

## SUMMARY INFORMATION *for Investors*

**October 2004**

LIFE RUNS ON ENERGY<sup>SM</sup>





## **Investment Considerations**

The information which follows contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. These forward-looking statements include references to TECO Energy's anticipated capital investments, operating plans, future transactions and other plans. Certain factors that could cause actual results to differ materially from those projected in these forward-looking statements include the following: energy price changes affecting the merchant plants at TECO Wholesale Generation, Inc. (formerly known as TECO Power Services) (TWG); TECO Energy's ability to complete the transfer of the ownership of the Union and Gila River power plants to the lending banks as described here in or otherwise insulate itself from the adverse financial impact of those plants; any unanticipated need for additional debt or equity capital that might result from lower than expected cash flow or higher than projected capital requirements; and TECO Coal's ability to successfully operate its synthetic fuel production facilities in a manner qualifying for Section 29 federal tax credits which could be impacted by changes in law, regulation or administration. Other factors include: general economic conditions, particularly those in Tampa Electric's service area affecting energy sales; weather variations affecting energy sales and operating costs; regulatory actions affecting Tampa Electric, Peoples Gas System or TWG; commodity price changes affecting the competitive positions of Tampa Electric and Peoples Gas System, as well as the margins at TECO Coal; changes in and compliance with environmental regulations that may impose additional costs or curtail some activities; TWG's ability to successfully operate its projects; the ability of TECO Energy's subsidiaries to operate equipment without undue accidents, breakdowns or failures; and, interest rates, credit ratings and other factors that could impact TECO Energy's ability to obtain access to sufficient capital on satisfactory terms. Some of these factors and others are discussed more fully in the "Investment Considerations" section. Any forward-looking statement speaks only as of the date on which it was made, and the company undertakes no obligation to update any forward-looking statement to reflect subsequent developments or circumstances other than as may be required by law.



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## Summary Information

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### Investment Considerations

## **.Overview**



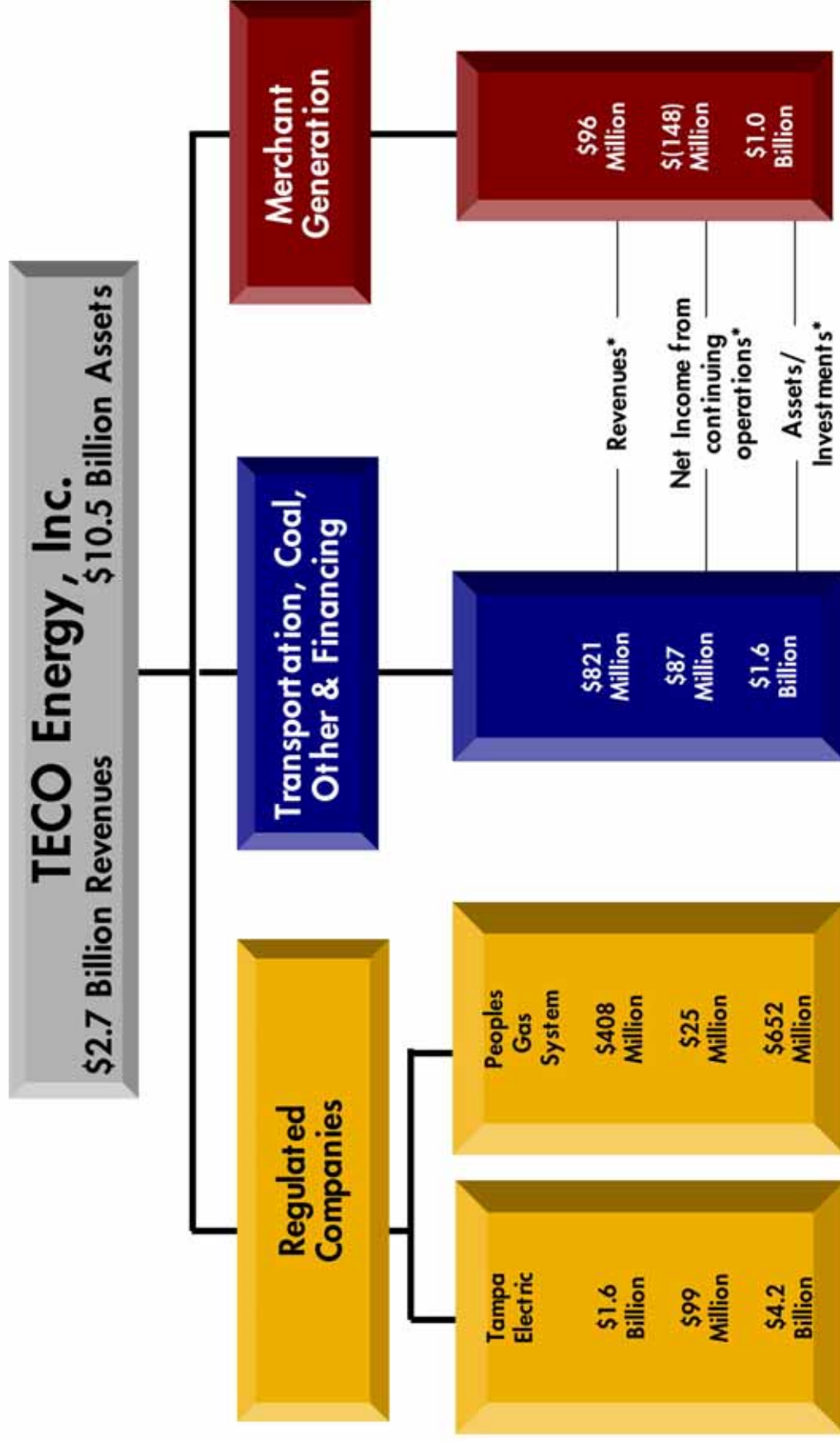
## **Strategic Focus**

- Focus on the regulated Florida utilities
- Reduce risk from merchant power generation sector
- Improve financial position

## **Year-to-Date 2004 Highlights**

- Tampa Electric's 1,022 MW Bayside Power Station Unit 2 commercial January 2004
- TECO Coal sold an additional 40 percent interest in its synthetic fuel production facilities
- Replaced TECO Energy credit facility due to expire November 2004 with new \$200 million, three year bank credit facility
- Named Sherrill W. Hudson new Chairman and CEO
- Sold our 50 percent interest in the Hamakua Power Station for \$12 million in cash proceeds
- Sold our 50 percent interest in the Texas Independent Energy Partnership and avoided \$16 million in required cash payments in 2004 and 2005
- Approximately 60 percent (\$270 million) of our TECO Capital Trust II equity units tendered in early settlement offer and associated trust preferred debt extinguished; repurchased and retired an additional \$123 million of trust preferred in October remarketing
- Definitive agreements for the transfer of the Union and Gila power stations to the lending banks finalized
- FERC 203 filing to approve change of ownership made
- Resolved the Commonwealth Chesapeake arbitration and reduced cash outflow by \$19 million

# 2003 Financial Summary



\* Unconsolidated



## Capital Investments

	<i>Actual</i> 2003	<i>Forecast (millions)</i>			<i>Total</i> 2004-2008
		2004	2005	2006-2008	
<b>Florida Operations</b>	337	223	255	916	1,394
<b>Independent Power</b>	276	7	25	75	107
<b>Transportation</b>	20	20	20	60	100
<b>Other</b>	<u>21</u>	<u>27</u>	<u>19</u>	<u>53</u>	<u>99</u>
<b>Total</b>	\$654	\$ 277	\$ 319	\$ 1,104	\$ 1,700

- For 2004, Tampa Electric expects to spend \$183 million, consisting of \$9 million for the completion of the repowering project at the Bayside Station and \$174 million to support system growth and generation reliability.
- Tampa Electric's total capital expenditures over the 2005-2008 period are projected to be \$1,006 million, including \$221 million for NOx controls in compliance with the Environmental Consent Decree. The environmental compliance expenditures are eligible for recovery of operating costs, depreciation and a return on investment through the Environmental Cost Recovery Clause.
- Capital expenditures for Peoples Gas System are expected to be about \$40 million in 2004. Total capital expenditures for PGS during the 2005-2008 period are projected to be \$160 million. Included in this amount is approximately \$25 million annually for projects associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety.
- TECO Wholesale Generation (TWG) expects to invest \$7 million in 2004 for capitalized maintenance, and \$100 million in the 2005-2008 period for the completion of the Dell and McAdams power stations only if market conditions justify the expenditures.
- The transportation and other unregulated companies expect to invest \$47 million in 2004 and \$155 million during the 2005-2008 period. Included in these amounts is normal renewal and replacement capital, including coal mining equipment and river barge replacements.




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**Credit Rating/Senior Unsecured Debt**


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<i>(As of October 15, 2004)</i>	<i>Fitch</i>	<i>Moody's</i>	<i>Standard &amp; Poor's</i>
Tampa Electric	BBB+	Baa2	BBB-
TECO Finance / TECO Energy	BB+	Ba2	BB
Outlook	Negative	Negative	Stable

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In July 2004, Standard & Poor's lowered the ratings on TECO Energy's senior unsecured debt from BB+ with a negative outlook to BB with a stable outlook. At the same time, S&P affirmed Tampa Electric Company's senior unsecured debt rating at BBB- and changed the outlook to stable. In making the rating distinction between the utility and the parent company S&P acknowledged the wide differential in stand-alone credit profiles between Tampa Electric and TECO Energy. S&P stated in affirming the Tampa Electric ratings that the separation was substantiated by management's actions over the past three years that have been consistent with maintaining the utility's strong investment-grade credit rating of BBB-.

Any downgrades in credit ratings may affect TECO Energy's ability to borrow and may increase financing costs, which may decrease earnings. TECO Energy's interest expense is likely to increase when maturing debt is replaced with new debt with higher interest rates due to the lower credit ratings. (See Investment Consideration section).





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## **Environmental Highlights**

TECO Energy companies are committed to protecting the environment, as evidenced by a wide variety of projects and affiliations. (See Tab VII Appendix for additional information).

### **Tampa Electric**

- By 2010 Tampa Electric's recent and future initiatives are projected to result in the reduction of SO<sub>2</sub>, NO<sub>x</sub>, and PM emissions by 89 percent, 90 percent, and 70 percent, respectively, below 1998 levels. With these improvements in place, Tampa Electric's facilities will meet the same standards required of new power generating facilities and help to significantly enhance the quality of the air in the community.

Tampa Electric has engaged in numerous other activities and projects to protect the environment:

- Stewardship programs to protect and restore important environmental sites
- Recapture of coal combustion products for use in manufacturing processes
- Recycling programs
- Green Energy and Energy Conservation programs

### **Peoples Gas System**

- Peoples Gas offers energy conservation rebates to both residential and commercial customers as incentives to increase the conservation of energy resources with the installation of new energy efficient natural gas appliances.



## **Environmental Highlights – continued**

### **TECO Transport and TECO Coal**

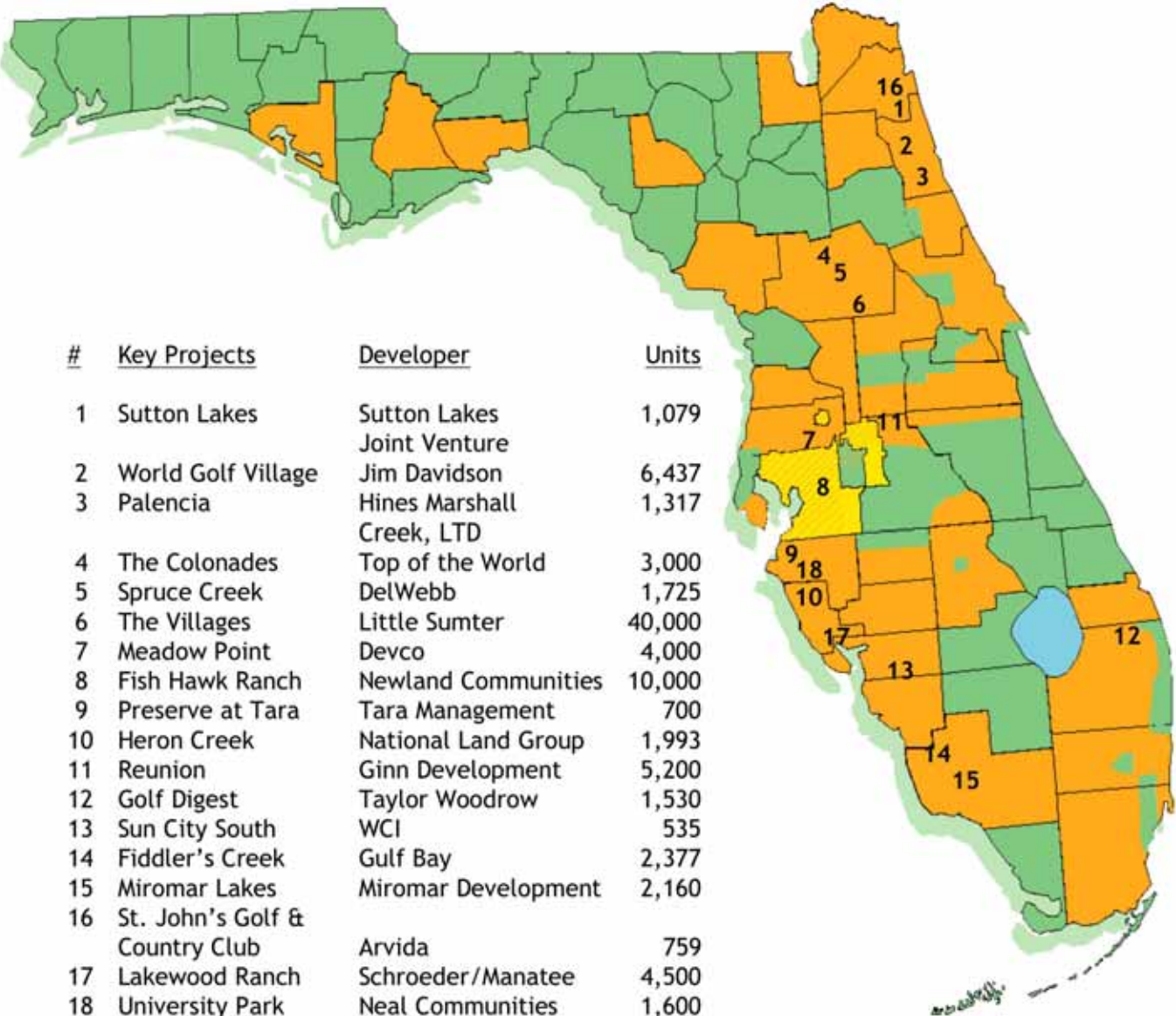
- The transportation and coal companies are engaged in various community programs of environmental stewardship.
- TECO Coal is testing innovative reclamation methods.

### **Unregulated Power Generation**

- Project designs incorporate state-of-the-art emission control technologies, including low nitrogen oxide (NO<sub>x</sub>) combustion technologies to control emissions of NO<sub>x</sub> and carbon monoxide (CO) while firing on natural gas or fuel oil.

## **Regulated Companies**

# Developers / Builders



#	Key Projects	Developer	Units
1	Sutton Lakes	Sutton Lakes Joint Venture	1,079
2	World Golf Village	Jim Davidson	6,437
3	Palencia	Hines Marshall Creek, LTD	1,317
4	The Colonades	Top of the World	3,000
5	Spruce Creek	DelWebb	1,725
6	The Villages	Little Sumter	40,000
7	Meadow Point	Devco	4,000
8	Fish Hawk Ranch	Newland Communities	10,000
9	Preserve at Tara	Tara Management	700
10	Heron Creek	National Land Group	1,993
11	Reunion	Ginn Development	5,200
12	Golf Digest	Taylor Woodrow	1,530
13	Sun City South	WCI	535
14	Fiddler's Creek	Gulf Bay	2,377
15	Miromar Lakes	Miromar Development	2,160
16	St. John's Golf & Country Club	Arvida	759
17	Lakewood Ranch	Schroeder/Manatee	4,500
18	University Park	Neal Communities	1,600

Total expected over next 7 years 88,912



Tampa Electric Company, incorporated in 1899, is TECO Energy's principal subsidiary. Tampa Electric, the electric division, now serves over 618,000 customers in its 2,000-square-mile West Central Florida service territory, including Hillsborough County and parts of Pasco, Pinellas and Polk counties.

### **Strengths**

- One of the best energy markets in the United States
- Strong local employment and new business growth
- Forecast strong energy sales growth of approximately 3 percent annually over the next five years
- Favorable customer mix – 84 percent of base revenues from residential and commercial
- The consolidation of certain functions among business units resulted in personnel reductions of approximately 7 percent in 2002, and an additional 5 percent in 2003



## **Hurricane Season**

- Hurricane Charley
  - \* High winds, small footprint
  - \* Affected Eastern portion of service area leaving 78,000 customers without power of which 85 percent were restored in two days
- Hurricane Frances
  - \* Lower wind speeds and broader footprint with wires down due to trees
  - \* Affected the entire service area leaving 278,000 without power of which 85 percent were restored in three days
- Hurricane Jeanne
  - \* A cross between Charley and Frances with higher winds and more structural damage
  - \* Affected the entire service area leaving 285,000 customers without power of which 90 percent were restored in five days

## **Hurricane Financial Impact**

- \$43 million unfunded storm damage reserve, with \$4 million in annual accrual since authorized in 1994
- \$60 million estimated costs from the impact of Hurricanes Charley, Frances and Jeanne
- Minimal impact on earnings and dividends to TECO Energy, approximately \$5 million in lost revenue
- Tampa Electric has filed with the FPSC for deferral of these costs until the company seeks alternative accounting treatment for the cost that exceeds the reserve balance. A decision on this matter is expected by the end of October.



## Electric operations

### Installed Capacity

Tampa Electric has five electric generating plants and seven combustion turbine units in service with a total net winter generating capability of 4,331 megawatts. These plants, the fuel they use and their capabilities are:

<i>Plant</i>	<i>Fuel</i>	<i>MW (at 6/30/04)</i>
Big Bend	Coal	1,759
Bayside 1	Natural gas	779
Bayside 2	Natural gas	1,040
Polk Unit 1	Coal / oil gasification	260
Polk Unit 2	Natural gas / Oil	180
Polk Unit 3	Natural gas / Oil	180
Phillips	Diesel or #2 oil	34
Big Bend peaking units	Diesel or #2 oil	85
City of Tampa	Natural gas or #2 oil	6
System total		4,323

### Gannon Station repowering

- The repowering of Gannon station to Bayside Station was completed with the conversion of Gannon Unit 5 to Bayside Unit 1 (779 MW capability) in April 2003 and Gannon Unit 6 to Bayside Unit 2 (1,040 MW capability) in January 2004.
- Gannon units 1 through 4 were retired from coal operation in January 2004. The assets may be utilized for future gas operations.

### Demand

- Tampa Electric's peak demands occur in the winter because of electric heating. An all-time winter instantaneous peak load record of 4,092 MW was set on Jan. 24, 2003. Summer peaks are brought on by air conditioning. An all-time summer instantaneous peak load record of 3,964 MW was set on June 23, 2004.



### **High reliability**

- Fewest and shortest service interruptions per 1,000 customers of peninsular Florida's investor-owned utilities (IOUs) for each of the past six years.
  - \* Reliability is a key consideration for relocating or expanding high technology and computer-intensive customers.

### **Competitive position**

- No large contractual commitments to high cost purchased power.
- Customer per employee ratio has increased from 160 customers/employee in 1994 to 257 customers/employee as of June 30, 2004, an improvement of almost 61 percent.
- All employees have pay-at-risk based on achievement of corporate goals. The 2004 goals are based on net income, cash flow, safety, environmental, customer favorability, reliability and managing costs recovered through clauses.





## Retail energy sales growth

- Tampa Electric continues to benefit from the growth in west central Florida.

	<i>June 30, 2004 12 Months Ended Growth</i>		<i>5-Year Avg. Historical Annual Growth</i>	
	<i>Customers</i>	<i>kWh Sales</i>	<i>Customers</i>	<i>kWh Sales</i>
Residential	2.6%	(0.1)%	2.7%	3.0%
Commercial	2.2%	2.2%	2.4%	2.1%
Industrial	20.9%	(0.4)%	12.7%	1.6%
Other retail	1.3%	6.6%	4.7%	4.1%
Total retail	2.6%	1.2%	2.7%	2.6%

## Customer sales outlook

- Tampa Electric expects total retail customer growth of more than 2.6 percent in 2004.
- Tampa Electric forecasts indicate that summer retail demand growth is expected to average more than 100 MW per year for the next five years.
- Tampa Electric expects customer growth of more than 2 percent annually and retail energy sales growth of almost 3 percent annually over the 2004 through 2008 period.
- These growth projections assume continued local area economic growth in the current national economic climate, normal weather and a continuation of the current market structure.



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## Economic outlook

- In August 2004, the Florida jobless rate stood at 4.5 percent compared to 5.4 percent for the nation. The Tampa area's relatively low 3.9 percent unemployment rate attests to the strength of its diverse economy.

### *Unemployment Rate Comparison*

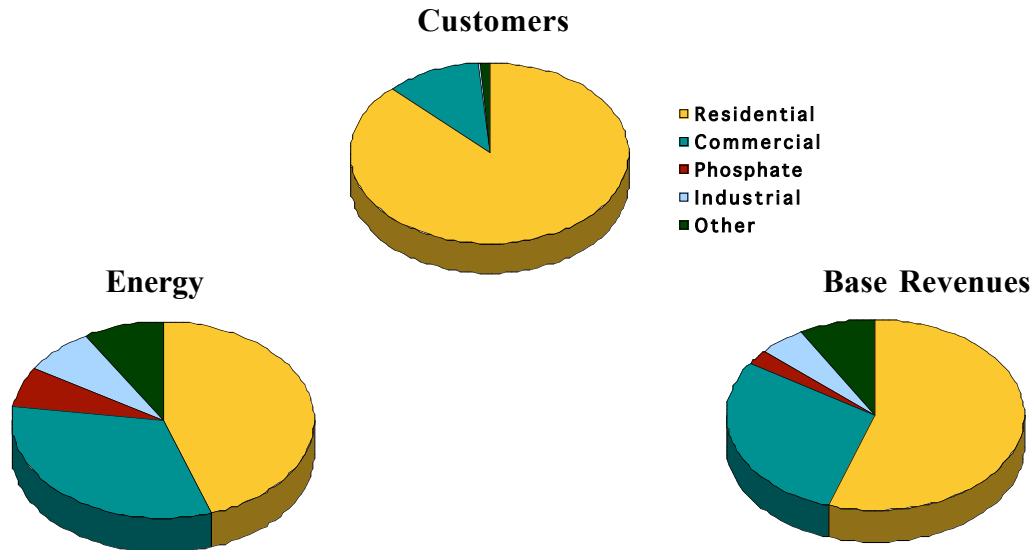
	<i>Tampa</i>	<i>Florida</i>	<i>National</i>
12/31/2003	3.7%	4.7%	5.7%
12/31/2002	4.3%	5.0%	6.0%
12/31/2001	4.0%	5.7%	5.8%
12/31/2000	2.4%	3.8%	3.9%

## Florida Electric Market

- Third largest electricity market in the US
  - \* Only Texas and California are larger
  - \* Larger than Australia or Mexico
- High per customer electricity consumption
  - \* Long duration summer peaks due to air conditioning load
  - \* Florida per customer usage almost double California
- Strong growing economy
  - \* Diversified economy heavily service and commercial based
  - \* Continued strong population and customer growth
- Tampa metropolitan area:
  - \* The service sector accounts for 40 percent of all jobs, while just over 7 percent of total employment comes from the manufacturing sector.
  - \* The area's relatively small reliance on manufacturing as a source of employment and income has helped insulate it from cyclical downturns in the national economy.



## Tampa Electric Favorable Customer Mix



*12 Months ended June 30, 2004 (thousands)*

	<i>Average Customers</i>	<i>MWH Sales</i>	<i>Sales %</i>	<i>Revenue %</i>	<i>Revenue/ MWH</i>
Residential	538.1	8,165	44.7	55.0	\$50
Commercial	66.8	5,912	32.4	29.1	37
Phosphate	---	1,263	6.9	2.6	15
Industrial	1.2	1,338	7.3	4.9	28
Other retail	6.4	1,578	8.7	8.4	40
Total retail	<u>612.5</u>	<u>18,256</u>	<u>100.0</u>	<u>100.0</u>	\$41

\* Average residential and commercial customer usage is growing, with average annual growth of 3.0 percent and 2.1 percent respectively over the last five years.



## **Regulatory information**

### **Current Regulatory Environment**

- Upon expiration of the regulatory agreements that determined earnings for 1995 through 1999, Tampa Electric returned to traditional ROE-based regulation in January 2000. The current allowed ROE midpoint is 11.75 percent, with an allowed range of up to 12.75 percent.
- In September of each year, Tampa Electric along with all other Florida investor owned utilities files with the Florida Public Service Commission (FPSC) for approval of annual fuel and purchased power, capacity, environmental and conservation cost recovery clause rates for the upcoming year.
- In December 1999, the Florida Department of Environmental Protection (DEP) approved a comprehensive 10-year environmental plan which includes:
  - \* Repowering Gannon Station to natural gas, which has been completed. Commercial operation for the two repowered Bayside units occurred on April 24, 2003 and January 15, 2004.
  - \* Nitrogen oxide (NOx) control at Big Bend Station in 2010 and beyond.
  - \* By 2010, reducing Tampa Electric's sulfur dioxide emissions by 80 percent and NOx emissions by 85 percent from 1994 levels.
- In February 2000, the Environmental Protection Agency (EPA) and Tampa Electric reached a settlement on an environmental plan with provisions similar to the state agreement.
- In September 2000, the Florida Public Service Commission (FPSC) approved the first of many projects required by the DEP Consent Final Judgment and EPA Consent Decree for recovery through the Environmental Cost Recovery Clause (ECRC).
- Subsequently, the FPSC has consistently approved projects required by the DEP and EPA agreements through the ECRC.



### **Current Regulatory Environment – continued**

- In August 2004, Tampa Electric reported to the EPA and DEP that, in order to meet the NOx control requirements at Big Bend Station, it would continue to burn coal and utilize selective catalytic reduction (“SCR”) technology.

### **Coal Transportation Contract**

- Tampa Electric’s contract for coal transportation and storage services with TECO Transport expired on Dec. 31, 2003. TECO Transport provided river, cross-gulf transportation services and storage services under that contract since 1999 and under a series of contracts for more than 40 years. In June 2003, Tampa Electric issued a Request For Proposal (RFP) to potential providers requesting services for the next five years. The result of the RFP process was the execution of a new contract between Tampa Electric and TECO Transport, effective Jan. 1, 2004, with market rates supported by the results of the RFP and an independent expert in maritime transportation matters.
- On September 21, 2004, the Florida Public Service Commission (FPSC) voted to reduce the amounts collected by Tampa Electric Company through the fuel adjustment clause for water transportation services for coal and petroleum coke provided by subsidiaries of TECO Transport Corporation. The annual reduction is estimated to be in a range of \$14 million to \$16 million pre-tax, or \$8 million to \$10 million after-tax, as long as the contract is in effect, depending on a variety of factors. This decision does not require Tampa Electric to rebid, nor does it prohibit Tampa Electric from rebidding, the water transportation and terminal services contract, which expires on December 31, 2008.
- The FPSC issued the final order on this matter on October 12, 2004. There is a 15-day period during which parties to the proceeding may file a motion for reconsideration by the Commission of its decision. Parties also have the opportunity to appeal the decision to the Florida Supreme Court within 30 days of the final order. Tampa Electric is evaluating all of its options.



### **Federal Energy Regulatory Commission (FERC) Restructuring Initiatives**

- The Federal Energy Regulatory Commission (FERC) has renewed its focus on creating a more efficient wholesale electric industry, and it has begun several key initiatives since its regional transmission organization (RTO) order in late 1999.
- A significant initiative is FERC's recently issued Standards of Conduct for Transmission Providers, which are meant to ensure all transmission customers, affiliated and non-affiliated, are treated on a non-discriminatory basis.

The Standards require that:

- \* All transmission function employees operate independently of the marketing function employees and energy affiliates
  - \* Shared employees do not actively share certain information with a marketing or energy affiliate
  - \* Related training is enhanced
  - \* Companies provide timely and improved reporting of organizational structure, changes and possible merger activities
- TECO Energy reviewed the order's implications and has implemented a plan to ensure compliance by November 19, 2004. The date was extended from September 22, 2004 after the company requested a delay due to the impacts of hurricanes on our workforce.



## **Outlook**

- Expect continued strong retail energy sales growth from an expanding state and local economy
  - \* Project average combined commercial and residential annual energy sales growth of more than 3 percent annually over the next five years
- In 2004, AFUDC will be essentially eliminated due to completion of the Bayside 2 construction in January 2004 and Bayside 1 in April 2003
- Depreciation expense is lower in 2004 due to the end of accelerated amortization of the coal assets in 2003 which more than offset the Bayside 2 additions in 2004
- No new base load generation required until after 2010



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Peoples Gas System, acquired in 1997, is Florida's leading provider of natural gas. With a presence in all of the state's major metropolitan areas, Peoples Gas serves more than 300,000 residential and commercial customers.

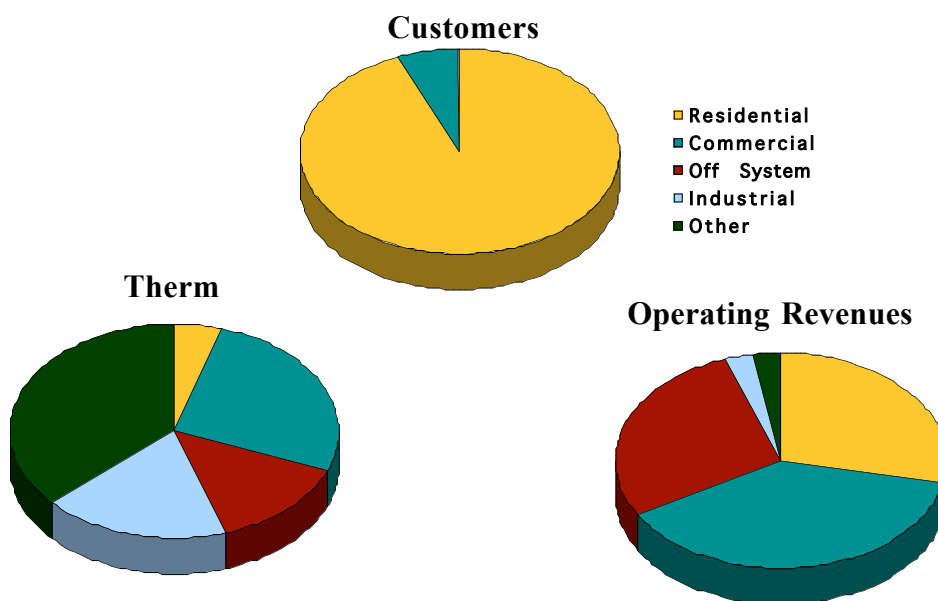
### **Strengths**

- Gas in Florida is significantly underserved, providing major growth opportunities for natural gas usage
- Florida opportunities
- Ability to expand into areas currently not served
- Key Accounts – supplying gas to new and established commercial customers
- Statewide Developer Agreements – supplying gas to new residential projects
- Customer growth averaged more than 4 percent over the last five years
- Regulation is gas friendly
- Cost of commodity gas is a pass-through





## Operating Information



<i><b>Therms sold (millions)</b></i>		
	<i><b>2003</b></i>	<i><b>2002</b></i>
Residential	64.2	60.2
Commercial	354.8	327.6
Industrial	406.3	423.8
Power Generation	363.7	492.6
Total	1,189.0	1,304.2
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Customers (average)	291,919	277,530

\* 2002 sales reflect 4.1 percent customer growth and mild winter weather.  
2003 sales reflect 5.2% customer growth and favorable winter weather.



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- \* Peoples Gas System has a “NaturalChoice” program, which unbundles gas services for all non-residential customers, affording these customers the opportunity to purchase the commodity gas from any provider. The net result of this unbundling is a shift from commodity sales to transportation sales. Because commodity sales are included in operating revenues at the cost of the gas on a pass-through basis, there is no net financial impact to the company of the transportation only sales. The program is expected to increase gas use due to increased marketing by third parties. At year-end 2003, 10,500 customers had elected to take services under this program.
  - \* In December 2002, the FPSC authorized an increase to annual base revenues of \$12.05 million. The new rates allow for an 11.25 percent midpoint ROE and a capital structure with 57.43 percent equity.



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## Good prospects for growth

- Gas is underserved in the residential and commercial markets in Florida.

### **Southeastern U. S. Residential Gas Market Penetration 2003 Data**

State	Total Households (millions)	Utilization
Louisiana	1.7	57%
Tennessee	2.3	45%
Georgia	3.2	56%
Alabama	1.7	47%
Mississippi	1.1	42%
S. Carolina	1.6	33%
N. Carolina	3.3	29%
<b>Florida</b>	<b>6.7</b>	<b>9%</b>

- Florida's growing residential/commercial market offers significant opportunities.
- Peoples Gas serves the high growth areas of Ft. Myers, Jacksonville, Naples, Ocala, Orlando, Palm Beach, Sarasota, Tampa, and surrounding areas.
- In May 2002, Gulfstream Natural Gas Pipeline initiated service. This interstate pipeline starts in Mobile Bay, Alabama, crosses the Gulf of Mexico and comes ashore in Florida just south of Tampa. Gulfstream is the first new pipeline serving Florida since 1959. This pipeline increases gas transportation capacity into Florida by 50 percent. PGS entered into a service agreement for capacity in 2002, which grew in 2003 and is expected to grow in 2004. The addition of the Gulfstream pipeline enhances reliability of service and helps to meet the capacity needs for PGS' growing customer base.

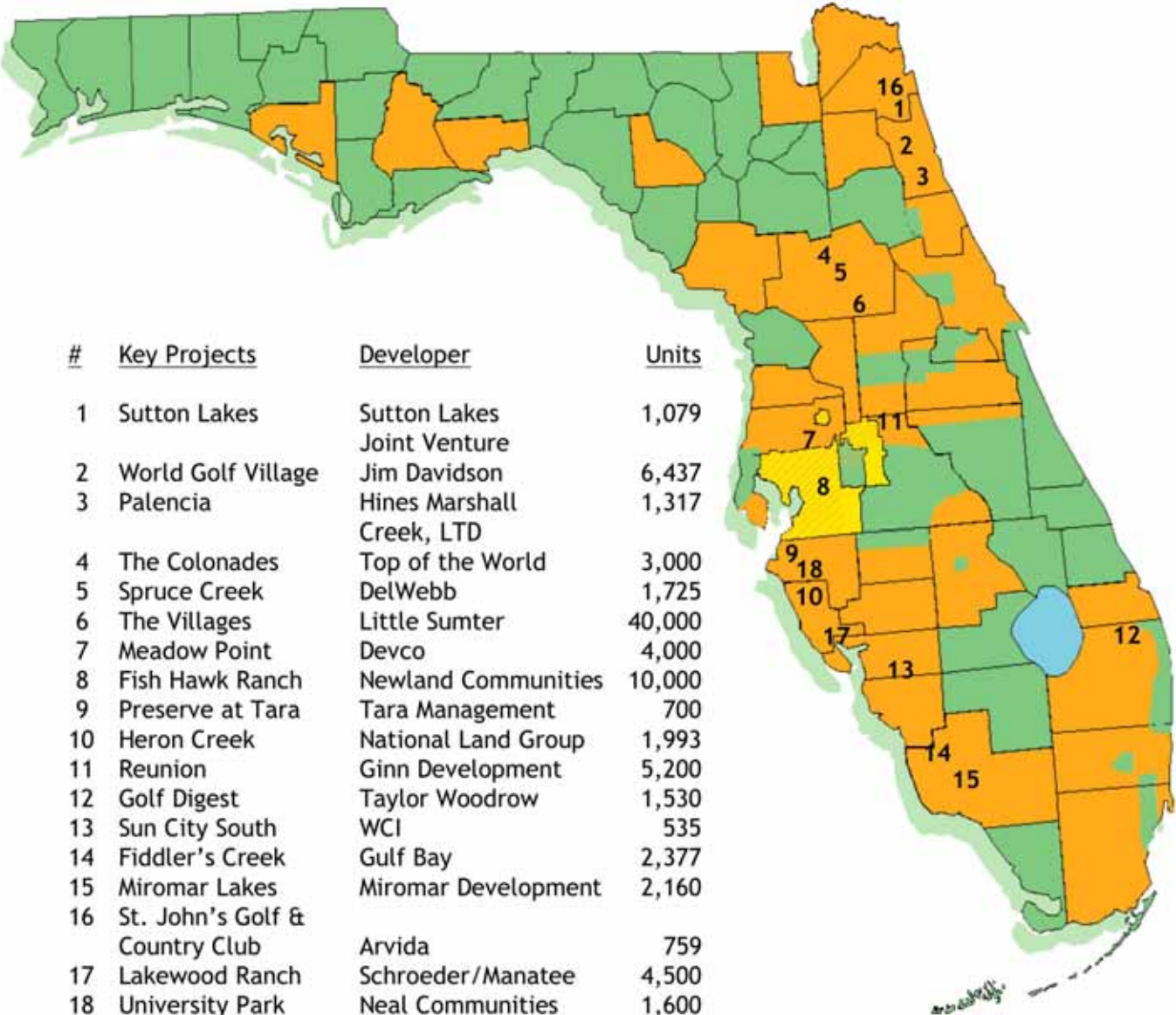


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### **Good prospects for growth - continued**

- Current committed major projects present attractive opportunities for significant residential and commercial gas use growth.
  - \* Developers want to offer homes with natural gas service.
  - \* Commercial and residential customers want natural gas.
- Targeting high-end residential developments with significantly higher annual usage than the current residential usage rate.
  - \* High usage commercial customers follow the residential, enhancing the expansion payback.
- Expanded into the previously unserved booming Naples/Ft. Myers area and the high growth Jacksonville to St. Augustine corridor.
- In 2003, over 23,000 residential and commercial customers and over 300 miles of pipeline were added to the distribution system.

# Developers / Builders



#	Key Projects	Developer	Units
1	Sutton Lakes	Sutton Lakes Joint Venture	1,079
2	World Golf Village	Jim Davidson	6,437
3	Palencia	Hines Marshall Creek, LTD	1,317
4	The Colonades	Top of the World	3,000
5	Spruce Creek	DelWebb	1,725
6	The Villages	Little Sumter	40,000
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16	St. John's Golf & Country Club	Arvida	759
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18	University Park	Neal Communities	1,600

Total expected over next 7 years 88,912

## Transportation



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TECO Transport, a water transportation business, operates a U.S.-flag ocean-going fleet, a river barge fleet, and a deep-water dry-bulk commodity transfer and storage terminal. TECO Transport built its business on moving coal and other products via domestic inland rivers, the Gulf of Mexico, the Caribbean, and to worldwide markets, including South America, Asia, Africa and Europe.

### **Strengths**

- Contributed \$14.5 million to net income in 2003, down from previous years as a result of lower Tampa Electric coal tons due to the Gannon conversion to natural gas and weak economic conditions. TECO Transport has been profitable for more than 38 consecutive years, and has consistently made significant contributions to earnings and cash flow.
- TECO Transport offers unique turnkey services from origination on the river system, through storage and transfer to destination.
  - \* Good product and market diversity in all sectors of the business.
  - \* Operating assets acquired at attractive prices.
  - \* Equipment flexibility.
- Significant multi-year contract business provides a stable business base.
- In October 2003, Tampa Electric signed a contract with TECO Transport for its water transportation and terminal services needs for its solid fuel needs for the next five years. TECO Transport has successfully provided these services to Tampa Electric for more than 40 years, and since 1988 these services have been provided at market based rates. On September 21, 2004, the Florida Public Service Commission (FPSC) voted to reduce the amounts collected by Tampa Electric Company through the fuel adjustment clause for water transportation services for coal and petroleum coke provided by subsidiaries of TECO Transport Corporation. This decision does not require Tampa Electric to rebid, nor does it prohibit Tampa Electric from rebidding, the water transportation and terminal services contract, which expires on December 31, 2008. Tampa Electric is currently evaluating its options relating to this decision.



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## **Business description**

### **TECO Ocean Shipping** (formerly known as Gulfcoast Transit)

- Largest U.S.-flag coastwise dry-bulk ocean-going company.
- Operates 8 tug-barge units ranging in size from 19,200 to 42,800 short tons and three ships at 33,500, 40,900 and 41,400 short tons for a combined capacity of over 335,000 short tons.
- Transports a variety of bulk commodities and U.S. Government preference cargos across the Gulf of Mexico as well as to all of the Americas, the Caribbean, Asia, Africa and Europe.
- Transports coal to Tampa for Tampa Electric Company from Louisiana and phosphate products on return trip.
- Transports coal and petcoke on the east coast.

### **TECO Barge Line** (formerly known as Mid-South Towing)

- Seventh largest inland river barge company.
- Operates 22 towboats and tugs and approximately 675 barges primarily on the Mississippi, Illinois and Ohio rivers and their major tributaries.
- Moves coal for Tampa Electric, petroleum coke, export coal, grain and scrap steel south and phosphate fertilizers, steel related products and petroleum coke north.
- 225 covered barges move grain, fertilizer and other high-value commodity products.

### **TECO Bulk Terminal** (formerly known as Electro-Coal Transfer)

- Largest transfer facility on the Gulf Coast and the second largest in the U. S.
- 18 million ton annual capacity; throughput in 2003 was 9 million tons, down from 10 million in 2002 due to the soft economy and lower Tampa Electric coal tonnage.
- Handles a variety of products for both domestic and foreign movements, including Tampa Electric coal.





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## Outlook

- National economy recovering which is expected to improve results.
- Markets:
  - \* Tampa Electric volumes declined in 2003 and 2004 due to conversion of Gannon Station from coal to gas. Post-conversion annual volume approximately 5 million tons.
  - \* Export coal market expected to improve.
  - \* Export petroleum coke movements expected to improve.
  - \* Opportunities for TECO Ocean Shipping to diversify into new foreign and domestic cargoes due to historically high maintenance freight rates.
  - \* Due to the retirement of older barges built in the 1980's, rates for all inland products are expected to improve due to better balance between demand and equipment supply.
- Significant factors that could influence TECO Transport's results include general economic conditions in the industries and geographic areas it serves, both nationally and internationally; variations in weather conditions which affects its operations and the demand and prices for its services; changes in commodity prices for the prices paid for raw materials; operational risks, including accidents or equipment breakdown or failure and operations below expected levels of performance or efficiency; and regulation by various governmental authorities dealing with air, water and other environmental matters. (See Investment Considerations section)

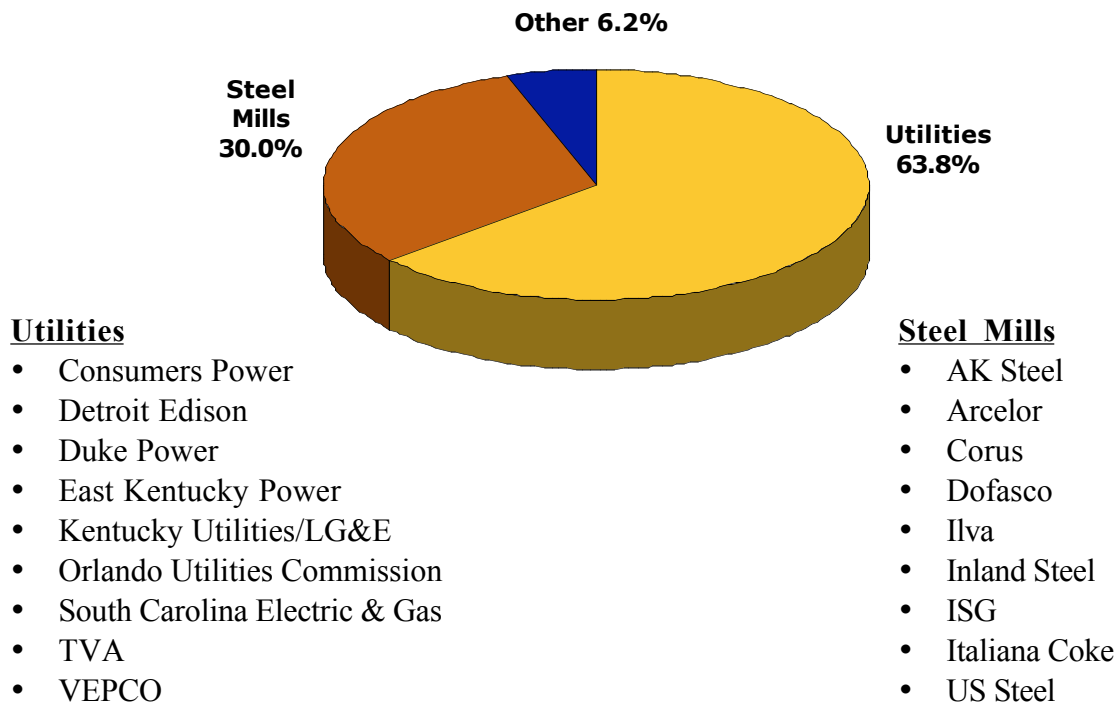
**Coal**



TECO Coal owns and operates low-sulfur coal mines and preparation facilities in Kentucky and Virginia. The company expects to mine, process and ship more than 9 million tons of conventional coals and synthetic fuel (synfuel) in 2005. Primary customers include domestic utilities, the U.S. and European steel industry, as well as industrial customers. For its sales of synthetic fuel, the company qualifies for federal tax credits created to encourage the production of fuel from non-conventional sources.

### TECO Coal's major market segments

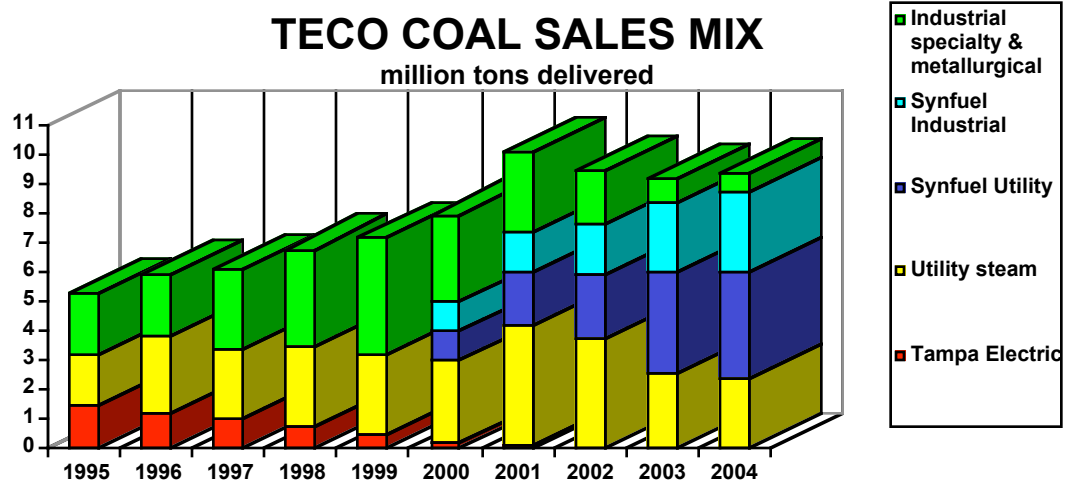
- Since 1988: Industrial applications  
*Coals of specialty size and characteristics primarily for metallurgical markets.*
- Since 1992: Electric utilities  
*Low-sulfur and compliance coals.*





## Sales

- Sales of utility steam and specialty coals have grown significantly, even as Tampa Electric volumes declined. The Tampa Electric contract expired in 1999 and was not renewed.
- Total expected sales of 9.4 million tons in 2004, compared to 9.2 in 2003. Expect 2005 total sales to be in excess of 9 million tons.



- Fundamental change in coal mining industry.
  - \* Supply and demand balanced.
  - \* Fewer producers
  - \* More difficult to expand production
  - \* Better financial discipline among producers
  - \* Average contract prices are more than the average 2004 levels
- Coal prices expected to remain strong due to higher prices from competing forms of energy.
  - \* Prices are expected to drop from peak 2004 price levels but remain above 2003 price levels.
- 220 million tons of low-sulfur, high quality Central Appalachian reserves as of December 31, 2003



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## **Synthetic Fuel Production**

- Purchased synthetic fuel production facilities in January 2000.
  - \* Currently located at TECO Coal's Premier Elkhorn, Clintwood Elkhorn and Perry County Coal mines in Kentucky.
  - \* Began operations in second quarter of 2000.
  - \* Expect to produce and sell more than 6.3 million tons of synthetic fuel in 2004.
  - \* Sold 49.5 percent of the ownership interest to a Fortune 200 company in 2003 and an additional 40.5 percent to a second buyer in 2004. TECO Coal continues to operate the facilities.
  - \* In October 2003, received a Private Letter Ruling from the IRS that resolved any uncertainty related to the sale and confirmed that the synthetic fuel produced by TECO Coal is eligible for Section 29 tax credits and that its test procedures are in compliance with the requirements of the IRS.
  - \* Placed in service issue addressed and cleared in audit of 2000 tax return.

## **Outlook for 2005**

- Volumes are expected to exceed 9 million tons, including more than 6 million tons of synthetic fuel.
- Results are expected to be driven by higher coal prices for all products.
- Over 80 percent of expected sales have already been contracted for 2005.
- Based on contract renewals to date, coal prices are expected to be 30 percent higher than the 2004 average price of \$33 per ton.
- Significant factors that could influence TECO Coal's results include general economic conditions in the industries and geographic areas it serves, both nationally and internationally; variations in weather conditions which affects the demand and prices for coal; changes in commodity prices for either the prices paid for raw materials or for the coal and synfuel produced; operational risks, including accidents or equipment breakdown or failure and operations below expected levels of performance or efficiency; regulation by various governmental authorities dealing with air, water and other environmental matters; continued generation of Section 29 tax credits and changes in law regulation or administration. (See Investment Considerations section)

**Other Unregulated  
Companies**



## Other Unregulated Companies

We now include the non-merchant independent power operations in our Other Unregulated Companies segment for financial reporting purposes. These include the San José and Alborada power stations in Guatemala and our ownership interest in EEGSA, the Guatemalan distribution utility. Other unregulated companies include TECO Solutions, TECO Partners and TECO Investments.

### Independent Power Project Summary

<i>Project</i>	<i>Location</i>	<i>Size MW</i>	<i>Economic Interest</i>	<i>Net Size MW</i>	<i>In Service/ Participation Date<sup>(1)</sup></i>
Alborada Power Station	Guatemala	78	96%	75	9/95
Empresa Eléctrica de Guatemala S.A.(EEGSA) (a distribution utility)	Guatemala		24%		9/98 <sup>(2)</sup>
San José Power Station	Guatemala	120	100%	120	1/00
Total non-merchant		198		195	

(1) Unless otherwise indicated, each date appearing in this column is an in-service date.

(2) Dates on which TWG acquired its economic interest in the project.

- Detailed fact sheets are provided for each project at the end of this section.
- Guatemalan assets are performing well and producing strong cash flows and good returns.

### TECO Solutions

Many of the TECO Solutions companies were formed or acquired during the early stages of Florida's proposed electric industry restructuring, as a vehicle through which we could potentially expand our services to other parts of the state. The subsequent rollback of the proposed restructuring and our refocus on our core utility operations caused us to reexamine our continued participation in these lines of business. As a result, we have sold most of the TECO Solutions businesses including Prior Energy, TECO Propane Ventures, TECO Energy Services (formerly BGA) and the book of business of TECO Gas Services.

# Unregulated Power Generation



## Alborada Power Station

Name	Alborada Power Station
MW	78-MW Simple-Cycle
Technology	<p>The project consists of two GE LM6000 combustion turbines operating in simple-cycle mode with inlet air chillers. The chiller system cools the combustion turbine inlet air to achieve the combustion turbine optimum inlet temperatures raising the total plant output from 65-MW to 78-MW at site ambient conditions.</p> <p>The facility includes a 230-kV switchyard and 1.7 km of transmission line connecting the switchyard with EEGSA's substation.</p>
Project Cost	\$50 Million
Ownership	96%, local partner owns 4%.
Commercial Operation	September 1995
Fuel Supply	TWG is providing fuel management services to EEGSA for the 15-year term of the power purchase agreement and is responsible for negotiating the fuel-related contractual arrangements. The combustion turbines are fired with low sulfur distillate oil.
Power Purchaser	Empresa Eléctrica de Guatemala, S.A. (EEGSA) - 78MW
Term of Purchase	From 1995, 15 years + option for 5 additional years at Alborada's discretion.
Operator	TWG Subsidiary
Financing	Banco Industrial and Westrust Bank
Currency Risk	Weekly payments under the PPA are denominated in U.S. dollars; paid in Guatemalan quetzales.



# Unregulated Power Generation



## Empresa Eléctrica de Guatemala, S.A.

Name	EEGSA
Location	Guatemala, Central America
Number of Customers	737,354 electric customers (as of 7/31/04)
Ownership	24%; Consortium 80%, (Iberdrola 49%, TWG 30%, Electricidade de Portugal S.A. 21%).
Partners	Iberdrola, Electricidade de Portugal, S.A., private investors, & Guatemalan Government.
Project Cost	\$100 million
Operator	Iberdrola
Financing	\$200 million term loan from a group of lenders led by ABN AMRO.
Energy Sales Growth	2% projected growth annually
Annual Energy Sales	3,434 Gwh (2003), up 5% from 2002
Revenues	\$488 million (2003), up 12% from 2002
Employees	669 (2003)
Tariff/ Currency Risk	Energy costs adjusted quarterly. Value added distribution component adjusted every 5 years.

# Unregulated Power Generation



## San José Power Station

Name	San José Power Station
MW	130-MW Pulverized coal
Technology	The project consists of a steam turbine using a cooling tower for condenser cooling, a steam generator and a substation. Low NO <sub>x</sub> burners and a pulse jet fabric filter complement the low-sulfur coal selected as the fuel.
Project Cost	\$190 Million
Ownership	100%
Commercial Operation	January 2000
Fuel	TWG is performing ongoing fuels management for this project. This activity includes management of the day-to-day procurement process, as well as fuel contract negotiations and administration under a 6-year fuel supply contract.
Power Purchaser	Empresa Eléctrica de Guatemala, S.A. (EEGSA) - 120MW
Term of Purchase	From 2000, 15 years plus option for 5 additional years at San José Power Station's discretion.
Operator	TWG Subsidiary
Financing	Banco Industrial - led bank group
Currency Risk	Monthly payments under the PPA are denominated in U.S. dollars; paid in Guatemalan quetzales.

## **Merchant Generation**



TECO Wholesale Generation (TWG) Merchant owns and operates power plants. The company's domestic fleet provides electricity to wholesale customers including utilities and large industrial customers.

## Unregulated Power Generation Project Summary

### ***TWG Merchant Project Summary***

	<i>Project</i>	<i>Location</i>	<i>Size MW</i>	<i>TWG Economic Interest</i>	<i>TWG Net Size MW</i>	<i>In Service/ Participation Date <sup>(1)</sup></i>
Operating:	Frontera Power Station	Texas	477	100%	477	5/00, 3/01 <sup>(2)</sup>
	Commonwealth Chesapeake Power Station	Virginia	315	100%	315	9/00, 8/01
			792		792	
Suspended:	Dell	Arkansas	599	100%	599	
	McAdams	Mississippi	599	100%	599	
			1,198		1,198	
Held for Sale:	Union	Arkansas	2,200	100%	2,200	1/03-6/03
	Gila River	Arizona	2,145	100%	2,145	2/03-8/03
			2,345		2,345	

(1) Unless otherwise indicated, each date appearing in this column is an in-service date. When more than one in-service date appears, it indicates when different phases of the project went into operation.

(2) Dates on which TWG acquired its economic interest in the project.

- Detailed fact sheets are provided for each project at the end of this section.
- As part of its focus on utility operations, TECO Energy has significantly changed its approach to its merchant power assets. In early 2004 the company reached an agreement to transfer the ownership of its two largest merchant facilities, Union and Gila River power stations, to the lending bank group. The company continues to work to maximize the value of its other independent power holdings and reduce financial risks associated with them.



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## **Union and Gila River Power Stations**

In February 2004, we announced our decision to exit from our ownership of the Union and Gila River projects and to cease further funding of these plants and wrote-off our equity investment in those plants. We, as the equity investor, and the project companies that own the two large plants entered into a non-binding letter of intent containing a binding settlement agreement with the lenders that provided the non-recourse project financing for these projects that contemplated negotiation of an agreement for the purchase and sale or other agreement to transfer ownership of the plants to these banks. The definitive agreements contemplated in the letter of intent have been completed and presented to the bank group for a bank vote. As part of the contemplated transaction, the outstanding non-recourse project debt (owed by the project companies) would be satisfied. The decision to end the ownership of the plants and cease further funding is not, however, dependent on reaching final agreement with the lenders for a consensual transfer. Even without such an agreement, the project companies, which are currently indirect subsidiaries of TECO Energy, could pursue other disposition alternatives that would ultimately end TECO Energy's ownership of the plants.

### **Letter of Intent**

The lending group for the Union and Gila River projects approved a non-binding letter on Feb. 5, 2004. The settlement agreement provides for the treatment of the \$66 million of letters of credit posted by us under the Construction Undertaking, with \$35 million drawn in February 2004 for the benefit of the project companies and the remaining \$31 million of letters of credit to be cancelled and returned to us.

### **Definitive Agreements**

TECO Energy subsidiaries and the project lending banks filed at the Federal Energy Regulatory Commission (FERC) on September 30 to approve the transfer of the Union and Gila River projects to the lending banks. The filing is in accord with the terms of the agreements between TECO Energy and the banks, which were announced in February and updated in July of this year. The parties have asked FERC to approve the transfer in parallel with other activities toward closing the transaction, including the final bank approval process.

# Unregulated Power Generation



## Frontera Power Station

Name	Frontera Power Station
MW	477-MW
Technology	The facility uses two GE 7FA combustion turbines, two heat recovery steam generators, and one ABB steam turbine in combined cycle.
Project Cost	\$180 Million
Ownership	100%
Commercial Operation	May 2000, acquired 3/15/01
Power Market	ERCOT (with 150 MW capability to Mexico).
Transmission	The project is interconnected to the ERCOT market via three 138-kV transmission lines which tie to the Central and Southwest's JL Bates substation. The Frontera Power Station also consists of a 2-mile 138- kV transmission line which interconnects the project with the Comisión Federal de Electricidad (CFE) in Mexico.
Fuel Supply	The project company owns and operates a 12-inch gas header located within the Frontera plant site. The gas line is used to aggregate gas supplies delivered to the site from three pipelines.
Power Purchaser	Merchant
Financing	None

# Unregulated Power Generation



## Commonwealth Chesapeake Project

Name	Commonwealth Chesapeake Project
MW	315-MW Oil-Fired, Simple-Cycle
Technology	The plant consists of seven General Electric LM6000 combustion turbines. The combustion turbines operate in simple-cycle mode, and are fired with low sulfur No. 2 fuel oil. Clutches are attached to four of the seven turbines in order to provide spinning reserve. In addition, the turbines are equipped with inlet air chillers and are water-injected for NOx control.
Project Cost	\$168 Million
Ownership	100%
Commercial Operation	Phase I - Sept. 2000, Phase II - Aug. 2001.
Power Market	Pennsylvania-New Jersey-Maryland Interconnection power pool (PJM) system. Lighthouse Energy is power marketer.
Transmission	Interconnected to Delmarva Power & Light's 138 kV transmission line that runs adjacent to the facility.
Fuel Supply	The project utilizes low sulfur No. 2 fuel oil with the project performing ongoing fuel management and day-to-day procurement.
Operator	TWG
Financing	None.

# Unregulated Power Generation



## Dell Power Station

Name	Dell Power Station
MW	599-MW Combined Cycle
Technology	The Dell Project is configured with two GE 7FA combustion turbines, two heat recovery steam generators with supplemental firing and selective catalytic reduction for lowering NOx emissions and one reheat steam turbine.
Project Cost	\$335 Million to suspend status.
Ownership	100%
Commercial Operation	Currently suspended.
Power Market	ENTERGY
Transmission	If completed the facility will be interconnected to Entergy-Arkansas's 500-kV/230-kV Substation located adjacent to the plant site. This will allow power sales from the plant to be made into the Entergy power market.
Fuel Supply	If completed natural gas will be delivered through the Reliant Energy Transmission system. Reliant has completed their 2.5 mile lateral to connect to its existing 18" interstate pipeline to the Dell facility, as well as an upstream compression station to ensure gas pressure and deliverability to the project.
Power Purchaser	N/A
Operator	TWG
Financing	None.



# Unregulated Power Generation



## McAdams Power Station

Name	McAdams Power Station
MW	599-MW Combined Cycle
Technology	The facility is configured to use two GE 7FA combustion turbines, two heat recovery steam generators with supplemental firing and selective catalytic reduction for lowering NOx emissions and one reheat steam turbine.
Project Cost	\$350 Million to suspend status
Ownership	100%
Commercial Operation	Currently suspended
Power Market	ENTERGY
Transmission	If completed, the facility will be interconnected to Entergy-Mississippi's McAdams 500-kV/230-kV Substation. This will allow power sales from the plant to be made into both the Entergy and TVA Subregions of SERC.
Fuel Supply	If completed, natural gas will be delivered through interconnections with Texas Eastern, SONAT and Gulf South. The project has a firm transportation position on TETCO.
Power Purchaser	N/A
Operator	TWG
Financing	None.

## Appendix



## Appendix

### Financial Information

#### 2003 Earnings Summary

(millions)	2003	2002	2001
<b>Consolidated revenues</b>	\$2,740.0	\$2,664.9	\$2,483.3
<b>Net income (loss)</b>	\$(909.4)	\$330.1	\$303.7
Less: Net income (loss) from discontinued operations	(890.4)	52.9	38.2
Cumulative effect of change in accounting principle	(4.3)	—	—
Charges and gains from continuing operations	(179.5)	(28.6)	9.0
Non-GAAP results from continuing operations excluding charges and gains	\$164.8	\$305.8	\$256.5
<b>Earnings (loss) per share – basic</b>			
Earnings per share	\$(5.05)	\$2.15	\$2.26
Less: Discontinued operations	(4.95)	0.34	0.28
Cumulative effect of change in accounting principle	(0.02)	—	—
Earnings from continuing operations excluding cumulative effect of change in accounting principle	\$(0.08)	\$1.81	\$1.98
Excluding: Charges and gains from continuing operations	(1.00)	(0.18)	—
Non-GAAP results per share from continuing operations excluding charges and gains	\$0.92	\$1.99	\$1.98
<b>Average common shares outstanding</b>			
Basic	179.9 <sup>(3)</sup>	153.2 <sup>(2)</sup>	134.5 <sup>(1)</sup>

(1) Average shares outstanding for 2001 reflects the issuance of 8.625 million shares in March 2001 and 3.5 million shares in October 2001.

(2) Average shares outstanding for 2002 reflects the issuance of 15.525 million shares in June 2002 and 19.385 million shares in October 2002.

(3) Average shares outstanding for 2003 reflects the issuance of 11 million shares in September 2003.

- Discontinued operations include TPGC, Coalbed Methane, Hardee, Prior Energy and TECO Gas Services.



## Financial Information – continued

### GAAP Earnings per share by segment

	2003	2002	2001
<b>Regulated Companies</b>			
Tampa Electric	\$ .55	\$ 1.12	\$ 1.15
Peoples Gas System	.14	.16	.17
<b>Total Regulated</b>	<b>\$ .69</b>	<b>\$ 1.28</b>	<b>\$ 1.32</b>
<b>Unregulated Companies</b>			
TWG	\$ (.82)	.05	.00
TECO Transport	.08	.14	.20
TECO Coal	.43	.50	.44
Other Unregulated	(.03)	.18	.17
<b>Total Unregulated</b>	<b>(.34)</b>	<b>.77</b>	<b>.81</b>
Financing/other	(.43)	(.24)	(.15)
<b>Earnings (loss) per share from continuing operations</b>	<b>(.08)</b>	<b>1.81</b>	<b>1.98</b>
Discontinued operations	(4.95)	.34	.28
<b>Earnings (loss) per share before cumulative effect of change in accounting principle</b>	<b>(5.03)</b>	<b>2.15</b>	<b>2.26</b>
Cumulative effect of a change in accounting principle	(.02)		
<b>EPS Total<sup>(1)</sup></b>	<b>\$ (5.05)</b>	<b>\$ 2.15</b>	<b>\$ 2.26</b>
Average Shares Outstanding	179,862 <sup>(2)</sup>	153,202 <sup>(3)</sup>	134,521 <sup>(4)</sup>

- (1) Segment net income is reported on a basis that includes internally allocated financing costs. Internally allocated finance costs for 2003, 2002 and 2001 were at pre-tax rates of 8%, 7%, and 7%, respectively, based on the average investment in each subsidiary.
- (2) Average shares outstanding for 2001 reflects the issuance of 8.625 million shares in March 2001 and 3.5 million shares in October 2001.
- (3) Average shares outstanding for 2002 reflects the issuance of 15.525 million shares in June 2002 and 19.385 million shares in October 2002.
- (4) Average shares outstanding for 2003 reflects the issuance of 11 million shares in September 2003.



## Financial Information – continued

### Non-GAAP results per share by segment – before charges and gains

	2003	2002	2001
<b>Regulated Companies</b>			
Tampa Electric	\$ .86	\$ 1.19	\$ 1.14
Peoples Gas System	.15	.16	.17
<b>Total Regulated</b>	<b>\$ 1.01</b>	<b>\$ 1.35</b>	<b>\$ 1.31</b>
<b>Unregulated Companies</b>			
TWG	\$ (.33)	(.05)	.00
TECO Transport	.09	.14	.21
TECO Coal	.47	.50	.44
Other Unregulated	.10	.16	.10
<b>Total Unregulated</b>	<b>.33</b>	<b>.75</b>	<b>.75</b>
Financing/other	(.42)	(.11)	(.15)
<b>Earnings (loss) per share from continuing operations before charges and gains</b>	<b>.92</b>	<b>1.99</b>	<b>1.91</b>
Charges and Gains from continuing operations	(1.00)	(.18)	.07
<b>Earnings (loss) per share from continuing operations</b>	<b>(.08)</b>	<b>1.81</b>	<b>1.98</b>
Discontinued operations	(4.95)	.34	.28
<b>Earnings (loss) per share before cumulative effect of change in accounting principle</b>	<b>(5.03)</b>	<b>2.15</b>	<b>2.26</b>
Cumulative effect of a change in accounting principle	(.02)		
<b>EPS Total<sup>(1)</sup></b>	<b>\$ (5.05)</b>	<b>\$ 2.15</b>	<b>\$ 2.26</b>

Average Shares Outstanding	179,862 <sup>(2)</sup>	153,202 <sup>(3)</sup>	134,521 <sup>(4)</sup>
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- (1) Segment net income is reported on a basis that includes internally allocated financing costs. Internally allocated finance costs for 2003, 2002 and 2001 were at pre-tax rates of 8%, 7%, and 7%, respectively, based on the average investment in each subsidiary.
- (2) Average shares outstanding for 2001 reflects the issuance of 8.625 million shares in March 2001 and 3.5 million shares in October 2001.
- (3) Average shares outstanding for 2002 reflects the issuance of 15.525 million shares in June 2002 and 19.385 million shares in October 2002.
- (4) Average shares outstanding for 2003 reflects the issuance of 11 million shares in September 2003.



## Financial Information – continued

### 2003 Non-operating items affecting net income

<i>Net income impact (millions)</i>	<i>Tampa Electric</i>	<i>TWG</i>	<i>Peoples Gas</i>	<i>TECO Transport</i>	<i>TECO Coal</i>	<i>Coalbed Methane</i>	<i>Other Unregulated</i>	<i>TECO Energy</i>	<i>Total</i>
Merchant power valuation <sup>(1)</sup>	\$ -	\$762.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$762.0
Turbine valuations	48.9	-	-	-	-	-	28.5	-	77.4
Goodwill impairment	-	61.2	-	-	-	-	12.8	-	74.0
Loss on joint venture termination <sup>(1)</sup>	-	94.7	-	-	-	-	-	-	94.7
TMDP arbitration reserve	-	26.7	-	-	-	-	-	-	26.7
Restructuring costs	6.1	0.3	2.6	1.0	-	-	3.6	1.6	15.2
Project cancellation costs	-	-	-	-	-	-	9.0	-	9.0
Valuation adjustment	-	-	-	-	-	-	11.1	-	11.1
Tax credit reversals	-	-	-	-	7.0	-	2.7	-	9.7
Change in accounting	-	-	-	0.8	0.3	-	-	3.2	4.3
<b>Total Charges</b>	<b>\$ 55.0</b>	<b>\$944.9</b>	<b>\$ 2.6</b>	<b>\$ 1.8</b>	<b>\$ 7.3</b>	<b>\$ -</b>	<b>\$ 67.7</b>	<b>\$ 4.8</b>	<b>\$1,084.1</b>
Gain on Asset sales	\$ -	\$ -	\$ -	\$ 3.5	\$ -	\$ 23.5 <sup>(1)</sup>	\$ 35.2	\$ -	\$ 62.2

(1) Included in discontinued operations.



## Financial Information – continued

### Results reconciliation

(millions)	2003	2002	2001
GAAP net income (loss)	\$(909.4)	\$330.1	\$303.7
Add change in accounting	4.3	–	–
Exclude discontinued operations	(890.4)	52.9	38.2
GAAP net income (loss) from continuing operations	\$(14.7)	\$277.2	\$265.5
Add:			
Tax credit reversals	9.7	–	–
Project cancellation costs	9.0	–	–
TECO Solutions valuation adjustment	7.9	–	–
Hamakua FIN 46 accounting valuation adjustment	3.2	–	–
Restructuring Costs	15.2	10.9	–
TMDP arbitration reserve	26.7	–	–
Debt extinguishment costs	–	20.9	–
ECKG valuation adjustment	–	5.8	–
Goodwill impairments	74.0	–	–
Turbine valuations	77.4	–	–
Subtract: Hardee gain on sale	(34.6)	–	–
Hardee operating results	(9.0)	(9.0)	(9.0)
Non-GAAP results from continuing operations <sup>(1)(2)</sup>	\$ 164.8	\$ 305.8	\$ 256.5

(1) Excludes adoption of FAS 143, FAS 142 adjustments and items noted in table above.

(2) A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flow that includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure GAAP so calculated and presented.

We have presented and may in the future present non-GAAP measures of financial performance (which we had previously referred to as non-GAAP net income) that eliminates charges unique to events in 2003 and primarily related to activities that are no longer part of our current business strategy and certain charges that are not expected to recur.

Management uses this non-GAAP presentation as a yardstick for measuring our performance and making decisions that are dependent upon the profitability of our various operating units.

While each of the particular excluded items is not expected to recur, management recognizes that similar types of items could occur in the next two years, specifically those relating to our strategy of minimizing the risks from our merchant power investments. Even though similar types of



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charges may occur, we believe the non-GAAP measure is important in addition to GAAP net income for assessing its potential future performance because excluded items are limited to those that management believes are not indicative of future performance.

Furthermore, we believe that the presentation of this financial performance provides investors a non-GAAP measure that reflects the Company's operations giving effect to its revised business strategy. We also believe that it is helpful to present a non-GAAP measure of performance that clearly reflects the ongoing operations of our business and that allows investors to understand and evaluate our business as we expect it to operate in future periods.

The non-GAAP measure of financial performance used (previously referred to as non-GAAP net income) is not a measure of performance under accounting principles generally accepted in the United States and should not be considered an alternative to net income or other GAAP figures as an indicator of our financial performance or liquidity. Our non-GAAP presentation of net income may not be comparable to similarly titled measures used by other companies.



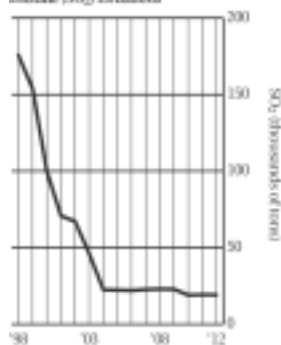


## Environmental Highlights

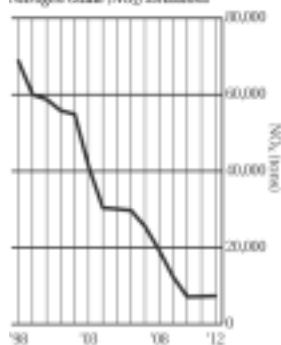
### Tampa Electric

- Power Generation and Air Emission Reductions
  - \* In April 2003, commercial operation on Bayside Unit 1, the former coal-fired Gannon Station, renamed Bayside Power Station and fired by natural gas. Bayside Power Station Unit 2 began commercial operation in January 2004. Bayside is improving Tampa Electric's ability to generate reliable electric power, significantly reduce emissions, and help protect Tampa Bay's environment.
  - \* The flue gas desulfurization (FGD) systems (or scrubbers) at Big Bend Station now remove more than 95 percent of the sulfur dioxide from the flue gas in a cost-effective manner.
  - \* Overall, from 1998 to 2003, Tampa Electric has reduced annual emissions of sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), and particulate matter (PM) from its facilities by over 108,000 tons, 13,000 tons, and 1,500 tons, respectively.
  - \* Tampa Electric is committed to additional emission reductions projects. These efforts are expected to result in the additional phased reduction of SO<sub>2</sub> by 5,400 tons per year and NO<sub>x</sub> by 23,600 tons per year through 2014.

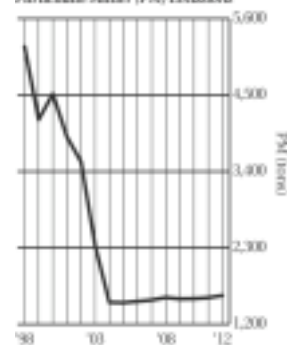
Projected Reduction in Sulfur Dioxide (SO<sub>2</sub>) Emissions



Projected Reduction in Nitrogen Oxide (NO<sub>x</sub>) Emissions



Projected Reduction in Particulate Matter (PM) Emissions





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## **Environmental Highlights – cont.**

- \* In total, by 2010 Tampa Electric's recent and future initiatives are projected to result in the reduction of SO<sub>2</sub>, NO<sub>x</sub>, and PM emissions by 89 percent, 90 percent, and 70 percent, respectively, below 1998 levels. With these improvements in place, Tampa Electric's facilities will meet the same standards required of new power generating facilities and help to significantly enhance the quality of the air in the community.
- \* Polk Unit One is a state-of-the-art, clean-coal technology plant using an integrated, coal gasification, combined-cycle (IGCC) process in a cost-efficient and environmentally-friendly method to produce electricity from coal.
- Stewardship
  - \* Tampa Electric works with various environmental organizations such as Audubon of Florida, The Invasive Species Task Force of Hillsborough County and the Hillsborough Greenways Program to protect and restore important environmental sites around the Tampa Bay area.
  - \* The Manatee Viewing Center adjacent to Big Bend Station, where West Indian Manatees or Sea Cows, an endangered species, gather in the warm water discharge canal during the normally colder winter months, offers educational programs that include such topics as water conservation and responsible Florida landscaping. Since 1986, the Manatee Viewing Center at Big Bend Station has attracted more than one million visitors.
- Coal Combustion Products
  - \* Tampa Electric markets close to 1 million tons of Coal Combustion Products (CCP) each year for use as raw materials in manufacturing processes. CCPs are made when solid fuels, such as coal, are used to generate electricity. Using these products in manufacturing processes is environmentally friendly for a variety of reasons. Most importantly, it preserves natural resources that would otherwise be mined as raw materials. Also, on a per ton basis, it reduces the need for landfill space.
  - \* The scrubbers at Big Bend Station remove sulfur from the flue gas stream and make gypsum, the main raw material used in the manufacture of wallboard. It is also used in the production of Portland Cement. There are agricultural uses as well, including improving calcium levels in soils without modifying pH.



## **Environmental Highlights – cont.**

- \* Fly ash from Big Bend is used to make Portland Cement and as a Portland Cement replacement in ready mix concrete. An additional benefit to using fly ash in concrete is the ton for ton reduction of CO<sub>2</sub> produced for each ton of fly ash used. Bottom ash from Big Bend is used in the Portland Cement production and as a raw material in other cement products.
- \* Boiler slag from Big Bend is used as low free-silica blasting grit to clean large surfaces quickly, and as an aggregate to protect roofing shingles from the sun's ultraviolet rays.
- \* Polk Power Station, Tampa IGCC plant, produces sulfuric acid when it removes sulfur from the gas stream. Municipalities all over the State of Florida use this product in their municipal water treatment process.
- \* Tampa Electric is a Champion member of the Coal Combustion Products Partnership (C2P2) Program, a cooperative effort between the U.S. EPA, the American Coal Ash Association (ACAA), the Utility Solid Waste Activities Group (USWAG), and the U.S. Department of Energy (DOE) to help promote the beneficial use of coal combustion products and the environmental benefits that result from their use. This program is designed to help meet the national waste reduction goals of the Resource Conservation Challenge - an EPA effort to find flexible, yet environmentally friendly ways to conserve valuable natural resources through waste reduction, energy recovery, and recycling.
- Recycling
  - \* Tampa Electric has a contract with a vendor to purchase our used oil generated at Tampa Electric facilities.
  - \* Water recycling and beneficial reuse programs in the power stations account for approximately 283,180,000 gallons daily. The approximate beneficial reuse amounts are: 8,640,000 gallons daily at Big Bend Station, 1,540,000 gallons daily at Bayside Station, and 271,000,000 gallons daily at Polk Station; and about 2,000,000 gallons daily of Hillsborough County treated sewage effluent is recycled to reduce potable water consumption at Big Bend Station.



## **Environmental Highlights – cont.**

- Green Energy and Energy Conservation
  - \* Tampa Electric's Renewable Energy Program utilizes renewable energy sources such as natural sunlight, organic plant material, and landfill gas to generate electricity and offers residential and business customers the option to purchase unlimited 100 kilowatt-hour (kWh) blocks of green energy at \$5.00 per month.
  - \* Tampa Electric manages a microturbine generator at the Hillsborough County Solid Waste Department's landfill site, which converts potentially hazardous methane gas into clean electricity. This is the first application of this kind of technology in Florida.
  - \* The company has several energy conservation programs, including free home energy audits in which the company provides instruction to customers on measures and practices they can implement to lower their energy consumption. 7,000 - 8,000 audits are completed annually.
  - \* The company participated in the statewide photovoltaic (PV) for Schools program designed to increase public awareness of grid-connected photovoltaic PV systems and to educate students on the benefits and operation of PV systems. In May of 2004, Tampa Electric partnered with Hillsborough County Schools to install a 4 kilowatt PV system at a Walker Middle School in NW Hillsborough County.

## **Peoples Gas System**

- Peoples Gas offers energy conservation rebates to both residential and commercial customers as incentives to increase the conservation of energy resources with the installation of new energy efficient natural gas appliances.
- Peoples Gas is expanding the use of natural gas in Florida, including the follow efforts:
  - \* Use of compressed natural gas (CNG) in various vehicle fleets, trucks and buses statewide.
  - \* Testing and deployment of various desiccant technologies for both residential and small commercial applications to improve indoor air quality and reduce humidity.
- Converting industrial – particularly asphalt plants – from waste oil to natural gas.



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## **Environmental Highlights – continued**

### **TECO Ocean Shipping**

- TECO Ocean Shipping exceeds international and US requirements on many of its vessels by voluntarily complying with International Safety Management Code and International Training conventions. These standards raise the level of safety and environmental protection, through policies, procedures and practices to minimize the potential for harm to our employees, the public and the environment.

### **TECO Barge Line**

- TECO Barge Line is a sponsor of “Living Lands and Waters”. Living Lands and Waters’ mission is to aid in the protection, preservation and restoration of the natural environment of the nation's major rivers and their watersheds; to expand awareness of environmental issues and responsibility encompassing the river; and to create a desire and an opportunity for stewardship and responsibility for a cleaner river environment.
- TECO Barge Line is certified under the American Waterways Operators’ Responsible Carrier Program. Through this program, TECO Barge Line implements procedures to ensure the highest standards of safety and quality. Independent audits are conducted every three years to renew the certification.



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## **Environmental Highlights – continued**

### **TECO Coal Corporation**

- Rich Mountain surface mining operations has joined with the Federal Office of Surface Mining and Reclamation Enforcement in operating a test mine site utilizing “low-compaction reclamation methodologies” on the White Oak surface mine. This innovative methodology will permit the reclaimed areas to produce trees rather than grasslands to more closely resemble pre-mine conditions.
- TECO Coal (through its subsidiaries) recycles large tires from the rubber-tired mining equipment to reduce the amounts of space used in land-fills. These tires are now being recycled, by a third party, into a variety of products such as box scrapers for tractors and grader blades for road grading equipment. These rubber graders are used in the laying of asphalt and preparation of un-improved roads at a much lower cost than metal blades and metal blade components.
- TECO Coal is currently involved with local school groups and the regulatory agency in an experimental reforestation project. A natural forest is being planted on reclaimed mine lands. The growth and quality (site index), as well as survivability rates are being monitored and recorded annually with the expectations of releasing a prepared scientific report at the term of the project.
- TECO Coal is actively involved with the PRIDE (Personal Responsibility In a Desirable Environment) initiative. PRIDE was established by Congressman Hal Rogers and Environmental Protection Secretary James Bickford. The goal of PRIDE is to eliminate pollution of the land and water in eastern and southeastern Kentucky. In conjunction with PRIDE program, TECO Coal and its operating subsidiaries are involved in a variety of clean-up activities.



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## **Environmental Highlights - continued**

### **Unregulated Power Generation**

- Project designs incorporate state-of-the-art emission control technologies, including low nitrogen oxide (NO<sub>x</sub>) combustion technologies to control emissions of NO<sub>x</sub> and carbon monoxide (CO) while firing on natural gas or fuel oil.
- Projects also use dry low nitrogen oxide combustors (DLN), along with selective catalytic reduction (SCR) to further reduce nitrogen oxide emissions and an oxidation catalyst to control carbon monoxide, and volatile organic compound emissions where required.
- Emissions of sulfur dioxide (SO<sub>2</sub>), volatile organic compounds (VOC) and particulate matter (PM) are minimized by the choice of fuel and the high combustion efficiency inherent in a modern design.
- Wastewaters are collected and treated prior to discharge or returned back to the plant for reuse whenever possible.

Implementation of comprehensive Environmental Health and Safety management plans to strictly comply with all environmental laws and laws pertaining to health and safety.

## **Investment Considerations**





## Investment Considerations

The following are certain factors that could affect TECO Energy's future results. They should be considered in connection with evaluating forward-looking statements contained in this report and otherwise made by or on behalf of TECO Energy because these factors could cause actual results and conditions to differ materially from those projected in those forward-looking statements.

### Financing Risk

***We have substantial indebtedness, which could adversely affect our financial condition and financial flexibility.***

In recent years, we have significantly increased our indebtedness which has resulted in an increase in the amount of fixed charges we are obligated to pay. The level of our indebtedness and restrictive covenants contained in our debt obligations could limit our ability to obtain additional financing or refinance existing debt and could prevent the repayment of subordinated debt and the payment of dividends if those payments would cause a violation of the covenants.

In order for us and Tampa Electric to use our and its respective bank credit facilities, we and Tampa Electric must meet certain financial tests as defined in the applicable agreements. Also, we, Tampa Electric and other operating companies have certain restrictive covenants in specific agreements and debt instruments. In addition, the restrictive covenants of our subsidiaries, including Tampa Electric, could limit their ability to make distributions to us, which would further limit our liquidity. Please see the "Bank Credit Facilities" and "Covenants in Financing Agreements" sections and "Significant Financial Covenants" table in the "Liquidity, Capital Resources" section of "Management's Discussion & Analysis of Financial Condition & Results of Operations" section of our periodic reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004 for descriptions of these tests and covenants.

As of June 30, 2004, we were not in compliance with the financial ratio tests in our construction undertakings associated with TWG's Gila River and Union projects, which could result in the lenders seeking to accelerate the \$1.395 billion of non-recourse construction debt absent the pending sale or other transfer of the projects to the lenders. Otherwise, as of June 30, 2004, we were in compliance with required financial covenants. We cannot assure you, however, that we will be in compliance with these financial covenants in the future. Our failure to comply with any of these covenants or to meet our



payment obligations could result in an event of default which, if not cured or waived, could result in the acceleration of other outstanding debt obligations. We may not have sufficient working capital or liquidity to satisfy our debt obligations in the event of an acceleration of all or a portion of our outstanding obligations. In addition, if we had to defer interest payments on our subordinated notes underlying the outstanding trust preferred securities, we would be prohibited from paying cash dividends on our common stock until all unpaid distributions on those subordinated notes were made.

We also incur obligations in connection with the operations of our subsidiaries and affiliates that do not appear on our balance sheet, including obligations previously incurred that were related to the development of power projects by unconsolidated affiliates. These obligations take the form of guarantees, letters of credit and contractual commitments, as described in the sections titled "Off Balance Sheet Financing" and "Liquidity, Capital Resources" of the "Management's Discussion & Analysis of Financial Condition & Results of Operations" section of our periodic reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004. In addition, our unconsolidated affiliates from time to time incurred non-recourse debt to finance their power projects. Although we are not obligated on that debt, our investments in those unconsolidated affiliates are at risk if the affiliates default on their debt.

***Our financial condition and ability to access capital may be materially adversely affected by further ratings downgrades.***

On July 20, 2004, Standard & Poor's lowered the ratings on our senior unsecured debt to BB with a stable outlook. It lowered the ratings on other of our securities, as well as those of TECO Finance, including lowering the rating of the trust preferred securities to B. Standard & Poor's affirmed its rating of Tampa Electric Company's senior secured and unsecured debt at BBB-with a stable outlook. In February 2004, Moody's Investors Service lowered the ratings on our senior unsecured debt to Ba2 with a negative outlook. This followed actions in April 2003, when Moody's and Fitch Ratings lowered their ratings on our senior unsecured debt to Ba1 and BB+, respectively, both with a negative outlook. Tampa Electric Company's senior secured and unsecured debt ratings were lowered to Baa1 and Baa2, respectively, by Moody's and to A- and BBB+, respectively, by Fitch, in both cases with negative outlook. The recent downgrades and any future downgrades may affect our ability to borrow, may affect future collateral or margin postings, and may increase our financing costs, which may decrease our earnings. We are also likely to experience greater interest expense than we may have otherwise if, in future periods, we replace maturing debt with new debt bearing higher interest rates due to our



lower credit ratings. In addition, such downgrades could adversely affect our relationships with customers and counterparties.

In addition, as a result of past ratings actions, TECO EnergySource, TECO Gas Services, Inc., and other of our subsidiaries were required to post collateral with counterparties in order to continue to transact in the forward markets for electricity and natural gas. Collateral or margin postings may fluctuate based on either the fair value of open forward positions or credit assurance assessments negotiated with counterparties. Based on our analysis of the rights of those counterparties that have the right to call for collateral or margin postings, we believe the maximum collateral obligation would have been approximately \$8.0 million (including actual collateral posted of \$6.5 million) as of June 30, 2004. Counterparties with the right to call for collateral or margin postings are not obligated to do so.

***If we are unable to limit capital expenditure levels as forecasted, our financial condition and results could be adversely affected.***

Part of our plans includes capital expenditures at the operating companies at maintenance levels for the next several years. We cannot be sure that we will be successful in limiting capital expenditures to the planned amount. If we are unable to limit capital expenditures to the forecasted levels, we may need to draw on credit facilities or access the capital markets on unfavorable terms or ultimately sell additional assets to improve our financial position. We cannot be sure that we will be able to obtain additional financings or sell such assets, in which case our financial position, earnings and credit ratings could be adversely affected.

***Because we are a holding company, we are dependent on cash flow from our subsidiaries, which may not be available in the amounts and at the times we need it.***

We are a holding company and dependent on cash flow from our subsidiaries to meet our cash requirements that are not satisfied from external funding sources. Some of our subsidiaries have indebtedness containing restrictive covenants which, if violated, would prevent them from making cash distributions to us. In particular, certain long-term debt at Tampa Electric Company's Peoples Gas System division prohibits payment of dividends to us if Tampa Electric Company's consolidated shareholders' equity is not at least \$500 million. At June 30, 2004, Tampa Electric Company's consolidated shareholders' equity was approximately \$1.7 billion. Also, our wholly owned subsidiary, TECO Diversified, Inc., the holding company for TECO Transport, TECO Coal and TECO Solutions, has a guarantee related to a coal supply agreement that could limit the payment of dividends by TECO Diversified to us.



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***Various factors could affect our ability to sustain our dividend.***

Our ability to pay a dividend or sustain it at current levels could be affected by such factors as (i) the level of our earnings and therefore our dividend payout ratio, (ii) the level of our retained earnings, which in turn could be affected by payment of dividends in excess of earnings and further write-offs of our merchant generation investments or other assets, and (iii) pressures on our liquidity needs, including unplanned debt repayments, unexpected capital needs and shortfalls in operating cash flow. These are in addition to any restrictions on dividends from our subsidiaries to us discussed above.

***We are vulnerable to interest rate changes and may not have access to capital at favorable rates, if at all.***

Changes in interest rates and capital markets generally affect our cost of borrowing and access to these markets. We cannot be sure that we will be able to accurately predict the effect those changes will have on our cost of borrowing or access to capital markets.

#### **Merchant Power Project Risks**

***We and the project companies have reached definitive agreements with the non-recourse project lending banks for the transfer of our ownership of the Union and Gila River projects and have presented them to the lending bank group for a bank vote, a delay in the ultimate transfer could affect the accounting treatment.***

Our decision to exit from the ownership of the projects is not conditioned on reaching a consensual agreement with the lenders for the pending sale or other transfer of the projects. If there is a delay in the ultimate forgiveness of the non-recourse debt, there could be a change in the accounting treatment from discontinued operations back to continuing operations in a future period.

***The power plants owned by subsidiaries of TWG Merchant are affected by market conditions, and they may not be able to sell power at prices that enable it to recover its investments in the plants.***

The power plants of TWG Merchant's subsidiaries that are in operation currently sell most of their power based on market conditions at the time of sale, so TWG Merchant cannot predict with certainty:

- the amount or timing of revenue it may receive from power sales from operating plants;



- the differential between the cost of operations (in particular, natural gas prices) and power sales revenue;
- the effect of competition from other suppliers of power;
- regulatory actions that may affect market behavior, such as price limitations or bidding rules imposed by the Federal Energy Regulatory Commission (FERC) or state regulatory bodies or reimposition of regulation in power markets;
- the demand for power in a market served by TWG Merchant's plants relative to available supply;
- the availability of transmission to accommodate the sale of power; or
- whether TWG Merchant will recover its initial investment in these plants.

Several of the wholesale markets supplied by these merchant power plants have experienced significant pricing declines due to excess supply. The excess supply is partially due to the slowdown of electric deregulation in many states, or the outright repeal of electric competition legislation as occurred in Arkansas in 2003 (where the Dell and Union power stations are sited or located). This has allowed incumbent utilities to continue to operate older, less efficient generating facilities in lieu of purchasing power from newer, more efficient independent power plants. Consequently, only a small portion of the output of TWG Merchant's plants has been sold forward, or hedged, under short-term agreements. TWG Merchant's results could be adversely affected if it is unable to sufficiently sell the output of its plants under longer-term contracts or at a premium to forward curve prices for short-term sales or if we need to write off any of the capital already invested in the projects.

Our outlook assumes that TWG Merchant will manage these risks by:

- optimizing among a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions;
- avoiding short positions; and
- retaining flexibility to continue to defer, where advisable, construction of output capacity in a market that has become oversupplied.



However, we cannot be sure how successfully TWG Merchant will be able to implement these risk management measures. For instance, in oversupplied markets, entering into long-term contracts could be difficult.

***The status of TWG Merchant's investment in the suspended Dell and McAdams plants, as well as in its Frontera and Commonwealth Chesapeake plants, is subject to uncertainties which could result in impairment of asset values.***

TWG Merchant carried an investment at June 30, 2004 of approximately \$685 million in the Dell and McAdams plants, on which construction has been suspended. We will be performing our annual impairment test on these investments in accordance with generally accepted accounting principles, including a review of the energy markets in which these projects would operate, during the fourth quarter of 2004. The results of our impairment testing, including a reevaluation of these energy markets, could result in our determining that these markets do not justify the resumption of construction of these plants in the near future and also in our recognizing impairment charges for one or both of these investments, the effect of which would be to adversely affect our net income and to reduce our equity levels. In any event, continued suspension beyond the currently anticipated time frame could delay construction schedules and increase costs and could also result in the impairment of asset values for these plants. Any resumption of construction of the plants would involve risks inherent in the completion of large power generating facilities and require additional funds.

TWG Merchant also carried an investment at June 30, 2004 of approximately \$180 million in the Frontera plant and \$168 million in the Commonwealth Chesapeake plant, both of which are in operation. We also will be reviewing the status of these plants in connection with our annual impairment testing of our investments in accordance with generally accepted accounting principles. The results of our impairment testing, including a reevaluation of the energy markets in which these plants operate, could result in our recognizing impairment charges for one or both of these investments, the effect of which similarly would be to adversely affect our net income and to reduce our equity levels.

***TWG Merchant's marketing and risk management policies may not work as planned, and it may suffer economic losses despite such policies.***

TWG Merchant seeks to actively manage the market risk inherent in its energy and fuel positions. Nonetheless, adverse changes in energy and fuel prices may result in losses in our earnings or cash flows and adversely affect our balance sheet. TWG Merchant's marketing and risk management procedures may not always be followed or may not work as planned. As a result, we cannot predict with precision the impact that its marketing, energy management and risk management decisions may have on its business, operating



results or financial position. In addition, to the extent it does not cover its positions to market price volatility, or the hedging procedures do not work as planned, fluctuating commodity prices would cause our sales and net income to be more volatile.

TWG Merchant's and its affiliates' marketing and risk management activities also are exposed to the credit risk that counterparties to its transactions will not perform their obligations. Should counterparties to these arrangements fail to perform, it may be forced to enter into alternative hedging arrangements, honor underlying commitments at then-current market prices or otherwise satisfy its obligations on unfavorable terms. In that event, its financial results would likely be adversely affected.

### **General Business and Operational Risks**

#### ***General economic conditions may adversely affect our businesses.***

Our businesses are affected by general economic conditions. In particular, the projected growth in Tampa Electric's service area and in Florida is important to the realization of Tampa Electric's and Peoples Gas System's forecasts for annual energy sales growth. An unanticipated downturn in the local area's or Florida's economy could adversely affect Tampa Electric's or Peoples Gas System's expected performance.

Our unregulated businesses, particularly TWG Merchant, TECO Transport and TECO Coal, are also affected by general economic conditions in the industries and geographic areas they serve, both nationally and internationally.

#### ***Potential competitive changes may adversely affect our regulated electricity and gas businesses.***

The U.S. electric power industry has been undergoing restructuring. Competition in wholesale power sales has been introduced on a national level. Some states have mandated or encouraged competition at the retail level and, in some situations, required divestiture of generating assets. While there is active wholesale competition in Florida, the retail electric business has remained substantially free from direct competition. While not expected in the foreseeable future, changes in the competitive environment occasioned by legislation, regulation, market conditions or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect Tampa Electric's business and its performance.

The gas distribution industry has been subject to competitive forces for several years. Gas services provided by Peoples Gas System are now unbundled for all non-residential customers. Because Peoples Gas System earns margins on distribution of gas, but not on the commodity itself, unbundling has not negatively impacted Peoples Gas System's



results. However, future structural changes that we cannot predict could adversely affect Peoples Gas System.

***Our gas and electricity businesses are highly regulated, and any changes in regulatory structures could lower revenues or increase costs or competition.***

Tampa Electric and Peoples Gas System operate in highly regulated industries. Their retail operations, including the prices charged, are regulated by the Florida Public Service Commission, or FPSC, and Tampa Electric's wholesale power sales and transmission services are subject to regulation by the FERC. Changes in regulatory requirements or adverse regulatory actions could have an adverse effect on Tampa Electric's or Peoples Gas System's performance by, for example, increasing competition or costs, threatening investment recovery or impacting rate structure.

***Our businesses are sensitive to variations in weather and have seasonal variations.***

Most of our businesses are affected by variations in general weather conditions and unusually severe weather. Tampa Electric's, Peoples Gas System's and TWG Merchant's energy sales are particularly sensitive to variations in weather conditions. Those companies forecast energy sales on the basis of normal weather, which represents a long-term historical average. Significant variations from normal weather could have a material impact on energy sales. Unusual weather, such as hurricanes like those experienced recently, could adversely affect operating costs and sales and cause damage to our facilities, which may require additional costs to repair.

Peoples Gas System, which has a single winter peak period, is more weather sensitive than Tampa Electric, which has both summer and winter peak periods. Mild winter weather in Florida can be expected to negatively impact results at Peoples Gas System.

Variations in weather conditions also affect the demand and prices for the commodities sold by TECO Coal, as well as electric power sales from TWG Merchant's power plants. TECO Transport is also impacted by weather because of its effects on the supply of and demand for the products transported. Severe weather conditions could interrupt or slow service and increase operating costs of those businesses.

Electric power marketing may be seasonal. For example, in some parts of the country, demand for, and market prices of, electricity peak during the hot summer months, while in other parts of the country such peaks occur in the cold winter months. As a result, our power marketing results may fluctuate on a seasonal basis. The pattern of this fluctuation may change depending on the nature and location of the facilities we operate and the terms under which we sell electricity.





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***Commodity price changes may affect the operating costs and competitive positions of our businesses.***

Most of our businesses are sensitive to changes in coal, gas, oil and other commodity prices. Any changes could affect the prices these businesses charge, their operating costs and the competitive position of their products and services.

In the case of Tampa Electric, fuel costs used for generation have been affected primarily by the cost of coal. Tampa Electric's fuel costs will be increasingly impacted by the cost of natural gas with the completion of the Bayside repowering. Tampa Electric is able to recover the cost of fuel through retail customers' bills, but increases in fuel costs affect electric prices and, therefore, the competitive position of electricity against other energy sources.

Regarding wholesale sales of electricity, the ability to make sales and margins on power sales is affected by the cost of fuel to Tampa Electric, particularly as it compares to the costs of other power producers.

In the case of TWG Merchant, results are impacted by changes in the cost of fuel and the market price for electricity. The profitability of merchant power plants is heavily dependent on the price for power in the markets they serve. Wholesale power prices are set by the market assuming a cost for the input energy and conversion efficiency, but the fixed costs may not be reflected in the price for spot, or excess, power.

In the case of Peoples Gas System, costs for purchased gas and pipeline capacity are recovered through retail customers' bills, but increases in gas costs affect total retail prices and therefore the competitive position of Peoples Gas System relative to electricity, other forms of energy and other gas suppliers.

***We rely on some transmission and distribution assets that we do not own or control to deliver wholesale electricity, as well as natural gas. If transmission is disrupted, or if capacity is inadequate, our ability to sell and deliver power and natural gas may be hindered.***

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell to the wholesale market, as well as the natural gas we sell and purchase for use in our electric generation facilities. If transmission is disrupted, or if capacity is inadequate, our ability to sell and deliver products and satisfy our contractual and service obligations may be hindered.

The FERC has issued regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are



designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that sufficient transmission capacity will not be available to transmit electric power as we desire. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets.

In addition, the independent system operators that oversee the transmission systems in certain wholesale power markets have from time to time been authorized to impose price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms may adversely impact the profitability of our wholesale power marketing business.

***The uncertain outcome regarding the creation of regional transmission organizations, or RTOs, may impact our operations, results or financial condition.***

There continue to be proposals regarding development of RTOs, which would independently control the transmission assets of participating utilities in peninsular Florida. Given the regulatory uncertainty of the ultimate timing, structure and operations of any RTOs or an alternate combined transmission structure, we cannot predict what effect their creation will have on our future operations, results or financial condition.

***We may be unable to take advantage of our existing tax credits.***

We derive a portion of our net income from Section 29 tax credits related to the production of non-conventional fuels. Although we have sold approximately 90% of our interest in the production facilities, the amounts we realize are dependent on the continued availability to the purchaser of the tax credits and our use of any remaining tax credits is dependent on our generating sufficient taxable income against which to use the credits. The availability of the Section 29 tax credits could be negatively impacted by administrative actions of the Internal Revenue Service or the U.S. Treasury or changes in law, regulation or administration.

***Problems with operations could cause us to incur substantial costs.***

Each of our subsidiaries is subject to various operational risks, including accidents or equipment breakdown or failure and operations below expected levels of performance or efficiency. As operators of power generation facilities, Tampa Electric and TECO Wholesale Generation could incur problems such as the breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes which would result in performance below assumed levels of output or efficiency. Our outlook assumes normal operations and normal maintenance periods for our subsidiaries' facilities.



***Our international projects and the operations of TECO Transport are subject to risks that could result in losses or increased costs.***

Our subsidiaries are involved in certain international projects. These projects involve numerous risks that are not present in domestic projects, including expropriation, political instability, currency exchange rate fluctuations, repatriation restrictions, and regulatory and legal uncertainties. The international subsidiaries attempt to manage these risks through a variety of risk mitigation measures, including specific contractual provisions, obtaining non-recourse financing and obtaining political risk insurance where appropriate.

TECO Transport is exposed to operational risks in international ports, primarily in the form of its need to obtain suitable labor and equipment to safely discharge its cargoes in a timely manner. TECO Transport attempts to manage these risks through a variety of risk mitigation measures, including retaining agents with local knowledge and experience in successfully discharging cargoes and vessels similar to those used.

***Changes in the environmental laws and regulations to which our regulated businesses are subject could increase our costs or curtail our activities.***

Our businesses are subject to regulation by various governmental authorities dealing with air, water and other environmental matters. Changes in compliance requirements or the interpretation by governmental authorities of existing requirements may impose additional costs on us or require us to curtail some of our businesses' activities.

***We are currently defending lawsuits in which we could be liable for damages and also are responding to an expanded informal inquiry of the SEC.***

As previously disclosed, a number of securities class action lawsuits were filed in August and September 2004 against us and certain of our current and former officers and directors by purchasers of our securities. These suits, which were filed in the U.S. District Court for the Middle District of Florida, allege disclosure violations under the Securities Exchange Act of 1934. These actions are at the initial pleading stage. We intend to vigorously defend these proceedings. In addition, in connection with the previously disclosed SEC informal inquiry resulting from a letter from the non-equity member in the Commonwealth Chesapeake Project raising issues related to the arbitration proceeding involving that project, the SEC has requested additional information primarily relating to the allegations made in these securities class action lawsuits, including information regarding the related TECO Energy merchant power projects in which Enron Corp. and Panda Energy International had involvement.

Also as previously disclosed, in March 2001, a lawsuit was filed against TWG (under its former name of TECO Power Services Corporation) in Florida by Grupo Interamerica,



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LLC in connection with a potential investment in a power project in Colombia in 1996. Grupo alleged, among other things, that TWG breached an oral contract with Grupo and demanded \$20 million. On August 3, 2004, the trial court granted TWG's motion for summary judgment, resulting in only one count remaining. The trial in this case was continued until December 2004, in order for the company's motion for summary judgment on the remaining count to be heard. On August 30, 2004, a Colombian trade union, which was to have been the owner/lessor of the power plant if the transaction had been consummated, filed a demand for arbitration in Colombia pursuant to provisions of a confidentiality agreement between the trade union and a subsidiary of TWG, TPS International Power, Inc., alleging breach of contract and seeking damages in the amount of \$48 million. TECO Energy, Inc. and TWG were also named, although those companies were not parties to the confidentiality agreement. This arbitration is being funded by Grupo pursuant to a contract under which Grupo will share in the recovery, if any. We intend to vigorously defend these proceedings.

We cannot predict the ultimate resolution of any of these matters at this time, and there can be no assurance that these matters will not have a material adverse impact on our financial condition or results of operations.