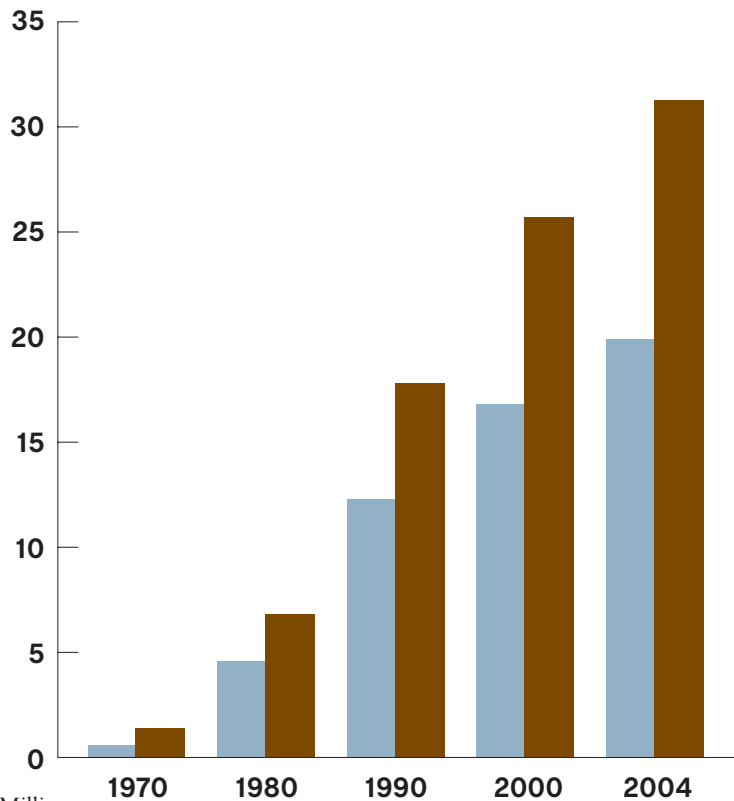


How Your 2004 Operating Dollars Were Used



Energy Sales vs. Power Costs



Millions of Dollars

| | Power Costs | Energy Sales |
|-------------|----------------|----------------|
| 1970 | \$0.6 million | \$1.4 million |
| 1980 | \$4.6 million | \$6.8 million |
| 1990 | \$12.3 million | \$17.8 million |
| 2000 | \$16.8 million | \$25.7 million |
| 2004 | \$19.9 million | \$31.3 million |

| Members Served | | |
|----------------|-------------|-------------|
| <u>1950</u> | <u>1980</u> | <u>2003</u> |
| 5,566 | 12,596 | 19,987 |
| <u>1960</u> | <u>1990</u> | <u>2004</u> |
| 7,680 | 15,846 | 20,148 |
| <u>1970</u> | <u>2000</u> | |
| 9,356 | 19,525 | |

| Average Monthly kwh per member | | |
|--------------------------------|-------------|-------------|
| <u>1950</u> | <u>1980</u> | <u>2003</u> |
| 104 | 943 | 1,377 |
| <u>1960</u> | <u>1990</u> | <u>2004</u> |
| 325 | 1,099 | 1,436 |
| <u>1970</u> | <u>2000</u> | |
| 611 | 1,367 | |

| Total Assets (in millions) | | |
|----------------------------|-------------|-------------|
| <u>1970</u> | <u>1990</u> | <u>2003</u> |
| \$5.0 | \$24.3 | \$55.5 |
| <u>1980</u> | <u>2000</u> | <u>2004</u> |
| \$12.4 | \$43.9 | \$61.7 |

Pee Dee Membership Corporation



Millard E. Russell
District 1
Years of Service: 30



Benjamin R. Lybrand
District 2
Years of Service: 7



Winnie M. Bennett
District 3
Years of Service: 5



Richard H. Johnson
District 4
Years of Service: 32



Donald A. Thompson
District 5
Years of Service: 7



Marcia A. Lambeth
District 6
Years of Service: 5



Benjamin F. McCallum, Jr.
District 7
Years of Service: 15



Charles D. Smith
District 8
Years of Service: 25



Neal D. Hicks, Jr.
Director at Large
Years of Service: 20



Craig W. Ratliff
Director at Large
Years of Service: 27



Richard Melton
Director at Large
Years of Service: New



Pee Dee Electric Membership Corporation



Touchstone Energy
The power of human connections



Pee Dee Electric

Annual Report 2004

President and CEO's Report

Pee Dee Electric has a long, proud tradition of providing reliable and affordable electricity and quality customer service to our cooperative members. Therefore, it is with great pride and pleasure we present to you, the member-owners of Pee Dee Electric Membership Corporation, this Annual Report on the activities and challenges the cooperative faced during the past 12 months, as well as the cooperative's 2004 financial report.

Activity Highlights

During the past two years, Pee Dee Electric has had three major ongoing projects. The first was the installation of the automated meter reading system. This system provides cost savings and many customer service advantages for the cooperative and its members. During the past year, the cooperative completed the installation on 99% of our meters. We have completed the installation of all residential meters, but we still have some commercial meters left to install.

The second major project was the installation of a geographical information system (GIS). A thorough inventory of the cooperative's electric system (poles, meters, services, etc.) has been completed. GIS will allow the cooperative to make better decisions on prioritizing the need for system upgrades, automate our work order system, and provide our customer service representatives with a graphic-based information database to provide better service to our members.

The third major project was the construction of an 115kV substation in the Rockingham District. The construction was completed in May 2005 and was named McKinney Substation to honor Heyward McKinney, who served as the cooperative's General Manager from 1946-1981. The substation has the capacity to meet the electrical needs in the Rockingham-Hamlet area for many years to come.

Pee Dee Electric and its members continue to support the communities we serve. More than 85% of our cooperative members agreed to participate in the Care to Share Program. Members participate by allowing the cooperative to round up their electric bills each month to the nearest dollar. The amount rounded up is placed in a separate fund, which will be distributed to non-profit organizations for special projects that have an impact on a significant portion of our cooperative members.

Pee Dee Electric also supports the youth in our communities. The cooperative's Awareness Committee awarded six \$1,000 scholarships to our members' sons and daughters who are graduating from high school. The monies were raised through a golf tournament sponsored by the committee. The cooperative also provides scholarship monies for local community colleges. Through the Bright Ideas Program, the cooperative awarded \$11,000 to area schools for innovative teaching projects. These are just a few ways your cooperatives supports our youth and communities.

I am proud to report that the cooperative's investment in Sandhills Utility Services LLC continues to be rewarding and successful. Central Electric, Lumbee River EMC, Pee Dee Electric and South River EMC formed and invested in Sandhills Utility Services to own and operate the electric distribution system on Fort Bragg, Pope Air Force Base and Camp Mackall. We are proud of the accomplishments Sandhills has made on these bases and the return on our investment we have received in this endeavor.

Challenges

The most pressing challenge the cooperative and members continue to face is the increasing cost of wholesale power. The escalation in power costs has been driven by high prices for natural gas and coal. These are two of the three main fuels used to generate electricity. The increasing cost of natural gas and coal gets passed on to the cooperative. In turn, the cooperative must pass these costs on to our

members through the Wholesale Power Cost Adjustment, which is commonly called the "fuel factor."

To show how fast fuel prices have escalated, the cooperative's "fuel factor" was a credit of 19 cents per 1,000 kwhs in January 2004. By March 2005, the "fuel factor" had increased to a charge of \$8.07 per 1,000 kwhs. The cooperative continues to work with our wholesale power supplier, North Carolina Electric Membership Corporation, to minimize the impact of escalating fuel prices.

The cooperative continues to face financial challenges in other areas of the business as well. One area of concern is the slow growth we are experiencing in our service area. During 2004, our growth in the number of meters was less than 1%. The slow growth makes it increasingly difficult for the cooperative to absorb the significant cost increases we have incurred in the cost of fuel for cooperative vehicles, materials (caused by escalating transportation costs and steel prices), medical insurance and other expenses. In an attempt to cope with this situation, we are not rebuilding existing lines as aggressively as we once were and are cutting costs where we can. Frankly, it will be increasingly difficult to continue absorbing the cost increases we are experiencing.

Financial Results

During 2004, operating revenues totaled \$31.2 million, which was an 8% increase from 2003. The cooperative, once again, experienced slow growth during 2004. The cooperative had a net gain of only 161, or 0.8%, in new electric accounts served during the year. At the end of 2004, Pee Dee Electric provided electric service to 20,148 accounts. Your cooperative sold more than 346 million kWhs of electricity to our members, which was an increase of 5% over the previous year.

Purchased Power costs totaled \$19.9 million during 2004, which was an increase of 10% over 2003. Purchased Power Costs represent 64.6% of the total expenses of the cooperative.

Total Margins were \$687,000 during 2004. The increase in kWh sales and revenues was driven by higher usage during the summer of 2004 compared to 2003. However, margins remained relatively flat due to increasing wholesale power and other costs experienced during the year. Total Member Equities, which represents the members' ownership interest in Pee Dee Electric, totaled \$19.9 million as of December 31, 2004, which means cooperative members own 32% of the cooperative's \$61.7 million business.

In closing, we would like to thank you, our member-owners, for your interest in this wonderful organization and the tremendous support we receive from you. It is our commitment to continue our mission of providing reliable electric service to our members and focusing on value, quality customer service, and enhancing the quality of life in the communities we serve.



Richard H. Johnson
President
(left)



Donnie Spivey
CEO & Executive
Vice President
(right)

Consolidated Balance Sheet

| | ASSETS AND OTHER DEBITS | | |
|---|-------------------------|---------------------|---------------------|
| | 2002 | 2003 | 2004 |
| TOTAL UTILITY PLANT | \$58,357,090 | \$64,174,472 | \$68,990,339 |
| Less Provision for Depreciation | 14,854,409 | 15,623,266 | 16,313,101 |
| NET UTILITY PLANT | \$43,502,681 | \$48,551,206 | \$52,677,238 |
| OTHER PROPERTY AND INVESTMENTS | | | |
| Investments in Associated Organizations | \$2,409,022 | 2,563,531 | 2,728,224 |
| Investments in Economic Development Projects | 355,907 | 355,907 | 265,759 |
| Other Investments | 57,773 | 44,555 | 0 |
| TOTAL OTHER PROPERTY & INVESTMENTS | \$2,822,702 | \$2,963,993 | \$2,993,983 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$451,901 | 380,039 | 1,130,368 |
| Accounts receivable | 2,461,923 | 2,157,012 | 2,509,913 |
| Materials and Supplies | 915,292 | 894,699 | 1,234,004 |
| Other current assets | 142,263 | 76,630 | 89,879 |
| TOTAL CURRENT ASSETS | \$3,971,379 | \$3,508,380 | \$4,964,164 |
| Deferred Charges | 277,298 | 492,208 | 1,088,106 |
| TOTAL ASSETS AND OTHER DEBITS (What We Own) | \$50,574,060 | \$55,515,787 | \$61,723,491 |
| LIABILITIES AND EQUITIES | | | |
| EQUITIES | | | |
| Patronage Capital | \$18,655,976 | \$18,872,357 | \$19,196,123 |
| Other Equities | 470,656 | 527,410 | 749,308 |
| TOTAL EQUITIES | \$19,126,632 | \$19,399,767 | \$19,945,431 |
| NONCURRENT LIABILITIES | | | |
| RUS Mortgage Notes | \$15,464,671 | 21,970,968 | 25,092,167 |
| CFC Mortgage Notes | 5,738,684 | 5,479,271 | 7,081,674 |
| Other | 998,063 | 1,071,508 | 1,126,743 |
| Other Long-Term Debt - NCEMC Loan | 330,000 | 330,000 | 763,214 |
| Vehicle notes | 223,094 | 86,158 | 182,510 |
| TOTAL NONCURRENT LIABILITIES | \$22,754,512 | \$28,937,905 | \$34,246,308 |
| CURRENT LIABILITIES | | | |
| Current portion of long-term debt | \$853,371 | 891,945 | 1,532,683 |
| Accounts Payable | 3,589,104 | 3,590,386 | 4,004,158 |
| Advances on line of credit | 3,050,000 | 1,500,000 | 600,000 |
| Consumer Deposits | 554,442 | 656,166 | 758,270 |
| Other Liabilities | 459,060 | 491,039 | 636,641 |
| TOTAL CURRENT & ACCRUED LIABILITIES | \$8,505,977 | \$7,129,536 | \$7,531,752 |
| Deferred Credits | 186,939 | 48,579 | 0 |
| TOTAL LIABILITIES (What We Owe) AND EQUITIES | \$50,574,060 | \$55,515,787 | \$61,723,491 |

Consolidated Statement of Income and Expense

| | 2002 | 2003 | 2004 |
|--|--------------|--------------|--------------|
| TOTAL OPERATING REVENUE (What We Took In) | \$29,800,943 | \$29,057,355 | \$31,300,201 |
| OPERATING EXPENSES | | | |
| Cost of Purchased Power | 18,511,586 | 18,067,039 | 19,894,695 |
| Internet Access Expense | 342,323 | 334,645 | 161,163 |
| Transmission Expense | 967 | 1,009 | 1,110 |
| Distribution Expense - Operations | 1,295,022 | 1,216,269 | 1,166,180 |
| Distribution Expense - Maintenance | 1,346,557 | 1,549,521 | 1,662,128 |
| Consumer Accounts Expense | 979,158 | 1,010,979 | 934,285 |
| Customer Service and Information Expense | 79,161 | 194,376 | 226,642 |
| Sales Expense | 35,340 | 59,924 | 73,237 |
| Administrative and General Expenses | 2,004,689 | 2,146,766 | 2,148,207 |
| Depreciation and Amortization Expense | 1,687,255 | 1,848,299 | 2,051,761 |
| Taxes | 957,037 | 925,646 | 1,000,007 |
| Interest on Long-Term Debt | 1,067,500 | 1,253,012 | 1,422,960 |
| Interest Expense - Other | 109,576 | 41,676 | 56,365 |
| Other | 24,690 | 21,297 | 29,006 |
| TOTAL OPERATING EXPENSES (What We Paid Out) | \$28,440,861 | \$28,670,458 | \$30,827,746 |
| OPERATING MARGINS before patronage allocations | \$1,360,082 | \$386,897 | 472,455 |
| Patronage allocations | 54,641 | 36,507 | 70,652 |
| NET OPERATING MARGINS | 1,414,723 | 423,404 | 543,107 |
| NON-OPERATING MARGINS | | | |
| Interest Income | 40,616 | 50,288 | 38,877 |
| Gain (loss) on sale of plant | 23,092 | (23,269) | (31,093) |
| Miscellaneous | 16,455 | 12,608 | 14,031 |
| Loss on investment | (2,219) | 142,077 | 148,853 |
| Income tax expense | | | 26,000 |
| TOTAL MARGINS (What We Had Left Over) | \$1,492,667 | \$605,108 | \$687,775 |
| <i>The above statements are presented on a consolidated basis. The records of Pee Dee Electric were audited for the period January 1, 2004 to December 31, 2004 by Adams, Akin, Jenkins & Cheatham, pc of Richmond, Virginia. A copy of the audit is available for inspection by any member.</i> | | | |
| ELECTRIC AND OTHER STATISTICS | | | |
| KWH Purchased: | | | |
| SEPA | 3,768,421 | 19,711,659 | 10,214,406 |
| NCEMC - CP&L Area | 283,450,146 | 269,318,945 | 294,410,394 |
| NCEMC - Duke Area | 76,756,110 | 72,312,078 | 71,253,086 |
| TOTAL PURCHASED | 363,974,677 | 361,342,682 | 375,877,886 |
| KWH Sales: | | | |
| Residential and Farm | 268,718,079 | 260,822,723 | 272,695,420 |
| Commercial | 59,299,684 | 64,695,432 | 69,325,513 |
| Large Power | 4,630,060 | 4,146,000 | 4,052,726 |
| TOTAL SALES | 332,647,823 | 329,664,155 | 346,073,659 |
| Average Monthly KWH Usage | 1,399 | 1,377 | 1,436 |
| Average Cost per KWH Sold (cents) | 8.66 cents | 8.53 cents | 8.83 cents |
| Number of Members at Year End | 19,911 | 19,987 | 20,148 |