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