127.5 million for approximately 25% of the common stock in Olympus Re Holdings, Ltd., a newly formed Bermuda reinsurance company, primarily engaged in property excess, marine and aviation reinsurance. Joe Steinberg is its Chairman. This company was formed with the intention of benefiting from the expected increase in reinsurance pricing subsequent to 9/11. At the end of two years each shareholder has an option to withdraw if the shareholder believes prices for reinsurance are headed south as they seemingly always do. Though prices are definitely up, this investment is exposed to the usual risks reinsurance companies subject themselves to. Olympus' reinsurance contracts generally do not cover losses resulting from terrorist attacks, except for certain personal lines contracts. We will be carefully watching the Weather Channel beginning in late August.

Since 1982, we have invested an aggregate of $105 million in various entities owned or controlled by Jay Jordan and David Zalaznick. As of December 31, 2001, we have received $166.1 million back. Also at December 31, 2001, we hold interests in 45 Jordan/Zalaznick companies, carried at $59 million on our books, of which $43.8 million relates to public companies carried at market value.

The Future

2001 was a confusing year. It began with equity prices in the markets falling toward their historical means. We do better when markets are below their historical means, but we do little when they are far above. To our surprise, earlier this year there was a reversal of the downward trend towards the mean. Prices in the markets strengthened and the Federal Reserve and others announced the recession to be over. Time will tell whether this turns out to be true.

Our personal view is that there is a disconnect. The real economy is still in a period of readjustment whereby the ebullient speculative economy, i.e., the stock markets, are struggling mightily to maintain prices that suggest continued high growth rates that we do not think are sustainable.

Meanwhile, we continue to forage for undervalued or underappreciated investments. For what it is worth, we are busier this year than last, and although we usually are not high bidders, recently we have been closer to winning than losing and have bought a few small investments. We started at Leucadia together in 1978, with $53,000 which we borrowed on our credit cards. We have been enormously fortunate for which we are grateful beyond words. But we are 24 years older, richer and probably a bit lazier (at least one of us) and undoubtedly more conservative. We hope our shareholders find themselves in the same situation.

In the past Leucadia has occasionally invested a large percentage of its net worth in the purchase of a single investment. (For example, Avco in 1984, Baldwin United in 1986 and Colonial Penn in 1991.) It is hard to imagine investing the same percentage again in a single investment with our net worth today of $1.2 billion. We are intuitively most comfortable with investments in the $100–$200 million range. What that means is that we must not only find and manage good investments, but also multiples of them. To this end we are developing, successfully we think, several executives and teams who have the talent for sniffing out the extraordinary investment opportunity. If we cannot invest in compelling values, we prefer to leave Leucadia's money in the bank.

Complicating our efforts is the fact that there is more competition for the good deal than ever before. Traditional private equity funds have veered into our areas of expertise as well as hedge funds. An enormous amount of money has been raised for investing in distressed assets. All of this continues to make our job harder.

The "when are you going to slow down" bell has rung several times this year in one of our households! For the time being we are ignoring the peal.

We and our able staff and advisors will continue the search for attractive, safe investments that, over time, will return higher yields than those generally available in the market. If we are unsuccessful in our search, we and our fellow shareholders ought to give the money to someone else to manage.

After 24 years, this is still fun!

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

2002

Letter from the Chairman and President

To Our Shareholders

In 2002, Leucadia reported $161.6 million in after tax income or $2.88 per fully diluted share, which is a 10.5% return on ending equity. This return is slightly distorted by $150 million which was added to equity from the sale of stock late in the year, about which more later.

Since 1998 we have been the shrinking Leucadia, with assets of $2.9 billion at the end of 1998 and $2.5 billion at the end of 2002. Most of this decrease came as the result of sales of companies or earning assets to others who wanted them more than we. In retrospect, these were well-timed sales, achieved without payment of substantial taxes (more about that later), but leaving us with a few operating businesses, a number of investments in what we call "associated companies," a considerable cash and investment balance and, unfortunately, few opportunities, until recently. The various investments we did make have worked out pretty well and shareholders' equity has grown from $1.12 billion at the end of 1999 to $1.39 billion[1] at the end of 2002. This return is not too bad when compared with a return on an investment in the S&P 500, which peaked in early 2000 and has had three down years since then, not to mention the NASDAQ 100, which is down 73% over the same period. While we feel badly for the individual investors who suffered from the bursting of the bubble, we applaud these declines as they may indicate that rationality is returning to the investment world.

Before going on to a detailed review of the year with its successes, failures, opportunities and risks, this chart[2] shows the reader how we think about our year end assets and liabilities (in millions).

Assets		Liabilities and Net Worth	
Subsidiary Operating Companies	$ 347.1	Corporate Debt and TRUPS	$ 288.4
Associated Companies	$ 665.5	Other Corporate, net	$ 65.9
Corporate Cash and Investments	$ 876.2	Net Worth	$1,534.5

We have never spent much time worrying about our income statement. For the most part, it is indecipherable anyway given the arcane and constantly changing rules of GAAP. It seems many accountants have been spending all of their time writing new rules. In the future, we hope they will give as much effort to auditing to make sure their clients are not crooks and that their financial statements actually comply with the rules.

We follow our own few rules. First, don't overpay. Second, don't overstate earnings or the balance sheet. Third, pay as little tax as the law allows. Fourth, don't break the rules. Following these principles has led to satisfactory growth in shareholders' equity and peace of mind.

Bermuda

We didn't go to Bermuda—not for the lack of trying, but because our stock price was too high and tax costs unbearable. The shareholder resolution approving the move to Bermuda was approved resoundingly and remains in effect until the 2005 shareholder meeting.

[1] This number excludes the $150 million in new equity, which we raised by selling stock in December 2002.

[2] These are unconsolidated figures on an equity method basis rather than the consolidated numbers that you can see on our audited year end balance sheet. The SEC says we can't report these to you without presenting at the same time the most directly comparable GAAP measures. So "Subsidiary Operating Companies" represents $820.2 million of assets net of $473.1 million of liabilities and "Other Corporate, net" represents $80.1 million of assets net of $146 million of liabilities on our consolidated balance sheet.

Banking and Lending

Leucadia's banking and lending operations are principally conducted through American Investment Bank, N.A. (AIB), a national bank subsidiary, and American Investment Financial (AIF), a Utah industrial loan corporation. The FDIC insures the deposits of both AIB and AIF. Together, AIB and AIF had deposits of $392.9 million at December 31, 2002. Consolidated loans of the two entities at December 31, 2002, were $373.6 million. At December 31, 2002, 55% were loans to individuals generally collateralized by automobiles; 38% were loans to individuals, substantially all of which were collateralized by real or personal property; 4% were loans to small businesses; and 3% were unsecured loans. Most of the individuals are considered by us and our regulators to be "sub-prime borrowers," which means they either don't pay their bills on time or have too much debt.

Though profitable for many years, in September of 2001, in response to negative trends in delinquencies and losses, AIB exited its largest market segment, sub-prime auto. It was the right decision. During 2002, we witnessed the struggling economy push losses to extremely high levels in that portfolio. In response, we increased our loan loss reserve by $10 million in September 2002 and believe that we are adequately reserved for losses. The Bank remains very well capitalized.

In 2002, the same troubling trends we saw in auto appeared in the rest of our portfolios. Given these trends and the fact that we do not see any signs of a recovering economy, we have decided to take a break from consumer lending. The possible rewards of lending to consumers do not justify to us the current levels of risk—at least at this time.

With no lending activities, our primary focus is on servicing or selling our existing loan assets and efficiently winding down our consumer-based operations. While we continue to search for opportunities to leverage our banking charters, we will not sacrifice profitability for the honor of owning a national bank or the privilege of borrowing with the full faith and credit of Uncle Sam.

Our regulators are very concerned about all sub-prime institutions and, not withstanding our good intentions by exiting these businesses, they insisted we sign an agreement memorializing our exit from the sub-prime market.

Manufacturing

Conwed Plastics is a leading manufacturer of proprietary lightweight plastic netting used for a variety of purposes including construction, agriculture, packaging, carpet padding, filtration and consumer products. The products are primarily used to add strength to other materials, as in carpet padding, or to act as a barrier, as in warning fences, or as crop protection from birds. Conwed's netting is engineered into thousands of other manufacturers' products.

Conwed markets its products both domestically and internationally with approximately 16% of its sales in Europe, Latin America, Japan and Australia. Conwed primarily sells its products through an employee sales force located in the U.S. and Europe.

Results are as follows:

(In millions)	1998	1999	2000	2001	2002
Sales	$56.6	$64.0	$65.0	$53.7	$50.7
Pretax profits	$10.1	$11.9	$11.3	$7.8	$3.1
Return on average equity	39.7%	42.2%	28.7%	16.5%	7.8%

Conwed's profits and returns were negatively impacted in 2002 by a charge of $1.25 million related to the write down of assets resulting from the loss of business with a single consumer products company and the poor performance of our new European manufacturing operation.

John Rosenberger, Conwed's CEO for the last 18 years, retired at the end of 2002. During John's long tenure, he built a fine company and turned in sterling returns on equity. We thank John for his years of effort and for the $82 million of lovely cash he generated for Leucadia! John has been succeeded by Mark Lewry. Our hope is that Mark can create a similar record over the next 18 years!

A slow economy and competitive pressures kept revenue on a downward trend in 2002. Price reductions of $1.7 million were given in key market segments to maintain market share. This along with the loss of business in the consumer products area accounted for the revenue reduction compared to last year. Significant reductions in variable costs and overhead totaling $2.9 million helped improve operating income by $.6 million for the year. The European plant was operational for the first full year in 2002, but results did not meet expectations. Efforts are ongoing to improve cost efficiencies and increase capacity utilization. The goal is to generate positive cash flow in 2003 from this plant. Building and starting up a new plant contemporaneously with an economic downturn was not smart!

The economy does not show signs of dramatic improvement in the near future. The cost of Conwed's primary raw material rose 50% in 2002 and is expected to go higher in the coming year. These are challenging times for Conwed. Continuing and redoubled efforts to further reduce fixed and variable overhead, regain desirable margins in existing markets, and focus efforts on new business development opportunities are the keys to getting revenues back into a growth pattern and returning profitability to past levels! This is going to be a difficult job and we wish Mark and his team good fortune!

Winery

The Company owns two wineries: Pine Ridge in Napa Valley, California and Archery Summit in the Willamette Valley, Oregon. Pine Ridge, which was acquired in 1991, was born in 1978. Archery Summit was built from scratch in 1993. These wineries primarily sell wine in the luxury segment of the premium table wine market, $25–$135 retail per bottle. During 2002, the wineries sold approximately 77,700 9-liter equivalent cases of wine for $15.7 million.

Leucadia has invested $60.9 million in the wineries, mostly in vineyard development in Napa Valley and the Willamette Valley. At the present time, absent a large acquisition, we do not see the necessity for further investment. The wineries are generating sufficient cash internally and so far the economic downturn seems not to have hit our segment.

The 2002 year end issue of the *Wine Spectator*, the premier commentator on wines and the wine business, included an annual list of the 100 best wines in the world. To our great pleasure, #4 on said list is 1999 Pine Ridge Stags Leap Cabernet Sauvignon and #46 is the 2000 Pine Ridge Carneros, Dijon Clones Chardonnay.[3] A spectacular result—congratulations to Stacy Clark, our wine maker, and the rest of the staff. George Scheppler, who just celebrated his one year incumbency as President and CEO, is our oenological rabbit's foot!

Remember—wine is food, and has been since Homer imagined the voyage of Odysseus across the "wine-dark seas." A glass of Pine Ridge or Archery Summit wine each day is good for your health, your good cheer, and makes your fellow shareholders happy!

Depending upon your state liquor laws, you may order wine through the mail or on the Internet at *www.pineridgewinery.com* or *www.archerysummit.com*. Both wineries are quite beautiful from spring through the fall grape crush. Come visit and taste! Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822 and tell them you are a Leucadia shareholder, ask for a tour and become a member of our wine club.

[3] Sadly, both of these wines are sold out.

MK Gold

MK Gold is traded on the NASD OTC Bulletin Board (Symbol: MKAU.OB); Leucadia owns 72.8%. MK Gold owns Cobre Las Cruces, S.A., a Spanish company that owns the Las Cruces copper deposit in the Pyrite Belt of Spain. As a result of approximately 280 drill holes totaling over 82,000 meters, proven and probable reserves are estimated at 15.8 million metric tonnes grading 5.94% copper. A feasibility study completed by Bechtel International, Inc. estimates the capital cost will be approximately $290 million to bring the mine into production, excluding interest and other financing costs. Cash operating costs are estimated at $.33/lb of copper. Opening the mine will be subject to permitting and obtaining both debt and equity financing for the project. A mining concession application, accompanied by the feasibility study and an environmental impact study, was submitted to the applicable governmental agencies during the first quarter of 2001. As of this writing at the end of March 2003, the process of obtaining permits continues. There is no reason to believe they will not be issued, but we knoweth not when. Prayers for high copper prices and friendly bankers are also in order.

FINOVA

FINOVA, a financial services holding company that emerged from bankruptcy in August 2001, is 50% owned by Berkadia, a company jointly owned by Berkshire Hathaway Inc. and Leucadia. On August 21, 2001, Berkadia made FINOVA a $5.6 billion loan to finance FINOVA's chapter 11 plan. Leucadia has guaranteed 10% of Berkadia's borrowings to fund the FINOVA loan. Leucadia has a ten-year management agreement with FINOVA.

Larry Hershfield, our long-time Leucadia colleague was the Chief Executive of FINOVA until his departure in September of 2002. Larry has gone to seek his fortune doing transactions for his own account. After 17 years with us, he will be missed and we wish him great success.

Tom Mara, our long-time Executive Vice President, has become the new CEO and Glenn Gray, a FINOVA executive, was promoted to COO. Together they are a formidable team and are doing a splendid job.

Leucadia owns, through Berkadia, 25% of FINOVA's common stock and shares the $8 million annual management fee equally with Berkshire, plus receives interest on 10% of the Berkadia loan, less 10% of Berkadia's cost of funds.[4] Leucadia also received in 2001 $60 million of the $120 million in fees charged to FINOVA for the loan.

Since emergence from bankruptcy in August 2001, FINOVA's business activities have been limited to the orderly collection and liquidation of its assets. FINOVA is not engaged in any new business development activities, except to honor existing customer commitments and to restructure financing relationships with existing customers in an effort to maximize their value. As a result, FINOVA's workforce has been restructured to focus exclusively on these activities and staffing levels have been reduced in a manner that is consistent with the reduction in assets.

Management does not expect that there will be sufficient funds to fully repay FINOVA's New Senior Notes, which get paid after the Berkadia loan, and if so, there will not be a return to the FINOVA stockholders—both results are consistent with our expectations subsequent to 9/11.

For further details, we recommend you read the FINOVA 10-K.

[4] Through December 31, 2002, these payments totaled $17.8 million.

WilTel Communications

In the fourth quarter of 2002, Leucadia acquired 44% of the 50 million shares of outstanding common stock of WilTel Communications Group, Inc. for an aggregate purchase price of $330 million. The WilTel stock was acquired under the chapter 11 restructuring plan of Williams Communications Group, Inc. In October 2002, in a private transaction, we purchased an additional 1,700,000 shares of WilTel common stock for $20.4 million. Together, these transactions resulted in Leucadia acquiring 47.4% of the outstanding common stock of WilTel for an aggregate purchase price of $350.4 million. After the bankruptcy, the company changed its name to WilTel Communications Group, Inc., and is now a publicly traded telecommunications company that owns or leases and operates a nationwide inter-city fiber optic network extended locally and globally to provide Internet, data, voice and video services. WilTel is listed on the NASDAQ (Symbol: WTEL).

Some WilTel facts:

- Nearly 30,000 miles of fiber optic cable, of which 28,554 is currently in use;
- Local fiber optic cable networks within 20 of the largest U.S. cities;
- 120 network centers located in 107 U.S. cities;
- Operational border crossings between the U.S. and Mexico, via California and Texas, and between the U.S. and Canada, via Washington, Michigan and New York;
- Capacity on five major undersea cable systems connecting the continental U.S. with Europe, Asia, Australia, New Zealand and Hawaii.
- WilTel's principal customers are other carriers and its largest customer is SBC Communications, which accounts for approximately 40% of its revenues under a long-term contract.

For a more detailed description of WilTel and its operations, we recommend interested shareholders consult the WilTel 10-K, a copy of which we are including with our annual report. The complexity and distress of the telecommunications industry is fully described therein and we thought that given our large investment you ought to have an opportunity to read it. WilTel is a work in progress. There has been much accomplished but there is much more to do. When we made the investment, we were aware that the telecommunications industry was experiencing great instability and therein was the opportunity. We were not aware that the company was as organizationally disheveled as it turned out to be. This fact has not changed our long-term enthusiasm for the investment, but has put significant pressure on cash and survivability in the short term. WilTel will likely need to raise additional capital in the next several years.

When we first became involved with WilTel the directors planned to undertake a national search for a CEO, but quickly decided that given the essential need for a quick restructuring the best candidate was in our midst. Jeff Storey, then Vice President and General Manager of Operations, although not yet CEO-hardened, was the obvious choice. His promotion was well received in the bankruptcy-battered company. Jeff is significantly responsible for WilTel's best trait—a national wholesale fiber optic network that we believe is best in its class. Bud Scruggs and the Leucadia Asset Management Group he heads have provided Jeff lots of fingers to stick in leaking dikes whilst he remakes the company.

Accomplishments To Date:

- In the last eight months, head count has been reduced from 3,000 to 2,200. In the past six months, 53 vice presidents have been reduced to 15. The previous organizational structure looked like a wedding cake. It has been collapsed and currently resembles a blueberry pancake!
- In spite of the turmoil of bankruptcy and the significant downsizing, the world class operational performance of WilTel's network has remained best in class. (The Atlantic-ACM "Wholesale Carrier Report Card" ranked WilTel first overall among wholesale carriers.)
- Refocused the organization from internal product-centric focus to external customer focus.
- Reduced run rate costs between January 2002 and 2003 by $18.7 million or $224 million per annum.
- Hired an experienced senior sales manager from outside the company. We wish Pete Bell and WilTel a profitable, energetic sales-driven future together.

Challenges That Remain:

- The biggest challenge continues to be growing profitable revenue in the face of declining prices occasioned by overcapacity and bankruptcy of our competitors who are pricing for short-term cash development. WilTel is winning business and expanding whilst it restructures its marketing, but it is slow going. There are signs that price erosion may be ebbing.
- Becoming the low *cost* provider.
- Carefully husband WilTel's cash. Carefully control capital expenditures and aggressively manage working capital.
- Put a plan in place for future funding when it becomes necessary.

We remain confident that our investment over the long term will be a good one.[5]

A special thank you to our "anchor tenant" and largest customer, SBC. WilTel did them a great disservice by stumbling into bankruptcy. SBC's senior management has been tough, demanding and helpful. SBC's and WilTel's original concept of outsourcing carriers' networks was brilliant strategically and saved SBC substantial capital investment. It is the newly emergent WilTel's job to deliver the goods for SBC and its other customers.

From an income statement point of view, Leucadia is required to record its share of WilTel's profits or losses. This will mean that while WilTel may be progressing nicely, we could be showing losses until our investment is reduced to zero. We will explain this all again in next year's annual report.

WebLink

On the last day of 2002, we purchased 80% of the common stock of WebLink Wireless, including its $21 million in unrestricted cash, 100% of its $18.8 million of Senior Secured notes, and 89% of its $20.5 million of PIK notes, all for $19 million. WebLink had revenues of $160.3 million for 2002, having fallen from a peak of $324.4 million in 1999. WebLink is a paging and 2way messaging company, whose fortunes along with all its competitors have fallen on hard times due to the march of technology, where cell phones have supplanted the pager for most users. At one time there were

[5] Our fingers are crossed.

about 38 million pagers, today maybe 15 million. The market cap of the industry has fallen from about $4 billion to almost zero. We don't expect a rebound but believe that a consolidation of the survivors will produce an attractive cash flow, as there seems to be a base demand for paging and 2way messaging from business users who need to communicate with their employees, but who do not want to pay for chatting on cell phones to Granny and surfing the net. This is a classic "cigar butt" investment, a term which an investor we admire coined referring to an industry with one or two puffs left. Though we are agnostic on the point, the management of WebLink believes that new attractively priced 2way devices which hopefully will be available later this year and telemetry products offer upside potential. We hope they are right and will encourage their efforts.

Real Estate

During 2002 we sold our interest in Compagnie Fonciere FIDEI, our French real estate subsidiary, and recorded an increase to equity of $12.1 million. This sale winds up a successful investment brought to us through the efforts of Zalman Jacobs and Luis Medeiros.

At year end, we had $85.2 million invested in domestic real estate. These properties include residential land developments, commercial properties and land in various stages of development. The final sell-out of our property in Rosemary Beach, Florida is almost complete. Kudos to Patrick Bienvenue for a successful project.

During the fourth quarter of 2002, we sold CDS Holding, one of our domestic real estate subsidiaries, to HomeFed Corporation for $25 million, paid with $1 million in cash and 24,742,268 shares of HomeFed's common stock, representing 30.3% of the outstanding shares. Many of our long-term shareholders are HomeFed shareholders (both of us own substantial stock in HomeFed and are directors), having received the shares through a 1998 dividend. HomeFed trades on the NASD OTC Bulletin Board (Symbol: HFDC.OB).

Maryland Jockey Club

In November 2002, the Company sold its 40% interest in a thoroughbred racetrack business in Maryland for net proceeds of $28 million and recorded a pretax gain of $14.3 million. We retained for 20 years an approximate 15% profits interest in gaming opportunities other than horse racing developed by the buyer. Zalman Jacobs and Luis Medeiros also engineered this successful investment. Luis regrets that he no longer has a good excuse for spending time at the track.

Empire

From a financial perspective, the sad story of Empire Insurance Company is behind us since our remaining equity was written off last year; from an operating perspective, it is not. During 2002 the significant downsizing of Empire continued. Under the general direction of Bud Scruggs, Rocco Nittoli continues the important but thankless task of escorting Empire to the doors of the hereafter! Asked recently, what's up, here is what Rocco said:

> "Every time we make some progress, we are quickly reminded about marketplace events that continue to exhaust our very limited capital—auto fraud, increasing settlement values for claims in litigation, and inadequate rates for the coverage being provided. During 2002, net earned premiums totaled $13.9 million, a decline of $50.2 million from 2001. This decline was not pain-free, and at December 31, 2002, the Empire Group's statutory surplus totaled $16.4 million, a decline of $6.8 million from the prior year.

The road ahead remains bumpy and the statutory surplus is critically low. Frequent downsizing and restructuring is necessary to minimize the inefficiencies that result from running off an insurance operation and we must find ways to put an end to Empire's surplus erosion. Given the extended period of time to report and settle liability claims, many years will expire before we know if any value from Empire can ever be reclaimed. We are hopeful, but not optimistic."

Rocco is doing a great job!

Money and Other Things

As mentioned previously, one of our rules is to pay as little tax as the law allows. In 2002, the Internal Revenue Service completed the audit of Leucadia's consolidated federal income tax returns for the years 1996–1999, without any material tax payments required. The 2002 results reflect a reversal of approximately $120 million of tax accruals arising from good tax planning and the use of net operating loss carryforwards from acquired companies. Our thanks especially go to Joe Orlando, our CFO; Phil Cannella, Director of Taxes and Mark Hoenig of Weil, Gotshal & Manges.

Leucadia owns 25% of the common stock of Olympus Re Holdings, Ltd, a Bermuda reinsurance company primarily engaged in the property excess, marine and aviation reinsurance business. For 2002, we recorded $24.1 million in pretax income for this investment that had a book value of $155.7 million at the end of the year. There were no catastrophes related to weather to speak of in 2002, which provided the high return. Reinsurance rates remain high for the time being, which augur well for the near future. Again, we will start watching the weather channel in August.

In 2002, we recorded $15.2 million of pretax income from our $100 million investment in JPOF II, an investment which mirrors the high yield trading desk of and is managed and controlled by Jefferies & Company, Inc.

Leucadia owns 4.5% of White Mountains Insurance Group, a publicly traded Bermuda-domiciled financial services holding company. The market value of our holding at December 31, 2002 was $121.1 million against a cost of $75 million.

Since 1982 we have had a very pleasant and successful partnership with The Jordan Company and Jordan/Zalaznick Capital Company. These entities specialize in structured leverage buyouts. During 2002, The Jordan Company raised a $1.5 billion fund to conduct these future operations. Leucadia committed to invest $10 million in the general partner of the fund. Since 1982, this relationship has been very profitable for both sides but now the former partnership comes to an end, as all future transactions will be done in their new fund.[6]

Jay Jordan came into our lives shortly after business school, when the undersigned were learning their trade at Carl Marks & Co. under the tutelage of Robert Davidoff and Ed Marks.

Jay is a smart, energetic, sparkly-eyed Notre Dame Irish linebacker type. Our first encounter was listening to him explain with great conviction that we should ignore the fact that he hadn't graduated "officially" from the Columbia Business School because he refused to take physical education. He was hired at Carl Marks in the summer of 1971 and our lives have been intertwined ever since. He is our brother!

We wish Jay and David Zalaznick great success in the new chapter of their business life.

[6] Leucadia has earned $110.9 million since inception of its relationship with The Jordan Company and carries 40 investments on our books for $62 million, which will eventually be sold.

During 2002, we acquired an additional 15% of Barbados Light and Power, raising our ownership percentage to 36%. We urge all shareholders to visit Barbados frequently and keep their lights on and the room temperature set to very cool.

In December 2002, the Company completed a private placement of approximately $150 million of Leucadia common stock at $35.25 per share to the mutual fund clients of Franklin Mutual Advisers, LLC. The price was satisfactory to us, and in the business environment ahead there will be no such thing, for Leucadia, as too much liquidity.

At December 31, 2002, Leucadia had readily available cash and marketable securities of $680 million, excluding amounts held by regulated subsidiaries and $170.1 million of cash and securities collateralizing letters of credit.

The Future

As we write this, the ground war in Iraq has just begun. This has produced, in at least one of us, a miasma over what would have otherwise been outright enthusiasm for investment opportunities as asset prices deflate to more sensible levels after 15 years in the stratosphere.

No matter what, wars are expensive, disruptive and bring unintended consequences. At least two of our fellow hardworking employees have been called to active duty and perhaps into harm's way. We pray for their safe return. We are in a very cautious mood. We will, however, persevere in the work for which the shareholders compensate us so handsomely.

Lastly we want to pay tribute to our friend and colleague, Barry Burris who died on May 10, 2002. When we first became involved in the enterprise which has become Leucadia, Barry was the second partner on the account from Coopers & Lybrand. Shortly thereafter, he became the partner in charge of the Leucadia account. In many ways Barry was our mentor, teaching us the arcane and sometimes silly rules of GAAP, warning us away from transactions where our enthusiasm did not match the numbers uncovered by due diligence and most of all by being a good friend. He was an important influence in the lives of our key executives including Jane Goldman, Joe Orlando, Tom Mara and, most of all, our retired CFO, Norm Kiken. In semi-retirement, Barry could most often be found on his boat, but was always available to be hauled ashore for a consultation. In several battles over accounting issues, Barry forcefully advocated our position to victory. But as much as he fought for us when we were right, he was equally effective in fighting with us when we were wrong. And for that we are grateful and will miss him very much. In this age of Enron and discredited accounting firms Barry was the exact opposite, bringing credit to his chosen profession.

Thanks to one and all of our employees and advisors who have assisted our efforts this last year.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

2003

Letter from the Chairman and President

To Our Shareholders

In 2003, Leucadia reported $97 million in after tax income or $1.57 per fully diluted share. Included in this calculation are 11,156,460 shares issued in November 2003 for the remainder of WilTel we did not already own. WilTel is now a wholly-owned consolidated subsidiary. In 2003, Leucadia earned an anemic 4.5% return on ending equity.

Since December 31, 1978, shareholders' equity has grown from a deficit of $7.7 million, when this management took over, to equity of $2.13 billion at December 31, 2003. From December 31, 1979[1] to December 31, 2003, book value has compounded at 20.85% per annum and the market price of Leucadia common stock has compounded by 25.19%. During the same period, the S&P 500 compounded at 10.21%. In addition, not included in this calculation are dividend payments of $945.2 million including the special dividend paid in 1999. Also during the same period, we repurchased 44,010,684 split-adjusted Leucadia shares for $331.2 million, at an average price of $7.53 per share.

Financial assets remain very expensive and markets frothy. Prospects for the economy seem neutral at best, but the prices of financial assets are predicting a rosy future. Here are the things we worry about which point in the opposite direction:

Interest rates are at a historical low point. If the economy falters there is not much room for stimulation. Can short term rates go much lower than 1%? (Japan's experience is not encouraging, but we hasten to add that we do not know much about Japan.)

The steep yield curve has encouraged Wall Street's love affair with the "Carry Trade" which will come to tears when interest rates rise, not only causing the speculators to lose money, but seriously disrupting financial markets. ("Carry Trade" means buying, for example, a batch of United States ten year bonds yielding 4%, financed by overnight borrowings at 1% and hoping nothing changes.)

The current account deficit continues to be stubbornly negative and continues to grow.

We sell less and less to the rest of the world. Foreign grown agricultural commodities have become more competitive and plentiful, worldwide manufacturing is moving to China and the outsourcing of labor to foreign lands is becoming more practical due to advances in communications. (Will all our children be hedge fund managers and bond traders?)

Due to the war in Iraq and the costs related to combating terrorism, the Federal government will run large budget deficits for the foreseeable future. State and local governments are in the same pickle. Higher taxes will be needed to fund these deficits.

Since our domestic savings rate is very low, we rely on the kindness of strangers, i.e., foreign investors and governments to fund our deficits by buying Treasuries. Japan has been buying billions per month during 2003. When Japan finally gets its house in order won't it need money to invest in its own economy?

The Dollar has depreciated so sharply against other major currencies, causing foreign investors to lose a lot of money, and, at least in the short run, making us a risky place to invest. At the beginning of 2003 there were .97 Euros to the Dollar. It is now .81 Euros. The same slice of pizza in Rome at the end of the year was either 16.5% smaller in size or cost 19.7% more in dollars than at the beginning of the year. Our fall trip to Italy is going to cost BIG BUCKS.

Housing prices have gone through the roof. The housing lots of our affiliate, HomeFed Corporation, and our lot developments in Florida are in great demand and have appreciated greatly in price,

[1] We can't use 1978 year end because the ending equity was negative.

funded, we believe, by the availability of low or no down payment mortgage financing. Our anecdotal experience is that homebuyers are buying bigger houses, taking on the maximum allowable debt, financed by variable rate mortgages? What happens when variable rates double from 2% to 4% is anybody's guess, but the housing and construction markets will certainly not benefit. Chairman Greenspan suggested recently that homebuyers finance with variable rate mortgages and forego the security of higher cost, fixed rate financing. To our mind this is the "Carry Trade" comes to Main Street.

Oil and energy prices have risen dramatically in the last year. At the beginning of 2003 domestic crude oil was $31.85 per barrel. At March 30, 2004 it was $36.25. As might be expected, coal and gas prices have similarly risen. As citizens we seem to have no or little interest in curbing consumption.

Lastly, there seems to be meager growth in employment with many formerly well paid workers being either laid off or forced to take pay cuts.

So why is the Dow Jones over 10,000 and the NASDAQ 100 over 1,400? We don't know why, but have concluded that this is a good time to husband our readily available cash and marketable securities, which were $1.2 billion at year end.

Now for the good news. Several interesting and profitable businesses and transactions came to our attention this year, more about them later. We remind ourselves and our shareholders of a few principles guiding our acquisitions and business conduct.

1. Don't overpay.
2. Buy companies that make products and services that people need and want and provide them as cheaply as possible with consistently high quality. Search out candidates in out-of-favor industries that have turn-around potential. Our record as midwives to resuscitating disorganized, unprofitable, bedridden and moribund companies is pretty good.
3. Earnings sheltered by net operating loss carryforwards (NOLs) are more valuable than earnings that are taxed by the IRS.
4. Pay employees for performance and expect hard work and honesty in return.
5. Don't overpay.

Our long term hope is to compound equity per share at a better than average rate. If we succeed, our shareholders will be well served. When we see few attractive opportunities we stay out of the market.

Before going on to a detailed review of the year with its successes, failures, opportunities and risks, this chart[3] shows the reader how we think about our year end assets and liabilities (in millions).

Assets		**Liabilities and Net Worth**	
Subsidiary Operating Companies	$1,000.5	Corporate Debt	$ 560.3
Associated Companies	$ 430.9	Net Worth	$2,134.2
Other Corporate, net	$ 25.4		
Corporate Cash and Investments	$1,237.7		

[2] On March 20th, we sent reservation letters to prospective purchasers of lots at Draper Lake, our new 95-lot development project in Walton County, Florida. We received nearly 190 expressions of interest from the owners at our other development project, Rosemary Beach, also in Walton County, Florida. Binding contracts are expected soon. An extraordinary sellout, if it happens.

[3] These are unconsolidated figures on an equity method basis rather than the consolidated numbers that you can see on our audited year end balance sheet. The SEC says we can't report these to you without presenting at the same time the most directly comparable GAAP measures. So "Subsidiary Operating Companies" represents $2,499.3 million of assets net of $1,498.8 million of liabilities and "Other Corporate, net" represents $178.8 million of assets net of $153.4 million of liabilities on our consolidated balance sheet.

WilTel Communications Group

In the fourth quarter of 2002, Leucadia acquired 44% of the 50 million shares of outstanding common stock of WilTel (formerly Williams Communications Group, Inc.), for an aggregate purchase price of $330 million. The WilTel stock was acquired pursuant to the chapter 11 restructuring plan of Williams Communications Group, Inc. In October 2002, in a private transaction, we purchased an additional 1,700,000 shares of WilTel common stock for $20.4 million. Together, these transactions resulted in Leucadia acquiring 47.4% of the outstanding common stock of WilTel for an aggregate purchase price of $350.4 million.

In November 2003, Leucadia purchased the balance of the WilTel common stock it did not already own in an exchange offer for 11,156,460 Leucadia common shares, which were recorded at a value of $422.8 million. WilTel is now a wholly-owned, consolidated subsidiary of Leucadia.

For a more detailed description of WilTel and its operations we recommend that interested shareholders consult the 10-K attached, pages 5-18. The complexity and distress of the telecommunications industry is described in detail therein and we think that, given our large investment, you should read it. This is by far the largest investment Leucadia has made to date. WilTel is a work in progress. Much has been accomplished but much more remains to be done. When we made the investment, we were aware that the telecommunications industry was experiencing great trauma and therein was the opportunity. We were not aware that the Company was as organizationally disheveled as it turned out to be. The dishevelment has been remedied.

Last year we reported the battlefield promotion of Jeff Storey from Vice President and General Manager of Operations to CEO. WilTel's shining jewel and best competitive advantage is its modern efficient network. Jeff and his team are our kind of people—moderate respect for authority and a dedication to excellence and truth! We now have a battle-hardened CEO building a team selling the advantages of a high quality, reliable, low-cost network.

What follows is a list of facts, accomplishments and challenges as we and Jeff see them.

WilTel Facts:

- Nearly 30,000 miles of fiber-optic cable, of which 28,627 is currently in use.
- Local fiber optic cable networks within 36 of the largest U.S. cities.
- 118 network centers located in 107 U.S. cities.
- Fiber-optic cable connecting the U.S. and Mexico in California and Texas; and the U.S. and Canada in Washington, Michigan and New York.
- Capacity on five major undersea cable systems connecting the continental U.S. with Europe, Asia, Australia, New Zealand, Guam and Hawaii.
- A long term contract with SBC, its largest customer, which accounts for approximately 52% of WilTel's total 2003 revenues under a long-term contract. SBC's business with WilTel is growing.

Accomplishments To Date:[4]

- Since the beginning of 2002, headcount has been reduced from 3,900 to 1,970. This included dropping from fifty-five vice presidents to nine.
- Segment operating performance[5] has turned around from a $45 million loss in 2002 to income of $79 million in 2003.
- 2003 revenue grew by 13%, improved gross margin by 11% and reduced operating expenses (excluding depreciation and amortization expenses) by 24% in 2003 versus 2002.
- WilTel's voice business grew, carrying 3.3 billion minutes per month. (3.3 billion minutes/month is 100 million minutes/day, 4,166,166 minutes/hour and 69,444 minutes/minute—a lot of people talking all at once!) This is up from about 1.7 billion/month in January of 2003.
- The Atlantic-ACM "Wholesale Carrier Report Card" ranked WilTel first overall among wholesale carriers for the third year in a row. WilTel ranked first in five of the six categories in the survey: customer service, provisioning, billing, pricing and products.[6]
- Turned its Vyvx business profitable by shutting down non-profitable lines of business and reestablishing the market leadership in technology and customer relationships. Vyvx is the premiere provider of broadcast quality video transmission.
- Demonstrated courage, commitment, competence and flawless execution by launching for the first time High Definition TV transport over an IP infrastructure for the 2004 Super Bowl, one of the world's most watched sporting events.
- Met the operational needs of our largest customer, SBC, in an efficient and timely manner.

Challenges That Remain:

- The biggest challenge continues to be growing revenue in the face of declining prices, occasioned by continued overcapacity. WilTel is winning new business and expanding whilst it restructures its marketing, but it is slow going. There are feeble signs that price erosion may be ebbing, but more slowly than we had hoped.
- Sorting out the future of Internet telephone calls, Voice Over Internet Protocol (VOIP) and its effect, positive or negative, on WilTel.
- Continuing to serve the needs of WilTel's largest customer, SBC, at mutually agreeable prices.
- Carefully husbanding WilTel's cash and aggressively managing working capital.
- Carefully controlling capital expenditures to include only projects where the return on investment makes sense.
- Developing new products and services for data customers.
- A net operating tax loss carryforward of $3.4 billion as of year end offers a tantalizing opportunity to shelter future profits and examine sensible merger/acquisition opportunities. WilTel's other tax attributes provide future tax deductions that will be partially available to shelter a portion of Leucadia's other earnings.

4 WilTel became a consolidated subsidiary of Leucadia in November 2003. The amounts below include amounts reported by WilTel for periods both before and after it became a consolidated subsidiary.

5 Segment operating performance is income before income taxes, interest expense, investment income, depreciation and amortization expense and other non-operating income and expense.

6 WilTel's goal is to rank first in the sixth category, network, next year.

We remain confident that our investment over the long term will be a good one. Some good luck and a few prayers will help!

Healthcare Services-Symphony Health Services

In September 2003, Leucadia acquired Symphony Health Services which is primarily engaged in physical, occupational, speech and respiratory therapy. The purchase price was $36.7 million including expenses, of which approximately $29.2 million was provided by non-recourse secured financing. Revenues for the four months ended December 31, 2003 were $71 million.

Symphony currently operates in 40 states, providing services at 2,000 locations, with a workforce of 4,900 employees, some part-time. Their services are offered under the following brands: RehabWorks, Symphony Respiratory Services, NurseWorks and Polaris Group.

Symphony offers the opportunity to healthcare providers to outsource some of their patient's treatment needs. Some nursing homes, for instance, don't need a full-time physical therapist but are required to have the service available on demand. Symphony's employees can work part-time during the hours of their choice. This need for services and this desire for work mesh nicely. Fortunately for Symphony, as the population ages, the demand for healthcare professionals grows. Recruiting therapists as well as customers are the major factors in Symphony's successful business model.

The management is provided by one Sally Weisberg. Sally was originally a therapist who, in 1987, founded the predecessor to Symphony and several years later sold it for a nice profit. The buyer, also in the healthcare industry, ended up with its whole collection of companies in bankruptcy, much to Sally's chagrin. Working diligently, Zalman Jacobs and Luis Medeiros (of FIDEI, Maryland Jockey Club and Waikiki hotel fame) convinced Sally that we would be satisfactory partners and together they extracted Symphony from the bankruptcy process. After three years of bankruptcy trials and tribulations, Symphony joined the Leucadia family.

Sally has set a challenge for all new Leucadia company investments. Her target is to pay back our investment this year! If accomplished, it will be formally named "The Weisberg Maneuver".

We are optimistic about future growth both organic and through possible mergers. If you know of any candidates, call Sally at (443) 886-2200.

Manufacturing

Conwed is a leading manufacturer of lightweight plastic netting used for a variety of purposes, mostly to provide barriers or to strengthen other materials in industries such as construction (plastic fencing), agricultural (bird net and sod net), carpet padding, packaging (reinforced shipping paper) and consumer products (strengthening mop pads and industrial hand wipes). Our netting ends up in thousands of products that are sold throughout the world. Our products are manufactured in Minneapolis, Minnesota; Athens, Georgia; and Ghent, Belgium. In 2003, 16% of the revenues resulted from sales outside the U.S.

This company has good and bad attributes. The bad ones are lots of price competition, ever unstable raw material prices and product substitution by other materials. It must constantly reinvent itself with new product offerings. In 2004, we launched a new biodegradable product which is being sold into the erosion control market. We spend between 2% and 5% of sales on the reinvention effort.

The good attributes are that the company rides the waves of the U.S. economy and gives us advance warning of market softness. Over all the years, good and bad since March 1985, Conwed has given us a very high return on investment. Some might call Conwed a cash cow, but we prefer to call it a cash gazelle!

(In millions)	1999	2000	2001	2002	2003
Sales	$ 64.0	$ 65.0	$53.7	$50.7	$53.3
Pretax profits	$ 11.9	$ 11.3	$ 7.8	$ 3.1	$ 4.4
Return on average equity	42.2%	28.7%	16.5%	7.8%	12.6%

Our management team, under the able leadership of Mark Lewry, does a great job of orchestrating profitability through all these problems. We are currently facing underutilized capacity, the result of building a plant in Europe at the wrong time, for which the undersigned accept responsibility. There have also been several missteps in getting the Belgium management right and the decline in the value of the Dollar relative to the Euro has not helped either.

MK Gold

Leucadia has $64.3 million invested in 72.5% of MK Gold, a public company trading on the NASD OTC Bulletin Board (Symbol: MKAU). MK Gold owns Cobre Las Cruces, S.A., a Spanish company which holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. For history buffs, this belt of mineralization has been exploited since Roman times.

During 2003, three important water permits and the mining concession were received, including environmental approvals from Spanish and Andalusia government agencies. Land acquisition is in full swing. Other permits are required and should be obtained this year. Detailed engineering may begin soon.

Since January 1, 2003, and as of March 9, 2004, capital costs in U.S. Dollars to develop the mine have escalated to $346.4 million (€281 million), excluding interest during construction and other financing costs. This escalation is due to depreciation of the Dollar from $1.05 per Euro at December 31, 2002 to $1.26 per Euro at December 31, 2003. Construction and operating costs are mostly in Euros and revenues in Dollars. The good news is that copper prices have risen from $.70 to $1.05 per pound in the same period. If the ratio betwixt the Dollar and the Euro remains what it is today, we will be fine. The status quo, however, is unlikely and the relationship between the Euro, the Dollar and copper prices will provide excitement in bringing this project to fruition.

The financing efforts have begun under the direction of Frank Joklik, Chairman of MK Gold, a long-time copper miner who is wise in the vagaries of mining and metal markets, and Tom Mara, President of MK Gold and Leucadia's highly regarded long-term Executive Vice President and Treasurer. If it can be done, they will get it done.

Wineries

Leucadia owns two wineries: Pine Ridge in Napa Valley, California, born in 1978, and acquired by us in 1991, and Archery Summit in the Willamette Valley, Oregon (on Archery Summit Road), which we founded and constructed in 1993. These wineries sell 76% of their production into the luxury segment of the premium table wine market, which is defined as over $25 retail per 750 ml bottle, and 24% of its production (9% of revenue) into the "we the people" segment of the market, into which we sell a delicious Chenin Blanc made from purchased grapes. Our wineries' President, George Scheppler, hates the Chenin Blanc since it takes a place on restaurant wine lists that he wants reserved for estate wines, but his CFO, David Workman, and we like it for the gross profit and contribution.

In 2002, we sold 77,700 9-liter equivalent cases total, in 2003 only 63,500. We managed to avoid the economic downturn in the luxury segment in 2002, but last year it found us. We had too much Merlot to sell and it took us several additional months to sell the Merlot inventory. As fashion trends change, so do wine fashions; Merlot is out, Cabernet is in. Thus is the fate of many luxury consumer products.

The 2003 harvest at Pine Ridge was exceptionally good. Just before it was time to pick the grapes, however, a heat wave appeared with extremely low humidity. The grapes perspired and got smaller resulting in a reduced tonnage harvested. Early returns are that the juice is of a higher quality. We wait patiently for the 2003 vintage of Cabernet, which will be released in 2006, to see what we have! The wine reviews for the 2001 Archery Summit wines were great and our all women team of winemaker and viticulturist is making great wine.

Remember—wine is food, and in moderation is good for vascular upkeep. Wine has been our friend in times of woe and celebration since mankind lounged around the Tigris and Euphrates rivers in the Fertile Crescent, inventing agrarian and urban culture. But, not a pleasant place to be these days!

Depending upon your state liquor laws, you may order wine through the mail or on the Internet (*www.pineridgewinery.com* or *www.archerysummit.com*), or join our Wine Club and thereby keep track of this management's labors on a monthly basis!

Both wineries are beautiful from spring through the fall grape crush. Come visit, join our Wine Club, announce you are a Leucadia shareholder and ask for a tour. The tasting rooms are open seven days a week. When you identify yourself as a Leucadia shareholder (the honor system) you will be given the shareholder 20% discount.

Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822.

Real Estate

In December 2002, we had $85.2 million invested in real estate. In December 2003, we had $144.3 million invested and reported earnings of $18.1 million. The real estate operations include a mixture of commercial properties, residential land development projects and other unimproved land.

During the year we purchased a 90% interest in eight acres of unimproved land in Washington, D.C. for $53.8 million. This land is near the U.S. Capitol building and across the street from the new headquarters of the Bureau of Alcohol, Tobacco and Firearms. The land is zoned for a minimum of 2,000,000 square feet of commercial space.

Leucadia owns 30% of the common stock of HomeFed, a publicly-traded company spun off from Leucadia in 1998. The stock trades on the NASD OTC Bulletin Board (Symbol: HOFD) at $34.80 per share as of this writing. HomeFed principally develops residential lots in the San Diego area. The undersigned together own an additional 18.1% of HomeFed stock and one of us is its Chairman.

We own a 718-room hotel located on Waikiki Beach in Hawaii with a book value of $41.6 million. Following an extensive renovation, the hotel's performance has been improving as rates have been increased and occupancy has held steady. Subject to availability, for the rest of the year the hotel is offering a discounted special Leucadia shareholder rate (again, the honor system) starting at $109 per night, including breakfast. The hotel's reservation number is 800-877-7666 and the hotel's website is *www.astonwaikiki.com.*

Banking and Lending

Leucadia's banking and lending operations are principally conducted through American Investment Bank, N.A. (AIB), our nationally chartered bank, and American Investment Financial (AIF), a Utah industrial loan corporation. AIB and AIF take money market and non-demand deposits that are eligible for FDIC insurance.

"Honey, I Shrunk the Bank"[7]
Banking and Lending Operations
Consolidated Balance Sheets

As of December 31, 2003, 2002 and 2001

Assets	**12/31/03**	**12/31/02**	**12/31/01**
Cash and short-term investments	$ 7,089,333	$ 18,551,340	$ 17,884,817
Investment in marketable securities	57,918,958	113,836,765	80,001,809
Loan receivables	205,451,897	373,604,451	521,241,470
Allowance for loan losses	(24,235,698)	(31,849,330)	(35,695,756)
Receivables from affiliates	1,400	7,032	133,144
Other assets	7,830,637	20,502,478	29,451,366
	$ 254,056,527	$ 494,652,736	$ 613,016,850
Liabilities and Stockholder's Equity			
Time deposits	$ 145,517,048	$ 392,914,895	$ 476,513,063
Accounts payable and other liabilities, net	21,905,069	5,599,822	25,512,249
	167,422,117	398,514,717	502,025,312
Equity (includes advances from parent classified as equity)	86,634,410	96,138,019	110,991,538
	$ 254,056,527	$ 494,652,736	$ 613,016,850

Leucadia began making consumer automobile loans to individuals with bad credit in 1988, through AIB and AIF. For several years this was a very lucrative business. America is, for the most part, only one story high and, except for major metropolitan areas, people need cars to get to work. Lending rates then were high and loan losses around 2%.

As interest rates dropped, competitors were drawn like bees to honey by the opportunity to lend at what seemed to be high rates. Massive amounts of less cautious money poured into what became known as sub-prime lending. Competitors reduced rates by 30%, business boomed and loan losses went straight up, stinging us as well as the newcomers.

In September 2001, we decided to stop originating sub-prime automobile loans. (See chart above.) The Company's other consumer lending products were suffering similarly. In January 2003, we stopped writing loans altogether.

We decided to attack in the opposite direction, known to those with less imagination as a retreat. Money not lost is money earned. Later this year we hope to surrender our banking licenses. Someday we may return to consumer lending when the risk/reward ratio returns to rationality. R.I.P., AIB and AIF.

[7] "Honey, I Shrunk the Kids", Walt Disney Pictures, 1989.

We are grateful to Justin Wheeler and his staff for their dedication and hard work. It is, after all, much more fun to be attacking in the conventional direction.

FINOVA

FINOVA, a financial services holding company that emerged from bankruptcy in August 2001, is 50%-owned by Berkadia, a company jointly owned by Berkshire Hathaway Inc. and Leucadia. On August 21, 2001, Berkadia made FINOVA a senior secured $5.6 billion loan to finance FINOVA's chapter 11 plan. Leucadia guaranteed 10% of Berkadia's borrowing to fund the FINOVA loan and receives 10% of its interest income, less interest expense. Berkshire and Leucadia also share an annual $8 million management fee. Since 2001, Leucadia has received $88.2 million in cash from this investment, which was all profit.

Tom Mara is FINOVA's CEO, and Glenn Gray, a FINOVA executive, is COO. Together they are a formidable team and are doing a splendid job.

Since emergence from bankruptcy in August 2001, FINOVA's business activities have been limited to the orderly collection and liquidation of its assets. FINOVA is not engaged in any new business development activities except to honor existing customer commitments and to restructure financing relationships with existing customers in an effort to maximize their value. As a result, FINOVA's workforce has been reduced to focus exclusively on these activities.

In February 2004, two years ahead of schedule, FINOVA paid off the Berkadia loan and Berkadia, in turn, paid off its bank loan, which extinguished Leucadia's 10% guarantee. Our future income from this investment is expected to be limited to our share of the management fee.

FINOVA does not believe there will be sufficient funds to fully repay FINOVA's outstanding public debt and therefore there will not be a return to the FINOVA stockholders—both results are consistent with the expectations we developed for this business subsequent to 9/11.

Empire

In December 2001, Empire was set upon the task of an orderly liquidation, and we wrote off our investment. Rocco Nittoli and his team are executing the plan very well and soon will have time to do more things at Leucadia. We maintain a cooperative relationship with the New York Insurance Department Commissioner.

WebLink

On the last day of 2002, we purchased 80% of the common stock of WebLink Wireless, a paging and two-way messaging company (which at the time had $21 million of unrestricted cash on its balance sheet), 100% of its $18.8 million Senior Secured notes and $17.8 million of a $20 million PIK note, all for $19 million. The $18.8 million Senior Secured notes have been paid off with interest! In 1999 revenues peaked at $324.4 million and 2002 revenue was $160.3 million.

There were 38 million pagers in service at the top of the market, now less than 15 million. Industry market capitalization at its high was $4 billion; today it is about $1 billion for independent companies. Cell phones have made pagers obsolete for most users.

Roll-ups of the remaining paging companies seem the only path to survival. The question was: would we be the "roll-upee" or the "roll-upor." The answer follows.

In the fourth quarter of 2003, WebLink sold substantially all of its operating assets to a subsidiary of Metrocall Holdings, Inc. for 500,000 shares of Metrocall common stock and warrants to purchase 125,000 shares of Metrocall common stock at $40 per share. We got rolled-up!

At this writing, Metrocall stock is trading at about $70 per share, indicating a potential cash profit from our paging investment of approximately $32 million, if we sold the shares at that price. Also Metrocall and its major competitor have announced a merger.

Money and Other Things

In December 2003, Leucadia purchased all the senior secured debt obligations of ATX Communications, Inc. and certain of its affiliates for $25 million. ATX is an integrated communications provider (known as a CLEC) that offers local phone service, long distance service, internet high-speed data and other communications services to its business and residential customers throughout the Mid-Atlantic and Midwest regions of the U.S. ATX is publicly traded on the NASD OTC Bulletin Board (Symbol: COMMQ).

In January 2004, ATX filed a chapter 11 bankruptcy petition in order to reorganize its financial affairs. Under certain conditions, Leucadia will convert its $25 million investment into 100% of the equity of a reorganized ATX following the confirmation of a plan of reorganization.

At December 31, 2003, the book value of the Company's investment in Olympus Re Holdings, Ltd. (Olympus) was $116 million. In June 2003, we sold 567,574 of our Olympus common shares back to the company for $79.5 million and recognized a $1.5 million gain. For the year we recognized $40.4 million of pre-tax income from this investment under the equity method of accounting. We remain with a 16% interest.

We have a $100 million investment in JPOF II, a registered broker dealer managed by Jefferies and Company. In 2004, the $14.8 million of 2003 earnings from this investment was distributed to our exchequer.

We own 4.2% of White Mountains Insurance Group at December 31, 2003. This investment had a market value of $172.5 million, for which we paid $75 million.

The Company owns 36% of Barbados Light and Power Holdings Ltd., the parent company of Barbados Light and Power Company Ltd. Shareholders are encouraged to holiday in Barbados and not to turn off the lights and air conditioners!

During 2003, we sold $275 million principal amount of 7% Senior Notes due in 2013. During 2004, to date we sold another $100 million of the same issue.

In 2003, the Company recognized a tax benefit of $24.4 million for the favorable resolution of certain federal and state income tax contingencies.

At December 31, 2003, readily available cash and marketable securities totaled $1.2 billion. In the world ahead we think liquidity is good.

The Future

We commented earlier on our concerns about the uncertain world. Uncertainty breeds concern, concern breeds a lack of courage and hopefully asset undervaluation. In the resulting confusion, we hope to put the $1.2 billion we have on hand to work at a better than average rate of return. Time will tell.

2003 was the 25th year the undersigned have been at the helm of Leucadia. It remains fun and interesting. One of us will be 65 in a year and a bit. He thinks the earliest retirement date should be 70! (Think of the delight that will bring to the Social Security Administration.)

Our friend and colleague Stephen Jacobs, Esq., of Weil, Gotshal & Millionaire has been at our side for 25 years (except for a two-year junket to the London office), and is ably assisted by his partner Andrea Bernstein. Steve is not only a good lawyer but an astute adviser. He carries an allegorical silver bugle in his pocket. When our ardor overcomes good sense, we hear the crystal clear sound of his bugle sounding retreat. He has blown it several times and the stockholders have been well served.

Tom Mara has also been with us since the beginning. He is a friend and an excellent executive up to any task, no matter how difficult. He is determined, focused and a self-starter! Our occasional histrionics never deter him from his duly appointed rounds. He is indispensable!

As the years roll on there are many others who have been with us a long time. In our view it is a remarkably intelligent, curious and effective bunch of people in whom we have great faith and to whom as shareholders we are grateful.

Mark Hornstein, who had been with us 22 years, retired in January 2004. He is missed but deserves the travel he so much enjoys.

Our friend, Edwin Marks, who gave us our start in the investment business and helped us acquire control of Leucadia, passed away in 2003. He was the President of Carl Marks and Company, our first employer after business school, and where we learned our trade. Edwin set an example which we admire and we cherish his memory.

Thanks to one and all!

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Letter from the Chairman and President

To Our Shareholders

In 2004, Leucadia reported $145.5 million in after tax income or $1.34 per fully diluted share. This is a 6.4% return on ending equity. Our returns on ending equity for the last five years were 6.4%, 4.5%, 10.5%, (0.6%) and 9.6%, averaging 6.1%. Thankfully, since we began in 1978, we have compounded our equity at 20.2%.[1] This calculation ignores dividend payments of $972.1 million (including the special dividend paid in 1999 as a capital gain distribution), stock repurchases and the 1998 distribution of HomeFed shares to our shareholders. We are not pleased with the results over the last two years.

In the late 1990s there was a tremendous run-up in the value of assets. We concluded that prices were unsustainable and, therefore, sold most of our assets at significant gains. Last year it looked like values might return to more sensible levels. Competition for investment opportunities, however, roared back in the form of 35-year old hedge fund managers — private equity firms who have never known a bear market — and other investors willing to invest at high prices in risky assets with seemingly cheap money. These unguided optimists are ably assisted by the existence of an ebullient junk bond market and the hot potato bank loan market, where banks make loans sending them out the door before the ink has barely dried, disappearing into an amorphous market where credit is at best secondary and mostly forgotten. We wonder who buys these loans. All this speculation casts a familiar shadow and reminds us of 1988, and the time immediately before the demise of Drexel Burnham. But, every speculative era is different and ends in a new way. We are particularly struck by the fact that four of the twelve or so AAA companies listed on the New York Stock Exchange are all under investigation for alleged financial shenanigans (MBIA, AIG, Fannie Mae & Freddie Mac). It may be that it will take some time for the natural workings of capitalism to correct its own excesses, but the process in the end could get pretty ugly.

One of us had a conversation recently with the head of bank loan syndications at an eminent bank. The banker complimented us on our patience and allowed that many deals will likely blow up. He and his competitors have annual plans and budgets to meet and credit quality has succumbed to competitive pressures. While we thank the banking community for creating future inventory for future investments, it is difficult to remain disciplined and on the sidelines in a game we love. We are reminded of the picture of Sewell Avery, Chairman of Montgomery Ward during World War II, being carried out of his office in his chair for refusing to adapt to the times. Perhaps that is the fate in store for us.

Leucadia remains liquid with approximately $1.8 billion available for investment without any further financial leverage. It is painful having money in the bank earning about 2%. Our investment philosophy is bimodal, either we invest in high returning opportunities or have the money in the bank or under our mattresses.

In the past, we have described what we do as buying assets that are out of favor and, therefore, cheap or disheveled in one way or another which makes them inexpensive. We then work very hard at improving their performance until they are the most efficient and productive in their market segment. But for now there are too many indiscriminant investors competing for the same opportunities.

[1] Since ending 1978 equity was a negative number, we used ending 1979 equity for the start of this calculation.

WilTel Communications Group

WilTel was a disheveled company when we came upon it. It had all the classic attributes of investments we like. It was distressed and in bankruptcy; had poor management that could be improved; had newly acquired assets that cost $7 billion; had key customers needing its services; and as an extra bonus, had great tax attributes enabling Leucadia to eliminate its tax liabilities for many years to come. On the negative side, it was a participant in a highly competitive and rapidly changing industry where technology plays an important role. Further, although working diligently to expand its customer base, WilTel sells a commodity product in an oversupplied market to a few big customers who utilize their buying power to reduce prices.

By far, WilTel's largest customer is SBC. We are their key supplier of voice and data transport. With the pending acquisition of AT&T by SBC, we are working together with SBC to continue to provide high quality dependable service during the governmental approval process, which is likely to take a year or more, and the subsequent delicate transfer of this traffic to the AT&T network. In total this process will take no less than two and up to three or four years.

We currently believe WilTel will receive sufficient revenue during the transition period to pay off its bank debt and restructure its business. We will also be considering opportunities for consolidation. We do not believe that WilTel will become roadkill on the telecom highway. However, as of this writing we don't know whether the loss of SBC will result in the recognition of an impairment loss related to WilTel's property and equipment.

WilTel's future lies in a number of areas. Vyvx, its wholly-owned subsidiary, is the premier transport of content for broadcasters. Vyvx transports major news stories for the networks, ads for radio and television broadcasts, and athletic events. Last year, for the second time, we back-hauled (from the stadium to the network operations center) the Super Bowl in HDTV format on internet protocol — lots of hand wringing in our Network Operations Center but the transmission was carried off flawlessly.

WilTel recently became an approved supplier to the Federal Government and obtained its first contract. We expect this aspect of our business to grow.

Our current contract with SBC has restricted our ability to provide a comprehensive set of services for Enterprise Customers which are large organizations or governmental entities that contract their telecom needs for data and voice transmission. MCI and AT&T are the major suppliers of these services and together with their potential suitors may have nearly 80% of the market. In most cases these customers need highly engineered solutions that require a customer-centered and responsive organization. This market is part of our future. We believe many of these customers will prefer to deal with nimble WilTel for part or all of their telecom needs.

"Diversity" is a word used in the telecom world to describe the need for redundancy in the movement of voice and data traffic. With SBC swallowing AT&T and MCI disappearing into Verizon or Qwest the number of alternatives available to Enterprise Customers, carriers or governments for obtaining diversity is shrinking dramatically. Even the biggest competitors in the telecom market need diversity for the purpose of maintaining redundancy for their customers. We think there may be a place for WilTel living off the crumbs from the plates of these elephants, as long as we are ever watchful of their feet!

In a previous letter we reported on the battlefield promotion of Jeff Storey to CEO of WilTel. Jeff is now battled hardened and he and his team have accomplished much in improving the financial performance of WilTel as set forth below.

(In millions)	2001	2002	2003	2004
Operating revenues	$1,185.5	$1,191.7	$1,343.3	$1,582.9
Cost of sales	746.5	820.2	930.8	1,129.2
Operating expenses, net	548.7	416.7	333.4	305.6
Segment profit (loss) from operations	$ (109.7)	$ (45.2)	$ 79.1	$ 148.1
Headcount	3,887	2,354	1,967	1,889

A famous investor, who we both much admire, is reputed to have explained that he did not invest "outside his circle of competence." In purchasing WilTel we believed we were investing within "our circle of competence." Time will tell if we were right. One of us is skeptical that WilTel will ever be a successful investment; the other continues to believe that there will be future riches on the wings of broadband! We are, however, in complete agreement on who we hope is right! Come what may, even if the skeptic is right, we do not believe that this adventure will jeopardize Leucadia's overall well being.

See the end of this letter for a depiction of life in the Telecom Boardroom.

Symphony Health Services

In September 2003, Leucadia acquired Symphony Health Services which is primarily engaged in physical, occupational, speech and respiratory therapy. Symphony currently operates in 46 states, providing services at 2,000 locations, with a workforce of 3,200 employees, some part-time.

Symphony offers healthcare providers the opportunity to outsource some of their patients' treatment needs. Some nursing homes, for instance, don't need a full-time physical therapist but are required to have the service available on demand. Symphony's employees can work part-time during the hours of their choice. This need for services and this desire for flexible work hours mesh nicely. Fortunately for Symphony, as the population ages, the demand for healthcare professionals grows. Attracting and retaining therapists as well as customers are the major factors in Symphony's successful business model.

In last year's letter we celebrated the possibility that Symphony might repay our investment in the first full year under Leucadia ownership. After all these years, you would think we would know better than to be celebrating possibilities rather than performance! We under-estimated the challenges management faced to quickly return our investment. Symphony suffered from organizational atrophy induced by languishing for three years in bankruptcy. It had postponed long overdue investments and had not fully integrated a number of hastily assembled acquisitions.

In October of 2004, we brought in a new CEO, R. Scott Jones. Scott is an energetic and seasoned health industry executive with a track record of operating success and who is off to a strong start in rehabilitating Symphony. While we do not want to jinx his performance, early indications suggest Scott will prove to be as effective a fiscal therapist as his colleagues are physical therapists.

With 2004 revenues exceeding $258 million, the company barely managed $5 million in pre-tax income. Given the cost and time devoted to complete the current rehabilitation, we expect 2005 to be better. We are satisfied that the patient is back on its feet and making good progress.

The business of providing therapy to patients mostly covered by Medicare and Medicaid is highly regulated. Our well-trained therapists do an excellent job of providing quality care under a complex set of rules and regulations. The threat to Symphony is not government regulation, but rather the government's willingness and ability to pay for services rendered. As part of the Balanced Budget Act of 1997 (back in the good old days when our national leaders at least pretended to care about the impact of deficits), outpatient therapy was capped at $1,590 per patient per year, but the implementation of the cap has been delayed a number of times through legislation. Implementation of the cap would reduce our revenues and profits and, more importantly, substantially reduce the health and well-being of patients. Absent specific action by Congress, the benefit cap will become effective on January 1, 2006. We are hopeful our elected officials will craft a more creative and less draconian method of dealing with health care costs for this vulnerable segment of our population. A letter to your congressional delegation is in order.

Manufacturing

Conwed is a leading manufacturer of lightweight plastic netting made for a variety of purposes, most often to provide a barrier or to strengthen other materials. It is used for construction (plastic fencing), agricultural (bird net and sod net), carpet padding, packaging (to reinforce shipping paper) and also for consumer products (strengthening mop pads and industrial hand wipes). Our netting ends up in hundreds of products sold throughout the world. Our products are manufactured in Minneapolis, Minnesota; Athens, Georgia; and Genk, Belgium. In 2004, 16% of the revenue resulted from sales outside the U.S.

This company has its share of challenges. There is lots of price competition among its competitors, ever-unstable plastic raw material prices and the constant possibility of product substitution through the use of other materials. Conwed must continually reinvent itself with new product offerings. For example, in 2004, we launched six new products including a new biodegradable product that is being sold into the erosion control market. We spend between 2% and 5% of sales on the reinvention effort.

Conwed rides the waves of the U.S. economy, giving us an early warning outlook on business prospects. Over all the years, good and bad, since its acquisition in March 1985, Conwed has given us a very high return on investment. Some might call Conwed a cash cow; we prefer to call it a cash gazelle!

(In millions)	2000	2001	2002	2003	2004
Sales	$ 65.0	$ 53.7	$ 50.7	$ 53.3	$ 64.1
Pre-tax profits	$ 11.3	$ 7.8	$ 3.1	$ 4.4	$ 7.9
Return on average equity	28.7%	16.5%	7.8%	12.6%	25.1%

Mark Lewry took over as CEO at the end of 2002. We hope the most recent results above are forerunners of future growth in sales, pre-tax profit, and return on average equity. Mark and his excellent team are customer centric, and concentrate on new product offerings, the endless pursuit of manufacturing efficiencies and the well being of its employees, all the while watching and learning from the competition.

The future looks bright. In February 2005, Conwed purchased NSW, LLC U.S., which manufactures produce and packaging nets, header label bags (think onions), case liners and heavy weight netting for drainage and erosion control. NSW has a manufacturing and distribution facility in Roanoke, Virginia. For the year ending December 31, 2004, its sales were over $20 million. The purchase price was $28 million.

MK Resources

Leucadia has $88 million invested in 72.1% of MK Resources, a public company trading on the NASD OTC Bulletin Board (Symbol: MKRR). MK Resources owns Cobre Las Cruces, S.A., a Spanish company which holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. For history buffs, this belt of mineralization has been exploited since Roman times.

The mining concession was received in 2003, and the four principal water permits were received during 2003 and 2004. Additional permits relating to emissions and land use were received in early 2005. Approximately 98% of the land necessary for the operation of the mine and related processing facilities has been acquired. Detailed engineering may begin soon.

As of March 4, 2005, capital costs in U.S. Dollars to develop the mine have escalated to $372 million (€281 million), excluding interest and other financing costs during construction. This escalation is due to depreciation of the Dollar from $1.06 per Euro at September 1, 1999 (when Las Cruces was purchased) to $1.36 per Euro at December 31, 2004. Construction and operating costs are mostly in Euros and revenues in Dollars. The good news is that copper prices have risen from $.78 to $1.48 per pound in the same period. If the ratio betwixt the Dollar, the Euro and copper remains what it is today, we will be fine. The status quo, however, is unlikely and the relationship between the Dollar, the Euro and copper prices will provide excitement in bringing this project to fruition.

MK Resources continues to review its financing options for Las Cruces, which, in addition to debt financing, could include a joint venture, sale of the project, merger and/or other transaction. We are hopeful that MK Resources' future plans will become clearer soon.

Frank Joklik, MK Resources' experienced Chairman, and Fernando Fernandez, President of Cobre Las Cruces, S.A., continue to manage the development of the project in difficult and trying international fiscal times.

Bull Durham, former Chairman of Phelps Dodge Corporation, is an experienced miner who brings his knowledge and expertise to the MK board. He also serves on the FINOVA board.

Wineries

Leucadia owns two wineries: Pine Ridge in Napa Valley, California, born in 1978 and acquired by us in 1991, and Archery Summit in the Willamette Valley, Oregon (on Archery Summit road), which we founded and constructed in 1993. The company controls 224 acres of vineyards in Napa Valley, California in the well regarded appellations of Stags Leap, Carneros, Rutherford, Oakville and Howell Mountain and 115 acres in the Willamette Valley of Oregon. Substantially all of this acreage is producing grapes.

At December 31, 2004, the combined investment in these wineries was $58 million.

During 2004 the wineries sold approximately 63,600 9-liter equivalent cases of wine generating wine revenue of $13.2 million. 81% of case sales and 93% of wine revenue are in the luxury segment of premium table wine market, which is defined as over $25 retail per 750 ml bottle.

The wine industry is becoming ever more competitive. Robert Parker, a noted wine commentator, in an address last year to a large group of wine aficionados, put forth the proposition that wine quality throughout the world has increased so dramatically through improved viticulture and winemaking techniques that no one area, excepting the French Grand Cru, can expect to have a significant advantage. At the same time the interest and consumption of wine continues to grow both in the United States and around the world.

In the face of these competitive pressures we continue to improve our viticulture and winemaking techniques. Several of our wines received high ratings from leading wine publications, though never as high as we think they deserve. Last year we mentioned that we had an oversupply of Merlot production that is being solved through a replanting and re-budding program. “Merlot Madness” of the past has succumbed to the movie “Sideways.” We are having success in building our Wine Clubs and with retail sales made at the wineries.

The distribution of wine in the United States is archaic. It is a three-level system in most states. We sell to wholesalers, who sell to retailers, restaurants and hotels, who all sell to consumers. In many states the system is protected and monopolistic. There is a case before the U.S. Supreme Court that may perhaps, in some states, lead to the simplification of some of these archaic laws. Even over the protests of some participants, the Internet-era is here to stay.

Depending upon your state liquor laws, you may order wine on the Internet (www.pineridgewinery.com or www.archerysummit.com) or join our Wine Club and receive delicious libations monthly.

Visit the wineries and enjoy the tasting room experience. Shareholders of Leucadia receive a 20% discount — on the honor system. Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822.

Banking and Lending

During 2004, the bank sold substantially all its outstanding loans plus certain loan portfolios that had been previously written off. Pre-tax income for 2004 was $22 million primarily as a result of the release of loan reserves from sold assets. AIB intends to file a plan with the regulators that will ultimately result in the surrender of its bank charter.

Justin Wheeler, Marc Fuller and Brad Merrill have expertly negotiated through a regulatory thicket and accomplished a peaceful and profitable end to our adventure in sub-prime lending.

FINOVA

FINOVA is 50% owned by Berkadia, a joint venture between Berkshire Hathaway Inc. and Leucadia. We have earned substantial fee income managing the liquidation of FINOVA. Tom Mara, our long-serving Executive Vice President and Treasurer is FINOVA’s CEO, and Glenn Gray, its COO. Together they have done a masterful job of winding down this business. Glenn is leaving FINOVA during 2005, with our thanks and best wishes.

ATX

In December 2003, we purchased all the debt obligations of ATX Communications and its affiliates for $25 million. Year-end December 31, 2004, ATX reported $251 million of total revenue.

ATX is an integrated telecom provider that offers local exchange carrier and inter-exchange carrier telephone, Internet, high-speed data and other communications services to business and residential customers in target markets in the Mid-Atlantic and Midwestern regions of the U.S.

In January 2004, ATX commenced a voluntary Chapter 11 bankruptcy in order to reorganize its affairs. We provided $5 million of debtor in possession financing secured by liens on most of the assets. In March 2005, ATX filed its second amended Plan of Reorganization. The Plan contemplates that Leucadia, in exchange for its $25 million, will receive 95% of the new common stock and a new $25 million note which bears interest at 10%. In addition, we will provide $25 million of exit financing to fund the Reorganization Plan, which was confirmed by the bankruptcy court in April 2005. ATX is a small player in a very fragmented industry. There will be consolidation opportunities in the years ahead, which we intend to pursue.

David Larsen authored this opportunity as well as our investment in WebLink which we refer to later. He is looking for new investment opportunities. His telephone number is (801) 524-8541.

Sarbanes Oxley and 404

By now most of our shareholders have probably heard something about the new rules that apply to public companies and its reporting requirements called Sarbanes-Oxley and 404, known fondly as SOX. These rules came about as a result of the financial scandals surrounding Enron and WorldCom, among others. In short, the rules require that we and our CFO certify, to our knowledge, that the financial statements we publish and file are correct, which is something that we think we have been doing all along anyway. In addition, following extensive procedures, we had to convince ourselves and our outside auditors, PricewaterhouseCoopers LLP, that our internal controls over financial reporting were effective. This effort was cheerfully led by Rocco Nittoli to a satisfactory conclusion. It makes us happy that there were no reportable shortfalls in our internal controls. This effort involved many additional hours of work by internal and external personnel and cost over $4 million. We doubt it was worth the money, but since the law required it be done, we complied.

Money and Other Things

- On December 31, 2004, the Company effected a three-for-two stock split of the Company's common shares in the form of a 50% stock dividend. The stock dividend was paid to holders of record of the Company's common shares at the close of business on December 23, 2004. A cash dividend of $.25 per share was paid on all the post split shares, which effectively raised the dividend by 50%.

- During 2004, the Company sold $100 million principal amount of 7% Senior Notes due in 2013.

- During 2004, the Company sold $350 million principal amount of 3¾% Convertible Senior Subordinated Notes due 2014, convertible into the Company's common shares at $45.93 per share at any time before their maturity, subject to certain restrictions, at a conversion rate of 21.7707 shares per each $1,000 principal amount of notes, subject to adjustment (an aggregate of 7,619,745 shares).

- As of December 31, 2004, Leucadia's readily available cash, cash equivalents and marketable securities, excluding amounts held by a regulated subsidiary and non-regulated subsidiaries that are parties to agreements which restrict the payment of dividends, totaled $1.76 billion. This amount includes a $242.3 million investment at market value in the common equity of White Mountains Insurance Group (WMIG), a publicly traded Bermuda-based property, casualty and reinsurance group, (representing 3.5% of WMIG for which the Company paid $75 million).

- We recognized $91.5 million of pre-tax income in 2004 from equity investments in associated companies; a detailed list of the components is on page 48 of the 10-K included herein.

- One of us is Chairman of Olympus Re, a Bermuda-based reinsurer of which we own approximately 19%, which has a quota share arrangement with a subsidiary of WMIG. Olympus Re was conceived as a virtual company to take advantage of a hard market for reinsurance, post 9/11, and has only two employees. Almost all of our premiums come through WMIG subsidiaries. Results have been outstanding. Leucadia earned 22%, 26% and 7% on its investment in each of the last three years (excluding cash received from selling shares back to Olympus), the last return having been achieved in the face of four major hurricanes in the last half of 2004.

Unfortunately, these storms did not scare reinsurers or new participants (mostly 35-year old hedge fund managers barely out of college around the time of Hurricane Andrew), and there is a definite softening in the cost of reinsurance. Olympus will exit the business if pricing gets too unattractive.

- Leucadia owns 2,474,226 common shares of HomeFed (about 30%), a publicly traded stock on the NASD OTC Bulletin Board (Symbol: HOFD) of which one of us is its Chairman. The undersigned together also own an additional 18.9% of HomeFed stock as a result of a distribution to all Leucadia shareholders in 1998. HomeFed principally develops residential lots in the San Diego area. Leucadia's investment in HomeFed shares is carried at $39.5 million as an investment in an associated company. When we distributed the stock of HomeFed in 1998 the shares traded at $1.80, adjusted for a subsequent stock split. As of March 31, 2005, the share price was $53.
- We own 36% of the Barbados Light and Power Company. At December 31, 2004, the company was on our books for $12.1 million.
- WebLink, a paging company we acquired in December 2002 while it was in bankruptcy, was sold to Metrocall in November 2003, which merged with Arch in November 2004, which changed its name and became USA Mobility, Inc. right after the merger. This was a classic rollup of a fragmented and declining industry. At December 31, 2004 our investment in the shares of USA Mobility were carried at their market value of $25.8 million; all were sold during 2005. Since December 2002 we have received $48.4 million in cash and securities for our $19 million WebLink investment.
- At December 31, 2004, the Company's real estate assets had a book value of $131.2 million. During 2004, we sold 92 lots of a 95-lot development project in South Walton County, Florida for approximately $50 million. We recognized $15.8 million in pre-tax profits and will recognize additional pre-tax profits of $10.2 million this year. Patrick Bienvenue conceived and executed this project from a twinkle in his eye to $50 million in cash in our bank account within one year. If you have interesting development parcels from $5-50 million, call him at (801) 521-5400.[2]
- In 2004, the Company exercised an option to sell two of its older corporate aircraft for total proceeds of $38.8 million and reported a pre-tax gain of $11.3 million. The option was received in connection with the purchase of two new corporate aircraft during 2003.
- Net securities gains for 2004 aggregated $142.9 million, substantially all of which reflect realized gains from the sale of publicly traded debt and equity securities. Many of these gains came through our association with Jay Jordan and David Zalaznick of the Jordan Company who provided these investment opportunities and who we thank.
- In 2004, the Company recognized a tax benefit of $27.3 million for the favorable resolution of certain income tax contingencies and a tax benefit of $3.9 million to record a federal income tax carryback refund.

[2] We do not consider ourselves as being in the real estate business. We look at real estate as we look at junk bonds—opportunistically.

The Future

The future of our country and our currency is very troubling. Thinking about it makes us morose. Currently, our nation's fiscal, monetary and economic policies are hastening the end of the American hegemony that began at the end of World War II. Though we surely live in one of the most free, fairest, energetic and democratic societies ever developed on this globe our future economic position relative to the rest of the world is in peril.

If we compare the financing of our own families and our businesses to that of our country, we indeed have reason to be concerned. Unless our nation's profligate ways are moderated, we are going to end up with a run on the dollar. What the consequences of that might be, other than we will all be poorer, is hard for us to contemplate or predict.

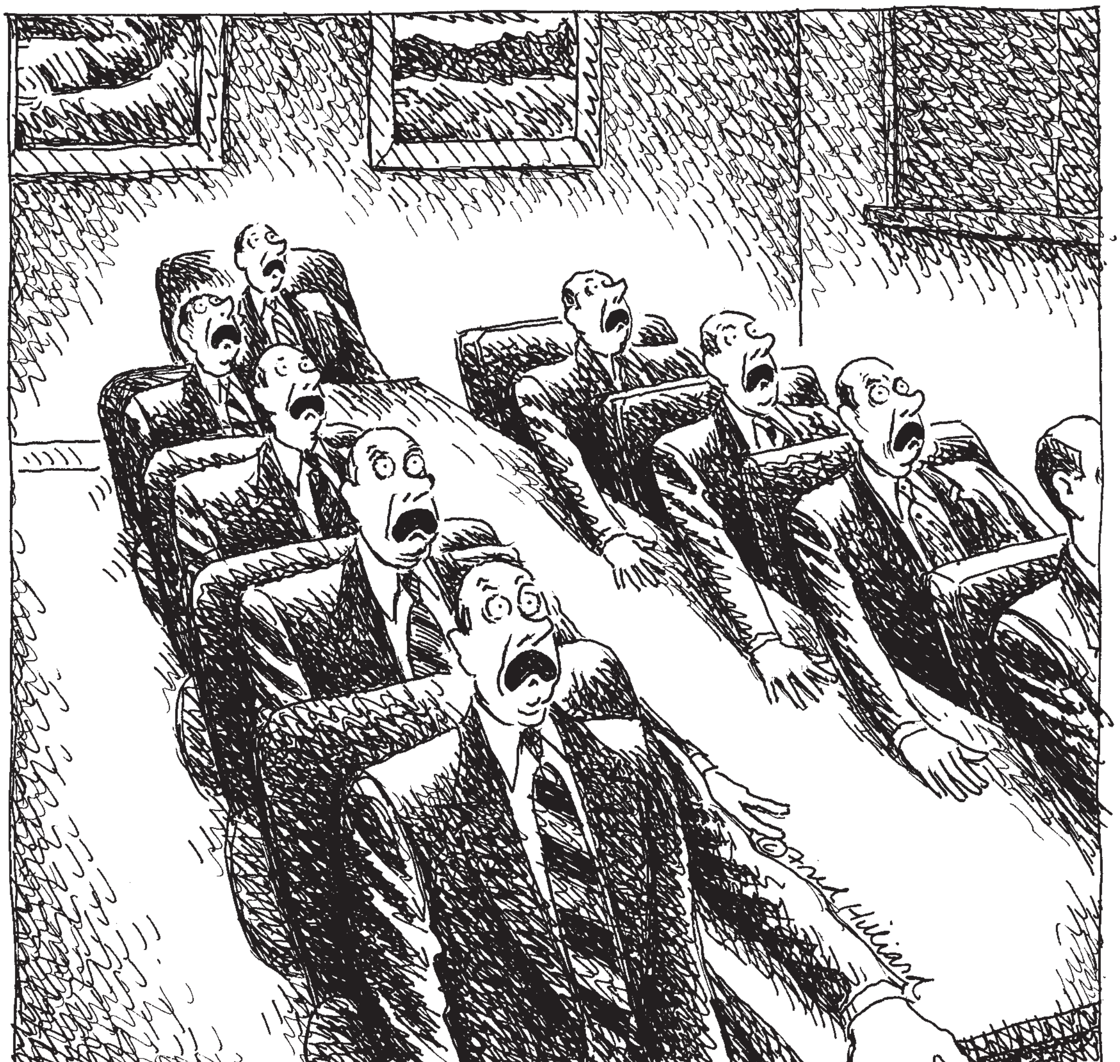
We plan to continue to search for undervalued or out-of-favor assets that we can buy and improve. The pickings are slim, but our enthusiasm is unabated. If we run out of ideas or steam we will let you know and develop a plan to return money to our shareholders.

Our long-term friend and consigliore, Stephen Jacobs, retired from his endless 42 year service at Weil, Gotshal & Manges, to devote his full time efforts to Leucadia as counsel. We are delighted!

To all our hard working, diligent and smart employees, we offer boundless thanks and affection.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President



"Telecom. The thrill ride of American business."

Letter from Chairman and President

To Our Shareholders

In 2005 Leucadia reported $1,636 million in after tax income, or $15.18 per share, $14.27 fully diluted. These record earnings require an explanation: $505.7 million is pre-tax operating earnings from our various businesses and investments, and $1,135.1 million is a result of capitalizing the non-present value of our net operating tax loss carryforward (NOL) remaining after the sale of WilTel. It resides on the balance sheet as a "Deferred Tax Asset." We will explain a bit more about this accounting labyrinth later.

Here is the Leucadia scorecard for the past 28 years since we took the helm.

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	S&P 500 % Change– Dividends Included	Market Price Per Share	Market Price % Change	Shareholders' Equity	Net Income (Loss)	Return on Average Equity
1978	($0.07)	NA	NA	$0.03	NA	($7,657)	($2,225)	NA
1979	0.21	NM	18.2%	0.14	366.7%	22,945	19,058	249.3%
1980	0.23	9.5%	32.3%	0.11	(21.4%)	24,917	1,879	7.9%
1981	0.28	21.7%	(5.0%)	0.21	90.9%	23,997	7,519	30.7%
1982	0.71	153.6%	21.4%	0.38	81.0%	61,178	36,866	86.6%
1983	0.85	19.7%	22.4%	0.55	44.7%	73,498	18,009	26.7%
1984	1.48	74.1%	6.1%	0.93	69.1%	126,097	60,891	61.0%
1985	1.66	12.2%	31.6%	1.13	21.5%	151,033	23,503	17.0%
1986	2.53	52.4%	18.6%	1.65	46.0%	214,587	78,151	42.7%
1987	2.23	(11.9%)	5.1%	0.94	(43.0%)	180,408	(18,144)	(9.2%)
1988	2.56	14.8%	16.6%	1.39	47.9%	206,912	21,333	11.0%
1989	3.28	28.1%	31.7%	2.07	48.9%	257,735	64,311	27.7%
1990	3.94	20.1%	(3.1%)	2.20	6.3%	268,567	47,340	18.0%
1991	5.30	34.5%	30.5%	3.57	62.3%	365,495	94,830	29.9%
1992	7.37	39.1%	7.6%	7.65	114.3%	618,161	130,607	26.6%
1993	10.85	47.2%	10.1%	7.94	3.8%	907,856	245,454	32.2%
1994	10.48	(3.4%)	1.3%	8.62	8.6%	881,815	70,836	7.9%
1995	12.31	17.5%	37.6%	9.69	12.4%	1,111,491	107,503	10.8%
1996	12.34	0.2%	23.0%	10.37	7.0%	1,118,107	48,677	4.4%
1997	19.45	57.6%	33.4%	13.37	28.9%	1,863,531	661,815	44.4%
1998	19.93	2.5%	28.6%	12.21	(8.7%)	1,853,159	54,343	2.9%
1999	13.17[b]	(33.9%)	21.0%	15.42	26.3%	1,121,988[b]	215,042	14.5%
2000	14.52	10.3%	(9.1%)	23.63	53.2%	1,204,241	116,008	10.0%
2001	14.41	(0.8%)	(11.9%)	19.25	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	17.16	19.1%	(22.1%)	24.87	29.2%	1,534,525	161,623	11.8%
2003	20.09	17.1%	28.7%	30.73	23.6%	2,134,161	97,054	5.3%
2004	20.99	4.5%	10.9%	46.32	50.7%	2,258,653	145,500	6.6%
2005	33.90	61.5%	4.9%	47.46	2.5%	3,661,914[c]	1,636,041	55.3%
CAGR (1978-2005)[a]			10.0%	31.4%				
CAGR (1979-2005)[a]	21.6%		9.9%	25.1%		21.5%		

(a) CAGR stands for compound annual growth rate. Since negative numbers cannot be compounded, we also show CAGRs with 1979 as a starting point. These calculations do not reflect the benefit of any cash dividend payments or the spin-off of HomeFed in 1998.

(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $9.05 per share.

(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $10.51 per share.

We have been unhappy with the GAAP reporting of tax assets mentioned above for some time. Early in the 1990's, the accountants adopted a rule, SFAS 109. Under this rule, which we disparaged back then, companies are required to recognize the non-present value of their NOLs and put them on the balance sheet as something called a Deferred Tax Asset. For up to the next twenty years, or as long as we have NOLs, we will report an income tax expense and the Deferred Tax Asset will be reduced by the same amount, but we will not pay cash taxes.[1] This large asset may not become a reality until sometime in the future and we cannot begin to project when that will be. We long for the pre-SFAS 109 days when the NOLs rested peacefully in the footnotes until sometime in the future when they would be called upon to deflect taxation. Too much complexity robs simplicity and thus, understanding.

As much as we dislike the required accounting treatment, owning this Deferred Tax Asset and NOL is a good thing. As of December 31, 2005, Leucadia has approximately $5.1 billion of NOLs that are available to eliminate the regular federal income taxes that would otherwise be payable on that amount of pre-tax income in the future (a potential federal tax savings of approximately $1.8 billion). The amount and availability of the NOLs are subject to certain qualifications, limitations and uncertainties as discussed in Note 16 of Notes to Consolidated Financial Statements and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

For those who want more explanation, please call Joe Orlando, our CFO, at (212) 460-1900. Please be understanding that the alchemy required to construct the Deferred Tax Asset is complex, requires lots of assumptions and is difficult to explain. Joe shares our dissatisfaction.

Below is a simplified breakdown of the earnings for 2005, including the Deferred Tax Asset. Later in the letter we will discuss various components of the earnings.

	(In thousands)
Pre-tax income (loss) amounts:	
Continuing operations	$ 138,163
Associated companies	(44,403)
Discontinued operations	111,568
Gains on sales of discontinued operations	300,372
Subtotal, pre-tax income	505,700
Income tax (provision) benefit amounts:	
Continuing operations before associated companies	
Current	(4,018)
Deferred	1,135,100
Associated companies	(730)
Discontinued operations	(11)
Subtotal, income taxes	1,130,341
Net income	$ 1,636,041

[1] We will still have to pay federal alternative minimum tax, state and local income taxes and foreign income taxes, as applicable.

WilTel Communications Group

In December 2005, we sold WilTel to Level 3 Communications for $460.3 million in cash; 115 million shares of Level 3 common stock (which we sold in 2006 for $376.6 million); and we retained the right to receive $236 million of cash from SBC Communications (WilTel's largest customer, now AT&T), of which $104.7 million has been paid at the date of this writing with the balance due later this year.

In the aggregate, Leucadia received net value of $870.8 million from the sale of WilTel, including the cash received from the sale of the Level 3 stock, cash paid by Level 3, and the net book value of the retained assets and liabilities. In addition, we retained the NOL, which will rest on the balance sheet as a Deferred Tax Asset. In 2005, WilTel accounted for $116 million of earnings from discontinued operations and $243.8 million of gain on sale. Adding the proceeds from the sale of WilTel plus the current and future tax savings adds up to a satisfactory deal. For more information, see Note 5 of Notes to Consolidated Financial Statements.

Our trip through Telecom Broadband Land was at times frightening and at times exhilarating. We were fortunate to find in WilTel three extraordinary executives who rose, like a trout to a fly, to accept their greatly expanded responsibilities. Jeff Storey, a newly-minted CEO; Ed McLaughlin, Chief of Operations; and Mardi DeVerges, a likewise new CFO, enthusiastically attacked the challenge of reviving WilTel after the confusion and uncertainty of a major bankruptcy and the chaos which resulted, to produce a best-in-class, award winning national wholesale broadband supplier! They and their excellent teams continuously delivered great service to our customers in spite of a supportive but demanding major customer and the industry's endlessly falling prices which required them to continuously downsize over a three-year plus period of time to meet ever changing financial realities. They are to be greatly admired!

We are also very grateful to the Leucadia people who assisted the WilTel teams–Bud Scruggs, Jimmy Hallac, Joe Orlando, Tom Mara and many others.

ATX Communications

In December 2003, Leucadia purchased all of ATX's debt obligations under its senior secured credit facility for $25 million, and ATX commenced a voluntary Chapter 11 case to reorganize its financial affairs shortly thereafter. The bankruptcy plan (the "Plan") of ATX was confirmed by the Bankruptcy Court for the Southern District of New York and became effective on April 22, 2005. As contemplated by the Plan, in exchange for its investment in the credit facility, Leucadia received approximately 90% of the new common stock of the reorganized ATX, a new $25 million senior secured 10% note, and provided ATX with $30 million of additional financing. The aggregate purchase price for ATX was $56.3 million. Leucadia has consolidated ATX into its financial statements since the effective date of the Plan.

ATX is an integrated telecom provider that offers local and long distance telephone services, Internet, high-speed data and other communications services to business and residential customers in the Mid-Atlantic region of the U.S. These types of companies are known by their jargon name CLEC ("Competitive Local Exchange Carrier").

David Larsen is the midwife of this transaction and he is working diligently to renovate ATX following its emergence from bankruptcy. David is joined in this effort by ATX's management, led by Jeff Coursen, and by Jeff Storey, who we spoke of earlier as the CEO of WilTel. We are delighted that Jeff remains with Leucadia. They and the ATX team have:

• sold an out-of-region business to another CLEC for $6 million
• sold ATX's Internet dial-up business for $9.2 million
• reduced headcount by 15%
• established a plan to double EBITDA in 2006
• rolled out the next generation of services such as VoIP and managed services

With further consolidation of the old Bell companies to AT&T/Bell South and Verizon, plus a wounded Qwest, the future of the CLEC phenotype will be challenged. Efficient operations, good customer service and attractive pricing will be essential to be a survivor. ATX is concentrating on these aspects of its operations. In the short term there will be opportunities for consolidation in which we hope to participate. We expect to see the development of several strong regional CLECs and perhaps the development of a few national competitors as well.

It remains to be seen in the coming consolidation of this orphan species whether we will be the "consolidator" or the "consolidatee." Either way, we expect to come out just fine.

TeleBarbados

With our partner, Barbados Light & Power, we together invested $30 million in bringing broadband capacity to that small island. A glass fiber cable has been laid in the ocean from Barbados to St. Croix. From St. Croix, the cable connects to several other cable systems and then to the rest of the world. Leucadia owns 36% of BL&P and one of the undersigned is its Chairman.

Jeff Storey will manage our investment in TeleBarbados. We hope this small company will have a very high return on its investment.

Conwed Plastics

Conwed is a leading manufacturer of lightweight plastic netting made for a variety of purposes, most often to provide a barrier or to strengthen other materials. It is used for construction (plastic fencing), agricultural (bird net and sod net), carpet padding, packaging (for produce) and also for consumer products (strengthening mop pads and industrial hand wipes). Our netting ends up in hundreds of products sold throughout the world. Our products are manufactured in Minneapolis, Minnesota; Athens, Georgia; Roanoke, Virginia; and Genk, Belgium. In 2005, 11% of the revenue resulted from sales outside the U.S. and positive cash flow was achieved for the first time at our European facility.

(In millions)	2001	2002	2003	2004	2005
Sales	$ 53.7	$ 50.7	$ 53.3	$ 64.1	$ 93.3
Pre-tax profits	$ 7.8	$ 3.1	$ 4.4	$ 7.9	$ 14.2
Return on average equity	16.5%	7.8%	12.6%	25.1%	33.4%

Mark Lewry took over as CEO at the beginning of 2003. The above chart speaks volumes about his abilities, energy and leadership skills. He has built a remarkable team. Go Mark go!

Mark's own words:

"Acquisitions fueled much of the growth as Conwed looked at a number of opportunities and completed three deals acquiring the assets of NSW and ADPI in the U.S. and the industrial netting business from Tensar Group Limited in the U.K. These acquisitions give Conwed a strong base in the packaging industry and the ability to grow business in the filtration markets.

Revenues for Conwed's base business in the U.S. also increased 19% from organic growth related to new customers, new product development efforts and selling price increases. Conwed has focused on developing products for the building and construction markets during the last few years. Revenues from these efforts accounted for approximately 10% of Conwed's total revenues in 2005.

Capacity improvements were made in 2005 by enhancing two key production lines in the U.S. to increase the output rates. This, along with leveraging our Europe operations to support U.S. demand, gave Conwed the ability to meet customer demand in 2005 and beyond, while minimizing the capital investment needed.

Conwed's Europe operations achieved positive cash flow in 2005. Europe revenues in 2006 are expected to double with the acquisition of Tensar's industrial business late in 2005, new customers and the continued utilization of Europe production capacity to supply U.S. needs.

Resin costs continued to rise for the third straight year. High utilization rates in the polypropylene industry and high oil and gas prices along with the impact of hurricane Katrina increased our costs by more than 20% for the third year in a row. The ability to pass some of the cost increases along to customers and keep our overhead cost structures in check helped operating margins improve from 2004.

Overall 2005 was an active year for Conwed as efforts to grow the business profitably through acquisition and organic growth efforts were successful. For 2006, Conwed expects to continue its growth strategies by looking for additional add-on acquisitions and new product development opportunities."

Idaho Timber Corporation

In May 2005, we acquired Idaho Timber for $133.6 million in cash. We want to thank Bill Reid and Mike Shein and their colleagues at Chartwell Investments who brought us this transaction and have a participation in its profits.

Idaho Timber is headquartered in Boise, Idaho and remanufactures dimension lumber, a business with which we were not familiar. We asked Ted Ellis, Idaho Timber's young and energetic president, "What does that mean?" As Ted explained, remanufacturing in the lumber business means cutting less than perfect lumber as it comes from the sawmill and turning it into higher grade lumber. Lumber is primarily graded into three groups: #2 and better, #3, and Economy. Economy and #3 lumber is defective in some way. It has knot holes, is twisted or has other defects of one sort or another. It is sold in bulk by the sawmills and is a commodity. Idaho Timber buys this lower grade defective lumber and remanufactures it by cutting out the defective parts and turning the pieces into higher grade, shorter or narrower lumber.

Idaho Timber also bundles and barcodes home center boards for large retailers and produces pine decking and other specialty wood products.

Idaho Timber acquires lumber from sawmills in United States, Canada, South America and Europe. From time to time, international trade politics, i.e., duties and quotas can affect this business either positively or negatively.

For the 8 months ending December 31, 2005, Idaho Timber had operating income of $14.8 million before depreciation and amortization expenses.

We are very pleased with this acquisition. Capex is low and taxable income is high; therefore we shelter Idaho Timber pre-tax earnings with our NOL and reduce our Deferred Tax Asset, the perfect outcome.

The bad news is the lumber business is cyclical and subject to the mercy of housing starts, the economy and lumber prices, which means its earnings will fluctuate year to year. That is fine with us, as it is a well-managed company and best in class! Ted is a fine leader and runs a tight ship and sticks to his knitting.

Symphony Health Services

In September 2003, Leucadia acquired Symphony Health Services which primarily provides physical, occupational and speech therapy, healthcare staffing and Medicare consulting services. Symphony currently operates in 46 states at approximately 1,650 locations, with a workforce of approximately 2,900 employees, many of whom are part-time.

Symphony offers healthcare providers the opportunity to outsource some of their patient's treatment needs. Some nursing homes, for instance, don't need a full-time physical therapist but are required to have the services available. Symphony's employees can work full-time or part-time at one or more facilities. As the population ages, the demand for healthcare professionals will continue to grow. Attracting and retaining therapists as well as customers are the major challenging factors in Symphony's business model. As you might imagine, this business can be a personnel nightmare!

In October 2004, we brought onboard a new CEO, R. Scott Jones, an energetic and seasoned health industry executive with a track record of operating success to makeover the company. This makeover of Symphony turned out to be a much harder job than Scott and we expected. Low morale, inadequate IT systems, badly priced contracts with some customers, plus the complexities of managing and recruiting therapists working all over the country has kept Scott very busy for the last 15 months solving all the problems at once. He has done a remarkable job restoring Symphony to good order and profitability and we are pleased.

However, there are several endemic problems with its business model. Services are provided over a very large geographic area to many customers. Some employees work part-time and some full-time. Together, this mix makes a difficult management problem with so many moving parts. Last but not least, it is a highly regulated business being managed by the U.S. Congress!

Throughout last year Symphony devoted a tremendous amount of time lobbying Congress against the implementation of "caps" on the dollar amount of therapy each patient could receive under Medicare. Our clients are a frail, elderly population living in long-term care facilities, most likely for the rest of their days. They have little political clout to plead their case for the comfort and benefits provided by therapy in their last days in their veil of tears.

Congress, in its never-ending search for money to spend, often takes the path of least resistance by eliminating programs where the beneficiaries are not powerful. Caps were implemented on January 1, 2006; however, an exception process has been adopted by which some patients who need more therapy may still be able to get it. We expect the implementation of these caps will negatively impact earnings during 2006.

Under Scott's leadership, we have been looking at other opportunities and whether a roll-up strategy may provide the possibility for a more successful business model. We shall see. Scott has a difficult job, but he never complains!

What Used to be MK Gold

In August 2005, Leucadia consummated a merger with its then 72.1% owned subsidiary, MK Resources Company ("MK"), acquiring 100% ownership of MK. The acquisition cost was $12.8 million, consisting of approximately 216,000 of Leucadia's common shares and cash. As a result of the merger, MK is now a wholly-owned subsidiary of Leucadia, and MK's securities are no longer publicly traded.

As part of the same transaction, immediately following the merger Leucadia sold to Inmet, a Canadian-based global mining company traded on the Toronto stock exchange (Symbol: IMN), a 70% interest in Cobre Las Cruces ("CLC"), a Spanish company that holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain, not far from Sevilla. Inmet acquired their interest in CLC in exchange for 5.6 million newly issued Inmet common shares, representing approximately 11.7% of the outstanding Inmet common shares immediately following completion of the transaction. Leucadia retains a 30% interest in CLC. The Inmet shares were recorded at their fair value of approximately $78 million, and we recorded a pre-tax gain on the sale of $10.5 million. As of March 27, 2006, those shares had a market value of approximately $173 million.

CLC subsequently entered into an agreement with third party lenders for project financing consisting of a ten year senior secured credit facility for up to $240 million, and a senior secured bridge credit facility of up to €69 million to finance subsidies of €53 million (which are approved by the European Union but not yet received) and expected rebates of VAT taxes. Leucadia and Inmet have guaranteed 30% and 70%, respectively, of the obligations outstanding under both facilities until completion of the project. At December 31, 2005, no amounts were outstanding under the facilities. Leucadia and Inmet have also committed to provide financing to CLC which is estimated to be $159 million, of which Leucadia's share will be 30%.

A May 2005 technical report prepared by Pincock, Allen & Holt, an independent engineering company, indicated proven and probable reserves at the Las Cruces deposit of approximately 16 million metric tons of copper ore at an average grade of 6.6% copper. The capital costs to build the project have been estimated at €290 million ($345 million at the exchange rate in effect on February 13, 2006), including working capital, land purchases, and contingencies, but excluding reclamation bonding requirements, inflation, interest during construction, cost overruns and other financing costs.

CLC expects to reach full mine production by the middle of 2008. Cash operating costs per pound of copper produced are expected to average €.33 per pound ($.39 per pound) of copper produced at current exchange rates. The project's capital and operating costs will be paid for in euros, while copper revenues during the life of the mine are currently based on the U.S. dollar. In order to minimize its exposure to currency fluctuations, CLC has entered into an agreement to swap €171 million of Euro denominated debt into $215 million of U.S. dollar denominated debt once construction of the mine is complete.

All of the project's capital and operating costs are currently being reestimated and are likely to increase. Copper prices are presently at an all-time high but we do not know what the future holds for this commodity.

Wineries

Leucadia owns two wineries: Pine Ridge Winery in Napa Valley, California, born in 1978 and acquired by us in 1991, and Archery Summit in the Willamette Valley, Oregon (on Archery Summit Road), which we founded and constructed in 1993. The wineries control 224 acres of vineyards in Napa Valley, California, in the well regarded appellations of Stags Leap, Carneros, Rutherford, Oakville and Howell Mountain, and 115 acres in the Willamette Valley of Oregon. Substantially all of this acreage is producing grapes. At December 31, 2005, the combined investment in these wineries was $71 million.

During 2005, the wineries sold approximately 81,200 9-liter equivalent cases of wine generating wine revenue of $17.8 million.

The luxury segment of the wine industry is intensely competitive. Our wines compete with small and large producers in the U.S. as well as with imported wines. Demand for wine in the luxury market segment can rise and fall with general economic conditions, and is also significantly affected by available supply. The demand for our wine is largely affected by the ratings given the wines in industry and consumer publications. Wines are rated on a 1-to-100 numerical scale for each vintage and type of wine. The scores provided by *The Wine Spectator* and by Robert Parker can make or break a vintage of wine.

Several years ago, in an effort to improve the quality of our wines and achieve better scores, we decided to change the way we planted, pruned, picked and sorted the grapes and made the wine. We hired a very gifted French winemaker and viticulturist to guide us. The process was expensive and intense. The 2003 wines made by our winemakers Stacy Clark and Anna Matzinger, with his assistance, are appearing this year. Hopefully we will see the results in the scores and the wine will fly out of the wineries at increased prices! Hope springs eternal.

Lest you forget, wine is a consumer product. We recommend you see the movie *Sideways*. Subsequent to its theatrical release, our Merlot sales at Pine Ridge plummeted and our Pinot Noir sales at Archery Summit soared!

One of the nice things that we have noted about our winery investments is that buying land in first class winegrowing regions, planting grapes and farming using the best techniques not only produces good wine, but also produces an asset the value of which has outstripped inflation and provides a good real estate investment, especially in Napa Valley.

We have given considerable thought to the future of our wine business and have preliminarily decided to expand our presence in this market segment. We are in the midst of these deliberations–more next year.

Depending upon your state liquor laws, you may order wine on the Internet (www.pineridgewinery.com or www.archerysummit.com) or join our Wine Club and receive delicious libations monthly.

Visit the wineries and enjoy the tasting room experience. Shareholders of Leucadia receive a 20% discount–on the honor system. Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822.

Remember, wine is food and we think leads to longevity!

FINOVA

FINOVA is 50% owned by Berkadia, a joint venture between Berkshire Hathaway Inc. and Leucadia. Since acquiring our interest in FINOVA, Leucadia has recorded $95.2 million of income from this investment. Our long time Executive Vice President and Treasurer, Tom Mara, is FINOVA's CEO. He has done a masterful job winding down the business. This year or next we expect FINOVA to return what's left of the remaining cash and assets to FINOVA's creditors.

Real Estate

After two very successful projects in the Florida panhandle, Patrick Bienvenue and his real estate group have purchased two pieces of land in Maine. A 115 acre parcel in Rockport with 5,500 feet of waterfront on Penobscot Bay, and a 76 acre parcel located on Islesboro, a 9,100 acre island accessible from the mainland by a 15 minute ferry ride.

Under Patrick's direction, we are beginning to construct two small oceanfront office buildings on Carlisle Bay in Bridgetown, Barbados, in a joint venture with Barbados Light & Power. We are examining other real estate projects in Barbados and many other places in the U.S. and other countries.

Patrick is constantly looking for new projects, especially in Florida in the winter! Please call him at (801) 521-5400, if you see something you think would be of interest.

In May 2005, Leucadia sold its 716-room Waikiki Beach hotel for net cash proceeds of approximately $73 million and a pre-tax gain of $56.6 million. From acquisition of a note in June 2000 to the sale, Zalman Jacobs traveled incessantly from New York to Hawaii for countless court hearings, endless negotiations with our truculent ground lessor and the eventual sale.

During 2005, we sold our equity interest in an office complex located on Capitol Hill in Washington, D.C. Leucadia's share of the net proceeds was $73.2 million with a pre-tax gain of $72.3 million.

In the fourth quarter of 2005, we agreed to sell our 90% interest in eight acres of land in Washington, D.C. for aggregate cash consideration of $121.9 million for which we paid $53.8 million. The sale closed in February 2006. We received net cash proceeds of $75.7 million and expect to report a pre-tax gain of $48.9 million.

At December 31, 2005, domestic real estate assets had a book value of $166.2 million.

White Mountains and Olympus Re

During the course of 2005 we disposed of our interest in White Mountains Insurance Group for a gain of $146 million on our original investment in 2001 of $75 million. White Mountains was founded and capably led for many years by our good friend Jack Byrne. Our investment in White Mountains partially funded its acquisition of One Beacon Insurance Company which was in need of a turn around. Having accomplished that goal, which the stock market appreciated, White Mountains stock price increased from $200 per share to over $550 per share. We decided to take our profits and move on. We want to thank Jack and all the other members of the White Mountain team for a job well done.

Our investment in Olympus Insurance did not have such a happy outcome. Several years ago, we invested in the startup of a new reinsurance company to participate with White Mountains in the catastrophe reinsurance market that offers protection to primary insurance companies for weather-related extreme losses, mainly hurricanes, typhoons, tornadoes, tsunamis, etc. Pricing of the insurance is based on computer models which estimate total maximum losses under various scenarios. Premiums seemed high relative to the risks and for the first few years we patted ourselves on the back for our investment acumen. In retrospect, we did not appreciate the true risks of our investment and the shortcomings of the models.

During the 2005 hurricane season, Olympus was hit with a one-two-three punch and an eventual knockout by the lasses Katrina, Wilma and Rita. The models were wrong. The underwriters were too optimistic and drastically underestimated the maximum possible loss. As the estimates of losses from these storms soared upward over several months our entire remaining investment was blown away, resulting in a loss of $120.1 million for 2005. Taking into account our original investment of $127.5 million, on which we received back cash of $79.5 million, our total loss on this investment was $48 million.

There is great debate as to whether weather patterns around the globe have changed. We are not sure of the answer to this question, but we voted with our feet by not participating in the recapitalization of Olympus and one of us who was Chairman has resigned.

Sarbanes Oxley and 404

After the financial scandals of several years ago, the Congress passed several laws now collectively known by the acronym “SOX”, which sounds just like what are on your feet. We have diligently worked on complying with these rules and have successfully passed two years of required tests. We test ourselves, PricewaterhouseCoopers LLP (“PwC”) tests our tests, PwC tests again, and so this very expensive process, which adds little utility, becomes busy work, but we must comply to be a public company. Joe Orlando, his staff, subsidiary finance departments and Rocco Nittoli have accomplished this successfully and surmounted inordinate frustrations.

We unhappily note that relationships between public accounting firms and their clients have changed for the worse under SOX. They are no longer advisors, or coaches, or a group of experts available for consultation in implementing an ever greater number of accounting rules that are difficult to understand, no matter how dedicated we are to full compliance. Public accounting firms have become just another unhelpful regulator.

Money and Other Things

- Leucadia owns approximately 30% of HomeFed Corporation, a real estate development company that was spun off to our shareholders in 1998. It is traded on the NASD OTC Bulletin Board and its ticker symbol is HOFD. At the time of the spin-off to Leucadia’s shareholders, the stock was valued at $1.79 per share. Subsequently, in 2002, Leucadia purchased additional shares giving it a 30% stake at $9.70 per share. At the end of 2005, HomeFed shares were trading at $67.00 per share. The undersigned each own 7.7% and 9.5%, respectively, of HomeFed as a result of the spin-off. Leucadia and the undersigned are very pleased with HomeFed’s progress.

- During 2005, the Company’s banking and lending operations sold its remaining customer deposits and surrendered its National Bank Charter.

- During 2005, we wrote down $12.2 million of investments in certain available for sale securities.

- In June 2005, the $8\frac{1}{4}$% Senior Subordinated Notes were redeemed at their term for $19.1 million.
- At December 31, 2005, Leucadia had a liability of $102.8 million on its balance sheet for its unfunded pension plan obligations. Benefits in these plans have been frozen. We intend to substantially fund this liability in the foreseeable future. Most of this amount had been previously recorded in our balance sheets.
- At December 31, 2005, we had $85.1 million of letters of credit and guarantees outstanding.
- As of this date, we have approximately $2.5 billion available for new investments–$1.9 billion of which is cash, United States Treasuries and securities of Government-Sponsored Entities, and $600 million is various corporate debt, equities and other securities.

The Future

We worry about the profligate ways of our country's fiscal policy. The trade deficit is huge and growing and represents debt to foreigners. We will do fine until the day our little green markers, our dollar bills, printed at little cost and which represent our promises to pay, become less attractive to our creditors. If these creditors decide precipitously or all at the same time to exchange these markers for other countries' markers, our big strong bustling nation is in big trouble. One of us is very worried.

As there is nothing we can do about this problem, we will continue to work with our large pile of low yielding cash to put it to higher and better use! We have many things in the hopper that look interesting and hopefully by next year at this time we will have a measurable reduction in cash and an increase in higher yielding investments.

We have been seriously considering the future of Leucadia and its management. One of us is 62 and the other will be 66 this summer. We are both in good health and have nine years left to go on our new ten-year employment contracts. Our enthusiasm is unabated for deals and investments, but we do recognize our responsibility to ensure management continuity and are working on the problem. We don't have anything specific to report but we want to make sure that our $5.1 billion NOL is used up and our Deferred Tax Asset reduced to zero.

The undersigned get most of the credit for what goes on in Leucadia but we should not–just some of it. We have a large group of dedicated hard working people who do most of the work and it is they who should get most of the credit. We are the orchestra conductors–we don't play a note but we stand in front of everybody and wave a stick.

More next year.

Ian M. Cumming Chairman	Joseph S. Steinberg President

Letter from the Chairman and President

To Our Shareholders

In 2006, Leucadia recognized $289.5 million in pre-tax income and $189.4 million in after tax income which is $.85 per share fully diluted.[1] Ending December 2006, net worth was $3,893.3 million or a return of 5%. This anemic return is the result of what we do. Investing for the long-term and fixing troubled companies results in lumpy outcomes. Over the long-term, however, we are pleased with the results and happy to have participated in the wealth created for our shareholders.

Below is Leucadia's scorecard for the last 29 years since we took over the management.

Leucadia National Corporation Scorecard

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Equity	Net Income (Loss)	Return on Average Equity
(Dollars in thousands, except per share amounts)								
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59 [b]	(33.9%)	21.0%	7.71	26.4%	1,121,988 [b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95	61.4%	4.9%	23.73	2.5%	3,661,914 [c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
CAGR (1978-2006)[a]			10.1%	32.8%				
CAGR (1979-2006)[a]	20.8%		10.0%	24.9%		20.9%		

(a) CAGR stands for compound annual growth rate. Since negative numbers cannot be compounded, we also show CAGRs with 1979 as a starting point. These calculations do not reflect the benefit of any cash dividend payments or the spin-off of HomeFed in 1998.

(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share.

(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.

[1] You will note a large asset on our balance sheet (page F-3 of the 10-K) called "Deferred tax asset, net". As we explained last year, this is the non-present value of some of the taxes that we will not pay in the future as a result of a large NOL (net operating loss carryforward). During 2006, the pre-tax income was substantially sheltered from taxes due to this NOL.

What We Do

We tend to be buyers of assets and companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.[2]

Rules of the Road

1. Don't overpay, no matter what the madding crowd[3] is up to.
2. Buy companies that make products and services that people need and want and provide them as cheaply as possible with consistently high quality. Lower cost and higher quality is a relentless and never-ending task.
3. Earnings sheltered by NOLs are more valuable than earnings that are taxed!
4. Compensate employees for performance and expect hard work and honesty in return.
5. Don't overpay!

A Bit about Commodities, Globalization and China

We have been thinking a lot about China, but not doing much about it. We observed from the sidelines its tremendous growth and are believers in its continuing potential. One of us has been there several times, the other not. However, China is very far away, and we have a well founded skepticism towards investments in places where the rule of law is not well developed. We have successfully invested in some difficult and strange places, among them Bolivia, Argentina, El Salvador and Russia, as well as some pleasant places such as Barbados, Spain and Australia.

Prior to the emergence of China as a turbocharged economic growth engine commodity prices were pretty much in the doghouse during the latter part of the last century. In our readings it came to our attention (and to many other investors, some sooner and smarter than we) that China is consuming an ever increasing amount of the world's resources. Some analysts and pundits think China is the country version of the old Pac-Man® video game and will devour the marginal production of all commodities, which will, for the foreseeable future, push up prices as China demands more and a greater share of the world's commodities. It is also not surprising that China, an economy with 1.3 billion people who are beginning to discover the delights of a consumer society, wants and has the ability to consume more and more every year. Its demand for everything is likely to increase, both consumer goods and raw materials. In the meantime, as a low cost manufacturer of all the things that we no longer make here in the U.S.A., China has assembled an unspent cash hoard of over a trillion dollars and is busy spending part of this vast sum on soy beans from Argentina and Brazil, oil from the Middle East and iron ore and copper from Australia and other places. China is also in the midst of building a new infrastructure, i.e., railroads, highways, factories, etc., all of which requires lots of copper, iron ore and energy. Prices for all of these commodities has risen dramatically over the last ten years, with copper going from $1.09 per pound to $3.00 per pound, Australian lump iron ore

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[2] Originally reported in the 1988, and repeated in the 1990, 1991, 1995, 1996, 1998 and 1999 annual reports.

[3] Thomas Hardy's 4th novel, published 1895, *"Far From the Madding Crowd."*

from $.37085 per dry metric tonne unit to $1.0264 per dry metric tonne unit and gas from $2.60 per mcf to $7.53 per mcf. With our investments in copper, iron ore and oil and gas drilling, we are riding the wave of commodity price inflation and vicariously enjoying the roller coaster ride of China's booming economy. Certainly we can expect a bust one day, but we hope not too soon. Details are below.

Cobre Las Cruces

In August of 2005, our wholly-owned subsidiary, MK Resources, sold a 70% interest in its Las Cruces copper deposit to Inmet Mining Corporation (TSX:IMN) in exchange for 5.6 million of Inmet's common shares – we retained the remaining 30%. The Las Cruces copper deposit is located 20 kilometers outside Seville in the Andalucıa region of Spain. Las Cruces is a high-grade copper deposit with a current projected development budget of €380 million, of which €53 million will be funded by national and regional grants by Spain and the European Community.

The mine will produce 72,000 tonnes per year of copper cathode with an expected life of at least 15 years. We will own 30% of the production directly, and an interest in the balance through our stock ownership in Inmet. An independent 2005 reserve study indicated reserves of 16 million tonnes of ore with an average grade of 6.6% copper. Extraction will be via open pit with the exception of 740,000 tonnes of ore, which will be removed by underground methods. Actual production of LME[4] copper cathode is scheduled to commence in early 2008 with a projected life of mine cash operating cost of €.39 per pound. The dewatering and re-injection system is up and running, plant construction is underway, and management is in place. As happens with projects of this nature, costs have substantially increased above initial estimates and the unknown is to be expected.

Cobre Las Cruces expects 2007 to be a very busy year and anticipates spending an additional €260 million, including €180 million to complete detailed engineering, procurement and construction. A large part of their efforts in 2007 will be focused on the hiring and training of operational staff in anticipation of an early 2008 production start up.

To fix some of its costs, Cobre Las Cruces has hedged $215 million of its foreign exchange exposure at $1.25 to the Euro for the period of the construction. Cobre Las Cruces has also fixed its interest rate exposure on its debt at 5.2%, plus the loan margin, for the period 2008 to 2014, by which time we expect the loan to be repaid. Cobre Las Cruces has not sold forward any of the copper, the price of which continues to remain buoyant. At some point we may revisit this subject.

Cobre Las Cruces has been excellently supervised by Tom Mara, our Executive Vice President and Treasurer, and by Frank Joklik, our veteran miner. Tom joined Leucadia 30 years ago before the undersigned, and we hope and expect he will be around for the next 30.

Fortescue Metals Group Ltd

In August 2006, Leucadia invested $400 million in Fortescue Metals Group Ltd ("FMG"). We received 26.4 million common shares of FMG stock (9.99% of the total outstanding shares) and a $100 million 13-year subordinated note that receives, in lieu of a fixed coupon, payments equal to 4% of revenues (net of government royalties) over the term of the note. FMG is traded on the Australian Stock Exchange (ASX:FMG).

FMG has approximately 35,500 square kilometers of mining tenements. Tenement is Australian speak for mineral leases. Two of the tenements, called Christmas Creek and Cloud Break, contain over one billion tonnes of proven and probable iron ore reserves. These reserves will be the first to be mined and are the only tenements subject to our 4% of revenue payments.

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[4] London Metal Exchange

In addition to our $400 million investment, FMG borrowed in the international markets $2.05 billion at a weighted-average rate of just over 10%. These funds and ours are being used to dredge the ship channels, to build a port facility to load ore on ships, to construct a 260-kilometer railroad to transport the ore to the port, and to build the mines at the sites mentioned above. Check FMG's website http://www.fmgl.com.au for pictures of the ongoing construction and a further description of this enormous undertaking.

First ore loaded on ship is planned for the end of the first quarter 2008; thereafter payments to Leucadia will follow. So far, the project is on schedule and on budget. FMG is the creation of a hyperactive, smart, energetic Australian entrepreneur named Andrew Forrest; imagine the Energizer Bunny®. Andrew's roots in Western Australia go back many generations. His forbearers include, among others, the founding Premier of Western Australia and some of the country's early explorers. Andrew himself was brought up in the Outback on a sheep station – the Australian equivalent of a ranch. This ranch had few people, 50,000 sheep and several thousand cows. Hard work and survival are in his DNA.

Andrew is an inspiring leader, a visionary and a knowledgeable executive and miner. We are fond of him and his delightful family. We are very happy with this investment. One of us serves on the FMG board (where our suggestions are welcomed) and the other is an alternate.

In 2006, iron ore prices increased 19%. The price of iron ore for the coming year (April 2007 through March 2008) has been reset 9.5% higher than last year. Analysts predict the price will go up again next year. Since prices do not go up forever, we did our initial investment arithmetic on declining iron ore prices.

At December 31, 2006, FMG stock traded at $10.46 per share giving our 26.4 million shares a market value of $276 million. As of this writing, March 28, 2007, the shares are trading at $18.60 per share and our stake has a market value of $491 million.

Goober Drilling

Before discussing our investment in Goober[5] Drilling, let us digress. Several years ago most of the boxcar manufacturers in the U.S. had disappeared. There was a surfeit of boxcars selling at $10,000 or less. Replacement costs were running $30,000 to $40,000 plus, depending upon the type. Twenty-five thousand boxcars were being retired every year due to old age and misadventure. We drew a supply and demand curve and we believed the two would cross in the not too distant future. We bought lots of boxcars and sent them out to forage on the railroads of North America, where they collected per diem money, and sent it home. Demand for boxcars rose higher and higher and we eventually submitted to a suitor and sold the fleet in 1989 at a significant profit.

Similarly at the peak in 1982, there were 5,139 oil and gas land-based drilling rigs in the U.S. with average day rates of $5,770. Late in the first quarter of 2006, there were only 1,582 oil and gas rigs and average day rates had risen to $14,100. Fortuitously, at that time into our offices came, from Stillwater, Oklahoma, the hard working owners of Goober Drilling, Chris McCutchen and John Special.

These successful fellows ran a drilling business in the Mid-Continent Region of the U.S., mainly in Oklahoma and Texas. They, too, understood supply/demand curves, resulting from the upwardly escalating oil and gas prices. Being adventurous and optimistic souls (but without enough financing),

[5] Goober also goubер. The peanut, *Arachis hypogaea*. **1833** Louisville Publ. Advt. 7 Nov., A few bags of Gouber Pea, or Ground Pea [for sale]. **1834** *Cherokee Phoenix* (New Echota, Ga.) 24 May 3/4 But he so seam I frade of he, I guess he steal my goober. –*The Oxford English Dictionary,* Volume VI, page 668.

they ordered 18 brand new rigs to add to their existing fleet of 11 rigs. These new rigs were high horsepower and most were equipped with top-drives. High horsepower and top-drives are required for horizontal drilling, which allows re-drilling of certain difficult but potentially productive formations. Horizontal drilling drills to a targeted depth then turns to drill horizontally to the surface of the land. They can pull up the drill string then go back and drill in another direction. (Imagine a daddy-long-legs spider with many legs up to one mile long.)

Day rates for new high horsepower rigs were then in the low $20,000 per day with an operating cost of approximately $9,000. The new rigs were about to be delivered and Goober needed money.

So in 2006, Leucadia acquired a 30% limited liability company interest in Goober for $60 million and agreed to lend Goober $126 million secured by all of its rigs. In January 2007, the loan was increased with an additional secured credit facility of $45 million. For an additional $25 million, we increased our equity interest to 42%.

At December 31, 2006, Goober had 21 operating drilling rigs, ten of which were new and financed by Leucadia. In addition, Goober has 13 rigs under construction and has committed to buy two more rigs. By the middle of 2007, all these rigs (36 in all) should be operational. Assuming current rig rates and 90% utilization, these rigs would generate annual billings of $240 million. Between the interest on our debt and our share of the earnings we expect a very satisfactory investment return.

Rig day rates and the tenor of the contracts with the lease owners fluctuate with oil and gas prices. If gas prices stay at $6 per mcf, we will prosper. If they stay over $7 per mcf for three years, we will do very well! We hope for high gas prices, copper prices and iron ore prices.

Goober is growing rapidly and our Asset Management Group ("AMG") is helping them expand their back office to better monitor costs and institute Sarbanes-Oxley rules.

Our friends from Chartwell initiated this investment.

Symphony Healthcare

Last year we told you about the successes, trials and tribulations of Symphony – 1,650 locations in 46 states, populated by 2,900 employees, many of whom are part-time. Attracting and retaining full or part-time therapists and keeping them trained became a major pain and was becoming evermore expensive.

We concluded that the business model could be improved by combining with other physical and occupational therapist providers. To this end, we went in search of possible roll-ups, and blessedly, got rolled up. We recorded a pre-tax gain of $53.3 million on the sale. Luck helps!

Our colleagues, Zalman Jacobs and Luis Medeiros, found this company and executed the sale.

ATX Communications

ATX is a CLEC (Competitive Local Exchange Carrier) which we purchased in 2003 and reorganized through a Chapter 11 bankruptcy in 2005. Following its emergence from bankruptcy we went on another hunt to buy other CLECs or be bought. We are not convinced that there is a long-term future for small CLECs among the two remaining national telecommunications companies and the cable companies, and as a result ATX was purchased by the greater optimist. Thanks to David Larsen, Jeff Storey and the ATX team for the investment and the $41.6 million pre-tax gain on sale.

Conwed Plastics

Conwed Plastics manufactures and markets lightweight plastic netting for a variety of purposes: building and construction, erosion control, packaging, sod backing, agricultural, carpet padding, filtration and consumer products. Conwed is a market leading company in lightweight netting products used in carpet cushion, turf reinforcement, erosion control and packaging. Leucadia's investment in Conwed Plastics was $65.5 million at December 31, 2006. See pages 7-8 of the 10-K for a more detailed description of Conwed Plastics.

Conwed's products are manufactured in Minneapolis, Minnesota; Athens, Georgia; Roanoake, Virginia and Genk, Belgium and sold throughout the world.

(In millions)	2002	2003	2004	2005	2006
Sales	$ 50.7	$ 53.3	$ 64.1	$ 93.3	$ 106.3
Pre-tax profits	$ 3.1	$ 4.4	$ 7.9	$ 14.2	$ 17.9
Return on average equity	7.8%	12.6%	25.1%	33.4%	29.5%

A summary of 2006 in the words of Mark Lewry, President of Conwed:

"In 2006, Conwed celebrated 40 years in business and continues to be successful with a strategy to grow the business both organically and through acquisition. Revenues grew 14%, exceeding $100 million for the first time, while pre-tax profits grew to 17% of sales. Resin price increases, for the first time in three years, began to moderate. While still up 92% from 2002, with continued diligence around cost and price management, the company's gross profit continued to improve.

Conwed's European operation, which represents approximately 14% of Conwed's sales, continues to deliver positive cash flow. The acquisition of Netlon from Tensar Group Limited in the U.K. in 2005 doubled our European operation and has enabled us to significantly upgrade the management team.

We looked at a number of acquisition opportunities during the year. Polynet Inc. was acquired in May 2006. The equipment and business were integrated into our Roanoke, Virginia facility.

During 2006, we also pursued Etiquetas Y Empaques (E&E) in Guadalajara, Mexico, closing the deal in early 2007. This company will expand our packaging business on the west coast and provide a platform to grow production in a lower cost operating environment.

Including E&E, Conwed has acquired and integrated six companies since 2004. During this time frame our revenues and return on equity have doubled while profits have grown over 300%.

2006 was a good year for Conwed as the twin engines of organic and acquisitive growth combined to deliver strong financial results. The strategy in 2007 will be the same and we certainly hope for similar results."

Idaho Timber

Idaho Timber is headquartered in Boise, Idaho, and remanufactures dimension lumber and produces other wood products. Idaho Timber was acquired in May 2005. For the eight months of 2005, pre-tax income was $8.2 million, and for 2006 was $12 million. See pages 4-7 of the 10-K for a more detailed description of Idaho Timber.

When we purchased Idaho Timber, we knew the earnings would porpoise as it is buffeted by the economic winds of commodity lumber prices and the housing market. These risks were built into the purchase price and as a result we own a well managed company with low capex and high taxable income using up our NOLs.

Ted Ellis is a fine manager who runs a tight ship and leads a band of effective people. He sticks to his knitting.

2006 in Ted's own words:

"In 2006 Idaho Timber was faced with a multitude of challenges. First, there was a continuation of a global over-supply of timber. Second, a complicated trade issue with Canada encouraged additional supply to come into the U.S. market in anticipation of a settlement of the dispute, which occurred last year. Third, there was a sharp downturn in housing as the year progressed.

All of this created a depressed lumber market and much lower prices for the industry. During this difficult time, Idaho Timber endeavored to maximize its volume and maintain a profitable result, outperforming the industry during this very difficult period of time.

Also during 2006, Idaho Timber finalized construction of its first new plant in several years. This plant is the second located in North Carolina and is designed to complement Idaho Timber's presence in key Eastern markets and to take advantage of the supply of lumber from a multitude of sources. This facility was completed in 2006 and has reached profitability much earlier than expected. The addition of the Chadbourn, North Carolina operation brings Idaho Timber to a total of eleven strategically located and diversified operations throughout the United States.

The Idaho Timber team has managed to control expenses in an ever-increasing cost environment, i.e., freight, labor and supplies.

Though year-over-year revenues were down due to the reduction of prices in the commodity lumber market, market share increased by expanding our customer base positioning the Company well for the future when the market improves.

The people at Idaho Timber are a family of hard working entrepreneurial individuals, constantly searching for ways to improve all aspects of our business. We hope the over-supply of lumber and the housing slow down resolve in the near future to allow us to achieve a result reflective of our efforts."

Gaming Entertainment

The Company's gaming interest is held through a controlling interest in Premier Entertainment Biloxi, LLC, which owns the Hard Rock Hotel & Casino Biloxi located in Biloxi, Mississippi. Hard Rock Biloxi was scheduled to open to the public on August 31, 2005. Two days prior to that, Hurricane Katrina struck the Mississippi Gulf Coast. The casino portion of the project was built on a floating barge located just offshore. During the storm, Katrina's winds peeled back the roof like a can of sardines, collapsing the roof and sinking the barge. The hotel portion located onshore, although structurally intact, was damaged by torrents of rain washing through the shattered windows.

We acquired our controlling interest (thanks to an introduction by our former colleague, Larry Hershfield) for $90.8 million and own approximately 46% of the common stock and all of the preferred stock, which accrues dividends at 17% per annum. We also own a Premier $13.4 million 15% junior subordinated note due in 2012, and made an $8.1 million 12% loan to Premier which matures in May 2007, plus we are committed to provide up to $40 million of construction financing ($11.3 million was outstanding at December 31, 2006). All of Premier's equity interests are pledged to secure repayment of Premier's outstanding $160 million principal amount of 10 3/4% First Mortgage Notes due February 1, 2012.

Prior to Hurricane Katrina, Premier had purchased $181.1 million of insurance coverage for the wind damage to its real and personal property and for business interruption. To date, Premier has received $160.9 million in insurance payments with an additional $12.9 million being litigated with a silly insurer. Some insurance companies love premiums but detest payouts!

As a result of a dispute with the Premier note holders, who for some pernicious reason refused to release the insurance proceeds for the rebuilding of the hotel and casino, Premier and its subsidiaries filed voluntary petitions before the United States Bankruptcy Court for the Southern District of Mississippi for reorganization under the Bankruptcy Code. Premier continues to operate the company as debtors in possession.

The Bankruptcy Court has authorized the rebuilding and has to date released $44.2 million of the insurance proceeds. Upon reconstruction, the resort will have a hotel with 318 rooms and suites, retail space, five restaurants, 1,500 slot machines and 50 gaming tables. This time, the casino will be built on pilings in the Gulf of Mexico, but not on a barge, though we will still worry about hurricanes. Leucadia has committed to provide up to $180 million to finance the reorganization which would principally be used to pay off the Premier notes. When it leaves bankruptcy, Premier's available funds should be sufficient to repay our construction financing, and could also enable Premier to repay some of our other loans. A Confirmation Hearing for the Bankruptcy reorganization is expected to occur in May 2007.

The Casino and Hotel will hopefully have its grand opening July 7, 2007. Shareholders who gamble are encouraged to come visit Biloxi and leave some money behind! As always the odds favor the house but in this case you own the house.

Antilles Crossing

Leucadia (75%) and Light & Power Holdings Ltd. (25%) invested in a $30 million glass fiber cable laid on the ocean floor from St. Croix to Barbados to provide residential and commercial data and voice services. From St. Croix, the cable connects with a cable, owned by others, to the U.S. and beyond to the rest of the world. A spur connection has been run to St. Lucia. Leucadia owns approximately 38% of Light and Power and one of the undersigned is its chairman.

The going has been difficult. Cable & Wireless, who has had a choke hold on Barbados telephone calls for decades, has been uncooperative by causing endless delays for endless reasons. The Barbados Government was helpful in issuing the necessary licenses. Since the money has been spent and the cable landed, the Barbados Government regulators have not been helpful. We shall overcome.

Brian Harvey is the manager of Antilles Crossing and is doing a splendid job.

Wineries

Leucadia owns two wineries: Pine Ridge Winery in Napa Valley, California, born in 1978 and acquired by us in 1991, and Archery Summit in Dayton, Oregon (on Archery Summit Road), which we founded and constructed in 1993. The wineries control 345 acres of vineyards: 229 acres in Napa Valley, California, in the well regarded appellations of Stags Leap, Carneros, Rutherford, Oakville and Howell Mountain, and 116 acres in the Willamette Valley of Oregon. Substantially all of this acreage is producing grapes. During 2006, the wineries sold approximately 81,000 9-liter equivalent cases of wine generating wine revenue of $19.5 million. At December 31, 2006, the combined investment in these wineries was $69.9 million.

We have purchased 611 acres of ground in the wine producing area of Eastern Washington State, hard by the Columbia River, from which we have rights to 2.5 acre feet of water. An acre foot describes the amount of water which, if piled up, would be one foot deep over the entire acreage. We are now planting a 90-acre test vineyard with several varieties of grapes. After this year's harvest is in, we plan to gain some experience as to climate and terroir[6] by making some wine from purchased grapes.

The luxury segment of the wine industry is intensely competitive. Our wines compete with small and large producers in the U.S. as well as with imported wines. Demand for wine in the luxury market segment can rise and fall with general economic conditions, and is also significantly affected by available supply. The demand for our wine is largely affected by the ratings given the wines in industry and consumer publications. Wines are rated on a 1-to-100 numerical scale for each vintage and type of wine. The scores provided by *The Wine Spectator* and by Robert Parker can and do make or break a vintage of wine. We make it sometime.

As we mentioned, in an effort to improve the quality of our wines and achieve better scores, we decided to change the way we planted, pruned, picked and sorted the grapes and made the wine. We hired a very gifted French winemaker and viticulturist to guide us. The process was expensive and intense. With his assistance, the 2003 wines made by our talented winemakers Stacy Clark and Anna Matzinger have, in our opinion, improved.

Last year we mentioned we were contemplating some changes. We have added and will continue to add very experienced personnel to guide us into the future. Although the making and selling of wine is complex and difficult, we are making progress and the value of our vineyard and wineries continue to go up.

Depending upon your state liquor laws, you may order our wine on the Internet (www.pineridgewinery.com or www.archerysummit.com) or join our Wine Clubs and receive delicious libations monthly.

Visit the wineries in person and enjoy the tasting room experience. Shareholders of Leucadia receive a 20% discount–on the honor system. Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822.

Remember, wine is food and we think red wine leads to longevity!

[6] Terroir (terwar/in French) can be very loosely translated as "a sense of place" which is embodied in certain qualities, and the sum of the effects that the local environment has had on the manufacture of a product; a group of vineyards (or even vines) from the same region, belonging to a specific appellation. –*Wikipedia, the free encyclopedia*.

Medical Product Development

Sangart

At December 31, 2006, Leucadia owned 69% of Sangart, having invested $49.2 million since 2003. Sangart is a biopharmaceutical company engaged in the development of a blood substitute for oxygen transport. We invested an additional $48.5 million in March 2007, which increased our ownership to 87%. We also have a warrant to invest an additional $48.5 million on the same terms, but voluntarily. This recent investment plus the warrant funds, if exercised, are expected to finance the company through completion of its Phase III trials and commercialization. Sangart has commenced two Phase III trials in Europe that are designed to demonstrate the product's safety and effectiveness in preventing and treating low blood pressure during surgery, and in reducing the incidence of operative and postoperative complications.

Phase III trials are done on a large number of volunteer humans, are expensive and take a long time; Sangart expects to enroll over 800 patients in its trials. If the trials are successful, it should lead to commercialization of the product in a few years. We own a facility capable of producing 250,000 units per year. Regulators, including the FDA (Federal Drug Administration), who are charged with approving such products for human consumption, are notoriously cautious about what constitutes a "successful" Phase III trial.

Blood substitutes have had a rocky road to commercialization. No other products have been successful. We are hopeful the Phase II trial results foretell successful Phase III trials.

For a more expansive explanation of this journey, see pages 11-13 of the 10-K.

Chakshu[7]

In August 2005, Leucadia made a $10 million investment for a 20% stake in an early stage, specialty pharmaceutical company called Chakshu Research. Chakshu is currently developing prescription eye drops to address the symptoms of early stage cataracts. Hopefully, this research will result in stopping cataract growth and perhaps recidivism. With baby boomers increasingly growing older, we believe a product that addresses age-related vision loss is attractive. Studies have indicated that approximately 90 million Americans suffer from cataracts but less than 40 million have been diagnosed. Since only mature cataracts are recommended for surgery, just 1.4 million Americans had cataract surgery in 2005.

FDA Phase I/II clinical trials commenced in January 2006 and enrollment (105 patients) was completed during the fourth quarter of 2006. Unmasking the results of the trials is expected to take place in April 2007. Undoubtedly, more money will be needed to complete pivotal Phase III trials and begin the process of product commercialization. We are cautiously optimistic.

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[7] "Eye" in Sanskrit.

Real Estate

At December 31, 2006, real estate properties had a book value of $176.7 million. The company owns:

- 15-story 740,000-square foot office building in Tulsa, Oklahoma, formerly WilTel's headquarters. We have signed a term sheet to sell the building.
- In Myrtle Beach, South Carolina, a 112-acre fully entitled mixed use development project, consisting of 397,000 square feet of retail/commercial space (almost all leased) and 1,441 residential units of which 555 are under contract for sale to builders.
- 196 acres of land in two parcels undergoing residential entitlement in mid-coast Maine.
- A 15-acre unentitled air rights parcel over the train tracks behind Union Station in Washington, D.C. Entitlement is just beginning. This is one for the grandkids.
- An operating shopping center in Long Island, New York that has 71,000 square feet of retail space and is being expanded.
- 540-acre parcel bordering Telluride, Colorado. We are attempting to have it rezoned for estate lots, cabins and a lodge site.
- 2,005 acres of land close by Moab, Utah, which is going through the development approval process.
- Leucadia owns approximately 30% of the outstanding stock of HomeFed Corporation (NASD OTC BB:HOFD). HomeFed is a successful real estate company in Southern California which was previously spun off to Leucadia shareholders. Carrying value is $45.7 million. December 31, 2006 market value is $163.3 million. Along with Leucadia, the undersigned are the largest shareholders.
- In February 2006, Leucadia completed the sale of 8 acres of unimproved Washington, D.C. land for net cash proceeds of $75.7 million and recorded a pre-tax gain of $48.9 million.

The real estate development business requires great patience and patient money to wait out long laborious entitlement processes and real estate downturns. Leucadia's approach to real estate is completely tactical; when we can't find succulent morsels, we hibernate.

Money and Other Things

In February 2007, our seven year investment in JPOF II came to an end. JPOF II was managed by Jefferies & Company, Inc., a full service investment bank to middle market companies and the trading of high yield securities. Over the seven years, Leucadia has enjoyed a weighted average return on the investment of approximately 20% per year, which was annually distributed. Thanks to Rich Handler, Andrew Whittaker and their great team. We are very pleased with that investment and have renewed it in another form.

A new six-year joint venture with Jefferies was fashioned whereby we will invest $600 million and Jefferies a matching $600 million. The new venture will be a registered broker-dealer engaged in the secondary sales and trading of high yield securities and special situation securities, including bank debt, post-reorganization equity, equity, equity derivatives, credit default swaps and other financial instruments. The venture will commit capital to the market by making markets in high yield and distressed securities and will invest in and provide research coverage on these types of securities. We are hopeful that when credit is not as plentiful as it is today opportunities will abound.

On March 6, 2007, Leucadia raised $500 million in the public market at 7$^{1}/_{8}$% for ten years. The purpose of this financing was to match fund the new Jefferies investment and for general corporate purposes.

At December 31, 2006, Leucadia had approximately $2.2 billion available for new investing, $738 million of which is cash and U.S. Government and agency bonds. Please call us with ideas.

Exodus

In June 1995, H.E. Scruggs, known to one and all as Bud, came to work at Leucadia, he wanted to learn about business. H.E. is Herbert Eugene, which explains "Bud".

Bud had a long and successful career prior to joining Leucadia: a law degree, partner in a political consulting firm, long surviving Chief of Staff to the Governor of Utah and professor of Political Science at Brigham Young University.

Over the ensuing years, Bud made himself very valuable to Leucadia and rose to become one of the five or six principal executives of Leucadia National Corporation. He helped formulate the AMG. While the undersigned and others are out chasing rabbits, the AMG fellows stay home and mind the assets on a daily basis.

Bud and his wife Shirley are active members of The Church of Jesus Christ of Latter-day Saints, the "Mormons". Sensing his Leucadia years were the perfect preparation for the ministry, the Church drafted him up along with his delightful spouse Shirley for three years of service as Mission President, which supervises 100-200 missionaries between the ages of 19 and 22. Bud has been assigned to the Sydney, Australia North Mission. We were hoping it would be closer so we could continue to tap his secular advice. Our prediction is the Mormon population of Sydney North will flourish and multiply.

Bud is hard-working, creative and smart, with a vast and eclectic sense of humor. We will miss him very much, but wish him well.

The Future

These are confusing economic times. There are galvanic economic and political power shifts in the world. China, India and the rest of Southeast Asia are roiling. The U.S. had an economic and political hegemony from the end of World War II until the end of the last century. We are now bogged down in a senseless war in Iraq, the House and Senate are constantly bickering and getting even, and are not able to manage our country. Education, healthcare, Social Security, Medicare, Medicaid, immigration policy, among others, are all difficult issues. We need the best and the brightest, patriots all, to hammer out the thoughtful compromises necessary to assure a prosperous and full future. Will the world ever again look at us as a bright light on top of the mountain? Asia rises and we flounder, where this leads, we know not.

One of us thinks the sky is falling and the Dollar on the edge of debasement. One of us thinks the efforts of half the global population who struggle towards the western standard of life and liberty will cause a global bull market that could last a long, long time.

Meanwhile, we have committed over $1 billion in the last twelve months and have added a few very experienced deal folk to join our team. The beat goes on.

We have a two-pronged approach to our succession problem—merge or acquire a large company not dependent on our investment skills and/or/also find and nurture talented investment types who have good deal skills—whether inside or outside the Company. The two of us hope to be around for a long time. We enjoy each other and what we do. We shall overcome this problem!

We may be the lead dogs on this dogsled, but we couldn't possibly pull it alone. We are eternally grateful to our experienced hard working colleagues.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Bsmeal from the MF BRK Board posted these notes from Leucadia's AGM. Cheers ! Sanjeev.

Leucadia National – Annual Meeting – May 15, 2007

Notes were taken by hand. All mistakes and mischaracterizations are mine. The meeting was held in midtown Manhattan. Attendance was around a few hundred people. Formal matters took 15 minutes and there was a 1 hour Q&A. Ian Cumming, Joe Steinberg, and seven other directors were on stage. All are old white guys with an impressive variety of experiences running, buying, and selling companies.

IC = Ian Cumming
JS = Joe Steinberg
CFO = Chief Financial Officer

Opening:
IC: Not much to say, everything we wanted to say about the year we put in the annual report.
http://www.leucadia.com/TOC%20C&P%20Letters.htm
One thing to note, Fortescue (Australian iron-ore mining investment) book cost is now $711 million, a $500 million gain (I think he may have meant to say "market value is now $711 million). Inmet (mining company) book cost of $78 million now has a market value of $360 million, a $280 million gain.

Former head of Kennecott Copper (guy was sitting in crowd – Kennecott is an enormous mine right outside of Salt Lake City, where IC and JS are based) is our advisor. He has been helping us with the business of scraping the ground.

This is a record turnout. I wish I knew why – it makes me a little nervous (laughter).

Question – Prospects for Sangart? (medical product development company that Leucadia has invested $85 million in)

JS – I know a guy named Bob Winslow, a scientist, worked for the U.S. Army. He is the most renowned blood expert in the U.S., one of the top scientists. I ran into him 5 or 6 years ago in San Diego when I was selling our condo units. He told me about this artificial blood he was developing. We declined to invest. We met the next year and decided to invest. The product is now in a Phase 3 test in Europe. Ian went to medical school, he should talk about it.

IC – The Phase 3 test had 900 patients who took 1 to 2 units in hip surgery and other orthopedic surgeries. During Phase 1 and 2, there were no adverse effects. We are hoping to slog along and eventually have a product. It's actually a fortunate outcome of the tech bubble bursting – we were able to get a factory in San Diego with almost all the equipment we needed for 250k units of production for very cheaply. We don't know the retail price, it will depend on what they finally put on the label – it will likely be anywhere from $200 - $500/unit. It could be a substantial business based out of that little factory.

JS – Like all venture capital, in for a dime, in for a dollar. The original investment was $5 million, and we are now up to $85 million. We own 85%. Maybe it will be a big zero, it's high risk. I'm in love with it and drinking the Kool-Aid, or "taking the blood". Winslow is a gifted *scientist and a wonderful person.*

IC – It is still two years away form commercial production. We will move along to do a Phase 3 trial in the U.S.

Question – Fortescue – seemed like a dicey investment. Any indication of production and amount of royalties? (The Fortescue investment was for 26.4 million common shares, 9.9% of shares outstanding, and a 13 year, $100m note, where interest is 4% of revenue from iron ore production, net of government royalties).

JS: I am leaving tonight for Australia for a meeting on Monday and Tuesday. Building on the railroads and port is coming along, almost on schedule and on budget. There were 3 cyclones that cost $100 million AUD in repairs and caused a 1 month delay. Iron ore demand continues. India just put on a $7/ton export tax. Most of the iron ore in China is inland near the old steel mills. The new mills are on the coast and ready to take in seaboard iron ore. The current investment is planned to produce 45 million tons/year, which should be $1 billion revenue. We are studying an expansion to 120 million tons/year, which would cost $2 billion. We have expected the price of iron ore to level off, but we have been wrong so far. The conventional wisdom is that prices will rise when they are set in a few months. We have a good strategic relationship with Chinese steel mills, we hope to have a long-term relationship with them and to develop similar relationship in Taiwan and Korea. This is a development company with no revenue yet. Things could go wrong.

IC: The worry is that iron ore prices revert to the mean.

Question: Jefferies High-Yield bond fund – area is frothy and spreads are tight. Expectations? (Leucadia has a JV with Jefferies where they invest in and broker high-yield bond spreads. They have historically earned 20% annually on the deal and just reupped the deal at a $600 million investment).

IC: The record of high-yield spread is up and down like a ping pong ball over time. Look at the paper and prices you see for assets. If you don't predict that something will unwind in the next few years, you are crazy. The cycles are caused by human nature, you see the herd run back and forth like a bunch of lemmings. Jeffries is a great business. They issue the credit, watch them all blow up, run in and rescue them, and then issue new great. It's a great business!

JS: If we held our breath waiting for the correction, we'd be dead. Jeffries is a liquidity business. It's a pretty good business. We hope to make a decent return while waiting for a correction. We could lose money holding inventory when spreads widen 200 bps some day, but that will be a big opportunity for us.

Question – Telco acquisition – STi (prepaid calling cards business). IDT has struggled in this business. What intrigues you? (I am not sure this is accurate – IDT's prepaid calling segment has done very well – it has lost money on other side ventures).

IC: The spreads. It's a very profitable business. There is a great irony in the lawsuit in this *area, the pot calling the kettle black. Look at the plaintiff's record.*

JS: We have a high regard for the guy who runs it. We structured the deal in a way to protect Leucadia.

IC: We are very sensitive to accusations that will explode that customers in this business have been overcharged. We took great pains to go in and clean that up.

Question – Sangart – why double down on investment?

IC: To simplify, in phase 3, we injected units into a few hundred skinny Swedes and they all survived. That's not true of other companies who have tested similar products in the past. The way the science works is that the molecule that attaches to hemoglobin is very big. It causes more oxygen to get delivered to the capillaries than the normal molecule. We don't know why. That is potentially very exciting and good for soldiers who are injured in the field. Getting doctors to change patterns is very hard. If it turns out that you can freeze-dry this stuff and reconstitute it with saline solution, the armies of the world will be all over it. This is high-risk stuff. There might be side effects that could turn up only after long periods of time, like Vioxx.

Question – Update on gasification business? (Leucadia has expensed $15 million over the past few years looking at developing a gasification business to produce clean energy?)

IC: The technology is out there. We are looking for finance opportunities for the gasification process.

Question: Can you comment on the carrying value on investments vs. the market value?

IC: No. Do the digging yourself.

Question: Costs of mining copper?

JS: This was a tactical investment, not a strategic investment. We invest because there are specific opportunities. We bought this mine 9 years ago and expect to start production in March, 2008. Cost is 0.40 Euro cents/pound.

IC: This is a bet on copper prices, period. Prices were at $0.60/pound when we invested and are at $3.60/pound now. This is a lesson you should all pay attention to closely; it is better to be lucky than smart.

Question: China?

IC: Here is my take on it. Along came CNN, people around the world got television sets and everyone saw the U.S. and wanted some of it. The U.S. is financing the growth of China. They are building a vast infrastructure. It is hard to fathom unless you have been there. There is an arc of development from Korea to the 'Stans. I was just in Vietnam. It is seething with *development. They are the most capitalist Communists you can imagine. There is a major shift of wealth from the U.S. to Asia because the labor rates are so low. It is nothing magical. Vietnam with their latest "5 year plan" is planning on building a fast railway the length of the country, 900 miles or so, along with a 4 lane highway. This will cost a fortune.*

JS: The way economists oversimplify it is by saying that the U.S. consumes 25% of everything and China is on its way to equal that. There is a change in the supply/demand curve. Also, there are long waves of growth in commodity prices if you look back several hundred years. They go up for long periods of time. We may be in the midst of that right now (this sounds very similar to Jim Rogers' argument.) Of course, long trends from 200 years ago may not repeat. History has a way of doing that. I think we are in a long-term boom now due to the growth from China, India, Vietnam, and Korea.

IC: Ladies and gentlemen, you have just seen something I have not seen in 30 years, Joe is optimistic.

JS: No, I am not optimistic for us, I am optimistic for the Chinese.

Question: 10 years ago you were sitting up there with a Pepsi can on the lectern talking about how excited you were about Russia? (Laughs from board)

IC: That can of Pepsi cost us $60 million (argument between JS and IC over whether it cost $40million or $60 million).

JS: These investments are scary! We could lose all our money!

IC: The only thing dictators do well is make the trains run on time, because if they don't, the engineers will kill them! Vietnam is still Communist. They call each other comrade.

Question: Assets price bubble?

IC: (Referring to securitizations – he was talking about process of slicing and dicing securities) We don't know how this works over a long period of time.

JS: We go to auctions all the time, we just hired a few new guys to do this. It is very frustrating. When we do win and are the most optimistic people in the room, it is because it is a cyclical business that can't be leveraged or a screwy business with some quirk. It is difficult and discouraging.

IC: We have been in hundreds of meeting around the country where we tell someone what we are willing to pay and they look back blankly and say, "Private equity can pay more." and we say, "Adieu."

Question: What do you two disagree on?

IC: Everything.

Question: (Long question on Russia and Putin pursuing a "Dr. Evil" strategy.)

IC: You are more sophisticated than we are. No, we haven't thought about that.

Question: Japan?

IC: That question is floating towards a more strategic bent, although I guess our mining operations are kind of like that. Nothing in Japan is yummy.

JS: We invested in copper because we thought copper at $0.60/pound was cheap. That was basically the cash cost to get it out of the ground and we had the chance to buy a lush 6.6% rich copper vein. A year ago, I went to Japan with Bud Scruggs and we were looking for stuff. I think that to work in Japan, you need to open an office and hire native Japanese who speak English. It is a long-term strategic commitment. Maybe it makes sense, but we aren't going to do it. When we don't control companies, we want to trust the people who are running them, and there is a vast difference between how we look at companies and how many of the Japanese do.

Question: Coal gasification project?

IC: This is a massive project. It would take $1.5 billion. We have several projects on the way, although something adverse could happen. We have a $130 million tax credit for a project with Eastman Chemical in Longview, Texas.

Question: Why do you split the stock, unlike Buffett?

IC: I don't know, it felt good. We usually split it when it gets to around $60/share. We are acquaintances with Warren, but we disagree about a lot of stuff, including the length of annual meetings. Of course, he is way smarter than us and has a lot more money, so maybe you should side with him.

Question: Opportunities in subprime?

JS: We have looked a lot. It is interesting, the losses are spread so widely, no one person is taking a lot of heat. The brokers were in the business of generating paper for Wall Street. There is nothing to buy. As soon as things calm down, the guys who started New Century will come back and start over. Every Tom, Dick, and Harry hedge fund is looking to buy paper when it is 5 points down.

Question: Are you generally seeing a lot of opportunities?

IC: Yes, we are seeing a lot of interesting things. They tend to be more entrepreneurial and less buying companies. We're busy.

JS: Ian is correct. Instead of buying something cheap, we have to go in and do something.

IC: The opportunities in telco and Goober (said with heavy Texas accent) Drilling – we had to go in and restructure the back office, bring Sarbox to the poor people of the West.

Question: Net Operating Losses?

CFO: There are two buckets. $500 million of losses can offset any income. $4.6 billion can offset income from certain areas of the company, areas where conveniently we have almost all of our assets. (A few members of the board snickered.).

Question: Is size yet an impediment to returns? Is there a limit to the size of deal you would do? Are you looking for elephants?

IC: We are looking for small elephants. We are looking for value. If we saw it somewhere, we would finance anything. We have got friends in the world who have a lot more money than us who would help us.

Question: Housing bubble?

IC: We pay cash when we buy real estate. If things go bad, we shut it off and pull the plug. Southern California has slowed down, and I think it should have slowed down more. It think there will be a crisis when the price of homes falls and people are underwater on their mortgages. This is a mysterious place that we live in. It has a remarkable capacity to absorb everything from ridiculous presidents to ridiculous financial stuff.

JS: If you buy a beautiful piece of real estate with cash, you will tend to do well. The properties we have in Maine are very high end, and the hedge fund types buying those have not seen any slowdown. I am very surprised that in the lower-end stuff, builders are still willing to buy lots of land for 10% less than they were paying last year. There doesn't seem to be any sign of blood in the water.

Question: Jeffries high-yield bond relationship?

IC: We go out to dinner with Richie all the time and scream at each other and air out our differences. There is another guy there, Andrew Whittaker, who is great. We have a very long and good relationship with them.

Question: Vineyards? (Big laugh from one of the board members)

IC: Our former controller, after getting $5 million in Leucadia equity, immediately quit and went out and bought a vineyard. He is doing very well. We hope to replicate Archery Summit up in Washington state. It is very valuable. It's amazing, Duckworth (another vineyard) is for sale for $300 million, and they are earning $5 million. Asset price in Napa Valley are the Easthampton of the San Francisco set. They are tired of getting really pretty women and now *they are buying vineyards. Archery Summit is on allocation also, which is good, and we are upping the basis (didn't understand this fully, but I think the way it is structured the tax basis of the investment is rising over time).*

IC: In closing, we are both optimistic about the future.

Leucadia National Corporation Scorecard

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Equity	Net Income (Loss)	Return on Average Equity
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59[b]	(33.9%)	21.0%	7.71	26.4%	1,121,988[b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95	61.4%	4.9%	23.73	2.5%	3,661,914[c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03	39.1%	5.5%	47.10	67.0%	5,570,492[d]	484,294	10.2%
CAGR (1978-2007)[a]			9.9%	33.9%				
CAGR (1979-2007)[a]	21.4%		9.8%	26.2%		21.7%		

(a) A negative number cannot be compounded; therefore, we have used 1979.
(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share.
(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.
(d) Reflects the recognition of $542.7 million of the deferred tax asset or $2.44 per share.

Letter from the Chairman and President

To Our Shareholders

In 2007, Leucadia reported $484.3 million in after tax income ($2.10 per share, fully diluted). We lost $88.3 million from continuing operations pre-tax[1] and had non-cash income of $542.7 million by bringing into income part of our deferred tax asset.[2] In the confusing world of GAAP,[3] in a year where we lost money, did not harvest any major gains and all of our reported income came from tax savings on income we have yet to earn, net worth went up 43%, principally from marking to market our investment in one security. The chart below reconciles the increase in net worth for 2007.

(In millions)		
Net increase in unrealized gain on investments after taxes (largely Fortescue Metals Group Ltd)	$	959.9
Net income (includes $542.7 million of deferred tax asset)		484.3
Stock sale (5.5 million common shares)		242.0
Less: Dividends paid		(55.6)
Other		46.6
Increase in net worth	$	1,677.2

To sum up as we see it: 2007 was a mediocre year in which (a) the combination of operating company earnings, corporate overhead and security gains were negative and (b) interest on our cash hoard was less than the interest due on our corporate debt. We also had mark to market losses in several limited partnership investments. Time will tell whether they recover. Fortunately our investments in our two mining ventures described below are progressing very well and we have potential profits in both, only some of which has already been recognized in shareholders' equity. See the scorecard footnotes to the left for the history of the deferred tax asset.

Run Spot Run

What follows is our oversimplified version of what has happened to the world over the last 30 years.

In 1988, one of us, with children, took a trip up the Amazon River on a flat bottom boat. After a week of travel, as the river grew shallower and narrower, we rounded a bend. There ahead, someone had cleared an open space where a small village resided. We disembarked to investigate.

Off in the distance a familiar sound could be heard. With the village children in tow we followed a path into the jungle. There was a small Sony generator, a TV and a moveable satellite dish that a scientific team left behind years before. Using this equipment, the inhabitants of the village were watching CNN.

[1] The sum of loss from continuing operations before income taxes ($57.1 million), loss of associated companies, net of taxes ($21.9 million) and the tax benefit that reduced the associated companies loss ($9.3 million).

[2] The deferred tax asset is the tax benefit resulting from the future utilization of a $5.1 billion net operating loss carry forward which we retained when we sold the assets of WilTel in 2005. There is still about $300 million of deferred tax asset remaining to be recognized in the appropriate circumstances. For more information on our tax position please visit pages F-32 to F-34 of our 2007 10-K.

[3] GAAP stands for generally accepted accounting principles in the U.S.

Even people living in the jungle eking out a subsistence living were watching television and vicariously experiencing the abundance of the Northern Hemisphere. Governments in every part of the world have responded to the rising expectations of their populations. China, despite being a dictatorship, has devised ways for its population to raise its standard of living by becoming the low cost manufacturing center of the world. India has followed a slightly different path, but there too living standards are rising at a dramatic rate. These two countries alone account for one-third of the earth's population and adding in the rest of Asia over half. The demand generated by the growth of Asia accounts for the dramatic increase in commodity prices that we are all experiencing and reading about in the newspapers.

This prologue explains why we have ended up doing well with our investments in two mining companies. A great deal of steel and copper is required to supply and build the infrastructure for 3.7 billion people. The growth story in Asia is continuing and in the future we may be looking for more opportunities to participate, whether inside or outside the U.S.

Our Name

We have been asked numerous times from whence the name Leucadia appeared. Thirty years ago in the summer, one of us, then age 37 was elected Chairman of Talcott National Corporation, the other, then age 34 became President shortly thereafter. Talcott's existence goes back to 1854. We have documents showing that, during the Civil War, Talcott financed socks for the Union Army.

Talcott became listed on the New York Stock Exchange in 1937 and evolved into a finance company with four businesses: consumer finance, commercial finance, factoring and real estate. Interest rates were very high and imprudent real estate investments left the Company with a negative net worth and lots of debt. That is when we jumped where others had feared to tread!

On May 27, 1980, we sold Talcott's factoring business, James Talcott Factors, Inc., to Lloyds and Scottish Limited, a joint company of Lloyds Bank and the Royal Bank of Scotland. James Talcott was a name long associated with factoring and the buyers wanted the name. After a spirited negotiation, we were paid more money but were left nameless.

We had suspected this might be the outcome and had been trying to register names acceptable to New York State. There have been lots of names filed in New York since the Indians sold Manhattan Island. Driving north on Route 5 from San Diego, California, we passed a big green sign "Leucadia Next Exit", so decided to try Leucadia. It was immediately approved.

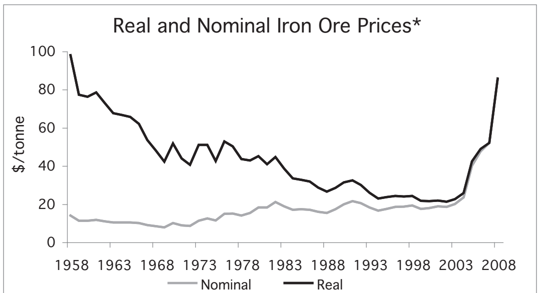
The word Leucadia is of Greek origin. Lefkadia (Leucadia) is one of the Ionian Islands and has a long and colorful history.

Iron Ore—a primer

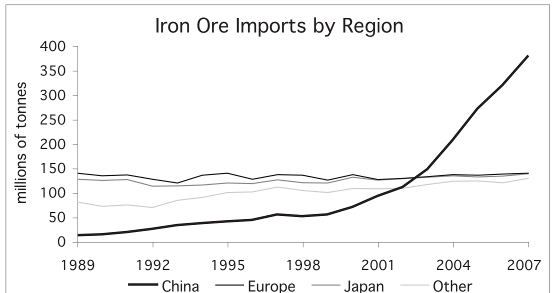
Iron ore is found in varying quantities and concentrations all over the world, including in China and India, but not in sufficient quantities to meet their growing needs. The biggest producers of seaborne iron ore are Brazil and the Pilbara region of Western Australia. Three iron ore producers—Vale (formerly known as CVRD) from Brazil, and BHP Billiton and Rio Tinto from the Pilbara, have come to dominate the market for seaborne iron ore, collectively accounting for approximately 70% of global supply. Seaborne iron ore is, not surprisingly, ore which has to travel by sea from the mine to the steel mill customer.

The benchmark contract price for seaborne iron ore is set annually through direct negotiations between the big three iron ore producers and the world's largest steel mills. This year Vale, the biggest producer of seaborne iron ore, reached agreements with steel mills in China, Japan and Korea that set its benchmark price for April 2008 through March 2009 at an increase of 65%-71% over the 2007 price (depending on iron concentration). In previous years the Australian iron ore producers would have accepted the same benchmark price, but this year the Australians are holding out for a higher price. Why?

For decades iron ore prices in real terms followed a long-term downward trend (see below). This resulted in companies and investors not spending capital to develop new reserves and mining capabilities. But since 2003, driven by China's surging iron ore appetite, prices have been increasing and producers have been unable to keep up with this demand. Global demand for seaborne iron ore in 2007 was 788 million tonnes, of which China represented 48% of the total, compared with 16% in 2000 and 11% ten years ago. Iron ore prices have reacted to this supply deficit: in 2003 the contract benchmark price increased by 9%, followed by 18.6% in 2004, 71.5% in 2005, 19% in 2006, and 9.5% in 2007. Naturally, increased demand and stagnant supply led to shortages, resulting in increased prices.



* Brazilian fines FOB assuming 63.5% iron content Source: Macquarie Research



Source: Macquarie Research

Having failed to anticipate China's surging demand the iron ore producers have now been frantically investing to build supply. The shortage worsened in 2007 as India imposed iron ore export tariffs which contributed to soaring iron ore spot prices. In the first few months of 2008, spot prices were 170% above the 2007 benchmark price. This supply imbalance and soaring iron ore spot price is what allowed Vale to secure such a large price increase for 2008.

The ocean freight market was similarly caught off guard. There were not enough iron ore freighters in the fleets to meet the needs of the mills. Shipping rates tripled in 2003, and for longer routes (such as Brazil to China), they have since doubled again. This has created a transport cost advantage of as much as $40-$50 per tonne for Australian iron ore compared to iron ore shipped from Brazil. Historically, this differential was in the $3-$5 per tonne range.

Rio Tinto and BHP Billiton want a freight premium to reflect Australia's relative proximity to China. They argue that the Chinese steel mills are effectively paying significantly more for Vale's Brazilian iron ore than theirs once you factor in freight costs. The Australians want to capture some of this differential. The Chinese mills are not eager to pay and, at this writing, have yet to settle on a price for 2008 Australian iron ore.

China's demand for seaborne iron ore is expected to continue to grow rapidly (some estimates show 85 million tonnes of average annual growth over the next five years). Although iron ore producers are investing great amounts of capital and working furiously to bring on additional supply, some of these projects have experienced long delays and large cost overruns. The tightness in the iron ore market is expected to persist, hopefully for a long time, which brings us to our investment in Fortescue Metals Group Ltd.

Fortescue Metals Group Ltd

In August 2006, Leucadia invested $400 million in Fortescue Metals Group Ltd ("FMG"). We received 264 million common shares of FMG stock (split adjusted) and a $100 million 13-year subordinated note which receives, in lieu of a fixed coupon, payments equal to 4% of revenues (net of government royalties) over the term of the note. In July 2007, FMG raised an additional $442.6 million in a rights offering—we invested $44.2 million to acquire another 14 million shares to preserve our 9.99% ownership. FMG is traded on the Australian Stock Exchange (ASX: FMG).

FMG has approximately 40,000 square kilometers of mining tenements[4] in the Pilbara that were acquired by Andrew Forrest, FMG's CEO, and his team. Andrew anticipated that the demand for iron ore was rising dramatically and had acquired many of these tenements under the noses of the other two big Australian producers. If you look on a map of Australia you can find the Pilbara in the upper left hand corner, a place about three-quarters of the size of Texas.

Before FMG could begin shipping iron ore to steel mills in China, a mine had to be developed, a 260 kilometer railroad had to be built, a new port constructed and a turning basin dredged. To fund his dream, Andrew needed to raise $3 billion. Of this required amount shareholders (including Leucadia) provided $900 million and the bondholders $2.1 billion. Two of the tenements, called Christmas Creek and Cloud Break, contain over one billion tonnes of proven and probable iron ore reserves. These reserves will be the first to be mined and are the only tenements subject to our 4% of revenue royalty. FMG has recorded this liability on their books at AU$1.8 billion (US$1.6 billion); we have the corresponding assets on our books at $209.8 million.

One of us recently spent a day at the mine site, on the railroad line and at the port. Happiness is being a small owner of the world's largest Tinkertoy set. Arriving home with pictures of same driving a new General Electric locomotive, pulling six other locomotives of the 15-member fleet, made it hard for son and grandson to disguise their envy!

The progress is incredible. It all started in 2006 and is close to completion and the beginning of operations. Check FMG's website www.fmgl.com.au for pictures of the ongoing construction and a further description of this enormous undertaking. Building such a gigantic project in two years must be some kind of global record!

All this is made possible by the most impressive, dedicated and hard working team assembled by the hard charging, smart and delightful Andrew Forrest.

Andrew is an inspiring leader, a visionary and a knowledgeable executive and miner. We are fond of him and his delightful family and are very happy with our investment. One of us serves on the FMG board (where our suggestions are welcomed) and the other is an alternate.

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[4] Australian equivalent of mineral leases.

First ore on ship, called FOOS, is anticipated in the second quarter 2008; thereafter Leucadia begins earning its 4% share of revenues. Although the project has experienced some delays and cost overruns, mostly caused by last year's cyclones, FMG has done a better job than most in keeping to its schedule and budget compared to other new projects of similar size and complexity.

At December 31, 2007, FMG stock traded at AU$7.50 per share giving our 277,986,000 shares a market value of about $1.8 billion. We are certainly aware that demand for commodities, including iron ore, does not go up forever and at some point demand and supply will meet. Demand could even go down! How this plays out is hard to guess—time will tell.

Cobre Las Cruces

Back in 1994 we became involved in a small company called MK Gold which, it turned out, did not have much gold, but did have some cash. Frank Joklik, who we later asked to mind the store at MK Gold as Chairman and who is an experienced miner, mentioned that Rio Tinto had a copper ore body in Spain for sale known as Cobre Las Cruces. The Las Cruces copper deposit is located 20 kilometers northwest of Seville in the Andalucía region of Spain. Copper was at a very low price of 71 cents a pound and getting permission to mine was very difficult. Though not prescient as Andrew Forrest was, we believed that copper would not always be so cheap. It took six years and millions of dollars for us to get most of the major permits necessary to develop the mine. In August of 2005, just prior to beginning construction, we sold a 70% interest in Cobre Las Cruces to Inmet Mining Corporation (TSX: IMN)[5] in exchange for 5.6 million of Inmet's common shares then worth $78 million (11.6% of Inmet's outstanding), and we retained a 30% interest in the to be developed mine.

Las Cruces is a high-grade copper deposit with a projected development budget of €463 million, of which €53 million will be funded by national and regional grants from Spain and the European Community. When completed, the mine is expected to produce 72,000 tonnes[6] per year of copper cathode from an open pit mine with an expected life of at least 15 years. Cobre Las Cruces will begin shipping ore to smelters in the second quarter of 2008 and production of LME[7] copper cathode is scheduled to commence in late 2008 at a projected life of mine cash operating cost of €.49 per pound. As happens with projects of this nature, the unknown is to be expected, and costs have substantially increased above initial estimates.

To fix some of its costs, Cobre Las Cruces has hedged $215 million of its foreign exchange exposure at $1.25 to the Euro for the period of the construction. Cobre Las Cruces has also limited its variable interest rate exposure on its debt for the period 2008 to 2014, during which time we expect the loan to be repaid. Cobre Las Cruces has not sold forward any copper, the price of which continues to remain buoyant. At some point we may revisit this subject.

In addition to its interest in Cobre Las Cruces, Inmet also owns several other mines and mining prospects around the world. See Inmet's website at www.inmetmining.com. In August 2008, when certain transfer restrictions are within one year of expiring, accounting rules will require that we carry our 5.6 million Inmet shares at market which was $80.68 per share at December 31, 2007, versus our current carrying value of $13.93 per share.

Our 30% investment in Cobre Las Cruces is carried on the books at $124 million. Cobre Las Cruces has been excellently supervised by Tom Mara, our Executive Vice President, and Frank Joklik, our veteran miner.

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[5] Inmet trades on the Toronto Stock Exchange.

[6] Equivalent to 158.7 million pounds; at December 31, 2007, the market price of copper was $3.03 per pound.

[7] London Metal Exchange: It sets the required purity.

Idaho Timber

Idaho Timber is a 29 year old company headquartered in Boise, Idaho (www.idahotimber.com). Idaho Timber was acquired in May 2005 for total cash consideration of $133.6 million. For the eight months of 2005, pre-tax income was $8.2 million; $12 million for 2006; and $9.1 million for 2007.

Idaho Timber is engaged in the manufacture and/or distribution of various wood products. Idaho Timber's principal product lines include remanufacturing dimension lumber; bundling and bar coding of home center boards for large retailers; and production of radius-edge, pine decking. Remanufactured dimension lumber is Idaho Timber's largest product line. Dimension lumber is used for general construction and home improvement, remodeling and repair projects, the demand for which is normally a function of housing starts and home size. Leucadia's investment in Idaho Timber was $123.7 million at December 31, 2007.

The remanufacturing process includes ripping, trimming and planing lumber to reduce imperfections and produce lumber products in a variety of sizes. These products are produced at plants located in Florida, North Carolina, Texas, Kansas, Idaho and New Mexico. Each plant distributes its product primarily by truck to lumber yards and contractors within a 300 mile shipping radius from the plant site.

In 2007, Idaho Timber continued to work its way through some very difficult industry dynamics. First, the housing market continued its decline. Second, global over-production has persisted and the imbalance between supply and demand continues. During this difficult time, Idaho Timber endeavors to maximize its volume by entering new markets and bringing on additional customers, and by focusing on managing variable expenses to create the best possible result in an industry that is struggling for profits.

We continue to explore new business opportunities and possible acquisitions. If any of our shareholders know of business lines which might fit in Idaho Timber's area of expertise, contact Ted Ellis, Idaho Timber's President and CEO. Ted is a fine manager who has kept his people motivated through this difficult period. Our main focus will always be to run the great company that we have, while exploring interesting opportunities as they arise.

STi Prepaid

STi Prepaid, Leucadia's 75% owned subsidiary, for which we paid $121.8 million in March 2007, is headquartered in New York City. STi Prepaid is a facilities-based provider of long distance wireline and wireless telecommunications services. The principal products are prepaid international long distance calling cards and carrier wholesale services.

Prepaid international calling cards are STi Prepaid's largest business line, in 2007 accounting for 88% of revenues. STi Prepaid provides services to over 200 destinations by selling through distributors over 250 different types of calling cards in different dollar amounts. These cards are marketed mostly in immigrant communities through small shops, bodegas and gas stations and enable our customers to keep in touch with those left behind in their home country at an affordable cost. The company has a customer care center in the Dominican Republic with over 100 operators supporting prepaid calling card customers.

STi Prepaid also has a telecommunications wholesale carrier service for business-to-business customers. Thanks to the high volume generated by the calling cards, STi Prepaid can offer advantageous rates for terminating international calls.

STi Prepaid is ably managed by its founder, Sam Tawfik, and its new President, Jim Continenza, who we knew from two previous investments and who are working together to boost revenues and profits. STi Prepaid's calling cards can be bought online at www.stiphonecard.com.

Conwed Plastics

Conwed Plastics manufactures and markets lightweight plastic netting for a variety of purposes and is a market leader in the sale of products used in carpet cushion, turf reinforcement, erosion control and packaging. Leucadia's investment in Conwed Plastics was $73.2 million at December 31, 2007.

Conwed's products are manufactured in Minneapolis, Minnesota; Athens, Georgia; Roanoke, Virginia; Chicago, Illinois; Genk, Belgium; and Guadalajara, Mexico and sold throughout the world.

(In millions)	2003	2004	2005	2006	2007
Sales	$ 53.3	$ 64.1	$ 93.3	$ 106.3	$ 105.4
Pre-tax profits	$ 4.4	$ 7.9	$ 14.2	$ 17.9	$ 17.4
Return on average equity	12.6%	25.1%	33.4%	29.5%	25.0%

Leucadia bought Conwed along with a number of other small companies in 1985, 23 years ago. Ever since then, it has stalwartly made money for Leucadia. Since acquisition, it has spent about $100 million on capex, acquisitions and growth, and still returned $110 million cash to Leucadia. That average is a little less than $5 million per year. These returns are especially impressive considering the increased cost of petroleum from which comes the plastic pellets that are used to make the products.[8] Since 2002, petroleum prices have risen significantly; oil prices were $27 per barrel in December 2002 and are currently over $100 per barrel.

We wish we had more Conweds (see www.conwedplastics.com). Mark Lewry and Chris Hatzenbuhler are superb executives.

Gaming Entertainment

Hard Rock Hotel & Casino, located in Biloxi, Mississippi, had an interrupted birth!

The Hard Rock Biloxi was scheduled to open to the public on August 31, 2005. Two days prior to opening, Hurricane Katrina hit the Mississippi Coast. The wind broke the windows and drenched everything inside; a great mess it was. The casino was on a floating barge in the Gulf of Mexico moored to the hotel. The tidal surge from Katrina sent it and all the contents into the briny deep to entertain Neptune.

During 2006, we acquired 46% of the common units of Premier Entertainment Biloxi, the parent company of the Hard Rock Biloxi, and all of the 17% preferred units for $90.8 million, along with a $13.4 million 15% junior subordinated note due 2012. We later increased our ownership of common units to 56%.

On September 19, 2006, Premier filed for bankruptcy voluntarily under chapter 11 of the U.S. Bankruptcy Code in the Southern District of Mississippi. The petition asked the court to assist the company in gaining access to the $161.2 million of insurance proceeds which had been stymied by the pre-petition secured bondholders who were seeking better terms. Premier successfully settled with its insurers and confirmed a plan of reorganization which paid off all of Premier's creditors in full with money from Leucadia in the form of a 10 3/4% senior secured credit facility. There is still a squabble in the Bankruptcy Court over the right to prepay the bonds. Premier has a $13.7 million escrow with the court which we hope will be resolved by the judge this year.

[8] During 2007, Conwed Plastics used 34 million pounds of plastic pellets in its manufacturing process, which cost $.61 per pound. During 2002, the average cost of these pellets was $.28 per pound.

The Hard Rock Hotel & Casino opened to the public on June 30, 2007, with over 1,300 slot machines, 50 table games, six live poker tables, five restaurants, a full service spa, a 5,200 square foot pool area, 3,000 square feet of retail space, an eleven-story hotel with 318 rooms and suites, and a 1,500 person entertainment venue (see www.hardrockbiloxi.com). The opening acts were 3 Doors Down and Kid Rock. We could use a few more guests and gamblers, so shareholders who like to have fun are encouraged to come and leave something behind!

Wineries

Leucadia owns two wineries, Pine Ridge Winery in Napa Valley, California and Archery Summit in the Willamette Valley of Oregon. Pine Ridge was acquired in 1991 and Archery Summit was launched in 1993 on land that was previously a dairy farm. Our investment in these wineries has grown to $70 million, principally to fund the acquisition of land for vineyard development and to increase production capacity and storage facilities at both of the wineries. Pine Ridge controls 229 acres of vineyards in Napa Valley, California and Archery Summit 116 acres of vineyards in the Willamette Valley of Oregon. These vineyards are located in some of the most highly regarded appellations[9] of the Napa and Willamette Valleys. In 2007, due to the vagaries of the weather and grape yields, these two wineries sold only 68,000 9-liter equivalent cases of wine generating revenues of $18.5 million versus 81,000 9-liter equivalent cases of wine generating revenues of $19.5 million during 2006.

In 2005 and 2006, we acquired an aggregate of 611 acres of land in the Horse Heaven Hills of Washington's Columbia Valley, of which approximately 85 acres are currently undergoing vineyard development. The Columbia Valley is an up and coming wine region with many good wines being served to glowing reviews. We are hoping to produce several products at various price points and have the potential to develop quite a substantial business. It can take up to four or five years for a new vineyard property to reach full production and up to three years after an initial grape harvest before the wine can be sold. Double Canyon Vineyard, the current name for this new property, celebrated its first crush this fall. We look forward to tasting the results this coming fall and winter. At December 31, 2007, our investment in the Washington property was $5.9 million.

The ultra premium and luxury segments of the wine industry are intensely competitive. Our wines compete with small and large producers in the U.S. as well as with imported wines. Supply and quality depends upon the weather and size of the grape harvest. The demand for our wine rises and falls with general economic conditions and is largely affected by the ratings given the wines in industry and consumer publications. Wines are rated on a 1 to 100 numerical scale for each vintage and type of wine. The scores provided by *The Wine Spectator* and by Robert Parker can, and do, make or break a particular vintage and winery.

In the summer of 2007, two senior and experienced wine executives joined us to manage the winery businesses.

Erle Martin has 20 years of experience in ultra-luxury wine brands. In 1996, he began his tenure at Niebaum-Coppola Estate Winery, and until joining us, was President of Francis Coppola Winery. Erle is President and CEO of the newly minted Crimson Wine Group which includes both of our wineries and Double Canyon Vineyard.

Patrick DeLong also joined as Chief Financial Officer. From 1999 to 2004, he was with Robert Mondavi Corporation, and in 2004 until joining us, was CFO of Icon Estates, part of Constellation Brands, Inc. These two will be a great team.

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[9] A geographical indication used to identify where grapes for a wine were grown.

Stacy Clark is the winemaker at Pine Ridge. This year we celebrate her 25^{th} year at Pine Ridge and her 20^{th} year as the winemaker. She is the soul of Pine Ridge!

Anna Matzinger has been the winemaker at Archery Summit since 2002. Leigh Bartholomew, the viticulturalist,[10] has been at Archery Summit since 2000. These two are the angel brigade that has managed to make Archery Summit a Pinot Noir recognized the world over. Recently, one of us hiked up to the top of a hill in Positano, Italy and at an osteria found a bottle of Archery Summit on the wine list to enjoy with pasta primavera.

Winemakers and viticulturalists labor long and hard in the vineyards and caves. Through good seasons and bad, they put their hearts and souls into making the best possible wines. To our delight, and to the delight of our customers, they have been remarkably successful. Winemaking is part chemistry, but mostly artistic. We could not be happier with the results.

Depending upon your state liquor laws, 35 states now allow you to order our wine on the Internet and have it shipped to you (www.pineridgewinery.com or www.archerysummit.com) or join our Wine Clubs and receive periodic delicious libations.

Visit the wineries in person and enjoy the tasting room experience. Shareholders of Leucadia receive a 20% discount—on the honor system. Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822. Call ahead to arrange to take a tour of the facilities.

Remember, wine is food, and we think red wine leads to longevity!

Medical Products

Sangart[11]

At December 31, 2007, the Company owned approximately 87% of Sangart, a biopharmaceutical company that has been working for many years developing an oxygen transport agent as a substitute for whole blood. Through the end of 2007, we had invested $97.7 million in Sangart. Blood substitutes have had a difficult time. Several companies have failed, some spectacularly, where people have died. We began financing Sangart in 2003 which was then as now, led by Dr. Robert Winslow, its founder.

The company has completed five Phase I and Phase II human clinical trials. Phase I trials begin to test that the product is safe and Phase II trials begin to determine if the product is potentially efficacious. In February 2007, we commenced two Phase III trials. Phase III trials are designed to demonstrate in a larger, statistically sound group of patients that the product, Hemospan®, is safe and effective in preventing and treating low blood pressure during surgery and in reducing post-operative complications. The Phase III studies are being conducted in six countries in Europe. Enrollment will total 830 patients.

If the trials are successful, we will apply to the European authorities to market the product and then make a similar application in the U.S. So far so good! For more information about Sangart and Hemospan, visit its website at www.sangart.com.

It is noteworthy that the signatories to this letter tell themselves they do not do start-ups! Further evidence of the frailty of mankind.

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[10] Farmer.

[11] Sangart: a word derived from the merger of "sanguis", Latin for blood, and "artificial", English.

Chakshu[12]

In August 2005, Leucadia made a $10 million investment for a 20% stake in another early stage, specialty pharmaceutical company called Chakshu Research (www.chakshu.com). Chakshu is currently developing prescription eye drops to address the symptoms of early stage cataracts. With baby boomers increasingly growing older, we believe a product that addresses age-related vision loss is attractive. Studies have indicated that approximately 90 million Americans suffer from cataracts but less than 40 million have been diagnosed. Since only mature cataracts are recommended for surgery, just 1.4 million Americans had cataract surgery in 2005.

FDA Phase I/II clinical trials commenced in January 2006 with 105 patients enrolled. The studies are "double masked". This means that some patients receive the drug while others get a placebo,[13] but it is a secret who received which until the end of the trial. In April 2007, when the trial ended and the results were unmasked, it turned out the drug won, but not by a statistically significant margin.

To make it short, the scientific-types decided that a larger trial is needed to begin to prove the efficacy of the drug. Tune in again next year for the next chapter.

ResortQuest

ResortQuest was acquired during 2007 for $11.9 million in cash. The company is headquartered in Fort Walton Beach, Florida on the Panhandle and manages vacation rentals for the owners of 7,766 units. We provide marketing services for their units, housekeeping, routine maintenance and other services. We also manage the front desk of many of the buildings where our owners' properties are located and provide check in and concierge services in some of these buildings as well. Our managed units are principally located in Florida and on the East Coast, and at various ski resorts including Aspen, Vail and Telluride. Our managed inventory varies from modest to luxurious and includes both condos and homes.

When we purchased ResortQuest the company was disheveled and almost bedridden. To repair the damage we brought back as CEO, Park Brady, one of the original founders of the company. Since our acquisition we have invested heavily in keeping and attracting owners, in expanding our internet presence and reducing unnecessary corporate expenses.

Since acquisition the company has lost $6.5 million, but seems back on track to a successful turnaround. The task at hand is to satisfy our owners and guests and to regain units lost to competitors during the course of the previous ownership. We think the current oversupply of condos in Florida will provide us with opportunities to increase our managed inventory of desirable units in attractive locations.

Looking for a delightful vacation spot? Go to www.resortquest.com and look around. Zalman Jacobs and Luis Medeiros found this small diamond.

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[12] Eye in Sanskrit.

[13] Placebo: a pill, medicine, etc., prescribed for psychological reasons but having no physiological effects, *The Concise Oxford Dictionary.*

Energy Sector

We have three investments described below which are all related to the price and availability of energy here in the U.S. This is a very complicated subject and we are not experts, but we believe that for many reasons high energy prices are here to stay. On an inflation adjusted basis oil is still relatively cheap and domestic gas is very cheap compared to oil. The growth of the Asian economies is creating more and more demand for energy which will need to be satisfied. Many financial investors think that by diversifying their portfolios to include commodities (of which important ones are oil and gas) that they can reduce volatility in their portfolios and improve performance. This has created investment demand for all major commodities, including oil and gas. Lastly, there is a theory that the Earth may have reached the point of peak oil,[14] a time at which the world's oil supply reaches its highest sustainable output. We do not know if this theory is correct, but it is certainly thought provoking and worrisome.

Goober Drilling

In April 2006, we met Chris McCutchen and John Special, owners of Goober Drilling, a small land based contract oil and gas drilling operation with 11 operating drilling rigs based in Stillwater, Oklahoma. Suspecting an increase in oil and gas prices and aware of the steadily depleting number of land rigs, they ordered 18 new rigs.[15] They did not have the cash to pay for them and ended up in our offices in search of money. As it turned out, their intuition was correct and drilling rigs became in high demand, supply was low and per diem rates were rising. By the time we closed on the purchase of 30% of Goober Drilling, there was a year's waiting list for the construction of new rigs. Chris and John's prescience was well founded.

Goober Drilling provides services to oil and natural gas exploration and production companies in the Mid-Continent Region of the U.S., primarily in Oklahoma and Texas. The majority of wells drilled are in search of natural gas. Goober Drilling generates revenues through contracts based on daily rates, supplies the rigs and all ancillary equipment and personnel, and with a fleet of large trucks moves the rigs to the next location.

Goober Drilling now has 36 rigs, 25 of which were constructed after April 2006. The growth in the company has challenged management. Head count grew from 400 to 1,000 as the company managed a $260 million capital expansion. It has been difficult at times, but progress is being made. Goober Drilling's excellent reputation has not changed and the company's rigs, new and powerful, are in high demand, as are their efficient crews.

Supply and demand are in our favor now, but as rig counts continue to rise, day rates will inevitably come down. We have to be very careful in the face of increasing costs and competition. Our first goal is to pay off all of Goober Drilling's debt and to accumulate a war chest. This is a boom or bust business.

Our equity ownership has increased to 50% and our total cash investment is $276 million, of which $171 million is loaned to Goober Drilling at profitable rates. At the time of this writing, gas prices are high with prices trending higher and we are hoping for an excellent year in 2008. Gas prices though are famously fickle.

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[14] *Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy* by Matthew R. Simmons.

[15] Nationwide the number of land based oil and gas drilling rigs peaked in 1982 at 5,139; at December 31, 2007, there were 2,598.

Louisiana Gasification Project

For many years Tom Mara and his team have been working on developing a petroleum coke gasification project at the Port of Lake Charles located in Lake Charles, Louisiana. The project is being designed to produce synthetic natural gas and hydrogen along with several byproducts using petroleum coke as the feedstock. In April 2008, $1 billion of tax exempt Gulf Opportunity Zone Bonds were sold in support of the project; total construction cost is estimated to be $1.6 billion. The bonds are collateralized by the project's revenues but are not guaranteed by or have recourse to Leucadia. Our wholly owned subsidiary and beneficiary of the financing, Lake Charles Cogeneration LLC, expects to begin construction in 2009 once permits are received and certain other conditions of the financing agreement are satisfied. As we get further along with development, more details will follow. Tom and his team are working on several other energy projects.

Liquefied Natural Gas

In January 2007, Leucadia acquired from Calpine Corporation a leasehold interest and certain permits to construct and operate an onshore liquefied natural gas ("LNG") receiving terminal. The facility will be located on the Skipanon Peninsula near the confluence of the Skipanon River and the Columbia River in Warrenton, Clatsop County, Oregon. Additional state and local permits have yet to be issued and FERC (Federal Energy Regulatory Commission) has to issue a license. We are a year into this process. When ready to go, the project is expected to cost about $1.3 billion in today's dollars. As with the Lake Charles project, when we get further along we will provide more details. At present there is not much demand for the importation of LNG into the U.S., but this will change when and if U.S. natural gas prices get closer to the price of natural gas in Asia, which at present is much higher. For the time being natural gas producers are making more money selling gas in Asia rather than importing it into the U.S.

Real Estate

At December 31, 2007, our domestic real estate properties had a book value of $225.4 million, up from $176.7 million the previous year.

- An office building in Tulsa, Oklahoma, previously the headquarters of WilTel Communications, stayed behind when the company was sold to Level 3. The building was sold to the City of Tulsa in 2007 for net cash proceeds of $53.5 million, which resulted in a small gain.
- Our 104 acre development in Myrtle Beach, South Carolina is substantially completed. The site is a large scale mixed-use project with residential, retail and commercial space (see www.marketcommonmb.com).
- 76 acres in Islesboro Island, Maine plus 120 acres in Rockport, Maine. Both have submitted plans for upscale residential subdivisions.
- 15 acres of unentitled air rights above the railway track behind Union Station and next to the Capitol in Washington, D.C. We are planning to submit a planned unit development application for zoning permission of up to 3 million square feet of mixed use development.
- A 71,000 square foot operating shopping center on Long Island, New York.
- A 540 acre parcel in San Miguel County, Colorado, next to the Telluride Ski Resort.

- In October 2007, the Company entered into an agreement to purchase 708 acres of land which is now the airport in Panama City, Florida. We have $56.5 million in escrow and title will pass to us when a new airport on another site is complete. We keep the interest on the escrow. Hopefully, by the time we are ready to develop this parcel the vast oversupply of houses and condos in process or already built on the Florida Panhandle will have been absorbed. This is a great piece of land.
- We are partners in the Brooklyn Renaissance Plaza in Brooklyn, New York, and own 26% of a 665 room Marriott Hotel and 61% of an 800,000 square foot high rise office building with a 1,100 parking space garage.
- Leucadia owns 30% of the outstanding common stock of HomeFed Corporation. The undersigned own 16.3% of HomeFed. HomeFed is a public company engaged in the land development business in California. The stock symbol is HOFD on the NASD.OTC Bulletin Board. One of us is the Chairman.

Our approach to real estate is strictly tactical. If it looks like there is an opportunity to make a good return over an extended holding period, we may proceed to a purchase. Current market gyrations exemplify the dangers of owning non-income producing real estate with borrowed money!

Money and Other Things

At December 31, 2007, Leucadia had almost $3.8 billion of cash and investments to meet its liquidity and investment needs. Included in that amount is $1.8 billion of FMG common stock.

During 2007, Leucadia and Jefferies & Company, Inc. formed JHYH (Jefferies High Yield Holdings), a successor entity to JPOF II which returned 20% compounded annually for seven years. Our commitment to JHYH is $600 million of which $350 million has been funded. JHYH operates in every corner of the high yield market (but no sub-prime mortgages) and has thus far escaped harm, though our share of 2007 earnings was just $4.3 million. For the time being JHYH is hunkered down and has weathered the storm. Thanks to Rich Handler, Chairman and CEO of Jefferies.

In June 2007, we invested $200 million for a 10% limited partnership interest in Pershing Square IV, a newly-formed investment partnership. The objective is to invest in Target Corporation. Through December 31, 2007, we have recorded pre-tax losses of $85.5 million on this investment. So far not so good. It may get better.

As of this writing, we have acquired 26% of AmeriCredit Corp. (“ACF”) for $373.9 million. We have known of this excellent company for many years, having been in the sub-prime auto business ourselves. ACF has made and financed over $53 billion of these loans and none of its lenders has lost a penny. In this environment, financing for ACF is going to be very difficult and management is taking appropriate steps to downsize the company. We are guardedly optimistic that the financial market will climb out of its bunker next year. People need auto financing to get to work.

In 2007, Leucadia invested $74 million in Highland Opportunity Fund L.P. and $25 million in HFH ShortPLUS Fund, L.P. We recorded a pre-tax loss of $17.6 million on Highland and a $54.5 million pre-tax profit on ShortPLUS.

Leucadia invested $75 million in RCG Ambrose, L.P. during 2007 and recorded a $1.1 million pre-tax loss.

Smelling impending trouble in the financial markets we sold $500 million principal amount of newly authorized 7 1/8% Senior Notes due 2017 at par, and $500 million of 8 1/8% Senior Notes due 2015 at 98.307%. Leucadia also sold 5.5 million common shares at $45.50 per share realizing $242 million. We are glad to have this extra cash and are hopeful that we will put it to good use over the next year or two.

Leucadia owns a $319.5 million portfolio of mortgage-backed securities all of which are issued by government agencies or U.S. Government-Sponsored Enterprises. They are all rated AAA (for what that is worth) and have a very short duration of just under one year. They have performed admirably in the midst of a terrible market. In financing this portfolio we have used leverage sparingly and we have not received any irate calls from our lenders.

Credit Armageddon

One of us has been mumbling about Credit Armageddon for years and it seemed earlier this year that his fears were to be realized. At least for the time being, this nightmare has been avoided by strong government intervention.

Unfortunately, we suspect that the wizards of Wall Street have not only made mischief in the mortgage market, but in all other loan markets as well and that the full effect of this is not yet visible. It seems that almost all financial institutions and investors have mispriced risk, and many financial institutions have found themselves carrying assets on their balance sheets at amounts considerably higher than market or their intrinsic worth. Recently, and often at the behest of regulators, financial institutions have been forced to sell these assets or to recognize the mark to market losses, all of which erodes net worth, forcing them to raise new equity capital and/or to reduce leverage, a process that has come to be known as deleveraging.[16] It may take quite a while for the scrubbing of balance sheets and the unwinding of leverage to come to an end, and we suspect that not all will survive.

We were not immune and have suffered some small damage in one of our investments. We are confident that the financial system will repair itself and to learn to better distinguish who is a worthy borrower and what is a worthy loan. On the bright side, opportunities for courageous investors should abound.

Exodus

Eleven years later following a dozen or more transactions our colleagues Zalman Jacobs and Luis Medeiros are leaving Leucadia to independently manage a private equity fund as part of a large hedge fund management company. We take pride and have profited from their accomplishments at Leucadia and wish them well.

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[16] The reduction of financial instruments or borrowed capital previously used to increase the potential return of an investment. The opposite of leverage.

A Milestone

As we mentioned in the beginning of this letter, in the summer of 1978 one of us joined Talcott and shortly thereafter the other joined as well. At that time the balance sheet had a $7.7 million negative net worth and nearly $400 million of liabilities. During the course of a restructuring of Talcott's debt we heard 123 garrulous bankers lecture us on the sanctity of senior debt. Somehow we survived and prospered.

Today's net worth is almost $5.6 billion. It has been a wonderful, exhilarating ride—and 30 years later, it is more fun because we have more capital! We are signed up till 2015. If we are lucky—more after that!

Businesses are not well described as being hierarchal structures, but are best compared to a family. People work hard because they want to not because they are told to. Our family is over 4,000 members strong, and it takes all of us to make it work. The undersigned are grateful to one and all, and delighted to be part of it.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

P.S.: As we completed this letter we had the opportunity to make a large investment in a real estate, farming and ranching business in Argentina. More about that next year.

Leucadia National Corporation Scorecard

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Equity	Net Income (Loss)	Return on Average Equity
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59[b]	(33.9%)	21.0%	7.71	26.4%	1,121,988[b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95[c]	61.4%	4.9%	23.73	2.5%	3,661,914[c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03[d]	39.1%	5.5%	47.10	67.0%	5,570,492[d]	484,294	10.2%
2008	11.22[e]	(55.2%)	(37.0%)	19.80	(58.0%)	2,676,797[e]	(2,535,425)	(61.5%)
CAGR (1978-2008)[a]			7.8%	28.8%				
CAGR (1979-2008)[a]	17.3%		7.6%	21.5%		17.8%		

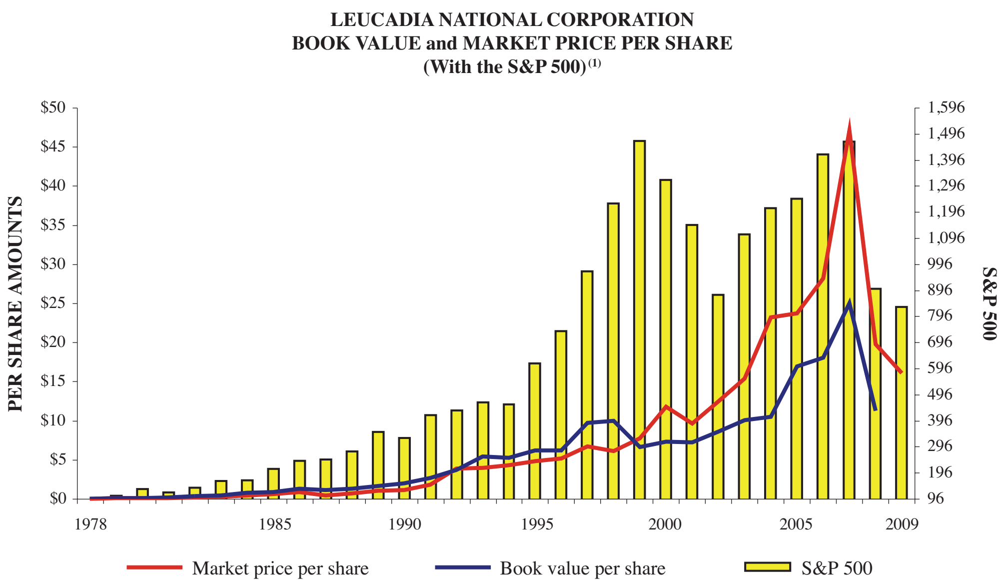
(a) A negative number cannot be compounded; therefore, we have used 1979.
(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share.
(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.
(d) Reflects the recognition of $542.7 million of the deferred tax asset or $2.44 per share.
(e) Reflects the write-off of $1,672.1 million of the deferred tax asset or $7.01 per share.

Letter from the Chairman and President

To Our Shareholders

In 2008, Leucadia reported a loss of $2,535,425,000 after tax, which is $11.00 per share fully diluted. In 1992, following a fire in Windsor Castle and marital problems for most of her children, the Queen of England in a speech marking the 40th anniversary of her Accession referred to the past year as "annus horribilis." 2008 was just such a year.

As the chart below suggests, everything came tumbling down, the S&P 500 included.



(1) Amounts plotted are as of December 31st of each year, except for the final market price and S&P 500 which are as of March 26, 2009.

What follows is a dissection and explanation of the $2.5 billion loss (in millions).

• Tax Asset Write-off	$1,672.1
• Mark Down of Investment Securities and Associated Company Losses	680.2
• Corporate Interest Expense	140.1
• Consolidated Business Results	20.9
• All Other, Net	22.1

In inverse order:

- "All Other, Net" is a dog's breakfast of income and losses that resulted in a net $22.1 million loss.
- "Consolidated Business Results" is the net result of all operating companies that we control. To a man, the operating companies also had an annus horribilis. More on this later.
- "Corporate Interest Expense" is the interest we pay on our corporate debts.
- "Mark Down of Investment Securities and Associated Company Losses" include the mark to market losses of companies in which we own securities but do not exercise control. Several of these companies represent substantial investments by Leucadia which we believe are likely to have greater value in the future than today's market price. The market price of the securities of these companies has been savaged by the current financial crisis, along with Leucadia's stock price which as of this writing has fallen 72% from its high. We will discuss each of our major investments later in our letter.

Over the years we have struggled to explain the accounting treatment of "Tax Loss Carryforwards" and "Tax Assets," all of which is confusing and has nothing to do with cash until you actually make money and would otherwise owe taxes, but nevertheless this year resulted in the largest accounting hit to our Profit and Loss Statement, $1.7 billion as set forth above. Frequently, we have bought assets and companies that were in extremis and as a result of shepherding them through Chapter 11 we acquired not only a good business, but also a tax loss carryforward or other tax benefit. One such company was WilTel Communications.

Following a bankruptcy sponsored by Leucadia, WilTel emerged with an ongoing business, a net operating loss carryforward and other future tax deductions. About two years later we accepted an enticing and satisfactory offer for WilTel's assets, but retained its $5.1 billion tax loss carryforward which means that if and when Leucadia earns $5.1 billion it will not pay approximately $1.8 billion in federal taxes. These taxes we will not pay are called a "Deferred Tax Asset" by the accountants and have gradually been brought on to our balance sheet through the Profit and Loss Statement as the mark-to-market value of our assets and the earning power of our other businesses increased and seemed to make it "more likely than not[1]" that we would use up the Tax Asset. But the large loss this year both realized and unrealized resulted in a write-off of nearly all of our Tax Asset. If and when our businesses and investments turn around we will be faced with the same accounting treatment again, booking a Tax Asset before we actually save taxes. We are cash thinkers and booking a Tax Asset before we actually save the tax makes no sense to us, but that is the present rule. It was not always this way.[2]

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[1] An accounting term of art.

[2] As reported in the 1993 Annual Report, "We have disparaged this accounting change in our letters to you in the past and our attitude remains the same. The attempt of SFAS 109 to improve precision in accounting has rendered the results inexplicable to all but the most sophisticated readers of financial statements. In a very imprecise way, SFAS 109 requires that the future benefit of our Net Operating Losses (NOLs) and other tax deductions be estimated and put on the balance sheet as an asset called Deferred Income Taxes. In 1993, this estimation and capitalization increased our earnings significantly. In the future, for as long as we have NOLs, we will report income tax expense far greater than we pay, and will reduce the previously capitalized deferred tax asset. To make matters even more confusing, every year we must re-estimate the usability of our remaining NOLs and other tax deductions and, if necessary, adjust the deferred tax asset. We preferred the pre-SFAS 109 reporting in 1991 and 1992. We reported paying very little tax and disclosed in a note to the financial statements that we had NOLs. Simple. Too much complexity robs simplicity and thus understanding."

What Happened

In 1996, the long serving Chairman of the Federal Reserve Bank cautioned the U.S. Senate that there may be too much froth in the markets, which he coined as a phrase "Irrational Exuberance." He was concerned that the helium being pumped into the financial system in the form of low interest rates and resultant risk taking would inevitably come to a disastrous end. Unfortunately, he and all other regulators and politicians, who should have been paying attention, ignored this ominous warning. The bubble grew bigger. In August 2007, the bubble developed a slow leak and by the end of 2008 it burst, causing tremendous wealth destruction.

After selling many of our assets in the late 1990s, shareholders received a dividend payment totaling $811.9 million or $4.53 per share. Maybe we should have quit then and declared victory? Instead we have continued doing what we have been doing for 30 years which is:

> We tend to be buyers of assets and companies that are troubled or out of favor and as a result are selling substantially below the values, which we believe, are there. From time to time, we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your company with an undue emphasis on either quarterly or annual earnings. We believe we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.

Where We Stand

For the past several years a theme of our investing has been to make some investments in those things which are likely to increase in value as the underdeveloped world acquires the means to increase their standard of living. By becoming a cheap exporter of manufactured goods, China and the rest of Asia have accumulated a huge pile of U.S. dollars which they are employing to raise the standard of living of their people by building infrastructure and encouraging consumer spending. We believe that many of our investments, though currently depressed, will become more valuable as the world recovers from this severe recession and Asia's growth continues on a bumpy road to greater prosperity. Patience will be required. A discussion of our investments follows.

Mines

We have significant investments in two mining companies, Fortescue Metals Group Ltd, an iron ore mining company in Australia, and Cobre Las Cruces, a copper mine located in Spain. In both instances we are minority owners, but have representation on the Board of Directors. In last year's Annual Report we included a primer on iron ore and a lengthy description of Cobre Las Cruces. If you are interested and don't have last year's report please go to www.leucadia.com for more information.

Fortescue Metals Group Ltd

Leucadia owns 277,986,000 common shares of Fortescue Metals Group Ltd, listed on the Australian Stock Exchange (symbol: FMG), representing approximately 9.9% of the outstanding shares and also owns a $100 million Fortescue royalty note that matures in August 2019. Interest on the note is paid and due by calculating 4% of revenues, net of government royalties, on iron ore produced and shipped from two specific mining areas called Cloud Break and Christmas Creek. These two areas contain over one billion tonnes of proven and probable iron ore reserves. We paid $452.2 million for the stock and note.

We expect that Fortescue will at least double its annual production in 2009 and again increase production further in 2010. This will make us and our royalty note very happy. This outcome assumes that demand for iron ore stays about where it is today which may or may not turn out to be the case. Fortescue's only customer of any size is China and China like everybody else on the globe has its own problems. We believe however that China has the will and resources to increase its GDP by expanding domestic economic activity. For the moment China's exports to the rest of the world have fallen dramatically, but they will likely return when the rest of the world shakes off the recession. In the meantime China is spending billions to build railroads, power stations and other infrastructure projects, all of which use iron ore and other metals. One of Fortescue's Chinese customers recently signed a contract to purchase a 17.4% stock interest in the company.

Cobre Las Cruces

In 1999, with the help of our miner Frank Joklik, we bought for $42 million a copper ore body in Spain from Rio Tinto. Cobre Las Cruces lies 20 kilometers northwest of Seville. For six years we struggled with local and national regulatory authorities to obtain the many necessary permits to proceed with the mine.

We later decided we needed a large mining partner to build the mine and processing plant and as a result sold a 70% interest in Cobre Las Cruces to Inmet Mining Corporation, a Canadian based global mining company traded on the Toronto Stock Exchange (Symbol: IMN), for 5.6 million Inmet common shares and also retained a 30% ownership interest in the ore body. In short, we own 11.6% of Inmet and 30% of the copper at Cobre Las Cruces after all expenses of mining and processing are paid. The Cobre Las Cruces investment is on our books for $165.2 million at December 31, 2008.

The Cobre Las Cruces deposit contains approximately 9.8 million tonnes of proven reserves and 7.8 million tonnes of probable reserves of 6.2% copper. Cash operating costs over the life of the mine are expected to average €0.49 per pound ($0.66 at current exchange rates). Copper prices over the last several years have ranged from a high of $4.03 to a low of $1.25. At the time of this writing the price of copper has slowly edged up to $1.79. We expect the first copper cathodes to begin shipping by the end of May.

We believe that over the next ten years the average price of copper will be higher than it is today.

Jefferies Group, Inc.

Jefferies, listed on the NYSE (symbol: JEF), is a full-service global investment bank and institutional securities firm. Jefferies offers its customers capital markets, merger and acquisition, restructuring and other financial advisory services.

In April 2008, we sold to Jefferies 10,000,000 Leucadia shares at $49.83 per share and received 26,585,310 shares of Jefferies stock and $100 million in cash. In cash transactions during 2008, we increased our holdings to 48,585,385 shares, which is approximately 30% of Jefferies. The total investment was $794.4 million (the largest single investment we have ever made) and the fair market value of our investment was $683.1 million at December 31, 2008.

Jefferies is not in trouble, not a ward of the U.S. Government, not burdened by toxic assets and not overleveraged. Its employees own a substantial interest in the firm and their pay expectations are being managed with the best interests of the firm in mind. Jefferies has successfully hired talented individuals from troubled or failing firms and recently acquired a muni trading and underwriting business. Trading volumes have been good, their restructuring business busy, but their capital markets and mergers and acquisition businesses remain lethargic. This will inevitably improve, but timing is uncertain.

In 2000, Leucadia and Jefferies entered into a joint venture to trade high yield debt. We invested $100 million and received for the next seven years an average return of 20% per annum.

In 2007, Leucadia and Jefferies formed Jefferies High Yield Trading, LLC (JHYT) a registered broker-dealer that engages in the secondary sales and trading of high yield and special situation securities. Each company has invested $350 million and has no current plans to invest more. In the midst of the financial meltdown JHYT survived pretty well by avoiding dangerous and highly leveraged situations and by remaining very liquid. Our return for 2008 was minus 20%. We hope for better results in 2009.

We have known Jefferies for a very long time and are particularly fond of and hold in high regard its long time Chief Executive Officer, Richard B. Handler. We believe that over the long haul Jefferies will survive and grow to enrich their shareholders!

AmeriCredit Corp.

As of December 31, 2008, we acquired approximately 25% of the outstanding common shares of AmeriCredit Corp., a company listed on the NYSE (symbol: ACF) for aggregate cash consideration of $405.3 million. ACF is an independent auto finance company that is in the business of purchasing and servicing automobile sales finance contracts, historically for consumers who are typically unable to obtain financing; this segment of the business is known as subprime. At December 31, 2008, our investment in ACF is classified as an investment in an Associated Company and is carried at fair market value of $249.9 million.

Years ago we owned a similar business and as a result carefully followed ACF. We observed that their large volume and efficient processing and underwriting abilities made them a fierce competitor. We also observed that when a recession hit ACF went through a period of poor results, but when a recovery began they were able to make very large profits by being able to select more credit worthy customers and to charge more for loans.

Much of the above remains true; however, we began to buy the stock too soon and paid too much. The recession has been much harder and much deeper than we anticipated, though ACF is succeeding in acquiring more credit worthy customers and is able to charge higher rates. The fly in the ointment has been that it has been almost impossible to secure additional funding to make loans. Securitizations, which were the lifeblood of their financing, are in rigor mortis. The Federal Reserve has announced a program to restart consumer lending known as TALF, but as yet ACF has not been able to access it. Perhaps that will change. ACF has adequate financing to operate at a much reduced volume and is committed to preserving its net worth of $15.03 per share. We have a high regard for its management.

Idaho Timber

Idaho Timber is a 30 year old company headquartered in Boise, Idaho (www.idahotimber.com). Idaho Timber was acquired in May 2005 for total cash consideration of $133.6 million. For the eight months of 2005, pre-tax income was $8.2 million; $12 million for 2006; $9.1 million for 2007 and $0.8 million for 2008. Leucadia's investment in Idaho Timber was $108.6 million at December 31, 2008.

Idaho Timber's principal product lines include dimension lumber remanufacturing, bundling and bar coding of home center boards for large retailers, and production of radius-edge, pine decking. Dimension lumber is used for general construction and home improvement, remodeling and repair projects, the demand for which is normally a function of housing starts and home size. These products are produced at plants located in Florida, North Carolina, Texas, Kansas, Idaho, Montana, Arkansas and New Mexico. Each plant distributes its product primarily by truck to lumber yards and distribution centers within a 300-mile shipping radius from the plant site.

In 2008, Idaho Timber continued to work its way through some very difficult industry dynamics. First, the housing market continued its decline. Second, global over-production of lumber persisted and the imbalance between supply and demand continued. During this difficult time, Idaho Timber endeavors to maximize its volume by entering new markets and bringing on additional customers, and by focusing on managing variable expenses. Many competitors have folded which may bode well for Idaho Timber's future.

We continue to explore new business opportunities and possible acquisitions. If any of our shareholders know of business lines that might fit in Idaho Timber's area of expertise, contact Ted Ellis, Idaho Timber's President and CEO. Ted is a fine manager who has kept his people motivated through this difficult period.

This is the same report as last year, nothing has changed. The market is awful as housing starts shrink and consumer spending on new porches and decks continue to contract. It is some kind of miracle that Ted squeezed out any profit at all. Go Ted, Go!

Conwed Plastics

Conwed Plastics manufactures and markets lightweight plastic netting for a variety of purposes and is a market leader in the sale of products used in carpet cushion, turf reinforcement, erosion control and packaging. Conwed's products are manufactured in Minneapolis, Minnesota; Athens, Georgia; Roanoke, Virginia; Chicago, Illinois; Genk, Belgium; and Guadalajara, Mexico and sold throughout the world. Leucadia's investment in Conwed Plastics was $67.1 million at December 31, 2008.

(In millions)	2004	2005	2006	2007	2008
Sales	$ 64.1	$ 93.3	$ 106.3	$ 105.4	$ 106.0
Pre-tax profits	$ 7.9	$ 14.2	$ 17.9	$ 17.4	$ 14.0
Return on average equity	25.1%	33.4%	29.5%	25.0%	19.9%

Conwed held revenues flat in 2008. Three small acquisitions made in 2007 and increased selling prices were responsible for avoiding a revenue drop. Offsetting these positives was the steady reduction in sales tied to the building and construction markets which represent approximately 47% of Conwed's revenue. The pace of the slowdown accelerated when the banking crisis hit late in the third quarter of 2008.

The volatility of crude oil created unprecedented swings and increases in resin costs, the principal raw material used in Conwed's products. Even with an overall increase in resin prices and dramatic price swings during the year, both up and down, variable margins in 2008 were about the same as 2007.

The end result was that Conwed saw profits decline 19.5% in 2008. We have faith in Mark Lewry and Chris Hatzenbuhler who are superb executives. Their dedication in keeping costs down and volume as high as possible is all we can expect. Good luck in 2009.

STi Prepaid

STi Prepaid, Leucadia's 75% owned subsidiary for which we paid $121.8 million in March 2007, is headquartered in New York City. STi Prepaid is a facilities-based provider of long-distance wireline and wireless telecommunications services. The principal products are prepaid international long distance calling cards and carrier wholesale services. STi Prepaid reported pre-tax income of $11.9 million in 2008 and $18.4 million in 2007.

In 2008, prepaid international calling cards accounted for 80% of revenues. STi Prepaid provides services to over 200 destinations and sells through distributors over 250 different types of calling cards in varying dollar amounts. These cards are marketed mostly in immigrant communities through small shops, bodegas and gas stations. Customers buying our cards are seeking a low cost method of communicating with family and friends in their home countries.

2008 was a disappointing year. Like many of our businesses STi Prepaid's results were hurt by the weakening U.S. economy. STi Prepaid has improved its cost structure by installing a new VOIP switch and in addition STi Prepaid purchased at a bankruptcy auction important platform software at a much reduced cost.

STi Prepaid also purchased the assets of several competitors which is expected to result in an increase of up to $100 million of annual revenue. STi sold over 150 million calling cards during the year and carried over seven billion minutes on its network to virtually every country in the world.

STi Prepaid is ably managed by Jim Continenza and David Larsen. They are working hard to increase revenues and profits. STi Prepaid cards can be bought online at www.stiprepaid.com.

Gaming

The Hard Rock Hotel & Casino in Biloxi, Mississippi has had a hard life! It was scheduled to open to the public on August 31, 2005, two days after Hurricane Katrina hit the Mississippi coast. The wind broke many of the windows and water drenched nearly everything inside. By law, the casino sat on a floating barge in the Gulf of Mexico up against the hotel. The tidal surge set the casino and all of its contents free of its mooring and it sunk into the briny deep.

As a result of Katrina the opportunity arose to buy out the original institutional investor. Subsequently, a squabble with the insurance carriers over the insurance proceeds and with the bondholders precipitated us putting the company into bankruptcy. We prevailed and acquired a senior secured note for $180 million and by December 31, 2008, we owned 61% of the common equity, all of the preferred equity and have a total investment of $249.6 million.

The Hard Rock Hotel & Casino is located on an 8.5 acre site on the Mississippi Gulf Coast and includes an eleven-story hotel with 318 rooms and suites and a Hard Rock Live! entertainment venue with a capacity of 1,500 persons. The Hard Rock has had a rough time fighting for market share among a crowded Mississippi Gulf Coast market, but has made slow and steady progress and is now getting its fair share of gaming revenues based on available hotel rooms. To fill its gaming tables the Hard Rock needs additional hotel rooms, for which we own the land, but for the time being and in light of the recession expansion plans are on the back burner.

Were we to do it again we wouldn't! We are struggling ahead with small single digit returns on our investment.

Wineries

The wineries have been re-christened the Crimson Wine Group. Crimson Wine Group is composed of Pine Ridge Winery in Napa Valley, California; Archery Summit in the Willamette Valley of Oregon and our latest addition, Chamisal Vineyards, the historic name of an 82 acre vineyard that was the first vineyard planted in the Edna Valley of California.

We control approximately 223 acres of vineyards in Napa Valley, California, 120 acres of vineyards in the Willamette Valley of Oregon and 82 acres of vineyards in the Edna Valley of California, substantially all of which are owned and producing grapes. We believe these vineyards are located in some of the most highly regarded appellations and areas of the Napa, Willamette and Edna Valleys. At December 31, 2008, the Company's combined net investment in these wineries was $90.8 million. The wineries sold approximately 90,000 9-liter equivalent cases of wine generating revenues of $20.9 million during 2008. Our development of an additional winery and vineyards on 611 acres of land in the Horse Heaven Hills of Washington's Columbia Valley has been put on hold.

The fourth quarter brought to the luxury wine business the same carnage it brought to virtually all sectors of the economy; the consumer pull back was pronounced and dramatic. It is said that people drink in good and bad times, and perhaps that is true, but the consumer has already traded-down to lower priced brands and products. We are looking for opportunities to compete in the new market reality and are exploring the launch of new brands which will resonate in a value driven market place. We expect to have at least one new entrant in the market in 2009.

One bright spot in our wine business has been direct selling at our wineries and through our Wine Clubs. We have 13,800 members of our Wine Clubs who receive several shipments throughout the year. The Wine Clubs and direct sales from the wineries have been growing each year for several years and now account for 49% of total revenues at much better margins. We expect this trend to continue as we concentrate even more on these distribution channels.

After 25 years at Pine Ridge, Stacy Clark our talented winemaker has moved on to new challenges. With sadness we report that Gary Andrus, Pine Ridge's founder, passed away earlier this year. We are very grateful to both for their contributions to Pine Ridge's success.

Visit our wineries in person. Taste the wines and join the Wine Club! Shareholders of Leucadia receive a 20% discount on the honor system. Wine can be shipped directly to 38 states. Check their websites: www.pineridgewinery.com; www.archerysummit.com and www.chamisalvineyards.com.

Remember wine is food and we also think that it fosters good times and laughter with friends which leads to longevity. And in these times we need all our friends and laughter.

Energy

We have three investments discussed below which are all related to the cost and availability of energy. We remain convinced that over the long run energy prices will trend up. Last year we said that energy prices would most likely stay high. Oh how wrong we were!

Goober

In 2006, we met Chris McCutchen and John Special, owners of Goober Drilling, a small land based oil and gas drilling operation with 11 operating rigs based in Stillwater, Oklahoma. Several of these rigs were not new rigs and had only limited demand for their use. Suspecting an oil and gas price increase as a result of the declining number of land rigs our risk prone partners had ordered 18 new, modern, high horsepower rigs capable of directional drilling, but they did not have the money to pay for these new rigs. We made a sequence of deals with them which leaves us with 50% of the company and a secured loan.

Goober now has 37 rigs. At December 31, 2008 our aggregate loan to Goober was $144.4 million, excluding accrued interest and the Company's aggregate net investment in Goober is $252.4 million.

Contract drilling is highly competitive. When it is good it is very, very good and when it is bad it is horrible. Again, the recession is not our friend.

Gasification

We are currently evaluating a gasification project that will produce substitute natural gas in Lake Charles, Louisiana. The Lake Charles Harbor & Terminal District has authorized $1 billion in tax exempt bonds to fund the development of the $1.6 billion project. We are not obligated to make equity contributions until we complete our investigation and the project is approved by our Board of Directors. At present the muni market for marketing these bonds is not functioning.

In addition to the above project, we have applied for two Federal Loan Guarantees under the Department of Energy's Federal Loan Guaranty Program for gasification projects in Mississippi and Indiana. If awarded, the guarantees would cover 100% of the debt financing for each project, but would be subject to negotiated terms and conditions.

Tom Mara has struggled mightily to develop these projects for a number of years. We remain hopeful and are looking for experienced partners. Gasification is much, much cleaner than other methods of burning coal but the problem of sequestering the CO_2 still looms large. All three of these projects have great potential but it is much too soon, in the present financial environment, to say whether they will actually happen.

Liquid Natural Gas

In January 2007, Leucadia acquired from Calpine Corporation a leasehold interest and certain permits to construct and operate an onshore liquefied natural gas (LNG) receiving terminal. The facility will be located on the Skipanon Peninsula in Warrenton, Clatsop County, Oregon. We have submitted our application to FERC (Federal Energy Regulatory Commission) and are awaiting a response - receipt of which has been delayed by the change in administrations. When ready to go, the project is expected to cost about $1.3 billion in today's dollars and take three years to construct. At present, there is not much demand for the importation of LNG into the U.S.

We hope the FERC approval will be completed within the year. At that time we will have a shovel ready project. We will most likely look for a partner who is in the business and more experienced at building the project and managing it thereafter.

Sangart

At December 31, 2008, we owned approximately 89% of Sangart. In the first quarter of 2009 we invested a further $28.5 million which increased ownership to 92%. Sangart is a consolidated subsidiary, the book value at year end was $12.6 million and we have recorded inception to date losses of $106.2 million. Sangart is developing biopharmaceutical products that deliver oxygen to tissues at risk of oxygen deprivation, which is sometimes referred to as artificial blood (which is not exactly scientifically accurate).

Since the beginning up to 2003, when we began to finance the company, Sangart was the intellectual product of Dr. Robert Winslow. Bob gave birth to the idea and drove it forward until his unfortunate and untimely death on February 2, 2009. He will be extremely missed.

Hemospan®, Sangart's first product is designed for use in clinical and trauma situations where tissues are at risk of inadequate blood flow and oxygenation. Currently there are no similar products approved for sale in the U.S. or the European Union; however, other companies are developing products that could potentially compete with Hemospan. More detailed information on Sangart can be found in the attached 10-K Report.

In June 2008, Brian O'Callaghan was brought on as CEO. Brian is a fiery Irishman with almost 20 years of experience in the life sciences area, including stints at Merck and Novartis. He is a veteran of several successful ventures in bringing new products to market and we are hopeful that Sangart will be yet another!

ResortQuest

ResortQuest, which was acquired in June 2007, is headquartered in Fort Walton Beach, Florida and provides vacation rental management services to vacation properties in beach and mountain resort locations. ResortQuest contracts with each property owner to market and manage the rental of their vacation property, generally for a percentage of the rent and/or fees collected. The Company's investment in the property management and services segment was $16 million at December 31, 2008.

ResortQuest's primary means of attracting new guests is via the Internet, through referrals and direct mail. A severe recession will not be good for business.

Real Estate & Investments

At December 31, 2008 our net investment in domestic real estate projects was $286.4 million up from $201.8 million in 2007. Real estate investments include:

- 104 acre project in Myrtle Beach, a substantially completed large scale mixed use project with residential, retail and commercial space. After a $90.2 million nonrecourse loan the Company's net investment in this project is $54.4 million.

- 76 acres of land on the coast of Maine's Isleboro Island under review for 13 beautiful residential lots.

- 120 acres of land in Rockport, Maine on Penobscot Bay presently zoned and developed for 46 lots. This property and the one above have a book value of $42.3 million.

- 15 acres of air rights above the train tracks behind Union Station in Washington, D.C. ($11 million).

- An operating, 71,000 square foot Long Island retail shopping center ($13.3 million).

- A 540 acre parcel located in Colorado abutting the Telluride, Colorado ski resort ($5.7 million) is in the process of being entitled into a mixture of estate lots, cabins and a lodge site.

- 708 acres of land in Panama City, Florida which constitutes all the land on which currently resides the Panama City, Florida airport that is going to be moved elsewhere. We have $56.5 million in escrow until the airport is moved and the land is delivered to us cleaned up and ready to be entitled and developed.

We also have real estate investments that are called Associated Companies on our balance sheet including:

- We are partners in the Brooklyn Renaissance Plaza in Brooklyn, New York where we own a minority interest in a 665 room Marriott hotel and a majority interest in a 800,000 square foot high-rise office building with a 1,100 space parking garage.

- Leucadia owns 31.4% of HomeFed Corporation. The undersigned own 17.1% of HomeFed, a public company in the land development business in California. The stock symbol is HOFD on the NASD.OTC bulletin board. One of us is Chairman.

Our approach to real estate is strictly tactical, we pay cash and expect high returns and usually get them. In the current recession we have mothballed almost everything. When the sun returns and drives out the gloom we will proceed.

Over the past several years we have invested our excess cash with various outside managers with a view towards receiving a good return and hoping to uncover investment opportunities. We were disappointed with the results. The returns were not good and we did not uncover investment opportunities. With few exceptions, our fund investments were not immune to the market upheaval experienced in 2008, but the overall return since inception was minus .5%. It could have been worse. For the most part, we do not intend to continue this activity.

Fortress Leucadia

Most of our assets are tied to a recovery in the world's economy and when the world's economy gets back on track we expect our assets will rise in value and price. In the meantime we continue to pay our overhead costs and interest on our long term debt, the earliest maturity of which is in 2013. Fortunately banks are not breathing down our necks looking for us to repay debt. We have time on our side for the world to right itself, but it will not be easy. In the current recessionary environment, earnings from our operating businesses and investments do not presently cover our overhead and interest. We have cash, liquid investments and securities and other assets that we expect to turn into cash that should carry us through these difficult times. We are energetically cutting costs. We have talented managers and employees working hard every day. We will all do our best.

Out of prudence we have a pessimistic view as to when this recession will end. To think otherwise would be to gamble about the beginnings of good times whereas by imagining a bleak future we will most likely survive for the good times to arrive.

"Fortress Leucadia" is a draconian look into the future and a basis for defensive planning. It assumes we will not make any more investments, continue watching our expenses, keep only assets that are promising and slowly turn everything into cash which will be used first to retire or pay down debt, while always maintaining at least $500 million in cash or liquid assets.

That is the theory. The reality is we will continue to look for companies to buy, but only consider companies that earn money, have a bright future and are durable! In these troubled times there are sure to be good opportunities for investment and we will remain on the hunt. We can recognize a good deal when we see one and will strive to execute.

We intend to resist what we consider "financial bets."

Old Friend and Advisor

In 1978 one of us was elected to be the Chairman of Talcott National Corp., a finance company which had four divisions. Talcott was in extremis and teetering on the edge of an abyss. We devised a scheme to buy the company and to fix it. We had one big problem. We didn't have any money!

Our good friend and long time Director Larry Glaubinger stepped forward to help. Larry had successfully managed a buyout of Stern and Stern Textiles, together with Carl Marks and Company, where both of us began our careers in the early seventies. Following the sale of Stern and Stern's business, Larry, Ed Marks and Jay Jordan, who had remained at Carl Marks before starting his own illustrious career, had the faith to back us in the acquisition of what has become Leucadia. After 30 years Larry is retiring from the Board of Leucadia. He will become a Director Emeritus at the upcoming Annual Meeting. We thank him for his faith in us, sound advice and many years of service.

• • • •

This has been a very trying year for all of us. We know this global financial recession will pass, but we know not when. We are most appreciative of our worried, hardworking employees - we shall overcome.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

2009 Leucadia (LUK) Annual Meeting

Disclaimer: These notes were taken in real time at the Leucadia Annual Meeting in New York, NY on Monday, May11th, 2009 without the use of a recorder. The goal was to get the gist of the questions and as much of the answer as possible. Please excuse any mistakes or omissions.

Speakers: Chairman Ian Cumming, President Joe Steinberg, Director Jeff Keil, CFO Joseph Orlando (if the speaker is not listed then he/she was not identified)

1. **Introductory remarks**
    a. Cumming:
        i. Aside from what is printed in the SEC filings and the annual report, the company has nothing to say and will open the floor up for questions
2. **Q&A**
    a. **Q1: If it is true that LUK's competitive advantage is having Steinberg and Cumming as leaders, how should investors think about where the next level of management comes from? Please talk about the succession plan.**
        i. Cumming:
            1. They have been working for 10 years on a succession plan
                a. It is a topic of discussion at every board meeting
                b. They think they have a couple of people in mind who can assume at least a part of the management role
            2. Previously they had just focused on putting investments in place
                a. Believe they were not as cognizant as they should have been on buying durable companies that would keep them cash flow positive
                    i. For the next two years they will focus on buying companies with durable underpinnings
                        1. It is easier to run durable companies so this has to be a strategy tied to their succession plan
            3. Said he is 68 now and is signed through 2015
                a. Said he hopes to sign another long term contract then
        ii. Steinberg:
            1. Their company has accomplished one important thing
                a. If he and Cumming dropped dead one day the company has management below that would allow it to go on and be in good shape
            2. Steinberg and Cumming do not fly together as mandated by the Board
            3. Replacing whatever investment acumen he and Cumming have is a high priority for them
                a. They are working on it but they don't know exactly how they are going to solve it yet
                b. Believes this is the most serious issue at LUK today
    b. **Q2: Can you talk about the Jeffries (JEF) compensation structure a little bit?**
        i. Cumming
            1. We don't know exactly what people are getting paid there
                a. But, Steinberg and Cumming are both on the Board of JEF now
                    i. They are trying to stop JEF from seriously diluting shareholders when they hire new people
                    ii. Have recently convinced the management team to go out into the market and buy stock if they use stock as a way to attract employees to JEF

1. Now that this requires an actual expenditure and liquidity the company has started to think more about compensation

iii. Are concerned that over-energetic 28 years were making way more than they were worth and of course are concerned about compensation

c. **Q3: In terms of AmeriCredit (ACF), can you talk about why they liked the business and what they see in the future of that business?**
   i. Cumming:
      1. They have made 4 large investments recently and they feel like they bought too soon on all of them
         a. However, all but ACF are in the money right now
      2. They previously had owned a subprime auto lender
         a. Were forced to sell it when the pricing got too low to compensate them for the risk
            i. So they are knowledgeable and comfortable with the business
      3. Believe that there are going to be cars in this world
         a. Aside from in NY where it is impossible to drive, most people have to drive to work
            i. Poor people will need cars too
      4. Based on today's margins, ACF would be doing incredibly well
         a. The problem is that there is no credit as the securitization market has dried up
         b. Said that they have been in the Fed's offices multiples times trying to figure out how to use TALF to get an economically prudent deal done
            i. The Fed has been trying to get liquidity and investors back into the securitization markets but ACF has had no luck with TALF
      5. They are currently shrinking the business
         a. Trying to get the capacity within the company's net worth
            i. Even suggested the old fashioned idea of not lending more money than they had and not levering up at all
               1. Joked that the management team was horrified
         b. Will make money and grow as credit grows
      6. Have learned major lessons regarding this experience
         a. Believe that 10-15 years from now banks will have forgotten about these past troubles, want to get back into this business and hopefully ACF could be sold to the banks before they drive pricing down enough that ACF can't be profitable and has to be liquidated
      7. Claim that ACF has done $58B in securitizations and no one has lost a penny yet
   ii. Steinberg:
      1. Going forward, there should also be less competition from non-banks
         a. ACF will not be as big as company as before
         b. However, Chrysler credit and GMAC are wounded and are not supplying credit
         c. The car companies are basically out of the subprime space now
      2. ACF will finance itself in the future but will not be as highly levered
      3. The goal is to maintain the book value of the company, which is about $15 per share now

a. This will allow them to wait and fight another day

d. **Q4: In the past you had been hesitant to say that the stock was overvalued. What would you say about it now?**
   i. Cumming:
      1. Will not comment directly on the stock price
      2. But he did say that he is very comfortable with their 4 big investments
         a. 2 financial service companies and 2 mines
            i. Believe that when the market comes back these investments will outperform

e. **Q5: Can you talk about Fortescue Metals (FMG) and the dilution that could happen there? Can you also talk about the Cresud investment in Argentina?**
   i. Steinberg:
      1. The newspaper reports on FMG are true
         a. They have the ambition to double their output
            i. This will require a major investment and this means they will need to raise money in order to make that investment
               a. The Chinese will likely provide the money
               b. **WSJ Article from 5/11/09:** Hunan Valin Iron & Steel Group executives said China's sovereign-wealth fund may help finance expansion at Fortescue Metals Group Ltd. through debt rather than stock purchases, as the Chinese steel group became the Australian iron-ore miner's second-biggest shareholder.
         b. They have a lot of work to do to get what they already have up and running efficiently and without delays
         c. It is a long term process
   ii. Cumming:
      1. Believe the fundamentals are good for the company
         a. TV and the internet have shrunk the world
            i. There are millions of people who watch TV and see the wealth that exists in much of the rest of the world
               1. Are going to want to taste that wealth themselves
            ii. This should help this mine prosper as there will be further demand for iron ore
   iii. Steinberg:
      1. Have a small investment in Cresud agricultural company in Argentina
         a. Not really focusing on it right now
         b. Has a great portfolio of assets but the fundamentals right now in Argentina are terrible
            i. Will hit the wall again soon
            ii. Not very optimistic

f. **Q6: Can you discuss the cash available for acquisitions and whether or not you would be interested in looking for cheap assets tied to commercial real estate?**
   i. Cumming:
      1. Until the company has a big fat infrastructure that consists of durable companies they will certainly not speculate on commercial real estate assets

        a. Do not have the luxury or the desire to pursue hit or miss assets
    2. Have $500M in cash right now on the balance sheet
        a. Will not go a penny below $500M unless they can buy companies that they feel are durable

g. **Q7: How is LUK positioned for a decline in the US dollar and/or inflation?**
    i. Keil:
        1. LUK is well positioned to protect against either of those through its borrowings in US dollars and investments in commodity/hard assets companies

h. **Q8: Why do they use Baldwin subsidiary to make certain investments?**
    i. Orlando:
        1. It is basically a tax structure decision
            a. Allows them to use NOLs

i. **Q9: Can NOLs be used as financing vehicles (like a John Malone spinoff) to purchase assets?**
    i. Steinberg:
        1. Definitely going to try to do this going forward
            a. The NOLs provide them with an advantage as an acquirer
    ii. Cumming:
        1. Have more flexibility in terms of what they can pay as a result of the NOLs

j. **Q10: Since they are now claiming that they are focus on buying better businesses, is that different from buying cheap business? What is the difference?**
    i. Cumming:
        1. Nothing has really changed
            a. They have never paid too much (based on their own assessment of value) and never will
        2. Have seen the prices that people want coming down slowly over time
            a. Can use the NOLs to take advantage of opportunities

k. **Q11: Can you talk about the prospects for Sangart? How do you know if the additional investment was throwing good money after bad?**
    i. Cumming:
        1. They have no idea if they threw good money after bad
        2. Still have to go through Stage II and Stage III trials on Hemospan
            a. **From Sangart website regarding Hemospan:** Sangart's lead product, MP4, is designed to effectively target oxygen delivery to tissues that are insufficiently oxygenated. Because of the critical role oxygenation plays in the human body, MP4 has the potential to improve outcomes in a wide variety of surgical and medical conditions.
            b. Results so far have been very positive
                i. Over 1000 people have used Hemospan and no one has died
                    1. But, the FDA and potential buyers are terrified because other companies that tried to develop similar drugs ended up killing people
                        a. Therefore no one is offering to buy Sangart
                ii. Believe it would be a gift to humanity if they can get it to work
                    1. Seems to be working now

l. **Q12: Buffett said that there would consequences of the Fed's quantitative easing and recent government interventions. What is better protection, buying hard assets or great businesses like Buffett does?**
   i. Cumming:
      1. Buffett is smarter than they are so they will certainly not contradict anything he says
      2. But they do have a copper and iron ore mine that could prosper as a result of a decline in the dollar and inflation
m. **Q13: Does durable (when it comes to the companies they are looking to buy) mean that they will have to give up potential upside?**
   i. Cumming:
      1. They are just looking for companies with a solid future
         a. Examples: food companies, cheese companies, manufacturers of things such as bearings
      2. Looking for companies like their plastics company (Conwed Plastics)
         a. Even in the crash their revenues are only down 15-20%
      3. Have a drilling company (Goober Drilling) that should be stable and durable
         a. Will lose money in 2009 on a net income basis but not on an EBITDA basis
   ii. Steinberg:
      1. The mistake they made was putting money with third party managers (Wintergreen and Pershing Square)
         a. They now realize this is foolish and they will not do it again
         b. They expect to have all their money back from the 3rd party managers in 6 months
            i. Say they are near the end of this
         c. The Pershing Square investment was a huge mistake
            i. Claimed they have lost almost everything
         d. The Wintergreen investment was more complicated but they felt the need to get the money back
n. **Q14: Have the prices of stacked rigs come down enough for LUK to want to buy more?**
   i. Cumming:
      1. No, have not come down enough
         a. Want to get all of their rigs signed up before they look into buying any new rigs
o. **Q15: Do they care to comment on the Moody's downgrade?**
   i. **Cumming:**
      1. Moody's downgraded LUK?
         a. Who cares: they pay not attention to them
         b. They will probably upgrade LUK at some point and downgrade LUK at another point
         c. No one should pay any attention to Moody's
            i. They have missed almost everything and have been late at each turn
p. **Q16: Can you talk about the NOL accounting rules? Why does it matter if they are inane?**
   i. Cumming:
      1. Brief background on the NOLs
         a. Had a large NOL on the balance sheet
         b. Auditors determined that it was not likely to be used
            i. Therefore LUK had to take it off the balance sheet and recognized a huge loss that impacted net income significantly

1. However this is a non-cash loss
c. The accounting rules are inane and ridiculous
    i. If they ever are likely to use the losses then they will bring it back onto the balance sheet
    ii. The NOL only has speculative value
        1. Can only use it if they make a profit
            a. But they have not paid income tax in 30 years and suspect they won't for another 30
    iii. The NOL misleads people who are trying to value the company
        1. Created a huge loss that could fool unsophisticated people
    iv. They prefer to revert to cash thinking

q. **Q17: You say you have 4 large investments but how does the smaller investment decision processes and management work?**
    i. Cumming:
        1. They have an asset management group that focuses on the smaller investments
            a. They report constantly to Steinberg and Cumming

r. **Q18: Are they looking more or less outside the US as a result of the crisis?**
    i. Nothing has changed either way on this front

s. **Q19: How does the rest of the world look to you right now? How long do you think this downturn will last?**
    i. Cumming:
        1. They have no idea how long the downturn will last
        2. Do see the private equity guys trying to sell stuff
            a. Finally are loosening their prices
                i. Believe that as the downturn continues they will see further pricing pressure
        3. They are not good at looking forward
            a. Certainly to not have a crystal ball

t. **Q20: You keep talking about durable businesses, but isn't Jeffries (JEF) in a levered and tough business right now?**
    i. Cumming:
        1. Bought their shares of JEF with LUK shares that were close to $54
            a. Thought the price of JEF was attractive
                i. In retrospect they believe it was even more attractive
            b. Was a financing as well as a cheap asset deal
    ii. Steinberg:
        1. JEF is not a troubled investment bank
            a. Do not have toxic assets
        2. Trading is going to be a disproportionate component of earnings going forward
            a. The government needs to borrow a lot of money and JEF should be in a good position to benefit from that
        3. However, they are in a tough business for sure
            a. They have applied to be a broker dealer, which is a very competitive business
        4. JEF did not have a near death experience like Goldman Sachs and Morgan Stanley
            a. However, the guys at JEF were paying attention when Bear Stearns and Lehman went away

                i. They are being more cautious and acting differently now

u. **Q21: In terms of ACF, has there been any attempt to sell securitizations without breaking it down into tranches?**
    i. There have been some discussions but nothing made sense financially

v. **Q22: How do they decide when to sell an asset?**
    i. Cumming:
        1. The science is in the "in"
            a. The poetry is in the "out"
                i. Cumming does not use spreadsheet models to determine when to sell
                    1. Does have access to people who can use models and spreadsheets
            b. They look at the future earnings stream and discount it back to determine a value
                i. The rate depends on how durable the company is and how much they love it
                ii. If the asset is selling above their estimation of value then they think about selling it

w. **Q23: Can you give us your take on natural gas?**
    i. Cumming:
        1. In Oregon they have a de-liquidation plant
            a. They believe they are one year away from having approval from FERC (Federal Energy Regulatory Commission)
                i. Will need a more experienced partner to come in if they get the approval
                ii. Think that after the approval and necessary investment they will have a saleable asset when they are up and running
                    1. Could make 2-3x their investment
        2. Long term view on natural gas is $6-7 per Mcf
            a. Gas is well below that now

x. **Q24: Can you talk about what you are seeing in home prices through your subsidiaries?**
    i. In the San Diego market they are seeing foreclosures coming through
        1. Things are slowly improving
            a. Builders have started to ask about buying lots at distressed prices

y. **You say that you are covering operating expenses with cash reserves, how much cash burn is going on? How long can you last? What about upcoming debt maturities**?
    i. Cumming:
        1. If they don't make an investments then they can last forever and a day
            a. Not a likely scenario but if they could not find any investments they would return cash to shareholders
        2. Operating cash flow is not a problem
        3. They are working hard to make debt disappear
            a. Have been buying back their debt
            b. Are looking to de-lever going forward

Leucadia National Corporation Scorecard

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Shareholders' Equity	Net Income (Loss)	Return on Average Share-holders' Equity
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59[b]	(33.9%)	21.0%	7.71	26.4%	1,121,988[b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95[c]	61.4%	4.9%	23.73	2.5%	3,661,914[c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03[d]	39.1%	5.5%	47.10	67.0%	5,570,492[d]	484,294	10.2%
2008	11.22[e]	(55.2%)	(37.0%)	19.80	(58.0%)	2,676,797[e]	(2,535,425)	(61.5%)
2009	17.93	59.8%	26.5%	23.79	20.2%	4,361,647	550,280	15.6%
CAGR (1978-2009)[a]			8.2%	28.5%				
CAGR (1979-2009)[a]	18.5%		8.1%	21.4%		19.1%		

(a) A negative number cannot be compounded; therefore, we have used 1979.

(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share. Leucadia's CAGRs do not reflect the benefit of annual dividends or the special 1999 dividend.

(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.

(d) Reflects the recognition of $542.7 million of the deferred tax asset or $2.44 per share.

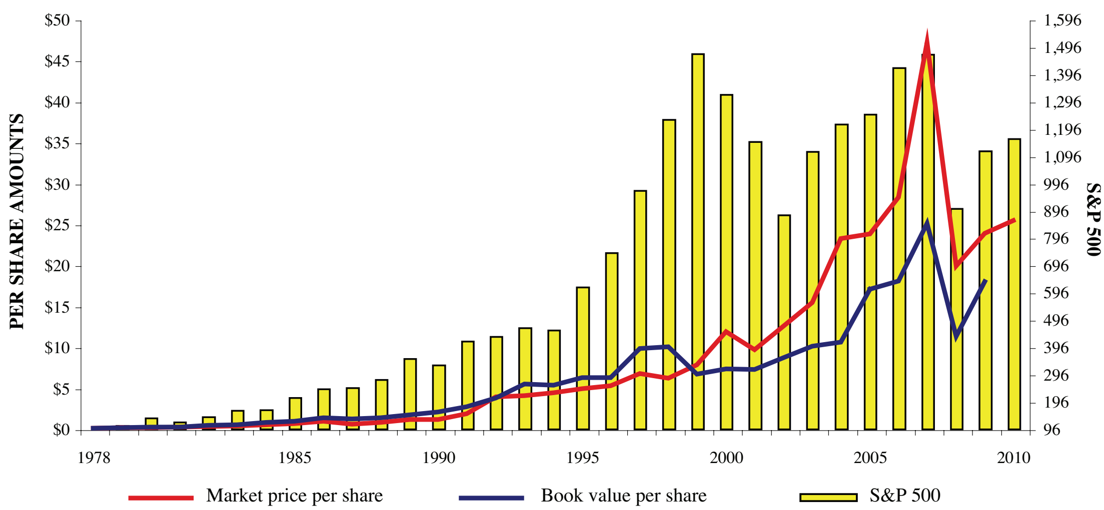
(e) Reflects the write-off of $1,672.1 million of the deferred tax asset or $7.01 per share.

Letter from the Chairman and President

To Our Shareholders

2008 was an infamous year, not unlike 1929. A group of financial engineers almost brought down the U.S. economy and subsequently a significant portion of the world's as well, resulting in a deluge of red ink. Happily, 2009, was much different. There is increasing evidence that the financial carnage brought on by excessive risk taking is beginning to repair itself. In 2009, Leucadia recorded $550.3 million in profits while shareholders' equity grew $1.7 billion. We hope the chart below shines light on a hoped for beginning of better days.

LEUCADIA NATIONAL CORPORATION
BOOK VALUE and MARKET PRICE PER SHARE
(With the S&P 500)[(a)]



(a) Amounts plotted are as of December 31st of each year, except for the final market price and S&P 500 which are as of March 16, 2010.

At this point a reasonable question to ask would be how can 2009 profits be $550.3 million, but shareholders' equity increases by almost $1.7 billion? Once again, as in past years, the accountants have been busy promulgating rules that complicate rather than explain. The table below attempts to take apart last year's results and to make them understandable. You may need a calculator.

EXPLAINING SHAREHOLDERS' EQUITY
(In millions)

Balance at January 1, 2009	$ 2,676.8
Booked to P&L:	
Associated company income, mostly Jefferies and AmeriCredit	805.8
Discontinued operations	26.5
Corporate expense and interest, net	(168.7)
Operations	(82.3)
Noncontrolling interest	1.7
Income taxes	(32.7)
Subtotal	550.3
Booked direct to shareholders' equity:	
Unrealized gains on available for sale securities, mostly Fortescue and Inmet	1,046.5
Conversion of convertible notes	123.5
Other, net	.9
Income taxes	(36.4)
Subtotal	1,134.5
Balance at December 31, 2009	$ 4,361.6

If you look at the first section of the Explaining Shareholders' Equity table you will note $805.8 million of associated company income. For simplicity's sake we elected the fair value method for Jefferies and AmeriCredit, which means we carry Jefferies and AmeriCredit at market value, but any unrealized gain or loss is put though the P&L.

In the second section, available for sale securities are also carried at market value, but any unrealized gain or loss on these securities is booked directly to shareholders' equity. The increase in the market prices of our equity investments in Fortescue and Inmet accounted for most of the $1 billion gain on the Balance Sheet. Leucadia's P&L and Balance Sheet activity will continue to dance up and down to the music of the markets.

Our four major public investments: Fortescue Metals Group Ltd, Inmet Mining Corporation, Jefferies Group, Inc. and AmeriCredit Corp. were bought for strategic reasons and in spite of the financial disaster these investments performed as expected – beautifully!

For a more concise understanding of the lagniappe[1] of our accounting, call our long suffering Chief Financial Officer who stands between the madness of the accounting profession and ourselves – Joe Orlando, the Blessed One (212) 460-1900.

[1] A small gift; something given or obtained gratuitously.

Berkadia Commercial Mortgage LLC

We concluded last year's letter by hoping that despite our "Fortress Leucadia" mentality, "we will continue to look for companies to buy, but only consider companies that earn money, have a bright future and are durable!"

Our newest addition is a good start on that promise. Berkadia Commercial Mortgage LLC is now the country's largest non-bank owned provider of commercial mortgage servicing. We purchased the business out of the bankruptcy of Capmark Financial Group Inc. Berkadia, a 50/50 joint venture with Berkshire Hathaway, acquired Capmark's servicing assets and loans with $434 million of partners' equity and a line of credit from Berkshire. The foundation is in place for a business with solid, long-term growth. Visit Berkadia's website at www.berkadia.com.

Although the potential returns may turn out to be dazzling, Berkadia's core business is decidedly not so. The organization is a complex labyrinth of moving parts and business processes. The "Run Spot Run" explanation of Berkadia's major activities follows:

- <u>Master/Primary Servicing</u>: From a portfolio of approximately $240 billion of commercial mortgage loans, Berkadia collects payments from individual borrowers and makes sure that the funds (principal, interest, insurance, taxes, etc.) are paid to the right party and on time. For this, we are paid a servicing fee. The company has an industry-leading servicing record, and management is working to make it more efficient.
    - With nearly 5,000 transactions per day, servicing these loans is a tedious, process-driven operation.
    - To offer quality services at a competitive price, Berkadia employs technology everywhere possible and maintains a large back office processing center in India. One of the undersigned visited the processing center and was much impressed.
    - We have a feeling that commercial mortgage originations, though presently stagnant, will return as the economy recovers, but without new loan originations Berkadia's servicing portfolio will decline year after year until no loans remain. Even if that were to happen, we believe we will be economically satisfied with our investment.

- <u>Special Servicing</u>: Berkadia also generates revenues when loans go bad. Members of Berkadia's Special Servicing unit – our version of the Navy SEALs – are first on the scene to begin rehabilitation of a delinquent loan, working towards either a resolution or foreclosure. If you find yourself in the unfortunate position of needing a special servicer, Berkadia's SEALs will be happy to help. Call Michael Carp at (214) 999-7013.
    - Berkadia is the named special servicer on $44 billion of loans and will be called upon to find a solution in the event these loans become impaired or delinquent.
    - Approximately $4 billion of these loans are now being actively managed by Special Servicing.

- Although earnings from this business line are unpredictable and lumpy, in this economy we expect our business to grow. Today's practice of "extend and pretend" will, as time passes, wear thin and be discarded.

- Originations: Berkadia originates multi-family commercial real estate loans for Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Housing Administration, which feed the servicing machine. Typically, Berkadia retains the servicing rights to these loans and may also maintain the special servicing rights should the loan default whilst in our care. With 23 origination offices around the U.S., a loan officer from Berkadia is likely nearby. If you need a loan for a multi-family project, call John Cannon at (215) 328-1396.

- Escrow Investment: When borrowers make payments, Berkadia holds some money in escrow for future payment of insurance, taxes, etc. Berkadia is responsible for managing these escrows, which come in many forms, sizes and durations – the current amount is roughly $4 billion. Berkadia derives certain economic benefits from this pool of capital.

While Berkadia is a new acquisition, we are optimistic about its potential to generate significant cash flow and are excited to be involved in another partnership with Berkshire Hathaway. We also want to thank our former colleague Larry Hershfield at Ranch Capital for bringing us this opportunity.

AmeriCredit Corp.

At December 31, 2009, we owned approximately 25% of the outstanding common shares of AmeriCredit Corp. (NYSE: ACF) for an original cost of $418.6 million. ACF is an independent subprime auto finance company that purchases and services automobile sales finance contracts, typically for consumers who struggle to obtain traditional financing from a bank or manufacturer's captive finance company. At December 31, 2009, our investment in ACF is classified as an investment in an Associated Company and is carried at fair market value of $639.8 million.

For almost 20 years, we owned a similar business and as a result carefully followed ACF. ACF's large volume and efficient processing and underwriting abilities made it a fierce competitor. In 2004 we exited our business, deploying our capital elsewhere, rather than fighting a pyrrhic war with larger, more efficient competitors, some of them willing to accept puny returns. But, we retreated with our eyes open. We observed that in previous recessions ACF suffered its share of poor credit performance; however, when a recovery was underway ACF made larger profits by being able to select more credit worthy customers and to charge more for loans.

Although the current recession has been much harder and deeper than we anticipated, ACF performed as expected. ACF is acquiring more credit worthy customers and is able to charge higher rates. Credit performance is improving. Securitizations, which were completely frozen until the Federal Reserve's TALF program got rolling, have come back to life. During 2009, ACF issued two separate TALF-eligible securitizations, one of which had investors who benefited from the TALF program. All indications are that ACF has adequate liquidity for the foreseeable future.

As in much of life, ACF's secret to success is discipline. Currently, competition has lessened and ACF can earn a fair return for its risk. Eventually, banks and other folks will come rushing back into the market, margins will fall as evaluation of risk becomes, yet again, ignored and loan volume will become the sole focus of competitors as a means to impress the Stock Market. When that day comes, we hope ACF will eschew volume, efficiently harvest its portfolio and watch the lemmings as they launch themselves off a cliff. Then the cycle will begin anew. We have a great relationship with, and respect for, the management team. We believe they are the best in the industry.

Jefferies Group, Inc.

Jefferies (NYSE: JEF) is a full-service global investment bank and institutional securities firm. Jefferies offers its customers capital markets executions, mergers and acquisitions, restructurings and other financial advisory services.

At December 31, 2009, we owned approximately 29% of the outstanding common shares of Jefferies for an investment of $794.4 million (the largest single investment we have ever made). The fair market value of our investment was $1.2 billion at December 31, 2009.

Jefferies is not in trouble, not a ward of the U.S. Government, not burdened by toxic assets and not overleveraged. Its employees own a substantial interest in the firm and their pay expectations are being managed with the best interests of the firm in mind.

Jefferies has successfully hired talented individuals from troubled or failing firms, acquired a municipal bond trading and underwriting business, became a Primary Dealer in U.S. Treasuries and many other governments' bond issues and also expanded its global fixed income and commodities business. We believe that Jefferies, unscathed by the imprudent and irresponsible behavior of other investment banks, will thrive as the world's economies improve and will increase its market share and profits. It doesn't hurt that some of its competitors have gone out of business.

In 2007, Leucadia and Jefferies formed Jefferies High Yield Trading, LLC (JHYT) a registered broker-dealer that is engaged in the secondary market for high yield and special situation securities. Each company invested $350 million. In the midst of the financial meltdown JHYT survived reasonably well by avoiding dangerous and highly leveraged situations and by remaining very liquid. Our return for 2008 was minus 20% but happily a positive 13% in 2009.

We have known Jefferies for a very long time and are particularly fond of and hold in high regard its long time Chief Executive Officer, Richard B. Handler. We believe that over the long haul Jefferies will thrive and further enrich its shareholders.

Mines

We have two significant investments in mining companies: Fortescue Metals Group Ltd (ASX: FMG), an iron ore mining business in Australia, and Inmet Mining Corporation (TSX: IMN), a Canadian global mining company. We own common shares in both companies as well as a subordinated note of FMG and a 30% direct equity interest in Inmet's Cobre Las Cruces copper mine in Spain.

The 278 million shares of FMG we owned at December 31, 2009, 9% of the company, plus the subordinated note cost $452.2 million. The $100 million subordinated note matures in 2019 and has an interest rate calculated at 4% of the revenue from ore sales at certain mines, net of government royalties. The interest is applicable to iron ore from the Chichester region of Fortescue's vast holdings, where the Cloud Break and Christmas Creek mines reside.

We have 5,600,000 common shares (9.98%) of Inmet carried on our books at market value of $339.1 million (the shares cost $78 million) and also own 30% of the Cobre Las Cruces ore body which is on our books for $211.6 million.

Fortescue

In August of 2006, we made our initial investment in Fortescue. After our equity commitment, Fortescue's founder and CEO, Andrew Forrest and his troops went to the global markets and raised U.S. $2.1 billion. Amazing! On August 18, 2006, Fortescue began earnest construction of a gigantic ore processing facility and train loader at the Cloud Break mine, which sends ore on a fleet of 15 newly purchased large GE rail engines and 976 Chinese built ore cars over a freshly built 280 kilometer railway, to a rotary train unloader that dumps the ore onto a two meter wide conveyor belt which carries it to a huge sorting yard where it is mixed into the correct recipe. The ore is then sent to an automated ship loader, which looks like the skeleton of a huge dinosaur. The ships are loaded on a newly built dock in a body of water that was dredged for this purpose.

All of this was accomplished in 21 months, a Herculean feat achieved by the team that executed Andrew Forrest's vision in an impossibly short period of time.

The first ore was shipped on May 15, 2008; in 2009, 190 ships carrying 32.8 million tonnes of ore left the harbor. Fortescue is targeting 55 million tonnes per annum as soon as possible. Meanwhile plans for an increase to 92 million tonnes per annum are in the works.

During February 2010, we sold 30 million shares of Fortescue's stock for $121.5 million. We have an old fashioned theory that whenever possible we should retrieve some or all of our initial investment and ride with the significant gains.

China is a relatively short distance from the Pilbara in Western Australia, where Fortescue and others mine their iron ore. China is hungry for iron ore. China has a population of 1.3 billion, many eager to abandon subsistence living and desiring to emulate the well fed, well clothed and well educated life of Australians, North Americans and Europeans. Creating an urban industrial country of this size takes a huge amount of iron, steel, concrete and money and it will take a very long time. Fortescue should have a bright future.

Cobre Las Cruces

20 kilometers northwest of Seville is a copper ore body in the Pyrite belt of Spain. With the aid of our favorite miner, Frank Joklik, we bought the ore body for $42 million in 1999. The Cobre Las Cruces deposit contains 6.3% copper ore with 8.1 million tonnes of proven reserves and an additional 8.4 million tonnes of probable reserves.

After a six year struggle and lots of money we were able to obtain almost all of the vast number of approvals needed to begin the construction of a mine and a hydrometallurgical process plant. We decided that we were not the ideal managers to dig a 150 meter hole or to build the plant. Thus, we looked for a partner. Inmet agreed to buy a 70% interest in the mine for 5.6 million Inmet common shares and we retained a 30% investment in the ore body. Cash operating costs over the life of the mine are expected to be $0.66 per pound. Copper prices over the last several years have ranged from $1.25 to $4.03.

We are bullish on copper. Copper benefits from the same fundamental economic impetus as iron ore. The first copper cathodes were shipped from Las Cruces in July 2009. Since then there has been a disappointing number of delays and problems with the mine, the plant, and the Spanish regulators. When these are overcome, Las Cruces hopes to ship about 72,000 tonnes of copper per year for a 15 year period.

Conwed Plastics

Conwed Plastics manufactures and markets lightweight plastic netting for a variety of purposes and is a market leader in the sale of products used in carpet cushion, turf reinforcement, erosion control and packaging. Conwed has manufacturing operations in Minneapolis, Minnesota; Athens, Georgia; Roanoke, Virginia; Chicago, Illinois; Genk, Belgium; and Guadalajara, Mexico. Its products are sold throughout the world.

Conwed's revenues declined by 23% in 2009. Hardest hit product lines were those tied to building and construction markets, which represent approximately 41% of Conwed's total revenue.

On the expense side, the price of polypropylene resin, the principal raw material used in Conwed's products, steadily rose throughout 2009. Management made some fortuitous resin buys to maintain variable margins and trimmed direct labor and overhead. However, margin management and cost reductions were not enough to offset the lower revenues and profits declined 17%.

We have now owned Conwed for 25 years. During that time, Leucadia has received a compounded return on invested capital of over 20%. Conwed operates in niche markets and has great relationships with its customers, consistently sends us cash and requires very little interference from us. Within the past several years, management has made several small, smart acquisitions; these transactions have allowed Conwed to diversify away from overreliance on the building and construction markets. Conwed has trimmed unnecessary expenses, preserving margins in perilous times. In short, it is a great example of a well-managed, durable company and we look forward to Conwed's continued success in the future. Our thanks to Mark Lewry, Chris Hatzenbuhler and their team.

Idaho Timber

Idaho Timber is headquartered in Boise, Idaho. When we purchased Idaho Timber, we believed the earnings would porpoise up and down with the unavoidable cycles of the U.S. housing market. Pre-tax results for 2006, 2007, 2008 and 2009 were $12 million, $9.1 million, $0.8 million and $(12.7) million, respectively. Our thesis may yet be proven correct, although we didn't think a porpoise would go this deep. The net book value of this investment as of December 31, 2009 was $88.1 million.

Since mid-2007, demand for residential construction lumber has been severely impacted and sales and shipments have continued to fall due to low levels of home improvement activity and the ongoing decline in housing starts. The sawmill business suffered as prices for finished products fell while the cost of incoming logs remained relatively high through most of the year. While this cycle persists, the company continues to pare down expenses and upgrade talent. Due to the difficult operating environment, most of Idaho Timber's competition has disappeared.

Idaho Timber has all of the ingredients for a Leucadia success: it operates in an out of favor industry, the market cycle is at a low and we have a talented management team. Therefore, we continue to look for additional operations and opportunities to tuck into the Idaho Timber fold. Any help from shareholders would be appreciated (www.idahotimber.com).

Ted Ellis, Idaho Timber's president and CEO, has been busy through the downturn, searching for profit in every corner and keeping his people focused on the future. While we can't predict when demand will return to the market, when it does Ted and his team will make the most of it.

STi Prepaid

STi Prepaid, Leucadia's 75% owned subsidiary, is headquartered in New York City. STi Prepaid is a facilities-based provider of long-distance wireline and wireless telecommunications services. The principal products are prepaid international long-distance calling cards and carrier wholesale services.

Prepaid international calling cards account for 87% of revenues. Customers buying cards are seeking a low cost method of communicating with family and friends in their home countries. Many immigrants, the primary target customers, have left the country as jobs dried up, particularly in the construction and hospitality industries. Compounding our trouble, the price of international long-distance continues to decline. It now costs less than $0.01 per minute to call many international destinations.

From the poop deck, Jim Continenza is navigating the difficult waters and directing the crew to adjust the sails for the stiff headwinds. In 2009, STi Prepaid integrated several 2008 acquisitions and removed duplicate costs substantially reducing SG&A.

While price compression and product substitution is expected to continue, calling cards will remain an important low cost method for millions of people to keep in touch with their families back home. We hope you will make your next international call using an STi Prepaid card, which can be bought online at www.stiprepaid.com.

Keen Energy Services

In 2006, we met the owners of Goober Drilling, a small land based oil and gas drilling operation based in Stillwater, Oklahoma. Many of their rigs were old, small, and had limited application. On a hunch that gas prices would be rising, these wildcatters had ordered 18 new, modern, high horsepower rigs capable of directional drilling to find shale gas. They did this without having the means to pay for them. We quickly jumped into the breach. A series of rig acquisitions over the past four years and their personal liquidity constraints culminated in November 2009 with our partners agreeing to our purchase of their interests – we now own 100%. Our net investment in the company was $231.5 million at December 31, 2009. We also changed the name from Goober Drilling to Keen Energy Services.

Keen's customers are primarily Mid-Continent oil and gas exploration and production companies. During 2009, low natural gas prices, rising levels of natural gas in storage and tight credit markets forced many of Keen's customers to significantly reduce their drilling programs. The utilization of Keen's rig fleet fell from 92% in 2008 to 41% in 2009. At year end, Keen Energy had 38 rigs, 13 of which were operating in the field. Since then the business has picked up a little. Surplus rigs and low gas prices in the U.S. have driven extreme price competition.

Contract drilling is competitive and natural gas exploration and production are cyclical and volatile. When it's good it's very, very good and when it's bad it's terrible. Our experienced executive team, led by Ed Jacob and Mardi de Verges, are wisely squeezing out costs. We have lived long enough to know that the natural gas market will eventually turn. At that point, Keen will rise again and generate significant cash flow, but for now we hunker down. Recessions are not kind to Keen.

ResortQuest

ResortQuest, which we acquired in June 2007, is headquartered in Fort Walton Beach, Florida and provides rental management services to over 6,000 vacation properties. ResortQuest contracts with each property owner to market and manage the rental of their vacation property for a percentage of the rent and/or fees collected and operated at a small profit in 2009.

In the face of the extended recession, ResortQuest sold unprofitable locations, retreated to its strongholds in Northwest Florida and a few other locales and slashed corporate expenses. ResortQuest is focused on acquiring new guests as efficiently as possible, via the Internet, referrals and direct mail, and has positioned itself to take advantage of growth opportunities.

Expensive fly-to vacation destinations such as Hawaii and ski areas have been the most deeply affected by the financial crisis. We hope that the opposite is true for the drive-to markets, in particular the beach markets. A rental home or condominium with cooking facilities on or nearby a free beach provides a great value alternative in bad economic times. If this situation strikes a chord, please spend some time touring our site at www.resortquest.com. We are sure you will find a locale to create some great family memories that fits your budget.

We appreciate Park Brady, Eileen Erstad and their team for capably managing ResortQuest.

Gaming

The Hard Rock Hotel & Casino is located in Biloxi, Mississippi and includes an eleven-story hotel with 318 rooms and suites and a popular entertainment venue with a capacity of 1,500 persons. On December 31, 2009, Leucadia's net investment in the Hard Rock Biloxi was $236.7 million.

Since opening in 2007, the Hard Rock has struggled for market share in the small, crowded Mississippi Gulf Coast market. This year, we made slow and steady progress and are getting our fair share of gaming revenues.

Despite a decline in air service to the Biloxi market and increased competition from casino gaming in Alabama and Florida, Hard Rock Biloxi had a successful year. Overall, the gaming market in Biloxi declined 12.4% from 2008 while Hard Rock Biloxi's gaming revenues declined just 2%. A record $19.4 million in EBITDA was driven by significant reductions in operating expenses, substantial gains in customer loyalty, and no hurricanes. Finally.

Congratulations to Duncan McKenzie, Todd Raziano and their team of dedicated employees. Some of the best work of our staff and management went in to achieving record EBITDA. Unfortunately, it still represents a single digit return on our investment. On this one, we simply overpaid.

We hope you will visit the Hard Rock Hotel & Casino. You can check out the entertainment schedule at www.hardrockbiloxi.com.

Sangart

This is the investment that refuses to die, the reason being that it has not yet killed anybody. Sangart is developing biopharmaceutical products that deliver oxygen to tissues at risk of oxygen deprivation. Because their products are a red liquid made from human hemoglobin they have been described as an "artificial blood," but the products are really more of an oxygenation enhancer that works together with regular blood to deliver oxygen to tissues. We made our initial investment in 2003 and have invested $146.2 million to date. The money is expensed as Sangart spends it on product development. At December 31, 2009, we owned approximately 92% of Sangart.

Until 2009, Sangart's strategy had been to complete two large Phase III clinical trials of its oxygen therapeutic agent, MP4OX, and then to apply for regulatory approval for use in patients undergoing hip replacement surgery. MP4OX performed as intended in those studies, but we did not find a satisfactory, commercial opportunity. Instead, we are focusing our efforts on hopefully more commercially viable (and valuable) patient populations. Trauma was the obvious direction, and by the end of 2009, MP4OX was being tested in a concept study involving patients in severe hemorrhagic shock. In the European Union, Sangart's MP4CO product was recently granted orphan drug designation for treatment of sickle cell disease – a very encouraging sign.

In entering this investment in 2003, we were too optimistic. Bearing the bruises of our experience, we are now cautious in our predictions of cost and timing, but still optimistic about the ultimate outcome.

It will be several years before we harvest any fruit from the Sangart tree. We are grateful that Brian O'Callaghan and his team of determined life science executives are leading the charge.

Crimson Wine Group

The Crimson Wine Group includes Pine Ridge Vineyards (204 acres) in Napa Valley, California, Archery Summit (119 acres) in Willamette Valley, Oregon and Chamisal Vineyards (97 acres) in Edna Valley, California. Substantially all of these estate properties are owned by Crimson and are producing grapes. Our development of an additional winery and vineyards on 611 acres of land in the Horse Heaven Hills of Washington's Columbia Valley has been put on hold, although we have 85 acres of gorgeous vines growing on-site. At December 31, 2009, our net investment in Crimson and the Columbia Valley property was $94.8 million. In 2009, the wineries sold approximately 92,000 9-liter equivalent cases of wine generating revenues of $19.8 million.

The economic upheaval did not spare the high-end wine market in 2009. In the wine salesmens' vocabulary, "Value" replaced "Luxury". Droves of consumers and corporate business travelers abandoned restaurants. Even those who did not, often traded their bottle of fine wine for a bottle of Diet Coke® and two straws. While total wine industry sales actually grew, the growth was solely at the lower end of the price range – wine sales above $25 per bottle slowed dramatically. Selling our wine into this headwind required unprecedented marketing and discounting.

We have responded by launching a new line of wines fashioned for the realities of the market – ForeFront by Pine Ridge. The ForeFront collection includes Cabernet, Pinot Noir and Sauvignon Blanc, all of which "over-deliver on quality at their price" (translates to "luxury on a budget"). Not only great value, but also very tasty.

Even in good times, it is difficult to make estate wineries profitable. The entire industry suffers from a lack of discipline. The sheer number of brands combined with owners willing to sell out last year's vintage at (or below) cost are a constant anchor on price. Estate wineries have high fixed costs and require large marketing dollars, making volume the key profit driver. We have a great management team led by Erle Martin and Patrick DeLong who have streamlined our operations while improving our wines. We now need more volume.

Having started one estate winery from scratch we have seen that planting quality vineyards increases land value and may provide an inflation hedge. Durable annual cash flows may be difficult to achieve, thus the ultimate judgment on our investment will have to wait until it is eventually sold.

Visit one of our three on-location tasting rooms. There you will find many limited production wines unavailable through mass distribution channels. On the honor system, shareholders of Leucadia receive a 20% discount at the tasting room and on our website www.crimsonwineboutique.com, from which you can navigate to the individual wineries (use the online coupon code "Leucadia"). Our direct to consumer wine clubs continue to thrive and we now have 13,800 members, making this segment of our business the most profitable. Wine can be shipped directly to 43 states.

As always, we remind you that wine is food and it fosters both good times and laughter with family and friends. In these times, we all need as much of that as we can get.

Real Estate

At December 31, 2009 our net investment in domestic real estate projects was $202.2 million broken down as follows:

- 12 acres of mixed use property in Myrtle Beach, South Carolina. In 2009, the recession hit the retail center very hard. Tenants either closed down or were granted significant lease rate relief. We wrote down this investment by $67.8 million.
- 61 acres of residential and retail development property adjacent to the above property in Myrtle Beach. This property has no debt against it and is being slowly and cautiously built out as we sell lots to builders. The approved master plan includes 1,151 townhouse, single family home or condominium units, of which 257 have been sold.
- 76 acres of land on the coast of Maine's Islesboro Island with 13 beautiful residential lots, and 120 acres of land in Rockport, Maine on Penobscot Bay zoned and developed for 46 high-end residential lots.
- 15 acres of air rights above the train tracks emanating from Union Station in Washington, D.C.
- An operating, 71,000 square foot retail shopping center on Long Island.
- 708 acres of land in Panama City, Florida upon which resides the current Panama City, Florida airport. We have $56.5 million in escrow until the airport is moved and the land is delivered to us cleaned up. We have begun work on entitlements.

Some real estate investments on our balance sheet are called associated companies. These include:

- A partnership in the Brooklyn Renaissance Plaza in Brooklyn, New York, in which we own a minority interest in a 665 room Marriott hotel and a majority interest in an 800,000 square foot high-rise office building with a 1,100 space parking garage.
- 31.4% of HomeFed Corporation (NASD.OTC: HOFD), a company in the land development business in California. The undersigned own 17% of HomeFed and one of us is the Chairman.

Our approach to real estate is strictly tactical. We sleep well at night because we pay cash, expect high returns and can afford the required patience. In the darkness of the current recession, we have put nearly everything on ice and await the inevitable, if not predictable, return of the sun.

Garcadia

In June 2007, Leucadia entered into a joint venture with Garff Enterprises, Inc., a large Utah-based auto retailer, for the purpose of purchasing underperforming auto dealerships across the country. Leucadia provides the majority of the capital and investing discipline and Garff manages the operations. Where possible, Leucadia purchases 100% of the underlying real estate and leases it back to the operations. The partnership owns 15 dealerships in 3 geographic clusters: Des Moines, Iowa, Houston, Texas and Southern California. At December 31, 2009, our investment in Garcadia was $85.9 million, including $50.5 million of real estate on which we receive a 10% return in rent.

In the past two years, auto retailing hit a humongous pothole. Only 10.4 million new vehicles were sold nationwide in 2009, the lowest volume since 1982. While the industry and Garcadia saw a slight increase in the service and parts business last year, it did not offset the primary impact of lower volume and margin decline in new car sales.

Both General Motors and Chrysler filed for bankruptcy in 2009 and closed 1,100 and 789 dealerships, respectively. None of the Garcadia dealerships were closed, but market conditions resulted in the recognition of $32.3 million of impairment losses on goodwill and other intangible assets. Throughout the debacle in the auto industry, the partnership continued to generate positive cash flow. Garcadia sent us $11.1 million in 2009 and $10.3 million in 2008, including rent. Those numbers do not represent a stellar return on our investment, but are remarkable results in trying times, and a testament to the nimble management of our partners.

Outside of Manhattan, the U.S. is a one-story country: people need a form of transportation to get to and from work and play. Until someone comes up with a better idea, automobiles will be a part of us, and so will the auto dealership. We will be paying particular attention to Garcadia's performance and opportunities, as we believe it is an indicator of the true health of the economy –another canary in the mine.

Leucadia Energy - Gasification

We continue to progress with the development of four gasification projects, which if successful will convert coal or petroleum coke into substitute natural gas (SNG) or methanol and other ancillary gasses. The Lake Charles, Louisiana project received its air permit last year, a major milestone. We have applied for U.S. Department of Energy (DOE) grants that will assist us with working out a means to sequester the carbon dioxide (CO_2) produced by the plant. We are in active negotiations with multiple parties for the sale of the plant's output.

The Indiana and Mississippi projects were each selected by the DOE as potential recipients for federal loan guarantees totaling $3.6 billion. If the DOE completes a satisfactory review of the projects, it could lead to the issuance of conditional loan guarantee commitments sometime later this year. Each project is in ongoing discussions to sell its output of SNG under long-term contracts that would support the DOE loan guarantees.

A fourth project, located in the City of Chicago, was awarded a $10 million grant by the State of Illinois in 2009 to produce a cost study for an SNG project at a brown field site along the Calumet River on the south side of Chicago.

Each of these projects is extremely capital intensive and Leucadia will be seeking partners as certain milestone events occur. Aside from the well known risks associated with constructing big engineering projects, we still face the risk that long-term natural gas prices will remain too low to make the projects feasible.

Liquefied Natural Gas

In January 2007, Leucadia acquired from Calpine Corporation a leasehold interest and certain permits to construct and operate an onshore liquefied natural gas (LNG) receiving terminal. The facility will be located on the Skipanon Peninsula in Warrenton, Clatsop County, Oregon. In 2008, we submitted our application to FERC (Federal Energy Regulatory Commission) and continue to wait for a response. We made little measurable progress in 2009, other than spending money.

We hope the FERC approval will be completed within the year. When ready to go, the project is expected to cost about $1.3 billion and take three years to construct. We will most likely look for a partner who is already in the business and more experienced at building the project and managing it thereafter.

Currently, there is not much demand for the importation of LNG into the U.S. That is a situation that many predict will change over this decade. We hope so.

The Future

Most of our assets are tied to a recovery in the world's economy. In 2009, we have seen the baby steps of recovery. We hope the baby does not flop back on its bottom. In the current recessionary environment, earnings from our operating businesses and investments do not cover our overhead and interest. We have cash, liquid investments and securities and other assets that should carry us through these difficult times. We are energetically cutting costs. We have talented managers and employees working hard every day.

Out of prudence we take a pessimistic view as to when this recession will end. To think otherwise would be a gamble that we are unwilling to make.

In these troubled times there are sure to be opportunities for investment and we will remain on the hunt. The acquisition by Berkadia is the first fruition of that hunt. We recognize a good deal when we see one and will strive to execute.

We intend to resist what we consider "financial bets."

Thirty-one years ago we bought control of Leucadia which was then known as Talcott National Corporation, and by now we are both getting long in the tooth. Our Board of Directors has been prodding us towards a succession plan. We have been working on one for several years.

Tom Mara, our executive vice president, is an excellent executive, a consummate deal closer and has fattened Leucadia Energy with our gasification efforts, albeit close to us in age. Joe Orlando is a first rate CFO and understands the business intimately. Justin Wheeler is in his 30's and an excellent executive and we have charged him to run Leucadia's Asset Management Group which looks after all of our assets. He is doing a splendid job. That leaves the undersigned free to look for deals.

We will continue to add more capable people to this list.

America has had fifteen plus mostly fat years. Hopefully we will have less than seven lean years. We believe we are doing the correct things to protect shareholders' capital and to begin cautiously expanding it. When this economic malaise will retreat, as the fog to the rising sun, we know not. Core and caution are the order of the times!!

We have a tremendous number of smart, hard working helpers who have been with us for a long time. We are eternally grateful.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Leucadia National Corporation Scorecard

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Shareholders' Equity	Net Income (Loss)	Return on Average Share-holders' Equity
(Dollars in thousands, except per share amounts)								
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59[b]	(33.9%)	21.0%	7.71	26.4%	1,121,988[b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95[c]	61.4%	4.9%	23.73	2.5%	3,661,914[c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03[d]	39.1%	5.5%	47.10	67.0%	5,570,492[d]	484,294	10.2%
2008	11.22[e]	(55.2%)	(37.0%)	19.80	(58.0%)	2,676,797[e]	(2,535,425)	(61.5%)
2009	17.93	59.8%	26.5%	23.79	20.2%	4,361,647	550,280	15.6%
2010	28.53[f]	59.1%	15.1%	29.18	22.7%	6,956,758[f]	1,939,312	34.3%
CAGR (1978-2010)[a]			8.4%	28.3%				
CAGR (1979-2010)[a]	19.6%		8.2%	21.5%		20.2%		

(a) A negative number cannot be compounded; therefore, we have used 1979.
(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share. Leucadia's CAGRs do not reflect the benefit of annual dividends or the special 1999 dividend.
(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.
(d) Reflects the recognition of $542.7 million of the deferred tax asset or $2.44 per share.
(e) Reflects the write-off of $1,672.1 million of the deferred tax asset or $7.01 per share.
(f) Reflects the recognition of $1,157.1 million of the deferred tax asset or $4.75 per share.

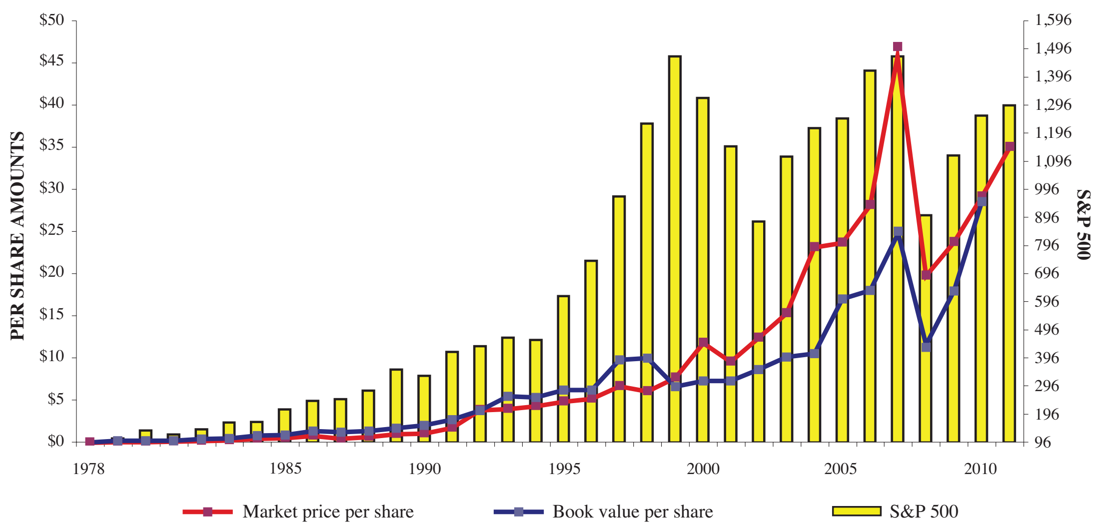
Letter from the Chairman and President

To Our Shareholders

We breathed a sigh of relief when 2010 wound to an end. 2008 was the infamous year. A group of bankers and financial engineers almost brought down the U.S. economy and subsequently a significant portion of the global economy as well. Happily, the past two years have been different. The financial carnage brought on by excessive risk taking is beginning to repair itself and the world's economy is recovering.

The chart below, the yellow fellow, gives some credence to the proposition that we are creeping out of the fog of irrational exuberance. In 2010, Leucadia reported $1.9 billion in income and shareholders' equity increased by $2.6 billion. $1.2 billion is the Ping-Pong of booking our tax loss carryforward ("NOL").

LEUCADIA NATIONAL CORPORATION
BOOK VALUE and MARKET PRICE PER SHARE
(With the S&P 500)[a]



(a) Amounts plotted are as of December 31st of each year, except for the final market price and S&P 500 which are as of March 22, 2011.

EXPLAINING SHAREHOLDERS' EQUITY
(In millions)

Shareholders' Equity at January 1, 2010	$ 4,361.6
Booked to P&L:	
Associated company income, mostly Jefferies and AmeriCredit	375.0
Discontinued operations	51.1
Corporate income and expense, net	473.6
Operations	(104.6)
Noncontrolling interest	(0.9)
Income taxes	1,145.1
Subtotal	1,939.3
Booked directly to shareholders' equity:	
Unrealized gains on available for sale securities, mostly Fortescue and Inmet	690.5
Dividends	(61.0)
Income taxes	24.8
Other, net	1.6
Subtotal	655.9
Total increase to Shareholders' Equity	2,595.2
Shareholders' Equity at December 31, 2010	$ 6,956.8

As you look at the first section of "Explaining Shareholders' Equity" note $375 million of "Associated company income." Most of these gains result from changes to the market value of our investments in Jefferies Group, Inc. and AmeriCredit Corp., for which we chose the "fair value option" accounting method.[1] When the fair value option is elected for a particular financial instrument, the Company is required to report unrealized gains and losses in the P&L. We sold AmeriCredit in 2010, but the full gain isn't in the P&L since we booked some of it in prior years as its market value went up.

The next big item in the first section is "Corporate income and expense, net," which indicates a good year. Included in this line is a big gain ($383.4 million) from selling the remaining 30% of the Cobre Las Cruces copper mine to Inmet Mining Corporation, Fortescue Metals Group Ltd royalty note income ($143.4 million) and security gains from selling some Fortescue stock ($94.9 million) and Barbados Light & Power Holdings, Ltd. stock ($66.2 million) (more later on each of these items). Added together, the gains more than offset interest on corporate debt and overhead. These investing successes and the general uplift in our holdings also led to the recording of the next big item – our NOL.

At the behest of the accounting pharaohs, we have once again capitalized the NOL on our balance sheet (having written it off in 2008), and recognized income tax "income" of over $1 billion. We remind our readers that capitalizing this asset is Byzantine, makes no sense, does not take into account present value and represents tax savings on money the Company has not yet earned. Our CFO, Joe Orlando, will be happy to explain why this makes no sense, but don't yell at him!

[1] The equity method of accounting was the other choice. Under that method the Company would have recorded its share of the investees' results of operations in the P&L. Electing the fair value option is simpler and quoted market prices for these investments provide a good estimate of fair value at each balance sheet date.

In the second section, "Unrealized gains on available for sale securities, mostly Fortescue and Inmet" result from securities that are also carried at market value. But these unrealized gains are booked directly to shareholders' equity. The increase in the market prices of our equity investments in Fortescue and Inmet accounted for most of the $700 million gain on the Balance Sheet. As the accountants demand, Leucadia's P&L and Balance Sheet activity will continue to dance to the music of the markets.

Some Leucadia Exits

- In October 2010, we sold all of our common shares of AmeriCredit in a cash merger with General Motors Company. Leucadia received $830.6 million for the shares that we spent $425.8 million to buy. We began purchasing the stock on October 19, 2007 and sold on October 1, 2010. The $404.8 million gain resulted in a compound annual return (IRR) of 29%.

- In May 2010, we sold our investment in Barbados Light & Power Holdings, Ltd. for $85 million in cash and recorded a gain of $66.2 million. We acquired this asset in 1986 for just under $2 million, subsequently invested $18 million in the purchase of more stock, and received almost $22 million in dividends, all resulting in an IRR of 50%.

- In September 2010, we sold ResortQuest International LLC for net cash of $52.4 million, recognizing a pre-tax gain of $35.4 million.

- In October 2010, we sold STi Prepaid for consideration of $20 million to be paid over a 26-month period. We are recognizing income as we get the money. Even though we recognized an accounting gain of $21 million, this was not one of our best. If we collect the full $20 million purchase price we will have lost $65.8 million on this deal. Ouch!

Update on Existing Investments

Jefferies Group, Inc.

Jefferies Group, Inc. (NYSE:JEF) is a full-service investment bank and institutional securities firm. Jefferies offers its customers capital markets executions, mergers and acquisitions, restructuring and other advisory services. They have 30 offices in 10 countries.

In April 2008, Leucadia sold to Jefferies 10 million Leucadia common shares and received 26,585,310 Jefferies common shares and $100 million in cash. Including shares acquired in open market purchases, Leucadia owns 49,351,385 Jefferies common shares, approximately 28%, for a total investment of $812.4 million. At December 31, 2010, Leucadia carries Jefferies on its books at fair value of $1.3 billion. Separately, our investment in Jefferies High Yield Trading, LLC had a decent year and earned 6%.

In the last few years Jefferies has expanded across the globe and hired, from other similar institutions, talented people or groups thereof, moving from a boutique firm to a worldwide full-service investment bank. Quite an amazing feat in a challenging economy!

We have known the Chief Executive, Richard Handler, for a very long time and hold him in very high regard. We believe that he and his colleagues will continue to enrich their shareholders.

Fortescue Metals Group Ltd

The Good News

In August 2006, we gave Fortescue Metals Group (ASX:FMG) $400 million in exchange for 264 million common shares and a $100 million 13-year unsecured note of FMG maturing in August 2019. A year later we invested $44.2 million for almost 14 million additional shares. Interest on the note is calculated at 4% of the revenue from certain mine areas, net of government royalties and a 10% Australian withholding tax. Looks like a royalty, acts like a royalty but in this instance it isn't.

As a result of this equity infusion Fortescue went around the world and raised $2.1 billion. With money in hand, Fortescue built a mine, a gigantic ore processing facility, a train loader, 15 new G.E. rail engines, 976 Chinese ore cars, 280 kilometers of railway, a rotary train unloader which dumps ore on a two meter wide (6.56 feet) conveyor belt, a huge sorting yard, and a huge dinosaur like ship loader on a newly built dock in a newly dredged part of the port in Port Hedland. All of this was accomplished in 21 months.

Fortescue shipped its first ore in May 2008 and in 2010 shipped a total of 40.9 million tonnes for $3.9 billion in revenue. Fortescue has nearly completed its expansion to 55 metric tonnes per annum ("mtpa") and has announced plans to expand further to 155 mtpa. An incredible job executed by the hyperactive entrepreneur, Andrew Forrest, and his band of committed employees.

In the first quarter of 2010, Leucadia sold 30 million shares of Fortescue for $121.5 million. In the third quarter of 2010, Leucadia received $154.9 million (net of Australian withholding taxes) in payment of the royalties due under the note through June 30, 2010, and in January 2011, Leucadia received $72.9 million (net of Australian withholding taxes) in payment of the royalties earned in the second half of 2010. As a result of these events, Leucadia has harvested $349.3 million of our initial investment and still owns 247,986,000 common shares of Fortescue, approximately 8% of Fortescue's outstanding shares, with a market value of $1.7 billion as of December 31, 2010, and the royalty note remains for eight years and eight months. The ultimate value of the note will be determined by the ore volume shipped, the price and the outcome of the litigation described below. This is, has and will remain a delicious investment.

The Bad News

Earlier in 2010 we were dismayed and profoundly disappointed to learn that Fortescue believes it has the right to issue additional royalty notes diluting our interest. The following paragraph appears in our 10-K on page 20 and has been vetted by our Australian lawyers. The undersigned have had a cork put on the end of their pens to prevent further comment!

> "On September 1, 2010, the Company filed a Writ of Summons against Fortescue, FMG and Fortescue's Chief Executive Officer in the Supreme Court of Western Australia. The Writ of Summons seeks, among other things, an injunction restraining the issuance of any additional notes identical to the FMG Note and damages. If the litigation is ultimately determined adversely to the Company and additional notes are issued, the

> Company's future cash flows from the FMG Note and future results of operations would be materially and adversely affected to the extent of the dilution resulting from the issuance of such additional notes."

Should we win the litigation, we expect that most of our costs will be paid by the defendant and Fortescue would be prohibited from issuing more royalty notes to others. Our intention is to hold the royalty note for its full term. We also have a damages claim for breach of representations.

We are happy with our Australian lawyers and will be even happier when we prevail.

Inmet Mining Corporation

In 1999, Leucadia purchased a copper ore body approximately 20 kilometers northwest of Seville in the Pyrite belt of Spain. The ore body is small but rich in copper, the deposit contains 6.3% copper with 8.1 million tonnes of proven reserves and 8.4 million tonnes of probable reserves. That was the easy part.

The difficult part took six years, approximately $100 million and hundreds of meetings with a plethora of officialdom to obtain the necessary approvals to permit construction of a mine and a hydrometallurgical processing plant.

Given that the undersigned had never dug a 150-meter (492.13 feet) hole with tipped backsides appropriate for mining traffic, we concluded the better part of valor was to find a partner. Inmet, a Canadian mining company (TSX:IMN), agreed to buy a 70% interest in the mine to be called Cobre Las Cruces for 5.6 million Inmet common shares. We retained 30% of the ore body. The first copper cathodes were shipped from Las Cruces in July 2009. There have been delays but Las Cruces hopes to ship about 72,000 tonnes of copper cathode per year.

In November 2010, Inmet bought our remaining 30% equity interest in Las Cruces for $150 million cash and 5,442,413 additional Inmet shares. In addition, Leucadia was relieved of its guarantee of $72 million of debt owed by Las Cruces to an affiliate of Inmet. We reported a $383.4 million gain.

Thanks to the persistence of Tom Mara, our long-term Executive Vice President, Leucadia now owns a total of 11,042,413 Inmet shares, approximately 18% of Inmet's outstanding common shares. On December 31, 2010, these shares had a market value of $862.5 million.

Berkadia Commercial Mortgage LLC

Berkadia Commercial Mortgage, a 50/50 joint venture with Berkshire Hathaway, is one of the largest non-bank owned commercial mortgage servicers and commercial mortgage loan originators in the country, competing with several large commercial mortgage banks and brokers.

What is a commercial mortgage? A commercial mortgage is a loan having as collateral a commercial building or multifamily housing (for our purposes, multifamily housing is defined as having five or more units). There are some who explain otherwise, but most think the above.

Berkadia is a complex labyrinth of moving parts and business processes. The major activities are outlined below:

- Originations: Berkadia originates commercial loans for sale to investors. These loans fuel Berkadia's servicing machine, as Berkadia typically retains the servicing rights and may also retain the special servicing rights discussed below. Since we acquired Berkadia, almost all loan originations have been multifamily loans, which were sold to Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Housing Administration, hereafter referred to as Government Sponsored Enterprises ("GSEs"). Berkadia is a fully licensed national lender for the GSEs. Berkadia also originates loans for sale to life insurance companies and other investors for packaging into Commercial Mortgage Backed Securities. In 2010, Berkadia originated $4.6 billion of multifamily and commercial loans and is expanding its offerings to include other flavors of commercial mortgage products.

- Master/Primary Servicing: From a portfolio of approximately $209 billion[2] of commercial mortgage loans, Berkadia collects payments from borrowers and makes sure that the funds (principal, interest, insurance, taxes, etc.) are paid to the right party and on time. For this, Berkadia receives a servicing fee. With nearly 4,700 transactions per day, servicing these loans is a repetitious and process-driven operation. Berkadia has an exemplary servicing record and management believes that they provide the lowest cost of service in the industry. They continue to relentlessly focus on efficiency.

- Special Servicing: Commercial mortgages sometimes fail to perform as contracted. For non-performing mortgages where Berkadia holds the special servicing rights, we attempt to rehabilitate the loan, working towards resolution or foreclosure. For this service, Berkadia generates additional revenues. Berkadia is the named special servicer on $33 billion of loans, of which a small portion are presently delinquent. Earnings from this business line are unpredictable and lumpy – 2010 was very profitable, 2011 looks to be less so as the economy has improved.

- Escrow Investment: Borrowers make payments to Berkadia and Berkadia holds the money in escrow for future obligations such as insurance, taxes, etc. Berkadia manages these escrows, which come in many forms, sizes and durations – the current escrow amount is roughly $4.6 billion. Berkadia derives certain economic benefits from investing this pool of capital and we would benefit from higher interest rates. These monies are very conservatively invested. To date, we are disappointed with the earnings on the escrows, as they are tied to the London Interbank Offered Rate ("LIBOR"). Since our investment in December 2009, LIBOR has become ever more anemic and our investment cash flow has fallen short of our original expectations.

In 2010, Berkadia brought on board a new CEO, Hugh Frater. As a result of time spent at BlackRock as a founding partner and PNC Financial Services as Head of Real Estate, Hugh has a significant real estate background and has hit the ground sprinting. Hugh and his team quickly tuned Berkadia into the lowest cost servicer in the business and have now turned their attention to growth. We expect good things. Welcome, Hugh!

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[2] Our original portfolio of $237 billion has melted to $209 billion.

Conwed Plastics

Conwed Plastics manufactures and markets lightweight plastic netting for a variety of purposes and is a market leader in the sale of products used in carpet cushion, turf reinforcement, erosion control and packaging. Conwed has manufacturing operations in Minneapolis, Minnesota; Athens, Georgia; Roanoke, Virginia; Chicago, Illinois; Genk, Belgium; and Guadalajara, Mexico and its products are sold throughout the world.

After a difficult 2009, Conwed's business stabilized in 2010, with revenues increasing by 6%. However, the price of polypropylene resin, the principal raw material used in Conwed's products, rose drastically during the course of the year. Conwed was unable to sufficiently increase prices and as a result, profits – as measured by pre-tax earnings – declined by 24%.

Conwed has provided Leucadia a compounded return on invested capital of over 20% for the 26 years we have had the privilege of calling ourselves its owners. Conwed operates in niche markets, has great relationships with its customers and regularly sends us cash.

In the face of the downturn, management has trimmed expenses and fought to preserve margins. However, we clearly recognize that if Conwed is to provide us healthy returns in the future, successful and purposeful product innovation in partnership with our customers needs to be our focus.

Mark Lewry, President of Conwed for the last eight years is moving on and we thank him and wish him well.

Idaho Timber

Idaho Timber is headquartered in Boise, Idaho. The saga of this porpoise continues…demand for residential construction lumber remains at multi-year lows due to depressed housing starts and sluggish home improvement activity. From where we are today, we can't see when the housing market is going to turn up, but know it will.

However, we find again that most clouds have a silver lining. For Idaho Timber in 2010, it was creative thinking time and survival of the fittest attitude, by the highly focused, if not obsessed, cast of talented individuals who fought for crumbs while preparing for a feast yet to come. The sawmill business continued to lead the way, with market-defying shipments and results in 2010.

Ted Ellis, Idaho Timber's energetic CEO, and his team are scurrying around searching for profitable business lines, cutting costs, upgrading management talent and trying to find sensible acquisitions. We appreciate their hard work and dedication. The difficult operating environment has driven most of Idaho Timber's competition out of business. Nevertheless, we do not expect significant improvement in performance until the housing market recovers. When it does, watch out!

Keen Energy Services

In 2006, we met the owners of Goober Drilling, a small land based oil and gas drilling operation headquartered in Stillwater, Oklahoma. Many of their rigs were old, small, and had limited application.

On an optimistic hunch that gas prices would rise, these wildcatters had ordered, with no means to pay, 18 new, modern, high-horsepower rigs capable of directional drilling to find shale gas. Sharing their optimism we quickly jumped into the breach. We were both wrong. A series of rig acquisitions and our partners' unforeseen liquidity problems culminated in our buying them out in 2009. We quickly changed the name from Goober Drilling to Keen Energy Services.

Keen's customers are primarily independent oil and gas exploration and production companies, generally operating in the Mid-Continent region of the United States. In 2010, low natural gas prices remained the theme that had begun in late 2008. Since that time, many of Keen's customers have significantly reduced their natural gas drilling programs.

As of December 31, 2010, Keen's fleet was comprised of two different types of rigs - 12 older, mechanical rigs and 26 newer, electrical rigs. Mechanical rigs are powered by diesel engines that drive the drill stem through a system of gears, pulleys, and other mechanical components; electrical rigs are driven by electric motors that drive the drill stem and bit directly. Electrical rigs provide increased efficiency, cleaner operation, and more drilling control, so are thus overwhelmingly preferred to mechanical rigs.

In an ironic turn of events, in January 2011, we sold the 12 older mechanical rigs to a group that included one of our original partners in Goober Drilling. We wish him the best of luck in his newest wildcatting venture.

With the help of higher oil prices and through the hand-to-hand combat skills of our team, Keen pushed average rig utilization of the remaining rigs to 63%. As we write, Keen had 26 rigs, 20 of which were operating in the field.

As we have explained before, contract drilling is competitive and very sensitive to the supply of natural gas which is presently in oversupply. When it's good it can be very, very good and when it's bad it's terrible. We remain confident that the natural gas market will eventually turn around and Keen will rise again. Our experienced executive team, led by Ed Jacob and Mardi de Verges, are courageously leading our efforts.

Premier Entertainment

The Hard Rock Hotel & Casino is located in Biloxi, Mississippi and includes an eleven-story hotel with 325 rooms and suites and a popular entertainment venue with a capacity of 1,500 persons. The Hard Rock Biloxi had another successful year. While the entire Biloxi gaming market had essentially zero growth in 2010, the Hard Rock's share of the market grew from 10.8% to 12.1%. The previous record year of 2009 was eclipsed, as EBITDA increased from $19.4 million to $26.5 million, excluding bankruptcy related items. We are grateful for another year with no major hurricanes, and while 2011 EBITDA is currently on pace to be even better than 2010, our fingers remain crossed. We begin watching the Weather Channel in August.

We echo our congratulations of 2009 to Duncan McKenzie, Todd Raziano and their team of dedicated employees. We well know that record results are not achieved without blood, sweat and perhaps even some tears.

If you are ever in the area, please visit the Hard Rock Hotel & Casino. Besides good food and gambling, we also play host to a variety of great entertainment. The event schedule is at www.hardrockbiloxi.com.

Crimson Wine Group

The Crimson Wine Group includes Pine Ridge Vineyards (188 acres) in Napa Valley, California, Archery Summit (119 acres) in Willamette Valley, Oregon and Chamisal Vineyards (97 acres) in Edna Valley, California. Substantially all of these estate properties are owned by Crimson and are producing grapes. In addition, we continue to develop vineyards and make some wine on 611 acres of land in the Horse Heaven Hills of Washington's Columbia Valley, 85 acres of which are currently planted. During 2010, the wineries sold just over 111,000 9-liter equivalent cases of wine generating revenues of $22.7 million.

Crimson Wine Group started seeing some improvement in the luxury wine segment in 2010. However, value is still the catchword and most industry growth is concentrated in wines priced under $20/bottle. Heavy marketing costs (largely payments to distributors) and deep discounting delayed meaningful profits for another year.

ForeFront, the line of wines Pine Ridge introduced in 2009, has been successful. 21,500 cases of our total 111,000 cases sold wore the ForeFront label. Our promise from last year's letter, "Not only great value, but also very tasty," was validated.

We repeat our mantra on the wine industry: Even in good times, it is difficult to make estate wineries profitable, though as real estate investments they are good inflation hedges. The entire industry suffers from oversupply and intense competition from home and abroad. The sheer number of brands, combined with owners having to sell out last year's vintage at (or below) cost, is a constant anchor on price. Estate wineries have high fixed costs and require large marketing dollars, making volume the key profit driver. We need more volume to make our goal of consistent, yearly cash flows a reality.

We have a terrific management team led by Erle Martin and Patrick DeLong who have streamlined our operations while improving our wines. Their hard work was recently recognized by Robert Parker, who awarded our wines several 90+ scores. Pine Ridge's 2008 Fortis received a 94+ score and Archery Summit's 2008 Pinot Noir Dundee Hills Estate received a 94. Kudos to our winemakers. Hurry and order yours before we run out!

To enjoy any or all of our delicious wines, visit one of our three on-location tasting rooms. There you will find many limited production wines unavailable through mass distribution channels. Leucadia shareholders receive a 20% discount at the tasting room and online. Visit our website www.crimsonwineboutique.com from whence you can navigate to the individual wineries (use online coupon code "Leucadia" for the discount). Our direct to consumer wine clubs continue to thrive and we now have 11,000 members, making this segment of our business the most dynamic and the most profitable. Wine can be shipped directly to 40 states.

Once again, we remind you that wine is food and it fosters both good times and laughter with family and friends, something that is too often missing in the world today. Raise a glass soon with your loved ones.

Sangart

Sangart is developing biopharmaceutical products to deliver oxygen to tissues at risk of oxygen deprivation, specifically as a result of trauma and sickle cell disease. Because these products are a red liquid made from human hemoglobin we have described them as “artificial blood” or “blood substitutes.” Not exactly. More precisely, the products’ main function is to work with regular blood to deliver oxygen and other gasses to tissues, something that blood volume expanders cannot do. In 2003, we made our initial (and we thought final) investment of $10 million. As of the end of 2010, we are in for $161.5 million. The cash invested is expensed as Sangart spends it on product development. At December 31, 2010, we owned approximately 93% of Sangart (87% fully diluted).

Through 2008, Sangart had completed a series of clinical trials, including two large Phase III studies of its oxygen therapeutic agent, MP4OX, in hip replacement surgery. MP4OX performed as expected in those studies but that patient population did not present a viable commercial opportunity. Under new management, our focus shifted to patient populations where oxygen therapeutics would be potentially profitable. Trauma was an obvious choice, and in 2010 we completed a Phase IIa study with MP4OX, with results that have enthused both the scientific and commercial folks. Sangart is also developing its MP4CO product to treat patients with sickle cell disease, an important unmet medical need. Sangart’s MP4CO product has been granted orphan drug designation in both the U.S. and European Union – encouraging news.

At times, we have rightfully been accused of being overly optimistic and naive on this investment. We are not only getting older, but maybe wiser. It will take significant additional investment in both money and patience (combined with some luck!) to realize any financial return on this investment. Indeed, it may be the next generation that ends up reaping what we have sown. With all that said, we remain optimistic about the eventual outcome.

We remain grateful for the diligence of Brian O’Callaghan and his team of determined life science executives.

Real Estate

At December 31, 2010, our net investment in the domestic real estate segment was $141.2 million. Here’s a quick look at some of our real estate investments:

- In October 2007, we placed $56.5 million into escrow to purchase 708 acres used as the Panama City – Bay County International Airport. If the seller and the Federal Aviation Administration cannot deliver free and clear title by April 2012 we get our money back with interest. If the transaction closes we intend to develop the land into a mixed-use community selling lots to builders.

- In August of 2010, we sold our operating retail shopping center in Long Island, New York for $17.1 million and reported a gain of $4.5 million.

- We own approximately 31.4% of the outstanding stock of HomeFed Corporation (NASD OTC:HOFD), which is engaged in the development of residential real estate in California. The signers of this letter own 9.4% and 7.7% of this company as well. Classified as an associated company investment, HomeFed is not part of the real estate segment, but it is an investment in real estate nonetheless.

- We own raw land and a mixed-use development project with residential and commercial space in Myrtle Beach, South Carolina; the carrying value of the real estate is $33.6 million. There is a long story here which is related in detail in our 10-K, also involving strange accounting, but to make a long story short, we developed the mixed-use portion of the project with $100 million of non-recourse financing. The lenders took possession in the aftermath of the 2008 collapse, and we bought it back for $19.3 million in January 2011. We expect to struggle with releasing and repositioning for a while, but like the project.

- 76 acres of land located on Islesboro, Maine has been developed into waterfront lots. In addition, the Company has 45 fully developed residential lots on approximately 120 acres of land in Rockport, Maine on Penobscot Bay. These properties have been mothballed while we wait for better days; the real estate is on the books for $45.8 million. The lots are beautiful and very upscale!

- The Company owns 15 acres of unentitled air rights above the train tracks behind Union Station in Washington, D.C. with a carrying value of $11.4 million. It will be a long time before development starts, but preliminary re-zoning approval has been received, and we hope for final approval this year or next.

Garcadia

In June 2007, Leucadia entered into a joint venture with Garff Enterprises, Inc., a large Utah-based auto retailer, for the purpose of purchasing underperforming auto dealerships across the country. Leucadia provides the majority of the capital and investing discipline and Garff manages the operations. Where possible, Leucadia purchases 100% of the underlying real estate and leases it back to the operation at a 10% net return. The partnership owns 14 dealerships in three geographic clusters: Des Moines, Iowa, Houston, Texas and Southern California. At December 31, 2010, our net investment in Garcadia was $88 million, including real estate.

The car business rebounded in 2010. National new retail auto sales were roughly 11.6 million units during the year – a nice lift from 10.4 million in 2009. We received net cash flow of $11.1 million in 2010, inclusive of roughly $2.8 million spent on capital improvements to our lots (for which we get our 10% return).

We have received notice that one of our Chrysler dealerships in Houston has been awarded a Fiat franchise. Fiat is intent on introducing their family of small cars to gas-guzzling American drivers. There cannot be a better front row seat to that experiment than in Houston, Texas. Stay tuned over the next few years as we let you know how it goes.

Leucadia Energy - Gasification

Since we reported last year, among other things, Tom Mara has continued to make significant progress on three of our four gasification projects. The Lake Charles Cogeneration facility, located in Louisiana, has been awarded an additional $561 million of tax-exempt bonds bringing the total to $1,561 million. In addition, Lake Charles received a $260 million federal grant for carbon capture and sequestration plus an award totaling $128 million for investment tax credits. We are in active negotiations with multiple parties for the sale of the plant's output.

The Indiana project passed a major milestone in January 2011, when it signed a 30 year off-take agreement with the Indiana Finance Authority for the majority of its synthetic natural gas ("SNG") output. What now remains is final approval by the Indiana Utility Commission.

Both our Mississippi and Indiana projects have been selected by the U.S. Department of Energy ("DOE") as potential recipients for federal loan guarantees totaling $3.6 billion. We have worked throughout the year with the DOE in an effort to finalize conditional commitments, which, if all goes well, we hope to have in place by the end of this year.

A fourth project, located on the south side of Chicago, was awarded a $10 million grant by the State of Illinois to produce a cost study for an SNG project at a brown field site along the Calumet River, of which $6.9 million has been received so far. The Illinois legislature passed enabling legislation; unfortunately, the Governor chose to veto the legislation indicating his desire to include it in a more comprehensive energy plan providing more consumer protection. The Governor told the press that he wants to "meet soon and redo the bill." In light of the veto, we will reassess the situation to determine the next steps.

Each of these projects is extremely capital intensive and highly vulnerable to interest rates, inflation, current and expected long-term natural gas prices, and final receipt of various regulatory, permitting and financing approvals. Given that each of these projects range in size from $2.3 billion to $2.6 billion, or more, Leucadia may begin to seek partners sometime this year to share the costs.

Liquefied Natural Gas

In January 2007, Leucadia acquired a leasehold interest and certain permits to construct and operate an onshore liquefied natural gas ("LNG") receiving terminal. The site is located on the Skipanon Peninsula at the mouth of the Columbia River, in Warrenton, Oregon. Since that time, we have been working with the Federal Energy Regulatory Commission ("FERC") to permit the site for an onshore LNG terminal. That process has been much slower, challenging and frustrating than we anticipated. If we had known what we were getting into, we would not have done it!

However, we are making progress. In 2010, the Biological Assessment was issued by FERC, which indicated that the project does not have any significant impact on endangered species. In 2011, we anticipate FERC will issue an Environmental Impact Statement, the last hurdle to clear before receiving final FERC approval. We are not naive – and now even less so – to the nature of development projects, and anticipate an ongoing stream of opposition and challenges in the future.

We are keenly interested in the global energy market. Like it or not, the world's appetite for power and light shows no sign of slowing and no one is moving back to oxen or whale oil lanterns. It appears to us that the environmental and economic benefits of natural gas will make it a preferred worldwide energy source in the foreseeable future. The import and export of LNG has a role to play within that market. With this theme in mind, we've opened our wallet to fund this venture for another year, within which timeframe we hope to cross the finish line. Tune in next year.

The Future

The day this was being written, the Morning Joe television talking heads announced that the unemployment rate fell below 9% after hovering close to 10% the past 21 months. One of us is an immigrant who arrived here at age 15. Since that age, he marveled at the resilience of Americans to get up, get to work, and fix any problem. Less than 9% unemployment suggests America may be getting back up and back to work again.

There are, nonetheless, several lurking problems:
1. The United States Congress is in an eternal mud fight with no adult supervision.
2. The Country has a huge, dangerous debt.
3. Inflation lurks behind each future borrowing.
These things are dangerous and must be stopped and fixed.

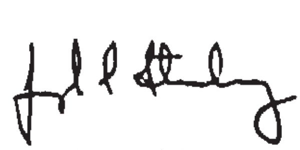
Those who throw stones, such as we have, also have the responsibility to provide suggestions for improvement.

On December 1, 2010, the White House released *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*[3] to the American people. The Report presents many long-term and short-term suggestions that would help the United States get its fiscal house in order now, as well as, in the future. The Congress gave little notice. Surely some of the suggestions would have been helpful and we recommend the entire Report to our readers. For those who are interested, we have included a copy of the preamble from *The Moment of Truth* following this letter.

Our Board of Directors continues to urge us to provide a succession plan. We have been working hard on that problem for several years. We have made some progress and hope by next year it will be more palpable.

Leucadia's net worth increased in 2010 by $2.6 billion; we are hoping to repeat this in the next few years.

We could not accomplish this without the endless hard work and talent of those who have helped us these many years!



Ian M. Cumming
Chairman

Joseph S. Steinberg
President

[3] *National Commission on Fiscal Responsibility and Reform, The Moment of Truth, December 2010.*
http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf

The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform

Preamble

Throughout our nation's history, Americans have found the courage to do right by our children's future. Deep down, every American knows we face a moment of truth once again. We cannot play games or put off hard choices any longer. Without regard to party, we have a patriotic duty to keep the promise of America to give our children and grandchildren a better life.

Our challenge is clear and inescapable: America cannot be great if we go broke. Our businesses will not be able to grow and create jobs, and our workers will not be able to compete successfully for the jobs of the future without a plan to get this crushing debt burden off our backs.

Ever since the economic downturn, families across the country have huddled around kitchen tables, making tough choices about what they hold most dear and what they can learn to live without. They expect and deserve their leaders to do the same. The American people are counting on us to put politics aside, pull together not pull apart, and agree on a plan to live within our means and make America strong for the long haul.

As members of the National Commission on Fiscal Responsibility and Reform, we spent the past eight months studying the same cold, hard facts. Together, we have reached these unavoidable conclusions: The problem is real. The solution will be painful. There is no easy way out. Everything must be on the table. And Washington must lead.

We come from different backgrounds, represent different regions, and belong to different parties, but we share a common belief that America's long-term fiscal gap is unsustainable and, if left unchecked, will see our children and grandchildren living in a poorer, weaker nation. In the words of Senator Tom Coburn, "We keep kicking the can down the road, and splashing the soup all over our grandchildren." Every modest sacrifice we refuse to make today only forces far greater sacrifices of hope and opportunity upon the next generation.

Over the course of our deliberations, the urgency of our mission has become all the more apparent. The contagion of debt that began in Greece and continues to sweep through Europe shows us clearly that no economy will be immune. If the U.S. does not put its house in order, the reckoning will be sure and the devastation severe.

The President and the leaders of both parties in both chambers of Congress asked us to address the nation's fiscal challenges in this decade and beyond. We have worked to offer an aggressive, fair, balanced, and bipartisan proposal – a proposal as serious as the problems we face. None of us likes every element of our plan, and each of us had to tolerate provisions we previously or presently oppose in order to reach a principled compromise. We were willing to put our differences aside to forge a plan because our nation will certainly be lost without one.

We do not pretend to have all the answers. We offer our plan as the starting point for a serious national conversation in which every citizen has an interest and all should have a say. Our leaders have a responsibility to level with Americans about the choices we face, and to enlist the ingenuity and determination of the American people in rising to the challenge.

We believe neither party can fix this problem on its own, and both parties have a responsibility to do their part. The American people are a long way ahead of the political system in recognizing that now is the time to act. We believe that far from penalizing their leaders for making the tough choices, Americans will punish politicians for backing down – and well they should.

In the weeks and months to come, countless advocacy groups and special interests will try mightily through expensive, dramatic, and heart-wrenching media assaults to exempt themselves from shared sacrifice and common purpose. The national interest, not special interests, must prevail. We urge leaders and citizens with principled concerns about any of our recommendations to follow what we call the Becerra Rule: Don't shoot down an idea without offering a better idea in its place.

After all the talk about debt and deficits, it is long past time for America's leaders to put up or shut up. The era of debt denial is over, and there can be no turning back. We sign our names to this plan because we love our children, our grandchildren, and our country too much not to act while we still have the chance to secure a better future for all our fellow citizens.

Leucadia National Corporation Scorecard

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Shareholders' Equity	Net Income (Loss)	Return on Average Shareholders' Equity
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59[b]	(33.9%)	21.0%	7.71	26.4%	1,121,988[b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95[c]	61.4%	4.9%	23.73	2.5%	3,661,914[c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03[d]	39.1%	5.5%	47.10	67.0%	5,570,492[d]	484,294	10.2%
2008	11.22[e]	(55.2%)	(37.0%)	19.80	(58.0%)	2,676,797[e]	(2,535,425)	(61.5%)
2009	17.93	59.8%	26.5%	23.79	20.2%	4,361,647	550,280	15.6%
2010	28.53[f]	59.1%	15.1%	29.18	22.7%	6,956,758[f]	1,939,312	34.3%
2011	25.24	(11.5%)	2.1%	22.74	(22.1%)	6,174,396	25,231	.4%
CAGR (1978-2011)[a]			8.1%	26.4%				
CAGR (1979-2011)[a]	18.5%		8.0%	19.8%		19.1%		

(a) A negative number cannot be compounded; therefore, we have used 1979.
(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share. Leucadia's CAGRs do not reflect the benefit of annual dividends or the special 1999 dividend.
(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.
(d) Reflects the recognition of $542.7 million of the deferred tax asset or $2.44 per share.
(e) Reflects the write-off of $1,672.1 million of the deferred tax asset or $7.01 per share.
(f) Reflects the recognition of $1,157.1 million of the deferred tax asset or $4.75 per share.

Letter from the Chairman and President

To Our Shareholders

Usually we begin our Letter to Shareholders with a recap of last year's earnings, but this year all business including Leucadia's plays second fiddle to the sad state of our body politic or more simply put the mess in Washington. It is true that unemployment is down and the economy is showing signs of a pickup, but the recovery is fragile and we think quite prone to relapse back into recession. The recovery seems more beholden to money printing by the Federal Reserve than to a growing strength in the underlying economy. It is ironic that the financial shenanigans[1] that begat the financial crisis in the first place are being treated and ostensibly cured by financial shenanigans of our own government. Our national debt has gone up two and a half times in twelve years and government expenditures are now consuming 25% of GDP, up from a more normal 20%. All of the above is not sustainable and when interest rates get back to normal we'll be the headline, not Greece. Without fixing our fiscal infrastructure high inflation seems inevitable. One of us loves GLD[2] the other farmland.

In the face of this compounding wall of debt further tax cuts seem as absurd as the dream of cutting in one year annual government spending by $500 billion. And any plan that doesn't attack entitlements is not a plan. One of us leans to the right and the other to the left, but we are sure we could agree on an imperfect compromise solution to our fiscal mess. Like children on the playground, no one gets their way all the time.

Democrats and Republicans in Washington remind us of the days of the Cold War when Mutual Assured Destruction[3] resulted in a stalemate between Russia and the U.S. In this new cold war between Democrats and Republicans we are the hostages to the stalemate. Last year we recommended the Simpson-Bowles Commission report as a start on a path to getting our economy back in balance. We do so again. And now to the numbers.

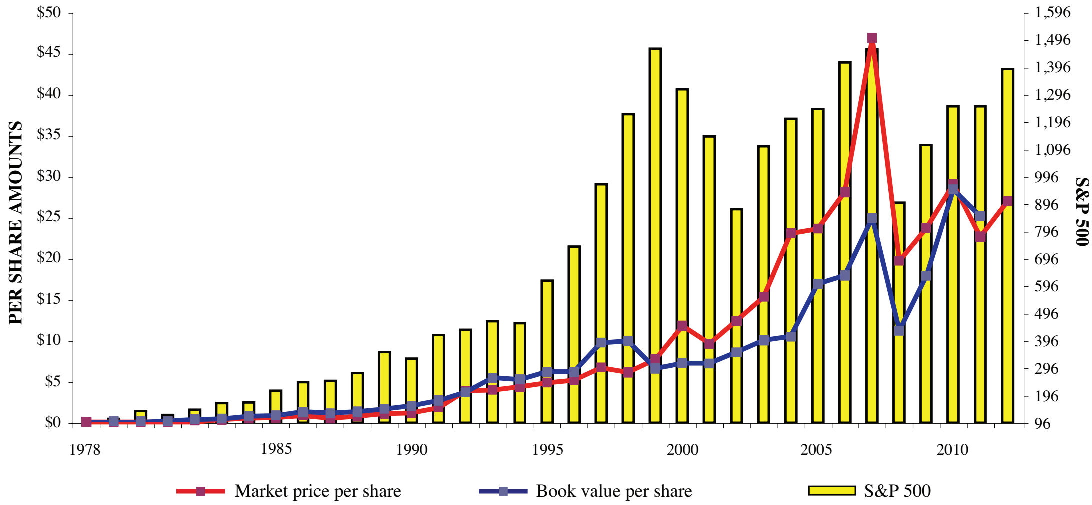
As you can see from the following chart, Leucadia's stock price and book value have recovered from the trough of the Great Recession, but the stock price has a way to go to get back to the frothiness before the deluge.

[1] Shenanigans from Merriam-Webster.com, "tricky or questionable practices or conduct."

[2] The ticker symbol for SPDR Gold Trust (ETF), an investment trust whose objective is to reflect the performance of gold bullion.

[3] For those too young to remember, Mutual Assured Destruction refers to the time when each of the U.S. and Russia deployed so many nuclear weapons that a victory through their use by either side was impossible, i.e., the stalemate.

LEUCADIA NATIONAL CORPORATION
BOOK VALUE and MARKET PRICE PER SHARE
(With the S&P 500)[a]



(a) Amounts plotted are as of December 31st of each year, except for the final market price and S&P 500 which are as of March 14, 2012.

Nothing is ever simple. The table below reconciles Leucadia's net worth from the start of the year to its end and has many, sometimes confusing moving parts.

EXPLAINING SHAREHOLDERS' EQUITY
(In millions)

Shareholders' Equity at January 1, 2011	$ 6,956.8
Booked to P&L:	
Associated company income, mostly Jefferies	(612.4)
Corporate income and expense, net	648.9
Operations	32.1
Discontinued operations	10.6
Income taxes and other	(54.0)
Subtotal	25.2
Booked directly to Shareholders' Equity:	
Change in unrealized gains on available for sale securities, mostly Fortescue and Inmet	(1,168.9)
Dividends	(61.1)
Income taxes	430.3
Other, net	(7.9)
Subtotal	(807.6)
Total decrease to Shareholders' Equity	(782.4)
Shareholders' Equity at December 31, 2011	$ 6,174.4

Two of our holdings, Jefferies Group, Inc. and Mueller Industries, Inc., are accounted for in the P&L using the public market price of their stock, which is called the "fair value option."[4] In 2011, Jefferies' stock price had a brush with death causing most of the $612.4 million loss in "Associated company income" above. Since then Jefferies' stock has recovered nicely. "Corporate income and expense, net" includes a big gain of $628.2 million from the sale of Fortescue Metals Group Ltd stock and payments to us on our Fortescue royalty note. Certain of our assets, mostly Fortescue and Inmet Mining Corporation shares, are marked to market through an account in shareholders' equity called "Other comprehensive income" and when sold come out of that account and run through the P&L before returning back to shareholders' equity in a different account called "Retained earnings." So a Fortescue sale gain in the P&L does not increase equity since it also is a decrease in equity as part of the item "Change in unrealized gains on available for sale securities." Seems wacky to us, but that is how it is. Call our CFO, Joe Orlando, (212) 460-1932 for further explanation.

Thankfully the accounting Pharaohs have been silent and we can almost skip a discussion of the appearing, disappearing, reappearing "Deferred Tax Asset." The asset increased by $430.3 million, not because we have more net operating loss carryforwards, but because our unrealized gains went down. Whatever the number is we remind readers it is not cash, but rather future taxes we hope not to pay. We are keeping our fingers crossed that this accounting minutiae has been laid to rest, but we won't count on it.

In summary last year was a pretty good one. We harvested some gains on our Fortescue stock and we like our holdings of Jefferies, Inmet and Mueller and expect they will do well if the economy continues on its recovery. On the following pages we will get into the details of a new business and our investments and other businesses and at the end make a few more comments on the future outlook for both the economy and Leucadia.

National Beef

On December 30, 2011, we welcomed the newest addition to the Leucadia family of companies – National Beef Packing. We paid $867.9 million for 79% of the company. National Beef holds a 14% share of the U.S.-fed beef market and processes more than 3.7 million head of cattle per year – that translates into 5 billion pounds of live cattle! In National Beef's last fiscal year ended August 2011, it produced $6.8 billion of revenues and $273.4 million of operating cash flow.

The other members of the partnership that owns National Beef are the previous owners – U.S. Premium Beef ("USPB"), NBPCo Holdings ("NBPCo") and Tim Klein, National Beef's CEO. USPB is an organization comprised of cattle producers and is a major supplier of high quality cattle (mostly Angus) to National Beef and retains a 15% interest. Steve Hunt, CEO of USPB, will remain on National Beef's Board and we are grateful for his advice. NBPCo is

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[4] In accordance with GAAP, the Company is allowed to choose to measure certain financial instruments at fair value (the "fair value option"). If the fair value option is elected for a particular financial instrument, the Company is required to report unrealized gains and losses in the P&L. The equity method of accounting is the other accounting method. With this method we record our share of the investees' results of operations in the Company's P&L. Electing the fair value option eliminates some of the uncertainty involved with impairment considerations, since quoted market prices for these investments provides a readily determinable fair value at each balance sheet date.

both a customer and a supplier to National Beef and retains a 5% ownership. Tim also invested alongside Leucadia and owns about 1% of National Beef.

National Beef has five primary operating areas:

- Beef Processing - This segment consists of 3 facilities: Dodge City, Kansas, Liberal, Kansas and Brawley, California. The Dodge City and Liberal plants each have the capacity to process 6,000 head of cattle per day. They are situated in the heart of beef cattle country and are among the largest and most efficient plants in the industry. The plant in Brawley can process 2,000 head of cattle per day and is one of the newest plants in the country. It is well situated to serve the major population centers in the Southwestern U.S. and key export markets.

- Case Ready - The case ready segment further processes and packages primal cuts (think 70 lb. chunks of beef) into shelf ready products for large retail customers. Case ready products allow retailers to eliminate in-house butchers and decrease the likelihood of food-borne illness. Upon delivery case ready products are placed directly on the retailer's shelf. National Beef operates two case ready facilities: one in Hummels Wharf, Pennsylvania and the other in Moultrie, Georgia. We believe we are at the beginning of an industry trend toward case ready and this is and will be a rare win-win-win – good for the consumers, the retailers and the owners of National Beef.

- Hide Tanning - The tannery is located in St. Joseph, Missouri and is in the process of becoming a state-of-the-art wet blue processing plant. The facility is halfway through a complete renovation and will soon have the ability to process 30,000 of our own hides per week. By the end of 2013, that production should double. The plant takes cattle hides and processes them to create high quality wet blue leather. Wet blue leather is then sold to finish leather tanneries that prepare the leather for use in products such as automotive interiors, handbags, shoes, furniture and accessories. We think this is a real growth opportunity.

- Kansas City Steak - National Beef owns 75% of the Kansas City Steak Company, with the founding family owning the other 25%. Kansas City Steak sells high quality portioned beef directly to consumers through QVC, online and via catalog sales. The company also sells directly to restaurant groups and through retail channels. If you aren't familiar with Kansas City Steak, please visit its website (www.kansascitysteaks.com) and order the best beef in the industry. We recommend the 16 ounce bone-in Kansas City strip – our personal testing has concluded that it goes very well with a bottle of one of our Napa Valley Cabernets, Sonoma Zinfandels or Oregon Pinots.

- Trucking - National Beef also owns a trucking business called National Carriers. National Carriers delivers refrigerated products for National Beef and a variety of other customers. It also transports live cattle from feed yards to National Beef processing plants.

National Beef's value-added products command premium prices and meet customer product specifications based on quality, trim, weight, size, breed and other factors. Value-added programs provide higher margins and improve customer acquisition and retention. National Beef's unique cattle supply relationship with USPB provides a solid foundation for its value-added programs.

As our faithful investors know well, we have long watched and commented on global commodity consumption patterns. We continue to believe that as citizens of historically poor countries get richer they will demand higher quality items – and more of them. We believe this thesis is applicable to global protein consumption. While protein production and consumption in the U.S. is a mature market and is not growing, global protein consumption is growing at an astounding rate. U.S. beef exports were up over 22% in 2011 vs. 2010. This is an impressive number, made even more so by the fact that the U.S. is not allowed to export beef directly to China – not yet, anyway.

For a variety of reasons, the U.S. grows the highest-quality beef cattle in the world, especially of the Angus variety. People across the globe have an ever-growing desire to consume high quality U.S. beef and we will do all that we can to make that possible.

There has been much ado in the press recently about Lean Finely Textured Beef ("LFTB") which is used to increase the proportion of lean (vs. fat) in ground beef. National Beef does not produce LFTB, but purchases and adds it to some of our ground beef products. We agree with the United States Department of Agriculture that it is a safe, nutritious and affordable product. At this time, we do not foresee the LFTB issue having a significant impact on National Beef's business.

This is a commodity industry with lots of moving parts not moving necessarily in the same direction and therefore we anticipate some periods of wild volatility. However, volatility is frequently the boon companion to profitability and as we have remarked for 33 years, we will stay focused on creating wealth over the long term for our shareholders while the pundits of Wall Street continue to squawk over quarterly earnings, p/e multiples and investor calls.

We would not have made this investment were it not for our belief that we have the best management team. Tim and his management team are widely regarded as the best operators in the industry and we have confidence that these seasoned beef executives will guide National Beef through the inevitable rough patches.

In October the number of people on the globe reached 7 billion and is expanding exponentially. Humans need protein, we have it!

Berkadia Commercial Mortgage LLC

Berkadia Commercial Mortgage, a 50/50 joint venture with Berkshire Hathaway, is one of the largest non-bank owned commercial mortgage servicers and commercial mortgage loan originators in the country. We compete with several large commercial mortgage banks and brokers. For a detailed description of the business, we refer you to our 2010 letter, for which this serves as an update.

Berkadia was originally capitalized in December 2009 with $434.3 million of partners' equity, $217.2 million of which was ours. Through December 2011, we have received dividends totaling $84.6 million. Even better, both cash flow and dividends grew in 2011 over 2010.

The real estate financing market remains depressed with the commercial mortgage backed security market in prolonged intensive care, the primary reason that Berkadia's book of Mortgage Servicing Rights ("MSRs")[5] continues to shrink. From 2010 to 2011, the portfolio principal balance shrunk from $214 billion to $190 billion.

We are not alarmed by this contraction for three reasons. First, we expected it and priced the deal accordingly. Second, we restructured the company to hopefully become the lowest cost servicing provider in the industry. Finally, Berkadia's national network of originators are beginning to refuel the servicing engine, albeit slowly.

When Berkadia originates commercial loans for sale to investors, we typically retain the servicing rights. In 2011, Berkadia originated $5.2 billion of multifamily and commercial loans, up from $4.6 billion in 2010. The majority of these loans were multifamily loans sold to Fannie Mae, Freddie Mac, Ginnie Mae or the Federal Housing Administration, with Berkadia retaining the servicing rights. The more loans Berkadia can originate, the faster it will stabilize the servicing portfolio and the better the return on our investment.

Making money from a slowly melting ice cube is hard work and the success to date is a testament to the work of Hugh Frater and his team. When Hugh presented a budget for 2012 with an increase in both MSRs and dividends, we did not argue. Go team!

Inmet Mining Corporation

We remain Inmet's (TSX: IMN) largest individual shareholder with 11,042,413 shares representing just under 16% of the total outstanding shares. During last year Inmet announced and then terminated a merger of equals with Lundin Mining, completed a private placement with Temasek Holdings for C$500,000,000, progressed with basic engineering for its Cobre Panama project and successfully ramped up production at the Cobre Las Cruces project in Spain, which is now running at 80% to 90% of design capacity.

In addition, Inmet recently passed a major milestone with the receipt and approval of the Environmental and Social Impact Assessment by the government of Panama for its Cobre Panama project. This approval is a critical step for the development of Inmet's large copper-gold deposit in Panama. As announced last month, a Korean consortium exercised options to acquire a 20% interest in the Cobre Panama project. Because of the size, scope and cost associated with this mega project, Inmet may seek one or more additional partners.

Given what we see for long term copper supply and demand we remain bullish on copper. Though Inmet is financially robust with just over C$1.7 billion of cash and investments, virtually no debt and very strong cash flow, we think their consideration of additional partners is prudent.

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[5] Berkadia is paid fees as a master, primary or special servicer of outstanding loans, for which it provides many functions related to the collection and administration of a loan or a pool of loans.

Fortescue Metals Group

In August 2006, we invested $400 million in Fortescue Metals Group (ASX: FMG). We received 264 million shares of Fortescue common stock and a $100 million 13-year unsecured note that receives 4% of the revenues from certain mine sites, net of government royalties. A year later we invested another $44.2 million for approximately 14 million additional shares. With our original equity infusion in hand, Fortescue managed to raise $2.1 billion of senior debt that was used to develop its first mine, 260 kilometers of railway and a port large enough to ship 40 million metric tonnes of iron ore per annum ("mtpa").

Fortescue shipped its first ore in May 2008 and has since expanded its infrastructure to mine, rail and ship 55 mtpa. In 2011, Fortescue shipped a total of 46.5 million metric tonnes for $6.2 billion in revenue and in the fourth quarter shipped ore at a run rate of 57.7 mtpa. Fortescue has announced plans to expand further to 155 mtpa, of which 90 mtpa will come from the mines tied to our note. We are optimistic that they will realize their expansion targets in the coming year. The credit for Fortescue's amazing success goes to its dynamic leader Andrew Forrest and his focused and energetic team.

In 2011, we sold 117.4 million shares of FMG for $732.2 million. We also earned $193 million (net of Australian withholding taxes) in royalty payments under the note. In the first quarter of 2012, we sold an additional 100 million shares for $506.5 million. Adding up dividends and stock sales and royalty payments, we have harvested to date $1.796 billion and we still own 30,586,000 shares of Fortescue with a market value at this writing of $186.4 million and there remains about seven years until the royalty note matures. With more yet to come, this has already been a succulent investment.

In August 2010, Fortescue informed us that it believes it has the right to issue additional royalty notes, thereby diluting our interest. We were not only surprised and dismayed to learn this, but profoundly disappointed and litigation resulted. To avoid agitating our Australian lawyers we will avoid commenting further on the matter and instead offer the following vetted paragraph from page 22 of our 10-K:

> "On September 1, 2010, the Company filed a Writ of Summons against Fortescue, FMG and Fortescue's then Chief Executive Officer in the Supreme Court of Western Australia. The Writ of Summons seeks, among other things, an injunction restraining the issuance of any additional notes identical to the FMG Note and damages. If the litigation is ultimately determined adversely to the Company and additional notes are issued, the Company's future cash flows from the FMG Note and future results of operations would be significantly and adversely affected to the extent of the dilution resulting from the issuance of such additional notes."

The lawsuit is working its way through the Australian court system. Should we win, Fortescue would be prohibited from issuing more royalty notes and we would expect to receive most of our costs paid for by the defendant. We believe we are in good hands with our Australian lawyers and look forward to prevailing.

Jefferies Group, Inc.

Jefferies (NYSE: JEF) is a full-service investment bank and institutional securities firm. Jefferies offers its customers capital markets executions, mergers and acquisitions, restructuring and other advisory services. They have 30 offices in 11 countries.

As of December 31, 2011, Leucadia owns 58,006,024 Jefferies common shares, approximately 29% of all shares outstanding, for a total investment of $980.1 million. At year end, Leucadia carried Jefferies on its books at fair value of $797.6 million. The undersigned are both members of its board of directors.

In early November, our investment in Jefferies almost disappeared! In the aftermath of the MF Global bankruptcy, Jefferies was falsely accused of having a similarly illiquid and risky balance sheet. This coincided with a panic in the European Sovereign Debt markets and opportunistic and we believe coordinated short sellers pounded the stock. Rich Handler, Brian Friedman and management responded swiftly with what we expected, honesty and transparency. The Bears were bloodied and beaten back. We are proud of our ownership and association with Jefferies and believe their response was their finest hour. Jefferies enjoys a great deal of good will in its middle market and we are grateful to its clients and customers who stood by them. We look forward to management continuing to serve clients and create value for shareholders.

Premier Entertainment

The Hard Rock Hotel & Casino is located in Biloxi, Mississippi and includes an eleven story hotel with 325 rooms and suites and an entertainment venue with capacity for approximately 2,000 persons. We acquired this property in the wake of Hurricane Katrina and are thankful another year has passed with no major hurricanes. Beginning again in June, we will be scanning the horizon for pending storms in the Gulf.

Another year, another record performance! Despite a small drop in gaming in Biloxi in 2011, Hard Rock’s gaming revenues grew by 3% - representing an increase in market share from 12.1% to 12.5%. The revenue growth kept operating cash flows above $26 million for the second year in a row. We may see continued incremental growth from here, but any major performance improvements will come from either market growth or an expansion in the number of our hotel rooms, an evaluation of which is currently underway.

Each time we think they have reached their limits, Duncan McKenzie, Todd Raziano and their team produce a winning hand, dedicated to providing a superior customer experience – a challenging task that has no finish line.

If you are looking for a fantastic gaming vacation or find yourself in the Biloxi area, please visit the Hard Rock Hotel & Casino. You can find the entertainment schedule at www.hardrockbiloxi.com.

Keen Energy Services

In 2006, we met the owners of a small land-based oil and gas drilling operation based in Stillwater, Oklahoma. Many of their rigs were old, small and had limited application.

On a hunch that gas drilling activities would rise, these wildcatters ordered (without means to pay) 18 new, modern, high-horsepower rigs capable of directional drilling to find oil or shale gas. We smelled opportunity and jumped into the breach. A series of rig acquisitions and our partners' unforeseen liquidity problems culminated in 2009 with a buyout of our partners' remaining interests. We changed the name from Goober Drilling to Keen Energy Services.

When we acquired Keen in 2006, industry experts were decrying the end of natural gas supplies in the U.S. The smart money was chasing down means to import natural gas. Since that time, the "Shale Revolution" has turned the natural gas market upside down as a projected gas shortage has turned into a seemingly endless supply. This boom in supply has caused natural gas prices to plummet to record low levels, while the price of oil remains at stubbornly high levels. Time will tell whether shale gas is as plentiful as advertised.

Fortunately for our shareholders, Keen's rigs are equally suited to drilling for oil or gas. Keen management has adroitly followed the customers and money, transitioning their rigs from 36% drilling for oil in 2010 to 60% in 2011. During that period, total rig utilization improved from 56% to 75% and dayrates increased, with the end result of operating cash flows more than doubling from 2010.

While we enjoy the success of 2011, we ready ourselves for the inevitable downturn in the cycle. The immense operating leverage that comes through ownership of these fixed assets prints money in good times, but burns it in bad. As always, we appreciate the efforts and thoughtful diligence of Ed Jacob and Mardi de Verges in maneuvering Keen through the unpredictable waters of the oil and gas industry.

Crimson Wine Group

In our 2009 letter, we stated "…we have streamlined our operations…now we need more volume." And again last year, "We need more volume to make our goal of consistent, yearly cash flows a reality." We are happy to report that on May 31, 2011, we put our money where our mouths were with the acquisition of Seghesio Family Vineyards. Seghesio was established by Edoardo Seghesio in 1895 as California Bonded Winery #56 and was one of a few out of 3,000 wineries to survive Prohibition. During the following century Edoardo and his descendants collected 299 prime Zinfandel growing acres in the Alexander and Russian River Valleys of Sonoma County, California.

On several fronts, the addition of Seghesio is a game changer. With annual sales of over 100,000 9-liter equivalent cases, Seghesio increases the annual volume of our Crimson Wine Group by nearly 70%. This additional volume provides Crimson with the scale and market power to improve margins and bring cash to the bottom line. Seghesio's leading category Zinfandels perfectly complement Crimson's Pine Ridge, Archery Summit and Chamisal portfolios, offering customers a one-stop shop for premium American wines. In seven of the last 11 years, Seghesio has produced one of the Wine Spectator's top 100 wines, including

Seghesio's 2009 Home Ranch which was ranked #12 this year (95 points) and – sorry – is already sold out. The best way to ensure access to the 2010 vintages is to quickly join Seghesio's wine club at www.seghesio.com. Don't wait, do it now!

A special thanks to Pete, Ted and the rest of the Seghesio family for entrusting us with your jewel. We look forward to working with you on many vintages to come.

While we are certainly excited about our latest addition, Crimson's other wineries continue to grow. In 2011, Crimson sold 212,000 cases, including some from Seghesio for part of the year. Highlights from the other wineries include:

- Pine Ridge Vineyards (188 acres) in Napa Valley, California - While luxury-priced wines continue to sail into the headwind of a difficult economy, two non-estate brands produced by Pine Ridge are thriving. Demand continues to exceed our ability to produce Pine Ridge Chenin Blanc Viognier. Despite producing 26,000 more cases in 2011 than in 2010, we didn't have enough! The ForeFront brand was launched in 2009 as wines that "over deliver on quality at their price." ForeFront sales continued to grow in 2011.

- Archery Summit (120 acres) in Willamette Valley, Oregon - A bevy of 90+ scores from Wine Spectator and Wine Advocate were awarded to our 2009 vintages, including 93s for our Red Hills, Looney, Arcus and Estate vineyard wines. Most of these tasty wines are only available to members of the Archery Summit wine club.

- Chamisal Vineyards (97 acres) in Edna Valley, California - Since acquiring Chamisal in 2008, 1,000 new customers have joined the wine club. Boosted by critical praise, Chamisal's Stainless Chardonnay is experiencing significant growth.

Despite these positive prospects, we experienced a significant setback in our Washington vineyards. Mother Nature reminded us again of the risks involved in this business. In 2005, we purchased 611 acres in the Horse Heaven Hills of Washington's Columbia Valley. We chose this location because it is known to produce magnificent wine and importantly, our neighbors had not experienced a freeze event since 1973. In 2007, we planted 87 acres of vineyards that were thriving until November 24, 2010, when temperatures dipped to -7°F for ninety minutes. While we held out hope the vines could be saved, the prudent thing proved to be to prune them to ground and to essentially start over. We are told that the 2012 crop will be back to roughly 75% of a full crop … unless there is another freeze.

Good management is essential to our success in the wine business. Fortunately, we have just that in the team led by Erle Martin and Pat DeLong.

We again remind you that Leucadia shareholders receive a 20% discount via the honor system at any of our four on-site tasting rooms and online at www.crimsonwineboutique.com (Coupon Code "Leucadia"). In person and online you will be able to find many delicious and acclaimed limited production wines unavailable through mass distribution channels. Or, even better, let us help you explore the portfolio by joining one of our wine clubs[6] – we can ship direct to 40

[6] If you are interested in joining call Mark Ferguson of Pine Ridge at (800) 575-9777, Rodolphe Louchart of Archery Summit at (800) 732-8822, Andrea Chan of Chamisal at (866) 808-9463 and Dave Messerli of Seghesio at (866) 734-4374.

states. As always we remind you that wine is food and fosters good times and memories with family and friends. Enjoy a glass (or two) with your loved ones soon.

Idaho Timber

When we acquired Idaho Timber in 2005, we knew that earnings would be directly correlated to the cycles of the U.S. housing market; however, we did not anticipate that the down cycle would be this severe or last this long. As the housing market lagged again in 2011, pre-tax earnings fell into negative territory, although operating cash flows were slightly positive.

Idaho Timber has three primary business lines: remanufacturing of dimension lumber, value-added processing of home center boards and related items for large retailers, and primary sawmill production of radius-edge, southern pine decking and other specialty products. Each of these business lines is dependent on general construction and home improvement. Profitability in the remanufacturing business is highly dependent on the spread between prices of low-grade and high-grade lumber, which has narrowed due to increased Asian consumption of low-grade lumber and lower overall lumber production. Weakness in the remanufacturing division drove the poor financial results in 2011.

Unlike many of its less fortunate peers, Idaho Timber has weathered the storm caused by the housing market. We recognize that this is not by chance, but due to the tireless efforts of our CEO, Ted Ellis, and his team.

We have often been successful with investments in out-of-favor businesses and industries which we hope to continue with Idaho Timber. In the meantime, we search for new business opportunities and additional acquisitions in this troubled industry.

Conwed Plastics

Conwed Plastics manufactures and markets lightweight plastic netting for a variety of purposes and is a market leader in the sale of products used in carpet cushion, turf reinforcement, erosion control and packaging. Conwed has manufacturing operations in Minneapolis, Minnesota; Athens, Georgia; Roanoke, Virginia; Chicago, Illinois; and Genk, Belgium, and its products are sold throughout the world. In 2011, Conwed ended its four year experiment in Guadalajara, Mexico, bringing the jobs back to the U.S. Every little bit helps!

As more than half of Conwed's business is exposed to the housing market, revenues in 2011 were relatively flat from 2010. Pre-tax earnings, however, declined by 33% as the price of polypropylene resin, the primary component of Conwed's products, rose dramatically and remained elevated throughout the year.

Having owned Conwed for 27 years and through several economic cycles, our attitude is that "This too shall pass." The Company has a well-earned reputation for producing high quality products in a niche market and it is a successful, durable investment. Over the years Leucadia has received a compounded return on invested capital of over 20%.

In 2011, Conwed brought on a new CEO but an old friend, Chris Hatzenbuhler. For the past 11 years, Chris had been Conwed's CFO. He has a deep knowledge of the business, a contagious passion for the products and a genuine concern for the employees. Chris is returning Conwed to its roots of focusing on customer-driven product innovation. If you should find yourself in need of an extruded and oriented polypropylene product, contact Chris at (612) 623-2511. He and his team will customize a solution for you!

Sangart

Sangart is developing a portfolio of biopharmaceutical products designed to enhance the oxygenation of oxygen deprived tissues through targeted oxygen delivery. We made our initial investment in 2003 and at December 31, 2011, we were in for $211.6 million. The cash invested is expensed as Sangart spends it on product development and clinical trials. At December 31, 2011, we owned approximately 96% of Sangart.

Sangart's primary product (MP4OX) is designed to deliver oxygen to tissues, specifically as a result of trauma-induced injuries. Thus far we have seen positive clinical results. In 2010, Sangart completed a Phase 2a trauma study involving 51 patients with results positive enough to induce us to fund the 2011 launch of a much more extensive Phase 2b study with approximately 360 patients. We anxiously await the results of this study, which should arrive near the end of 2012.

Sangart has also developed a companion product, MP4CO, for use in sickle cell patients. In addition to carrying oxygen (like MP4OX), MP4CO also delivers carbon monoxide in non-toxic levels which is intended to prevent inflammation and programmed cell death (apoptosis). In 2011, Sangart launched a Phase 1b sickle cell study, focused on safety.

We remain grateful for the diligence and determination of Sangart's CEO, Brian O'Callaghan, and his team of life science executives as they continue to drive the clinical trial process forward.

Garcadia

Garcadia is our joint venture with Garff Enterprises, Inc., a large Utah-based auto retailer. Together we purchase and turn around underperforming auto dealerships across the country. Leucadia provides the majority of the capital and some investing acumen and Garff manages the operations. Where possible, Leucadia purchases 100% of the underlying real estate and leases it back to the operation at a 10% net return. The partnership owns 17 dealerships in three geographic clusters: Des Moines, Iowa, Houston, Texas and Southern California. At December 31, 2011, our net investment in Garcadia was $127.4 million, including real estate.

The U.S. car business stayed on an upward trend in 2011. New auto sales were roughly 12.7 million units during the year – up 10% from 11.6 million in 2010. Garcadia exceeded the national numbers by 21% to 14,000 units. This volume growth, combined with operational improvements, yielded cash flow to Leucadia of $11.4 million in 2011, inclusive of roughly $4.6 million spent on capital improvements to the real estate and excluding acquisitions. Even during the worst part of the recession, Garcadia returned cash to its partners.

In 2011, we added three dealerships to the portfolio: a high volume Toyota store in Southern California, a distressed Hyundai franchise in Des Moines, Iowa and a Fiat dealership in

Houston, Texas. The Toyota dealership is already on track and we expect the Hyundai store to provide a strong return. The Fiat story is still being written. The rollout of the Fiat brand in the U.S. has not been one of Sergio Marchionne's finer moments. Time will tell if he can turn it around. However, we find solace in the fact that if he does not succeed we will have a nice new building from which to sell used cars. We continue to look for opportunities to grow this investment.

Leucadia Energy – Gasification

Our gasification efforts continue to progress. The Lake Charles facility, located in Louisiana, has entered into two letters of intent and a contract with large credit worthy customers for the vast majority of the plant's output of methanol and industrial gases. These events allow us to actively seek strategic partners to fully fund the project.

Funding for this project will be covered in part by $1.561 billion of tax exempt bonds, a $260 million federal grant for carbon capture and sequestration plus a $128 million federal investment tax credit. We have significant engineering and early phase construction activities yet to accomplish, hopefully in 2012. Once we are ready there is a 36-month construction period.

We continue to make progress with our gasification projects in Indiana, Mississippi and Chicago. However, there is much work yet to be done and unlike the Lake Charles facility our ability to get these projects to the starting line is being slowed by the current low price of natural gas. While we have accomplished a great deal considerable challenges lie ahead.

Like all large multi-year capital intensive projects ours are vulnerable to many variables such as interest rates, inflation, financing, regulatory and permitting changes as well as yet unforeseen issues. Having said that we think there has hardly been a better time to commence such a project. Inflation is tame, interest rates are at an all-time low and labor costs are likely to remain stable. Hopefully, 2012 is the year that we break ground on our first project. Stay tuned for next year's letter.

Despite the challenges of the shale revolution, our EVP, Tom Mara perseveres. He has our thanks.

Oregon Liquefied Natural Gas

In January of 2007, Leucadia acquired a leasehold interest and certain permits to construct and operate an onshore liquefied natural gas ("LNG") receiving terminal located on the Skipanon Peninsula at the mouth of the Columbia River in Warrenton, Oregon. Due to the sudden expansion in North American natural gas supplies (see Keen above), we are now evaluating construction of a facility focused on LNG exports. We pride ourselves on being nimble!

Since 2007, we have been working with the Federal Energy Regulatory Commission ("FERC") and state and local authorities to permit the site for an onshore LNG terminal; a process that is agonizingly difficult and absurdly slow. How the politicians can expect to find solutions to our long term energy needs in the byzantine and illogical regulatory environment they have created is above our pay grade to understand. However, we persist and anticipate FERC will issue a Draft Environmental Impact Statement along with an updated Draft Biological Assessment in 2012.

The natural gas market continues to evolve and perhaps North America will become one of the world's largest producers. Worldwide demand for natural gas continues to grow due to increasing oil prices, stricter environmental regulations on coal and the response to the nuclear disaster in Japan. LNG has an important role to play within that market. It is taking longer and costing more than we originally planned, but we remain optimistic that there is a payday at the end of the road.

Real Estate

As of December 31, 2011, our net investment in the domestic real estate segment was $245.7 million. For the most part, we have placed our real estate development projects in the deep freeze, minimizing costs and waiting for the market to return. Below are the highlights of our scant activity over the past year.

- In January 2012, we closed on our commitment to purchase the former Panama City-Bay County International Airport. We negotiated a $4.6 million reduction in the purchase price, paying $51.9 million for the 708 acre parcel. We have secured entitlements and zoning for 3,200 residential units, 700,000 square feet of commercial space and 117 marina slips. We are in the process of securing permits for a first phase development that will be centered around a reuse of the former airport terminal building as a charter school. We won't commence development unless and until we think the market is ready.

- We own approximately 31.4% of the outstanding stock of HomeFed Corporation (NASD OTC: HOFD), which is engaged in the development of residential real estate in California. The undersigned own 7.7% and 9.4% of that company as well. Classified as an associated company investment, HomeFed is not part of the real estate segment, but it is an investment in real estate nonetheless.

- We own raw land and finished residential lots in Myrtle Beach. In January 2011, we (re)purchased the neighboring retail/commercial/residential lifestyle center and spent the rest of the year rehabilitating the project after its year stay in receivership. The repositioning and re-tenanting is expected to be a three to five year project. We believe the product is truly unique for the market and that - at our reset basis - we will get attractive returns. The residential land component of the project continues to absorb slowly, although 2012 began with a bang – 10 homes sold through the end of February.

- Our land developments in Maine remain mothballed.

- We own 15 acres of air rights above the train tracks behind Union Station in Washington, D.C. In April 2011, the rezoning of our property received final approval. The rezoning granted us the height allowances that we desired – in a city that restricts height, every foot counts. We continue to work with Amtrak and our other neighbors on project design and the construction and financing of the platform on which our project will be built.

The Future

We have read a lot about the ongoing deleveraging of America. In case you don't start and end your day with your nose in the Wall Street Journal, deleveraging is the newly rediscovered concept of paying your debts without reborrowing.

Bear Stearns and Lehman may have been the first fruits of the Great Recession, but excess leverage was the root. For the last twenty years, homeowners bought new houses and then refinanced them with ever bigger mortgages. That unsustainable scheme came to an end in 2008 and now everyone is paying the piper with lower home prices. During the same period, owners of shopping centers, apartment buildings and land speculators borrowed heavily to finance their never-ending appetites, with similar results. Low interest rates may have temporarily kept commercial properties out of foreclosure, but we expect many will end up there or in workout – hopefully with Berkadia. Junk bond borrowers have been helped by low interest rates, but a day of reckoning will come when rates go up faster than a company's growth prospects and cash flow.

Unlike residential and commercial real estate owners, Fortune 1000 companies did not over borrow and our big corporations are in good shape with some dividend yields higher than bond yields, an infrequent occurrence. However, even the strongest corporations are being very cautious in taking on new debt and making new investments which is a major reason for the poor employment numbers and slow growth in the GDP. Having gone through the trauma of 2008, corporate America is risk adverse. We are too.

The debt elephants in the room are national and state governments. Both in Europe and the U.S., governments are undergoing the same aches and pains of deleveraging as consumers and banks. The U.S. government is fortunate in that it has what Charles de Gaulle's finance minister, Valéry Giscard d'Estaing, called "the exorbitant privilege"[7] to print money. However, even that privilege has its limits and no doubt we will have to attack our debt problem sooner or later (we hope sooner). The Federal Reserve has said it will continue to suppress interest rates for the foreseeable future, postponing the pain for the overleveraged as well as postponing the inevitable witching hour when governments are forced to take the bitter medicine of raising taxes, cutting expenditures, or both.

We continue with the same lamentation as in previous years. There are hordes of private equity and hedge funds chasing low returns. While short term rates are very low, long term rates for non-investment grade borrowers such as Leucadia are quite high relative to expected returns. As a result, opportunities meeting our investment criteria are few and far between. We would prefer higher interest rates and less availability of money, making acquisitions more attractive. We employ leverage in a careful way and do not intend to fall into the traps of employing too much leverage or borrowing short term and investing long. We will leave that silliness to the hedge funds.

[7] From *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* by Barry Eichengreen.

Given the above, we have reduced Leucadia's leverage by calling $511.3 million of long term debt in 2012 and retiring other debt during the last three years in market transactions. With those steps, we have cut Leucadia's leverage by over 40%. Borrowing money at 7% without a clear path to make 15%+ is not attractive and we don't see many opportunities to make at least that return. This cautious approach was evident in the purchase of National Beef; although banks were beating down our door to lend us more money, we paid cash.

A world-wide recovery in the near future is not a foregone conclusion. Europe and the future of the Euro are far from settled. Growth in China is slowing and the risk of a "Chinese Spring" cannot be ruled out. Iran is a big problem. In an environment of slow growth at home and a dysfunctional government, we believe that less financial leverage is better. We expect many other companies and investors share this view. We emphasize that we are not pessimistic, just cautious. We are enthusiastic about the future of our broad array of operating businesses and investments and have our eyes open for additional acquisitions. Never fear, if a good deal comes along we will find a way.

This is the 33rd letter that we have written to our shareholders and again want to point out that we would not be here but for the loyalty of our long time, hardworking and intelligent helpers. We are forever grateful!

We are saddened by the death, at age 55, of Curt Noland. Curt was HomeFed's Vice President in charge of real estate development and was with us for 15 years. HomeFed's success is in no small part the result of his planning and engineering skills. He was the best! We have expressed our deepest condolences to his wife and three sons.

We have been diligently working on the issues relating to management succession and will continue to explore opportunities. In addition, in March the Board of Directors elected Justin Wheeler as Chief Operating Officer. Justin has been with Leucadia since 2000 and for the past several years has led our Asset Management Group. He was intimately involved with our successful investment in AmeriCredit Corp. and was the prime mover behind our recent acquisition of National Beef. Though both of us immensely enjoy what we do, we recognize our responsibility to plan for the future and expect Justin to be part of that future.

Our Chairman has decided that he does not plan on requesting a renewal to his employment contract which ends almost coincident with his 75th birthday on July 17, 2015 (which is also the birthday of our President's youngest daughter – she gets great presents). Over the next few years there will undoubtedly be more developments on the succession front. We will keep you informed.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Leucadia National Corporation Scorecard

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Shareholders' Equity	Net Income (Loss)	Return on Average Share-holders' Equity
1978	($0.04)	NA	NA	$0.01	NA	($7,657)	($2,225)	NA
1979	0.11	NM	18.2%	0.07	600.0%	22,945	19,058	249.3%
1980	0.12	9.1%	32.3%	0.05	(28.6%)	24,917	1,879	7.9%
1981	0.14	16.7%	(5.0%)	0.11	120.0%	23,997	7,519	30.7%
1982	0.36	157.1%	21.4%	0.19	72.7%	61,178	36,866	86.6%
1983	0.43	19.4%	22.4%	0.28	47.4%	73,498	18,009	26.7%
1984	0.74	72.1%	6.1%	0.46	64.3%	126,097	60,891	61.0%
1985	0.83	12.2%	31.6%	0.56	21.7%	151,033	23,503	17.0%
1986	1.27	53.0%	18.6%	0.82	46.4%	214,587	78,151	42.7%
1987	1.12	(11.8%)	5.1%	0.47	(42.7%)	180,408	(18,144)	(9.2%)
1988	1.28	14.3%	16.6%	0.70	48.9%	206,912	21,333	11.0%
1989	1.64	28.1%	31.7%	1.04	48.6%	257,735	64,311	27.7%
1990	1.97	20.1%	(3.1%)	1.10	5.8%	268,567	47,340	18.0%
1991	2.65	34.5%	30.5%	1.79	62.7%	365,495	94,830	29.9%
1992	3.69	39.2%	7.6%	3.83	114.0%	618,161	130,607	26.6%
1993	5.43	47.2%	10.1%	3.97	3.7%	907,856	245,454	32.2%
1994	5.24	(3.5%)	1.3%	4.31	8.6%	881,815	70,836	7.9%
1995	6.16	17.6%	37.6%	4.84	12.3%	1,111,491	107,503	10.8%
1996	6.17	0.2%	23.0%	5.18	7.0%	1,118,107	48,677	4.4%
1997	9.73	57.7%	33.4%	6.68	29.0%	1,863,531	661,815	44.4%
1998	9.97	2.5%	28.6%	6.10	(8.7%)	1,853,159	54,343	2.9%
1999	6.59[b]	(33.9%)	21.0%	7.71	26.4%	1,121,988[b]	215,042	14.5%
2000	7.26	10.2%	(9.1%)	11.81	53.2%	1,204,241	116,008	10.0%
2001	7.21	(0.7%)	(11.9%)	9.62	(18.5%)	1,195,453	(7,508)	(0.6%)
2002	8.58	19.0%	(22.1%)	12.44	29.3%	1,534,525	161,623	11.8%
2003	10.05	17.1%	28.7%	15.37	23.6%	2,134,161	97,054	5.3%
2004	10.50	4.5%	10.9%	23.16	50.7%	2,258,653	145,500	6.6%
2005	16.95[c]	61.4%	4.9%	23.73	2.5%	3,661,914[c]	1,636,041	55.3%
2006	18.00	6.2%	15.8%	28.20	18.8%	3,893,275	189,399	5.0%
2007	25.03[d]	39.1%	5.5%	47.10	67.0%	5,570,492[d]	484,294	10.2%
2008	11.22[e]	(55.2%)	(37.0%)	19.80	(58.0%)	2,676,797[e]	(2,535,425)	(61.5%)
2009	17.93	59.8%	26.5%	23.79	20.2%	4,361,647	550,280	15.6%
2010	28.53[f]	59.1%	15.1%	29.18	22.7%	6,956,758[f]	1,939,312	34.3%
2011	25.24	(11.5%)	2.1%	22.74	(22.1%)	6,174,396	25,231	0.4%
2012	27.67	9.6%	16.0%	23.79	4.6%	6,767,268	854,466	13.2%
CAGR (1978-2012)[a]			11.2%	25.7%				
CAGR (1979-2012)[a]	18.2%		11.0%	19.3%		18.8%		

(a) A negative number cannot be compounded; therefore, we have used 1979.
(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $4.53 per share. Leucadia's CAGRs do not reflect the benefit of annual dividends or the special 1999 dividend.
(c) Reflects the recognition of $1,135.1 million of the deferred tax asset or $5.26 per share.
(d) Reflects the recognition of $542.7 million of the deferred tax asset or $2.44 per share.
(e) Reflects the write-off of $1,672.1 million of the deferred tax asset or $7.01 per share.
(f) Reflects the recognition of $1,157.1 million of the deferred tax asset or $4.75 per share.

To Our Shareholders

The Last Hurrah

Forty-three years ago, the two of us met at Harvard Business School and thirty-five years ago was the beginning of a remarkable partnership — the results of which are tabulated on the opposite page. The end of 2012 marks the end of this partnership and the last letter from the two of us. In terms of financial results and as "LUK" would have it, 2012 was also our most successful year. Earnings before tax for 2012 were $1.371 billion, a record.

As the years sped by and we got older, a succession plan became more and more essential. For several years, we argued, explored many alternatives, argued some more and spoke with anyone and everyone we believed worthy of our shareholders' trust to guide the good ship Leucadia. On March 1, 2013 our succession plan culminated with the acquisition of the Jefferies Group, Inc.

Jefferies very able leadership team, Rich Handler and Brian Friedman, have become the CEO and President of Leucadia and one of us assumed the role of Chairman and the other is rolling up his sleeves to start again, this time with family as his partners. The rationale for the acquisition and the succession plan were spelled out in the proxy statement sent to you prior to the Shareholders Meeting at which 81% of our shareholders voted, with over 99% in favor. We are gratified with that vote of confidence.

Leucadia usually flies below the radar and is often unconventional in its choice of investments. We have always preferred to make money, rather than headlines. Though investment banking is hardly the flavor of the month, initially even some long time Leucadia shareholders may have been surprised by our decision to acquire Jefferies and to turn the helm over to Rich and Brian.

We first met Rich in 1987. He was a 26 year old baby in the business, fresh out of Stanford Business School and working at Drexel on a few deals with which Leucadia was involved. At Drexel he quickly learned that for a financial company there is no such thing as a "slight" liquidity crisis. This lesson on fragility served him well later in life but, might have been picked up sooner had he attended Harvard Business School!

In 1990 after Drexel, Rich joined Jefferies when it was a small equity trading firm with $140 million of revenues and $7 million of net income. We were one of his first clients, and Rich and his team led our Senior Subordinated Note offering in 1992, which was Jefferies very first institutional bond deal. In early 1993 they continued with our Convertible Subordinated Debentures, their first, and later in 1993, their first investment grade bond deal for Leucadia's Senior Notes. From 1990 to today, Jefferies did every one of our capital raises, eighteen in all, over $3.4 billion of capital.

Since Rich joined Jefferies 23 years ago, the compound annual return for his shareholders has been an exemplary 22%. Since becoming CEO Rich also became a very large shareholder of Jefferies taking more than 75% of his cumulative compensation in stock. So, as the search firm we didn't use might have said, "he seemed like a good fit."

In 2000, Leucadia invested $100 million in Jefferies Partners Opportunity Fund and for seven years earned a 20% return after fees. A second fund, Jefferies High Yield Trading, was launched in 2007 at the top of the market. Despite the impossible timing and the catastrophic financial environment, we eked out a reasonable return on that fund too.

Brian Friedman joined Rich's team in August of 2001, and brought complementary skills of remarkable breadth and a tireless work ethic. Eventually they became partners in managing Jefferies and Brian has been instrumental to its success every step of the way.

In the mid 2000's, Rich periodically asked us if we wanted to invest in Jefferies and to join his Board. We reminded him that we were value investors and since Jefferies stock was trading at high multiples of book value, the time was not right. In 2007, Rich came to us believing that the global financial system was stretched too far and that something soon would snap. In February 2008, with Rich's relentless and increasingly loud encouragement, we bought the maximum number of Jefferies shares permitted before filing Hart Scott which allowed us to buy more after waiting 30 days. As he predicted, by the end of the 30 days, all hell had broken loose. Rich then proposed a large stock swap that allowed us to monetize Leucadia shares at $50 per share in exchange for a 13.7% fully diluted stake in Jefferies plus $100 million of cash to Leucadia. Rich didn't want to overly dilute his own shareholders so to complete our investment, he quietly and quickly bought additional shares for Leucadia on the open market at attractive prices which got us to a 29% ownership position in Jefferies. He also quickly sold all of the Leucadia shares acquired in the swap; at the time, we were convinced Jefferies did not need the money, but very much needed a credible investor to bless its balance sheet, which was as clean then as it is today. When the dust settled, Jefferies effectively raised $430 million of equity capital with minimal dilution, we joined the Board as 29% shareholders and Rich and Brian went on a five year offensive while the rest of the world was on fire.

From 2008 through 2011, we watched first hand as Jefferies nearly tripled revenue and aggressively built out a diversified and global investment bank. We were impressed when they bought back their debt cheaply during the global panic and then re-issued during calmer times — often only months later. Talk about volatility! We watched Jefferies improve its brand and human capital. We applauded their culture of transparency, client focus, integrity, creativity, work ethic, and commitment to shareholders, bondholders, employees and clients.

Following the implosion of MF Global, there were some white knuckle times as Jefferies rebutted a venal barrage of unfair and untrue attacks by agenda-driven short sellers disseminating faulty and malicious gossip. A market panic is a dangerous cocktail and you learn a lot about people when faced with a crisis. The Jefferies team under Rich and Brian's steady leadership navigated the turmoil with honesty and tireless effort. Their head-on strategy of transparency and openness proved successful. Ultimately truth won out and confidence in Jefferies was restored.

Jefferies bounced back quickly and, like Leucadia, had a record 2012. From out of the turmoil emerged an ideal alignment of needs. Rich and Brian were determined never to allow Jefferies to go through that type of painful experience again and were open to a smart long term capital solution to enable them to continue to build the firm. And, we were looking for successors and, as always, with our ample capital on the lookout for a good deal. They didn't want to sell Jefferies at the bottom of a cycle; a stock for stock deal enabled them to do well by their shareholders while providing increased protection for their bondholders and creating long term stability for their employees and clients. Leucadia shareholders picked up a great asset at a fortuitous time for both companies and we solved our succession challenge. Combined, we have a world class investment banking firm, with a merchant banking focus, tax efficiency and a pile of cash. We also have new leadership that is greatly experienced and heavily invested in the long term success and value creation for Leucadia shareholders. We've never been enamored with describing transactions as "win / win," but we are hard pressed to find a more fitting expression of where we find ourselves as we craft this last letter.

For the next few pages we propose an incomplete trip down memory lane, let's call it an unofficial history, mostly written for the benefit of grandchildren, but we hope our long time shareholders will enjoy it as well. If not, skip to the last page.

After graduating from Harvard Business School in 1970, we began working together at a small family owned investment bank with the curious name of Carl Marks and Company. One of us left for an adventure out west and our paths diverged. We were reunited when one of us surfaced in pursuit of Talcott National Corporation, the holding company for an old, but moribund financial services company[1] that became embroiled in businesses about which they knew little and was almost insolvent. One of us was a reluctant joiner to the rescue of Talcott and regarded the prospects of success as unlikely. The other, being more enthusiastic, optimistic and in need of a challenge and a paycheck plunged full speed ahead and after a year of urging got the other to sign up for the task. This was the beginning of the partnership which would become Leucadia. Our backers were our old colleagues from Carl Marks for which we are forever grateful.

It took another year of cajoling all two hundred plus creditors, numerous flights to Chicago, Los Angeles and, of all places, Baton Rouge, to convince the last creditor to sign on. And finally, in April 1979, an out of court reorganization, probably one of the most complicated even to this day, was successfully completed.

Talcott entered reorganization with a negative $8 million book value and emerged with a book value of $23 million. We restructured the company, hunting and recovering value among a hodgepodge[2] of operating businesses and financial assets. Little did we know, this approach would become de rigueur[3] for the next thirty-five years.

In the course of this adventure we met our now old friends, Tom Mara, our Executive Vice President who preceded us at Talcott, along with Steve Jacobs and Andrea Bernstein who became our lawyers and advisers and remain so to this day.

We relinquished the name Talcott in 1980 with the sale of James Talcott Factors to Lloyds and Scottish, a UK based factoring company. We struggled to find a new name — every idea we surfaced was either already taken or rejected by regulators. Adding to the urgency was the SEC's growing impatience with the blank line at the top our letterhead. One afternoon we were driving north on the San Diego Freeway and happened upon the town of Leucadia, California. Why not? The name was available and we liked the sound of it. One of our mothers thought it resembled

[1] In 1854, James Talcott worked with his brother selling undergarments and started a factoring business. His business later financed socks for the Union Army, and became listed on the New York Stock Exchange in 1937.

[2] From Wikipedia…a word used to describe a confused or disorderly mass or collection of things; a "mess" or a "jumble".

[3] French, meaning, literally, of rigor and, less literally, according to strictness.

a blood disease. But, it looked great on that interstate exit sign and has served us well. For more about the history of this southern California town and its ancient Greek namesake, we direct you to the fountain of all modern knowledge, Wikipedia. For more about the history of the newly named Leucadia National Corporation, read on.

With the company restructured and renamed, we turned our minds and efforts to employing our modest capital. One of the remaining Talcott assets, City Finance, was a consumer finance company superbly run by Bob Brock and a crusty bunch of BBQ loving executives from Memphis, Tennessee. City Finance grew its profitable asset base through a series of acquisitions including, in 1980, the acquisition of American Investment Company, which had as a caboose, Charter National Life Insurance Company — our first foray into the insurance business.

In 1982 our friend, erstwhile Director, shareholder and colleague from Carl Marks days, Jay Jordan, decided to set up his own LBO business with David Zalaznick and they asked for our backing. We were enthusiastic and remain partners with the Jordan Company to this day where we enjoy considerable continuing profits on a very small investment.

In 1982, we acquired TFI Companies, Inc. (the old Tasty Freeze company, but without the ice cream), a rag tag bunch of underperforming businesses – including a pork slaughter house. One of us (we will leave it to the reader to guess who) along with Tom Mara visited the plant to witness the world's largest meat grinder process unmentionable pig parts as a small front loader dumped in huge scoops of nitrates and nitrites. Following the tour, the company's senior management explained that the cost of pork was increasing while the price of sausage and bacon was falling. Mara's recommendation for an immediate sale was quickly approved. As an aside, we consider comparing Congress's crafting of laws with sausage making grossly unfair to the pork processing industry. None of those businesses remain with us today and we could have probably skipped the whole adventure without much loss.

We fared much better with the acquisition of Conwed Plastics, which we acquired in 1985. Conwed Plastics performs admirably year after year and is today capably run by Chris Hatzenbuhler. It has returned over 20% on invested capital over the years. If only all of our investments did as well.

1982 also marked our first acquisition of a company with significant net operating loss carryforwards (NOL), which are sometimes referred to as "tax attributes[4]." Terracor Corporation was an unfortunate investment from our days at Carl Marks which we acquired out of bankruptcy for $6 million along with an NOL of $60 million. Subsequently we acquired several other similarly situated companies, including, Baldwin United, O.P.M. Leasing, WebLink Wireless, and most significantly WilTel Communications. Careful tax planning has been important to our investment success as a return on investment is greatly improved without the drag of corporate income tax. One of us enjoys the creative and legal process of tax planning and is very good at it, the other breaks out in a rash when trapped for long hours with tax accountants and lawyers, but is deeply appreciative of his partner's patience.

[4] Mostly thought of as NOLs, but can also come in the form of a larger tax basis in assets than book basis, and if the accounting rules so require can end up on the balance sheet as an asset called the net deferred tax asset.

In 1984, we acquired a large position in AVCO at a good price. AVCO's management did not want anything to do with us and presented a compelling offer to buy our stock. We got particularly lucky and good advice from Steve Jacobs who was then a partner of Weil Gotshal & Manges. As we were getting ready to sign the buyout papers which gave us a profit of $21 million, Steve leaned over and suggested we get a "most favored nation clause." Not really understanding exactly what he meant, but sounding good, we nodded yes. Less than a year later when AVCO was sold to Textron we received an additional $40 million. Taken together profits from AVCO nearly doubled our net worth.

In Merry Olde England, we experienced two defeats and two victories. Molins PLC was a UK based manufacturing company of which we had acquired 46.6% in the market. We were confident we would win a proxy fight for control and were advised by our now friend and Director Michael Sorkin, who was then a senior officer at the British merchant bank Hambros. To our collective dismay we lost; and, a year later lost again having acquired an additional 2% of the shares. Michael was doubly dismayed. Twice, the redoubtable English institutional shareholders had fought off the upstart Colonials! A year later the same institutions relented and bought us out for a nice profit. It was great fun.

We were more successful in 1988 taking control of another English company, Cambrian & General Securities, which had been managed by Ivan Boesky who was also a substantial shareholder. Mr. Boesky had legal difficulties and as a result forfeited his shares to the SEC as part of a $100 million fine. We tendered for all its shares at what we believed was a substantial discount, believing that there was little merit to the lawsuits surrounding the company. This time, again ably assisted by Hambros and Michael Sorkin, we were successful in buying out almost all the shareholders except the SEC which held out for another year for a higher price that finally got them their $100 million. Good going for the taxpayers!

For many years we had been following a fast growing, controversial company called Baldwin United, which eventually went bankrupt in 1983. By 1986 the company was ready to emerge from bankruptcy and we were able to acquire control and eventually own 100%. Therein was a remarkable mélange of assets including, S&H Green Stamps, a couple of insurance companies, miscellaneous operating businesses, major tax attributes and three surprises.

Shortly after the acquisition one of us got a call from a gentleman who introduced himself as David Mitchell, President of "our" power companies. We demurred saying we owned no power companies, but David insisted, telling us that buried in the files of Baldwin United were stock certificates representing controlling ownership positions in Barbados Power and Light, El Salvador Electric, and Bolivia Power. To say the least, we were astounded. We were a utility! One of us seized the day and became Chairman of all three and for years worked on maximizing the value of these companies.

Barbados was relatively easy. The country had the oldest established democratically elected legislature in the Western Hemisphere, a decent court system and aside from the usual arguments related to what was an adequate return on the rate base, the risk of hurricanes and oil price volatility, it was a good, well-run company. Our shareholders helped by running the air conditioning on high when visiting the island.

Bolivia and El Salvador were entirely different stories. In Bolivia, navigating the politics turned out to be very tricky and sometimes dangerous. In El Salvador, a civil war was raging and the El Salvador Government nationalized our assets. One of us made many trips to these countries and to Washington seeking help and eventually all three investments turned out well. In 35 years we have found mostly bad surprises in unexplored file drawers. Our adventure with these utilities proved a rare and profitable exception.

Empire Insurance, which also came with Baldwin United, was a roller coaster. It was a "subway mutual" insuring NYC taxicabs and very well managed by Ollie Patrell. Years later, after Ollie left, it hit the third rail, wrote much too much business and lost a ton of money. From beginning to end the ownership either cost us a bit or we made a bit; however, when its lease ended on lower Fifth Avenue, Empire moved to Brooklyn enabling us to be the co-developer of Renaissance Plaza in downtown Brooklyn, a thirty-two story high-rise and Marriott Hotel, which has turned out to be a good investment.

In 1991, we acquired Colonial Penn. Historically it had two businesses. One, an auto insurer to retired Americans and the other the purveyor of small face value life insurance policies sold on TV. Under the previous ownership, after losing the endorsement of the AARP, the company diversified by writing reinsurance. Everything went wrong. The premiums were too little, the risks too big and ugly and many of their reinsurers insolvent or worse. The seller was a utility that just wanted out and it seemed we were the only buyer. After a careful diligence done by brother David Cumming, we were confident enough to buy the company for $128 million, which seemed a lot of money at the time.

Ollie Patrell, Harry Wulsin, David Cumming and Rich Petitt were assigned the tasks of straightening out and running the Colonial Penn companies and did a magnificent job. Six years later we sold both companies for $1.5 billion. We later distributed almost $1 billion to shareholders in a capital gain dividend and stock buyback.

Other insurance company investments included White Mountains, a company founded by our dear friend Jack Byrne, who unfortunately passed away this year. Jack needed additional capital to purchase the United States assets of UK based Commercial Union and we were happy to oblige. One of us sat on the Board for a few years and enjoyed traveling to Bermuda for meetings and playing poker in the evenings with Jack, who was the better player. We held that position for several years and eventually sold it at a substantial profit. A collateral investment in a reinsurance company formed post Hurricane Andrew did well for a few years but then got hit hard by the trifecta of Katrina, Wilma and Rita.

During those years we also invested elsewhere outside the United States. In Russia, we purchased vouchers in their "garage sale" of privatization auctions with some small success. We then became the bottler for Pepsi Cola for most of eastern Russia. In 1998, Pepsi itself lost its zeal for Russia and bought us out; we lost $40 million. They have since reestablished themselves in Russia and are doing well, but we missed the boat on the return trip.

More happily, success awaited in Argentina where in 1994 we acquired for $46 million a 30% interest in La Caja de Ahorro y Seguro, its largest insurance company, together with the Werthein family who also acquired 30%. Ollie Patrell, Tom Mara, our CFO, Joe Orlando, and both of us made many trips to Buenos Aires. Tom kept count and got to seventy trips.

We restructured the company by reducing staff, installing new systems and products, hiring capable management, overcoming bad accounting and not the least, insisting on and getting a price adjustment from the government of Argentina. By 1999 we were getting nervous about Argentina and asked our partners to find a buyer for our stake, which they did, culminating in a sale at a gain of $121 million. The company survived Argentina's bankruptcy in 2001 and is doing well, though the country seems hell bent on heading there once again. We remain friends with the Wertheins and their consigliore, George Mandelbaum.

Auto finance has remained an interest of ours for many years. We started two FDIC insured institutions many years ago, which evolved into subprime lenders. Seeing the writing on the wall regarding the deteriorating credit quality of subprime borrowers and the increasingly dangerous competitive environment which grossly mispriced risk, we decided to exit the business in 2006. Later, at the insistence of two of our long time executives, Justin Wheeler and Marc Fuller, we bought a 25% interest in the AmeriCredit Corp., which was a leading subprime lender with excellent management. They and the company survived the financial meltdown of 2008 by underwriting well, reducing overhead and by hanging on by their fingernails. We discovered that even in the face of unemployment, borrowers will try hardest to keep their car. Ultimately, a suggestion from a friend and a phone call led to the sale of AmeriCredit to General Motors for a gain of $405 million. We recently started a new auto finance company, Foursight Capital, which is financing customers of our auto dealerships.

A struggling finance company called Finova came to our attention and in 2001 we made a financing proposal to the company which was based in Scottsdale, Arizona. Our original hope was to inject some additional capital, acquire a major position or perhaps control and continue to operate as lenders to the middle market. Once we had done our diligence it became apparent to us and to its directors and advisers that the company was all but bankrupt. At that point, Jack Byrne introduced us to Warren Buffett and Berkshire Hathaway, which had accumulated a large position in Finova's bonds and together we shepherded Finova through Chapter 11 and eventually made a good profit.

In the years preceding 2000, there was a vast over-investment in telecom and the installation of long haul fiber. Many companies were founded, many billions were raised, and billions and billions lost. One such company was WilTel Communications, which was spun off from Williams Energy. The segment had caught our interest as an example of tulip mania[5] and we thought there was money to be made in picking up the pieces. WilTel was based in Tulsa, Oklahoma and had a first class network on which it had lavished billions of dollars. We gained our place at the table by buying Williams Energy's ownership position and leveraging that into controlling the company post bankruptcy. Bud Scruggs, who worked on the Empire mess and many other things, and Jimmy Hallac made many trips to Tulsa guiding its restructuring. Fortunately, we found in the bowels of its operation center Jeff Storey who proved to be an excellent President and is presently the CEO of Level 3 Communications, the company which eventually bought WilTel at a nice price. WilTel is also the mother of our biggest deferred tax asset which, if and when realized will save up to $2 billion in taxes.

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[5] Generally considered the first major financial bubble in February 1637 in the Netherlands. Investors began to madly purchase tulips, pushing their prices to unprecedented highs. Some single tulip bulbs sold for more than 10 times the annual income of a skilled craftsman.

We also made a few other telecom related investments, all but one of which worked out well. We bought ATX Communications, a CLEC, out of bankruptcy, reorganized it and eventually sold it to a competitor where it belonged. We bought WebLink out of bankruptcy, tried to resuscitate it, but the paging industry was in terminal decline due to the ubiquity of cell phones. It was profitably merged into Metrocall, which eventually disappeared. We should have passed on the opportunity to buy STi Prepaid, a calling card company, which turned out to be a disaster.

In recent years we have found it increasingly difficult to find good companies in which to invest. Competition is fierce for the mediocre and even fiercer for the good. Hedge funds and private equity have raised vast sums and those of you who have read our previous letters know well our rants on the subject. At our core we are value investors and finding value has become harder.

We did have a competitive advantage in our acquisition of Capmark's commercial mortgage servicing business. Our old friend and former employee, Larry Hershfield, brought this opportunity to us. Together with Berkshire Hathaway we bid for the company whether or not it filed Chapter 11 and without further conditions. We had done a thorough due diligence and thought it was an attractive opportunity and so did our partner, Berkshire Hathaway. We completed the acquisition in 2009 and the company, renamed Berkadia, has performed very well under the leadership of Hugh Frater and Randy Jenson. Our original investment has substantially been returned, cash flow has been strong and our servicing book has grown. We expect that the strengths of Berkadia and Jefferies in the commercial mortgage space will be complementary.

Back in 1995 we acquired MK Gold, which was a small part of Morrison Knudsen, then in bankruptcy. Among its other assets, MK owned two gold mines. Gold was about $400 an ounce, which seemed a low price compared to the peak of $850 in 1980. One of us was a nascent gold bug and found the entry price attractive. As it turned out, gold stayed very low for a long time and the two gold mines "mined out" just as the gold price took off. Not discouraged, we enlisted the help of an experienced friend, Frank Joklik, former Chairman of Kennecott Copper to head MK Gold. Kennecott had been sold to Rio Tinto and Frank was aware of a large Rio Tinto prospect near Seville, Spain, a resource containing 6% copper. For us the size of the deposit was huge although all but a rounding error to Rio Tinto and we were able to buy it. Like gold, copper was selling at a low historical price. We were not seers and revelators, but along the way we did notice that China was beginning to consume a greater and greater portion of the world's resources.

Frank, Tom Mara and one of us embarked on numerous trips to Spain meeting with the local authorities to obtain entitlements, with the EU to obtain favorable tax and other benefits, and with the local farmers and environmentalists who had to be convinced to sell land and to allow us to build the mine. It seemed simple. There was adequate power, rail, people and demand. It would take a few years to entitle and we would sell the resource to a mining company and make a fortune.

It turned out not to be so simple. Like renovating a kitchen, it took longer and cost more than we imagined, but eventually, several years later, it had a three step happy ending. First, a sale of a portion of the mine to a Canadian junior mining company, Inmet Mining Corporation, where Tom Mara joined the Board. Then, a sale of the rest of the mine to Inmet. And finally, in March of this year a sale of Inmet to First Quantum Minerals, booking profits at each stage. We hope he doesn't mind if we mention that Frank, who started all this in retirement at age 67, also worked on our next mining investment and is again seeking his next challenge.

Our other major mining investment proved to be even more challenging. Our first encounter with Andrew Forrest came in the context of an Australian nickel mining company called Anaconda Nickel Limited, which he had promoted as the founding CEO. The company had stumbled along the way to production on a new technology and had run out of money. Andrew and the shareholders and debt holders were at each other's throats with recriminations. But before we could do due diligence, a savvy investor snapped up a control position and the opportunity was lost to us and to Andrew.

Several years later, Andrew Whittaker (our long-time friend and Jefferies Vice Chairman) and Eddie Sugar (who at the time was at Jefferies) called to suggest we meet with them to discuss a new project. Forrest had his eye firmly fixed on China and believed that there was room for a "Third Force" in iron ore mining in the Pilbara region of Western Australia — the first two being Rio and BHP. He had started Fortescue Metals Group (FMG), rounded up a small amount of money and taken up tenements from the government to mine and ship iron ore. It was an audacious scheme, requiring at least $3 billion. Forrest's reputation had been damaged by the Anaconda fiasco, but we were intrigued, believing that China was an ever increasing consumer of raw materials and particularly iron ore. Frank Joklik, Jimmy Hallac and Bud Scruggs flew south to the Antipodes[6] to do due diligence. While there Bud picked up a bag full of rocks and brought them back to the United States to be assayed, confirming 61% iron ore. Eureka!

It took us a few months to appreciate the breadth and scope of Andrew's ambitions, which involved building a port and a 260 kilometer railroad, and to become convinced that surface mining, a method heretofore not used for iron ore, would work and be financially viable. Andrew was persuasive, though at times prone to severe exaggeration. Notwithstanding, we became convinced that this was a very attractive opportunity and a risk worth taking. With the money and credibility of Leucadia, Rich Handler stepped in to say that the $2 billion financing could be done. After several very spirited negotiation sessions we agreed on a deal giving Leucadia a 9.9% ownership position in FMG along with a right to collect 4% of certain revenues for thirteen years. Jefferies and others completed the debt financing and FMG was off and running to profitability, albeit with bumps along the road — some the result of the global financial meltdown in 2008 and some self-inflicted.

Later on, to our dismay, we had a falling out with Andrew. His personality dominated the FMG board and the other directors were more inclined to follow his lead as to the appropriate amount of equity, debt, leverage and the rate at which to expand, as opposed to our more conservative views. As the relationship soured, Andrew claimed our 4% royalty was subject to dilution and we were forced to sue to maintain our favorable economics. This resolved itself in 2012, when we sold our remaining stock position in the market and FMG bought back our 4% revenue stream.

Our six year adventure with Andrew Forrest and FMG was rockier than the Aussie outback, but turned out to be the most financially rewarding. From start to finish Leucadia made $2.3 billion. It was a splendid outcome and we wish Andrew and FMG continued success.

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[6] In the northern hemisphere, often used to refer to Australia and New Zealand.

A Major Future Opportunity

After a 10-year effort led by the indomitable and indefatigable Tom Mara, our Louisiana gasification project is now poised to move into the construction phase. The gasification facility located in Lake Charles, Louisiana has major off-take agreements in place as well as all necessary permits. It recently entered into a Memorandum of Understanding with SKE&C USA, Inc., SK Engineering & Construction Co. Ltd. and Technip USA Inc. pursuant to which they will provide an industry standard lump sum turnkey construction contract.

Funding for this project will be covered in part by $1.561 billion of tax exempt bonds, a $230 million federal grant for carbon capture and sequestration, and a $128 million federal investment tax credit. The project will require equity of $400 to $600 million.

Au Revoir

As we conclude this final epistle and wrap up our extraordinary working relationship, we find ourselves reflecting on Leucadia's formidable past and promising future. A 35 year partnership is rare in marriage and even rarer in business. Those unfamiliar with our approach have sometimes been startled by the occasional tenacity of our interactions. We are both strong personalities with correspondingly strong opinions. Each of us has been described as "often wrong, but never in doubt."

We frequently saw a deal differently or disagreed on the strategic course of an operating company — the alchemy of our partnership enabled us to resolve our differences. We trust one another and respect the value of our differing skills, interests and intuitions.

Over the last 35 years we have unfailingly stood by one another in times of heartache, health and personal challenges. Our relationship means more to us than we easily acknowledge.

We owe a special debt to our families who were often neglected while we chased the next deal. We are both blessed with loving wives and children who have risen above our excesses and absences to make us very, very proud.

One of us remains to do all he can to help Rich and Brian take Leucadia to new heights. The other will be cheering – and kibitzing – from the sidelines and building a private family company. Managing Leucadia has been a magnificent adventure. We have done well and so have our shareholders. It has given us great pleasure to meet shareholders and to learn that proceeds from the sale of Leucadia stock sent their kids to college. None of this would have been possible without the hard work, devotion, courage and enthusiasm of our Directors, employees and advisers. We can't list them all, but would like to pay special tribute to those who have been with us for more than twenty-five years — employees Tom Mara, Joe Orlando, Jane Goldman, Joe Veetal, Joe Sartin and Gloria Kozinski, and Directors Jay Nichols, Jim Jordan and Paul Dougan.

Thank you.

Ian M. Cumming

Joseph S. Steinberg

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Exhibit 99.1

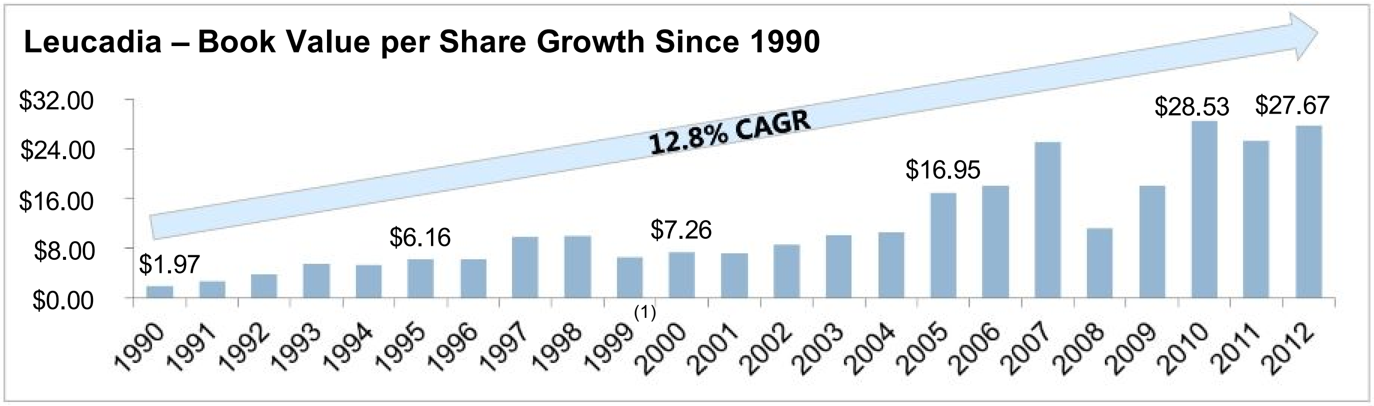
Leucadia National Corporation
2013 Annual Meeting

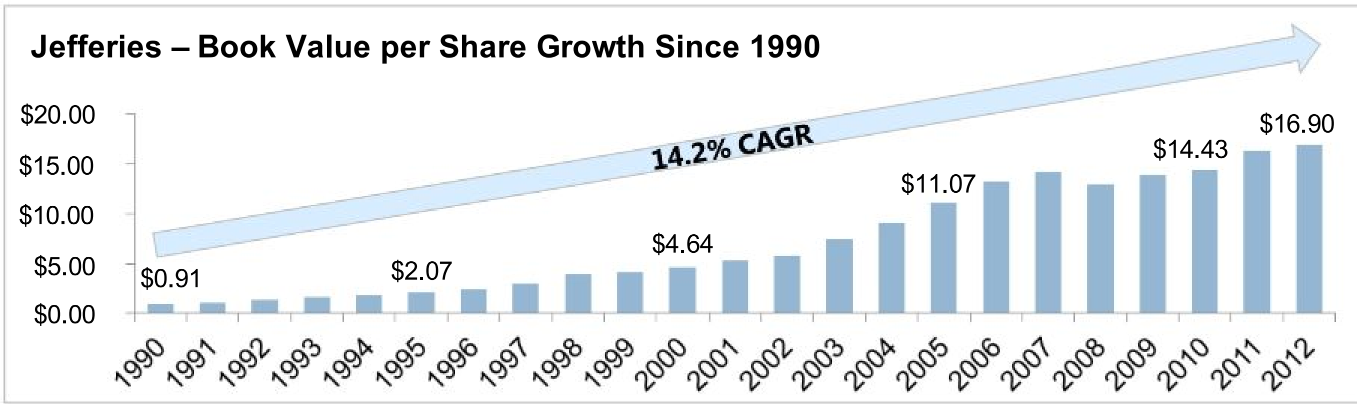
July 25, 2013

Note on Forward Looking Statements

This document contains “forward looking statements” within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words “should,” “expect,” “intend,” “may,” “will,” or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors, including our Risk Factors, that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in reports we file with the SEC. You should read and interpret any forward looking statement together with reports we file with the SEC.

Book Value per Share Growth Since 1990





Note: Book value per share figures are split-adjusted.
(1) Reduction in book value per share reflects special 1999 dividend payments totaling $811.9 million, or $4.53 per share.

Overview

- Our Businesses:

Jefferies (Investment Banking) 2013	National Beef (Beef Processing) 2012	Berkadia (Mortgage Servicing) 2009
Garcadia (Auto Retail) 2006	Premier Entertainment (Gaming) 2006	Conwed (Plastics) 1985
Idaho Timber (Wood Products) 2005	Linkem (Telecommunications) 2011	Real Estate / HomeFed

- Liquidity:

Cash & Investments $2.8 billion	**Deferred Tax Asset $1.8 billion**

Note: Figures reflect book value as of 03/31/13.

Liquidity Events – Last Twelve Months

- Leucadia has generated over $2 billion of proceeds in the last twelve months
  - Fortescue Metals note redemption and stock sale (July and October 2012): $868 million
  - Inmet Mining merger consideration (March 2013): $732 million, including $340 million of First Quantum stock
  - Mueller stock sale (September 2012): $427 million
  - Keen Energy sale (October 2012): $128 million plus $40 million note
  - TeleBarbados sale (September 2012): $28 million

Long-Term Strategy – Compelling Value in Sectors We Understand

- Financial Services
  - Jefferies
  - Berkadia
  - Asset Management
- Auto Retail – Garcadia
- Agribusiness – National Beef
- Project Development
  - Gasification
  - Oregon Liquefied Natural Gas
- Energy, Metals and Mining, Consumer, Industrial, Media, Telecom

Overview

National Beef harvests ~3.7M fed cattle per year representing ~14.5% market share

- 3 processing plants strategically located in Liberal and Dodge City, KS and Brawley, CA
- Compete with Tyson, Cargill, JBS and numerous small beef packers
- Export beef and beef by-products to more than 20 countries

Beef processing is a spread margin business, but National Beef is intensely focused on value-added production to drive superior performance versus its commodity-focused competitors

- National Beef operates 3 further processing plants converting beef and pork into fresh, consumer-ready products
- Strategically located in PA, GA and KS

National Beef's tannery is among the largest in the world

- Convert raw cattle hides to wet blue leather for use in finished leather production for automotive, shoes, fashion, etc.

www.kansascitysteaks.com

- Premium direct to consumer beef and other center-of-the-plate entrees

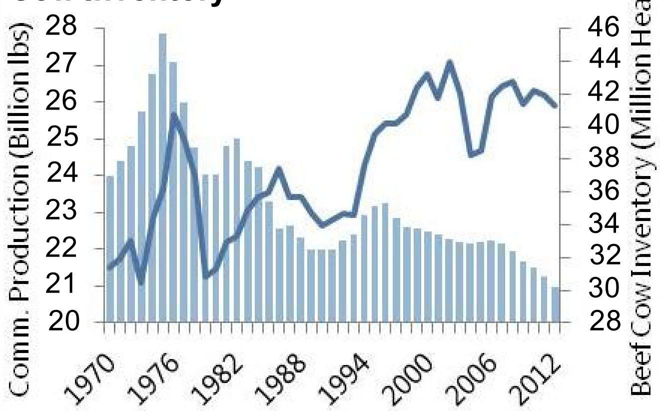
National Carriers refrigerated and livestock transportation and logistics business

- Services National Beef along with numerous 3rd party shippers

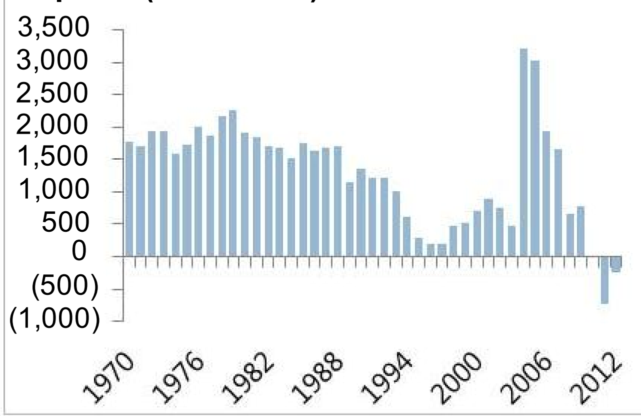
Industry Trends

- U.S. beef cowherd has been in downward trend for a generation, however due to improvements in genetics and production practices, overall beef supply has actually increased
- The U.S. has historically been a net importer of beef. Due to increasing international demand for U.S. beef and a decline of lean beef imports, the U.S. is now a net exporter of beef. This has had a positive impact on industry margins

U.S. Commercial Beef Production vs. Beef Cow Inventory [(1)]



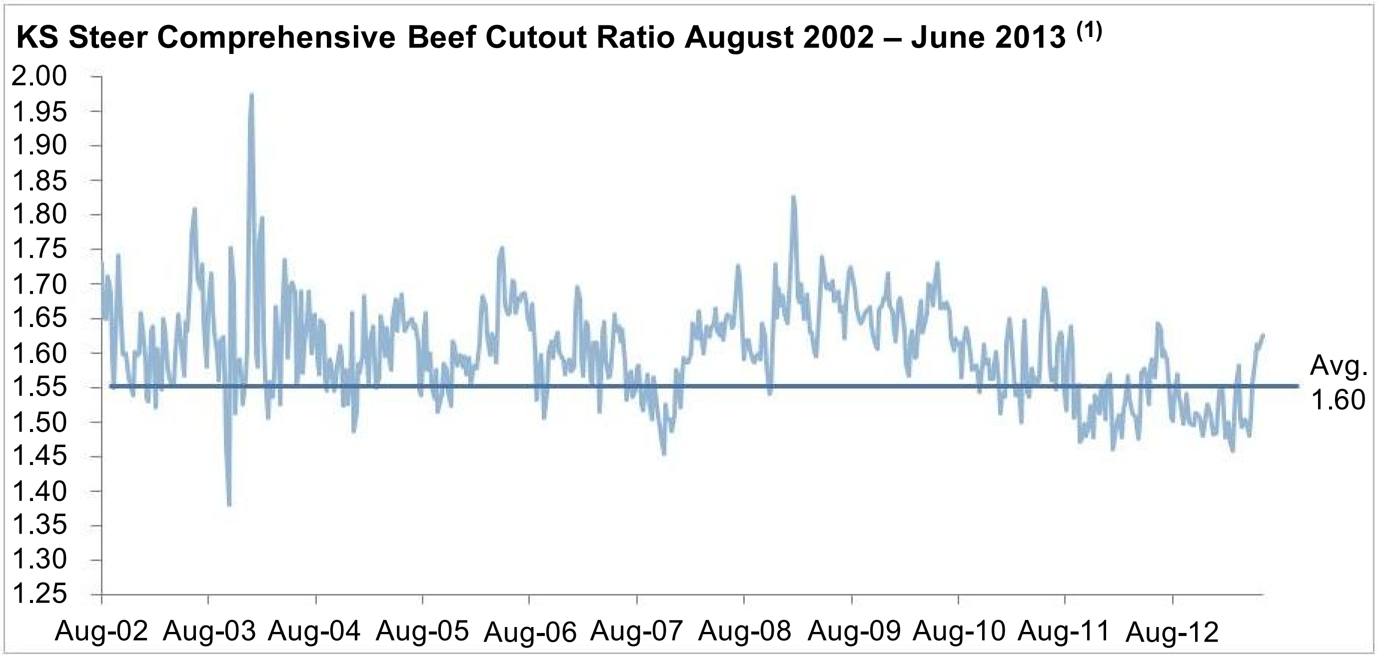
U.S. Net Beef Trade – Imports Minus Exports (Million lbs) [(1)]



(1) Source: USDA.

Industry Trends (Cont'd)

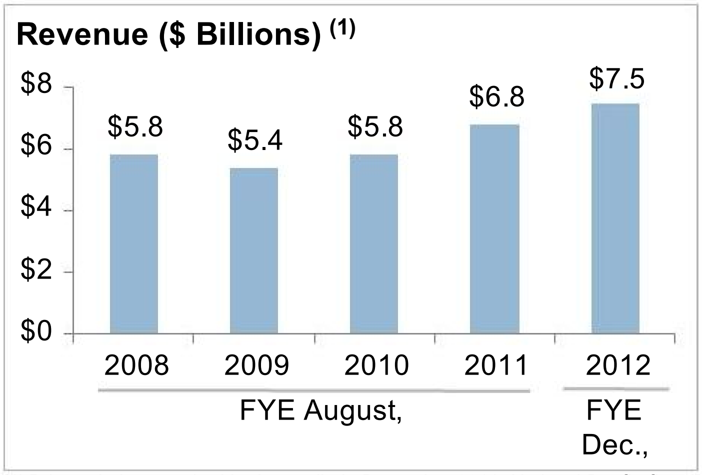
- The cutout ratio is a good proxy for industry profitability…and demonstrates the variability of beef processing margins



(1) Cutout ratio is calculated as the USDA National Comprehensive Boxed Beef Cutout divided by the USDA Kansas Weekly Weighted Average Steer Price.

Financial Performance

- The beef processing industry is cyclical and working capital intensive. However, it has significant barriers to entry and offers attractive prospects for free cash flow generation over the cycle
- Given cattle supply constraints, strategies designed to drive margin expansion are more important to long-term profit growth versus those focused on increasing revenue



(1) Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012.

(2) Profit from operations is a non-GAAP measure. Profit from operations equals pre-tax income, plus depreciation and amortization expenses and excluding interest expense / (income), net. See page 29 in the appendix for a reconciliation to GAAP amounts.

Recent Developments

- Global protein demand is expected to continue current growth trend; growth of middle class in developing countries points to increasing demand for beef
- Recent regulatory change in cattle age requirement by Japan has resulted in industry-wide increase in export volume to Japan
- Acquired remaining minority interest in Kansas City Steaks, increasing ownership from 75% to 100%
- Retrofit of hide tanning facility expected to be completed in December 2013, at which point National Beef will have the largest tannery, anticipated to be the most efficient in the United States
- Widespread drought conditions have contributed to a delay in the reversal of the downward trend in U.S beef cow numbers. Fewer cows ultimately result in lower supplies of fed cattle and that has reduced industry-wide beef packing margins and National Beef's profitability

BERKADIA®

THE INDUSTRY OF ONE®

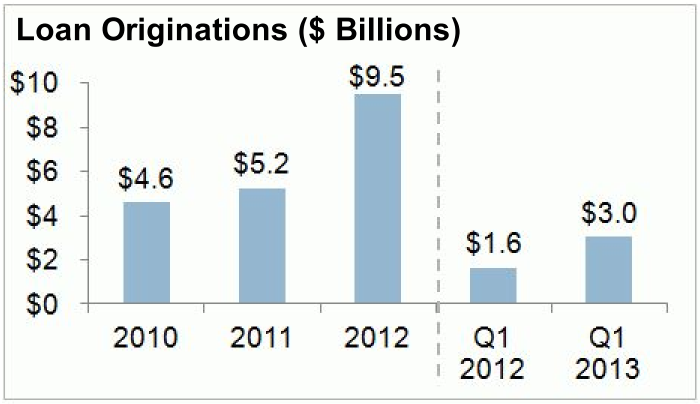
Overview

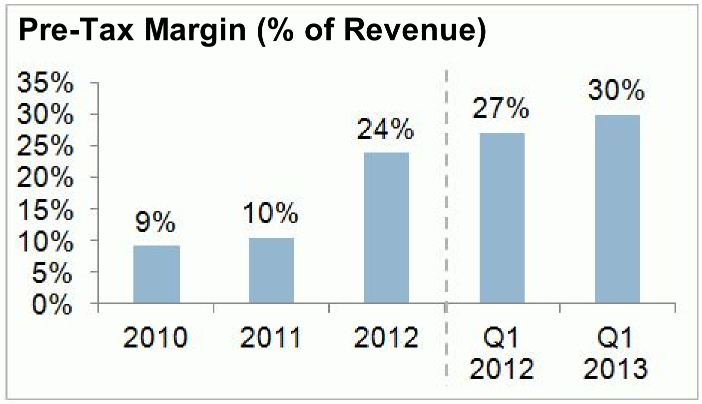
- Acquired by Leucadia in a 50/50 joint venture with Berkshire Hathaway from the Capmark bankruptcy estate
- 3rd largest servicer of commercial real estate loans in the U.S. Berkadia collects payments, manages tax, insurance and maintenance escrow reserves on behalf of, and reports and remits funds to, the owners of 30,500 loans. Berkadia bears the risk of loss on less than 1% of its servicing portfolio
- 5th largest multifamily loan originator (12th largest commercial real estate loan originator overall) in the U.S. Berkadia originates loans on behalf of third party investors, primarily Government Sponsored Enterprises (GSEs), HUD, conduits and life insurance companies
- Able to direct the investment of, and retain the investment earnings on, a significant portion of the escrow cash balances associated with the servicing portfolio
- Leucadia’s original investment was $217 million. As of July 15, 2013, cumulative cash distributions to Leucadia have been $191 million, with substantial value going forward

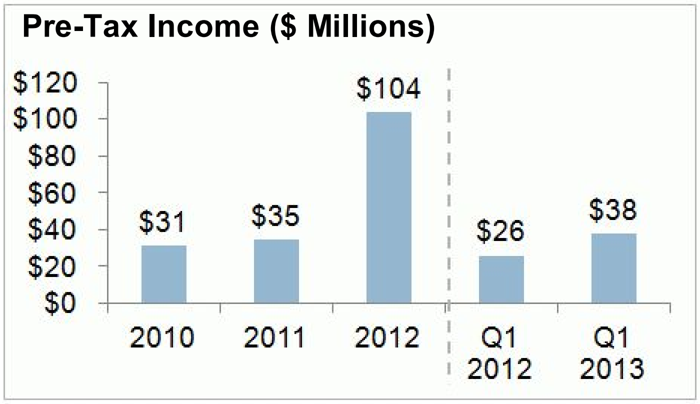
Overview (Cont'd)

- Despite the ongoing run-off of the historical servicing base, Berkadia has been able to grow in originations, revenues, margins, servicing portfolio and, most importantly, cash flow
  - Low-cost high quality master and primary servicer, driven in part by company-owned operations in India
  - 2012 production volume of $9.5 billion was up 81% over 2011 while the overall market was up 30%
  - In December 2012, Berkadia acquired Hendricks & Partners to add investment sales capabilities and deepen borrower relationships in multifamily space
- Impending real estate loan maturities in industry should drive significant future loan originations
  - $840 billion of the $1.5 trillion commercial real estate loans outstanding (excluding banks) mature over the next 5 years
  - Multifamily loan maturities increase every year through 2017

Financial Performance





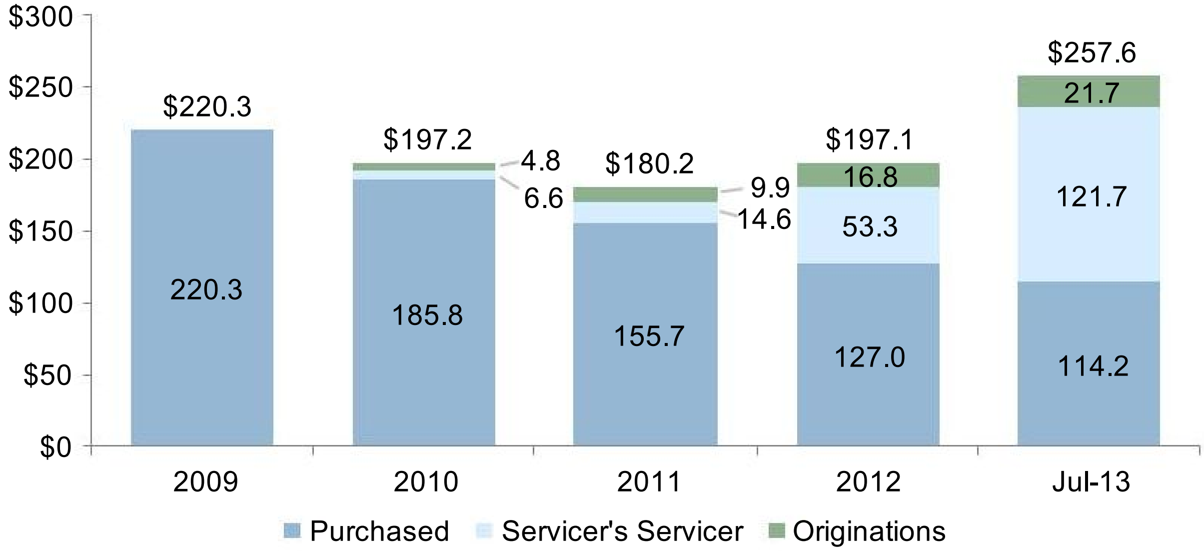


(1) Cash Earnings is a non-GAAP measure. Cash Earnings equals pre-tax income plus depreciation and amortization of mortgage servicing rights (MSR's), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to origination of MSR's. See page 30 in the appendix for a reconciliation to GAAP amounts.

Portfolio Growth

- More than 50% of the servicing portfolio has been added since acquisition
- As of July 2013, the U.S. servicing portfolio is the largest it has been in its history

Servicing Portfolio – Unpaid Principal Balance ($ Billions)(1)



(1) Shown net of Special Servicing.

Opportunities & Risks

Opportunities

- Benefit from a rise in interest rates, especially short term interest rates
- Fill-in national footprint by hiring experienced mortgage bankers and investment sales advisors in new markets and diversify across all product types
- Better capitalize on our combined mortgage banking and investments sales team by continuing to build and improve tools that better serve our customers (including additional differentiating products, capital sources, and process improvements)
- Both servicing and origination markets are fragmented and consolidating
- Increased efficiency

Risks

- Reduced Fannie Mae, HUD and Freddie Mac presence in the multifamily lending markets due to changes in government policy or regulation may impact margins
- Banking counterparty risks
- Credit quality deterioration – credit performance has been excellent as losses and delinquency have been very low and are lower than industry averages
- Not being able to enter into additional Servicer's Servicers transactions on favorable economic terms
- Sustaining current growth rates

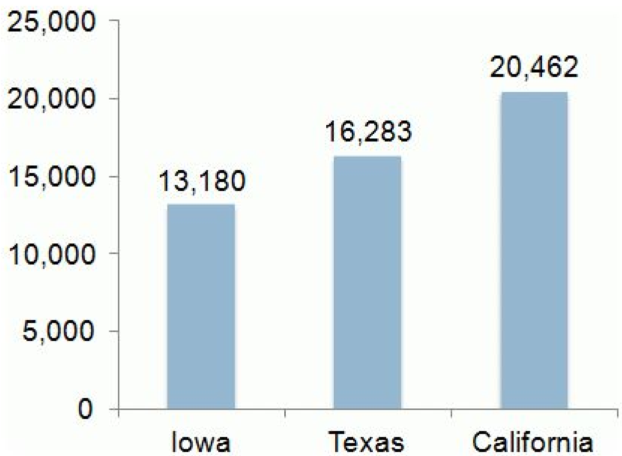
Garcadia

Garcadia Overview

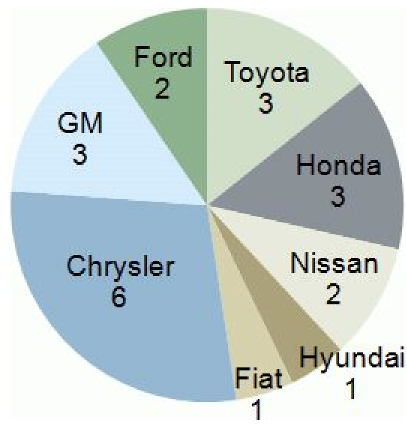
15th Largest U.S. Dealership Group

- 21 dealerships
- 1,800 employees
- Current group will sell 50,000 units annually

Units Sold by Current Platform



Number of Dealerships by Manufacturer
(52% Domestic, 48% Foreign)

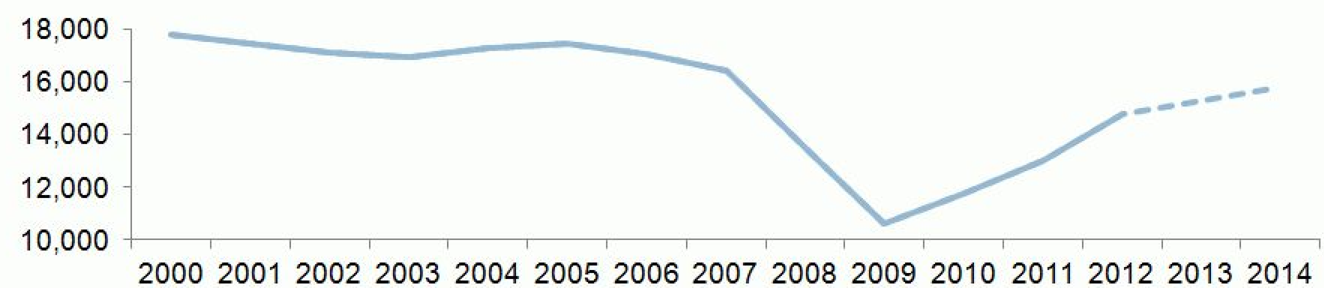


Auto Market Overview

Key Market Trends

- Pent up demand
- Average age of vehicle on road – 10.8 years
- Consumer financing available at pre-recession levels
  - Aggressive loan to value
  - Prime and near prime approval levels on the rise
- Number of licensed drivers on the rise
- Used vehicle valuations remain strong

U.S. New Vehicle Sales (Thousands) (1)



(1) Source: WardsAuto.

Auto Retail Industry

Large and Fragmented Market

- $700 billion in annual sales
- 17,900 dealerships nationwide
- Top 10 groups represent only 8% of market

Many Acquisition Opportunities

- Aging dealer body without succession plans

Technology Changing Business

- Many “old school” processes exist in auto dealerships
- Must embrace new technology to stay ahead

Garcadia Model

Acquisition Strategy

- Build geographic clusters in medium to large markets
- Target medium to high volume stores
- Focus on profitable, but underperforming dealerships
- Solve succession issues

Operations

- Hire the best people
- Maintain flat organization
- Execute on key operational initiatives
  - Data- and results-driven culture
- Manage to $1,000 net income per vehicle retailed

Garcadia Joint Venture

JV Partner: Ken Garff Automotive Group

- 85 years in the industry
- Acts as the dealer principal
- Provides operating management

Company Performance ($ Millions)

	FYE December 31,		
	2010	2011	2012
Total Units Sold	20,832	25,483	35,394
# of Dealerships	14	17	18
Garcadia Revenue(1)	$ 639.5	$ 789.4	$ 1,100.8
% Growth	*NA*	*23.4%*	*39.4%*
Garcadia Pre-Tax Income(1)	$ 14.1	$ 22.3	$ 37.4
% Margin	*2.2%*	*2.8%*	*3.4%*
Garcadia Distributions(2)	$ 13.8	$ 16.0	$ 30.4

(1) Represent combined amounts for all Garcadia dealership holdings, not just Leucadia's share.
(2) Represents Leucadia's share of cash distributions and rent paid by Garcadia for land owned by Leucadia.

Jefferies

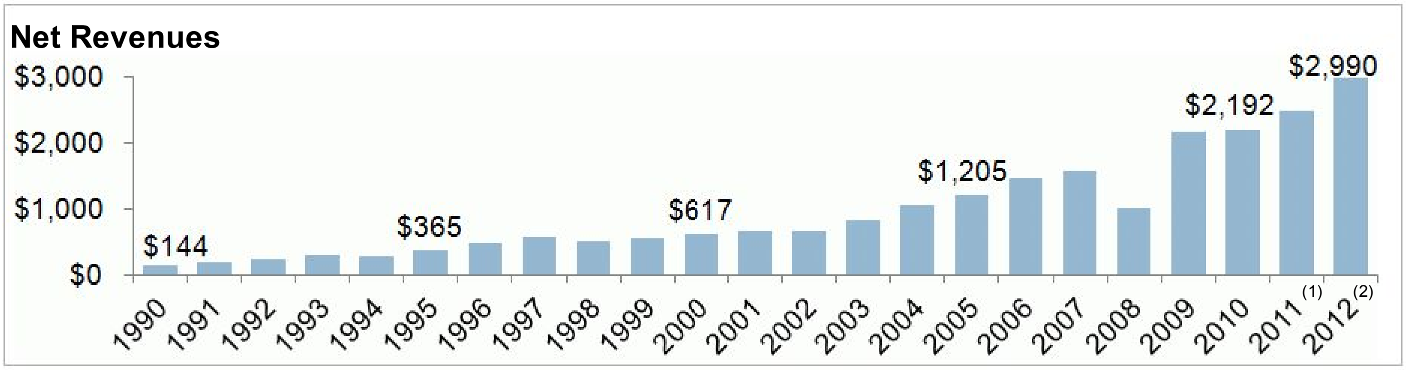
Jefferies Group

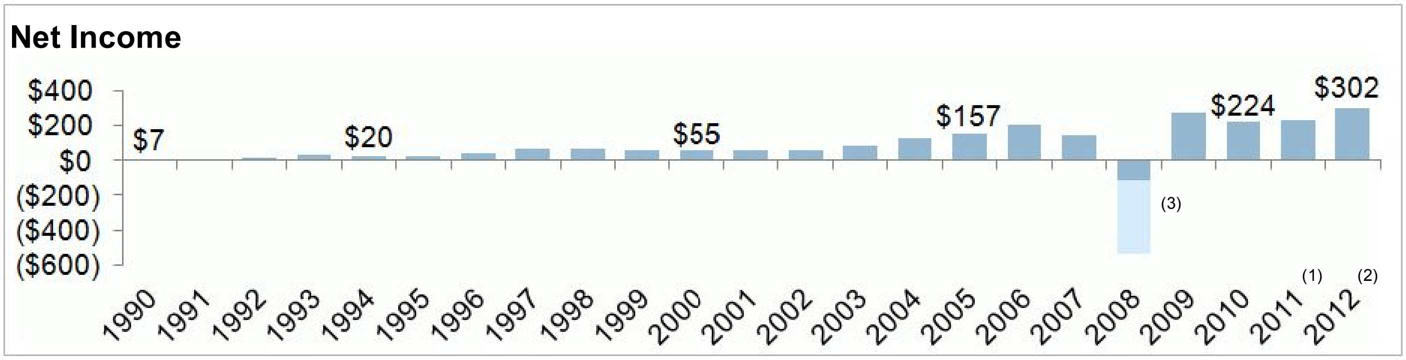
Jefferies

- **Full-Service Capital Markets Platform:** expertise and depth across equities, fixed income, commodities and investment banking
- **Client-Focused:** providing investor and issuer clients with the highest quality advice and execution
- **Global Footprint:** sales & trading and investment banking presence across the United States, Europe and Asia
- **Strong, Stable Foundation:** robust long-term capital base, comparatively low leverage and free from dependence upon government support
- **Positioned to Seize Market Share:** having broadened our product offering and hired additional key talent during the downturn, Jefferies is growing rapidly

Jefferies Revenues & Net Income – Since 1990

($ Millions)





(1) The selected financial information for the year ended November 30, 2011 are non-GAAP financial measures. See page 31 in the appendix for a reconciliation to GAAP amounts.

(2) The selected financial information for the year ended November 30, 2012 are non-GAAP financial measures. See page 31 in the appendix for a reconciliation to GAAP amounts.

(3) Includes post-tax losses of $427 million related to the modification of the terms of Jefferies' employee stock awards in Q4 2008, such that previously granted awards were written off and current year employee stock compensation awards were expensed in the year in which service was provided.

A Full Service Investment Bank

Jefferies

Equities

- Cash Equities
- Electronic Trading
- Derivatives
- Prime Brokerage / Securities Finance
- ETFs
- Convertibles
- Wealth Management
- Research

Fixed Income

- Investment Grade
- Leveraged Credit
- Emerging Markets
- MBS / ABS
- Rates / Repos
- Municipals
- ETFs
- Research

Jefferies Bache

- Listed Futures
- Base Metals
- Precious Metals
- Foreign Exchange
- Research

Investment Banking

- Consumer
- Energy
- Equity Capital Markets
- Financials
- Healthcare
- Leveraged Finance
- Industrials
- Metals & Mining
- M&A
- Real Estate, Gaming & Lodging
- TMT
- Restructu-ring
- Financial Sponsors
- Public Finance

Recent Developments

Jefferies

- Jefferies continues to win market share and deliver consistent profitability
  - Investment Banking revenues underline the quality and durability of Jefferies' platform
  - Solid growth in Equities revenues
  - Durable Fixed Income, Commodities and Currencies platforms
- Continued emphasis on earnings growth through increased employee productivity
- Jefferies' full-service capabilities and momentum outside the U.S. present a significant growth opportunity

Appendix

National Beef – GAAP Reconciliation

($ Millions)

	FYE August,				FYE Dec.,
	2008	2009	2010	2011	2012
Pre-Tax Income (GAAP)	$ 127.0	$ 145.1	$ 249.0	$ 261.6	$ 59.0
Interest Expense / (Income), net	33.5	23.2	14.7	11.7	12.4
Depreciation & Amortization	36.4	44.4	49.6	51.2	83.1
Profit from Operations (Non-GAAP)	$ 196.9	$ 212.7	$ 313.3	$ 324.5	$ 154.5

Note: Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012.

Berkadia – GAAP Reconciliation

($ Millions)

	FYE December 31,			Three Months Ended,	
	2010	2011	2012	03/31/12	03/31/13
Pre-Tax Income (GAAP)	$ 31.0	$ 34.6	$ 103.8	$ 26.0	$ 37.8
Amortization, Impairment and Depreciation	88.1	107.5	112.7	23.7	25.7
Gains Attributable to Origination of MSR's	(42.4)	(45.2)	(93.1)	(11.5)	(22.2)
Loan Loss Reserves and Guarantee Liabilities, net of cash losses	3.1	3.2	18.8	0.4	3.1
Unrealized (Gains) / Losses; and all other, net	(9.1)	7.0	(7.7)	(6.7)	(6.1)
Cash Earnings (Non-GAAP)	$ 70.7	$ 107.1	$ 134.5	$ 31.9	$ 38.3

Jefferies – GAAP Reconciliation

($ Millions)

	FYE November 30,					
	2011			2012		
	GAAP	*Adjustments*	Adjusted	GAAP	*Adjustments*	Adjusted
Net Revenues	$ 2,548.8	*$ 72.7* (1)	$ 2,476.1	$ 2,998.8	*$ 8.4* (5)	$ 2,990.4
Compensation and Benefits	1,482.6	*11.8* (2)	1,470.8	1,770.8	*24.7* (6)	1,746.1
Noncompensation Expenses	643.3	*7.8* (3)	635.4	693.3	*14.5* (7)	678.8
Total Non-interest Expenses	2,125.9	*19.6*	2,106.2	2,464.1	*39.2*	2,424.9
Earnings Before Income Taxes	419.3	*53.1*	366.3	491.8	*(30.8)*	522.6
Income Tax Expense (Benefit)	133.0	*0.2* (4)	132.7	168.6	*(11.4)* (8)	180.1
Net Earnings	286.4	*52.8*	233.5	323.1	*(19.4)*	342.5
Net Earnings to Common Shareholders	$ 284.6	*$ 52.8*	$ 231.8	$ 282.4	*$ (19.4)*	$ 301.8

(1) In accordance with debt extinguishment accounting under ASC 405 and 470, Jefferies recorded a gain on debt extinguishment of $20.2 million, relating to trading activities in its own long term debt. The 2011 year also includes a bargain purchase gain of $52.5 million resulting from the acquisition of the Bache entities from Prudential recorded in 2011.

(2) In connection with the acquisition of the Bache entities, compensation expense was recognized for 2011 related to 1) severance costs for certain employees of the acquired Bache entities that were terminated subsequent to the acquisition, 2) the amortization of stock awards granted to former Bache employees as replacement awards for previous Prudential stock awards that were forfeited in the acquisition and 3) bonus costs for employees as a result of the completion of the acquisition.

(3) Includes the amortization of intangible assets of $0.7 million recognized during 2011 in connection with the acquisition of the Bache entities as well as expenses (primarily professional fees) totaling $7.1 million related to the acquisition and/or integration of the Bache entities within Jefferies.

(4) A total domestic marginal tax rate of 41.7% was applied. The bargain purchase gain of $52.5 million on the acquisition of Bache is not a taxable item.

(5) Includes a gain on debt extinguishment of $9.9 million in accordance with debt extinguishment accounting relating to trading activities in Jefferies own long term debt and a bargain purchase gain of $3.4 million resulting from the acquisition of Hoare Govett, partially offset by additional interest expense of $4.8 million from subsequent amortization of debt discounts upon reissuance of Jefferies own long-term debt.

(6) Includes compensation expense related to the amortization of retention and stock replacement awards granted in connection with the acquisition of the Bache entities and Hoare Govett and bonus costs for employees as a result of the completion of the Hoare Govett acquisition.

(7) Reflects an impairment charge of $2.9 million on indefinite-lived intangible assets and amortization of intangible assets recognized in connection with the acquisitions of Hoare Govett and the Bache entities, donations to Hurricane Sandy relief of $4.1 million and transaction costs (primarily professional fees) associated with the merger with Leucadia National Corporation of $4.7 million.

(8) Reflects the tax benefit on the additional interest expense, Hoare Govett and Bache related expense items, Hurricane Sandy relief donations and transaction costs associated with the merger with Leucadia at a domestic and foreign marginal tax rate of 42.3% and 24.7%, respectively.

Leucadia National Corporation
2013 Annual Meeting

July 25, 2013

Leucadia National Corporation

October 2013

Notes on Forward Looking Statements

This document contains "forward looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words "expect," "intend," "may," "will," or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in reports we file with the SEC. You should read and interpret any forward looking statement together with reports we file with the SEC.

Table of Contents

Leucadia Overview

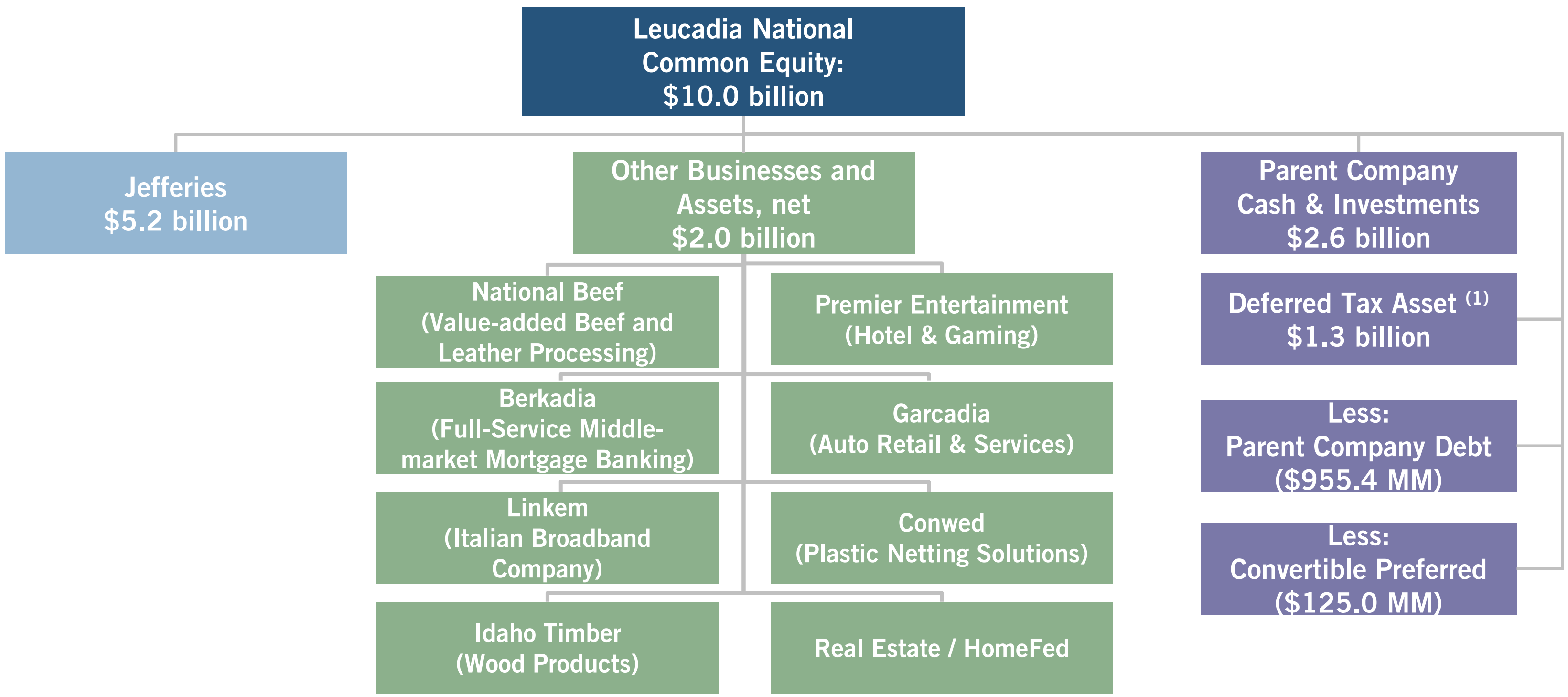
Executive Summary

- Leucadia – Jefferies merger closed on March 1, 2013
- Leucadia's parent company balance sheet remains highly liquid and cash-rich
  - Parent company debt of $553.5 MM [(1)] (adjusted for $401.9 MM August 2013 debt maturities)
  - Available parent company cash and investments of $2.2 billion [(1)] (46% [(2)] of common equity excluding Jefferies)
- At 12/31/12, Leucadia had Federal income tax NOLs of $3.6 billion that can be used to offset future U.S. pre-tax income
  - Potential tax savings of $1.2 billion reflected on the balance sheet as a component of the net Deferred Tax Asset
- Leucadia's historic business units continue to perform well and generate substantial cash flow
  - National Beef, Berkadia, Garcadia, Premier Entertainment, Conwed Plastics and Idaho Timber have generated significant operating cash flow over past 12 months
    - $228 million of cash flow from operating activities of subsidiaries (excluding Jefferies) and investee cash distributions for the LTM period ended 06/30/13 [(3)]
- Jefferies continues to operate in a manner consistent with its historical business model and remains a client-focused, conservatively capitalized and full-service global investment banking firm
- Leucadia continues to pursue compelling value opportunities, consistent with its track record established over more than three decades as one of the world's leading long-term investors
  - Investment criteria are consistent with the disciplined approach to risk that Leucadia has publicly affirmed

(1) Adjusted for August 15, 2013 maturity and repayment of 7.75% Senior Notes ($94.5 million) and 7% Senior Notes ($307.4 million).
(2) Reflects parent company available cash and investments adjusted for August 2013 maturities, divided by $4,864.0 million (Leucadia book value of $10,023.6 million less book value of Jefferies Group LLC of $5,159.6 million).
(3) Includes 06/30/13 LTM cash flow from operating activities from National Beef ($87 million), Premier Entertainment ($27 million) and Manufacturing (Conwed Plastics and Idaho Timber) ($21 million), and 06/30/13 LTM cash distributions from Berkadia ($58 million) and Garcadia ($35 million).

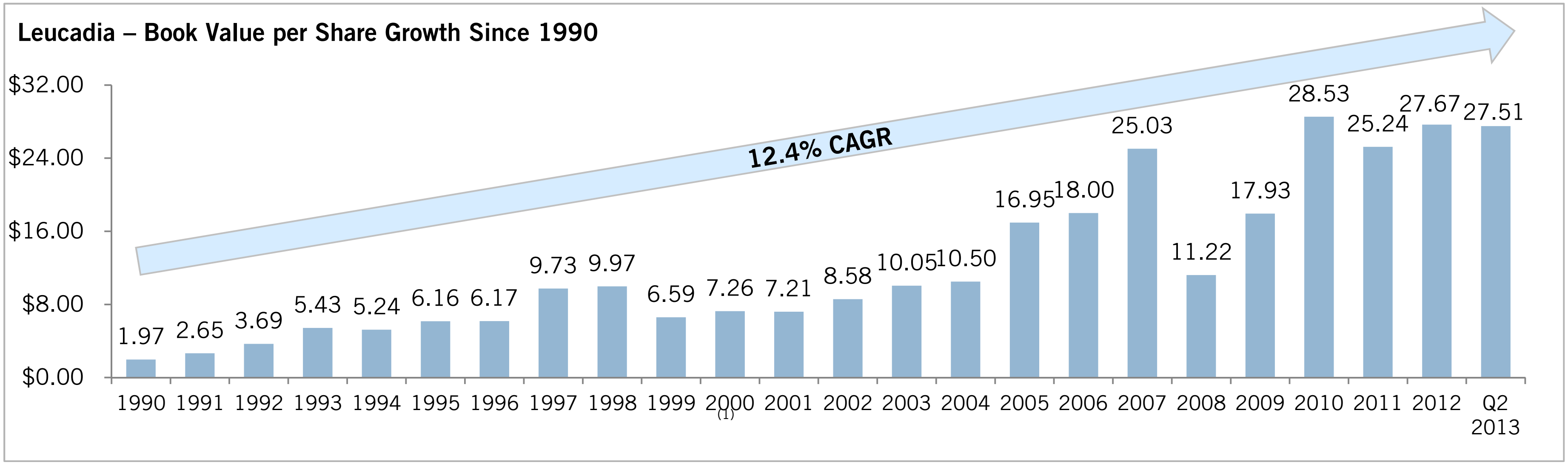
Leucadia Overview

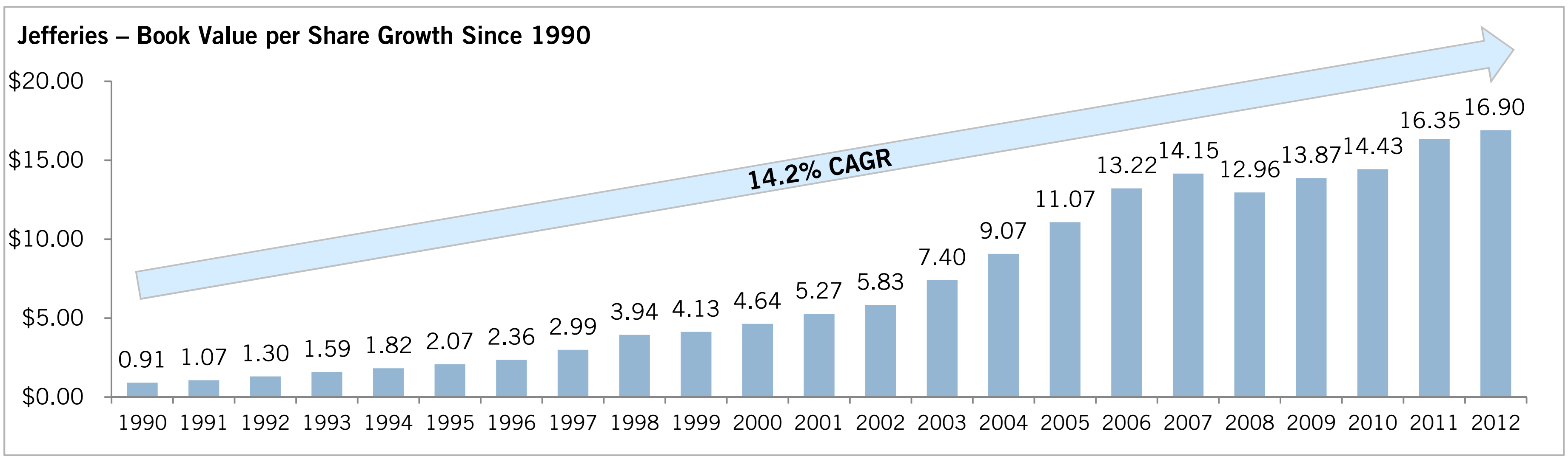
- Following the March 1, 2013 merger of Leucadia and Jefferies, Leucadia has common equity of approximately $10 billion, including the following:
  - Jefferies – $5.2 billion
  - Parent Company Cash and Investments – $2.6 billion
  - Deferred Tax Asset – $1.3 billion [1]
    - Over time, Deferred Tax Asset will be realized as cash as it offsets taxable income of Jefferies and Leucadia's other businesses
  - Other Businesses and Assets, net – $2.0 billion



Note: Dollar amounts reflect book value as of 06/30/13.
(1) Excludes Jefferies Net Deferred Tax Asset of $523.4 million.

Book Value per Share Growth Since 1990

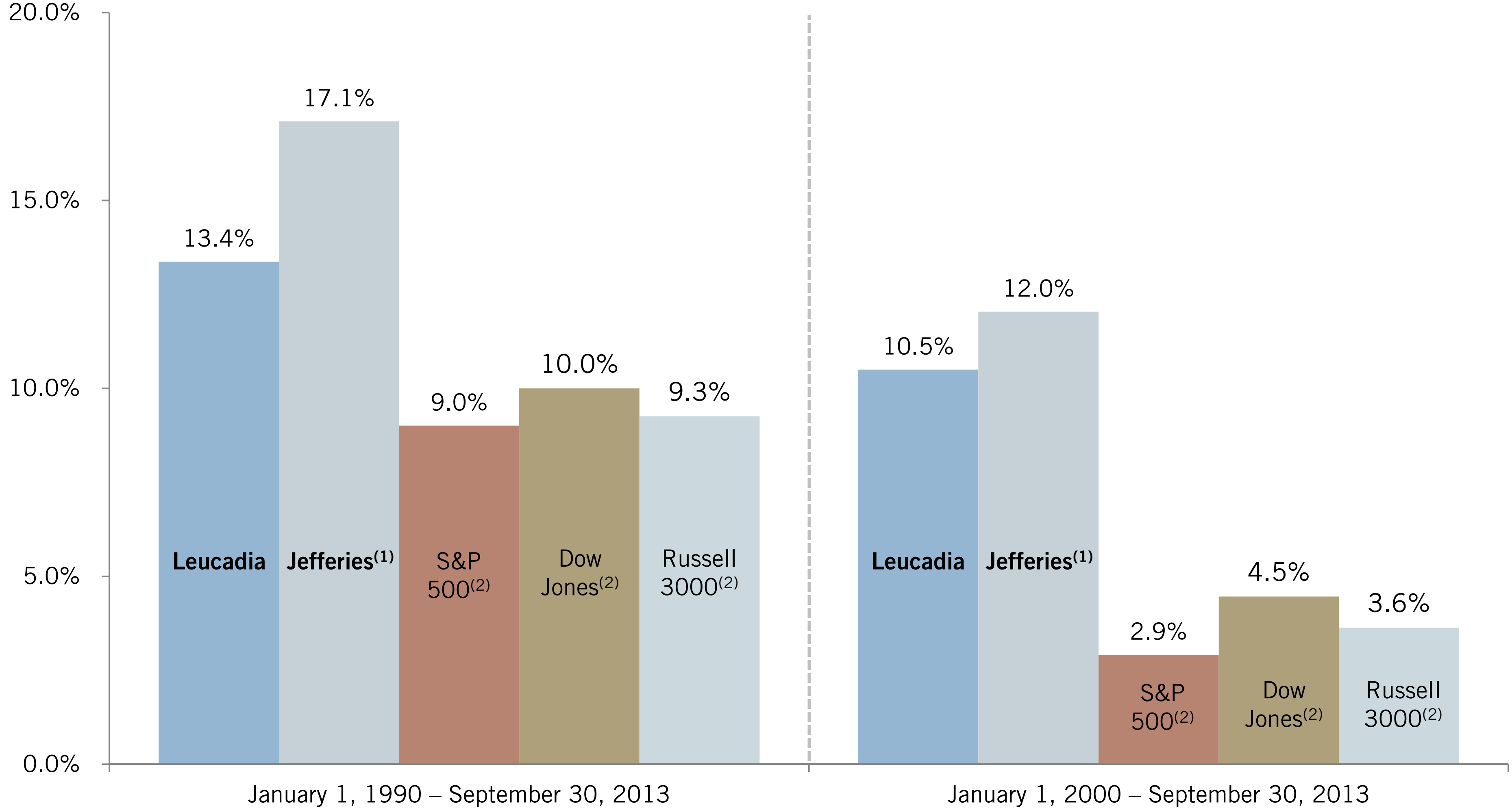




Note: Book value per share figures are split-adjusted.
(1) Reduction in book value per share reflects special 1999 dividend payments totaling $811.9 million, or $4.53 per share.

Total Shareholder Return

CAGR (%)



Source: Bloomberg.

Note: Leucadia total shareholder return includes all split-adjusted regular dividends, as well as split-adjusted 1999 special cash dividend and shares from both HomeFed and Crimson Wine spin-outs. Jefferies total shareholder return includes all split-adjusted regular dividends, as well as split-adjusted 1999 special cash dividend and shares from ITG spin-out.

(1) Through February 28, 2013.

(2) Reflects SPXT, DJITR and RU30INTR total return indices.

Liquidity Events – Last Four Quarters

Leucadia has generated over $2 billion of proceeds over the last four quarters:

- Fortescue Metals note redemption and stock sale (July and October 2012): $868 million
- Inmet Mining merger consideration (March 2013): $732 million, including $340 million of First Quantum stock
- Mueller stock sale (September 2012): $427 million
- Keen Energy sale (October 2012): $128 million plus $40 million note
- TeleBarbados sale (September 2012): $28 million

Long-Term Strategy – Compelling Value in Sectors We Understand

- Financial Services
  - Jefferies
  - Berkadia
  - Asset Management
- Auto Retail – Garcadia
- Agribusiness – National Beef
- Project Development
  - Gasification
  - Oregon Liquefied Natural Gas
- Real Estate
  - HomeFed
- Energy, Metals and Mining, Consumer, Healthcare, Industrial, Media and Telecom

Leucadia Leverage, Liquidity and Balance Sheet Parameters

Leucadia Balance Sheet – June 30, 2013

($ Millions)

Key Points

- Total Assets: $46.2 Bn
- Total Equity: $10.0 Bn
- Parent Company Debt: $955.4 MM
- Parent Company Available Cash and Investments: $2.6 Bn

Balance Sheet @ 06/30/13 (Not Adjusted for Recent Debt Maturities)	
Assets:	
Cash & Cash Equivalents	3,553.6
Cash & Securities Segregated	3,056.1
Financial Instruments Owned	17,934.4
Investments in Managed Funds	55.1
Loans to and Investments in Associated Companies	992.0
Securities Borrowed	5,357.7
Securities Purchased Under Agreements to Resell	3,467.6
Securities Received as Collateral	36.2
Receivables from Brokers, Dealers and Clearing Organizations	3,314.3
Receivables from Customers of Brokerage Operations	1,188.3
Property, Equipment and Leasehold Improvements, net	930.5
Intangible Assets, net	1,059.9
Goodwill	1,722.5
Deferred Tax Assets, net	1,839.9
Other Assets	1,671.1
Total Assets	$ 46,179.3
Liabilities & Shareholders' Equity:	
Trading Liabilities	6,771.8
Securities Loaned	2,679.2
Securities Sold Under Agreements to Repurchase	9,612.1
Other Secured Financings	227.3
Obligation to Return Securities Received as Collateral	36.2
Payables to Brokers, Dealers and Clearing Organizations	2,002.9
Payables to Customers of Brokerage Operations	5,425.3
Trade Payables, Expense Accruals and Other Liabilities	1,493.3
Long-term Debt	7,559.5
Total Liabilities	$ 35,807.6
Redeemable Noncontrolling Interests in Subsidiary	213.6
Mandatorily Redeemable Convertible Preferred Shares	125.0
Noncontrolling Interest	9.5
Shareholders' Equity	10,023.6
Total Liabilities and Shareholders' Equity	$ 46,179.3

Liquid Assets Overview

Leucadia has available parent company cash and investments of $2.6 billion, considerably in excess of its $955.4 MM parent company debt

- Parent Company Available Cash and Investments of $2.6 billion
- Parent Company Liquid Assets / Parent Company Debt: 2.7x
- Leucadia's existing parent company debt matures by 2015
  - 2013: $402 MM (matured and repaid in August 2013)
  - 2014: $98 MM (convertible bond)
  - 2015: $459 MM

Ongoing Annual Cash-Flow

Leucadia's significant business units (not including Jefferies) provided cash flow from operating activities of subsidiaries and investee cash distributions aggregating ~$228 MM for the last twelve months ended June 30, 2013:

($ Millions)	FYE 12/31/12	LTM 06/30/13
Cash Flow from Operating Subsidiaries and Investee Cash Distributions:		
National Beef	141	87
Berkadia	73	58
Garcadia	30	35
Premier Entertainment	28	27
Manufacturing (Conwed Plastics and Idaho Timber)	27	21
Total Cash Flow from Operating Subsidiaries and Investee Cash Distributions	$ 299	$ 228

Balance Sheet Parameters

Leucadia targets specific concentration, liquidity and leverage principles

- Concentration: Leucadia's single largest equity investment (currently National Beef) will be no greater than 20% of book value (excluding Jefferies), and no other individual investment will be greater than 10% of book value (excluding Jefferies) at time of investment

($ Millions)		BV @ 06/30/13	% of BV excl. JEF
National Beef		877.0	*18.0%*
First Quantum, net of tax		256.0	*5.3%*
Top-2 Investments	$	1,133.0	*23.3%*
Book Value (excl. Jefferies)	$	4,864.0	

- Liquidity: Leucadia targets a minimum parent liquid assets / parent debt ratio >1.0x (current ratio of 2.7x)

($ Millions)		As of 06/30/13
Parent Company Available Cash and Investments	$	2,622.5
Parent Company Debt		955.4
Parent Company Available Cash and Investments / Parent Company Debt		2.7x

Balance Sheet Parameters

Leucadia targets specific concentration, liquidity and leverage principles

- Leverage: Leucadia targets a maximum parent debt / equity ratio <0.5x in a stressed scenario
  - Stressed scenario assumes total impairment of Leucadia's two largest investments (excluding Jefferies)

($ Millions)		As of 06/30/13
Total Equity		10,023.6
Less: Investment in Jefferies		(5,159.6)
Equity (excluding Jefferies)	$	4,864.0
Less: National Beef		(877.0)
Less: First Quantum, net of tax		(256.0)
Stressed Equity (excluding Jefferies)	$	3,731.0
Less: Deferred Tax Asset (excluding Jefferies Deferred Tax Asset)		(1,316.5)
Stressed Equity (excluding Deferred Tax Asset)	$	2,414.5
Parent Company Debt	$	955.4
Parent Company Debt / Stressed Equity		0.26x
Parent Company Debt / Stressed Equity (excluding Deferred Tax Asset)		0.40x

Leucadia Businesses

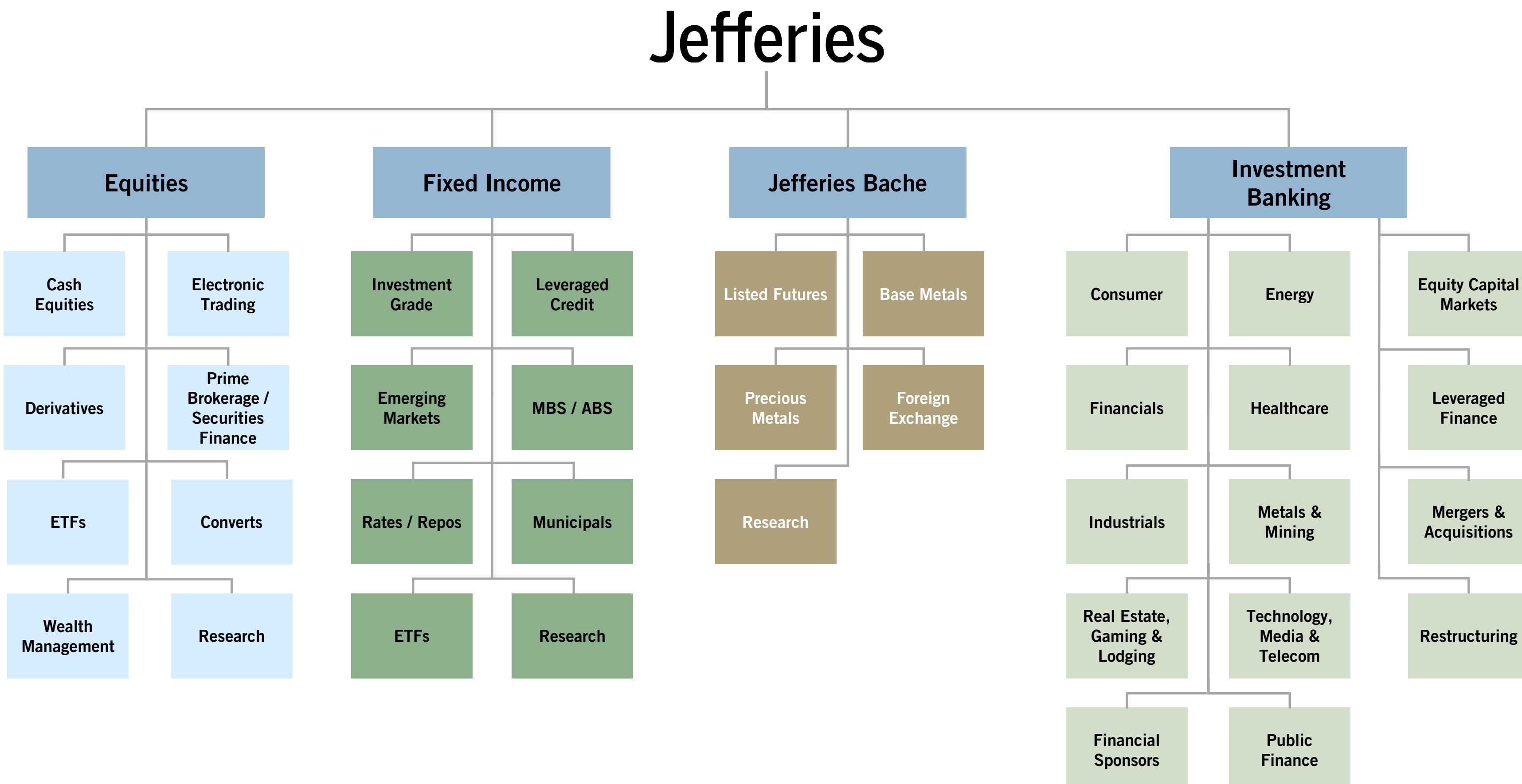
Jefferies

- **Full Service Capital Markets Platform**: expertise and depth across equities, fixed income, commodities and investment banking
- **Client-Focused**: providing investor and issuer clients with the highest quality advice and execution
- **Global Footprint**: sales & trading and investment banking presence across the United States, Europe and Asia
- **Strong, Stable Foundation**: robust long-term capital base, comparatively low leverage and free from dependence upon government support
- **Positioned to Seize Market Share**: having broadened our product offering and hired additional key talent during the downturn, Jefferies is growing rapidly

Jefferies – A Full Service Investment Bank

Jefferies

- Jefferies offers clients advice and execution across all major products and markets globally



Jefferies – Financial Performance

Jefferies

Financial Summary

(Amounts in $ Millions)	Predecessor: 11 Months Fiscal Year 2010	Predecessor: Fiscal Year 2011	Predecessor: Fiscal Year 2012	Predecessor: Fiscal Q1 2013	Successor: Six Months Ending, 08/31/13
Equities	$ 557	$ 594	$ 642	$ 167	$ 292
Fixed Income	728	715	1,190	337	246
Sales and Trading	1,285	1,309	1,833	504	539
Equity	126	187	194	61	110
Debt	347	385	456	141	254
Capital Markets	474	572	650	202	364
Advisory	417	550	476	86	233
Investment Banking	890	1,123	1,126	288	596
Asset Management and Other	17	118 (1)	40 (1)	11	24
Net Revenues	$ 2,192	$ 2,549	$ 2,999	$ 803	$ 1,160
Earnings Before Income Taxes	397	419	492	139	89
Net Earnings to Common Shareholders / Jefferies Group LLC	224	285	282	80	51
Adjusted Net Revenues	–	2,476 (2)	2,990 (2)	–	–
Adjusted Earnings Before Income Taxes	–	366 (2)	523 (2)	–	–
Adjusted Net Earnings to Common Shareholders	–	232 (2)	302 (2)	–	–

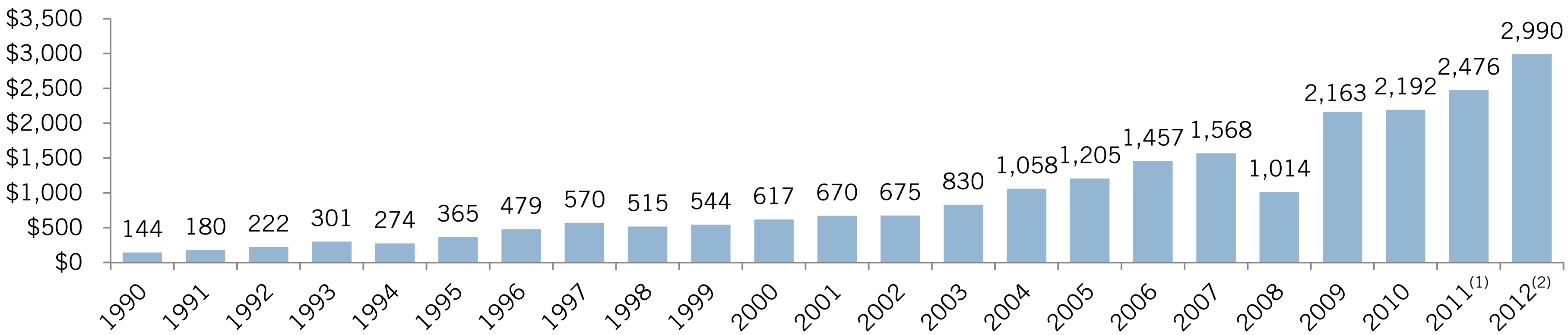
(1) Other includes debt extinguishment gains and bargain purchase gains of $13.2 million in Fiscal Year 2012 and $73.6 million in Fiscal Year 2011.
(2) The selected financial information for the year ended November 30, 2012 and year ended November 30, 2011 are non-GAAP financial measures. See page 36 in the appendix for a reconciliation to GAAP figures.

Jefferies – Net Revenues & Net Income Since 1990

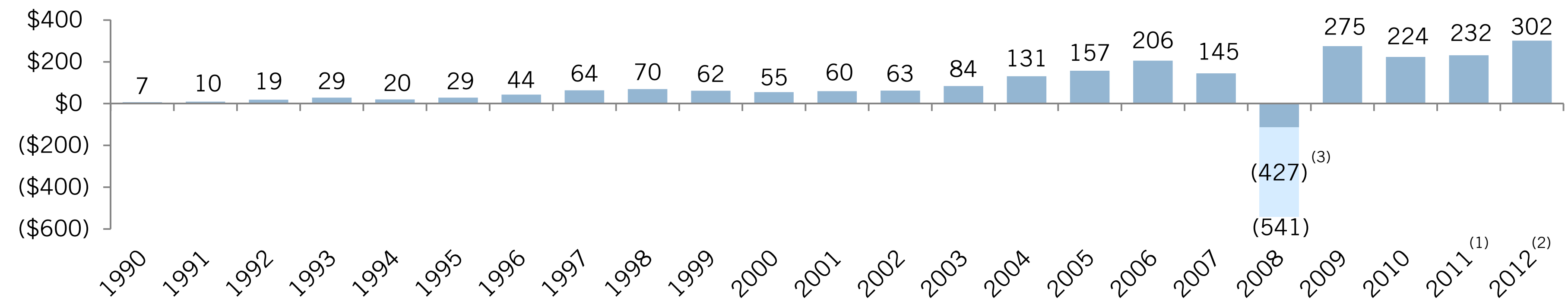
Jefferies

- With the exception of our results during the global financial crisis in 2007-2008, Jefferies has not had a single loss quarter dating back to 1990
- Jefferies raised $433 million of equity from Leucadia in 2008, more than mitigating the impact of the operating loss

Net Revenues



Net Earnings to Common Shareholders



(1) The selected financial information for the year ended November 30, 2011 are non-GAAP financial measures. See page 36 in the appendix for a reconciliation to GAAP amounts.
(2) The selected financial information for the year ended November 30, 2012 are non-GAAP financial measures. See page 36 in the appendix for a reconciliation to GAAP amounts.
(3) Includes post-tax losses of $427 million related to the modification of the terms of Jefferies' employee stock awards in Q4 2008, such that previously granted awards were written off and current year employee stock compensation awards were expensed in the year in which service was provided, and costs associated with the restructuring activities in the fourth quarter of 2008.

Jefferies – Recent Developments

Jefferies

- Jefferies continues to win market share and is consistently profitable
  - Investment Banking revenues underline the quality and durability of Jefferies' platform
  - Solid growth in Equities revenues (new senior leadership)
  - Durable Fixed Income, Commodities and Currencies platforms
- Continued emphasis on earnings growth through increased employee productivity
- Jefferies' full service capabilities and momentum outside the U.S. present a significant growth opportunity
- In September 2013, performance returned to more normal levels
  - Client flows have been stronger and results have markedly improved
  - Investment Banking backlog at an all-time high
  - Capital markets activity remains robust
  - M&A activity remains strong following an active summer

National Beef

National Beef – Overview

Company Overview

- 4th largest beef processing company in the U.S.
  - 3 processing plants strategically located in Liberal and Dodge City, KS and Brawley, CA
  - Compete with Tyson, Cargill, JBS and numerous small beef packers
- Processes, packages and delivers fresh and frozen beef and beef by-products to customers in the U.S. and internationally
  - Processing: more than 3 million cattle processed annually
  - Consumer Ready: further processing, including portion control, shelf ready and other value-added customer requirements
  - Hide Tanning: wet blue processing tannery in St. Joseph, MO
  - Kansas City Steak: direct to consumer sales
  - Trucking: National Carriers refrigerated trucking and live cattle transportation
- Headquartered in Kansas City, MO

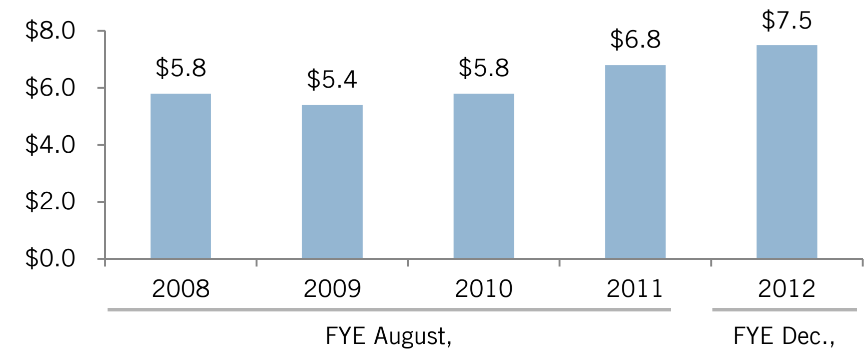
Key Ownership Details

- Date of acquisition: December 2011
- Book Value at 06/30/13: $877.0 MM
- Equity Interest: 79%

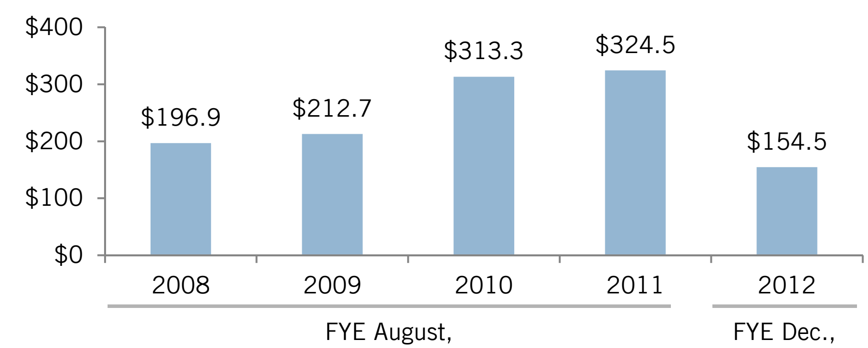
Financial Overview

- In 2012, margins were impacted negatively by the Midwest drought, leading to a reduction in number of cattle available for processing
- Completion of hide tanning facility retrofit and customer growth in consumer ready business are expected to contribute positively to 2014 margins

Revenue (1) ($ Bn)



Profit from Operations (1, 2) ($ MM)



(1) Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012.

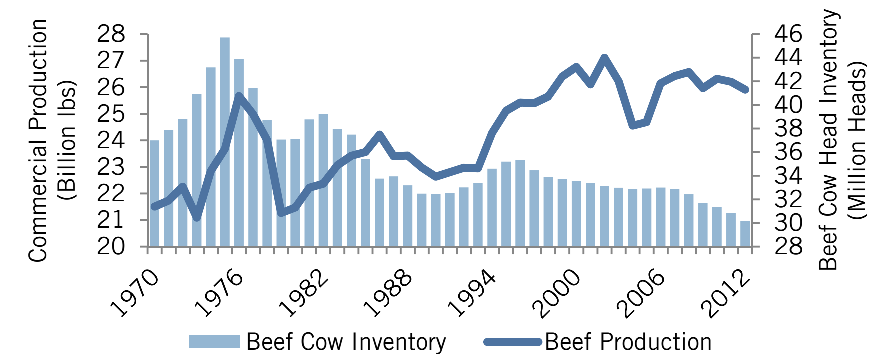
(2) Profit from operations is a non-GAAP measure. Profit from operations equals pre-tax income, plus depreciation and amortization expenses and excluding interest expense / (income), net. See page 34 for a reconciliation to GAAP figures.

National Beef – Industry Trends

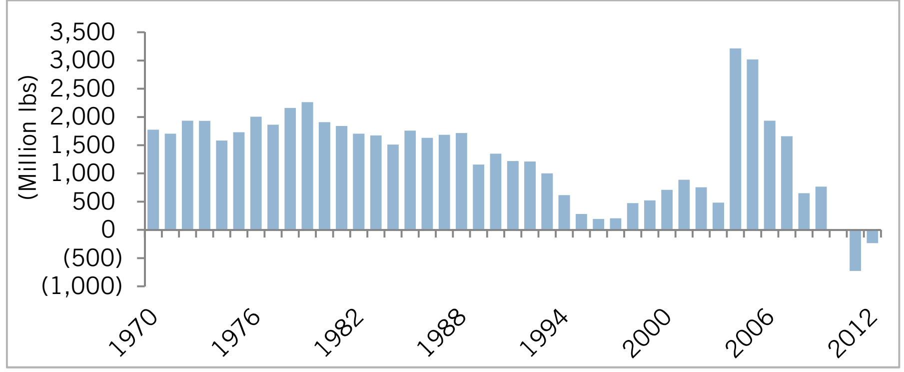
US Beef Production and Net Imports

- U.S. beef cowherd has been in downward trend for a generation, however due to improvements in genetics and production practices, overall beef supply has actually increased
- The U.S. has historically been a net importer of beef. Due to increasing international demand for U.S. beef and a decline of lean beef imports, the U.S. is now a net exporter of beef. This has had a positive impact on industry margins

U.S. Commercial Beef Production vs. Beef Cow Inventory (1)

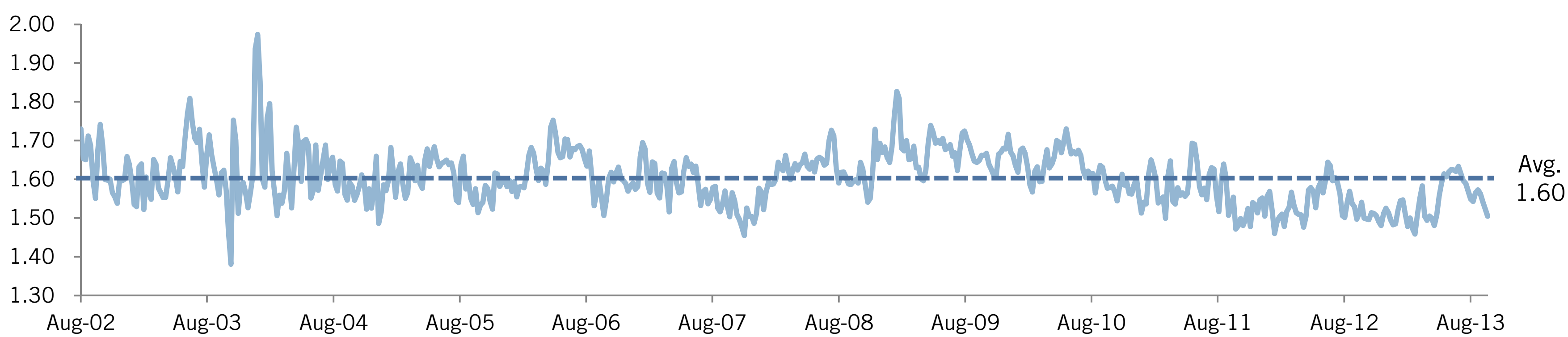


U.S. Net Beef Trade – Net Imports (1)



KS Steer Comprehensive Beef Cutout Ratio August 2002 – June 2013 (2)

- The cutout ratio is a good proxy for industry profitability and demonstrates the variability of beef processing margins



(1) Source: USDA.
(2) Cutout ratio is calculated as the USDA National Comprehensive Boxed Beef Cutout divided by the USDA Kansas Weekly Weighted Average Steer Price.

National Beef – Recent Developments

- Global protein demand is expected to continue current growth trend; growth of middle class in developing countries points to increasing demand for beef
- Recent regulatory change in cattle age requirement by Japan has resulted in industry-wide increase in export volume to Japan
- Acquired remaining minority interest in Kansas City Steaks, increasing ownership from 75% to 100%
- Retrofit of hide tanning facility expected to be completed in early 2014, at which point National Beef will have what is anticipated to be the largest and most efficient tannery in the U.S.
- Widespread drought conditions have contributed to a delay in the reversal of the downward trend in U.S beef cow numbers. Fewer cows ultimately result in lower supplies of fed cattle and that has reduced industry-wide beef packing margins and National Beef's profitability

BERKADIA®

THE INDUSTRY OF ONE®

Berkadia – Overview

Company Overview

- Business Activities:
  - Loan originations
  - Investment sales
  - Bridge lending
  - Master / primary servicing
- In December 2012, Berkadia acquired Hendricks & Partners to add investment sales capabilities and deepen borrower relationships in multifamily space
- 3rd largest servicer of commercial real estate loans in the U.S.
- Formerly commercial mortgage operations of Capmark Financial and GMAC

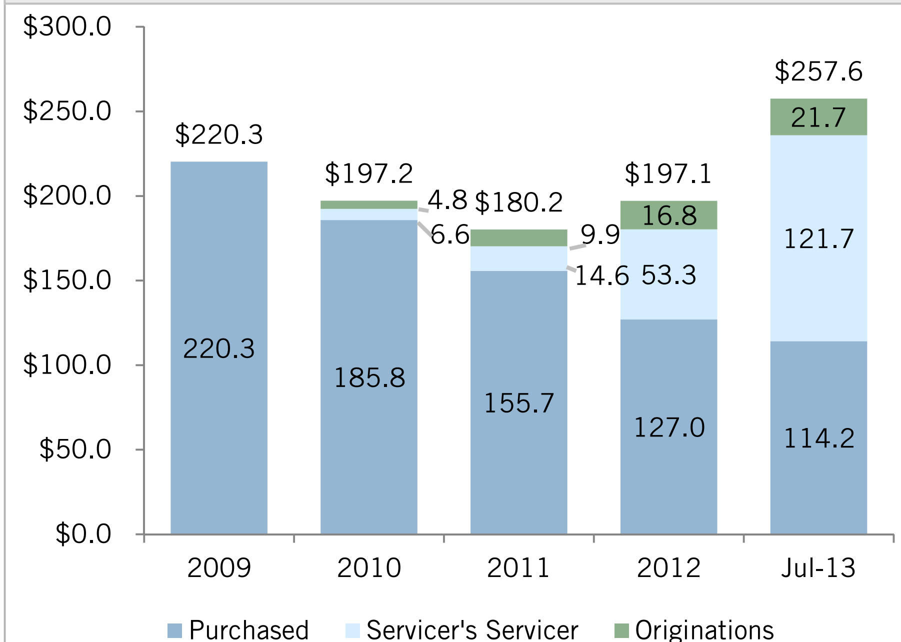
Key Ownership Details

- 50 / 50 joint venture with Berkshire Hathaway
- Date of investment: December 2009
- Book Value at 06/30/13: $188.6 MM
- Equity Interest: 50%
- Leucadia's original investment was $217 million. As of July 15, 2013, cumulative cash distributions to Leucadia have been $191 million, with substantial value going forward

Portfolio Growth

- More than 50% of the servicing portfolio has been added since acquisition
- The U.S. servicing portfolio is currently the largest it has been in its history
- Impending real estate loan maturities in industry should drive significant future loan originations
  - $840 billion of the $1.5 trillion commercial real estate loans outstanding (excluding banks) mature over the next 5 years
  - Multifamily loan maturities increase every year through 2017

Servicing Portfolio – Unpaid Principal Balance [1] ($ Bn)



(1) Shown net of Special Servicing.

Berkadia – Financial Performance

BERKADIA®
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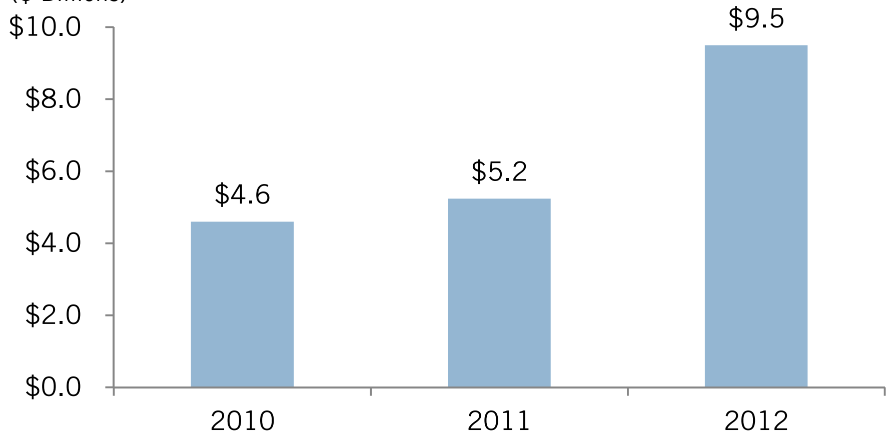
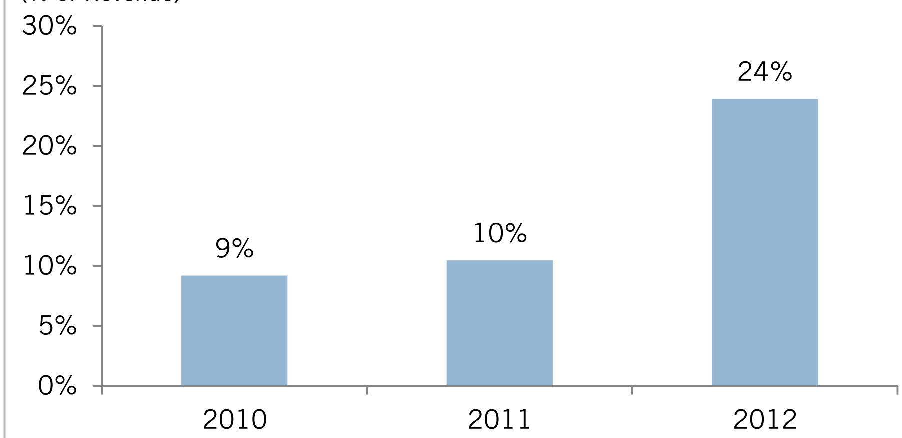
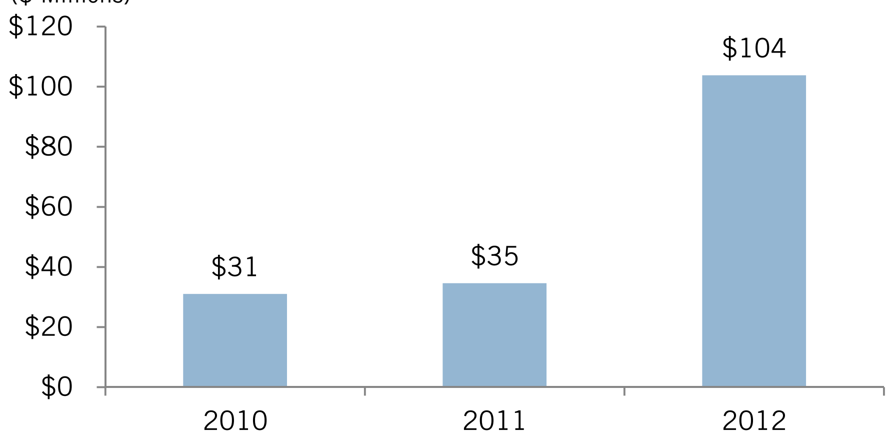
Loan Originations
($ Billions)



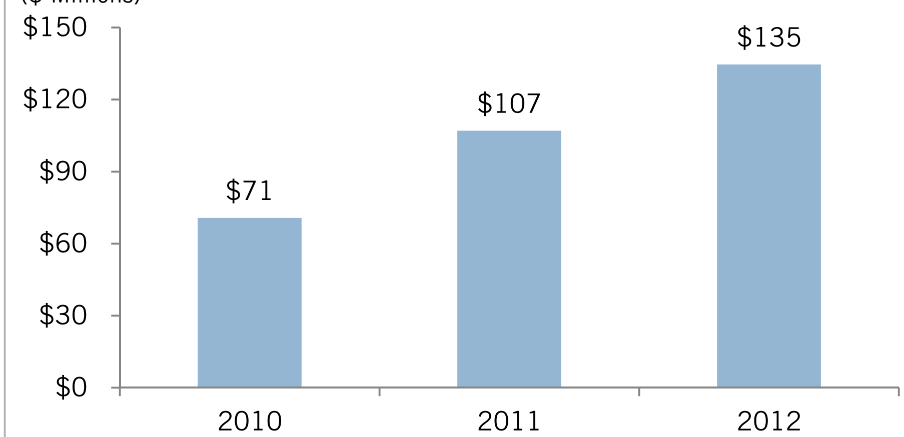
Pre-Tax Margin
(% of Revenue)



Pre-Tax Income
($ Millions)



Cash Earnings (1)
($ Millions)



(1) Cash Earnings is a non-GAAP measure. Cash Earnings equals pre-tax income plus depreciation and amortization of mortgage servicing rights (MSR's), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to origination of MSR's. See page 35 for a reconciliation to GAAP figures.

Garcadia

Garcadia – Overview

Company Overview

- 15th Largest U.S. dealership group
  - 21 dealerships in California, Texas and Iowa
    - 11 domestic brands, 10 foreign
  - 1,800 employees
  - Current group will sell 50,000 units annually
- Joint venture with Ken Garff Automotive Group
  - 85 years in the industry
  - Acts as the dealer principal and provides operating management
- Acquisition strategy:
  - Build geographic clusters in medium to large markets
  - Target medium to high volume stores
  - Focus on profitable, but underperforming dealerships
  - Solve succession issues

Auto Market – Key Market Trends

- Strong pent-up demand
- Average age of vehicle on road – 10.8 years
  - Used vehicle valuations remain strong
- Consumer financing available at pre-recession levels
- Prime and near prime approval levels on the rise
- Number of licensed drivers on the rise

Auto Retail Market Overview

- Large and fragmented market
  - 17,900 dealerships nationwide, $700 billion in annual sales
  - Top 10 groups represent only 8% of market
- Many acquisition opportunities
- Technology changing business
  - Many "old school" processes in existing auto dealerships

Key Ownership Details

- Joint venture with Ken Garff Automotive Group
- Date of initial investment: March 2006
- Operations:
  - Book Value at 06/30/13: $122.2 MM
  - Equity Interest: Interest in dealerships ranges from 65% to 90%

Financial Overview

	FYE December 31,		
($ Millions)	2010	2011	2012
Total Units Sold	20,832	25,483	35,394
# of Dealerships	14	17	18
Garcadia Revenue (1)	$ 639.5	$ 789.4	$ 1,100.8
% Growth	*NA*	*23.4%*	*39.4%*
Garcadia Pre-Tax Income (1)	$ 14.1	$ 22.3	$ 37.4
% Margin	*2.2%*	*2.8%*	*3.4%*
Garcadia Distributions (2)	$ 13.8	$ 16.0	$ 30.4

(1) Represent combined amounts for all Garcadia dealership holdings, not just Leucadia's share.
(2) Represents Leucadia's share of cash distributions and rent paid by Garcadia for land owned by Leucadia.

Other Businesses

Other Businesses

HomeFed Corporation

Premier Entertainment

- Hard Rock Hotel & Casino Biloxi, MS – 325 room hotel with 50,000 square feet of gaming
- Currently constructing a 154-room tower addition to hotel
- 06/30/13 LTM Cash Flow from Operating Activities: $26.5 MM

Manufacturing (Conwed Plastics and Idaho Timber)

- 06/30/13 LTM Cash Flow from Operating Activities: $21.4 MM

  Conwed Plastics

  - A market leader in lightweight oriented and extruded plastic netting
  - Partners with customers to customize core technology into innovative solutions

  Idaho Timber

  - Wood product manufacture and distribution
  - Operations in primary milling, clear boards and dimensional lumber remanufacturing

Linkem

- Start-up wireless broadband services provider in Italy

Real Estate / HomeFed

- Residential and commercial U.S. real estate portfolio
- HomeFed is a developer of residential real estate projects

Appendix

2013 and 2014 Calendar of Fixed Income Investor and Shareholder Meetings

- October 10, 2013 – Jefferies Fixed Income Investor Day
- March 4, 2014 – Combined Leucadia and Jefferies Investor Discussion recapping 2013 performance and giving a high-level overview of strategies and plans for 2014
- May 14, 2014 – Leucadia Annual Shareholder Meeting
- August 7, 2014 – Leucadia Investor Day
- October 9, 2014 – Jefferies Fixed Income Investor Day

National Beef GAAP Reconciliation

($ Millions)	FYE August, 2008	FYE August, 2009	FYE August, 2010	FYE August, 2011	FYE Dec., 2012
Pre-Tax Income (GAAP)	$ 127.0	$ 145.1	$ 249.0	$ 261.6	$ 59.0
Interest Expense / (Income), net	33.5	23.2	14.7	11.7	12.4
Depreciation & Amortization	36.4	44.4	49.6	51.2	83.1
Profit from Operations (Non-GAAP)	$ 196.9	$ 212.7	$ 313.3	$ 324.5	$ 154.5

Note: Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012.

Berkadia GAAP Reconciliation

($ Millions)	FYE December 31, 2010	FYE December 31, 2011	FYE December 31, 2012
Pre-Tax Income (GAAP)	$ 31.0	$ 34.6	$ 103.8
Amortization, Impairment and Depreciation	88.1	107.5	112.7
Gains Attributable to Origination of MSR's	(42.4)	(45.2)	(93.1)
Loan Loss Reserves and Guarantee Liabilities, net of cash losses	3.1	3.2	18.8
Unrealized (Gains) / Losses; and all other, net	(9.1)	7.0	(7.7)
Cash Earnings (Non-GAAP)	$ 70.7	$ 107.1	$ 134.5

Jefferies GAAP Reconciliation

($ Millions)	2011 GAAP	2011 Adjustments	2011 Adjusted	2012 GAAP	2012 Adjustments	2012 Adjusted
	Fiscal Year Ending November 30,					
Net Revenues	2,549	(73)[1]	2,476	2,999	(8)[5]	2,990
Compensation and Benefits	1,483	(12)[2]	1,471	1,771	(25)[6]	1,746
Noncompensation Expenses	643	(8)[3]	635	693	(15)[7]	679
Total Non-interest Expenses	$ 2,126	$ (20)	$ 2,106	$ 2,464	$ (39)	$ 2,425
Earnings Before Income Taxes	419	(53)	366	492	31	523
Income Tax Expense (Benefit)	133	(0)[4]	133	169	11[8]	180
Net Earnings	$ 286	$ (53)	$ 234	$ 323	$ 19	$ 343
Net Earnings to Common Shareholders	$ 285	$ (53)	$ 232	$ 282	$ 19	$ 302

(1) In accordance with debt extinguishment accounting under ASC 405 and 470, Jefferies recorded a gain on debt extinguishment of $20.2 million, relating to trading activities in its own long term debt. The 2011 year also includes a bargain purchase gain of $52.5 million resulting from the acquisition of the Bache entities from Prudential recorded in 2011.

(2) In connection with the acquisition of the Bache entities, compensation expense was recognized for 2011 related to 1) severance costs for certain employees of the acquired Bache entities that were terminated subsequent to the acquisition, 2) the amortization of stock awards granted to former Bache employees as replacement awards for previous Prudential stock awards that were forfeited in the acquisition and 3) bonus costs for employees as a result of the completion of the acquisition.

(3) Includes the amortization of intangible assets of $0.7 million recognized during 2011 in connection with the acquisition of the Bache entities as well as expenses (primarily professional fees) totaling $7.1 million related to the acquisition and/or integration of the Bache entities within Jefferies.

(4) A total domestic marginal tax rate of 41.7% was applied. The bargain purchase gain of $52.5 million on the acquisition of Bache is not a taxable item.

(5) Includes a gain on debt extinguishment of $9.9 million in accordance with debt extinguishment accounting relating to trading activities in Jefferies own long term debt and a bargain purchase gain of $3.4 million resulting from the acquisition of Hoare Govett, partially offset by additional interest expense of $4.8 million from subsequent amortization of debt discounts upon reissuance of Jefferies own long-term debt.

(6) Includes compensation expense related to the amortization of retention and stock replacement awards granted in connection with the acquisition of the Bache entities and Hoare Govett and bonus costs for employees as a result of the completion of the Hoare Govett acquisition.

(7) Reflects an impairment charge of $2.9 million on indefinite-lived intangible assets and amortization of intangible assets recognized in connection with the acquisitions of Hoare Govett and the Bache entities, donations to Hurricane Sandy relief of $4.1 million and transaction costs (primarily professional fees) associated with the merger with Leucadia National Corporation of $4.7 million.

(8) Reflects the tax benefit on the additional interest expense, Hoare Govett and Bache related expense items, Hurricane Sandy relief donations and transaction costs associated with the merger with Leucadia at a domestic and foreign marginal tax rate of 42.3% and 24.7%, respectively.

Fellow Shareholders:

One year ago, Leucadia and Jefferies combined to form a unique and powerful merchant and investment banking platform, a combination almost as old as commerce itself. Leucadia is distinguished by our ability to take a truly long-term view in a world often characterized by impatience and increasingly shorter investment horizons. A philosophy of patient and prudent risk-taking is one shared by the founders of Leucadia, as well as the two of us. With hard work and good luck, we intend to capitalize on our ample permanent capital and ability to invest for the long-term.

Transition Complete

Since closing the Leucadia and Jefferies combination on March 1, 2013, Leucadia's historic New York City and Salt Lake City deal and operations teams have been combined with our Jefferies Capital Partners' private equity investment team to form a single group working with the two of us in the joint New York City headquarters of Leucadia and Jefferies to source, review and structure new investments and acquisitions. We and the combined team are also working with our existing subsidiaries and investee companies on strategic development and operational improvement. We are pleased that Justin Wheeler and Joe Orlando continue in their respective roles as Leucadia's COO and CFO, and are joined by Mike Sharp, our general counsel at Jefferies and now of both companies.

During the year, working with our Chairman, Joe Steinberg, we also consolidated and added to our Boards of Directors at Leucadia and Jefferies. We believe the recipe for consistent long-term value creation includes surrounding ourselves with highly experienced, able and committed directors, and working with them in an active and transparent manner, taking advantage of their knowledge, experience and relationships.

As we believe long-term interest rates have only one direction to go (up!), during 2013 we devoted ourselves to raising additional long-term capital across our businesses. With improved bond ratings at Leucadia, we raised $1 billion of ten and thirty year debt, which, in essence, pre-funded our near-term maturities. We also raised $1 billion in long-term debt at Jefferies, $600 million at Jefferies Finance and $300 million at Jefferies LoanCore. Separately, National Beef's credit facility was increased in size and extended in maturity. Leucadia is now investment-grade rated by two of the three rating agencies. We have committed to specific diversification and liquidity metrics that should allow us to continue our upward ratings momentum, and should not hamper our ability to deliver solid long-term results for our shareholders.

For the months leading up to the Leucadia and Jefferies combination and throughout this past year, a number of Leucadia's subsidiaries and investments were sold where expectations for future value creation did not meet our return expectations. To this end, since mid-2012, Leucadia sold its interests in Mueller Industries, Inmet Mining (stock merger), Keen Energy and TeleBarbados, liquidated our remaining stock and royalty note in Fortescue Metals, agreed to sell Premier Entertainment, and agreed to swap certain of Leucadia's real estate assets and cash to increase our ownership in HomeFed to 65%. These transactions generated well over $2 billion in cash and marketable securities. Regrettably, we shut down Sangart, which, despite a substantial investment over many years, failed to find a commercial partner. We have no current plans to sell any other of our existing businesses. We look forward to doing everything we can to assist them in compounding their successes in the years to come.

Leucadia currently holds around $3.1 billion in available liquidity at the parent company. With the anticipated monetization of Leucadia's NOL's through the pre-tax earnings of our existing businesses (which should offset approximately $1.1 billion in cash taxes), we will have substantial cash to invest in new opportunities over the next several years. While the strong capital markets and M&A environment make our task more difficult, we are pleased by the significant number of interesting opportunities that consistently find their way to us. That said, there are many stars that must align before we deploy capital, and we are keen to remain selective and opportunistic, and to stick to what we know.

Our Value Focus

Our vision of the combined company has Jefferies not only as our largest business unit, but also as the primary engine of Leucadia's future. Our teams at Leucadia, Jefferies, and all our subsidiaries and affiliates have distinct and specific expertise in certain industries and businesses, true relationships, access to broad and unique deal flow, a global presence, and the ability to move quickly and decisively. As a first example, we recently had the opportunity to acquire a 13% stake in Harbinger Group for $158 million (18.6 million shares at $8.50). This transaction was led by Andrew Whittaker, a Vice Chairman of Jefferies who recently also was named a Vice Chairman of Leucadia, and is a classic example of how a unique relationship and extensive existing knowledge can lead to an appealing entry point in a public holding company at a price we find attractive.

Jefferies has a prominent and longstanding presence in investment banking and capital markets in the energy sector, and Jefferies Capital Partners has been investing in the U.S. oil and gas industry for over ten years. As a result of these relationships and with the oversight of George Hutchinson, who transitioned from Jefferies Capital Partners and heads our oil and gas investment effort, in the last few months we formed partnerships with two management teams to pursue opportunities in the U.S. oil and gas exploration and production business. As a first step, through Juneau Energy, which is led by one of these management teams, we recently funded an Oklahoma City-based operator to drill horizontal wells and acquire additional acreage in the core of a productive formation in northern Oklahoma.

We also continue to pursue two longstanding Leucadia projects, the gasification plants and the Oregon LNG export facility. In the last year, we made significant progress on all fronts, and the timeline and decision in respect of moving ahead should be determined in 2014. Having devoted over ten years to shepherding the development of Leucadia Energy, Tom Mara, 37 years with Leucadia, is leading our team to finalize all elements, including a fixed price construction contract, to build a gasification plant in Lake Charles, Louisiana. If completed, the plant will convert petroleum coke into clean energy products, primarily consisting of methanol and hydrogen, for sale to industrial customers under long-term contracts. Justin Wheeler continues to oversee our team pursuing the necessary state and federal permits to build an LNG export facility and pipeline in Warrenton, Oregon. We have submitted almost all of the necessary applications to the State of Oregon and have completed our application to the Federal Energy Regulatory Commission. Both these projects hold great promise for Leucadia and the world, but we caution that numerous obstacles must be overcome for either or both to be brought to fruition and a profitable result for Leucadia.

In 2013, we organized a new subsidiary, Leucadia Asset Management LLC (LAM), with a view to bringing together under one umbrella Jefferies' strategic, convertible and event-driven investment management efforts, as well as Topwater Capital, which we acquired in 2013. Topwater pioneered the first-loss model of investing, which we feel offers a unique risk-reward trade-off for investors and a prudent way for hedge fund managers to increase their assets under management on attractive terms. We believe we are very early in the development of LAM, which over time will afford us a broad exposure in investment management. We intend to actively build LAM, and will hire key personnel and devote significant capital as opportunities develop.

Our Businesses

JEFFERIES

Jefferies' 2013 fiscal year results (November 30 year-end) were below those of 2012, primarily due to the difficult mid-year fixed income environment. With a strong finish to the year, including record results for its fourth quarter, we believe Jefferies is well-positioned for greater success in 2014. The investment banking industry has experienced massive consolidation over the past forty years, and Jefferies consistently has advanced its market position to the point where it is now *the* major non-bank investment banking firm. We believe this distinction will afford Jefferies significant growth opportunities, and will present Leucadia with adjacent opportunities in finance and asset management. The two of us continue to provide Jefferies hands-on leadership in partnership with the other twelve members of Jefferies' executive committee, and continue to develop and expand Jefferies' senior team to guide its growing business.

Jefferies has two joint ventures, Jefferies Finance (corporate loans) and Jefferies LoanCore (commercial real estate mortgage loans), and Leucadia has one joint venture, Berkadia (multi-family real estate mortgage finance). In 2013, these three companies originated over $33 billion in new corporate and real estate loans. Regulation designed to promote safety in the financial system has increasingly leveled the playing field in favor of Jefferies and these other capital markets focused platforms. In the meantime, our primary competitors, the bank holding companies, are burdened by the implementation of Dodd Frank, the Volcker Rule and Basel III, reform of the government-sponsored enterprises in the housing sector, and other new requirements and directives. It is up to us to execute!

BERKADIA COMMERCIAL MORTGAGE

2013 was a banner year for our 50/50 joint venture with Berkshire Hathaway. Berkadia originated over $10 billion in new financing for its customers, more than double the volume in 2010, our first full year of ownership. Management's efforts to become the lowest cost servicing provider paid dividends as Berkadia entered into several valuable sub-servicing agreements. The integration of the Hendricks-Berkadia investment sales team increased the solutions we can offer to Berkadia's customers and is a key to future growth. During 2013, Berkadia's cumulative distributions to Leucadia exceeded 100% of the capital originally invested in 2009. We are grateful to Hugh Frater, Randy Jenson, Don Hendricks and the entire Berkadia team.

NATIONAL BEEF PACKING

National Beef, the fourth largest beef processor in the U.S., is recovering from what we hope is the bottom of the U.S. cattle cycle, the turnaround of which has been delayed due to the prolonged drought in various cattle producing regions. Though the U.S. cattle herd is at an all-time low, the U.S. remains the world's leader in beef production and a net exporter, recognized as delivering the highest quality beef. Tim Klein and his team are known globally for their exceptional talent and focus, and we are pleased to be partnered with them in pursuing further development of this business.

While National Beef's sales and market share held up well in 2013, the impact of the smaller cattle herd led to a difficult margin environment and reduced net income. National Beef recently announced the closure of its Brawley facility, which resulted in a non-cash write-off of $63.3 million in 2013, but will save substantial cash in future years by eliminating losses and avoiding capital expenditures. National Beef's management team has continued to make progress on key strategic initiatives, including increased quality and quantity of production at its state-of-the-art wet blue tannery, the acquisition of the remainder of Kansas City Steaks and the on-going development and penetration of consumer ready product lines. Lastly, there is some cause for optimism that China may soon reopen to imports of U.S. beef, which could have a meaningful impact on National Beef's prospects.

GARCADIA HOLDINGS

Garcadia, our auto dealership joint venture, continued to grow in 2013 both organically and through acquisitions. Garcadia grew same store new unit sales by 13.6%, significantly surpassing national industry growth of 7.5%. During the year, we acquired three new dealerships, bringing the total to 21. Management remains on the lookout for acquisition opportunities and continues to focus on improving operations in the current portfolio. We appreciate and value our partnership with John Garff, Brett Hopkins and the entire Garcadia team.

LINKEM

Linkem, based in Rome, Italy, is a fast growing, fixed wireless broadband provider. Its key asset is a significant block of 3.5GHz wireless spectrum covering all of Italy, a country with few cable TV systems, sub-standard DSL service and limited fiber availability. Linkem is rolling out a residential broadband service with a compelling combination of speed and price. Since becoming a shareholder in 2011, Leucadia has funded most of Linkem's growth and become its largest shareholder, with Jimmy Hallac of Leucadia providing active oversight and guidance.

After tripling its subscriber base in 2012, Linkem slowed growth in 2013 in anticipation of the impending commercial availability of 3.5GHz LTE technology in 2014. Despite increasing prices and a subdued marketing effort, Linkem increased its subscriber base by 64% to 164,000 and maintained high levels of customer satisfaction and operational excellence. 2014 will be an exciting year and we wish buona fortuna to Davide Rota, Linkem's CEO, and the entire team in Rome.

CONWED PLASTICS

Conwed had double digit growth in both its top and bottom lines in 2013 resulting from the full year impact of the mid-2012 acquisition of Tensar's lightweight netting business, continued organic growth and maintenance of market share. This improvement was accomplished despite a strong headwind of declining variable margins, as resin costs rose 14% over 2012.

We expect topline growth in 2014, driven by robust product development efforts and potential acquisitions in the pipeline. However, raw material costs are expected to continue their upward trend, negatively impacting margins. Chris Hatzenbuhler, CEO, and Conwed's entire management is energized and passionate about the future, and we are too.

IDAHO TIMBER

For the past several years, management at Idaho Timber was weathering the recession storm and restructuring to take advantage of any improvement in the housing industry. In 2013, the housing industry saw signs of life and Idaho Timber delivered its best performance since 2007. We recognize that this is not by chance, but due to the tireless efforts of our CEO, Ted Ellis, and his team.

After years of searching high and low, in March 2013, Idaho Timber purchased an idled primary mill in Coushatta, Louisiana, capable of producing both dimensional lumber and radius edge decking. In the meantime, we continue the search for new business opportunities and additional acquisitions in this out-of-favor industry.

HOMEFED

Leucadia has enjoyed a long association with and 31% ownership interest in HomeFed (indeed, Joe, our Chairman, is also HomeFed's Chairman). We just agreed to increase Leucadia's ownership in HomeFed by exchanging the bulk of our current portfolio of direct real estate assets and some cash for HomeFed stock. As a result, our ownership of HomeFed will increase from 31% to 65%.

HomeFed develops properties for residential and mixed-use applications and has had wonderful success through the years in California and Virginia. We are confident that will translate well to New York, Florida, Maine and South Carolina under the stewardship of Paul Borden and his team.

FAREWELL TO PREMIER

After seven years of letting it ride, Leucadia is cashing in its chips! Leucadia made its original investment in Premier Entertainment Biloxi, the owner of the Hard Rock Hotel & Casino in Biloxi, Mississippi, in 2006. Having been heavily damaged by Katrina, the property was in bankruptcy and in dire need of repair. The years spent remaking the facilities and building the business will culminate in the sale to Twin River Worldwide Holdings for $250 million in the second quarter of 2014 or thereabouts, pending Mississippi Gaming Commission approval. A big "thank you" to our world-class management team, diligent employees and ever-growing number of loyal customers for making Hard Rock Biloxi the premier property on the Gulf Coast.

Looking Forward

As you may conclude from all of the above, we have a lot of work ahead of us. It is no small challenge to invest our available capital in the right new opportunities. We have a great team with a long history of smart investing. In addition, we intend to devote considerable focus and effort on our subsidiaries and affiliates where we believe there is much potential for further growth.

Although we intend to follow Leucadia's historic practice of letting our actions and results be our primary voice, we also will conduct several annual events to allow shareholders, bondholders and other relevant constituencies to gain further understanding of Leucadia and Jefferies. We also stand ready to meet with all constituencies as appropriate.

We congratulate and thank Ian and Joe for building Leucadia, establishing a true long-term perspective among our shareholders and investing in Jefferies. Most of all, we thank them for believing in the two of us and managing a straightforward transition with their typical grace.

Finally, we thank all of you — our clients and customers, our employees, our shareholders, our bondholders and all others associated with Leucadia, Jefferies and all our businesses — for your continued support.

Sincerely,

Rich

Richard B. Handler
Chief Executive Officer

Brian

Brian P. Friedman
President

Leucadia National Corporation

2014 Investor Meeting

September 3, 2014

Note on Forward Looking Statements

This document contains "forward looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words "should," "expect," "intend," "may," "will," or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors, including our Risk Factors, that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in reports we file with the SEC. You should read and interpret any forward looking statement together with reports we file with the SEC.

Leucadia Overview

Leucadia National Corporation
Parent Capital – $11.5 Billion [1]

Common Equity – $10.4 Billion [2]
Preferred Equity – $0.125 Billion
Parent Debt – $1.0 Billion [1]

Financial Services
$6.2 Billion

- **Jefferies (100%)** – $5.5 Billion
  - **Jefferies Finance (50%)** – $343 Million
  - **Jefferies LoanCore (49%)** – $158 Million
  - **KCG Holdings (18%)** – $269 Million
- **Leucadia Asset Mgmt** – $479 Million
  - **Topwater Capital** – $93 Million
  - **Structured Alpha** – $84 Million
  - **Mazama Capital** – $255 Million
  - **Global Equity Events** – $26 Million
  - **CoreCommodity** – $22 Million
  - **Folger Hill** [3]
- **Berkadia (50%)** – $203 Million
- **Foursight (90%) and Chrome (53%)** – $49 Million

Merchant Banking
$2.3 Billion

- **National Beef (79%)** – $775 Million
- **Harbinger (20%)** – $528 Million
- **Vitesse Energy (96%)** – $252 Million [4]
- **HomeFed (64%)** [5] – $227 Million
- **Linkem (53%)** – $162 Million
- **Garcadia (~75%)** [6] – $141 Million
- **Conwed (100%)** – $77 Million
- **Idaho Timber (100%)** – $72 Million
- **Juneau Energy (98%)** – $41 Million
- **Lake Charles Clean Energy**
- **Oregon LNG**

Corporate / Liquidity
$3.0 Billion

- **Parent Company Cash & Investments** – $1.7 Billion [1] [4] [7]
- **Deferred Tax Asset** – $1.3 Billion [8]

See page 94 and 95 for footnotes and additional disclosures.

Momentum Since March 1, 2013

- Divestitures: $1.0 billion in cash realized
  - Inmet – $732 million
  - Premier Entertainment – $250 million
  - Global Caribbean Fiber – $33 million (pending close upon regulatory approval)
- Investments: $1.4 billion of capital invested [1]; active pipeline
  - LAM Platform
  - Harbinger
  - Linkem (Follow-on)
  - Garcadia (Follow-on)
  - Vitesse Energy
  - Juneau Energy
  - Foursight Capital (Follow-on)
  - Chrome Capital
- Other Actions
  - Contributed real estate assets to HomeFed in exchange for common stock, increasing Leucadia's economic ownership to 64%
  - Since January 2013, Leucadia, Jefferies and associated joint ventures have raised over $4 billion of long-term capital [2]

(1) Includes pending acquisition of EnerVest by Vitesse.
(2) See page 96 for detail of all long-term capital raised since January 1, 2013.

A Unique Financial Services and Merchant Banking Platform

- Financial Services – Our historic sector; post-crisis opportunity
  - Jefferies
    - Continue to prudently build a leading, independent global investment banking firm
    - Drive market share, margin expansion and earnings growth
  - Jefferies Finance and Jefferies LoanCore
    - Continue to prudently build corporate and commercial real estate lending platforms
  - Asset Management
    - Leverage Leucadia's brand, relationships and capital to own significant general partnership stakes in differentiated, alternative asset management strategies (minimize goodwill and acquisition costs)
  - Berkadia
    - Become the best full-service mortgage banking firm in the industry
    - Build out geographic coverage, products and capabilities to meet client's needs and expectations

- Merchant Banking
  - Opportunistic value investments in businesses we understand
    - Smart entry points
    - Ability to drive value creation

Jefferies

Earnings Update – Third Quarter 2014

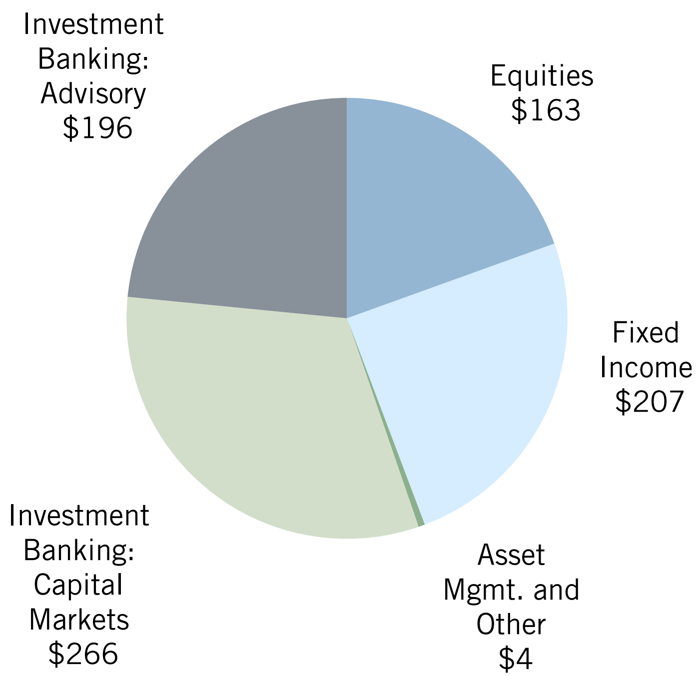
($ Millions)

Jefferies

Jefferies Group LLC today announced preliminary financial results for its fiscal third quarter 2014. Jefferies will release additional details about its third quarter results on September 16, 2014. These preliminary results are being released in advance of Jefferies' normal earnings release schedule in light of Leucadia's Investor Meeting. Actual third quarter results may differ from these preliminary estimated results, either positively or negatively, in connection with normal and customary quarterly closing process for valuations and revenue and expense accruals

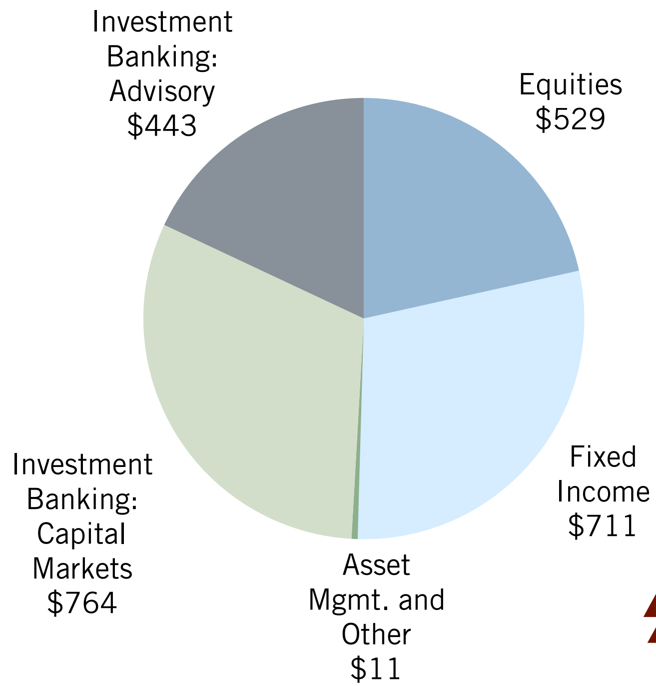
Third quarter ending August 31, 2014 estimated performance:

- Net Revenues: $835 million
- Pre-Tax Earnings: $132 million
- Net Earnings: $82 million
- Revenues by Source:



Nine months ending August 31, 2014 estimated performance:

- Net Revenues: $2,457 million
- Pre-Tax Earnings: $414 million
- Net Earnings: $256 million
- Revenues by Source:



Earnings Update – Third Quarter 2014 (Cont'd)

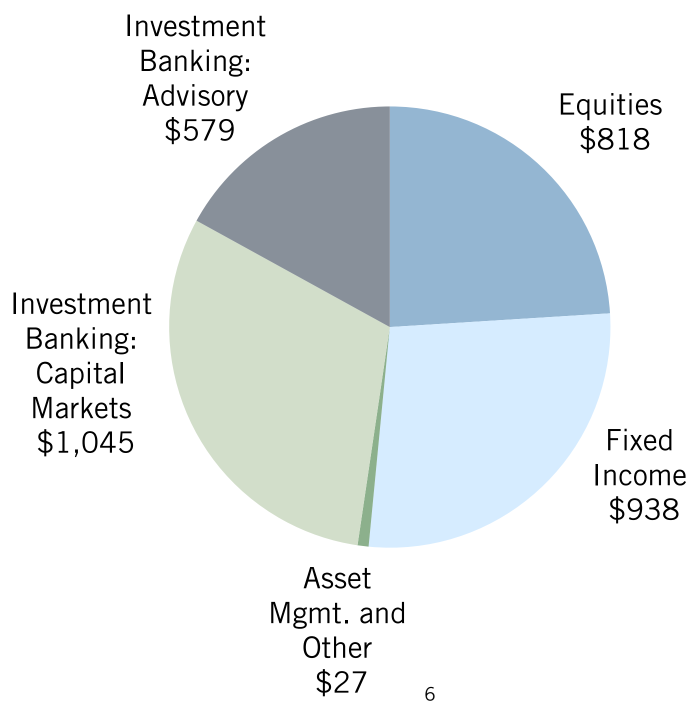
Jefferies

($ Millions)

Jefferies Group LLC today announced preliminary financial results for its fiscal third quarter 2014. Jefferies will release additional details about its third quarter results on September 16, 2014. These preliminary results are being released in advance of Jefferies' normal earnings release schedule in light of Leucadia's Investor Meeting. Actual third quarter results may differ from these preliminary estimated results, either positively or negatively, in connection with normal and customary quarterly closing process for valuations and revenue and expense accruals

Last twelve months ending August 31, 2014 estimated performance:

- Net Revenues: $3,408 million
- Pre-Tax Earnings: $589 million
- Net Earnings: $366 million
- Revenues by Source:



Jefferies' Momentum and Ongoing Opportunity

Jefferies

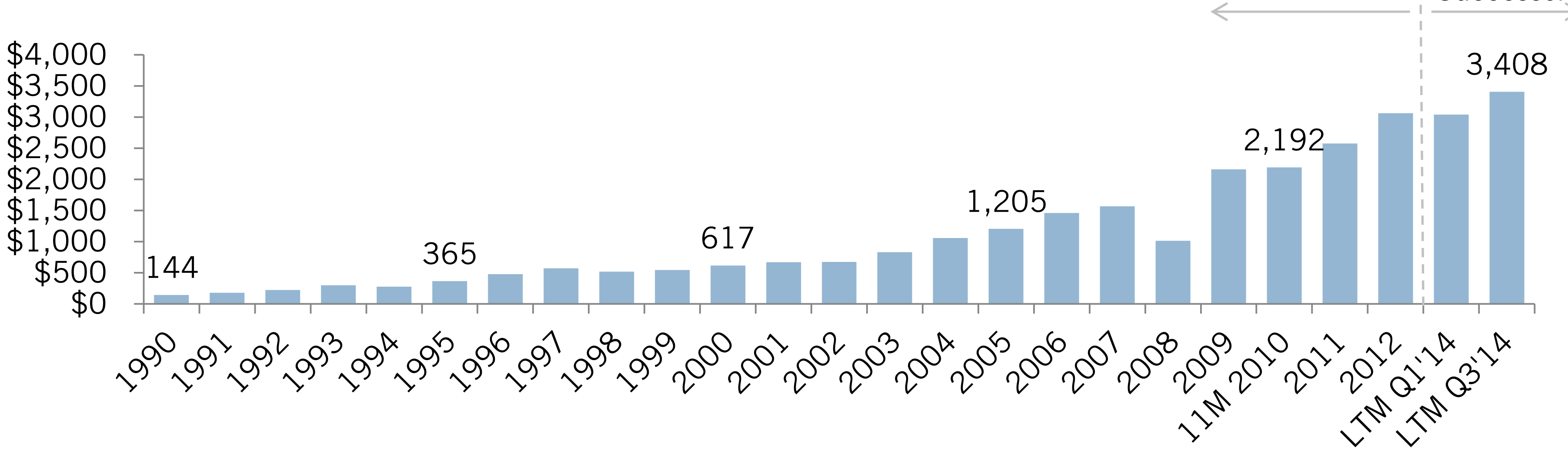
- Record revenues and earnings for the first nine months of the fiscal year demonstrate the strength of Jefferies' operating model:
  - Significant growth across Investment Banking reflects the quality and increasing momentum of Jefferies' full service global platform
  - Ongoing growth and expansion of Jefferies Finance corporate lending platform
  - Solid growth in Equities' revenues and market share
  - Durable Fixed Income, Commodities and Currencies effort, despite less volatile markets
- Jefferies' position as the only non-bank holding company, independent global investment banking firm headquartered in the U.S. creates a unique ongoing growth opportunity
- Continued emphasis on margin expansion and earnings growth through investment banking hiring, cross-product client penetration and increased employee productivity
- Jefferies continues to prudently manage risk, maintaining a disciplined approach to leverage, funding and asset-quality

Revenue and Earnings Growth Since 1990

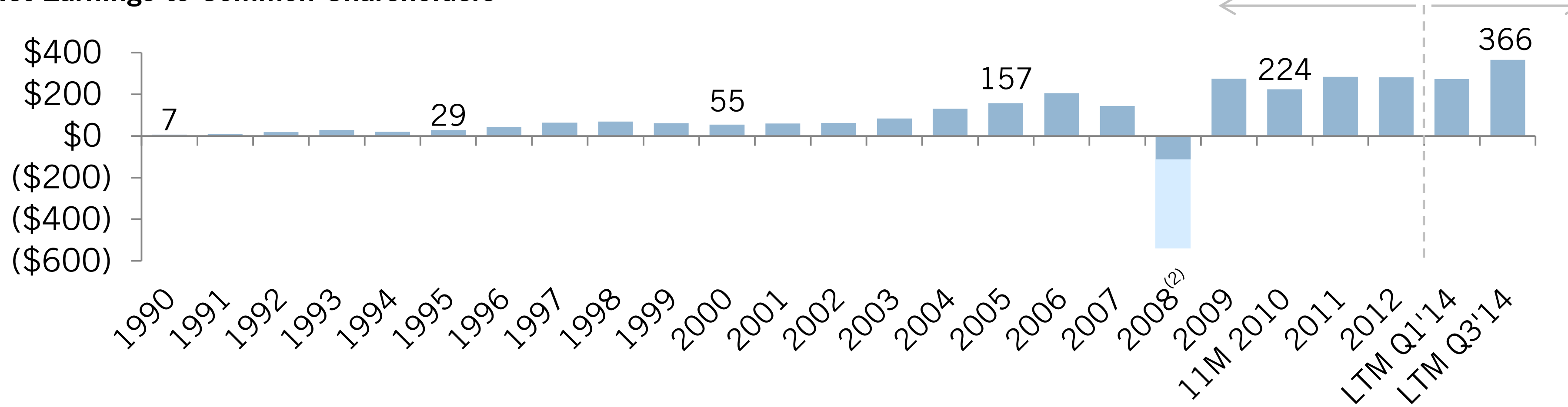
Jefferies

($ Millions)

Net Revenues [1]



Net Earnings to Common Shareholders [1]



Note: All results as reported in Jefferies' public filings.

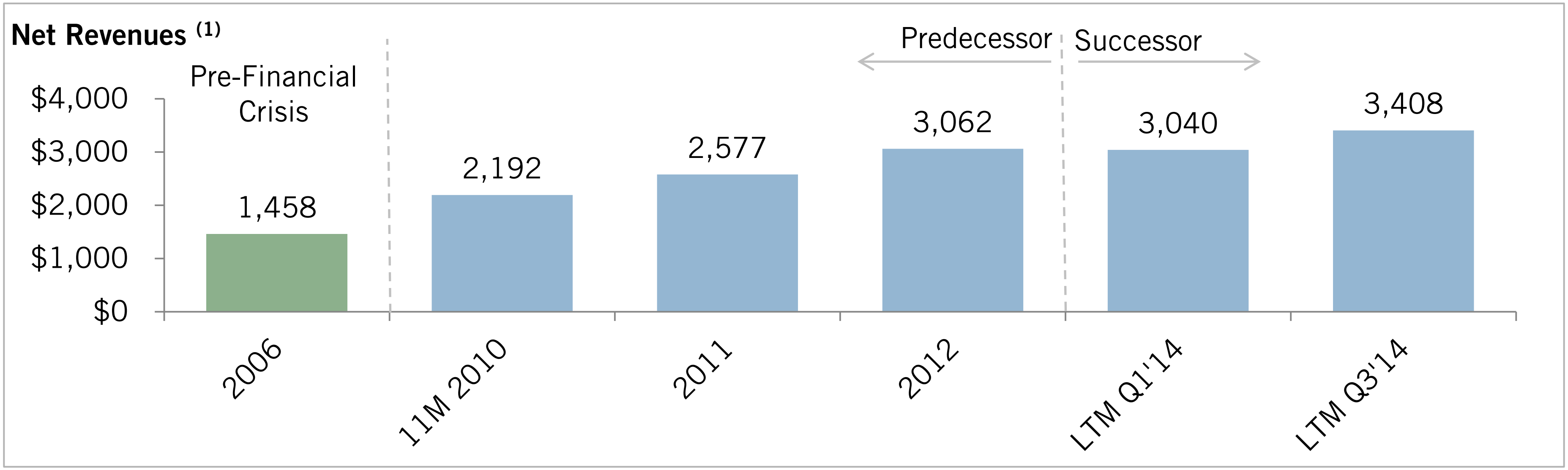
(1) Excludes predecessor first quarter ending 2/28/13. Net Revenue and Net Earnings to Common Shareholders for the excluded quarter total $819 million and $80 million, respectively.

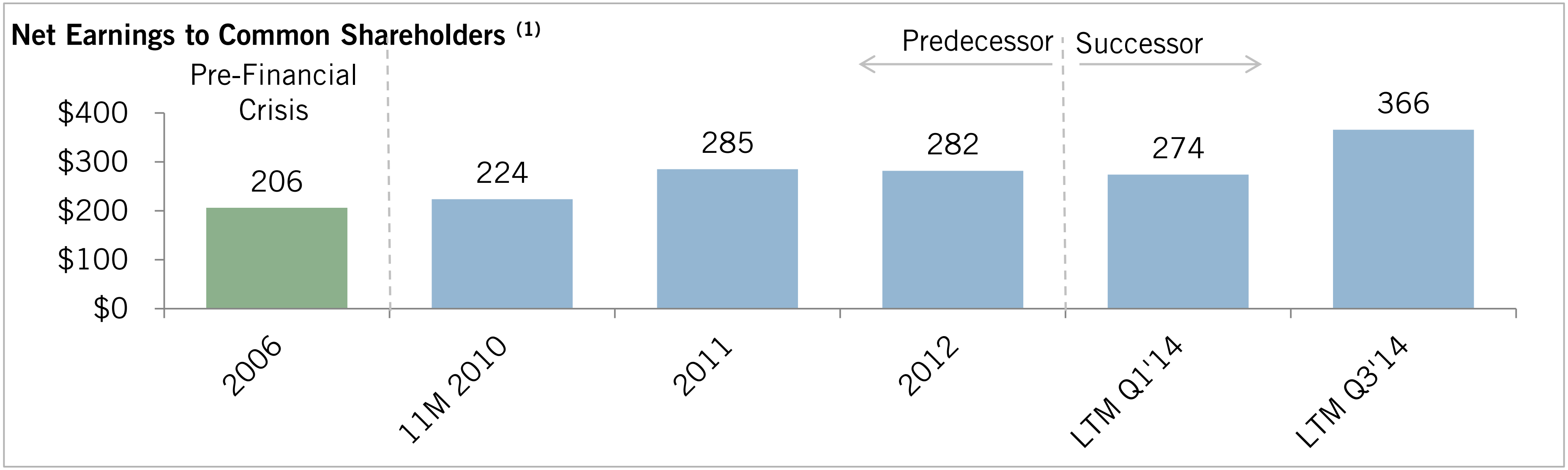
(2) Includes post-tax losses of $427 million related to the modification of the terms of Jefferies' employee stock awards in Q4 2008, such that previously granted awards were written off and current year employee stock compensation awards were expensed in the year in which service was provided, and costs associated with the restructuring activities in the fourth quarter of 2008.

Revenue and Earnings Growth Post-Financial Crisis

Jefferies

($ Millions)





Note: All results as reported in Jefferies' public filings.

(1) Excludes predecessor first quarter ending 2/28/13. Net Revenue and Net Earnings to Common Shareholders for the excluded quarter total $819 million and $80 million, respectively.

Global Full-Service Capabilities

Jefferies

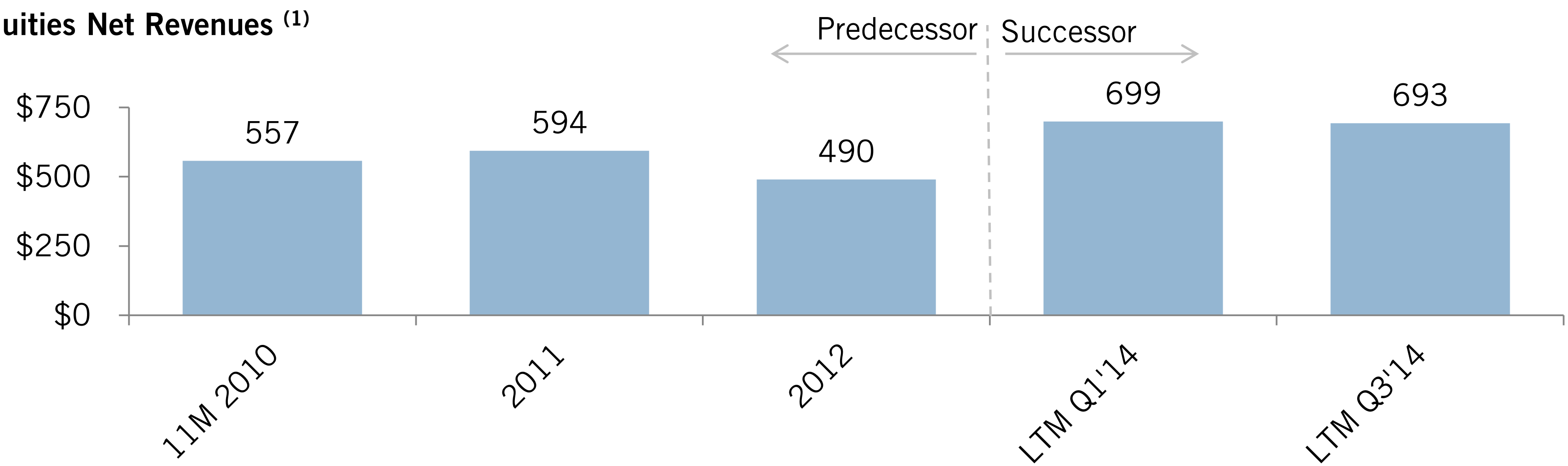
Investment Banking			Equities		Fixed Income		Jefferies Bache	
Consumer	Energy	Equity Capital Markets	Cash Equities	Electronic Trading	Investment Grade	Leveraged Credit	Listed Futures	Base Metals
Financials	Healthcare	Leveraged Finance	Derivatives	Prime Brokerage / Securities Finance	Emerging Markets	MBS / ABS / CMBS	Precious Metals	Foreign Exchange
Industrials	Metals & Mining	M&A	ETFs	Convertibles	Rates / Repos	Municipals	Research	
Real Estate, Gaming & Lodging	TMT	Restructu-ring	Wealth Management	Research	ETFs	Research		
Financial Sponsors	Public Finance							

Global Equities

($ Millions)

- Jefferies is a leading global equities franchise
  - Cash sales and trading across North America, EMEA and Asia Pacific, with major trading hubs in New York, London and Hong Kong
  - 249 research professionals covering over 1,680 companies
  - Leading client-offerings across electronic trading, derivatives, prime brokerage and securities finance
- Jefferies has significantly grown revenues and market share post-financial crisis
- Major ongoing growth opportunities: momentum in Europe and Asia; further client penetration and cross-selling globally; electronic trading; prime brokerage

Equities Net Revenues (1)



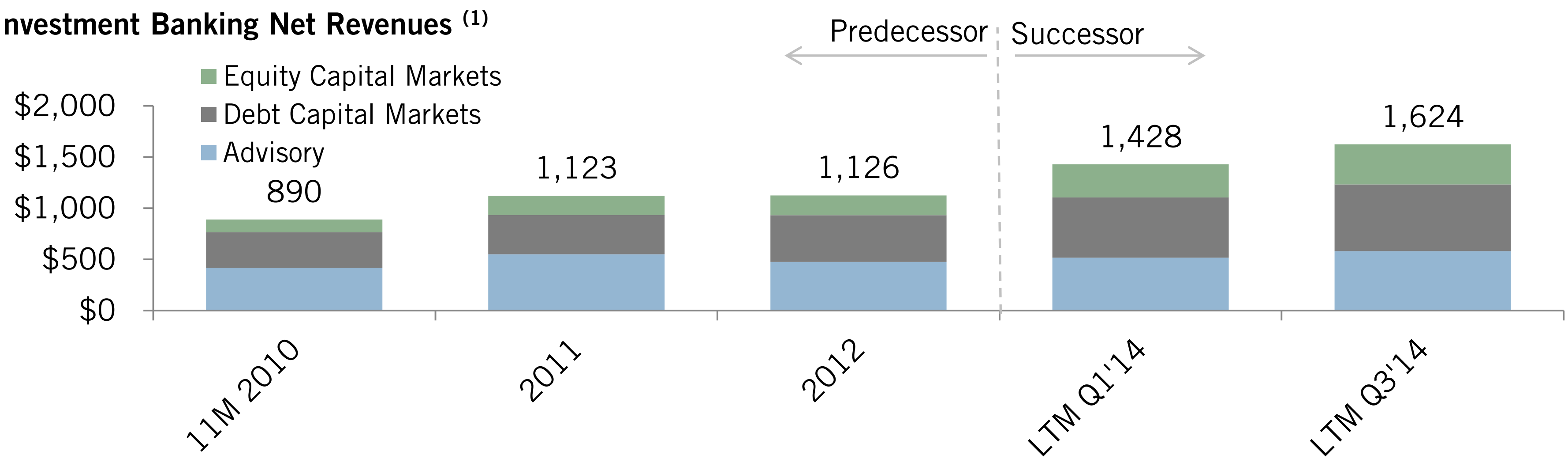
Note: All results as reported in Jefferies' public filings. 2012, LTM Q1 2014 and LTM Q3 2014 exclude gains and losses from holdings in Knight Capital and Harbinger Group.
(1) Excludes predecessor first quarter ending 2/28/13. Equities Net Revenues for the excluded quarter totaled $141 million (excluding gains from holdings in Knight Capital).

Global Investment Banking

($ Millions)

- Jefferies Investment Banking is a leading advisor and underwriter to our clients globally
  - 669 investment bankers with deep sector expertise and extensive experience across 9 major industry verticals
  - 1,153 advisory or bookrun transactions executed for our clients since January 1, 2012, representing $584 billion in transaction value
  - 69% of our transactions are on behalf of repeat clients
- Strong growth achieved post-financial crisis
- Major ongoing growth opportunities: momentum in Europe and Asia; drive market share in several major sectors; continue to support growth of Jefferies Finance

Investment Banking Net Revenues [1]

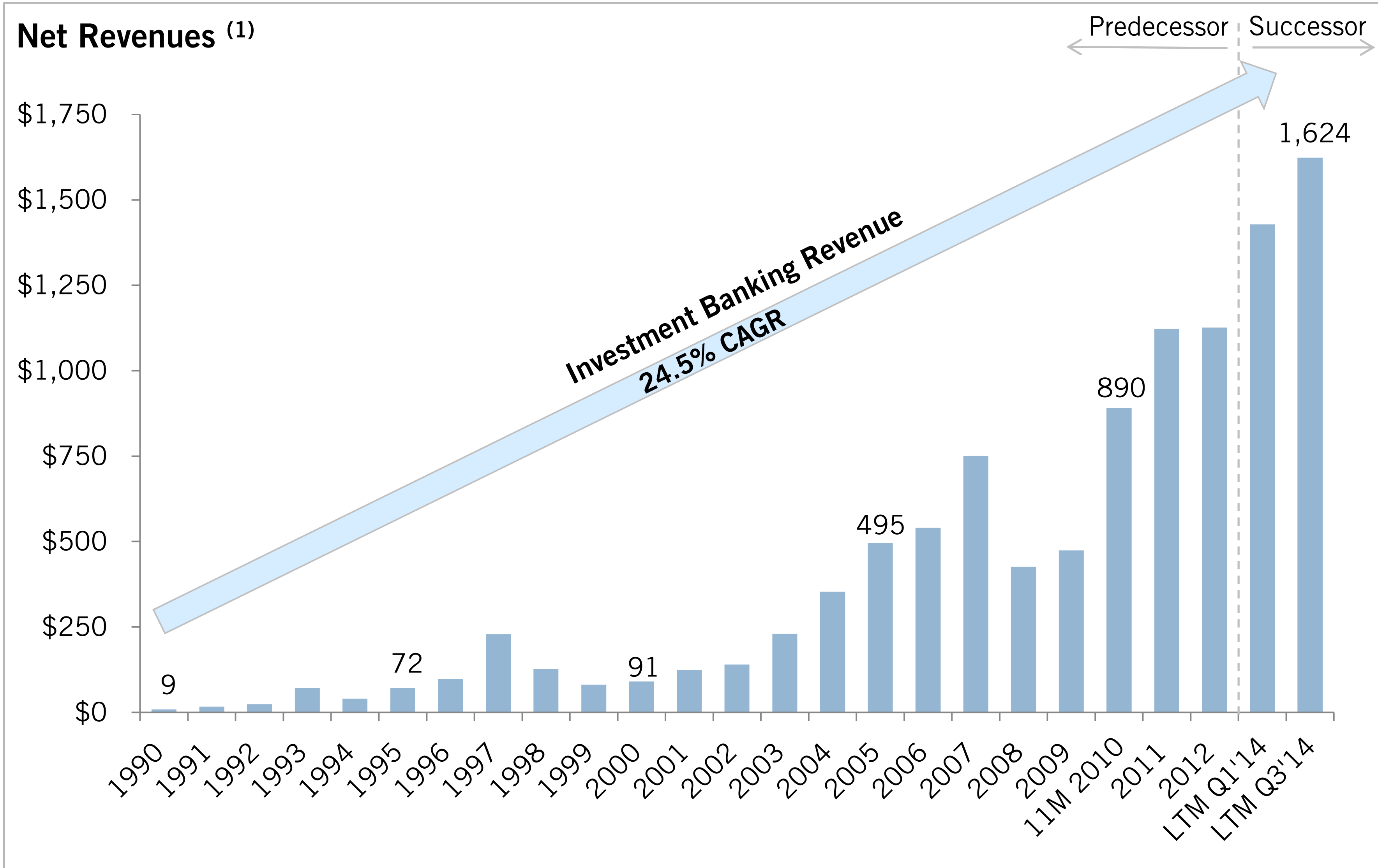


Note: All results as reported in Jefferies' public filings.

(1) Excludes predecessor first quarter ending 2/28/13. Investment Banking Net Revenues for the excluded quarter totaled $288 million.

Investment Banking Revenues Since 1990

($ Millions)



Note: All results as reported in Jefferies' public filings.
(1) Excludes predecessor first quarter ending 2/28/13. Investment Banking Net Revenues for the excluded quarter totaled $288 million.

Select Jefferies Investment Banking Clients

Jefferies

Novartis

Enterprise Value: **$230bn**

Description:

2nd Largest pharmaceutical company in the world

Recent Transactions:

05/12 Sole advisor on $1.5bn acquisition of Fougera Pharmaceuticals

Kinder Morgan Energy Partners, L.P.

Enterprise Value: **$70bn**

Description:

3rd largest energy company in North America

Recent Transactions:

08/14 Sole financial advisor to Kinder Morgan Energy Partners, L.P. and Kinder Morgan Management, LLC in their $60bn sale to **Kinder Morgan, Inc.**

Vodafone

Enterprise Value: **$115bn**

Description:

One of the world's largest mobile communications companies

Recent Transactions:

05/12 Sole advisor on sale of Vodacom's Gateway Carrier Services division to PCCW Global Ltd.

Pfizer

Enterprise Value: **$190bn**

Description:

Largest pharmaceutical company in the world

Recent Transactions:

01/13 Joint bookrunner on $2.6bn initial public offering of Zoetis

10/12 Sole advisor on $700mm acquisition of NextWave Pharmaceuticals

First Quantum Minerals Ltd.

Enterprise Value: **$20bn**

Description:

Leading global independent copper producer

Recent Transactions:

12/12 Joint advisor on $5.1bn acquisition of Inmet Mining Corporation

10/12 Joint bookrunner on $350mm senior unsecured notes offering

AMR

Total Liabilities : **$30bn**

Description:

Operator of one of the top 5 airlines in the world

Recent Transactions:

12/13 Financial advisor to Association of Professional Flight Attendants on $29.6bn restructuring

Deutsche Telekom

Enterprise Value: **$135bn**

Description:

One of the world's leading telecom and information technology service companies

Recent Transactions:

11/13 Joint advisor on $2.7bn sale of 70% Stake in Scout24 to Hellman & Friedman LLC

Zoetis

Enterprise Value: **$20bn**

Description:

Largest global animal health company

Recent Transactions:

01/13 Joint bookrunner on $2.6bn initial public offering

JD.com 京东

Enterprise Value: **$40bn**

Description:

Largest online direct sales company in China, in terms of transaction volume in 2013

Recent Transactions:

05/14 Joint bookrunner on $2.0bn initial public offering

Equity Residential

Market Cap.: **$35bn**

Description:

13th largest REIT in the world and 5th largest in the United States

Recent Transactions:

06/14 Joint bookrunner on $1.2bn senior unsecured notes offering

Chesapeake Energy

Enterprise Value: **$30bn**

Description:

2nd largest producer of US natural gas and leader in natural gas shales

Recent Transactions:

07/13 Joint advisor on $973mm sale of shale assets to EXCO Resources, Inc.

02/13 Joint advisor on $1.0bn Mississippi Lime Joint Venture with Sinopec

Takeda

Enterprise Value: **$35bn**

Description:

Largest pharmaceutical company in Japan and a top 15 pharmaceutical company

Recent Transactions:

10/13 Sole placement agent on $245mm sale of NPS Pharmaceuticals, Inc. common stock

Total

Enterprise Value: **$180bn**

Description:

5th largest publicly-traded integrated international oil and gas company in the world

Recent Transactions:

09/13 Sole advisor in the $473mm sale of E&P assets in Trinidad to The National Gas Company of Trinidad &Tobago

Johnson & Johnson

Enterprise Value: **$275bn**

Description:

6th largest consumer health company in the world

Recent Transactions:

06/13 Sole placement agent on $311mm sale of Elan Corp, plc common stock

AkzoNobel

Enterprise Value: **$20bn**

Description:

Largest paints and coatings company in the world

Recent Transactions:

07/14 Sole financial advisor on $208mm sale of paper chemicals business to Kemira Oyj

Anadarko Petroleum Corporation

Enterprise Value: **$65bn**

Description:

One of the world's largest independent oil and natural gas companies

Recent Transactions:

02/14 Sole advisor on $1.1bn sale of China assets to Brightoil Petroleum Holdings Ltd.

03/11 Joint advisor on $1.6bn Maverick Basin Joint Venture with Korea National Oil Corp.

Bristol-Myers Squibb

Enterprise Value: **$80bn**

Description:

One of the largest pharmaceutical companies in the world

Recent Transactions:

02/13 Sole advisor on $482mm sale of Latin American OTC business to Reckitt Benckiser Group plc

BB&T

Market Cap.: **$25bn**

Description:

One of the largest financial services holding companies in the US

Recent Transactions:

11/12 Joint bookrunner on $500mm senior unsecured notes offering

bp

Enterprise Value: **$170bn**

Description:

2nd largest Super Major oil company in the world

Recent Transactions:

12/12 Sole advisor on $288mm sale of interest in the Sean field to SSE plc

11/12 Sole advisor on $1.1bn (plus $250mm contingent payments) Central North Sea assets to TAQA

Ventas

Enterprise Value: **$30bn**

Description:

11th largest REIT in the United States

Recent Transactions:

12/12 Joint bookrunner on $225mm senior unsecured notes offering

10/10 Joint advisor on $3.1bn acquisition of Real Estate Assets from Atria Senior Living Group

Coca-Cola Hellenic

Enterprise Value: **$10bn**

Description:

One of the largest bottlers and vendors of The Coca-Cola Company's products in the world

Recent Transactions:

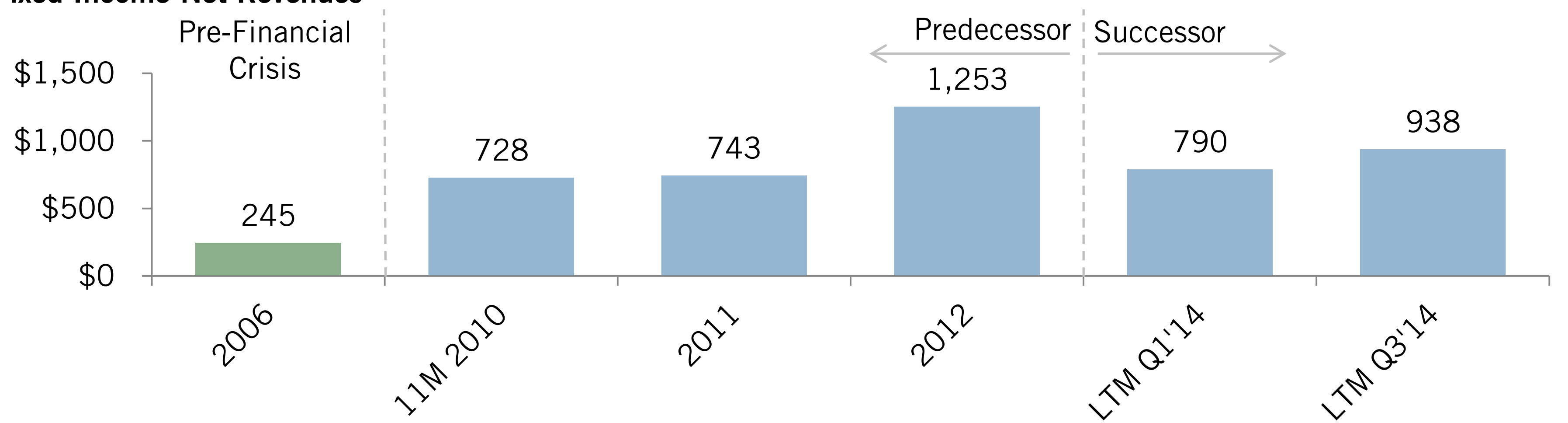
10/12 Sole advisor on $9.8bn voluntary share exchange offer with Coca-Cola HBC AG

Global Fixed Income

($ Millions)

- Jefferies Fixed Income serves clients across all major cash products in the U.S. and Europe
  - 550 sales, trading, research and strategy professionals globally
  - Focused on providing best-in-class ideas, facilitation and execution to our clients
  - *De minimis* exposure to OTC swaps or illiquid, hard-to-value securities
- Significant growth – 2008 financial crisis allowed Jefferies to expand from a niche-U.S. high yield strategy to establish a leading U.S. and European franchise across credit and rates
- Durability of our revenues demonstrate the strength and quality of our global franchise, despite the reduction of activity in fixed income markets since 2012

Fixed Income Net Revenues (1)



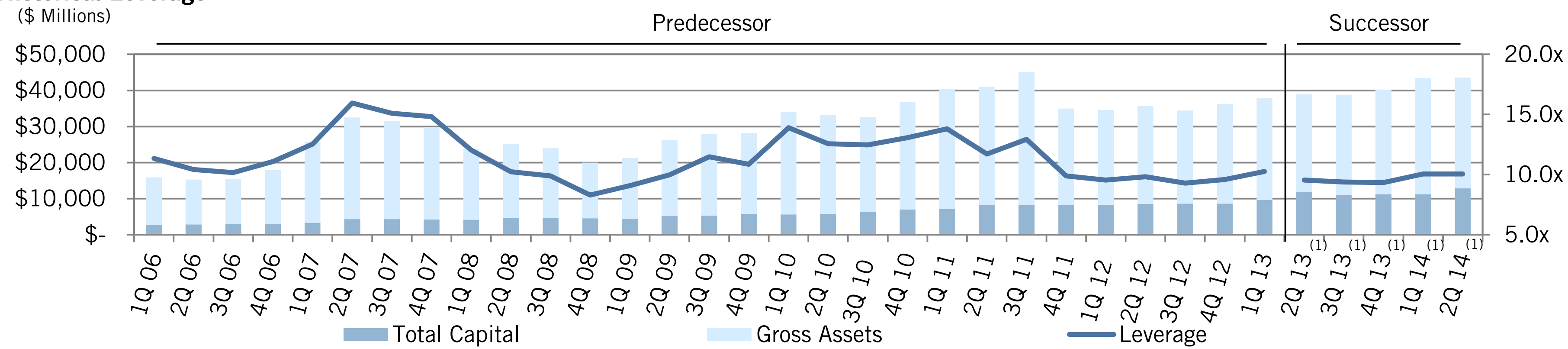
Note: All results as reported in Jefferies' public filings.
(1) Excludes predecessor first quarter ending 2/28/13. Fixed Income Net Revenues for the excluded quarter totaled $352 million.

Disciplined Approach to Risk

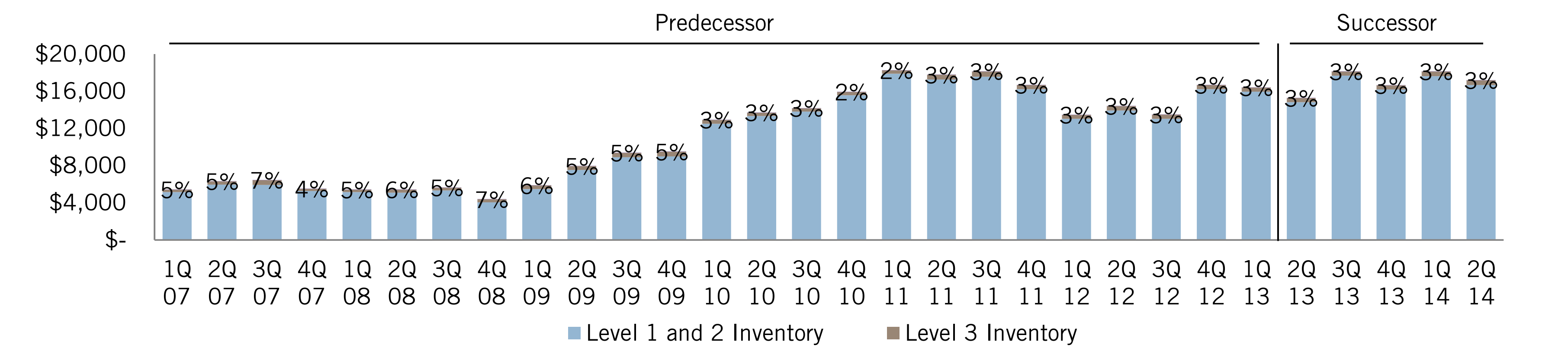
Jefferies

- Our firm is built on a disciplined and consistent approach to leverage, funding and asset-quality; these principles have served as our foundation for decades

Historical Leverage



Level 3 Financial Instruments Owned (2) **as a Percentage of Financial Instruments Owned**



(1) 2Q 2014, 1Q 2014, 4Q 2013, 3Q 2013 and 2Q 2013 reflect leverage excluding merger impacts (a non-GAAP financial measure), and equal total assets less the goodwill and acquisition accounting adjustments on the merger with Leucadia, less the net amortization to date on asset related purchase accounting adjustments, divided by the sum of total equity less the increase in equity arising from merger consideration excluding the $125 million attributable to the assumption of Jefferies' preferred stock by Leucadia, and less the net amortization to date of purchase accounting adjustments, net of tax. See page 97 for a reconciliation to GAAP figures.

(2) For periods prior to Q2 2013, excludes Level 3 trading inventory assets attributable to third party or employee noncontrolling interests in certain consolidated entities.

Upcoming Investor Calendar

Jefferies

- Jefferies Investor Day – Thursday, October 9, 2014
  - Presentations to include:
    - Firm Management
    - Finance and Treasury
    - Equities
    - Fixed Income
    - Investment Banking

Leucadia Asset Management

Overview

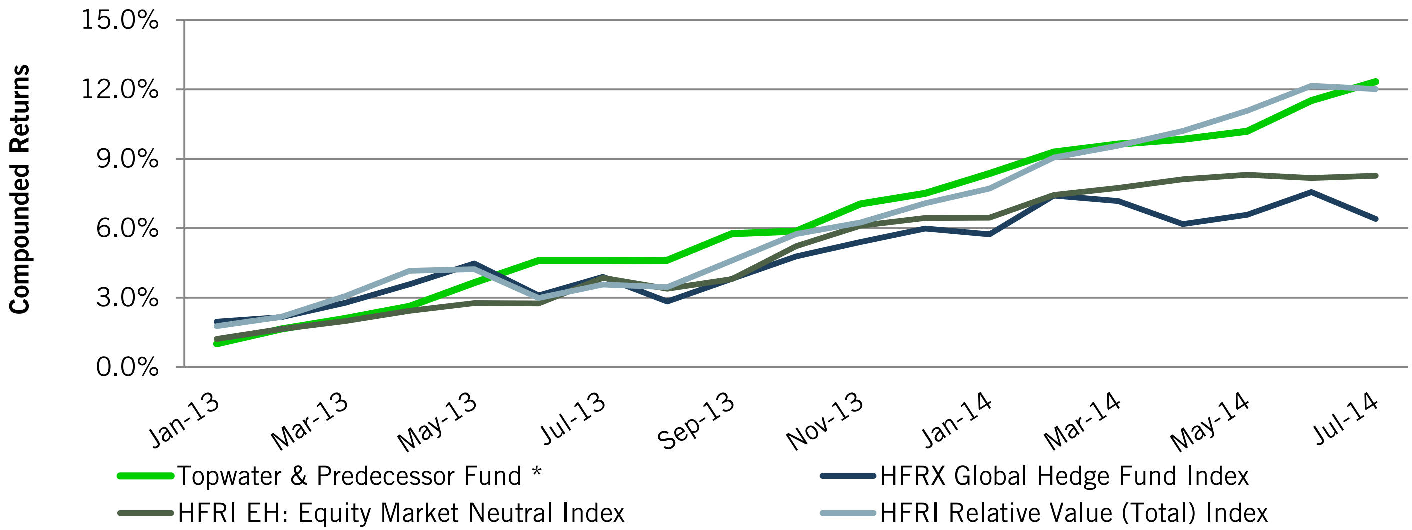
- Diversified alternative asset management platform – seeding and developing focused funds managed by distinct management teams

- $479 million – substantially all invested in liquid strategies
  - Topwater Capital (First-Loss Hedge Fund Investments)
  - Structured Alpha (Quantitative Strategies)
  - Global Equity Events Opportunity Fund (Event Driven Strategies)
  - Mazama Capital Management (Long-Only Growth Equity)
  - CoreCommodity Management (Commodity Strategies)

- Folger Hill Asset Management
  - Multi-manager hedge fund platform
  - Led by Sol Kumin, former COO of SAC, serving as CEO
  - Board of Directors: Rich Handler, Brian Friedman and Sol Kumin
  - Leucadia investment commitment of $400 million contingent on Folger Hill raising at least $400 million of outside capital

Topwater Capital

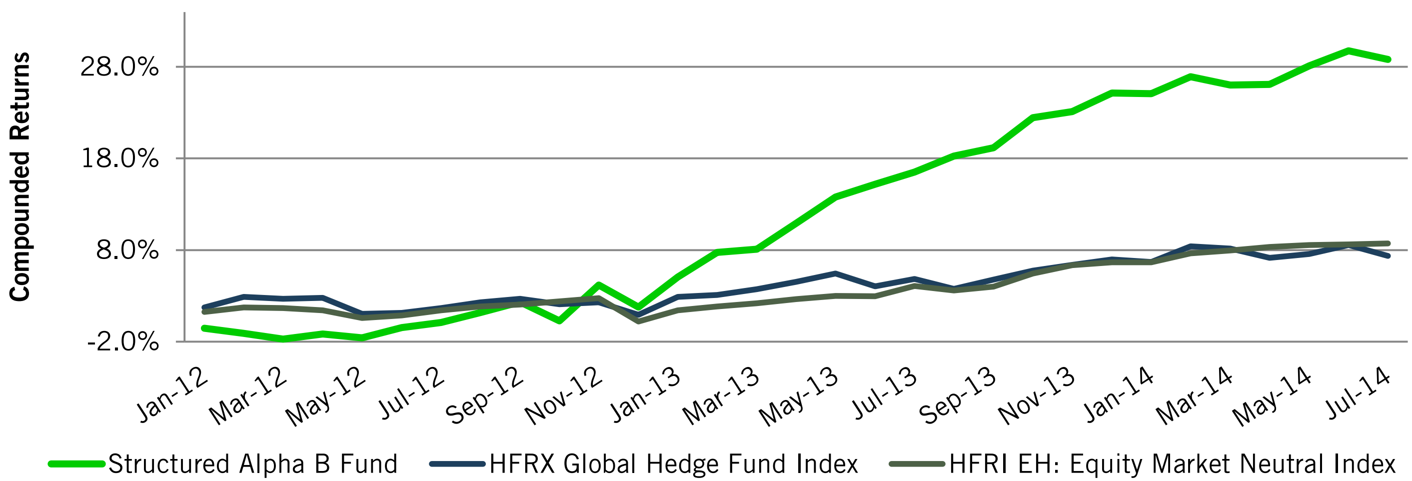
- Initial investment in Q3 2013
- Highly-scalable first-loss hedge fund of funds targeting low volatility and positive returns in all market environments via liquid securities; 9-year track record
- Managed by Travis Taylor and Brian Borgia
- Returns are beating benchmarks with lower volatility (and beating S&P 500 in 2014)



* Inactive in August 2013 during transition to L.A.M.

Structured Alpha Fund

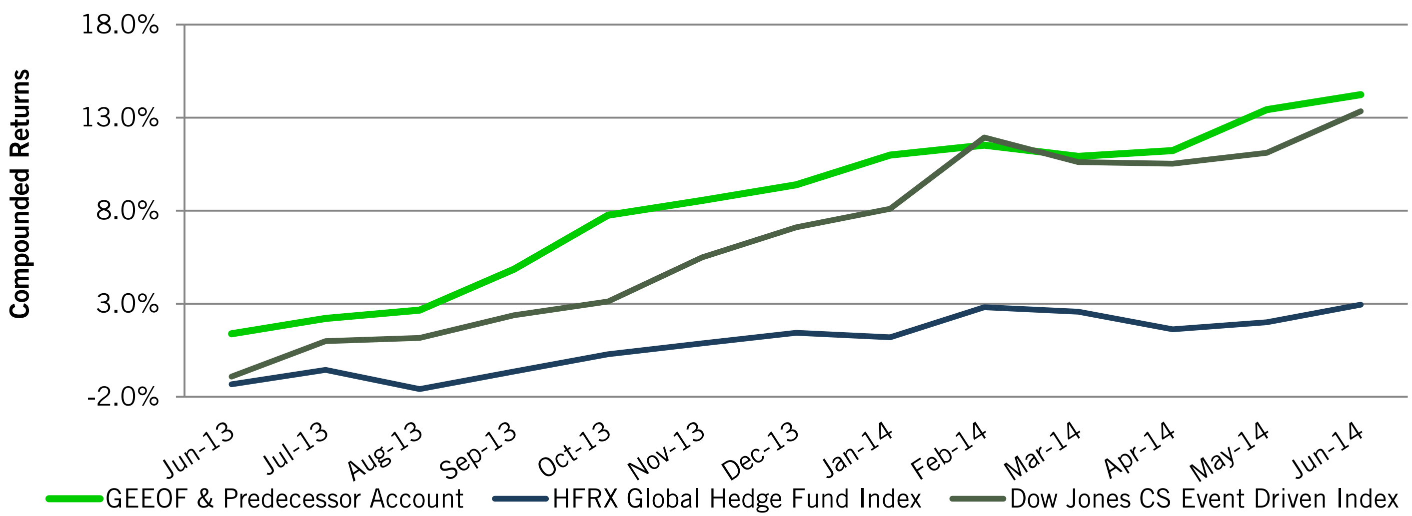
- Initiated as trading strategy at Jefferies in 2006; external fund established in 2011; Leucadia initial investment in 2013
- Statistical model to generate systematic alpha via short term trading of global equities and futures
- Management team led by Vlad Portnoy [(1)]
- Consistent positive returns beating absolute return benchmarks and with low correlation to S&P 500



(1) Managed by Jefferies Investment Advisers.

Global Equity Events Opportunity Fund

- Initiated as trading strategy at Jefferies in 2007; external fund established in 2014; Leucadia initial investment in 2014
- Merger arbitrage and other catalyst via liquid equities; 7-year track record
- Management team led by Simon Munyard (1)
- Consistent positive returns since inception in 2007



(1) Managed by Jefferies Investment Advisers, Sub-managed by Leucadia Investment Management Limited.

Mazama Capital Management

- 20+ year track record of long only growth equity investing
- Invested in 2014
- Managed by Ron Sauer
- Historically strong returns

	Q214	YTD	1 Year	2 Year	3 Year	5 Year	Since Inception
Mazama Emerging Small Cap Growth							*1-Dec-08*
Returns Gross of Fees	9.6%	18.3%	46.8%	45.7%	23.0%	25.8%	32.2%
Russell 2000 Growth	1.7%	2.2%	24.7%	24.2%	14.5%	20.5%	21.6%
Mazama Small Cap Growth							*1-Apr-93*
Returns Gross of Fees	1.2%	9.0%	35.0%	34.5%	17.3%	22.3%	10.3%
Russell 2000 Growth	1.7%	2.2%	24.7%	24.2%	14.5%	20.5%	7.8%
Mazama Small-Mid Cap Growth							*1-Jan-01*
Returns Gross of Fees	8.2%	17.0%	41.8%	36.2%	15.6%	21.6%	6.6%
Russell 2500 Growth	2.9%	4.0%	26.3%	25.1%	14.9%	21.7%	7.1%
Mazama Mid Cap Growth							*1-Jan-04*
Returns Gross of Fees	4.1%	10.7%	36.5%	35.0%	16.9%	22.1%	11.1%
Russell Midcap Growth	4.4%	6.5%	26.1%	24.5%	14.5%	21.2%	9.9%
Mazama Large Cap Growth							*1-Dec-08*
Returns Gross of Fees	5.1%	6.8%	39.3%	29.5%	19.3%	19.6%	22.9%
Russell 1000 Growth	5.1%	6.3%	26.9%	21.9%	16.3%	19.2%	19.8%
S&P 500	5.2%	7.1%	24.6%	22.6%	16.6%	18.8%	17.6%
Mazama Select Growth							*1-Jul-10*
Returns Gross of Fees	9.1%	11.9%	43.7%	35.8%	20.2%	—	24.1%
Russell 1000 Growth	5.1%	6.3%	26.9%	21.9%	16.3%	—	20.7%
S&P 500	5.2%	7.1%	24.6%	22.6%	16.6%	—	20.0%

Note: Leucadia owns a revenue share in Mazama Capital Management, but does not have any equity interest. The above performance information was prepared by Mazama Capital Management. Leucadia makes no representation as to its accuracy or completeness. Additional information relating to Mazama Capital Management can be found at www.mazamacap.com.

BERKADIA®

THE INDUSTRY OF ONE®

Overview

BERKADIA
THE INDUSTRY OF ONE®

- Berkadia is a full-service mortgage banking firm focused on providing clients best of class middle market mortgage finance and advisory services
- Business Lines:
  - Permanent and construction loans
  - Investment sales
  - Bridge loans
  - Master / primary servicing – Low-cost operator
- 2nd largest FHLMC commercial real estate lender
- 5th largest FNMA commercial real estate lender
- 3rd largest servicer of U.S. commercial real estate loans

Industry Update & Outlook

- **Industry experienced slow start to 2014, but positive trend:** According to the Mortgage Bankers' Association:
  - Year-to-date, originations are 1% lower than YTD 2013
  - Through the first half of the year, originations for commercial banks and CMBS are ahead of last year's pace, originations for life companies are essentially flat and originations for Fannie Mae and Freddie Mac are down ~34%

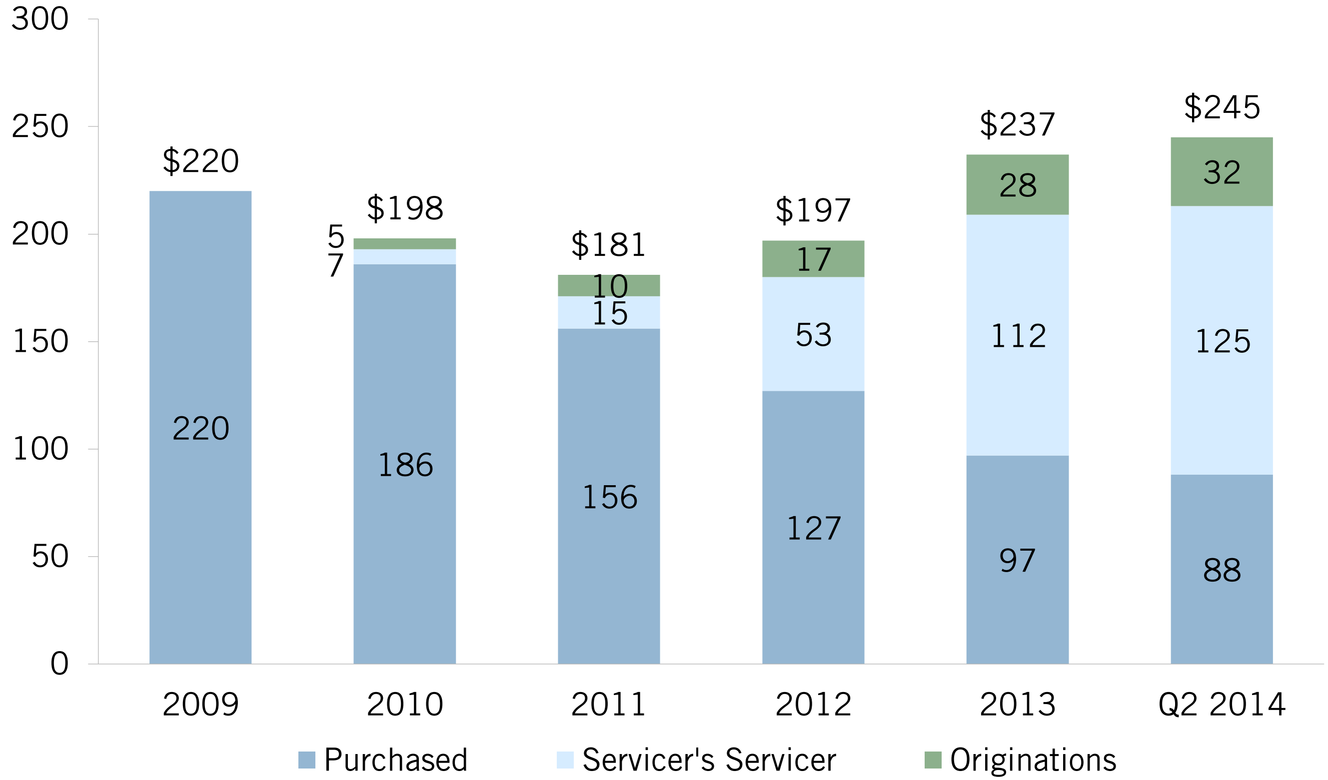
- **GSE Multifamily Update:** FHFA's mandate for 10% GSE contraction in 2013 has not repeated itself in 2014, although that uncertainty and more aggressive bank lending contributed to lower GSE originations in the first half of 2014

- **2015 – 2018 Refinancing Wave:** Although Non-Bank Commercial and Multifamily Loan Maturities are estimated to be only $92 billion in 2014, the refinancing wave peaks over the next four years with an average of ~$170 billion annually coming due. These loan maturities should drive significant future loan originations industry wide

Business Overview

- **Portfolio Growth:** Over 64% of the current servicing portfolio has been added since 2009

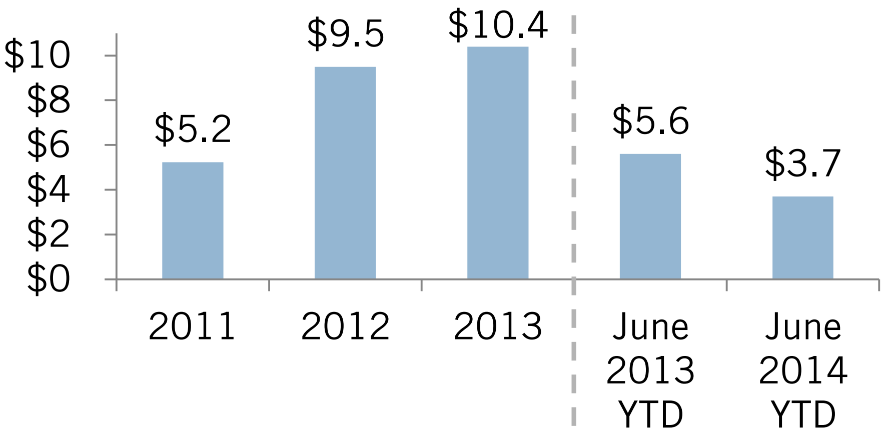
Servicing Portfolio – Unpaid Principal Balance [1] ($ Billion)



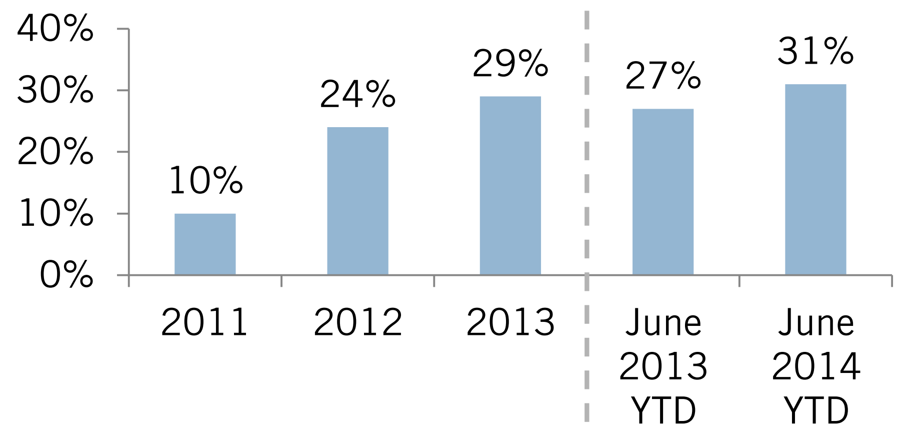
(1) Shown net of Special Servicing.

Financial Performance

Loan Originations ($ Billions)



Pre-Tax Margin (% of Revenue)



Pre-Tax Income ($ Millions)

Cash Earnings ($ Millions) (1)

(1) Cash Earnings is a non-GAAP measure. Cash Earnings equals pre-tax income plus depreciation and amortization of mortgage servicing rights (MSR's), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to origination of MSR's. See page 98, appendix, for a reconciliation to GAAP amounts.

Recent Developments

- **Originations and Fees:** Berkadia followed the industry's slow start to 2014 with origination volume of $3.7 billion in the first half of 2014 versus $5.6 billion in the same period of 2013 (which included a single deal of $1.1 billion). Despite this lower origination volume, Berkadia's Pre-Tax Income was up year over year in the first half of 2014 due to better margins

- **Berkadia Investment Sales:** Berkadia has united its investment sales (previously Hendricks-Berkadia) and mortgage banking divisions under the leadership and banner of Berkadia

- **Investment Portfolio:** Berkadia's investment portfolio continues to perform very well. The portfolio consists predominately of low leverage real estate loans, commercial mortgage servicer advances, and select opportunistic credit investments

Strategic Priorities

- **Increase production**
  - Add additional mortgage bankers and investment sales professionals
  - Grow market share through the maturity wave

- **"Servicer's Servicer"**
  - Berkadia Commercial Real Estate Services has the capabilities and expertise to substantially improve the profitability of the Mortgage Servicing Rights held by others, and is actively pursuing additional servicing engagements with 3rd parties

- **Grow commercial real estate customer base**
  - Continue to build product suite and capabilities

National Beef®

Business Overview

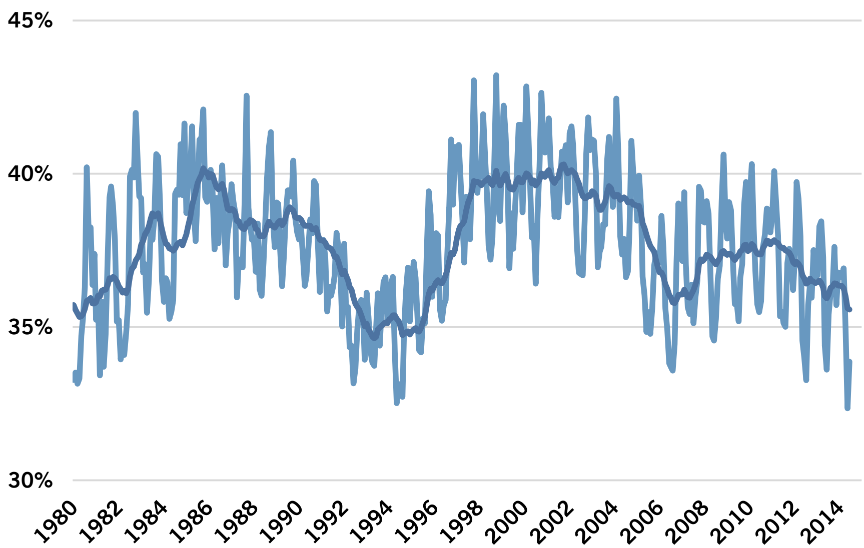
National Beef

- National Beef processes ~3 million fed cattle per year representing ~12.5% market share
  - 2 processing plants strategically located in Liberal and Dodge City, KS
  - Primary competitors: Tyson, Cargill, JBS
  - Export beef and beef by-products to more than 20 countries
- Beef processing is a spread margin business, so National Beef is intensely focused on value-added production to drive superior performance versus its commodity-focused competitors
  - National Beef operates 3 further processing plants converting beef and pork into fresh, consumer-ready products
  - Strategically located in PA, GA and KS
- National Beef's tannery is among the largest in the world
  - Convert raw cattle hides to wet blue leather for use in finished leather production for automotive, shoes, fashion, etc.
- www.kansascitysteaks.com
  - Premium direct-to-consumer beef and other center-of-the-plate entrees

Industry Trends

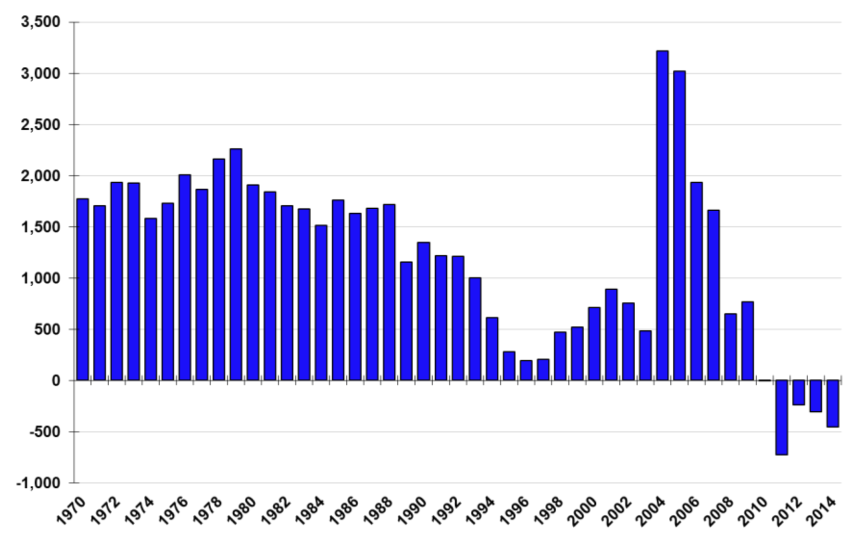
- Heifer and beef cow slaughter have been declining recently. While this has put pressure on industry margins in the short run, in the longer run we believe this may lead to an increase in the number of fed cattle available for slaughter
- The U.S. has historically been a net importer of beef. Due to increasing international demand for U.S. beef and a decline of lean beef imports, the U.S. is now a net exporter of beef. We anticipate this should have a positive impact on industry margins

Heifer Slaughter as a % of Steer/Heifer Slaughter



Source: USDA.

US Net Beef Trade – Imports minus Exports (millions lbs.)

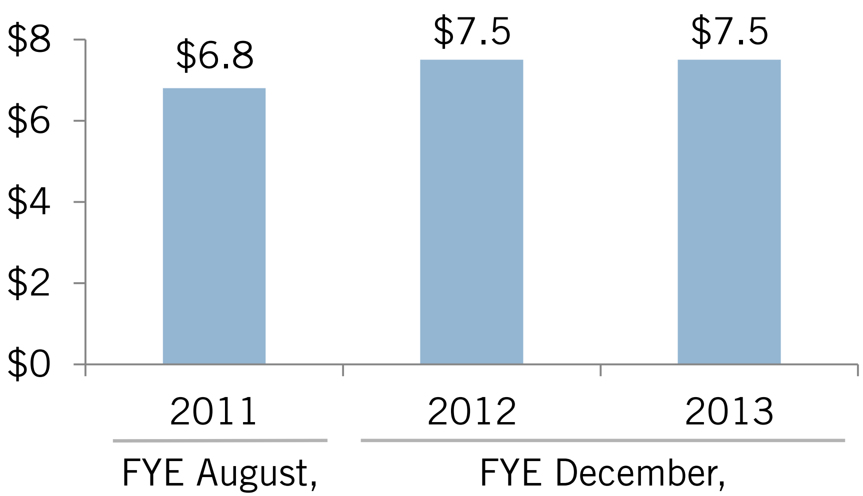


Source: USDA.

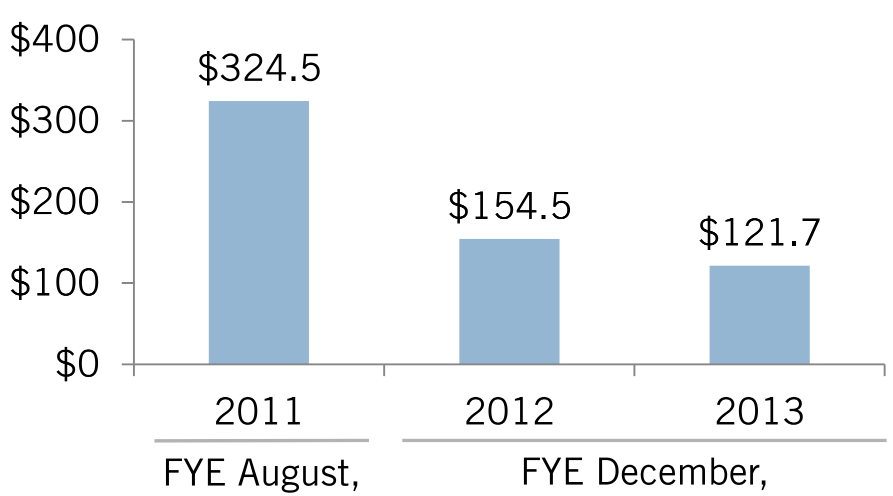
Financial Performance

- The beef processing industry is cyclical and working capital intensive. However, it has significant barriers to entry and offers attractive prospects for free cash flow generation over the cycle
- Given cattle supply constraints, strategies designed to drive margin expansion (i.e., efficiencies) are more important to long-term profit growth then those focused on increasing revenue

Revenue ($ Billions) (1)



Profit from Operations ($ Millions) (1, 2)

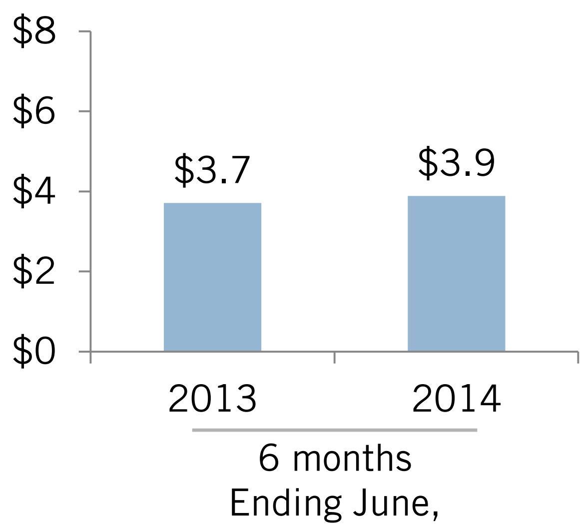


(1) Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012 and 2013.
(2) Profit from operations is a non-GAAP measure. Profit from operations equals pre-tax income, plus depreciation and amortization expenses and excluding interest expense / (income), net and an impairment charge in 2013. See page 99 in the appendix for a reconciliation to GAAP amounts.

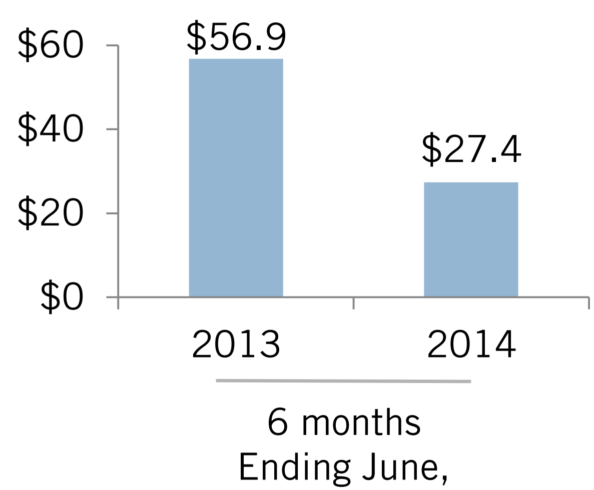
Recent Financial Performance

- 2014 YTD financial results have been negatively impacted by lower slaughter numbers (down approx. 6% vs. 2013), no improvement in historically low industry margin conditions, and lower volumes and margin on certain products due to the loss of Walmart case-ready business. This is somewhat mitigated by improved volumes and margin in our tannery and direct-to-consumer businesses

Revenue ($ Billions)



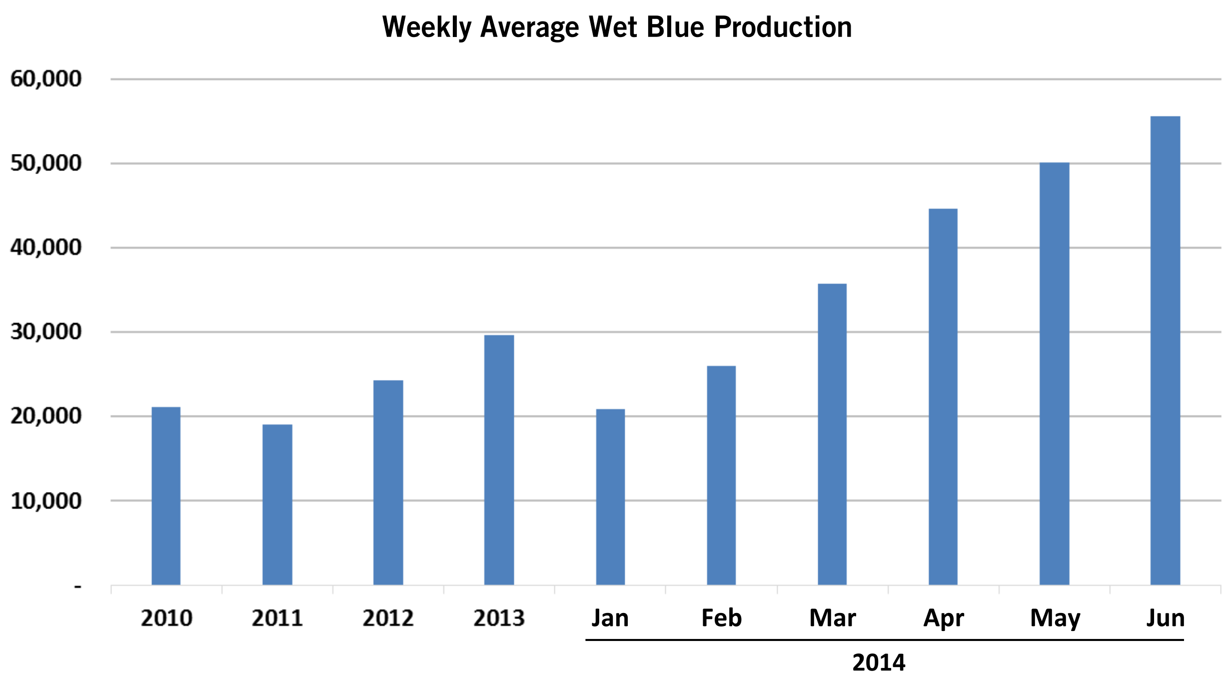
Profit from Operations ($ Millions) (1)



(1) Profit from operations is a non-GAAP measure. Profit from operations equals pre-tax income, plus depreciation and amortization expenses and excluding interest expense / (income), net. See page 99 in the appendix for a reconciliation to GAAP amounts.

Recent Developments

- Retrofit and expansion of wet blue tanning facility is complete. Ramp up to target volume is on pace



- Closure of our Brawley, CA beef processing facility is complete and is expected to enhance operating results

- Global protein demand follows the growth of the middle class in developing countries and points to increasing demand for beef

Strategic Priorities

- Focus on additional value-added production
  - Our 3 further processing plants have significant capacity available for growth
  - Ongoing dialogue with retailer and food service providers regarding consumer-ready, portion-controlled and ready-to-cook product lines
- Drive volume and margin through our expanded and modernized tannery
  - Provide the highest quality lime-fleshed, wet blue hides from one of the largest and most technologically advanced facilities in the world
- Maintain market share and enhance profitability
  - Capture value of efficiencies and operational improvements
  - Position company for long-term rebound in domestic herd size
  - Focus on export opportunities as markets develop
- Execute on strategic plan to drive significant growth of Kansas City Steak Company

Harbinger Group Inc.

Company Overview

- NYSE-listed diversified holding company (NYSE: HRG) that operates in four business segments:
  - Consumer Products – Spectrum Brands (NYSE: SPB, ~59% ownership [(1)])
  - Insurance – Fidelity & Guaranty Life (NYSE: FGL, ~80% ownership [(1)]); FrontStreet Re
  - Asset Management – Salus Capital Partners; Five Island Asset Management; Energy & Infrastructure Capital; CorAmerica
  - Energy – Compass Production GP (Exco Joint Venture)

(1) Source: Harbinger's August 8th, 2014 3rd Quarter Conference Call presentation.

Key Ownership Details

Harbinger Group Inc.

- Date of Initial Investment: September 2013
- Cost: $411 million
- Book Value at 06/30/14: $528.3 million
- Ownership: 20.1%
- Joseph Steinberg and Andrew Whittaker serve on Harbinger's Board of Directors

Sum of the Parts Valuation (Dilutive) without AOCI [1]

Harbinger Group Inc.

	Method	Estimated Value Total ($ Bn) [2]	Estimated Value Per Share
Spectrum Brands	Market Value	2.2	10.87
Insurance Segment	Mkt. Val. / Book Val.	1.2	5.98
HGI Energy Holdings LLC	Book Value	0.1	0.50
HGI Funding LLC	Book Value	0.4	1.82
HGI Asset Management Holdings LLC	Book Value	0.1	0.35
Cash	Book Value	0.3	1.57
Debt & Other Liabilities		(1.2)	(5.93)
Total Estimated Value		$ 3.1	$15.16

(1) Source: Sum of the Parts Valuation per Harbinger's August 8th, 2014 3rd Quarter Conference Call presentation. Harbinger's valuation of Spectrum Brands is based on a volume weighted average closing price of $80.88 for the 20 day trading period ended 06/30/14. On 08/27/14, Spectrum Brands' closing price was $86.00. Harbinger's valuation of the Insurance Segment is based on a volume weighted average closing price of $22.94 for Fidelity & Guaranty Life for the 20 day trading period ended 06/30/14, and book value as of 06/30/14 for FrontStreet Re of $158.7 million. On 08/27/14, Fidelity & Guaranty Life's closing price was $22.26. Valuation excludes Harbinger's share of Accumulated Other Comprehensive Income ("AOCI").

(2) Represents per share value multiplied by 206,595,655 shares of Harbinger's common stock outstanding as of 06/30/14, giving effect for the vesting of all restricted shares (5,589,203).

Financial Performance

Harbinger Group Inc.

($ Millions)		FYE September 30, 2011	2012	2013
Consumer (1)	Pro Forma Net Sales	$ 3,187	$ 4,226	$ 4,277
	Adjusted EBITDA	457	668	677
	% Margin	*14.3%*	*15.8%*	*15.8%*
Insurance (2)	Revenues	$ 291	$ 1,222	$ 1,348
	Adjusted Op. Income	25	58	221
	% Margin	*8.4%*	*4.7%*	*16.4%*
Energy (2)	Revenues	NA	NA	$ 90
	Adjusted EBITDA	NA	NA	40
	% Margin	*NA*	*NA*	*43.9%*

(1) Source: Consumer financials per Harbinger's February 2014 Company Overview. FY 2012 and FY 2013 are pro forma as if Hardware & Home Improvement Group was acquired at the beginning of the respective periods. Pro Forma Net Sales and Adjusted EBITDA are non-GAAP measures. See page 100 for a reconciliation to GAAP figures.

(2) Source: Insurance and Energy financials per Harbinger's 10-K for the fiscal year ended 09/30/13. Insurance – Adjusted Operating Income and Energy – Adjusted EBITDA are non-GAAP measures. See page 101 for a reconciliation to GAAP figures.

Vitesse

Management Biographies

- Bob Gerrity – CEO
  - Started in the oil business in 1982
  - Established Gerrity Oil and Gas Corporation (GO) with $30,000 and took it public in 1990
  - GO became a low cost producer in the Wattenberg field and pioneered the "manufacturing" approach of converting reserves into cash flow
  - GO merged with Snyder Oil in 1996 to form Patina Oil and Gas, which merged into Noble Energy (Wattenberg asset now stands as a $3.2 billion asset for Noble)

- Brian Cree – President and CFO
  - 25 years in the oil and gas industry
  - Held various roles at GO including CFO, SVP of Operations and COO and also served as a Director on its Board
  - Continued on at Patina Oil and Gas as COO until 1999
  - Spent the last ten years in various COO and CFO roles
  - Served as Vice Chairman of the Colorado Oil and Gas Conservation Commission, a position appointed by the Governor, from 1999 through 2007

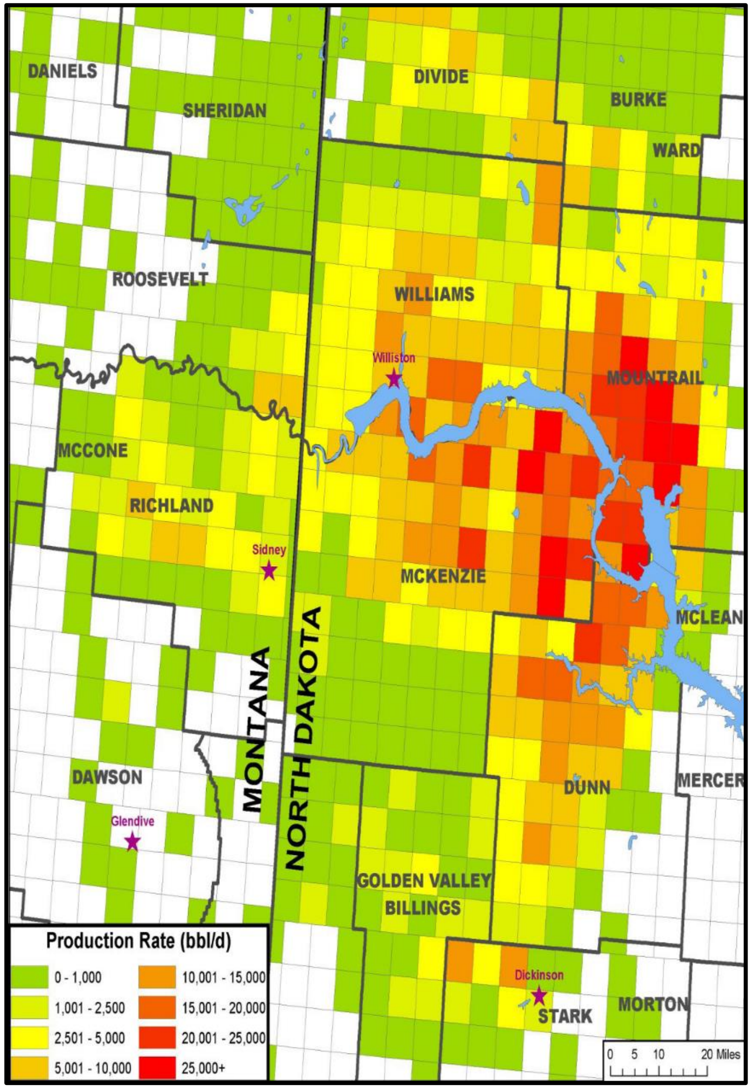
Company Overview

Vitesse

- Formed in May 2014
  - Leucadia has funded $44 million in acquisitions to date
    - Millennium - $35 million (May 2014)
    - Other - $9 million (May-July 2014)
    - EnerVest (pending) - $205 million (PSA signed August, anticipate closing September 2014)
- Non-operating owner of oil and gas properties in the core of the Bakken field
- Acquire and Develop
  - Acquire producing and undeveloped leasehold properties in the core of the Bakken field in North Dakota and Montana
  - Convert undeveloped leasehold into cash flow producing assets
- Partner with leading operators who drill and complete new horizontal wells
- Think under the radar – deep relationships

The Bakken

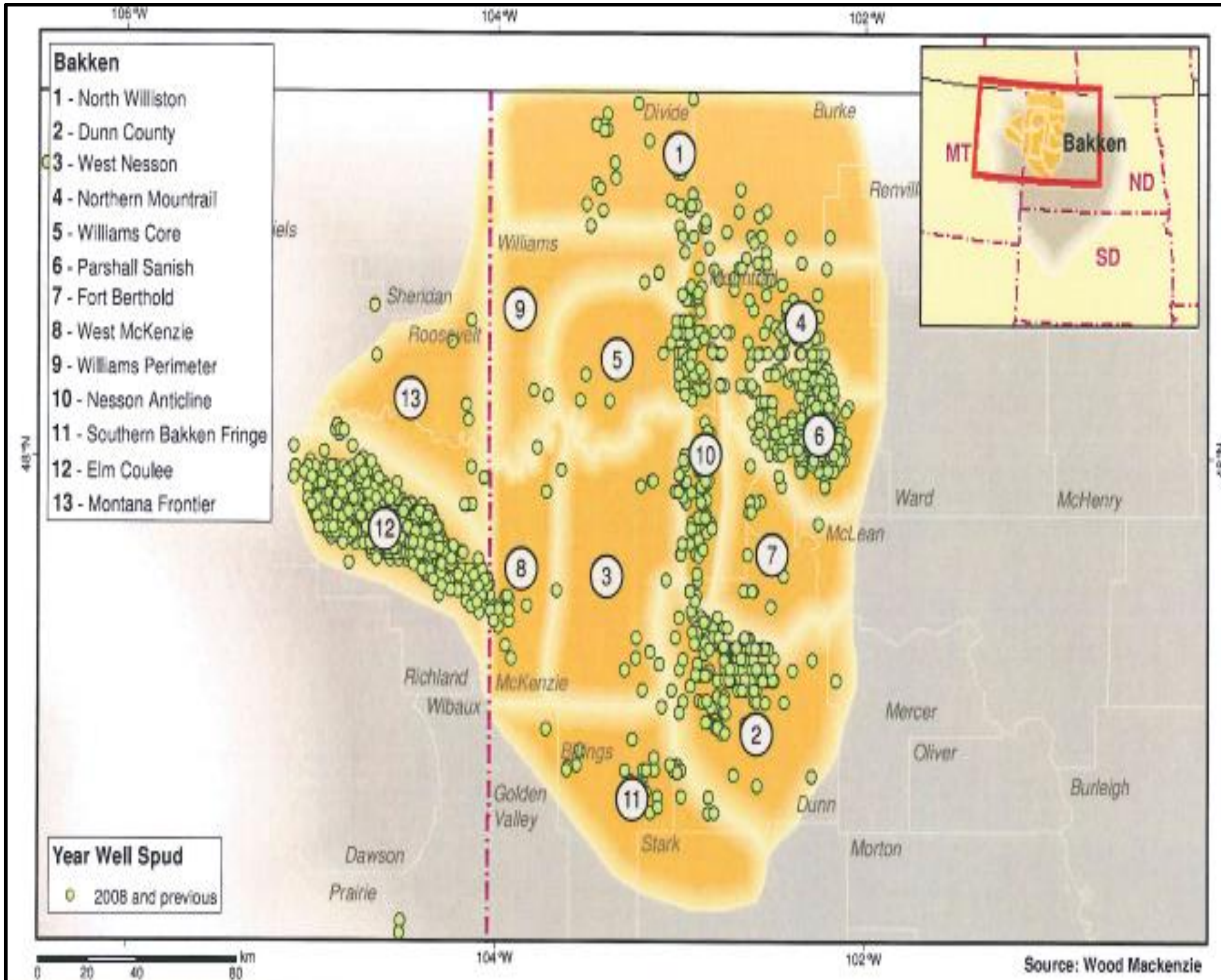
- The Bakken is the largest continuous oil formation in the U.S.
- Covers 20,000 square miles and contains approximately 30 billion barrels of recoverable oil
- 189 rigs actively running
- 14,000+ potential drilling locations = $119+ billion in potential drilling capital
- 2,000 wells drilled per year = $17 billion
- VE has quality operators including, EOG, Whiting, Continental, Oasis and Hess



Source: RBC Capital Markets "Bakken Heat Map" – May 19, 2014

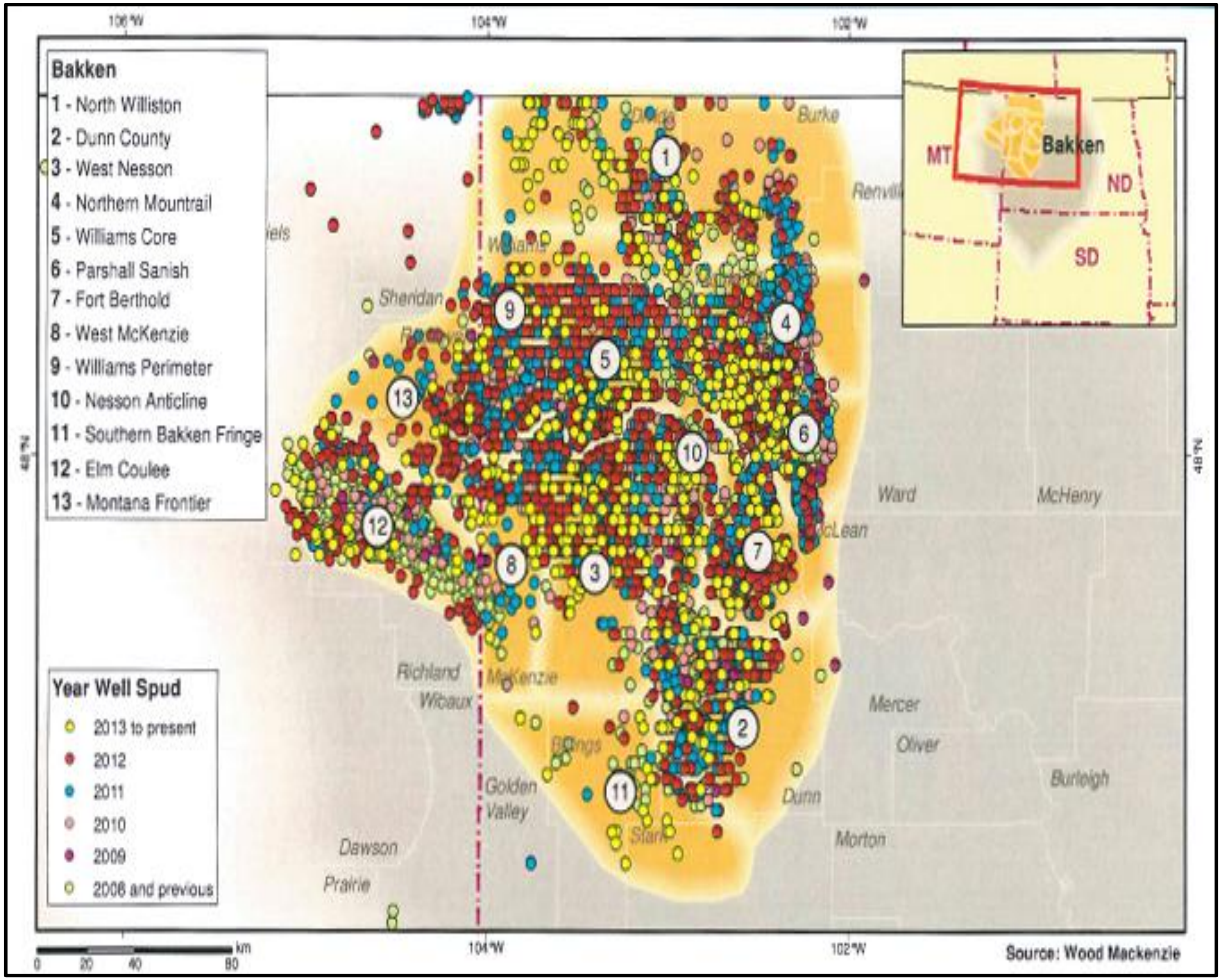
Bakken Evolution

2008



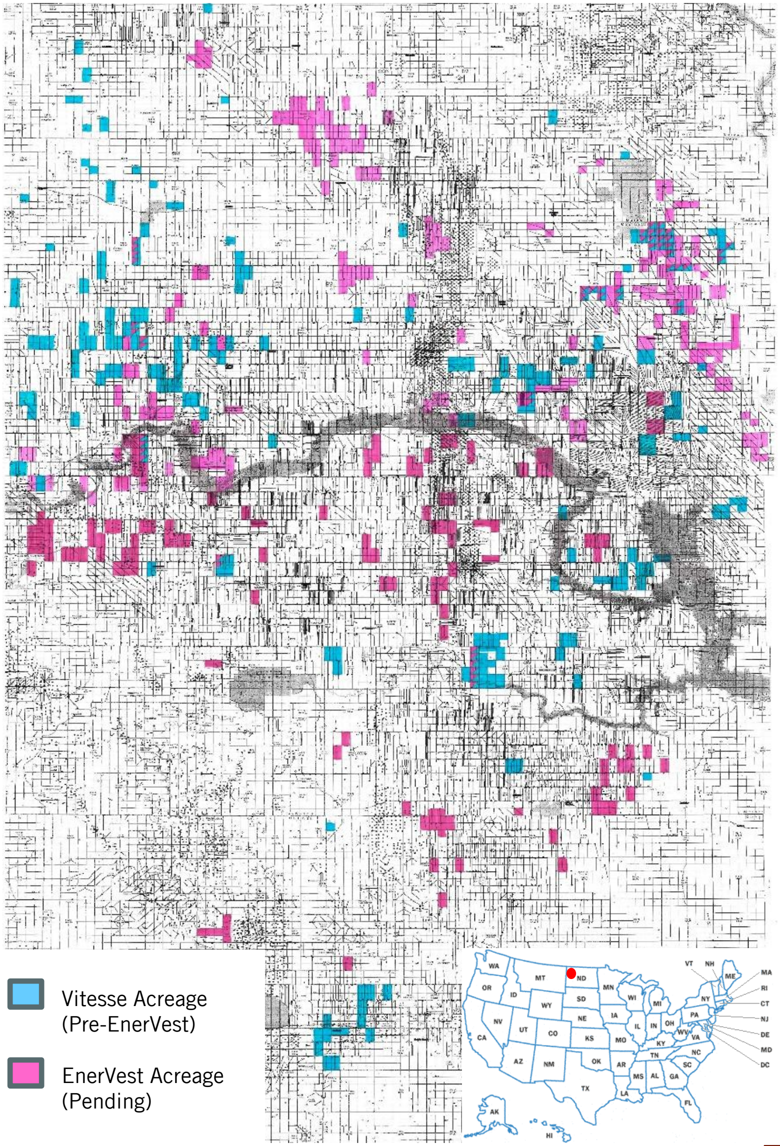
Bakken Evolution

2013



Acreage Map

- Vitesse owns over 23,000 net acres in the core [(1)]
- Operated by quality independents and leading Bakken operators including EOG, Whiting, Oasis, Hess and Continental
- Actively leasing in the 4 most prolific counties: Mountrail, Williams, McKenzie and Dunn
- 900+ producing wells
- 250+ wells in drilling or completion status
- >120 net development locations



(1) Includes pending EnerVest acquisition.

Strategy

- Aggregate assets in the core of the Bakken
- Optimize portfolio of assets. Add to desired core acreage and divest fringe
- Increasing cash flow from new well development over next 10 years
- Hedge flowing production when appropriate
- Selectively sell assets when appropriate

Vitesse Today

- Over 23,000 net acres predominantly in the core Bakken counties of Williams, McKenzie, Mountrail and Dunn, North Dakota
- Diversified exposure to high quality operators including EOG, Whiting, Oasis, Hess and Continental
- Strong cash flow from over 1,800 Boe/d of net production (1)
- Significant development potential with over 120 net undeveloped locations (2)
- Well-capitalized to pursue further growth opportunities

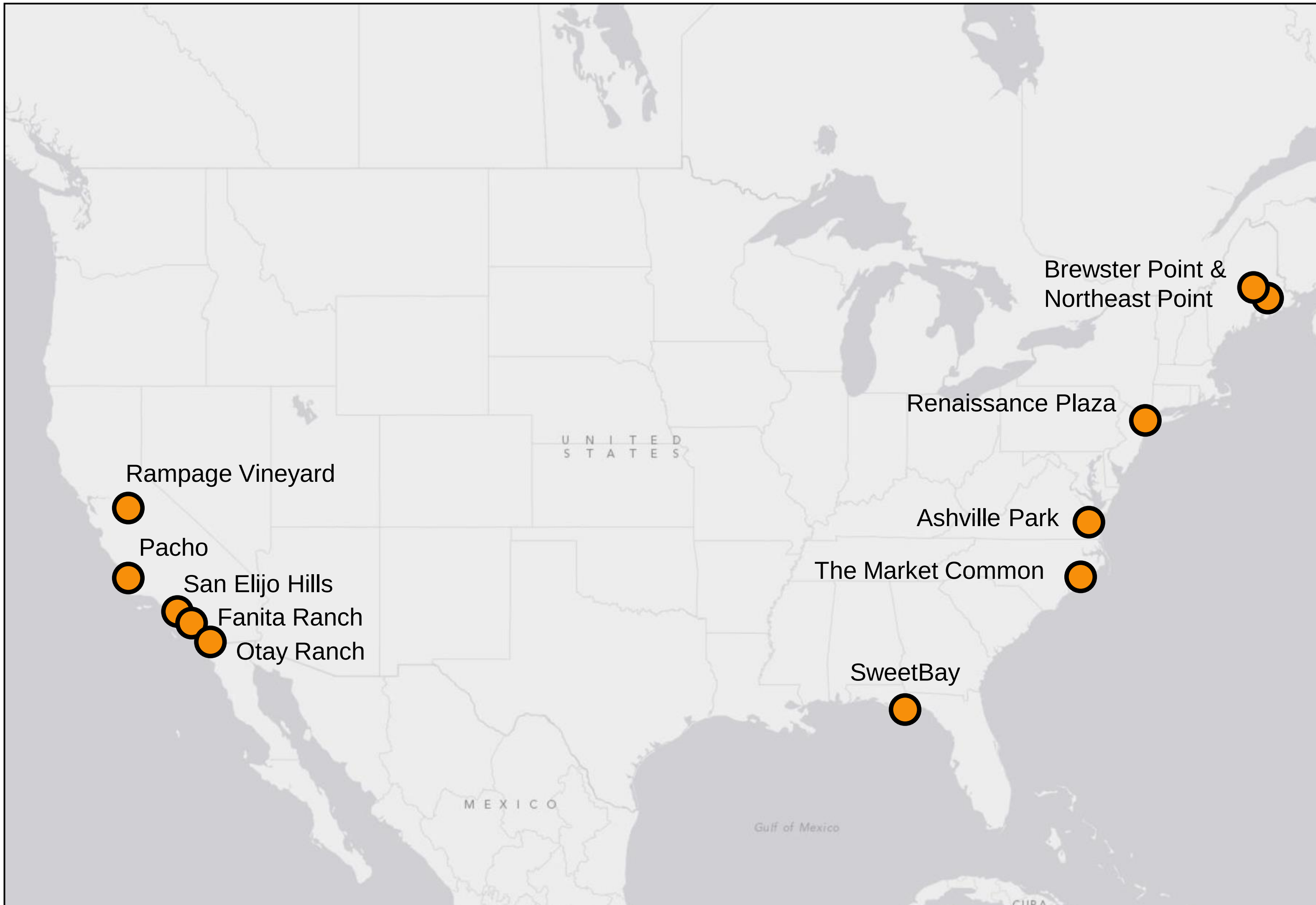
(1) July 2014 estimate including the pending EnerVest acquisition.
(2) Based on management estimate and generally assumes 6-10 locations per DSU, including the pending EnerVest acquisition.

HomeFed Corporation

Company Overview

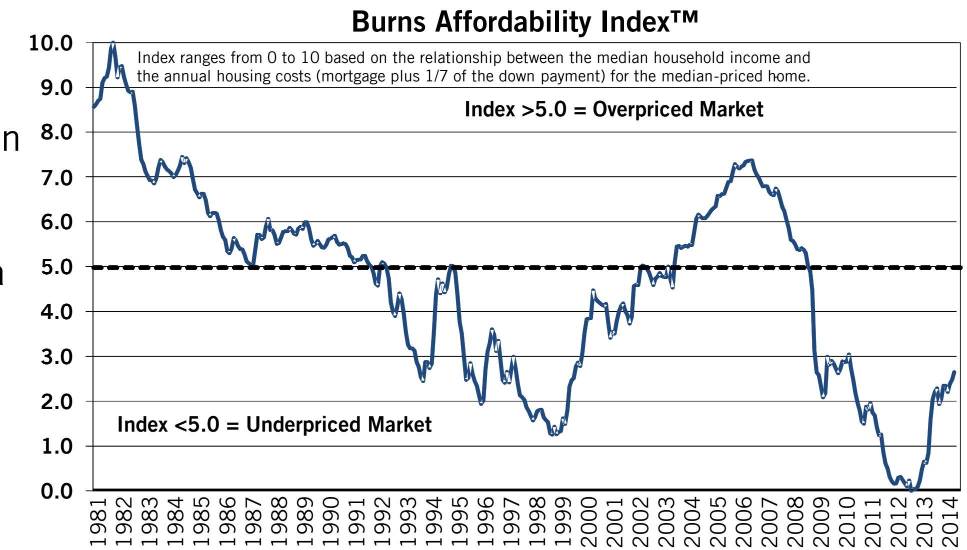
- HomeFed is a public company (stock ticker: "HOFD") that develops and owns residential and mixed-use real estate projects in California, Maine, New York, Virginia, South Carolina and Florida. HomeFed is 64% owned by Leucadia National Corporation
- Activities include:
  - Acquisition of raw, partially entitled or entitled land
  - Land planning and design engineering
  - Entitlement and permitting of project with local, state and federal agencies
  - Grading and construction of public infrastructure and other facilities
  - Master planned community formation, governance and sales to national and local builders
  - Oversight and management of operating assets

Property Locations



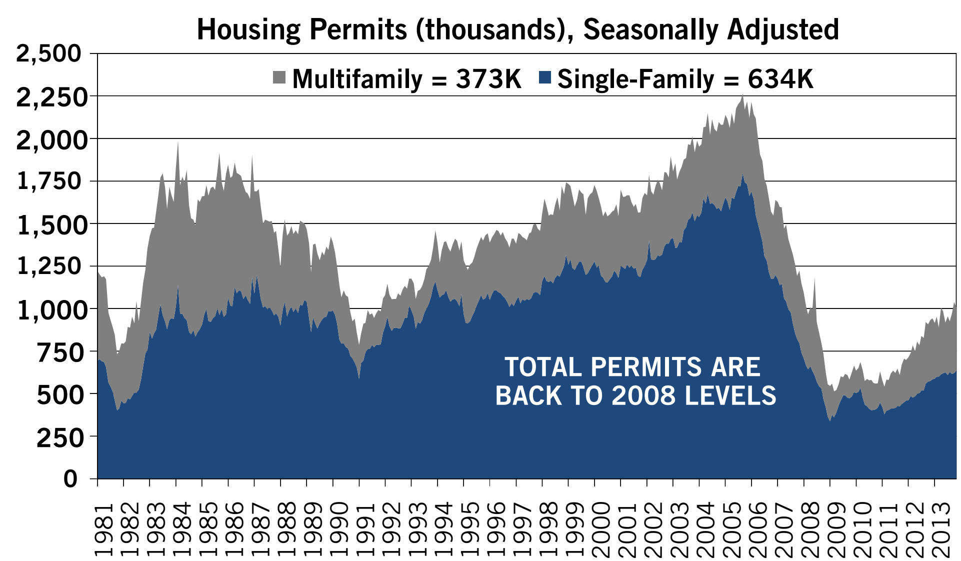
Market Outlook

- Affordability Better than Average
  - Relatively underpriced market based on the Burns Index of household income to annual home ownership costs
    - ~2.5 today vs. a 5.0 benchmark in a neutral market
  - Housing cost-to-income ratio = 28% vs. the 32% historical median



- Demand Exceeds Supply

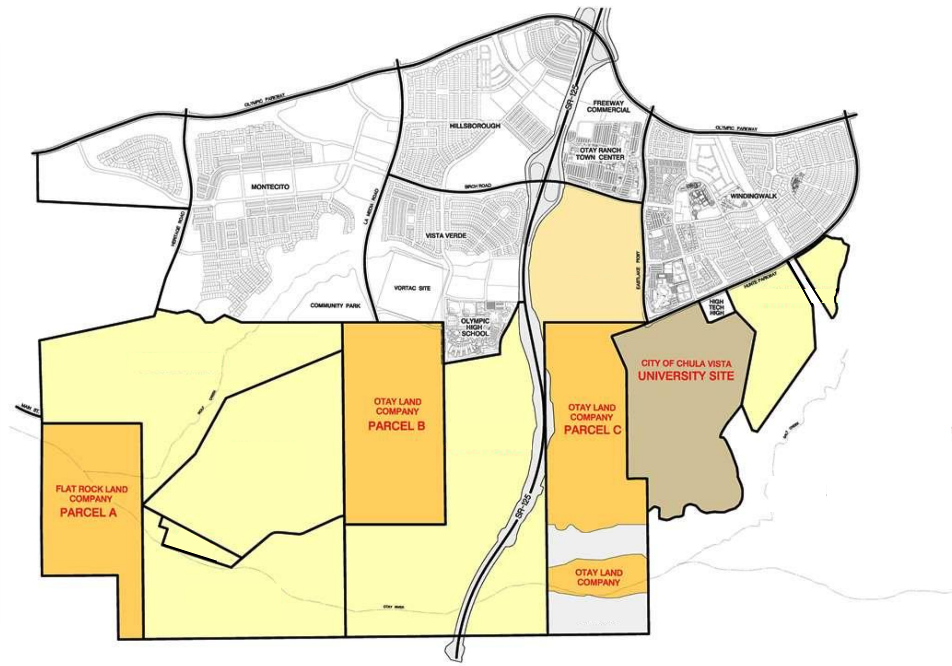
2.2 million jobs created last year
÷ **1.0** million total permits
= **2.2** jobs / housing unit
1.2 is considered normal



Source: John Burns Real Estate Consulting.

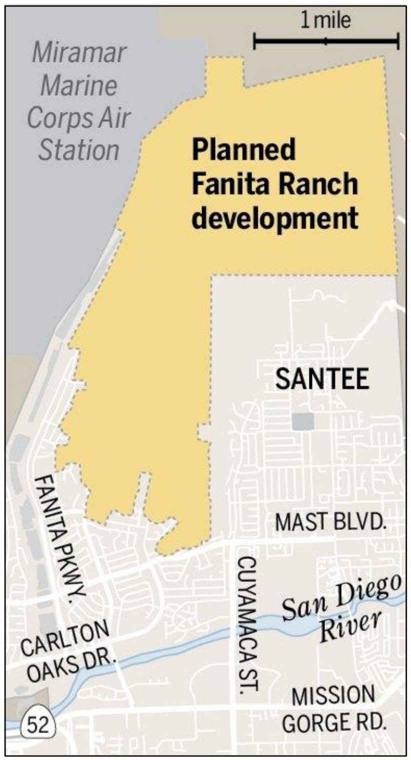
Portfolio Overview

- **Otay Ranch (Chula Vista, CA)**
  - 2,800 acres (two urban villages totaling 700 acres & 2,100 acres of open space)
  - Entitled for 6,050 units and 1.8 million square feet of commercial development



Fanita Ranch (Santee, CA)

- 2,600 acres of unentitled property
- Entitlement processing expected to commence before year end

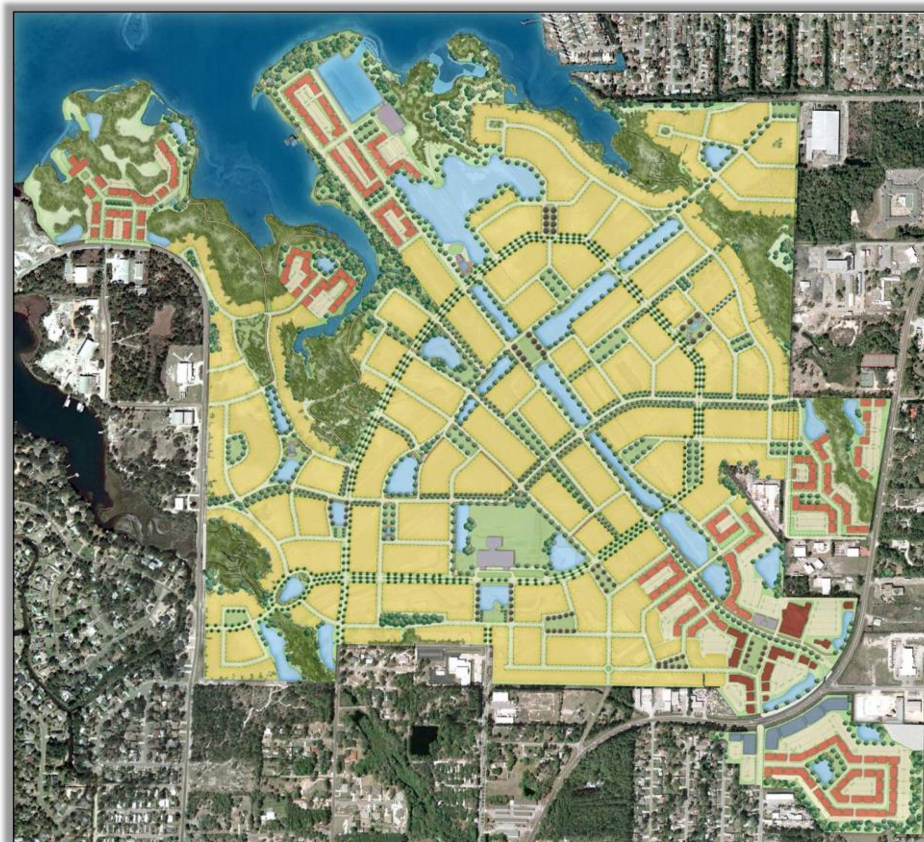


Ashville Park (Virginia Beach, VA)

- 450 acres - 499 dwelling units
- 270 unsold dwelling units

ASHVILLE PARK

- **SweetBay (Panama City, FL)**
  - 700 acres entitled for 3,200 dwelling units, 700,000 square feet of commercial development and a 117 slip marina
  - Established charter school opened new campus for the fall of 2014



The Market Common (Myrtle Beach, SC)

- Existing 390,000 square feet of office and retail with 195 short and long-term apartments
- Residential land entitled for up to 572 additional dwelling units

- **San Elijo Hills (San Marcos, CA)**
  - 2,000 acres – 3,500 dwelling units
  - 178 unsold dwelling units

Renaissance Plaza (Brooklyn, NY)

- Existing 850,000 square foot office building, 888 stall garage, and 665 room hotel
- Office building and garage are owned 49%(1) by HomeFed
- Marriott at the Brooklyn Bridge is owned 25.80% by HomeFed

(1) Ownership to increase to 61.25% upon receipt of certain approvals.

Project Status

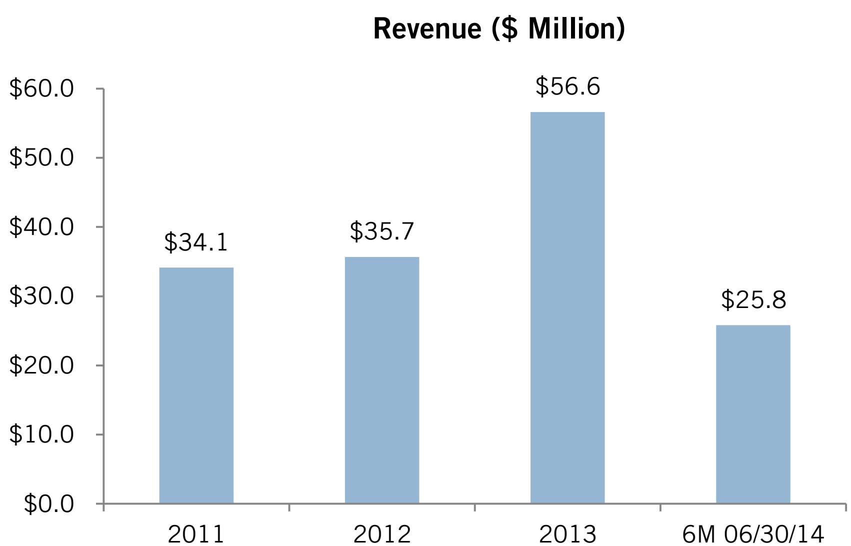
Property	Development / Operating Phase				
	Unentitled Land	Planning / Entitlement	Land Development	Active Lot Sales	Operating Asset
Otay Ranch		■	■		
Fanita Ranch	■				
Pacho	■				
Ashville Park			■	■	
SweetBay			■	■	
The Market Common			■	■	■
San Elijo Hills				■	
Renaissance Plaza					■
Rampage Vineyard	■				■
Brewster Pt. - Northeast Pt.				■	

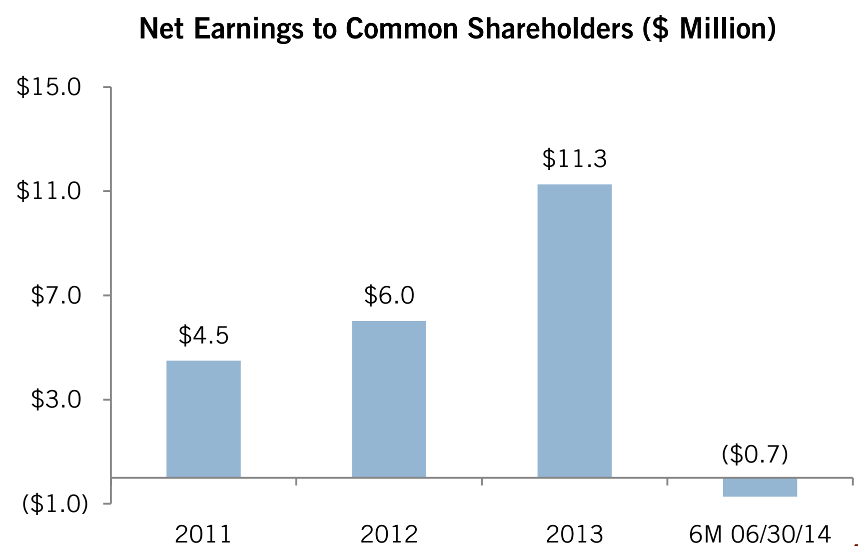
Strategic Priorities

- Continue to opportunistically acquire additional development projects throughout the U.S.

Financial Performance

- Closed on real estate assets end of 1Q 2014
- Revenue can vary significantly from year to year depending on finished lot availability in conjunction with builder demand
- 2014 revenues lower due to timing of sales. Net earnings were negatively impacted by expenses associated with Leucadia transaction





linkem

internet revolution

Overview and Ownership

linkem
internet revolution

Company Overview

- Fast-growing fixed wireless broadband provider in Italy
- Nationwide network deployment with base stations, fiber exchange points, points of sale and customers in every region
  - As of 06/30/14, 1,059 base stations deployed reaching approximately 35% of the population
  - 300+ fiber points of presence
  - 1,000+ dealers and installers
- 84MHz of 3.5 GHz spectrum covering 80% of the population and 42 MHz covering all of Italy
- Currently in the process of migrating the network from legacy WiMax to LTE
  - Field trials are underway with commercial launch expected towards the end of the year
- National brand recognition

Key Ownership Details

- Date of Initial Investment: July 2011
  - Leucadia has since funded most of Linkem's growth and become its largest shareholder
- Book Value of Leucadia Investment at 06/30/14: $162.1 million
  - Ownership: 40%
  - €60.6 million principal amount of a 5% convertible note due in 2018 (1)
  - Fully Diluted Ownership: 53%

(1) €60.6 million principal amount outstanding including accrued PIK interest through June 30, 2014.

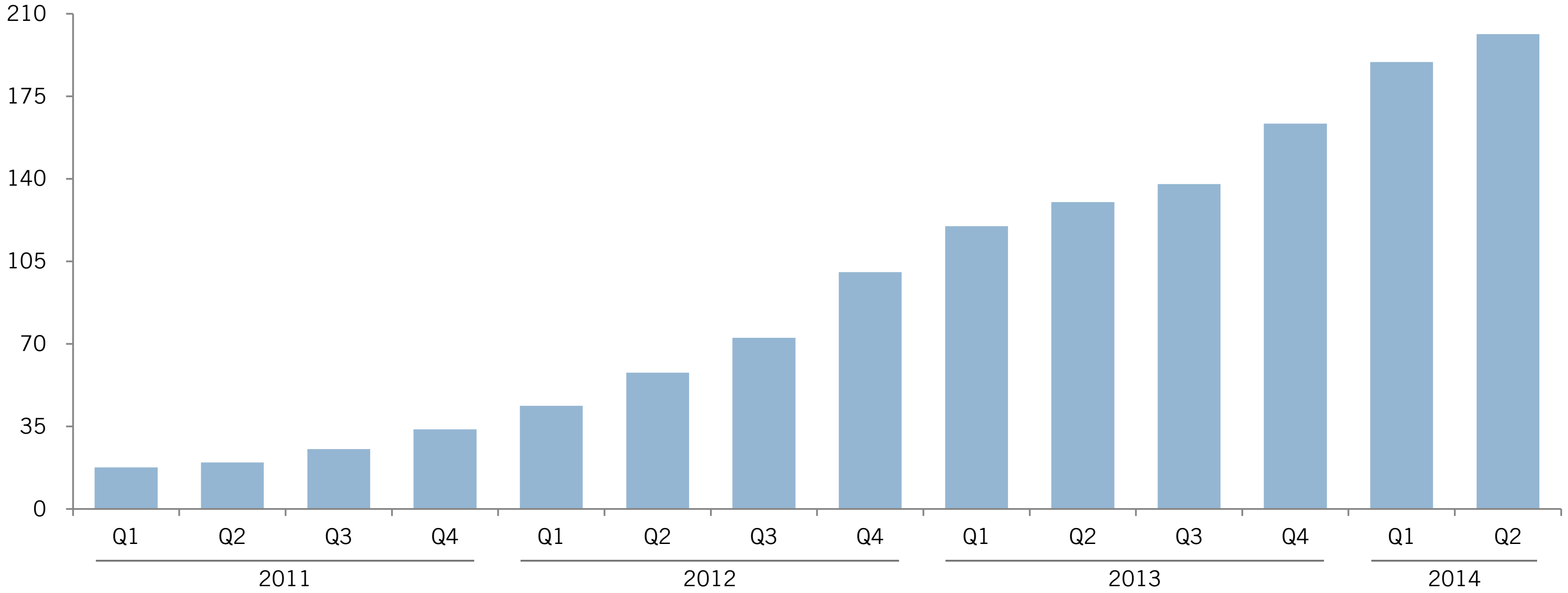
Customer Base and Growth

History of Attracting New Customers

- 117% annualized subscriber growth rate since Leucadia's initial investment in July 2011
- 201,399 subscribers as of 06/30/14

Subscriber Growth

Subscribers (000's)



Market Overview & Key Market Trends

linkem
internet revolution

- Linkem provides a residential wireless broadband service with a compelling combination of speed and price

- Italians have poor broadband alternatives
  - Few cable television systems
  - Expensive and substandard DSL networks
  - Limited and slow fiber deployment

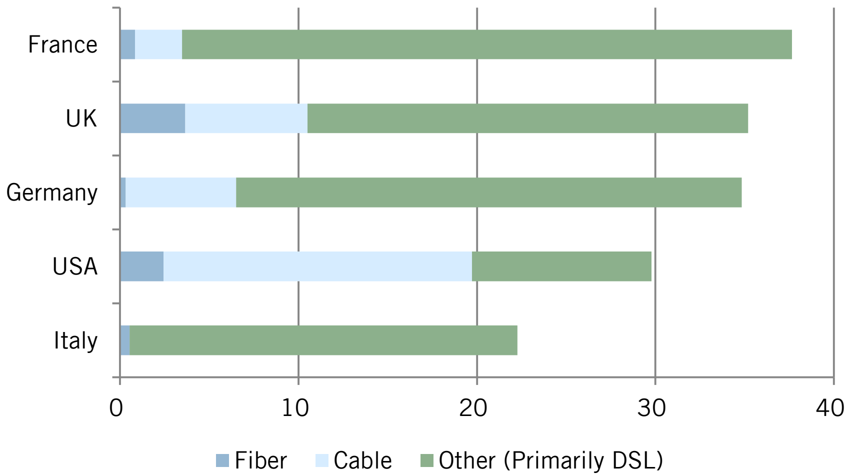
- Attractive demographics and market dynamics
  - 31% of Italian households are mobile only
  - 8% of Italian households are in the “digital divide” without access to broadband services

- Linkem added more new subscribers in 2013 than all the Italian DSL providers combined

The Current State of Italian Broadband Services…

No Cable Modems in Italy (1)

(Fixed Broadband Subscriptions per 100 Inhabitants)

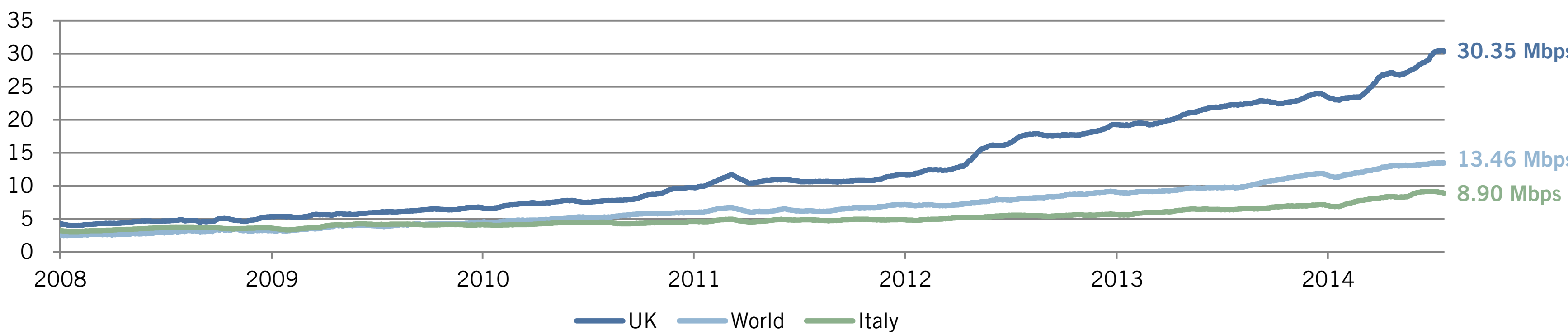


Italy Ranks 95th Worldwide in Download Speeds (2)

Rank	Country	Speed (Mbps)
1	Hong Kong	85.83
19	France	32.09
22	United Kingdom	30.35
25	Germany	26.68
29	United States	25.75
39	China	22.00
40	Japan	21.98
53	Madagascar	16.78
55	Vietnam	15.70
56	Kazakstan	15.60
66	Mongolia	13.01
73	Trinidad and Tobago	11.62
74	Kyrgyzstan	11.57
75	Belarus	11.43
79	Guam	11.04
94	Serbia	8.95
95	**Italy**	**8.90**

Italian Download Speeds Have Consistently Grown at a Slower Rate than ROW (2)

(Mbps)



(1) Source: OECD, *Fixed and wireless broadband subscriptions per 100 inhabitants (Dec. 2013).*
(2) Source: NetIndex.com, *Source Data: Country Daily Speeds.* Data through 07/21/14.

…Creates Strong Demand for a High Quality Provider

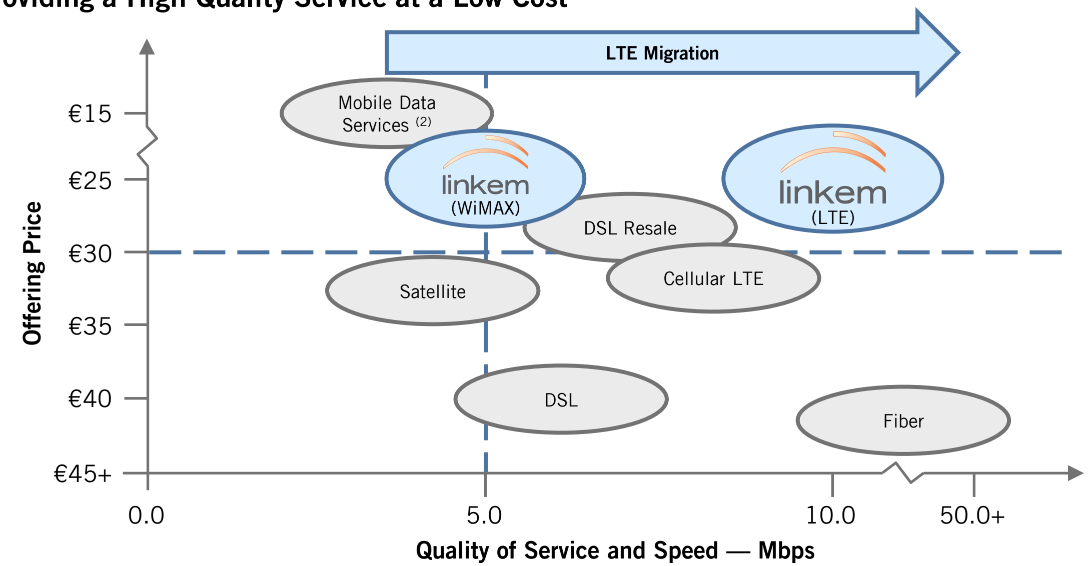
Linkem's Value Proposition

- With LTE, Linkem provides an exceptional combination of speed and price
- Large embedded base of subscribers and limited frequency will make it difficult for mobile operators to offer comparable services to their customers at the same price

Subscriber Satisfaction and Brand Recognition

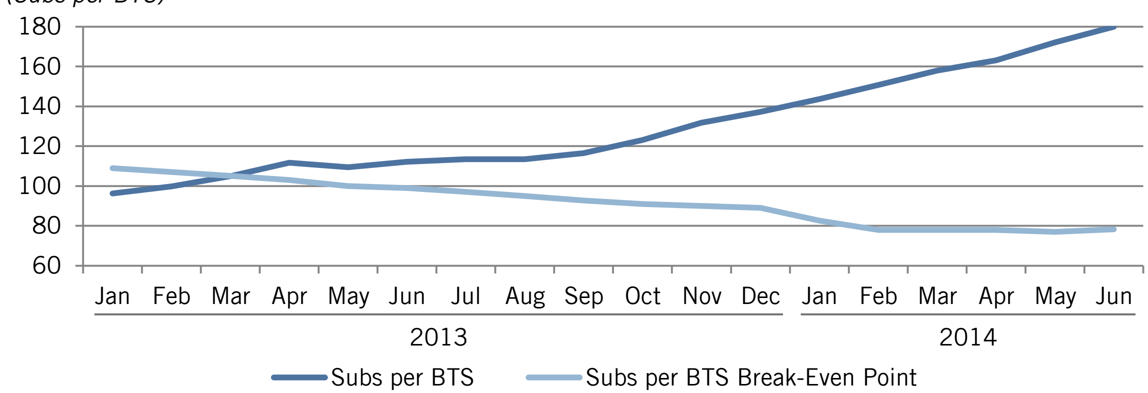
- 60% of subscribers choose Linkem because they do not want a fixed line
- More than 30% of outdoor customer antenna subscribers have no DSL service or have poor DSL in their neighborhoods
- More than 70% of subscribers would recommend Linkem to a friend
  - More than 50% have already done so
- Linkem is highly recognized in Italy with 50% national brand awareness

Providing a High Quality Service at a Low Cost (1)



Continued Subs per BTS Growth Showcases Increasing Demand (3)

(Subs per BTS)



(1) Source: Speedtest.net.
(2) Mobile Data Services represent USB dongles and similar devices. While less expensive than Linkem's offerings, these devices provide an inferior service and are subject to data usage caps.
(3) Subscribers per active base station ("Subs per BTS") includes WiMax customers only. "Subs per BTS Break-Even Point" is the average number of subscribers per base station required for each individual base station to achieve base station gross margin break-even.

Recent Developments

- Linkem surpassed 200,000 subscribers in June 2014
- LTE trials are underway and the LTE commercial launch is scheduled for December 2014
  - 15 LTE base stations are currently deployed for the trial
  - Preliminary results show that LTE base stations will support at least double the capacity of existing base stations
  - Dual mode Wimax/LTE modems have been deployed since October 2013 and are in use by 35% of the subscriber base
- Invitalia, a government funded development company, approved a grant and loan totaling up to €45 million offsetting capital costs in southern Italy
  - Similar development grants may be available in other regions of Italy and will be evaluated on a case-by-case basis
- Marketing activities and new base station deployment have been slowed since the start of the year in anticipation of LTE

Strategic Priorities

- Maintain subscriber growth on the existing base station footprint
- Complete the LTE trial and prepare for the LTE commercial launch at the end of the year
- Pursue strategic and partnership opportunities in the rapidly shifting Italian telecom marketplace
- Ready the company to accelerate growth at the opportune time

GARCADIA

Overview

GARCADIA

- A top 15 U.S. dealership group
  - 3 clusters, 22 dealerships - 11 domestic brands, 11 foreign
    - Iowa – 5 dealerships
    - Texas – 8 dealerships
    - California – 9 dealerships
  - ~2,000 employees

- Emphasis on changing customer experience to be “UNCAR-LIKE”
  - Leverage digital channels to grow sales volume
  - Provide real time reporting to optimize profit per transaction
  - Balance expense structure
  - ***<u>Retool employee culture</u>***

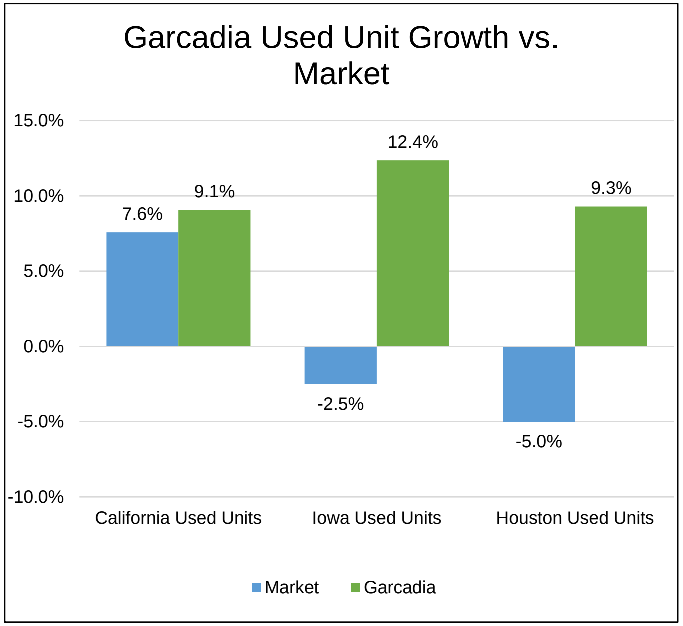
Business Overview

GARCADIA

Profit Center emphasis includes Service and Used Car departments

- Service:
  - Become one stop shop for customers; maintenance and repairs
  - Service traffic is up 12.3% year-over-year; Service gross is up 14.6% year-over-year

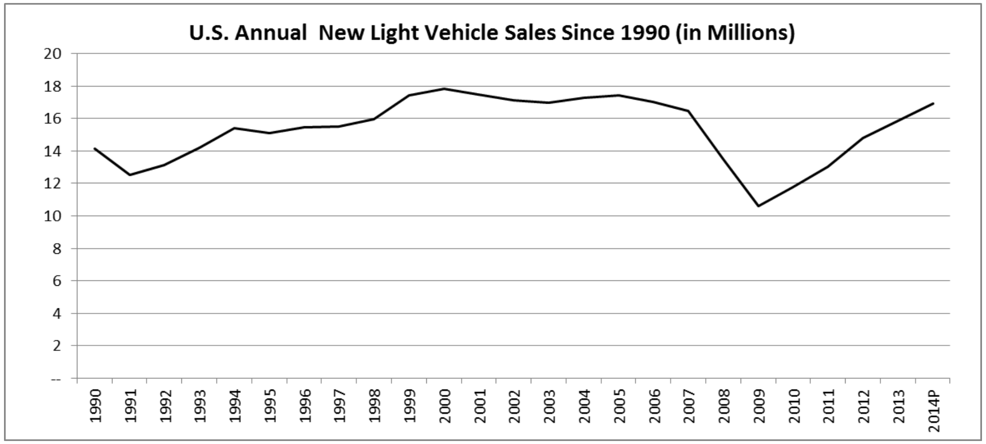
- Used Car Sales:
  - Embrace technology to accelerate inventory turn
  - Used car sales exceeding market in every cluster



Industry Update & Outlook

GARCADIA

- Sales reached an 8-year high in June with SAAR (Seasonally Adjusted Annual Rate) of 16.9 million new units



  – Customer demand remains high
    - Average age of vehicle on road at all time high of 11.4 years
    - Interest rates low, used car residuals strong

- Market is large and fragmented, providing acquisition opportunities
  – 17,600 dealerships nationwide, $680 billion in annual sales, top 10 groups represent less than 10% of market
  – But….finding attractive acquisition opportunities is becoming increasingly difficult

- Technology continues to change the business
  – On new vehicles, customer often has as much information as dealer

Financial Performance

Garcadia pre-tax income has more than doubled over last 3 years

($ Millions)	Fiscal Year Ended December 31, 2011	2012	2013	6M Ended 06/30/14
Total Units Sold	25,483	35,394	48,567	28,853
# of Dealerships	17	18	21	22
Garcadia Revenue (1)	$ 789.4	$ 1,100.8	$ 1,548.4	$ 962.9
% Growth	*23.4%*	*39.4%*	*40.7%*	*NA*
Garcadia Pre-Tax Income (1)	$ 22.3	$ 37.4	$ 46.8	$ 30.5
% Margin	*2.8%*	*3.4%*	*3.0%*	*3.2%*
Garcadia Distributions (2)	$ 16.0	$ 30.4	$ 40.2	$ 23.6
Equity - Beginning of Year(3)	$ 35.9	$ 72.3	$ 82.4	
Equity - End of Year(3)	$ 72.3	$ 82.4	$ 120.0	
Pre-Tax Return (3)	26.5%	33.2%	31.9%	

(1) Represent combined amounts for all Garcadia dealership holdings, not just Leucadia's share.
(2) Represents Leucadia's share of cash distributions and rent paid by Garcadia for land owned by Leucadia.
(3) Represents Leucadia's net carrying amount for Garcadia (excluding land) and percentage return.

Strategic Priorities

- **Be different –** Create lifetime customers
  - Deliver an unsurpassed customer experience
  - Empower employees via in store ‘Champions’ to lead the creation of a better car ownership experience
  - Drive down turnover
- **Be first to embrace new technology –** Improve operating efficiency
  - Exceed market growth in new car sales
  - Increase used car volume
  - Grow service and parts business
- **Be a smart buyer –** Acquire profitable but underperforming dealerships
  - Keep looking, be patient

CONWED®

GLOBAL NETTING SOLUTIONS

Overview

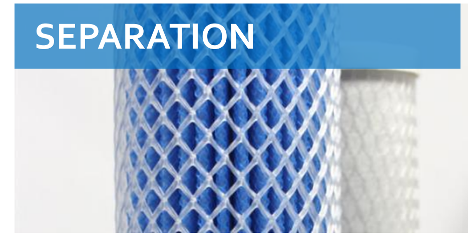
- Leading manufacturer of extruded, oriented and knitted plastic netting used in a variety of applications, including agriculture, automotive, building & construction, filtration, hygiene, medical, packaging, etc.
  - Operates 5 manufacturing facilities on 2 continents and has a global distribution network
  - Facilities located in Minnesota, Georgia, Illinois, Virginia and Belgium

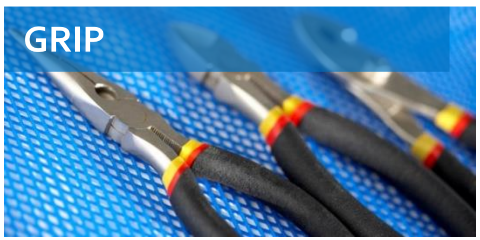
- In March 2014, Conwed acquired 80% of Filtrexx, a manufacturer of a knitted sock product with numerous applications in sediment control and storm water management. Research facility and office located in Ohio

- In August 2014, Conwed acquired 100% of Weaver Express located in Ohio. Weaver is the leading installer of knitted sock manufactured and marketed by Filtrexx

Netting Capabilities

CONWED®
GLOBAL NETTING SOLUTIONS





Industry Update and Outlook

- Raw material costs are expected to continue on an upward trend which began in 2002, negatively impacting margins. Selling price increases planned for late fourth quarter in certain markets will help offset some of the negative impact in 2015
- Modest growth expected from increased building and construction in both commercial and residential areas
- Competitive environment will become more difficult and single main competitor has relocated capacity from Europe to the U.S.
- Significant growth expected from recent acquisitions as we look to expand into other oil and gas regions
  - Government approval of key pipeline projects could provide significant growth opportunities
- Continued development of new products and markets will provide modest growth. Development lifecycle is 18 to 36 months

Financial Performance

- The 2014 decrease in margins is primarily driven by increased resin costs

($ in 000's)	FYE December 31, 2011	FYE December 31, 2012	FYE December 31, 2013	YTD June 30, 2014
Revenue	$ 85,961	$ 89,357	$ 105,355	$ 57,933
% Growth	*NA*	*4.0%*	*17.9%*	
Pre-Tax Income	$ 5,916	$ 11,453	$ 15,329	$ 6,255
% Margin	6.9%	12.8%	14.5%	10.8%

Recent Developments

CONWED
GLOBAL NETTING SOLUTIONS

- Acquisition of Filtrexx and Weaver Express in Q1 and Q3
  - Combined annual revenues of $35 million
  - Superior product replacement for silt fence in the sediment control area
  - Control of supply chain from production of yarn to installation of filter sock
  - Future growth from:
    - Geographic expansion into other oil and gas areas
    - Additional market segments, living walls, agriculture, storm water

- Gaining market share in RO filtration

Strategic Priorities

CONWED
GLOBAL NETTING SOLUTIONS

- Drive organic growth
  - Continued co-development with customers
  - New products, markets and applications for Conwed's core technology
  - Geographic market expansion
- Minimize lost business
- Relentlessly improve customer service levels
- Develop Filtrexx/Weaver business

IDAHO TIMBER

Overview

- Manufacturer and distributer of wood products including:
  - Remanufacturing dimension lumber
  - Remanufacturing, bundling and bar coding of home center boards and related products
  - Primary manufacturing of pine dimension lumber, pine decking and cedar products
- 7 plants and 3 sawmills located in Arkansas, Florida, Idaho, Louisiana, New Mexico, North Carolina and Texas
  - 922,000 square feet of manufacturing and office space, covering ~214 acres
- In March 2013, Idaho Timber purchased an idled primary mill in Coushatta, Louisiana, capable of producing both dimensional lumber and radius edge decking

Business Overview

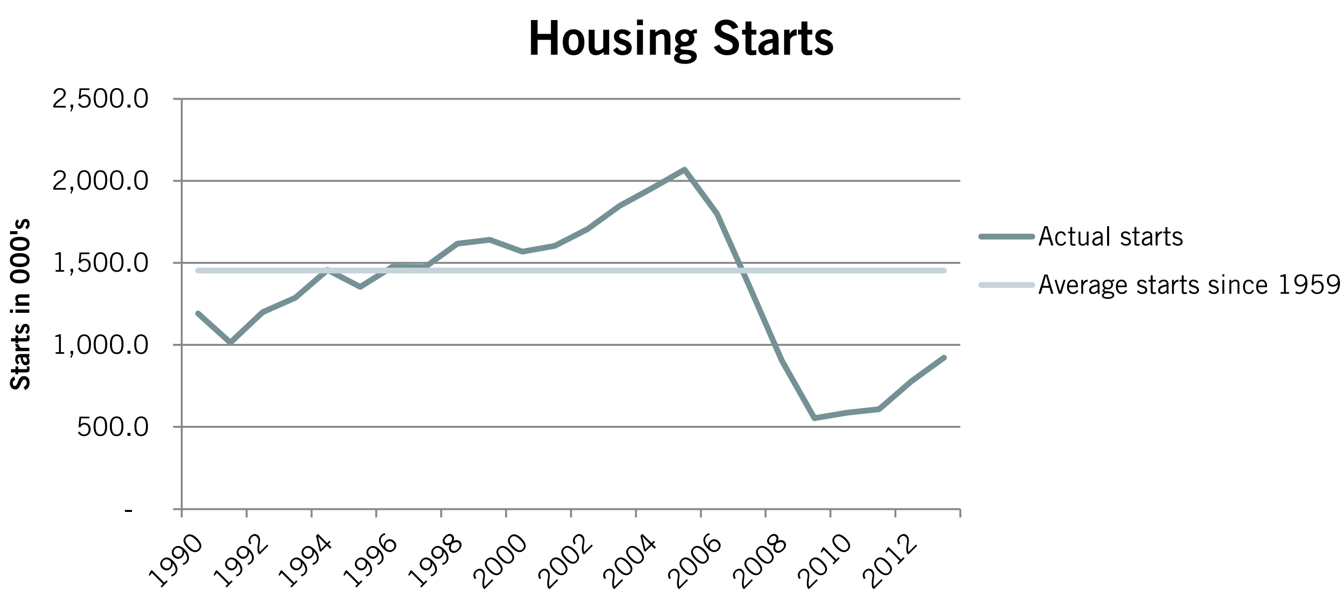
- Remanufacturing Segment
  - Purchase lower-value dimension lumber and remanufacture to add value and develop tallies that allow us to provide just-in-time deliveries of specified products to our customers
  - Customer base consists primarily of pro dealers and lumber yards
- Home Center Board Segment
  - Proprietarily grade, bundle and bar code board products for delivery to Home Center stores
  - Additional service provided through vendor managed inventory programs
- Sawmill Segment
  - Primary sawmills located in Arkansas and Louisiana manufacture southern yellow pine products and sell primarily to lumber treating companies
  - Much of the product we sell ends up as treated decking for sale in Home Center stores
  - Split-rail cedar mill in Idaho manufactures cedar fencing and related products

Industry Update & Outlook

- Since 2007, the recession and U.S. housing market collapse caused significant headwinds

- In 2013, the housing industry saw signs of life and Idaho Timber delivered its best performance since 2007

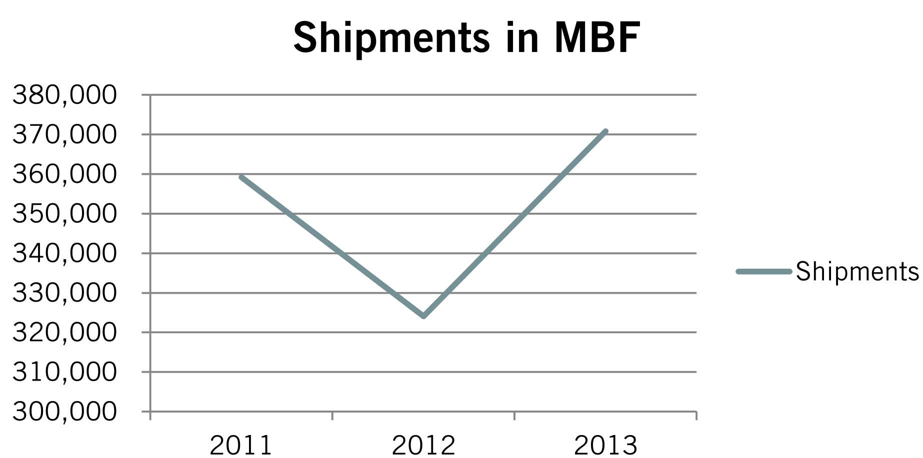
- YTD 2014, the housing industry continues to improve at a moderate pace. Idaho Timber's performance reflects improvement with the Coushatta division coming into production and making positive contributions.



Financial Performance

IDAHO TIMBER

($ in 000's)	FYE December 31, 2011	FYE December 31, 2012	FYE December 31, 2013	YTD June 30, 2014
Revenue	$ 159,026	$ 163,513	$ 205,407	$ 124,631
% Growth	*NA*	*2.8%*	*25.6%*	
Pre-Tax Income	$ (3,787)	$ 6,397	$ 9,599	$ 7,997
% Margin	*NM*	*3.9%*	*4.7%*	6.4%



Recent Developments

- The remanufacturing segment is experiencing additional supply opportunities due to industry wide production increases and moderating demand by the Chinese for certain lumber items
- We expect continued market volatility which should create strategic purchasing opportunities to improve the remanufacturing segment spread
- We were able to increase our prices and volumes to our largest customer for the Home Center board segment, thereby improving the outlook for the Home Center board segment
- The sawmill in Coushatta is operating on a one-shift basis and showing steady improvement in production efficiency as our work force gains experience

Strategic Priorities

- Primary Mill:
  - Develop production capabilities and market to achieve consistent production results on a full one-shift capacity basis
- Boards: Return to consistent profitability by 2015
- Remanufacturing: Drive production efficiencies by increasing shipments over 2013
- Business Development: Explore opportunities to identify the next expansion by acquisition

Appendix

Notes and Disclosures to Leucadia Overview

Note: Dollar amounts are Leucadia's net carrying amount for each investment, for consolidated subsidiaries equal to their assets less liabilities.

1) Adjusted for assumed redemption of 2015 8.125% Sr. Notes using Parent Company Cash.
2) Includes $2.8 billion of goodwill and intangibles.
3) Investment commitment of $400 million contingent on Folger Hill raising at least $400 million of outside capital.
4) Adjusted for the pending $205 million EnerVest acquisition, which is expected to close in September 2014.
5) Carrying amount is net of deferred gain on real estate sale.
6) Represents Leucadia's approximate weighted average ownership; ownership varies by dealership between 65% and 90%.
7) Adjusted to include proceeds from the sale of Premier Entertainment to Twin River Management Group, Inc., closed July 2014.
8) Excludes Jefferies Net Deferred Tax Asset of $445 million.

Leucadia – Cash and Investments and Parent Debt GAAP Reconciliations

Reconciliation of Cash and Investments

($ millions)		
Available Cash and Investments (GAAP) at June 30, 2014	$	2,141.1
Assumed Redemption of 8.125% Senior Notes due 2015		(457.1)
Pending Acquisition of EnerVest by Vitesse		(205.0)
Proceeds from Premier Entertainment Sale		250.0
Available Cash and Investments, As Adjusted	$	1,729.0

Reconciliation of Parent Debt

($ millions)		
Parent Debt, Excluding Redeemable Preferred Shares (GAAP) at June 30, 2014	$	1,444.4
Assumed Redemption of 8.125% Senior Notes due 2015		(457.1)
Parent Debt, As Adjusted	$	987.3

Leucadia, its Subsidiaries and its Affiliates – Long-Term Capital Raised Since January 1, 2013

($ millions)		Long-Term Capital Raised 01/01/13 - 06/30/14
Leucadia 5.50% Senior Notes due 2023	$	750.0
Leucadia 6.625% Senior Notes due 2043		250.0
Jefferies 2.375% Euro Medium Term Notes due 2020 (€500 million)		681.7 [1]
Jefferies 5.125% Senior Notes due 2023		600.0
Jefferies 6.50% Senior Notes due 2043		400.0
Jefferies Finance 7.375% Senior Unsecured Notes due 2020		600.0
Jefferies Finance 6.875% Senior Unsecured Notes due 2022		425.0
Jefferies LoanCore 6.875% Senior Unsecured Notes due 2020		300.0
Total Capital Raised	$	4,006.7

(1) US Dollar conversion as of Jefferies second quarter end, May 31, 2014.

Jefferies – GAAP Reconciliation

Jefferies

Leverage Ratio Reconciliation

Leverage Ratio - Excluding Merger Impacts					
($ Millions)	May 31, 2013	August 31, 2013	November 30, 2013	February 28, 2014	May 31, 2014
Total Assets	$ 38,938	$ 38,830	$ 40,177	$ 43,440	$ 43,610
Goodwill and Acquisition Accounting Fair Value Adjustments on the Merger with Leucadia	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)
Net Amortization to Date on Asset Related Purchase Accounting Adjustments	9	18	27	32	37
Total Assets Excluding the Impact of the Merger	$ 36,990	$ 36,891	$ 38,247	$ 41,515	$ 41,690
Total Equity	$ 5,183	$ 5,241	$ 5,422	$ 5,462	$ 5,527
Equity Arising from Merger Consideration	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)
Preferred Stock Assumed by Leucadia	125	125	125	125	125
Net Amortization to Date of Purchase Accounting Adjustments, net of tax	(8)	(17)	(25)	(36)	(48)
Total Equity Excluding the Impact of the Merger	$ 3,874	$ 3,923	$ 4,096	$ 4,125	$ 4,178
Leverage Ratio - Excluding Merger Impacts	9.5x	9.4x	9.3x	10.0x	10.0x

Berkadia – GAAP Reconciliation

BERKADIA®
THE INDUSTRY OF ONE®

Reconciliation of Pre-Tax Income to Cash Earnings (a non-GAAP measure)

($ Millions)	FYE December 31, 2011	FYE December 31, 2012	FYE December 31, 2013	YTD June 30, 2013	YTD June 30, 2014
Pre-Tax Income (GAAP)	**$ 34.6**	**$ 103.8**	**$ 152.6**	**$ 71.9**	**$ 79.4**
Amortization, impairment and depreciation	107.5	112.7	94.7	49.8	46.6
Gains attributable to origination of MSR's	(45.2)	(93.1)	(120.4)	(62.2)	(36.7)
Loan loss reserves and guarantee liabilities, net of cash losses	3.2	18.8	29.3	14.6	4.1
Unrealized (gains) losses; and all other, net	7.0	(7.7)	(3.6)	(3.7)	(20.5)
Cash Earnings (Non-GAAP)	**$ 107.1**	**$ 134.5**	**$ 152.5**	**$ 70.5**	**$ 72.8**

Note: Berkadia believes Cash Earnings is useful to investors to understand and compare operating results for its servicing business between periods, because it eliminates the impact of certain non-cash items from pre-tax earnings, principally amortization, impairment and depreciation expenses and gains recognized upon the acquisition of mortgage servicing rights, all of which fluctuate from period to period.

National Beef – GAAP Reconciliation

Reconciliation of Pre-Tax Income to Profit from Operations (a non-GAAP measure)

($ Millions)	FYE August, (1) 2011	FYE Dec., 2012	FYE Dec., 2013	6 Months Ending June, 2013	6 Months Ending June, 2014
Pre-Tax Income (GAAP)	$ 261.6	$ 59.0	$ (42.4)	$ 6.8	$ (21.5)
Interest Expense / (Income), net	11.7	12.4	12.3	6.5	6.9
Depreciation & Amortization	51.2	83.1	88.5	43.6	42.0
Impairment of Long-Lived Assets	-	-	63.3	-	-
Profit from Operations (Non-GAAP)	$ 324.5	$ 154.5	$ 121.7	$ 56.9	$ 27.4

Note: National Beef Profit From Operations represents pre-tax income exclusive of depreciation and amortization expenses, impairment charges and net interest income/expense, which is a common metric used by many investors in its industry to evaluate operating performance from period to period.

(1) Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012.

Harbinger – Consumer GAAP Reconciliation

Harbinger Group Inc.

($ Millions)	FYE September 30, 2011	2012	2013
Consumer - Pro Forma Net Sales Reconciliation:			
Reported Net Sales	$ 3,187	$ 3,252	$ 4,086
Hardware and Home Improvement Group Acquisition (1)	-	974	192
Pro Forma Net Sales	$ 3,187	$ 4,226	$ 4,277
Consumer - Adjusted EBITDA Reconciliation:			
Reported Operating Income	$ 228	$ 302	$ 348
Other Income / (Expense)	(3)	(1)	-
Depreciation & Amortization, net of accelerated depreciation	134	134	184
Acquisition and Integration Related Charges	37	31	48
Goodwill and Intangible Impairments	32	-	-
Restructuring and Related Charges	29	19	34
Pre-Acquisition Earnings of Hardware and Home Improvement Group (1)	-	183	30
Fair Value Adjustments	-	-	31
Venezuela Devaluation	-	-	2
Adjusted EBITDA	$ 457	$ 668	$ 677

Note: Totals may not add due to rounding.
Source: Harbinger Group, Inc. February 2014 Company Overview.
(1) Reflects net sales and earnings of Hardware and Home Improvement Group from the beginning of the applicable period through December 29, 2012. This adjustment results in net sales and earnings for the period as if the acquisition had occurred at the beginning of all periods presented.

Harbinger – Insurance and Energy GAAP Reconciliations

Harbinger Group Inc.

($ Millions)	FYE September 30, 2011	2012	2013
Insurance - Adjusted Operating Income Reconciliation:			
Reported Operating Income	$ (42)	$ 160	$ 523
Effect of Investment Gains, net of offsets	(1)	(132)	(248)
Effect of Change in FIA Embedded Derivative Discount Rate, net of offsets	43	19	(54)
Effects of Transaction-related Reinsurance	24	12	-
Adjusted Operating Income	$ 25	$ 58	$ 221
Energy - Adjusted EBITDA Reconciliation:			
Reported Net Loss			$ (57)
Interest Expense			10
Depreciation, Amortization and Depletion			31
EBITDA			(16)
Accretion of Discount on Asset Retirement Obligations			1
Non-cash Write Down of Oil and Natual Gas Properties			54
Loss on Derivative Financial Instruments			1
Cash Settlements on Derivative Financial Instruments			(2)
Stock-based Compensation Expense			0
Adjusted EBITDA			$ 40

Note: Totals may not add due to rounding.
Source: Harbinger Group, Inc. 10-K for the fiscal period ended 09/30/13.

Leucadia National Corporation

2014 Investor Meeting

September 3, 2014

Dear Fellow Shareholders,

We and our entire team have been working diligently to position Leucadia to achieve our number one goal: long-term value creation. We aim to achieve this goal by operating a merchant and investment banking platform that creates, acquires and operates a diversified group of businesses. We want Leucadia to be focused, diversified, driven and transparent. We will only invest where we see value and opportunity that fits our investment profile. We have instilled throughout Leucadia and its businesses a sense of urgency, as well as a constant drive to make things better and more valuable.

We have accomplished much, occasionally been frustrated and learned something new every day. In this letter, we will share with you our experiences to date and our rationale for many of the decisions we have made. By sharing specific ideas and examples we hope to provide insight into our thought process, how we view the world and where we hope to steer Leucadia over time. We also will give an update on each of our businesses.

Our First Two Years

Leucadia has realized $2.5 billion in cash from asset sales since the period surrounding our combination. These were generally good businesses, but were ones where either we had too little influence or ability to add value, were not scalable, or were highly illiquid and too big for a company with $10.3 billion of shareholders' equity.

We have eliminated long-term endeavors we felt were "quasi venture capital" and would have required meaningful further investment with a likelihood of satisfactory returns lower than we would like. In 2013, we closed Sangart, a biotechnology company that had been nurtured for years by Leucadia. This past year, we stopped investing in Lake Charles Clean Energy after it became apparent that our team's heroic effort could not overcome the challenge of obtaining an acceptable fixed price construction contract. We are continuing to pursue our Oregon LNG terminal project, but the change in energy dynamics, combined with the bureaucratic and political permitting process, are challenging. The burn rate here is modest (single digit millions per year), particularly compared to the two projects we stopped, but we will continue to monitor this closely.

We have also been hard at work looking to deploy fresh capital in smart ways, while operating in an environment where value can be elusive. Since March 1, 2013, we have invested or committed an aggregate of almost $2.2 billion to new investments that have followed two overriding themes:

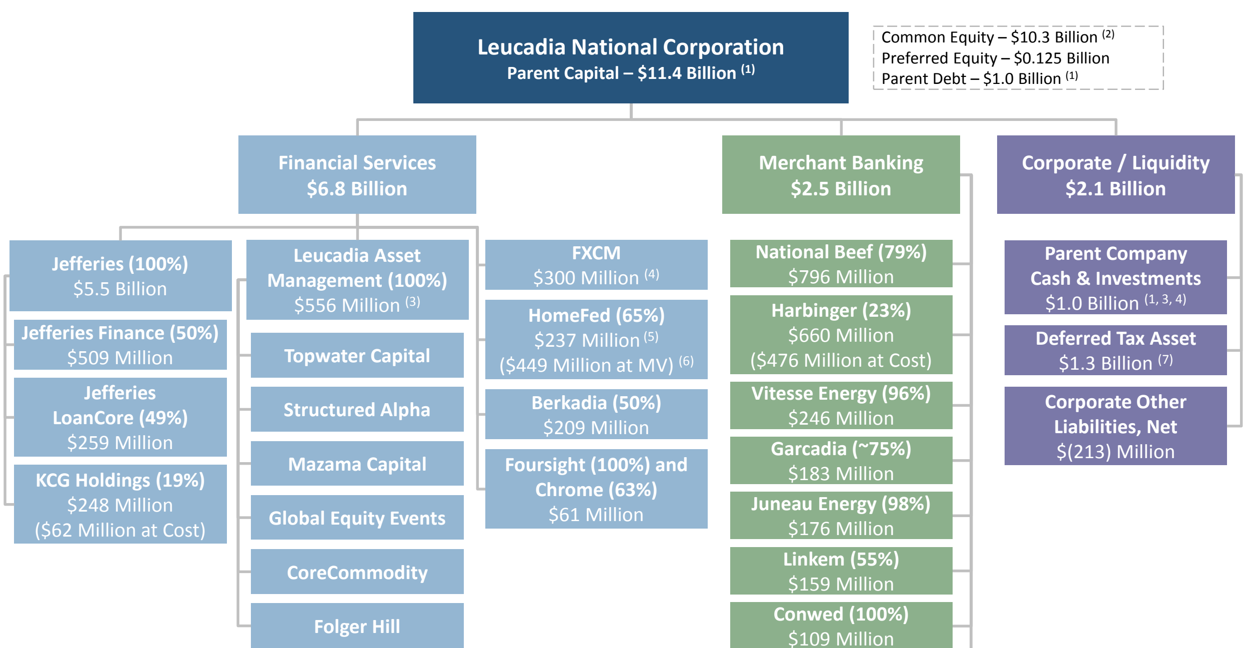
- Finding unique value opportunities where our entry terms afford us a favorable risk-reward tradeoff -- so far, Harbinger Group (NYSE:HRG), FXCM (NASDAQ:FXCM) and Golden Queen; and

- Building businesses with great managers one asset at a time and thereby creating enterprise value -- so far, the various Leucadia Asset Management businesses (LAM), Juneau Energy and Vitesse Energy.

Harbinger, the LAM businesses and FXCM all originated from relationships developed at Jefferies, while Vitesse, Juneau and Golden Queen emanated from relationships of the Leucadia deal team.

We and the rest of the Leucadia deal team are also spending much time with our existing businesses. We saw several opportunities to drive growth in these companies, investing a further $534 million over the past two years in Garcadia, Linkem, Conwed, Foursight and HomeFed (OTC:HOFD), including transferring Leucadia's historic one-off real estate assets valued at $216 million into HomeFed for more shares. We also raised $4.4 billion of long-term capital over these past two years across our businesses at attractive rates.

We own businesses and investments in financial services and a diverse array of other industries (the latter group comprising what we call our "merchant banking" effort). We also maintain meaningful liquidity and have a significant tax NOL we expect to monetize substantially before the end of this decade. The chart below illustrates how we think about and manage Leucadia today (amounts as of 12/31/14, with some pro forma adjustments noted):



Note: Dollar amounts are Leucadia's net carrying amount as of 12/31/14 for each investment, for consolidated subsidiaries equal to their assets less liabilities.
(1) Adjusted for assumed maturity of 2015 8.125% Sr. Notes using Parent Company Cash.
(2) Includes $2.7 billion of goodwill and intangibles.
(3) Adjusted for $400 million investment in Folger Hill. In addition, Parent Company Cash & Investments includes $273 million for Mazama Capital, $101 million for Structured Alpha and $25 million for Global Equity Events, all of which are available for sale immediately.
(4) Adjusted for the January 2015 senior secured loan to FXCM.
(5) Carrying amount is net of deferred gain on real estate sale.
(6) Market value as of 12/31/14.
(7) Excludes Jefferies Net Deferred Tax Asset of $400 million.

We believe this chart illustrates the diverse platform we are building that can take advantage of further opportunities as they arise. It also demonstrates the breadth of our effort, where our capital is allocated, and our ample liquidity and dry powder. We believe the foundation is now set for us to optimize the capabilities of our existing businesses, continue to deploy our cash judiciously and grow our book value per share, which we believe is the yardstick by which we should be measured.

We will talk more about all these businesses throughout this letter.

What We Have Learned and How We View the World

We Want to Be "The One Who Gets the Call"

Particularly in a world where value is so hard to find, we believe it is a huge advantage to be "the one who gets the call." Unique value opportunities tend to arise when there is some problem, uncertainty, complexity or urgency impacting a business, and a rapid and creative solution is necessary. In some cases, absent this solution, a good business will be either incredibly impaired or, in some cases, doomed. We are increasingly being recognized as one of the first groups to call in these circumstances. In 2012, we restored Knight Capital's equity and, more recently, we invested in FXCM to replenish its regulatory capital, allowing the Company to avoid bankruptcy. Even when there isn't a circumstance that changes the outlook of a company, but rather a new opportunity that is developing, getting "the call" is just as important. This was the reality that led to our becoming the largest shareholder of Harbinger and our investing in the Golden Queen mining project, where the ownership group in each case sought out our partnership. In all these companies, our investment became a catalyst for change and created a significant opportunity to drive long-term value for all stakeholders.

We believe there are a number of factors that increase the likelihood of being the "one who gets the call." First, you must have the expertise instantly accessible in-house to quickly understand and assess the situation. Second, you must be able to mobilize rapidly, typically in days or hours, and sometimes even in minutes. Third, you must have the reputation with many constituencies that you are trustworthy and will do what you say you will do. Fourth, it helps when you can convey with confidence that you are a long-term investor and able to add meaningful value beyond capital. Finally, you must be able to make a decision quickly and wire the funds!

The best way we know to increase the likelihood that we get "the call" is to have real long-term relationships with as many quality people across as many industries and specialties as is humanly possible. The combination of Leucadia and Jefferies is no doubt a big part of this equation, as management teams and Boards of Directors recognize the uniqueness and power of our combined merchant and investment banking platform.

The Jefferies Platform Is Very Valuable As a Source of Unique Opportunities and Added Value

Some people ask us if it is complicated, cumbersome or distracting to have Jefferies and Leucadia under the same roof. The reality could not be further from the truth. Both platforms provide consistent, real and unique operating leverage and the activities of both companies are massively complementary. Aside from being a very valuable long-term source of what we believe will be growing earnings, Jefferies is a tremendous resource in helping us find unique long-term investment opportunities. In a typical week, Jefferies trades many billions of dollars of securities in many different markets and provides clients with valuable liquidity. We also help clients buy and sell businesses, raise capital around the globe and restructure companies facing challenges. These are all "regular way" transactions that serve our clients' goals. Given this trading and transaction flow, countless relationships and diverse industry expertise, a small handful of times each year, we hopefully will get "the call" that presents an opportunity distinctly for Leucadia. Sometimes, the party on the other end of the phone wants to work exclusively with us as principal, and sometimes there is the opportunity to share these potential deals with others. Here are four examples of opportunities sourced by Jefferies:

Knight Capital. Knight Capital was an example prior to the Leucadia-Jefferies combination where Jefferies helped KCG avoid shutdown by injecting its capital (and also bringing in some partners) on attractive terms. Since that initial transaction, Jefferies has served as adviser in connection with KCG's merger with GETCO, completed several capital raises totaling $840 million, and recently advised KCG on a major subsidiary sale. In the 18 months since KCG and GETCO merged, KCG has become a leaner, more focused organization, selling non-core assets, exiting tertiary businesses and paying down debt arising from the merger. Having integrated and rationalized the platform, we believe that what is now called KCG (NYSE:KCG) will have the opportunity to capitalize on its scale and expertise in order to deliver solid ongoing returns for shareholders. Jefferies invested $125 million in KCG shares in August 2012 and a further $129.5 million through the open market in 2013 and 2014, has realized $192 million in cash and continues to own 22.5 million shares (about 19% of KCG) with a current value of about $280 million.

Harbinger Group. Harbinger is an example of a company not under duress, but where the major shareholder was committed to unlocking long-term value and made "the call" to us to be his partner. We will give more details later, but the short of it is that HRG owns substantial interests in two very attractive public companies (59% of Spectrum Brands (NYSE: SPB) and 80% of Fidelity & Guarantee Life (NYSE:FGL)). The sum-of-the-parts valuation of HRG was then around $13.50 per share, while the stock was trading around $10.00 per share. Jefferies had been an active and consistent adviser to the Company and its subsidiaries for many years. We bought our initial stake in HRG in September 2013, increased our stake considerably in 2014 and then began to work actively with HRG's management. We have two representatives on HRG's Board, including our own Joe Steinberg as Chairman and Andrew Whittaker. We will spend 2015 and beyond continuing to work with management to maximize the value embedded in HRG. Leucadia owns 23% of HRG, with a mark-to-market gain of $119 million.

Folger Hill. We knew Sol Kumin for many years as a client of Jefferies. We have seen him in action and agreed with those who know him that he is a high energy, smart, talented, honest and driven business executive. Our history and experience with Sol led him to seek us out to partner with him to create Folger Hill, a multi-manager hedge fund platform.

In 2014, we committed $400 million in investment from Leucadia in Folger Hill and are launching what we believe will soon be an over $1 billion hedge fund, with great prospects for substantial further growth. Sol has hired a world class operating management team, eleven portfolio management teams focused in an array of sectors, and has opened offices in New York City and Boston. This will be a long-term and methodical build. Consistent with our value mind-set, we are focused on helping Sol and his team build this business with proper risk management of our downside and the potential for disproportionate upside. We prefer to build with people whom we have reason to trust and back, versus to buy and pay for goodwill. We would rather deploy our own capital in strategies we believe in, creating equity value in the management company if and when a strategy succeeds. In addition to our commitment to Folger Hill, we have invested additional capital using the same "build" thesis in a variety of asset management businesses that we hope will scale over time. It is relationships built over time at Jefferies that are allowing us to build Leucadia Asset Management, which we hope will be an important next leg for Leucadia.

FXCM. On the morning of January 15, 2015, world markets were stunned to wake up to the Swiss National Bank scrapping its over three-year old peg of 1.20 Swiss francs per euro, despite a bank official having reaffirmed its commitment to the policy just two days before. The franc quickly soared by around 30%, an incredibly large gap move that was unprecedented in currency markets since the U.S. abandoned the Bretton Woods agreement in 1971. Fortunately, Leucadia and Jefferies had no meaningful direct exposure to this event. Around 2 P.M. that afternoon, Alex Yavorsky, one of our terrific investment bankers, received "the call" from the management team at FXCM (whom he had known for years), outlining the fact that its customers experienced significant losses as a result of the Swiss National Bank's action, generating customer debit balances owed to FXCM of well over $200 million and creating a severe risk of FXCM being shut down due to its inability to meet the regulatory capital requirements attendant to the unpaid customer receivables. FXCM and its peers were well known and understood by the relevant team at Jefferies and we ourselves had taken a close look at this sector years ago. The two of us, the Jefferies team and our lawyers spent the next 24 hours doing due diligence, crafting a financing solution, documenting it, conducting a full Leucadia Board meeting, and closing the deal and wiring the funds at 3:00 P.M. on January 16. Remarkably, the day prior to the Swiss National Bank's action, FXCM was an industry leader with a $1.5 billion capitalization. The Company has a strong management team and, absent this extraordinary event, a solid platform for ongoing growth. We believe that, with time and performance, FXCM will regain its position in the global markets.

Leucadia now holds $300 million in principal amount of a two-year secured term loan with an initial interest rate of 10% per annum, increasing by 1.5% per annum each quarter for so long as the loan is outstanding. Leucadia is also entitled to a deferred financing fee of $10 million, with an additional fee of up to $30 million becoming payable in the event the aggregate principal amount of the term loan outstanding on April 16, 2015 is greater than $250 million or the $10 million fee has not been paid on or before that date. We expect to have received back over a quarter of our investment in repayment of principal and fees within three months of closing and that repayment in fact has already started.

FXCM has also agreed to pay Leucadia in cash a percentage of the proceeds received in connection with any sale of assets, any dividend or distribution or the sale or indirect sale of FXCM's business according to the following schedule:

- first, 100% of the principal amounts and fees due under the term loan;
- second, of the next $350 million, 50% to Leucadia;
- third, of the next amount equal to two times the balance outstanding on the term loan and fees as of April 16, 2015 (but not less than $500 million or more than $680 million), 90% to Leucadia; and
- finally, of all aggregate amounts thereafter, 60% to Leucadia.

Diversification Is Good

We were both long-term shareholders of Jefferies and now, after our all-stock combination, we are "all in" at Leucadia. We believe shareholders are best-served when senior management is "all in" and we are big fans of alignment. In fact, aside from tax payments and charitable donations, neither of us has sold even one share in our respective 25 and 14 years with Jefferies and Leucadia. We have seen incredible volatility in our careers and it's rare that something isn't going wrong somewhere. We have seen companies arrive, and we have seen companies disappear. Everything in life is fragile, whether it is health, personal relationships or businesses. Consistent with our being "all in," our philosophy is to continue to strive to bullet proof our company over time. The best way we know to do this is to continue to diversify Leucadia. We have done this at Jefferies, moving our platform from one that a long time ago was exclusively agency cash equity trading to what today is a diversified global investment banking firm.

Diversification doesn't mean we won't make meaningful investments that will move the dial, however, it simply means that we will avoid unduly large commitments. Bite sizes below $500 million fit our current capitalization and should allow us to take meaningful stakes, enjoy heavy influence (or, better yet, control), please our bondholders and build our shareholders' equity. This is why we consolidated our various real estate holdings into a significant single entity, HomeFed. It is a reason why we are so excited about building a diversified asset management platform. It is also why we did not invest more in HRG, even though we thought our entry price was and remains very attractive. When we find something uniquely attractive, but larger than our bite size, we have a long list of wonderful partners we would be happy to work with (and we are always looking to expand that list).

Patience Is Essential – Almost Everything Is More Difficult Than It Appears and Takes Longer Than Expected

We are not happy that Jefferies had a disappointing fourth quarter after three strong quarters in a row. We are not happy that beef processing is just starting to come out of a cyclical low due to the drought and reduced cattle herd. We are not happy that, in our opinion, we did not grow book value per share enough last year. At the same time, we look forward with excitement, knowing the moves that have been made in combining Leucadia and Jefferies, shedding some investments, investing significant capital in new opportunities, and strengthening our many operating businesses, have put the combined company in a solid position. Both Jefferies and National Beef, while facing short term challenges, are valuable, scalable and unique operating businesses that will create long-term value. Berkadia, Garcadia, Linkem, HomeFed, Conwed, Idaho Timber and Foursight are all doing very well. We are pleased with our almost $2.2 billion of new investments and commitments. One of our biggest competitive advantages is our permanent capital base, complemented by our focus on the long-term, which is ingrained in the management teams and Boards of both Leucadia and Jefferies. It is a long race and we prefer an endurance contest to a sprint.

Stay Liquid for the Inevitable Rainy Day

During our 30+ year careers, the world has had dislocations of varying degrees every three to five years and this pattern did not start the day we entered the work force. If we work hard and smart, and do nothing arrogant or foolish during the good periods, we should be able to greatly enhance all of our operating businesses and create good entry points to new businesses when times become difficult. To the latter point, we need to make sure we have plenty of liquidity at our operating businesses and at Leucadia throughout the cycles. This will be a drag on short-term ROE, but we should more than make up for this as we deploy more and more capital and hopefully do it at the right time.

Be a Value Investor, and Preserve and Grow Tangible Book Value

While there may be occasional unique exceptions, we also are ingrained with a value mentality, regardless of whether the style is currently in or out of favor. Unfortunately, we do not see shortcuts in being a value investor. Patience and the ability to act quickly when the opportunity arises, as we have discussed, is deep in our chemistry. We believe you also have to be creative when the world is generally fairly valued. We really like Spectrum Brands and Fidelity & Guarantee Life, but the individual stocks did not afford us an attractive entry opportunity. Now, we have meaningful interests in both companies at a major discount to their trading levels by virtue of our investment in HRG. We invested directly into the gold mining assets of

Golden Queen, versus buying the shares of its then parent, as that allowed us into the opportunity at a more attractive valuation and with no tax leakage. We believe we will make money so long as gold is above $800 an ounce. We are working with the management teams of Vitesse Energy and Juneau Energy to build two energy companies from scratch by buying and investing in assets one at a time, versus making a major acquisition. We were not smart enough to see oil dropping from $105 to $45 per barrel in a matter of months, but the right value entry point allows us both to make money even at current price levels, and retain our opportunity to build long-term value. The nature of value investing, particularly in direct investments such as the ones we make, is that results will be episodic and lumpy, but the amounts of gain can be sizeable.

Culture Matters Always

Lastly, but perhaps most importantly, we are strong believers that culture is the special sauce that is the final determinant of building long-term value throughout the Leucadia ecosystem. At all of Leucadia's businesses, we strive for integrity, transparency, a lack of bureaucracy, a sense of urgency and always putting the client or customer first. At Berkadia, it was so important to us to protect the integrity and quality of the Berkadia brand that we recommended our own Justin Wheeler as full-time CEO, versus taking our chances on the outside where we had over 20 candidates clamoring for the job. The Berkadia team respects and trusts Justin, and so do we. We could talk about the cultures of Conwed, Idaho Timber, National Beef, Linkem, Foursight, Garcadia, Folger Hill, Topwater and all the others for pages. Suffice it to say that we demand and have honest leaders throughout these companies who lead by example, know their people, clients, and industries cold, and have a long-term value mentality. We also have tens of thousands of dedicated employees in these businesses whose effort and commitment we greatly value.

Our Leadership Team

We get asked from time to time about the depth of our senior leadership teams at Leucadia and Jefferies. At Leucadia's holding company, we are supported by our special Chairman, Joe Steinberg, as well as a team of experienced executives who focus on our investee companies, as well as work with us in sourcing and culling new opportunities, and executing new deals. We are confident that the team we have assembled from Leucadia's historic team and the team at Jefferies Capital Partners is both a strong group and well-suited to the enhancement and development of our non-Jefferies portfolio. Our relatively new CFO, Teri Gendron, has ably taken over from Joe Orlando, who served with distinction for twenty years as Leucadia's CFO, and as a friend and counselor. Teri brings fresh perspective and her own set of experiences that we believe will enhance our internal efforts and our reporting. Tom Mara also retired at year-end after a long and successful career with Leucadia, and we thank him for his many contributions.

At Jefferies, we have patiently and methodically strengthened our leadership team, particularly since 2007. Our three core businesses, Equities, Fixed Income and Investment Banking, are led by Pete Forlenza, Fred Orlan and Ben Lorello, respectively, outstanding individuals with deep experience and relationships. Similarly, Peg Broadbent and Mike Sharp, Jefferies' CFO and general counsel respectively, add unique perspective and a distinct breadth of knowledge consistent with the trajectory we anticipate for Jefferies' business. In each of Leucadia's other subsidiaries and investee companies, we work closely with the leadership teams, are personally familiar with all the key leaders, and focus on leadership development and succession needs.

Looking Forward

The two of us think and act as shareholders first, second and third -- stock price in 5, 10 and 15 years is what we care about. It does not mean that we do not have a keen sense of urgency and feel the responsibilities entrusted to us on a daily basis. We believe we have made tremendous progress and are uniquely positioned as a permanent capital company that is a diversified investment holding company anchored by a global investment banking firm and a diversified merchant bank. We remain highly liquid and with very little leverage at our parent company ($1 billion of 10 and 30-year debt underpinned by over $10 billion of shareholders' equity). We are supported by a strong deal team at Leucadia, excellent managers at our operating businesses and a fully engaged Board of Directors. We have much work ahead of us, but are energized and eager for the challenge.

Although we intend to continue to follow Leucadia's historic practice of letting our actions and results be our primary voice, we remind you that the two of us look forward to answering your questions at our upcoming Annual Meeting on May 21, 2015 in New York, and we also will hold a combined Leucadia and Jefferies Investor Day on October 8, 2015 in New York, at which you will have the opportunity to hear directly from the senior leaders of the major Leucadia businesses, including Jefferies.

Our Businesses

Jefferies

Despite good results in Investment Banking and Equities, Jefferies overall results, excluding its Bache business, were relatively flat to the prior two years due to weak results in Fixed Income, as well as the absence of unique mark to market gains such as were recorded in 2012 (Knight Capital) and 2013 (KCG and HRG). After three strong quarters in a row, Jefferies fourth quarter was very challenging. While Jefferies fourth quarter reflected Fixed Income trading losses driven by heightened market volatility, the first quarter of 2015 can best be described as slow, with Fixed Income results constrained by clients' reduced risk appetite and with subdued leverage finance capital markets activity. We anticipate Jefferies first quarter net revenues will be modestly better than those of its fourth quarter. While market conditions constantly change, we expect improvement at Jefferies in coming periods.

As a result of the growth and margin challenges we have recently faced in the Bache business we acquired in mid-2011, we are pursuing strategic alternatives for this business, and are in advanced discussions with three parties in this regard. Eliminating Bache's drag on Jefferies' overall results should be meaningfully accretive.

We intend to drive market share, margin expansion and earnings growth at Jefferies by focusing on increasing productivity, broadening our client coverage, deepening our relationships with our clients, and leveraging our global platform and momentum in Europe and Asia. At the same time, we will continue to prudently build a leading, independent global investment banking firm in an environment that we believe favors our business model. Jefferies is in an exceptional position to benefit as its large bank holding company competitors continue to adapt their business models in ways that create growth opportunities for us.

In 2014, Jefferies Finance, Jefferies' corporate lending joint venture with Massachusetts Mutual Life Insurance Company, arranged a record $23 billion of loans and generated net earnings of $139 million (50% to Jefferies – please keep in mind that this is essentially a pre-tax number as Jefferies Finance is treated as a partnership for tax reporting purposes and is generally not subject to income taxes directly). In an era of shrinking bank balance sheets, Jefferies Finance's capital markets-focused business model continues to fill an increasingly important need for our corporate borrower clients. We believe Jefferies Finance has the momentum and market penetration to deliver ongoing growth and solid returns over the long-term. Above all, our management team has retained a vigilant and disciplined approach to risk, consistent with the prudent approach that has served and protected us well over the ten years since we founded this business with MassMutual.

Jefferies LoanCore, Jefferies' commercial real estate lending joint venture with GIC Private Limited (formerly known as the Government of Singapore Investment Corporation), experienced a slow 2014, following two-years of strong results. Markedly slower market conditions, combined with an increasingly competitive CMBS origination environment, led to net earnings of $38 million (48.5% to Jefferies – this too is essentially a pre-tax number). Despite this challenging year, the refinancing opportunity in commercial real estate lending remains significant, and we have been working actively with management to drive performance in 2015 and beyond.

Leucadia Asset Management

Leucadia Asset Management brings together under one umbrella Jefferies' various historic investment management efforts, as well as Topwater Capital, which we acquired in 2013, Mazama Capital Management, with which we became associated in 2014, and Folger Hill, which we discussed above and will launch its flagship fund in the next month. LAM identifies, seeds and develops focused funds managed by distinct management teams.

In August 2013, we launched a "first loss" fund called Topwater Partners with Bryan Borgia and Travis Taylor. We seeded that fund with $100 million from Leucadia and have raised additional third party capital. Starting in 2004, Topwater pioneered the first-loss model of investing, which we feel offers a unique risk-reward trade-off for investors and a prudent way for hedge fund managers to run a managed account on attractive terms. Topwater is a multi-strategy, multi-manager investment partnership where each underlying investment manager contributes 10% of their own capital as a first loss layer, shielding Topwater's investors from losses up to 10%. This unique structure provides a strong layer of principal protection, while aiming to produce equity-like returns. Targeting low volatility and positive returns in all market environments, Topwater now has a solid almost ten-year performance track record, including a return to investors in 2014 of 7.72%, with no negative months and with a 0.24 correlation to the S&P 500 since inception. This compares to the HFRI Fund Weighted Composite Index return for 2014 of 3.33%. We are encouraged by the early results and the strong pipeline of investment managers seeking to join the platform. As of the end of December 2014, Topwater has funded more than 22 portfolio managers, with an average allocation of $56 million. We have confidence that we will continue to grow this business prudently, while maximizing returns for Topwater's investors.

LAM also includes the Structured Alpha Fund, which is a continuation of a trading strategy developed at Jefferies beginning in 2006 by a team led by Vlad Portnoy. Structured Alpha uses statistical models to generate systematic alpha through short-term trading (but generally not "high frequency trading") of global equities and futures, with a view to delivering consistent positive returns that beat absolute return benchmarks with low correlation to the S&P 500. Third party assets under management in Structured Alpha and associated efforts are currently about $700 million. Mazama, led by Ron Sauer, has an over 20-year track record of long-only growth equity investing. With historically strong returns on an absolute basis and relative to its benchmark indices, Mazama is working to grow its assets under management on the back of our investment in its strategies.

We believe we are early in the development of LAM, which over time will afford us a broad exposure in investment management and hopefully a valuable business developed on an attractive risk-reward basis.

Berkadia Commercial Mortgage

Berkadia, our 50/50 joint venture with Berkshire Hathaway, had another strong year in 2014. Despite a slow first quarter, Berkadia originated $12.8 billion in new financing for its clients, up nearly 23% over 2013. For 2014, Berkadia was the single largest originator for HUD ($1.5 billion), the second largest Freddie Mac originator ($4.4 billion) and the third largest originator for FNMA ($2.7 billion). Although Berkadia's $4.1 billion of investment sales in 2014 were flat versus 2013, significant progress was made in the integration of the mortgage banking and investment sales teams. The combination of these capabilities allows us to better serve our clients and we expect it will lead to accelerated growth for the entire enterprise. With a large commercial real estate refinancing wave coming in 2015 and 2016, expectations are high for the future of Berkadia. Our relationship with Berkshire Hathaway remains outstanding and we look forward to continued success together. We also look forward to working with Justin and the Berkadia senior leadership team as they continue to grow Berkadia into the best full service mortgage banking firm in the industry.

HomeFed

In 2014, Leucadia sold substantially all of its direct real estate assets to California-based HomeFed. The transaction was valued at $216 million and increased our ownership in HomeFed from 31% to 65%. It also enhanced HomeFed's geographic presence by adding land and commercial real estate assets in New York, Florida, Maine, and South Carolina. With the closing of the transaction, Brian joined HomeFed's Board of Directors, where Joe has served as Chairman for many years. As a result of the acquisition, HomeFed's lot inventory increased to approximately 10,200 entitled lots, with more than 6,200 of those lots located in entitlement-constrained California, where HomeFed's management team has substantial experience and an established history of success. HomeFed also owns approximately 5,000 acres of unentitled land in California, currently in the entitlement process. The additional land holdings provide the necessary land supply and diversification for future land and lot sales, as well as increased home deliveries. With integration and transition completed, we are confident in CEO Paul Borden and HomeFed's entire management team's ability to create value.

Vehicle Finance – Foursight Capital and Chrome Capital

In October 2012, we partnered with an experienced management team in the indirect auto finance market to start Foursight Capital. Foursight purchases automobile installment contracts originated by franchised dealerships in conjunction with the sale of new and used automobiles and services these loans throughout their life cycle. While Foursight was initially jump started by deal flow from Garcadia, it has quickly grown to fund loans for car buyers at nearly 300 third party dealerships as well. In 2014, Foursight originated $141.9 million in auto loans, up from $55.8 million in 2013. Foursight's loan portfolio has an average credit score of 640 and it has performed as expected in terms of delinquencies and losses. This strong performance enabled Foursight to achieve a major milestone in September when it completed its first securitization of $112.7 million. We will continue to grow originations at Foursight, while keeping a close eye on the performance of our paper.

To further build our consumer finance auto finance platform and leverage Foursight's servicing capabilities, in March we made an investment in Chrome Capital. Chrome, which began operations in 2012, is the largest lessor of used Harley-Davidson motorcycles in the U.S. Through partnerships with 130 active new and used dealerships, Chrome provides two to four year leases on used Harleys. These leases provide first-time customers with the opportunity to "test ride" a Harley and loyal Harley enthusiasts the opportunity to try different bikes. Harley's strong brand loyalty and low production volumes enable used Harleys to hold their value well and consistently, two important factors in any leasing business.

In 2014, Chrome originated $20.4 million of leases which are being serviced by Foursight. Although the initial reception for Chrome's products from dealers and customers alike has been positive, the size of the used motorcycle leasing opportunity needs to be proven out by significant growth in originations in 2015 and beyond.

National Beef

2014 was a difficult year for National Beef, the fourth largest U.S. beef processor. The year began with the closure of the processing facility in Brawley, CA. The decision to close this plant was driven in large part by the inability to source sufficient quantities of high quality cattle. Availability of cattle, and the corresponding effects on the price for cattle, was the dominant theme affecting the results of National Beef in 2014. Cattle producers had culled the herd during the prolonged drought. In 2014, they took the confluence of largely better weather, less expensive feed and anticipated strong long-term demand for cattle as an opportunity to begin the multi-year process of rebuilding the herd, which is presently at an all-time low. This rebuilding led to less cattle available industry-wide for harvesting in 2014 and drove the price of cattle to historic highs. While resilient demand allowed for an increase in the overall price of beef, it was not sufficient to offset the decline in volume and the increase in costs.

For National Beef, this difficult margin environment was exacerbated by a number of other factors including capital improvements in one processing plant that led to short-term operating inefficiencies, the ramp-up of production at the new state-of-the-art tannery and the continued efforts to rebuild volume in the consumer-ready operations. While all of these elements were a drag on results in 2014, we believe they will lead to enhanced sales and margin opportunities in the future. We remain confident in the abilities of our management team led by Tim Klein and hopeful for a somewhat near-term improvement in results.

Harbinger Group

We own 23% of Harbinger for a total cost of $476 million (46.6 million shares at an average price of $10.21 per share). Although HRG is a diversified holding company with investments in consumer products, insurance, energy and asset management businesses, the vast majority of its value is represented by its ownership in two growing public companies. HRG owns 59% of Spectrum Brands, a diversified global branded consumer products company, which operates in segments including consumer batteries, hardware and home improvement, global pet supplies, and home and garden. Spectrum focuses on developing and acquiring products and brands that deliver better value (same performance at a lower price) to consumers. This focus has enabled Spectrum to consistently grow its adjusted EBITDA from $391 million in 2009 to $724 million in 2014, a 13% CAGR. HRG also owns 80% of Fidelity & Guaranty Life, a market leader in fixed indexed annuities and fixed indexed universal life insurance that focuses on middle-income Americans. Through its products, Fidelity helps approximately 700,000 customers prepare for retirement and unexpected loss. Fidelity's expertise in and focus on the growing fixed indexed annuity market enabled the company to grow annuity sales to $2.2 billion in 2014, up 94% over the prior year. Despite the strength and growth of these two underlying assets, throughout 2014, HRG's stock traded at a significant discount to the sum of the value of its shares in these publicly traded stocks combined with HRG's other net assets. We believe significant upside potential remains to be realized by narrowing this valuation gap and supporting the continued growth of Spectrum and Fidelity.

Garcadia

Garcadia, our auto dealership joint venture with the Ken Garff Group of Salt Lake City, grew substantially in 2014. Garcadia sold nearly 43,000 new units and 22,000 used units during the year. On a same store basis, this represented a 20% increase in new car sales, which strongly outperformed U.S. new sales growth of only 5.8%. In addition to this organic growth, we also acquired five new dealerships, bringing our total to 26 in four states. Two of the stores acquired were underperforming Nissan dealerships that we added to our Southern California platform and the other three were in the Detroit metro area (two Chrysler Jeep Dodge Ram stores and the largest Cadillac store in the world), representing our first entry into a new market since 2008. We also operate dealerships in Iowa and Texas. Although we will continue to look for acquisition opportunities, at this stage in the cycle we do so with heightened caution, emphasizing dealerships and groups where we believe performance improvement is available over time. Thank you to John Garff, Brett Hopkins and the entire Garcadia team for their on-going partnership.

Linkem

Linkem, our Italian fixed wireless broadband service provider, had a very encouraging 2014. Without growing its geographic footprint and with restrained marketing activities, Linkem increased its subscriber base by 46% to 240,000. This growth enabled Linkem to achieve its first quarter of positive EBITDA, improve its operating metrics and maintain excellent customer satisfaction. Linkem's long awaited commercial LTE launch over its 3.5GHz spectrum occurred in December. 2015 will be a busy year for CEO Davide Rota and his team, with plans to meaningfully expand Linkem's footprint, add capacity and take advantage of the migration to LTE. We are confident they will deliver.

Conwed

Conwed, which manufactures extruded and oriented plastic netting, posted a 22% increase in revenues in 2014, driven by continued organic growth and two acquisitions: 80% of Filtrexx International in March and 100% of Weaver Express in August. Pre-tax profits, however, declined by 10% year over-year due to rising resin prices and the loss of a single customer which removed plastic netting from their product. Resin prices have since come down, due to declining oil prices, and we expect solid growth in results in 2015, driven by the full-year impact of the two acquisitions, continued organic growth and margin improvement due to lower resin costs. We recently celebrated the 30th anniversary of Leucadia's ownership of Conwed, and thank Chris Hatzenbuhler and the entire team at Conwed for their outstanding drive and effort.

Idaho Timber

The U.S. housing industry continued its slow rebound from the depths of the recession, but thanks to the relentless efforts of Ted Ellis and his team at Idaho Timber, the company experienced a significant increase in profitability. A 19% increase in shipments, measured in board feet, increasingly efficient operations, lower log costs and an uptick in pricing led to a 60% improvement in EBITDA. The restart of an acquired sawmill in Coushatta, LA (which had been idle since 2008) contributed positive operating income in its first full year of operations. Idaho Timber weathered the housing downturn by focusing on streamlining its operations and meeting the needs of its customers, and is poised to continue to grow profits as the market improves.

Golden Queen

In September, we entered into a joint venture with Golden Queen Mining Co. Ltd (TSX:GQM) and members of the Clay family, Golden Queen's largest shareholder, to develop and operate the Soledad Mountain project. The project is a fully permitted, open pit, heap leach gold and silver project located just outside the town of Mojave in Kern County, California. Construction is in full swing and commissioning is planned for late 2015. Gold and silver mining operations are expected to run through 2027 and an ancillary business generating crushed stone for construction aggregate and concrete products could last up to 30 years. We appreciate and value our partnership with the Clay family and the Golden Queen team, and look forward to a long and lucrative relationship.

Juneau Energy

Juneau Energy's largest acquisition in 2014 was its $60 million acquisition of acreage in the core area of the Eastern Eagle Ford in Brazos and Burleson counties in Texas. We now own over 20,000 acres in the Eastern Eagle Ford alongside key operators, including Anadarko, Halcon and Apache. Apache is the largest operator in the area and it has indicated that its Eastern Eagle Ford and Permian operations are its two ongoing focus areas in the U.S. Juneau has already met all of its modest development obligations on the acquired acreage and expects to defer drilling in 2015 in the Eastern Eagle Ford until a combination of falling drilling costs and higher oil prices make drilling on the acreage highly profitable. Despite falling oil prices, we believe the current value of the acquired acreage in Brazos and Burleson exceeds its acquisition price.

Juneau also owns 23,000 acres in Houston and Leon counties which has stacked resource potential that will eventually be developed through lower cost vertical wells. In Oklahoma, Juneau's small development joint venture with a niche local developer has successfully drilled and completed eight wells, including four horizontal Mississippian oil wells in Alfalfa County which, even at current oil prices, are expected to generate good returns. Juneau's assets have good value even in today's environment and hold the promise of excellent returns over the cycle.

Vitesse Energy

Vitesse Energy acquired approximately $240 million of non-operated acreage and production in the core of the Bakken Field in 2014. The assets are primarily located in Williams, McKenzie and Mountrail counties of North Dakota. At year-end 2014 Vitesse was producing over 1,800 barrels of oil equivalent (BOE) per day, generating positive free cash flow and had operating costs (including lease operating expense, transportation and production taxes) of less than $14 per BOE. Falling oil prices have reduced the number of rigs drilling in the Bakken by almost 35% year over year, from approximately 200 down to less than 130 rigs running today. Operators are curtailing drilling in the marginal areas of the field, while development continues in the core areas as operators focus on reducing drilling costs and improving overall efficiencies in order to produce good returns. The falling Bakken rig count and Vitesse's core acreage position suggest that Vitesse will participate in the development of new Bakken wells, but at a moderated pace in 2015. Rates of return in these newly drilled wells remain attractive. Again, lower oil prices have dampened our short-term returns, but the quality of Vitesse's assets and low cost position give us confidence in the value creation potential.

Oregon LNG

Since 2007, Leucadia has been working with the Federal Energy Regulatory Commission ("FERC") and state and local authorities to permit an LNG facility site in Warrenton, Oregon and an 86 mile long natural gas pipeline to connect to the U.S. natural gas transmission grid. The process has proven to be agonizingly difficult, painfully slow and fraught with delay. While some progress was made in 2014 when we received our Department of Energy export authorization to Non-Free Trade Agreement countries, we had hoped and pushed for much more. The next major step towards achieving a fully permitted facility is for FERC to issue a Draft Environmental Impact Statement along with a Biological Assessment. We expect those to be issued in the first half of this year and will be closely monitoring the process.

* * *

Finally, we thank all of you -- our clients and customers, our employees, our shareholders, our Board of Directors, our bondholders and all others associated with Leucadia and all our businesses -- for your continued support.

Sincerely,

Rich Brian

Richard B. Handler
Chief Executive Officer

Brian P. Friedman
President

Leucadia National - 2015
Annual Shareholder's Meeting

[I counted approximately 108 people in attendance, which includes employees and those on stage.]

Joe Steinberg (JS) began with some introductions and announcements. He acknowledged the recent retirements of Tom Mara, Joe Orlando, and Phil Cannella, who he described as our "tax guru, his job was to make sure we didn't pay any more taxes than we needed to." He extended a welcome to Teri Gendron, the new CFO, who isn't really so new anymore. "When I asked her if she could reduce our 10-K to a few short paragraphs, she said it wouldn't be a problem." Introduced all the membrers of the board, all were present (they were having a board meeting directly after the meeting). In addition to the board, he noted that attending were Mike Sharp, general counsel, Teri Gendron, Barbara Lowenthal, and Rocco Nittoli, the treasurer.

The reading of the proxy votes was next, with 324M shares out of 366M, or 88%, being represented. All nominated directors were elected and all proxy proposals were ratified.

Rich Handler (RH), gave an overview in which he had an updated organization chart from the 10-K. [It was very similar to that given in the 10-K, so I won't try to reproduce it.] Parent capital was $11.8B. In the last 2 years, we sold about $2.5B worth of assets. In a world where it is very hard to find value, we deployed about $2.5B in investments. He noted some recent changes, including Justin Wheeler becoming CEO of Berkadia and some additional investments in existing platforms of the operating businesses. We are striving to provide more transparency and communication to shareholders, so as to give a roadmap to our way to create long-term shareholder value. Behind each box that you see is a thriving organization with a team of people working to create value opportunities. This is a team effort, not just the Joe, Rich, and Brian show.

Now I'll talk about he core business at Jefferies, where I just had my 25th anniversary on May 4; my wife threw me a very nice surprise party that I was happy about. We had about 5 quarters of near double-digit return on equity. The 4th quarter of last year was relatively challenging, and the 1st quarter of this year remained slow. But it looks like we are back on track, including on underwriting and other areas of the business. We are seeing opportunities to take advantage of our non-bank holding company status. We decided in the 4th quarter to transfer Bache to Satyem and that is on track to close, and should help overall return on equity and will simplify the balance sheet. At Jefferies Finance, where we partner with Mass Mutual, we believe that is a business we can scale and see it as a core business. At Jefferies LoanCore, we're undergoing the registration process so I can't talk about it too much.

With regard to the investment in Knight securities, we sold assets and raised capital for them, underwriting a stock offering.

I'll also talk about Harbinger, now known as HRG Group a bit. We took a stake, consistent with our goal of trying to find value. We believe we had a very good entry point, with a sum of the parts valuation being substantially higher than what we paid. This investment is representative of how we think. It is important how we get into a company; that we have an ability to influence decisions and to create value is important to us. They had two jewels, Spectrum Brands and FGL; they had some other assets that are not as valuable, but also had a business strategy involving a lot of overhead. We recent put FGL up for sale, and believe we will receive a full valuation for that. Spectrum recently acquired Armorall; they have an ability to create a world-class consumer products company.

[Next, various managing directors at Jefferies/Leucadia who work with the different business units presented on collections of operating businesses.]

Nick Daraviras presented on National Beef. It operates two processing plants with good access to cattle. It also provides value-added products which improve margins, including beef and pork consumer-ready products, a tannery, and Kansas City Steaks which you can check out online. The main story of 2014-2015 has been availability of cattle, which had been declining for years due to drought. In 2014 into 2015 we have seen more favorable weather and good grazing conditions. This led to greater heifer retention and a period of herd rebuilding; this in turn reduces the amount of beef available for sale. But, if this process continues, it could have beneficial effects later.

Next I'll talk about the asset management business at LAM, where our strategy is to partner and sometimes seed. Topwater Capital is a hedge fund of funds that pioneered a unique model; managers put up 10% as a first-loss provision. In 2014 they outperformed their comparable index with no down months and with a low market correlation. Structured Alpha uses a strategy involving merger arbitrage; this was an outgrowth of strategies developed within Jefferies. Mazama is a long-only manager that has performed very well over a long period. Folger Hill is a multi-manager, long/short model. They raised over $1B at launch, with $400M from us.

Idaho Timber has 7 plants and 3 sawmills. They have faced headwinds since the housing market collapse, but saw a 60% increase in EBITA in 2014 off of a 19% increase in volume. Their strategy is to focus on operations and opportunistic purchasing.

Jimmy Hallac presented next. FXCM is a leading provider of trading services for foreign exchange. They had $1.5B in capitalization when the Swiss franc was revalued. Their clients lost more than $200M that they needed to collect from the clients and because of that had run out of sufficient regulatory capital when they . contacted us. On the next day, that $200M was funded by Leucadia. We have confidence in their management team. The investment is structured as a senior security; the coupon increases by 1.5% each quarter. We have been repaid a total of $88M in cash, and have $228M in remaining principal, for which we expect payback on schedule. That investment managed to stabilize FXCM, and as well as paying us back, they are focused on reinvigorating their business. That investment is marked to market on a quarterly basis; in the last quarter it had a $947M mark using a 3rd party model. There are many inputs to that model, the most important of which are FXCM's stock price and the volatility. Just as an example, a $0.30 change in their stock price could result in a $51M loss on the mark. Since that last report, we've seen a $131M loss on the mark since FXCM stock is down $0.70.

Linkem is a fixed wireless provider in Italy. Italy has no cable TV system, and wired broadband is only available via DSL. They have substandard legacy networks. Linkem acquired spectrum via auction; it is very good for data, not good for cell. They have been putting up antennas on existing cell towers. Up to 2013, they were using WiMax covering 30% of the country. In December 2014, they switched to LTE and have an expanding footprint. Subscriber growth is increasing rapidly, along with low churn. We invested $238M to get 42% of the common stock, and have 55% on a diluted basis. We hold it on the books at $145M.

Conwed is a manufacturer of extruded oriented knitted netting, used in pipelines, soil erosion, etc. It has been a steady modest grower. Last year Conwed acquired 80% of Filtrex and 100% of Weaver. Filtrex is a sock manufacturer. Weaver is an installer of the sock. We have received from them $150M in excess of our investments. It is held on the books at $117M.

Golden Queen we invested in as a joint venture. We invested $71M, the Clay family invested $34M. Roughly speaking, we own 1/3, the Clay family owns 1/3, and the public shareholders own 1/3. It is the first mining company to be approved in CA since they changed their rules in 2002. It is on time and on budget. We expect to be pulling gold early next year. The county where it is located is reliant on oil revenues and is going through an emergency due to the low oil price, so we're viewed positively for creating jobs locally. There will be a top-up investment in the summer to complete construction, which we knew about going in.

David Severn presented next. Berkadia is a 50/50 joint venture with Berkshire Hathaway. It has grown to become an industry-leading real estate originator and servicer. It is the 3rd largest servicer. Last year, it did $128B in originations. It was the largest originator for Fannie, Freddie, and HUD in 2014. It puts two teams together: origination and servicing. The servicing portfolio runs off each year. The low cost servicing platform allows us to enter sub-servicing agreements. We serviced about $236B last year. We can offer customers a better product today than previously. We have the ability to have debt refinanced, so we have repeat customers. We do several $1B+ deals each year. A lot of debt was originated prior to the financial crisis, that will be coming due for refinancing soon.

Garcadia is the 12th largest auto dealer in the US. New unit volume saw a 20% increase, which is a same-store sales equivalent. We are gaining our unfair share because the overall market averaged only 6% growth. The strategy is focused on creating life-time customers through the service platform. On acquisitions, the market is still very fragmented, so there remain opportunities to acquire individual dealerships. But we are being very cautious as we look at individual dealerships.

We have two lending companies. Foursight is a near-prime focused auto lender. It was jump-started by Garcadia dealers, but most of the growth is coming from 3rd party dealers, which we expect to continue going forward. It currently has a small footprint. The majority of volume comes from only 10 states, so there is an opportunity to expand.

Chrome offers first-time leases on Harley Davidson motorcycles. It gives a two-year lease to allow customers to "test-ride" without the risk of depreciation. It also allows Harley Davidson enthusiasts to move from bike to bike over time.

Oregon LNG; we have been working since 2007 to permit a pipeline. It has been a painful process. We recently got a scheduling notice from FERC, which set the environmental review and gave March 12, 2016 as the federal authorization deadline.

George Hutchinson presented next on the energy businesses. Vitesse Energy is led by Bob Gerrity and Brian Cree. It is essentially a financier funding operating leases in the core of the Bakken. They have 22,000 net non-operating acres. Currently producing 21,000 barrels per day from 900 gross acres, 25 net wells. Those wells are operating at $15 per barrel net costs. There are opportunities for more than 200 horizontal wells. The majority of opportunity is in these undrilled wells, so will benefit from improvements in horizontal drilling and split-water fraks. The lower rig count has reduced costs. Our comparatively low entry price gives us confidence that it will create value in the future.

Juneau Energy is led by management that has been in the industry for 30 years, which gives us an edge in assembling core acreage in non-conventional fields. Juneau owns 25,000 acres in the East Eagle Ford. The company has met all development agreements to hold the acreage but will defer drilling. We expect it to be very profitable in 2016 and beyond. Also has acreage in Houston. Has a joint venture in Oklahoma, which has drilled 5 Mississippian wells; 3 of 4 of the operating wells are producing a daily volume of 1,000 barrels per day, and they are looking at expanding that joint venture. The returns at current oil prices are quite robust.

Brian Friedman (BF) wrapped up the presentations. We realize we are a complex company. We are trying to be transparent without giving away trade secrets. The goal is value creation, which comes in current earnings and in growth. I think about our companies in two buckets. One is a group of companies with current earnings and opportunities to grow those earnings. The most notable of these is Jefferies, where we aim to improve margins and take market share; we continue to see a lot of opportunity in Jefferies' business.

LAM is in its early days; today we manage several billon dollars and have opportunity to scale. Folger Hill has about $1.1B under management with an opportunity to have several billon in AUM. Structured Alpha has about $1B today. It is a 20 person team, so we see opportunity to grow that. Topwater has an opportunity to grow to $80-90B in outside AUM. We own almost all the equity in the general partners and managers. We do share with the managers but keep most of the equity. We have a significant margin in LAM.

I also include in this bucket Berkadia, Conwed, and Idaho Timber. These are what I refer to as "whip with an H" companies, we whip them to drive earnings.

In the other bucket are our WIP – works in progress – companies, where there is a gap of book value to current value. We have about $2.4-3B devoted to these companies. FXCM and HRG have been talked about. KCG has a tender offer that will shrink its capitalization. HomeFed, it is public that the other half of the Otay property is on the market, we hope we might be the buyer. The value is meaningfully in excess of what is on the books. Beef I include here because we are not currently getting the earnings. We think we are through the trough and are willing to be patient. Golden Queen is in its early days. Linkem is a WIP but on steroids. It has a technology aspect, not because we think we're developing some new technology but it takes advantage of existing developments. This group has possibilities for meaningful value creation. For example, at FXCM it will be getting back to business as usual and business to be.

We also have the $1.1B deferred tax asset. Today that earns nothing. As we generate earnings, the DTA turns into cash that we can put to use.

What we hoped when we put together Leucadia and Jefferies has come true. Jefferies is a contributor of ideas; for example it seeded HRG and FXCM.

[They opened it up for questions.]

Q: I am a shareholder. I own exactly 1 share, so I guess this is my $24.70 question. The company is complicated. Can you talk about risk management, surveillance of risk, how that can be acted on? I know that across the companies, there are people thinking about this, but that looks like risk management in silos. How can it be coordinated to anticipate problems? (He mentioned an FGL investment in RadioShack that took a loss.)

BF: At the top level, diversification creates security but also creates complexity. We think only as shareholders. At the holding company, we operate with almost no leverage. In Jefferies there is a 60-person risk department. To a deep degree in every company, the risk management is knowing who your people are and who the risk-takers are. To be fair, the investment in RadioShack was done long before our investment in HRG.

RH: I would add the culture. The business is complex. Things have gone wrong in the past and will go wrong again. Surround yourself with people who will elevate risk, are willing to raise their hand when there is a problem.

Q: The reworking of Union Station looks like a massive project. Is there anything you can say about that, even though I may not live long enough to see its completion?

RH: I just visited it. It is one of the most valuable pieces of real estate I have ever seen. The problem is we have to inconvenience 60,000 people who commute there every day. It will take decades. It is a monster project with huge upside but will take a very long time to realize.

Q: Accounting question with respect to FXCM. It seems aggressive to value it at almost $1B when the market cap of FXCM is around maybe $100M.

BF: It is not easy to value. First, $300M is the loan. In our view, the loan is worth the loan and we start there. Then there are two $175M pieces. One $175M is to us, a second $175M is to the convertible. Then there is a 90/10 split (he actually said 80/20 and was corrected). You have a $2 stock on 100M shares representing the 10. We're getting multiples on that. It is discounted due to volatility or it would have been higher. After 10 seconds into the deal, we were down to $280M due to a fee that came back. Our sense is that we are sitting on $100s of millions.

RH: The market cap today is only half of the market cap because the owners hold ½ in a limited partnership. The company did nothing wrong, they were struck by lightning.

BF: A big piece is coming from sold assets that were not meaningful contributors.

RH: This investment shows the mindset that we have. Using expertise from Jefferies, we can look at situations and protect our downside. We could commit very quickly. It shows the philosophy and power of the combination of the investment bank and the merchant bank. At the end of the day the numbers will be what they will be.

Q: Given that the atmosphere and environment at National Beef today is different from when the investment was made, does it still fit?

BF: We believe it will become something of significant value to all of us as shareholders. It may not have been a timely investment. It does appear to be on the upswing and having persevered, the shareholders deserve the benefit.

Q: Why have you been so reluctant to buyback? And given the success of Berkadia, why is your joint venture with Berkshire so small? Why don't you partner more with Warren Buffett?

RH: I suspect that nothing would make Warren happier than us bringing him a big deal we like, but it is hard to find in this environment. On the buybacks, I manage much of this personally. I like to do buybacks when not just our stock but both we and the world are on fire. With two reporting periods (from Leucadia and Jefferies) we are almost constantly in a blackout period. We will be patient and opportunistic.

Q: I represent 380,000 shares, so I guess this is my $10M question; for that, I'll ask two. How does a rate increase impact Jefferies? And what vision do you have for the Jefferies private client group?

RH: A rate increase will cause dislocations of the bond market. One of the benefits of merging with Leucadia was that we kept our entrepreneurial culture without become a bank holding company. When the world shakes, people have the worry that Jefferies will not be secure. We can never say never, but this is a large reason that we did the merger. In fixed income, ½ of Europe already has negative interest rates. Portfolio managers are afraid to buy because everything looks overvalued, but they are afraid to sell because they can't replace it. People aren't transacting. We have to try to make money as a market maker in the middle of that. We expect a slow rate increase because the world can't handle a fast one. On the private client group, I would love to expand it. Would like to have 100-200 people, it is hard to get them without a large guarantee that many of our competitors are offering.

Q: What is Ian Cumming's involvement? Can you say whether he is still a shareholder and does he have any advisory role?

RH: He is a current shareholder. He has sold some but still holds shares. He will always be a personal advisor for me. He is doing investments with his family and he is happy and doing well.

Q: I refer to this as Leucadia 2.0. We used to be able to look at book value per share and see that as it went up, the stock price went up. Now things are more complicated and there doesn't seem to be that relationship. Is there a simpler way to show us the value?

BF: Not sure there is a simpler way. A regularized world will be better for our business. We are just seeing the Volker Rule coming to full bloom for the banks; that is creating some opportunities for us. We are a different company.

RH: Just keeping true to the concept of increasing book value per share over time.

Q: (Directed at Joe Steinberg) With this portfolio, what is a reasonable expectation for annual compound growth?

JS: I haven't a clue. (Q responds: Yes you do.)

Q: Thank you for passing on your bonuses. The stock has been dead flat. It is a nice collection of assets and people, but when my clients ask me why we've underperformed this past year, I tell them it is because we own Leucadia and we didn't own Apple.

RH: We like to make money for shareholders. Our results will dictate the stock price. I can tell you that there are 3 big stockholders on stage that did not enjoy not participating in the rally. But the Apple decision was on your own; that's not my fault.

Q: Something about progress on HomeFed's Otay and Finita projects.

BF: Otay, there are bulldozers on the property.

JS: Finita is in the final planning stages. It is like watching grass grow but will get done.

Q: What is the risk and expected returns on LAM? It can be attractive if the underlying firms grow, but depends on the sunset clause. What is the risk of the firms not scaling up?

RH: Our vision of a combination of asset manager, investment bank, and merchant bank excites us. One way to get into asset management is to make an acquisition, but you pay a high price, take lots of goodwill onto the balance sheet, and have to pay retention bonuses. And you're buying when the asset managers who know the business best are sellers. What we're doing is building with people we know. Instead of trying to buy, we put in our own capital. We own a good portion of the general partner on each; we haven't disclosed the portion. If Sol and his team have good returns then Folger Hill could scale to be very large, as could Topwater, Mazama, etc. Margins are high, we have a significant general partner interest. There are costs, but they are measured in the tens of millions.

BF: Our capital is almost entirely going into the asset, so capital is coming back to us. On seeding and sunsets – the sun doesn't set at Leucadia. There are no sunset provisions. Inside, some mangers may have a sunset but not on the overall business.

Q: Regarding the energy investments.

BF: At Juneau, we try to see more than others see and do more than others do. We feel good about what we have. We are looking at opportunities. If there is an opportunity, the sense is that it still may be early. There hasn't been capitulation or blood on the street. We are watching the sector. The Fall will be telling as banks go through the re-valuation cycle.

RH: There is a lot of money chasing energy. It will be interesting to see what banks do in the Fall when they reclassify loans.

Q: I represent 1M+ shares. Can you describe your circle of competence outside of financial services? How should we judge your ability to cast a wider net over time?

RH: This is the luxury of having over 4000 people in various industry groups throughout the Jefferies platform. That is combined with a large deals team at Leucadia. We have information we can leverage over a wide variety of opportunities. We need to make sure we can access all of that knowledge.

Q: Jefferies, repo, cyclity? (Didn't fully catch this question.)

BF: Repo availability mostly goes to investment managers and funds. At Jefferies, we give a lot of information on this. In the period of early fall and winter, there was lots of attention on Fed moves, coupled with a Fannie court decision. That slowed down strategic decision making at companies. On average, a deal occurs 4-7 months after it is conceived. We have seen a return to normalcy on the investment banking side. The long-term rate is so low that there is not a lot of room; not a lot of folks transacting. The opportunity to take market share is still there.

RH: It is just us and the trillion-dollar bank holding companies. We have a different model from our competitors. We look at a lot of distressed situations. Frankly, there was some bad luck with Bache. Whatever can go wrong does go wrong, but you power through it.

Q: (From a Fidelity analyst) Serving as the financier of last resort is interesting but it is a hard way to go through life. Is that the primary model? Are there examples where you said no to those in need?

RH: Our business model is not to lend to those who've blown themselves up. We focus where management did nothing wrong and where replacement of capital will solve the problem. This crystallized for us in 2011 where we knew we did nothing wrong and needed to get the truth out and be transparent. With Knight Capital Group, it was clear that their clients wanted them to stay in business, they just needed capital. The bad computer was unplugged and the business recovered. With MF Global, they were 40:1 levered but also had a large off balance sheet asset. We wanted them to sell that asset but management chose not to do that. It became too late. There can be arrogance in terms of denial of what has to be done. With FXCM, talk about a group doing nothing wrong! It is a pure riskless business, but a G7 country changed the rules, which they said they wouldn't do, and it left a big smoking hole. We make sure our downside is protected and we find that the upside takes care of itself because we can structure it favorably. With KCG and FXCM, the managements were very appreciative. They didn't view us as taking advantage but as the only solution.

Q: I view Joe and Ian as old-time entrepreneurs and more risk-takers. As you said, a few years back you guys had to make the call to Leucadia. You're battle-scarred and therefore more conservative. I view you as trying to create an unassailable company that never has to make that call again. Am I wrong?

RH: That's an interesting way of looking at it. I would say we are battle-tested. We have scars but remain optimistic at having been given the opportunity of a lifetime to build a very special company. Anyone who knows Joe and Ian knows they are not risk-takers; they will take a calculated risk but only as great long-term value investors. We are trying to create long-term wealth. We recognize that the world today is a scary place. It would be simple to go out, deploy lots of capital and boost ROI, but that may not be the right thing to do long-term. We are being cautious.

BF: I would also distinguish that we have more flow, that because of Jefferies we see more than Leucadia ever did.

JS: You don't have to worry about Rich and Brian being risk-takers in the prudent sense. It was a bittersweet moment for me that they jumped on FXCM and figured it out and I wasn't involved at all, except on the board. They figured out HRG and acted. They are battle-tested, and focused on long-term value creation for shareholders.

Q: I have found with the new company it is harder to get information. Can you become more investor-relation friendly, maybe by creating an IR department? (RH asked him to clarify what information he was having difficulty getting.) It was difficult to get on your first conference call and there was only one analyst on the call and no questions.

RH: You are 100% correct on that conference call; we had a technology glitch that we were really mad about. We had 20 people from Jefferies ready for the call and the operator completely screwed it up. But you can contact Richard Khaleel at Jefferies IR and he will be responsive.

Q: Can you give us any color on Joe's employment contract? In the proxy it says it will end in June.

JS: I'm here until they throw me out.

RH: And we like having him around.

Q: (missed the question)

BF: We didn't wake up with a hunger for foreign exchange, but we do have a hunger for opportunity. In Beef, we feel there is a big margin for upside.

Q: Congrats on handling difficult circumstances. Is there a level of cash you want to have at the holding company?

BF: We have committed in writing that we'll hold $400-500M. You can look at where the cash comes from. The FXCM loan is being repaid. That will be about $260M coming back over 12-18 months. Our net free cash is well over $500M. We have a cushion and investment opportunity as the DTA converts into cash.

Q: Have you thought about buying an insurance unit?

RH: Well, we're in the process of selling one – that's FGL. The right time to buy was when HRG bought FGL. There will be opportunities again, but the world will be upside down.

Q: I almost feel that the market cap is about what Jefferies would sell for, so it is like I am getting everything Joe and Ian had done for free.

RH: I can tell you that Joe never comes for free. A lot of the value is tied up in financial services; we will execute but it will take time.

Q: What is your thought process on buying distressed assets when the world is on fire versus platforms that you can build?

BF: It is both. Waiting for value and the world to end as a singular strategy is not enough to build value. Platforms like Berkadia and Garcadia are low risk and have good value. It is a different way to get the same result. Over the last 30 years, distress cycles are getting shorter and less attractive because there is more capital for arbitraging down opportunities.

Q: Are you still building out the investment banking team in other countries?

BF: We have over 900 people in Europe. Europe was a modest star performer last year. It has worked and will continue to work for us.

Q: You mentioned it is a good environment to sell insurance. What is a full price? Is it book, premium to book, or some other multiple?

RH: I think a premium to book is a reasonable expectation given the way the world works now.

Leucadia National Corporation
2015 Investor Day

October 8, 2015

Note on Forward Looking Statements

This document contains “forward looking statements” within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words “should,” “expect,” “intend,” “may,” “will,” or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors, including our Risk Factors, that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in reports we file with the SEC. You should read and interpret any forward looking statement together with reports we file with the SEC.

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Leucadia Today

- Goal is long-term value creation
- Senior management is aligned with shareholders – 11.2%[(1)] ownership for top three officers
- 14 of our 16 businesses are operating well and have strong value creation potential
  - Jefferies Investment Banking and Equities are performing well, growing and creating value; we are addressing the challenges in Fixed Income; Bache exit is accretive
  - We expect National Beef to recover on the back of a steady increase in the cattle herd
- Leveraging the Jefferies platform to source unique investment opportunities is working well (LAM, FXCM, HRG)

(1) Per Leucadia's most recent proxy statement. Assumes Richard B. Handler and Brian P. Friedman's respective continued employment with Leucadia through the expiration of all applicable vesting and deferral periods.

Leucadia – Operating Profile in 2015 vs. 2012

	12/31/12	Versus	06/30/15
Significant Businesses & Investments (ex-Jefferies)	10(1)	+60%	16(2)
Average Size of Divestitures / Investments	$359 Million per Divestiture (3)	Increased Diversification	$199 Million per Investment (4)
Jefferies Business Model, Risk Metrics and Liquidity	✓	Unchanged	✓
Concentration Ratio	X	Diversified Risk	✓
Liquidity Ratio	X	Maintained Liquidity	✓
Leverage Ratio	X	Limited Leverage	✓
Jefferies Finance Commitment Ratios	N/A	Consistent Risk Management	✓
Asset Management Foundation	X	LAM Launched	✓
VC Projects (Sangart, Lake Charles)	X	No VC / Speculation	✓
Non-Core Assets (Crimson, Real Estate)	X	No Diversions	✓
Next Leucadia Maturity	2013	Ten Years	2023(5)

(1) Includes Berkadia, Conwed, Crimson, Garcadia, HomeFed, Idaho Timber, Inmet, Linkem, National Beef and Premier Entertainment.
(2) Includes Berkadia, Conwed, CoreCommodity, Folger Hill, Foursight/Chrome Capital, FXCM, Garcadia, Golden Queen, HRG Group, HomeFed, Idaho Timber, Juneau, Linkem, National Beef, Topwater and Vitesse.
(3) Includes Fortescue Metals, Inmet, Mueller, Premier Entertainment, Keen Energy, Global Caribbean Fiber and TeleBarbados.
(4) Includes Folger Hill, Topwater Capital, Mazama, HRG Group, FXCM, Vitesse Energy, Juneau Energy, Linkem, Garcadia, Golden Queen, Conwed, Foursight/Chrome Capital.
(5) 2015 8.125% Senior Notes paid off at maturity.

Leucadia Overview

Leucadia National Corporation
Parent Capital – $11.8 Billion (1)

- Common Equity – $10.7 Billion (2)
- Preferred Equity – $0.125 Billion
- Parent Debt – $1.0 Billion (1)

Financial Services — $7.4 Billion

- **Jefferies (100%)** $5.5 Billion (3)
  - Jefferies Finance (50%) $500 Million
  - Jefferies LoanCore (49%) $241 Million
  - KCG Holdings (4) (17%) $176 Million ($0 Million at Cost)
- **Leucadia Asset Management (100%)** $548 Million (5)
  - Folger Hill
  - Topwater Capital
  - Strategic Investments
  - Global Equity Events
  - CoreCommodity
  - Mazama Capital
- **FXCM** $759 Million ($184 Million Invested, Net of Receipts) (6)
- **HomeFed (65%)** $234 Million (7) ($479 Million at MV) (8)
- **Berkadia (50%)** $207 Million
- **Foursight (100%) and Chrome (74%)** $77 Million

Merchant Banking — $2.5 Billion

- **National Beef (79%)** $766 Million
- **HRG Group (23%)** $606 Million ($476 Million at Cost)
- **Vitesse Energy (96%)** $260 Million
- **Juneau Energy (98%)** $194 Million
- **Garcadia (~75%)** $185 Million
- **Linkem (55%)** $146 Million
- **Conwed (100%)** $115 Million
- **Golden Queen (35%)** $81 Million
- **Idaho Timber (100%)** $74 Million

Corporate / Liquidity — $1.9 Billion

- **Parent Company Cash & Investments** $0.9 Billion (1, 5)
- **Deferred Tax Asset** $1.2 Billion (9)
- **Corporate Other Liabilities, Net** $(152) Million

Note: Dollar amounts are Leucadia's net carrying amount as of 6/30/15 for each investment, for consolidated subsidiaries equal to their assets less liabilities.

(1) Reduced for payoff at maturity of 2015 8.125% Sr. Notes using Parent Company Cash. See Appendix on page 172 for reconciliation to GAAP amounts.
(2) Includes $2.7 billion of goodwill and intangibles.
(3) Includes $2.0 billion of goodwill and intangibles.
(4) Adjusted for KCG Holdings' tender offer completed on 6/9/15, where Jefferies sold 6.5 million shares at $14.00 per share resulting in $91 million of proceeds.
(5) Leucadia Asset Management excludes $348 million of highly liquid marketable securities, available for sale immediately (included in Parent Company Cash & Investments).
(6) Represents the initial cash outlay of $279 million reduced by cash receipts of $95 million as of 6/30/15.
(7) Carrying amount is net of deferred gain on real estate sale.
(8) Market value as of 6/30/15.
(9) Represents the Leucadia net deferred tax asset; the Jefferies net deferred tax asset is reflected within the Jefferies book value presented.

Leucadia's Potential

	Opportunity	Leucadia Tangible Capital ($ Millions)[1]	%
Jefferies	Grow Investment Banking and Equities; Refocus Fixed Income	$3,582	38.8%
Berkadia	Leveraging Our Momentum and the Growing Market Opportunity	$207	2.2%
National Beef	Cyclical Return to Potential ($875 million historical cost)	$99	1.1%
Garcadia	Continued Operating Improvement; LTM $47 million Pre-Tax Income (our share)[2]	$185	2.0%
Conwed	Grow Recent Acquisitions; Drive Organic Growth with New Applications and Market Expansion	$51	0.6%
Idaho Timber	Continue Strong Management Across Cycle; Drive Volume and Production Efficiency	$74	0.8%
	Sub-total	**$4,198**	**45.5%**
Leucadia Asset Management	Performance Drives Growth in AUM and Value Creation	$548	6.0%
FXCM	Repayment and Recapitalization; Growth Opportunity	$759	8.2%
HomeFed	Inventory Sales to Lead Monetization	$234	2.5%
Foursight & Chrome	Growth to Scale and Operating Leverage	$77	0.8%
HRG	Simplification to Value Recognition	$606	6.6%
Vitesse & Juneau	Upside in Operations and Commodity Price	$453	4.9%
Linkem	Execute to Deliver on Open-Ended Opportunity	$146	1.6%
Golden Queen	Complete and Start Mining	$81	0.9%
	Sub-total	**$2,904**	**31.4%**
Deferred Tax Asset	Monetize DTA	$1,152	12.5%
Cash & Investments	Buffer	$919	10.0%
	Plus: Other	$62	0.7%
	Gross Tangible Capital	**$9,235**	**100%**
	Less: Corporate Other Liabilities, Net	($152)	
	Less: Debt and Preferred Equity	($1,113)	
	Tangible Common Equity	**$7,970**	

Common Book Value per Share (Fully Diluted) [3]	**$28.03**
Common Tangible Book Value per Share (Fully Diluted) [3]	**$20.97**

Footnotes on following page.

Footnotes: Leucadia's Potential

1. Leucadia Tangible Capital is a non-GAAP financial measure excluding goodwill and intangibles from Book Value. See appendix on pages 174 for reconciliation to GAAP measures.

2. Our share of Garcadia pre-tax income, excluding our interest in Garcadia land, is a non-GAAP measure, however, there are no income taxes at the Garcadia level; therefore our share of their net income equals our share of their pre-tax income.

3. Common Book Value per Share (fully-diluted) and Common Tangible Book Value per Share (fully-diluted) are non-GAAP financial measures widely used by investors in assessing investment and financial services firms. See Appendix on page 173 for a reconciliation to GAAP measure.

Footnotes: Leucadia's Potential
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A Unique Financial Services and Merchant Banking Platform

- Financial Services – Our historic sector; post-crisis opportunity
  - Jefferies
    - Drive market share, margin expansion and earnings growth by growing Investment Banking and Equities and refocusing in Fixed Income
    - Jefferies Finance and Jefferies LoanCore – Execute on the opportunity and momentum of our corporate and commercial real estate lending platforms
    - KCG Holdings – Significant interest in a leading global electronic market maker (>100% of cost recovered)[1]
  - Berkadia
    - Become the best full-service mortgage banking firm in the industry
    - Build out geographic coverage, products and capabilities to drive profitability and cash flow
  - Leucadia Asset Management
    - Leverage Leucadia's brand, Jefferies' relationships and Leucadia capital to own significant general partnership stakes in differentiated alternative asset management strategies (business model inherently avoids goodwill and acquisition costs)
  - FXCM
    - Opportunistic and well-structured investment, with significant near and long-term value creation potential
    - Counter-cyclical performance relative to Jefferies' core business
    - Leucadia's results may continue to be volatile for several more quarters as we fair value the FXCM investment quarterly
  - HomeFed
    - Following recent $150 million Otay Ranch acquisition, begin to harvest ripening projects and assets
  - Foursight and Chrome
    - Drive market share and originations, while maintaining a disciplined approach to credit quality

(1) Adjusted for KCG Holdings' tender offer completed on 6/9/15, where Jefferies sold 6.5 million shares at $14.00 per share resulting in $91 million of proceeds.

A Unique Financial Services and Merchant Banking Platform
Financial Services – Our historic sector; post-crisis opportunity
Drive market share, margin expansion and earnings growth by growing Investment Banking and Equities and refocusing in Fixed Income
Jefferies Finance and Jefferies LoanCore – Execute on the opportunity and momentum of our corporate and commercial real estate lending platforms
KCG Holdings – Significant interest in a leading global electronic market maker (>100% of cost recovered)(1)
Become the best full-service mortgage banking firm in the industry
Build out geographic coverage, products and capabilities to drive profitability and cash flow
Leverage Leucadia's brand, Jefferies' relationships and Leucadia capital to own significant general partnership stakes in differentiated alternative asset management strategies (business model inherently avoids goodwill and acquisition costs)
Opportunistic and well-structured investment, with significant near and long-term value creation potential
Leucadia's results may continue to be volatile for several more quarters as we fair value the FXCM investment quarterly
Following recent $150 million Otay Ranch acquisition, begin to harvest ripening projects and assets
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A Unique Financial Services and Merchant Banking Platform

- Merchant Banking – Opportunistic value investments in businesses we understand
  - National Beef
    - Manage business through the cattle cycle
    - Maintain core market share and enhance profitability through efficiency and growth of value-added segments (tannery, consumer ready, Kansas City Steaks)
  - HRG
    - Drive value through simplification and strategic focus, as well as growth of Spectrum Brands
  - Vitesse and Juneau
    - Drive cash flow on existing investments
    - Opportunities for new investments following oil price collapse
  - Garcadia
    - Enhance performance in existing dealerships
    - Selectively expand dealership network in a robust market environment
  - Linkem
    - Increase coverage through LTE network deployment
    - Prepare for launch in major Italian cities
  - Conwed
    - Drive organic growth with new applications and market expansion
  - Idaho Timber
    - Drive volume and production efficiency
  - Golden Queen
    - Deliver working mine on time and on budget

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Linkem
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Prepare for launch in major Italian cities
Conwed
Drive organic growth with new applications and market expansion
Idaho Timber
Drive volume and production efficiency
Golden Queen
Deliver working mine on time and on budget
7

Three Q & A's – IRQuestions@Leucadia.com

Three Q & A's – IRQuestions@Leucadia.com

Leucadia Financial Services

Leucadia – Financial Services – Overview

Leucadia National Corporation
Parent Capital – $11.8 Billion (1)

- Common Equity – $10.7 Billion (2)
- Preferred Equity – $0.125 Billion
- Parent Debt – $1.0 Billion (1)

Financial Services $7.4 Billion

- **Jefferies (100%)** $5.5 Billion (3)
  - **Jefferies Finance (50%)** $500 Million
  - **Jefferies LoanCore (49%)** $241 Million
  - **KCG Holdings (4) (17%)** $176 Million ($0 Million at Cost)
- **Leucadia Asset Management (100%)** $548 Million (5)
  - Folger Hill
  - Topwater Capital
  - Strategic Investments
  - Global Equity Events
  - CoreCommodity
  - Mazama Capital
- **FXCM** $759 Million ($184 Million Invested, Net of Receipts) (6)
- **HomeFed (65%)** $234 Million (7) ($479 Million at MV) (8)
- **Berkadia (50%)** $207 Million
- **Foursight (100%) and Chrome (74%)** $77 Million

Merchant Banking $2.5 Billion

- National Beef (79%) $766 Million
- HRG Group (23%) $606 Million ($476 Million at Cost)
- Vitesse Energy (96%) $260 Million
- Juneau Energy (98%) $194 Million
- Garcadia (~75%) $185 Million
- Linkem (55%) $146 Million
- Conwed (100%) $115 Million
- Golden Queen (35%) $81 Million
- Idaho Timber (100%) $74 Million

Corporate / Liquidity $1.9 Billion

- Parent Company Cash & Investments $0.9 Billion (1, 5)
- Deferred Tax Asset $1.2 Billion (9)
- Corporate Other Liabilities, Net $(152) Million

Note: Dollar amounts are Leucadia's net carrying amount as of 6/30/15 for each investment, for consolidated subsidiaries equal to their assets less liabilities.

(1) Reduced for payoff at maturity of 2015 8.125% Sr. Notes using Parent Company Cash. See Appendix on page 172 for reconciliation to GAAP amounts.
(2) Includes $2.7 billion of goodwill and intangibles.
(3) Includes $2.0 billion of goodwill and intangibles.
(4) Adjusted for KCG Holdings' tender offer completed on 6/9/15, where Jefferies sold 6.5 million shares at $14.00 per share resulting in $91 million of proceeds.
(5) Leucadia Asset Management excludes $348 million of highly liquid marketable securities, available for sale immediately (included in Parent Company Cash & Investments).
(6) Represents the initial cash outlay of $279 million reduced by cash receipts of $95 million as of 6/30/15.
(7) Carrying amount is net of deferred gain on real estate sale.
(8) Market value as of 6/30/15.
(9) Represents the Leucadia net deferred tax asset; the Jefferies net deferred tax asset is reflected within the Jefferies book value presented.

BERKADIA®

Company Overview

- Berkadia is a full-service mortgage banking firm focused on providing clients best of class middle market mortgage finance and advisory services
- Business Lines:
  - Permanent and construction loans
  - Investment Sales
  - Bridge Loans
  - Master/Primary Servicing
- Largest FHA commercial real estate lender by # of commitments
- 2nd largest FHLMC commercial real estate lender by $ volume
- 3rd largest FNMA commercial real estate lender by $ volume
- 3rd largest servicer of U.S. commercial real estate loans by $ volume

Company Overview
Berkadia is a full-service mortgage banking firm focused on providing clients best of class middle market mortgage finance and advisory services
Business Lines:
Permanent and construction loans
Investment Sales
Bridge Loans
Master/Primary Servicing
Largest FHA commercial real estate lender by # of commitments 2nd largest FHLMC commercial real estate lender by $ volume 3rd largest FNMA commercial real estate lender by $ volume 3rd largest servicer of U.S. commercial real estate loans by $ volume
11

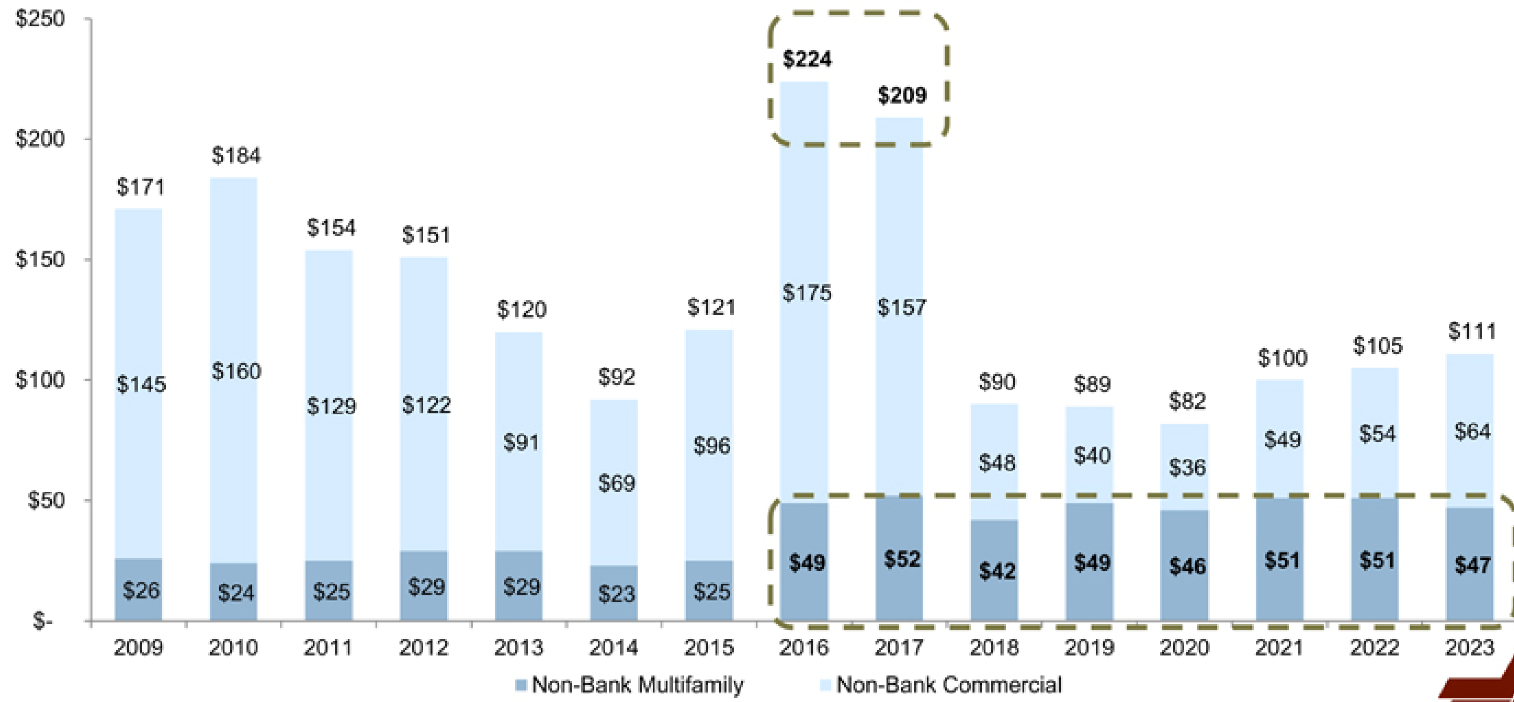
Industry Update

Positive Near-Term and Long-Term Market Opportunities

- Commercial maturities will rise significantly in 2016 as 10-year loans originated pre-2008 balloon presenting a short-term opportunity

- Multifamily maturities remain consistent over the next several years presenting a long-term opportunity

Unpaid Principal Balance of Non-Bank Commercial/Multifamily Mortgages, By Year of Maturity ($ billion)

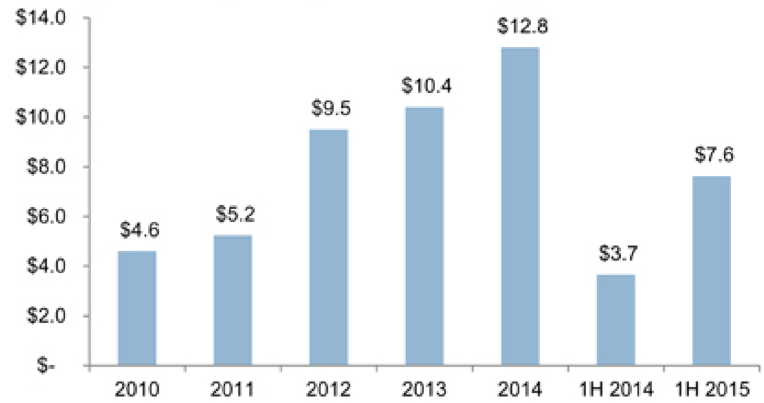


Source: Mortgage Bankers Association Commercial Real Estate/Multifamily Finance Loan Maturity volumes as of December 31, 2014.

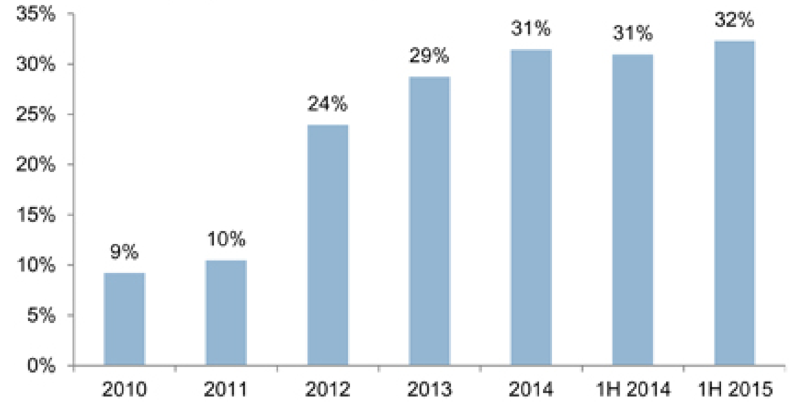
Source: Mortgage Bankers Association Commercial Real Estate/Multifamily Finance Loan Maturity volumes as of December 31, 2014.

Financial Performance

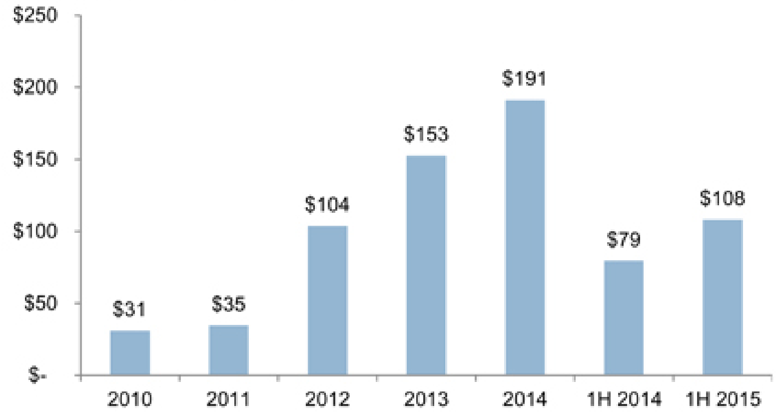
Loan Originations ($ billion)



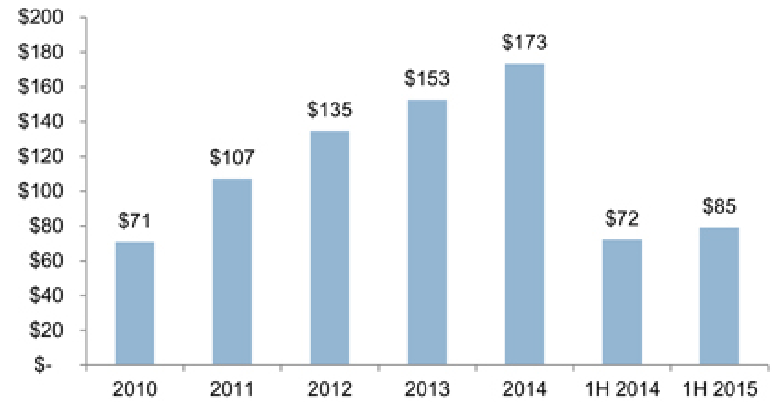
Pre Tax Margin (% of revenue)



Pre Tax Income ($ million)



Cash Earnings (1) ($ million)

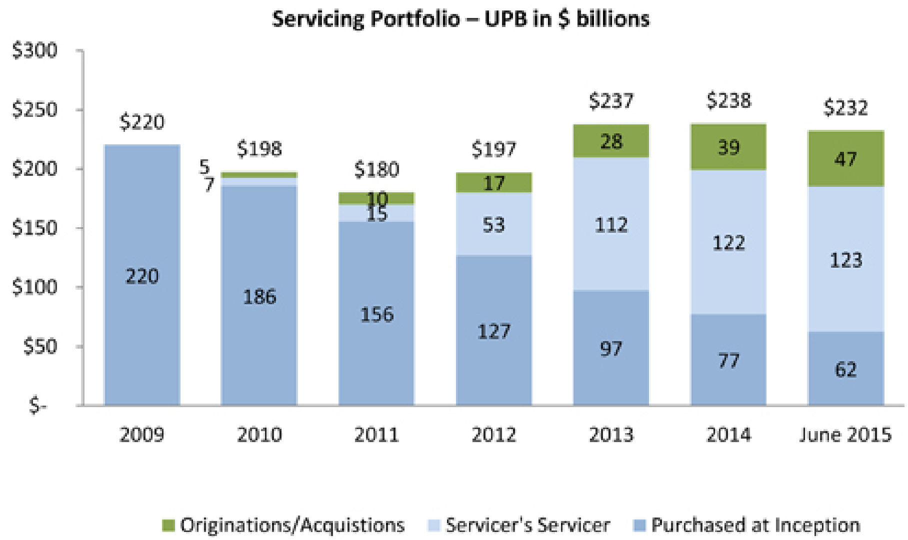


(1) Cash Earnings is a non-GAAP measure. Cash Earnings equals pre-tax income plus depreciation and amortization of mortgage servicing rights (MSRs), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to the origination of MSRs and unrealized gains on loans and investments. See appendix on page 175 for a reconciliation to GAAP amounts.

Financial Performance
2010 2011 2012 2013 2014 1H 2014 1H 2015
2010 2011 2012 2013 2014 1H 2014 1H 2015
(1) Cash Earnings is a non-GAAP measure. Cash Earnings equals pre-tax income plus depreciation and amortization of mortgage servicing rights (MSRs), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to the origination of MSRs and unrealized gains on loans and investments. See appendix on page 175 for a reconciliation to GAAP amounts.
13

Servicing Portfolio

- Unpaid principal balance as of June 30, 2015 was $232 billion. $170 billion, or 73%, relate to loans added since initial acquisition (2009)



Servicing Portfolio
Unpaid principal balance as of June 30, 2015 was $232 billion. $170 billion, or 73%, relate to loans added since initial acquisition (2009)
Servicing Portfolio – UPB in $ billions
$300 $237 $238 $232 $250 $220 $198 $197 28 39 47 $200 5 7 $180 17 10 15 $150 53 112 122 123 220 $100 186 156 127
$50 97 77
62 $- 2009 2010 2011 2012 2013 2014 June 2015
Originations/Acquistions Servicer's Servicer Purchased at Inception
14

2015 Developments

- **Berkadia's 1H benefited from industry activity being significantly up year over year**
  - Our debt originations were up 109% compared to 1H 2014
  - Our sales transactions were up 76% compared to 1H 2014
- **Recruiting success**
  - Recruited 11 new Mortgage Bankers. Our MB team is currently 135
  - Recruited 18 new Investment Sales advisors. Our IS team is currently 107
  - Established / expanded specialty groups
    - Hospitality
    - Affordable Housing
    - Student Housing
- **Integration**
  - Out of 59 total Mortgage Banking and Investment Sales locations, our Mortgage Banking and Investment Sales teams are co-located at 13 locations:
    - Offer combination of services to clients, including Investment Sales, Conventional and FHA Banking, underwriting, and equity investment in same location
    - Round trips increased from negligible levels in 2014 to 16% in 1H 2015. A roundtrip is defined as a transaction where we act as both sales advisor and debt originator

2015-2016 Strategic Priorities

- **Increase Business with Existing Clients**
  - Unique Ideas, Proprietary Databases and Solutions
  - Speed

- **Expand Client Reach**
  - Rifle-Shot Recruiting
  - Continued Integration of Offices / Team Approach

- **Drive Profitability and Cash Flow**
  - Market Share and Revenue Growth
  - Process and Technology Improvements

Relentlessly.

2015-2016 Strategic Priorities
Increase Business with Existing Clients
Unique Ideas, Proprietary Databases and Solutions
Speed
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Rifle-Shot Recruiting
Continued Integration of Offices / Team Approach
Drive Profitability and Cash Flow
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Relentlessly.
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FXCM LISTED NYSE

FXCM LISTED NYSE
17 FXCM

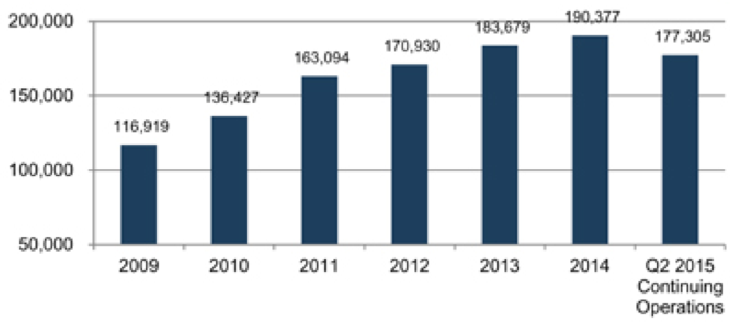
Note on Forward Looking Statements

Certain statements contained herein may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and/or the Private Securities Litigation Reform Act of 1995, which reflect FXCM's current views with respect to, among other things, its operations and financial performance in the future, and the potential impact to FXCM of the cybersecurity incident described in this press release. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about FXCM's industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict including, without limitation, risks associated with the events that took place in the currency markets on January 15, 2015 and their impact on FXCM's capital structure, risks associated with FXCM's ability to recover all or a portion of any capital losses, risks relating to the ability of FXCM to satisfy the terms and conditions of or make payments pursuant to the terms of the credit agreement with Leucadia, risks related to FXCM's dependence on FX market makers, market conditions, risks associated with the outcome of any potential litigation or regulatory inquiries to which FXCM may become subject as a result of this cybersecurity incident, risks associated with potential reputational damage to FXCM resulting from this cybersecurity incident, the outcome of FXCM's ongoing investigation (including FXCM's potential discovery of additional information relating to this cybersecurity incident) and the extent of remediation costs and other additional expenses that may be incurred by FXCM as a result of this security incident, and those other risks described under "Risk Factors" in FXCM Inc.'s Annual Report on Form 10-K and other reports or documents FXCM files with, or furnishes to, the SEC from time to time, which are accessible on the SEC website at sec.gov. This information should also be read in conjunction with FXCM's Consolidated Financial Statements and the Notes thereto contained in FXCM's Annual Report on Form 10-K, and in other reports or documents the FXCM files with, or furnishes to, the SEC from time to time, which are accessible on the SEC website at sec.gov.

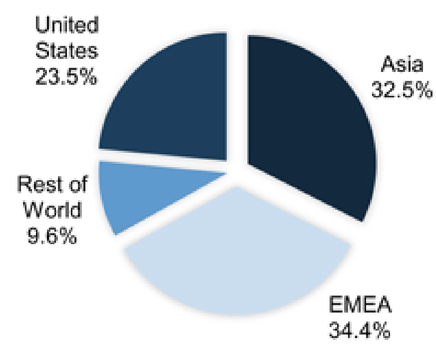
Company Overview

- FXCM (NYSE: FXCM) is a leading online provider of foreign exchange trading services to approximately 180,000 retail customers globally
- Founded in 1999 by six partners – five still active in the business, including both CEO & COO
- Multi-asset class product offering – with approximately 70% of volumes in OTC Spot FX and 30% in contracts for difference (“CFDs”) on OTC precious metals, oil, commodities and equity-index CFDs
- Global reach – content and advertising in 180 countries and 16 languages

Total Active Accounts[1]



Volume by Geography Continuing Operations (Q2/15)



(1) An Active Account represents an account that has traded at least once in the previous twelve months.

Transaction Summary

- 2014 adjusted revenues of $453 million and adjusted EBITDA of $107 million; market capitalization of $1.2 billion prior to Swiss National Bank (“SNB”) currency adjustment

- Leucadia provided a two-year $300 million secured financing in January 2015 to support the capital shortfall that resulted from extraordinary volatility in the Swiss Franc as a result of the action taken by the SNB on January 15, 2015
  - $203 million remains outstanding today, which is expected to be repaid in the next 6 months, and Leucadia has realized $148 million from principal repayments, interest and fees through September 30, 2015

- Leucadia is entitled to a percentage of the proceeds received in connection with certain transactions, including sale proceeds, dividends and distributions

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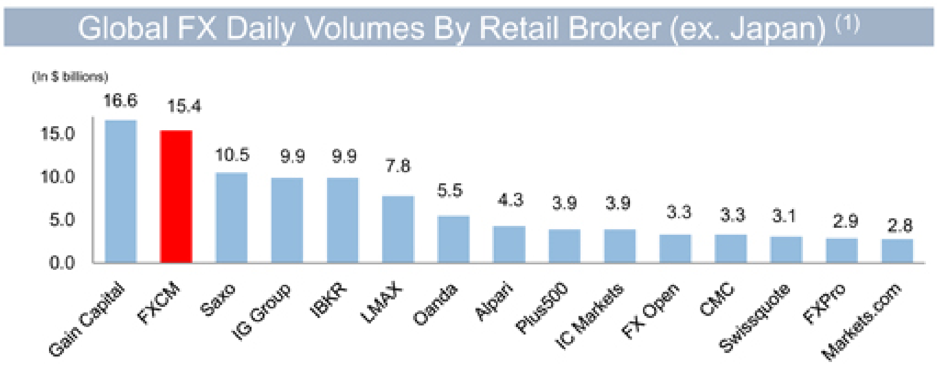
Industry Update

- FXCM is the largest retail FX broker in Asia (ex. Japan) and the U.S.; top five in Europe
- Fragmented industry, which has seen steady decline in the number of competitors as regulatory and compliance burdens have continued to increase in recent years
  - There are now only 5 active Retail Foreign Exchange Dealers in the U.S. versus 43 in 2007
- The January 15th, 2015 SNB event further reduced the number of FX brokers
- CFDs are an important component of many brokers' offerings as well, particularly in Europe



(1) Based on Forex Magnates Q2/15 Quarterly Industry Report. Excludes Japanese brokers.

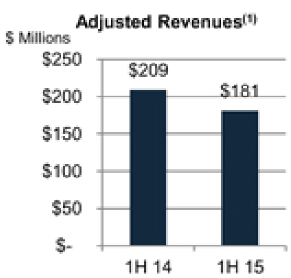
Industry Update
Fragmented industry, which has seen steady decline in the number of competitors as regulatory and compliance burdens have continued to increase in recent years
CFDs are an important component of many brokers' offerings as well, particularly in Europe
Gain Capital FXCM Saxo IG Group IBKR LMAX ONDA Alpari Plus500 IC MARKETS FXOpen CMC Swissquote FXPro Markets.com
(1) Based on Forex Magnates Q2/15 Quarterly Industry Report. Excludes Japanese brokers.

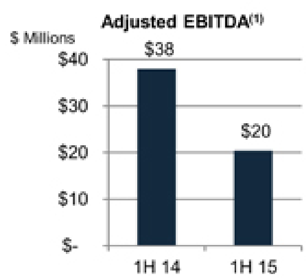
Financial Performance

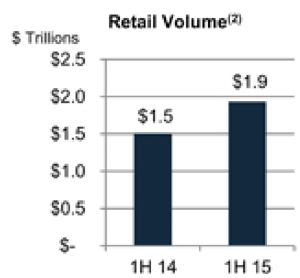
- Cash position remains strong, with $208 million in operating cash in continuing operations (and an additional $65 million in discontinued operations)

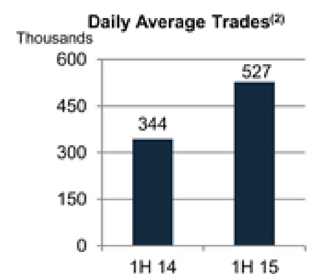
- Customer equity from continuing operations increased from $667 million at 03/31/15 to $735 million at 06/30/15
  - $47 million of increase due to acquisition of Citibank retail FX business in June; remainder organic

- FXCM's regulatory capital position is strong
  - Minimum regulatory capital requirements in continuing operations of $59 million versus current regulatory capital of $150 million: a surplus of $91 million









(1) Source: Adjusted Revenues and Adjusted EBITDA per FXCM's 2nd Quarter 2015 earnings conference call presentation. Adjusted Revenues and Adjusted EBITDA are non-GAAP measures and include both Continuing and Discontinued Operations. See FXCM's 2nd Quarter earnings call presentation for reconciliation to GAAP measures.

(2) Source: Retail Volume and Daily Average Trades per FXCM's 2nd Quarter 2015 10-Q and are based upon Continuing Operations.

2015 Developments

- Near term goal remains to repay debt to Leucadia through non-core asset sales and cash generated from operations
  - Have generated $148 million of principal, interest and fees to Leucadia and $203 million remained outstanding under the credit agreement as of September 30, 2015
- Asset sale process ahead of schedule; targeting to have all debt repaid by first quarter of 2016
- Additionally, business is stabilized and client equity returning to growth

Entity	FXCM Ownership	Notes
FXCM Japan	100%	**Sold for $62M**
FXCM Hong Kong	100%	**Sold for $38M**
FastMatch	35%	Institutional JV with Credit Suisse; **in process**
FXCM Securities (UK)	100%	Small UK equities broker; **in process**
Lucid	50.1%	Leading non-bank FX market maker in UK; **in process**
V3 Markets	50.1%	Chicago based multi-asset HF proprietary trader; **in process**

Strategic Priorities

- FXCM today remains in a strong competitive and financial position, with new initiatives to enhance growth just getting underway
  - Single share CFD launch
    - Client surveys show the lack of the single share CFD offering is the main reason why clients choose FXCM competitors
    - Sizeable revenue opportunity
- Broadening of agency offering in CFDs
  - Will be an important differentiator to competitors
  - Continue roll-out of dealing desk execution to small clients
    - Dealing desk execution for small clients now 10% of total retail volume in June
    - Targeting overall revenue of $70-80 per million
- Additionally, FXCM considerably levered to interest rate increases
  - Each 100bps in Fed Funds rate adds ~$40-50 million in EBITDA

HomeFed Corporation

Company Overview

- HomeFed is a public company (OTC:HOFD), 65% owned by Leucadia, that develops and owns residential and mixed-use real estate projects in California, Florida, Maine, New York, South Carolina and Virginia; after many years in the entitlement process, vast majority of HomeFed's assets are now either operating real estate or entitled land ready for sale
- Activities include:
  - Acquisition of unentitled, partially entitled or entitled land
  - Land planning and design engineering
  - Entitlement and permitting of project with local, state and federal agencies
  - Grading and construction of public infrastructure and other facilities
  - Master planned community formation, governance and sales to national and local builders
  - Oversight and management of operating assets

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Master planned community formation, governance and sales to national and local builders
Oversight and management of operating assets
HOMEFED CORPORATION
26

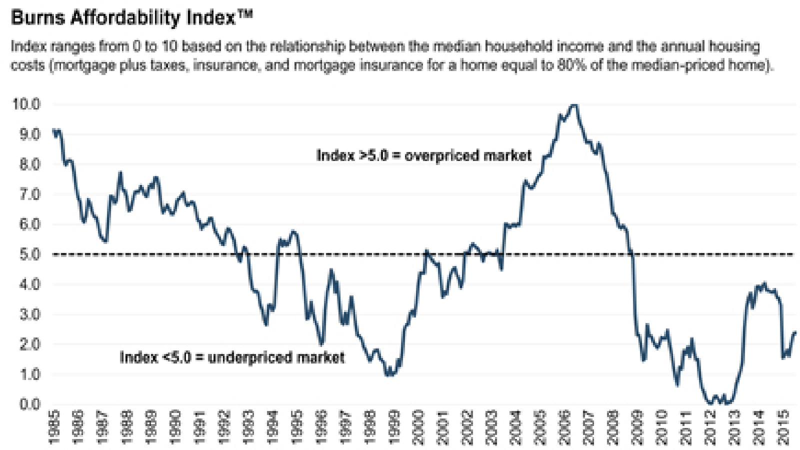
Property Locations

HOMEFED CORPORATION

Property Locations
Rampage Vineyard
San Elijo Hills
Fanita Ranch
Otay Ranch
Northeast Point
Renaissance Plaza
Ashville Park
The Market Common
SweetBay
Mexico
United States
Gulf of Mexico
27

Market Outlook

- Affordability Better than Average
  - Relatively underpriced market based on the Burns Index of household income to annual home ownership costs
    - ~2.5 today vs. a 5.0 benchmark in a neutral market
  - Housing cost-to-income ratio = 26% vs. the 29% historical median



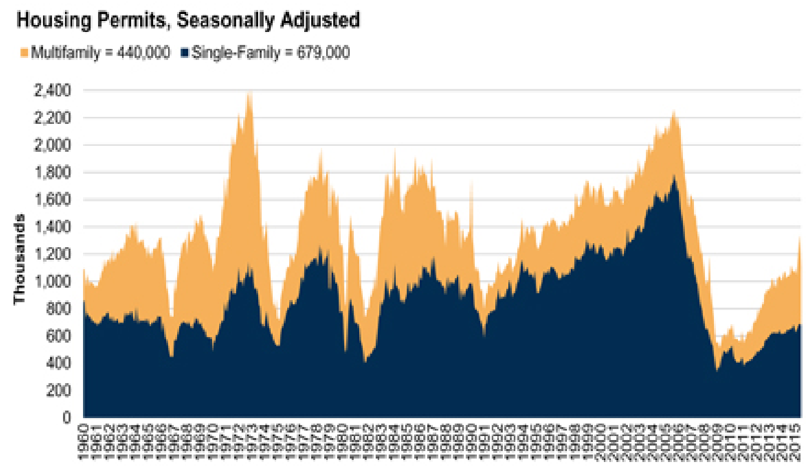
- Demand Exceeds Supply

2.9 million jobs created last year

÷ **1.1** million total permits

= **2.6** jobs / housing unit*

**1.2 is considered normal*



Source: John Burns Real Estate Consulting.

Project Status

HOMEFED CORPORATION

Property	Development / Operating Phase				
	Unentitled Land	Planning / Entitlement	Land Development	Active Lot Sales	Operating Asset
Otay Ranch *~4,450 acres of entitled land in Chula Vista, CA*		■	■		
Renaissance Plaza *Mixed use (office, Marriott hotel and garage) asset in Brooklyn, NY*					■
The Market Common *~110 acre retail, office and residential center in Myrtle Beach, SC*			■	■	■
San Elijo Hills *~1,920 acre master planned community in San Marcos, CA*				■	
Fanita Ranch *~2,600 acres of unentitled land in Santee, CA*	■				
Rampage Vineyard *~1,650 acre vineyard in Madera, CA*	■				■
Ashville Park *~450 acre master planned community in Virginia Beach, VA*			■	■	
Pacho *~2,360 acres of unentitled land in San Luis Obispo, CA*	■				
SweetBay *~700 acre master planned community in Panama City, FL*			■	■	
Northeast Point *12 residential waterfront lots in Islesboro, ME*				■	

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Property
Development / Operating Phase
Unentitled Land
Planning / Entitlement
Land Development
Active Lot Sales
Operating Asset
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San Elijo Hills
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Pacho
~2,360 acres of unentitled land in San Luis Obispo, CA
SweetBay
~700 acre master planned community in Panama City, FL
Northeast Point
12 residential waterfront lots in Islesboro, ME
29

2015 Developments

- In July 2015, HomeFed completed the acquisition of 1,600 acres of land in the Otay Ranch area of San Diego County, California for a cash purchase price of $150 million
  - The acquired land is contiguous with ~2,850 acres already owned by HomeFed, which will allow us to maximize the value of those holdings
  - Home sales in the Otay Ranch area continue to improve and prices are increasing as builders release new projects
  - The acquisition was funded with $125 million of 6.5% Senior Notes issued in June 2015 and $25 million from working capital

- Our now ~4,450 acres of Otay Ranch land are entitled for 9,350 multi-family residential units, 3,700 single family residential units and 1.85 million square feet of commercial space
  - The average single-family home in South San Diego County sold for $525,000 in the first quarter of this year, with multi-family units averaging over $350,000(1)
  - In San Diego County, developed land typically represents 30-40% of the home sale price for single-family units and 20-30% for multi-family units

(1) Source: MarketPointe Realty Advisors.

Strategic Priorities

Turn our land into cash

- Optimize Otay Ranch assets – focus on expediting development programs and maximizing revenue over the coming years
- Increase lot and home sales throughout our other active projects, including:
  - Ashville Park in Virginia
  - The Market Common in South Carolina
  - San Elijo Hills in California
  - SweetBay in Florida
- Develop land strategically and continue entitlement processes where ongoing

Strategic Priorities
Turn our land into cash
Optimize Otay Ranch assets – focus on expediting development programs and maximizing revenue over the coming years Increase lot and home sales throughout our other active projects, including:
Ashville Park in Virginia
The Market Common in South Carolina
San Elijo Hills in California
SweetBay in Florida
Develop land strategically and continue entitlement processes where ongoing
31

Foursight
CAPITAL

Company Overview

- Auto loan originator and servicer
- Successor to Franklin Capital's auto finance business
  - Franklin was liquidated in early 2012 after pulling back during the credit crisis
  - Funded and serviced $5.2 billion of cumulative auto receivables and serviced a peak $1.2 billion portfolio
- Leucadia partnered with management to restart the business, initially leveraging originations from Garcadia, but most of the growth has come from 3rd party dealerships
  - 80% of Q2 '15 originations from 3rd party dealerships, up from 70% in Q4 '14

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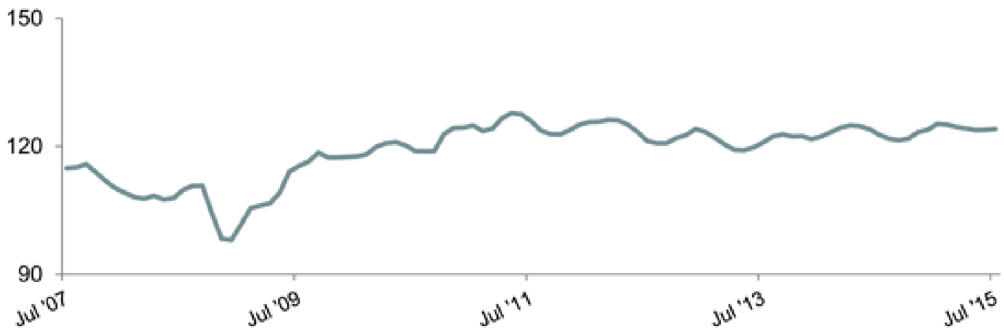
33

Industry Update

- Auto financing industry has continued to experience growth supported by increases in annual auto sales every year since 2009[1]
  - 2014 was the 4th consecutive year of growth, with below-prime portfolios growing by 12% YoY after growing 13% and 10% in 2013 and 2012, respectively[2]
- Loss rates have been supported by strong values on used autos [3]

Manheim US Used Vehicle Index



(1) According to Bureau of Economic Analysis.
(2) BenchMark Consulting Non-Prime Automotive Financing Survey 2015.
(3) Index Data Source: Bloomberg.

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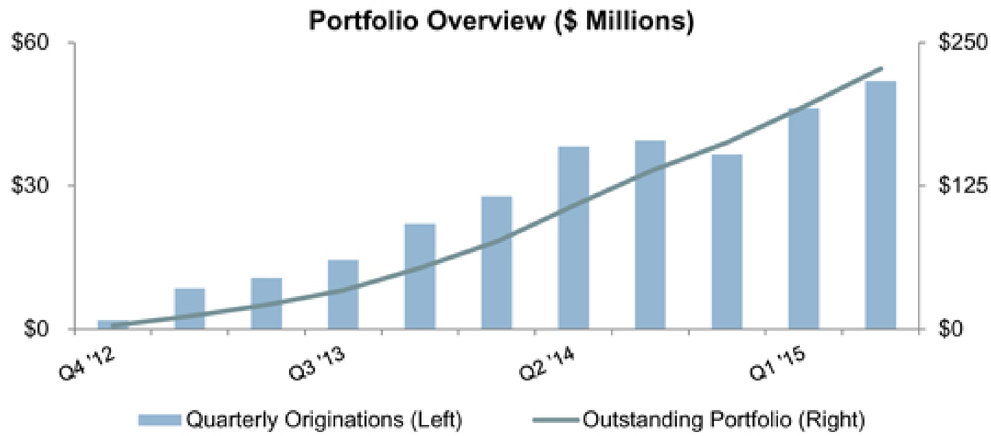
2015 Developments & Portfolio Growth

- Surpassed $250 million in assets and currently pacing $20+ million of originations per month
- Medium term goal is to grow annual originations to $500 million (supported by an estimated $90 million in capital), with a pre-tax return on equity of ~20%



- Added 7 additional marketing and origination reps, bringing total to 17
- Closed second term ABS in May for $106 million (FCART 2015-1)
  - Rated by DBRS
- Brought Chrome Capital in as first sub-servicing client

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Portfolio Overview ($ Millions) $250
Quarterly Originations (Left) Outstanding Portfolio (Right)
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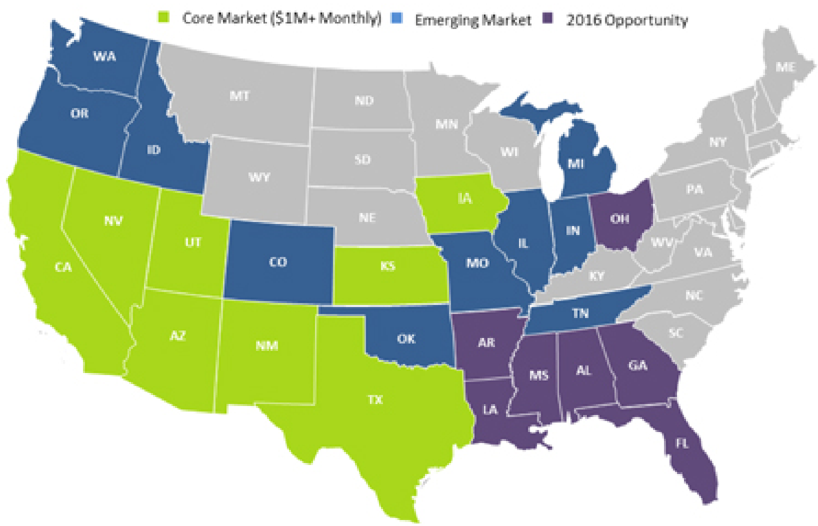
Closed second term ABS in May for $106 million (FCART 2015-1)
Rated by DBRS
Brought Chrome Capital in as first sub-servicing client
35

Strategic Priorities

- Continue to improve dealer customer service – response times are critical
- Expand market penetration outside of several core states:



- Maintain credit discipline during growth and continue to develop scorecard
- Consistently access the securitization market, but maintain enough liquidity to weather potential market liquidity issues
- Grow sub-servicing business

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Leucadia Asset Management

General Disclaimer

Past performance is not indicative of future results.

This presentation does not constitute an offer of any commodities, securities or investment advisory services and should not be used to form the basis of any investment decision in any of the investment strategies or funds described herein. Information contained herein does not purport to be complete and is subject to change. Actual characteristics and performance may differ from the assumptions used in preparing these materials. Changes in assumptions may have a material impact on the information set forth in these materials. Neither Leucadia nor its affiliates makes any representation or warranty as to the appropriateness or accuracy of such assumptions or the actual yield that an account adviser or investor may receive.

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Business Overview

- Diversified alternative asset management platform – seeding and developing focused funds managed by distinct management teams
- Fee-generating assets, long-term stable cash flows, able to recycle capital
- Goal of growing third party AUM, while earning a reasonable return on our capital
- Compelling edge – leverage Jefferies to source, and Leucadia to capitalize and syndicate
- $548 million Leucadia book value in LAM products as of June 30, 2015, excluding $348 million of investments in marketable securities available for sale immediately; this does not reflect any potential value of the management companies executing these strategies (1)
- Recently initiated LAM-level marketing & IR function
- Continue to seek new platforms / partners

(1) The $548 million of LAM book value is across Folger Hill, Topwater Capital and CoreCommodity. The $348 million includes investments across Mazama Capital, Strategic Investments, Global Equity Events and others, which are highly liquid marketable securities available for sale immediately.

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Platforms and Strategies

- Strategic Investments Division (Quantitative Strategies)
  - Proprietary Jefferies strategy since 2006; flagship external fund established in 2011; $1.1 billion AUM equivalent
- Systematic Macro Investment Division (Quantitative Strategies)
  - Division to be launched Q4 2015 to create fund that will pursue macro quantitative strategies
- Folger Hill Asset Management (Multi-Manager)
  - Launched in 2015 with $400 million Leucadia seed investment; $1.1 billion AUM
- Topwater Capital (Multi-Manager / First-loss)
  - Launched in 2013 with Leucadia $100 million seed investment; 22 consecutive positive months through August 2015; $843 million regulatory AUM
- CoreCommodity Management (Commodity Strategies)
  - Proprietary Jefferies strategy since 2003; spun off in 2013; $5.7 billion AUM
- Global Equity Events Opportunity Fund (Event-Driven Strategies)
  - Proprietary Jefferies strategy since 2007; external fund established in 2014; $134 million AUM equivalent
- Mazama Capital Management [1] (Long-Only Growth Equity)
  - 20+ year track record of long only growth equity investing; $503 million AUM
- 54 Madison (Real Estate)
  - Recently launched real estate / hospitality special situations; initial investments approved in September; maximum Leucadia commitment of $225 million

(1) Leucadia owns a revenue share in Mazama Capital Management but does not have any equity interest.

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FOLGER HILL

Overview

FOLGER HILL

- Founded in mid-2014; Launched fund in March 2015 with Leucadia seed investment of $400 million; $1.1 billion AUM as of June 30, 2015
- Multi-manager discretionary long/short equity hedge fund platform aiming to deliver strong positive results with lower volatility and market correlation than typical equity long/short hedge funds
- Absolute return investment strategy, with broad industry and geographic diversification
- Portfolio manager expense pass-through plus incentive fee model
- Robust risk systems and focus on liquidity
- 58 full time employees as of September 30, 2015
- Board of Directors: Rich Handler, Brian Friedman and Sol Kumin

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Key Differentiators

FOLGER HILL

- High-pedigree portfolio managers and analytical support
  - PMs average 15 years of investment experience
  - Sourced from best-in-class fundamental equity investment firms
  - Large allocations: average PM buying power of $337 million as of June 30, 2015 (1)
- Top caliber compliance and finance teams centrally monitoring portfolios and limits
  - CRO: Todd Rapp – Highfields, Karsch, Goldman Sachs
  - CCO: Lisa Baroni – U.S. Attorney's Office, Southern District of N.Y., Securities and Commodities Fraud Unit
  - CFO: John Larre – Karsch, Morgan Stanley
  - General Counsel: Jason Ketchen – Fidelity, Geode, Bingham McCutchen
  - Business Development: Kevin McDonald & Jared Brecher
  - Head Trader: Tucker Jones – MFS Investment Management

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Talent Selection

FOLGER HILL

- What We Look For
  - Long/short equity PMs, primarily with a sector-specific focus
  - Investment processes that utilize fundamental idea generation to identify a path that will drive prices over a specified time horizon
  - Repeatable and scalable investment process
  - Proven alpha generation capability
  - Individuals we believe can successfully operate within our risk parameters and culture
- How We Find It
  - Talent acquisition is a dedicated, full-time and ongoing function
  - Leverage management team and Leucadia contacts with investment professionals to identify candidates
  - Engage in multi-step vetting process whereby potential PMs will meet with Business Development professionals, Senior Management and existing PMs
  - Conduct independent and robust due diligence and background checks

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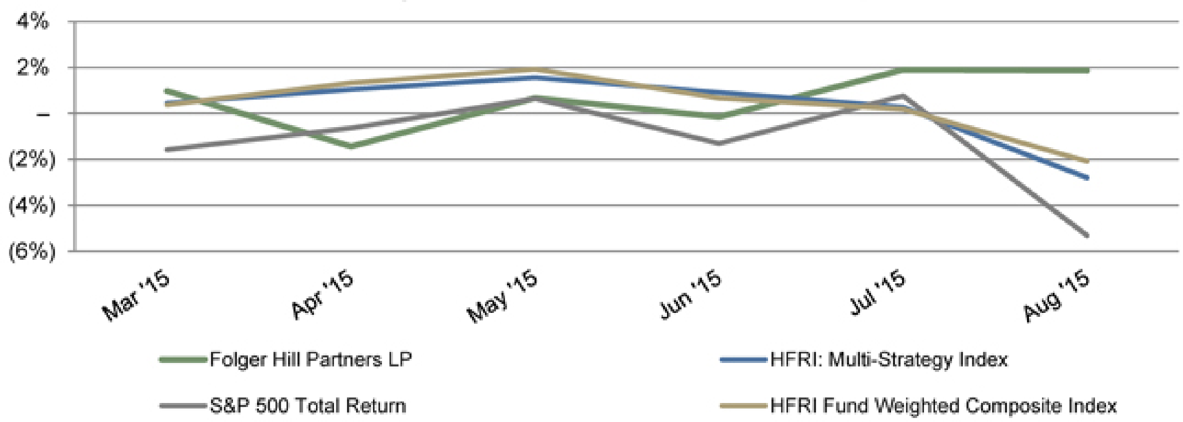
Historic Returns & Strategic Priorities

FOLGER HILL

- On track to achieve target of 20 PMs actively managing capital by end of 2015 – at 16 as of September 30, 2015
- Expand investor breadth: engage wealth management platforms, cultivate targeted relationships and capitalize on industry trends
- Q4 Investor Road Show
- Add Asian presence in near term; European presence in future

Cumulative Folger Hill Returns vs. Benchmarks Since Inception[(1)]



(1) The Folger Hill returns represent net performance which includes reinvestment of dividends, the inclusion of profits and losses from equity IPOs and is reduced by pass through expenses and accrued performance allocations, if any. Pass through expenses may differ materially over time. Because some investors may be subject to different performance allocation arrangements and terms, may make investments at different times or may have different participation rights in respect of equity IPOs, net performance for an individual investor may vary from the net performance set forth above. **Past performance is not indicative of future results.** The information contained herein is as of the date stated above unless otherwise noted and is estimated and unaudited. Nothing contained herein is intended to constitute investment advice or an offer to sell or the solicitation of an offer to purchase any security or investment product.

Topwater Capital

Topwater Capital – Overview

- Highly-scalable multi-manager and multi-strategy liquid securities fund targeting low volatility and positive returns in all market environments
- Continuous track record dating back to 2004
- Initial Leucadia investment in Q3 2013
- Soft launch in late 2013 and first full year of operation in 2014
- Pioneered the first-loss model of investing
  - Portfolio managers required to contribute capital that sits in a first loss position
  - Creates strong layer of principal protection
  - Portfolio managers compensated by above-market incentives
- Returns are beating benchmarks, with lower volatility
- $843 million regulatory AUM as of June 30, 2015

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Topwater Capital – Key Differentiators

- Proven track record of delivering consistent positive uncorrelated performance, with 100% positive annual performance dating back to 2004, including a 10% annual return in 2008 and positive returns in August and September 2015
  - Added well over 200 managers to platform since 2004
- Experienced, dedicated risk team, fully devoted to monitoring underlying aggregated risks
- Fund Portfolio Metrics:
  - 2014 Rate of Return: 7.7%, net; YTD August 31, 2015: 5.8%, net
  - Annualized Standard Deviation: 1.63%
  - Annualized Sharpe Ratio: 3.88
  - % Positive Months: 92.0%
  - Correlation to S&P 500: 0.15

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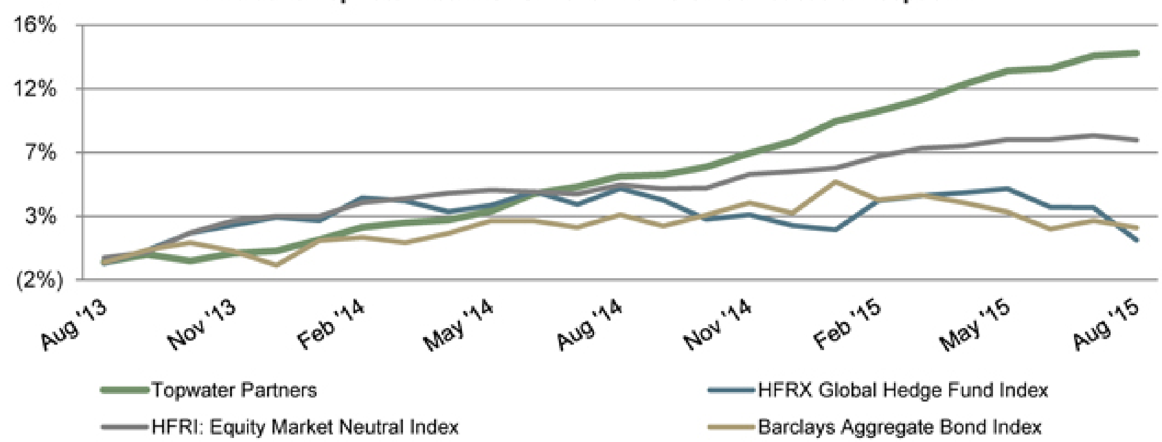
Topwater Capital – Historic Returns & Priorities

- Continue to grow manager count – up to 23 as of September 30, 2015
- Expand investor base

Cumulative Topwater Returns vs. Benchmarks Since Leucadia Inception(1)



(1) Net performance is for Regular Member Interests since inception as of August 1, 2013, is unaudited, subject to changes which may be material, and does not reflect First Loss Member Interests performance. Net performance is net of all fees and expenses. Fund returns may differ from an individual investor's return, because, among other reasons, there may be differences due to timing of investment, fees, taxes, economic conditions, portfolio size, leverage used as well as Account Adviser strategies being implemented at the time of investment. Annualized performance includes the reinvestment of dividends and other earnings. **Past performance is not indicative of future results.** Nothing contained herein is intended to constitute investment advice or an offer to sell or the solicitation of an offer to purchase any security or investment product.

Topwater Capital – Historic Returns & Priorities
Continue to grow manager count – up to 23 as of September 30, 2015
Expand investor base
Cumulative Topwater Returns vs. Benchmarks Since Leucadia Inception(1)
Topwater Partners HFRX Global Hedge Fund Index
HFRI: Equity Market Neutral Index Barclays Aggregate Bond Index
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Strategic Investments Division

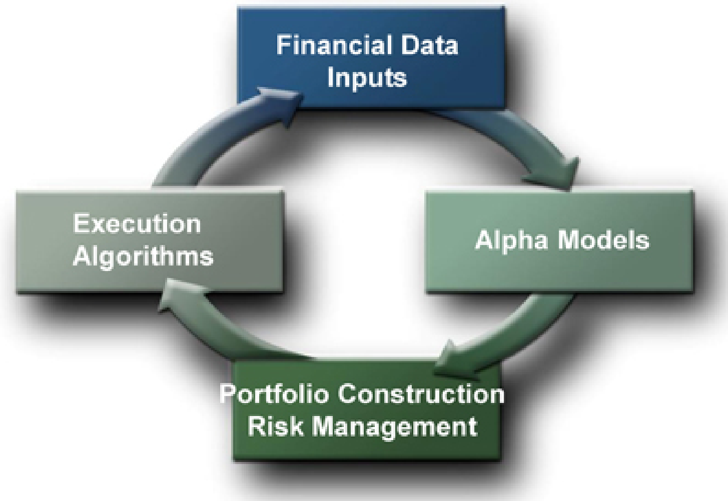
Strategic Investments Division – Overview

- Systematic asset management strategy
- Multi-quant approach across asset classes, geographies and time horizons
- 35 front office employees, including quants, software developers, portfolio/risk managers, and trade support
- $1.1 billion AUM equivalent as of June 30

2006	2010	2011	2013	2014	2015
• Trading starts at Jefferies	• Move to RIA • Managed Accounts Begin	• Structured Alpha Fund Launched	• Leucadia invests in Structured Alpha Fund • Managed Futures Fund Launched	• New Systematic Market Neutral Program Seeded by Leucadia	• AUM surpasses $1 Billion

Strategic Investments Division – Key Differentiators

- Systematic models to generate alpha via multi-horizon trading of global liquid exchange listed products
- Process driven methods for alpha research, portfolio construction, risk management and execution



- Experienced team
  - Over two decades of sell-side, buy-side, hedge fund, algorithmic execution, and software development
  - Have traded continuously together for 9 years
- Multicore proprietary computing servers and network hardware
- High speed simulation architecture with 100+ terabytes of high speed storage

Strategic Investments Division – Key Differentiators
Systematic models to generate alpha via multi-horizon trading of global liquid exchange listed products
Process driven methods for alpha research, portfolio construction, risk management and execution
Financial Data Inputs
Execution Algorithms
Alpha Models
Portfolio Construction Risk Management
Experienced team
Over two decades of sell-side, buy-side, hedge fund, algorithmic execution, and software development
Have traded continuously together for 9 years
Multicore proprietary computing servers and network hardware
High speed simulation architecture with 100+ terabytes of high speed storage
52

Strategic Investments Division – Product Overview

- Structured Alpha Program
  - 11.8% annualized net returns since the program's inception at Jefferies in 2006
  - Sharpe ratio above 2; typical turnover 5 - 10 days;
  - Low correlation to major asset classes, risk factors and peers

- Managed Futures Program
  - Short term systematic diversified strategy set applied to global futures
  - Low correlation to CTA / Trend followers by design
  - 10x the annualized rate of return of Newedge Short-Term Trading index since the program's inception at Jefferies in 2007

- Systematic Equity Market Neutral Program
  - Leucadia seeded October 2014, results to date meeting expectations
  - Targets mid-teens net return with 10% annualized volatility
  - Anticipate Founders Share Class launch early 2016

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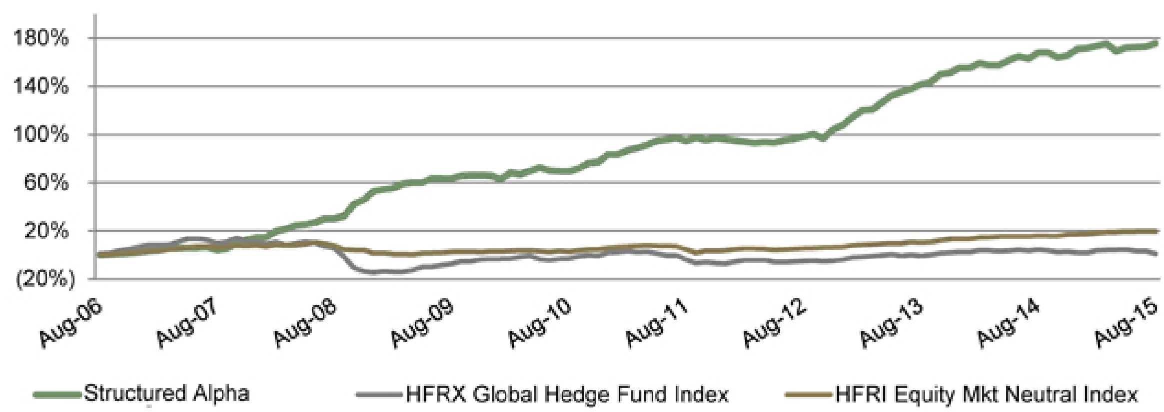
Strategic Investments Division – Priorities & Historic Returns

- Pursuing strategy extensions and new fund vehicles
- Building out and enhancing infrastructure to support expanded research efforts and new product development

Cumulative Structured Alpha Returns vs. Benchmarks Since Inception (1)



(1) The returns shown are the results of the Fund, net of all fees and expenses which would be charged to a typical investor account in the Fund. For a complete description of the Fund and its fees, please refer to the Fund's Confidential Private Placement Memorandum. The returns shown prior to August 2011 represent the program's returns through a broker-dealer proprietary account and through separately managed accounts using a formulaic methodology to reflect fund equivalent performance. This methodology is one possible way of calculating performance and was selected because it approximates the average leverage actually used by the Fund. The Manager views this methodology as a reasonable approach and as relevant to the Fund's trading approach and use of leverage during one period of time, but there are other methodologies that could be used, including those reflecting materially different returns than shown here. **Past performance is not indicative of future results.** Nothing contained herein is intended to constitute investment advice or an offer to sell or the solicitation of an offer to purchase any security or investment product.

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Jefferies

Note on Adjusted Financials

Jefferies

Note on the Use of Non-GAAP Financial Measures to Show Results Exclusive of the Bache Futures Business:

Jefferies announced during its fourth quarter 2014 that it would pursue strategic alternatives for its Bache futures business. Since that time, Jefferies has taken steps to exit the Bache futures business and has supplemented certain of its financial disclosures to show results that exclude the Bache futures business. These supplemental financial measures begin with information prepared in accordance with U.S. GAAP and are adjusted to exclude the operations of the Bache futures business. These adjusted financial measures are non-GAAP financial measures. Management believes such measures, when presented in conjunction with comparable U.S. GAAP measures, provide meaningful information as it enables investors to evaluate results in the context of the announced exit of the Bache futures business. These measures should not be considered a substitute for, or superior to, financial information prepared in accordance with U.S. GAAP.

Reconciliations of these non-GAAP financial measures to U.S. GAAP financial measures are contained throughout this presentation and on pages 176 - 177 of the appendix.

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Jefferies Overview

Jefferies Strategic Update

Jefferies

- We are building the leading, client-focused global investment banking firm, with our focus to provide clients with the best ideas, expertise and execution in global capital markets
- Investment Banking and Equities have delivered solid, multi-year growth, and have continued momentum and meaningful upside
- Fixed Income has proven more challenging due to periods of price volatility and low market activity in cash credit markets, which are Jefferies' primary focus
- Priorities are margin expansion and earnings growth
  - Fixed Income will be refocused to match opportunity ahead, reducing risk, balance sheet and capital utilization, and to deliver reasonable margins and returns
  - Bache exit is accretive to Jefferies' earnings

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Jefferies Operating Results

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Jefferies Earnings Overview (GAAP)

Jefferies

	Predecessor			Successor		
	FYE Nov. 30,				FYE Nov. 30,	
($ Millions)	11M 2010	2011	2012	LTM 2/28/2014	2014	9M 8/31/2015
Equities	557	594	642	771	696	635
Fixed Income	728	743	1,253	790	748	261
Other	-	74	13	5	-	-
Trading	**1,285**	**1,410**	**1,909**	**1,566**	**1,444**	**896**
Equity	126	187	194	323	340	315
Debt	347	385	456	589	628	329
Capital Markets	474	572	650	912	967	644
Advisory	417	550	476	516	562	422
Investment Banking	**890**	**1,123**	**1,126**	**1,428**	**1,529**	**1,066**
Asset Management	**17**	**44**	**27**	**46**	**17**	**(0)**
Net Revenues	**2,192**	**2,577**	**3,062**	**3,040**	**2,990**	**1,962**
Preferred Interest	(15)	(4)	(43)	(3)	0	0
Net Revenues after Preferred Interest	**2,177**	**2,573**	**3,019**	**3,036**	**2,990**	**1,962**
Non-Compensation Expenses	498	671	756	868	989	675
Compensation and Benefits	1,283	1,483	1,771	1,722	1,699	1,182
Total Expenses	**1,781**	**2,154**	**2,527**	**2,590**	**2,687**	**1,857**
Earnings Before Tax & MI	**397**	**419**	**492**	**447**	**303**	**105**
Income Tax	**156**	**133**	**169**	**162**	**142**	**29**
Minority Interest - Equity	**17**	**2**	**41**	**11**	**3**	**2**
Earnings to Common Shareholders/Member's Equity	**224**	**285**	**282**	**274**	**158**	**74**

Note: As presented in public filings.

Jefferies Adjusted Earnings Overview (excluding Bache)

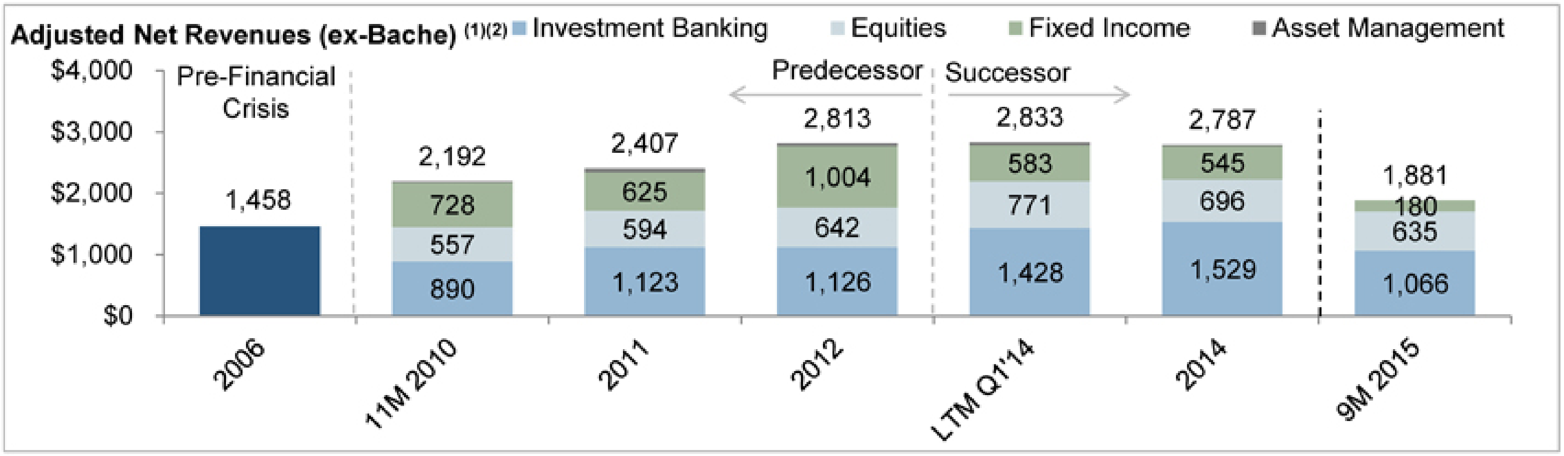
	Predecessor			Successor		
	FYE Nov. 30,				FYE Nov. 30,	
($ Millions)	**11M 2010**	**2011**	**2012**	**LTM 2/28/2014**	**2014**	**9M 8/31/2015**
Equities	557	594	642	771	696	635
Fixed Income (Adjusted)	728	625	1,004	583	545	180
Other	-	21	13	5	-	-
Trading	**1,285**	**1,240**	**1,659**	**1,359**	**1,241**	**815**
Equity	126	187	194	323	340	315
Debt	347	385	456	589	628	329
Capital Markets	474	572	650	912	967	644
Advisory	417	550	476	516	562	422
Investment Banking	**890**	**1,123**	**1,126**	**1,428**	**1,529**	**1,066**
Asset Management	**17**	**44**	**27**	**46**	**17**	**(0)**
Adjusted Net Revenues	**2,192**	**2,407**	**2,813**	**2,833**	**2,787**	**1,881**
Preferred Interest	(15)	(4)	(43)	(4)	0	0
Adjusted Net Revenues after Preferred Interest	**2,177**	**2,403**	**2,770**	**2,829**	**2,787**	**1,881**
Non-Compensation Expenses (Adjusted)	498	615	621	730	739	560
Compensation and Benefits (Adjusted)	1,283	1,449	1,651	1,611	1,600	1,101
Adjusted Total Expenses	**1,781**	**2,064**	**2,273**	**2,341**	**2,338**	**1,661**
Adjusted Earnings Before Tax & MI	**397**	**339**	**497**	**489**	**449**	**220**
Adjusted Income Tax	**156**	**123**	**171**	**180**	**188**	**66**
Adjusted Minority Interest - Equity	**17**	**2**	**41**	**11**	**3**	**2**
Adjusted Earnings to Common Shareholders/Member's Equity	**224**	**215**	**285**	**298**	**258**	**152**

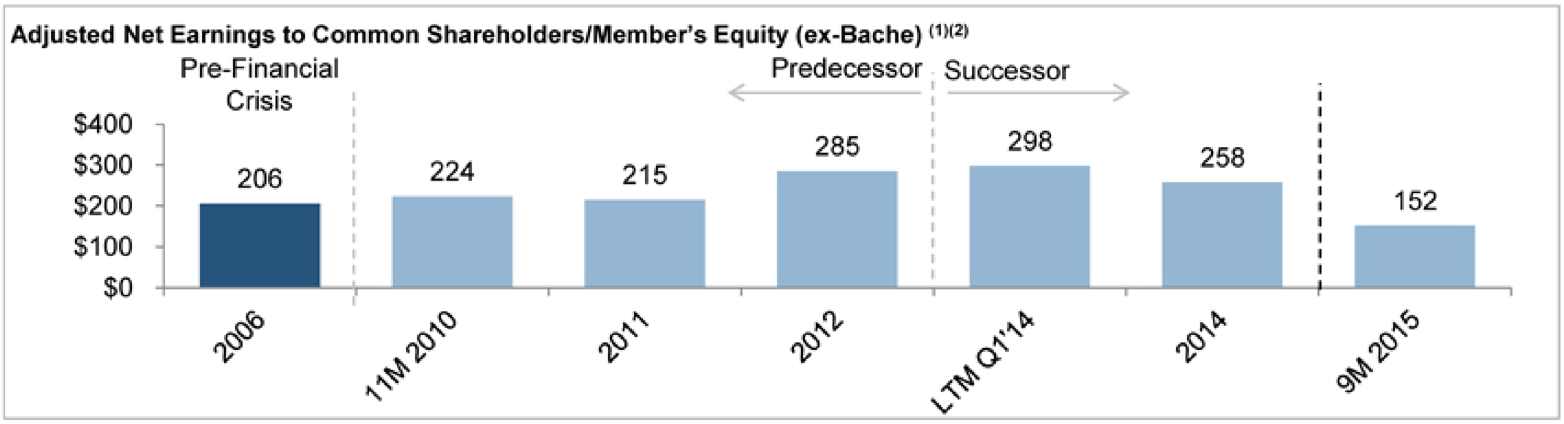
Note: The adjusted financial measures presented herein are non-GAAP financial measures and represent Jefferies results of operations excluding the impact of the results of operations of the Bache business for 2011, 2012, LTM 2/28/2014, 2014 and 9M 8/31/2015. See pages 176 - 177 for a reconciliation to GAAP figures.

Revenue and Earnings Growth Post-Financial Crisis

Jefferies

($ Millions)





(1) Excludes predecessor first quarter ending 2/28/13. Net Revenue and Net Earnings to Common Shareholders for the excluded quarter total $819 million and $80 million, respectively.

(2) Adjusted Net Revenues and Net Earnings to Common Shareholders/Member's Equity are non-GAAP measures and represent results excluding the impact of the results of the Bache business. See pages 176 - 177 for a reconciliation to GAAP figures.

Revenue and Earnings Growth Post-Financial Crisis
Investment Banking Equities Fixed Income Asset Management
Shareholders/Member's Equity (ex-Bache) (1)(2)
business. See pages 176—177 for a reconciliation to GAAP figures.

Balance Sheet Overview

Jefferies

Jefferies Group LLC			
Balance Sheet as of 8/31/2015			
Assets		**Liabilities and Equity**	
Cash & Cash Equivalents	$ 3,442	Short-term Borrowings	$ 12
Cash & Securities Segregated	904	Financial Instruments Sold, Not Yet Purchased	9,448
Financial Instruments Owned	18,892	Securities Loaned	3,645
Investments in Managed Funds	87	Securities Sold Under Agreements to Repurchase	10,841
Loans to and Investments in Related Parties	782	Other Secured Financings	807
Securities Borrowed	7,703	Obligation to Return Securities Received as Collateral	11
Securities Purchased Under Agreements to Resell	4,274	Payables to Brokers, Dealers and Clearing Organizations	2,470
Securities Received as Collateral	11	Payables to Customers	2,781
Receivables from Brokers, Dealers and Clearing Organizations	2,056	Accrued Expenses and Other Liabilities	1,063
Receivables from Customers	1,303	Long-term Debt	6,194
Fees, Interest and Other Receivables	304	Total Liabilities	$37,271
Premises and Equipment	243		
Goodwill	1,660	Member's Equity	5,481
Other Assets	1,124	Noncontrolling Interests	32
		Total Equity	$ 5,514
Total Assets	**$42,785**	**Total Liabilities and Equity**	**$42,785**

Leverage: (1)	7.8x
Leverage (excluding impacts of the Leucadia Transaction): (2)	9.8x
Tangible Gross Leverage: (3)	11.4x

(1) Leverage ratio equals total assets divided by total equity.

(2) Leverage ratio (excluding impacts of the Leucadia transaction) (a non-GAAP financial measure) equals total assets less the increase in goodwill and asset fair values in acquisition accounting of $1,957 million less amortization to date of $120 million on assets recognized at fair value in acquisition accounting divided by the sum of total equity less $1,342 million, being the increase in equity arising from merger consideration of $1,426 million excluding the $125 million attributable to the assumption of Jefferies' preferred stock by Leucadia, and less the impact on equity due to amortization to date of $41 million on assets and liabilities recognized at fair value in acquisition accounting.

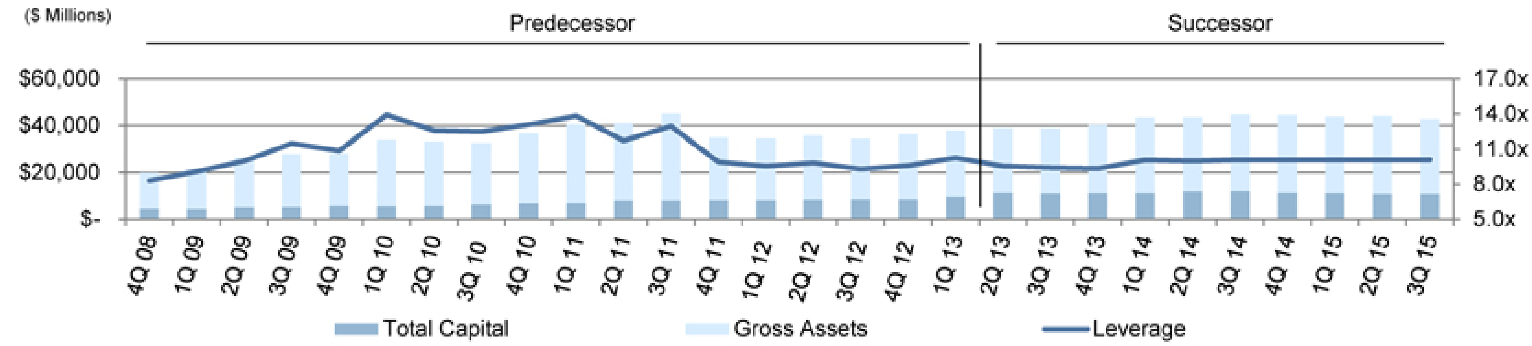
(3) Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets of $42,785 million less goodwill and identifiable intangible assets of $1,891 million divided by tangible member's equity of $3,590 million. Tangible member's equity represents total member's equity of $5,481 million less goodwill and identifiable intangible assets of $1,891 million. The tangible gross leverage ratio is used by rating agencies in assessing our leverage ratio.

Disciplined Approach to Risk

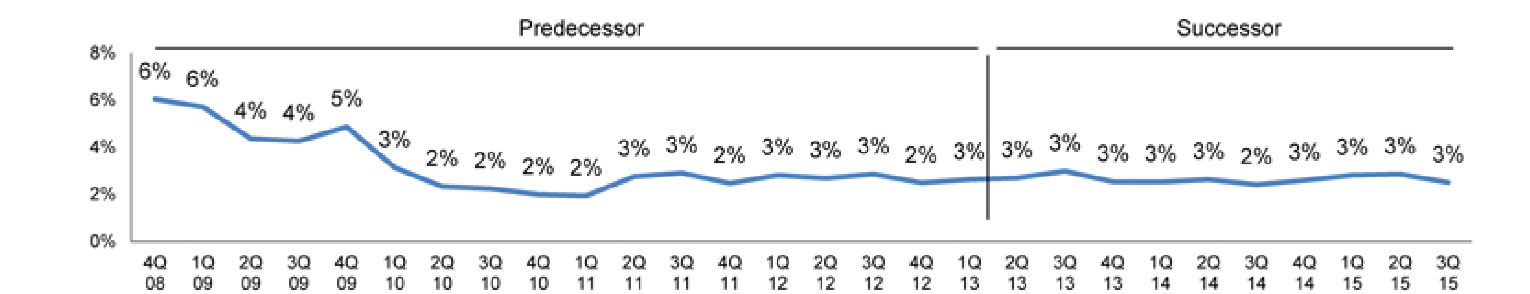
Jefferies

- Our firm is built on a disciplined and consistent approach to leverage, funding and asset-quality; these principles have served as our foundation for decades

Historical Leverage (1)



Level 3 Financial Instruments Owned (2) **as a Percentage of Financial Instruments Owned**



(1) Q2 2013 through Q3 2015 reflect leverage excluding the impact of the Leucadia transaction (a non-GAAP financial measure), and equal total assets less the goodwill and acquisition accounting adjustments on the merger with Leucadia, less the net amortization to date on asset related purchase accounting adjustments, divided by the sum of total equity less the increase in equity arising from merger consideration excluding the $125 million attributable to the assumption of Jefferies' preferred stock by Leucadia, and less the net amortization to date of purchase accounting adjustments, net of tax. See page 178 for a reconciliation to GAAP figures.

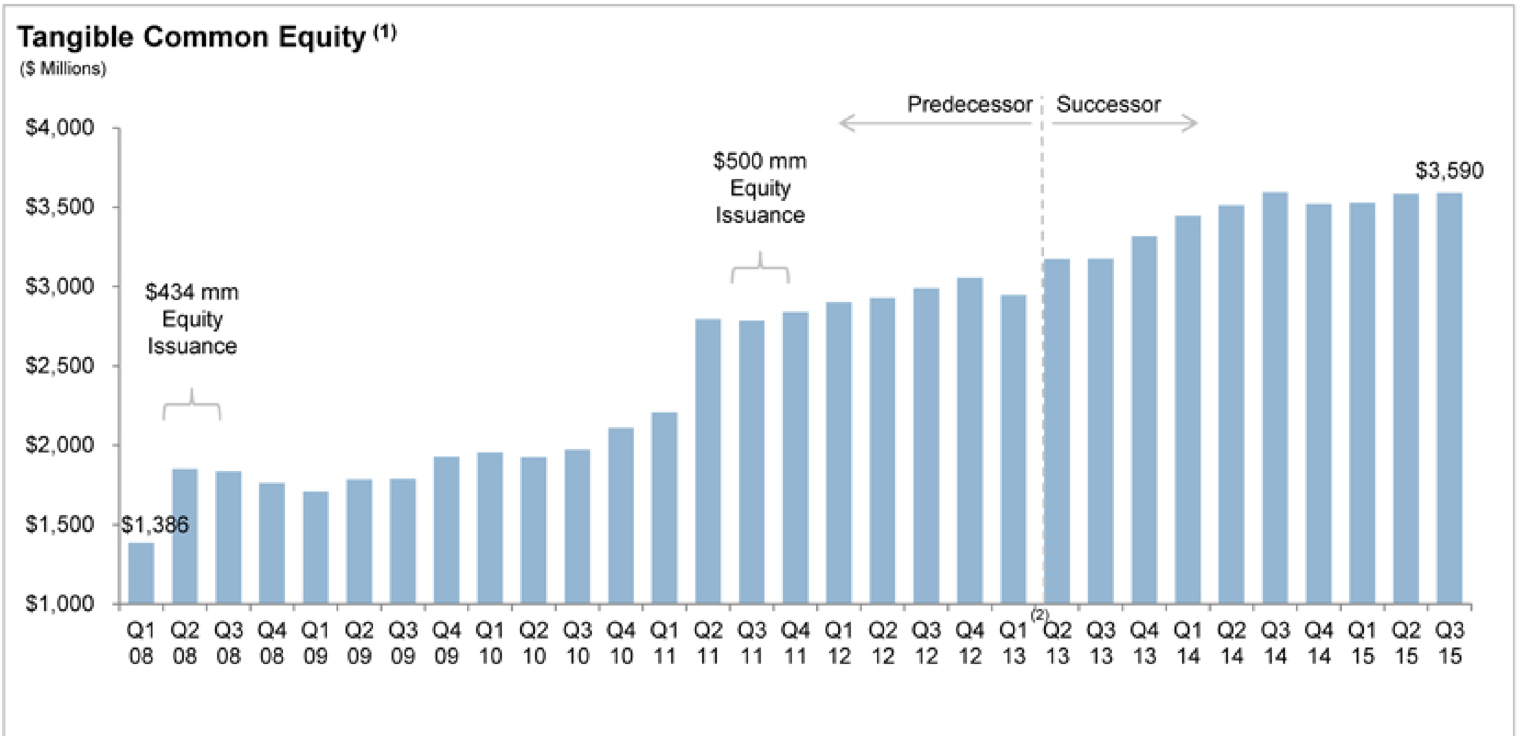
(2) For periods prior to Q2 2013, excludes Level 3 trading inventory assets attributable to third party or employee noncontrolling interests in certain consolidated entities.

Note: In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Jefferies has adopted this guidance retrospectively during the second quarter of fiscal 2015.

Consistent Tangible Common Equity Growth

Jefferies

- Jefferies has significantly and consistently grown tangible common equity
- Jefferies' proactive equity capital raises helped the firm navigate the global financial crisis and capitalize on growth opportunities



(1) Tangible Common Equity is a non-GAAP financial measure (defined as Common Equity less Goodwill and Intangibles) widely used by investors in assessing financial services firms.

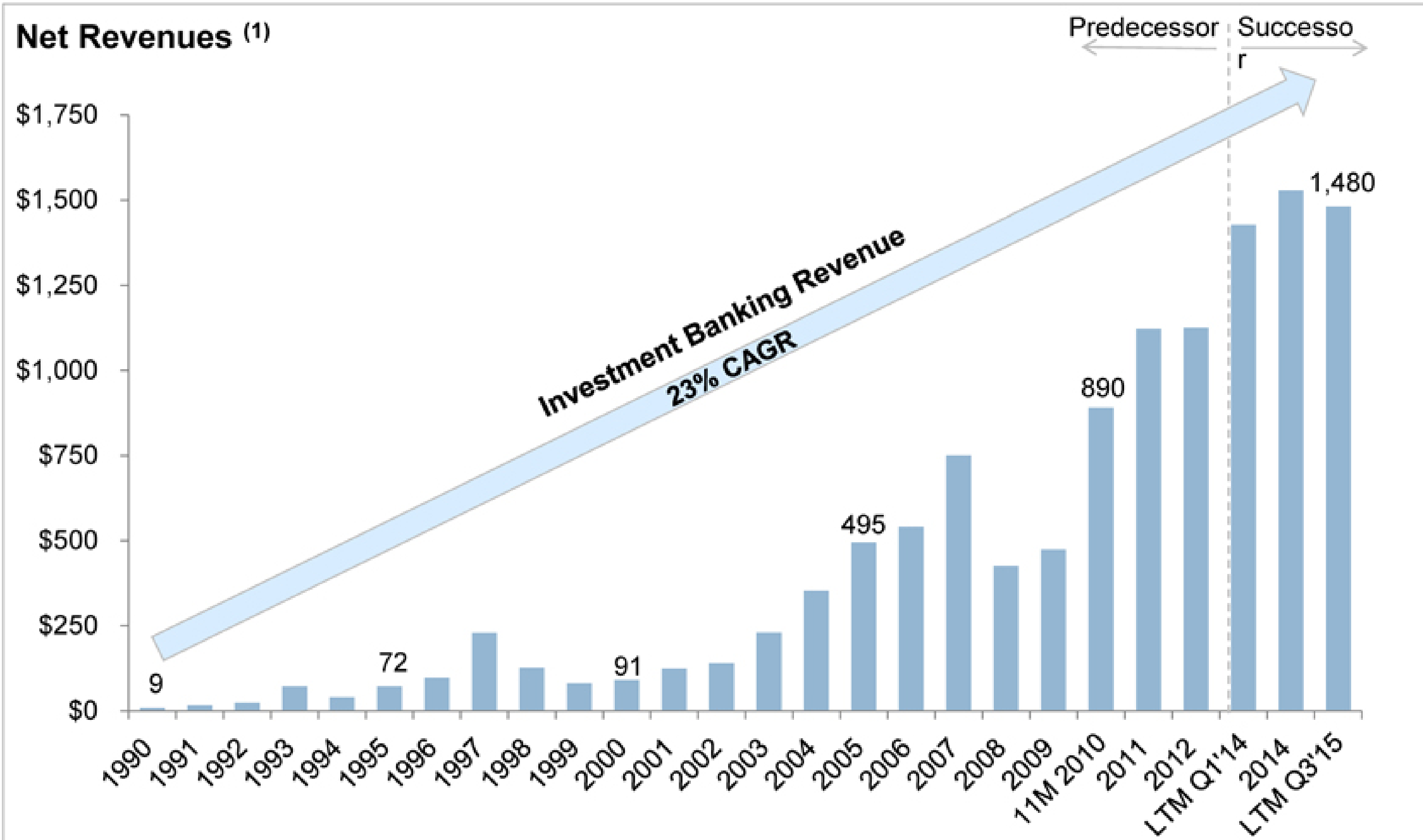
(2) Decrease primarily due to significant stock buyback in Q1 2013.

Jefferies Business Review

Investment Banking

Investment Banking Revenues Since 1990

($ Millions)



(1) Excludes predecessor first quarter ending 2/28/13. Investment Banking Net Revenues for the excluded quarter totaled $288 million.

Investment Banking Revenues Since 1990
Net Revenues(1) Predecessor Successo
$1,750 1,480
$1,500
$1,000
$750
$500 495
$250
$0 72 91
(1) Excludes predecessor first quarter ending 2/28/13. Investment Banking Net Revenues for the excluded quarter totaled $288 million.
68

Investment Banking – Overview

Jefferies

- Jefferies Investment Banking is a leading advisor and underwriter to our clients globally
- Approximately 800 investment bankers with deep sector expertise and extensive experience across major industry verticals
- On-the-ground presence in 12 countries across the world
- 24% of our LTM transactions have been for clients domiciled outside of the United States
- Well-balanced mix across advisory (40%), equity capital markets (30%) and debt capital markets (30%)
- 72% of our LTM revenues are from repeat clients
- No corporate or financial sponsor client accounted for more than 2.5% of LTM revenue

Investment Banking & Capital Markets

Sector Focus

- **Consumer** – Consumer Products, Restaurants, Retailing
- **Financials** – Banks, Broker Dealers, Insurance, Specialty Finance
- **Industrials** – A&D, Automobiles, Business Services, Capital Goods, Chemicals, Distribution, Building Materials, Maritime, Metals & Mining, Packaging, Paper, Power & Utilities, Security, Transportation & Logistics
- **REGAL** – Real Estate, Gaming, Leisure
- **Energy** – Oil & Gas Exploration, Oil & Gas Midstream, Oil Field Services
- **Healthcare** – Biotechnology, Healthcare Services, Managed Care, Medical Devices, Pharmaceuticals
- **TMT** – Cable & Broadcast, Communications Equipment, Information Services, Publishing, Internet, Semiconductors, Software, Technology Services, Telecom Infrastructure, Entertainment, Wireless & Wireline
- **Municipal Finance**

Product Capabilities

- Equity Capital Markets
- Debt Capital Markets
- Mergers & Acquisitions
- Restructuring

Regions

- **Americas** – United States, Canada, Brazil
- **EMEA** – United Kingdom, Germany, France, Spain, Scandinavia, Middle East
- **Asia** – China, India, Japan, South East Asia

Note: Statistics noted above exclude municipal finance, mortgage and asset backed capital markets transactions.

Investment Banking – Market Update

Jefferies

- **M&A: Large Transactions Were Active, But Deals Under $5 Billion Accounted For 76% Of The Global M&A Fee Pool[(1)]**
  - In this $5 billion segment, Jefferies increased its market share globally
  - We advised on 25% more $1+ billion M&A transactions in 9M 2015 vs. 9M 2014
  - The size of our median M&A transaction increased 16% in 9M 2015 vs. 9M 2014

- **ECM: Jefferies ECM Revenue Grew 12% In 9M 2015 vs 9M 2014**
  - The global ECM fee pool declined 7%[(1)] in the same time frame
  - Fiscal Q3 2015 was our best quarter ever in ECM revenue

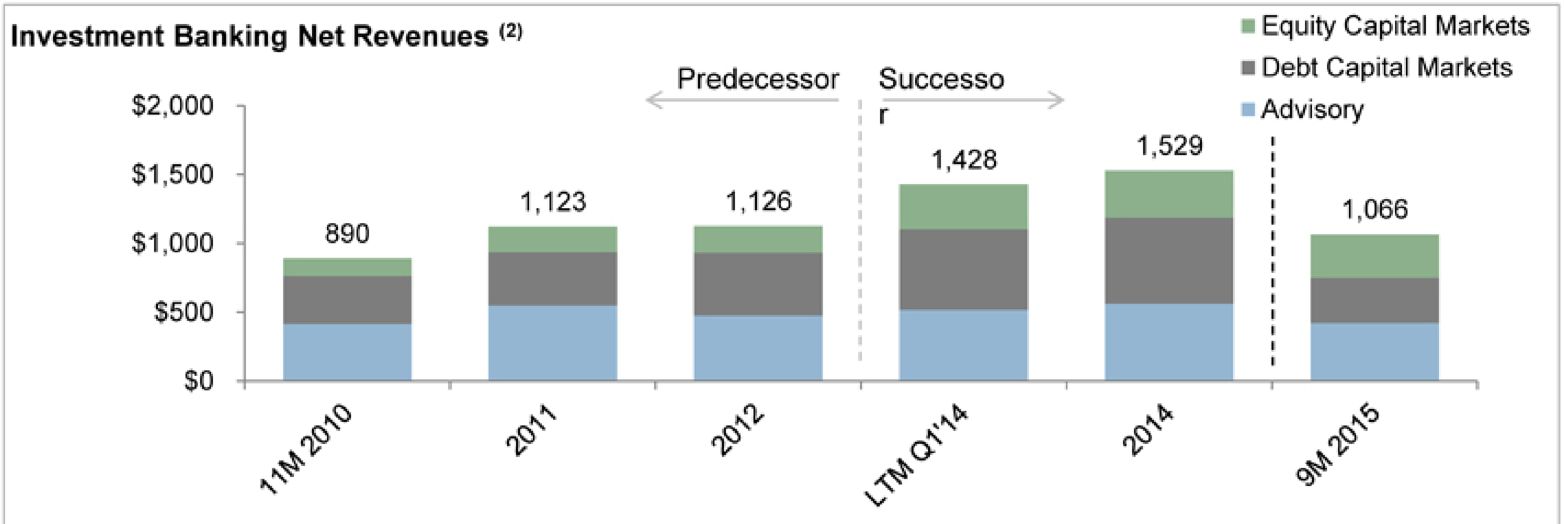
- **Leveraged Finance: Global Leveraged Finance Fee Pool Declined 27%[(2)] In 9M 2015 vs 9M 2014**
  - Jefferies Leveraged Finance business, while impacted by this market trend, increased its market share in 2015
  - We also made significant progress penetrating the top tier of financial sponsors
    - We executed "first time" lead left debt financings for 5 of the 10 largest and 8 of the 20 largest global financial sponsors

(1) Per Dealogic.
(2) Global High Yield Bond and Institutional Leverage Loan Issuance per S&P Capital IQ's LCD Comps.

Investment Banking – Financial Overview

($ Millions)

- Revenues have grown at a compounded annual growth rate of 10%(1) since 2010
  - This compares to 3% for our major competitors
- Results for 9M 2015 were impacted by the significant slowdown in sectors tied to oil and commodity prices
- However, record performance in our Healthcare, Technology, Core Industrial and Real Estate sectors significantly offset this decline
- Current momentum in the business is strong with mandated new business at record levels



(1) Includes Jefferies reported investment banking revenue plus Jefferies Finance fee income.
(2) Excludes predecessor first quarter ending 2/28/13. Investment Banking Net Revenues for the excluded quarter totaled $288 million.

Investment Banking – Strategic Priorities

Jefferies

- **Continue to Increase Managing Director Productivity**
  - Our revenue per sector MD has increased 5% per year since 2010
  - Further increases in revenue per MD are expected as senior hires over the last several years reach targeted revenue levels and recent MD hires begin to gain traction
- **Capitalize on Revenue Opportunities in Recently Entered Sectors**
  - In the last 12 months, we have entered 12 new sub-sectors across US, Europe and Asia, giving us access to approximately $2.5 billion of new addressable fee pool
- **Capitalize on Revenue Opportunities in Recently Entered Countries/Regions**
  - In the last 12 months, we have established on the ground presence in 5 new countries / regions, giving us access to over $3 billion of new addressable fee pool

Investment Banking – Strategic Priorities
Continue to Increase Managing Director Productivity
Our revenue per sector MD has increased 5% per year since 2010
Further increases in revenue per MD are expected as senior hires over the last several years reach targeted revenue levels and recent MD hires begin to gain traction
Capitalize on Revenue Opportunities in Recently Entered Sectors
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Capitalize on Revenue Opportunities in Recently Entered Countries/Regions
In the last 12 months, we have established on the ground presence in 5 new countries / regions, giving us access to over $3 billion of new addressable fee pool
72

Jefferies

Jefferies Finance LLC

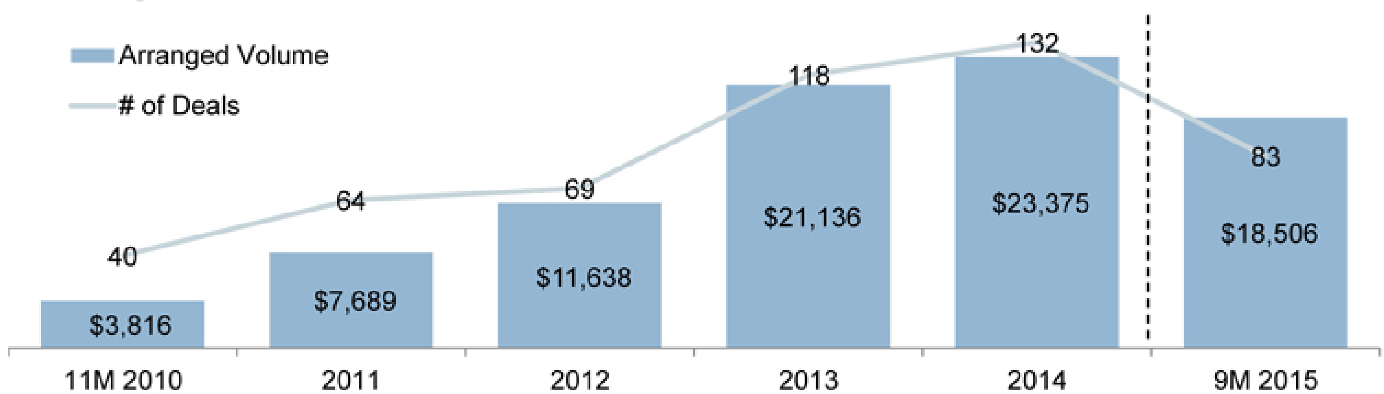
Jefferies Finance – Overview

($ Millions)

Jefferies
Jefferies Finance LLC

- Jefferies Finance, our corporate lending joint venture with Massachusetts Mutual Life Insurance Company, continues to grow steadily and prudently
  - Established in 2004, Jefferies Finance has demonstrated growth and resilience across multiple business cycles
- Jefferies Finance has built a highly successful franchise arranging leveraged loans for distribution to the capital markets
  - Significant growth in arranged loans, with modest balance sheet expansion
- Since inception, Jefferies Finance has successfully syndicated 99%[(1)] of $58.6 billion of commitments

Total Arranged Deal Volume



(1) Successful syndications include transactions in which intended principal was fully syndicated during the primary marketing period.

(1) Successful syndications include transactions in which intended principal was fully syndicated during the primary marketing period.

Jefferies Finance – Dedicated Team

Jefferies
Jefferies Finance LLC

- Jefferies Finance has a dedicated 89 person team consisting of experienced loan structuring, underwriting, portfolio management, legal, accounting and administrative professionals

Carl A. Toriello
President

Structuring	*14 Professionals*
Underwriting	*34 Professionals*
Portfolio Management	*22 Professionals*
Legal, Accounting & Administrative	*18 Professionals*

Jefferies Finance – Dedicated Team
Jefferies Finance has a dedicated 89 person team consisting of experienced loan structuring, underwriting, portfolio management, legal, accounting and administrative professionals
Carl A. Toriello
President
Structuring 14 Professionals
Underwriting 34 Professionals
Portfolio Management 22 Professionals
Legal, Accounting &
Administrative 18 Professionals
75

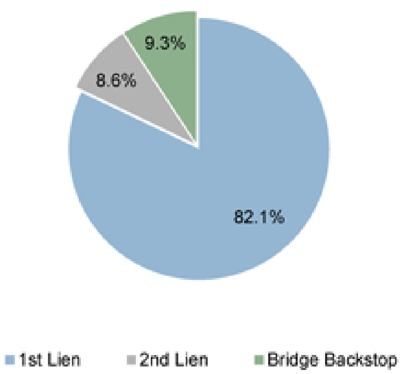
Jefferies Finance – Product Offerings

- Full suite of committed and best efforts syndicated financing alternatives across all major industries

Composition of $23.4 Billion Arranged Volume in FY 2014

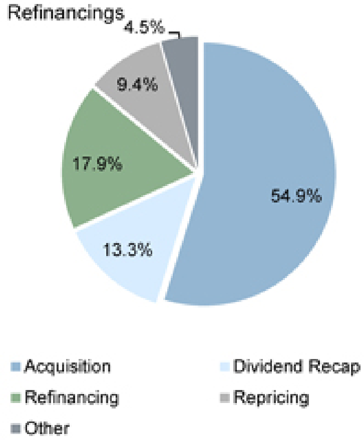
Products and Services

- Revolving Credit Facilities
- 1st and 2nd Lien Term Loans
- Bridge Commitments
- Asset-based loans
- Administrative Agency Services



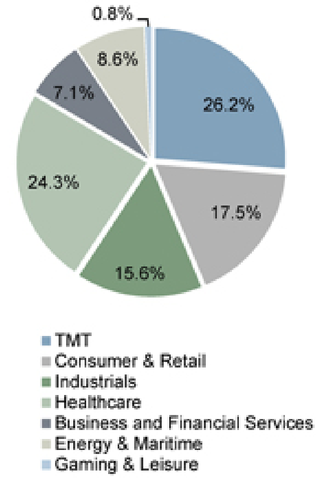
Types of Financing

- **Fully Committed**
  - Acquisition Financings
  - Special Situations (e.g., Debtor-in-Possession financing)
- **Best Efforts**
  - Dividend Recapitalizations
  - Refinancings



Industries Covered

- Borrowers diversified across industries
- Particular strength in Consumer, Healthcare, Industrials, and TMT



Jefferies Finance – League Tables

($ Millions)

Jefferies
Jefferies Finance LLC

- Jefferies Finance has consistently grown market share despite overall market declines

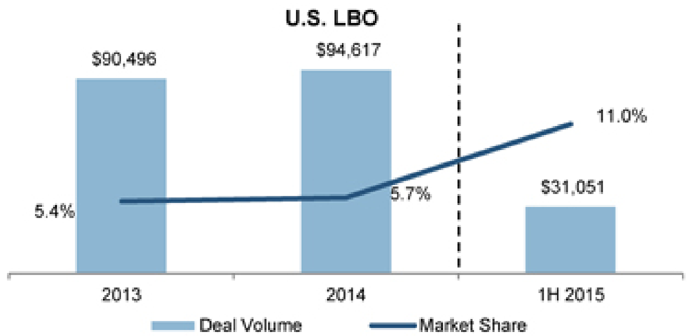
U.S. LBO Bookrunner

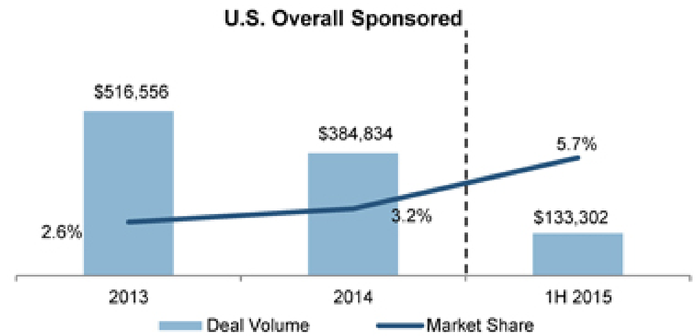
1H 2015				
Lender	**Rank**	**Volume**	**# of Deals**	**Market Share**
Barclays	1	$3,874	14	12.5%
Jefferies Finance	**2**	**3,406**	**9**	**11.0**
RBC Capital Markets	3	2,147	10	6.9
Credit Suisse	4	2,078	11	6.7
Morgan Stanley	5	1,944	7	6.3
Citi	6	1,865	4	6.0
Deutsche Bank	7	1,834	9	5.9
Nomura Holdings	8	1,761	7	5.7
Macquarie Group	9	1,606	5	5.2
GE	10	1,390	20	4.5
Other		9,147		29.5
Total		**$31,051**		**100.0%**

U.S. Overall Sponsored Bookrunner

1H 2015				
Lender	**Rank**	**Volume**	**# of Deals**	**Market Share**
BAML	1	$11,636	83	8.7%
Barclays	2	10,722	49	8.0
Citi	3	10,535	30	7.9
Credit Suisse	4	9,774	48	7.3
Wells Fargo	5	9,419	60	7.1
JP Morgan	6	8,902	42	6.7
Jefferies Finance	**7**	**7,636**	**38**	**5.7**
RBC Capital Markets	8	7,454	36	5.6
Deutsche Bank	9	6,815	39	5.1
Goldman Sachs	10	6,112	39	4.6
Other		44,297		33.2
Total		**$133,302**		**100.0%**

Volume and Market Share





Source: Thomson Reuters LPC.

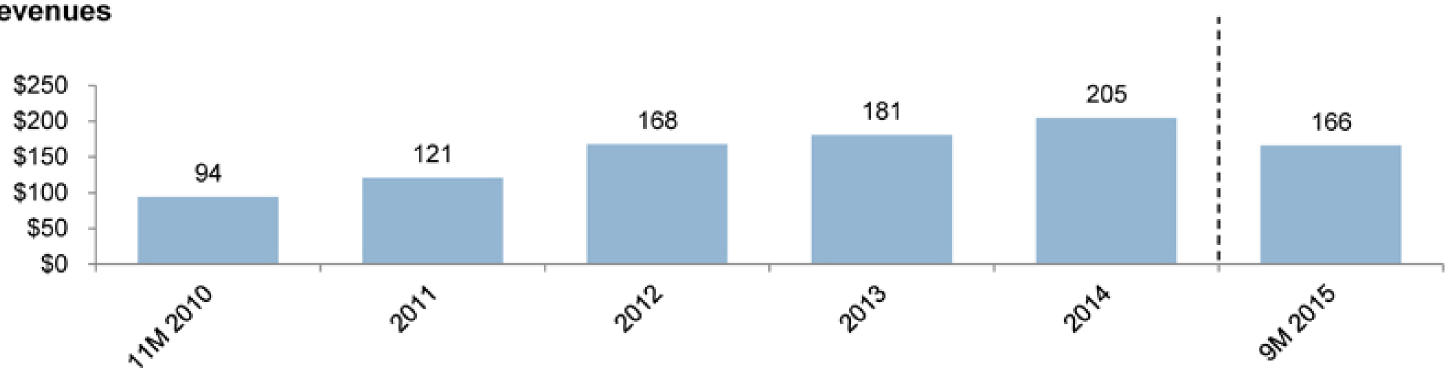
Jefferies Finance – Summary Financials

($ Millions)

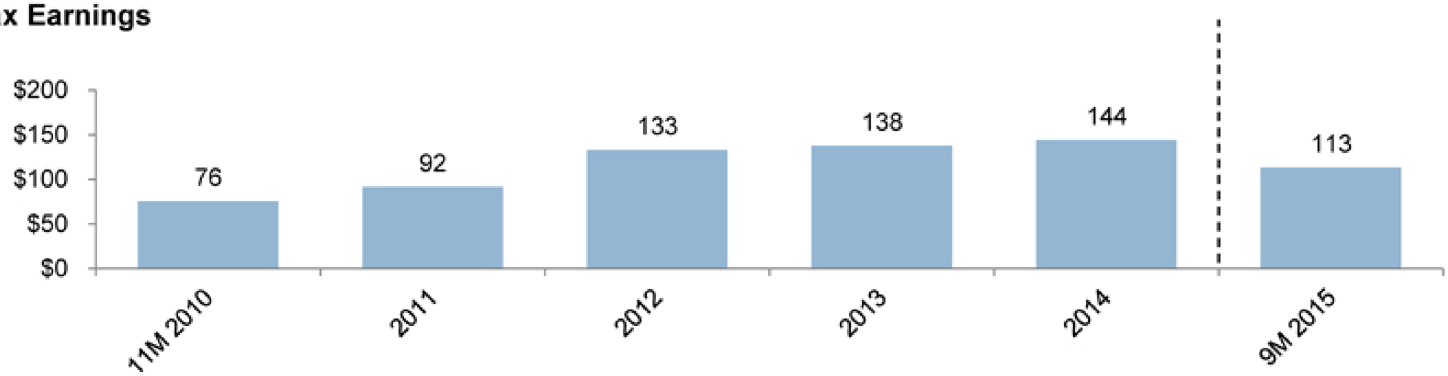
Jefferies
Jefferies Finance LLC

- Jefferies Finance has significantly grown revenues and pre-tax earnings

Net Revenues



Pre-tax Earnings



Jefferies Finance – Strategic Priorities

- Continue to drive market share in our core U.S. Sponsor Finance business, leveraging the strength and momentum of Jefferies Investment Banking
- Expand in complementary areas: middle market, asset-based lending and asset management
- Grow European franchise, leveraging Jefferies' European Investment Banking platform

Jefferies Finance – Strategic Priorities
Continue to drive market share in our core U.S. Sponsor Finance business, leveraging the strength and momentum of Jefferies Investment Banking
Expand in complementary areas: middle market, asset-based lending and asset management
Grow European franchise, leveraging Jefferies' European Investment Banking platform
79

Equities

Equities – Overview

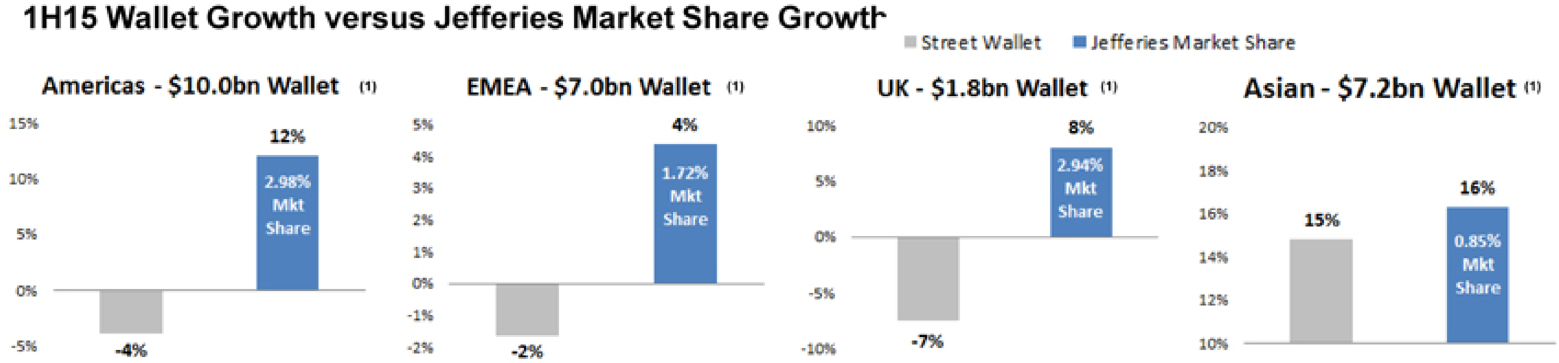
Jefferies

- Jefferies is a leading global institutional equities franchise
- Sales and trading across North America, EMEA and Asia Pacific, with major trading hubs in New York, London and Hong Kong
- 273 research professionals covering over 2,000 companies (excluding Asia research alliances)
- Leading client-offerings across cash equities, electronic trading, listed equity derivatives, convertible bonds, ETFs, prime services and equity capital markets
- Core U.S. equity sales & trading business pioneered block trading more than 50 years ago
- Focused on providing best-in-class ideas, execution and service to our clients

Jefferies

Equities – Market Update

1H15 Wallet Growth versus Jefferies Market Share Growth



Global Market Wallets – Cash Equities (1)

- Global market wallet up $410 million from CY 2014 to annualized 1H 2015 (+2%)
  - Americas market wallet has decreased $402 million from CY 2014 to annualized 1H 2015 (-4%)
  - EMEA market wallet has decreased $116 million from CY 2014 to annualized 1H 2015 (-2%)
    - UK market wallet has decreased $146 million during the same period (-7%)
  - Asia market wallet has increased $928 million from CY 2014 to annualized 1H 2015 (+15%)

Listed Equity Derivatives and Convertible Bonds

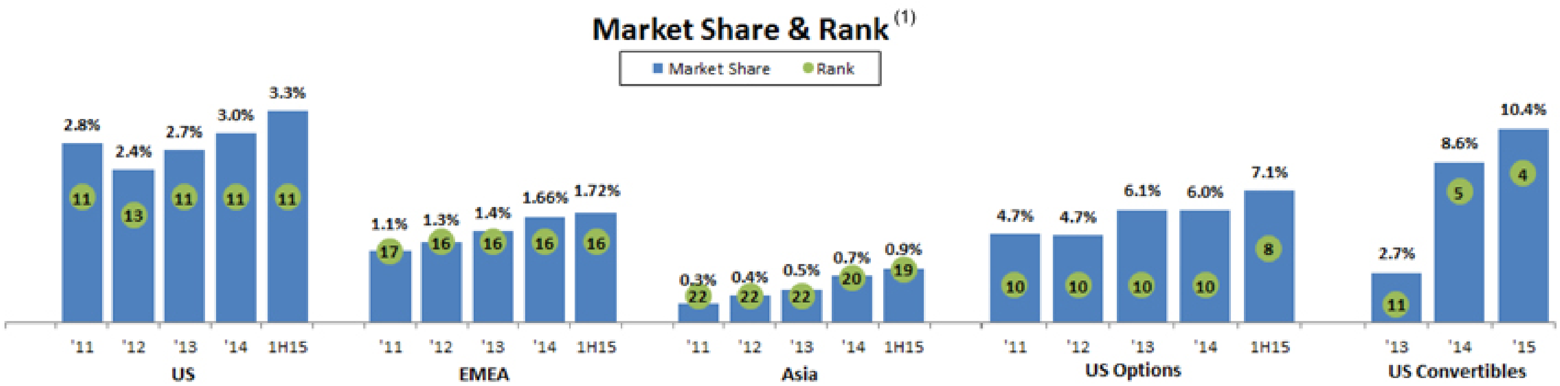
- Demand for U.S. listed options remains strong
- Year to date ADV is tracking at 16.8 million contracts through August, compared to 2011 ADV volumes of 18.1 million contracts, which was the highest in the history of U.S. options trading (2)
- Jefferies consistently ranks in the top 10 with current market share of 7.09% for U.S. listed options (1)
- Jefferies ranks 4th in U.S. Convertible Trading with market share of 10.4% (1)

(1) Third Party Market Survey: Cash Equities includes cash, algorithms and program trading; Listed Equity Derivatives commentary reflects 1H 2015; Convertibles commentary reflects 2015 rank and market share per the 2015 Greenwich survey.
(2) The Options Clearing Corporation, www.theocc.com (Data CYTD through 8/31/2015).

Equities – Market Share and Rank

Jefferies

- Ranked #1 trading large cap stocks among U.S. full service in a broad transaction cost analysis published by Pensions & Investments (Aug '15), beating the average transaction cost by more than 43 basis points
- Top 10 broker of U.S. equities, equity options and convertibles
- Ranked 4th in U.S. Convertible Trading with 10.4% market share (2015 Greenwich Associates survey)
- Equity execution capabilities in over 45 countries across the Americas; Europe, Middle East & Africa; and Asia Pacific
- Consistent improvement in market share and rank over the last several years



(1) Source: Third Party Market Survey for all products except Convertibles, which is sourced from the 2015 Greenwich survey.

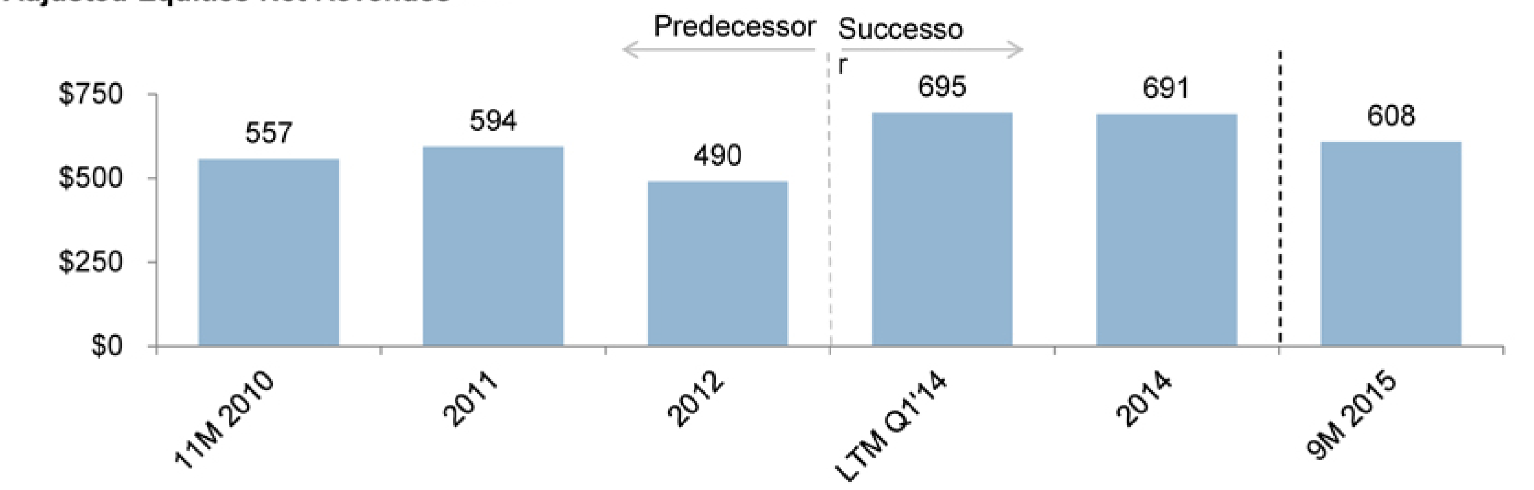
Equities – Market Share and Rank
Ranked #1 trading large cap stocks among U.S. full service in a broad transaction cost analysis published by Pensions & Investments (Aug '15), beating the average transaction cost by more than 43 basis points
Ranked 4th in U.S. Convertible Trading with 10.4% market share (2015 Greenwich
Equity execution capabilities in over 45 countries across the Americas; Europe, Middle East & Africa; and Asia Pacific
Consistent improvement in market share and rank over the last several years
83
Source: Third Party Market Survey for all products except Convertibles, which is sourced from the 2015 Greenwich survey.

Equities – Financial Overview

($ Millions)

- Jefferies has significantly grown revenues and market share post-financial crisis
- Growth largely driven by our client focus, enhanced global capabilities and the momentum of the overall Jefferies platform
- Major ongoing growth opportunities: momentum in Europe and Asia; further client penetration and cross-selling globally; electronic trading; prime brokerage

Adjusted Equities Net Revenues (1)(2)



(1) 2012, LTM Q1 2014, 2014 and 9M 2015 exclude gains and losses from holdings in KCG Holdings and HRG Group of $152 million, $76 million, $5 million and $27 million, respectively.

(2) Excludes predecessor first quarter ending 2/28/13. Equities Net Revenues for the excluded quarter totaled $141 million (excluding gains of $26 million from holdings in KCG Holdings).

Equities – Global Strategic Priorities

Jefferies

- **Global Electronic Trading Distribution**
  - Increase the breadth of clients, as well as expanding penetration with existing clients
  - Grow the EMEA and Asia Electronic distribution platform and continue to cross-sell capabilities across regions
- **Prime Brokerage**
  - Capitalize on U.S. opportunities to serve mid-sized prime brokerage clients that are increasingly underserved by the large bank holding companies
  - Continued focus on the efficient use of balance sheet and higher ROA clients
- **Leverage the Strength and Depth of our European Capabilities**
  - Grow European research coverage into new sectors and broaden existing sector coverage
  - Further enhance distribution capabilities in Continental Europe

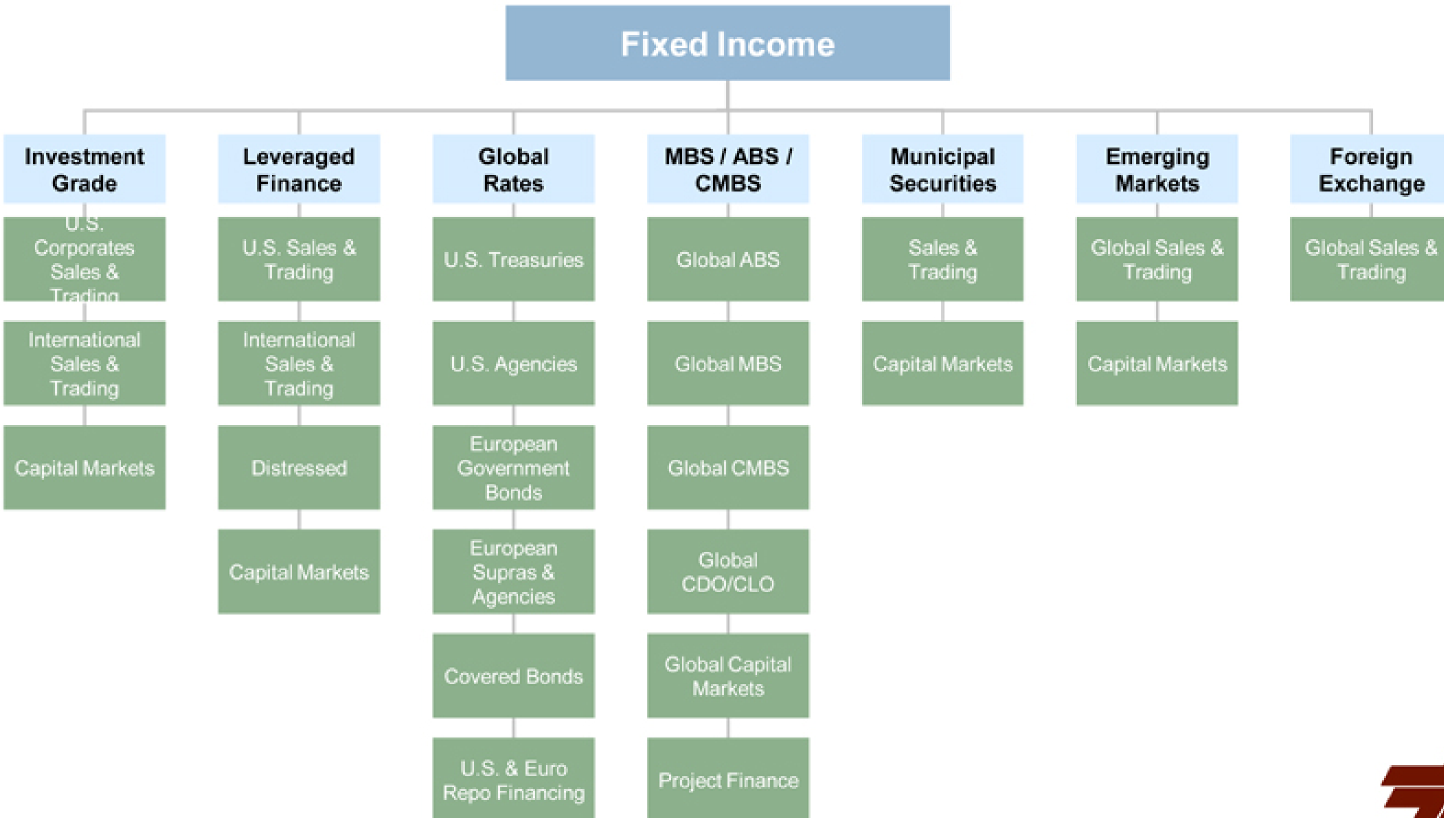
Equities – Global Strategic Priorities
Global Electronic Trading Distribution
Increase the breadth of clients, as well as expanding penetration with existing clients
Grow the EMEA and Asia Electronic distribution platform and continue to cross-sell capabilities across regions
Prime Brokerage
Capitalize on U.S. opportunities to serve mid-sized prime brokerage clients that are increasingly underserved by the large bank holding companies
Continued focus on the efficient use of balance sheet and higher ROA clients
Leverage the Strength and Depth of our European Capabilities
Grow European research coverage into new sectors and broaden existing sector coverage
Further enhance distribution capabilities in Continental Europe
85

Fixed Income

Fixed Income – Overview

Jefferies

- Jefferies serves clients across all major cash products in the U.S. and Europe
  - Approximately 500 sales, trading, research and strategy professionals globally
  - Primary Dealer or equivalent in U.S., U.K., Germany, Netherlands, Portugal and Slovenia
  - Focused on providing best-in-class ideas, facilitation and execution to our clients
  - Minimal exposure to OTC swaps or illiquid, hard-to-value securities



Fixed Income – Market Update

Jefferies

- Markets are currently being influenced by central bank intervention and global balance sheet deleveraging
- Over the last twelve months, uncertainty surrounding the global economy has increased, driven by China, Emerging Markets, Greece and commodities
  - This caused a further slowdown in secondary market volumes as spreads widened, new issue activity in leveraged products slowed, and trading liquidity in certain market segments declined
- Significant regulation has also been implemented; most notably Dodd Frank, the Volcker Rule and additional capital requirements
  - This has resulted in a decrease in RWAs, balance sheet and market liquidity, as well as reduced product offerings and increased capital and compliance costs across bank holding company trading platforms

Fixed Income – Market Update
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Significant regulation has also been implemented; most notably Dodd Frank, the Volcker Rule and additional capital requirements
This has resulted in a decrease in RWAs, balance sheet and market liquidity, as well as reduced product offerings and increased capital and compliance costs across bank holding company trading platforms
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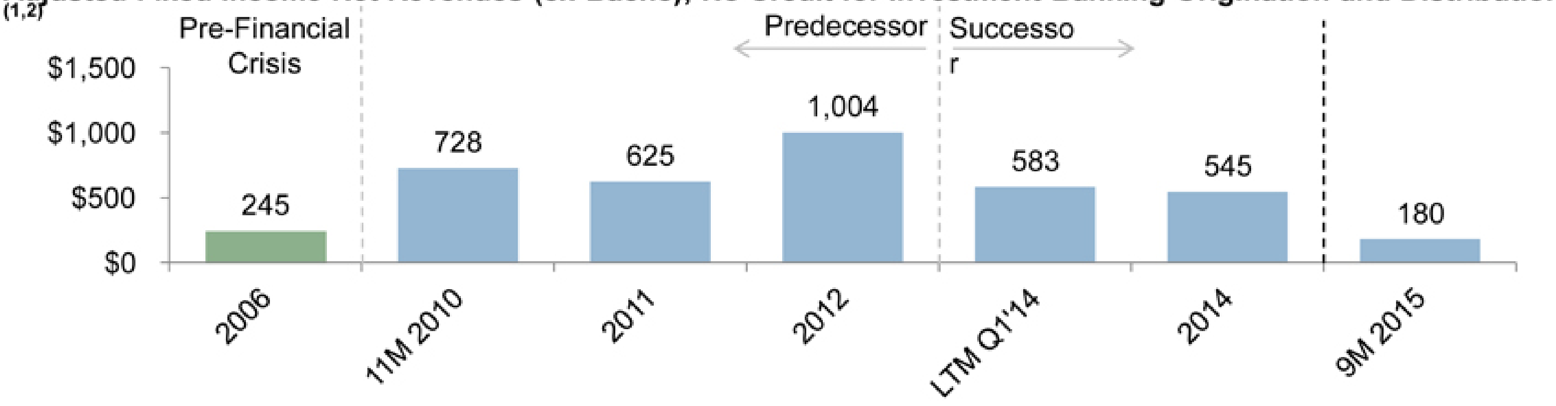
Fixed Income – Financial Overview

($ Millions)

- Jefferies Fixed Income is focused on high margin, differentiated cash products, primarily in credit markets
- The period September 2014 through August 2015 has been characterized by inconsistent credit market activity, and significant price declines due to challenges at energy companies and the ongoing transition from quantitative easing
- Against the challenging revenue environment, the quality of Jefferies' team and relationships have improved and should continue to strengthen
- As market activity recovers, Jefferies continues to have an opportunity to build relationships further, enhance capabilities and grow market share

Adjusted Fixed Income Net Revenues (ex-Bache); No Credit for Investment Banking Origination and Distribution (1,2)



(1) Excludes predecessor Q113 Fixed Income Net Revenues of $292 million.

(2) Adjusted Fixed Income Net Revenues is a non-GAAP measure and represents results excluding the impact of the net revenues of the Bache business. See pages 176 - 177 for a reconciliation to GAAP figures.

Fixed Income – Strategic Priorities

Jefferies

- **Refocus Fixed Income by better utilizing our resources to be more efficient with capital, risk and balance sheet, and deliver better margins and returns**
- **Focus on further developing our core businesses, such as global credit, which align well with our growing Investment Banking platform**
- **Leverage our platform to selectively target opportunities**
  - Grow average transaction size for increased profitability
  - Globally coordinate and grow complementary products to align further and more fully with our clients (Agency Foreign Exchange and Emerging Markets)

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Leverage our platform to selectively target opportunities
–Grow average transaction size for increased profitability
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Jefferies LoanCore

JefferiesLCC_Jef logo_without tag.wmf

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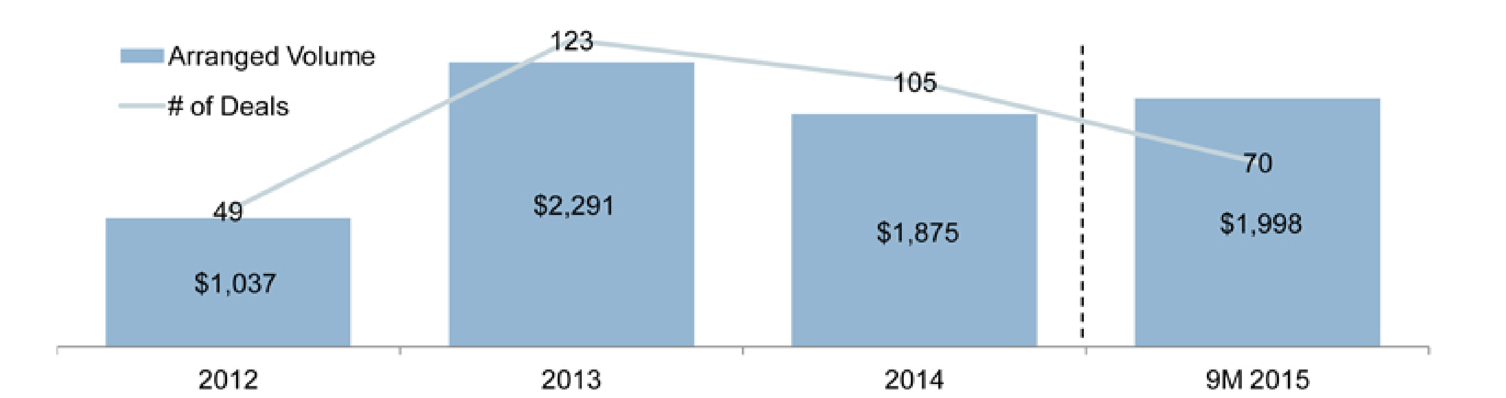
Jefferies LoanCore – Overview

($ Millions)

- Jefferies LoanCore, a joint venture between Jefferies and GIC Private Ltd (f.k.a. Government of Singapore Investment Corporation), is a finance company focused on originating and securitizing commercial mortgage loans
- Jefferies LoanCore has established itself as a leading lender to commercial real estate borrowers
  - Team of 35 originators sources differentiated lending opportunities across major U.S. and U.K. markets
  - Since inception to 8/31/15, JLC has originated 373 real estate assets with an aggregate principal balance of $8.0 billion, secured by various property types in 45 states and the U.K.
  - Participated in 14 successful securitizations totaling more than $4.6 billion to date

Jefferies LoanCore Loan Volume Originated through 8/31/15(1)



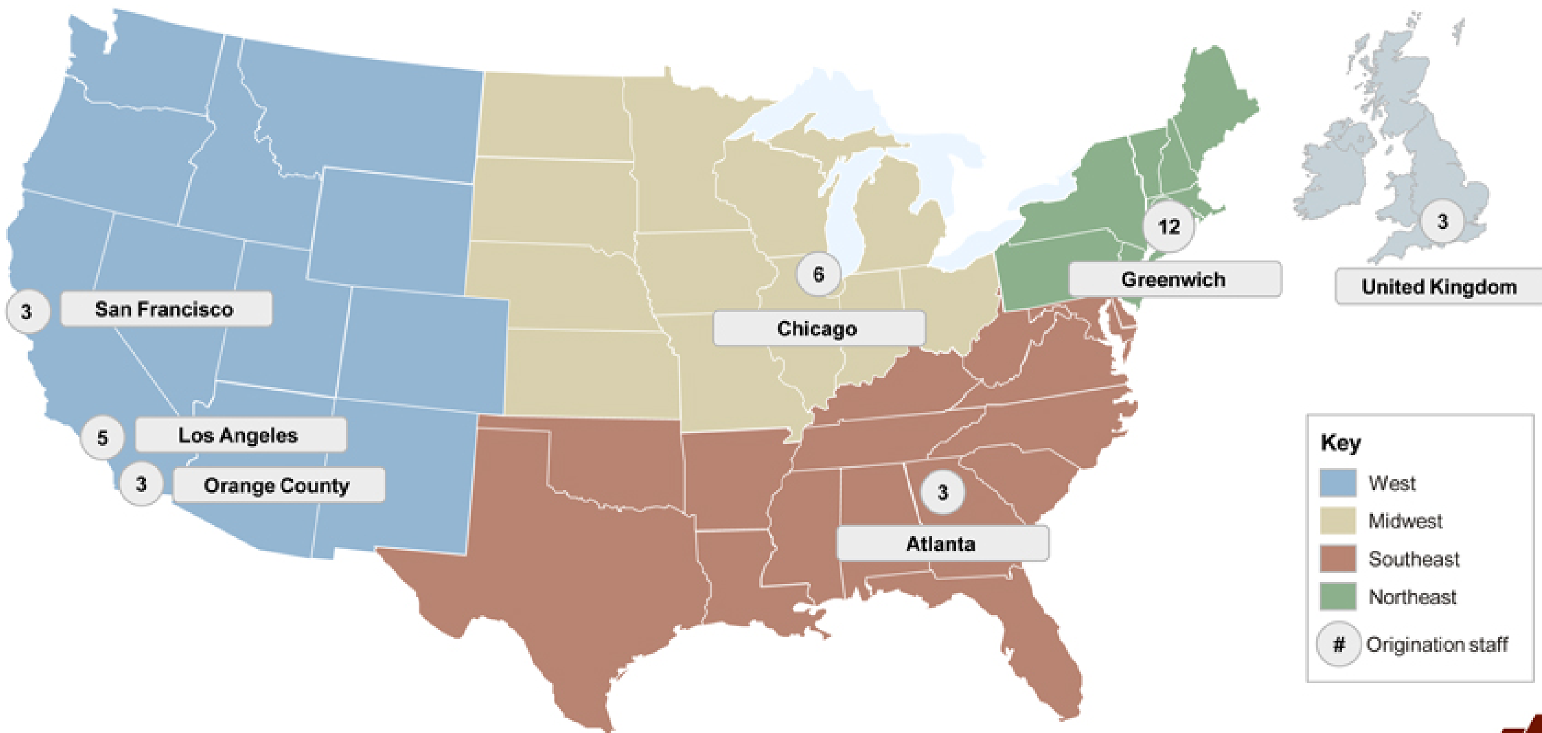
(1) Includes fixed rate and floating rate loans, bridge lending, mezzanine, and preferred investments.

Jefferies LoanCore Loan Volume Originated through 8/31/15(1)
Includes fixed rate and floating rate loans, bridge lending, mezzanine, and preferred investments.
$1,875 $1,998
2014 9M 2015
Arranged Volume
# of Deals JefferiesLCC_Jef logo_without tag.wmf

Jefferies LoanCore – Origination Platform

Jefferies LoanCore

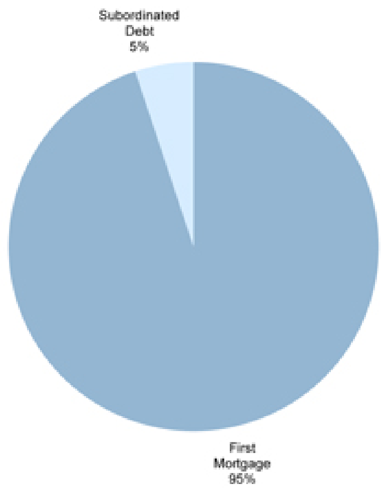
- Jefferies LoanCore's team is comprised of over 50 professionals, 35 of whom are dedicated to origination
- Long-standing strategic relationships with property owners, developers, mortgage brokers and investors
- Ability to provide borrowers with access to mortgage loan products on a "wholesale" (or direct lender) basis



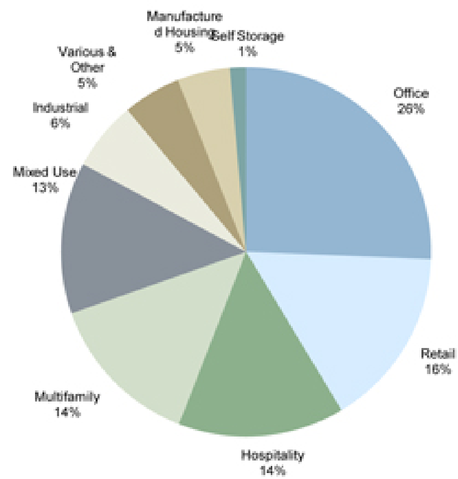
Jefferies LoanCore – Diversified Loan Origination

- Jefferies LoanCore has diverse origination capabilities with loans (primarily consisting of first mortgages) spanning multiple geographies and property types

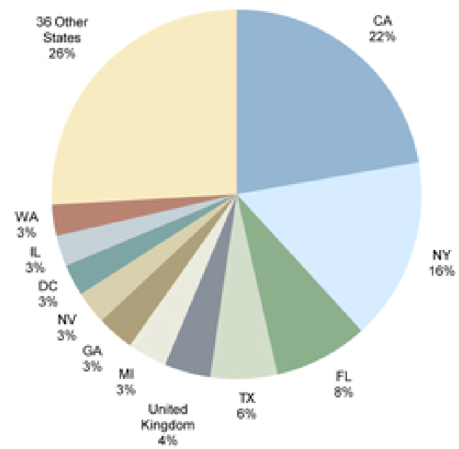
Asset Type (1)



Property Type (1)



Regions Covered (1)



(1) Loans originated and purchased by original balance from inception to 8/31/15.

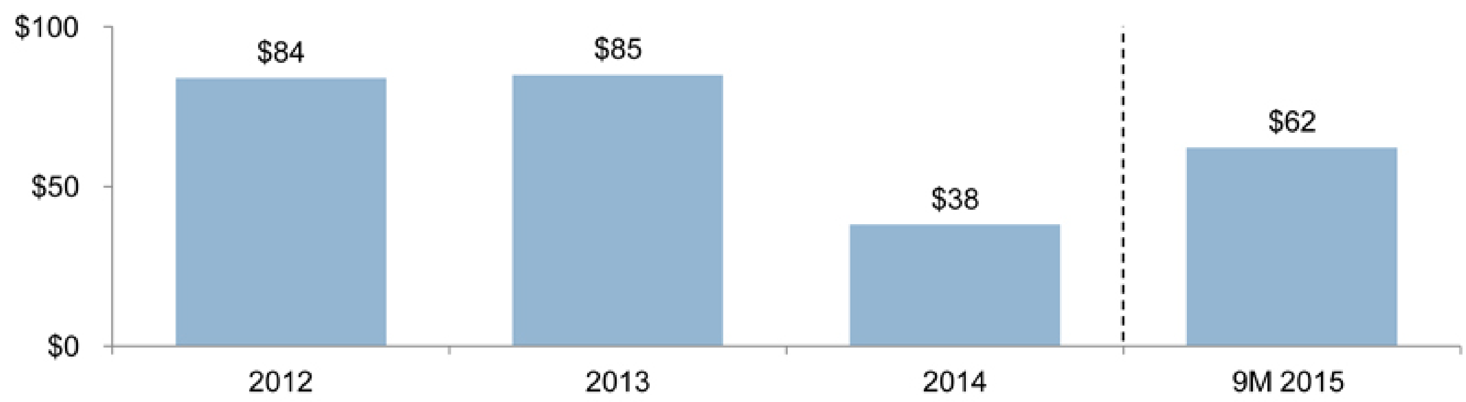
Jefferies LoanCore – Diversified Loan Origination
(1) Loans originated and purchased by original balance from inception to 8/31/15.
JefferiesLCC_Jef logo_without tag.wmf

Jefferies LoanCore – Financial Overview

($ Millions)

- Following a challenging market environment in 2014, Jefferies LoanCore's profitability has recovered in 2015 driven by improved volume and market execution
  - Opportunities for significant medium-term growth; upcoming CMBS maturity-wall as well as expansion in dislocated, but well-established, markets such as the U.K.

Jefferies LoanCore Pre-Tax Earnings



Jefferies LoanCore – Financial Overview
JefferiesLCC_Jef logo_without tag.wmf

Jefferies LoanCore – Strategic Priorities

- Grow loan originations, capitalizing on the upcoming “wall” of CMBS maturities in 2016 and 2017
- Establish a complementary REIT platform
- Capitalize on growth in dislocated but well-established markets, such as the U.K.

Jefferies LoanCore – Strategic Priorities
Grow loan originations, capitalizing on the upcoming “wall” of CMBS maturities in
2016 and 2017
Establish a complementary REIT platform
Capitalize on growth in dislocated but well-established markets, such as the U.K.
JefferiesLCC_Jef logo_without tag.wmf
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Risk Management

Risk Principles

Jefferies' comprehensive risk management framework has been a foundation for our success across market cycles

- **Culture**
  - We are all Partners at our firm, collectively building for the long-term on a foundation established over 50+ years
- **Hands-on**
  - Our senior management and Board are deeply involved in the “nuts and bolts” of how and where we are taking risks across the firm
- **Integrated**
  - Our independent risk management group and our business leaders are deeply integrated into our trading desks, ensuring a clear and comprehensive view of the firm’s risk
- **Asset Quality**
  - Jefferies is dedicated to serving our clients in liquid, transparent products. We limit illiquid assets and derivatives to ensure the overall liquidity and health of our balance sheet

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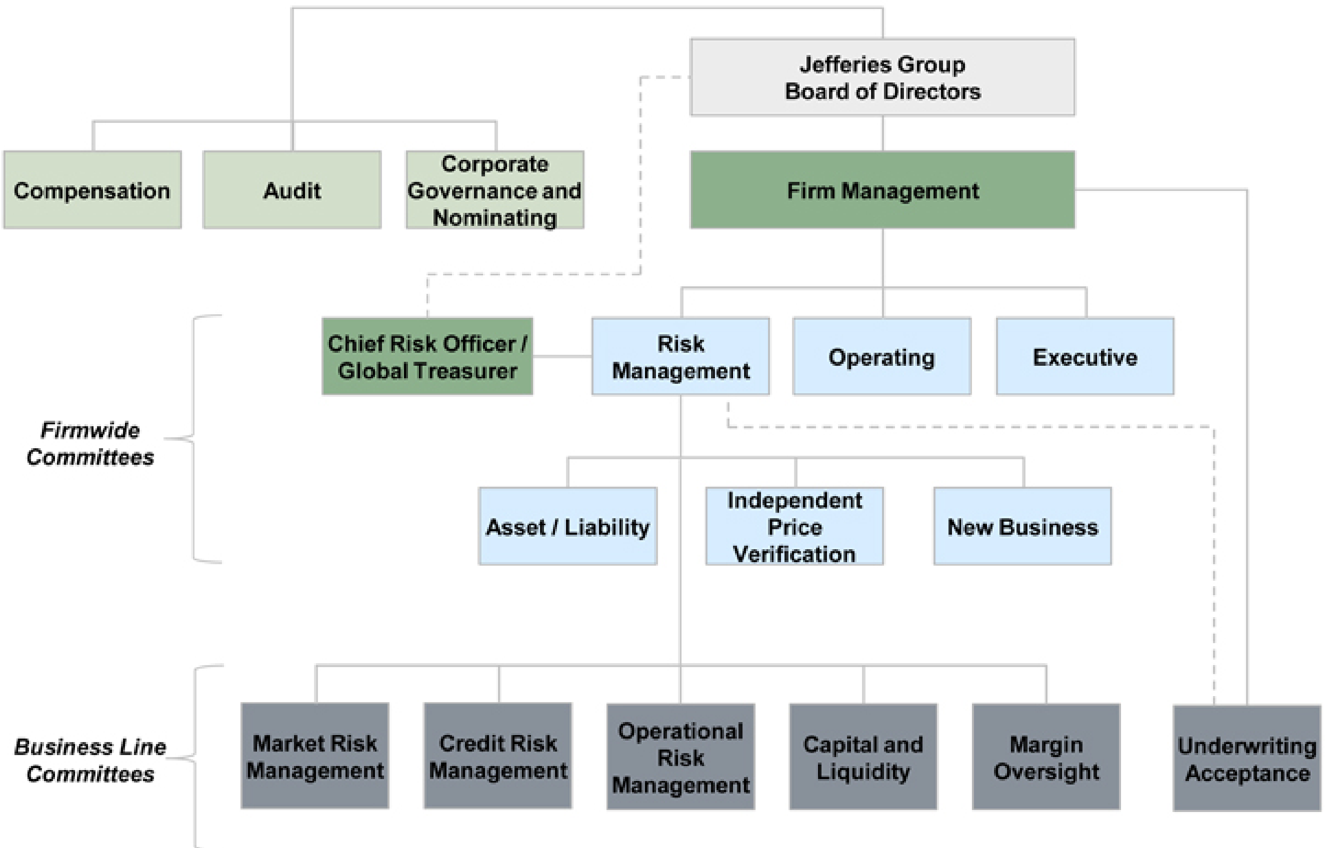
Risk Management Summary Framework

Jefferies

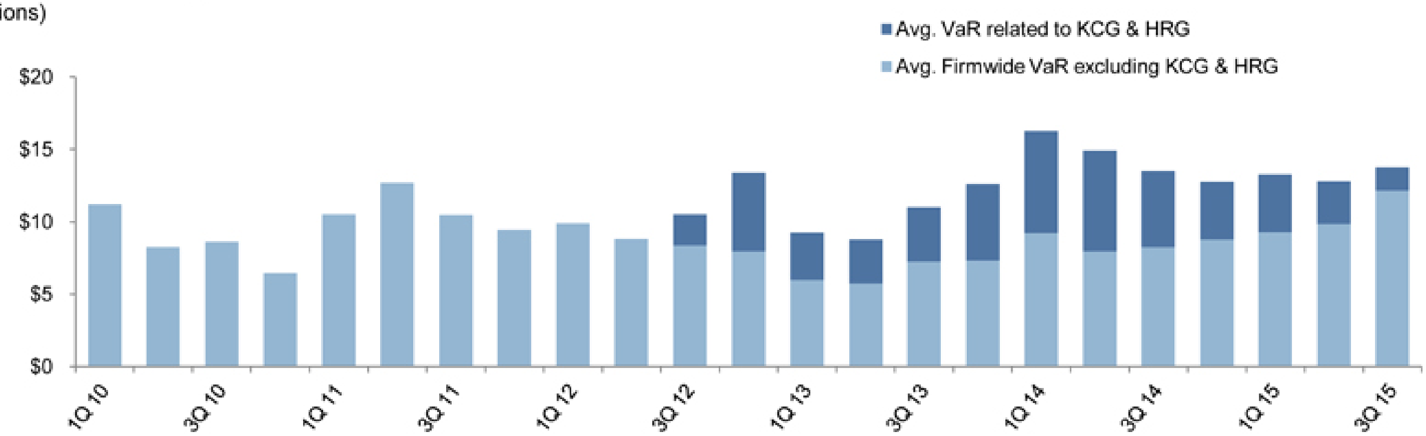


Note: Dotted lines represent communication lines.

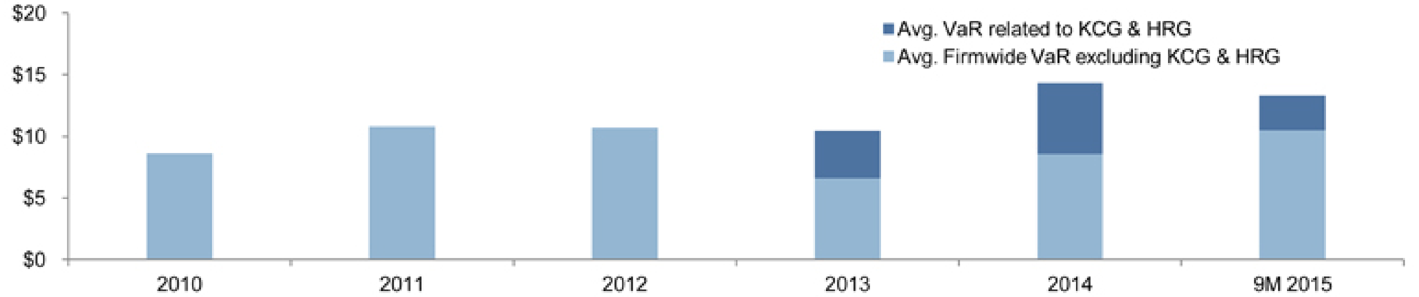
VaR Report

Jefferies

Quarterly VaR Average
($ Millions)



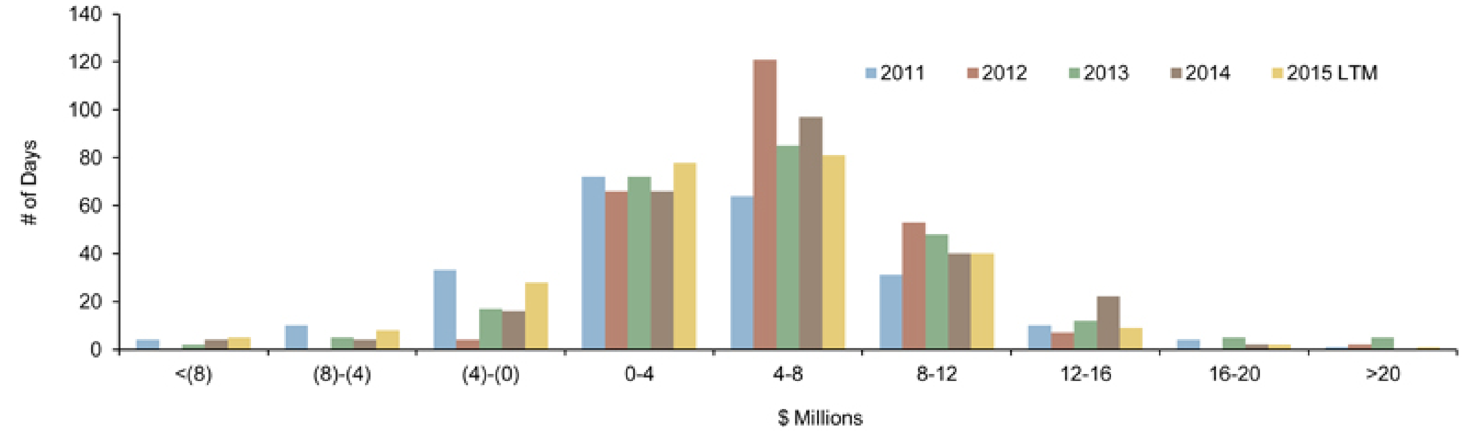
Annual VaR Average
($ Millions)



VaR Report and Trading Revenues

Jefferies

Distribution of Daily Net Trading Revenues (Excluding KCG Holdings and HRG Group)(1)



Historical Negative Trading Revenues Days

	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Negative Trading Rev. Days ex. KCG Holdings and HRG Group	10	0	10	10	26	6	2	0	1	1	11	4	1	6	2	16	9	5	18
Total Number of Negative Trading Rev. Days:	10	0	10	10	26	6	2	0	1	1	0	0	18	7	7	17	11	10	21
Number of Breaches (2)	-	-	2	-	-	-	-	-	-	1	1	-	-	1	-	2	-	-	2

(1) Historically, Jefferies has presented Distribution of Daily Net Trading Revenues including KCG Holdings and HRG Group.
(2) Number of Breaches represents the number of days during a given period where net trading losses were greater than VaR estimates.

Capital and Liquidity Management

Liquidity and Funding Principles

Jefferies

Jefferies' long-standing liquidity and funding principles have maintained the strength and soundness of our platform across market cycles

- Owning inventory that is composed of liquid assets that turn over regularly, with Level 3 assets less than 3% of inventory
- Maintaining a sound, long-term capital base and reasonable leverage relative to our business activity
- No material reliance on short-term unsecured funding or customer balances. No commercial paper program
- Short term secured funding that is readily and consistently available through clearing houses, or fixed for periods of time that exceed the expected tenure of the inventory they are funding
- Assessing capital reserves and maintaining liquidity to withstand adverse changes in the trading or financing markets and a firm specific idiosyncratic stress
- Where appropriate, entering into partnerships and joint ventures with complementary long-term partners to pursue business opportunities that otherwise may exceed our capital capacity or risk tolerance (Jefferies Finance, Jefferies LoanCore)

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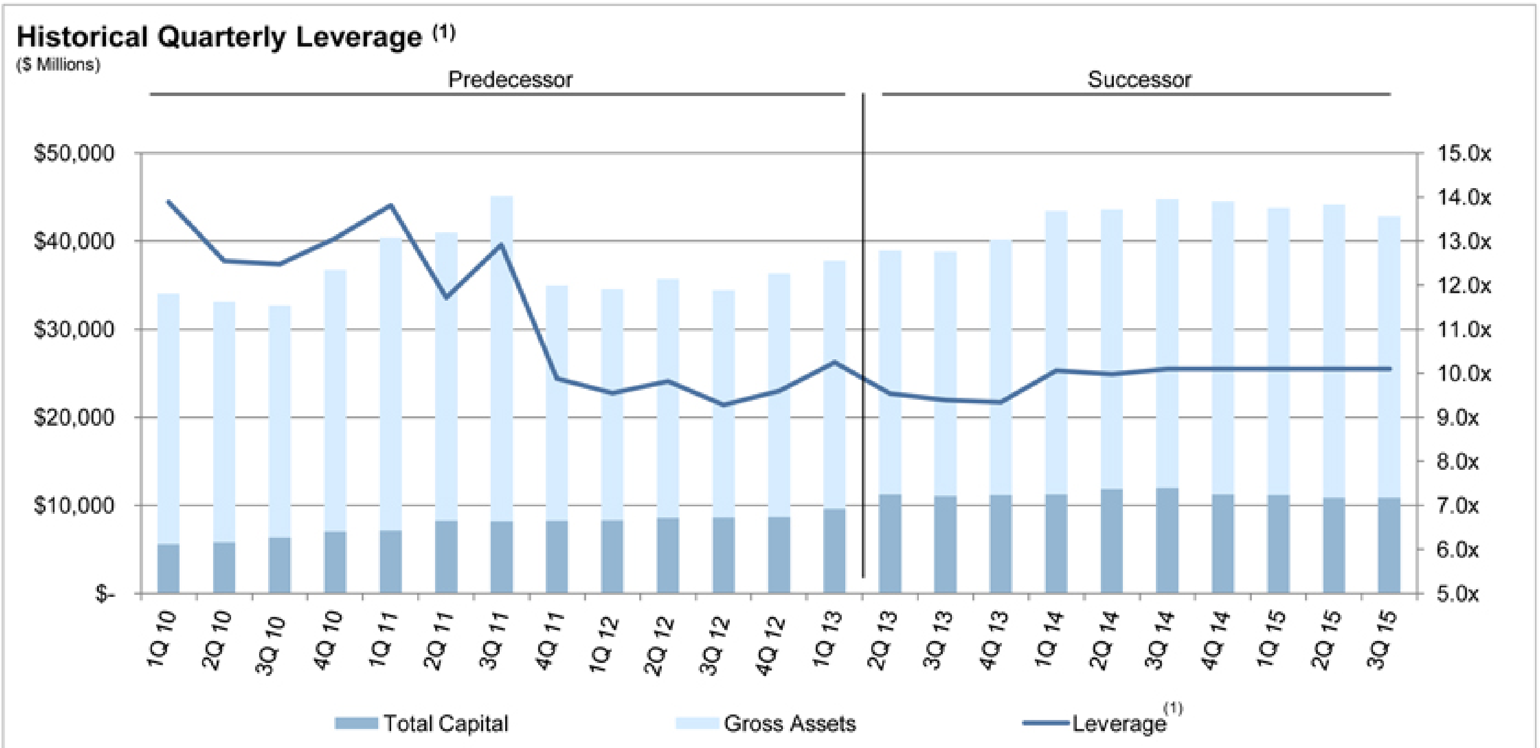
Limited Leverage

- Jefferies has a long-standing policy of carefully managing balance sheet leverage
- In periods of stress, Jefferies has demonstrated the ability to rapidly reduce leverage without unduly impacting our business



(1) Total assets divided by total equity. Q2 2013 through Q3 2015 exclude the impact of the Leucadia Transaction (a non-GAAP measure). See page 178 for a reconciliation to GAAP figures.

Total Capital
Historical Quarterly Leverage (1)
Limited Leverage
Total assets divided by total equity. Q2 2013 through Q3 2015 exclude the impact of the Leucadia Transaction (a non-GAAP measure). See page 178
for a reconciliation to GAAP figures.
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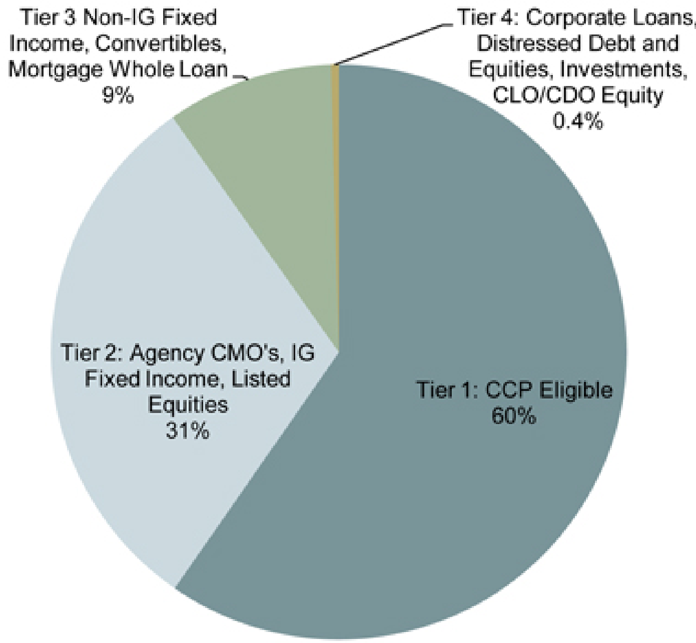
104

Fundability of Collateral



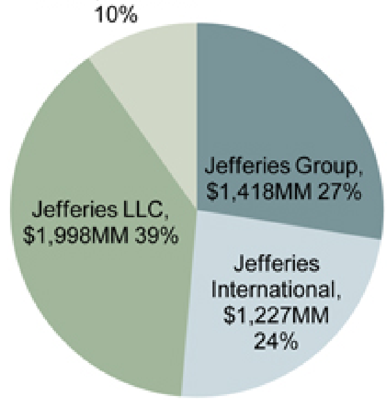
- Liquid, easy to fund collateral. 91% Tier 1 or Tier 2 collateral funded with average haircuts of 5% or below. Tier 3 average haircut of 11%
- 98 Lenders providing liquidity for Tier 2,3 and 4 collateral with the largest lender at only 10% of the total
- Less than 1% of inventory deemed Tier 4 with an average haircut of 31%

Global and Legal Entity Liquidity Stress Model

Jefferies

- Stress test contingency liquidity outflows at the global and regional level
  - 100% loss of non-cleared repo and stock loan
  - Higher margins at CCP's and clearing organizations
  - 100% loss of customer credit balances
  - Buy back Jefferies debt for market support
  - Collateral outflows on ISDA/CSA's
  - Intraday liquidity at clearing banks
  - No sale of assets for a minimum 30 Days
  - Assume no movement of liquidity between regulated entities.
- Maintain positive stressed liquidity position for a minimum of 30 days at global and at legal entity level

Global Liquidity Pool - $5,151mm or 12% of Assets



Global and Legal Entity Liquidity Stress Model
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100% loss of non-cleared repo and stock loan
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Intraday liquidity at clearing banks
No sale of assets for a minimum 30 Days
Assume no movement of liquidity between regulated entities
Maintain positive stressed liquidity position for a minimum of 30 days at global and at legal entity level
Jefferies Group, $1,418MM 27%
Jefferies International, $1,227MM 24%
Jefferies LLC, $1,998MM 39%
Other, $508MM 10%
Global Liquidity Pool—$5,151mm or 12% of Assets
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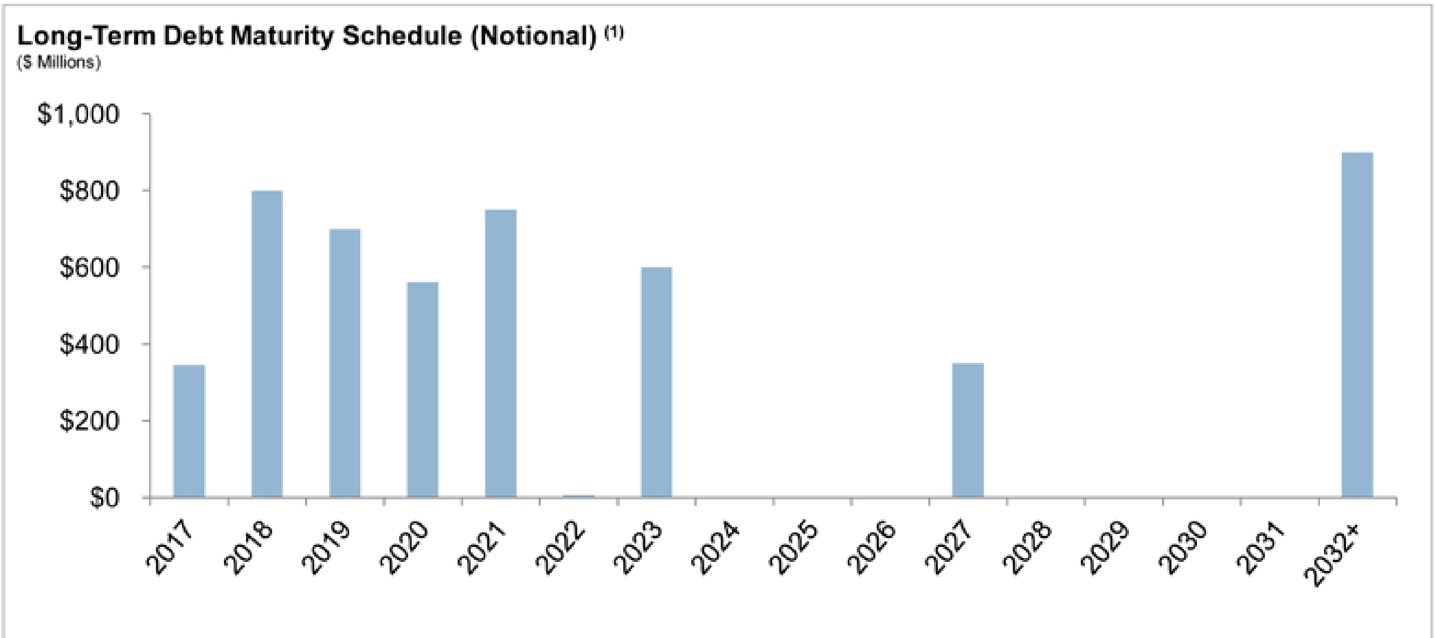
Long-Term Debt Profile

Jefferies

- As of 08/31/15, our $5 billion notional of long-term debt had a weighted average maturity of approximately 8.4 years (1)
- No maturity of long-term debt in a single year is greater than 20% of outstanding long-term debt; $850 million of formerly long-term debt matures in the next six months and will be repaid using available cash



(1) Long-Term Debt does not include $500 million Senior Notes maturing November 9, 2015 and $350 million Senior Notes maturing March 15, 2016.

Long-Term Debt Profile
Long-Term Debt Maturity Schedule (Notional) (1)
As of 08/31/15, our $5 billion notional of long-term debt had a weighted average maturity of approximately 8.4
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Summary

Jefferies

- **Our business model, risk metrics, and liquidity/funding principles and implementation haven't changed, and remain focused and vigilant, as always**

- **With the refocus of Fixed Income, we expect reduced balance sheet, risk and capital utilization, along with better profitability and returns**

Summary
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With the refocus of Fixed Income, we expect reduced balance sheet, risk and capital utilization, along with better profitability and returns
108

Q & A IRQuestions@Leucadia.com

Q & A
IRQuestions@Leucadia.com

Leucadia Merchant Banking

Leucadia Merchant Banking – Overview

	6/30/15 % Ownership	6/30/15 Book Value
National Beef	79%	$766 million
HRG	23%	$606 million ($476 million at cost)
Vitesse	96%	$260 million
Juneau	98%	$194 million
Garcadia	~75%	$185 million
Linkem	55%	$146 million
Conwed	100%	$115 million
Golden Queen	35%	$81 million
Idaho Timber	100%	$74 million

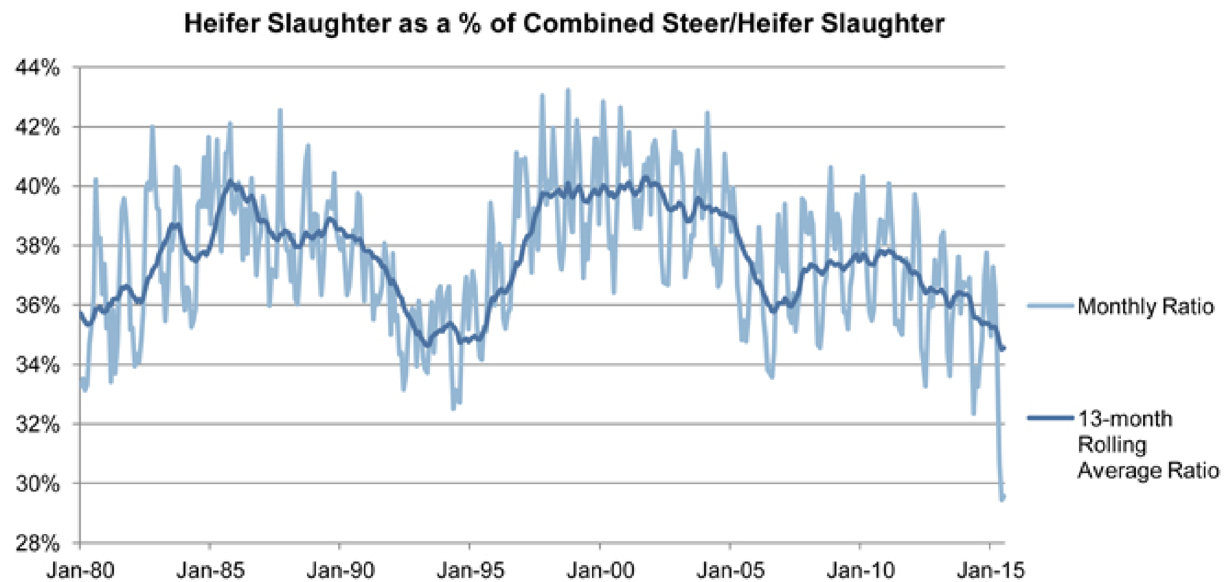
Leucadia Merchant Banking – Overview
6/30/15
% Ownership
6/30/15
Book Value
National Beef 79%
$766 million
HRG
23%
$606 million
($476 million at cost)
Vitesse
96%
$260 million
Juneau
98%
$194 million
Garcadia
~75%
$185 million
Linkem
55%
$146 million
Conwed
100%
$115 million
Golden Queen
35%
$81 million
Idaho Timber
100%
$74 million
110

Business Overview

- National Beef processes ~3 million fed cattle per year representing ~12.5% market share
  - –2 processing plants strategically located in Liberal and Dodge City, KS
  - –Primary competitors: Cargill, JBS, Tyson
  - –Export beef and beef by-products to more than 20 countries
- Beef processing is a spread margin business, so National Beef is intensely focused on value-added production to drive superior performance versus its commodity-focused competitors
  - –National Beef operates 3 further processing plants converting beef and pork into fresh, consumer-ready products
  - –Strategically located in PA, GA and KS
- National Beef's tannery is among the largest in the world
  - –Converts raw cattle hides to wet blue leather for use in finished leather production for automotive, shoes, fashion, etc.
- www.kansascitysteaks.com
  - –Premium direct-to-consumer beef, center-of-the-plate entrees, side dishes and desserts

Industry Update

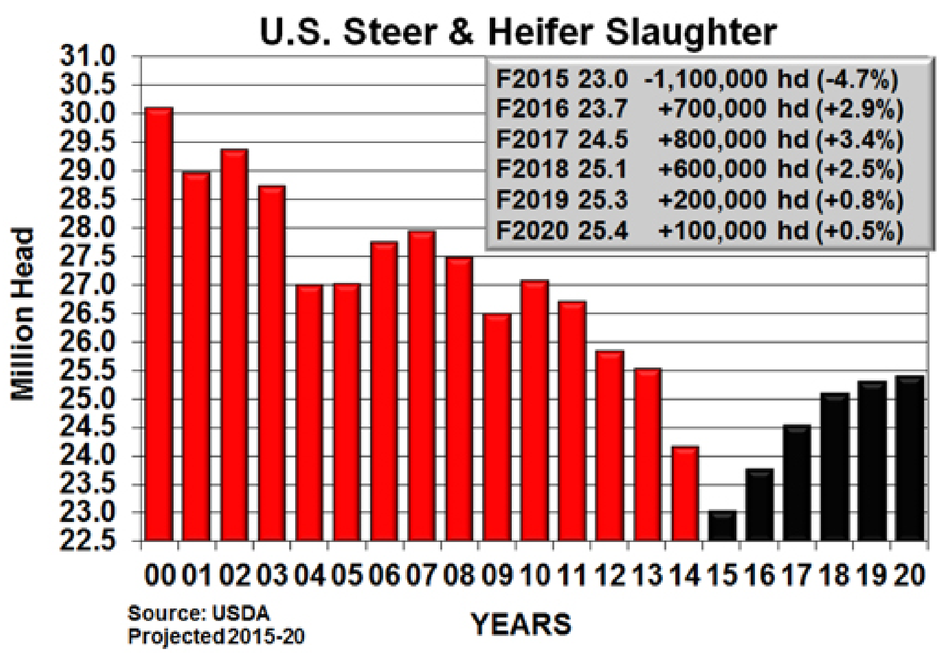
- U.S. beef cowherd is positioned for meaningful growth. Record profits in cow-calf sector and excellent pasture conditions have led to increased heifer retention and reduced beef cow slaughter. While this has put negative pressure on packing industry margins for the last few years, in the longer run it bodes well for margins as it will lead to an increase in the number of fed cattle available for slaughter



Source: USDA.

Industry Update (continued)

- Supplies of cattle available for slaughter are projected to start increasing in 2016
- Beef demand should improve as prices become more competitive with pork and poultry products
- As plant capacity utilization rates begin to increase, industry margins should improve



Source: USDA and CattleFax.

Supplies of cattle available for slaughter are projected to start increasing in 2016
Beef demand should improve as prices become more competitive with pork and poultry products
As plant capacity utilization rates begin to increase, industry margins should improve
U.S. Steer & Heifer Slaughter
Million Head
Projected 2015-20
Industry Update (continued)
Source: USDA and CattleFax.
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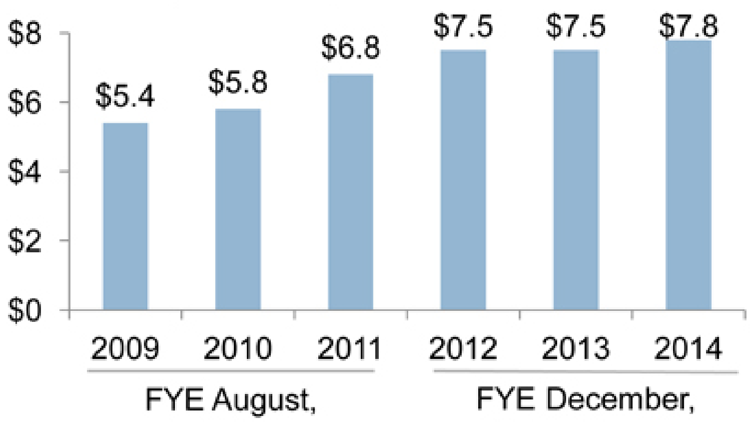
Financial Performance

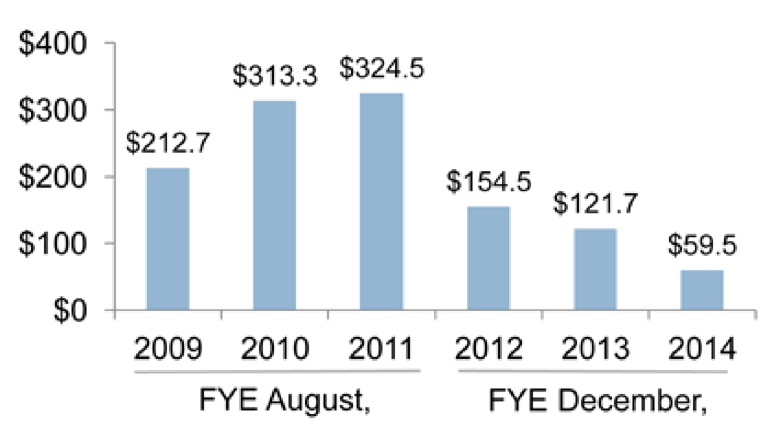
National Beef

- The beef processing industry is cyclical and working capital intensive. However, it has significant barriers to entry and offers attractive prospects for free cash flow generation over the cycle
- Given cattle supply constraints, strategies designed to drive margin expansion are more important to long-term profit growth versus those focused on increasing total revenue

Revenue ($ Billions) (1)



Profit from Operations ($ Millions) (1, 2)



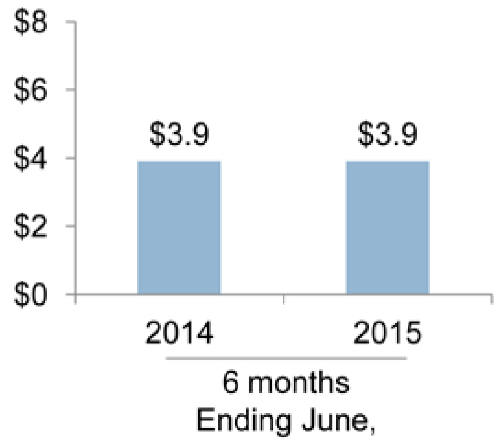
(1) Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012, 2013 and 2014.

(2) Profit from operations is a non-GAAP measure. Profit from operations equals pre-tax income, plus depreciation and amortization expenses and excluding interest expense / (income), net, and an impairment in 2013. See page 179 in the appendix for a reconciliation to GAAP amounts.

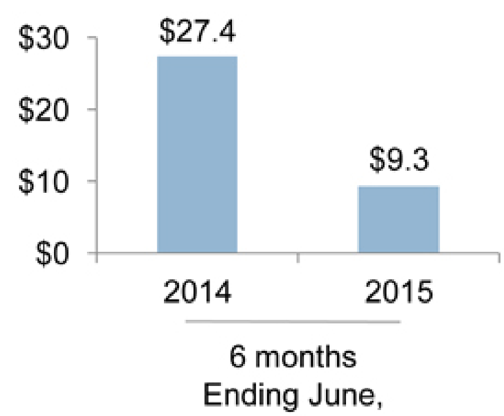
Financial Performance (continued)

- 2015 6M financial results have been negatively impacted by lower slaughter numbers, down ~16% vs. 2014, record high prices for cattle and an 8.1% year-over-year decline in USDA drop credit values, including a 32% decline in hide prices in the first half of 2015. These were mitigated, in part, by higher prices for beef and improved volumes and margin in our consumer ready businesses

Revenue ($ Billions)



Profit from Operations ($ Millions) (1)



(1) Profit from operations is a non-GAAP measure. Profit from operations equals pre-tax income, plus depreciation and amortization expenses and excluding interest expense / (income), net. See page 179 in the appendix for a reconciliation to GAAP amounts.

2015 Developments

- In our Consumer Ready business, we have replaced much of the volume lost when Walmart exited our relationship in 2013 with a more diverse customer base seeking a broader selection of product offerings
- In response to a worldwide disruption in the leather industry, caused by reduced end-user demand, ongoing realignment in the Chinese market and U.S. port disruptions, we temporarily reduced our production of wet blue leather and significantly decreased our inventory
- Kansas City Steak Company is growing revenue at 30% vs. 2014

2015 Developments
Kansas City Steak Company is growing revenue at 30% vs. 2014

Strategic Priorities

National Beef

- Focus on additional value-added production
  - Ongoing dialogue with retailer and food service providers regarding consumer-ready, portion-controlled and ready-to-cook product lines
  - Currently operate 3 further processing plants with capacity available for growth
  - We are increasing value-added capabilities at our Kansas beef processing plants
- Drive volume and margin through our expanded and modernized tannery
  - Providing high quality lime-fleshed, wet blue hides to recurring customers from one of the largest and most technologically advanced facilities in the world
- Maintain market share and enhance profitability
  - Capture value of efficiencies and operational improvements
  - Position company for long-term rebound in domestic herd size
  - Focus on export opportunities as markets develop
- Execute on strategic plan to drive significant growth of Kansas City Steak Company

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Focus on additional value-added production
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-Position company for long-term rebound in domestic herd size
-Focus on export opportunities as markets develop
Execute on strategic plan to drive significant growth of Kansas City Steak Company
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HRG/GROUP

HRG/GROUP

Company Overview

HRG GROUP

- NYSE-listed diversified holding company (NYSE: HRG) that operates in four business segments:
  - Consumer Products – Spectrum Brands (NYSE: SPB, ~58% ownership [1])
  - Insurance – Fidelity & Guaranty Life (NYSE: FGL, ~81% ownership [1]); FrontStreet Re (100% ownership)
  - Energy – Compass Production (~100% ownership)
  - Asset Management (*de minimis* net book value)

Spectrum Brands

Fidelity & Guaranty Life℠

COMPASS PRODUCTION GP, LLC

(1) Source: HRG Group's 3rd Quarter August 6, 2015 Conference Call presentation

Company Overview
NYSE-listed diversified holding company (NYSE: HRG) that operates in four business segments:
Consumer Products – Spectrum Brands (NYSE: SPB, ~58% ownership (1))
Insurance – Fidelity & Guaranty Life (NYSE: FGL, ~81% ownership (1)); FrontStreet Re (100% ownership)
Energy – Compass Production (~100% ownership)
Asset Management (de minimis net book value)
Spectrum Brands
(1) Source: HRG Group's 3rd Quarter August 6, 2015 Conference Call presentation
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Key Ownership Details

- Initial investment September 2013 with follow-on purchases in March and November 2014
- Total Cost: $476 million
- Fair Market Value at 06/30/15: $605.8 million
- Ownership: 23.1% (1)
- Joseph Steinberg serves as Chairman and Andrew Whittaker serves as a Director

(1) Leucadia owned 46.6 million shares as of 6/30/15.

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2015 Developments

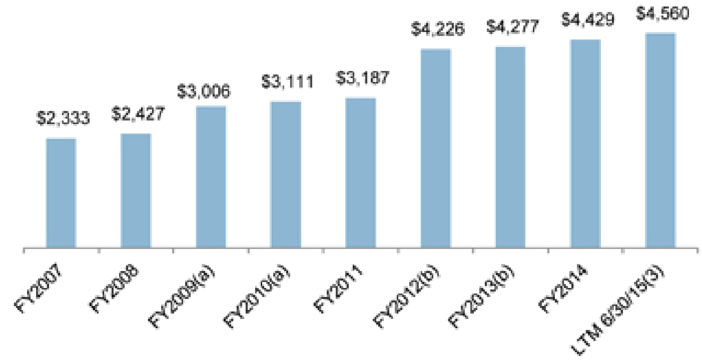
- Driving simplification and strategic focus
  - Supporting growth initiatives at Spectrum
  - Exploring strategic alternatives for Fidelity
  - Maximizing recovery of capital at Salus
  - Managing liquidity and leverage at Compass(1)
- Successfully raised $400 million through a series of tack-ons to existing notes
  - Offers were all well over-subscribed
  - $282 million of proceeds used to acquire 49% of common stock offered by Spectrum Brands in connection with acquisition of Armored AutoGroup (2)

(1) As per HRG Group's 3rd Quarter 2015 Conference Call Presentation released on August 6th, 2015.
(2) As per HRG Group's 3rd Quarter 2015 10-Q.

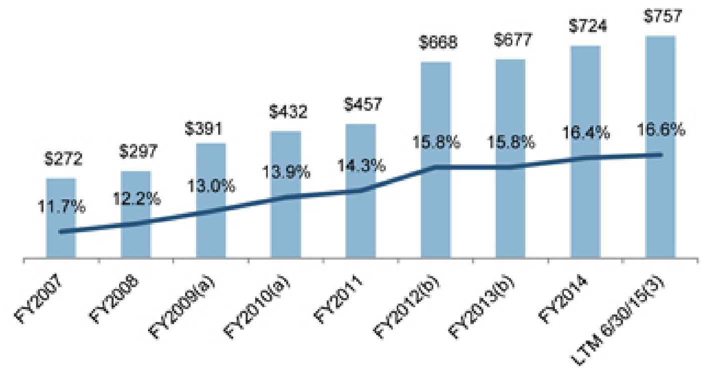
Spectrum Brands Overview

- Spectrum Brands (NYSE: SPB) is a global consumer products company focused on delivering a portfolio of consumer products with the same performance for a lower price / better value
- Core segments are Global Batteries & Appliances, Pet, Home & Garden, Hardware & Home Improvement, and Global Auto Care
- Achieved quarter-over-quarter net sales and adjusted EBITDA growth with few exceptions since FY 2009. Expects to generate up to $440 million of free cash flow in FY 2015 (ending 9/30/15), up from $359 million in 2014 (1)
- Closed $1.4 billion Armored AutoGroup acquisition on May 21, 2015 which expanded SPB into the growing, highly-profitable automotive aftermarket category

Net Sales Performance ($ Millions) (2)



Adjusted EBITDA ($ Millions) / Margin Performance (2)



(1) As per Spectrum Brands 9/29/15 Press Release.

(2) As per Spectrum Brands 9/30/15 Denver Investors Presentation. (a) Reflects pro forma as if Russell Hobbs merger completed at beginning of respective period. (b) Reflects pro forma as if HHI acquired at beginning of respective period. The pre-acquisition earnings and capital expenditures of HHI do not include the TLM Taiwan business as stand alone financial data is not available for the periods presented. The TLM Taiwan business is not deemed material to the Company's operating results.

(3) LTM 6/30/15 financials per HRG Group's 3rd Quarter 2015 10-Q.

Financial Performance

HRG GROUP

($ Millions)		FYE September 30, 2012	FYE September 30, 2013	FYE September 30, 2014	9M Ending 6/30/14	9M Ending 6/30/15
Consumer (1)(2)	Pro Forma Net Sales	$ 4,226	$ 4,277	$ 4,429	$ 3,251	$ 3,382
	Adjusted EBITDA	668	677	724	538	571
	% Margin	*15.8%*	*15.8%*	*16.4%*	*16.5%*	*16.9%*
Insurance (1)	Revenues	$ 1,222	$ 1,348	$ 1,350	$ 1,067	$ 725
	Adjusted Op. Income	278	154	155	123	75
	% Margin	*22.7%*	*11.4%*	*11.4%*	*11.5%*	*10.3%*
Energy (1)	Revenues	NA	$ 90	$ 147	$ 112	$ 85
	Adjusted EBITDA	NA	40	63	50	24
	% Margin	*NA*	*43.9%*	*43.1%*	*44.3%*	*28.6%*

(1) Source: Consumer, Insurance and Energy FY 2012, FY 2013 and FY 2014 financials per HRG Group's 2014 10-K. All 9M Ending financials per HRG Group's 3rd Quarter 2015 10-Q. Consumer – Pro Forma Net Sales and Adjusted EBITDA; Insurance – Adjusted Operating Income; and Energy – Adjusted EBITDA are non-GAAP measures. See HRG Group's 2014 10-K and 2015 3rd Quarter 2015 10-Q for reconciliation to GAAP measures.
(2) FY 2012 and FY 2013 are pro forma as if Hardware & Home Improvement Group was acquired at the beginning of the respective periods.

Sum of the Parts Valuation (Dilutive) without AOCI

HRG GROUP

HRG Sum of the Parts Valuation (Dilutive) without AOCI

	Method	Estimated Value Total ($ Bn)	Estimated Value Per Share [2]
Spectrum Brands [1]	Market Value	2.7	13.29
Insurance Segment [1]	Market Value / Book Value	1.4	6.86
HGI Energy Holdings LLC	Book Value	(0.1)	(0.51)
HGI Funding LLC	Book Value	0.7	3.54
HGI Asset Management Holdings LLC	Book Value	(0.0)	(0.06)
Cash	Book Value	0.3	1.73
Debt & Other Liabilities		(1.8)	(9.13)
Total Estimated Value		$ 3.2	$ 15.71

Source: Sum of the Parts Valuation per HRG Group's 3rd Quarter August 6, 2015 Conference Call presentation, updated for closing market prices on 10/05/15. Book values are as of 06/30/15.

(1) HRG Group's 08/06/15 Conference Call presentation valuation of Spectrum Brands is based on a volume weighted average closing price of $99.45 for the 20 day trading period ended 06/30/15. On 10/05/15, Spectrum Brands' closing price was $96.38. HRG Group's 08/06/15 Conference Call presentation valuation of the Insurance Segment is based on a volume weighted average closing price of $23.13 for Fidelity & Guaranty Life for the 20 day trading period ended 06/30/15, and book value as of 06/30/15 for FrontStreet Re of $130.5 million. On 10/05/15, Fidelity & Guaranty Life's closing price was $26.60. Valuation excludes HRG Group's share of Accumulated Other Comprehensive Income ("AOCI").

(2) Per share amount for each of the below mentioned assets and liabilities is calculated by dividing the total valuation of each asset or liability by the 201,360,584 shares of HRG Group's common stock outstanding as of 06/30/15, giving effect for the vesting of all restricted shares (4,277,709).

GARCADIA

Garcadia Overview – top 13 U.S. dealership group

GARCADIA

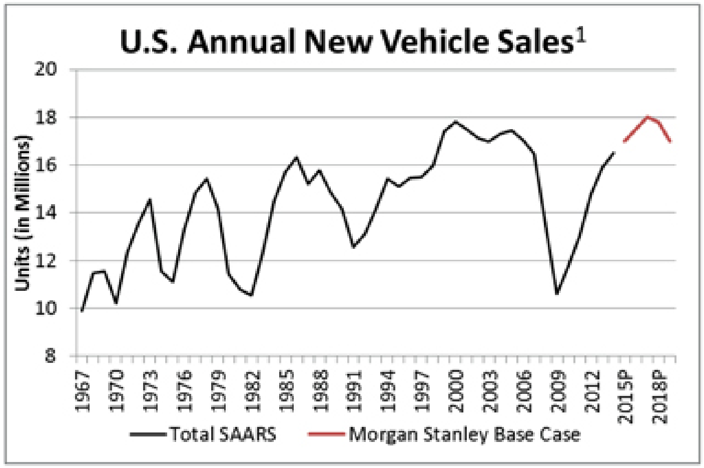
- **4 Clusters, 26 dealerships – 15 domestic, 11 foreign brands**

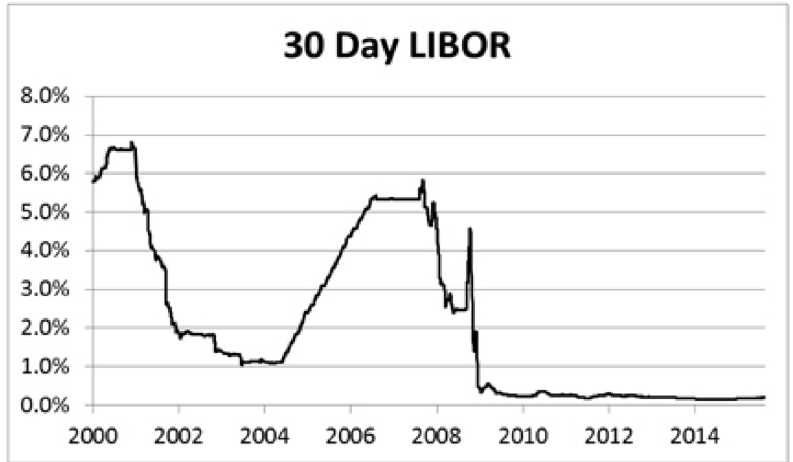
MICHIGAN 3 DEALERSHIPS	IOWA 5 DEALERSHIPS	TEXAS 8 DEALERSHIPS	CALIFORNIA 10 DEALERSHIPS, 1 UNDER CONTRACT
Cadillac of Novi	Dewey Chrysler • Dodge • Jeep • Ram	Baytown GMC • Buick	Alhambra Nissan
Southfield	Dewey Ford	FIAT of Clear Lake	Hamer Toyota
Telegraph	Southtown	Big Star Ford	Chevrolet Cadillac of La Quinta
	Stew Hansen Chrysler • Dodge • Jeep • Ram	Northwest Chrysler • Jeep • Dodge • Ram	Honda of The Desert
	Stew Hansen Hyundai	Big Star Honda	Costa Mesa Nissan
		Texan Chrysler • Jeep • Dodge • Ram	Stadium Nissan
		Clear Lake Chrysler • Jeep • Dodge • Ram	Culver City Honda
		Texan GMC • Buick	Surf City Nissan
			Culver City Toyota
			Toyota of The Desert

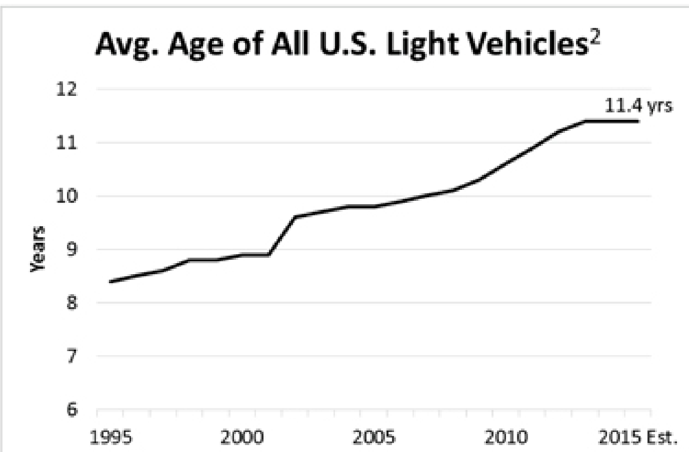
- **Emphasis on customer experience as a differentiator**
  - Employee culture manically focused on customer experience
  - Focus on leveraging digital channels to grow sales
  - Proprietary reporting system emphasizing transaction profit and employee productivity
  - Balance expense structure

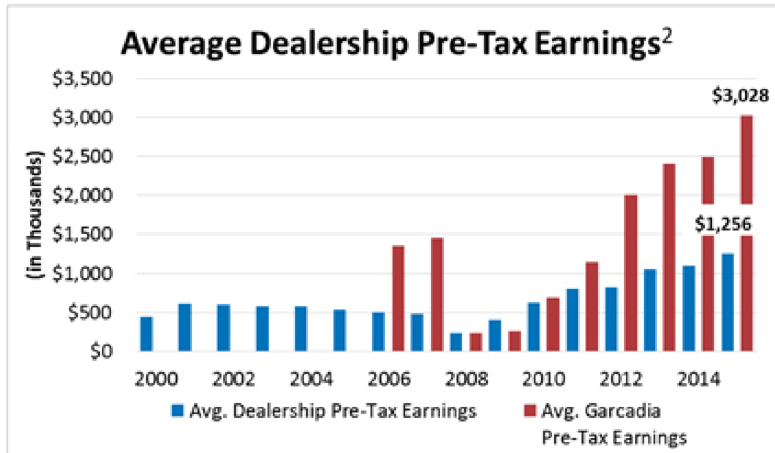
Industry Update – key indicators are very favorable

GARCADIA









(1) Source: Wards Auto and Morgan Stanley Research.
(2) Source: Wards Auto.

Industry Update – key indicators are very favorable
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Financial Performance

GARCADIA

Garcadia's pre-tax income has continued to grow

($ Millions)	Fiscal Year Ended December 31, 2012	2013	2014	6M Ended 6/30/2015
Total Units Sold	35,394	48,576	65,514	41,854
# of Dealerships	18	21	26	26
Garcadia Revenue (1)	$ 1,100.8	$ 1,548.4	$ 2,071.1	$ 1,378
% Growth	*39.4%*	*40.7%*	*33.8%*	*NA*
Garcadia Pre-Tax Income (1)	$ 37.4	$ 46.9	$ 59.2	$ 39.3
% Margin	*3.4%*	*3.0%*	*2.9%*	*2.9%*
Garcadia Distributions (2)	$ 24.4	$ 33.1	$ 41.3	$ 25.6
Equity - Beginning of Year(3)	$ 72.3	$ 82.4	$ 120.0	
Equity - End of Year(3)	$ 82.4	$ 120.0	$ 167.9	
Pre-Tax Return on Avg. Equity(3)	33.2%	31.9%	28.4%	

(1) Represent combined amounts for all Garcadia dealership holdings, not just Leucadia's share.
(2) Represents Leucadia's share of cash distributions.
(3) Represents Leucadia's net carrying amount for Garcadia (excluding land) and percentage return.

Strategic Priorities

- **Simplify car buying experience for consumers – *i.e.*, shorten time**
  - Prepare for a 30 minute transaction
  - Eliminate unnecessary transaction steps
  - Redefine and retrain sales associates to complete entire sale
- **Increase lifetime customers – do more with higher through put**
  - Emphasis on customer retention through service
  - Business model that includes maintenance and lower sales per transaction
  - Reliance on efficiencies through processes and technology
- **Integrate technology partners – simplify**
  - Current sales transaction can require up to 15 different logins
  - Need to reduce partners and integrate
  - Prepare for online shopping and online buying
- **At this stage in the cycle, we will remain patient on the acquisition front**
  - Maintain "smart buyer" status
  - Acquire dealerships with meaningful upside potential

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VITESSE ENERGY

Velocity of Capital Compounding

VITESSE ENERGY
Velocity of Capital Compounding
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Company Overview

- Formed in May 2014 – Leucadia has funded $248 million to date for acquisitions and property development

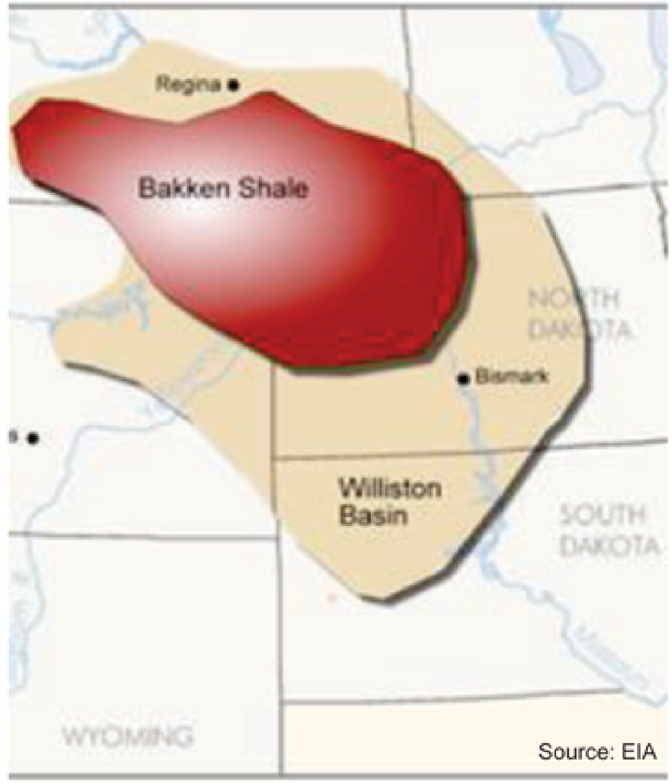
- Non-operating owner of oil and gas properties in the **core** of the Bakken field

- Strategy – acquire and develop leasehold properties and convert undeveloped drilling locations into cash flow producing assets

- Partner with leading operators to drill and complete new horizontal wells
  - More than 75% of current activity with Burlington (COP), Oasis, XTO (Exxon), Liberty Resources, EOG and Whiting

- 90% + of the Company's value is in the ground (undeveloped drilling locations)

- Profitable every month even at $40 oil



Source: EIA

Current Hedge Position

Contract Period	Swap or Collar	Pricing (Floor / Ceiling)
July - December 2015	Collar	$55.00 / $65.05
2016	Collar	$52.50 / $70.70
2016	Swap	$57.15
2017	Collar	$55.00 / $64.65
2018	Collar	$50.00 / $74.50
2019	Collar	$50.00 / $78.90
2020	Collar	$50.00 / $81.20

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Industry Update

- Oil prices have fallen ~50% from a year ago
- Rig activity in the Bakken has dropped from 200 to 70 active rigs
- Operators have responded by focusing activity in the core of the Bakken, cutting costs and optimizing well designs
  - Drilling and completion costs have decreased by 30% - 40%
  - Reserves per new well have increased over 30%
  - Well density continues to increase (more wells drilled on same acreage)
  - Example: EOG increased Bakken total net resource potential by 2.5x in Q2 2015 without an acquisition
- Economics in the core of the Bakken continue to be attractive
  - Vitesse owns under 1% of the acreage in the Bakken, but is participating in more than 15% of the current drilling activity

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Financial Performance

- 21,212 net acres in the core counties of Williams, McKenzie, Mountrail and Dunn
- 991 gross producing wells (23.3 net)
- 387 permitted, drilling or completing wells (9.4 net, of which 5.71 are completing)
- 225+ net future drilling locations ($1.5 billion of capital expenditures)
- Financial and operating results for 1H 2015:
  - 2,143 boe/d
  - $16.0 million revenue
  - $9.8 million EBITDA / $4.3 million of pre-tax income
  - $36.1 million of capital expenditures
  - Cash margin of $27.39/boe (Q2 2015)

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2015 Developments

VE's Thesis: Deeper, Denser, Cheaper, Better

- Deeper
  - Operators continue to see positive results in lower formations
  - This adds future inventory in up to three new benches in the Three Forks
- Denser
  - Current spacing now 12-16 total wells per 1280 acre drilling unit (8-10 in Bakken and 4-6 in Three Forks) up from 8 total wells previously
- Cheaper
  - Per well costs have fallen to between \$6.0 million and \$7.5 million (~30% decrease since year-end 2014)
  - Operators are cutting operating costs by leveraging infrastructure and technology
- Better
  - Improved completion techniques have yielded ~30% increase in reserves per well from an average of 600 Mboe to ~800 Mboe

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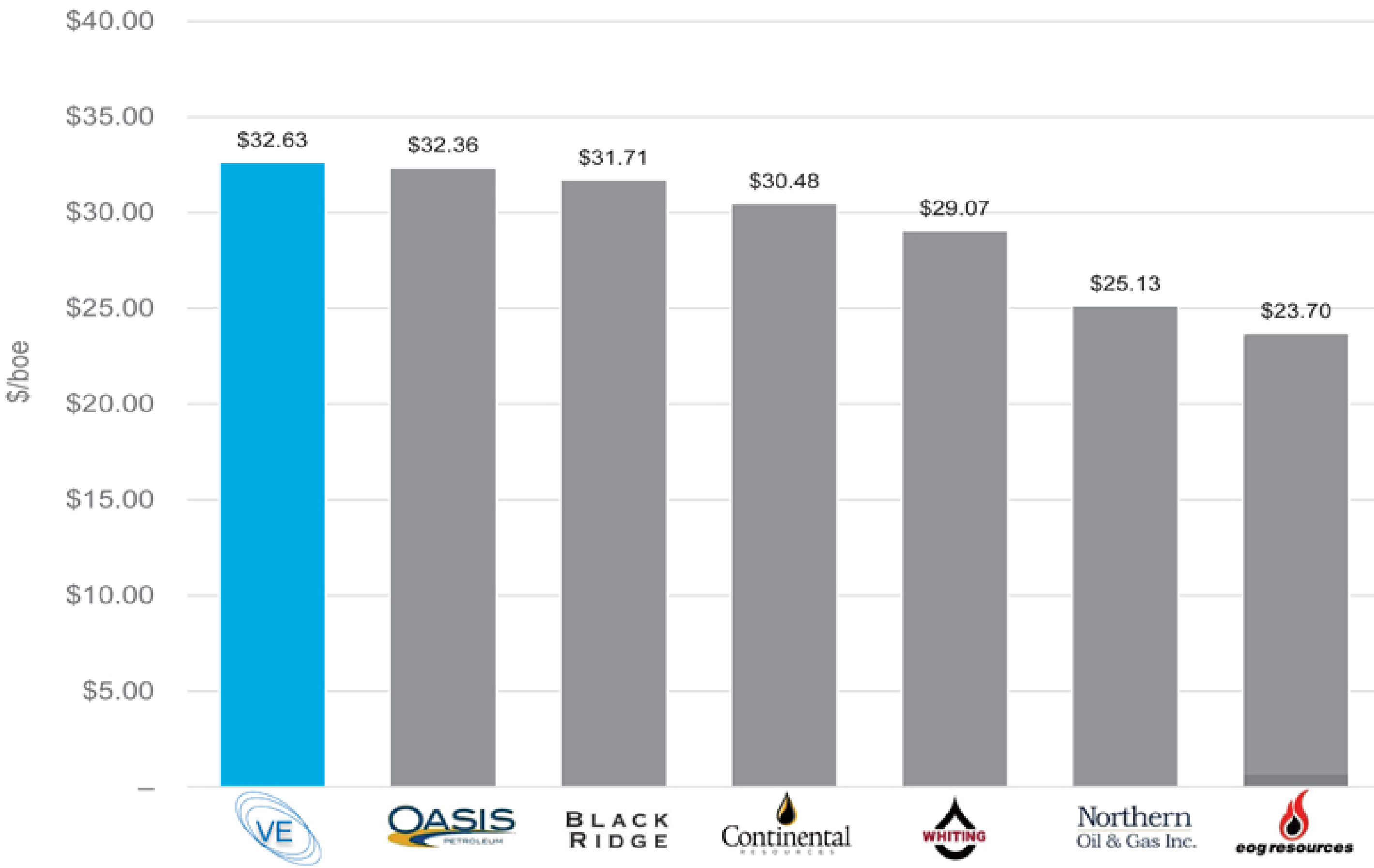
Quantifying Deeper / Denser / Cheaper / Better

	October 2014	October 2015	% Change
Remaining Net Well Locations	182	224	*23%*
Total Net Reserves (Mboe)	91,752	119,250	*30%*
Total Future Capex ($ billions)	$1.46	$1.42	*(3%)*
Future Net Cash Flow ($ billions)	$3.18	$2.66	*(16%)*

- Oil prices fell ~50% over the last year
- Future net cash flow rises to $3.02 billion at $65.00/bbl WTI in 2017 and thereafter
- $248 million invested to date
- Future Net Cash Flow based on WTI strip pricing of:

2015	2016	2017	2018	2019	2020	2021
$46/bbl	$50/bbl	$53/bbl	$56/bbl	$58/bbl	$59/bbl	$60/bbl

Q2 2015 Operating Margin ($/boe)



Operating margin per boe = revenue per boe less: lease operating costs (LOE), production taxes and transportation costs. Margin based on Q215 WTI price of $57.84 (without hedges).

$32.63 $32.36
$5.00 $10.00 $15.00 $20.00 $25.00 $30.00 $35.00 $40.00 VE OASIS BLACK RIDGE Continental WHITING Northern Oil & Gas Inc. eog resources $/boe
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Strategic Priorities

- Aggregate at compelling valuations
  - Buying assets in the core of the Bakken
  - Window of opportunity likely to be open in late 2015 and first half 2016
- Optimize
  - Focus on the assets we have – drilling elections
  - Increase exposure in areas with highest rates of return
- Monetize
  - Selectively sell assets when appropriate

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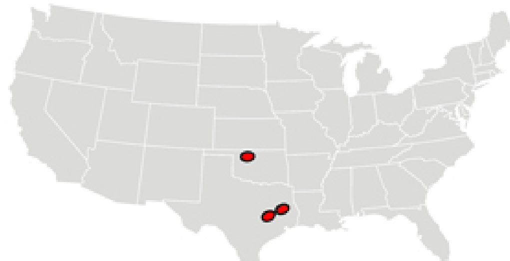
JUNEAU ENERGY



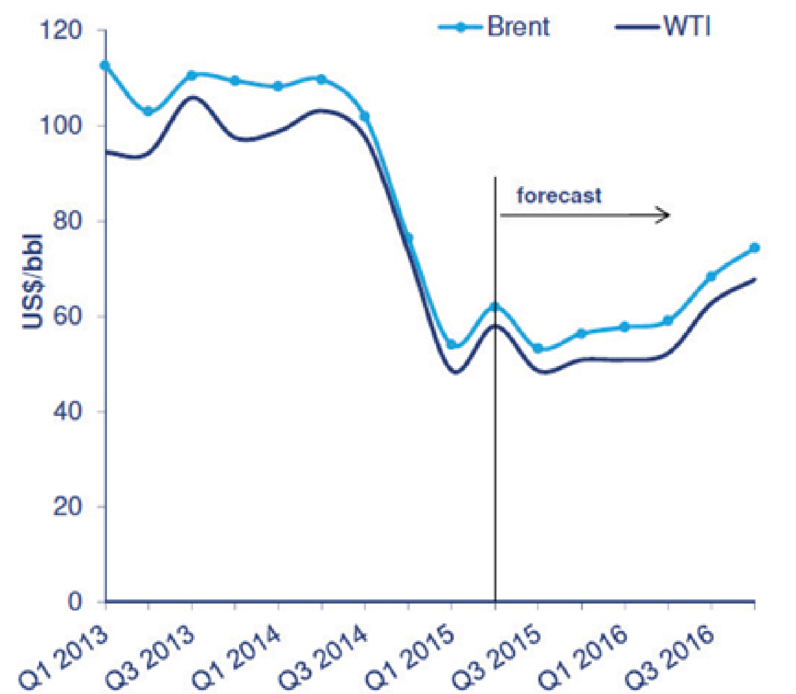
Company Overview

- Juneau Energy ("JE") is a Houston and Denver-based oil and gas company led by Brad Juneau, CEO, and Jeff Edgar, President
  - Focus is to leverage team's engineering, geologic and financial experience to make sound capital allocation decisions
- Since formation in early 2014, JE has completed four acquisitions/joint ventures:
  - Acquired significant leasehold interests in targeted areas in East and South Texas
    - 22,000+ net acres in core East Texas Eagle Ford Shale (EEF) in Brazos, Burleson, Lee and Grimes Counties, TX
    - 21,000+ net acres in the Buda-Georgetown-Glen Rose (BGGR) development area of Houston and Leon Counties, TX
    - Non-operated interests in South Texas Buda and EEF
  - Joint venture with AEXCO Petroleum to develop horizontal Mississippi Lime in Alfalfa County, OK

Industry Update

- Sharp decline in oil prices since mid-2014 – July 2014 price of $108/Bbl to $45/Bbl [1]
  - Rig count has dropped over 50% since September 2014 [2]
- Industry has needed to adjust with costs falling 20-30% [3]
  - Many areas are uneconomic to develop at current prices
- Companies with high quality assets and low leverage likely to weather the storm better than others
- Environment should provide opportunities for well-capitalized companies like Juneau

Quarterly Nominal Prices and Forecast [4]



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(2) Baker Hughes.
(3) Wood Mackenzie.
(4) Wood Mackenzie - Macro oils short-term outlook (August 4, 2015).

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Quarterly Nominal Prices and Forecast (4)
Brent WTI 60 40 0
forecast
Q1 2013 Q3 2013 Q1 2014 Q3 2014 Q1 2015 Q3 2015 Q1 2016 Q3 2016
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Financial Performance

JUNEAU ENERGY

- 1,294 Boe/d of production in July with majority coming from AEXCO JV (1,165 Boe/d), up from 1,112 Boe/d in June
- Positive operating cash flow in second quarter even in low price environment
  - Expect EBITDA to grow substantially as EEF drilling program begins
- Financial and operating results for 1H 2015:
  - 938 boe/d
  - $6.3 million revenue
  - Operating margin of $23.11/boe
  - $17.6 million of capital expenditures

2015 Developments

- East Texas Eagle Ford
  - Moving forward plan to drill and operate initial two wells, which will hold over 2,500 core net acres
  - Recent Apache Walker wells are on strike with our acreage and are Apache's best results to date
- AEXCO Mississippi Lime Joint Venture: Continued execution with recent well results performing above expectations
  - Single well economics remain attractive in current price environment (+20% IRR)
- East Texas Buda-Georgetown-Glen Rose
  - Drilled four wells to date to hold core acreage until end of 2016 – initial results have been disappointing
  - Working to review and interpret results to evaluate best method of development
  - Waiting on seismic (3Q15) before allocating more capital to the area

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High Quality Assets Performing Well in Low Price Environment

AEXCO Miss Lime Joint Venture

- New horizontal wells outperforming Leucadia underwriting case, with lower drilling costs and higher production rates helping maintain strong rates of return
- At current NYMEX oil strip, total future Aexco anticipated cash flow over $90 million. Potential ROI of 3.6x vs. underwriting case ROI of 4x
- Higher future oil prices would materially increase ROI

Eastern Eagle Ford

- Rig activity in EEF picking up (Anadarko, Halcón, Apache, PetroMax) as operators drill their best assets in low oil price environment
- Apache added 2nd rig after recently drilling their best wells to date, which are delivering above Juneau's forecast
- Lower drilling costs (falling from $9.5mm to $7.5mm) and continued improvement in projected reserves/well support expected returns by partially offsetting falling oil prices
- Recent sizeable nearby acreage sales over $6,000/acre are above Juneau's acreage cost
- Juneau's position is one of the largest privately-held positions in the play and is expected to command a premium if Juneau's acreage and future wells were to be sold

East Texas - BGGR

- Fulfilled drilling commitment until end of 2016
- Waiting on seismic to analyze results
- Operators continue development around Juneau's position

Strategic Priorities

- Focus on execution of two well program in East Eagle Ford to illustrate value of position
- Maximize value of existing assets through detailed technical work
  - Seismic to be available for Houston and Brazos/Burleson assets in Q3/Q4 2015
  - Understand best practices in each area
  - Continue data sharing with nearby operators
- Continue funding AEXCO drilling program from cash flow and as long as returns are adequate (+20%)
- Evaluate opportunities to add high quality assets to Juneau portfolio

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linkem

linken

Company Overview

- Fast-growing fixed wireless broadband internet provider in Italy
  - 280,737 subscribers as of 9/30/15
  - 82% annualized subscriber growth rate since Leucadia's initial investment in 2011
- Commercially launched LTE in Q4 2014, increasing customer download speeds well above the national average
- Nationwide network deployment with base stations, fiber exchange points, points of sale and customers in every region
  - As of 9/30/15, over 1,300 base stations deployed reaching 44% of the population
  - 300+ fiber points of presence
  - 2,000 indirect sales and distribution points
- 84MHz of 3.5 GHz spectrum covering over 80% of the population and at least 42 MHz in the remaining 20%
- 54% national brand awareness

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Nationwide network deployment with base stations, fiber exchange points, points of sale and customers in every region
As of 9/30/15, over 1,300 base stations deployed reaching 44% of the population
300+ fiber points of presence
2,000 indirect sales and distribution points
84MHz of 3.5 GHz spectrum covering over 80% of the population and at least 42 MHz in the remaining 20%
54% national brand awareness
148

Industry Update

- The Italian broadband market is dominated by low-speed ADSL
  - Over the next several years, ADSL with be replaced by both wireless and fiber solutions
  - With a comparable service to fiber, lower capex and an unmatched speed of deployment, Linkem is poised to become an integral component of Italy's broadband solution
- While behind the pace of other European countries, consolidation in the Italian telecom market is picking up
  - Wind (Vimpelcom) and 3 Italia (Hutchison) are combining businesses to create the largest Italian mobile operator and second largest broadband provider
  - ADSL operator Tiscali and fixed wireless provider Aria are also merging
- High-frequency spectrum values are increasing globally, as recently witnessed in the 2015 U.S. auction
- Increased competition among owners of domestic telecom towers should push down operating costs in the near-term

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Italian Market Potential

- Linkem currently covers 44% of the country, representing 11.3 million households
- Linkem has been aggressively deploying LTE technology since Q4 2014; 57% of the network is now LTE-enabled
- Initial LTE deployment focused on Southern Italy, including the city of Bari, Puglia, where Linkem has reached 5.7% household penetration

Household Coverage Evolution

Today: LTE & WiMAX Coexistence → **2018E: ~100% LTE Network**

Household Coverage Key				
0-20%	21-40%	41-60%	61-80%	81-100%

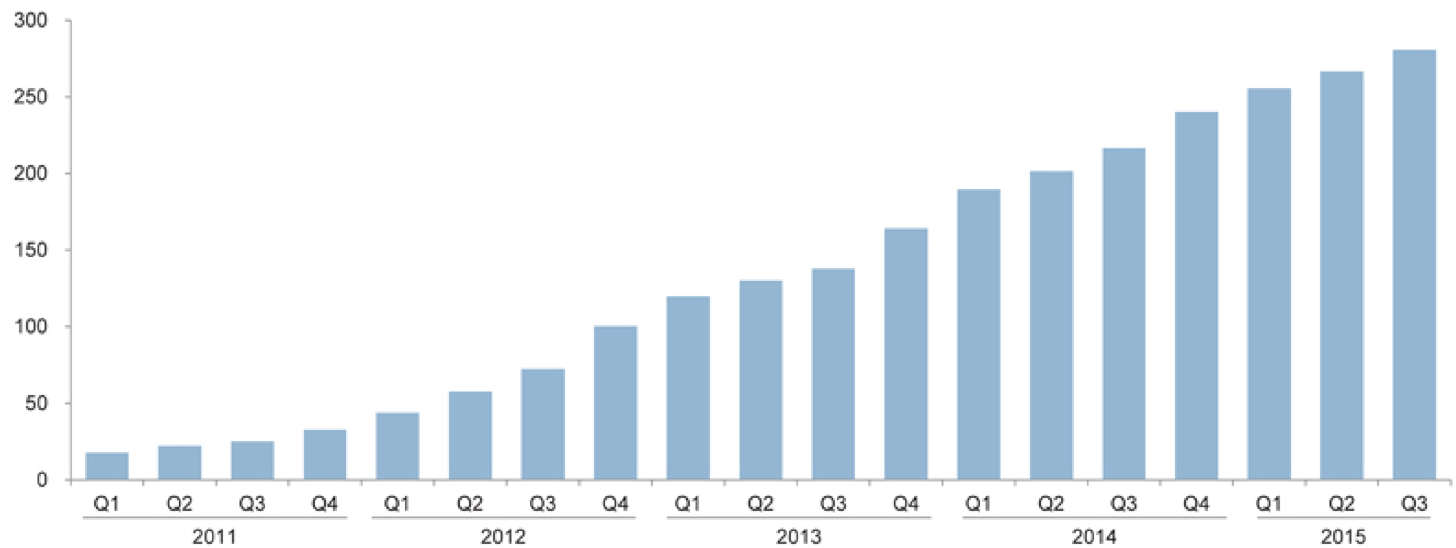
Over the next 3 years Linkem plans to significantly increase its coverage and penetration across Italy's 26 million households

Customer Base and Growth

- 82% annualized subscriber growth rate since Leucadia's initial investment in 2011
- 280,737 subscribers as of 9/30/15
- Marketing activities in the first eight months of 2015 were restrained due to the LTE rollout and capacity issues on existing towers; marketing picked up in September
- Base stations reach operating break even with less than 80 subscribers; we currently have over 200 subscribers per base station and expect over 350 subscribers on a full LTE base station

Subscriber Growth

Subscribers (000's)



Customer Base and Growth
Subscriber Growth
Subscribers (000's)
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2015 Developments

- EBITDA positive since Q4 2014
- Migrating our network to LTE from legacy WiMax technology
  - The company ended August 2015 with 245 greenfield LTE base stations and 511 LTE overlay antennae on-air
    - The company's network is now 57% LTE-enabled
  - With LTE, customers are experiencing peak speeds up to 30 mbps, versus the Italian average of 5 mbps
    - Our prices remain below the national average, creating strong incentives for new customers to switch to Linkem and providing significant value to existing customers
- Signed a new hardware agreement to support the LTE deployment
  - Related equipment financing at attractive rates
- Established a second customer call center in Taranto, Puglia
- National marketing campaign commenced in September 2015

Strategic Priorities

- Increase coverage through LTE network deployment
  - Long-term goal of 80%+ Italian household coverage
- Early focus on the region of Puglia in order to take meaningful market share
  - The region is a microcosm for the country as a whole
  - As of September 2015, 81.0% of households in the region are covered with 3.5% household penetration
    - We cover 100% of Bari, the largest city in Puglia, with 5.7% household penetration
- Maintain subscriber growth on the existing footprint
- Maintain excellent operating metrics and customer satisfaction
- Prepare to deploy network in major Italian cities
  - Rome launch expected in 1H 2016
  - Launches in major northern cities expected in 2H 2016 / 2017

CONWED
GLOBAL NETTING SOLUTIONS

CONWED
GLOBAL NETTING SOLUTIONS
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Company Overview

- Leading manufacturer of extruded, oriented and knitted plastic netting used in a variety of applications, including agriculture, automotive, building & construction, energy, filtration, hygiene, medical and packaging
  - 90% share in core markets such as sediment control and carpet cushion
  - Operates 5 manufacturing facilities on 2 continents and has a global distribution network
  - Facilities located in Minnesota, Georgia, Illinois, Virginia and Belgium
- In 2014, Conwed acquired 80% of Filtrexx, a manufacturer and marketer of a knitted sock product with numerous applications in sediment control and storm water management, and 100% of Weaver Express, the leading installer of Filtrexx's knitted sock products manufactured and marketed by Filtrexx
- Filtrexx and Weaver Express have been combined under the Filtrexx name – Filtrexx is a growing manufacturer, marketer and installer of compost filter socks to oil and gas drillers and the construction industry

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Industry Update

- Raw material prices have dropped 27% since October 2014. Lower oil prices have driven down costs, but a tight capacity situation has allowed polypropylene manufacturers to increase margins
- Modest economic growth expected from increased building and construction in both commercial and residential areas
- Increased domestic competition from our main competitor's relocation of capacity from Europe to the U.S.
  - Relationships, customer service and superior product quality have mitigated this risk
- Growth expected from Filtrexx/Weaver acquisitions as we continue to look to expand geographically and into new applications
- Continued development of new products and markets will provide modest growth; development lifecycle is 18 to 36 months

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Financial Performance

- YTD 2015 margin compression is primarily driven by first quarter seasonality in Filtrexx, lower demand from the oil and gas industry and a weak euro

($ in 000s)	FYE December 31, 2012	FYE December 31, 2013	FYE December 31, 2014	6M 06/30/15
Revenue	$ 89,357	$ 105,355	$ 128,831	$ 66,802
% Growth	*4.0%*	*17.9%*	*22.3%*	*15.3%*
Pre-tax Income	$ 11,453	$ 15,329	$ 13,856	$ 6,480
% Margin	*12.8%*	*14.6%*	*10.8%*	*9.7%*

Financial Performance
YTD 2015 margin compression is primarily driven by first quarter seasonality
Revenue 89,357 $ 105,355 $ 128,831 $ 66,802$
6,480$
157 Margin 12.8% 14.6% 10.8% 9.7%

2015 Developments

- Continued integration of Filtrexx and Weaver Express since their acquisitions in 2014
  - Combined annual revenues of $35 million at time of acquisition
  - Superior product replacement for silt fence in the sediment control area
  - Control of supply chain from production of yarn to installation of filter sock
- Filtrexx has endured headwinds as lower oil prices have slowed drilling in major shale plays
- Despite increased competition and a weak euro, Conwed's legacy business has performed well thanks in part to lower raw material costs
- Continued to gain market share in reverse osmosis filtration
- Developing new products in core businesses

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Strategic Priorities

- Drive annual organic growth
  - Continued co-development with customers
  - New products, markets and applications for Conwed’s core technology
  - Geographic market expansion
- Minimize lost business
- Relentlessly improve customer service levels
- Develop Filtrexx business organically and through acquisitions

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Drive annual organic growth
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Geographic market expansion
Minimize lost business
Relentlessly improve customer service levels
Develop Filtrexx business organically and through acquisitions
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IDAHO TIMBER

Company Overview

IDAHO TIMBER

- Manufacturer and distributor of wood products including:
  - Remanufacturing dimension lumber
  - Remanufacturing, bundling and bar coding of home center boards and related products
  - Primary manufacturing of pine dimension lumber, pine decking and cedar products
- 7 plants and 3 sawmills located in Arkansas, Florida, Idaho, Louisiana, New Mexico, North Carolina and Texas
  - 922,000 square feet of manufacturing and office space, covering ~214 acres

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Company Overview (continued)

- Remanufacturing Segment
  - Purchase lower-value dimension lumber and remanufacture to add value and develop tallies that allow us to provide just-in-time deliveries of specified products to our customers
  - Customer base consists primarily of pro dealers and lumber yards
- Home Center Board Segment
  - Proprietarily grade, bundle and bar code board products for delivery to home center stores
  - Additional service provided through vendor managed inventory programs
- Sawmill Segment
  - Primary sawmills located in Arkansas and Louisiana manufacture southern yellow pine products and sell primarily to lumber treating companies
  - Much of the product we sell ends up as treated decking for sale in home center stores

Company Overview (continued)
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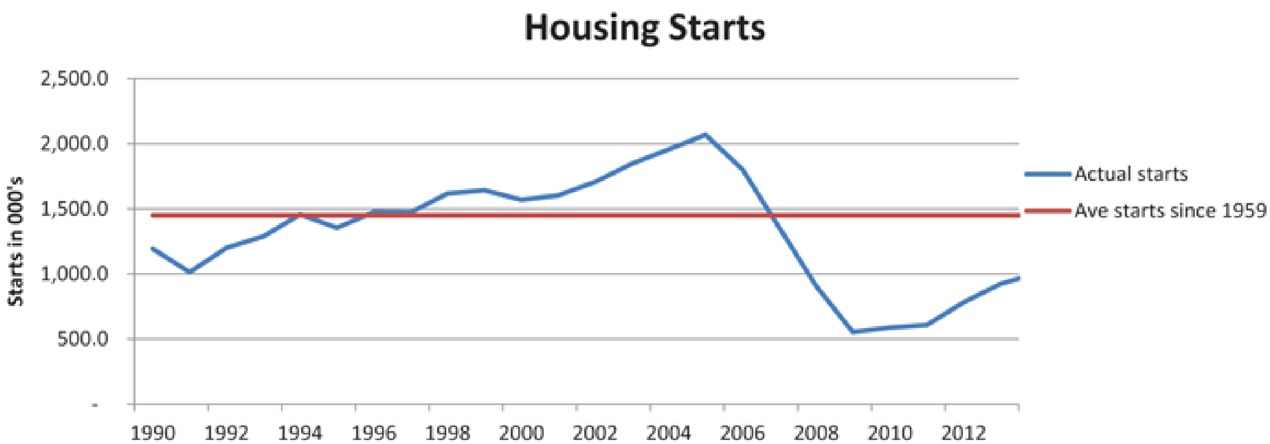
Industry Update

IDAHO TIMBER

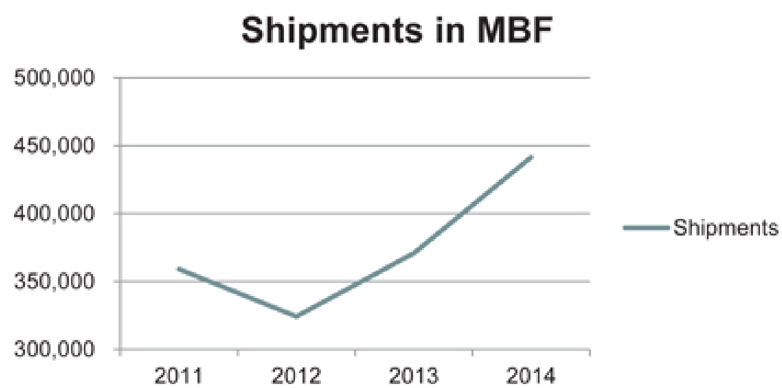
- Since 2007, the recession and U.S. housing market collapse caused significant headwinds
- In 2014, the housing industry saw continued signs of life and Idaho Timber delivered its best full-year performance since Leucadia's acquisition in 2005
- Although 6M 2015 housing starts continue to improve at a moderate pace, the lumber industry has out-produced demand causing a lumber market correction



Financial Performance

IDAHO TIMBER

($ in 000's)	FYE December 31, 2012	2013	2014	6M 06/30/15
Revenue	$ 163,513	$ 205,407	$ 251,632	$ 124,995
% Growth	*2.8%*	*25.6%*	*22.5%*	*NA*
Pre-Tax Income	$ 6,397	$ 9,599	$ 17,827	$ 5,870
% Margin	*3.9%*	*4.7%*	*7.1%*	*4.7%*



2015 Developments

IDAHO TIMBER

- The remanufacturing segment is experiencing additional supply opportunities and spread challenges due to industry wide production increases and moderating demand by the Chinese of certain lumber items
- We expect continued market volatility which could create strategic purchasing opportunities
- We have increased volumes to our largest customer for the home center board segment, thereby improving current year results and segment outlook
- The sawmill in Coushatta is operating on a one-shift basis and showing steady improvement in production efficiency as our work force gains experience

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Strategic Priorities

- Primary Mill: Develop production capabilities to achieve more efficient production on a full one-shift capacity basis
- Boards: Continue working with home centers to develop viable programs
- Remanufacturing: Increase profitability by increasing shipments over 2014 while maximizing spread
- Business Development: Explore opportunities to expand by organic growth or acquisition

Strategic Priorities
: Primary Mill: Develop production capabilities to achieve more efficient production on a full one-shift capacity basis
: Boards: Continue working with home centers to develop viable programs
: Remanufacturing: Increase profitability by increasing shipments over 2014 while maximizing spread
: Business Development: Explore opportunities to expand by organic growth or acquisition
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Company Overview

- Golden Queen Mining Company LLC (“Golden Queen”) is currently constructing its 100%-owned Soledad Mountain gold and silver project located in Kern County, California, approximately 90 miles northeast of Los Angeles
  - Open-pit, heap-leach operation
  - Stable jurisdiction with excellent infrastructure
- A recently commissioned feasibility study estimates that the project will produce, on average, ~84,000 gold equivalent ounces annually over its 12 year mine life (1)
  - Opportunities may exist to extend the project mine life
- Fully funded to production and on track to start commissioning in late 2015, with metals sales commencing shortly thereafter
- Leucadia effectively owns approximately 35% of Golden Queen through a joint venture with the Golden Queen Mining Company Ltd. (TSX:GQM) (“GQ Canada”) and the Clay family, GQ Canada’s largest shareholder
  - Set up as a pass through for tax purposes
  - Governance and oversight is split equally among Leucadia, the Clay family and GQ Canada

Source: Soledad Mountain Project Technical Report and Updated Feasibility Study (February 25, 2015).
(1) ~84,000 Gold Equivalent Ounces produced represents the average between years 2-11.

2015 Developments

- As of August 2015, project construction remains on-time and on-budget
  - Construction ~70% completed, with over $75 million of initial capital expenditures spent
  - ~60% of remaining capital expenditures are locked in under contracts
- Bob Walish was appointed CEO of the project in July 2015
  - Most recently the General Manager of the SCM Franke Operation of KGHM International, an open-pit, heap-leach copper mine in northern Chile
- Completed an updated Feasibility Study and Resource Estimate
  - Only ~65% of the estimated resource is currently included in the mine plan
  - A number of initiatives are underway to maximize the value of the defined resource
  - Total cash costs, including sustaining capital expenditures and net of silver credit, are expected to average $558 / oz gold sold over the life of the project (1)

Source: Bloomberg, Soledad Mountain Project Technical Report and Updated Feasibility Study (February 25, 2015).

(1) Per the 2015 Feasibility Study, Total Cash Costs, Net of Silver By-product per Ounce includes mining, processing and site G&A operating expenses as well as sustaining capital expenditures, net of silver revenue, per ounce of gold sold.

Strategic Priorities

- Maintain construction momentum and promote a safe work environment
  - Commissioning of the various processing plants is expected to begin in Q4 2015
- Optimize near-term mine planning to maximize upfront cash flows
  - Already completed one infill drill program that positively impacted expected production
- Continue to strategically acquire land around the project, which will facilitate efforts to increase the approved project boundary in the future
- Actively pursue a by-product aggregate business
  - The project's waste rock has potential for use in ready-mix concrete, hot mix asphalt and other products with minimal further processing
  - Strategically located by rail and highway to large Southern California markets

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Q & A IRQuestions@Leucadia.com

Q & A
IRQuestions@Leucadia.com

Appendix

Leucadia – Cash and Investments and Parent Debt GAAP Reconciliations

Reconciliation of Cash and Investments
($ millions)

Available Cash and Investments (GAAP) at June 30, 2015	$1,377.8
Redemption of 8.125% Senior Notes due September 2015	(458.4)
Available Cash and Investments, As Adjusted	$ 919.4

Reconciliation of Parent Debt
($ millions)

Parent Debt, Excluding Redeemable Preferred Shares (GAAP) at June 30, 2015	$1,446.5
Redemption of 8.125% Senior Notes due September 2015	(458.4)
Parent Debt, As Adjusted	$ 988.1

Leucadia – Cash and Investments and Parent Debt GAAP
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Leucadia – Tangible Book Value and Fully-Diluted Shares Outstanding GAAP Reconciliations

Reconciliation of Leucadia Book Value (Leucadia's Shareholders' Equity) to Tangible Book Value:
($ millions)

	6/30/2015
Leucadia Book Value (GAAP)	$ 10,655
Less: Goodwill and Intangible Assets	2,685
Leucadia Tangible Book Value (Non-GAAP)	$ 7,970

Reconciliation of Leucadia GAAP Shares Outstanding to Fully Diluted Shares Outstanding (a non-GAAP measure)
(millions of shares)

	6/30/2015
Leucadia Shares Outstanding (GAAP)	366.6
Restricted Stock Units	12.7
Other	0.9
Leucadia Fully Diluted Shares Outstanding (Non-GAAP)	380.2

Note: Fully Diluted shares exclude shares for warrants, options, convertible debt and preferred shares.

Leucadia – Tangible Book Value and Fully-Diluted Shares
6/30/2015 Leucadia Shares Outstanding (GAAP) 366.6 Restricted Stock Units 12.7 Other 0.9 Leucadia Fully Diluted Shares Outstanding (Non-GAAP) 380.2

Leucadia – Tangible Book Value GAAP Reconciliation

Reconciliation of Book Value to Tangible Book Value
($ Millions)

	Book Value (GAAP) (1)	Goodwill and Intangibles, Net	Tangible Book Value (Non-GAAP)
Jefferies	$ 5,533	$ 1,951	$ 3,582
Leucadia Asset Management	548	-	548
FXCM	759	-	759
HomeFed	234	-	234
Berkadia	207	-	207
Foursight & Chrome	77	-	77
National Beef	766	667	99
HRG	606	-	606
Vitesse & Juneau	453	-	453
Garcadia	185	-	185
Linkem	146	-	146
Golden Queen	81	-	81
Conwed	115	64	51
Idaho Timber	74	-	74
Cash & Investments (2)	919	-	919
Deferred Tax Asset	1,152	-	1,152
Other	65	3	62
Corporate Other Liabilities, Net	(152)	-	(152)
Debt and Preferred Equity (2)	(1,113)	-	(1,113)
	$ 10,655	$ 2,685	$ 7,970

(1) Dollar amounts are Leucadia's net carrying amount as of 6/30/15 for each investment, for consolidated subsidiaries equal to their assets less liabilities.
(2) Reduced for payoff at maturity of 2015 8.125% Sr. Notes using Parent Company Cash.

Berkadia – GAAP Reconciliation

Reconciliation of Pre Tax Income to Cash Earnings (a non-GAAP measure)
($ Millions)

	2010	2011	2012	2013	2014	YTD June 30, 2014	YTD June 30, 2015
Pre Tax Income (GAAP)	$ 31.0	$ 34.6	$ 103.8	$ 152.6	$ 191.3	$ 79.4	$ 108.1
Amortization, impairment and depreciation	$ 88.1	$ 107.5	$ 112.7	$ 94.7	$ 105.5	$ 46.6	$ 53.8
Gains attributable to origination of MSR's	$ (42.4)	$ (45.2)	$ (93.1)	$ (120.4)	$ (117.2)	$ (36.7)	$ (70.1)
Loan loss reserves and guarantee liabilities, net of cash losses	$ 3.1	$ 3.2	$ 18.8	$ 29.3	$ 28.8	$ 4.1	$ 21.7
Unrealized (gains) losses; and all other, net	$ (9.1)	$ 7.0	$ (7.7)	$ (3.6)	$ (35.0)	$ (21.4)	$ (28.5)
Cash Earnings (Non-GAAP)	$ 70.7	$ 107.1	$ 134.5	$ 152.5	$ 173.3	$ 72.0	$ 85.0

Jefferies – Bache Adjusted Earnings GAAP Reconciliation

Jefferies

Reconciliation of Consolidated Adjusted Financial Information
($ millions)

	Successor											
	Nine Months Ended 8/31/2015				Full Year Ended 11/30/2014				LTM Ended 2/28/2014			
	GAAP	Adjustments		Adjusted	GAAP	Adjustments		Adjusted	GAAP	Adjustments		Adjusted
Revenues												
Fixed Income	$ 261	$ 81	(1)	$ 180	$ 748	$ 203	(1)	$ 545	$ 790	$ 207	(1)	$ 583
Other	$ -	$ -		$ -	$ -	$ -		$ -	$ 5	$ -		$ 5
Net Revenues	$ 1,962	$ 81	(1)	$ 1,881	$ 2,990	$ 203	(1)	$ 2,787	$ 3,040	$ 207	(1)	$ 2,833
Net Revenues After Preferred Interest	$ 1,962	$ 81	(1)	$ 1,881	$ 2,990	$ 203	(1)	$ 2,787	$ 3,036	$ 207	(1)	$ 2,829
Non-Compensation Expenses	675	115	(3)	560	989	250	(3)(5)(8)	739	868	138	(3)(5)(7)	730
Compensation and Benefits	1,182	81	(4)	1,101	1,699	99	(4)	1,600	1,722	111	(4)	1,611
Total Expenses	1,857	196		1,661	2,687	349		2,338	2,590	249		2,341
Earnings Before Tax & MI	105	(115)		220	303	(146)		449	447	(42)		489
Income Tax	29	(37)		66	142	(46)		188	162	(18)		180
Minority Interest - Equity	2	-		2	3	-		3	11	-		11
Net Earnings to Common Shareholders/Member's Equity	$ 74	$ (78)		$ 152	$ 158	$ (100)		$ 258	$ 274	$ (24)		$ 298

	Predecessor							
	Full Year Ended 11/30/2012				Full Year Ended 11/30/2011			
	GAAP	Adjustments		Adjusted	GAAP	Adjustments		Adjusted
Revenues								
Fixed Income	$ 1,253	$ 249	(1)	$ 1,004	$ 743	$ 118	(1)	$ 625
Other	$ 13	$ -		$ 13	$ 74	$ 53	(2)	$ 21
Net Revenues	$ 3,062	$ 249	(1)	$ 2,813	$ 2,577	$ 170	(1) (2)	$ 2,407
Net Revenues After Preferred Interest	$ 3,019	$ 249	(1)	$ 2,770	$ 2,573	$ 170	(1) (2)	$ 2,403
Non-Compensation Expenses	756	135	(3)(6)	621	671	56	(3)(6)	615
Compensation and Benefits	1,771	120	(4)	1,651	1,483	34	(4)	1,449
Total Expenses	$ 2,527	$ 254		$ 2,273	$ 2,154	$ 90		$ 2,064
Earnings Before Tax & MI	$ 492	$ (5)		$ 497	$ 419	$ 80		$ 339
Income Tax	169	(2)		171	133	10		123
Minority Interest - Equity	41	-		41	2	-		2
Net Earnings to Common Shareholders/Member's Equity	$ 282	$ (3)		$ 285	$ 285	$ 70		$ 215

This presentation of Adjusted financial information is an unaudited non-GAAP financial measure. Adjusted financial information begins with information prepared in accordance with U.S. GAAP and then those results are adjusted to exclude the operations of Jefferies' Bache business. Management believes that the disclosed Adjusted measures and any adjustments thereto, when presented in conjunction with comparable U.S. GAAP measures are useful to investors as they enable investors to evaluate Jefferies' results in the context of exiting the Bache business. These measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP.

Accompanying footnotes on the following slide.

Jefferies – Bache Adjusted Earnings GAAP Reconciliation (continued)

(1) Revenues generated by the Bache business, including commissions, principal transaction revenues and estimated net interest revenue, for the presented period have been classified as a reduction of revenue in the presentation of Adjusted financial information.

(2) In connection with the acquisition of the Bache business, a bargain purchase gain of $53.0 million was recognized as Other revenue and has been classified as a reduction of revenue in the presentation of Adjusted financial information.

(3) Expenses directly related to the operations of the Bache business for the presented periods have been excluded from Adjusted non-compensation expenses. These expenses include Floor brokerage and clearing fees, amortization of capitalized software used directly by the Bache business in conducting its business activities, technology and occupancy expenses directly related to conducting Bache business operations and business development and professional services incurred by the Bache business as part of its client sales and trading activities, including estimates of certain support costs dedicated to the Bache business. Estimates of certain support costs were derived based on direct support costs for the presented period in relationship to the average head count of corporate support personnel with responsibilities associated with operating the Bache business.

(4) Compensation expense and benefits, including salaries, benefits, cash bonuses, commissions, annual cash compensation awards and the amortization of certain share-based and cash compensation awards, recognized during the presented period for employees whose sole responsibilities pertain to the activities of the Bache business, including front office personnel and dedicated support personnel, have been classification as a reduction of Compensation and benefits expense in the presentation of Adjusted financial information. In addition, compensation and benefits for other corporate support personnel with duties specific to the Bache operations included in this adjustment were estimated based on an average per person cost applied to the average head count for this employee population type across the presented periods.

(5) Non-compensation expense includes amortization expense during the presented periods of intangible assets, which arose in connection with the purchase accounting associated with the Leucadia transaction in the second quarter of fiscal 2013, which has been classified as a reduction of Non-compensation expense in the presentation of Adjusted financial information.

(6) Non-compensation expense includes amortization expense during the presented periods of intangible assets, which arose in connection with the purchase accounting for the acquisition of Bache in the third quarter of fiscal 2011, which has been classified as a reduction of Non-compensation expense in the presentation of Adjusted financial information.

(7) Non-compensation expense for the purpose of the Adjusted financial information is adjusted for a loss incurred associated with vacating certain office space previously dedicated for Bache operations.

(8) Non-compensation expense for the purpose of the Adjusted financial information is adjusted for goodwill and intangible asset impairment losses of $59 million related to the Bache business.

Jefferies – Adjusted Leverage Ratio GAAP Reconciliation

Jefferies

Reconciliation of Leverage Ratio - Excluding Impacts of the Leucadia Transaction
($ millions)

	August 31, 2015	May 31, 2015	February 28, 2015	November 30, 2014	August 31, 2014	May 31, 2014	February 28, 2014	November 30, 2013	August 31, 2013	May 31, 2013
Total assets	$ 42,785	$ 44,142	$ 43,787	$ 44,518	$ 44,764	$ 43,610	$ 43,440	$ 40,177	$ 38,830	$ 38,938
Goodwill and acquisition accounting fair value adjustments on the merger with	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)	(1,957)
Net amortization to date on asset related purchase accounting adjustments	120	116	112	108	42	37	32	27	18	9
Total assets excluding the impact of the merger	$ 40,948	$ 42,301	$ 41,942	$ 42,669	$ 42,849	$ 41,690	$ 41,515	$ 38,247	$ 36,891	$ 36,990
Total equity	$ 5,514	$ 5,520	$ 5,466	$ 5,463	$ 5,602	$ 5,527	$ 5,462	$ 5,422	$ 5,241	$ 5,183
Equity arising from merger consideration	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)	(1,426)
Preferred stock assumed by Leucadia	125	125	125	125	125	125	125	125	125	125
Net amortization to date of purchase accounting adjustments, net of tax	(41)	(31)	(20)	(9)	(58)	(48)	(36)	(25)	(17)	(8)
Total equity excluding the impact of the merger	$ 4,172	$ 4,188	$ 4,145	$ 4,153	$ 4,243	$ 4,178	$ 4,125	$ 4,096	$ 3,923	$ 3,874
Leverage ratio - excluding merger impacts	9.8	10.1	10.1	10.3	10.1	10.0	10.1	9.3	9.4	9.5

The leverage ratio presentation herein is an unaudited non-GAAP financial measure. This ratio should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP.

National Beef – Profit from Operations GAAP Reconciliation

Reconciliation of Pre-Tax Income to Profit from Operations (a non-GAAP measure)
($ Millions)

	FYE August, (1)			FYE December, (1)			6 Months Ending June,	
	2009	2010	2011	2012	2013	2014	2014	2015
Pre-Tax Income (GAAP)	$ 145.1	$ 249.0	$ 261.6	$ 59.0	$ (42.4)	$ (40.3)	$ (21.5)	$ (43.0)
Interest Expense / (Income), net	23.2	14.7	11.7	12.4	12.3	14.5	6.9	8.4
Depreciation & Amortization	44.4	49.6	51.2	83.1	88.5	85.3	42.0	43.9
Impairment of Long-Lived Assets	-	-	-	-	63.3	-	-	-
Profit from Operations (Non-GAAP)	$ 212.7	$ 313.3	$ 324.5	$ 154.5	$ 121.7	$ 59.5	$ 27.4	$ 9.3

Note: National Beef Profit From Operations represents pre-tax income exclusive of depreciation and amortization expenses, impairment charges and net interest income/expense, which is a common metric used by many investors in its industry to evaluate operating performance from period to period.

(1) Prior to being acquired by Leucadia in December 2011, National Beef's fiscal year ended in August. In addition, 2012 amounts are not comparable to prior periods as they reflect the application of acquisition accounting for National Beef, principally resulting in greater depreciation and amortization expenses during 2012.

National Beef – Profit from Operations GAAP
Reconciliation of Pre-Tax Income to Profit from Operations (a non-GAAP measure)
Profit from Operations (Non-GAAP) 212.7$ 313.3$ 324.5$ 154.5$ 121.7 59.5$ 27.4$ 9.3$

Leucadia National Corporation
2015 Investor Day

October 8, 2015

Leucadia National Corporation
2015 Investor Day
October 8, 2015

February 22, 2016

Dear Fellow Shareholders,

We thought 2015 would be a pretty good year for Leucadia, but beginning in August, a tsunami of market volatility struck land and damaged the results of Jefferies' Fixed Income businesses and, more recently, Jefferies' Equities and Investment Banking efforts, as well as our Leucadia Asset Management platform. We were not unprepared, having decided last year to exit the Bache futures and commodities business, and later in 2015, determined to reduce the size of Jefferies' balance sheet, debt and risk appetite, as well as make some other targeted changes in its business model. Notwithstanding these actions, we did not escape unscathed and the year ended in disappointment, with Leucadia earning $369.2 million, which excludes the operating results of Jefferies' Bache business.

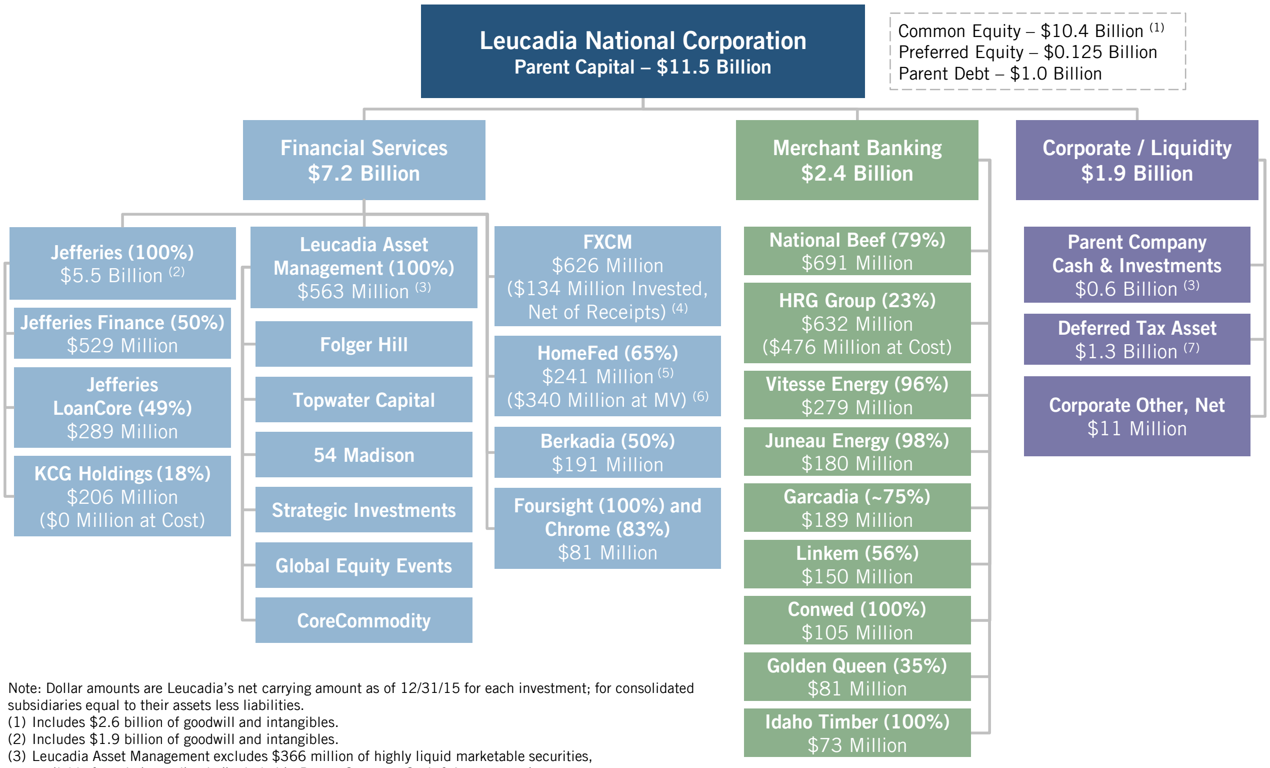
There are bright spots. Our investment in FXCM has proven to be an exceptional opportunity and investment. At National Beef, Mother Nature is doing her work, cows are having calves and ranchers are retaining the females to produce more cattle. This is good news for National Beef and consumers, with more steaks and hamburgers, and more profitable operations. We are just beginning to see the fruits of the virtuous part of the beef cycle.

There remains significant long-term upside in the value of Leucadia, which exists in the intrinsic value of our businesses and is not fully reflected in our current dismal stock price. We will discuss all of our businesses later in this letter.

As we write, there is continuing volatility in the fixed income and equity trading markets, as well as in energy prices. Scratches and dents seem inevitable and we won't dare make predictions for the rest of the year, but based on the actions we have taken to date, our businesses are prepared to weather the storm, and several are doing quite well. We are both aligned long-term investors in Leucadia stock and will continue to work our hardest to deliver good results in the coming years.

In the current first quarter, the share prices of our three investments that get marked to fair value, KCG (held at Jefferies), FXCM and HRG, are all taking their lumps, as is the market, but our investment thesis for each is intact and the outlook is positive. Berkadia, Garcadia, Conwed and Idaho Timber continue to generate solid results and return on equity, and we expect that Jefferies, National Beef and Leucadia Asset Management will get there too. Our oil and gas investments are faring reasonably, even in this low energy price environment. Later in this letter, we write a bit about these companies and several other of our businesses that are not yet generating profits, but that we like very much and have very attractive long-term value creation prospects, including HomeFed, Linkem, Golden Queen and our vehicle finance businesses. Historically, Leucadia has had lumpy results (we have the lumps to show for it), and our transition from the past to the future has had more headwinds than we would like, but rest assured our focus is on enhancing the value of all of our shares.

We classify our businesses into two groups, the first with current earning power and the second with potential for the future. For reference, we include below updated versions of two slides from our October Investor Day, which provide a detailed overview of our businesses.



Note: Dollar amounts are Leucadia's net carrying amount as of 12/31/15 for each investment; for consolidated subsidiaries equal to their assets less liabilities.
(1) Includes $2.6 billion of goodwill and intangibles.
(2) Includes $1.9 billion of goodwill and intangibles.
(3) Leucadia Asset Management excludes $366 million of highly liquid marketable securities, available for sale immediately (included in Parent Company Cash & Investments).
(4) Represents the initial cash outlay of $279 million reduced by cash receipts of $145 million as of 12/31/15.
(5) Carrying amount is net of deferred gain on real estate sale.
(6) Market value as of 12/31/15.
(7) Represents the Leucadia net deferred tax asset; the Jefferies net deferred tax asset is reflected within the Jefferies book value presented.

	Opportunity	Leucadia Tangible Capital ($ Millions)	%
Jefferies	Grow Investment Banking and Equities; Refocus Fixed Income	$3,593	40.5%
Berkadia	Leveraging Our Momentum and the Growing Market Opportunity	$191	2.2%
National Beef	Cyclical Return to Potential	$46	0.5%
Garcadia	Continued Operating Improvement	$189	2.1%
Conwed	Grow Recent Acquisitions; Drive Organic Growth with New Applications and Market Expansion	$43	0.5%
Idaho Timber	Continue Strong Management Across Cycle; Drive Volume and Production Efficiency	$73	0.8%
	Sub-total	**$4,135**	**46.6%**
Leucadia Asset Management	Performance Drives Growth in AUM and Value Creation	$560	6.3%
FXCM	Repayment and Recapitalization; Growth Opportunity	$626	7.1%
HomeFed	Inventory Sales to Lead Monetization	$241	2.7%
Foursight & Chrome	Growth to Scale and Operating Leverage	$81	0.9%
HRG	Drive Value Through Simplification	$632	7.1%
Vitesse & Juneau	Upside in Operations and Commodity Price	$459	5.2%
Linkem	Execute to Deliver on Open-Ended Opportunity	$150	1.7%
Golden Queen	Ramp-up Mine Production	$81	0.9%
	Sub-total	**$2,830**	**31.9%**
Deferred Tax Asset	Monetize DTA	$1,255	14.2%
Cash & Investments	Buffer	$614	6.9%
	Plus: Corporate Other Assets, Net	$11	0.1%
	Plus: Other	$22	0.2%
	Gross Tangible Capital	**$8,867**	**100%**
	Less: Debt and Preferred Equity	($1,114)	
	Tangible Common Equity	**$7,753**	

OUR BUSINESSES

Jefferies

Jefferies' full year results did not meet expectations. We have made significant changes and are committed to improving performance in 2016. On the positive side, diversification and expertise came through in the form of solid full year results for Investment Banking and Equities. We reported strong Investment Banking Net Revenues for the year of $1.4 billion, partially overcoming a market-driven slowdown in our Leveraged Finance and Energy investment banking businesses in which we have leading market positions. We continued to gain profitable market share in our Equities Sales and Trading business. Despite the challenges experienced by most of our Fixed Income credit businesses and, in contrast, we saw solid Net Revenues recorded by our U.S. and International Rates, and U.S. Investment Grade corporate credit businesses.

Fixed Income, which has been a solid to excellent business for Jefferies for many years, did not perform well in 2015. Almost all of our Fixed Income credit businesses were negatively impacted by the long anticipated lift-off in Federal Reserve rate-setting, a collapse in the global energy market (where we have long been an active adviser, capital raiser and trader), reduced originations in Leveraged Finance and anemic liquidity -- all of which impacted performance in the fourth quarter.

As promised during our Investor Day, we have reduced Jefferies' balance sheet and capital, consistent with the market environment. At the same time, we recruited new leadership in certain areas of our Fixed Income and Equities businesses to strengthen both our client offering and our results, and continue to selectively add accomplished senior professionals to our Investment Banking effort.

Jefferies' assets at the end of fiscal 2015 were $38.6 billion, down $4.2 billion from three months prior and $6.0 billion from the end of fiscal 2014. Jefferies' leverage (as a percent of tangible net worth) was at its lowest level in seven years. In addition to the absolute reduction in our balance sheet, our long securities inventory was $16.6 billion at fiscal year-end, down $2.3 billion from three months prior, and down $2.1 billion from the prior fiscal year-end. These reductions were substantially effected during the fourth quarter and impacted Jefferies' 2015 results, but leave Jefferies in a better position to succeed in 2016 and beyond. At the same time, the assets associated with the Prime Securities business, comprised primarily of securities held on behalf of clients, increased to $3.9 billion from $3.3 billion at the end of the prior quarter and $3.2 billion at the end of 2014. Separately, Jefferies Finance, Jefferies' 50%-owned corporate lending joint venture with MassMutual, completed the syndication of a number of its committed financings through year-end 2015, with outstanding commitments being about 29% lower than the average of commitments outstanding at quarter-ends over the last two years and 33% lower when compared to the end of 2014.

Jefferies' unsecured long-term debt has been reduced by $700 million to $5.6 billion at year-end from $6.3 billion one year ago, and the $350 million March 2016 debt maturity will be repaid from cash on hand. Jefferies' Level 3 assets remain at about 3% of inventory, and the liquidity buffer at $5 billion after the repayment of a $500 million debt maturity during the fourth quarter. Jefferies' net distressed trading energy exposure was $39 million at year-end. Average VaR for the fourth quarter of $10 million was lower by 40% compared to $14 million for the third quarter.

The significant changes to Jefferies' Fixed Income business followed our decision to exit the Bache futures and commodities business, which removes a significant drag on Jefferies' profitability. With respect to Bache, in 2015, we incurred pre-tax losses of $135 million, including wind down costs of $90 million.

As we write this letter, Jefferies is continuing to face a turbulent market environment, with extreme volatility and lower prices in almost every asset class. Jefferies' balance sheet, capital allocations and risk levels remain consistent with the actions we took toward the end of last year, and Jefferies' fixed income business, while far from robust, is thus far performing better. New issue capital markets are barely open and Investment Banking deal flow is sparse, as many transactions are being delayed due to market conditions. Similar to most market participants, we are experiencing some meaningful markdowns in equity positions held in inventory. Despite these short-term challenges, we believe Jefferies is poised for much better results when market conditions eventually stabilize.

Our management team has navigated challenging periods at Jefferies before as 1990, 1994, 1998, 2001-02, 2008-09, 2011 and now 2015, each delivered a unique dislocation. Each of these periods was also followed by unique growth opportunities and an improved competitive position. In 2016, Jefferies will continue to focus on our clients, be relentless in finding areas where we can continue to improve our operating results, hire new quality partners, prudently manage our risk, and never stop appreciating our employee-partners whose hard work and dedication are the backbone and most important assets of the firm. We thank Pete Forlenza (Equities), Fred Orlan (Fixed Income), Ben Lorello (Investment Banking), Peg Broadbent (CFO) and Mike Sharp (General Counsel of Leucadia and Jefferies) for their indefatigable leadership efforts at Jefferies.

FXCM

Last year's shareholder letter described the sudden and remarkable events that led to our January 2015 investment in FXCM. This year, we can report that our investment in FXCM is looking solid. Through the end of 2015, our $300 million senior secured term-loan has generated $166 million of principal, interest and fees to Leucadia and $193 million remains outstanding under the credit agreement. Drew Niv and the FXCM management team have done an excellent job stabilizing and even strengthening the business, all while selling off non-core assets in order to pay off our loan. FXCM has come a long way from the extraordinary event that led to our involvement, and it is well on its way to regain and hopefully exceed its historic position in the global foreign exchange market.

Our investment in FXCM is held at fair value and is marked-to-market each quarter. This has created significant short-term variability in Leucadia's (and FXCM's) earnings. We determine fair value with the assistance of a nationally recognized third-party valuation firm, and it is based on valuation models that are impacted by various inputs and assumptions, including, most significantly, FXCM's publicly traded stock price and its volatility. We have had discussions with FXCM about restructuring our profit interest in a manner that is consistent with a sustainable long-term and value-enhancing strategy for both companies.

Leucadia Asset Management

Our goal at Leucadia Asset Management is to leverage the opportunity flow of Jefferies to build a diversified alternative asset management platform by seeding and developing focused funds managed by distinct management teams. Success will mean growing third party AUM to deliver long-term stable cash flows to Leucadia, along with a reasonable return on our own invested capital, expecting to recycle this capital into new efforts over time.

2015 was a busy year for Leucadia Asset Management. In March, with our partner Sol Kumin, we successfully launched Folger Hill Asset Management with $1.1 billion in assets under management. Later in the year, we partnered with Henry Silverman to create 54 Madison, a vehicle to invest in hotel and leisure real estate opportunities now with $500 million in assets under management. Our Strategic Investment Division (part of Jefferies Investment Advisors) led by Vlad Portnoy is preparing for the launch of a new fund off the success of its Structured Alpha program. Topwater, our first-loss manager led by Brian Borgia and Travis Taylor, further proved the strength of its model by producing 7% returns with no down months in what was a particularly volatile year. We believe Topwater will see significant AUM growth in 2016 based on the attention these results are generating from investors. We also began incubating several other strategies, including systematic macro and options trading platforms.

Berkadia

Berkadia delivered on our high expectations in 2015. Fueled by increasing near-term maturities (which are driving the refinancing wave), overall low borrowing rates and several operational changes, Berkadia, our 50/50 joint venture with Berkshire Hathaway, experienced its best year ever for originations and investment sales volume in 2015. The continued integration of the mortgage banking and investment sales teams that we described last year led to strong results for both groups.

During 2015, Berkadia originated $22.0 billion in new financings for its clients, up more than 72% over 2014. This volume included one of the largest Freddie Mac portfolios ever originated, a $5.1 billion pool of loans for Lone Star's acquisition of Home Properties, making this the fourth consecutive year Berkadia completed a transaction above $1 billion. With Berkadia's average loan size of $17 million, this deal highlights the firm's ability to provide solutions to multi-family housing owners of all shapes and sizes. Berkadia also experienced strong growth in investment sales, growing from $4.1 billion in 2014 to $5.9 billion in 2015. The firm's momentum is also highlighted by the share of deals where we acted as both the sales advisor and debt originator (21%), and our hiring of 51 new high caliber mortgage bankers and investment sales advisors. All of these factors combined to enable Berkadia to generate $164 million of pre-tax income and $158 million of cash earnings. We expect our strong momentum to continue into 2016 and would like to thank Justin Wheeler and the rest of the Berkadia team for their continued efforts to grow by providing better products and services to our customers.

HomeFed

The majority of HomeFed's assets are now either operating real estate or entitled land available for sale, and our priority is to convert this land to cash in a smart and orderly process. In July, HomeFed completed the acquisition of about 1,600 acres of land in the Otay Ranch area of San Diego County for a cash purchase price of $150 million. The acquired land is contiguous to land already owned by HomeFed. We now have about 4,450 acres of Otay Ranch land entitled for 9,350 multi-family residential units, 3,700 single family residential units and 1.85 million square feet of commercial space. Land development in Otay's first village commenced in February 2016. HomeFed's other assets, in California, Florida, Maine, New York, South Carolina and Virginia, are either currently generating cash or well-positioned to take advantage of strong expected demand for housing. We appreciate Paul Borden and the entire HomeFed team's intense efforts across the portfolio.

National Beef

The rebuilding of the domestic cattle herd continued to create a difficult environment for U.S. beef processors in 2015. Lower supply of cattle available for slaughter led to underutilization of industry-wide capacity and relatively high costs for cattle throughout much of the year. On the demand side, the price of beef was somewhat capped by increased imports and the relative cost of less expensive alternatives in chicken and pork, while exports were challenged by the strengthened dollar. Extreme volatility in the price of cattle during the last four months of the year only further strained the operating environment for most processors. National Beef suffered through all this, reporting negative EBITDA for the first time since Leucadia acquired this business in December 2011. However, we believe the company is poised to benefit as the industry rebounds in the coming years on the back of an increase in the number of fed cattle available for slaughter. This is an industry where patience is rewarded and our management team led by Tim Klein has positioned National Beef to make the most of the cyclical turn when it arrives.

HRG Group

We continue to own 23% (46.6 million shares) of HRG Group acquired between September 2013 and November 2014 at an average cost of $10.21 per share versus a $13.56 per share stock price at year-end 2015. Our incredible Chairman, Joe Steinberg, serves as Chairman of HRG and is on the Boards of its major business units. The vast majority of HRG Group's value is accounted for by its ownership in Spectrum Brands (58%) and Fidelity & Guaranty Life (81%). Spectrum, a diversified global branded consumer products company, had its sixth consecutive year of record financial performance growing adjusted free cash flow from $359 million in 2014 to $454 million in 2015. With the May 21, 2015 acquisition of Armored AutoGroup, which includes brands Armor All and STP, Spectrum is now a player in the global auto care market and expects to grow free cash flow to $505 million in 2016. On November 8, 2015, Fidelity agreed to be acquired by Anbang Insurance Group for $1.57 billion, or $26.80 per share, a 29% premium over Fidelity's unaffected stock price. The sale is expected to be completed in the second quarter, with a substantial portion of HRG's proceeds from the sale expected to be used to pay down debt at HRG. We believe that this sale of Fidelity, combined with the additional sale of other assets, may help to close the ongoing gap between HRG's share price and the sum of the value of its various parts.

Garcadia

Thanks in part to record auto sales in the U.S., Garcadia, our auto dealership joint venture with the Ken Garff Group of Salt Lake City, had an exceptional year in 2015. Auto sales in the U.S. grew 5.8% in 2015 to 17.39 million units, just eclipsing the previous sales record from 2000 of 17.35 million units. In this strong market, Garcadia was able to gain more than its fair share and grew same store new unit sales by 14.5%. Thanks to this growth in sales and our enhanced focus on the service business, Leucadia's share of distributions from Garcadia grew to $51.5 million in 2015. To maintain this strong performance in a rapidly changing market, we will continue to focus in 2016 on trying to simplify and accelerate the car buying experience at our dealerships. Our goal is to get the average transaction time below one hour. Although we looked at numerous acquisition opportunities during the year, we remained true to our promise to be cautious at this point in the cycle and only completed one tuck-in deal - Long Beach Honda. We remain thankful for our long term partnership with John Garff, Brett Hopkins and the rest of the Garcadia team.

Vehicle Finance - Foursight Capital and Chrome Capital

Our consumer auto and motorcycle finance businesses continued to experience significant growth in 2015. Foursight, our near-prime auto finance company, grew originations from $142 million in 2014 to $215 million in 2015. This growth was driven by geographic expansion, not a change in underwriting - our weighted average FICO remained stable. Foursight's loan portfolio, including our two securitizations, is performing as expected in terms of delinquencies and losses. We plan to continue to invest in growth in 2016, with the addition of more marketing representatives both to cover our current markets better and to expand into new markets as well. Our medium-term goal at Foursight is to grow annual originations to $500 million (supported by an estimated $90 million in capital), with a pre-tax return on equity of about 20% per annum. Chrome also experienced strong growth in 2015, growing originations from $20.5 million in 2014 to $41.8 million. Although doubling volume in 2015 was a step in the right direction, we still need to achieve significant growth in 2016 for Chrome to be a meaningful contributor to this platform.

Linkem

At Linkem, our 56% owned Italian fixed wireless broadband service provider, 2015 was mainly focused on expanding its geographic footprint and migrating its network to LTE. Over 360 greenfield LTE base stations were added and LTE was overlaid on over 590 existing base stations. By year-end, Linkem's 1,424 base stations covered approximately 48% of the Italian population and 67% of its towers are LTE-enabled. Linkem increased its subscriber base approximately 30% to more than 310,000 subscribers and was EBITDA positive throughout the year. In the city of Bari, one of Linkem's early deployments, Linkem has reached a 6% household penetration rate. 2016 will be another busy year for Davide Rota and the Linkem team, with plans to increase the pace of its footprint expansion, including deployments in Rome and several major northern Italian cities.

Energy - Vitesse Energy and Juneau Energy

With hindsight, we recognize that, although we picked good management partners, we missed the better moment to begin building Vitesse and Juneau by being some months early and ahead of the collapse in global energy prices. We are pleased with our management teams, and the fact that neither company is heavily leveraged and thus have solid staying power. In the short-term, we will reduce overhead costs by combining certain functions between the two companies. We believe we will be rewarded over time with both of these investments.

Vitesse Energy is a non-operated owner of oil and gas assets located within the core of the Bakken Field in North Dakota. Led by Bob Gerrity and a strong and experienced oil and gas team, Vitesse owns 21,000 net acres and associated oil and gas production from over 1,100 gross wells, primarily located in Williams, McKenzie and Mountrail counties. Production has grown by 50% over the last year to nearly 3,000 net barrels of oil equivalent per day at year-end 2015. Despite the deep decline in oil prices over the past year, Vitesse's oil and gas properties retain value above their cost. Vitesse focuses on acquiring core acreage with significant development opportunities that are leveraged to lower drilling and completion costs and increasing reserve recoveries per well from improvements in fracking and completion technologies. During 2015, Bakken operators reported drilling and completion costs decreased by 30-40%, reserves for new wells completed have risen by 30% and the number of wells that can be drilled in most Bakken 1,280 acre drilling spacing units is increasing without a drop in reserves per well drilled (i.e., more reserves per acre can be recovered). Assuming current industry well spacing projections, Vitesse has an inventory of over 200 net undeveloped wells to be completed which represents capital expenditures that Vitesse can make solely at its election of over $1 billion with virtually all capex funded by free cash flow from operations over time. Nearly 90% of Vitesse's asset base will be developed in the future at what we expect will be improving economics. Turning to the near-term, Vitesse increased its hedges in place for the balance of 2016 and all of 2017 for two-thirds of its currently flowing oil production at a hedged price in excess of $50/bbl. We believe the risk of continuing falling oil is highest in 2016-17 and therefore exchanged prior hedges for 2018-20 for the above market hedges in 2016 and 2017.

Juneau Energy's assets continue to retain value and return potential despite the very low oil price environment, and management led by Brad Juneau and Jeff Edgar are committed to maximizing long-term value. Juneau's primary asset is over 22,000 net acres in the East Eagle Ford field in Brazos, Burleson and Grimes Counties, Texas. Most of the acreage is located in the core of the trend where Apache Corporation, a leading public oil and gas independent operator, drilled over a dozen wells in the last half of 2015 close to Juneau's acreage. Initial production rates of Apache's wells are strong and at the same time well costs have fallen over 30%. During December 2015, Juneau drilled and successfully completed two initial horizontal wells. The wells began initial production in late January and Juneau will monitor the performance of the wells over the coming months. While very early, the current production levels and well pressures point to reserves of the two wells being modestly below our initial reserve estimates.

Unfortunately, there are very few current domestic U.S. drilling opportunities that produce compelling returns until oil prices return to the $45-55/bbl range. Juneau will use the data from our first two wells to improve the quality of our acreage position, extend leases where appropriate and continue to analyze the best future drilling locations in preparation for a one rig development program upon oil prices rebalancing.

In Juneau's Houston County project area, Juneau will soon receive new 3D seismic results on the Company's 20,000 net acre position. Based on this new information, the Company will evaluate further development of this asset. In Juneau's Mississippi Lime JV project in Alfalfa County, Oklahoma, we have drilled six successful horizontal wells and reserves appear to be about 25% above our original expectations and are producing good returns.

Conwed

Conwed, which manufactures extruded and oriented plastic netting, posted a 4% increase in revenues and an 8% increase in pre-tax profits in 2015, driven by organic growth in Conwed's legacy business, the full year impact of its 2014 Filtrexx and Weaver acquisitions, and a drop in the price of resin, Conwed's primary raw material. Although Filtrexx has experienced headwinds due to the decline in oil and gas drilling in the Marcellus Shale (Filtrexx's largest customer segment), it has made progress developing new markets for its compost filter sock products. 2015 marked Conwed's 30th year under Leucadia's ownership and we are grateful for Chris Hatzenbuhler's steady hand in making Conwed such a reliable contributor.

Idaho Timber

Coming off a strong 2014, Idaho Timber maintained its momentum despite weak prices for many lumber products. EBITDA was $20 million, as volume increased 15% in the face of a two percentage point decrease in margin due to oversupply in certain global timber markets. Ted Ellis and his team are experts at mining the opportunities in the fluctuating timber market and the company is well positioned to continue to generate positive results.

Golden Queen

Golden Queen's Soledad Mountain gold and silver project completed construction on budget. Mining activities commenced on time and, despite minor delays getting its power connected and with commissioning, the first gold pour is expected in March. Our team, led by Bob Walish, grew from a handful in January to over 90 at the end of December and did a terrific job delivering a working mine. In 2016, the team will be focused on ramping up production while keeping tight controls on its costs and continuing to develop ancillary activities, such as selling aggregates, which could extend the mine life. Although gold prices ended 2015 near their six-year lows, Golden Queen's projected construction costs should ensure comfortable operating margins.

* * *

As we have said before, we intend to continue to follow Leucadia's historic practice of letting our actions and results be our primary voice, but remind you that the two of us look forward to answering your questions at our upcoming Annual Meeting on May 26, 2016, and we also will hold our Annual Leucadia Investor Day on October 5, 2016, at which time you will have the opportunity to hear directly from the senior leaders of the major Leucadia businesses, including Jefferies.

We thank all of you -- our clients and customers, our employees, our shareholders, our bondholders and all others associated with Leucadia, Jefferies and all our businesses -- for your continued support.

Sincerely,

Richard B. Handler
Chief Executive Officer

Brian P. Friedman
President

Leucadia National Corporation

2016 Investor Meeting

October 5, 2016

Note on Forward Looking Statements

This document contains “forward looking statements” within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words “should,” “expect,” “intend,” “may,” “will,” or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors, including our Risk Factors, that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in reports we file with the SEC. You should read and interpret any forward looking statement together with reports we file with the SEC.

Leucadia's Momentum

- **Our businesses are operating well and have the potential to generate significant further long-term value**
  - **Jefferies has performed better in Q2 and Q3 2016 and has scope for further growth and margin expansion**
    - **Fixed Income is delivering solid results**
    - **Equities is performing well, with potential for further market share gains**
    - **Investment Banking backlog is stronger for Q4, following a cyclical slowdown in recent quarters, and we continue to strengthen and expand our team**
  - **National Beef is benefiting from a more balanced supply of cattle; preliminary estimated record results:**
    - **Pre-Tax Income of ~$104 million for Q3 and ~$188 million for 9M**
    - **Adjusted EBITDA [(1)] of ~$130 million for Q3 and ~$267 million for 9M**
  - **We continue to prospect for new opportunities and are always seeking to "get the call"**

(1) Adjusted EBITDA is a non-GAAP measure. See page 98 in Appendix for reconciliation to GAAP amounts.

Leucadia Overview

(As of 6/30/16)

Leucadia National Corporation
Parent Capital – $11.2 Billion

Common Equity – $10.1 Billion (1)
Preferred Equity – $0.125 Billion
Parent Debt – $1.0 Billion

Financial Services — $6.9 Billion

- **Jefferies (100%)** $5.4 Billion (2)
- **Jefferies Finance (50%)** $471 Million
- **Jefferies LoanCore (49%)** $158 Million
- **KCG Holdings (18%)** $224 Million (<$0 Million at Cost)
- **Leucadia Asset Management (100%)** $459 Million (3)
  - Folger Hill
  - Topwater Capital
  - 54 Madison
  - Strategic Investments
  - Global Equity Events
  - CoreCommodity
  - Lake Hill
  - Tenacis
  - 101 Capital
- **FXCM** $508 Million ($118 Million Invested, Net of Receipts) (4)
- **HomeFed (65%)** $264 Million (5) ($385 Million at MV) (6)
- **Berkadia (50%)** $184 Million
- **Foursight (100%) and Chrome (85%)** $102 Million
- **M Science (94%)** $13 Million

Merchant Banking — $2.5 Billion

- **National Beef (79%)** $699 Million
- **HRG Group (23%)** $640 Million ($476 Million at Cost)
- **Vitesse Energy (96%)** $284 Million
- **Juneau Energy (98%)** $169 Million
- **Garcadia (~75%)** $208 Million
- **Linkem (56%)** $172 Million
- **Conwed (100%)** $105 Million
- **Golden Queen (35%)** $79 Million
- **Idaho Timber (100%)** $76 Million

Corporate / Liquidity — $1.8 Billion

- **Parent Company Cash & Investments** $0.5 Billion (3)
- **Deferred Tax Asset** $1.3 Billion (7)
- **Corporate Other, Net** $34 Million

Note: Dollar amounts are Leucadia's net carrying amount as of 6/30/16 for each investment; for consolidated subsidiaries equal to their assets less liabilities and non-controlling interest.
(1) Includes $2.6 billion of goodwill and intangibles.
(2) Includes $1.9 billion of goodwill and intangibles.
(3) Leucadia Asset Management excludes $76.1 million of highly liquid marketable securities, available for sale immediately (included in Parent Company Cash & Investments).
(4) Represents the initial cash outlay of $279 million reduced by cash receipts of $161 million as of 6/30/16.
(5) Carrying amount is net of deferred gain on real estate sale.
(6) Market value as of 6/30/16.
(7) Represents the Leucadia net deferred tax asset; the Jefferies net deferred tax asset is reflected within the Jefferies book value presented.

Leucadia – Operating Profile in 2016 vs. 2012

	12/31/12	Versus	6/30/16
Significant Businesses & Investments (ex-Jefferies)	10(1)	**+80%**	18(2)
Average Size of Divestitures / Investments	$344 Million per Divestiture (3)	**Increased Diversification**	$185 Million per Investment (4)
Jefferies Business Model, Risk Metrics and Liquidity	✓	**Enhanced**	✓
Concentration Ratio	X	**Diversified Risk; To Improve Further**	✓
Liquidity Ratio	X	**Maintained Solid Liquidity**	✓
Leverage Ratio	X	**Limited Leverage**	✓
Jefferies Finance Commitment Ratios	N/A	**Consistent Risk Management**	✓
Asset Management Foundation	X	**LAM Launched and Diversified**	✓
Speculative Projects (Sangart, Lake Charles)	X	**No Material Speculation**	✓
Non-Core Assets (Crimson, Real Estate, OLNG)	X	**No Diversions**	✓
Next Leucadia Maturity	2013	**Seven Years**	2023

(1) Includes Berkadia, Conwed, Crimson, Garcadia, HomeFed, Idaho Timber, Inmet, Linkem, National Beef and Premier Entertainment.
(2) Includes 54 Madison, Berkadia, Conwed, CoreCommodity, Folger Hill, Foursight/Chrome Capital, FXCM, Garcadia, Golden Queen, HRG Group, HomeFed, Idaho Timber, Juneau, Linkem, M Science, National Beef, Topwater and Vitesse.
(3) Includes Fortescue Metals, Inmet, Mueller, Premier Entertainment, Keen Energy, Global Caribbean Fiber, Mazama and TeleBarbados.
(4) Includes 54 Madison, Folger Hill, Topwater Capital, HRG Group, FXCM, Vitesse Energy, Juneau Energy, Linkem, Garcadia, Golden Queen, Conwed, Foursight/Chrome Capital and M Science.

Leucadia Business Highlights

Jefferies

- Jefferies recorded $103 million of Pre-Tax Income in Q2 2016 and $81 million in Q3 2016
- Solid Equities and Fixed Income results; Investment Banking backlog showing momentum following a slow period in global capital markets
- Jefferies is delivering better results with lower risk and lower volatility

National Beef

- National Beef is recovering strongly on the back of greater availability of cattle
- Preliminary estimated record results:
  - Pre-Tax Income of ~$104 million for Q3 and ~$188 million for 9M
  - Adjusted EBITDA (1) of ~$130 million for Q3 and ~$267 million for 9M

HRG GROUP

- HRG Group's underlying businesses are performing well and management is effectively unlocking value
- Compass sale complete; Sale of FGL continues to progress towards closing

Leucadia Asset Management

- Solid foundation for a differentiated alternative asset management platform
- 9 platforms operating today

FXCM

- As of June 30, 2016, we have received total cash payments of $182 million, with $193 million of the original $300 million term loan outstanding and a FMV carrying value of our investment at $508 million (Announced sale of DailyFX for $40 million)
- FXCM's business continues to recover and holds prospects for additional significant long-term value creation
- Leucadia and FXCM have completed the restructuring of our relationship, deepening our long-term partnership and providing Leucadia a direct equity interest in FXCM's operating business

(1) Adjusted EBITDA is a non-GAAP measure. See page 98 in the Appendix for a reconciliation to GAAP amounts.

Leucadia Business Highlights (Continued)

BERKADIA

- 1H 2016 Pre-Tax Income was $72 million, representing an annualized 34% pre-tax ROE
- 3rd largest U.S. Primary and Master Servicer
- Leader in multifamily lending in 2015

HOMEFED CORPORATION

- The vast majority of HomeFed's assets are now either operating real estate or entitled land available for sale
- HomeFed has begun to monetize Otay Ranch: commenced earthworks in Otay Ranch's 450-acre Village III community planned for 948 homes and signed agreements with three national builders to develop and build homes
- Additional real estate holdings have significant underlying value – residential and mixed-use real estate projects in California, New York, Florida, South Carolina, Virginia and Maine

GARCADIA

- Garcadia recorded $37 million of Pre-Tax Income in 1H 2016, representing an annualized 29% pre-tax ROE (1)
- 4th largest private auto dealership group in the U.S. in 2015 based on new sales volume(2)

VITESSE ENERGY
Velocity of Capital Compounding

- With lower oil prices, Bakken operators are only drilling in the core of the Bakken where Vitesse has virtually all its assets
- Continuing to participate in lower risk infill horizontal development drilling in the core areas of the Bakken Oil field that produce good economics at $45/bbl oil prices
- Recently closed acquisition of 31 drilled-but-not-yet-completed wells operated by EOG and located in the Denver-Julesburg ("DJ") Basin

JUNEAU ENERGY

- Juneau owns flowing oil and gas assets in Oklahoma, leasehold acreage in the East Texas Eagle Ford shale where two horizontal wells were successfully completed in early 2016 and acreage in the Buda-Georgetown-Glen Rose formations
- Continuing geological and seismic work to develop attractive drillable opportunities and identifying experienced operating partners to commit development capital on our acreage

(1) Based on Leucadia's share.
(2) Based on Automotive News 2015 rankings.

Leucadia Business Highlights (Continued)

- Fast-growing fixed wireless broadband provider, currently reaching 50% of Italian households
- 373,028 subscribers as of 09/30/16; 71% compounded annualized subscriber growth rate since 2011
- Positive EBITDA since Q4 2014

- Recently completed its 3rd auto loan securitization
- Continues to drive market share and originations, while maintaining a disciplined approach to credit quality

- Gold production commenced in April 2016 and the project produced 2,827 gold ounces and 33,346 silver ounces during the second quarter
- Mining and processing activities are operating seven days per week

- Dominant market share in core markets, such as sediment control and carpet cushion
- Strategic focus on driving organic growth through new applications and market expansion
- $9 million of Pre-Tax Income in 1H 2016, representing an annualized 18% pre-tax ROE

- Overall housing demand continues slow rebound from recessionary lows
- Strategic focus on driving volume and production efficiency
- $11 million of Pre-Tax Income in 1H 2016, representing an annualized 30% pre-tax ROE

- M Science is a data analytics provider that serves institutional investors and companies
- Founded in 2002, M Science is the pioneer in utilizing data analytics for securities research; Leucadia purchased M Science in May 2016 from ITG
- Focus on growing subscriber base and expanding product offering

Leucadia's Opportunity

(As of 6/30/16)

Free-Cash Generating	Opportunity	Leucadia Tangible Capital ($ Millions)(1)	%
Jefferies	Grow Investment Banking and Equities; Fixed Income Refocused and Performing	$3,461	40.4%
Berkadia	Leveraging Our Momentum and the Growing Market Opportunity	$184	2.1%
National Beef	Continue Strong Results; Drive Value-Add Products	$76	0.9%
Garcadia	Continued Operating Improvement with Opportunistic Acquisitions	$208	2.4%
Conwed	Grow Recent Acquisitions; Drive Organic Growth with New Applications and Market Expansion	$46	0.5%
Idaho Timber	Continue Strong Results; Drive Volume and Production Efficiency	$76	0.9%
Value Building	**Sub-total**	**$4,051**	**47.2%**
HRG	Drive Value Through Simplification	$640	7.5%
Vitesse & Juneau	Upside in Operations and Oil Price	$453	5.3%
LAM	Performance and Marketing Drive Growth in AUM and Value Creation	$457	5.3%
FXCM	Debt Repayment; Growth Opportunity	$508	5.9%
HomeFed	Inventory Sales to Lead Monetization	$264	3.1%
Linkem	Execute to Deliver on Open-Ended Opportunity	$172	2.0%
Foursight	Growth to Scale and Operating Leverage	$102	1.2%
Golden Queen	Ramp-Up Mine Production	$79	0.9%
M Science	Grow Subscriber Base and Diversify Product Offering	$3	0.0%
	Sub-total	**$2,678**	**31.2%**
Deferred Tax Asset	Monetize DTA	$1,312	15.3%
Cash & Investments	New Deals and Buffer	$481	5.6%
	Other	$55	0.6%
	Gross Tangible Capital	**$8,577**	**100%**
	Less: Parent Debt and Preferred Equity	($1,112)	
	Tangible Common Equity	**$7,465**	
	Goodwill and Intangibles, Net	$2,622	
	Total Leucadia Shareholder's Equity	**$10,087**	

Common Book Value per Share	**$27.99**
Common Book Value per Share (Fully Diluted)(2)	**$26.85**
Common Tangible Book Value per Share (Fully Diluted)(2)	**$19.87**
Cumulative Shares Repurchased Under Authorized Program	**8.2 million**

(1) Leucadia Tangible Capital is a non-GAAP financial measure excluding goodwill and intangibles from Book Value. See Appendix on page 94 for reconciliation to GAAP measures.
(2) Common Book Value per Share (fully-diluted) and Common Tangible Book Value per Share (fully-diluted) are non-GAAP financial measures widely used by investors in assessing investment and financial services firms. See Appendix on page 93 for a reconciliation to GAAP measures.

Two Q & A's – IRQuestions@Leucadia.com

Jefferies

Note on Adjusted Financials

Jefferies

Note on the Use of Non-GAAP Financial Measures to Show Results Exclusive of the Bache Futures Business:

In 2015, Jefferies exited its Bache futures business. Jefferies has supplemented certain of its financial disclosures to show results that exclude the Bache futures business. These supplemental financial measures begin with information prepared in accordance with U.S. GAAP and are adjusted to exclude the operations of the Bache futures business. These adjusted financial measures are non-GAAP financial measures. Management believes such measures, when presented in conjunction with comparable U.S. GAAP measures, provide meaningful information as it enables investors to evaluate results in the context of the announced exit of the Bache futures business. These measures should not be considered a substitute for, or superior to, financial information prepared in accordance with U.S. GAAP.

Reconciliations of these non-GAAP financial measures to U.S. GAAP financial measures are contained throughout this presentation and on pages 95-97 of the Appendix.

Jefferies Overview

Jefferies Update

Jefferies

- We continue to build the leading, client-focused global investment banking firm, seeking to provide clients with the best ideas, expertise and execution
- Our competitive position has strengthened further, as several major competitors face a near-term inflection point, which may lead to further industry consolidation, creating additional market share growth opportunities for Jefferies
- Fixed Income is now delivering meaningfully improved performance, with increased capital efficiency and lower risk, after successful efforts to enhance the team, refocus the business and reduce risk, balance sheet and capital utilization (firm-wide assets of $38.1 billion as of August 31, 2016, down from $42.8 billion as of August 31, 2015)
- Equities is recording growth in market share and net revenues that should accelerate
- Investment Banking backlog is stronger for Q4, following a cyclical slowdown in recent quarters, and we continue to strengthen and expand our team
- Our priorities are margin expansion, earnings growth and maintaining our discipline around liquidity and risk management

Jefferies' Focus Today

- Drive growth in Investment Banking, with an emphasis on the U.S., by expanding into new sub-sectors and enhancing our team, taking advantage of challenges at competing banks
- Continue to grow market share in Equities and Fixed Income, driving margin expansion
- Drive European growth, leveraging investments across Investment Banking, Equities and Research

Jefferies Operating Results

Jefferies Earnings Overview (GAAP)

Jefferies

($ Millions)	FYE Nov. 30, 2014	FYE Nov. 30, 2015	Quarter Ended 2/29/2016	Quarter Ended 5/31/2016	Quarter Ended 8/31/2016
Equities	696	757	2	224	148
Fixed Income	748	271	57	238	195
Trading	**1,444**	**1,028**	**59**	**462**	**344**
Equity	340	408	44	61	68
Debt	628	398	57	46	72
Capital Markets	967	807	101	107	141
Advisory	562	632	130	146	154
Investment Banking	**1,529**	**1,439**	**231**	**253**	**295**
Asset Management	**17**	**8**	**10**	**4**	**16**
Net Revenues	**2,990**	**2,475**	**299**	**719**	**654**
Non-Compensation Expenses	989	894	199	201	197
Compensation and Benefits	1,699	1,467	350	415	376
Total Expenses	**2,687**	**2,361**	**549**	**617**	**574**
Earnings Before Tax & Non-Controlling Interest	**303**	**114**	**(250)**	**103**	**81**
Income Tax	**142**	**19**	**(83)**	**49**	**40**
Non-Controlling Interest	**3**	**2**	**0**	**0**	**(0)**
Net Earnings (Loss)	**158**	**94**	**(167)**	**54**	**41**

Note: As presented in Jefferies public filings.

Jefferies Adjusted Earnings Overview (excluding Bache)

Jefferies

($ Millions)	FYE Nov. 30, 2014	FYE Nov. 30, 2015	Quarter Ended 2/29/2016	Quarter Ended 5/31/2016	Quarter Ended 8/31/2016
Equities	696	757	2	224	148
Fixed Income (Adjusted)	545	191	57	238	195
Trading	**1,241**	**948**	**59**	**462**	**344**
Equity	340	408	44	61	68
Debt	628	398	57	46	72
Capital Markets	967	807	101	107	141
Advisory	562	632	130	146	154
Investment Banking	**1,529**	**1,439**	**231**	**253**	**295**
Asset Management	**17**	**8**	**10**	**4**	**16**
Adjusted Net Revenues	**2,787**	**2,395**	**299**	**719**	**654**
Non-Compensation Expenses (Adjusted)	739	767	199	201	197
Compensation and Benefits (Adjusted)	1,600	1,379	350	415	376
Adjusted Total Expenses	**2,338**	**2,146**	**549**	**617**	**574**
Adjusted Earnings Before Tax & Non-Controlling Interest	**449**	**249**	**(250)**	**103**	**81**

Note: The adjusted financial measures presented herein are non-GAAP financial measures and represent Jefferies results of operations excluding the impact of the results of operations of the Bache business for 2014 and 2015. See Appendix on pages 95-96 for a reconciliation to GAAP measures.

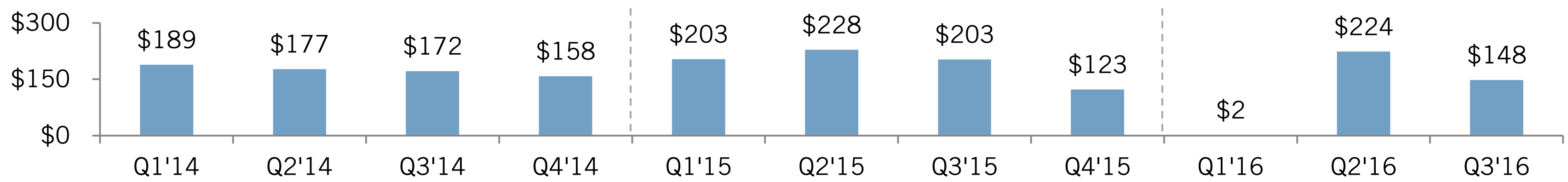
Quarterly Results by Business

Jefferies

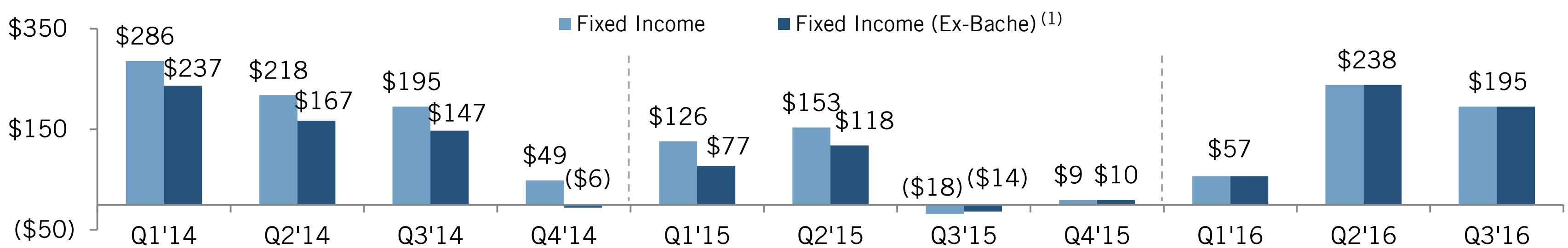
($ Millions)

- The 18 months from Q4 2014 to Q1 2016 were challenging across all our Sales and Trading businesses
- Following a bottoms-up recalibration of our Fixed Income business implemented in Q4 2015, results have materially improved
- Lackluster market conditions in primary capital markets have caused a slowdown in our Investment Banking revenues, although our backlog is stronger for Q4 and we continue to expand and strengthen our platform

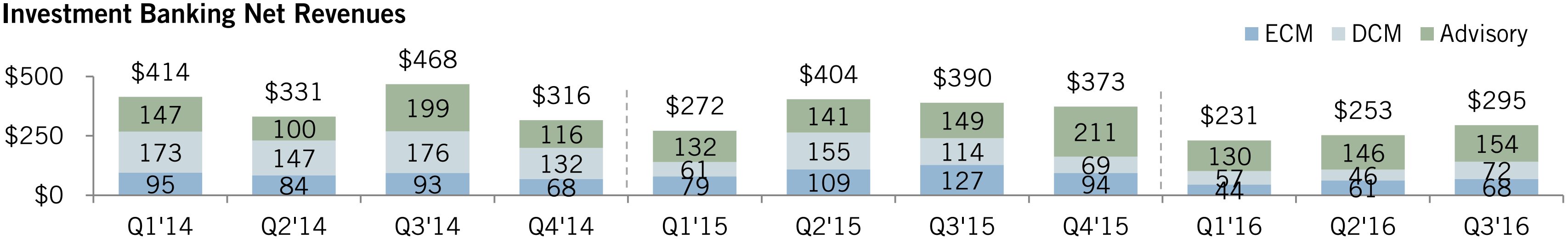
Equities Net Revenues



Fixed Income Net Revenues



Investment Banking Net Revenues



Note: As presented in Jefferies public filings.
(1) Fixed income net revenues (ex-Bache) for Q1'14, Q2'14, Q3'14, Q4'14, Q1'15, Q2'15, Q3'15 and Q4'15 exclude revenue generated by the Bache business of $49 million, $51 million, $48 million, $55 million, $49 million, $35 million, $(4) million, and $(1) million, respectively. Revenue generated by the Bache business includes commissions, principal transaction revenue and estimated net interest revenue.

Balance Sheet Overview

($ Millions)

Jefferies

Jefferies Group LLC			
Balance Sheet as of 8/31/2016			
Assets		**Liabilities and Equity**	
Cash & Cash Equivalents	$ 3,159	Short Term Borrowings	$ 432
Cash & Securities Segregated	1,027	Financial Instruments Sold, Not Yet Purchased	7,944
Financial Instruments Owned	14,328	Securities Loaned	2,930
Investments in Managed Funds	192	Securities Sold Under Agreements to Repurchase	8,130
Loans to and Investments in Related Parties	657	Other Secured Financings	606
Securities Borrowed	8,461	Payables to Brokers, Dealers and Clearing Organizations	3,495
Securities Purchased Under Agreements to Resell	4,038	Payables to Customers	2,749
Receivables from Brokers, Dealers and Clearing Organizations	1,938	Accrued Expenses and Other Liabilities	1,030
Receivables from Customers	849	Long-term Debt	5,483
Fees, Interest and Other Receivables	293	Total Liabilities	$ 32,801
Premises and Equipment	255		
Goodwill	1,645	Member's Equity	5,321
Other Assets	1,286	Noncontrolling Interests	5
		Total Equity	$ 5,327
Total Assets	**$ 38,128**	**Total Liabilities and Equity**	**$ 38,128**

Leverage: (1)	7.2x
Tangible Gross Leverage: (2)	10.5x

Note: As presented in Jefferies public fillings.

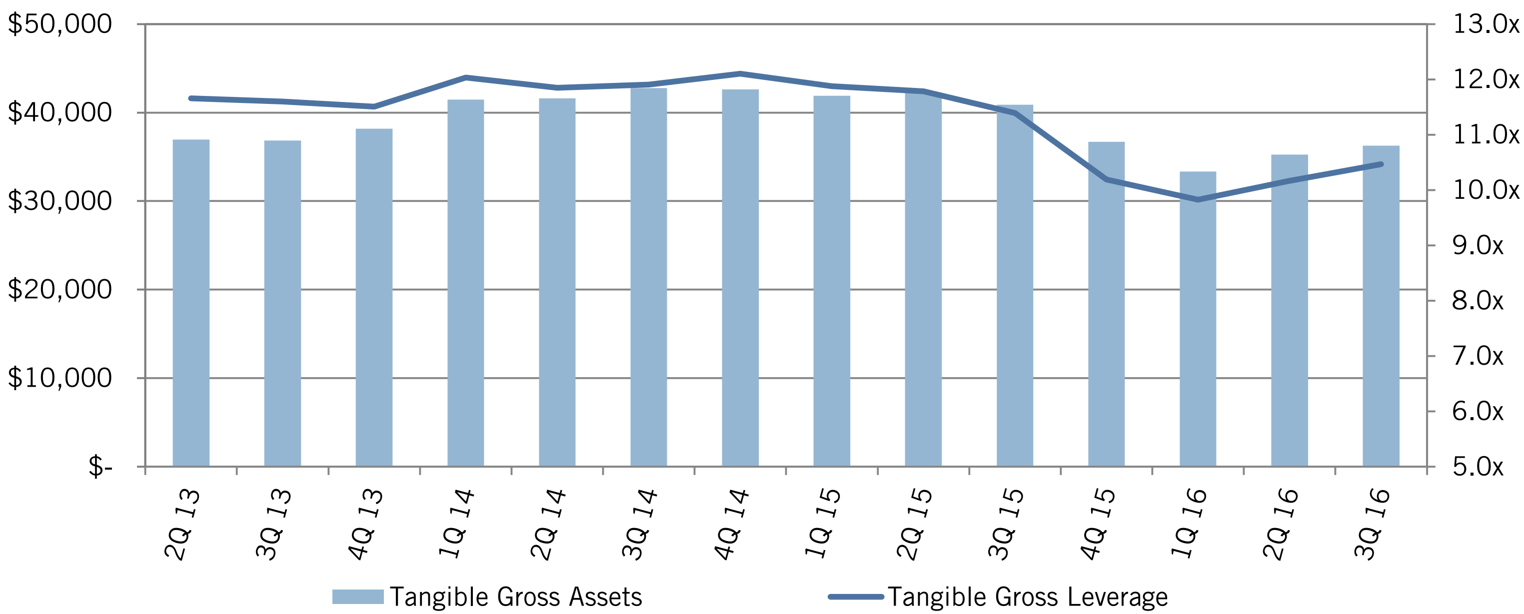
(1) Leverage ratio equals total assets divided by total equity.

(2) Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets of $38,128 million less goodwill and identifiable intangible assets of $1,856 million divided by tangible member's equity of $3,465 million. Tangible member's equity represents total member's equity of $5,321 million less goodwill and identifiable intangible assets of $1,856 million. The tangible gross leverage ratio is used by rating agencies in assessing our leverage ratio.

Disciplined Approach to Risk

- Jefferies has a long-standing policy of carefully managing balance sheet leverage
- In periods of stress, Jefferies has demonstrated the ability to rapidly reduce leverage without unduly impacting our business

Historical Quarterly Leverage (1)
($ Millions)



Source: Jefferies.

(1) Tangible gross leverage ratio and tangible gross assets are non-GAAP financial measures. Tangible gross leverage ratio equals tangible gross assets divided by tangible member's equity. Tangible gross assets equals total assets less goodwill and identifiable intangible assets. Tangible member's equity represents total member's equity less goodwill and identifiable intangible assets. The tangible gross leverage ratio is used by rating agencies in assessing our leverage ratio. See Appendix on page 97 for a reconciliation to GAAP measures.

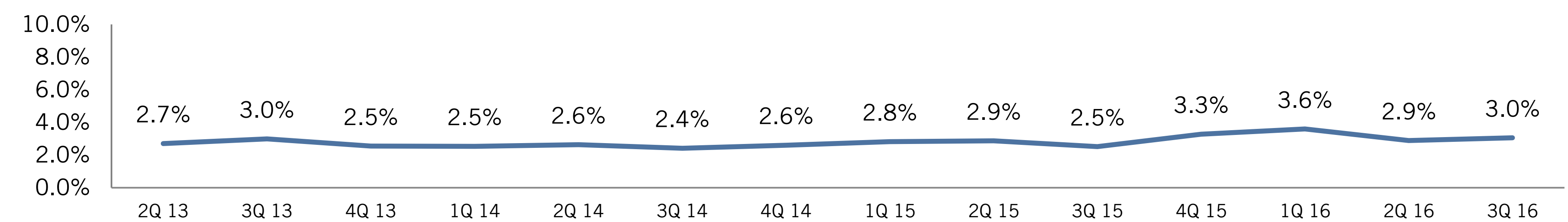
Disciplined Approach to Risk (Continued)

Jefferies

- 97% of inventory is Levels 1 and 2, with a minimal amount of Level 3 Trading Assets (1)
- Level 3 Trading Assets (1) represent only 13% of tangible common equity

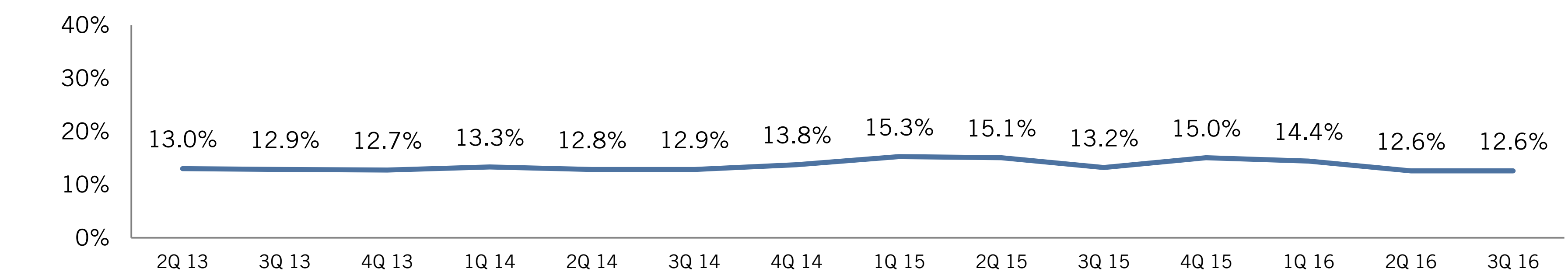
Level 3 Financial Instruments Owned (1) as a Percentage of Financial Instruments Owned

($ Millions)



Level 3 Financial Instruments Owned (1) as a Percentage of Tangible Common Equity (2)

($ Millions)



(1) Note: In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Jefferies has adopted this guidance retrospectively during the second quarter of fiscal 2015.

(2) Tangible member's / common stockholders' equity (a non-GAAP financial measure) represents total member's / common stockholders' equity less goodwill and identifiable intangible assets. See Appendix on page 97 for a reconciliation to GAAP measures.

Jefferies Business Review

Investment Banking

Investment Banking Overview

- Jefferies Investment Banking is a leading advisor and underwriter to our clients globally
- Approximately 730 investment bankers with deep sector expertise and extensive experience across major industry verticals
- On-the-ground presence in 12 countries across the world
- 27% of our LTM transactions have been for clients domiciled outside of the United States[(1)]
- 73% of our LTM revenues are from repeat clients

Investment Banking & Capital Markets

- **Sector Focus**
  - Consumer
  - Financial Services
  - Industrials
  - REGAL
  - Energy
  - Healthcare
  - TMT
  - Financial Sponsors
  - Public Finance
- **Product Capabilities**
  - Equity Capital Markets
  - Debt Capital Markets
  - Mergers & Acquisitions
  - Restructuring
- **Regions**
  - Americas
  - EMEA
  - Asia

(1) Excludes public finance, mortgage and asset-backed capital markets transactions.

Expansion of Our Sector and Regional Footprint

Jefferies

- We have continued to expand into new sub-sectors and geographies, as well as enhance existing coverage, by taking advantage of challenges at competing banks to make high quality hires
- We also have continued to be vigilant in monitoring productivity and controlling costs, keeping our MD headcount essentially flat over the last 3 years
- Added 27 global and regional leaders since January 2015

Sectors

- **Energy**
  - Oil & Gas Exploration
  - Oil & Gas Midstream
  - Oil Field Services
- **Industrials**
  - Aerospace & Defense
  - Automotives
  - *Automotive Aftermarket*
  - Business & Industrial Services
  - *Capital Goods*
  - *Chemicals*
  - *Construction & Building Materials*
  - *Distribution*
  - *Infrastructure*
  - Maritime
  - *Metals & Mining*
  - Paper & *Packaging*
  - *Power & Renewables*
  - *Security & Protection Services*
  - Transportation & Logistics
- **Consumer**
  - Food & Beverage
  - Retailing
  - Restaurants
- ***Media*** **& Telecom**
  - Entertainment & Broadcast
  - Information Services & Publishing
  - Internet & Telecom Infrastructure
  - Wireless & Wireline
- ***Technology***
  - Communications Equipment
  - *Internet*
  - Payments & Processing
  - Semiconductors
  - *Software*
  - Technology Services
- ***Financial Sponsors***
- ***Public Finance***
- **Financial Services**
  - Broker Dealers & Market Structure
  - Insurance
  - Specialty Finance
- **Healthcare**
  - Biotechnology
  - *Healthcare IT*
  - Healthcare Services
  - Managed Care
  - Medical Devices
  - Pharmaceuticals
- **REGAL**
  - Real Estate
  - Gaming
  - *Lodging*

Regions

- **Americas**
  - United States
  - Canada
  - Latin America
- **EMEA**
  - *United Kingdom*
  - *France*
  - *Germany*
  - *Italy*
  - Spain (JV)
  - Scandinavia
  - Middle East
- **Asia**
  - *China*
  - India
  - *Japan*
  - Southeast Asia

Note: Green Represents New Hires at the Leadership Level Since 1/1/15

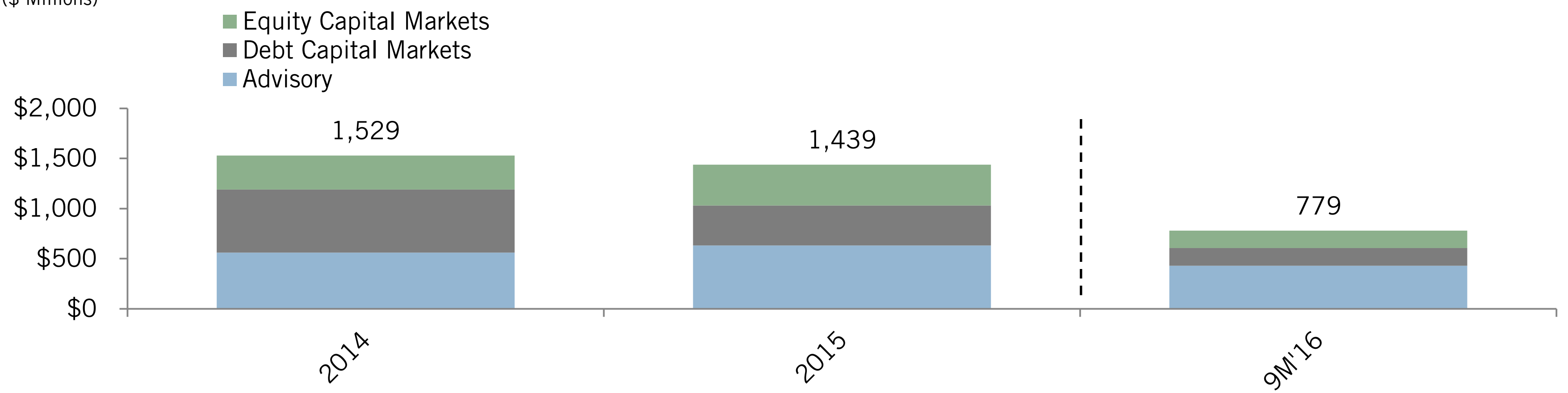
Investment Banking – Performance and Market Update

Jefferies

- During the first 9M of fiscal 2016, the investment banking industry experienced a substantial slowdown in capital markets and M&A activity across the U.S. and Europe, which has impacted our 2016 YTD results
  - ECM: Industry-wide revenues declined by approximately 50% across U.S. and Europe
  - Leveraged Finance: Industry-wide revenues declined by approximately 20% across U.S. and Europe
  - M&A: Industry-wide revenues declined by approximately 16% across U.S. and Europe
- Through the industry slowdown across U.S. and Europe:
  - We increased our market share in addressable M&A revenue primarily as a result of an increase in our number of sell-side transactions
  - We maintained our market share in addressable ECM revenue, driven by share gains in two of our major industry verticals
  - We maintained our top 10 market share ranking in Leveraged Finance
- Our current revenue momentum is strong
  - Our current revenue backlog is at its highest level for 2016
  - Over the last several months, there has been a significant recovery in overall capital markets activity
  - M&A activity in the $5 billion deal segment (70% of all M&A fees) has improved

Investment Banking Net Revenues

($ Millions)



Source: Dealogic
Note: All results as reported in Jefferies' public filings.

Investment Banking – Strategic Priorities

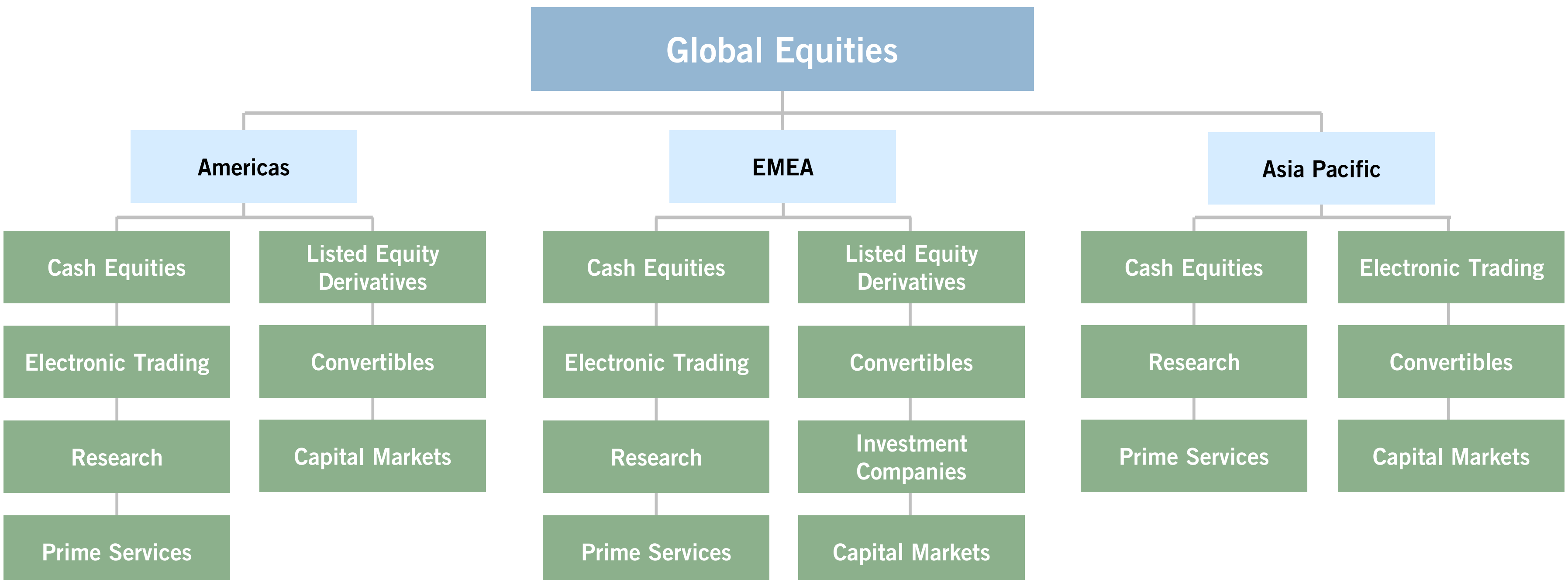
Jefferies

- Increase productivity of the 25+ sector MDs we have hired in the last 2 years
- Continue to drive market share gains in M&A by further expanding our sell-side franchise and increasing both the average size and fees of our M&A transactions
  - In the first nine months of 2016 we achieved a 59% increase in the number of announced $1+ billion M&A transactions we advised on
- Selectively enter new industry sub-sectors, taking advantage of high quality investment bankers available because of disruption at our competitors
  - Our priorities are U.S. Consumer, U.S. Power & Renewables and filling out our Industrial footprint in Europe
- Increase our Continental European revenue by leveraging the footprint we have established in the last two years across four new countries/regions in Continental Europe
  - 53% of our European revenue in the LTM period was derived from European clients located outside of the U.K.

Equities

Equities – Overview

- Global Equities at Jefferies is a leading client franchise that continues to grow strategically. With Sales, Trading and Advisory capabilities across North America, Europe and Asia, and with major trading hubs in New York, London and Hong Kong, we are well-equipped to serve our global clients
- Jefferies has leading client-offerings across Cash Equities, Electronic Trading, Listed Equity Derivatives, Convertibles, ETFs, Prime Services and Equity Capital Markets
- Our core U.S. Equity Sales & Trading business was a pioneer in the evolution of block trading more than 50 years ago
- We continue to focus on trading execution, as well as providing our clients with best-in-class alpha-generating advisory



Equities – Market Share Growth

Jefferies

Advisory

- Our Equity Research platform provides considerable breadth globally, covering over 2,600 stocks including our co-branded partnerships in Asia
  - **U.S.** – 1,000+ Stocks under Coverage
  - **Europe** – 500+ Stocks under Coverage
  - **Asia** including Co-Branded Partners – 1,100+ Stocks under Coverage
- Thomson Reuters Starmine (1) (Breadth of Stock Coverage) currently ranks Jefferies:
  - U.S. platform 4th
  - Developed Europe platform 11th
  - Asia platform, including our unique co-branded partnerships, 6th
- In the Thomson Reuters Starmine Awards, Jefferies U.S. Equity Research is now ranked 5th, improving by two positons. 13 Analysts were ranked as Top Stock Pickers or Top Earnings Estimators
- In the same survey, Jefferies European Equity Research is ranked 4th, maintaining our year-over-year rank. Eight Analysts were ranked as Top Stock Pickers or Top Earnings Estimators
- In the U.S. Institutional Investor Equity Research Survey, Jefferies is now ranked 11th, improving by two positions
  - 11 Jefferies Analysts were ranked in the survey which is nearly double the prior year result

Execution

- According to Pensions & Investments, Jefferies U.S. platform ranked Top 5 in all 3 categories of trades: Giant, Large and Mid-Cap
  - Jefferies was ranked 1st in large-cap trades, beating the average transaction cost by more than 43 basis points
  - Jefferies performed well across Order Liquidity and Order Size, ranking Top 3 and Top 5 respectively
- An internal study of 2015 trading indicates that Jefferies reflected 8% of the 2015 U.S. market in intra-day large institutional blocks
  - In 2015, the U.S. Stock Trading Sector desk executed 90 blocks greater than 1 million shares. These trades had a notional value of $4.1 billion versus the overall market of $54.6 billion
- The U.S. Electronic platform is consistently top ranked with clients and that is further substantiated by Woodbine Associates, who ranked Jefferies in the top quartile for overall quality of U.S. electronic sales trading coverage
- In a recently published third-party market survey, Jefferies was the second largest market share gainer in Global Cash (3)
- In the same survey, Jefferies was the largest market share gainer in Pan-European (3)

Cash & Algo Product (2)

	2016 Market Rank
U.S.	Top 10
Pan-European	Top 13
U.K.	Top 10
Asia ex JPN/AUS/NZ	Top 20
Japan	Top 20

Listed Options & ETFs (2)

	2016 Market Rank
U.S. Listed Options	Top 6
U.S. ETFs	Top 12

Global Convertibles (2)

	2016 Market Rank
U.S.	Top 2
Europe	Top 12
Asia ex JPN	Top 8
Japan	Top 5

Green Shade = Improvement in Market Share

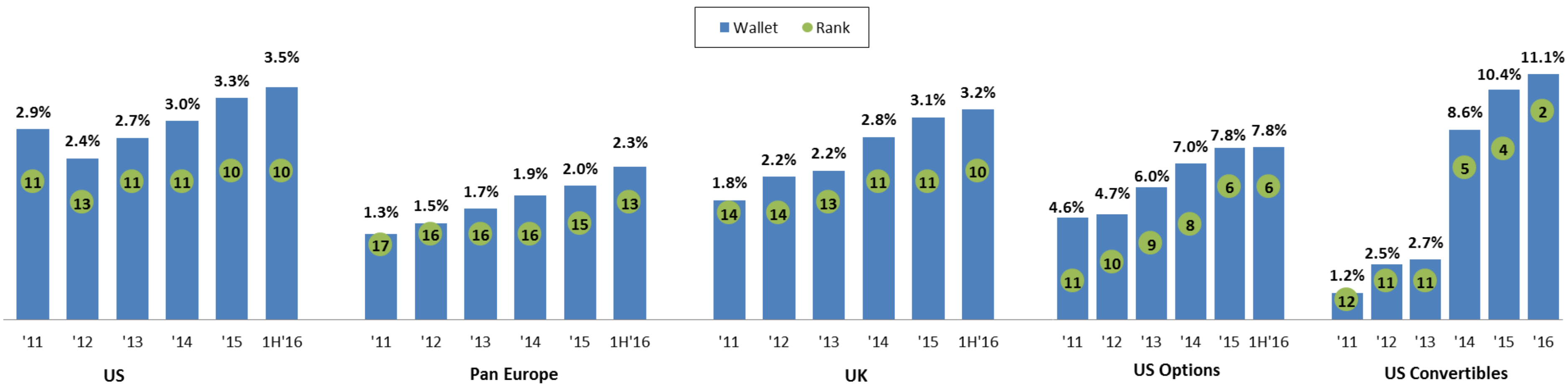
(1) Starmine Ranks for Stocks under Coverage is as of 8/31/2016. Developed Europe includes U.K., Switzerland, France, Spain, Belgium, Netherlands, Germany, Denmark, Italy, Austria, Greece, Luxembourg, Sweden, Norway, Ireland, Portugal and Finland.
(2) Source: Third Party Market Survey for all products except Convertibles, which is sourced from the 2016 Greenwich survey.
(3) Third-party market survey reflects 1H 2016 results. Products include Cash, Algo & PT across global clients.

Equities – Performance Update

Jefferies

- Jefferies has significantly grown revenues and market share post-financial crisis
- Growth largely driven by our client focus, enhanced global capabilities and the momentum of the overall Jefferies platform
- We have considerably diversified our business, with electronic trading and international markets having grown to represent a significant proportion of Equities revenues

Consistent Gains Across All Products & Regions(1)



(1) Source: Third Party Market Survey for all products except Convertibles, which is sourced from the 2016 Greenwich survey.

Equities – Strategic Priorities

Jefferies

Growing Non-Cash Businesses

- Our focus is on product and revenue diversification by cross-selling, client penetration and leveraging client relationships across Electronics, Listed Derivatives, ETFs, Prime Brokerage and Securities Finance
  - <u>Electronics:</u> Increase the breadth of clients, as well as expand penetration with existing clients globally
  - <u>Listed Derivatives:</u> Continue to maintain top market standing and improve client penetration
  - <u>Prime Brokerage:</u> Capitalize on U.S. opportunities to serve mid-sized prime brokerage clients that are increasingly underserved by the large bank holding companies

Continued Enhancement of Our Alpha-Generating Research Offering

- Focus on enhancing our Equity Research product by collaborating on unique and evolving strategies for increasing the intellectual value of our research

Fixed Income

Fixed Income Overview

Jefferies

- Jefferies serves clients across all major cash products in the U.S. and Europe
  - Approximately 430 sales, trading, capital markets, research and strategy professionals globally
  - Primary Dealer or equivalent in U.S., U.K., Germany, Netherlands, Portugal and Slovenia
  - Focused on providing best-in-class ideas, facilitation and execution to our clients
  - Global presence with offices in North America, Europe and Asia

Fixed Income

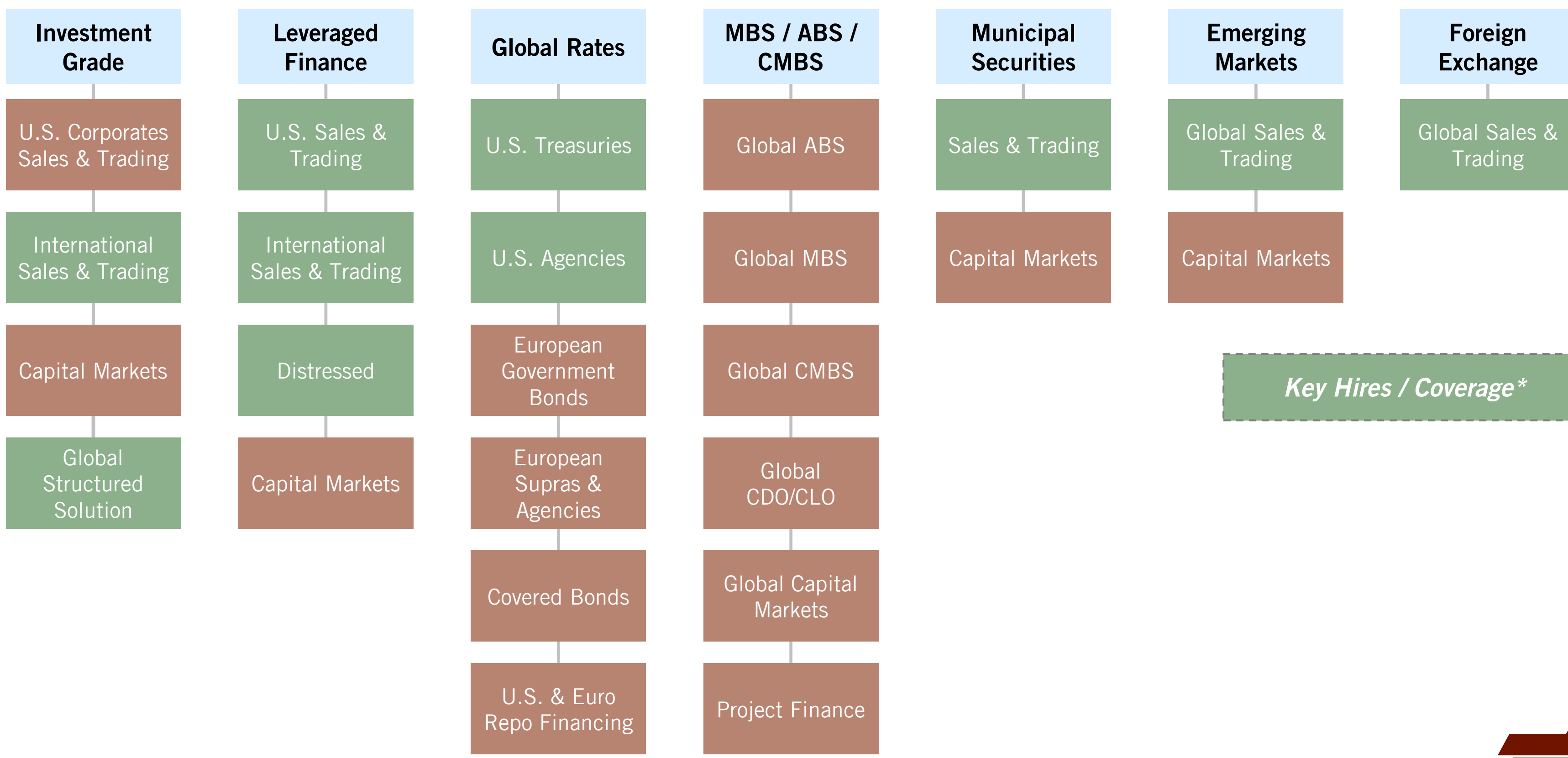
- **Investment Grade**
  - U.S. Corporates Sales & Trading
  - International Sales & Trading
  - Capital Markets
  - Global Structured Solution
- **Leveraged Finance**
  - U.S. Sales & Trading
  - International Sales & Trading
  - Distressed
  - Capital Markets
- **Global Rates**
  - U.S. Treasuries
  - U.S. Agencies
  - European Government Bonds
  - European Supras & Agencies
  - Covered Bonds
  - U.S. & Euro Repo Financing
- **MBS / ABS / CMBS**
  - Global ABS
  - Global MBS
  - Global CMBS
  - Global CDO/CLO
  - Global Capital Markets
  - Project Finance
- **Municipal Securities**
  - Sales & Trading
  - Capital Markets
- **Emerging Markets**
  - Global Sales & Trading
  - Capital Markets
- **Foreign Exchange**
  - Global Sales & Trading

Business Realignment Overview

Jefferies

Following losses in 2015, our repositioning of Fixed Income has significantly improved performance despite lackluster capital markets

- Actively managed our headcount and focused capital resources on businesses with best opportunities
  - Net global Fixed Income headcount reduced by 87 employees, or ~17%, from 517 employees in January 2015 to 430 employees today
  - Added 65 new key players (MDs and SVPs) across most businesses since January 2015
- Reduced exposure to less liquid assets and right-sized inventory



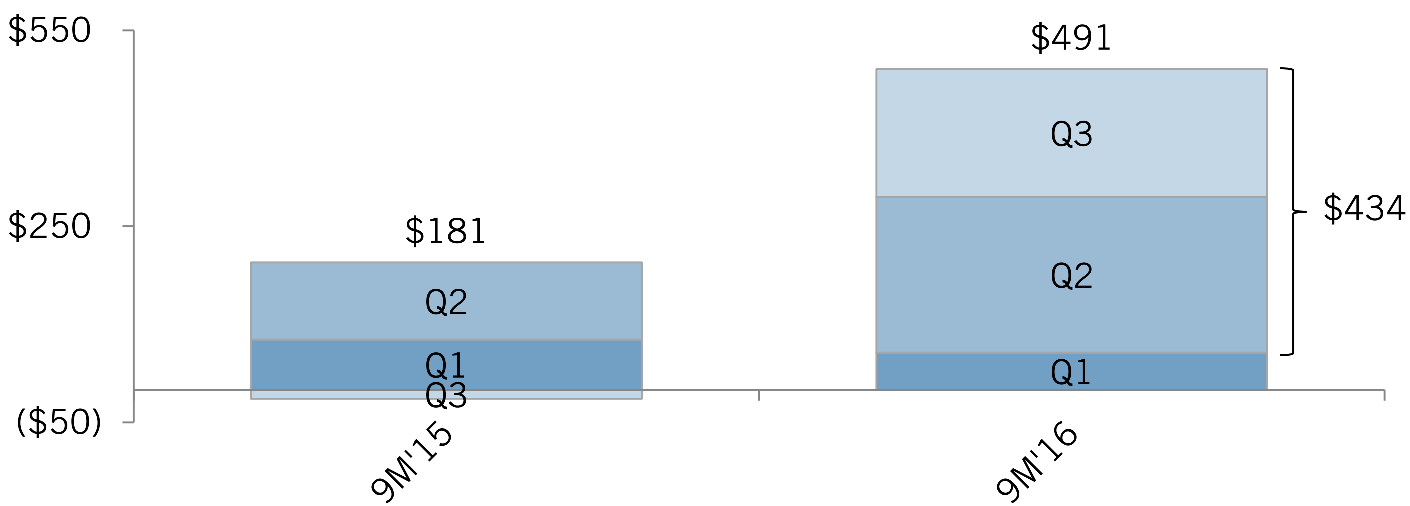
*Hires made at leadership level since 1/1/15

Fixed Income – Performance Update

Jefferies

- Jefferies Fixed Income is focused on sales and trading of cash products in credit, rates and foreign exchange markets globally
- In dynamic global markets, in order to produce consistent results, we actively re-align resources, including headcount, gross assets and capital
- In 2016, we have seen the benefits of this as Net Revenues have rebounded

Adjusted Fixed Income Net Revenues; No Credit for Investment Banking Origination and Distribution (1)
($ Millions)



Note: As presented in Jefferies public fillings.
(1) Fixed income net revenues (ex-Bache) for Q1'15, Q2'15 and Q3'15 exclude revenue generated by the Bache business of $49 million, $35 million and $(4) million, respectively. Revenue generated by the Bache business includes commissions, principal transaction revenue and estimated net interest revenue.

Fixed Income – Strategic Priorities

Jefferies

Drive consistent results by continuing to emphasize our long-standing client centric strategy

- Make our balance sheet as productive as possible, with emphasis on high turnover inventory
- Invest in technology that levers business productivity and enhances client service
- Relentlessly focus on capital efficiency and cost containment

Risk Management

Risk Principles

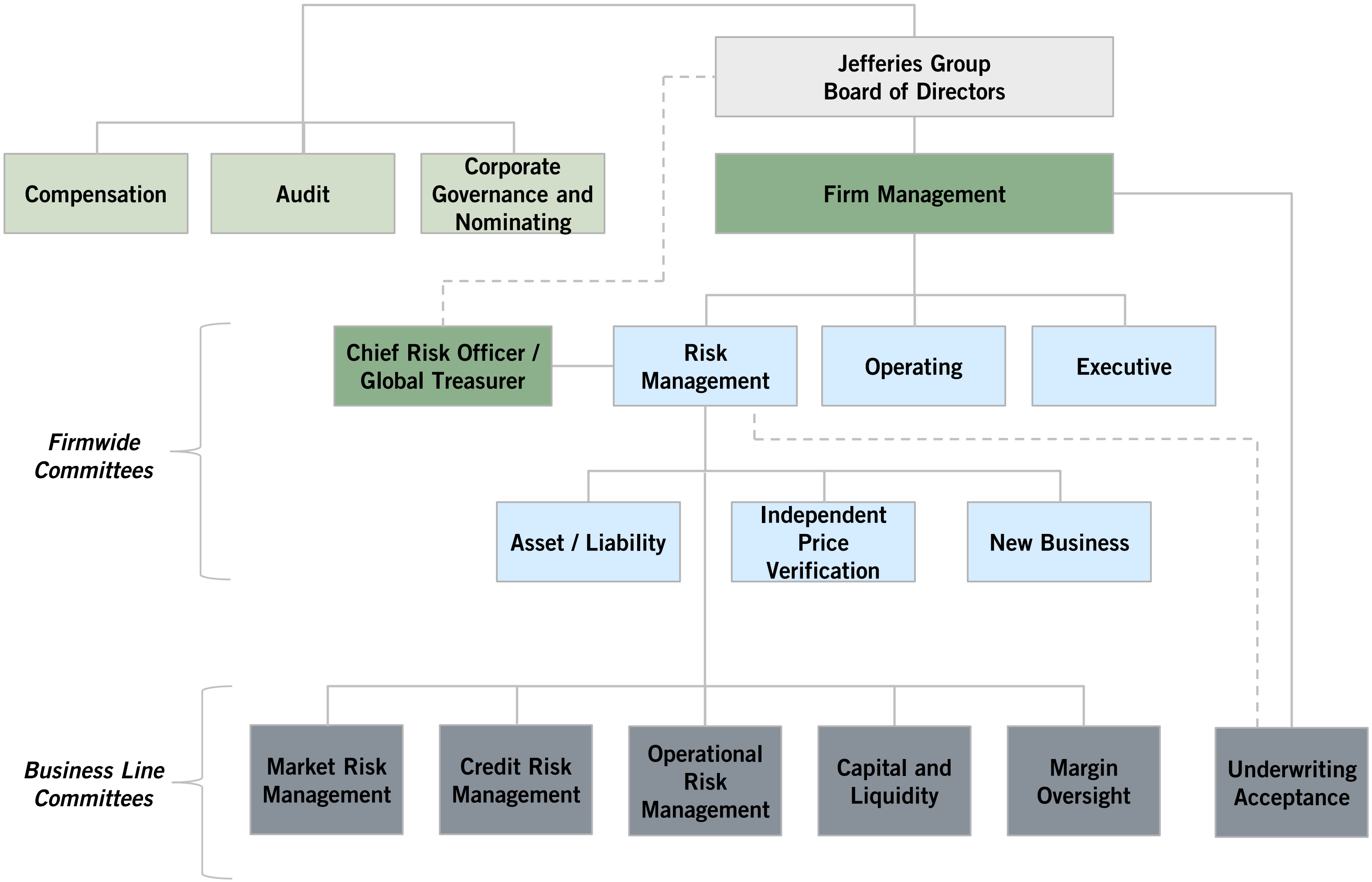
Jefferies

Jefferies' comprehensive risk management framework has been a foundation for our success across market cycles

- **Culture**
  - We are all Partners at our firm, collectively building for the long-term on a foundation established over 50+ years
- **Hands-on**
  - Our senior management and Board are deeply involved in the "nuts and bolts" of how and where we are taking risks across the firm
- **Integrated**
  - Our independent risk management group and our business leaders are deeply integrated into our trading desks, ensuring a clear and comprehensive view of the firm's risk
- **Asset Quality**
  - Jefferies is dedicated to serving our clients in liquid, transparent products. We limit illiquid assets and derivatives to ensure the overall liquidity and health of our balance sheet

Risk Management Summary Framework

Jefferies

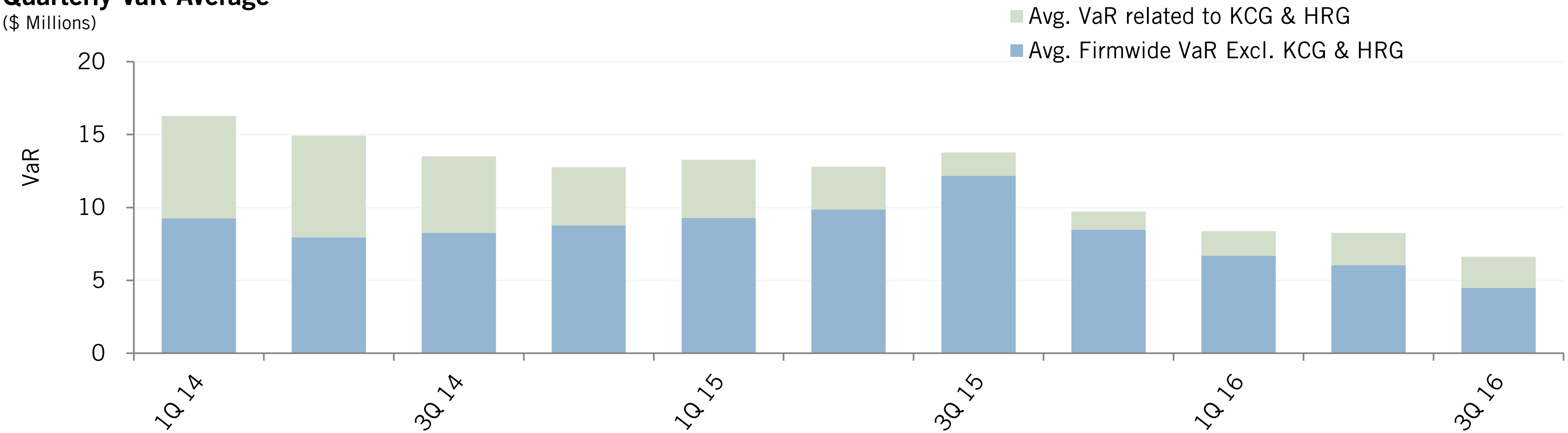


Note: Dotted lines represent communication lines.

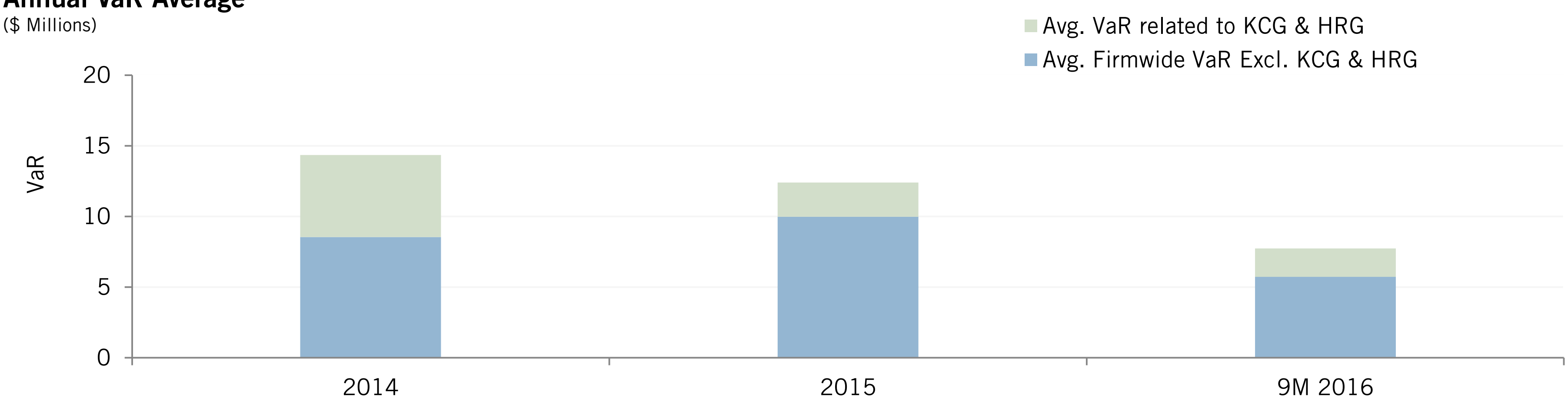
VaR Report

Jefferies

Quarterly VaR Average
($ Millions)



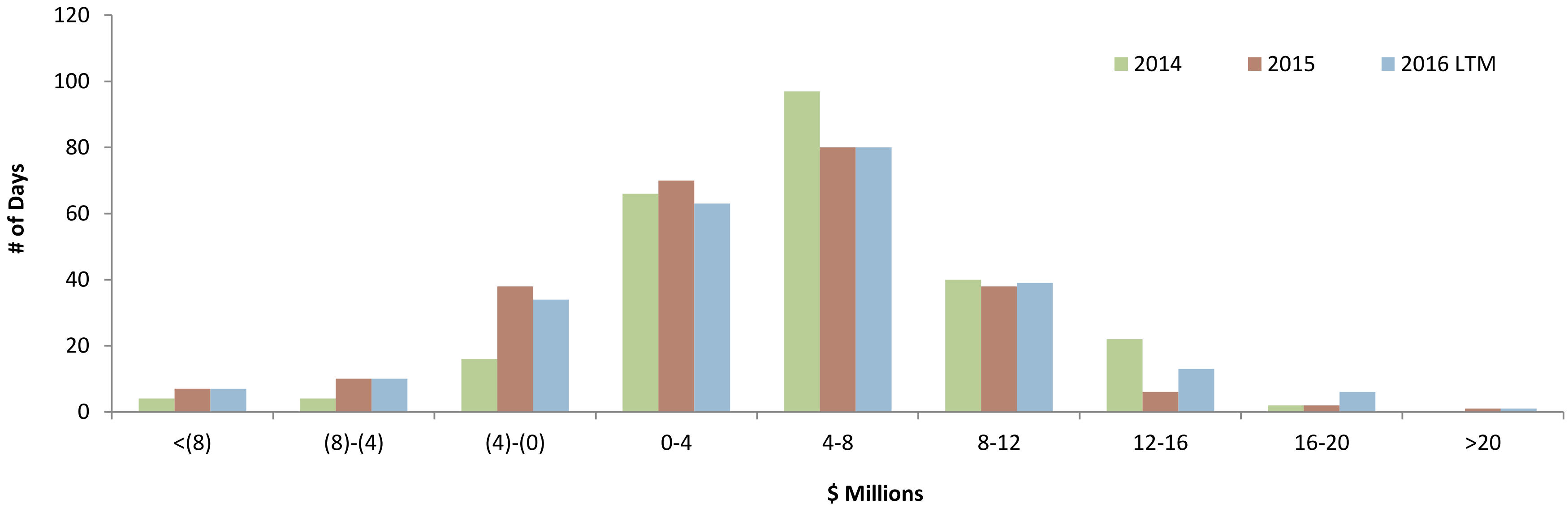
Annual VaR Average
($ Millions)



VaR Report and Trading Revenues

Jefferies

Distribution of Daily Net Trading Revenues (Excluding KCG Holdings and HRG Group) (1)



Historical Negative Trading Revenues Days

	2014				2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Negative Trading Rev. Days ex. KCG Holdings and HRG Group	1	6	2	16	9	5	18	23	12	1	4
Total Number of Negative Trading Rev. Days:	18	7	7	17	11	10	21	22	17	2	8
Number of Breaches (2)	-	1	-	2	-	-	2	-	2	-	-

(1) Historically, Jefferies has presented Distribution of Daily Net Trading Revenues including KCG Holdings and HRG Group.
(2) Number of Breaches represents the number of days during a given period where net trading losses were greater than VaR estimates.

Capital and Liquidity Management

Liquidity and Funding Principles

Jefferies

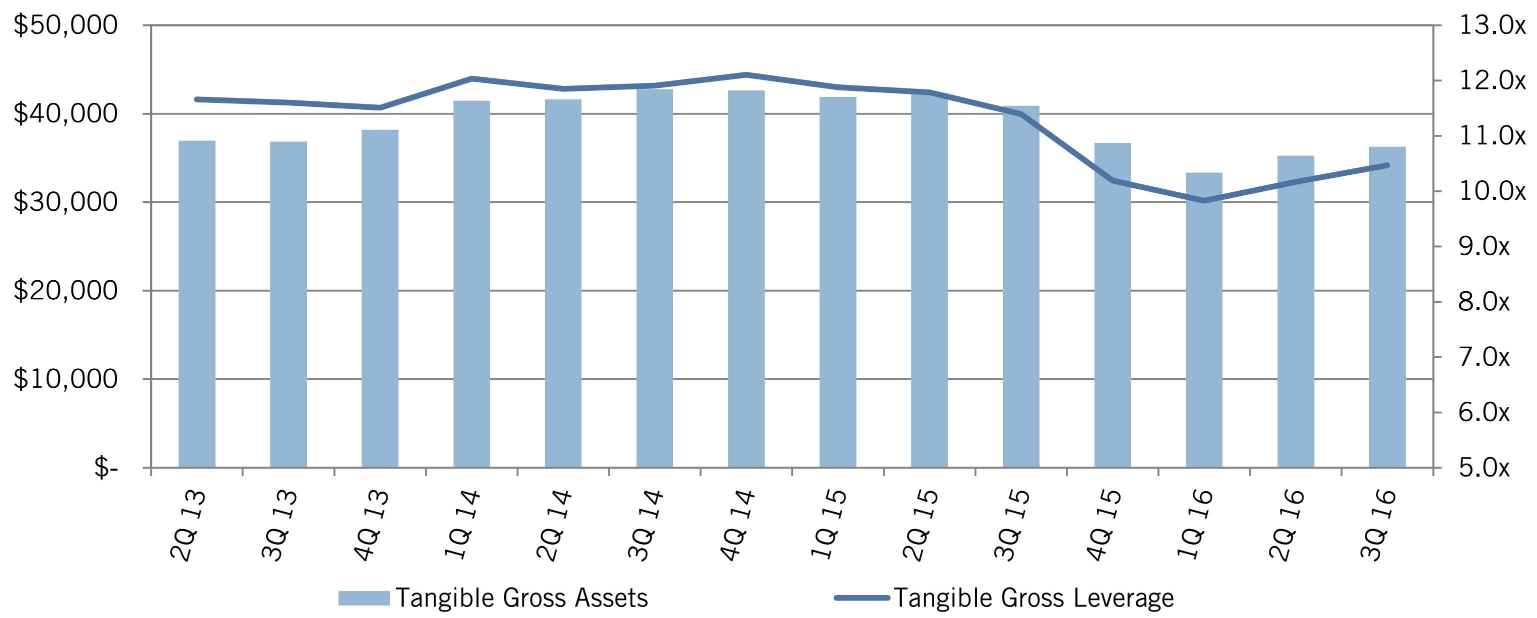
Jefferies' long-standing liquidity and funding principles have maintained the strength and soundness of our platform across market cycles

- Owning inventory that is composed of liquid assets that turn over regularly, with Level 3 assets at ~3% of inventory
- Maintaining a sound, long-term capital base and reasonable leverage relative to our business activity
- No material reliance on short-term unsecured funding or customer balances. No commercial paper program
- Short-term secured funding that is readily and consistently available through clearing houses, or fixed for periods of time that exceed the expected tenure of the inventory they are funding
- Assessing capital reserves and maintaining liquidity to withstand adverse changes in the trading or financing markets and a firm specific idiosyncratic stress
- Where appropriate, entering into partnerships and joint ventures with complementary long-term partners to pursue business opportunities that otherwise may exceed our capital capacity or risk tolerance (Jefferies Finance, Jefferies LoanCore)

Limited Leverage

- Jefferies has a long-standing policy of carefully managing balance sheet leverage
- In periods of stress, Jefferies has demonstrated the ability to rapidly reduce leverage without unduly impacting our business

Historical Quarterly Leverage (1)
($ Millions)

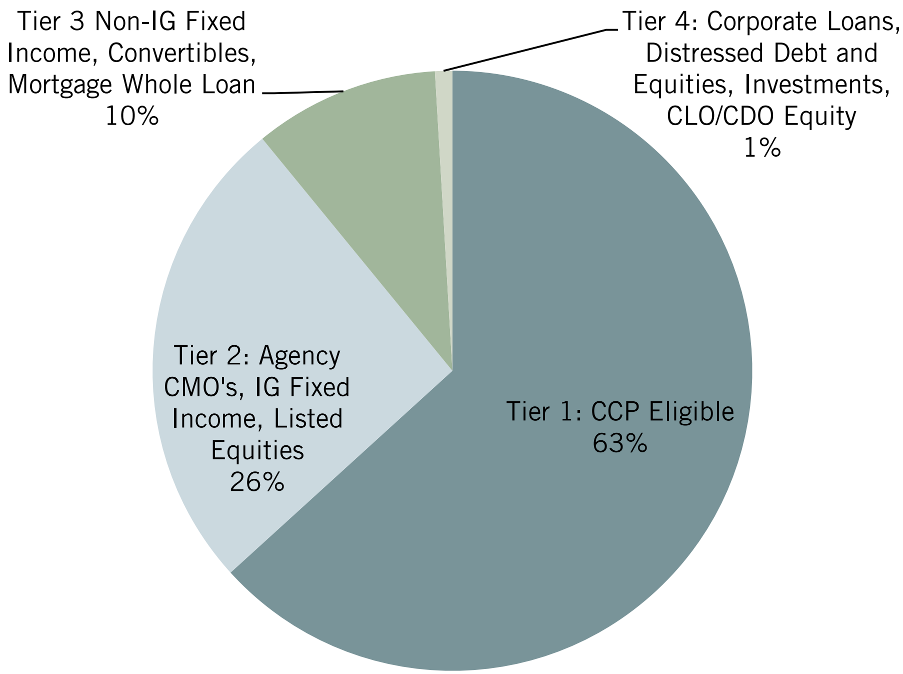


Source: Jefferies.

(1) Tangible gross leverage ratio and tangible gross assets are non-GAAP financial measures. Tangible gross leverage ratio equals tangible gross assets divided by tangible member's equity. Tangible gross assets equals total assets less goodwill and identifiable intangible assets. Tangible member's equity represents total member's equity less goodwill and identifiable intangible assets. The tangible gross leverage ratio is used by rating agencies in assessing our leverage ratio. See Appendix on page 97 for a reconciliation to GAAP measures.

Fundability of Collateral

Jefferies



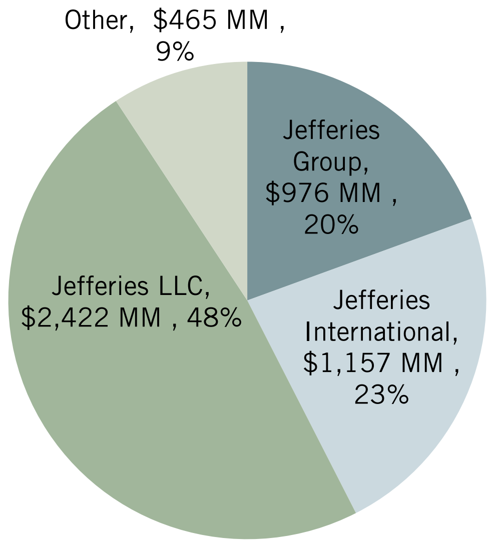
- Liquid, easy to fund collateral. 89% Tier 1 or Tier 2 collateral funded with average haircuts of 5% or below. Tier 3 average haircut of 10%
- 91 lenders providing liquidity for Tier 2, 3 and 4 collateral with the largest lender at only 11% of the total
- Less than 1% of inventory deemed Tier 4 with an average haircut of 24%

Global and Legal Entity Liquidity Stress Model

Jefferies

- Stress test contingency liquidity outflows at the global and regional level
  - 100% loss of non-cleared repo and stock loan
  - Higher margins at CCP's and clearing organizations
  - 100% loss of customer credit balances
  - Buy back Jefferies debt for market support
  - Collateral outflows on ISDA/CSA's
  - Intraday liquidity at clearing banks
  - No sale of assets for a minimum 30 Days
  - Assume no movement of liquidity between regulated entities.
- Maintain positive stressed liquidity position for a minimum of 30 days at global and at legal entity level

Global Liquidity Pool - $5,020 million or 13% of Assets

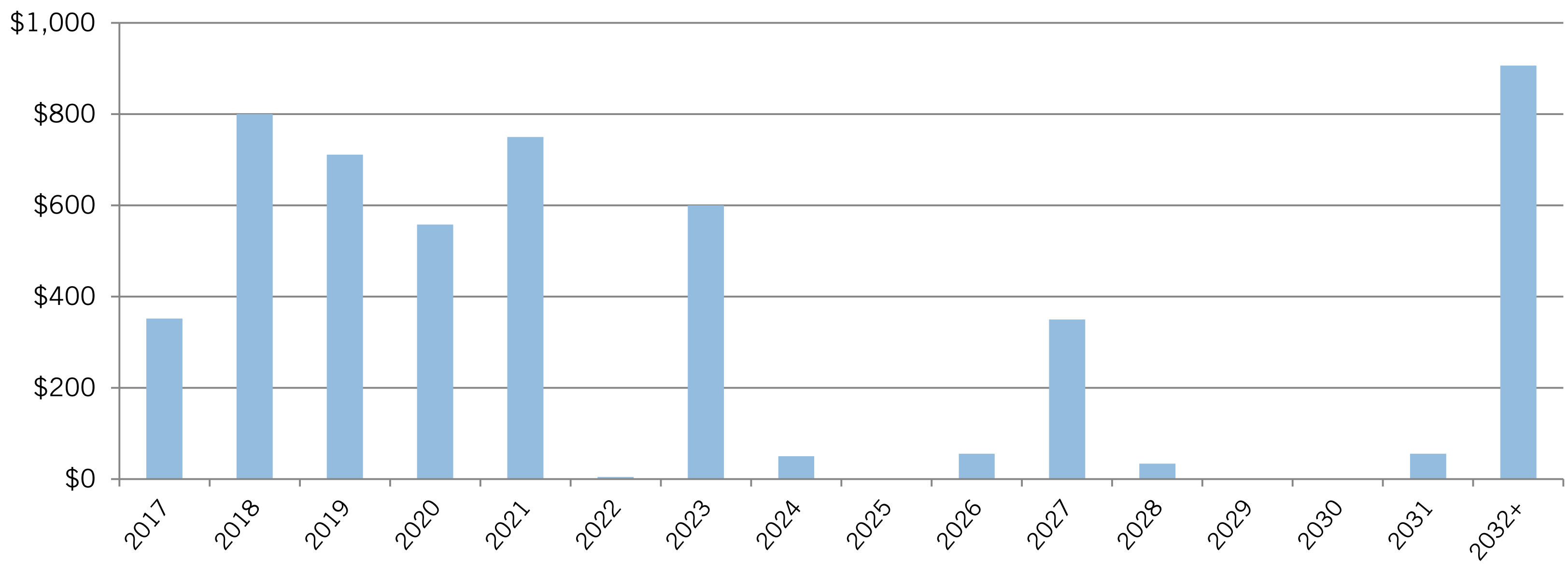


Long-Term Debt Profile

Jefferies

- As of 08/31/2016, our $5.2 billion notional of long-term debt had a weighted average maturity of approximately 8 years
- $345 million convertible bond is puttable in November 2017 and $6.7 million in May 2017
- No maturity of long-term debt in a single year is greater than 20% of outstanding long-term debt
- $1.1 billion, or 17%, of unsecured long-term debt was repaid from June 2014 to August 2016
- We have issued over $200 million of long-term structured notes in 2016 with a weighted average maturity of 10.6 years

Long-Term Debt Maturity Schedule (Notional)
($ Millions)



Q & A's – IRQuestions@Leucadia.com

Leucadia Asset Management

Overview & Strategy

- Diversified alternative asset management platform – supporting and developing focused funds managed by distinct management teams
- Compelling edge – leverage Jefferies to source, and Leucadia to capitalize and market
- Fee-generating assets; prospect of long-term stable cash flows; ability to recycle seed capital
- ~$535 million Leucadia book value in LAM products as of June 30, 2016 – this does not reflect any potential value of the management companies executing these strategies
- Goal of growing third party AUM, while earning a reasonable return on our invested capital
  - Expanding LAM-level marketing & IR function
- Manage platforms to minimize cost and mitigate risk
  - Leverage Jefferies back office to minimize launch costs and operating expenses
  - Strict controls to manage and limit risk
  - Cut losses when necessary at pre-determined levels; low cost to exit investments
- Continue to seek new platforms/partners
- Aggregate Regulatory AUM of $10.2 billion ($5.2 billion in CoreCommodity) as of June 30, 2016

Platform and Strategies

- Strategic Investments Division (Quantitative Strategies)
  - Systematic strategy with a multi-quant approach across asset classes, geographies and time horizons
  - Structured Alpha B, Managed Futures, Grouper (equity market neutral)
- Folger Hill Asset Management (Multi-Manager)
  - Multi-manager discretionary long/short equity hedge fund platform
- Topwater Capital (Multi-Manager / First-loss)
  - First-loss, scalable multi-manager and multi-strategy liquid securities fund
- Global Equity Events Opportunity Fund (Event-Driven Strategies)
  - Event driven strategy investing in merger arbitrage, relative value and stock loan arbitrage

Platform and Strategies (Continued)

- Tenacis (Quantitative Strategies)
  - Systematic macro fund encompassing equities, credit, FX, rates and volatility
- Lake Hill
  - Electronic trading of listed options and futures across asset classes
- 101 Capital
  - Discretionary Macro
- CoreCommodity Management (Commodity Strategies)
  - Active strategies designed to provide enhanced commodity exposure
- 54 Madison (Real Estate)
  - Long-term, opportunistic real estate private equity fund providing equity capital for hotel, timeshare, resort, residential and specialty retail real estate development projects

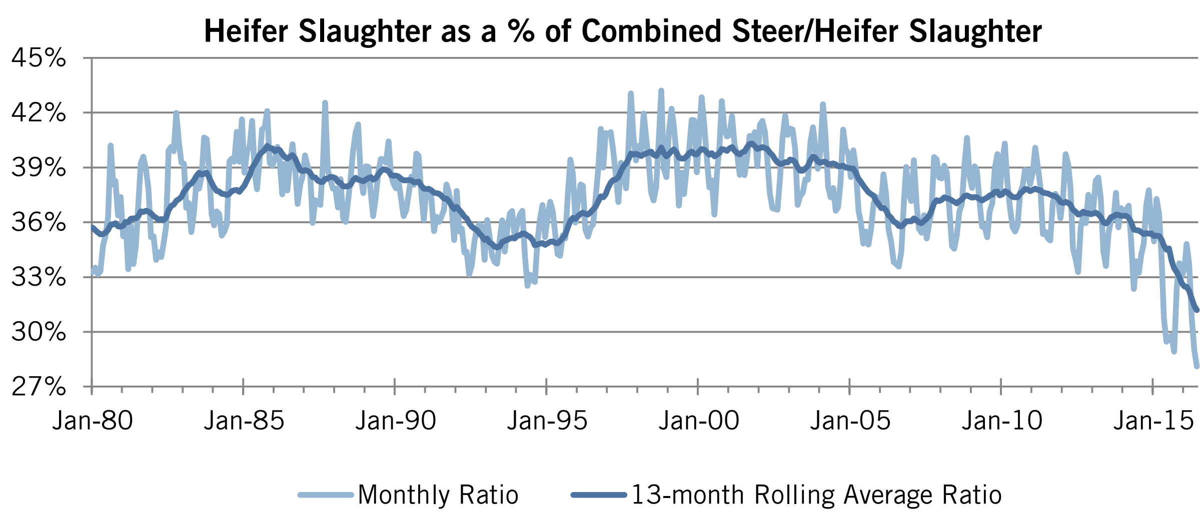
National Beef®

Company Overview

- National Beef processes ~3 million fed cattle per year representing ~12.5% U.S. market share
  - 2 processing plants strategically located in Liberal and Dodge City, KS
  - Primary competitors: Cargill, JBS, Tyson
  - Export beef and beef by-products to more than 20 countries
- National Beef is intensely focused on value-added production to drive superior performance versus its commodity-focused competitors
  - National Beef operates 3 further processing plants converting beef and pork into fresh, consumer-ready products
  - Strategically located in PA, GA and KS
- National Beef's tannery is among the largest in the world
  - Converts raw cattle hides to wet blue leather for use in finished leather production for automotive, shoes, fashion, etc.
- www.kansascitysteaks.com
  - Premium direct-to-consumer beef, center-of-the-plate entrees, side dishes and desserts

Industry Update

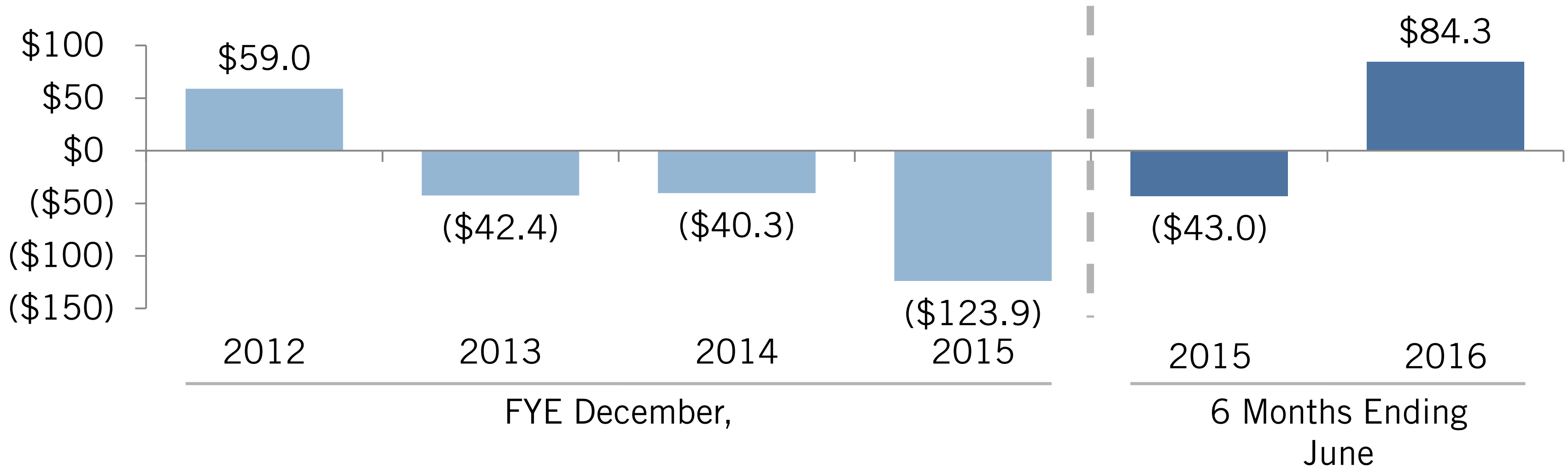
- The rebuilding of the domestic U.S. cattle herd has dramatically affected the market for fed cattle
- From June 27, 2015 to June 25, 2016, the average market price per pound of fed cattle has fallen from $1.48 to $1.16. Price as of September 25, 2016 was $1.07 (1)
- This drop in the cost of cattle has allowed processors to pass along lower costs to retailers, leading to a 9.6% increase in the sale of beef (2), while the average wholesale price per pound has dropped from $2.51 to $2.10 between June 27, 2015 and June 25, 2016 (3)
- Lower prices and increased demand have allowed beef processors such as National Beef to improve margins
- Lowest heifer slaughter rate in over 35 years predictive of continued growth of the herd
- On September 22, China lifted its 13 year ban on U.S. beef; USDA forecasts China will surpass Japan as second largest beef importer (after the U.S.) in 2016



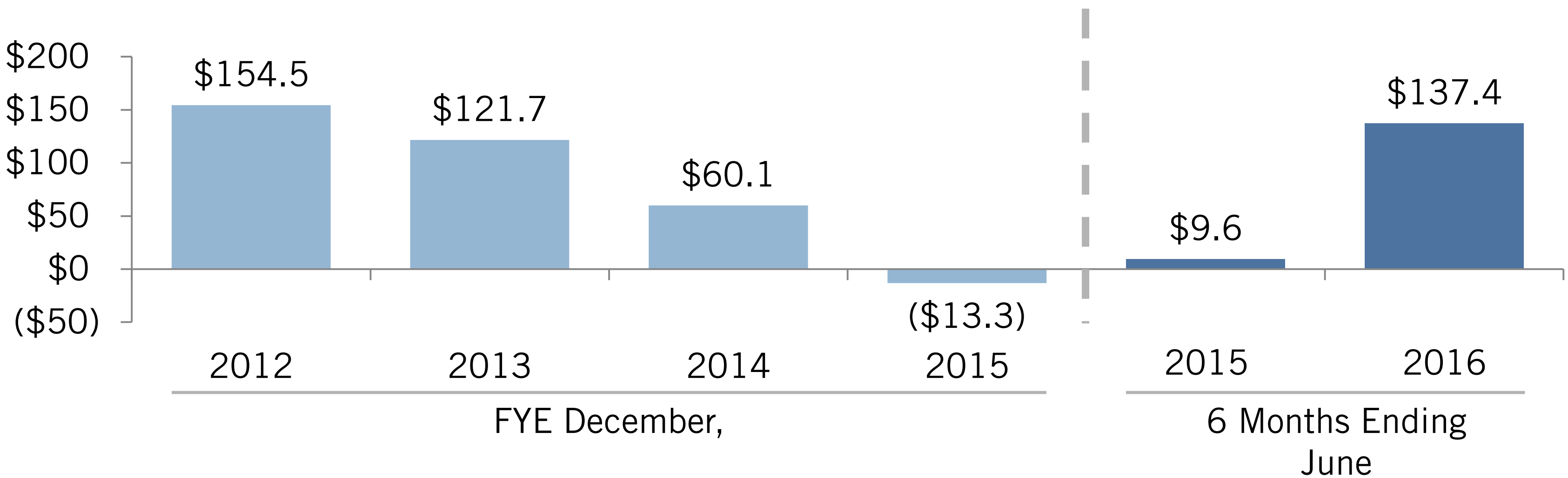
(1) USDA reported prices for Kansas fed cattle.
(2) Represents June 2016 year-over-year increase of total beef production per USDA/NASS.
(3) Wholesale beef prices per the USDA Comprehensive Cutout as of June 25, 2016.

Financial Performance

Pre-Tax Income ($ Millions)



Adjusted EBITDA ($ Millions) (1)



(1) Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA equals pre-tax income, excluding depreciation and amortization expenses, interest expense / (income), net, and impairments. See page 98 in the Appendix for a reconciliation to GAAP amounts.

2016 Update

- More normal operating environment due to drop in cattle prices and additional availability of cattle
- Gross margin improved to 5.0% in the first half of 2016, compared to 1.1% in the prior year period
  - Lower prices and increased cattle available allowed National Beef to sell more volume at higher margins
- Additional volume also allows for higher capacity utilization and operating efficiencies
- Sales efforts are driving demand from new and existing customers for our consumer-ready products
- Our tannery continues to ramp up production and to seek the optimal product and grade mix

Strategic Priorities

- Focus on additional value-added production
  - As capacity utilization increases, seek margin enhancement opportunities
  - Ongoing dialogue with retailers and food service providers regarding consumer-ready, portion-controlled and other value-added product lines
- Manage for growth and enhanced profitability
  - Capture benefits of the rebound in cattle herd size
  - Continue to drive efficiencies and operational improvements
  - Focus on export opportunities (now including China) to capitalize on long-term secular growth in global protein consumption
- Drive volume and margin at tannery
  - Provide the highest quality, wet blue hides from one of the largest and most technologically advanced facilities in the world
- Execute on strategic plan for significant growth and brand development of Kansas City Steak Company

BERKADIA®

Company Overview

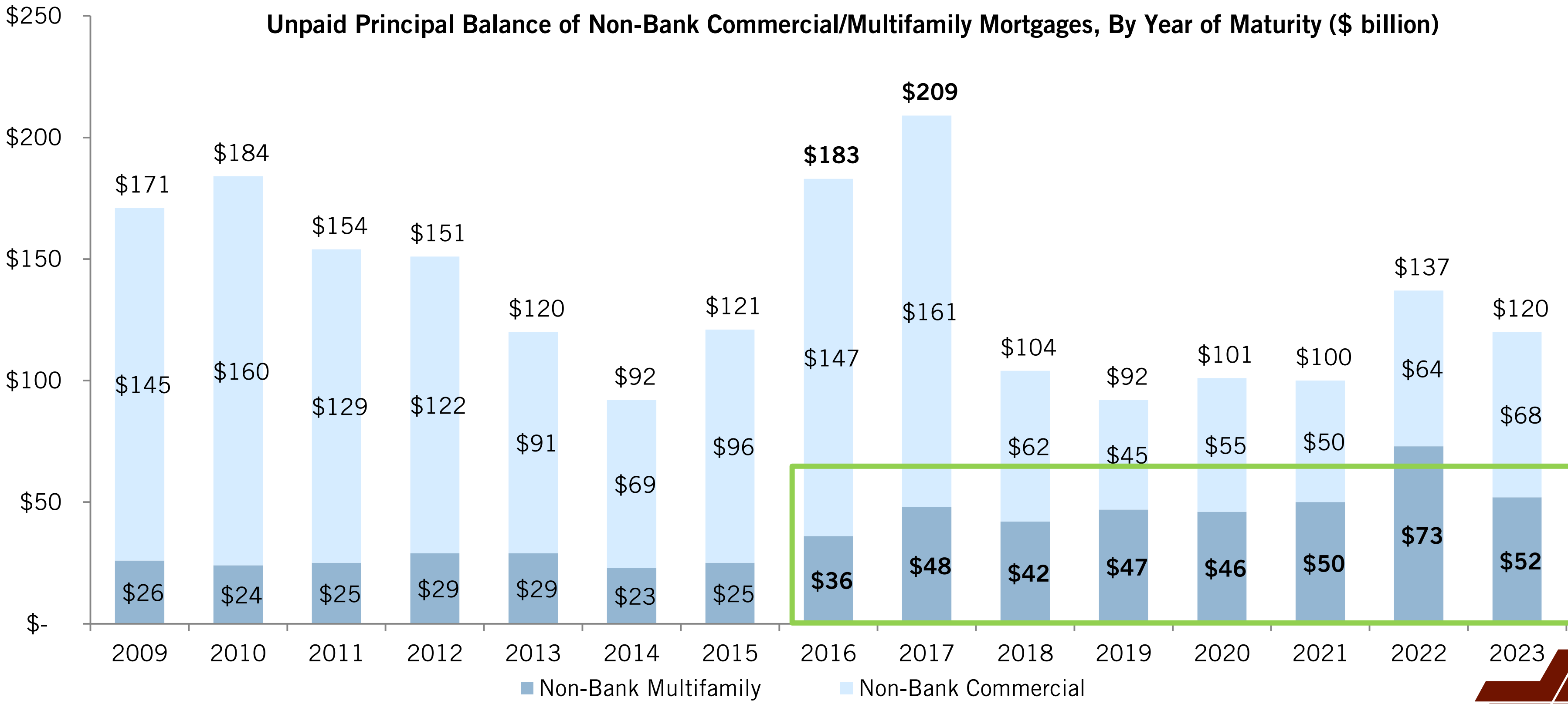
- Berkadia is a full-service mortgage banking firm that provides clients best of class middle market services and products in mortgage finance, advisory and servicing
- Business Lines:
  - Permanent and construction loans
  - Investment Sales
  - Bridge Loans
  - Master/Primary Servicing
- Largest GSE commercial real estate lender by $ volume in 2015
- Largest FHA commercial real estate lender by $ of commitments from HUD FY 2016 to date
- 2nd largest FHLMC commercial real estate lender by $ volume in 2015
- 3rd largest FNMA commercial real estate lender by $ volume in 2015
- 3rd largest servicer of U.S. commercial real estate loans by $ volume as of June 30, 2016

Industry Update

Positive Long-Term Market Opportunities

- Commercial maturities will rise significantly in 2016-2017 as 10-year loans originated pre-2008 balloon, presenting a short-term opportunity. Through July, Berkadia debt originations are up 12% year-over-year

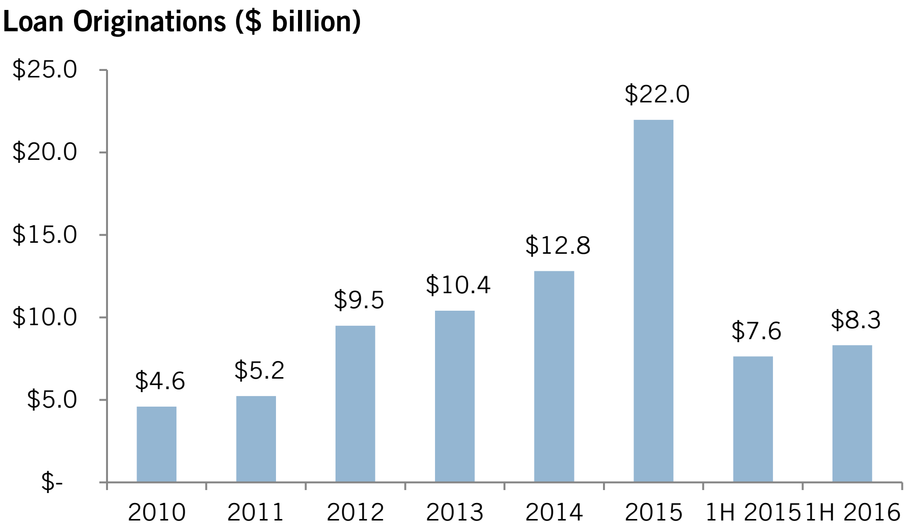
- Multifamily maturities will continue to climb over the next several years, roughly doubling historical maturities. This presents a long-term opportunity squarely in our wheelhouse

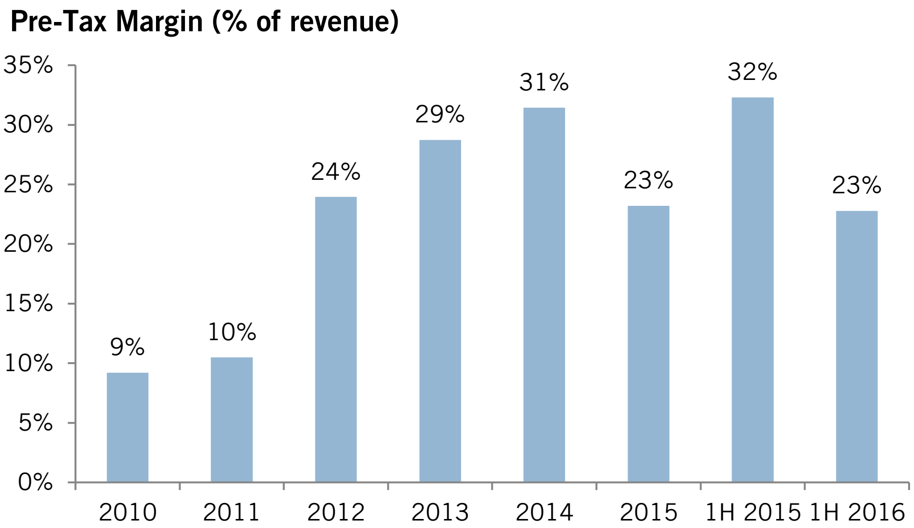


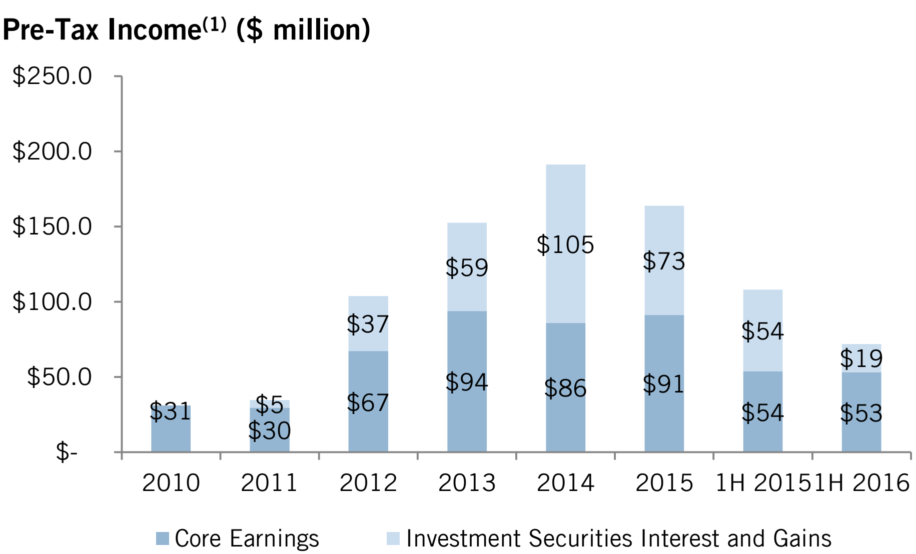
Source: Mortgage Bankers Association Commercial Real Estate/Multifamily Finance Loan Maturity volumes as of December 31, 2015.

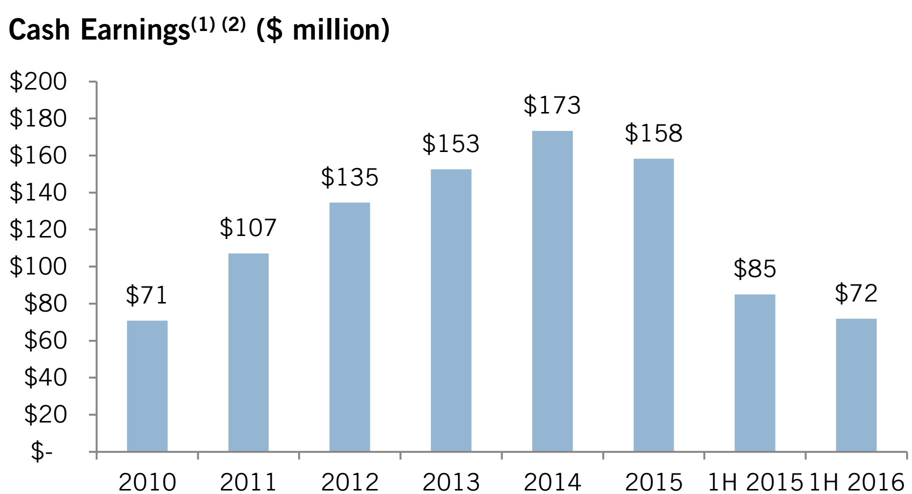
Financial Performance

BERKADIA









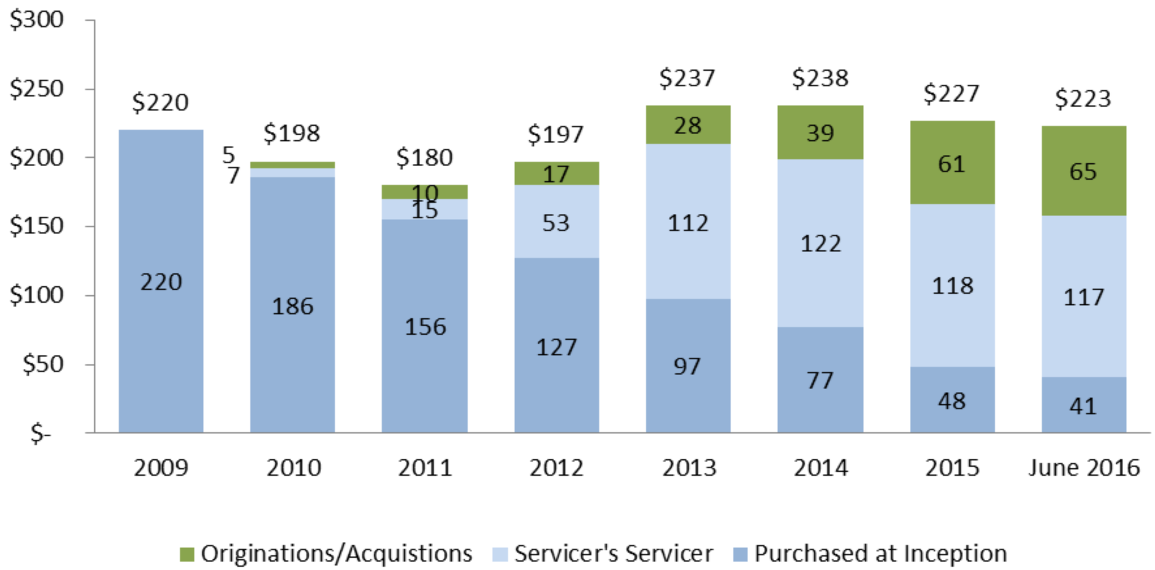
(1) The decline in the six months ended June 30, 2016 primarily reflects investment gains recorded in the first quarter of 2015.

(2) Cash Earnings is a non-GAAP measure. Cash Earnings equals pre-tax income plus depreciation, amortization and impairments of mortgage servicing rights (MSRs), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to the origination of MSRs and unrealized gains / losses on loans and investments. See Appendix on page 99 for a reconciliation to GAAP amounts.

Servicing Portfolio

- Unpaid principal balance as of June 30, 2016 was $223 billion; $182 billion, or 82%, relate to loans added since initial acquisition (2009)

Servicing Portfolio – UPB ($ billions)



2016 Update

- **Berkadia's results were impacted in 1H of 2016 by reduction in Investment Securities of ~$300 million and increased 3rd party financing facility usage of ~$400 million**
- **Recruiting success**
  - Recruited 16 new Mortgage Bankers. Our MB team is currently 138 professionals
  - Recruited 15 new Investment Sales advisors. Our IS team is currently 119 professionals. Profitability from these and our 2H 2015 recruits expected after ~12 month pipeline replenishment period
  - Upgraded productivity of Bankers / Sales advisors. Average volume per MB increased to $123 million in 2015 from $98 million in 2014, a 25% increase (excludes a single $5 billion portfolio financed in 2015)
- **Integration**
  - 19 out of 54 total Mortgage Banking and Investment Sales locations are co-locations of both business lines
    - Up from 13 at same point last year
    - Round trips, where we act as both sales advisor and debt originator, increased from negligible levels in 2014 to 16% in 1H 2015. We have increased this to 20% in 1H of 2016

2016-2017 Strategic Priorities

BERKADIA®

- **Increase Business with Existing Clients**
  - Unique ideas, proprietary databases and solutions
  - Leverage big data
  - Speed

- **Expand Client Reach**
  - Rifle-shot recruiting
  - Continued integration of offices / team approach

- **Drive Profitability and Cash Flow**
  - Market share and revenue growth
  - Process and technology improvements, agile technology methods

Relentless

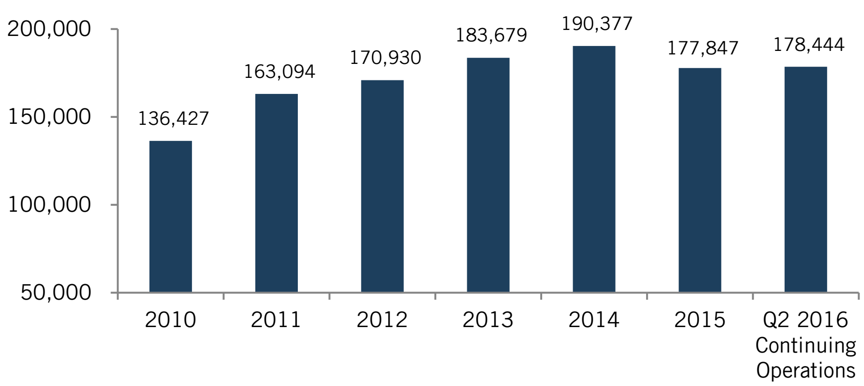
Note on Forward Looking Statements

Certain statements contained herein may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and/or the Private Securities Litigation Reform Act of 1995, which reflect FXCM's current views with respect to, among other things, its operations and financial performance in the future. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about FXCM's industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict including, without limitation, risks associated with the events that took place in the currency markets on January 15, 2015 and their impact on FXCM's capital structure, risks associated with FXCM's ability to recover all or a portion of any capital losses, risks relating to the ability of FXCM to satisfy the terms and conditions of or make payments pursuant to the terms of the credit agreement with Leucadia, risks related to FXCM's dependence on FX market makers, market conditions, and those other risks described under "Risk Factors" in FXCM Inc.'s Annual Report on Form 10-K and other reports or documents FXCM files with, or furnishes to, the SEC from time to time, which are accessible on the SEC website at sec.gov. This information should also be read in conjunction with FXCM's Consolidated Financial Statements and the Notes thereto contained in FXCM's Annual Report on Form 10-K, and in other reports or documents the FXCM files with, or furnishes to, the SEC from time to time, which are accessible on the SEC website at sec.gov.

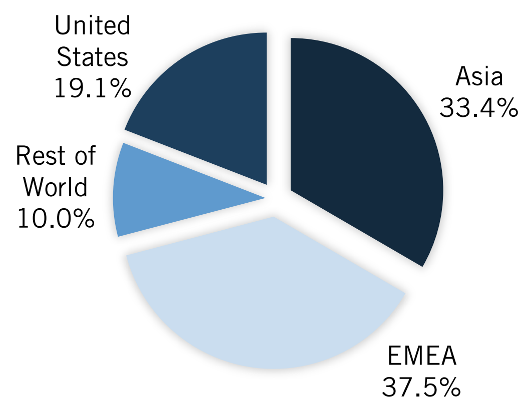
Company Overview

- FXCM (NASDAQ:FXCM) is a leading online provider of foreign exchange trading services to approximately 175,000 retail customers globally
- Multi-asset class product offering – with approximately 65% of volumes in OTC Spot FX and 35% in contracts for difference ("CFDs") on OTC precious metals, oil, commodities and equity-indices (Q2/16)
- Global reach – serving customers in 180 countries and 19 languages
- Leucadia provided $300 million in secured financing to support the capital shortfall that resulted from extraordinary volatility in the Swiss Franc as a result of the action taken by the SNB on January 15, 2015 → $193 million principal remains outstanding today, with a number of assets in process of being sold to repay debt
- Leucadia and FXCM have completed the restructuring of our relationship, deepening our long-term partnership and providing Leucadia a direct equity interest in FXCM's operating business

Total Active Accounts[(1)]



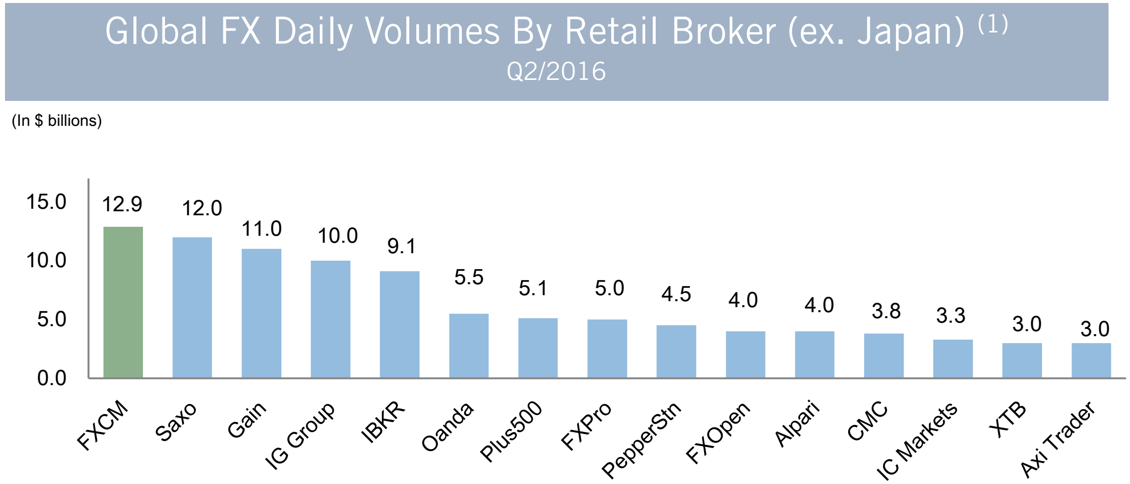
Volume by Geography Continuing Operations (Q2/16)



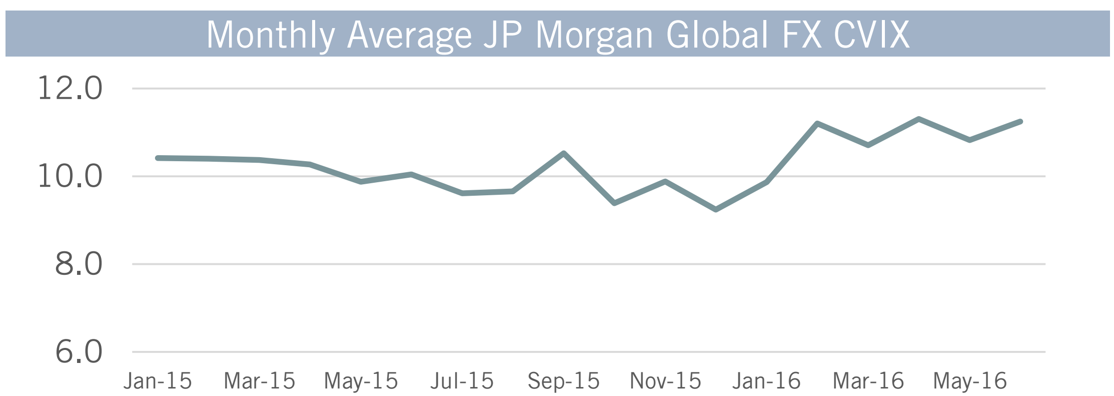
(1) An Active Account represents an account that has traded at least once in the previous twelve months.

Industry Update

- FXCM has regained its position as the largest retail FX broker globally (ex. Japan) – a position it had lost post-SNB event January 2015



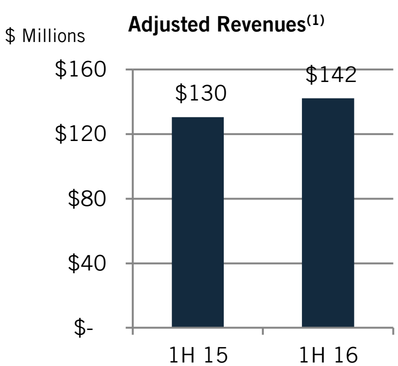
- Currency volatility ("CVIX") has increased somewhat in 2016, however, still only at long-term average CVIX levels with potential for greater volatility and trading volumes

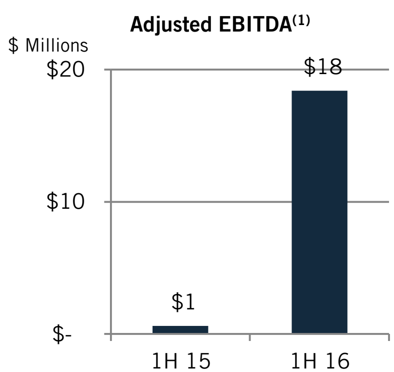


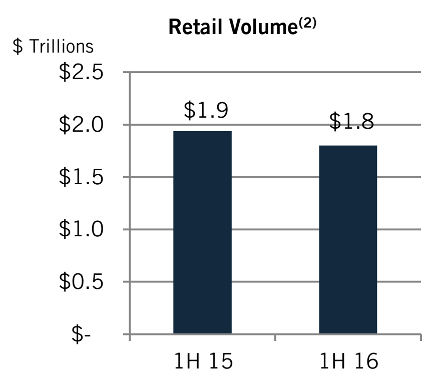
(1) Based on Forex Magnates Q2/16 Quarterly Industry Report. Excludes Japanese brokers.

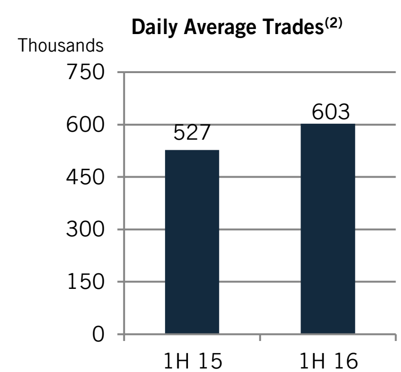
Financial Performance

- Cash position remains strong, with $199 million in operating cash in continuing operations (and an additional $32 million in discontinued operations) at 6/30/16
- Customer equity from continuing operations of $662 million at 6/30/16
- FXCM's regulatory capital position is strong
  - Minimum regulatory capital requirements in continuing operations of $56 million versus current regulatory capital of $150 million, a surplus of $94 million
- Improved revenue and profitability from continuing operations in 2016





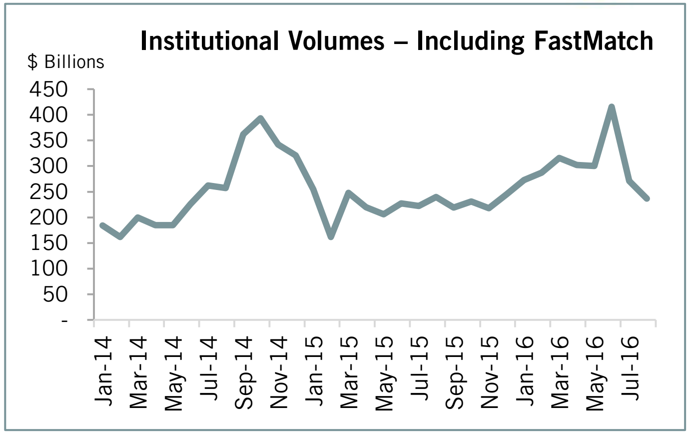




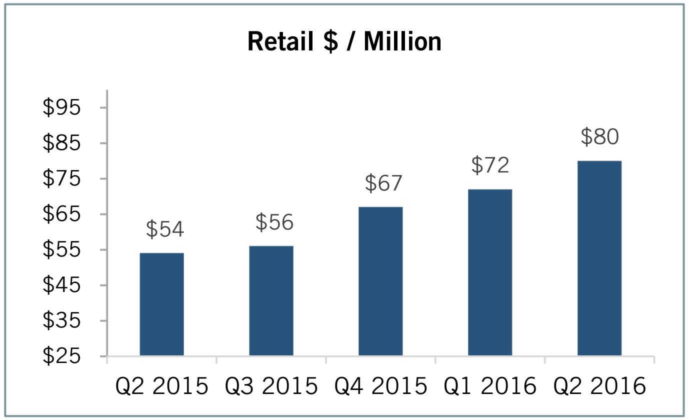
(1) Source: Adjusted Revenues and Adjusted EBITDA per FXCM's 2nd Quarter 2016 earnings conference call presentation. Adjusted Revenues and Adjusted EBITDA are non-GAAP measures and are for FXCM Continuing Operations only. See page 100 in the Appendix for a reconciliation to GAAP measures.
(2) Source: Retail Volume and Daily Average Trades per FXCM's 2nd Quarter 2016 10-Q and are based upon Continuing Operations.

2016 Developments

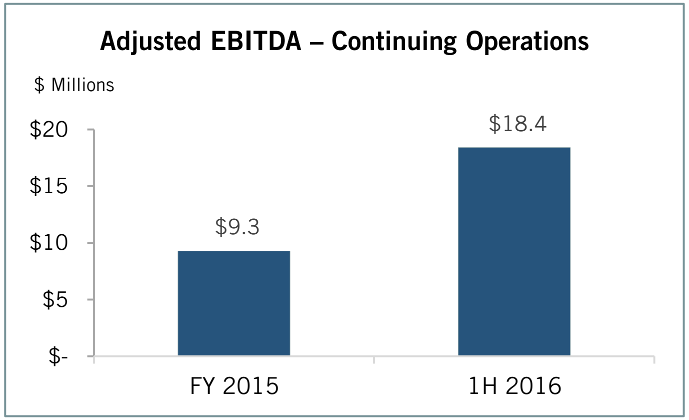
- Recovery of institutional business to pre-January 2015 / SNB levels



- Strong growth in revenue capture



- Significant improvement in Adjusted EBITDA(1) from continuing operations this year – 1H2016 nearly double all of 2015



(1) Source: Adjusted EBITDA per FXCM's 2nd Quarter 2016 earning conference call presentation. Adjusted EBITDA is a non-GAAP measure and is for FXCM Continuing Operations only. See page 100 in Appendix for a reconciliation to GAAP amounts.

Strategic Priorities

- Repay Leucadia debt / complete asset sales
  - DailyFX – announced sale for $40 million
  - Lucid
  - V3
  - FastMatch

- Recently closed revised arrangement with Leucadia taking a direct stake in FXCM
  - Should be a major factor in regaining large FX traders, a segment where FXCM was traditionally strong pre-SNB event

- Further improve our unique agency offering in CFDs with new market makers coming onto platform with improved liquidity and pricing for clients

- Continue roll-out of dealing desk execution to small clients in FX
  - Dealing desk execution for small clients now is 21% of total Q2 2016 retail volume from nil pre-SNB → has been a significant factor in improved revenue per million

- Additionally, FXCM considerably levered to interest rate increases
  - Each 100bps in Fed Funds rate potentially adds ~$40-50 million in Adjusted EBITDA

GARCADIA

Garcadia Overview

10th Largest U.S. Auto Dealership Group in 2015 Based on New Sales Volume

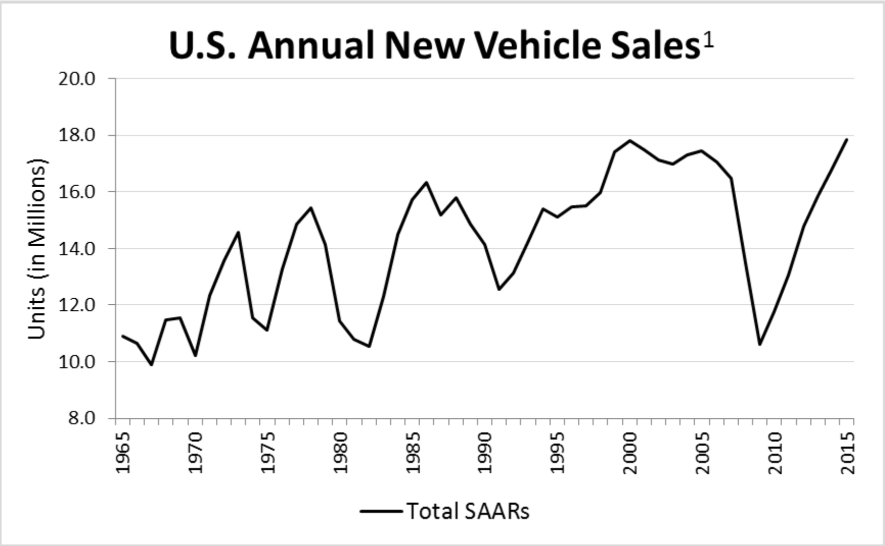
- **4 Clusters, 29 dealerships – 14 domestic, 15 foreign brands**

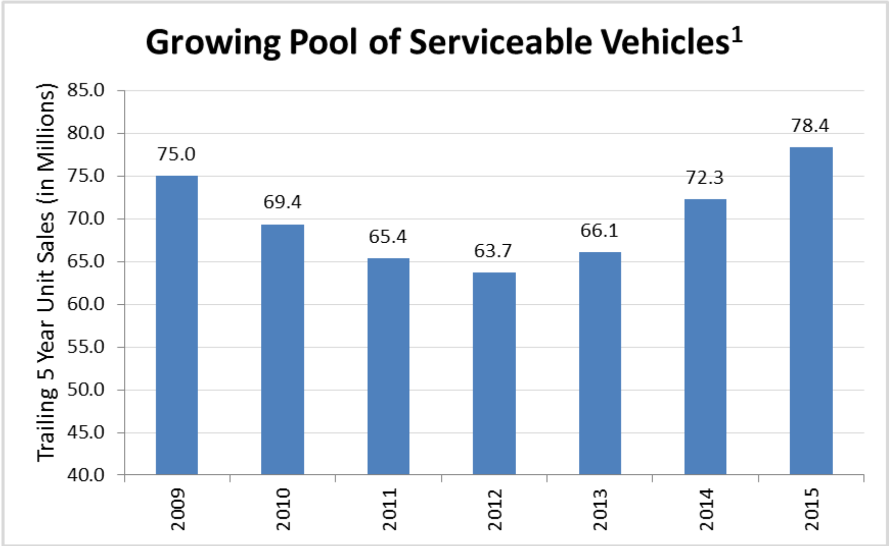
MICHIGAN 3 DEALERSHIPS	IOWA 5 DEALERSHIPS	TEXAS 8 DEALERSHIPS	CALIFORNIA 13 DEALERSHIPS
Cadillac of Novi	Dewey Chrysler • Dodge • Jeep • Ram	Baytown GMC • Buick	Alhambra Nissan
Southfield	Dewey Ford	Alfa Romeo Fiat of Clear Lake	Honda of The Desert
Telegraph	Southtown	Big Star Ford	Chevrolet Cadillac of La Quinta
	Stew Hansen Chrysler • Dodge • Jeep • Ram	Northwest Chrysler • Jeep • Dodge • Ram	Toyota of The Desert
	Stew Hansen Hyundai	Big Star Honda	Costa Mesa Nissan
		Texan Chrysler • Jeep • Dodge • Ram	Stadium Nissan
		Clear Lake Chrysler • Jeep • Dodge • Ram	Culver City Honda
		Texan GMC • Buick	Culver City Toyota
			Surf City Nissan
			Long Beach Honda
			Hamer Toyota
			West Coast Toyota
			Hamer Honda

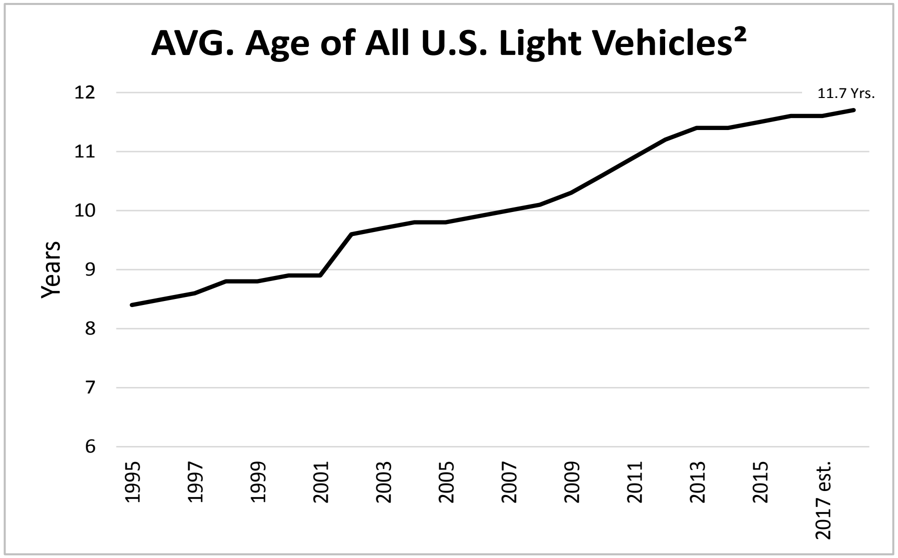
- **One company, 29 dealerships with a common vision to be "Most Esteemed"**
  - Single brand maniacally focused on employee and customer experience
  - Common operating principles and management routines emphasizing people development
  - Proprietary reporting systems providing real time results by transaction and employee
  - High throughput and performance metrics vs industry

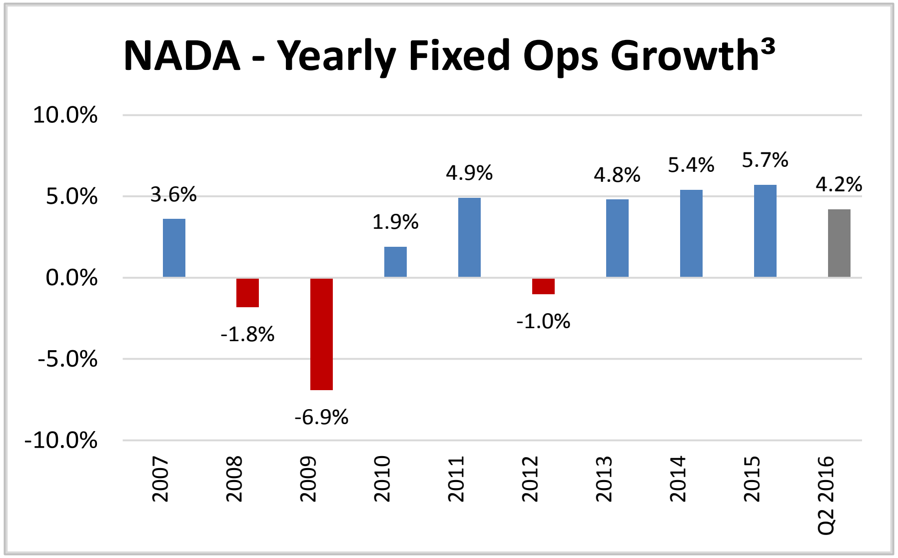
Industry Update – Key Indicators Remain Positive

GARCADIA









(1) WardsAuto.
(2) IHS Automotive – 2016 Annual Study.
(3) Q2 2016 The Haig Report.

Financial Performance

GARCADIA

Garcadia's pre-tax income has grown each year

($ Millions)	Fiscal Year Ended December 31, 2012	2013	2014	2015	6M Ended 6/30/2016
Total Units Sold	35,394	48,576	65,514	84,643	42,073
# of Dealerships	18	21	26	27	29
Garcadia Revenue (1)	$ 1,100.8	$ 1,548.4	$ 2,071.1	$ 2,813.1	$ 1,421.7
% Growth	*39.4%*	*40.7%*	*33.8%*	*35.8%*	*NA*
Garcadia Pre-Tax Income (1)	$ 37.4	$ 46.9	$ 59.2	$ 64.7	$ 36.6
% Margin	*3.4%*	*3.0%*	*2.9%*	*2.3%*	*2.6%*
Garcadia Distributions to Leucadia(2)	$ 24.4	$ 33.1	$ 41.3	$ 51.5	$ 25.7
Equity - Beginning of Period(3)	$ 72.3	$ 82.4	$ 120.0	$ 167.9	$ 172.7
Equity - End of Period(3)	$ 82.4	$ 120.0	$ 167.9	$ 172.7	$ 187.2
Pre-Tax Return on Beginning Equity(3)	35.6%	39.2%	34.1%	26.5%	28.7%

(1) Represent combined amounts for all Garcadia dealership holdings, not just Leucadia's share.
(2) Represents Leucadia's share of cash distributions.
(3) Represents Leucadia's net carrying amount for Garcadia (excluding land) and percentage return.

Brand Evolution 20/20

GARCADIA

5 Key Questions:

Why do we exist?

Where are we now?

What does success look like in 2020?

How will we stay focused to attain 2020 success?

How will we work together to attain 2020 success?

12 Months

5 Strategies

1. One hour sales process
2. 45 minute oil change
3. IT to DRIVE technology solutions
4. Integrated HCM system
5. Structure for Success alignment in 100% of dealerships

VITESSE ENERGY

Velocity of Capital Compounding

Company Overview

- Vitesse Energy formed in May 2014 – Leucadia has invested $300 million to acquire and develop oil and gas properties in proven, lower risk oil & gas fields in the **core** of the Bakken Field and Denver-Julesburg ("DJ") Basin

- Our Strategy – acquire leasehold interests in the best parts of the Bakken and DJ and participate in the conversion of those yet to be developed drilling locations into cash flow producing horizontal wells

- Partner with the leading operators who drill and complete new horizontal wells
  - More than 75% of current activity with EOG, XTO (Exxon), QEP, Oasis, Liberty and Hess

- 90+ % of the company's expected long-term cash flow remains in the ground as yet to be developed drilling locations to be profitably developed in the future. Our long lived reserves provide Vitesse with meaningful long-term exposure to rising oil prices

- The high quality and strength of our team, as well as our evaluation, tracking and accounting systems give Vitesse a competitive advantage in non-op

Financial Performance

Through June 30, 2016

- 21,260 net acres in the core Bakken counties of Williams, McKenzie, Mountrail and Dunn
- 1,314 gross producing wells (29.77 net)
- 399 permitted, drilling or completing wells (7.1 net, of which 3.13 are completing)
- 225+ net future drilling locations ($1.2 billion of estimated future capital expenditures)
- Above numbers do not reflect Vitesse's recent acquisition
- Financial and operating results for 1H 2016:
  - 2,903 boe/d, with average cash margin of $17.15/boe
  - $15.6 million revenue from oil and gas sales / $9.6 million of cash from operations
  - $23.6 million of capital expenditures
  - Substantially all of our current production is hedged through 2017 at approximately $50/bbl

Case Study: Deeper / Denser / Cheaper / Better

- Vitesse is a partner with Oasis Petroleum in its White unit in the Bakken
- While oil is down 40%, our expected IRR has increased by nearly 50%
- Capex per well almost half of Q4 2014 cost
- Ever improving well completions increases reserves per well from 600 Mboe to 1,050 Mboe

	2011	2014	Sept. 2016	2014 – 2016
Number of Wells Drilled	1	7	5	**13**
Completion Stages per Well	30	36	36	
Gross Capex per Well ($M)	$9,300	$10,500	$5,800	**45%** ↓
Reserves per Well (Mboe)	600	840	1,050	**25%** ↑
WTI Oil Price ($/bbl)	$95	$75	$45	**40%** ↓
IRR (%)	**34%**	**40%**	**60%**	**1.5 x** ↑

Source: Oasis Petroleum August 2016 Presentation – http://oasispetroleum.investorroom.com/events.

Quantifying Deeper / Denser / Cheaper / Better

	October 2014	September 2016	% Change
WTI Oil Price ($/bbl)	$90.74	$45.11	*(50%)*
Daily Production (boe/d)	1,837	3,020	*64%*
Remaining Net Well Locations	182	227	*25%*
Total Net Reserves (Mboe)	91,752	121,364	*32%*
Total Future Capex ($ billions)	$1.46	$1.20	*(18%)*
Future Net Cash Flow Net of Future Capex ($ billions)	$3.18	$2.10 (1)	*(34%)*

- We expect to reinvest most of our free cash for the next 10 years into future development opportunities
- The $2.1 billion of future Net Cash Flow based on WTI strip pricing of:

Rem. 2016	2017	2018	2019	2020	2021
$46/bbl	$49/bbl	$52/bbl	$54/bbl	$55/bbl	$55/bbl

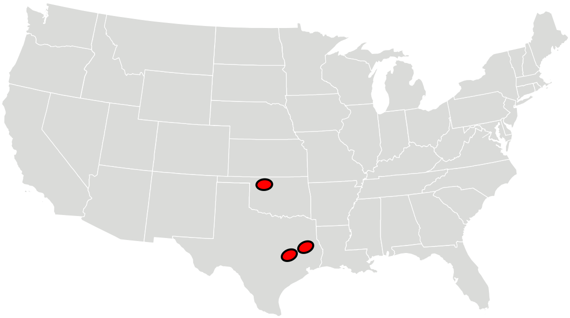
- At $65/bbl oil in 2018 and thereafter, our future Net Cash Flow Net of Capex rises to $3.0 billion

(1) Future Net Cash Flow based on WTI strip pricing in chart above.

Strategic Priorities

- Optimize our assets
  - Reinvest and compound cash flow into future horizontal wells
  - Increase our exposure in areas in Bakken and DJ with highest rates of return
- Leverage our best in class evaluation, tracking and accounting systems to evaluate what appear to be management or consolidation opportunities from other non-op owners
- Add assets opportunistically at compelling valuations
  - Recently closed acquisition of 31 drilled-but-not-yet-completed wells operated by EOG and located in the Denver-Julesburg Basin; represents a compelling investment expected to accelerate value creation by nearly doubling Vitesse's near-term production and cash flow in 2017 and 2018

JUNEAU
ENERGY



Company Overview

- Juneau Energy ("JE") is a Houston & Denver-based oil and gas company now also led by Bob Gerrity, CEO of Vitesse Energy, and his team

- JE owns leasehold acreage to be developed in three areas in Texas and Oklahoma:

  – A development joint venture (JV) with AEXCO Petroleum in the horizontal and vertical Mississippi Lime in Alfalfa and Kay counties, Oklahoma

  – In Brazos, Burleson, Lee and Grimes Counties in East Texas we have Eagle Ford Shale and Austin Chalk acreage

  – In Houston and Leon Counties, Texas we own acreage with Buda-Georgetown-Glen Rose potential

  – Book value as of 6/30/16 is $169 million

2016 Developments

- JE seeks attractive JVs with partners to participate in development of our acreage
- In August JE formed a JV with Lonestar Resources (NASDAQ:LONE) to help develop some of our East Texas Eagle Ford acreage
  - JE invested $25 million of cash in LONE in return for $25 million principal amount 12% Secured Second Lien Notes and warrants for 500,000 shares of LONE stock at $5.00 per share
  - JE also sold 50% of our two Eagle Ford wells to Lonestar for 500,227 shares of stock. In return, LONE will develop at least 2 new Eagle Ford wells in the area as our partner and seeks further development in the area
- In Houston County we are in the process of negotiating JVs with established operators in the area
- Evaluating sale of JE's cash flowing assets at a modest gain, which could return some capital and reduce our investment

linkem

Company Overview

- Fast-growing fixed wireless broadband internet provider in Italy
  - 373,028 subscribers as of 9/30/16
  - 71% annualized subscriber growth rate since Leucadia's initial investment in 2011
  - Offers pre- and post-paid subscribers a simple product at a compelling price point: unlimited broadband services with speeds up to 30 Mbps for €25/month
- Nationwide network deployment with base stations, fiber exchange points, points of sale and customers in every region of Italy
  - As of 9/30/16, over 1,700 base stations deployed reaching 50% of the population
  - Network expected to approach 100% LTE-enabled in the first quarter 2017
  - 340+ fiber points of presence
  - 2,900 indirect sales and distribution points
- 84MHz of 3.5 GHz spectrum covering 82% of the population and at least 42 MHz in the remaining 18%
- 65% national brand awareness

Industry Update

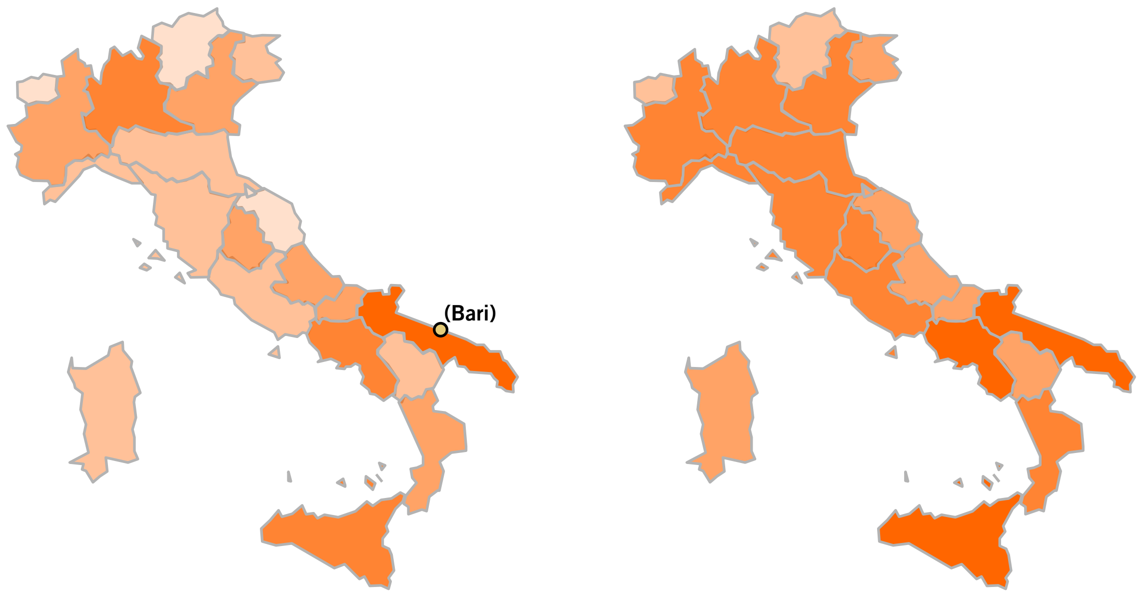
- The Italian broadband market continues to be dominated by low-speed ADSL
  - Over the coming years, ADSL will be replaced by both wireless and fiber solutions
  - With a comparable service to fiber, significantly lower capex and an unmatched speed of deployment, Linkem is poised to become an integral component of Italy's broadband solution
- Major U.S. and Asian telecom operators and equipment manufacturers are increasingly focused on fixed wireless networks and the potential of higher frequency spectrum, including Linkem's 3.5GHz, garnering front-page news
  - In the U.S., AT&T and Verizon have already tested 3.5 GHz service and plan to deploy once the frequency is released by the government
  - Google Fiber has been testing a fixed wireless network in Kansas City utilizing 3.5 GHz and recently acquired a fixed wireless specialist to help with future fixed wireless deployments
- Milan-based fiber carrier Metroweb was acquired in a deal valued at €814 million
  - Metroweb stated it needs to spend €3.7 billion to cover 9.5 million households over the next five years, highlighting the comparatively high cost of fiber deployment
- Hutchison and VimpleCom, who are combining their Italian mobile operations, agreed to sell spectrum and telecom towers to French operator Iliad to satisfy antitrust concerns

Italian Market Potential

- Linkem currently covers 50% of the country, representing 13 million households
- Linkem has been aggressively deploying LTE technology since Q4 2014; 94% of the network is now LTE-enabled
- Initial LTE deployment focused on Southern Italy, including the city of Bari, Puglia, where Linkem has reached 6.3% household penetration
  - Bari has one of the most developed fiber networks in the country
  - Puglia was the first region in which Linkem shutoff WiMAX; the region is entirely serviced by LTE

Household Coverage Evolution

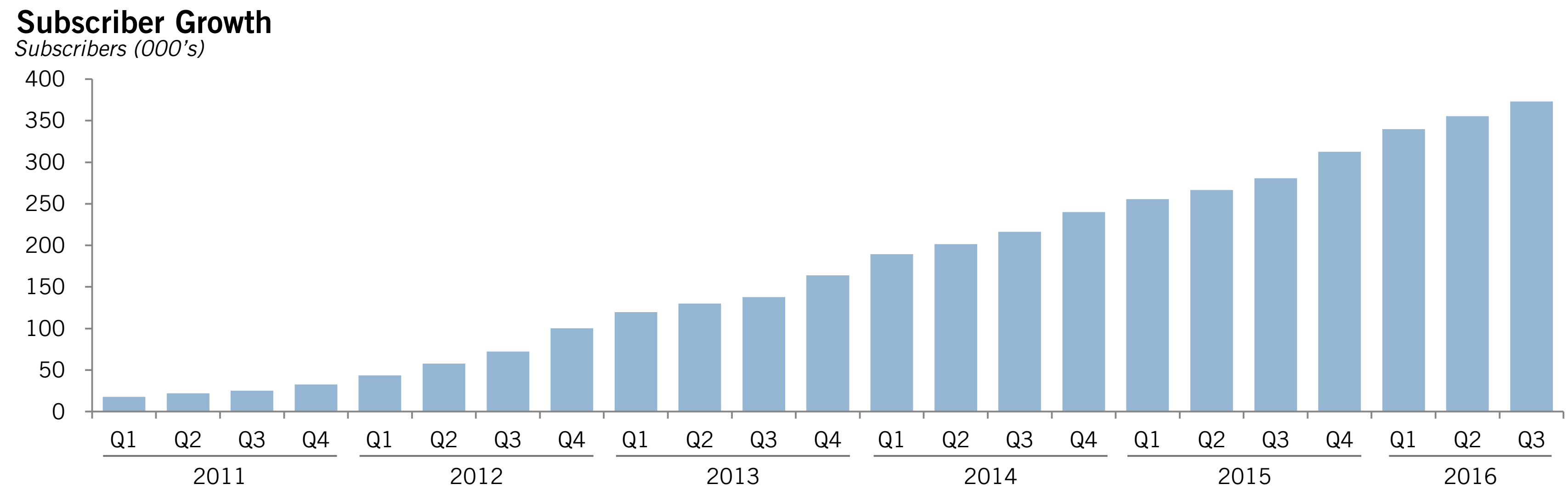
Today: LTE & WiMAX Coexistence	2018E: ~100% LTE Network

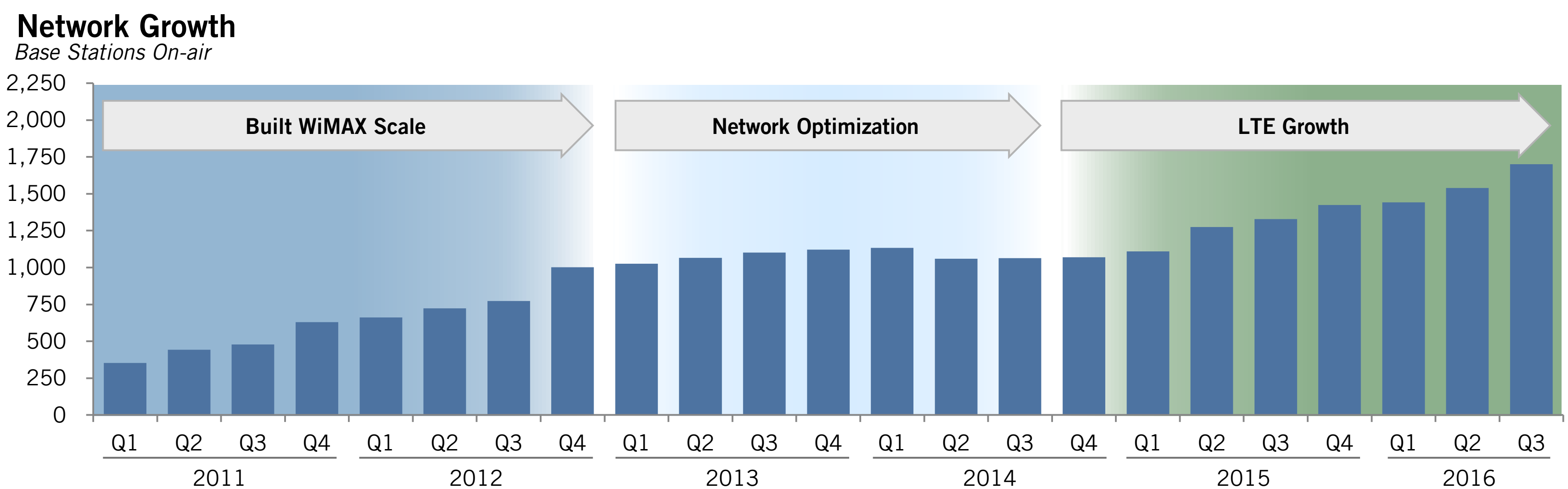


Household Coverage Key				
0-20%	21-40%	41-60%	61-80%	81-100%

Over the next 3 years Linkem plans to significantly increase its coverage and penetration across Italy's 26 million households

Subscriber and Network Growth





2016 Update

- Significant expansion of Linkem's geographic coverage, including initial deployments in Rome, Naples, Genoa, Bologna, Florence and Venice
  - By year end, Linkem expects to have launched service in 18 of the top 20 cities in Italy
- Completing network migration to LTE from legacy WiMax technology
  - The company ended September 2016 with 688 greenfield LTE base stations and 913 LTE overlay antennae on-air
  - The company's network is now 94% LTE-enabled
  - With LTE, customers are experiencing peak speeds up to 30 mbps, versus average ADSL speeds of 5 mbps
  - Our prices remain below the national average, creating strong incentives for new customers to switch to Linkem and providing significant value to existing customers
- At February's Mobile World Conference in Barcelona, Linkem announced a partnership with ZTE to launch the first fixed wireless broadband network in Rome, which formally launched in September
- Linkem has been EBITDA positive since Q4 2014

Strategic Priorities

- Increase coverage through LTE network deployment, including the rollout to Italy's major municipalities
  - Long-term goal of 80%+ Italian household coverage
- Maintain subscriber growth on the existing footprint
- Maintain excellent operating metrics and customer satisfaction
- Continue to develop value enhancing products and services, such as offerings to business subscribers
  - Revenue for initial business customers has averaged over €1,000/month
  - Linkem's simple enterprise products are perfect in a market in which 90%+ of Italy's 4.5 million businesses have fewer than 10 employees

Q & A's – IRQuestions@Leucadia.com

Appendix

Leucadia – Tangible Book Value and Fully-Diluted Shares Outstanding GAAP Reconciliations

Reconciliation of Leucadia Book Value (Leucadia's Shareholders' Equity) to Tangible Book Value

($ millions)

	6/30/2016
Leucadia Shareholders' Equity / Book Value (GAAP)	$ 10,087
Less: Goodwill and Intangible Assets	2,622
Leucadia Tangible Book Value (Non-GAAP)	$ 7,465

Reconciliation of Leucadia GAAP Shares Outstanding to Fully Diluted Shares Outstanding

(millions of shares)

	6/30/2016
Leucadia Shares Outstanding (GAAP)	360.4
Restricted Stock Units	14.4
Other	0.8
Leucadia Fully Diluted Shares Outstanding (Non-GAAP)	375.6

Note: Fully Diluted shares exclude shares for options, convertible debt and preferred shares.

Leucadia – Tangible Book Value GAAP Reconciliation

Reconciliation of Book Value to Tangible Book Value

($ Millions)

	Book Value (GAAP) (1)	Goodwill and Intangibles, Net	Tangible Book Value (Non-GAAP)
Jefferies	$ 5,388	$ 1,927	$ 3,461
Leucadia Asset Management[(2)]	459	2	457
FXCM	508	-	508
HomeFed	264	-	264
Berkadia	184	-	184
Foursight & Chrome	102	-	102
M Science	13	10	3
National Beef	699	623	76
HRG	640	-	640
Vitesse & Juneau	453	-	453
Garcadia	208	-	208
Linkem	172	-	172
Golden Queen	79	-	79
Conwed	105	59	46
Idaho Timber	76	-	76
Cash & Investments	481	-	481
Deferred Tax Asset	1,312	-	1,312
Other	56	1	55
Debt and Preferred Equity	(1,112)	-	(1,112)
	$ 10,087	$ 2,622	$ 7,465

(1) Dollar amounts are Leucadia's net carrying amount as of 6/30/16 for each investment, for consolidated subsidiaries equal to their assets less liabilities and non-controlling interest.

(2) Leucadia Asset Management does not include $76 million of liquid marketable securities that are available for sale immediately. These liquid marketable securities are included in Cash & Investments.

Jefferies – Bache Adjusted Earnings GAAP Reconciliation

Jefferies

Reconciliation of Consolidated Adjusted Financial Information

($ millions)

	Twelve Months Ended 11/30/2015				Twelve Months Ended 11/30/2014			
	GAAP	Adjustments		Adjusted	GAAP	Adjustments		Adjusted
Revenues								
Fixed Income	$ 271	$ 80	(1)	$ 191	$ 748	$ 203	(1)	$ 545
Other	$ -	$ -		$ -	$ -	$ -		$ -
Net Revenues	$ 2,475	$ 80	(1)	$ 2,395	$ 2,990	$ 203	(1)	$ 2,787
Net Revenues After Preferred Interest	$ 2,475	$ 80	(1)	$ 2,395	$ 2,990	$ 203	(1)	$ 2,787
Non-Compensation Expenses	894	127	(2)	767	989	250	(2)(4)(5)	739
Compensation and Benefits	1,467	88	(3)	1,379	1,699	99	(3)	1,600
Total Expenses	2,361	215		2,146	2,687	349		2,338
Earnings Before Tax & Non-Controlling Interest	114	(135)		249	303	(146)		449

This presentation of Adjusted financial information is an unaudited non-GAAP financial measure. Adjusted financial information begins with information prepared in accordance with U.S. GAAP and then those results are adjusted to exclude the operations of Jefferies' Bache business. Management believes that the disclosed Adjusted measures and any adjustments thereto, when presented in conjunction with comparable U.S. GAAP measures are useful to investors as they enable investors to evaluate Jefferies' results in the context of exiting the Bache business. These measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP. **Accompanying footnotes on the following slide**.

Jefferies – Bache Adjusted Earnings GAAP Reconciliation (continued)

(1) Revenues generated by the Bache business, including commissions, principal transaction revenues and estimated net interest revenue, for the presented period have been classified as a reduction of revenue in the presentation of Adjusted financial information.

(2) Expenses directly related to the operations of the Bache business for the presented periods have been excluded from Adjusted non-compensation expenses. These expenses include floor brokerage and clearing fees, amortization of capitalized software used directly by the Bache business in conducting its business activities, technology and occupancy expenses directly related to conducting Bache business operations and business development and professional services incurred by the Bache business as part of its client sales and trading activities, including estimates of certain support costs dedicated to the Bache business. Estimates of certain support costs were derived based on direct support costs for the presented period in relationship to the average head count of corporate support personnel with responsibilities associated with operating the Bache business.

(3) Compensation expense and benefits, including salaries, benefits, cash bonuses, commissions, annual cash compensation awards and the amortization of certain share-based and cash compensation awards, recognized during the presented period for employees whose sole responsibilities pertained to the activities of the Bache business, including front office personnel and dedicated support personnel, have been classified as a reduction of Compensation and benefits expense in the presentation of Adjusted financial information. In addition, compensation and benefits for other corporate support personnel with duties specific to the Bache operations included in this adjustment were estimated based on an average per person cost applied to the average head count for this employee population type across the presented periods.

(4) Non-compensation expense includes amortization expense during the presented periods of intangible assets, which arose in connection with the purchase accounting associated with the Leucadia transaction in the second quarter of fiscal 2013, which has been classified as a reduction of Non-compensation expense in the presentation of Adjusted financial information.

(5) Non-compensation expense for the purpose of the Adjusted financial information is adjusted for goodwill and intangible asset impairment losses of $59.5 million related to the Bache business.

Jefferies – Tangible Assets and Tangible Member's Equity GAAP Reconciliation

Jefferies

($ Billions)	2013			2014				2015				2016		
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Total Assets (GAAP)	38.9	38.8	40.2	43.4	43.6	44.8	44.5	43.8	44.1	42.8	38.6	35.2	37.1	38.1
Less: Goodwill and Intangibles	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Tangible Gross Assets (Non-GAAP)	37.0	36.8	38.2	41.5	41.6	42.8	42.6	41.9	42.2	40.9	36.7	33.3	35.2	36.3
Total Member's Equity (GAAP)	5.1	5.2	5.3	5.4	5.5	5.6	5.4	5.4	5.5	5.5	5.5	5.3	5.3	5.3
Less: Goodwill and Intangibles	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Tangible Member's Equity (Non-GAAP)	3.2	3.2	3.3	3.4	3.5	3.6	3.5	3.5	3.6	3.6	3.6	3.4	3.5	3.5

Note: Jefferies tangible gross assets and tangible member's equity are unaudited non-GAAP financial measures that begin with information prepared in accordance with U.S. GAAP and then are adjusted to exclude goodwill and intangibles. Management believes that the tangible gross assets and tangible member's equity are common metrics used by many investors in its industry to evaluate performance from period to period.

National Beef – Adjusted EBITDA GAAP Reconciliation

Reconciliation of Pre-Tax Income to Adjusted EBITDA (a non-GAAP measure)
($ Millions)

($ Millions)	FYE December,				6 Months Ending June,	
	2012	2013	2014	2015	2015	2016
Pre-Tax Income (GAAP)	$ 59.0	$ (42.4)	$ (40.3)	$ (123.9)	$ (43.0)	$ 84.3
Interest Expense / (Income), net	12.4	12.4	15.1	16.6	8.7	7.7
Depreciation & Amortization	83.1	88.5	85.3	89.3	43.9	45.4
Impairments	-	63.3	-	4.7	-	-
Adjusted EBITDA (Non-GAAP)	$ 154.5	$ 121.7	$ 60.1	$ (13.3)	$ 9.6	$ 137.4

($ Millions)	Preliminary Estimates	
	3 Months Ending September 2016	9 Months Ending September 2016
Pre-Tax Income (GAAP)	$ 104.0	$ 188.3
Interest Expense / (Income), net	3.0	10.7
Depreciation & Amortization	23.0	68.4
Adjusted EBITDA (Non-GAAP)	$ 130.0	$ 267.4

Note: National Beef Adjusted EBITDA represents pre-tax income exclusive of depreciation and amortization expenses, impairment charges and net interest income/expense, which is a common metric used by many investors in its industry to evaluate operating performance from period to period.

Berkadia – Non-GAAP Reconciliation

Reconciliation of Pre-Tax Income to Cash Earnings (a non-GAAP measure)

($ Millions)							YTD June 30,	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
Pre-Tax Income (GAAP)	$ 31.0	$ 34.6	$ 103.8	$ 152.6	$ 191.3	$ 163.8	$ 108.1	$ 71.9
Amortization, impairment and depreciation	$ 88.1	$ 107.5	$ 112.7	$ 94.7	$ 105.5	$ 144.0	$ 53.8	$ 55.0
Gains attributable to origination of MSR's	$ (42.4)	$ (45.2)	$ (93.1)	$ (120.4)	$ (117.2)	$ (148.3)	$ (70.1)	$ (67.1)
Loan loss reserves and guarantee liabilities, net of cash losses	$ 3.1	$ 3.2	$ 18.8	$ 29.3	$ 28.8	$ 36.1	$ 21.7	$ 8.0
Unrealized (gains) losses; and all other, net	$ (9.1)	$ 7.0	$ (7.7)	$ (3.6)	$ (35.0)	$ (37.2)	$ (28.5)	$ 4.1
Cash Earnings (Non-GAAP)	$ 70.7	$ 107.1	$ 134.5	$ 152.5	$ 173.3	$ 158.2	$ 85.0	$ 71.8

Note: Berkadia cash earnings represents pre-tax income plus depreciation, amortization and impairments of mortgage servicing rights (MSRs), intangible assets, the increase in balance sheet loan loss reserves, less gains attributable to the origination of MSRs and unrealized gains on loans and investments, which is a common metric used by many investors in its industry to evaluate operating performance from period to period.

FXCM – Non-GAAP Reconciliations

Continuing Operations Only (12 Months Ending December 31, 2015)

($ 000s)	FYE 12/31/15
GAAP Net Income / (Loss)	**$ (814,503)**
EBITDA and Other Adjustments:	
Depreciation & Amortization	28,331
Interest on Borrowings	126,560
(Gain) / Loss on Derivative Liabilities	354,657
Goodwill and Held for Sale Impairments	9,513
Income Tax Provision	181,198
EBITDA and Other Adjustments	**(114,244)**
Adjustments:	
Net Revenues [1]	(145,079)
General & Administrative [2]	11,654
Bad Debt Expense [3]	256,950
Adjusted EBITDA (Non-GAAP)	**$ 9,281**

Continuing Operations Only (6 Months Ending June 30, 2015 and 2016)

($ 000s)	6 Months Ending 06/30/15	06/30/16
GAAP Total Net Revenues	**$ 275,702**	**$ 142,071**
Total Net Revenues Adjustment [4]	(145,224)	44
Adjusted Total Revenues (Non-GAAP)	**$ 130,478**	**$ 142,115**
GAAP Net Income / (Loss)	**$ (786,288)**	**$ 179,265**
Adjustments:		
Total Net Revenues Adjustment [4]	(145,224)	44
General & Administrative [5]	3,035	10,499
Bad Debt (Recovery) / Expense [6]	257,303	(141)
Depreciation & Amortization	13,820	14,193
Goodwill and Held for Sale Impairments	9,513	0
(Gain) / Loss on Derivative Liabilities	392,296	(227,360)
Interest on Borrowings	74,850	41,755
Income Tax Provision	181,321	143
Total Adjustments	**786,914**	**(160,867)**
Adjusted EBITDA (Non-GAAP)	**$ 626**	**$ 18,398**

Source: Financial data and footnotes per FXCM Fourth Quarter 2015 Results Press Release (disclosed 03/10/16) and FXCM Second Quarter 2016 Results Press Release (disclosed 08/04/16).

(1) Represents the elimination of a $145.1 million benefit in the twelve months ended December 31, 2015 attributable to the reduction of our tax receivable agreement contingent liability to zero.

(2) Represents the elimination of a $6.8 million reserve recorded against an uncollected broker receivable, $4.9 million of legal fees resulting from the January 15, 2015 SNB event and other professional fees, including the elimination of the expense related to the Stockholders Rights Plan, $0.7 million of costs related to the cyber incident and a recovery of $0.8 million related to a settlement of a lawsuit, all recorded in continuing operations in the twelve months ended December 31, 2015.

(3) Represents the net bad debt expense related to client debit balances associated with the January 15, 2015 SNB event.

(4) Represents a $0.1 million charge in the three months ended March 31, 2016 for tax receivable agreement payments and the elimination of a $145.2 million noncash benefit in the three months ended March 31, 2015 attributable to the reduction of our tax receivable agreement contingent liability to zero.

(5) Represents the provision for debt forgiveness of $8.2 million against the notes receivable from the non-controlling members of Lucid, $3.2 million of legal and other professional fees, including fees related to the Leucadia debt restructuring and other professional fees related to the Stockholder Rights Plan, partially offset by $1.0 million of insurance recoveries to reimburse for costs incurred related to the January 15, 2015 SNB event and the cybersecurity incident, which is included in continuing operations in the six months ended June 30, 2016. For the six months ended June 30, 2015, represents $3.0 million of legal and other professional fees, including legal fees resulting from the SNB event and professional fees related to the Stockholder Rights Plan.

(6) Represents the net bad debt (recovery) expense related to client debit balances associated with the January 15, 2015 SNB event.

February 27, 2017

Dear Fellow Shareholders,

2016 was one of those years in business that was full of contradictions, volatility and complexity, and yet, as the year progressed, brought clarity and optimism, both for the two of us and for Leucadia.

For a variety of reasons, the first quarter of 2016 was the worst operating quarter in our history with Jefferies, occurring while we were still deep in our internal resizing and repositioning of Jefferies that began in the latter part of 2015. Our aversion to excessive risk allowed us to survive (and eventually thrive) through the 2008 financial crisis without government assistance and served us well in the face of the post-crisis period's sustained, sporadic and scattered global volatility, which hit a crescendo in the first quarter of 2016. Jefferies (and our clients) could not get to higher ground and the result was, as we publicly owned up to at the time, incredibly humbling. The suddenness and intensity of the volatility accelerated our repositioning of Jefferies, which was made easier by our flat and transparent structure and our strong employee-partner culture. With a gross balance sheet reduction from $42.8 billion at September 30, 2015 to $35.2 billion at March 31, 2016, primarily due to a reduction in our securities inventories from $18.9 billion to $13.6 billion, the result is that an even more client-focused investment banking firm has emerged. We were confident that doing our work from the bottom up (versus a top down mandate) would enable our team in the trenches to preserve and strengthen our revenue-generating capacity, even with a reduced balance sheet and lower risk. As the last three quarters of 2016 can attest, we were successful.

Jefferies is back on track and positioned for success, with our eye on achieving a double-digit return on tangible equity. The world can change in a moment and forecasts have never been of much use in the investment banking and capital markets sector (which is why we have never provided them), but our momentum has continued into 2017. We are back to playing smart offense, while keeping our balance sheet and risk metrics in line with 2016 levels. We thank Pete Forlenza (Equities), Fred Orlan (Fixed Income), Ben Lorello (Investment Banking), Peg Broadbent (CFO), Mike Sharp (General Counsel of Leucadia and Jefferies) and our 3,324 other employee-partners at Jefferies for their commitment, passion and indefatigable efforts.

One of the basic tenets of a diversified holding company is supposed to be just that: diversification. We have searched for the applicable regression analysis and for the life of us, we have never seen a direct correlation between bonds and beef. Linked patterns among liquidity, the direction of the fixed income markets, cattle herd size, weather, the cut-out ratio and the distressed energy securities market just never seemed to be something we needed to worry about. Nonetheless, while Jefferies was going through its issues, 2015 and early 2016 was also the trough (bad pun intended) at our second largest business, National Beef. In our letter a year ago, we expressed that we were just beginning to see the upturn at National Beef (as you probably recall, adjusted EBITDA for 2015 was negative $13 million). We can now say with much greater confidence that the beef cycle has indeed turned in our favor and this unique and coveted company generated $436 million of positive adjusted EBITDA for 2016 and more importantly, the intermediate term outlook is excellent (always subject to the many risks of this business, its industry and the world). Not many businesses have $436 million of 2016 adjusted EBITDA and are carried on the parent balance sheet at $30 million of tangible net book value (at December 31, 2016). Needless to say, National Beef will drive value for our shareholders and its recent and future results should create optionality, flexibility and cash for Leucadia.

In sum, although our two largest businesses, Jefferies and National Beef, limped through parts of the last two years, they have regained their stride and appear to be very well positioned to sprint for the foreseeable future. This progress is thanks to a ton of hard work by our team at Jefferies and the return to more normal market conditions at National Beef under the steady guidance and continuing hard work of CEO Tim Klein and our entire management team.

Leucadia Asset Management ("LAM") is in the early years of its development. We believe we have unique relationships with capable investment managers, a brand that is attractive and known for making money for long-term investors, an infrastructure and platform that is robust and scalable and the ability to commit our capital and be partners with our portfolio management teams and their investors. The reason to build this business from the bottom up in partnership with our management teams is to avoid the costly goodwill that goes with acquiring businesses in this segment, not to mention the expensive retention packages required to lock in the investment teams as part of any transaction. That said, there is no free lunch and, primarily due to a combination of start-up costs and poor performance by one of our continuing funds, asset management was a drag on our results in 2016 for a total of negative $110 million in pre-tax income. However, as is the case with Jefferies and National Beef, we are optimistic that this too is behind us and we will see positive operating results from LAM that will contribute to our results in 2017. We remain on the lookout for additional quality managers who want to align with us to create long-term value for their investors, themselves and Leucadia.

The rest of our businesses are in solid shape and well-positioned as we enter 2017. In November 2016, we helped KCG Holdings (NYSE:KCG) shrink its float through a creative tax-free stock swap that increased Jefferies' equity ownership of KCG to 24% from 18% and increased KCG's tangible book value per share to $18.71 at year-end from $15.54 on September 30, 2016 (current stock price is $14.03). While the company has been going through a rough spot operationally, we are confident that these conditions will be short-lived and believe unique financial businesses such as KCG are scarce and valuable.

In September, we completed a restructuring of FXCM. While our $300 million senior secured term loan so far has generated $238 million of principal, interest and fees back to Leucadia, $155 million remains outstanding. In addition, we own 49.9% of the equity of the underlying business, and will receive up to 65% of future cash distributions after our principal and interest are fully repaid. In February 2017, FXCM announced regulatory settlements with the National Futures Association and the Commodity Futures Trading Commission that involved FXCM agreeing to withdraw from its unprofitable U.S. business and pay a fine. A number of officers of FXCM, including its CEO, have stepped down and Brendan Callan, previously the CEO of FXCM's European operations, has been named interim CEO. Jimmy Hallac, a Managing Director at Leucadia, has been named Chairman. While we are disappointed that these events from a number of years ago (prior to our investment) could not be resolved in a more favorable manner, we believe that, with its new leadership, the cost savings that will be realized when FXCM withdraws from serving customers in the U.S. and the vigor of FXCM's global businesses, FXCM remains well positioned to continue to recover from past events, to grow its platform, to raise profits and margins and to increase all stakeholders' value.

HomeFed has successfully transitioned from the investment stage to the harvest/cash flow stage. We are very excited about its long-term prospects, given its unique assets in geographically attractive markets. Berkadia and Garcadia are both performing well and both management teams are doing excellent jobs creating long-term value.

HRG Group (NYSE:HRG), a public company of which we own 23% (46.6 million shares) and where Joe Steinberg serves as Chairman and Andrew Whittaker as a Director, appreciated by 15% in 2016 to $15.56 per share. Leucadia and HRG have worked together to liquidate other assets so that the vast majority of HRG's value is now comprised of its 58% ownership of Spectrum Brands (NYSE:SPB) and 80% of Fidelity & Guaranty Life (NYSE:FGL). Spectrum, a diversified global branded consumer products company, achieved a seventh consecutive year of record financial performance in 2016, growing adjusted EBITDA 19% to $953 million. Spectrum and its management team are doing a phenomenal job, and we could not be more excited about the company's prospects. Fidelity also had a very strong year, growing adjusted operating income 37% to $162 million and GAAP book value (excluding AOCI) 6% to $1.5 billion. Despite the strong performance of HRG's two major subsidiaries, the gap between HRG's share price and the sum of the value of its various parts persisted in 2016. We continue to believe that simplification of the HRG structure will help close this gap. Although we are hopeful and planning for the sale of Fidelity to the Anbang Insurance Group, FGL's latest amendment to the Anbang purchase agreement extends the outside termination date to April 17, 2017, gives FGL the right to solicit, respond to, evaluate and negotiate competing offers, but provides that FGL may not sign a competing definitive agreement prior to the termination date. If the sale to Anbang does not close, we believe that since the fundamentals of Fidelity have dramatically improved since the sale was agreed (particularly the regulatory outlook and the direction of interest rates), solid value will be realized under any scenario.

We are optimistic about our investment in Vitesse, a non-operating oil production company in the Bakken, which recently made what we believe to be a sensible acquisition of soon-to-be-flowing wells that should allow Vitesse to record solid increases in EBITDA in 2017 and beyond. We appropriately wrote down our investment in Juneau in 2016 and asked the Vitesse management team to assume oversight of Juneau. As a result, Juneau is now reasonably positioned for future value creation. Golden Queen is actively mining gold and Idaho Timber keeps consistently creating quality wood products.

Two additional companies are worthy of some elaboration at this time. Linkem, our Italian fixed wireless broadband service provider had another strong year managing growth and delivering high quality internet at affordable prices to an area now reaching 60% of Italian households. Subscribers grew by 29% to over 400,000 in 2016, which we believe is just the beginning. Linkem's service is now available in 18 of the 20 largest municipalities in Italy, including Rome, Naples, Turin, Palermo, Genoa, Bologna and Florence. With 96% of base stations LTE-enabled, Linkem's network migration to LTE is essentially complete and customers are benefiting from improved service. Rapid innovation by fixed wireless LTE equipment providers suggests continued service improvements in the years to come. Davide Rota and the entire Linkem team are doing a phenomenal job. Their hard work was validated in January 2017 by the €100 million preferred equity financing that we participated in and was led by our new partner, Blackrock (no further equity financing is anticipated). The pre-money valuation was €700 million, while at year-end our 57% fully-diluted interest was carried by us at a net book value equal to €146 million.

Finally, we recently closed the sale of Conwed, which had been a part of the Leucadia family for over 30 years. We realized $295 million in cash plus potential earn-out payments over five years of up to $40 million in cash depending upon the future results of its Filtrexx subsidiary. Conwed was carried on our books for $101 million and the sale resulted in a pre-tax gain of $180 million, which will be reflected in Leucadia's results for the first quarter of 2017. This was a bittersweet transaction as Conwed was an excellent business and we are quite fond of the Conwed management team. We are most grateful to

Chris Hatzenbuhler, Conwed's outstanding CEO, and the entire Conwed team for their hard work and excellent performance. We look forward to watching Conwed thrive under its new partnership with Schweitzer-Mauduit International, Inc.

Before we get to some observations and thoughts about how we see the future, we would like to elaborate on what we meant at the beginning of this note about 2016 being full of contradictions. Our 2016 net income of $126 million is not acceptable. We are two realists who strive to be our own harshest judges. That said, we believe we have much to be optimistic about across Leucadia. It has been a complicated, perhaps too long and volatile combination/integration of Leucadia and Jefferies. Issues arose at both companies that had to be addressed, fixed and changed. While we will never declare victory and the world is rarely predictable, the combination of where we are positioned today, along with the following observations and thoughts (not promises or assurances), leads these two realists to be more optimistic about our prospects than we have been since prior to the financial crisis:

1. U.S. interest rates appear to be moving up naturally through the normal functioning of the markets versus the Fed leading them. This is very good news. If we get away from artificially low rates, our active investor clients at Jefferies will have a chance to once again succeed by picking the right securities and competing against large baskets of stocks. This will be good for investors and for companies that benefit from normalized rates. Jefferies, Jefferies Finance, Berkadia, FXCM, LAM, Fidelity & Guaranty Life, KCG and Foursight can all be positively impacted. Of course, on the other hand, if there is a surprise gap up in rates, this would cause a lot of pain, fast.

2. As markets and companies adjust to what they perceive is a pro-business climate and potentially less onerous regulation, it should bode well for many U.S. businesses, including Jefferies, Jefferies Finance, KCG, Vitesse, Juneau, Golden Queen and National Beef. We don't necessarily believe any of these businesses will experience significant deregulation, but on the margin a lessening of the headwinds should help. A pro-business environment should also help Jefferies' corporate client base and activity should continue to accelerate with CEO confidence improving.

3. A lower U.S. corporate tax rate with the possible repatriation of stranded foreign cash should be a big positive for the economy and financial markets in general and hence Jefferies and our other financial services businesses stand to benefit. Corporations' net incomes will increase and so will activity and aggressiveness ("animal spirits"). While our NOLs will be nominally less valuable (there will be a non-cash write-down), they will continue to offset $3.4 billion of future taxable income, regardless of the tax rate. Indeed, we would welcome the write-down in exchange for the lower tax rates.

4. Jefferies' competitive position keeps getting stronger. There is less competition in the U.S. today than pre-crisis. In particular, the European bank holding companies, which are among our primary competitors in the U.S. and elsewhere, are still working through legacy issues. Jefferies still has about 80% of its business in the U.S., and that positions us well to gain market share and perhaps establish future global partnerships.

5. The vastly improved results of Jefferies and National Beef combined with the continued momentum of our other companies should finally begin to make a serious dent in our enviable NOLs.

6. We expect to continue to build cash and we will have more firepower to make (hopefully) smart investments and enhance some of our existing businesses.

7. Every day our Leucadia and Jefferies brands strengthen and we are getting more and more unique and valuable "calls" regarding opportunities.

8. Nothing is guaranteed and if there is one thing that we can count on, the world will remain unpredictable with unavoidable bursts of volatility. We therefore plan to stay appropriately liquid, maintain our risk vigilance, be opportunistic and stay organizationally flat and transparent throughout all our businesses so information flows freely and appropriately.

9. Culture and people matter and both will always be critical to Leucadia and all of our leaders and businesses.

10. Our mission every day is to stay grounded, humble, hungry, passionate, honest and fully aligned with our shareholders, all the while serving and protecting our clients, customers, employees and bondholders.

As we have said before, we intend to continue to follow Leucadia's historic practice of letting our actions and results be our primary voice and remind you that the two of us look forward to answering your questions at our upcoming Annual Meeting on May 25, 2017. We will hold our annual Leucadia Investor Day on October 5, 2017, at which time you will have the opportunity to hear directly from the senior leaders of the major Leucadia businesses, including Jefferies.

On a purely personal and very grateful note, we want to ask all of you to celebrate Gloria Kozinski, who recently retired. Since 1955, Gloria has worked for Leucadia and Sperry and Hutchinson (S&H Green Stamps, for those that remember), which was acquired by Leucadia as part of the Baldwin-United deal. As many of you will recall, Gloria is the smiling face who for many years greeted our guests. We appreciate her commitment and contribution to Leucadia and will miss her cheerfulness and our daily chats.

We thank all of you — our clients and customers, our employees, our shareholders, our bondholders and all others associated with Leucadia, Jefferies and all our businesses — for your continued support.

Sincerely,

Rich Brian

Richard B. Handler
Chief Executive Officer

Brian P. Friedman
President

ADDITIONAL BUSINESS REVIEW:

Berkadia

Berkadia, our 50/50 joint venture with Berkshire Hathaway, had another exceptional year in 2016 and we believe the company is well positioned to continue its strong performance. Berkadia has made great progress over the last few years to better deliver its full capabilities to its clients, highlighted in 2016 by Berkadia's strong growth in both debt originations and investment sales. On an apples-to-apples basis, in 2016 Berkadia grew debt originations to about $20 billion in new financing for its clients, up from $17 billion in 2015 (excluding 2015's one outlier $5 billion Freddie Mac deal). In investment sales, Berkadia had a record year, growing from $6 billion in 2015 to almost $8 billion in 2016. The growth in each of these businesses is significantly aided by the other, as Berkadia acted as both the sales advisor and debt originator on 23% of its investment sales transactions.

Berkadia's debt placement and sales advisory businesses are key engines that feed its $224 billion mortgage servicing rights ("MSR") portfolio, which includes approximately $5 billion of escrow balances. The MSRs and escrow balances make Berkadia's earnings sensitive to changes in interest rates – as interest rates rise/fall, the value of the MSR portfolio increases/decreases and Berkadia earnings on the escrow balances increase/decrease. Although this dynamic and the recent increases in rates are evident in Berkadia's 2016 pre-tax income of $205 million (which includes a $36 million non-cash reversal of MSR impairments), there was a more minimal impact to Berkadia's $152 million of cash earnings due to the timing of the increases. Thanks to Justin Wheeler and the rest of the Berkadia team for continually looking for opportunities to better serve our customers.

Vitesse Energy

Vitesse Energy owns and manages non-operated oil and gas assets in the core of the Bakken Field in North Dakota and Montana, and the Denver-Julesburg basin ("DJ Basin") in Wyoming. Vitesse owns 21,000 net acres in the Bakken, and interests in 1,300 oil and gas wells in its two core areas with year-end 2016 production of over 3,400 boe/day which is projected to grow by 50% by year-end 2017. Vitesse participates as a non-operating partner in new well development and field operations with leading operators which include EOG, Conoco, Oasis, Whiting and Continental. Vitesse continues to selectively acquire non-operated acreage in the core of the Bakken that have horizontal drilling locations with high return potential. Returns have improved as completed well costs have fallen, initial flow rates have increased and total reserves per well are growing as Vitesse's operators continually improve their completion methods. In one example, Oasis, one of Vitesse's operators, reported reserves per well in the Bakken core increased from 600 mboe/well in 2011 to over 1,000 mboe/well in 2016 while drilling costs per well fell from $9 million in 2011 to $6 million in 2016. In late 2016, Vitesse acquired interests in 31 well-bores (12 net wells) that were drilled but not yet completed in the DJ Basin. EOG is the operator and is expected to complete all 31 wells by the late fall of 2017. Vitesse has an inventory of over 220 net undeveloped wells to be drilled and completed which represents over $1 billion of future capital expenditures that Vitesse can elect to make at its sole discretion and is expected to have very attractive return potential. Nearly all future capex is expected to be funded by free cash flow from Vitesse's operations over time. Around 90% of Vitesse's recoverable reserves remain to be developed. While oil prices improved at year-end 2016, we still expect oil prices to be volatile in the future. Accordingly, Vitesse has hedged 75% of its anticipated production in 2017 and over 50% of its current production in 2018-2019 with puts and collars at average floor prices in excess of $45 per barrel, but with ceilings allowing Vitesse to participate in oil price increases up to an average of $65 per barrel. We are appreciative of the efforts of Bob Gerrity, Vitesse's CEO, and his team.

Juneau Energy

During 2016, after some disappointments, management of Juneau was transitioned to the Vitesse team. Juneau's principal asset is 16,000+ net acres in the East Eagle Ford ("EEF") field in Brazos, Burleson and Grimes Counties, Texas. In late 2016, Juneau partnered with Lonestar Resources (Nasdaq: LONE), a Ft. Worth-based operator that has successfully developed wells in both the Western and Eastern Eagle Ford and owns acreage and wells near Juneau's EEF acreage. Lonestar is led by Frank Bracken, who previously worked with us at Jefferies. Juneau entered into a development joint venture with Lonestar to pool Juneau and Lonestar's acreage and jointly develop new horizontal wells on the pooled EEF acreage. Lonestar also acquired a 50% interest in the two productive EEF wells drilled and completed by Juneau in late 2015. To help Lonestar de-lever its own balance sheet, we provided Lonestar with a $25 million secured second lien facility. The proceeds were used to acquire and retire a portion of Lonestar's unsecured notes at a discount to par. In return, Juneau received fees, a 12% interest rate and 500,000 warrants. All $25 million of the second lien notes were subsequently liquidated (warrants were retained by Juneau) at a premium, with $21 million repurchased in December by Lonestar from the proceeds of its $79 million follow-on equity offering, and the remaining $4 million sold to a third-party in the market. In its Houston County project, Juneau continues to seek development partners. Juneau's interest in its Mississippi Lime JV project in Alfalfa County, Oklahoma was sold in January 2017, recouping nearly all our investment.

Garcadia

Auto sales in the U.S. eked out another record in 2016, and Garcadia continued to deliver strong returns. During the year, Leucadia's cash distribution from Garcadia was $53 million, which represents a 30% cash return on beginning equity. Despite this strong overall performance, distributions from Garcadia fell short of 2015's high bar primarily as a result of underperformance at two stores, one of which has been sold and we changed store management at the other. Additionally, same store new volume was down 5%. The majority of this decline was due to a change in marketing guidelines at Toyota, which reduced new volume at our Toyota stores. Fortunately, our ever-capable management team adjusted Garcadia's strategy and this volume reduction did not impact the bottom line at our Toyota stores.

On the positive side, a major driver for Garcadia's continued strong returns was its focus on and growth of its service business. In 2016, same store customer pay service traffic increased 6.6%, which helped drive a 5.2% increase in overall parts and service gross profit. Building upon this strong performance, in 2017, Garcadia will continue to focus on providing customers with a better service and buying experience by striving to achieve a 45 minute oil change and a one hour sales process in all stores. Although we pursued numerous buying opportunities during the year, we continued to be prudent on the acquisition front and completed only two acquisitions, both of which bolster our Southern California group of stores – West Coast Toyota and Hamer Honda. Thank you to John Garff, Brett Hopkins and the rest of the Garcadia team for another great year.

Vehicle Finance – Foursight Capital and Chrome Capital

Foursight originations grew in 2016 even as the company tightened credit standards throughout the course of the year. These adjustments tempered growth resulting in origination volume increasing to $250 million, up from $215 million in 2015. As a result, Foursight's loan portfolio grew 40% to end the year at $420 million. Foursight also significantly expanded its footprint in 2016 by entering 11 new states (total of 29) and increasing its dealership base from 708 to 1,188. In 2017, the company will be focused on increasing its efficiency in this expanded footprint while continuing to closely monitor the performance of its near-prime portfolio. Foursight's performance in 2017 will be an important milestone on the way to our medium-term goal of achieving a pre-tax return on equity of about 20% per annum.

Chrome ceased originations in 2016 due to a combination of poor performance and a lack of appetite in the marketplace to provide Chrome with financing that would yield an adequate return. As a result, Chrome is now focused on managing the existing $63 million portfolio of motorcycle leases to maximize its value. The last lease matures in 2020.

Idaho Timber

Idaho Timber had another solid year, with pre-tax income up 26%. This marks the third consecutive year of strong earnings and cash flow despite a slowly recovering housing market. The steps taken by Ted Ellis and the rest of the management at Idaho Timber during the downturn significantly improved the profitability of the business, particularly at levels well below historic housing activity. These steps included diversifying their niche products across end markets and customers such as pro builders and home stores, to allow for enhanced stability and operating leverage.

HomeFed

HomeFed's portfolio of operating real estate and entitled land available for sale is either currently generating cash or well-positioned to take advantage of strong expected demand for housing. HomeFed's flagship 4,450 acre Otay Land project in San Diego County is entitled for approximately 13,050 residential units and 1.85 million square feet of commercial space. Land development commenced at Otay in February 2016, and we entered into an operating agreement with three major builders to develop our first Otay village, Escaya, a 450-acre community planned for 948 homes. Thanks to Paul Borden and our HomeFed team, who are focused on expediting development programs and maximizing revenues over the coming years at Otay and HomeFed's other assets in California, New York, Florida, South Carolina and Virginia.

Golden Queen

Since its first pour on March 1, 2016, Golden Queen's Soledad Mountain project produced and sold approximately 19,000 ounces of gold and 194,000 ounces of silver in 2016. In December, the project declared commercial production, a milestone signifying that the process plant has achieved an average of 80% of its design throughput capacity over a 60-day period. Operations at the mine and in the processing plant continue to improve steadily, reaching an average of over 10,000 tons processed per operating day in the fourth quarter. The focus in 2017 will be on increasing ore output and grade from the mine and improving the process plant to further enhance its overall operational performance.

Appendix

The following tables reconcile financial results reported in accordance with generally accepted accounting principles ("GAAP") to non-GAAP financial results. The shareholders' letter contains non-GAAP financial information to aid investors in viewing our businesses and investments through the eyes of management while facilitating a comparison across historical periods. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, reported results prepared in accordance with GAAP.

NATIONAL BEEF

Reconciliation of Pre-Tax Income to Adjusted EBITDA

($ millions)

	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Pre-tax income (loss) (GAAP)	$ 329	$ (124)
Adjustments:		
Interest expense/(income), net	13	17
Depreciation & amortization	94	89
Impairments	–	5
Adjusted EBITDA (non-GAAP)	$ 436	$ (13)

NATIONAL BEEF

Reconciliation of Shareholders' Equity to Tangible Book Value

($ millions)

	As of Dec. 31, 2016
Total shareholders' equity (GAAP)	$ 630
Less: Intangible assets, net & goodwill	(600)
Tangible Book Value (non-GAAP)	$ 30

KCG HOLDINGS [a]

Reconciliation of Stockholders' Equity to Tangible Book Value per share

($ millions except share data)

	As of Dec. 31, 2016	As of Sep. 30, 2016
Total stockholders' equity (GAAP)	$ 1,357	$ 1,440
Less: Goodwill & intangible assets, net of accumulated amortization	(100)	(100)
Tangible Book Value (non-GAAP)	$ 1,257	$ 1,340
Shares outstanding (in thousands)	67,192	86,213
Tangible Book Value per Share (non-GAAP)	$ 18.71	$ 15.54

SPECTRUM BRANDS [b]

Reconciliation of Net Income to Adjusted EBITDA

($ millions)

	Year ended Sep. 30, 2016
Net income (GAAP)	$ 358
Adjustments:	
Income tax expense	40
Interest expense	250
Depreciation and amortization	183
EBITDA	831
Share based compensation	64
Acquisition and integration related charges	37
Restructuring and related charges	15
Write-off from impairment of intangible assets	5
Other	1
Adjusted EBITDA (non-GAAP)	$ 953

FIDELITY & GUARANTY LIFE [c]

Reconciliation of Net Income to Adjusted Operating Income

($ millions)

	Year ended Sep. 30, 2016
Net income (GAAP)	$ 97
Adjustments:	
Effect of investment losses, net of offsets [1]	9
Effect of change in fixed indexed annuity embedded derivative discount rate, net of offsets [1]	54
Effect of change in fair value of reinsurance related embedded derivative, net of offsets [1]	37
Tax impact of adjusting items	(35)
Adjusted Operating Income (non-GAAP)	$ 162

Note (1): Amounts are net of offsets related to value of business acquired and deferred acquisition cost amortization.

FIDELITY & GUARANTY LIFE [c]

Reconciliation of Shareholders' Equity to Book Value Excluding Accumulated Other Comprehensive Income ("AOCI")

($ millions)

	As of Sep. 30, 2016
Total shareholders' equity (GAAP)	$ 1,934
Less: AOCI	(439)
Total Book Value excluding AOCI (non-GAAP)	$ 1,495

BERKADIA

Reconciliation of Pre-Tax Income to Cash Earnings

($ millions)

	Year ended Dec. 31, 2016
Pre-tax income (GAAP)	$ 205
Adjustments:	
Amortization, impairment and depreciation	93
Gains attributable to origination of mortgage servicing rights	(191)
Loan loss reserves and guarantee liabilities, net of cash losses	47
Unrealized (gains) losses; and all other, net	(2)
Cash Earnings (non-GAAP)	$ 152

Sources:
Note (a) Information provided by KCG's 4th quarter earnings press release on January 19, 2017.
Note (b) Information provided by Spectrum Brands - September 30, 2016 10-K.
Note (c) Information provided by FGL's Financial Supplement - September 30, 2016.

February 22, 2018

Dear Fellow Shareholders,

One year ago, we said 2016 brought clarity and optimism to the two of us and for Leucadia. This proved true in 2017, a year that met our expectations and hopefully sets the stage for at least several further years of solid returns for Leucadia National Corporation.

Our two largest businesses, Jefferies and National Beef, each delivered record results, generating $528 million in pre-tax income and $512 million in EBITDA, respectively. This is remarkable progress, given that only two short years ago, some were questioning the wisdom and value of both businesses. Additionally, the vast bulk of our other portfolio companies performed well in 2017, either by generating a strong bottom line or, such as is the cases of HRG, Linkem and our energy holdings, by continuing along their paths towards enhanced value creation. We are starting to reap the benefits we originally envisioned in the combination of Leucadia and Jefferies, and have established good momentum toward our long-term goals.

2017 Results

Leucadia generated $1 billion of pre-tax income in 2017, driven by the record earnings of Jefferies and National Beef, solid results at Berkadia, a pre-tax mark-to-market gain of $65 million in respect of our interest in HRG and a $178 million pre-tax gain on the first quarter sale of Conwed, offset by a non-cash $130 million markdown in the first quarter related to our FXCM investment. Leucadia Asset Management, although still young, has moved past its initial development stage and made a positive contribution to pre-tax income.

Leucadia's 2017 net income would have been $618 million, but was reduced to $167 million by a fourth quarter non-cash charge of $415 million to revalue our deferred tax asset and a toll charge of about $35 million on the deemed repatriation of net unremitted foreign earnings relating to Jefferies and Linkem. These non-cash charges are a result of the recently enacted Tax Cuts and Jobs Act which lowers the U.S. corporate income tax rate from 35% to 21% starting in 2018. As we said in last year's letter, we welcome this lower future tax rate, which reduces the nominal value of our NOLs, but doesn't change the $2.3 billion amount of future taxable income they will shield. Going forward, more of our results will flow to the bottom line as a result of the reduced tax rate. Moreover, corporate tax reduction is likely to be good for Leucadia's and Jefferies' businesses as it spurs increased economic and investment banking activity.

Jefferies, led by investment banking, delivered record net revenues and net earnings in 2017. We are optimistic we can build on this momentum, and the market share gains reflected in Jefferies' results should be sustained and hopefully enhanced. Our strategy of prioritizing expansion of the Jefferies investment banking footprint continues to succeed and should yield further growth over the next several years, assuming reasonable market conditions. Jefferies' established team has been supplemented with talented new hires, and we are optimistic that strong candidates will continue to be attracted to Jefferies' unique and robust platform. The competitive landscape continues to provide opportunities for Jefferies to develop further by leveraging the unique blend of its pure Wall Street (vs. bank holding company) business model, deep and broad sectoral expertise, flat operating structure and global geographic reach.

Jefferies' annual net revenues of $3.2 billion and pre-tax profit of $528 million are a direct result of the quality of its people, firm-wide client-focused culture and entrepreneurial spirit. Jefferies' capable leaders, Pete Forlenza (Equities), Fred Orlan (Fixed Income), Ben Lorello (Investment Banking), Peg Broadbent (CFO) and Mike Sharp (General Counsel of Leucadia and Jefferies), all credit our 3,450 employee-partners at Jefferies for these results, and so do we.

National Beef experienced a second consecutive record breaking year. The combination of a positive cattle supply environment, strong domestic and export demand, our value-added strategy, our focus on the highest quality cattle and flawless execution by our management team led by Tim Klein allowed National Beef to achieve $512 million in EBITDA in 2017. This exceeds National Beef's previous record, set just last year, by 17%. With these two strong consecutive operating years in the books, we now have recouped almost 70% of Leucadia's original investment of $868 million made a little over six years ago. The overall industry seems poised to continue to benefit from favorable supply and demand dynamics, with demand increasing with incomes locally and globally, and supply benefitting from the continued growth in cattle available for processing. Longer term, we believe the opening to U.S. beef of the rapidly growing Chinese market for the first time in 13 years will further support demand for our high quality products.

Berkadia, our 50/50 joint venture with Berkshire Hathaway, delivered another solid year in 2017. We have seen annual originations grow from $10.4 billion in 2013 to $24.5 billion in 2017, and pre-tax income grew from $153 million to $194 million. Cumulative cash distributions of $562 million on Leucadia's December 2009 investment of $217 million are a testament to Berkadia's success. We are optimistic the tireless efforts of Justin Wheeler and the entire Berkadia team to provide exceptional service to owners of middle market commercial real estate will drive the continued growth of this industry leader.

We made significant progress at HRG in 2017, completing the sale of Fidelity & Guaranty Life at a good price, and are now focused on the further simplification of our investment. HRG's remaining subsidiary, Spectrum Brands, a global consumer products company, announced in January its agreement to sell its global battery and lighting business to Energizer Holdings, Inc., an important step in repositioning itself toward faster-growing and higher-margin brands. We thank Leucadia's co-founder and Chairman, Joe Steinberg, and our Vice Chairman, Andrew Whittaker, for their leadership at HRG, their wisdom and their friendship. We also appreciate the exceptional and consistent efforts of Dave Maura, Executive Chairman, and Andreas Rouvé, CEO, in growing and driving Spectrum Brands.

Leucadia Asset Management performed well and is positioned for additional growth. Linkem continues to be the fastest growing broadband provider in Italy and closed the year with just over 500,000 subscribers, up 24% for the year.

Transformation of Leucadia

The various strategic transactions we have completed since mid-2012 and the strengthening of our operating results have transformed and clarified the business and prospects of Leucadia. From a more random group of assets before the combination with Jefferies, Leucadia is well on its way to being a focused financial services holding company with relatively clear drive and direction. The realization of the vision we had for a combined investment banking and merchant banking platform is now at hand.

As we look forward, we see real opportunity for further value creation at Leucadia. We expect our future growth will come from our existing businesses' organic efforts and strategic drive, add-on and adjacent external opportunities, particularly at Leucadia Asset Management, and new merchant banking opportunities that will continue to come our way, primarily through the ever-increasing footprint of Jefferies. Our overriding priorities in respect of our existing businesses are:

- drive continued development and success at Jefferies and explore additional opportunities for global partnerships (such as the recently announced strategic alliance with Bank of China International that allows Jefferies and BOCI to jointly provide investment banking advisory and capital markets services to clients globally, as well as to distribute co-branded equity research),
- continue to enhance National Beef's business, while being mindful and proactive regarding strategic opportunities,
- achieve accelerating success at Linkem, while continuing to provide exceptional service,
- rationalize our interest in HRG to eliminate the gap between its share price and the value of its assets,
- partner with additional management teams at Leucadia Asset Management, and build further scale and performance,
- realize the benefit of strengthening energy markets at our Vitesse and JETX operations and seek smart add-on deals that further leverage our operating capabilities,
- deliver solid operating performance at the now completely restructured FXCM, and
- continue to progress at Berkadia, HomeFed, Idaho Timber, Garcadia, Foursight and Golden Queen.

We ended 2017 with about $1.5 billion in liquidity at our parent company, pro forma for the $200 million distribution Leucadia received from Jefferies in January 2018. If things go as we expect, we will continue to generate good amounts of free cash from operations over the next several years.

As indicated above, our plan is to continue to support the growth of our existing businesses and hunt for new opportunities to deploy capital smartly. In a strong economy and with rising markets, this will be challenging. We will be patient and, invariably, circumstances will arise and we will get the call on some attractive situations.

We will also continue to return capital to shareholders through share buybacks, cash dividends and perhaps in-kind distributions, as appropriate. We will, of course, never do anything that we believe jeopardizes any of the financial foundations of any of our operating businesses or our parent company. In this connection, we are pleased Fitch recently upgraded both Leucadia and Jefferies to BBB, and Moody's recently placed Leucadia's ratings on review for upgrade.

What Have We Learned?

As one might expect, we have learned many lessons these past five years and, even though some were painfully drilled into our heads from experiences past, it never hurts to have them reinforced under new circumstances. Here are some of the more important ones:

1. *Environment.* The operating environment can make you feel smarter than you really are when currents are good and dumber than you really are when currents are bad. We wrote last year about interest rates moving up naturally through the normal functioning of the markets, the perception of a pro-business environment and what this means for businesses, and the prospect of a lower U.S. corporate tax rate. As these elements begin to fall into place, we may finally again be working in a version of a normal business world. That is the first reason 2017 was good, and a hopeful thought as to why 2018 could be even better. The return of volatility and higher interest rates may inflict some short-term pain in the transition, but are good long-term realities. Indeed, when so many economic stars appear so aligned, prudence and caution are helpful guardians to have along for the ride.

2. *Long-term Commitment.* Whether because of the environment, human intervention, market volatility, technological advances or overall execution risk, things always take longer and are more complicated than they seem in theory. Reality intervenes in every well-intentioned plan. Making the right strategic decisions is crucial, but having the conviction, time horizon and buy-in from all the important constituencies are vital to the prospects of every business. Leucadia is 38 years old and Jefferies is 55. Special firms don't just happen, they are built with sweat and tears by people who are committed and never give in or give up. We succeeded in 2017 because our team invested years getting here.

3. *Patience, perseverance and an open mind.* We have had the patience and perseverance to stay the course, while others have zigged, zagged and, in some cases, spun out of the game. However, sometimes, the facts or circumstances change. Regardless of how committed you are to staying the course, you may need to pivot, and indeed pivot quickly and efficiently. This applies to people, products, processes, businesses and Leucadia as a whole. The leaders of our operating businesses across Leucadia have proven incredibly adept at adapting, growing and changing.

4. *Flat structure — no bureaucracy.* We pride ourselves on making decisions and moving forward, often in the face of uncertainty. We try not to have process for process' sake, and we know how to rally around opportunity. Jefferies is generally a four-layer operation versus the seven to nine layers at our major competitors. National Beef, Berkadia and our other businesses share the same model. We prefer nimble cruisers to behemoth battleships. They are also more fun.

5. *Teamwork and collaboration.* Throughout Leucadia, we encourage everyone to use all the resources of our broad and deep group of businesses, be it relationships, skills, capital or geographic presence. Similarly, in each of our businesses, we are prioritizing the theme of teamwork and collaboration, and investing in tools to drive effectiveness and efficiency. Technology is a critical component of this and we will continue to invest in it heavily across all of our businesses to make our people more efficient and better serve our clients.

6. *Ability.* The executives in our operating businesses and Leucadia holding company are really good at what they do. Our National Beef team is considered among the best, if not the best, in the world. Jefferies is increasingly recognized for its leadership across many products and sectors. Berkadia is a distinct leader in its business. Having the best athletes in the right spots makes winning easier.

7. *Culture.* Culture is truly the most vital ingredient in business. People are the most important asset in every business and the primary determinant of success or failure. Leucadia and our business leaders care about our people, try to nurture their capabilities and encourage their health, happiness and success. They are also charitable and good people who prioritize their families, friends and local communities.

8. *Capital and Liquidity.* We consistently manage our businesses to avoid a margin call or any form of a liquidity issue. By operating on a firm foundation of capital and liquidity, it is possible to recover from any problem. It also makes it easier to play offense when the world is defending itself from trouble. That is often when opportunity knocks and you always want to be in a position to open the door.

9. *Getting the Call.* If you want to find smart, strategic and attractive investment opportunities, you can never have enough relationships, idea flow, industry expertise, creativity or patience. The best way we know to be the ones who "get the call" is to consistently live up to these points on a daily basis.

10. *Trust.* Trust, honesty and ethics are keys to winning every time. We are vigilant to assure we deliver what we promise, communicate in as straightforward a manner as possible and always live up to our principle of integrity. All we have is our word.

Ian Cumming

On February 2, 2018, we lost our founder, mentor and friend, Ian Cumming, at the age of 77. Words cannot describe the leadership, brilliance, creativity, generosity, passion and good natured fun that Ian brought to life. Our hearts are with the entire Cumming family and we are further sad for Joe, who has clearly lost a lifetime brother. May Ian's memory be for a blessing for his family and all who loved him.

Annual Meeting and Investor Day

As we have said before, we intend to continue to follow Leucadia's historic practice of letting our actions and results be our primary voice, but remind you that the two of us look forward to answering your questions at our upcoming Annual Meeting on May 23, 2018. We also will hold our annual Leucadia Investor Day on October 4, 2018, at which time you will have the opportunity to hear directly from the senior leaders of the major Leucadia businesses, including Jefferies.

We thank all of you—our clients and customers, employees-partners, fellow shareholders, bondholders, vendors and all others associated with Leucadia, Jefferies and all our businesses—for your continued support.

Sincerely,

Rich Brian

Richard B. Handler	Brian P. Friedman
Chief Executive Officer	President

ADDITIONAL BUSINESS REVIEW:

Berkadia

Berkadia, our 50/50 joint venture with Berkshire Hathaway, delivered another solid year in 2017. Strong debt production buoyed our $206 billion commercial mortgage servicing portfolio and enabled Berkadia to deliver $194 million of pre-tax income and $164 million of cash earnings. In addition to these strong overall results, we are happy to report that Berkadia has been able to steadily grow core earnings over the last several years, which excludes earnings outside of management control such as the performance of non-core investments and any impairments (or reversals) of the mortgage servicing portfolio. Core earnings have grown from $113 million in 2015 to $155 million in 2017.

Continued low interest rates and a significant volume of debt maturities created a strong environment for Berkadia in 2017. During the year, Berkadia placed $24.5 billion of debt for its clients, up over 26% compared to 2016. Berkadia retained its ranking as the #1 HUD and #2 Freddie Mac lender, and improved to the #2 Fannie Mae lender. In addition to the agency lending business, Berkadia also continued to expand the breadth of its product offerings to better serve its clients by developing additional lending relationships with insurance companies and banks. In investment sales, overall volume was tempered by a slow start to the year, as the market adjusted expectations and valuations with an eye towards tax reform. This resulted in volume that was flat at $7.8 billion. That said, investment sales continued to be a growing source of volume for Berkadia's lending business, with 33% of investment sales volume resulting in a debt placement for Berkadia.

Leucadia Asset Management

Results and fundraising efforts were generally positive across our managers at Leucadia Asset Management. We successfully launched comingled funds for Lake Hill, our options market making platform, and Tenacis, our systematic macro team, in addition to growing our existing funds and adding new managed accounts, particularly in quantitative strategies. Folger Hill accelerated the expansion of it Asia-focused effort and stabilized performance in the U.S. after a difficult 2016. We continue to add to the team, with a focus on growing our quantitative and business development efforts, and expect to launch additional products in the coming months.

FXCM

While our $300 million rescue of FXCM has so far generated $353 million of principal, interest, and fees back to Leucadia, FXCM had a challenging 2017. In addition to unusually low volatility throughout the year which adversely impacted revenues, in February, FXCM completed regulatory settlements with the National Futures Association and the Commodity Futures Trading Commission that involved FXCM agreeing to withdraw from its unprofitable U.S. business and pay a fine. A number of officers of FXCM, including its CEO, stepped down and FXCM restructured its operations to realize significant cost savings. Led by Brendan Callan, previously the head of FXCM's European businesses, FXCM closed the year with most of its troubles behind it, streamlined and well positioned to take advantage of rising interest rates and the inevitable return of volatility to the FX and equities markets. FXCM paid off $93 million of Leucadia's senior secured loan in 2017, with $70 million remaining outstanding, and Leucadia will receive up to 75% of future cash distributions after the loan is fully repaid.

Foursight

Foursight experienced more modest growth in 2017, with originations only up 15% to $287 million and the portfolio ending the year at $537 million. This volume was tempered as Foursight continued tightening credit standards throughout the year in response to underperformance in the 2015 and 2016 vintages. Thanks to these efforts, Foursight improved credit characteristics in the 2017 vintages and was also able to boost average contract rates to further enhance expected spreads. Foursight also made progress during the year by achieving its first AAA rated class on its asset-backed security deal (FCRT 2017-1).

HRG Group

HRG Group (NYSE:HRG) appreciated by 9% in 2017 to $16.95 per share at year-end. Leucadia and HRG have worked together to liquidate the bulk of HRG's other assets. Following the November 30, 2017 sale of HRG's 80% stake in Fidelity & Guaranty Life (NYSE:FGL) to CF Corporation, HRG's value is now essentially its 59% ownership of Spectrum Brands (NYSE:SPB). Spectrum Brands is a publicly traded global consumer products company offering a portfolio of leading brands to customers all over the world. In 2017, Spectrum reported an eighth consecutive year of record adjusted EBITDA ($956 million), and adjusted EBITDA margin (19.1%). In January 2018, Spectrum agreed to sell its Global Battery (Rayovac) and Lighting business to Energizer for $2 billion in cash. Leucadia continues to support HRG's efforts to work towards a rationalization of value that further reduces or eliminates the gap between HRG's share price and the underlying value of its net assets.

Garcadia

Garcadia, our approximately 75% owned auto retail joint venture, fell short of expectations in 2017. Although cash distributions from Garcadia were $45 million and represented a 24% cash return on beginning equity, both we and the management team expected to do better. While Iowa continued to produce solid results, our other markets were impacted by volume declines at Chrysler (down 8% nationally) and some turnover at the general manager level as management continues to implement new operational practices that will better serve our customers (such as more seamless sales and service experiences). Additionally, our California results were impacted by Nissan's weak performance in California (Nissan was down 18% in our market, versus up 2% nationally). Garcadia performed better in the fourth quarter and management believes this momentum will translate into a rebound in 2018. Thank you to John Garff, Brett Hopkins and the rest of the Garcadia team for their partnership and efforts.

Linkem

Linkem continues to be the fastest growing broadband provider in Italy and closed the year with just over 500,000 subscribers. Linkem's fixed wireless model is now widely recognized as an excellent fit for Italy and we are building on our leadership position. Linkem signed a licensing agreement with a major Italian telecom operator, whereby the partner will wholesale Linkem's services to its customers, and is evaluating other partnership opportunities. Linkem's 3.5GHz frequency has received a lot of attention since it was designated a key 5G frequency by the European Commission and many other nations, which is driving significant investment by operators and equipment providers into the ecosystem and is positive for Linkem. Linkem completed its migration to LTE and shut down its WiMax platform, announced its first 5G trial, and raised €100 million of preferred equity in January 2017 from BlackRock and existing investors at a post-money valuation of €800 million. Davide Rota and the entire Linkem team are doing a fantastic job and have planned another ambitious year.

Energy

Vitesse Energy owns and manages non-operated oil and gas assets in the core of the Bakken Field in North Dakota and Montana and the Denver-Julesburg basin in Wyoming. Vitesse participates with its operating partners in the drilling and completion of lower risk new horizontal wells on our leasehold acreage, which converts our leaseholds into cash flowing producing oil wells. Vitesse has acquired approximately 20,600 net acres of Bakken leasehold and has an interest in 1,572 producing wells (42 net wells) and 467 gross wells (13 net wells) that are currently drilling, completing or permitted for drilling. Vitesse's drilling opportunities are leveraged to growing projected reserve recoveries stemming from continuous improvement in frac & completion technologies. In 2017, the average estimated ultimate recoveries ("EUR") of a new Bakken horizontal well is 850,000 boe/well, up nearly 50% from 575,000 boe/well in 2014. The larger EUR for new wells has increased profit returns on new well drilling, which is higher today at $55/bbl oil than in 2014 when the price of oil was much higher. Vitesse has an inventory of 180 net undeveloped wells to be completed, which represents $1.2 billion of capital expenditures that Vitesse can elect to make at its sole discretion. Nearly all future capex is expected to be funded by free cash flow over time from Vitesse's operations. Around 90% of Vitesse's recoverable reserves remain to be developed in the future at what we expect will be improving economics as the price of oil improves. Oil prices recovered to $60/bbl at the end of 2017 and the global overhang of oil appears to be subsiding, which gives us cautious optimism that oil will continue to hover in the $50-60/bbl range for 2018. Vitesse has hedged 60% of its current 2018 production and 40% of its current 2019 production with collars, swaps and puts at floor prices above $50/bbl. The collars allow Vitesse to participate in oil price increases up to $73/bbl. With the improved oil prices, Vitesse expects to add additional oil hedges to protect additional flowing barrels. Bob Gerrity, Brian Cree and the Vitesse team continue to be wonderful and committed partners.

JETX (formerly, Juneau Energy) transitioned from an operated to a non-operating strategy under the management of the Vitesse team. JETX partners with operators who have expertise in new well development and operations in areas adjacent to JETX's leaseholds. JETX's principal asset is 10,000+ net acres in the East Eagle Ford ("EEF") field in Brazos, Burleson and Grimes Counties, Texas. JETX partnered with Lonestar Resources US Inc. (NASDAQ:LONE) ("Lonestar"), a capable Eagle Ford operator who has operations close to JETX's. As part of the joint venture, Lonestar agreed to pool its nearby acreage with JETX's and is pursuing development of the pooled acreage. In May 2017, Lonestar successfully drilled and completed one of the better wells in the Eastern Eagle Ford when the Wildcat B1H well was brought on line with estimated reserves approaching 1 million boe. JETX has a 50% interest in the well and in the eight drillable locations in the Wildcat unit and also owns additional development locations on JETX's adjacent acreage, which JETX expects to develop later in 2018.

HomeFed

HomeFed took some major steps in 2017 towards generating cash for its shareholders. The Village of Escaya, the first stage of the Otay Land project to be developed, hosted its grand opening in June. By year end, over 200 of the 992 planned homes were under contract and home closings have started. The Otay Land project in San Diego county is entitled for approximately 13,050 residential units and 1.85 million square feet of commercial space, and Paul Borden and the HomeFed team are focused on expediting its development. At Renaissance Plaza in Brooklyn, NY, two sizeable tenants renewed their office lease clearing the way for refinancing opportunities. HomeFed's unique assets in attractive markets are well positioned for additional value creation and we remain excited by its prospects.

Idaho Timber

Idaho Timber experienced substantial growth despite a volatile and uncertain environment caused by the expiration of the U.S.-Canada softwoods lumber agreement, ongoing and prolonged trade negotiations and the eventual imposition of duties on imports from Canada. Thanks to the company's disciplined purchasing, long-term customer and supplier relationships and focus on margin, EBITDA increased 40% in 2017 versus 2016. CEO Ted Ellis and his team thrive in markets where others may become timid and have driven the company to significant profitability even with a lukewarm market for new housing construction.

Golden Queen

In its first full year of operations, Golden Queen sold 46,000 and 237,000 ounces of gold and silver, respectively. For most of 2017, the mining team encountered lower ore grades than expected in an area of the project known as the Northwest Pit. In the fourth quarter the team moved the bulk of its activity to a new pit where they are experiencing significantly better ore grades. Robert Walish, the project CEO, and the entire team have done an excellent job navigating a challenging 2017, and we believe the project is well positioned to capitalize in the future as grades improve.

Appendix

The following tables reconcile financial results reported in accordance with generally accepted accounting principles ("GAAP") to non-GAAP financial results. The shareholders' letter contains non-GAAP financial information to aid investors in viewing our businesses and investments through the eyes of management while facilitating a comparison across historical periods. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, reported results prepared in accordance with GAAP.

NATIONAL BEEF

Reconciliation of Pre-Tax Income to EBITDA

($ millions)

	Year ended Dec. 31, 2017
Pre-tax Income (GAAP)	$ 407
Adjustments:	
Interest expense/(income), net	6
Depreciation and amortization	99
EBITDA (non-GAAP)	$ 512

BERKADIA

Reconciliation of Pre-Tax Income to Cash Earnings

($ millions)

	Year ended Dec. 31, 2017	Year ended Dec. 31, 2015
Pre-tax Income (GAAP)	$ 194	
Adjustments:		
Amortization, impairment and depreciation	136	
Gains attributable to origination of mortgage servicing rights	(262)	
Loan loss reserves and guarantee liabilities, net of cash losses	87	
Unrealized (gains) losses; and all other, net	9	
Cash Earnings (non-GAAP)	$ 164	
Reconciliation of Pre-Tax Income to Core Earnings		
Pre-tax Income (GAAP)	$ 194	$ 164
Adjustments:		
Investment securities interest income and gains	(31)	(72)
Gain on sale of bonds	–	(6)
Mortgage servicing rights (impairments)/recoveries	(8)	27
Core Earnings (non-GAAP)	$ 155	$ 113

LEUCADIA NATIONAL CORPORATION

Reconciliation of Net Income Attributable to Leucadia National Corporation Common Shareholders to Adjusted Net Income Attributable to Leucadia National Corporation Common Shareholders

($ millions)

	Year ended Dec. 31, 2017
Net Income Attributable to Leucadia National Corporation Common Shareholders (GAAP)	$ 167
Adjustments:	
Non-cash charge to revalue deferred taxasset	415
Deemed repatriation of net unremitted foreign earnings (toll charge)	35
Adjusted Net Income Attributable to Leucadia National Corporation Common Shareholders (non-GAAP)	$ 618

SPECTRUM BRANDS [(a)]

Reconciliation of Net Income to Adjusted EBITDA

($ millions)

	Year ended Sep. 30, 2017
Net Income (GAAP)	$ 297
Adjustments:	
Income tax expense	48
Interest expense	211
Depreciation and amortization	199
EBITDA	754
Share based compensation	57
Acquisition and integration related charges	21
Restructuring and related charges	63
Write-off from impairment of intangible assets	16
Purchase accounting inventory adjustment	3
Pet safety recall	36
Other	5
Adjusted EBITDA (non-GAAP)	$ 956
Net Sales	$ 5,007
Adjusted EBITDA margin	19.1%

Source:

Note (a) Information provided by Spectrum's 4th quarter earnings press release on November 16, 2017.

Cautionary Note on Forward-Looking Statements

This letter contains "forward-looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements about our future and statements that are not historical facts. These forward-looking statements are usually preceded by the words "should," "expect," "intend," "may," "will," or similar expressions. Forward-looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward-looking statements also include statements pertaining to our strategies for future development of our businesses and products. Forward-looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors, including Risk Factors that could cause actual results to differ, perhaps materially, from those in our forward-looking statements is contained in reports we file with the SEC. You should read and interpret any forward-looking statement together with reports we file with the SEC.

Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy will be profitable or equal the corresponding indicated performance level(s).