

Letter from the Chairman and President

To Our Shareholders

In 2004, Leucadia reported \$145.5 million in after tax income or \$1.34 per fully diluted share. This is a 6.4% return on ending equity. Our returns on ending equity for the last five years were 6.4%, 4.5%, 10.5%, (0.6%) and 9.6%, averaging 6.1%. Thankfully, since we began in 1978, we have compounded our equity at 20.2%.¹ This calculation ignores dividend payments of \$972.1 million (including the special dividend paid in 1999 as a capital gain distribution), stock repurchases and the 1998 distribution of HomeFed shares to our shareholders. We are not pleased with the results over the last two years.

In the late 1990s there was a tremendous run-up in the value of assets. We concluded that prices were unsustainable and, therefore, sold most of our assets at significant gains. Last year it looked like values might return to more sensible levels. Competition for investment opportunities, however, roared back in the form of 35-year old hedge fund managers — private equity firms who have never known a bear market — and other investors willing to invest at high prices in risky assets with seemingly cheap money. These unguided optimists are ably assisted by the existence of an ebullient junk bond market and the hot potato bank loan market, where banks make loans sending them out the door before the ink has barely dried, disappearing into an amorphous market where credit is at best secondary and mostly forgotten. We wonder who buys these loans. All this speculation casts a familiar shadow and reminds us of 1988, and the time immediately before the demise of Drexel Burnham. But, every speculative era is different and ends in a new way. We are particularly struck by the fact that four of the twelve or so AAA companies listed on the New York Stock Exchange are all under investigation for alleged financial shenanigans (MBIA, AIG, Fannie Mae & Freddie Mac). It may be that it will take some time for the natural workings of capitalism to correct its own excesses, but the process in the end could get pretty ugly.

One of us had a conversation recently with the head of bank loan syndications at an eminent bank. The banker complimented us on our patience and allowed that many deals will likely blow up. He and his competitors have annual plans and budgets to meet and credit quality has succumbed to competitive pressures. While we thank the banking community for creating future inventory for future investments, it is difficult to remain disciplined and on the sidelines in a game we love. We are reminded of the picture of Sewell Avery, Chairman of Montgomery Ward during World War II, being carried out of his office in his chair for refusing to adapt to the times. Perhaps that is the fate in store for us.

Leucadia remains liquid with approximately \$1.8 billion available for investment without any further financial leverage. It is painful having money in the bank earning about 2%. Our investment philosophy is bimodal, either we invest in high returning opportunities or have the money in the bank or under our mattresses.

In the past, we have described what we do as buying assets that are out of favor and, therefore, cheap or disheveled in one way or another which makes them inexpensive. We then work very hard at improving their performance until they are the most efficient and productive in their market segment. But for now there are too many indiscriminant investors competing for the same opportunities.

¹ Since ending 1978 equity was a negative number, we used ending 1979 equity for the start of this calculation.

WilTel Communications Group

WilTel was a disheveled company when we came upon it. It had all the classic attributes of investments we like. It was distressed and in bankruptcy; had poor management that could be improved; had newly acquired assets that cost \$7 billion; had key customers needing its services; and as an extra bonus, had great tax attributes enabling Leucadia to eliminate its tax liabilities for many years to come. On the negative side, it was a participant in a highly competitive and rapidly changing industry where technology plays an important role. Further, although working diligently to expand its customer base, WilTel sells a commodity product in an oversupplied market to a few big customers who utilize their buying power to reduce prices.

By far, WilTel's largest customer is SBC. We are their key supplier of voice and data transport. With the pending acquisition of AT&T by SBC, we are working together with SBC to continue to provide high quality dependable service during the governmental approval process, which is likely to take a year or more, and the subsequent delicate transfer of this traffic to the AT&T network. In total this process will take no less than two and up to three or four years.

We currently believe WilTel will receive sufficient revenue during the transition period to pay off its bank debt and restructure its business. We will also be considering opportunities for consolidation. We do not believe that WilTel will become roadkill on the telecom highway. However, as of this writing we don't know whether the loss of SBC will result in the recognition of an impairment loss related to WilTel's property and equipment.

WilTel's future lies in a number of areas. Vyvx, its wholly-owned subsidiary, is the premier transport of content for broadcasters. Vyvx transports major news stories for the networks, ads for radio and television broadcasts, and athletic events. Last year, for the second time, we back-hauled (from the stadium to the network operations center) the Super Bowl in HDTV format on internet protocol — lots of hand wringing in our Network Operations Center but the transmission was carried off flawlessly.

WilTel recently became an approved supplier to the Federal Government and obtained its first contract. We expect this aspect of our business to grow.

Our current contract with SBC has restricted our ability to provide a comprehensive set of services for Enterprise Customers which are large organizations or governmental entities that contract their telecom needs for data and voice transmission. MCI and AT&T are the major suppliers of these services and together with their potential suitors may have nearly 80% of the market. In most cases these customers need highly engineered solutions that require a customer-centered and responsive organization. This market is part of our future. We believe many of these customers will prefer to deal with nimble WilTel for part or all of their telecom needs.

“Diversity” is a word used in the telecom world to describe the need for redundancy in the movement of voice and data traffic. With SBC swallowing AT&T and MCI disappearing into Verizon or Qwest the number of alternatives available to Enterprise Customers, carriers or governments for obtaining diversity is shrinking dramatically. Even the biggest competitors in the telecom market need diversity for the purpose of maintaining redundancy for their customers. We think there may be a place for WilTel living off the crumbs from the plates of these elephants, as long as we are ever watchful of their feet!

In a previous letter we reported on the battlefield promotion of Jeff Storey to CEO of WilTel. Jeff is now battle-hardened and he and his team have accomplished much in improving the financial performance of WilTel as set forth below.

(In millions)	2001	2002	2003	2004
Operating revenues	\$ 1,185.5	\$ 1,191.7	\$ 1,343.3	\$ 1,582.9
Cost of sales	746.5	820.2	930.8	1,129.2
Operating expenses, net	548.7	416.7	333.4	305.6
Segment profit (loss) from operations	\$ (109.7)	\$ (45.2)	\$ 79.1	\$ 148.1
Headcount	3,887	2,354	1,967	1,889

A famous investor, who we both much admire, is reputed to have explained that he did not invest “outside his circle of competence.” In purchasing WilTel we believed we were investing within “our circle of competence.” Time will tell if we were right. One of us is skeptical that WilTel will ever be a successful investment; the other continues to believe that there will be future riches on the wings of broadband! We are, however, in complete agreement on who we hope is right! Come what may, even if the skeptic is right, we do not believe that this adventure will jeopardize Leucadia’s overall well being.

See the end of this letter for a depiction of life in the Telecom Boardroom.

Symphony Health Services

In September 2003, Leucadia acquired Symphony Health Services which is primarily engaged in physical, occupational, speech and respiratory therapy. Symphony currently operates in 46 states, providing services at 2,000 locations, with a workforce of 3,200 employees, some part-time.

Symphony offers healthcare providers the opportunity to outsource some of their patients’ 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 flexible work hours mesh nicely. Fortunately for Symphony, as the population ages, the demand for healthcare professionals grows. Attracting and retaining therapists as well as customers are the major factors in Symphony’s successful business model.

In last year’s letter we celebrated the possibility that Symphony might repay our investment in the first full year under Leucadia ownership. After all these years, you would think we would know better than to be celebrating possibilities rather than performance! We under-estimated the challenges management faced to quickly return our investment. Symphony suffered from organizational atrophy induced by languishing for three years in bankruptcy. It had postponed long overdue investments and had not fully integrated a number of hastily assembled acquisitions.

In October of 2004, we brought in a new CEO, R. Scott Jones. Scott is an energetic and seasoned health industry executive with a track record of operating success and who is off to a strong start in rehabilitating Symphony. While we do not want to jinx his performance, early indications suggest Scott will prove to be as effective a fiscal therapist as his colleagues are physical therapists.

With 2004 revenues exceeding \$258 million, the company barely managed \$5 million in pre-tax income. Given the cost and time devoted to complete the current rehabilitation, we expect 2005 to be better. We are satisfied that the patient is back on its feet and making good progress.

The business of providing therapy to patients mostly covered by Medicare and Medicaid is highly regulated. Our well-trained therapists do an excellent job of providing quality care under a complex set of rules and regulations. The threat to Symphony is not government regulation, but rather the government's willingness and ability to pay for services rendered. As part of the Balanced Budget Act of 1997 (back in the good old days when our national leaders at least pretended to care about the impact of deficits), outpatient therapy was capped at \$1,590 per patient per year, but the implementation of the cap has been delayed a number of times through legislation. Implementation of the cap would reduce our revenues and profits and, more importantly, substantially reduce the health and well-being of patients. Absent specific action by Congress, the benefit cap will become effective on January 1, 2006. We are hopeful our elected officials will craft a more creative and less draconian method of dealing with health care costs for this vulnerable segment of our population. A letter to your congressional delegation is in order.

Manufacturing

Conwed is a leading manufacturer of lightweight plastic netting made for a variety of purposes, most often to provide a barrier or to strengthen other materials. It is used for construction (plastic fencing), agricultural (bird net and sod net), carpet padding, packaging (to reinforce shipping paper) and also for consumer products (strengthening mop pads and industrial hand wipes). Our netting ends up in hundreds of products sold throughout the world. Our products are manufactured in Minneapolis, Minnesota; Athens, Georgia; and Genk, Belgium. In 2004, 16% of the revenue resulted from sales outside the U.S.

This company has its share of challenges. There is lots of price competition among its competitors, ever-unstable plastic raw material prices and the constant possibility of product substitution through the use of other materials. Conwed must continually reinvent itself with new product offerings. For example, in 2004, we launched six new products including a new biodegradable product that is being sold into the erosion control market. We spend between 2% and 5% of sales on the reinvention effort.

Conwed rides the waves of the U.S. economy, giving us an early warning outlook on business prospects. Over all the years, good and bad, since its acquisition in March 1985, Conwed has given us a very high return on investment. Some might call Conwed a cash cow; we prefer to call it a cash gazelle!

(In millions)	2000	2001	2002	2003	2004
Sales	\$ 65.0	\$ 53.7	\$ 50.7	\$ 53.3	\$ 64.1
Pre-tax profits	\$ 11.3	\$ 7.8	\$ 3.1	\$ 4.4	\$ 7.9
Return on average equity	28.7%	16.5%	7.8%	12.6%	25.1%

Mark Lewry took over as CEO at the end of 2002. We hope the most recent results above are forerunners of future growth in sales, pre-tax profit, and return on average equity. Mark and his excellent team are customer centric, and concentrate on new product offerings, the endless pursuit of manufacturing efficiencies and the well being of its employees, all the while watching and learning from the competition.

The future looks bright. In February 2005, Conwed purchased NSW, LLC U.S., which manufactures produce and packaging nets, header label bags (think onions), case liners and heavy weight netting for drainage and erosion control. NSW has a manufacturing and distribution facility in Roanoke, Virginia. For the year ending December 31, 2004, its sales were over \$20 million. The purchase price was \$28 million.

MK Resources

Leucadia has \$88 million invested in 72.1% of MK Resources, a public company trading on the NASD OTC Bulletin Board (Symbol: MKRR). MK Resources 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.

The mining concession was received in 2003, and the four principal water permits were received during 2003 and 2004. Additional permits relating to emissions and land use were received in early 2005. Approximately 98% of the land necessary for the operation of the mine and related processing facilities has been acquired. Detailed engineering may begin soon.

As of March 4, 2005, capital costs in U.S. Dollars to develop the mine have escalated to \$372 million (€281 million), excluding interest and other financing costs during construction. This escalation is due to depreciation of the Dollar from \$1.06 per Euro at September 1, 1999 (when Las Cruces was purchased) to \$1.36 per Euro at December 31, 2004. Construction and operating costs are mostly in Euros and revenues in Dollars. The good news is that copper prices have risen from \$.78 to \$1.48 per pound in the same period. If the ratio betwixt the Dollar, the Euro and copper remains what it is today, we will be fine. The status quo, however, is unlikely and the relationship between the Dollar, the Euro and copper prices will provide excitement in bringing this project to fruition.

MK Resources continues to review its financing options for Las Cruces, which, in addition to debt financing, could include a joint venture, sale of the project, merger and/or other transaction. We are hopeful that MK Resources' future plans will become clearer soon.

Frank Joklik, MK Resources' experienced Chairman, and Fernando Fernandez, President of Cobre Las Cruces, S.A., continue to manage the development of the project in difficult and trying international fiscal times.

Bull Durham, former Chairman of Phelps Dodge Corporation, is an experienced miner who brings his knowledge and expertise to the MK board. He also serves on the FINOVA board.

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. The company controls 224 acres of vineyards in Napa Valley, California in the well regarded appellations of Stags Leap, Carneros, Rutherford, Oakville and Howell Mountain and 115 acres in the Willamette Valley of Oregon. Substantially all of this acreage is producing grapes.

At December 31, 2004, the combined investment in these wineries was \$58 million.

During 2004 the wineries sold approximately 63,600 9-liter equivalent cases of wine generating wine revenue of \$13.2 million. 81% of case sales and 93% of wine revenue are in the luxury segment of premium table wine market, which is defined as over \$25 retail per 750 ml bottle.

The wine industry is becoming ever more competitive. Robert Parker, a noted wine commentator, in an address last year to a large group of wine aficionados, put forth the proposition that wine quality throughout the world has increased so dramatically through improved viticulture and winemaking techniques that no one area, excepting the French Grand Cru, can expect to have a significant advantage. At the same time the interest and consumption of wine continues to grow both in the United States and around the world.

In the face of these competitive pressures we continue to improve our viticulture and winemaking techniques. Several of our wines received high ratings from leading wine publications, though never as high as we think they deserve. Last year we mentioned that we had an oversupply of Merlot production that is being solved through a replanting and re-budding program. “Merlot Madness” of the past has succumbed to the movie “Sideways.” We are having success in building our Wine Clubs and with retail sales made at the wineries.

The distribution of wine in the United States is archaic. It is a three-level system in most states. We sell to wholesalers, who sell to retailers, restaurants and hotels, who all sell to consumers. In many states the system is protected and monopolistic. There is a case before the U.S. Supreme Court that may perhaps, in some states, lead to the simplification of some of these archaic laws. Even over the protests of some participants, the Internet-era is here to stay.

Depending upon your state liquor laws, you may order wine on the Internet (www.pineridgewinery.com or www.archerysummit.com) or join our Wine Club and receive delicious libations monthly.

Visit the wineries and enjoy the tasting room experience. Shareholders of Leucadia receive a 20% discount — on the honor system. Call Pine Ridge at (800) 575-9777 or Archery Summit at (800) 732-8822.

Banking and Lending

During 2004, the bank sold substantially all its outstanding loans plus certain loan portfolios that had been previously written off. Pre-tax income for 2004 was \$22 million primarily as a result of the release of loan reserves from sold assets. AIB intends to file a plan with the regulators that will ultimately result in the surrender of its bank charter.

Justin Wheeler, Marc Fuller and Brad Merrill have expertly negotiated through a regulatory thicket and accomplished a peaceful and profitable end to our adventure in sub-prime lending.

FINOVA

FINOVA is 50% owned by Berkadia, a joint venture between Berkshire Hathaway Inc. and Leucadia. We have earned substantial fee income managing the liquidation of FINOVA. Tom Mara, our long-serving Executive Vice President and Treasurer is FINOVA’s CEO, and Glenn Gray, its COO. Together they have done a masterful job of winding down this business. Glenn is leaving FINOVA during 2005, with our thanks and best wishes.

ATX

In December 2003, we purchased all the debt obligations of ATX Communications and its affiliates for \$25 million. Year-end December 31, 2004, ATX reported \$251 million of total revenue.

ATX is an integrated telecom provider that offers local exchange carrier and inter-exchange carrier telephone, Internet, high-speed data and other communications services to business and residential customers in target markets in the Mid-Atlantic and Midwestern regions of the U.S.

In January 2004, ATX commenced a voluntary Chapter 11 bankruptcy in order to reorganize its affairs. We provided \$5 million of debtor in possession financing secured by liens on most of the assets. In March 2005, ATX filed its second amended Plan of Reorganization. The Plan contemplates that Leucadia, in exchange for its \$25 million, will receive 95% of the new common stock and a new \$25 million note which bears interest at 10%. In addition, we will provide \$25 million of exit financing to fund the Reorganization Plan, which was confirmed by the bankruptcy court in April 2005. ATX is a small player in a very fragmented industry. There will be consolidation opportunities in the years ahead, which we intend to pursue.

David Larsen authored this opportunity as well as our investment in WebLink which we refer to later. He is looking for new investment opportunities. His telephone number is (801) 524-8541.

Sarbanes Oxley and 404

By now most of our shareholders have probably heard something about the new rules that apply to public companies and its reporting requirements called Sarbanes-Oxley and 404, known fondly as SOX. These rules came about as a result of the financial scandals surrounding Enron and WorldCom, among others. In short, the rules require that we and our CFO certify, to our knowledge, that the financial statements we publish and file are correct, which is something that we think we have been doing all along anyway. In addition, following extensive procedures, we had to convince ourselves and our outside auditors, PricewaterhouseCoopers LLP, that our internal controls over financial reporting were effective. This effort was cheerfully led by Rocco Nittoli to a satisfactory conclusion. It makes us happy that there were no reportable shortfalls in our internal controls. This effort involved many additional hours of work by internal and external personnel and cost over \$4 million. We doubt it was worth the money, but since the law required it be done, we complied.

Money and Other Things

- On December 31, 2004, the Company effected a three-for-two stock split of the Company's common shares in the form of a 50% stock dividend. The stock dividend was paid to holders of record of the Company's common shares at the close of business on December 23, 2004. A cash dividend of \$.25 per share was paid on all the post split shares, which effectively raised the dividend by 50%.
- During 2004, the Company sold \$100 million principal amount of 7% Senior Notes due in 2013.
- During 2004, the Company sold \$350 million principal amount of 3¾% Convertible Senior Subordinated Notes due 2014, convertible into the Company's common shares at \$45.93 per share at any time before their maturity, subject to certain restrictions, at a conversion rate of 21.7707 shares per each \$1,000 principal amount of notes, subject to adjustment (an aggregate of 7,619,745 shares).
- As of December 31, 2004, Leucadia's readily available cash, cash equivalents and marketable securities, excluding amounts held by a regulated subsidiary and non-regulated subsidiaries that are parties to agreements which restrict the payment of dividends, totaled \$1.76 billion. This amount includes a \$242.3 million investment at market value in the common equity of White Mountains Insurance Group (WMIG), a publicly traded Bermuda-based property, casualty and reinsurance group, (representing 3.5% of WMIG for which the Company paid \$75 million).
- We recognized \$91.5 million of pre-tax income in 2004 from equity investments in associated companies; a detailed list of the components is on page 48 of the 10-K included herein.
- One of us is Chairman of Olympus Re, a Bermuda-based reinsurer of which we own approximately 19%, which has a quota share arrangement with a subsidiary of WMIG. Olympus Re was conceived as a virtual company to take advantage of a hard market for reinsurance, post 9/11, and has only two employees. Almost all of our premiums come through WMIG subsidiaries. Results have been outstanding. Leucadia earned 22%, 26% and 7% on its investment in each of the last three years (excluding cash received from selling shares back to Olympus), the last return having been achieved in the face of four major hurricanes in the last half of 2004.

Unfortunately, these storms did not scare reinsurers or new participants (mostly 35-year old hedge fund managers barely out of college around the time of Hurricane Andrew), and there is a definite softening in the cost of reinsurance. Olympus will exit the business if pricing gets too unattractive.

- Leucadia owns 2,474,226 common shares of HomeFed (about 30%), a publicly traded stock on the NASD OTC Bulletin Board (Symbol: HOFD) of which one of us is its Chairman. The undersigned together also own an additional 18.9% of HomeFed stock as a result of a distribution to all Leucadia shareholders in 1998. HomeFed principally develops residential lots in the San Diego area. Leucadia's investment in HomeFed shares is carried at \$39.5 million as an investment in an associated company. When we distributed the stock of HomeFed in 1998 the shares traded at \$1.80, adjusted for a subsequent stock split. As of March 31, 2005, the share price was \$53.
- We own 36% of the Barbados Light and Power Company. At December 31, 2004, the company was on our books for \$12.1 million.
- WebLink, a paging company we acquired in December 2002 while it was in bankruptcy, was sold to Metrocall in November 2003, which merged with Arch in November 2004, which changed its name and became USA Mobility, Inc. right after the merger. This was a classic rollup of a fragmented and declining industry. At December 31, 2004 our investment in the shares of USA Mobility were carried at their market value of \$25.8 million; all were sold during 2005. Since December 2002 we have received \$48.4 million in cash and securities for our \$19 million WebLink investment.
- At December 31, 2004, the Company's real estate assets had a book value of \$131.2 million. During 2004, we sold 92 lots of a 95-lot development project in South Walton County, Florida for approximately \$50 million. We recognized \$15.8 million in pre-tax profits and will recognize additional pre-tax profits of \$10.2 million this year. Patrick Bienvenue conceived and executed this project from a twinkle in his eye to \$50 million in cash in our bank account within one year. If you have interesting development parcels from \$5-50 million, call him at (801) 521-5400²
- In 2004, the Company exercised an option to sell two of its older corporate aircraft for total proceeds of \$38.8 million and reported a pre-tax gain of \$11.3 million. The option was received in connection with the purchase of two new corporate aircraft during 2003.
- Net securities gains for 2004 aggregated \$142.9 million, substantially all of which reflect realized gains from the sale of publicly traded debt and equity securities. Many of these gains came through our association with Jay Jordan and David Zalaznick of the Jordan Company who provided these investment opportunities and who we thank.
- In 2004, the Company recognized a tax benefit of \$27.3 million for the favorable resolution of certain income tax contingencies and a tax benefit of \$3.9 million to record a federal income tax carryback refund.

² We do not consider ourselves as being in the real estate business. We look at real estate as we look at junk bonds—opportunistically.

The Future

The future of our country and our currency is very troubling. Thinking about it makes us morose. Currently, our nation's fiscal, monetary and economic policies are hastening the end of the American hegemony that began at the end of World War II. Though we surely live in one of the most free, fairest, energetic and democratic societies ever developed on this globe our future economic position relative to the rest of the world is in peril.

If we compare the financing of our own families and our businesses to that of our country, we indeed have reason to be concerned. Unless our nation's profligate ways are moderated, we are going to end up with a run on the dollar. What the consequences of that might be, other than we will all be poorer, is hard for us to contemplate or predict.

We plan to continue to search for undervalued or out-of-favor assets that we can buy and improve. The pickings are slim, but our enthusiasm is unabated. If we run out of ideas or steam we will let you know and develop a plan to return money to our shareholders.

Our long-term friend and consigliere, Stephen Jacobs, retired from his endless 42 year service at Weil, Gotshal & Manges, to devote his full time efforts to Leucadia as counsel. We are delighted!

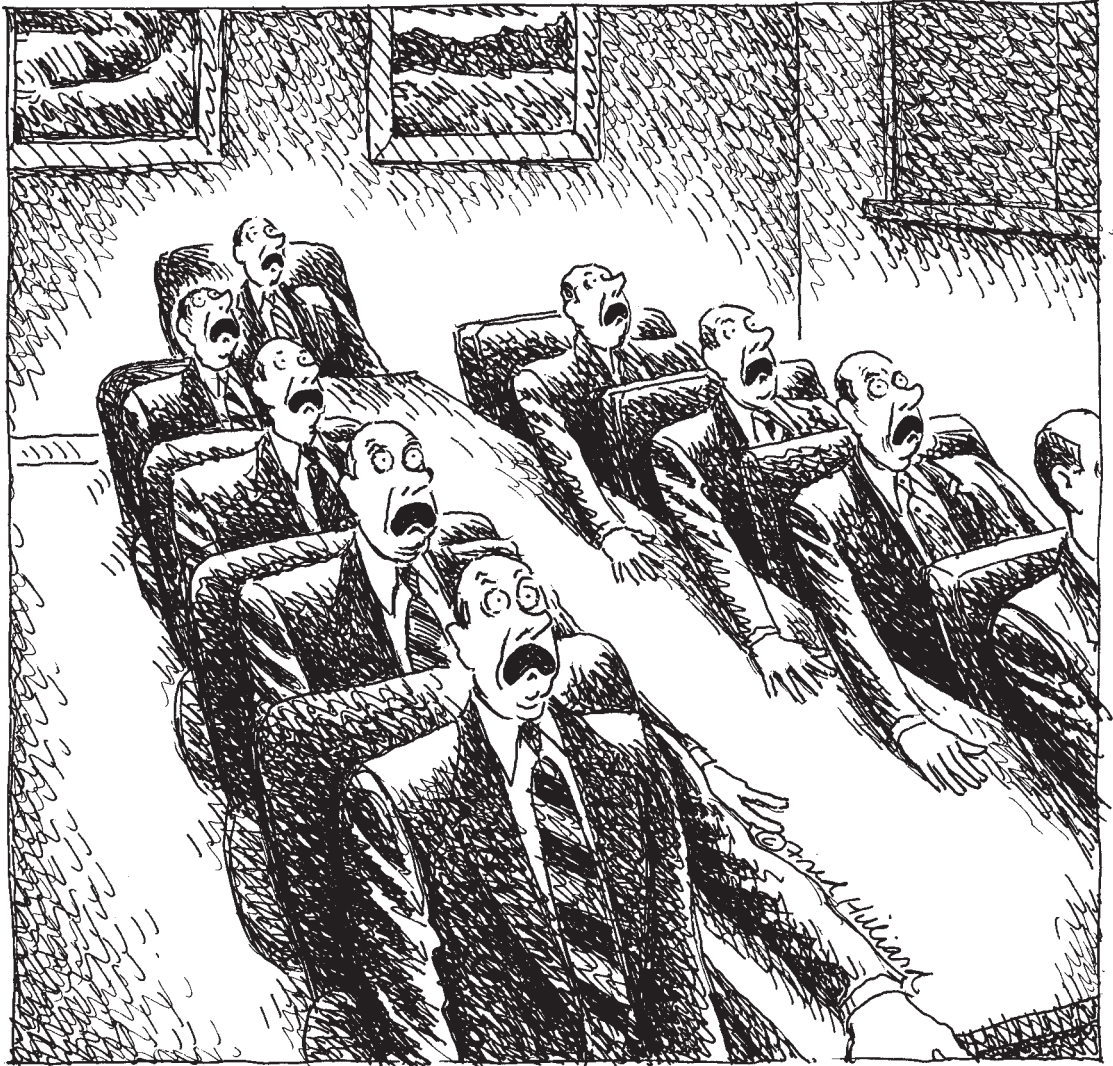
To all our hard working, diligent and smart employees, we offer boundless thanks and affection.



Ian M. Cumming
Chairman



Joseph S. Steinberg
President



“Telecom. The thrill ride of American business.”