Financial Highlights

	2000	1999	1998
Revenues	$ **715,487,000**	$ 706,632,000	$ 530,506,000
Net securities gains (losses)	$ **123,225,000**	$ 10,885,000	$ (60,871,000)
Income from continuing operations before income taxes, minority expense of trust preferred securities and extraordinary gain (loss)	$ **193,302,000**	$ 243,471,000	$ 29,377,000
Income tax provision (benefit)	$ **72,756,000**	$ 44,521,000	$ (25,073,000)
Minority expense of trust preferred securities, net of taxes	$ **(5,521,000)**	$ (5,521,000)	$ (8,248,000)
Income from continuing operations before extraordinary gain (loss)	$ **115,025,000**	$ 193,429,000	$ 46,202,000
Income from discontinued operations, net of taxes	$ **–**	$ 8,619,000	$ 8,141,000
Gain on disposal of discontinued operations, net of taxes	$ **–**	$ 15,582,000	$ –
Income before extraordinary gain (loss)	$ **115,025,000**	$ 217,630,000	$ 54,343,000
Extraordinary gain (loss) from early extinguishment of debt, net of taxes	$ **983,000**	$ (2,588,000)	$ –
Net income	$ **116,008,000**	$ 215,042,000	$ 54,343,000
Earnings (loss) per common share:			
Basic: Income from continuing operations before extraordinary gain (loss)	$ **2.07**	$ 3.26	$ .73
Income from discontinued operations	$ **–**	$ .14	$ .13
Gain on disposal of discontinued operations	$ **–**	$ .26	$ –
Extraordinary gain (loss)	$ **.02**	$ (.04)	$ –
Net income	$ **2.09**	$ 3.62	$ .86
Diluted: Income from continuing operations before extraordinary gain (loss)	$ **2.07**	$ 3.26	$ .73
Income from discontinued operations	$ **–**	$ .14	$ .13
Gain on disposal of discontinued operations	$ **–**	$ .26	$ –
Extraordinary gain (loss)	$ **.02**	$ (.04)	$ –
Net income	$ **2.09**	$ 3.62	$ .86
Total assets	**$ 3,143,637,000**	$ 3,070,227,000	$ 3,958,951,000
Cash and investments	**$ 1,612,576,000**	$ 1,466,551,000	$ 2,229,895,000
Common shareholders' equity	**$ 1,204,241,000**	$ 1,121,988,000	$ 1,853,159,000
Book value per common share	**$ 21.78**	$ 19.75	$ 29.90
Cash dividends per common share	$ **.25**	$ 13.58	$ –

Letter from the Chairman and President

To Our Shareholders

In 2000, Leucadia earned $116 million after tax, or $2.09 per diluted common share, which is a 10% return on average equity or a 9.6% return on ending equity of $1.2 billion.

The following chart reflects the results of this management's efforts beginning 22-plus years ago. We clutched Talcott National Corporation and its subsidiaries (founded in 1854) from the brink of bankruptcy and transformed it into Leucadia National Corporation. The pro forma compound annual growth rate ("CAGR") line at the bottom adds back, for comparison purposes, the effect of the $811.9 million capital gain dividends distributed in 1999.

(Dollars in thousands, except per share amounts)

	Book Value Per Share	Book Value % Change	Market Price Per Share	Market Price % Change	Equity	Net Income (Loss)	Return on Average Equity
Historical:							
1978	$ (0.11)	NA	$ 0.05	NA	$ (7,657)	$ (2,225)	NA
1979	0.32	NM	0.21	320.0%	22,945	19,058	249.3%
1980	0.34	6.3%	0.16	(23.8%)	24,917	1,879	7.9%
1981	0.42	23.5%	0.32	100.0%	23,997	7,519	30.7%
1982	1.07	154.8%	0.56	75.0%	61,178	36,866	86.6%
1983	1.28	19.6%	0.82	46.4%	73,498	18,009	26.7%
1984	2.22	73.4%	1.39	69.5%	126,097	60,891	61.0%
1985	2.49	12.2%	1.69	21.6%	151,033	23,503	17.0%
1986	3.79	52.2%	2.47	46.2%	214,587	78,151	42.7%
1987	3.34	(11.9%)	1.42	(42.5%)	180,408	(18,144)	(9.2%)
1988	3.84	15.0%	2.09	47.2%	206,912	21,333	11.0%
1989	4.92	28.1%	3.11	48.8%	257,735	64,311	27.7%
1990	5.91	20.1%	3.31	6.4%	268,567	47,340	18.0%
1991	7.95	34.5%	5.36	61.9%	365,495	94,830	29.9%
1992	11.06	39.1%	11.48	114.2%	618,161	130,607	26.6%
1993	16.27	47.1%	11.92	3.8%	907,856	245,454	32.2%
1994	15.72	(3.4%)	12.94	8.6%	881,815	70,836	7.9%
1995	18.47	17.5%	14.53	12.3%	1,111,491	107,503	10.8%
1996	18.51	0.2%	15.55	7.0%	1,118,107	48,677	4.4%
1997	29.17	57.6%	20.06	29.0%	1,863,531	661,815	44.4%
1998	29.90	2.5%	18.31	(8.7%)	1,853,159	54,343	2.9%
1999	19.75(b)	(33.9%)	23.13	26.3%	1,121,988(b)	215,042	14.5%
2000	21.78	10.3%	35.44	53.2%	1,204,241	116,008	10.0%
Pro forma 2000	37.32(c)				2,063,812(c)		
CAGR (1978–2000)			34.8%				
CAGR (1979–2000)(a)	22.3%				20.8%		
Pro forma CAGR (1979–2000)(a) (c)	25.4%				23.9%		

(a) A negative number cannot be compounded; therefore, we have used 1979.

(b) Reflects a reduction resulting from dividend payments in 1999 totaling $811.9 million or $13.58 per share.

(c) Pro forma to add back dividend payments in 1999 totaling $811.9 million plus estimated after tax interest on dividend of $.86 per share.

The preceding chart raises the question, why have Leucadia's returns gone down over the last several years? First, it is more difficult to compound large amounts of money at high rates than smaller amounts. Back in the early years, Leucadia's net worth was so miniscule that almost any successful investment would produce a very high return. Second, as we mentioned in previous letters, Leucadia has been almost in hibernation for the last few years, not seeing the kind of opportunities where the upside potential and the downside risk made sense. And lastly, we have probably gotten more risk adverse over the years. Back in 1979, there wasn't much to risk.

2000 was a tumultuous year for the United States financial markets. The "irrational exuberance" pronounced several years ago by Federal Reserve Chairman Greenspan has turned into a virus causing much pain in 2000. Between first uttering these words and the continued implacable rise in equity valuations, even Dr. Greenspan became a reluctant believer in the new economy.

Pontification is not our normal line of work. We must, however, express a certain satisfaction from having steadfastly argued over the last many years that we were witness to an old-fashioned financial frenzy that would not and could not continue. Economics has its own gravitation-like forces that work over time and can only be ignored at the investors' peril.

So that our shareholders might know how we think about such things, here is what we think happened and what is likely to happen in the future.

In the early 1980s, the U.S. economy found itself increasingly uncompetitive and inefficient. The Japanese miracle was much heralded in the financial press. The U.S. auto industry blamed Japan for all of its troubles—imagine, better quality cars at a lower price! Eventually American industry woke up. Rather than cursing the darkness, the mantra became: productivity! Not unexpectedly, in this boisterous, robust, self-renewing country of ours, when the national ethos is infused with a common goal, great things can happen. Productivity replaced Japan-bashing as corporate America's preoccupation. No more sucking our thumbs in the corner blaming the Japanese miracle for all of our economic troubles.[1]

At about the same time, a huge new innovation was coming of age. It was, and is, of revolutionary proportions. It began with the discovery of the transistor and continues today as the Digital Age. At the same time, as industry and commerce were looking for ways to be more efficient, Tim Berners-Lee[2] was thinking away at CERN, the European Particle Physics Laboratory, in Geneva, Switzerland. At the time, there was an Internet; it was a physical thing, a bunch of fiber optic cables connecting a bunch of computers at universities and research labs around the world. These computers had no way of looking for information on any of the other computers and, even if they did, had no standard way to send the information in a form that could be interpreted. Tim Berners-Lee had a vision—the WWW (World Wide Web) and the first search engine, "Enquire Within Upon Everything" was born. Now computers could communicate; we had the Internet and all that has flowed to this date.

[1] Incidentally, the Japanese have their own problems. Their stock market peaked in 1989 and has stubbornly remained moribund since then. Japan's banks, even after writeoffs in the many billions, are loaded with nonperforming or underperforming loans. Real estate prices are estimated to be down 90% from their peak and bankruptcies are at an all time high. The long delayed and ever expected restructuring of Japan, Inc., has still not taken place. Based on the Japanese experience, our reading of U.S. history post the 1929 crash and our own biases, we believe that our homegrown irrational exuberance virus will work slowly and that a quick and painless recovery is unlikely.

[2] For further information on Tim Berners-Lee, read *Weaving the Web* by Tim Berners-Lee with Mark Fischetti, published by Harper San Francisco.

Information is like inventory—the more turns you get, the more productive you are. With this new Internet tool, the whole world sped up and time and space shrunk. So, at the same time the American economy was focused on becoming more efficient, along came this world-shrinking, timesaving communication device. The digital economy races ahead at lightning speed. New concepts, products, ideas, software, hardware, glass transmission, and telecommunication advances are born and continue to evolve to this day. The whole of the American economy was being reshaped and retooled at the speed of Internet communication. The confluence of these two events: efficiency-driven American industry and the advent of the Digital Age, gave new meaning to synergy. The exuberant markets reacted to the new age with unlimited enthusiasm and for ten-plus years we had a boom.

Although this analysis is incomplete, our belief is that these two phenomena were major drivers of the boom. Booms lead to busts, and we got one of those as well. In 2000, the air started to come out of the over-inflated equity markets, particularly in the NASDAQ, home of the Digital Age.

Currently, the price earnings ratio ("P.E.") for the Dow Jones Industrial Average is 20, for the NASDAQ it is 167 and for the S&P 500 it is 24. Historically, the mean P.E. for the DOW is 17 (from 1930 to the present date); the NASDAQ is 53 (from December 1985 to present), and the S&P 500 is 15 (from 1935 to present). Over time there will be a recovery, but when speculation becomes a frenzy and markets are pushed far beyond their historical mean, the correction can be very sudden and cause much financial pain. Making the collapse even more painful, after a speculative period stocks often fall considerably below their historical mean. Exacerbating the pain, they usually stay below the mean for an extended period of time. And for the highfliers, we doubt that many of those will be around to enjoy the recovery when it does come. We hold these truths to be self-evident, that all speculative bubbles end up the same way—with a bust. This is financial gravity—to be ignored at our peril.

Leucadia's management wakes up every morning with several hundred million dollars invested in risk free treasury bills. Think of us as groundhogs with a daily habit. We pop out of our holes each and every morning and look around the marketplace for investment opportunities. The first question we ask is: "Do we see anything that can earn more than the risk free rate, adjusted for risk?" When the markets are as high as they have been in the last many years, we saw very little of interest and went back down our holes. In fact, we successfully offered most of our assets for sale to others at what we felt were irrationally exuberant prices. After distributing $811.9 million to shareholders, Leucadia is left with plenty of liquidity, the same old overhead and small recurring earnings. Our job for the next few years is to buy recurring earnings and prepare those assets for the next frenzy. Patience is required for this process, but it is not complicated!

Adventures in the Insurance Game and Empire

Over time Leucadia has owned a number of insurance companies. In 1980, Leucadia bought American Investment Company, which was a small loan company on the NYSE, headquartered in St. Louis, Missouri. Charter National Life, a credit life company, was resident therein. In the late 1980s, Charter got into the tax-advantaged single premium whole life business. Several years later, while we were being hypnotized by the theoretical potential of single premium whole life and the testosterone-driven forecasts of Charter's marketing department, we received an offer of $150 million. We tried to get more and drove off the buyer. Five or six years later we managed to get almost as much money as we had been offered years before. A lucky save, but an expensive lesson in our own irrational exuberance.

In 1986, Leucadia purchased the residue of Baldwin-United Corporation from the Bankruptcy Court. Empire Insurance Company was one of the many assets resident therein. When Leucadia gained control of Empire in the first quarter of 1988, Empire had a statutory net worth of $63.2 million. That statutory net worth peaked at $180.2 million on December 31, 1997. At the end of 2000, statutory net worth at Empire had fallen to $76.9 million, and first quarter developments indicate it is continuing to shrink in 2001. What happened?

Empire Insurance Company started out life as a "subway" mutual company, so described because nearly all the customers could be reached by subway in the boroughs of New York. By year end 1995, net earned premiums had grown to $326.1 million from $140.2 million in 1986. We now realize that this increase overwhelmed the back office, the information systems and the management, while at the same time price competition became fierce in the New York area. What resulted was a death spiral that Empire could not get ahead of. Raising prices, competition and poor customer service lowered volume, lower volume reduced contribution margin, which overwhelmed Empire's ability to cut costs in a timely manner, cutting costs disrupted day-to-day operations and the spiral continued inexorably downward. This has been our worst setback in 22 years. While it cost no cash, it was a desperate loss of opportunity, hopefully not to be repeated.[3]

In the summer of 1991, Leucadia bought the Colonial Penn Life and Colonial Penn Casualty companies for approximately $128 million. These companies had been for sale a long time and the selling price had come down to an attractive level. The problem was a portfolio of casualty insurance risks in niche markets that appeared very scary. The seller strengthened reserves several times. After exhaustive due diligence, we determined that it was most likely properly reserved and made the purchase. We worked very hard over the next six years to make these companies more profitable. During those six years, Leucadia received approximately $300 million in management fees, interest, dividends and tax sharing payments, and in 1997, sold both companies for $1.5 billion. Now that is the way it is supposed to work!

Our last adventure in the insurance game was the 1994 purchase for $46 million of a 30% interest in Caja de Ahorro y Seguro S.A. (La Caja), a Buenos Aires based insurance holding company, in a privatization sale by the Argentine government. Many trips later from New York and Salt Lake City to Buenos Aires, entailing a complete restructuring of La Caja, resulted in the sale of our interest for $166 million in 1999.

Colonial Penn was a grand slam, La Caja a home run, Charter a base hit, and Empire a strike out. You might wonder why we spend so much time regurgitating history. It is out of fear that we will repeat it. It is cathartic and educational to have to explain mistakes!

Banking and Lending

Leucadia's banking and lending operations are principally conducted through American Investment Bank, N.A. (AIB), a national banking subsidiary, and American Investment Financial (AIF), an industrial loan corporation. AIB and AIF deposits are insured by the FDIC. Together AIB and AIF have deposits of $526.2 million at December 31, 2000. Consolidated loans of the two entities at December 31, 2000, were $515.8 million. AIB's largest market segment is sub-prime auto loans, making loans to individuals who have difficulty obtaining credit with the principal secured by used and moderately priced automobiles. For taking this risk, AIB charges higher rates of interest.

AIF is a small lender to non-prime boat and recreational vehicle buyers and also makes loans guaranteed by the Small Business Administration.

[3] You can read all of the gory details in the 10-K.

The operations of Tranex Credit Corp., also a sub-prime lender, acquired by AIB in September 1999, have now been integrated. It has been a difficult transition. Our forecasts were too ambitious, we executed too slowly and we have been adversely affected by a slowing economy. The $67.9 million portfolio purchased as part of the transaction has performed below our expectations. This experience has provided a valuable reminder that conservative assumptions are often not conservative enough.

Beginning in the second half of 2000, we noticed an increase in losses and delinquency in the auto portfolio. This increase, we think, can be partially explained by the deteriorating economic conditions in the United States. Customers who are at the bottom of the economic ladder have little protection in the face of a slowing economy and their behavior represents a leading indicator of things to come. In response, we will reduce loan originations significantly by tightening underwriting standards and eliminating marginal auto dealer relationships and territories. We anticipate that AIB's assets will be flat in 2001, after growing 55% to $544 million in 2000. We have been working hard to reduce overhead expenses to accommodate a smaller operation. We believe the economic slowdown will create opportunities for AIB to do business with more credit-worthy customers at more sensible prices. Some of AIB's competitors who are addicted to growth and have chosen to price sub-prime credit risks unrealistically will have a difficult time surviving. We have confidence that we can profitably weather the storm, but we remain mindful of the lessons of the past, and should events warrant, we will hasten our retreat. AIB's after tax return on assets for the year 2000 was 0.15% and the return on average equity was 1.0%. AIF's return on assets for the same year was 2.35% and its return on average equity was 12.26%.

Manufacturing

Through Conwed Plastics, Leucadia manufactures and markets proprietary lightweight plastic netting used for a variety of purposes including, among other things, construction, agriculture, packaging, carpet padding, filtration and consumer products. Fifteen percent of its 2000 sales were exported to Europe, Latin American, Japan and Australia. Results are below:

(In millions)	1997	1998	1999	2000
Sales	$50.9	$56.6	$64.0	$65.0
Pre-tax profits	8.9	10.1	11.9	11.3
Return on net invested assets	32.5%	29.5%	31.9%	23.3%
Return on average equity	37.8%	39.7%	42.2%	28.7%

Operating at capacity, and in order to meet product demand, Conwed is constructing an $18.5 million manufacturing facility in Belgium, which is expected to be operational in the third quarter of 2001. The Belgium facility will service customers in the European and Asian markets, which are currently being supplied by Conwed's domestic manufacturing facilities. It turns out it is cheaper to ship to Asia from Europe than from the United States. When fully operational, the facility is expected to increase capacity by approximately 20%.

During the second half of last year, volume fell and orders slowed down as the economy began to weaken. Raw material prices rose with oil prices, which has made things worse. Conwed is now scrambling to prepare for a further slowdown and, as is likely to become apparent, Leucadia will suffer from an unfortunately timed, but necessary in the long run, increase in capital committed to this business.

Conwed is Leucadia's old economy canary! Miners used to take canaries in small cages with them into mines. If their singing stopped and their feet pointed upward, it was a sign of poisonous gas; the feet pointed the way to the surface!

Winery

Leucadia has a 90% interest in two wineries: Pine Ridge in Napa Valley, California and Archery Summit in the Willamette Valley, Oregon. Pine Ridge was acquired in 1991 and Archery Summit was started from dense Oregon forest in 1993. These wineries produce and sell super-ultra-premium wines—wine talk for expensive. During 1999, these wineries sold 75,900 nine-liter equivalent cases of wine for $12.5 million, and during 2000, sold 79,300 cases for $14.4 million.

Since acquisition, Leucadia has invested $53.2 million, principally to fund the acquisition of land for new vineyards, vineyard development and winemaking equipment. About $16.7 million of that is related to Archery Summit, whose production is only at about one-half design capacity and will still be in the development stage for the next several years.

In 2000, earnings before interest and taxes ("EBIT"), was $3.7 million or a return on ending equity of about 7%. If prices and demand don't collapse, EBIT will continue to increase as the vineyards mature and production increases.

Despite the pleasures of owning wineries, during 2000 Leucadia engaged an investment banking firm to put the wineries up for sale. We did not receive offers which we considered adequate and don't intend to sell the wineries at this time. To assure shareholders of the integrity of Leucadia's balance sheet, the offers were considerably in excess of its investment.

Our partners, Gary and Nancy Andrus, continue to make and sell great wines! Thus, the great prices for super-ultra-premium wines: $25–$135 per bottle. Call 800-486-0503, if you care to visit the wineries or find out where you can buy the wine near where you live. Depending on your state liquor laws, you may order wine through the mail or through the Internet at www.pineridgewinery.com or www.archerysummit.com. Remember, moderate use of wine—one glass each of Pine Ridge and Archery Summit per day—extends life, reduces stress and makes your fellow shareholders happy.

MK Gold

MK Gold is traded on the NASD OTC Bulletin Board; Leucadia owns 72.9%. MK Gold has a 25% equity interest in, and the mining contract for, a small gold mine in California. MK Gold also owns Cobre Las Cruces, S.A., a Spanish company that holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. A feasibility study has been completed by Bechtel International, Inc., which reports proven and probable reserve estimates of 15.8 million metric tonnes grading 5.94% copper that are overlain by a gold-bearing gossan (which has not been evaluated). This reserve calculation was based upon the analysis of approximately 280 drill holes totaling over 82,000 meters. The feasibility study estimates the capital cost will be approximately $290 million to bring the mine into production. Mining will be subject to permitting (currently underway), obtaining both debt and equity financing for the project, engineering and construction. A mining concession application, accompanied by the feasibility study and environmental impact studies, was submitted to the applicable Spanish and Andalusian governmental agencies during the first quarter of 2001. We shall see; nothing ventured, nothing gained!

Frank Joklik, MK Gold's very experienced chairman, leads this able team. We are grateful for their efforts.

Real Estate

FIDEI is a 100%-owned French subsidiary headquartered in Paris. When acquired, FIDEI had over 150 investments in real estate, mostly in Paris and its environs. In 1999, FIDEI sold 62 properties for a pre-tax gain of $37.9 million, and in 2000, sold 38 properties for a pre-tax gain of $27.1 million. At December 31, 2000, 53 properties remain for sale aggregating approximately 1,300,000 square feet. FIDEI has certain pleasant tax attributes and is looking for further opportunities in Europe.

At December 31, 2000, Leucadia had $166.5 million invested in domestic real estate. This represents investments in office buildings, shopping centers, residential real estate projects, and unimproved land, all in various stages of development and all doing fine.

During 2000, Leucadia received $94.3 million in proceeds on a non-recourse loan from a third party lender on an office complex in Washington, D.C., not far from the U.S. Capitol, which when added to the amounts previously received fully repaid Leucadia's investment, plus a 17.5% preferred return. Leucadia retains a 50% interest in the complex and additional land for further development.

Real estate values may fall in the economic downturn ahead, but Leucadia is well positioned to weather the storm and to purchase additional assets.

FINOVA

We are encouraged that opportunities may once again be coming our way. The first may be the arrival of an investment opportunity in The FINOVA Group Inc. FINOVA, based in Scottsdale, Arizona, is a lender to middle market companies with $12 billion of assets at book value.[4] FINOVA had been funding itself in the commercial paper market, and as a result of a loss of market confidence, its access to the commercial paper market evaporated. Ultimately, FINOVA ended up in default on its $11.3 billion of borrowings, which included over 55 financial institutions providing bank credit facilities and countless owners of bonds.

Last year, Larry Hershfield, one of Leucadia's executives, brought this opportunity to our attention several times during FINOVA's search for either a purchaser or an investor. We conducted considerable due diligence following which we negotiated a transaction whereby Leucadia would have invested up to $350 million in new equity subject to the approval of creditors. After several meetings with creditors, it became apparent that the creditors were not interested in this particular proposal and the transaction was mutually terminated.

Not to let sleeping groundhogs lie, we continued to think about various possibilities for restructuring FINOVA's debts. Finally, in February 2001, Leucadia and Berkshire Hathaway Inc. formed a jointly owned company, Berkadia LLC, and agreed with FINOVA that Berkadia would lend it $6 billion on a senior secured basis to facilitate a Chapter 11 reorganization. The balance of FINOVA's debt would be paid in the form of new debt. The commitment to lend expires August 31, 2001 and is subject to numerous usual conditions, including confirmation of the Chapter 11 plan approved by Berkadia.

Berkadia's commitment is 90% guaranteed by Berkshire Hathaway and 10% by Leucadia, with Berkshire Hathaway guaranteeing Leucadia's portion. In consideration for making the loan, Berkadia will also receive 51% of the stock of FINOVA and will designate a majority of its directors. In conjunction with the commitment, FINOVA paid to Berkadia a fee of $60 million. Leucadia also entered into a ten-year management agreement with FINOVA, for which a non-refundable $8 million fee was paid to the Berkadia partners as compensation for the first year's services.

[4] This investment is really going back to our roots. Talcott National, from which Leucadia evolved, was in the same business as FINOVA and had many of the same problems.

Under the direction of FINOVA's board, Larry Hershfield spends all of his time at FINOVA working on the development of the Chapter 11 plan and advising FINOVA's new CEO, Bill Hallinan. Tom Mara and Joe Orlando, Leucadia's EVP and CFO, respectively, also are devoting a considerable amount of their time to FINOVA as well. The Chapter 11 reorganization plan will have been filed by the time you read this and we are hopeful the plan will be confirmed this summer.

For those of you unfamiliar with Federal bankruptcy procedures, it is an orderly process, guided by a Federal judge, who weighs the interests of stockholders as well as creditors. In most cases, the approval of creditors is required to confirm a plan of reorganization. The process is often full of sound and fury, but usually results in a sensible outcome. Lawyers, accountants and investment bankers make a lot of money. We are hopeful that FINOVA's plan will be confirmed. At the present time, it is the only plan before the court and has the endorsement of FINOVA's Board of Directors. However, it is possible other bidders may arrive on the scene or the creditors may choose to go in a different direction.

Working with Warren Buffett has been a delight for both of us. Berkshire's lawyers, led by Bob Denham and his team, equally so.

Money and Other Things

At December 31, 2000, excluding amounts held by regulated subsidiaries, Leucadia had cash, cash equivalents and marketable securities of $643.4 million, plus $156.8 million in marketable securities collateralizing letters of credit, plus $183.1 million of cash, cash equivalents and marketable securities held by FIDEI.

In late 1999 and 2000, Leucadia purchased $89 million of securities of Fidelity National Financial, Inc., a publicly traded title insurance company and later in the year sold the stock for $179.9 million.

The outstanding promissory note due to Leucadia by Conseco, Inc., for $250 million, was paid in full in the third quarter of 2000, plus a $7.5 million prepayment penalty.

In June 2000, Leucadia replaced its bank credit facility of $100 million with a new facility of $152.5 million. At December 31, 2000, no amounts were outstanding. Total parent company debt, which excludes non-recourse debt of subsidiaries, was $147.1 million.

During 2000, Leucadia invested $100 million in JPOF II, a limited liability company that is a registered broker-dealer. JPOF II is managed and controlled by Jefferies & Company, and is a market maker in high yield debt ("junk bonds"). For the year ended December 31, 2000, Leucadia recorded $17.3 million in pre-tax income from this investment.

In January 2000, Leucadia's 10% equity interest in Jordan Telecommunication Products, Inc. was sold for a pre-tax gain of $24.8 million. Plus Leucadia may receive additional contingent payments in the future.

In October 2000, Leucadia committed to invest $75 million in convertible preferred shares of White Mountains Insurance Group, Ltd. (WTM-NYSE), representing approximately 4% of the common stock when converted. WTM is buying the property and casualty insurance company CGU Corporation, the U.S. portion of the English company CGNU plc. This acquisition should close later this year. WTM is controlled and directed by Jack Byrne, an able and experienced insurance executive, long admired by the undersigned.

During 2000, Leucadia repurchased 1,505,000 of its common shares for $32.1 million at an average price of $21.33 per share.

The Future

The year 2000 was, we think, a transitional year. In the euphoria of the last several years, we were able to sell many of Leucadia's assets at advantageous prices. This has left us in a position we have not experienced since the late 1980s where Leucadia's recurring earnings barely cover its overhead and must rely on deals and investments for earnings. Hopefully, this problem will rectify itself as declining prices allow us to sniff out value and purchase good companies at attractive prices.

We think equity markets will continue to fall toward or below their historical means and that this process will take considerable time. Falling markets, financial sorrow and woe, perhaps not good for the nation, are the garden in which these groundhogs thrive!

We will continue to work hard, hopefully continue to be lucky and be ably assisted by the same staff and advisors who have been around for many, many years, and without whom, none of this would have been possible.

When we first arrived at Talcott National in 1978, the company was in financial extremis. Our now friend, Stephen E. Jacobs, Head of the Corporate Department of Weil, Gotshal & Manges, was on the scene and has been present at every take off and crash landing that the two of us have conceived of since then. After 38 years in the New York office of Weil, Gotshal & Manges, Steve is taking his act to his firm's London office. We will miss his intense day-to-day involvement in our affairs. Rest assured we will consult with him on anything important and will continue to rely on his more than capable partner, Andrea Bernstein, and on his trusty trumpet to blow the sound of retreat as he has so many times in the past.

We wish Steve and wife Sherry the best and intend to drop in for tea from time to time.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Quid quid bonum pro Leucadia bonum est!