



SOUTHEASTERN ASSET
MANAGEMENT, INC.®

For immediate release

September 17, 2008

Japan's Non-Life Industry – A View from Southeastern Asset Management, Inc.

Southeastern Asset Management, Inc., releases the following in response to various recent media enquires regarding Southeasterns' investments in the Japanese non-life sector.

We believe that Warren Buffett's Berkshire Hathaway provides the best model for the non-life industry. Berkshire's operating principles guide management, protect consumers and reward shareholders while reducing regulatory burdens. This occurs because all stakeholders benefit from Berkshire's success.

Specifically, Berkshire:

- pleases customers with exceptional service, low costs, honest sales practices, innovative products and a rock-solid balance sheet that provides a safe harbor from financial and natural disasters
- pleases regulators by maintaining high solvency levels that provide solutions to industry troubles at times of extreme stress
- pleases investors by consistently growing Net Asset Value (“NAV”*) per share at high rates by combining underwriting profits and exceptional investing in common equities

Berkshire's managers hold large personal investments in Berkshire stock. This alignment of interests ensures that management wins or loses together with shareholders when Berkshire's NAV per share rises or falls. This alignment benefits all stakeholders.

Growth in NAV increases capital available for premium growth while strengthening the ability to pay claims. Growth in the overall business provides rising salaries for employees while lowering the cost of insurance for new customers. All stakeholders benefit from Berkshire's commitment to excellence in both underwriting and investing.

The Japanese non-life industry resembles Berkshire in several important aspects because Japanese non-life insurers:

- provide exceptional customer service, notwithstanding the recent problems with non-payment of claims
- generally write profitable business
- feature strong balance sheets and sound credit policies that have limited losses from both Japan's bubble and recent global credit problems
- hold substantial investments in common equities relative to global insurance peers

Despite these similarities, the Japanese non-life industry poorly serves all stakeholders because managements focus exclusively on premium market share. Japanese managements utilize their investment portfolios to buy business from corporate customers who demand investments by non-life companies in exchange for insurance business with the corporation itself and with its affiliated employees. Generally, non-life companies believe that they make extraordinary underwriting profits on this so called "relationship" business. In fact, these policies destroy value for all stakeholders in Japanese companies because:

- Japanese individuals overpay for insurance relative to international, risk-adjusted levels. Individuals who purchase "group" policies provided by employers who receive investments from insurers pay a particularly high price.
- Japanese corporate customers suffer from lack of product innovation because non-life companies compete by "purchasing" their business rather than on the basis of price and service.
- Japanese investors in non-life companies suffer from low returns on capital that result from investing equities based on insurance premiums, rather than investment returns.
- Japanese investors in all other companies suffer from the passive support provided to managements by Japanese non-life companies who manage 8.7Tyen of Japanese equities for the benefit of insurance salesmen, not shareholders.

- Regulators suffer from an inability to properly gauge industry solvency because investment risk, which is unmanaged, poorly disclosed, and poorly understood by senior management, far exceeds insurance risk.
- Non-life managers do benefit from this system because they utilize shareholders' capital to fund their management perquisites and bonuses, which are based exclusively on underwriting performance.

The result of the above practices has been destruction of capital on a colossal scale. Over the past seventeen years, the Japanese non-life industry has destroyed NAV at a rate of approximately 1.5% per year, despite a substantial increase in premiums over that period. By comparison, Berkshire Hathaway increased both its NAV per share and its share price at 18% per year over the same period.*

The accumulated equity investment losses by the non-life industry over that period far exceed losses in any natural catastrophe. In the fiscal year ended March, 2008, the insurers lost Y3.2T on their equity portfolios, 16x the disclosed Y200bln of credit losses that were disclosed in exhaustive detail. To date, Japanese managements have avoided responsibility for their poor results by blaming industry and regulatory forces beyond their control.

Southeastern has spent the last ten years working with managements at various non-life companies in an effort to help them emulate the Berkshire Hathaway model in Japan. While we have made some progress in areas such as share buybacks, we have been frustrated by the extremely slow pace of reform within the industry. We believe that the time has come for a new leadership model. This model would rest on the following simple assumptions:

- Investing and underwriting are equally important
- Investment decisions should be made separately from underwriting decisions
- Competent investors incented by long-term investment performance and uninfluenced by underwriters should lead the investment department
- Capital levels should reflect clearly defined insurance risk
- Senior management compensation should depend on growth in NAV value per share, calculated according to IFRS standards**
- Excess capital should be returned to shareholders via share repurchase if the stock price trades below NAV.

- Boards should follow the Japanese PFA's suggestion for best practices. Given the rapid changes in the non-life business environment, the companies will benefit most from a committee board system led by qualified, unconflicted outsiders with relevant expertise and a significant personal investment in the company's equity.

Southeastern notes that the entire Japanese non-life sector trades at a substantial discount to IRFS Net Asset Value. This discount has persisted throughout our ten year investment holding period.

Southeastern also notes that, outside of Japan, profitable non-life insurers generally trade at well over 1x book. In fact, Tokio Marine Holdings recently purchased two public overseas insurers at substantial premiums to NAV (Kiln-1.7x NAV, Philadelphia Consolidated-2.8x NAV). Southeastern believes that a properly managed non-life company in Japan deserves a multiple substantially in excess of NAV, particularly in light of the extreme undervaluation present within their domestic stock portfolios.

Today's depressed equity markets provide an extraordinary opportunity to create Japan's Berkshire Hathaway. A properly incented management team led by an independent board and focused on high quality underwriting, low costs, and a portfolio of independently selected, undervalued Japanese equities could change Japan's entire securities market. Success could improve returns across the industry while sparking a positive chain reaction across the Japanese equity market.

Southeastern believes that NipponKoa provides the best opportunity in Japan for such a change. NipponKoa lacks strong keiretsu ties, suffers from declining premiums, has an uncompetitive cost base, and has destroyed NAV per share at nearly 3% per year for seventeen years, nearly twice the industry's already terrible rate.* NipponKoa's share price has fallen at 1.5% per year over this period. No company in the industry offers a better opportunity for change than NipponKoa. The hard working employees and the loyal customers of NipponKoa will benefit more than anyone from a change in the status quo.

*See attached Appendix 1: Definitions & Calculations

**See attached Appendix 2: Compensation Model