TO OUR SHAREHOLDERS AND EMPLOYEES:

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

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

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

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

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

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

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

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

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

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

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

Ian M. Cumming
Chairman

Joseph S. Steinberg
President