FINANCIAL STATEMENTS

Energy Insurance Mutual Limited
Years Ended December 31, 2004 and 2003

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Financial Statements

Years Ended December 31, 2004 and 2003

Contents

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Report of Independent Auditors

The Members
Energy Insurance Mutual Limited

We have audited the accompanying balance sheets of Energy Insurance Mutual Limited (the Company) as of December 31, 2004 and 2003, and the related statements of operations, 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.

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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 28, 2005

Energy Insurance Mutual Limited

Balance Sheets
(Expressed in Thousands of U.S. Dollars)

	December 31	
	2004	**2003**
Assets		
Investments	**$ 955,489**	$ 858,931
Cash and cash equivalents	**43,145**	9,712
Accrued interest	**5,071**	4,592
Refundable income taxes	**11,607**	7,460
Insurance balances receivable	**1,905**	5,000
Reinsurance premiums paid in advance	**26,373**	7,983
Deferred acquisition costs	**1,987**	2,117
Prepaid expenses	**435**	352
Funds held by reinsurers	**–**	18,094
Reinsurance recoverable on unpaid and paid losses	**318,623**	361,337
Investment in subsidiary	**1,757**	1,808
Property and equipment, at cost, net of accumulated depreciation	**905**	384
Total assets	**$ 1,367,297**	$ 1,277,770
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expense	**$ 740,392**	$ 688,114
Unearned premiums	**116,772**	113,948
Payable from purchase of investments	**3,174**	4,004
Reinsurance premium payable	**722**	3,704
Accrued expenses	**1,670**	2,369
Deferred income taxes, net	**16,055**	4,464
Total liabilities	**878,785**	816,603
Policyholders' surplus	**488,512**	461,167
Total liabilities and policyholders' surplus	**$ 1,367,297**	$ 1,277,770

See accompanying notes.

Energy Insurance Mutual Limited

Statements of Operations

(Expressed in Thousands of U.S. Dollars)

	Years Ended December 31	
	2004	**2003**
Premiums earned:		
Gross premiums written	**$ 212,302**	$ 206,762
Increase in unearned premiums	**(2,824)**	(31,397)
Gross premiums earned	**209,478**	175,365
Reinsurance premiums assumed	**4,365**	3,645
Reinsurance premiums ceded	**(89,578)**	(60,448)
Net premiums earned	**124,265**	118,562
Expenses (benefits):		
Gross losses and loss adjustment expense incurred	**121,796**	145,764
Assumed losses and loss adjustment expense assumed	**42,922**	32,504
Reinsurance recoverable	**(7,530)**	(59,794)
Net losses and loss adjustment expense	**157,188**	118,474
Administrative expenses	**7,073**	6,044
Total expenses	**164,261**	124,518
Loss from underwriting	**(39,996)**	(5,956)
Miscellaneous income	**56**	135
Net investment income	**30,259**	19,049
(Loss) income before income taxes	**(9,681)**	13,228
Income tax benefit (expenses):		
Current	**5,116**	(6,037)
Deferred	**3,635**	5,190
	8,751	(847)
Net (loss) income	**$ (930)**	$ 12,381

See accompanying notes.

Energy Insurance Mutual Limited

Statements of Policyholders' Surplus
(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income (Loss)	Policyholders' Surplus	Total Policyholders' Surplus
Balance at January 1, 2003	$ (5,016)	$ 391,071	$ 386,055
Change in net unrealized appreciation of investments, net of tax effect of $33,778	62,731	–	62,731
Net income	–	12,381	12,381
Comprehensive income			75,112
Balance at December 31, 2003	57,715	403,452	461,167
Change in net unrealized appreciation of investments, net of tax effect of $15,226	**28,275**	–	**28,275**
Net loss	–	**(930)**	**(930)**
Comprehensive income			**27,345**
Balance at December 31, 2004	**$ 85,990**	**$ 402,522**	**$ 488,512**

See accompanying notes.

Energy Insurance Mutual Limited

Statements of Cash Flows
(Expressed in Thousands of U.S. Dollars)

	Years Ended December 31	
	2004	**2003**
Operating activities		
Net (loss) income	**$ (930)**	$ 12,381
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**69**	331
Net (gain) loss from sale of investments	**(2,687)**	3,619
Deferred income taxes	**(3,635)**	(5,190)
Funds held by reinsurers	**18,094**	(9,047)
Equity in income of subsidiary	**51**	(122)
Changes in operating assets and liabilities:		
Increase in accrued interest	**(479)**	(643)
Increase in refundable income taxes	**(4,147)**	(4,113)
Decrease (increase) in insurance balances receivable	**3,095**	(1,360)
(Increase) decrease in reinsurance premiums paid in advance	**(18,390)**	5,967
Decrease in deferred acquisition costs	**130**	345
Increase in prepaid expenses	**(83)**	(52)
Decrease (increase) in reinsurance recoverable on unpaid and paid losses	**42,714**	(29,447)
Increase in reserve for losses and loss adjustment expense	**52,278**	93,144
Increase in unearned premiums	**2,824**	31,397
Decrease in reinsurance premium payable	**(2,982)**	(1,506)
(Decrease) increase in accrued expenses	**(699)**	232
Net cash provided by operating activities	**85,223**	95,936
Investing activities		
Cost of investments purchased	**(333,795)**	(553,666)
Proceeds from sales and maturities of investments	**283,425**	456,647
(Decrease) increase in payable from purchase of investments	**(830)**	3,738
Purchases of property and equipment	**(590)**	(458)
Net cash used in investing activities	**(51,790)**	(93,739)
Net increase in cash and cash equivalents	**33,433**	2,197
Cash and cash equivalents at beginning of year	**9,712**	7,515
Cash and cash equivalents at end of year	**$ 43,145**	$ 9,712
Supplemental disclosure of cash flow information		
Cash (received) paid during the year for income taxes	**$ (969)**	$ 10,150

See accompanying notes.

1. Incorporation

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.

2. Accounting Principles and Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements of insurance companies requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Significant accounting policies are as follows:

Investments

Management determines the appropriate classification of debt and equity securities at the time of purchase, and reevaluates such designation as of each balance sheet date. 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. Fair values are based on quoted market prices or dealer quotes. Realized gains and losses, and declines in value judged to be other than temporary on available-for-sale securities are included in net investment income. The cost of securities sold is based on the average cost method. Interest and dividends on securities classified as available-for-sale are included in investment income. Cash and time deposits in the custody of the Company's investment managers are classified as investments.

2. Accounting Principles and Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash in time and demand deposit accounts, except for those deposits referred to above.

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: $60,000,000 or $5,400,000, plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2004, the required balance was $60,000,000. In addition, the state of Florida has required the Company to deposit $300,000 as security for the Company's policyholders or the Company's policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as investments.

Deferred Acquisition Costs

The costs of acquiring and producing business, principally commissions, are deferred and amortized over the policy period.

Funds Held by Reinsurers

During 1999, the Company entered into a three-year reinsurance arrangement (the Surplus Protection coverage described in Note 3) whereby a portion of premiums paid would be held by the reinsurer in a notional account, which is available to pay losses under the arrangement. Upon termination of the agreement, the reinsurer shall be released from all of its obligations under the agreement, except for the payment of a profit sharing equal to 75% of 80% of aggregate premiums, net of losses. In January 2001, the Company renewed the coverage for an additional three years, ending December 31, 2003.

The Company has accounted for premiums deposited in the notional account as funds held by reinsurers, with the remainder of the premiums being recorded as reinsurance premiums ceded.

2. Accounting Principles and Significant Accounting Policies (continued)

Investment in Subsidiary

The Company's wholly owned subsidiary, Energy Insurance Bermuda, Ltd. (EIB), is being accounted for under the equity method. In the early 1990s, the Company formed EIB for the purpose of providing its members the vehicle to write specific risks that an individual utility might desire covered. As a result, EIB is able to write policies for its constituency through mutual business programs. As of December 31, 2004, EIB has assets (exclusive of assets held in mutual business programs) of approximately $7,456,000, shareholders equity of $1,808,000, and a net loss of approximately $51,000.

Reserve for Losses and Loss Adjustment Expense

The losses and loss adjustment expense reserve represents the estimated ultimate gross cost of all reported and unreported losses incurred through December 31. The Company has had only a few claims that exceed their attachment point. 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 a theoretical size of loss distribution. Case reserves have been established when sufficient information has been developed to indicate the involvement of a specific insurance policy. Case reserves are reviewed and updated continually. 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 expense 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.

2. Accounting Principles and Significant Accounting Policies (continued)

Unearned Premiums

Unearned premiums are the portion of premiums written which relate to the periods of risk subsequent to the balance sheet date, which are earned on a pro rata basis over the lives of the policies.

Income Taxes

The Company utilizes the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax reporting bases of assets and liabilities. The differences are measured using the enacted tax rates and laws that are currently in effect for those periods when the differences are expected to reverse.

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

3. Insurance Operations

The Company is a mutual insurance company, and membership in the Company is available to any utility or member of the energy services industry that meets the underwriting standards established by the Company. The Company provides directors' and officers' liability, general partner liability and general liability coverage's excess of at least $25,000,000. Coverage is written on a "claims first made" basis. In addition, with effect from March 28, 2001, the Company commenced writing property coverages.

3. Insurance Operations (continued)

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE), net of reinsurance recoverables, for 2004 and 2003:

	Years Ended December 31	
	2004	**2003**
	(In Thousands)	
Reserve for losses and loss adjustment expense, net of reinsurance recoverables, at beginning of year	**$ 326,777**	$ 263,080
Add (deduct) provision for claims, net of reinsurance:		
Provision for unpaid losses and loss adjustment expense for claims occurring in the current period, net of reinsurance	**79,461**	59,551
Increase in estimated losses and loss adjustment expense for claims occurring in prior periods, net of reinsurance	**87,807**	56,776
(Decrease) increase in related tail coverage	**(10,080)**	2,147
	157,188	118,474
Less payments for losses and loss adjustment expenses	**(62,196)**	(54,777)
Reserve for losses and loss adjustment expense, net of reinsurance recoverables, at end of year	**$ 421,769**	$ 326,777

In 2004, the total payments for losses and loss adjustment expense include $956,000 relating to claims occurring in the current period, and in 2003, the total payments for losses and loss adjustment expense include $1,252,000 relating to claims occurring in that period.

The foregoing reconciliation shows that an increase of approximately $87,807,000 in the December 31, 2004 reserve and an increase of approximately $56,776,000 in the December 31, 2003 reserve which emerged during 2004 and 2003, respectively. Those incurred losses resulted principally from the recent development related to claims for which case reserves were not previously established or for which new information has necessitated an adjustment to the reserve. These claims relate primarily to catastrophic events.

Additionally, a decrease in tail coverage of approximately $10,080,000 and an increase of approximately $2,147,000 emerged during 2004 and 2003, respectively. The decrease in 2004 is due to positive development related to reserves established for prior years' exposure.

3. Insurance Operations (continued)

The Company has carried reinsurance since 1986. In 2003, the Company was in the last year of a five-year Excess of Loss (EL) program and also purchased a Surplus Protection (SP) cover. In 2004, the SP cover was discontinued and a new EL cover was put into place.

On October 1, 2001, under a reinsurance arrangement with Nuclear Electric Insurance Limited (NEIL), the Company began underwriting policies, which provide additional limits of $25 million in respect of general liability, and $10 million in respect of directors and officers liability. On May 1, 2003, the Company entered into a new reinsurance arrangement whereby NEIL provides limits of 80% of $20 million excess of $30 million in respect of directors and officers liability only.

The property book of business is primarily reinsured by Endurance Specialty Insurance Ltd., and/or NEIL. In addition, the Company also has an arrangement with NEIL whereby their non-nuclear property book of business can be 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. During 2004, certain reinsurers have initially disputed their assumed obligations of approximately $52.7 million which is included in reinsurance recoverable on unpaid and paid losses in the accompanying balance sheets. Management believes that the reinsurers do not have a legal basis for their position and therefore believes that it is unlikely that the reinsurers will not meet their obligations.

4. Investments

The cost and estimated fair value of investments, all of which are classified as available for sale, are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
2004				
U.S. Treasury securities and obligations of U.S. Government Agencies	**$ 17,242**	**$ 26**	**$ 7**	**$ 17,261**
U.S. state and municipal obligations	**262,948**	**15,992**	**679**	**278,261**
Corporate debt securities	**83,095**	**1,740**	**933**	**83,902**
Mortgage-backed securities	**41,332**	**1,262**	**9**	**42,585**
Total debt securities	**404,617**	**19,020**	**1,628**	**422,009**
Equities	**407,905**	**122,527**	**7,636**	**522,796**
Cash and cash equivalents	**10,674**	**10**	**–**	**10,684**
Total investments	**$ 823,196**	**$ 141,557**	**$ 9,264**	**$ 955,489**

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
2003				
U.S. Treasury securities and obligations of U.S. Government Agencies	$ 11,747	$ 17	$ –	$ 11,764
U.S. state and municipal obligations	210,914	17,105	1,061	226,958
Corporate debt securities	55,258	2,297	149	57,406
Mortgage-backed securities	81,905	2,640	5	84,540
Total debt securities	359,824	22,059	1,215	380,668
Equities	395,895	74,418	6,489	463,824
Cash and cash equivalents	14,420	19	–	14,439
Total investments	$ 770,139	$ 96,496	$ 7,704	$ 858,931

4. Investments (continued)

These 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, 2004 and 2003, the Company is in compliance with its investment guidelines.

The cost and estimated fair value of debt securities at December 31, 2004, by contractual maturity, are shown below. 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
	(In Thousands)	
Due in one year or less	$ 17,706	$ 17,723
Due after one year through five years	77,155	81,178
Due after five years through ten years	118,095	124,805
Due after ten years	191,661	198,303
	$ 404,617	$ 422,009

Proceeds from sales and maturities of investments during 2004 and 2003 were approximately $283,425,000 and $456,647,000, respectively. Gross gains of approximately $15,688,000 and $10,726,000, and gross losses of approximately $13,001,000 and $14,345,000 for 2004 and 2003, respectively, were realized on those sales.

4. Investments (continued)

The following table shows investment gross unrealized losses and fair value, and the length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004 (in thousands):

	Less than one year		One year or more		Total	
Description of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury securities	$ 1,283	$ 7	$ –	$ –	$ 1,283	$ 7
U.S. state and municipal obligations	34,810	382	7,443	297	42,253	679
Corporate debt securities	45,568	815	3,067	118	48,635	933
Mortgage-backed securities	40	9	–	–	40	9
Equities	50,872	5,312	17,121	2,324	67,993	7,636
Total temporarily impaired securities	$ 132,573	$ 6,525	$ 27,631	$ 2,739	$ 160,204	$ 9,264

Included in the above table are 40 fixed maturity securities and 94 equity securities. The Company monitors the financial condition and operations of its securities on at least a quarterly basis. In determining whether or not an unrealized loss is other than temporary, the Company reviews factors such as:

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

Based on the analysis of the above factors, the Company believes the impairment on its securities to be temporary.

5. Unsettled Investment Contracts

Unsettled investment contracts are purchases of securitized mortgage-backed securities for which the underlying investment has not been securitized, yet the price and settlement date are fixed. At December 31, 2004, unsettled investment contracts included open purchases of $3,174,000.

While the Company does not require any collateral relating to these contracts, all open sales are to the same brokers with whom the Company has an open purchase, yet at a lesser amount. Therefore, there is limited credit risk to the Company.

6. Income Taxes

A reconciliation between income taxes computed at the U.S. federal statutory rate and the provision for income taxes is as follows:

	December 31	
	2004	**2003**
	(In Thousands)	
Computed tax at current statutory rate	**$ (3,388)**	$ 4,630
Permanent differences relating to the following items:		
Tax-free investment income	**(4,268)**	(3,978)
Other	**(1,095)**	195
Provision for income taxes	**$ (8,751)**	$ 847

At December 31, 2004, total deferred tax assets and deferred tax liabilities amounted to $32,352,000 and $48,407,000, respectively. At December 31, 2003, total deferred tax assets and deferred tax liabilities amounted to $28,365,000 and $32,829,000, respectively. Deferred taxes are provided on temporary differences in reporting income and expense for income tax and financial statement purposes.

The primary temporary differences result from discounting unpaid loss reserves, recognition of premium income for income tax purposes, and net unrealized appreciation or depreciation of available-for-sale investments.

The Company is in the tax jurisdiction of the United States and the state of Florida, and therefore files both a United States and state of Florida corporate tax return. For 2004, the Company will file a consolidated United States corporate tax return with EIB; in prior years the Company and EIB filed separate returns.

6. Income Taxes (continued)

Since the Company is licensed as a Qualifying Insurance Company under the Insurance Act 1992-2, it is liable for tax on its taxable income at a rate of 36%. As the Company's income is exclusively earned from foreign insurance business, it is eligible for a tax credit of 93%, the maximum allowable under section 12H of Barbados Income Tax Act Cap. 73, resulting in an effective tax rate of 2.5%. However, during 2003, the Company applied for, and was granted an exemption from tax by the Minster of Finance under the Duties, Taxes and Other Payment (Exemption) Act.

7. Policyholders' Surplus

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. For the years ended December 31, 2004 and 2003, other comprehensive income consists of the following:

	Before-Tax Amount	Tax (Benefit) Expense	Net-of-Tax Amount
		(In Thousands)	
2004			
Unrealized gains on securities:			
Net unrealized gains on available-for-sale securities	**$ 46,188**	**$ 16,166**	**$ 30,022**
Less: reclassification adjustment for net gains realized in net income	**2,687**	**940**	**1,747**
Other comprehensive income	**$ 43,501**	**$ 15,226**	**$ 28,275**
2003			
Unrealized gains on securities:			
Net unrealized gains on available-for-sale securities	$ 92,890	$ 32,511	$ 60,379
Plus: reclassification adjustment for net losses realized in net income	(3,619)	(1,267)	(2,352)
Other comprehensive loss	$ 96,509	$ 33,778	$ 62,731

8. 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 $12,927,000. The policyholders' surplus provided an excess margin of solvency of approximately $475,585,000 at December 31, 2004, that is available for the payment of dividends.