144+
1997

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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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."