Our Focus
Our Members

Energy Insurance Mutual 2007 Annual Report

Our Focus

Our Members

- AEGIS Insurance Services, Inc.
- AGL Resources Inc.
- Allegheny Energy, Inc.
- ALLETE, Inc.
- Alliant Energy Corporation
- Ameren Corporation
- American Electric Power Service Corporation
- American Transmission Company LLC
- Anadarko Petroleum Corporation
- Apache Corporation
- Aquila, Inc.
- Associated Electric Cooperative, Inc.
- Atmos Energy Corporation
- Avista Corporation
- Basin Electric Power Cooperative
- Bicent Power, LLC
- Black Hills Corporation
- British Columbia Hydro and Power Authority
- British Columbia Transmission Corporation
- California Independent System Operator
- Calpine Corp.
- CenterPoint Energy, Inc.
- Central Vermont Public Service Corporation
- CenturyTel, Inc.
- CH Energy Group, Inc.
- Chesapeake Energy Corporation
- Chugach Electric Association, Inc.
- Citizens Gas & Coke Utility
- City of Richmond, Department of Public Utilities
- City Utilities of Springfield, Missouri
- Cleco Corporation
- CMS Energy Corporation
- Colonial Pipeline Company
- Complete Energy Holdings, LLC
- Consolidated Edison Company of New York, Inc.
- Constellation Energy Group, Inc.
- Dairyland Power Cooperative
- DCP Midstream, LLC
- Deseret Generation & Transmission Co-operative
- Devon Energy Corporation
- District of Columbia Water and Sewer Authority
- Dominion Resources, Inc.
- DPL Inc.
- DQE Holdings LLC
- DTE Energy Company
- Duke Energy Corporation
- Dynegy Inc.
- E.ON AG
- Edison International
- El Paso Corporation
- El Paso Electric Company
- Electric Reliability Council of Texas, Inc.
- Empire District Electric Company (The)
- Enbridge Inc.
- Energen Corporation
- Energy Corporation of America
- Energy East Corporation
- Energy Future Holdings Corp.
- EnergySouth, Inc.
- Enron Creditors Recovery Corp.
- Entergy Services, Inc.
- Enterprise Products Partners, L. P.
- EOG Resources, Inc.
- EPPIC - Imperial Irrigation District
- EPPIC - Modesto Irrigation District
- EPPIC - Orlando Utilities Commission
- Equitable Resources, Inc.
- Exelon Corporation
- Ferrell Companies, Inc.
- FirstEnergy Corp.
- FirstLight Power Resources, Inc.
- Florida Public Utilities Company
- FPL Group, Inc.
- Grand River Dam Authority
- Great Plains Energy Incorporated
- Great River Energy
- Hawaiian Electric Industries, Inc.
- Hydro One Inc.
- Hydro-Quebec
- IDACORP, Inc.
- Independent Electricity System Operator
- Inergy, LP
- Integrys Energy Group, Inc.
- InterGen N.V.
- Intermountain Industries, Inc.
- IPALCO Enterprises, Inc.
- Iroquois Gas Transmission System, LP

Our Focus
Our Members

Energy Insurance Mutual Limited, known as EIM, was incorporated June 13, 1986, in Barbados, where it remains domiciled. The Company wrote its initial policies for 17 founding Members on July 1, 1986. Each of the 17 remains among the 172 Member Insureds that EIM served at year-end 2007.

Since early 1988, the Company has had its operating offices in Tampa, Florida. EIM's only subsidiary, Energy Insurance Services, or EIS, operates from Greenville, South Carolina.

Our Focus
Our Members

From the very beginning, Energy Insurance Mutual has been focused on delivering outstanding service to its Members—always keeping the corporate eye on anticipating and meeting its Members' needs.

Actions throughout the years have been described frequently and correctly as being Member Driven.

The Company's 2007 Customer Satisfaction Survey results bear this out. Six of the 14 service questions found respondents 100 percent in agreement and another five at 99 percent. No service finding was less than 97 percent. These are truly enviable results.

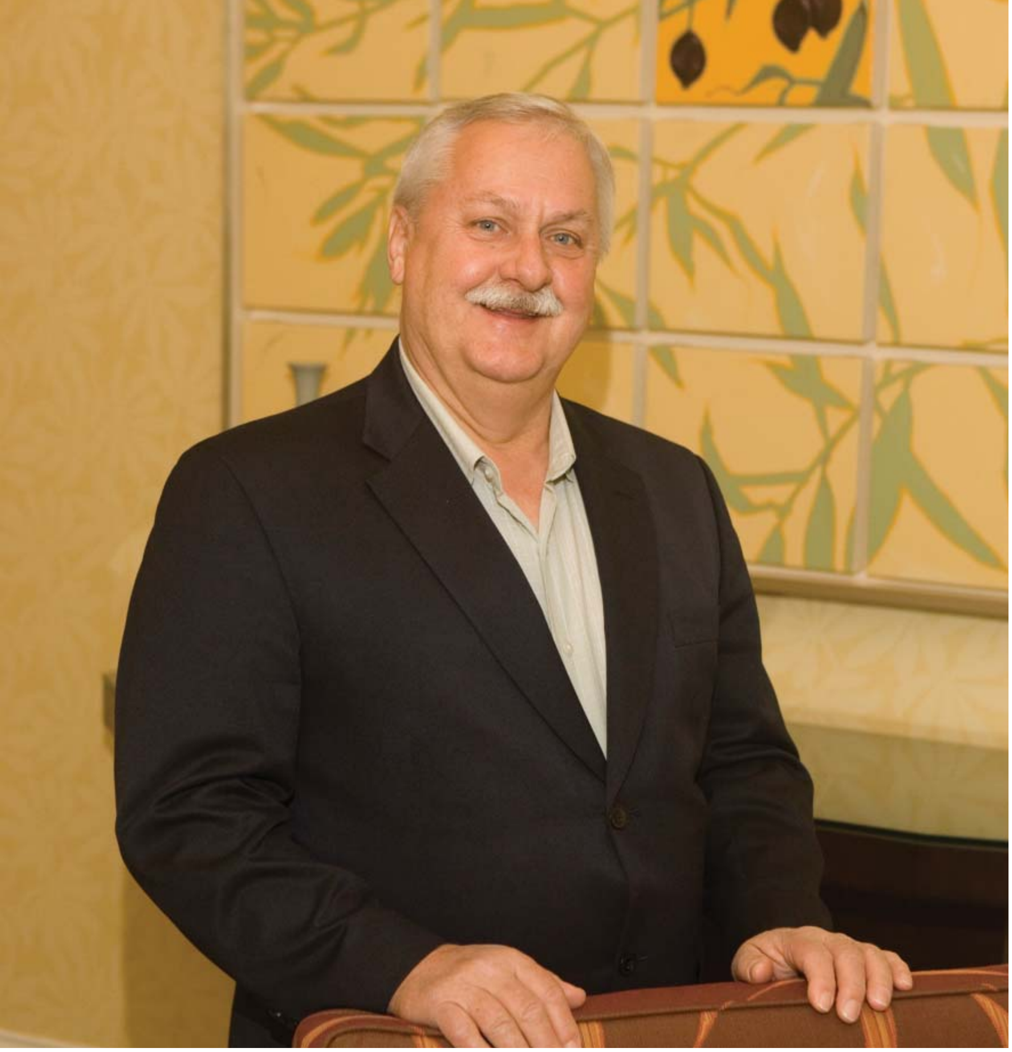
Comments from Risk Manager Representatives included:

"The EIM staff does a great job of providing focused customer service and treats their Members with the highest regard."

"EIM is an indispensable element to the industry's financial security and strength."

"EIM has done a good job of providing a stable product for the utility industry."

"EIM is a pleasure to do business with."



Our Focus
Our Members

2007 Operating Highlight

The Company had Membership retention of 98 percent. At year's end, the total number of EIM Members was 172.

Focus: Member Loyalty

As a founding Member, FirstEnergy knows the benefits of being a long-time Member.

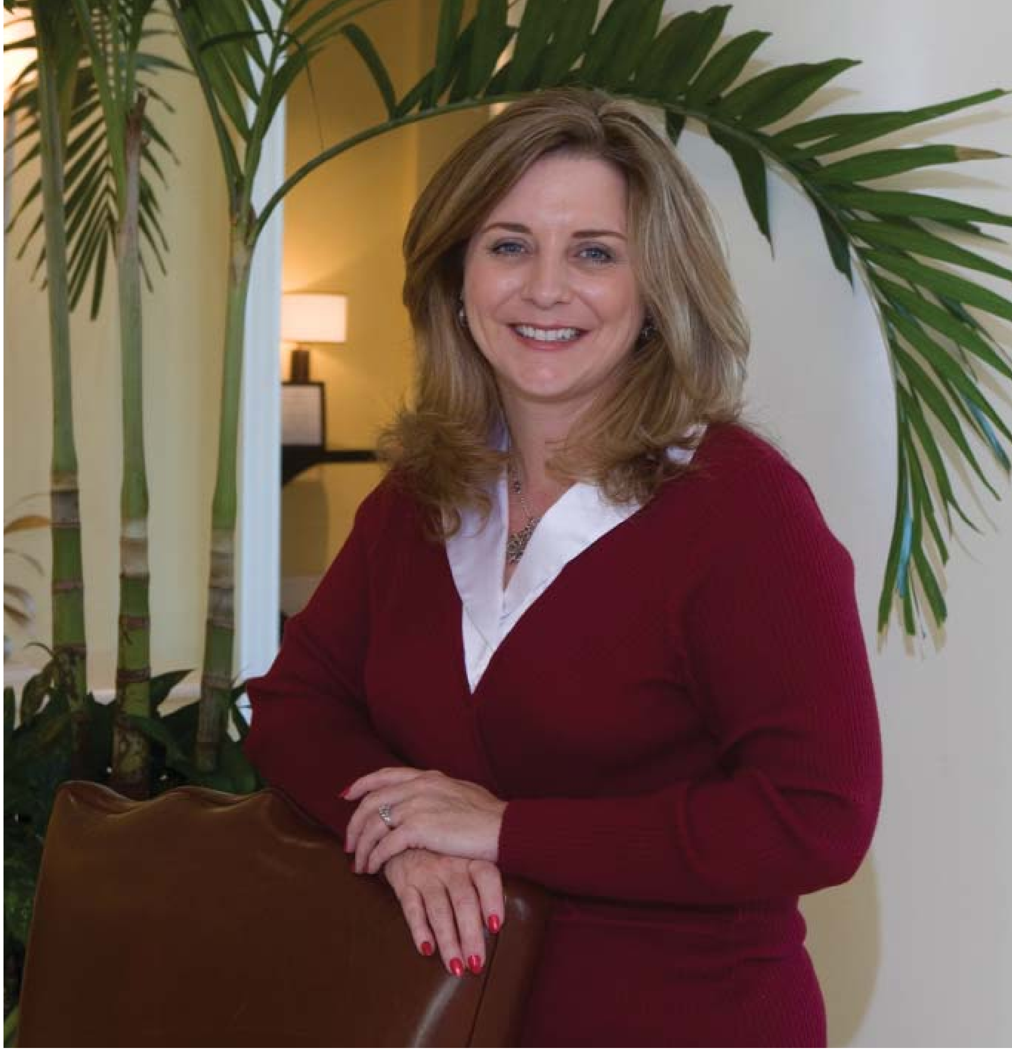
A significant benefit, maybe the most significant, is the long-term cost of risk. When the EIM Board declares a distribution of Policyholders' Surplus, the amount, although issued as a check, will in effect reduce the net amount paid for that policy year. The longer you are a Member, the larger the check. Usually, the use of the distribution will produce a lower long-term cost of risk when compared to the commercial market.

Additional benefits are the breadth and amounts of coverage offered by EIM. The Company has been a following form insurer since 1989 and has maintained that coverage through some very trying times. Historically, EIM has offered casualty limits that were unsurpassed, and even though the limits were reduced in recent years, they are still among the highest offered in the utility sector.

EIM also provides long-term value by providing captive capabilities through Energy Insurance Services and offering a block of property insurance capacity. In addition to these non-core offerings, EIM has considered other coverages such as power price protection on an excess basis. The Company also has considered other coverages that were reviewed by EIM senior management, but not pursued, due to the possible negative financial impact they may have had on EIM or the Member Companies.

Joseph E. Spencer, FirstEnergy Corp.

Our Focus
Our Members



2007 Operating Highlight

A Policyholders' Distribution of $12.5 million was declared in December, which means the Company has returned over $179.6 million to its Members since the initial Distribution in 1988.

Focus: Mutual Trust

Our industry is fortunate to have mutual insurers like Energy Insurance Mutual.

The commercial marketplace is vastly different—especially when it comes to offering services on a stable basis over a long period of time.

We are at risk of losing our historical perspective of why EIM and the other energy mutuals were formed. Many of us were not around in the hard market of the mid-80s when certain coverages were not available at any price. We must not forget the critical roles the mutual insurers played for us during that time and have continued to do so over the past 20-plus years.

Southern Company has been an insured of EIM since its inception and we use EIM as much as possible on our program. EIM provides broad-based coverage with limits and terms that have remained stable over time. The Company resists knee-jerk reactions when a coverage line is being hit with losses. Instead, EIM takes a steady, long-term approach to changes in rates or premium structure.

EIM offers its Members a highly trained, efficient staff. They know us, they know what we do, and they anticipate what we are likely to do next and how they can help in that endeavor. The relationship is one of mutual trust and respect, and that shows in our renewals and coverage terms.

Ours is a true partnership.

Deborah S. Gaffney, Southern Company Services, Inc.

Focus: Claims Handling

CMS Energy is a long-time Member of Energy Insurance Mutual. We were involved in the initial planning and start-up sessions and joined EIM on July 1, 1986. I served from 1989 to 1996 on EIM's Insurance Advisory Committee and had the opportunity to participate in some of the early recommendations regarding the Company's strategies.

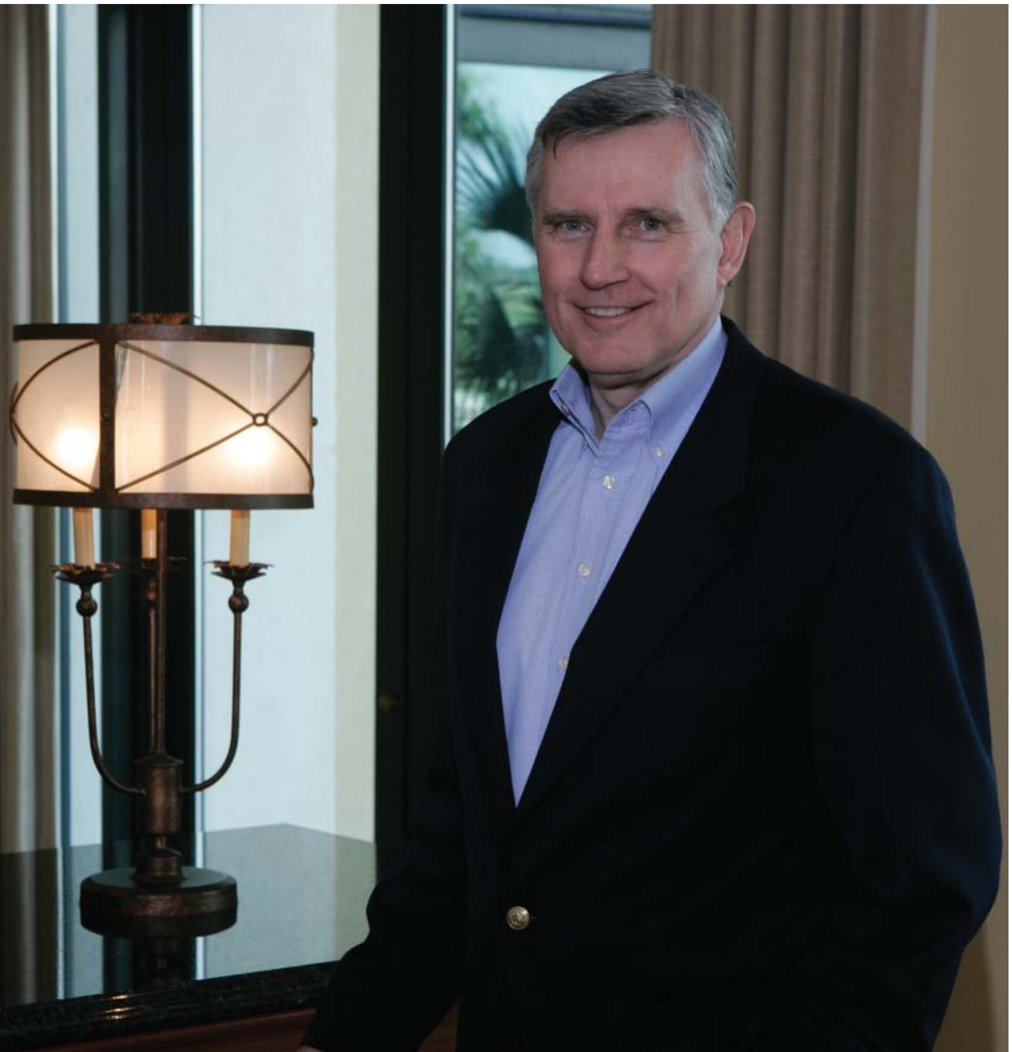
Although I never anticipated that our company would have a large claim, I understood the value of insurance coverage from an experienced energy industry mutual insurer that has strong relationships and respect for its Members.

In June 2002, CMS Energy became entangled in several post-Enron lawsuits arising out of energy-trading activities. These resulted in claims under our Excess Directors and Officers liability insurance coverage underwritten by EIM. For any risk manager that has been unfortunate enough to have been involved in a D&O claim, you know what a difficult and potentially charged experience it can be.

For those who haven't experienced a D&O claim, I tell you they are complex and prone to many areas of conflict. Our process was somewhat easier because CMS had confidence that our long-standing relationship with EIM would enable us to discuss the issues openly and with insurance professionals who wanted to resolve the claim.

We found that EIM and its claims advisors were experienced and helpful. When the time came, the claim was paid in a fair and equitable manner.

Robert E. Frounfelker, CMS Energy Corporation



2007 Operating Highlight

Almost $159.7 million were paid in claims. Another $261.4 million were established as new case reserves. Since the Company began, it has paid losses of more than $860.2 million.

Our Focus
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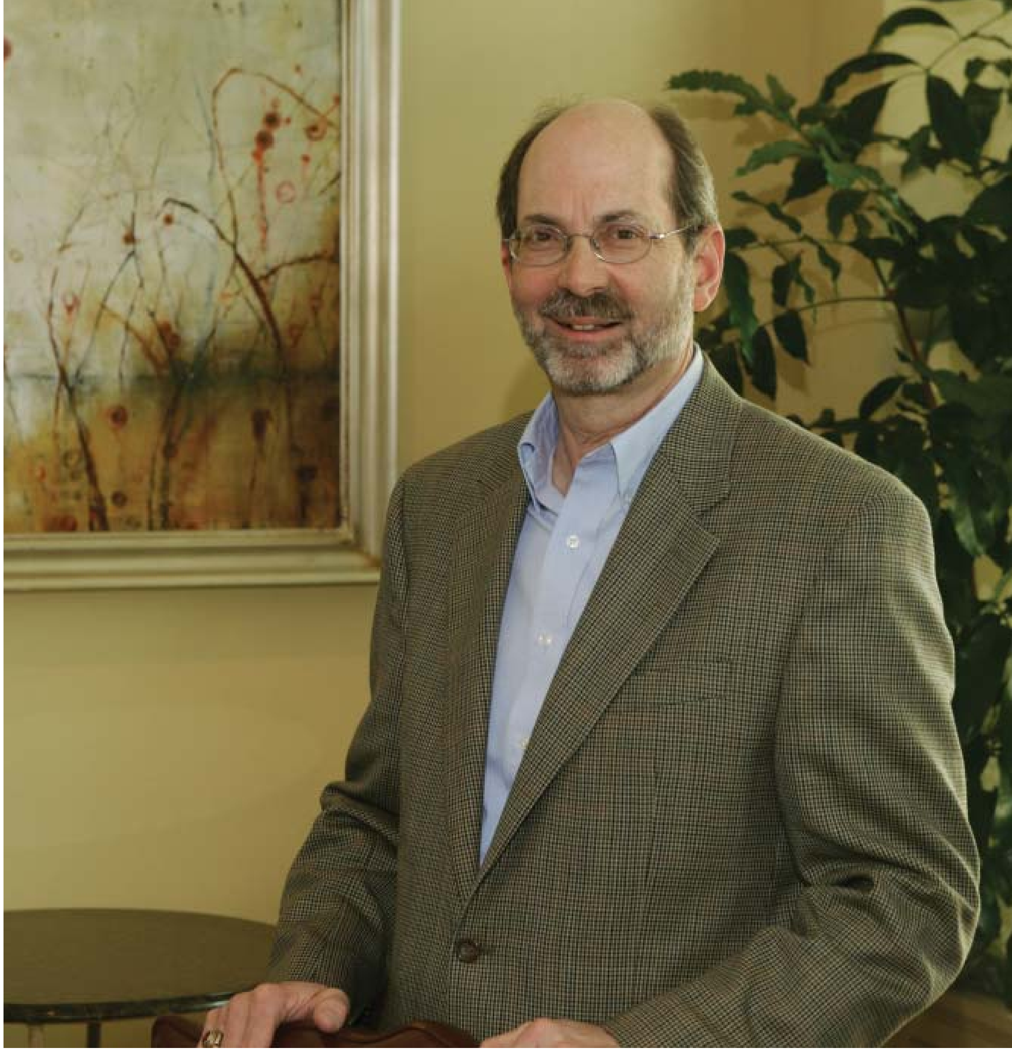


2007 Operating Highlights

Policyholders' Surplus grew by almost $31.1 million to a total Surplus at year's end of $667.1 million.

The Company's invested assets were $1,242.3 million at year's end, up from the prior year's $1,231.0 million, an increase of $11.3 million. The annual return on invested assets was 6.5 percent.

Focus: Property Insurance

Over that past three years, Xcel Energy has been engaged in several large construction projects that have required substantial property insurance capacity.

We have placed a master property insurance program structured on a quota-share basis since June of 2000. Also, we have placed six individual builder's risk programs.

We currently utilize three general market segments in these programs: industry mutuals, domestic insurers, and European insurers. We attempt to use the same panel of underwriters on the builder's risk projects that we use on the master program.

Since Xcel Energy's master property insurance program began, we have been able to grow the industry mutuals' participation from less than 20 percent to nearly 50 percent.

Also, our mutuals have provided significant capacity on the builder's risk programs.

Energy Insurance Mutual has been an important component of our master property insurance program since 2003. Since June 2005, EIM has provided $20 million of capacity. Although this represents only 2 percent of the limits placed, it is an important part of the program because it demonstrates a commitment to our industry.

EIM's role also has been to serve as a fronting insurer with respect to coverage provided by Nuclear Electric Insurance Limited (NEIL). This has been a significant service to us by streamlining the administrative features associated with NEIL's capacity.

I envision when we will be able to purchase all of our property insurance from our industry mutuals.

Michael R. Anderson, Xcel Energy Inc.

Focus: Energy Insurance Services

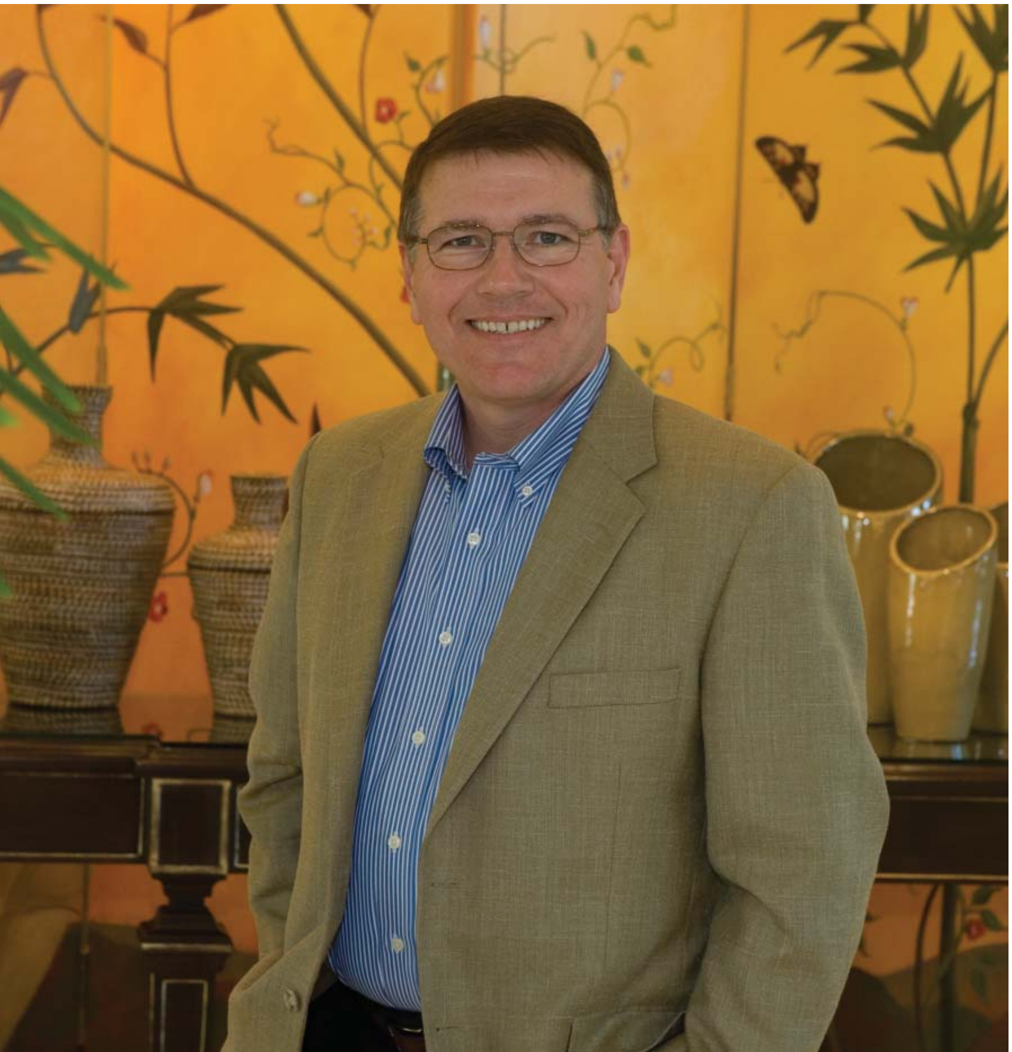
American Electric Power has engaged a non-owned captive facility since the early 1980s. These early facilities were used originally to place excess workers' compensation insurance. In the early 1990s, AEP was instrumental in the development and early governance of Energy Insurance Bermuda. We formally began our insurance relationship with Mutual Business Program No. 03 in early 1993.

In 2001, AEP reached a new pinnacle in its utilization of EIB. Our cell became a very transaction-orientated facility based on a transfer of public liability risk. Our claim processes and movement of cash for claims on a weekly basis and demand for monthly financial reporting taxed the captive management firm in place at that time. EIM listened to our concerns and responded.

Today, AEP continues to syndicate a wide array of insurance risks within Energy Insurance Services. We take advantage of our geographic and business diversity across 11 operating companies with exposures in 12 states. The variety of risks written within the MBP include: property, excess property, deductible reimbursement for public liability, excess liability, excess workers' compensation, professional liability, and marine hull.

Having EIS as a risk management tool to finance risk through insurance and reinsurance provides AEP a tremendously flexible alternative. And the move to South Carolina from Bermuda has enhanced greatly the delivery of professional services.

Randall L. Martin, American Electric Power



2007 Operating Highlight

A.M. Best, the only rating agency used by EIM, confirmed that the 2008 rating remains "A" Excellent with a stable outlook.

Our Focus
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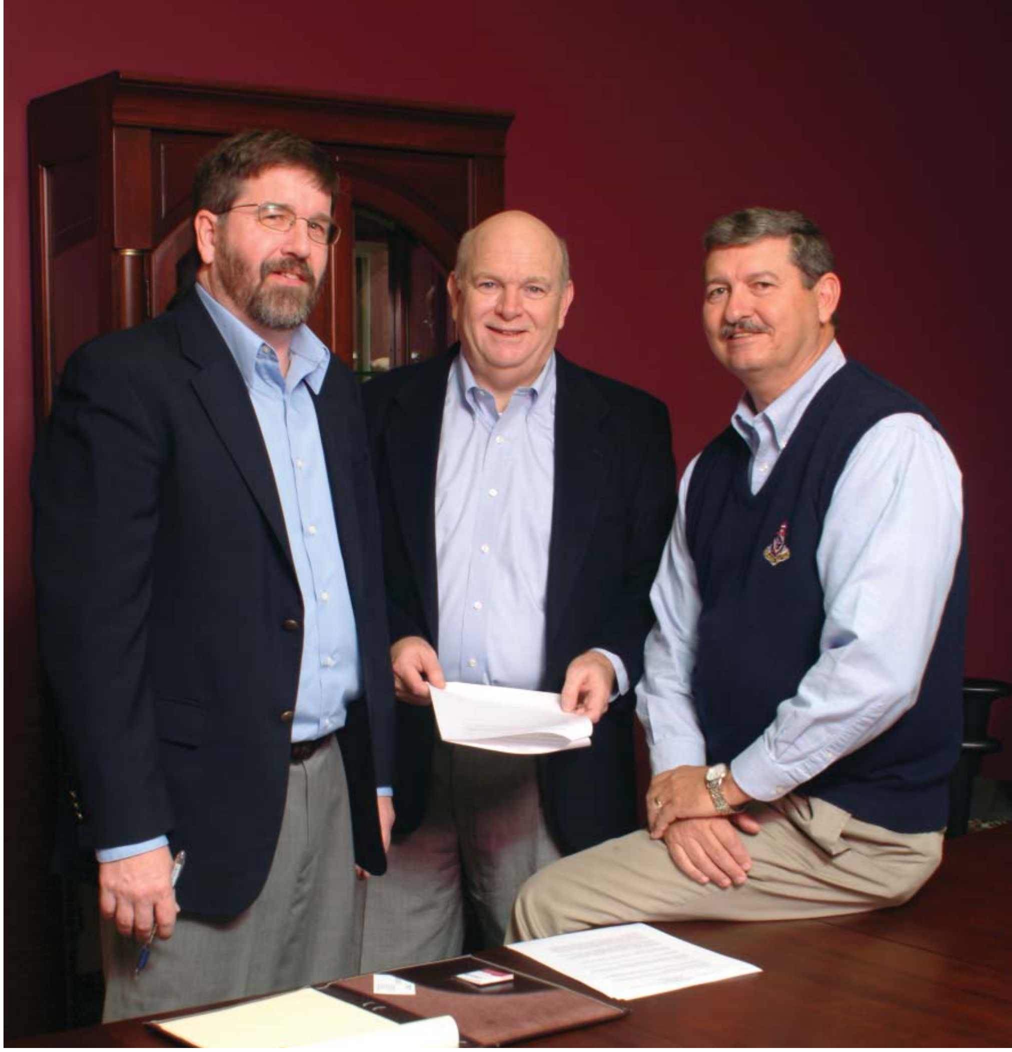


The upper right-hand photograph shows David Abstance of SCANA, an EIS policyholder, meeting in Greenville with Tobias Burke, left, of USA Risk, and Rob Schmid, center, of EIS.

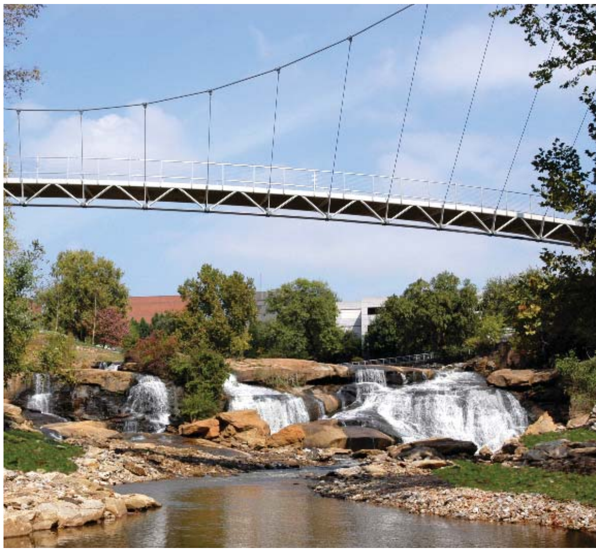
The other photographs on this page and the one that follows are scenes of Greenville, SC, home of EIS.

Energy Insurance Services

After redomesticating in December 2006, Energy Insurance Services' most important goals for the first year of operation were simple—and numbered only two: improve the level of service and respond satisfactorily to a new regulatory environment in South Carolina. While these goals were met, they will be on-going as we strive to grow the Company.

Other accomplishments in 2007 included:

- EIS has expanded the information that most Participants receive at the close of a financial period. Expanded balances make the financial statements more meaningful and useful to the Members' accounting teams.
- Many of the larger Mutual Business Programs now have read-only access to their bank accounts. For the more active Programs, whenever a claim is paid or premium is received, or any other debit or credit activity within a bank account takes place, the Program is immediately notified of the transaction's completion.
- There was a significant increase in both the frequency of contacts and the quality of the dialogue among Participants, their advisors, major carriers, and the EIS insurance management firm, USA Risk Group. EIS' operating experience in South Carolina has been exceptional.



This past year, EIS wrote new or enhanced insurance contracts for several Programs. Two examples are significant expansions in Property lines that included comprehensive Builder's Risk policies and innovative new policy designs incorporating parametric modeling for Transmission and Distribution Lines policies in hurricane-prone areas. Also, as a domestic insurer, EIS now offers Terrorism Risk Insurance to all qualifying Programs.

The South Carolina Legislature passed Senate Bill 589 in 2007. This law provides the state's insurance department the flexibility to recognize premier world-wide reinsurance providers in this domicile. Management anticipates the law being helpful to a number of our Participants.

The year was not without challenges. As a result of the Company's being a subsidiary of EIM, the Internal Revenue Service notified EIS that tax years 2003 and 2004 for Energy Insurance Bermuda would be opened for review. Providing responses to IRS inquiries was a significant drain on resources.

In 2008, a Members-only web portal will give all Participants the option of digital access to their documents in a secure environment. As time allows, EIS will offer Participants an opportunity to expand financial reporting to include underwriting history by line of coverage.

A new director of insurance, Scott Richardson, was appointed in early 2007. Mr. Richardson, an insurance executive, had a distinguished career in the South Carolina Legislature. His commitment to and understanding of the captive industry is significant. The director and several members of his team briefly attended the EIS annual meeting in Charleston in October.

One final area of continued improvement relates to the EIS sponsorship of annual meetings for its Members. The 2008 meetings will be in Greenville during the week of October 13. Each Mutual Business Program will be invited to hold its annual meeting during that week. Also, the South Carolina meeting provides an excellent opportunity for Program managers to meet with EIS auditors, attorneys, and other service providers.

Energy Insurance Services is available to EIM Members for solving a host of risk management needs.

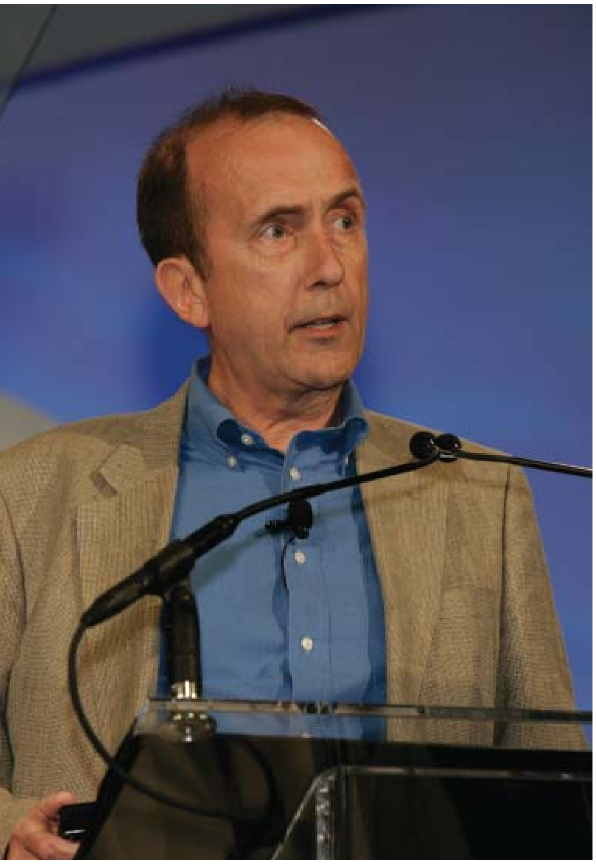
USA Risk Group
501 River Street, 1st Floor
Greenville, SC 29601

Telephone: 800-872-7475, ext. 2268

Facsimile: 802-371-2266

Contact: Tobias Burke
tburke@vim.usarisk.com

Contact: Rob Schmid
rschmid@eimltd.com
864-527-5908



Our Focus
Our Members

CEO's Review of the Year 2007

In 2007 we:

- Paid claims of over $159.6 million
- Established new and increased case reserves of over $261.4 million

Our Financials yielded:

- Gross written premiums of $199.6 million
- Net investment income of $44.4 million
- Net income of $13.1 million
- Increase in unrealized appreciation of investments of $27.5 million

all of which resulted in our ending the year with Surplus of over $667.1 million, representing an increase from 2006 of $31.1 million, or slightly over 4.8 percent.

I was delighted that we were able to declare a $12.5-million distribution of Policyholders' Surplus for 2007, and we remain as optimistic as we can be that the distributions in 2005, 2006, and 2007 are simply the start of what will become a regular and growing occurrence. Over the life of EIM, we have returned over $179.6 million to our Members.

Our subsidiary company, Energy Insurance Services (EIS), enjoyed its first full year in South Carolina having moved from Bermuda and commenced business there on December 1, 2006. All the signs are that this was, without question, the right decision and those who utilize the services of EIS have indicated that the responsiveness and service they are now receiving from our manager, USA Risk Group, is what they would expect from an EIM company.

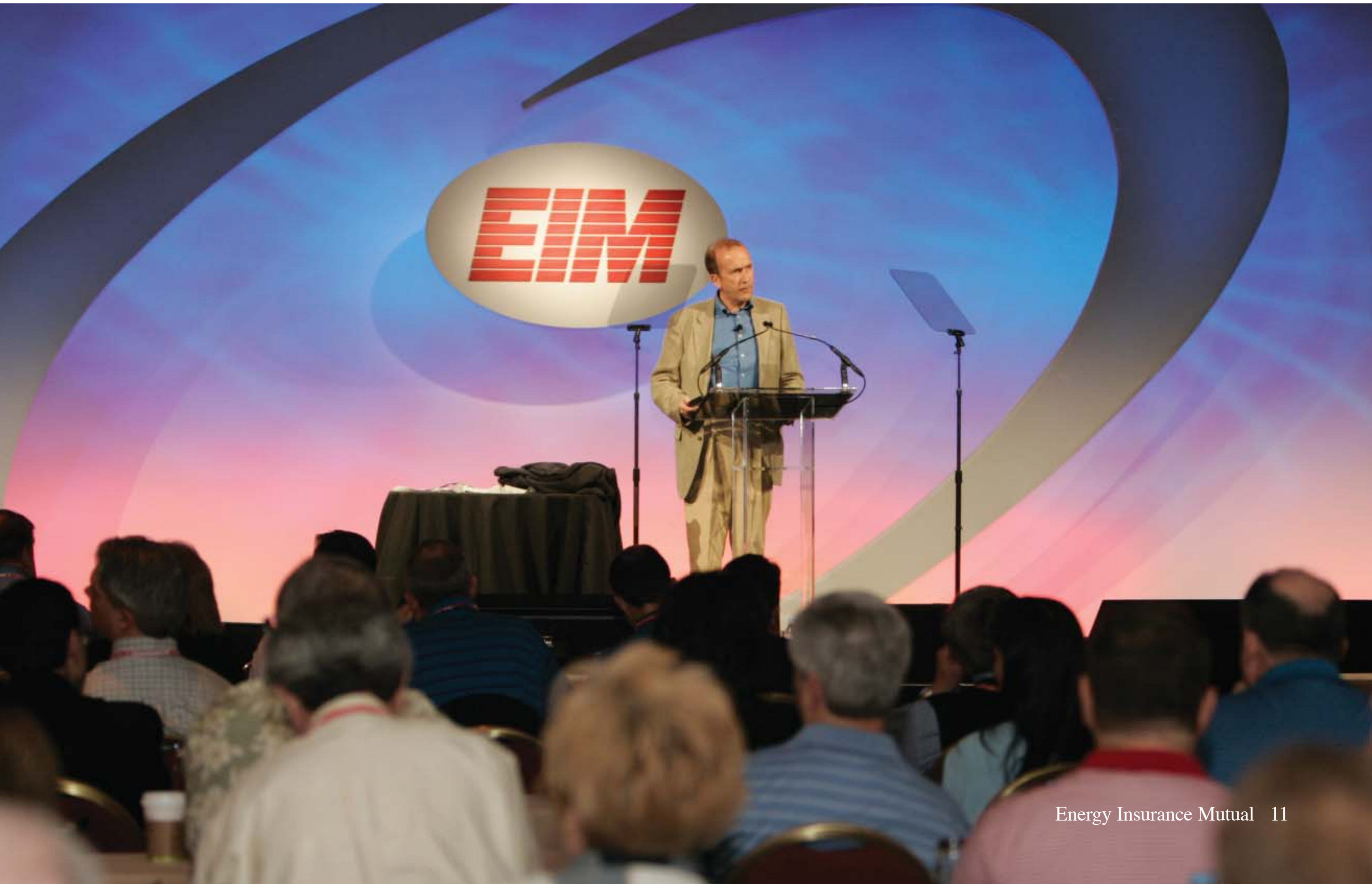
During 2007, we continued to settle Directors and Officers and Fiduciary Liability claims arising from the 2002 and 2003 policy years. We also appear to have reverted to some level of normalcy in that we now find ourselves setting reserves on General Liability losses. Having said that, the frequency of these losses does seem to be increasing. From 1986 to 2003, we had six General Liability losses which impacted EIM and since 2004 we have had four.

The market within which we operate is consistently predictable. Although we are seeing a relative degree of stability on our General Liability book of business, we are continuing to see downward pressure on rates on our Directors and Officers Liability, Fiduciary Liability, and Property books of business. Having a somewhat jaundiced view of the insurance industry, it always amuses me when I read articles in which CEOs or other senior executives from major insurers talk about the importance of maintaining underwriting discipline. That discipline lasts until the moment that they start seeing premium income fall. Success and turning a profit are obvious embarrassments which have to be turned into failure and making a loss just as quickly as possible.

In this Annual Report, there are comments from five of our Members who utilize all of the products that we offer. They buy General Liability, Directors and Officers Liability or General Partner Liability, Fiduciary Liability, and Property policies from us and also utilize the services of Energy Insurance Services in Greenville, South Carolina.

In our Strategic Planning and Insurance Advisory Committee meetings, as well as internal discussions, we often find ourselves talking about potential areas for growth. We have never strayed far from our founding Member makeup which I believe was the correct decision and also reflects the will of the Membership. Having said that, we do have 171 conventional Members and it is interesting to note that:

- 169 Members buy General Liability coverage and only 82 or 48.52 percent purchase the maximum limit available
- 95 Members buy Directors and Officers/General Partner Liability coverage and only 41 or 43.16 percent purchase the maximum limit available



- 45 Members purchase Fiduciary Liability coverage and 35 or 77.78 percent purchase the maximum limit available
- 61 Members purchase Property coverage and only five or 8.20 percent purchase the maximum limit available
- 17 Members are involved with Energy Insurance Services.

I fully appreciate there could well be situations where Members simply do not purchase that much coverage or where we are unwilling to commit our full limits. We would, however, seem to have 76 Members for whom we might be able to provide Directors and Officers/General Partner Liability, 126 Members for whom we might be able to provide Fiduciary Liability coverage, and 110 Members for whom we might be able to provide Property coverage. Add to that the fact that our maximum limits are not purchased by the majority of Members for each class of business (other than Fiduciary Liability) gives us ample room for organic growth within our existing Membership.

Our Insurance Advisory Committee saw some changes during 2007 when we welcomed Gary Little, manager-corporate insurance of Progress Energy, Inc., and Julie Jackson, director, risk management and insurance of Targa Resources Investments, Inc., to the committee.

The only change to our Board in 2007 was that Holly Koeppel, executive vice president and chief financial officer of American Electric Power Service Corporation, was appointed to the Board. Although Kim Greene left the Southern Company, she did so to join the Tennessee Valley Authority, which is also an EIM Member, and so we are delighted that Kim will be continuing as a member of our Board.

I would like to offer my thanks to both the IAC and the Board for their continuing guidance and support.

With a Member retention rate of 98 percent, I would like to thank our Members for their continued loyalty to EIM during 2007.

The staff of EIM has kept us on an even keel during 2007, a year in which we have made substantial claims payments, had significant case reserves established, continued with our distributions, and seen our Surplus grow.

We look forward to working with you in the months ahead.

David L. Hadler
President and Chief Executive Officer

April 1, 2008

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Our Members

EIM Products

General Liability

EIM's Excess General Liability policy is written specifically to cover a Member's liability for bodily injury, property damage, and personal injury to third parties that may arise out of the Member's operations, including:

- Premises and operations hazards (world-wide)
- Automobile
- Products and completed operations
- Failure to supply
- Pollution
- Joint ventures

The EIM Excess General Liability policy is a following form policy that is written on a claims-made basis. In addition to the general coverages outlined above, the EGL policy can be endorsed to cover:

- Excess Employment Practices Liability
- Excess Professional Liability (subject to a $65-million sub limit)
- Excess Worker's Compensation and Employer's Liability coverage

Often, policies underlying EIM place an annual aggregate on their limits. EIM's policy can be endorsed to drop down over eroded or exhausted aggregates in the underlying policies.

EIM offers capacity of up to $100 million excess of at least $35 million in underlying coverage.

D&O

The lack of Excess Directors and Officers Liability capacity was the very reason EIM was formed in mid-1986. There is no lack of capacity in the current market; it is simply a question of form and price.

In today's litigious society, Excess Directors and Officers Liability insurance is a critical coverage. Without such protection, many individual directors and officers would be unwilling to sit on corporate boards.

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EIM Products

Energy Insurance Mutual

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3000 Bayport Drive
Tampa, Florida 33607-8418

Telephone: 813-287-2117
800-446-2270

Facsimile: 813-874-2523

E-mail: David Hadler
dhadler@eimltd.com

Jill Dominguez
jdominguez@eimltd.com

Go to: www.eimltd.com

Up to $50 million in D&O limits can be offered, which places EIM among the top capacity providers of this type of coverage to utilities and the energy services industry.

The policy is written on a claims-made basis. The minimum attachment point EIM will consider is $35 million. The EIM policy is a following form policy, which in the majority of cases follows the AEGIS form. As such, the EIM policy can include an affirmative grant on nuclear coverage, no pollution exclusion, and optional entity coverage that can cover corporate entity securities claims. Excess General Partner Liability policies also are available.

Fiduciary

EIM's excess Fiduciary Liability policy offers coverage protection for Members in cases of claims being brought for breaches of fiduciary duty, such as: funding issues in a defined benefit plan, changes in participant's benefits, cash benefit plan conversions, and administrative errors and omissions.

EIM continues to provide its Members $25 million of Excess Fiduciary coverage capacity, which can attach above a minimum of $35 million underlying coverage.

Property

EIM's property facility was established in 2001 as a direct response to the requests of Members that were in need of capacity. The Company initially targeted Member's main programs. However, new treaty arrangements now enable EIM to write Builder's Risk coverage of up to 60 months as well. Current capacity is $35 million, up considerably from the original $5 million. Coverage is written on a quota share basis and can be provided on a primary and/or excess basis.

EIM continues to have its greatest success as a result of Members directing their brokers to involve EIM in their placements.

Also, EIM continues to have a healthy and dynamic relationship with Nuclear Electric Insurance Limited (NEIL).

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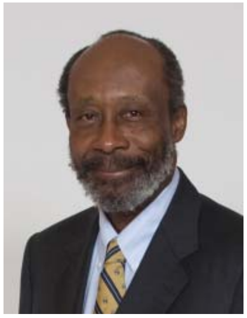
EIM Board of Directors



***Trevor A. Carmichael**, Barrister at Law, Chancery Chambers, Bridgetown, Barbados*

***Mark S. Dodson**, Chief Executive Officer, Northwest Natural Gas, Portland, Oregon*

***Kimberly S. Greene**, Executive Vice President and Chief Financial Officer, Tennessee Valley Authority, Knoxville, Tennessee*

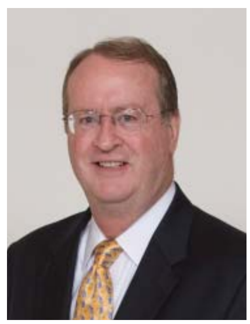


***David L. Hadler**, President and Chief Executive Officer, Energy Insurance Mutual, Tampa, Florida*

***James R. Hatfield**, Senior Vice President and Chief Financial Officer, OGE Energy Corp., Oklahoma City, Oklahoma*

***Holly Keller Koeppel**, Executive Vice President and Chief Financial Officer, American Electric Power, Columbus, Ohio*



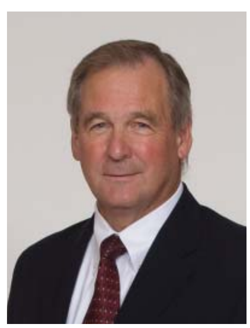


***Allen L. Leverett**, Executive Vice President and Chief Financial Officer, Wisconsin Energy Corporation, Milwaukee, Wisconsin*

***Richard H. Marsh**, Senior Vice President and Chief Financial Officer, FirstEnergy Corp., Akron, Ohio*

***J. Barry Mitchell**, President and Chief Operating Officer, ComEd, Chicago, Illinois*

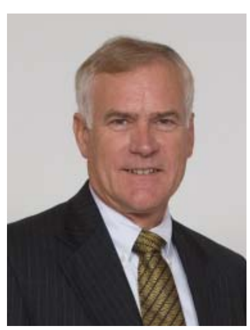




***Michael W. O'Donnell**, Executive Vice President and Chief Financial Officer, NiSource Inc., Merrillville, Indiana*

***Dudley C. Reynolds**, President and Chief Operating Officer, Alabama Gas Corporation, Birmingham, Alabama*

***Charles W. Shivery**, Chairman, President, and Chief Executive Officer, Northeast Utilities, Berlin, Connecticut*



***Bruce R. Worthington**, Senior Vice President and General Counsel, PG&E Corporation, retired, San Francisco, California*

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Board Committees

Audit Committee

James R. Hatfield (chairman), Charles W. Shivery (vice chairman)

Kimberly S. Greene, Holly K. Koeppel, Allen L. Leverett,

Michael W. O'Donnell, Dudley C. Reynolds

Claims Committee

Bruce R. Worthington (chairman), Mark S. Dodson (vice chairman)

David L. Hadler, J. Barry Mitchell. Dudley C. Reynolds

Executive Committee

Charles W. Shivery (chairman), James R. Hatfield (vice chairman)

Mark S. Dodson , David L. Hadler, Bruce R. Worthington

Insurance Advisory Committee

George Schuitema (chairman), Deborah S. Gaffney (vice chairman)

Robert W. Dillard, Jack R. Hadsall, Sandra K. Hart, Julie R. Jackson,

Gary Y. Little, John E. Luley, Randall L. Martin, Robert J. Semet

Investment Committee

J. Barry Mitchell (chairman), James R. Hatfield (vice chairman)

Mark S. Dodson, Allen L. Leverett, Richard H. Marsh

Nominating Committee

James R. Hatfield (chairman)

Kimberly S. Greene, Holly K. Koeppel, J. Barry Mitchell

Reinsurance Committee

Bruce R. Worthington (chairman)

David L. Hadler, Richard H. Marsh, J. Barry Mitchell

Strategic Planning Committee

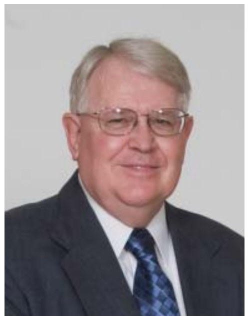
Mark S. Dodson (chairman), Charles W. Shivery (vice chairman)

David L. Hadler, Michael W. O'Donnell, J. Gary Meggs, William R. Powell,

Dudley C. Reynolds, George Schuitema

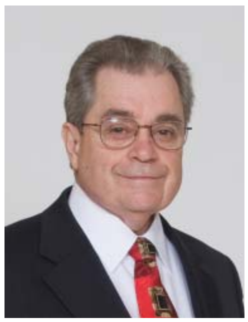
Our Focus
Our Members

Insurance Advisory Committee




***George Schuitema**, Chairman, Director, Insurance and Claims Projects, Integrys Business Support, Chicago, Illinois*

***Deborah S. Gaffney**, Vice Chairman, Risk and Insurance Manager, Southern Company Services, Atlanta, Georgia*


***Robert W. Dillard**, Vice President, Risk Management and Insurance, Knight, Inc., Houston, Texas*

***Jack R. Hadsall**, Director, Risk and Security, Management, City Utilities of Springfield, Springfield, Missouri*

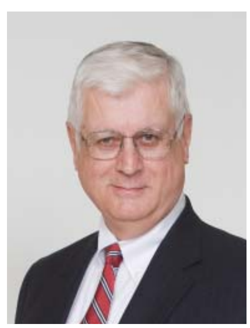
***Sandra K. Hart**, Director, Risk, Environment, and Land, Northwest Natural Gas Company, Portland, Oregon*



***Julie R. Jackson**, Director, Risk Management and Insurance, Targa Resources, Inc., Houston, Texas*

***Gary Y. Little**, Manager, Corporate Insurance, Progress Energy Service Company, LLC, Raleigh, North Carolina*

***John E. Luley**, Manager, Corporate Insurance, Pepco Holdings, Inc., Washington, D.C.*

***Randall L. Martin**, Managing Director, Risk & Insurance Management, American Electric Power, Columbus, Ohio*

***Robert J. Semet**, Insurance Director, Exelon Corporation, Philadelphia, Pennsylvania*

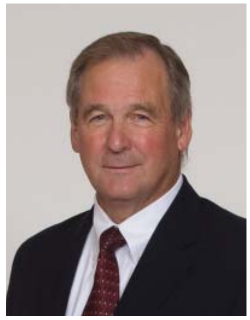
Our Focus
Our Members

EIM Officers

Charles W. Shivery
Chairman of the Board

James R. Hatfield
Vice Chairman of the Board

David L. Hadler
President and Chief Executive Officer

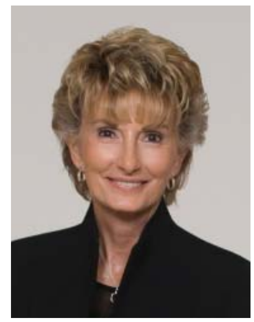


Samuel M. Garvin, Jr.
Vice President and Chief Financial Officer

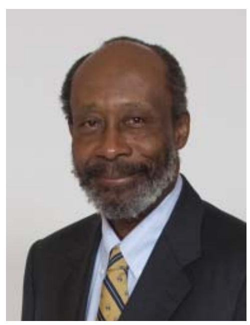
Jill Dominguez
Vice President-Underwriting

Donna Dunlap
Secretary





Trevor A. Carmichael
Assistant Secretary



Financials and Notes to the Financials

The financial statements in this Annual Report have been approved by the Board of Directors of Energy Insurance Mutual.

Charles W. Shivery
Chairman of the Board

February 25, 2008

Report of the Independent Auditors

To the Members of Energy Insurance Mutual Limited:

We have audited the accompanying balance sheets of Energy Insurance Mutual Limited (the Company) as of December 31, 2007 and the related statements of income and comprehensive income, changes in policyholders' surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2006 financial statements of Energy Insurance Mutual Limited were audited by other auditors whose report dated February 25, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Insurance Mutual Limited at December 31, 2007, and the results of its operations and its cash flows for the years then ended.

Johnson Lambert & Co. LLP

Johnson Lambert & Co. LLP
Jacksonville, Florida
February 12, 2008

Balance Sheets

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	December 31	
	2007	2006
ASSETS		
Investments, available-for-sale	**$ 1,184,674**	$ 1,187,468
Investment in subsidiary	**1,861**	1,151
Total investments	**1,186,535**	1,188,619
Cash and cash equivalents	**53,812**	56,182
Reinsurance recoverable	**404,065**	292,373
Prepaid reinsurance premiums	**42,734**	49,251
Accrued investment income	**7,011**	6,796
Fixed assets	**750**	1,030
Premiums receivable	**3,849**	3,709
Deferred policy acquisition costs	**1,138**	1,200
Federal income tax receivable	**16,531**	2,259
Prepaid expenses	**537**	382
TOTAL ASSETS	**$ 1,716,962**	$ 1,601,801
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES:		
Reserve for losses and loss adjustment expenses	**$ 844,396**	$ 750,098
Unearned premiums	**102,369**	110,435
Net deferred tax liability	**72,540**	59,760
Policyholder distribution payable	**12,500**	10,000
Reinsurance premiums payable	**9,777**	14,348
Payable for securities purchased	**3,192**	19,495
Due to subsidiary	**2,548**	–
Accounts payable and accrued expenses	**2,579**	1,674
TOTAL LIABILITIES	**1,049,901**	965,810
POLICYHOLDERS' SURPLUS		
Accumulated other comprehensive income	**173,584**	155,658
Members account balance	**493,477**	480,333
TOTAL POLICYHOLDERS' SURPLUS	**667,061**	635,991
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 1,716,962**	$ 1,601,801

See accompanying notes to the financial statements

Statements of Income and Comprehensive Income

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Year Ended December 31	
	2007	2006
REVENUES		
Premiums earned		
Direct written premiums	**$ 194,169**	$ 201,509
Assumed written premiums	**5,439**	5,615
Change in unearned premiums	**8,066**	4,808
Ceded earned premiums	**(92,135)**	(92,631)
Net premiums earned	**115,539**	119,301
Other underwriting income	**2,718**	3,676
	(2,060)	1,473
Net investment income	**44,404**	38,236
Investment income, net	**160,601**	162,686
EXPENSES		
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	**258,084**	195,285
Assumed losses and loss adjustment expenses	**(85)**	(1,820)
Ceded losses and loss adjustment expenses	**(133,934)**	(94,152)
	124,065	99,313
Other underwriting expenses	**1,856**	2,093
Administrative expenses	**9,961**	8,549
Total expenses	**135,882**	109,955
Income before policyholders' distribution and income taxes	**24,719**	52,731
Policyholders' distribution	**(12,500)**	(10,000)
Income before income taxes	**12,219**	42,731
Federal income tax (benefit) expense		
Current	**(4,053)**	6,952
Deferred	**3,128**	2,694
	(925)	9,646
NET INCOME	**$ 13,144**	$ 33,085
COMPREHENSIVE INCOME		
Net income	**$ 13,144**	$ 33,085
Net unrealized gains on available-for-sale securities, net of income taxes of $8,931 and $30,330, respectively	**16,587**	56,326
Less: reclassification adjustment for net gains (losses) realized in net income, net of income taxes of $(721) and $516, respectively	**1,339**	(957)
Other comprehensive income, net of tax	**17,926**	55,369
Comprehensive income	**$ 31,070**	$ 88,454

See accompanying notes to the financial statements

Statements of Changes in Policyholders' Surplus

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income	Policyholders' Surplus	Total Policyholders' Surplus
Balance at December 31, 2005	$ 447,248	$ 100,289	$ 547,537
Change in net unrealized gain on securities available for sale, net of tax	–	55,369	55,369
Net income	33,085	–	33,085
Balance at December 31, 2006	480,333	155,658	635,991
Change in net unrealized gain on securities available for sale, net of tax	–	**17,926**	**17,926**
Net income	**13,144**	**–**	**13,144**
Balance at December 31, 2007	**$ 493,477**	**$ 173,584**	**$ 667,061**

See accompanying notes to the financial statements

Statements of Cash Flows

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Year Ended December 31	
	2007	2006
OPERATING ACTIVITIES		
Net income	**$ 13,144**	$ 33,085
Cash flows from operating activities:		
Depreciation and amortization	**310**	295
Gain from disposals of property and equipment	**–**	(3)
Net realized investment loss (gain)	**2,060**	(1,473)
Deferred income taxes	**3,128**	2,694
Equity in (gain) loss of subsidiary	**(710)**	83
Changes in operating assets and liabilities:		
Reinsurance recoverable	**(111,692)**	(58,900)
Prepaid reinsurance premiums	**6,517**	(1,639)
Accrued investment income	**(215)**	(1,018)
Premiums receivable	**(140)**	(2,082)
Deferred policy acquisition costs	**62**	267
Federal income tax receivable	**(14,272)**	(2,259)
Prepaid expenses	**(155)**	(49)
Reserve for losses and loss adjustment expenses	**94,298**	83,615
Unearned premiums	**(8,066)**	(4,808)
Reinsurance premiums payable	**(4,571)**	(16,415)
Policyholder distribution payable	**2,500**	–
Accounts payable and other accrued expenses	**3,452**	(587)
NET CASH FROM OPERATIONS	**(14,350)**	30,806
Cash flows from investing activities:		
Cost of investments purchased	**(522,667)**	(395,714)
Proceeds from sales of investments	**527,909**	322,258
Proceeds from maturities of investments	**23,071**	9,390
Change in payable from purchase of investments	**(16,303)**	16,358
Purchases of fixed assets	**(30)**	(108)
NET CASH FROM INVESTING	**11,980**	(47,816)
Net change in cash and cash equivalents	**(2,370)**	(17,010)
Cash and cash equivalents at beginning of year	**56,182**	73,192
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 53,812**	$ 56,182
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	**$ 10,140**	$ 9,690

See accompanying notes to the financial statements

Notes to Financial Statements

Note A - Organization and Significant Accounting Policies

Organization

Energy Insurance Mutual Limited (the "Company", or "EIM") was incorporated under the Companies Act of Barbados on June 13, 1986. It obtained a license to engage in exempt insurance business, in accordance with the provisions of the Exempt Insurance Act of Barbados, 1983. On August 12, 2003, it applied for, and was granted a license to operate as a Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados.

The Company is a mutual insurance company, and membership is available to any utility or member of the energy services industry that meets EIM's underwriting standards. The Company provides excess general liability, excess fiduciary liability and excess directors and officers liability policies written on a claims first made basis. In addition, to a lesser extent, the Company writes property insurance for its members.

Basis of Reporting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Subsidiary

The Company is the sponsor and 100% common stockholder of Energy Insurance Services, Inc. (“EIS”), a sponsored cell captive insurance company domiciled in South Carolina. Prior to redomesticating to South Carolina on December 1, 2006, EIS was domiciled as a Bermuda cell insurer, and was known as Energy Insurance Bermuda, Ltd. The redomestication did not result in any significant change in EIS’ operations or financial statements.

As a sponsored captive, EIS allows EIM members, known as Mutual Business Programs (“MBP”), to insure or reinsure the risks of their sponsoring organizations, including property, general and environmental liability, asbestos, workers’ compensation and retiree medical stop loss. Through Participation Agreements with the MBP’s, the insurance risks underwritten by the MBP’s are contractually limited to the funds available in the individual cell’s account. Likewise, EIS has no right to the capital and accumulated profits of the MBP cells.

The Company accounts for its investment in EIS using the equity method of accounting because EIM is not the primary beneficiary in accordance with FIN 46 (R).

As of December 31, 2007, EIS has assets (exclusive of assets held in mutual business programs) of approximately \$2.2 million, shareholder's equity of \$1.9 million and a net gain of approximately \$580,000. Additionally, EIM contributed additional capital of \$130,000 to EIS during 2007. As of December 31, 2006, EIS has assets (exclusive of assets held in mutual business programs) of approximately \$1.7 million, shareholder's equity of \$1.2 million and a net loss of approximately \$83,000.

Notes to Financial Statements

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2007 and 2006, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2007 and 2006, premiums earned includes $97,723 and $59,175 of premium assumed from EIS.

Investments

Management determines the appropriate classification of fixed-maturity and equity securities at the time of purchase. The Company's policy is to hold securities for investment purposes and, as such, has reported all securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of policyholders' surplus. Interest and dividends on securities classified as available-for-sale are included in investment income. Realized gains and losses and declines in value judged to be other than temporary are included in income. The cost of securities sold is based on the average cost method.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purpose of presentation in the Company's statements of cash flows, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance. Management does not believe these balances represent a significant credit risk to the Company.

Losses and Loss Adjustment Expense Reserves

The losses and loss adjustment expenses reserve represents the estimated ultimate gross cost of all reported and unreported losses incurred through December 31. Since the Company provides principally high level excess of loss coverage to its members, it is exposed to high value but infrequent claims. Therefore, standard actuarial methods, such as paid loss development, are inappropriate to use. Losses are determined based on projecting average loss and expected number of claims after reviewing historical known losses and claim counts and understanding how exposures to loss have changed over policy periods. Aggregate expected losses are derived based on these estimates and theoretical size of loss distribution.

Case reserves have been established on the notification of potential loss events for specific insurance policies. Case reserves are continually reviewed and updated. However, given the uncertainty regarding the extent of the Company's ultimate liability, a significant additional liability could develop. Although considerable variability is inherent in such estimates, particularly due to the limited number of claims to date, management believes that the reserve for losses and loss adjustment expenses is adequate.

These estimates are periodically reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Notes to Financial Statements

Premiums

Premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. In addition, the Company may assume reinsurance premiums from ceding companies from whom a ceding commission or fee may be expensed. Assumed reinsurance premiums are earned on the same basis as described above.

Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from large claims, catastrophes or other events by reinsuring certain levels of risk in various areas of exposure with other insurance companies. Reinsurance premiums, loss reimbursement and reserves related to reinsurance business are accounted for on a basis consistent with that used in accounting for the original policies or claims.

Reinsurance agreements may provide for the Company to earn a ceding commission on ceded premiums. Ceding commissions represent a recovery of acquisition costs, and are recorded as a reduction to other underwriting expenses as earned.

Deferred Policy Acquisition Costs

Commissions and other costs of acquiring insurance that vary with, and are directly related to, the production of new and renewal business are deferred and amortized over the life of the policy to which they relate. These costs are deferred, net of related ceding commissions, to the extent recoverable, and are amortized over the period during which the related premiums are earned.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Policyholder Distribution

As a mutual insurer, EIM is owned by its policyholders. Policyholder distributions are charged to income when declared by the Board of Directors.

Reclassifications

Certain balances in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

Notes to Financial Statements

Note B - Insurance Activity

Premium activity for 2007 and 2006 is summarized as follows *(in thousands)*:

2007	Direct	Assumed	Ceded	Net
Premiums written	$ 194,169	$ 5,439	$ (86,408)	$ 113,200
Change in unearned premiums	8,066	-	(5,727)	2,339
Premiums earned	$ 202,235	$ 5,439	$ (92,135)	$ 115,539

2006	Direct	Assumed	Ceded	Net
Premiums written	$ 201,509	$ 5,615	$ (89,482)	$ 117,642
Change in unearned premiums	4,808	-	(3,149)	1,659
Premiums earned	$ 206,317	$ 5,615	$ (92,631)	$ 119,301

Activity in the liability for losses and loss adjustment expenses is summarized as follows *(in thousands)*:

	2007	2006
Gross balance, beginning of year	**$ 750,098**	$ 666,483
Less: reinsurance recoverables on paid and unpaid losses	**(292,373)**	(233,473)
Net balance, beginning of year	**457,725**	433,010
Incurred related to:		
Current year	**119,711**	72,808
Prior years	**1,745**	28,512
Change in related tail coverage	**2,609**	(2,007)
Total incurred	**124,065**	99,313
Paid related to:		
Current year	**909**	639
Prior years	**140,550**	73,959
Total paid	**141,459**	74,598
Net balance, end of year	**440,331**	457,725
Plus: reinsurance recoverables on paid and unpaid losses	**404,065**	292,373
Gross balance, end of year	**$ 844,396**	$ 750,098

Notes to Financial Statements

The foregoing reconciliation shows that an increase of approximately $1,745,000 in the accident year 2006 reserve and prior and an increase of approximately $28,512,000 in accident year 2005 and prior reserve emerged during 2007 and 2006, respectively. Reserve development results principally from developments related to claims for which case reserves were increased to reflect new information or events that came to light in that year. The increase arose principally in respect of the 2002 and 2003 accident years in which certain claim reserves were adjusted to levels, which in some cases were beyond the reinsurance cover available. In both years, the level of incurred but not reported reserves was reduced principally as a result of the maturing, without further notification of losses, of many underwriting years and a less severe notification of new losses than had transpired in the prior financial year.

Additionally, an increase in tail coverage of approximately $2,609,000 and a decrease of approximately $2,007,000 emerged during 2007 and 2006, respectively. The decrease in 2006 is due to positive development related to unreported loss reserves as a result of a reduction in the actuary's assessment of the projected severity for contracts subject to tail coverage. The projected severity assumption increased in 2006.

The Company has carried reinsurance since 1986. In 2007 and 2006, the Company purchased excess of loss coverage, which protects the Company from adverse frequency of losses, on the directors and officers, general partner, general liability and fiduciary liability book of business. After certain deductible or retentions have been satisfied, the maximum amount that could be recoverable under the reinsurance treaty is $250,000,000 in respect of general liability and $81,100,000 in respect of directors and officers, general partner and fiduciary liability.

On May 1, 2003 the Company entered into a reinsurance arrangement with Nuclear Electric Insurance Limited ("NEIL") whereby NEIL provides excess of loss reinsurance on the directors and officers and general partner book of business for 80% of $20,000,000 excess of $30,000,000.

The property book of business is primarily reinsured by Underwriters at Lloyd's, Endurance Specialty Insurance Ltd., and/or NEIL. In addition, the Company also has an arrangement with NEIL whereby its non-nuclear property book of business is fronted by EIM.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured, to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreement. The reinsurance recoverable on paid and unpaid losses is substantially due from two reinsurers comprising 33% and 25%, respectively, of the balance at December 31, 2007 and 43% and 26%, respectively, at December 31, 2006. The remaining balance comprises amounts from various reinsurers, each not exceeding 13% (2006 8%) of the total.

Management periodically reviews the financial condition of its existing reinsurance and conclude as to whether any allowance for uncollectible reinsurance is required. At December 31, 2007 and 2006, no such allowances was deemed necessary.

Notes to Financial Statements

Note C - Investments

The cost and fair value of investments in fixed-maturity and equity securities, as of December 31, 2007 are summarized as follows *(in thousands)*:

2007	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. state and municipal obligations	**$ 318,261**	**$ 11,599**	**$ 3,188**	**$ 326,672**
Corporate debt securities	**97,641**	**1,799**	**5,339**	**94,101**
Mortgage-backed securities	**110,084**	**2,477**	**45**	**112,516**
Total fixed-maturity securities	**525,986**	**15,875**	**8,572**	**533,289**
Equities	**391,636**	**265,143**	**5,394**	**651,385**
Total investments	**$ 917,622**	**$ 281,018**	**$ 13,966**	**$ 1,184,674**

The amortized cost and fair value of investments in fixed-maturity and equity securities, as of December 31, 2006 are summarized as follows *(in thousands)*:

2006	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & U.S. Agencies	$ 68,212	$ 117	$ 300	$ 68,029
U.S. state and municipal obligations	309,638	11,787	2,717	318,708
Corporate debt securities	77,095	614	1,243	76,466
Mortgage-backed securities	55,804	491	615	55,680
Total fixed-maturity securities	510,749	13,009	4,875	518,883
Equities	437,244	232,829	1,488	668,585
Total investments	$ 947,993	$ 245,838	$ 6,363	$ 1,187,468

Notes to Financial Statements

All investments are in the custody of the Company's investment managers and custodial trustees.

The minimum requirement of the Company's investment guidelines is that no more than 5% of all debt securities may have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent to the extent possible to determine. As of December 31, 2007 and 2006, the Company is in compliance with its investment guidelines.

The cost and estimated fair value of fixed-maturity securities at December 31, 2007, by contractual maturity, are summarized below *(in thousands)*. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have been aged by their respective maturity dates.

	Cost	Estimated Fair Value
Maturity:		
In 2008	$ 6,476	$ 7,065
In 2009–2012	85,155	89,068
In 2013–2017	109,248	111,858
Due after 2017	325,107	325,298
Total fixed-maturity securities	$ 525,986	$ 533,289

Proceeds from maturities of investments were approximately $23,071,000 and $9,390,000 and proceeds from sales of investments were approximately $527,909,000 and $322,258,000, during 2007 and 2006, respectively. Gross gains of approximately $19,372,000 and $15,345,000 and gross losses of $19,951,000 and $13,872,000, respectively, were realized on sales.

At December 31, 2007, management identified three securities for which it considered the unrealized loss to be other than temporary. As such, a charge of $1,480,000 was included in the statement of income as a realized loss.

Notes to Financial Statements

The following tables show gross unrealized losses and fair values of investments, aggregated by investment category, and the length of time that individual investments have been in a continuous unrealized loss position, at December 31, 2007 *(in thousands)*:

	Less than one year		One year or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. state and municipal obligations	**$ 71,844**	**$ 921**	**$ 72,154**	**$ 2,267**	**$ 143,998**	**$ 3,188**
Corporate debt securities	**39,417**	**3,606**	**15,138**	**1,733**	**54,555**	**5,339**
Mortgage-backed securities	**13,778**	**6**	**9,697**	**39**	**23,475**	**45**
Equities	**50,441**	**5,059**	**2,073**	**335**	**52,514**	**5,394**
Total temporarily impaired securities	**$ 175,480**	**$ 9,592**	**$ 99,062**	**$ 4,374**	**$ 274,542**	**$ 13,966**

None of the 380 debt securities with unrealized losses have ever missed or been delinquent on a scheduled principle or interest payment. Management is therefore of the belief that the unrealized losses are due to recent changes in interest rates and do not represent a significant impairment in the value of these securities that is other than temporary.

The Company's investment guidelines require it to invest in securities which would emulate the returns of the S & P 900. For this, and other reasons described below, unrealized losses arising on equity securities are believed to be temporary. Of the 251 securities with unrealized losses, 222, with losses of $6,137,000, have been experiencing losses for six months or less and are believed to be temporary. Of the remaining 29 securities, two account for in excess of 83% of the remaining $743,000, one being a pharmaceutical company and the other an international bank.

Based on an analysis of the individual securities, management is of the opinion that any impairment losses, which are other than temporary, are likely to be insignificant.

In determining whether or not an unrealized loss is other than temporary, the Company reviews factors such as:

- historical operating trends;
- business prospects;
- quality of management;
- analysts ratings on the issuer and sector;
- size of the unrealized loss;
- the length of time that the security has been in an unrealized loss position and;
- status of industry in which the company operates.

Notes to Financial Statements

The composition of net investment income is summarized below *(in thousands)*:

	2007	2006
Interest income	**$ 29,420**	$ 26,588
Dividend income	**16,607**	13,908
Gain (loss) from subsidiary	**580**	(83)
Other	**-**	10
Gross investment income	**46,607**	40,423
Investment management fees	**(2,203)**	(2,187)
Net investment income	**$ 44,404**	$ 38,236

Note D - Federal Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities tax liabilities at December 31 are as follows *(in thousands)*:

	2007	2006
Deferred tax assets:		
Discounting of unpaid losses and LAE	**$ 18,528**	$ 20,988
Unearned premiums	**4,112**	4,283
AMT carryforward credit	**36**	-
Original issue discount	**1,257**	1,409
Total deferred tax assets	**23,933**	26,680
Deferred tax liabilities:		
Unrealized capital gains	**$ 93,468**	$ 83,816
Premium amortization	**1,538**	1,552
Other	**1,467**	1,072
Total deferred tax liabilities	**96,473**	86,440
	$ (72,540)	$ (59,760)

Notes to Financial Statements

The provision for federal income taxes differs from expected tax expense in 2007 and 2006 due to the following significant components *(in thousands)*:

	2007	2006
Computed tax at current statutory tax rate (35%)	**$ 4,277**	$ 14,956
Permanent differences relating to the following items:		
Tax-free investment income	**(5,150)**	(4,982)
Other	**(52)**	(328)
Provision for income taxes	**$ (925)**	$ 9,646

The Company is required to establish a "valuation allowance" for any portion of the deferred tax asset that management believes will not be realized. The Company has historically been a taxpayer, and in the opinion of management, will continue to be subject to income taxes. Because management believes that it is more likely than not that the Company will realize the benefit of the deferred tax asset, no valuation allowance has been established.

During 2003, the Company applied for, and was granted an exemption from Barbados income tax by the Minister of Finance under the Duties, Taxes and Other Payment (Exemption) Act.

The Company is currently undergoing an IRS examination of its consolidated income tax returns for 2003 and 2004. Management believes that the issues raised related to EIM's filings are timing issues and will be resolved with no significant effect on EIM's overall financial position. The Service raised additional issues related to EIS, particularly on the treatment of MBP cells as insurance companies. Management is in the process of evaluating the Services' proposed findings, and developing a strategy to respond. At December 31, 2007, management is unable to assess the likelihood of potential outcomes nor can it quantify the exposure. As such, no provision for additional taxes payable on these years has been made in these financial statements.

Note E - Commitments and Contingencies

The Company is named as defendant in various legal actions arising in the normal course of business from claims made under insurance policies and contracts. These actions are considered by the Company in estimating the loss and loss adjustment expense reserves. The Company's management believes that the resolution of these actions will not have a material adverse effect on the Company's financial position or results of operations.

Note F - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for United States policyholders and third-party claimants to satisfy requirements of being listed as an alien surplus lines insurer by the National Association of Insurance Commissioners. The Company is required to maintain a minimum amount of the lesser of $100,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2007, the required balance was $100,000,000. In addition, the state of Florida has required the Company to deposit $300,000 as security for the Company's policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as available-for-sale investments, including both fixed-maturity securities and equities.

Note G - Margin of Solvency

In order to meet the requirements of the Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados, the Company must have contributed reserves of approximately $12,054,000. The policyholders' surplus provided an excess margin of solvency of approximately $655,007,000 at December 31, 2007, that is available for the payment of dividends.

Our Focus
Our Members

ISO New England Inc.
ITC Holdings Corp.
JEA and FPL d/b/a St. Johns River Power Park
KeySpan Corporation
Knight, Inc.
Laclede Group, Inc. (The)
Long Island Power Authority
Los Angeles Dept. of Water and Power
Massachusetts Water Resources Authority
MDU Resources Group, Inc.
Metropolitan Water District of Southern California
MGE Energy, Inc.
MidAmerican Energy Holdings Company
Midwest Independent Transmission System Operator
Mirant Corporation
Mountaineer Gas Company
National Fuel Gas Company
National Grid plc
National Grid USA
New Jersey Resources Corporation
New York Independent System Operator, Inc.
New York Power Authority
Nicor Inc.
NiSource Inc.
Northeast Utilities
Northwest Natural Gas Company
NorthWestern Corporation
Noverco Inc.
NRG Energy, Inc
NSTAR
OGE Energy Corp.
Ohio Valley Electric Corporation
ONEOK, Inc.
Ontario Power Generation Inc.
Otter Tail Corporation
Pepco Holdings, Inc.
PG&E Corporation
Philadelphia Gas Works
Piedmont Natural Gas Company, Inc.
Pinnacle West Capital Corporation
PJM Interconnection, LLC
PNM Resources, Inc.
Portland General Electric Company
PowerSouth Energy Cooperative
PPL Corporation
Progress Energy, Inc.
Public Service Enterprise Group Incorporated
Public Utility District No. 2 of Grant County, WA
Public Utility Risk Management Services Joint Self-Insurance Fund
Puget Energy, Inc.
Questar Corporation
RC Cape May Holdings, LLC
Reliant Energy, Inc.
RGC Resources, Inc.
Sacramento Municipal Utility District
Salt River Project Agricultural Improvement and Power District
SCANA Corporation
SEMCO Energy, Inc.
Seminole Electric Cooperative, Inc.
Sempra Energy
Sierra Pacific Resources
South Mississippi Electric Power Association
Southern Company
Southern Union Company
Southwest Gas Corporation
Spectra Energy
Suburban Propane Partners, LP
T. W. Phillips Gas and Oil Co.
Targa Resources Investments Inc.
TECO Energy, Inc.
Tennessee Valley Authority
Toronto Hydro Corporation
TransCanada Corporation
Transocean Inc.
Tri-State Generation and Transmission Association
UGI Corporation
UIL Holdings Corporation
UniSource Energy Corporation
Vectren Corporation
Westar Energy, Inc.
Western Electricity Coordinating Council
WGL Holdings, Inc.
Williams Companies, Inc. (The)
Wisconsin Energy Corporation
Xcel Energy Inc.

Financial Strength
A M BEST
Excellent

Energy Insurance Mutual