

Adhering to our Principles  
Fulfilling our Mission  
Integrity  
Collaboration  
Inclusion  
Teamwork  
Excellence  
The future of nuclear power  
Meeting the needs of our Members

# COMMITTED TO

our Mission and our Members

Managing risk  
Safety practices  
Strength  
Community  
Protection  
Financial stability  
Supporting our Membership  
Mutuality  
Loss prevention  
Diversity

## Guiding Principles

**MUTUALITY** | Consistent with the principles of a mutual insurance company, our employees and Board of Directors strive to meet our Members' evolving needs and represent the interests of all Members by treating them fairly and equitably in matters of the Company, including financial dealings and Member representation.

**INTEGRITY** | The Company, its employees and members of the Board of Directors will treat each other, and all others with whom we interact, with respect, honesty and fairness. We will maintain the highest ethical and professional standards in all areas of our business and respect the confidential and proprietary information of our Members.

**STRENGTH** | We will maintain our financial strength through sound strategic planning, prudent investments, a disciplined financial decision process and demonstrated financial accountability. We will maintain our personnel strength by creating an environment that encourages employee initiative and diversity among individuals, and enables each employee to perform successfully and grow professionally.

**TEAMWORK** | We will foster teamwork with our Members and business partners by effective communications and by seeking their participation on matters affecting the Company. We are also committed to being responsible and active members of our community, and will team with others to build a strong community that produces a positive environment beneficial to businesses and individuals.

**EXCELLENCE** | Excellence requires personal commitment on the part of each individual involved with NEIL, and we pursue this through a proactive approach to all aspects of our business. Each employee commits to achieve excellence and to respect the Company and each other in all matters.



### OUR VISION

NEIL believes nuclear power is a vital energy solution. We enable nuclear power by embracing mutuality and pursuing excellence in insurance and loss prevention.

### OUR MISSION

We fulfill our continuing core responsibility of insuring our Members' nuclear risks by:

- Maintaining the financial strength to cover two full-limit losses,
- Promoting industry risk management and safety practices,
- Providing value and equitable treatment, and
- Prudently pursuing opportunities that serve the Membership.

### OUR RISK PHILOSOPHY

NEIL protects its financial strength and optimizes risk-adjusted returns by:

- Managing risks within defined tolerance levels,
- Measuring risk in an integrated manner across underwriting, investment and operational exposures, and
- Maintaining well-defined reporting and governance processes.

## FINANCIAL HIGHLIGHTS

*In thousands of U.S. Dollars*

*As of and for the year ended December 31,*

STATEMENT OF OPERATIONS	2014	2013	2012
Net premiums earned	\$216,565	\$195,612	\$205,475
Losses*	297,928	181,452	647,613
Expenses	39,352	36,958	32,583
Net investment income (including net realized gain)	342,090	374,923	369,670
Earnings (loss) before distribution	221,375	352,125	(105,051)
Distribution	100,000	100,000	–
Income taxes (recovery)	36,020	100,868	(43,461)
Net earnings (loss)	85,355	151,257	(61,590)
Other comprehensive earnings (loss) net of income taxes	(34,903)	114,608	70,320
Comprehensive earnings	50,452	265,865	8,730
<b>BALANCE SHEET</b>			
Assets	\$5,248,588	\$5,060,663	\$5,129,013
Liabilities	1,277,795	1,140,322	1,474,537
Policyholders' surplus	3,970,793	3,920,341	3,654,476

*\*For additional detail regarding loss reserves, please refer to the Notes to Consolidated Financial Statements, Footnote 9.*

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“Individual commitment to a group effort—that is what makes a team work, a company work, a society work, a civilization work.”

—Vince Lombardi—



WILLIAM A. VON HOENE, JR.  
Vice-Chairman

DAVID B. RIPSOM  
CEO

DONALD E. BRANDT  
Chairman

## 2014 was a strong year for NEIL, reflecting powerful commitment across all the constituencies of NEIL.

Any organization goes through cycles. There are easy times and more challenging times. To be successful during the more challenging times requires additional focus and commitment.

These last few years indeed have been times of challenge and stress for our Membership and NEIL. Despite often increased pressures on the individual businesses of our Members, commitment to the Vision and Mission of NEIL has been consistently evident. It is reflected in the words on the cover of this Annual Report, such as Integrity, Mutuality, Teamwork, Strength and Excellence.

We saw this commitment in all areas of the organization. You will read more detail on that commitment in the balance of this report, but we have the privilege of highlighting some of that here.

### RISK

NEIL is in the risk business, without question. At the same time it is important for us to be as risk informed as possible in working with the Membership to make risk decisions. In 2014, in addition to continuing to enhance our risk processes, for the first time we met directly with Member CNOs representing a substantial majority of our insured sites to get their input on today's risk concerns and how we could help them mitigate risk.

### FINANCES

Our commitment to a thoughtful balanced investment approach right for NEIL, even when tempered with an underwriting loss for the year, led to our third-highest year-end surplus of nearly \$4 billion. This number also reflects our \$100 million distribution declared in December and the \$12 million awarded in 2014 premium credits, consistent with our Financial Vision adopted in 2013. In addition, in December the Board also approved \$22 million in premium credits for 2015.

### LOSS PREVENTION

Our data from the last several years indicates a pattern of emerging risks different from our earlier years. In a committed effort to address this, our historic loss control function is transitioning with the assistance of the Membership to more of a loss prevention orientation.

### UNDERWRITING

Applying all of the above insights to determining coverage and appropriate terms is always an art for the kind of core business NEIL writes. The commitment of the Membership and NEIL staff to seek the right balance of risk transfer to NEIL and risk retention by the Membership is a critical action that was very much in play in 2014.

### PEOPLE

As Coach Lombardi makes clear, without committed individuals, you cannot have an effective team. We continue to be blessed with people who not only embrace commitment, but to whom it comes naturally. The Membership continues to experience large amounts of transition, which we see in our Advisory Committees, Board of Directors, and all of our

Member constituencies. Nonetheless, the clear commitment to NEIL and its Mission is readily absorbed and demonstrated with action by those newly involved with NEIL.

We have also seen transition in our NEIL staff. We hired eight new staff members in 2014. After the NEIL Leadership Team had been intact for the last eight years, Rob MacGovern, our VP and Chief Investment Officer, who led us strongly through many tense investment periods, retired in mid-2014 to be succeeded by his longtime colleague, Greg Blackburn. In turn, Harry Phillips, our Vice President of Loss Control who led the important redirection to loss prevention, retired at year-end to be succeeded by Tom Trepanier, an experienced senior nuclear executive.

A CEO transition is always an important event in the life of a company, and NEIL is now in the process of only its second CEO transition in its 42 years. In March of 2015, the NEIL Board elected Bruce Sassi, NEIL's then Vice President—Member Insurance, as President and Chief Operating Officer to succeed David as the next NEIL CEO on June 30, 2015. While technically this is a 2015 event, it culminates the very committed several-year work of the NEIL Board and David in the selection process. You will find reflections from both David and Bruce on an accompanying page.

The three of us express our great confidence that Bruce will continue the commitment reflected by all those who have made and will continue to make NEIL a great mutual enterprise for the benefit of the Membership.

Don and Bill add to that our sincere thanks for David's dedication and service to this organization. Although it's true that we each play an important role in the success of the organization, David's contributions have been significant, and his leadership legacy will serve NEIL well for years to come.

## What a special nine years these have been for me as your President and CEO!

Personally, I have a tremendous sense of privilege and pleasure to have had the opportunity to serve as your leader these years. You challenged me and helped me to grow in the midst of meaningful personal and corporate demands.

In reflecting on those years for NEIL itself, the powerful words RESILIENT and RESOLUTE characterize NEIL for me.

RESILIENT because we have not just overcome many challenges, but they have made us stronger. Whether it was the large investment reversals of 2007-8, the several largest claims in NEIL's history, or the stresses upon NEIL and the Membership from the many changes affecting the nuclear industry, our objective and thoughtful approach to every circumstance pulled us through. Moreover, as a result, it forced us to ask ourselves how to plan for the future. Now, our year-end surplus is near the highest in our 42-year history, despite the substantial financial challenges during these nine years. Our Membership continues in a forthright discussion about Member alignment and the ongoing important choices before it to continue that resilience.

RESOLUTE because our broadly defined NEIL team of Board, Advisory Committee members, Member Representatives, and the NEIL staff knows and lives the NEIL Vision and Mission. Recognizing the new and varied challenges arising out of these years, we are now more focused about our risk profile and how to mitigate those risks. We have adopted an explicit Risk Appetite Statement anchored on our nuclear mission and what we should do around that. Our newly adopted Financial Vision reflects the balancing of interests in the financial considerations of premiums, distributions, premium credits, and the extent of insurance coverages. Recognizing the importance of strong leadership for years to come, we have strengthened and broadened our leadership development opportunities for the NEIL staff. Moreover, the resolute commitment to mutuality proved the necessary ingredient for the Membership to discern its way on numerous difficult issues these past years.

That resilience and resoluteness is visible throughout the larger NEIL team carrying on following my tenure. That team is fully committed to the Membership and capable of dealing with the challenges facing NEIL in the years ahead. With Bruce at its helm, I have great confidence that NEIL will continue to meet its challenges and thrive in the years to come. Those challenges may not be easy, nor are they fully known today, but NEIL's fundamental approach of Mutuality, often difficult to apply, continues to be the answer.

Our collective individual commitments are what made NEIL work so effectively during this time. Thank you for that powerful support during my tenure. I know you will continue that commitment in the years ahead.

*David*



## Thank you, David!

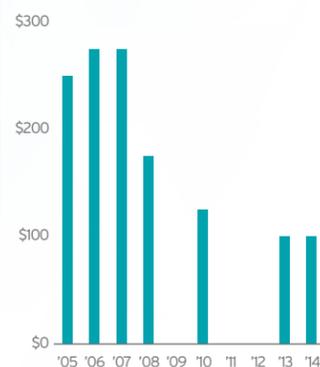
As I reflect on the substantial contributions David has made over the past 21 years at NEIL, nine serving as our President and CEO, there are many that I could point to as contributing to NEIL's success. Throughout his tenure with NEIL, he remained RESOLUTE in his compassion, dedication, and support to the Membership, the NEIL staff, and the nuclear industry. He strengthened our relationships and collaboration with many industry partners such as INPO, WANO, NEI, and others, and insisted on direct dialogue about our changing risk profile. His commitment to NEIL's Guiding Principles of Integrity, Teamwork, Excellence, Strength, and Mutuality exemplifies his passion for NEIL and his belief in the people who have all contributed to its success.

On behalf of the Membership, NEIL staff, industry, and all the individuals you have had such a profound influence on throughout your career, *thank you*, David! You have not only been an outstanding leader, but also a man of great character and integrity, and it has been our pleasure to work alongside you through the years.

I consider it to be a great honor to serve the Membership, the NEIL Board, the NEIL Leadership Team, and NEIL staff as your next President and CEO. As I contemplate what lies ahead, I fully appreciate the challenges we likely face, but have tremendous confidence that the people and partners of NEIL will continue working together, adhering to the principles of Mutuality to address those challenges and to create innovative solutions to the Members' nuclear insurance needs. It was innovation and the willingness to be creative that resulted in the formation of NML in 1973, and NEIL in 1980, with that same spirit carrying through in the many changes throughout NEIL's history. As we move forward, building on the very solid foundation laid before us by our predecessors, the ingenuity and resourcefulness of the people of NEIL will be tremendous assets as we continue to evolve as an organization, steadfast in our commitment to providing stable and cost-effective risk transfer solutions to the Membership.

*Bruce*

Annual Policyholders' Distribution (in millions)



Policyholders' Surplus (in billions)



## NEIL is committed to maintaining financial strength and proactively managing risk in support of the Membership.

### 2014 was a year of continued financial stability for NEIL.

Although underwriting earnings were impacted by unfavorable loss experience, NEIL's investment portfolio continued to do well, outperforming its benchmark. Surplus increased to approximately \$4 billion, enabling NEIL's Board of Directors to again declare a \$100 million distribution to Policyholders for the year. Overall, the financial performance reflected NEIL's commitment to maintaining financial strength and proactively managing risk in support of the Membership.

#### OPERATING RESULTS

In 2014, NEIL reported comprehensive earnings of \$50 million compared to \$266 million in 2013. The reduction in comprehensive earnings was driven by a higher underwriting loss and lower investment returns.

#### EARNINGS FROM UNDERWRITING OPERATIONS

Gross earned premiums increased slightly to \$283 million in 2014, reflecting the final stage of the Member nuclear policy pricing changes, which were partially offset by Performance & Participation Credits (PPC). Net premiums increased 10.7%, compared to 2013, driven primarily by a reduction in reinsurance costs as NEIL restructured its underlying layer reinsurance coverage. Loss experience was unfavorable versus prior year as reflected in a loss ratio of 137.6% in 2014 versus 92.8% in 2013. Overall, the underwriting loss in 2014 was \$121 million compared to a \$23 million loss in 2013.

#### RESERVES

Year-end reserves for 2014 were \$542 million, a 49% increase relative to year-end 2013. The increase was the result of current year loss experience as well as additional reserves for prior year claims.

#### EARNINGS FROM INVESTMENTS

Investment portfolio returns for 2014 were 6.3%, compared to 14% in 2013. Weak global growth contributed to the decrease in portfolio returns for 2014. Pre-tax earnings from investments were \$288 million in 2014, compared to \$551 million in 2013.

#### DISTRIBUTIONS

Consistent with one of the primary elements of NEIL's Financial Vision, the Board declared a distribution of \$100 million for 2014. The Company also reinforced the expectation of continuing this level of sustainable distribution to the Membership.

#### SURPLUS

A.M. Best reaffirmed NEIL's Financial Strength Rating (FSR) at "A" (Excellent) and the Issuer Credit Rating (ICR) at "a+" (Excellent). NEIL's ICR "Outlook," however, remained negative. Even though A.M. Best continued to be very supportive of NEIL's approach to Enterprise Risk Management (ERM), they indicated more time was needed before modifying the outlook. As of December 31, 2014, surplus was \$4 billion, a 1.3% increase over 2013.

#### POLICYHOLDER INSURANCE RECORD

Throughout 2014, a Member-based Task Force reviewed the methodology and formula used to calculate each Member's Policyholder Insurance Record (PIR). The Task Force developed recommendations to enhance the PIR methodology, address specific allocation issues, and streamline the overall calculation process. After review and approval by the Board of Directors, the proposed changes were presented for vote

NEIL recognizes its risk management framework must be dynamic and evolve with an ever changing risk environment.

at a Special Meeting of the Membership. At the meeting, the recommendations were overwhelmingly approved (92.5% in favor, none opposed) and implemented as part of the year-end 2014 PIR calculations.

#### RISK MANAGEMENT

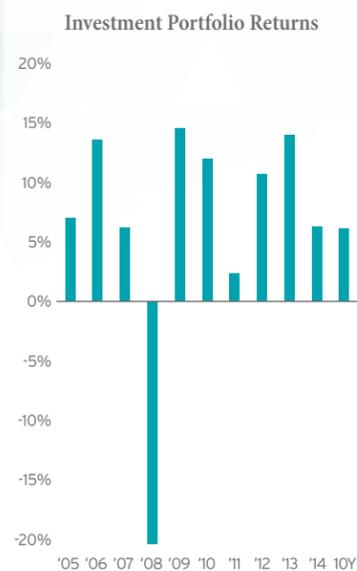
In 2014, progress was made across the organization in strengthening NEIL's risk management framework, including enhancements to key loss prevention activities, third-party peer reviews of key processes, and a comprehensive review of NEIL's internal control maturity.

Consistent with prior years, NEIL worked closely with Member Advisory Committees to assess and manage specific risk exposures. As outlined in greater detail in other sections of this report, the Engineering Advisory Committee assembled a Task Force to review Project Enterprise Risk Management at Member sites, as well as develop a framework for the identification of emergent risks. Both initiatives are intended to enhance our collective ability to identify, assess, and mitigate risk to the mutual.

Expert third-party resources were engaged by NEIL to assess key assumptions, computations, and methodologies applied in the development of Core Nuclear Program loss estimates and the Company's Risk Capital Model. The actuarially derived loss estimates and risk capital model output assist NEIL in the determination of pricing levels, the establishment of annual budgets, and in producing estimates of annual expected loss at identified confidence levels. The peer review conclusions supported the output of the aforementioned processes.

In response to NEIL's changing business environment and the goal of ensuring that NEIL's process and control mechanisms are operating in an effective and integrated manner, in early 2014 NEIL launched the Risk/Control Maturity Assessment (RCMA) project. The RCMA is a collaborative effort between NEIL staff and its outsourced Internal Audit Partner (PwC). Anticipated organizational benefits include opportunities to refine and enhance the integration of procedures and controls, improve process documentation, increase cross training, and improve control awareness at NEIL. Ultimately, this will lead to further advancement of the internal control maturity at NEIL, as well as opportunities to enhance the quality of NEIL's services to its Members.

NEIL recognizes its risk management framework must be dynamic and evolve with an ever-changing risk environment. To ensure its risk management framework remains current, the following elements are subject to regular review by NEIL's Leadership Team and Board of Directors: Key Risk Indicators (KRIs), Enterprise Risk Dashboard, Strategic Risk Assessment, Risk Appetite Statement, risk capital modeling and portfolio stress testing. In addition, NEIL's Business Continuity and Crisis Response and Management plans are tested periodically through tabletop review exercises. NEIL is committed to driving proactive and effective risk management practices and recognizes the benefits of striving for continuous improvement in our ERM framework.



**INVESTMENTS**

We remain committed to the pursuit of attractive risk-adjusted returns consistent with the NEIL mission and risk philosophy.

Economic divergence became a central theme in 2014, as the U.S. economy chartered its own, much stronger path relative to the rest of the world. The contrast was reflected in central bank policies, with the U.S. ending its quantitative easing program while European and Japanese central banks expanded efforts to stimulate growth and increase prices. Currencies also reacted to the opposing outlooks, with the U.S. dollar appreciating against all major currencies, particularly the Euro and Yen. Against this backdrop of weak growth and increasing

uncertainty outside the U.S., NEIL's investment portfolio produced a solid return of 6.3% for 2014. One meaningful tailwind in Europe could be a manufacturing boost related to the weak Euro, but this may take some time. Other international markets, including Japan and China, also look to have unique challenges hampering growth and lowering investors' expectations. Although NEIL's small 20% Policy Benchmark allocation to international securities lowered returns in 2014, international diversification remains a key tenet of NEIL's investment strategy.

In the U.S., recent employment gains suggest the economic outlook is more favorable, although the strong U.S. dollar may prove to be a material earnings headwind for many companies.

## NEIL's portfolio provided a 6.3% return, 120 basis points above the Policy Benchmark return.

Outside of the surprising relative strength of the U.S. economy and collapse in bond yields, the broad macroeconomic outlook is essentially unchanged. Slow growth, very low interest rates, and an absence of inflation form a backdrop for modest return expectations for major asset classes and support NEIL's ongoing efforts to identify alternative investments to improve risk-adjusted returns.

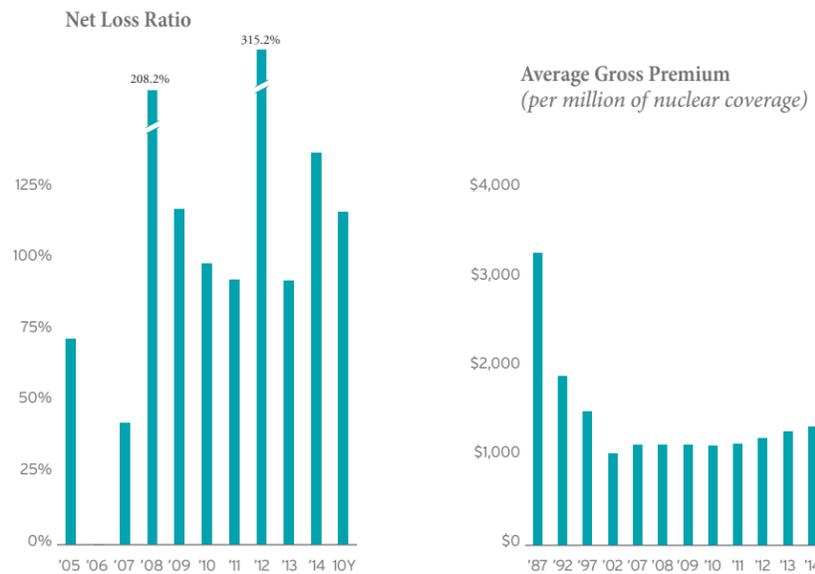
This evolving investment outlook was shared with the NEIL Board throughout the year, culminating in a reaffirmation of the Policy Benchmark and its 53% allocation to equities. Greg Blackburn succeeded Rob MacGovern as NEIL's Chief Investment Officer following Rob's retirement in June.

uncertainty outside the U.S., NEIL's investment portfolio produced a solid return of 6.3% for 2014. Most investors (including NEIL) expected a gradual rise in interest rates in 2014 as the Federal Reserve tapered, and then ended, its asset purchase program. Instead, increasing signs of weakening global demand in the second half of the year caused global bond yields to fall precipitously. NEIL continues to view current government bond yields as offering insufficient compensation for the interest rate risk associated with these bonds. Lower prices for oil and other commodities have worsened deflationary concerns in Europe, complicating the challenge for the European Central Bank to achieve its objective of price stability. Hopes for sustained economic growth were dashed in 2014 and pessimism has resurfaced.

Against this backdrop of weak growth and increasing uncertainty outside the U.S., NEIL's investment portfolio produced a solid return of 6.3% for 2014.



# BUSINESS PERFORMANCE OVERVIEW



## NEIL is committed to meeting the nuclear insurance needs of its Members.



Insurance Advisory Committee (IAC)  
Thomas McDonnell, FirstEnergy Corp.  
(pictured with Bruce Sassi)

### INSURANCE

In contrast to previous years, in many ways, 2014 was less active in terms of Insurance Advisory Committee (IAC) Task Force initiatives and any newly proposed changes being introduced. This year, much of our efforts were focused on implementation, executing on a number of different objectives previously approved by the Committee and the NEIL Board.

NEIL Specialty Insurance Company (NSIC) is a newly formed Delaware Industrial Insured Captive, as a subsidiary of NEIL, which was formed to restore a meaningful portion of the capacity previously reduced as a result of the non-nuclear sublimit put into place in NEIL's core nuclear policies in 2013. Effective April 1, 2014, NSIC began issuing Member policies to cover non-nuclear events at nuclear power stations with limits of up to \$750 million, attaching excess of \$1.5 billion. As a result of our ability to offer very cost effective pricing, largely attributable to the fact that we were able to access reinsurance for NSIC through our existing high excess nuclear ceded reinsurance treaty, Member participation in this program was greater than originally anticipated. NSIC issued 34 policies, providing insurance for 61 units. Moving this exposure into a separate captive structure allows us to restore coverage without any material impact on our ability to maintain compliance with NEIL's Risk Appetite Statement and our core nuclear mission. This structure is being evaluated as a possible means of providing additional highly efficient risk transfer opportunities

to our Members, and we are committed to actively engaging with the IAC on this topic in 2015.

A significant amount of time and effort was dedicated to supporting the Risk Finance Optimization (RFO) project, which was a collaborative effort with Marsh. The objective of the RFO analysis is to provide NEIL and its Members with a more detailed understanding of each NEIL insurance buyer's:

- Risk bearing capacity—how much risk they can retain
- Unique risk profile—based on an in-depth evaluation of loss propensity
- Insurance product efficiency ratios and optimal risk transfer inflection points—assessing different retention levels and program structures

By aggregating the individual Member company RFO results, we will benefit from insights related to the Members' decision-making processes and the transparency these analyses provide. This process is also generating useful information regarding the effectiveness of our pricing structure, identifying areas where we can enhance our already strong core products, and individual Member company risk tolerance and risk bearing capacity levels. These analyses may also be used to draw comparisons of relative value as we continue to address what appears to be an evolving, and increasingly competitive, insurance market. We began the initial rollout of the RFO results at the October IAC meeting and since that time have been holding Member briefings to deliver the reports and

review the individual results. This effort has been very well received by the IAC Representatives, and an aggregate report is scheduled to be delivered to the IAC at its April 2105 meeting.

We continue to observe a meaningful level of turnover in the composition of the IAC. Recognizing the importance of the role the IAC plays in the ongoing development of NEIL's Member policies, rating structure, and other matters, the IAC approved the implementation of IAC Alternates. This means that each IAC Representative may choose to designate an Alternate, who is eligible to attend the IAC meetings, in addition to the IAC Representative, and to also participate as a member of the IAC Task Forces. To date, 22 IAC Representatives have been identified as Alternates, and these individuals have been invited to attend the April IAC meeting. This is a great opportunity to increase Member involvement and interaction with NEIL and affords the opportunity for a more smooth transition when there are changes in representation going forward. We see this as adding tremendous value to the process of mutuality and look forward to engaging with the IAC and Alternates as we implement this change in 2015.

Our focus on risk and our commitment to ensuring we work closely with the IAC to identify and address areas of concern remains as a focal point for Insurance. The IAC continues to evaluate the Course of Construction program and has recently expressed some degree of apprehension about whether the current process is the right approach to balancing Member

coverage needs and our collective appropriate risk concerns. The Builders' Risk Task Force is working closely with the EAC's Project Enterprise Risk Task Force (PERTF), which is performing a pilot project assessment of four different Member projects that are subject to the course of construction sublimit. The intent of the pilot project is to develop a standardized process for evaluating NEIL Member projects with a focus on the design, procurement and installation of key assets, with the intent of reducing risk exposure to the mutual.

During the 2013 calendar year, the IAC developed and approved the implementation and use of the Performance & Participation Credit (PPC), which is designed to offer Members a credit of up to 13% of their core nuclear property program premiums. The PPC was implemented for use beginning with the April 1, 2014 renewals, at which point we paid \$12 million in total credit to the Membership. The IAC continued to refine the program during the 2014 calendar year, and the Board of Directors declared a PPC amount of \$22 million for the April 1, 2015 renewals.

Other notable accomplishments of the IAC include several revisions to the Committee Bye-Laws and Member Expectations documents.

These changes serve to enhance clarity in the various roles and responsibilities of the Committee and Task Force members and also establish standards and norms to be used in the conduct of the Committee's meetings and voting.

## INTERNATIONAL

The key efforts of the mutual in the international arena in 2014 can be broken into four parts: service to, and support of, our European Members; formalizing and drawing together the various work streams that support our efforts to be Solvency II compliant ahead of formal implementation; evaluating emerging business opportunities; and supporting various nuclear industry related initiatives and organizations. Loss control visits, as well as relationship meetings, were held with Members in the run up to the renewal date and throughout the year. The European Gathering in late September returned positive Member feedback.

Conclusions and recommendations coming out of the European CNO meeting in October confirmed the findings of the US CNO meeting held earlier in 2014. The year saw more international Member involvement in the Task Force activities of the mutual on both the IAC and EAC. This ongoing commitment to work with our Members to seek resolution of various challenges continues to ensure that we neither over-promise nor under-deliver.

We are making good progress in respect to Solvency II and Governance compliance, which now comes into effect on January 1, 2016. During the year we brought together the body of work that we have been developing and collating since 2011 and conducted our first Forward Looking Assessment of Own Risk. Our efforts were designed to make the final work product proportionate to ONEIL's structure and risk management system and to move it away from being simply an annual compliance exercise into a methodology to give us a better understanding of business strategy risks. This work clearly has implications and application for the broader mutual and has been born of significant collaboration and teamwork.

The year saw an uptick in the number of inquiries coming to the mutual from international sources—this is likely, in part, due to the constraints imposed on risk capital as a result of Solvency II and some inquiries being simply new business opportunities. We remain committed to the service of the Membership as a business principle and will only pursue opportunities so aligned. In terms of industry bodies, we have maintained contact and involvement with a number of international entities (both insurance and technical), all of which directly or indirectly support our mission. Amongst others, these have included World Association of Nuclear Operators, the World Nuclear Association, the International Energy Agency, DIMA (Dublin insurance association), the Company of Insurers and the International Machinery Insurers Association. As we look to 2015, our focus will continue to be through the lens of a commitment to Member service, our mission and the well-being of the mutual.

## LEGAL

Legal is committed to educating, informing and, through the auspices of the Legal Advisory Committee (LAC), involving Members' Legal Counsel in important issues at NEIL. In this regard, in March 2014, the LAC hosted the Company's 11th Members' Legal Counsel Conference in Bermuda. The Conference was held over two days and was well attended by Members' Counsel. Andrew Gibbs, the Director of Insurance Supervision for the Bermuda Monetary Authority, the insurance regulatory authority in Bermuda, was the keynote speaker. Other outside speakers included a partner from NEIL's primary Bermuda Counsel, Appleby Global, who discussed the insurance regulatory regime in Bermuda, and the President of Axis Re Bermuda who talked about reinsurance in the context of NEIL. The Conference also included industry reports from NEIL's General Counsel, INPO's General Counsel, and American Nuclear Insurer's Vice President of Claims. There was also a panel session on how these organizations would support the industry in a crisis event.

The LAC met once during the year, in conjunction with the Legal Counsel Conference, and elected two new Members' Counsel and now has a full complement of 15. The Committee remains active, with multiple members participating on various joint Advisory Committee Task Forces. Over the last year, three LAC members served as panelists as part of a first time senior peer review process of a claim dispute under the Dispute Resolution provisions of the NEIL Policy. As an outcome from the process, NEIL and the Member reached a successful resolution of the dispute in question. One LAC member served on the IAC's Emerging Risks Task Force; one served on the EAC's Project Enterprise Risk Task Force; and a third was asked to join the Members' Claims Process Review Working Group. In addition to the above, three LAC members participated in a joint effort with the IAC to review and revise the NEIL Policy forms to create a combined Nuclear Policy Form. Many of these efforts will continue into 2015.

NEIL's Legal staff is also committed to supporting important Company initiatives.

In 2014, these included overseeing the formation and licensing of NEIL's new Captive subsidiary (NEIL Specialty Insurance Company), which provides high excess non-nuclear property insurance to the Members, and Legal staff acted as the primary liaison with the Delaware Department of Insurance. Legal staff continues to provide support for the Insurance Department and various IAC Task Forces, participating in reviewing numerous policy form changes that were identified during the year. Legal staff also played a role in the development of the proposed combined nuclear policy form in conjunction with the joint IAC/LAC Task Force. A

draft of the proposed Policy form was distributed to Members' Legal Counsel and IAC Representatives for review in January. Feedback revealed a general lack of comfort with moving forward with a combined policy form and the effort was discontinued. Legal staff also contributed in the Member PIR Review Task Force by taking a lead role in the drafting of the Proxy Statement for a Special General Meeting of the Members held in November, which culminated in the approval of revisions to NEIL's Bye-Laws. Legal also continued to provide support on notable claims during the year.

From an internal project standpoint, Legal staff participated in the Risk/Controls Maturity Assessment project undertaken by the Company during the year and coordinated a tabletop exercise of the Company's updated Crisis Response and Management Plan. NEIL remains committed to ensuring the Company receives the highest quality in-house and outside legal support in furtherance of the best interests of the Mutual.

## CLAIMS

In 2014, seven events led to 12 new claims being reported under NEIL's core nuclear insurance programs, and nine claims were satisfactorily resolved and closed throughout the course

of the year. Participation on non-core programs, which includes Member Conventional (non-nuclear) programs and General Assumed reinsurance, resulted in the filing of 60 new claims and 42 being closed. NEIL ended the year with 25 open claims in the core nuclear programs and 173 open claims under the Member Conventional/General Assumed programs. 2014 turned out to be another unfavorable year with an overall loss ratio of 137.6%. Over NEIL's first 35 years there had never been a year where the loss ratio exceeded 100%. However, for the period 2008 through 2014, loss ratios exceeded 90% in each year with a high of 315.2% in 2012. NEIL's overall loss ratio since inception in 1973 is 50.1%.

New claims in 2014 included a noteworthy loss at Electrabel's Doel Unit 4 resulting from an apparent act of sabotage. The unit experienced a loss of lubricating oil which caused the unit to trip and coast down without lubrication. Significant damage was sustained to bearings and equipment along the turbine generator shaft line. Investigation revealed that a normally closed and locked drain valve on the lube oil reservoir had been opened allowing the oil to drain to a holding tank. A criminal investigation was ongoing at year-end.



Legal Advisory Committee (LAC)  
J. Bradley Fewell, Esq., Exelon Corporation  
(pictured with Ken Manne)

Other claims of note that continued to be active in 2014 included property damage and accidental outage claims related to steam generator tube damage discovered in 2012 at both units at Southern California Edison's San Onofre Station; a 2013 property damage claim associated with a generator stator lifting rig failure at Entergy's ANO Unit 1, which resulted in significant damage to the turbine building and associated equipment; property damage and accidental outage claims associated with a 2011 flood at Omaha Public Power District's Fort Calhoun Station; and a 2013 main step-up transformer failure at South Texas Project's Unit 2 that initiated a sequence of events that ultimately led to significant damage involving the turbine generator. During the adjustment of this claim, a disagreement arose between NEIL and the Member concerning a particular coverage issue. The parties agreed to conduct a senior peer review process as provided for in the Dispute Resolution provisions contained in the insurance policy. A senior review panel comprised of representatives from the Members' Legal Advisory Committee considered the issue and offered an opinion, which led to a satisfactory disposition of the dispute.

Recognizing that challenging issues involving several claims over the past few years have caused tension between NEIL and the Member claimants, a Claims Working Group comprised of representatives from the three Member advisory committees was established in late 2014. The Working Group's primary objective is to discuss the alignment of NEIL's claims approach with the mutual nature and interests of NEIL and its Members. It is intended to act as a resource to NEIL Leadership, and to provide insights and recommendations to enhance the claims handling process and the mutual understanding of that process.

#### LOSS CONTROL

NEIL Loss Control is committed to mitigating Member risk and helping prevent damaging loss events through the use of our evaluation and assessment tools and processes. Over the course of the last several years, Loss Control has been moving towards a Loss Prevention philosophy. This transition continued in 2014 both in the implementation of the Loss Control Program and changes in the Leadership of the program. Under the guidance of Harry Phillips, Vice President of Loss Control, the focus on preventing losses has resulted in new programs and processes such as the SHALL Handling Program, Turbine Generator Risk Assessments, Course of Construction Project Reviews and the creation of the Project Enterprise Risk Task Force. Tom Trepanier has stepped into the position of Vice President of Loss Control following Harry's retirement in December. Looking towards the future, actions will continue to address Project Enterprise Risks and to address an increasing trend in SHALL Recommendations. Change management will be important as additional focus is placed on the review and assessment of a broader scope of risks (e.g., heavy lifts, concrete, electrical supply) and to ensure that

the technical support provided by the Engineering Advisory Committee (EAC) is aligned with the changing scope of the Loss Control program.

In 2014, NEIL's Loss Control Department conducted five types of assessments in a coordinated effort to decrease the number and severity of losses at Member facilities. The most frequent and common types of evaluations are for Standards compliance. These are conducted at operating, shutdown and new construction sites. Additionally, NEIL Loss Control performs comprehensive risk assessments of each insured turbine-generator shaft line on a regular basis. NEIL Loss Control has performed risk assessments on projects subject to the Course of Construction sublimit and others that may present a significant risk to the Members. These assessments use tools developed to help identify and mitigate Enterprise Risk.

The EAC Project Enterprise Risk Task Force was established based on risk insights provided by six industry CNOs and Executives at the NEIL Risk Dialog meeting in January. The need for Task Force creation was later reinforced by issuance of the Level One INPO Event Report titled 'Integrated Risk—Healthy Technical Conscience.' The Task Force developed methods to detect risk early in the project timeline, allowing mitigating actions or alternative methods of accomplishing the task to be contemplated and executed when appropriate. During the year, NEIL staff, supported by the Task Force and industry experts, performed pilot assessments of major projects at three Member sites. The Task Force is using the information gathered from these pilot assessments to develop a program for continued NEIL review of Member project risk management program implementation and to understand latent operational risk drivers when performing large or complex projects.

In an effort to identify and address Emerging Risks, the Boiler and Machinery and Property Subcommittees maintain the subject on their semiannual meeting agendas.

The identified risks are analyzed for opportunities of preventive action and risk reduction efforts by other agencies. Results and recommendations are presented to the Engineering Advisory Committee and NEIL Leadership for endorsement and action if needed.

To promote the vision of Loss Prevention among the Membership, two workshops focusing on NEIL's greatest risk areas and communication with the Membership were held.

A Boiler & Machinery Plant Contact workshop was held for the personnel who serve as plant contacts to NEIL during site evaluations. The workshop gave Loss Control a chance to update these individuals on changes to the Standards and policies, industry events, and new products available to the industry. An example of a new product discussion was a webinar, for the workshop attendees, where EPRI turbine personnel discussed research of strain gauge technology for monitoring torsional stresses along the turbine shaft line. A second workshop focusing on Emerging Risks was held for Member main generator engineers.

The technical exchange during this workshop provided insights on topics that included generator testing, inspection and monitoring methods, interaction with the grid, and generator lifting and rigging issues. The workshops provided the attendees time to interface with their counterparts throughout the industry.

Providing high quality service to the Membership is a focus for the Loss Control staff. A method to store Loss Control data and systematically deliver the information to the Insurance Department is being added to the Company's interactive database management system known as Nterprise. A team of Loss Control Representatives worked to develop the module that will support the Evaluation Process, documentation

of Recommendations, and the flow of information to Underwriting. The transition to the centralized location ensures the quality and consistency of the information provided to the membership.

The need for an EAC Task Force to review the risk profile of shutdown sites and the applicability of the NEIL Standards at those sites became evident when several Member sites entered their decommissioning phase. A Task Force made up of Members with decommissioning sites was formed to perform the review. The group outlined a Loss Control Bulletin that communicates the stages of decommissioning, communications with NEIL, and inspection expectations for decommissioning sites to the Membership.



*Engineering Advisory Committee (EAC) Robert Tomala, Exelon Generation (pictured with Tom Trepanier (left) and Harry Phillips (right))*

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as of March 31, 2015

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Vice President—International

Thomas E. Trepanier  
Vice President—Loss Control

Bruce A. Sassi  
Vice President—Member Insurance  
(President/COO—March 2015)



Harry J. Phillips  
Vice President—Loss Control  
(Retired December 2014)

Gregory J. Blackburn  
Vice President and CIO

Gregory G. Wilks  
Vice President—Claims

David B. Ripsom  
CEO

Richard G. White  
Sr. Vice President and CFO

Kenneth C. Manne  
Vice President and General Counsel

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**Timothy C. Fairies**  
Secretary

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as of March 31, 2015

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Alabama Power Company  
Arizona Public Service Company  
Bonneville Power Administration  
City of Anaheim  
City of Riverside  
Connecticut Yankee Atomic Power Company  
Consolidated Edison Company of New York, Inc.  
Consumers Energy Company  
Department of Water and Power of the City of Los Angeles  
Dominion Energy Kewaunee, Inc.  
Dominion Nuclear Connecticut, Inc.  
DTE Electric Company  
Duke Energy Carolinas, LLC  
Duke Energy Florida, Inc.  
Duke Energy Progress, Inc.  
EDF Inc.  
El Paso Electric Company  
Electrabel S.A.  
Endesa Generación, S.A.  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Nuclear FitzPatrick, LLC  
Entergy Nuclear Generation Company  
Entergy Nuclear Indian Point 2, LLC  
Entergy Nuclear Indian Point 3, LLC  
Entergy Nuclear Palisades, LLC  
Entergy Nuclear Vermont Yankee, LLC  
Exelon Generation Company, LLC  
FirstEnergy Nuclear Generation, LLC  
Florida Power & Light Company  
Gas Natural SDG, S.A.  
Georgia Power Company  
Hidroeléctrica del Cantábrico, S.A.  
Iberdrola Generación Nuclear, S.A.  
Indiana Michigan Power Company  
Interstate Power and Light Company  
Jersey Central Power and Light Company

Kansas City Power & Light Company  
Kansas Electric Power Cooperative, Inc.  
Kansas Gas and Electric Company  
Long Island Lighting Company d/b/a LIPA  
Luminant Generation Company LLC  
Madison Gas & Electric Company  
Metropolitan Edison Company  
MidAmerican Energy Company  
Minergy LLC  
Municipal Electric Authority of Georgia  
New York State Electric & Gas Corporation  
NextEra Energy Duane Arnold, LLC  
NextEra Energy Point Beach, LLC  
NextEra Energy Seabrook, LLC  
Niagara Mohawk Power Corporation  
Northern States Power Company  
NRG Energy, Inc.  
Nuclenor, S.A.  
Pacific Gas and Electric Company  
Pennsylvania Electric Company  
Pepco Holdings, Inc.  
PPL Susquehanna, LLC  
PSEG Power LLC  
Public Service Company of New Hampshire  
Public Service Company of New Mexico  
Rochester Gas & Electric Corporation  
Sacramento Municipal Utility District  
Salt River Project Agricultural Improvement and Power District  
San Diego Gas & Electric Company  
South Carolina Electric & Gas Company  
Southern California Edison Company  
Southern California Public Power Authority  
STP Nuclear Operating Company  
System Energy Resources, Inc.  
Tennessee Valley Authority  
The Connecticut Light and Power Company  
Union Electric Company  
Virginia Electric & Power Company  
Western Massachusetts Electric Company  
Wisconsin Power & Light Company  
Wisconsin Public Service Corporation

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as of March 31, 2015

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Corporate Attorney  
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### Michael Kaminski

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### John Kratchmer

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## DIVERSITY & INCLUSION

NEIL continued its ongoing commitment to Diversity & Inclusion (D&I) in 2014.

Based in part on past survey results regarding D&I at NEIL, as well as insights gleaned from past successes and failures of specific D&I initiatives, NEIL's D&I team conducted a review and prepared an update to NEIL's D&I plan that was approved by the NEIL Leadership Team in 2014. The revised plan, which is designed to be more right-sized for the Company than the previous plan, has four key areas of focus:

- Continue to promote a culture of inclusion at NEIL.
- Ensure a commitment to Diversity & Inclusion in the hiring and development processes at NEIL.
- Leverage support for NEIL's community involvement efforts.
- Educate and inform NEIL employees on Diversity & Inclusion.

In 2014 NEIL once again had a very active year in terms of recruiting and hiring, and the Company's commitment to ensure diversity in the hiring process continued. Nine new employees joined the Company and ten positions were filled. Qualified, diverse individuals were identified and included in the pool of candidates for all open positions, except one. Additionally, the changes seen in the Company's demographics over the past few years suggest progress continues to be made in creating a more diverse workplace. The data shows that 39% of new hires over the last three years are female and 22% are minorities.

Additionally, the opening session of a Company-wide training days session held on November 4 and 5 was focused on Diversity & Inclusion. Stacey Mobley, one of the Company's Independent Directors and the former General Counsel at DuPont, facilitated this session, and he provided the staff with insights from his experiences in putting in place a Diversity & Inclusion program at DuPont. Mr. Mobley also discussed the Board's support for, and the importance of, Diversity & Inclusion at NEIL, including creating an environment where there is trust and people feel their opinions are valued. Feedback from this session was positive with 94% of NEIL employees who completed a survey (77% participation) strongly agreeing or agreeing that the session was beneficial.

For 2015, the D&I Team will work on promoting the key areas discussed above from the revised plan in support of D&I at NEIL.

Nuclear Electric Insurance Limited (NEIL), located in Wilmington, Delaware, insures domestic and international nuclear utilities for the costs associated with accidental interruptions, damages, contamination and related nuclear risks. NEIL was founded in 1973 with the formation of Nuclear Mutual Limited (NML) in Bermuda. NML was formed by a group of U.S. electric utilities as an alternative to the commercial nuclear insurance market. NEIL was formed in 1980 to issue excess property and accidental outage policies to complement the policies being issued by NML. In 1988, both companies moved their operations from Bermuda to Wilmington, Delaware, and, in 1997, NML was merged into NEIL. In 1999, the Company expanded operations by launching Overseas NEIL Limited (ONEIL) in Dublin, Ireland.



**Nuclear Electric Insurance Limited**

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