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[2] 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