This is Alleghany

Alleghany's objective is to create stockholder value through the ownership and management of a small group of operating businesses and investments anchored by a core competency in property and casualty insurance. Alleghany is managed by a select company staff, which seeks out attractive investment opportunities, delegates responsibilities to competent and motivated managers, sets management goals for its operating businesses, ensures that managers are provided with incentives to meet these goals and monitors their progress. The operating businesses function in an entrepreneurial climate as quasi-autonomous enterprises.

Conservatism dominates Alleghany's management philosophy. It shuns investment fads and fashions in favor of acquiring relatively few interests in basic financial and industrial enterprises that offer long-term value to the investor. Alleghany's operating businesses and investments include:

Alleghany Insurance Holding LLC
A holding company for Alleghany's property and casualty and fidelity and surety insurance operations

World Minerals Inc.
Conducts a worldwide industrial minerals business

Alleghany Properties LLC
A significant landowner in the Sacramento, California region

Burlington Northern Santa Fe Corporation
Alleghany owns 2.1 percent of one of the largest railroad networks in North America

FINANCIAL HIGHLIGHTS

ALLEGHANY CORPORATION AND SUBSIDIARIES

(in thousands except for share and per share amounts):

	Years Ended December 31		
	2004	*2003*	*2002*
Revenues from continuing operations	$1,240,927	$904,956	$466,449
Earnings from continuing operations after taxes	$ 117,948	$166,188	$ 53,385
(Loss) earnings from discontinued operations after taxes	(252)	(3,810)	1,428
Net earnings	$ 117,696	$162,378	$ 54,813
Basic earnings per share of common stock*			
Continuing operations			
Operations	$ 8.02	$ 8.88	$ 3.92
Security gains	7.36	12.99	3.11
Total	$ 15.38	$ 21.87	$ 7.03
Discontinued operations**	(0.03)	(0.50)	0.19
Net earnings*	$ 15.35	$ 21.37	$ 7.22
Common stockholders' equity per share*	$ 228.77	$ 204.44	$ 182.51
Average number of shares outstanding*	7,667,811	7,599,638	7,597,019

* *Amounts have been adjusted for subsequent common stock dividends.*
** *Discontinued operations consist of the operations of Heads & Threads International LLC prior to its disposition in December 2004.*

NET EARNINGS CONTRIBUTIONS OF OUR OPERATING UNITS

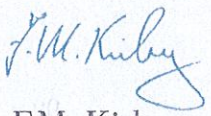
PER SHARE*

Years Ended December 31

	Alleghany Insurance Holdings	*World Minerals*	*Corporate Activities*	*Total from Continuing Operations*	*Discontinued Operations***	*Total*
2004						
Operations	$ 7.67	$ 1.99	$ (1.64)	$ 8.02	$ (0.03)	$ 7.99
Security gains	7.16	—	0.20	7.36	—	7.36
Total	$ 14.83	$ 1.99	$ (1.44)	$15.38	$ (0.03)	$15.35
2003						
Operations	$ 7.37	$ 1.75	$ (0.24)	$ 8.88	$ (0.50)	$ 8.38
Security gains	4.70	—	8.29	12.99	—	12.99
Total	$ 12.07	$ 1.75	$ 8.05	$21.87	$ (0.50)	$21.37
2002						
Operations	$ (0.59)	$ 1.60	$ 2.91	$ 3.92	$ 0.19	$ 4.11
Security gains	(0.94)	—	4.05	3.11	—	3.11
Total	$ (1.53)	$ 1.60	$ 6.96	$ 7.03	$ 0.19	$ 7.22

* *Amounts have been adjusted for subsequent common stock dividends.*
** *Discontinued operations consist of the operations of Heads & Threads International LLC prior to its disposition in December 2004.*

On December 30, 2004, John J. Burns, Jr. retired as President and chief executive officer of Alleghany after 36 years as an officer and director, including service as President for 27 years and President and chief executive officer for twelve years. John's years of service spanned a period during which Alleghany produced exceptional value for its stockholders and reinvented itself several times. John was a visionary leader who knew that his strength was in the Alleghany people he worked with and the talented employees of Alleghany's various subsidiaries over time. John had an uncompromising loyalty to Alleghany's interests and relentless resolve to grow its businesses. Although John has retired as President and chief executive officer, I am pleased that he will continue to contribute to the success of Alleghany as a director and Vice Chairman of the Board.

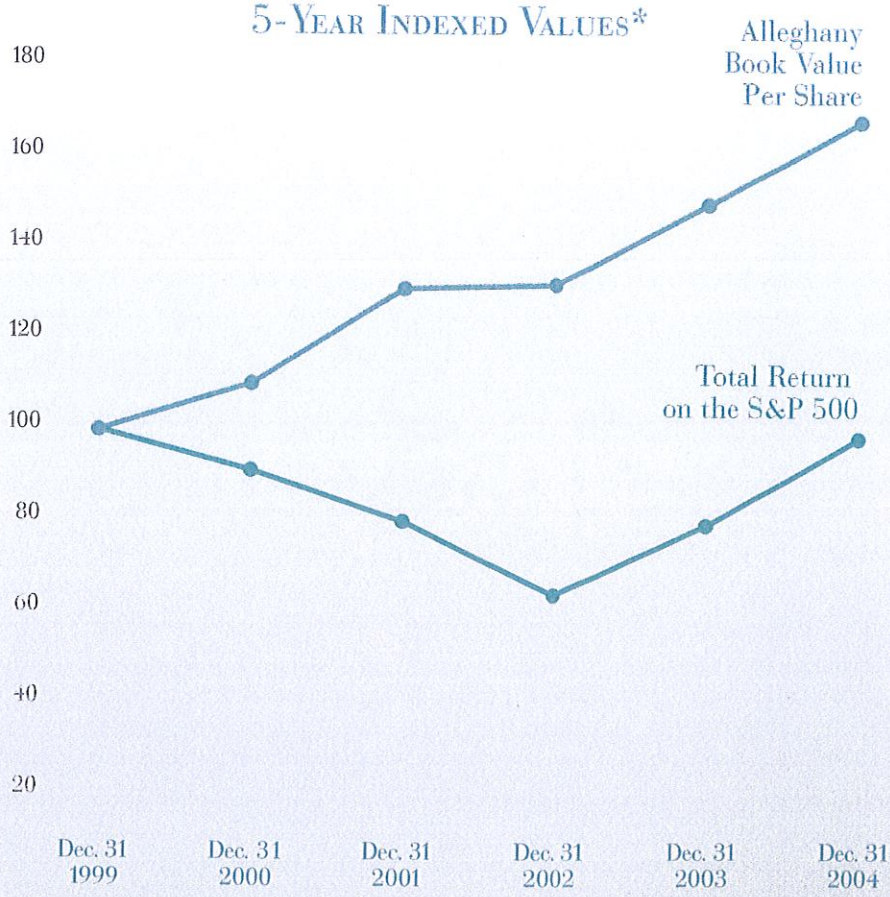


F.M. Kirby
Chairman

To Our Stockholders

Alleghany's common stockholders' equity per share at year-end 2004 was $228.77 per share, an increase of 11.9 percent over common stockholders' equity per share of $204.44 at year-end 2003, adjusted for stock dividends. Realized and unrealized appreciation in our investment portfolio, as well favorable underwriting results at RSUI Group, Inc. despite significant catastrophe losses in the third quarter, were the primary reasons for this increase. Alleghany's increase in common stockholders' equity per share during 2004 exceeded the total 2004 return of 10.8 percent for the S&P 500. For the five years ended December 31, 2004, Alleghany's common stockholders' equity per share increased at a compound annual rate of return of 10.7 percent, compared with a compound annual rate of return of -2.3 percent for the S&P 500 over the same time period.

5-Year Indexed Values*



* Alleghany book value per share amounts have been adjusted for subsequent common stock dividends, and S&P 500 total return amounts assume gross dividends reinvested into index. Actual returns for Alleghany will differ based on the entry and exit point in relation to book value.

Alleghany's primary objective is to create stockholder value through the ownership and management of a small group of operating businesses and investments, anchored by a core competence in property and casualty insurance. Our long-term goal is to increase our stockholders' equity per share at double-digit rates, but only if we can do so without taking excessive risk. In this regard, we seek to manage our insurance and investment operations for superior risk-adjusted returns and to take advantage of the market opportunities often provided by the short-term orientation of many of our competitors. With respect to our insurance operations, this strategy requires that we emphasize underwriting profitability over revenue growth. With respect to investments, we seek to invest our capital, including capital at our regulated insurance subsidiaries, in assets that we believe offer significant long-term return potential with limited downside risk.

By combining strong underwriting results and superior investment results, we believe we can achieve our goal of double-digit growth in common stockholders' equity per share over time.

Insurance Operations

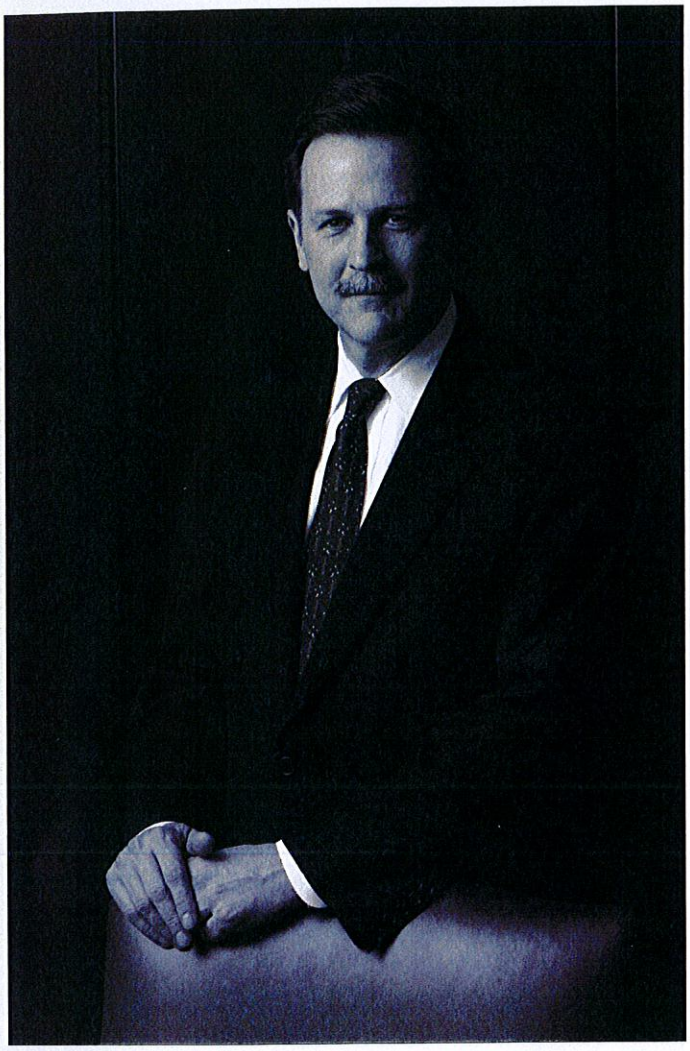
RSUI Group, Inc., our Atlanta, Georgia-based specialty insurer, completed its first full year as an integrated insurance company in 2004, producing $83.2 million in underwriting profits. This is an impressive result considering that the company sustained losses in the 2004 third quarter aggregating $157.2 million pre-tax (including reinsurance reinstatement premiums of $10.5 million), net of reinsurance, resulting from four major hurricanes. Under the leadership of Jim Dixon and E.G. Lassiter, RSUI generated over $1.2 billion of gross premiums written in 2004 and delivered a combined ratio (on a generally accepted accounting basis) of 86.3 percent. Since Alleghany acquired RSUI in July 2003, RSUI's book value has increased at a compound annual rate of return of 15.0 percent through year-end 2004.

Capitol Transamerica Corporation, our Madison, Wisconsin-based regional specialty insurer, had disappointing underwriting results in 2004, primarily due to losses in its contract surety line of business and the need for further strengthening of loss reserves for 2001 and prior accident years, as described in more detail

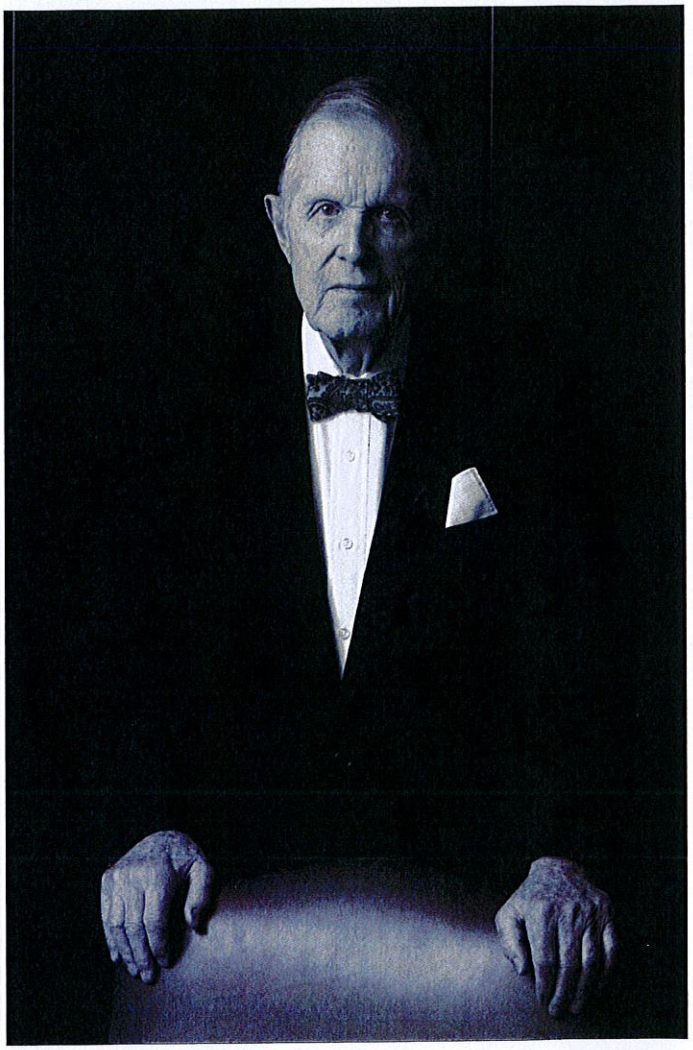
beginning on page 33 of this Report. After an extensive strategic review, Capitol Transamerica decided to exit the construction segment of its contract surety business in 2005, but plans to continue writing commercial surety business. Capitol Transamerica's underwriting results in both its property and casualty and commercial surety lines have been positive since Alleghany's acquisition, and showed improvement in 2004. In 2004, Capitol Transamerica's management made good progress on a number of systems initiatives, and we believe that steps have been taken to position the company for underwriting profitability in 2005.

Darwin Professional Underwriters, formed in March of 2003 as a managing underwriter for Platte River and certain subsidiaries of Capitol Transamerica, grew substantially in 2004 and took steps towards becoming a stand-alone, integrated insurance company. In this regard, in 2004, AIHL acquired Darwin National Assurance Company (formerly U.S. AEGIS Energy Insurance Company), an admitted insurance company domiciled in Delaware, for cash consideration of approximately $20.4 million, $17.1 million of which represented consideration for AEGIS's investment portfolio and the balance of which represented consideration for licenses. Darwin generated $100.5 million of gross premiums written in 2004, its first full year of operations, compared with $24.2 million in 2003. Stephen Sills, President and Chief Executive Officer of Darwin, has built a balanced book of business, comprised of directors and officers, errors and omissions, and medical professional liability insurance business. Also, Darwin has implemented a new systems architecture that Darwin believes will allow it to deliver superior value to agents and customers.

The property and casualty business is cyclical. During 2004 market prices for many lines of insurance stopped increasing, and by late 2004 they began to decrease in certain lines. We expect the level of competition in the industry to continue to increase in 2005, which may limit the ability of our insurance operations to increase premium volume and result in decreases in gross premiums written. However, preserving our insurance operations' capital and waiting for an environment of greater opportunity is vastly preferable to writing more business at inadequate prices.



Weston Hicks
President



F.M. Kirby
Chairman of the Board

Non-Insurance Operations

World Minerals Inc. generated sales of $285.6 million in 2004, compared with $266.1 million in 2003, an increase of 7.3 percent, and reported pre-tax earnings of $21.2 million in 2004, compared with $25.7 million in 2003, a decrease of approximately 17.5 percent. The decrease in pre-tax earnings was primarily due to lower operating margins. Although World Minerals is seeing growth in its diatomite business, it continues to be hurt by competitive pricing pressures, primarily in the filter aid market, and rising energy and operational costs. In 2004, the weakening of the U.S. dollar against the euro added approximately 3.0 percent to top-line growth, but currency changes in Latin America resulted in foreign exchange transaction losses.

In December 2004, Alleghany completed the sale of its industrial fasteners business, Heads & Threads International LLC, to a private investor group led by Heads & Threads management and Capital Partners, Inc. Alleghany received consideration of $53.8 million in cash. The transaction resulted in a pre-tax loss of approximately $1.9 million.

Investments

On a consolidated basis, cash and invested assets totalled approximately $2.5 billion at December 31, 2004, an increase of $587.2 million, or 31.0 percent, from approximately $1.9 billion at December 31, 2003. In 2003, our cash and invested assets increased by $573.0 million, or 43.0 percent. These increases have resulted principally from strong cash flow trends at our operating units, as well as unrealized appreciation of our equity portfolios. Cash and invested assets per share were $324.54 at the end of 2004, compared with $249.08 at the end of 2003.

Our investment performance was strong in 2004. During the year, we sold 2.6 million shares of CIGNA Corporation for a net pre-tax gain of approximately $58.6 million reflecting share price appreciation in 2004 of 42.0 percent. In addition, Alleghany's 8.0 million shares of Burlington Northern Santa Fe Corporation common stock continued to appreciate in value during 2004, and had an aggregate market value of approximately $378.5 million on December 31, 2004, compared with $258.8 million at year-end 2003.

The debt securities portfolio for Alleghany Insurance Holdings LLC (the holding company for our insurance operations) continues to grow, but due to the low level of market interest rates, it currently generates modest amounts of investment income. Faced with historically low interest rates and very narrow credit spreads, we have taken a conservative posture with respect to interest rate risk and credit risk: our portfolio had an effective duration of 2.7 years at the end of 2004, and an average quality level of AA.

During 2005, we will continue to pursue patiently our objectives of growing and strengthening our current operations, finding suitable acquisitions at prices that we believe will add value for our stockholders, and identifying investment opportunities in public securities that entail low levels of risk and offer the possibility of significant long-term rewards. We are hopeful that 2005 will bring us further success.

Yours sincerely,

Weston M. Hicks
President

F.M. Kirby
Chairman

March 7, 2005