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.

Historical:	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)						
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.

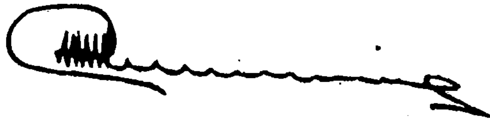
We have been asked several times whether success has dampened our enthusiasm and motivation to continue. We have both become vastly more successful (politically correct-speak for richer) than we ever dreamed. We have smart employees, energetic advisors, capital galore, companies, real estate, Barbados 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.

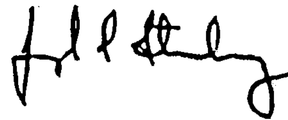
A very special thank you to the hardworking, intelligent and dedicated employees of the Colonial Penn companies. They are largely responsible for making these companies so valuable. We wish them well. Usually at the end of this report to you we discuss our attitude toward the economy, interest rates,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