Message from the Chairman and President

Net income for 1990 was $47,340,000, an 18% return on average equity. During the preceding eleven year period of 1980 to 1990, we have increased our shareholders' equity from $22,945,000 to $268,567,000 and our book value per common share from $1.27 to $23.64, which represents a 30.4% annual compounded rate of return. During this period, when opportune, the Company repurchased 8,539,997 shares of common stock for $95,569,000 (an average price of $11.19 per share).

In an ongoing effort to keep hubris at bay, we would like to point out the following: Rising tides raise all boats. The economy was buoyant. Money was easy to come by. To this we added energy, enthusiasm and some perspicacity, and our boat, buoyant in the rising tide produced the aforementioned results.

However, we are reminded of Pharoah's dream interpreted by Joseph to mean that seven years of famine will surely follow seven years of plenty. Unfortunately, the previous seven years of plenty have been largely financed by debt which the nation cannot over time sustain. In the coming years, a correction is inevitable.

A wise man once said that you become more conservative when you have something to conserve. We view our job as having become more difficult. We will continue to endeavor to compound our shareholders' equity at an attractive rate, but with considerable caution.

Last year we included a table, presented again below, which attempts to look at our balance sheet in a comprehensible manner. This presentation is based on the segment data included on page 3 of the Form 10-K and is designed to approximate the net investment in our different activities. Our consolidated balance sheet is a very confusing financial stew, mixing as it does many different businesses. We have $463.9 million invested in our various business segments financed by $195.3 million of borrowed money and $268.6 million of shareholders' money.

Segments:	(In millions)
Life Insurance	$ 88.8
Property and Casualty Insurance	118.8
Banking, Real Estate and Leasing	65.2
Manufacturing	54.6
Trading Stamps	(31.9)
Motivation Services	2.9
Corporate and Other	165.5
	463.9
Corporate Debt:	
Bank Debt	(94.0)
14% Senior Subordinated Notes	(45.8)
6% Subordinated Swiss Franc Bonds	(41.0)
Other Debt	(14.5)
Total Corporate Debt	(195.3)
Shareholders' Equity	$ 268.6

What follows are comments on each of these segments. We recommend the attached Form 10-K for a more detailed discussion.

Life Insurance:

Our life insurance operations are principally conducted through Charter National Life Insurance Company of St. Louis, Missouri.

For the last several years, Charter has sold various investment oriented products. Certain of these products have become difficult to sell as their design has become contorted because of frequently changing tax requirements. In the marketplace, competitors have underpriced these products to gain cash or market share. As this mispricing caught up with one company, others entered the market to take their place. We learned that the net spread between money earned on investments and money credited to the policyholder left no room for an expensive sales effort. Recently, we have ceased selling these products and will concentrate on servicing our existing customers and marketing "variable" annuities through unaffiliated mutual fund management companies.

Charter, unlike many insurance companies, does not rely on non-investment grade debt to support its liabilities. In retrospect we were both lucky and smart.

During 1990, Charter determined that it would be in its best interest to dispose of a very old block of traditional life insurance business. It had not sold similar products for many years. The Company recorded a loss of $16,857,000 on the sale. This was not Charter's finest hour.

Charter has a very capable back office operation and hopes to buy blocks of investment oriented policies which will utilize the same fixed overhead to efficiently service more policies.

Property and Casualty Insurance:

Our property and casualty insurance operations are conducted by The Empire Group, a subsidiary of Phlcorp. Empire writes personal and commercial insurance principally in the New York metropolitan area. Empire enjoyed another year of excellent operating results in 1990. Earned premiums were up and losses were acceptable. Empire is very conservatively managed and has tight control of its costs. Empire's focus on urban insurance provides expertise in risk management that many other companies do not have. In addition, Empire, unlike many insurers in this cyclical industry, declines to write business when adequate profit margins are not obtainable. Substantially all of Empire's investments are in U.S. government issued or guaranteed securities and investment grade debt obligations.

Banking and Lending:

The Company's banking and lending operations are conducted through American Investment Bank, N.A., two other F.D.I.C. insured industrial banks located in Salt Lake City, Utah and other subsidiaries involved in consumer lending. At December 31, 1990, the banking and lending operations had outstanding loans (net of unearned finance charges) of $202,781,000 compared to $135,624,000 at December 31, 1989.

The Company expanded its consumer lending operations in 1990 by opening 30 new offices for a total of 57 offices located in Alabama, Kentucky, Mississippi, Oklahoma, Oregon, South Carolina, Tennessee and Virginia. Opening new offices is expensive and will burden the banking and lending operations' profitability until each office reaches maturity in several years. We plan to open 20 additional offices in 1991. Loan loss reserves stood at $6,782,000 or 3.3% of outstanding loans at December 31, 1990.

Manufacturing:

During 1990, the earnings of the manufacturing companies were depressed by expenditures for new products, market development costs and the general economic slowdown in the second half of the year. However, the return on investment was still excellent.

We also purchased three small companies which manufacture electrical cable, folding doors and bathroom medicine cabinets.

Trading Stamps:

The trading stamp business is conducted by a Phlcorp subsidiary, The Sperry and Hutchinson Company, Inc. The traditional Green Stamp business continued its decline which began in 1969. Barring a miraculous change, we expect this trend to continue.

During 1990, we noted that the liability for unredeemed trading stamps at December 31, 1989 may be approximately $34,000,000 in excess of the amount that ultimately will be required to redeem outstanding trading stamps and determined to recognize the apparent excess over five years. A more complete discussion of this complicated subject occurs in the Form 10-K.

Motivation Services:

Motivation services are provided by another Phlcorp subsidiary, S&H Motivation, Inc. ("SHM"). Fifty-three percent of SHM's sales in 1990 were to the automobile industry. The automobile industry had a bad year, which adversely affected SHM, as did the Gulf crisis which reduced motivational travel programs.

Other Items:

During the year we recognized income resulting from our prior acquisition of Cambrian & General Securities in the amount of $43,000,000. As a result of certain recent legal proceedings we are hopeful that additional income will be recorded in 1991.

Also during 1990, the long pending rehabilitation of the various Wisconsin insurance companies owned by Phlcorp moved forward including the return of certain of these companies. As a result, we recorded income of $9,696,000 in 1990. It is possible that further assets will be returned in 1991.

During 1990, we acquired approximately 46.6% of the outstanding ordinary shares of Molins PLC, a United Kingdom company engaged in manufacturing, for approximately $63,115,000. In spite of our large minority position, we have been unable to exercise any significant influence on Molins' management. At December 31, 1990 the quoted market price for Molins' shares exceeded our cost. We are considering our future course of action.

On March 7, 1991, Leucadia made a proposal to Phlcorp's Board of Directors that Phlcorp acquire all of Leucadia's outstanding common shares in a merger transaction in which Leucadia shareholders would receive two common shares of Phlcorp for each Leucadia common share. Consequently, Leucadia's present equity securityholders would own, as a result of the proposed merger, approximately 81% of Phlcorp's then outstanding common shares on a fully diluted basis. Phlcorp has formed a special committee of independent directors unaffiliated with Leucadia to consider the proposal.

On April 5, 1991, as we are writing this to you, Leucadia announced the execution of an agreement to acquire the Colonial Penn Insurance Group. The purchase price consists of $100,000,000 in cash and a $50,000,000 ten year 12% subordinated Leucadia note, which may be retired for $30,000,000 up to one year after the transaction closes. We believe it will take several months to receive the necessary regulatory approvals before this transaction can be concluded.

We are often asked to describe our corporate strategy and long-term goals for Leucadia. Amended by the caution we noted earlier, the best explanation we are able to give is to repeat what we said in our 1988 letter to shareholders:

We tend to be buyers of companies that are troubled or out of favor and as a result are selling substantially below the values which we believe are there. We then work at improving the acquired operations with a view to increasing cash flow and profitability. From time to time we sell parts of these operations when prices available in the market reach what we believe to be advantageous levels. While we are not perfect in executing this strategy, we are proud of our long-term track record. We are not income statement driven and do not run your Company with an undue emphasis on either quarterly or annual earnings. We believe that we are conservative in our accounting practices and policies and that our balance sheet is conservatively stated.

Our operating companies are decentralized. We believe that our businesses should operate without undue interference from the owners. We, therefore, depend on the excellent management teams that run these companies. They do a superb job. We are available to help solve problems which inevitably arise, to allocate capital and to plan for the future.

We continue to look for acquisitions that are reasonably priced. If you know of anything of interest please call Larry Hershfield or Blake Winchell at (415) 677-1700.

1991 will be a busy year completing the Colonial Penn acquisition. It is our largest acquisition to date. We will be relying again on our hard working and dedicated employees and advisors. A special thanks to our bankers, some of whom have had their own business travails during 1990, but who have continued to be very supportive.

Last year we were cautiously optimistic about the future in spite of the uncertain economic times. This year we are more cautious and less optimistic, but there are still opportunities to be pursued.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President