

AVENIR CORPORATION

INVESTMENT MANAGERS

October 8, 2008

Our letter to you this August discussed Avenir Corporation's core investment principles as they related to the extraordinary turbulence we were experiencing. As we are all aware, economic conditions have continued to deteriorate, resulting in stresses to the financial system not seen since the 1930's. The trust you have placed in us is one we take with utmost seriousness. We are therefore providing you with this update discussing how recent events affect your portfolio and what we are doing in response.

Current Environment

While the current financial crisis has elements common to all credit crunches, the erosion of confidence in our financial system is without modern precedent. Bank customers fear for the safety of their deposits and money market investors wonder if their fund will 'break the buck.' American icons such as Goldman Sachs, Morgan Stanley and Merrill Lynch have been forced to consider their own mortality and General Electric has felt compelled to raise fresh equity capital. To date, taxpayer-financed government interventions have failed to cheer markets. In this environment, *nothing* seems safe and therefore a flight to cash is to be expected. It is understandable why some investors believe the system upon which they relied is no longer worthy of their trust. However, the seizure in the credit markets is far more a crisis of confidence than it is a shortage of capital. In such a time, investors must separate individual businesses from a flawed system of finance. The system serves the businesses, not *vice versa*.

The unfolding crisis reminds us of Warren Buffett's discussion of how his eventual successor should think about risk. Quoting from his Berkshire Hathaway 2006 Letter to Shareholders:

Over time, markets will do extraordinary, even bizarre, things. A single, big mistake could wipe out a long string of successes. We therefore need someone genetically programmed to recognize and avoid serious risks including those never before encountered. Certain perils that lurk in investment strategies cannot be spotted by use of the models commonly employed today by financial institutions.

As usual, Buffett saw around the corner, and we are grateful to own Berkshire in significant quantities. It has been a good performer this year and we expect it to continue to compound owner's capital at above-average rates.

Our Approach

As you know, we are long-term investors and strive to invest in good businesses with good management that will compound capital over time. We screen an investment candidate for the economic earnings power of the enterprise and the skill and motivations of management. We then relate these factors to the price asked for the business and compare that to the return available from other investments and the rate of inflation. Great businesses run by great managers are difficult to find at an attractive price, and when we do find one, we buy meaningful amounts and tend to add to positions during down markets, so long as the fundamental investment thesis remains intact.

In general, the businesses in our portfolio generate substantial economic earnings, have decent balance sheets and are managed by people who know how to allocate capital for the benefit of the shareholders in any economic environment. In the current environment, balance sheet strength is paramount, and well capitalized businesses with good cash flow characteristics will successfully manage through the down cycle and emerge stronger once the storm passes.

Opportunity in Prior Bear Markets

The average life of an Avenir investment is more than four years, which is an eternity on Wall Street. This lengthy holding period means our investments eventually are exposed to a number of external shocks, few of which can be anticipated. Several businesses we own have been through all the following events since first acquired: two wars in Iraq, a wave of savings and loan failures, the Russian debt crisis and near simultaneous failure of Long Term Capital Management, 9-11 and the recession that followed, the implosion of the dot-coms, and the Enron and WorldCom frauds and bankruptcies. Avenir made its best purchases during these periods of stress. Examples include our first purchase of MICROS Systems in 1991 when its Kuwait operation was shut down by the first Iraq conflict, effectively halting sales in its Mideast, African and Asian operations. Blind selling of energy and telecom stocks during 2002 permitted us to acquire additional shares of AES and American Tower at valuations that come along once in a generation. This basic approach has served us well over our existence and illustrates a fundamental principle: value always wins in the long run.

Year-to-date, the great majority of our portfolio companies are performing operationally to the level of our expectations or above. Several are not, however, and we have made some mistakes along the way. But on a net basis, the managers of our portfolio businesses are delivering the goods for you.

Opportunity in the Current Bear Market

Bear markets often present the best opportunities. Last week, we met with Jim Taiclet, Chairman, President, and CEO of American Tower Corporation, Avenir's largest investment by market value. We have discussed this company with many of you and consider it to be in the center of our sweet spot. Its easily understood business model is marked by huge margins, low ongoing capital requirements, a deep and wide competitive moat, and a management team intently focused on per share value. One of the company's best attributes is the years of visibility in its contracted base of revenues. Cell phone carriers typically execute long-term leases for space on the company's towers on which to hang their antennas, meaning much of its future revenue base is known. This practice permits reliable projection of revenues and free cash flows for years to come. In fact, American Tower's contracted revenue base of \$8.6 billion is more than *five times* its current annual revenue. Very few, if any, businesses, possess this predictability. Our major underlying assumption is that cell phone usage will continue to increase, a very reasonable and low-risk proposition. Despite American Tower's metronomic, bond-like cash flows, its share price recently moved down 25% in a single day and remains depressed. This simply makes no sense. Its cash flows have not changed and therefore, its value has not changed. American Tower does not require access to the capital markets and is soundly financed.

American Tower is largely immune to the current conflagration, and so are other major elements of the portfolios, such as The AES Corporation. Like American Tower, an understanding of how AES rewards investors requires no heroic or complex assumptions. We are investing on the basis that consumption of electricity in energy-short parts of the world will continue to rise long-term. Unlike many of its peers, AES operates on a contract generation model, which results in long-term, predictable, growing cash flows with very limited commodity risk. Yet, as commodity prices have declined over the past several months, AES's stock price has moved lock-step with its commodity oriented peers, declining around 50% this year despite its defensive nature and prolific and rising cash generation. It is intrinsically worth more today than a year ago, was a bargain then, and is twice the bargain today. We note that in the past week, AES insiders including its CEO and President have acquired a significant amount of stock in the open market. There is no more bullish sign. In a market where cash is king, those closest to this business are swapping cash for stock.

We are investors in companies, not in economies. That said, a functioning, if not healthy economy is a prerequisite for successful long-term investment. The major imbalances in real estate and mortgage markets have become like a forest fire that generates its own winds, advancing by tossing embers ahead of itself. Until the mortgage crisis is resolved to some degree, our businesses most closely linked to the health of the consumer or the economy in general will be under pressure. However, their share prices already largely reflect this likelihood and make them candidates for purchase, not sale. The critical judgment at this juncture relates to their balance sheet strength, especially the ability to meet debt service requirements. As we learned in the credit crisis of 2002, well capitalized businesses with good cash flow characteristics will successfully manage through the down cycle and emerge stronger relative to their competition.

We view equity capital as permanent capital and as such, always think about your portfolios in terms of five or ten years or longer and encourage you to do the same. Over that time frame, traditional banking is likely to be one of the growth areas in the economy. The so-called 'shadow banking system' – a term referring to the hedge funds, investment banks, and mortgage brokers who have spent 20 years taking market share from regulated banks by providing banking services on an unregulated basis – has crumbled. It is a sea change shifting momentum to the strongest banks. Deposits are flowing to these banks where they support sensible lending practices. We believe a bank that is healthy today should be worth multiples of its current price in five years. Wells Fargo is a prime example. Its safety attracts an increased deposit base that will turn into well-underwritten, highly profitable loans. You may expect Wells to remain among the most profitable banking entities in the US for years to come.

The magnitude and scope of the crisis understandably gives rise to comparisons with the 1930's and the Great Depression. We won't be surprised by a severe recession, but unlike the pernicious monetary contraction that took place in the 1930's, federal policy today takes the opposite approach. The Treasury and Federal Reserve have made it clear that they will provide the footings for recovery by supplying whatever liquidity is required to float the financial system. It is likely we will eventually pay a price in terms of higher inflation, but it is the right tradeoff today. We point out that for more than seven decades, wagering against the US economy has been a losing bet, and we suspect that this time is no different. Ownership of business interests remains the soundest method of accumulating private wealth.

Closing

We note that periods of doom and gloom are usually the best time to invest. The late Sir John Templeton's dictum to "buy straw hats in winter" is no less true today than it was in the 1930's when he was getting his start. Warren Buffett phrases it this way: "Be greedy when others are fearful..." and repeatedly cautions investors to expect a holding to decline by 50% at some point during the investing cycle. We have never seen more investment fear in our lives. This is not to say that the crisis will end soon, or end without more major dislocations. We do know that the brokenness of the financial system is

a worldwide phenomenon, and that the broad acknowledgement of its sins and flaws in the U.S. is only a first step toward healing. But the size and underlying strength of the U.S. economy along with the sense of urgency and determination of its leaders strongly suggest that ours will stabilize first. Money goes where it is well-treated, and there remains no more hospitable place on earth for investment dollars. Since the stock market peers into the future, it is likely to begin its recovery before the economy does. Thus, we have confidence that the investments we make during this wrenching period will reward us for many years to come. There may be more pain to come, but when the rewards come, they will come quickly.

Economic phenomena such as today's credit crunch are transient in nature while the principles of wealth creation are permanent and unchanging. A financial system weakened by lax lending standards does not necessarily translate into weak businesses or a permanent reduction in business values. Great businesses run by great managers coupled with strong capital structures remain the best path for capital preservation, inflation protection, and wealth-creation. We believe you own pieces of a number of such businesses and our confidence in them is high. Our personal fortunes are staked to the accuracy of this statement.

We thank you for your steadfastness in the face of recent events. We know how unsettling, even stunning they are, for we own precisely the same businesses and share your investment outcome. We cannot predict the depth of the crisis or the timing of its end but are confident that our system of finance will emerge stronger and cleansed of the toxins that are bringing it to its knees. In the meantime, our businesses as a whole are positioned to survive and compound value over the years to come at rates we believe you will find attractive. We urge you to contact us with any thoughts or comments.

Respectfully,

Charles G. Mackall, Jr.

Peter C. Keefe

James H. Rooney