TRANSCANADA PIPELINES LTD
Form 40-F/A
August 02, 2005

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U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 40-F/A
Amendment No. 1

o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT of 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004 Commission File Number 1-8887

TRANSCANADA PIPELINES LIMITED

(Exact Name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

4922, 4923, 4924, 5172

(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable

(I.R.S. Employer Identification Number (if applicable))

TransCanada Tower, 450 - 1 Street S.W.
Calgary, Alberta, Canada, T2P 5H1
(403) 920-2000

(Address and telephone number of Registrant's principal executive offices)

CT Corporation, Suite 2610, 520 Pike Street
Seattle, Washington, 98101; (206) 622-4511; 1-800-456-4511

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
8.25% Preferred Securities due 2047	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

For annual reports, indicate by check mark the information filed with this Form:

o Annual Information Form ý Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2004, 4,000,000 Cumulative Redeemable First Preferred Shares Series U and 4,000,000 Cumulative Redeemable First Preferred Shares Series Y were issued and outstanding
All of the Registrant's common shares are owned by TransCanada Corporation.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes o No ý

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

The documents (or portions thereof) forming part of this Form 40-F/A are incorporated by reference in Amendment No. 1 on Form F-9 to Registration Statement (Reg. No. 333-121265) under the Securities Act of 1933, as amended.

EXPLANATORY NOTE

TransCanada PipeLines Limited ("TransCanada") is filing this Form 40-F/A Amendment No. 1 to its Annual Report on Form 40-F for the year ended December 31, 2004 which was filed with the Securities and Exchange Commission on March 15, 2005, to refile its 2004 Consolidated Financial Statements, which contains a restated Note 23 (U.S. GAAP). The restatement relates to the reporting of TransCanada's investment in TransCanada Power, L.P. For U.S. generally accepted accounting principles (GAAP) purposes, certain transactions involving TransCanada Power, L.P., in the period 1997 to 2001, should have been accounted for differently than under Canadian GAAP. This has been corrected on a retroactive basis. The restated Note 23 has no impact on TransCanada's 2004 financial statements as prepared under Canadian GAAP or on total shareholders' equity at December 31, 2004 as prepared under U.S. GAAP.

Other than as expressly set forth above, this Form 40-F/A does not, and does not purport to, update, or restate the information in any Item of the Form 40-F or reflect any events that have occurred after the Form 40-F was filed.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an Annual Report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

TRANSCANADA PIPELINES LIMITED

By: /s/ RUSSELL K. GIRLING

Russell K. Girling, Executive Vice-President,
Corporate Development and Chief Financial Officer

Date: August 2, 2005

DOCUMENTS FILED AS PART OF THIS REPORT

13.1	Restated 2004 Consolidated Audited Financial Statements included herein on pages F-2 through F-47.
13.2	U.S. GAAP reconciliation included herein on pages F-40 through F-47 of the Restated 2004 Consolidated Audited Financial Statements.
99.1	Comments by Auditors for U.S. Readers on Canada U.S. Reporting Difference.

EXHIBITS

23.1	Consent of KPMG LLP, Chartered Accountants.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

TransCanada PipeLines Limited

Restated Consolidated Financial Statements
December 31, 2004

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AUDITORS' REPORT

To the Shareholder of TransCanada PipeLines Limited

We have audited the consolidated balance sheets of TransCanada PipeLines Limited as at December 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these revised consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Our previous report dated February 28, 2005 has been withdrawn and the financial statements have been revised as explained in note 23 to the revised consolidated financial statements.

Chartered Accountants

Calgary, Canada

February 28, 2005, except
as to note 23 which is
as of July 28, 2005

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED INCOME

Year ended December 31 (millions of dollars)	2004	2003	2002
Revenues	**5,107**	5,357	5,214
Operating Expenses			
Cost of sales	**539**	692	627
Other costs and expenses	**1,635**	1,682	1,546
Depreciation	**945**	914	848
	3,119	3,288	3,021
Operating Income	**1,988**	2,069	2,193
Other Expenses/(Income)			
Financial charges *(Note 9)*	**812**	821	867
Financial charges of joint ventures	**60**	77	90
Equity income *(Note 7)*	**(171)**	(165)	(33)
Interest income and other	**(65)**	(60)	(53)
Gains related to Power LP *(Note 8)*	**(197)**		
	439	673	871
Income from Continuing Operations before Income Taxes and Non-Controlling Interests	**1,549**	1,396	1,322
Income Taxes *(Note 16)*			
Current	**431**	305	270
Future	**77**	230	247
	508	535	517
Non-Controlling Interests	**10**	2	
Net Income from Continuing Operations	**1,031**	859	805
Net Income from Discontinued Operations *(Note 22)*	**52**	50	
Net Income	**1,083**	909	805
Preferred Securities Charges	**31**	36	36
Preferred Share Dividends	**22**	22	22
Net Income Applicable to Common Shares	**1,030**	851	747
Net Income Applicable to Common Shares			
Continuing operations	**978**	801	747
Discontinued operations	**52**	50	
	1,030	851	747

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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TRANSCANADA PIPELINES LIMITED
CONSOLIDATED CASH FLOWS

Year ended December 31 (millions of dollars)	2004	2003	2002
Cash Generated from Operations			
Net income from continuing operations	**1,031**	859	805
Depreciation	**945**	914	848
Future income taxes	**77**	230	247
Gains related to Power LP	**(197)**		
Equity income in excess of distributions received *(Note 7)*	**(123)**	(119)	(6)
Pension funding in excess of expense	**(29)**	(65)	(33)
Other	**(32)**	(9)	(34)
Funds generated from continuing operations	**1,672**	1,810	1,827
Decrease in operating working capital *(Note 20)*	**33**	112	33
Net cash provided by continuing operations	**1,705**	1,922	1,860
Net cash (used in)/provided by discontinued operations	**(6)**	(17)	59
	1,699	1,905	1,919
Investing Activities			
Capital expenditures	**(476)**	(391)	(599)
Acquisitions, net of cash acquired *(Note 8)*	**(1,516)**	(570)	(228)
Disposition of assets *(Note 8)*	**410**		
Deferred amounts and other	**(24)**	(138)	(112)
Net cash used in investing activities	**(1,606)**	(1,099)	(939)
Financing Activities			
Dividends and preferred securities charges	**(623)**	(588)	(546)
Advances from parent	**35**	46	
Notes payable issued/(repaid), net	**179**	(62)	(46)
Long-term debt issued	**1,042**	930	
Reduction of long-term debt	**(997)**	(744)	(486)
Non-recourse debt of joint ventures issued	**233**	60	44
Reduction of non-recourse debt of joint ventures	**(113)**	(71)	(80)
Partnership units of joint ventures issued	**88**		
Common shares issued		18	50
Redemption of junior subordinated debentures		(218)	
Net cash used in financing activities	**(156)**	(629)	(1,064)
Effect of Foreign Exchange Rate Changes on Cash and Short-Term Investments	**(87)**	(52)	(3)
(Decrease)/Increase in Cash and Short-Term Investments	**(150)**	125	(87)
Cash and Short-Term Investments			
Beginning of year	**337**	212	299

Year ended December 31 (millions of dollars)	**2004**	**2003**	**2002**
Cash and Short-Term Investments			
End of year	**187**	337	212

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED BALANCE SHEET

December 31 (millions of dollars)	2004	2003
ASSETS		
Current Assets		
Cash and short-term investments	**187**	337
Accounts receivable	**627**	603
Inventories	**174**	165
Other	**120**	88
	1,108	1,193
Long-Term Investments *(Note 7)*	**840**	733
Plant, Property and Equipment *(Notes 4, 9 and 10)*	**18,704**	17,415
Other Assets *(Note 5)*	**1,477**	1,357
	22,129	20,698
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable *(Note 17)*	**546**	367
Accounts payable	**1,215**	1,131
Accrued interest	**214**	208
Current portion of long-term debt *(Note 9)*	**766**	550
Current portion of non-recourse debt of joint ventures *(Note 10)*	**83**	19
	2,824	2,275
Deferred Amounts *(Note 11)*	**666**	561
Long-Term Debt *(Note 9)*	**9,713**	9,465
Future Income Taxes *(Note 16)*	**509**	427
Non-Recourse Debt of Joint Ventures *(Note 10)*	**779**	761
Preferred Securities *(Note 12)*	**19**	22
	14,510	13,511
Non-Controlling Interests	**76**	82
Shareholders' Equity		
Preferred securities *(Note 12)*	**670**	672
Preferred shares *(Note 13)*	**389**	389
Common shares *(Note 14)*	**4,632**	4,632
Contributed surplus	**270**	267
Retained earnings	**1,653**	1,185
Foreign exchange adjustment *(Note 15)*	**(71)**	(40)
	7,543	7,105
Commitments, Contingencies and Guarantees *(Note 21)*		

December 31 (millions of dollars)	**2004**	**2003**
	22,129	20,698

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board:

Harold N. Kvisle
Director

Harry G. Schaefer
Director

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED RETAINED EARNINGS

Year ended December 31 (millions of dollars)	**2004**	**2003**	**2002**
Balance at beginning of year	**1,185**	854	586
Net income	**1,083**	909	805
Preferred securities charges	**(31)**	(36)	(36)
Preferred share dividends	**(22)**	(22)	(22)
Common share dividends	**(562)**	(520)	(479)
	1,653	1,185	854

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TransCanada PipeLines Limited (the Company or TCPL) is a leading North American energy company. TCPL operates in two business segments, Gas Transmission and Power, each of which offers different products and services.

Gas Transmission

The Gas Transmission segment owns and operates the following natural gas pipelines:

- a natural gas transmission system extending from the Alberta border east into Québec (the Canadian Mainline);
- a natural gas transmission system in Alberta (the Alberta System);
- a natural gas transmission system extending from the British Columbia/Idaho border to the Oregon/California border, traversing Idaho, Washington and Oregon (the Gas Transmission Northwest System);
- a natural gas transmission system extending from central Alberta to the B.C., Saskatchewan and the United States borders (the Foothills System);
- a natural gas transmission system extending from the Alberta border west into southeastern B.C. (the BC System);
- a natural gas transmission system extending from a point near Ehrenberg, Arizona to the Baja California, Mexico/California border (the North Baja System); and
- natural gas transmission systems in Alberta which supply natural gas to the oil sands region of northern Alberta and to a petrochemical complex at Joffre, Alberta (Ventures LP).

Gas Transmission also holds the Company's investments in other natural gas pipelines and natural gas storage facilities located primarily in Canada and the U.S. In addition, Gas Transmission investigates and develops new natural gas transmission, natural gas storage and liquefied natural gas regasification facilities in Canada and the U.S.

Power

The Power segment builds, owns and operates electrical power generation plants, and markets electricity. Power also holds the Company's investments in other electrical power generation plants. This business operates in Canada and the U.S.

NOTE 1 ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles (GAAP). These accounting principles are different in some respects from U.S. GAAP and the significant differences are described in Note 23. Amounts are stated in Canadian dollars unless otherwise indicated. Certain comparative figures have been reclassified to conform with the current year's presentation.

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of Management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of Presentation

Pursuant to a plan of arrangement, effective May 15, 2003, common shares of TCPL were exchanged on a one-to-one basis for common shares of TransCanada Corporation (TransCanada). As a result, TCPL became a wholly-owned subsidiary of TransCanada. The consolidated financial statements include the accounts of TCPL, the consolidated accounts of all subsidiaries and TCPL's proportionate share of the accounts of the Company's joint venture investments.

On November 1, 2004, the Company acquired a 100 per cent interest in the Gas Transmission Northwest System and the North Baja System (collectively GTN) and, as a result, GTN was consolidated subsequent to that date. In December 2003, TCPL increased its ownership interest in Portland Natural Gas Transmission System Partnership (Portland) to 61.7 per cent from 43.4 per cent. Subsequent to the acquisition, Portland was consolidated in the Company's financial statements with 38.3 per cent reflected in non-controlling interests. In August 2003, the Company acquired the remaining interests in Foothills Pipe Lines Ltd. and its subsidiaries (Foothills) previously not held by TCPL, and Foothills was consolidated subsequent to that date.

TCPL uses the equity method of accounting for investments over which the Company is able to exercise significant influence.

Regulation

The Canadian Mainline, the BC System, the Foothills System, and Trans Québec & Maritimes Pipeline Inc. (Trans Québec & Maritimes) are subject to the authority of the National Energy Board (NEB) and the Alberta System is regulated by the Alberta Energy and Utilities Board (EUB). These Canadian natural gas transmission operations are regulated with respect to the determination of revenues, tolls, construction and operations. The NEB approved interim tolls for 2004 for the Canadian Mainline. The tolls will remain interim pending a decision on Phase II of the 2004 Tolls and Tariff Application, which will address capital structure, for the Canadian Mainline. Any adjustments to the interim tolls will be recorded in accordance with the NEB decision. The Gas Transmission Northwest System, the North Baja System and the other natural gas pipelines in the U.S. are subject to the authority of the Federal Energy Regulatory Commission (FERC). In order to appropriately reflect the economic impact of the regulators' decisions regarding the Company's revenues and tolls, and to thereby achieve a proper matching of revenues and expenses, the timing of recognition of certain revenues and expenses in these regulated businesses may differ from that otherwise expected under GAAP.

Cash and Short-Term Investments

The Company's short-term investments with original maturities of three months or less are considered to be cash equivalents and are recorded at cost, which approximates market value.

Inventories

Inventories are carried at the lower of average cost or net realizable value and primarily consist of materials and supplies including spare parts and storage gas.

Plant, Property and Equipment

Gas Transmission

Plant, property and equipment of natural gas transmission operations are carried at cost. Depreciation is calculated on a straight-line basis. Pipeline and compression equipment are depreciated at annual rates ranging from two to six per cent and metering and other plant are depreciated at various rates. An allowance for funds used during construction, using the rate of return on rate base approved by the regulators, is capitalized and included in the cost of gas transmission plant.

Power

Plant, property and equipment in the Power business are recorded at cost and depreciated on a straight-line basis over estimated service lives at average annual rates generally ranging from two to four per cent. The cost of major overhauls of equipment is capitalized and depreciated over the estimated service lives. Interest is capitalized on capital projects.

Corporate

Corporate plant, property and equipment are recorded at cost and depreciated on a straight-line basis over estimated useful lives at average annual rates ranging from three to 20 per cent.

Power Purchase Arrangements

Power purchase arrangements (PPAs) are long-term contracts to purchase or sell power on a predetermined basis. The initial payments for PPAs acquired by TCPL are deferred and amortized over the terms of the contracts, from the dates of acquisition, which range from eight to 23 years. Certain PPAs under which TCPL sells power are accounted for as operating leases and, accordingly, the related plant, property and equipment are accounted for as assets under operating leases.

Income Taxes

As prescribed by the regulators, the taxes payable method of accounting for income taxes is used for tollmaking purposes for Canadian natural gas transmission operations. Under the taxes payable method, it is not necessary to provide for future income taxes. As permitted by Canadian GAAP, this method is also used for accounting purposes, since there is reasonable expectation that future taxes payable will be included in future costs of service and recorded in revenues at that time. The liability method of accounting for income taxes is used for the remainder of the Company's operations. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur.

Canadian income taxes are not provided on the unremitted earnings of foreign investments as the Company does not intend to repatriate these earnings in the foreseeable future.

Foreign Currency Translation

Most of the Company's foreign operations are self-sustaining and are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at period end exchange rates and items included in the statements of consolidated income, consolidated retained earnings and consolidated cash flows are translated at the exchange rates in effect at the time of the transaction. Translation adjustments are reflected in the foreign exchange adjustment in Shareholders' Equity.

Certain foreign operations included in TCPL's investment in TransCanada Power, L.P. (Power LP) are integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at period end exchange rates, non-monetary assets and liabilities are translated at historical exchange rates, revenues and expenses are translated at the exchange rate in effect at the time of the transaction and depreciation of assets translated at historical rates is translated at the same rate as the asset to which it relates. Gains and losses on translation are reflected in income when incurred.

Exchange gains or losses on the principal amounts of foreign currency debt and preferred securities related to the Alberta System and the Canadian Mainline are deferred until they are recovered in tolls.

Derivative Financial Instruments

The Company utilizes derivative and other financial instruments to manage its exposure to changes in foreign currency exchange rates, interest rates and energy commodity prices. Gains or losses relating to derivatives that are hedges are deferred and recognized in the same period and in the same financial statement category as the corresponding hedged transactions. The recognition of gains and losses on derivatives used as hedges for Canadian Mainline, Alberta System, GTN and the Foothills System exposures is determined through the regulatory process.

A derivative must be designated and effective to be accounted for as a hedge. For cash flow hedges, effectiveness is achieved if the changes in the cash flows of the derivative substantially offset the changes in the cash flows of the hedged position and the timing of the cash flows is similar. Effectiveness for fair value hedges is achieved if changes in the fair value of the derivative substantially offset changes in the fair value attributable to the hedged item. In the event that a derivative does not meet the designation or effectiveness criterion, the derivative is accounted for at fair value and realized and unrealized gains and losses on the derivative are recognized in income. If a derivative that qualifies as a hedge is settled early, the gain or loss at settlement is deferred and recognized when the corresponding hedged transaction is recognized. Premiums paid or received with respect to derivatives that are hedges are deferred and amortized to income over the term of the hedge.

Employee Benefit and Other Plans

The Company sponsors defined benefit pension plans (DB Plans). The cost of defined benefit pensions and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are measured at fair value. The expected return on pension plan assets is determined using market-related values based on a five-year moving average value for all plan assets. Adjustments arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. The Company previously sponsored two additional plans, a defined contribution plan and a combination of the defined benefit and defined contribution plans, which were effectively terminated at December 31, 2002.

NOTE 2 ACCOUNTING CHANGES

Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) Handbook Section "Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with asset retirement costs. This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses. This accounting change was applied retroactively with restatement of prior periods.

The plant, property and equipment of the regulated natural gas transmission operations consists primarily of underground pipelines and above ground compression equipment and other facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the asset retirements. Management believes it is reasonable to assume that all retirement costs associated with the regulated pipelines will be recovered through tolls in future periods. For Gas Transmission, excluding regulated natural gas transmission operations, the impact of this accounting change resulted in an increase of $2 million in plant, property and equipment and in the estimated fair value of the liability as at January 1, 2003 and December 31, 2003.

The plant, property and equipment in the Power business consists primarily of power plants in Canada and the U.S. The impact of this accounting change resulted in an increase of $6 million and $7 million in plant, property and equipment and in the estimated fair value of the liability as at January 1, 2003 and December 31, 2003, respectively. The asset retirement cost, net of accumulated depreciation that would have been recorded if the cost had been recorded in the period in which it arose, is recorded as an additional cost of the assets as at January 1, 2003.

The impact of this change on TCPL's net income in prior years was nil. The impact of this accounting change on the Company's financial statements as at and for the year ended December 31, 2004 is disclosed in Note 18.

Hedging Relationships

Effective January 1, 2004, the Company adopted the provisions of the CICA's new Accounting Guideline "Hedging Relationships" that specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges, and the discontinuance of hedge accounting. The adoption of the new guideline, which TCPL applied prospectively, had no significant impact on net income for the year ended December 31, 2004.

Generally Accepted Accounting Principles

Effective January 1, 2004, the Company adopted the new standard of the CICA Handbook Section "Generally Accepted Accounting Principles" that defines primary sources of GAAP and the other sources that need to be considered in the application of GAAP. The new standard eliminates the ability to rely on industry practice to support a particular accounting policy and provides an exemption for rate-regulated operations.

This accounting change was applied prospectively and there was no impact on net income in the year ended December 31, 2004. In prior years, in accordance with industry practice, certain assets and liabilities related to the Company's regulated activities, and offsetting deferral accounts, were not recognized on the balance sheet. The impact of the change on the consolidated balance sheet as at January 1, 2004 is as follows.

(millions of dollars)	**Increase/ (Decrease)**
Other assets	**153**
Deferred amounts	**80**
Long-term debt	**76**
Preferred securities	**(3)**
Total liabilities	**153**

NOTE 3 SEGMENTED INFORMATION

NET INCOME/(LOSS)[(1)]

Year ended December 31, 2004 (millions of dollars)	Gas Transmission	Power	Corporate	Total
Revenues	**3,917**	**1,190**		**5,107**
Cost of sales[(2)]		**(539)**		**(539)**
Other costs and expenses	**(1,225)**	**(407)**	**(3)**	**(1,635)**
Depreciation	**(873)**	**(72)**		**(945)**
Operating income/(loss)	**1,819**	**172**	**(3)**	**1,988**
Financial and preferred equity charges and non-controlling interests	**(785)**	**(9)**	**(81)**	**(875)**
Financial charges of joint ventures	**(56)**	**(4)**		**(60)**
Equity income	**41**	**130**		**171**
Interest income and other	**14**	**14**	**37**	**65**
Gains related to Power LP		**197**		**197**
Income taxes	**(447)**	**(104)**	**43**	**(508)**
Continuing operations	**586**	**396**	**(4)**	**978**
Discontinued operations				**52**
Net Income Applicable to Common Shares				**1,030**

Year ended December 31, 2003 (millions of dollars)				
Revenues	3,956	1,401		5,357
Cost of sales[(2)]		(692)		(692)
Other costs and expenses	(1,270)	(405)	(7)	(1,682)
Depreciation	(831)	(82)	(1)	(914)
Operating income/(loss)	1,855	222	(8)	2,069
Financial and preferred equity charges and non-controlling interests	(781)	(11)	(89)	(881)
Financial charges of joint ventures	(76)	(1)		(77)
Equity income	66	99		165
Interest income and other	17	14	29	60
Income taxes	(459)	(103)	27	(535)
Continuing operations	622	220	(41)	801
Discontinued operations				50
Net Income Applicable to Common Shares				851

Year ended December 31, 2002 (millions of dollars)	Gas Transmission	Power	Corporate	Total
Revenues	3,921	1,293		5,214
Cost of sales[2]		(627)		(627)
Other costs and expenses	(1,166)	(371)	(9)	(1,546)
Depreciation	(783)	(65)		(848)
Operating income/(loss)	1,972	230	(9)	2,193
Financial and preferred equity charges and non-controlling interests	(821)	(13)	(91)	(925)
Financial charges of joint ventures	(90)			(90)
Equity income	33			33
Interest income and other	17	13	23	53
Income taxes	(458)	(84)	25	(517)
Continuing operations	653	146	(52)	747
Discontinued operations				
Net Income Applicable to Common Shares				747

(1) In determining the net income of each segment, certain expenses such as indirect financial charges and related income taxes are not allocated to business segments.

(2) Cost of sales is comprised of commodity purchases for resale.

TOTAL ASSETS

December 31 (millions of dollars)	2004	2003
Gas Transmission	**18,428**	17,064
Power	**2,802**	2,753
Corporate	**892**	870
Continuing operations	**22,122**	20,687
Discontinued operations	**7**	11
	22,129	20,698

GEOGRAPHIC INFORMATION

Year ended December 31 (millions of dollars)	2004	2003	2002[4]
Revenues[3]			
Canada domestic	**3,147**	3,257	2,731
Canada export	**1,261**	1,293	1,641
United States	**699**	807	842
	5,107	5,357	5,214

(3) Revenues are attributed to countries based on country of origin of product or service.

(4) Canada domestic revenues were reduced in 2002 as a result of transportation service credits of $662 million. These services were discontinued in 2003.

PLANT, PROPERTY AND EQUIPMENT

December 31 (millions of dollars)	2004	2003
Canada	**14,757**	15,156
United States	**3,947**	2,259
	18,704	17,415

CAPITAL EXPENDITURES

Year ended December 31 (millions of dollars)	2004	2003	2002
Gas Transmission	**187**	256	382
Power	**285**	132	193
Corporate and Other	**4**	3	24
	476	391	599

NOTE 4 PLANT, PROPERTY AND EQUIPMENT

December 31 *(millions of dollars)*	2004			2003		
	Cost	**Accumulated Depreciation**	**Net Book Value**	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Gas Transmission						
Canadian Mainline						
Pipeline	**8,695**	**3,421**	**5,274**	8,683	3,176	5,507
Compression	**3,322**	**947**	**2,375**	3,318	832	2,486
Metering and other	**366**	**125**	**241**	404	132	272
	12,383	**4,493**	**7,890**	12,405	4,140	8,265
Under construction	**16**		**16**	12		12
	12,399	**4,493**	**7,906**	12,417	4,140	8,277
Alberta System						
Pipeline	**4,978**	**2,055**	**2,923**	4,934	1,908	3,026
Compression	**1,496**	**599**	**897**	1,507	549	958
Metering and other	**861**	**262**	**599**	862	211	651
	7,335	**2,916**	**4,419**	7,303	2,668	4,635
Under construction	**20**		**20**	13		13
	7,355	**2,916**	**4,439**	7,316	2,668	4,648
GTN(1)						
Pipeline	**1,131**	**9**	**1,122**			
Compression	**726**	**2**	**724**			
Metering and other	**187**	**1**	**186**			
	2,044	**12**	**2,032**			
Under construction	**17**		**17**			
	2,061	**12**	**2,049**			
Foothills System						
Pipeline	**815**	**346**	**469**	834	317	517
Compression	**373**	**114**	**259**	378	99	279
Metering and other	**78**	**35**	**43**	60	35	25
	1,266	**495**	**771**	1,272	451	821
Joint Ventures and other	**3,213**	**1,053**	**2,160**	3,361	1,052	2,309
	26,294	**8,969**	**17,325**	24,366	8,311	16,055
Power(2)						
Power generation facilities	**1,397**	**375**	**1,022**	1,439	381	1,058
Other	**77**	**45**	**32**	84	41	43

December 31 ***(millions of dollars)***	**2004**			**2003**		
	1,474	**420**	**1,054**	1,523	422	1,101
Under construction	**288**		**288**	209		209
	1,762	**420**	**1,342**	1,732	422	1,310
Corporate	**124**	**87**	**37**	122	72	50
	28,180	**9,476**	**18,704**	26,220	8,805	17,415

(1)
TCPL acquired GTN on November 1, 2004.

(2)
Certain Power generation facilities are accounted for as assets under operating leases. At December 31, 2004, the net book value of these facilities was $70 million. Revenues of $7 million were attributed to the PPAs of these facilities in 2004.

NOTE 5 OTHER ASSETS

December 31 (millions of dollars)	**2004**	**2003**
Derivative contracts	**253**	118
PPAs Canada[1]	**274**	278
PPAs U.S.[1]	**98**	248
Pension and other benefit plans	**209**	201
Regulatory deferrals	**199**	212
Loans and advances[2]	**135**	111
Goodwill	**58**	
Other	**251**	189
	1,477	1,357

(1) The following amounts related to the PPAs are included in the consolidated financial statements.

December 31 (millions of dollars)	**2004**			**2003**		
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
PPAs Canada	**345**	**71**	**274**	329	51	278
PPAs U.S.	**102**	**4**	**98**	276	28	248

The aggregate amortization expense with respect to the PPAs was $24 million for the year ended December 31, 2004 (2003 $37 million; 2002 $28 million). The amortization expense with respect to the Company's PPAs approximate: 2005 $26 million; 2006 $26 million; 2007 $26 million; 2008 $26 million; and 2009 $26 million. In April 2004, the Company disposed of all its PPAs U.S. to Power LP and, as a result of its joint venture investment in Power LP, recorded US$74 million of PPAs U.S. In 2004, TransCanada also recorded $16 million of PPAs Canada.

(2) Includes a $75 million unsecured note receivable from Bruce Power L.P. (Bruce Power) bearing interest at 10.5 per cent per annum, due February 14, 2008.

NOTE 6 JOINT VENTURE INVESTMENTS

		TCPL's Proportionate Share				
		Income Before Income Taxes Year ended December 31			**Net Assets December 31**	
(millions of dollars)	**Ownership Interest**	**2004**	**2003**	**2002**	**2004**	**2003**
Gas Transmission						
Great Lakes	50.0%(1)	**86**	81	102	**379**	419
Iroquois	41.0%(1)	**28**	31	30	**175**	169
TC PipeLines, LP	33.4%	**22**	21	24	**124**	130
Trans Québec & Maritimes	50.0%	**13**	14	13	**75**	77
CrossAlta	60.0%(1)	**20**	11	21	**24**	25
Foothills	(2)		19	29		
Other	Various	**6**	7	7	**27**	22

		TCPL's Proportionate Share				
Power						
Power LP	30.6%(3)	**32**	25	26	**289**	234
ASTC Power Partnership	50.0%(4)				**93**	99
		207	209	252	**1,186**	1,175

(1) Great Lakes Gas Transmission Limited Partnership (Great Lakes); Iroquois Gas Transmission System, L.P. (Iroquois); CrossAlta Gas Storage & Services Ltd. (CrossAlta).

(2) In August 2003, the Company acquired the remaining interests in Foothills previously not held by TCPL, and Foothills was consolidated subsequent to that date.

(3) In April 2004, the Company's interest in Power LP decreased to 30.6 per cent from 35.6 per cent.

(4) The Company has a 50.0 per cent ownership interest in ASTC Power Partnership, which is located in Alberta and holds a PPA. The underlying power volumes related to the 50.0 per cent ownership interest in the Partnership are effectively transferred to TCPL.

Consolidated retained earnings at December 31, 2004 include undistributed earnings from these joint ventures of $509 million (2003 $509 million).

Summarized Financial Information of Joint Ventures

Year ended December 31 (millions of dollars)	**2004**	**2003**	**2002**
Income			
Revenues	**559**	623	680
Other costs and expenses	**(238)**	(275)	(251)
Depreciation	**(88)**	(96)	(119)
Financial charges and other	**(26)**	(43)	(58)
Proportionate share of income before income taxes of joint ventures	**207**	209	252

Year ended December 31 (millions of dollars)	**2004**	**2003**	**2002**
Cash Flows			
Operations	**269**	272	323
Investing activities	**(179)**	(114)	(124)
Financing activities	**(76)**	(156)	(210)
Effect of foreign exchange rate changes on cash and short-term investments	**(5)**	(10)	(1)
Proportionate share of increase/(decrease) in cash and short-term investments of joint ventures	**9**	(8)	(12)

December 31 (millions of dollars)	**2004**	**2003**
Balance Sheet		
Cash and short-term investments	**64**	55
Other current assets	**133**	106
Long-term investments	**105**	118
Plant, property and equipment	**1,644**	1,693
Other assets and deferred amounts (net)	**221**	109
Current liabilities	**(153)**	(94)
Non-recourse debt	**(779)**	(761)
Future income taxes	**(49)**	(51)
Proportionate share of net assets of joint ventures	**1,186**	1,175

NOTE 7 LONG-TERM INVESTMENTS

		TCPL's Share							
		Distributions from Equity Investments Year ended December 31			Income from Equity Investments Year ended December 31			Equity Investments December 31	
(millions of dollars)	Ownership Interest	2004	2003	2002	2004	2003	2002	2004	2003
Power									
Bruce Power	31.6%				**130**	99		**642**	513
Gas Transmission									
Northern Border	10.0%(1)	**27**	22	26	**23**	22	25	**91**	103
TransGas de Occidente S.A.	46.5%	**8**	8		**11**	27	5	**78**	80
Portland	61.7%(2)		10			14	2		
Other	Various	**13**	6	1	**7**	3	1	**29**	37
		48	46	27	**171**	165	33	**840**	733

(1) The Northern Border equity investment effective ownership interest of 10.0 per cent is the result of the Company holding a 33.4 per cent interest in TC PipeLines, LP, which holds a 30.0 per cent interest in Northern Border Pipeline Company (Northern Border).

(2) In September 2003, the Company increased its ownership interest in Portland to 43.4 per cent from 33.3 per cent. In December 2003, the Company increased its ownership interest to 61.7 per cent and the investment was fully consolidated subsequent to that date.

Consolidated retained earnings at December 31, 2004 include undistributed earnings from these equity investments of $285 million (2003 $166 million).

NOTE 8 ACQUISITIONS AND DISPOSITIONS

Acquisitions

GTN

On November 1, 2004, TCPL acquired GTN for approximately US$1,730 million, including US$528 million of assumed debt and closing adjustments. The purchase price was allocated on a preliminary basis as follows using an estimate of fair values of the net assets at the date of acquisition.

Purchase Price Allocation
(millions of U.S. dollars)

Current assets	**45**
Plant, property and equipment	**1,712**
Other non-current assets	**30**
Goodwill	**48**
Current liabilities	**(54)**
Long-term debt	**(528)**
Other non-current liabilities	**(51)**
	1,202

Purchase Price Allocation
(millions of U.S. dollars)

Goodwill, which is attributable to the North Baja System, will be re-evaluated on an annual basis for impairment. Factors that contributed to goodwill include opportunities for expansion, a strong competitive position, strong demand for gas in the western markets and access to an ample supply of relatively low-cost gas. The goodwill recognized on this transaction is expected to be fully deductible for tax purposes.

The acquisition was accounted for using the purchase method of accounting. The financial results of GTN have been consolidated with those of TCPL subsequent to the acquisition date and included in the Gas Transmission segment.

Bruce Power

On February 14, 2003, the Company acquired a 31.6 per cent interest in Bruce Power for $409 million, including closing adjustments. As part of the acquisition, the Company also funded a one-third share ($75 million) of a $225 million accelerated deferred rent payment made by Bruce Power to Ontario Power Generation. The resulting note receivable from Bruce Power is recorded in other assets.

The purchase price of the Company's 31.6 per cent interest in Bruce Power was allocated as follows.

Purchase Price Allocation
(millions of dollars)

Net book value of assets acquired	**281**
Capital lease	**301**
Power sales agreements	**(131)**
Pension liability and other	**(42)**
	409

The amount allocated to the investment in Bruce Power includes a purchase price allocation of $301 million to the capital lease of the Bruce Power plant which is being amortized on a straight-line basis over the lease term which extends to 2018, resulting in an annual amortization expense of $19 million. The amount allocated to the power sales agreements is being amortized to income over the remaining term of the underlying sales contracts. The amortization of the fair value allocated to these contracts is: 2003 $38 million; 2004 $37 million; 2005 $25 million; 2006 $29 million; and 2007 $2 million.

Dispositions

Power LP

On April 30, 2004, TCPL sold the ManChief and Curtis Palmer power facilities to Power LP for US$402.6 million, plus closing adjustments of US$12.8 million, and recognized a gain of $25 million pre tax ($15 million after tax). Power LP funded the purchase through an issue of 8.1 million subscription receipts and third party debt. As part of the subscription receipts offering, TCPL purchased 540,000 subscription receipts for an aggregate purchase price of $20 million. The subscription receipts were subsequently converted into partnership units. The net impact of this issue reduced TCPL's ownership interest in Power LP to 30.6 per cent from 35.6 per cent.

At a special meeting held on April 29, 2004, Power LP's unitholders approved an amendment to the terms of the Power LP Partnership Agreement to remove Power LP's obligation to redeem all units not owned by TCPL at June 30, 2017. TCPL was required to fund this redemption, thus the removal of Power LP's obligation eliminates this requirement. The removal of the obligation and the reduction in TCPL's ownership interest in Power LP resulted in a gain of $172 million. This amount includes the recognition of unamortized gains of $132 million on previous Power LP transactions.

NOTE 9 LONG-TERM DEBT

		2004		2003	
	Maturity Dates	Outstanding December 31[1]	Weighted Average Interest Rate[2]	Outstanding December 31[1]	Weighted Average Interest Rate[2]
CANADIAN MAINLINE[3]					
First Mortgage Pipe Line Bonds					
Pounds Sterling (2004 and 2003 £25)	2007	**58**	**16.5%**	58	16.5%
Debentures					
Canadian dollars	2008 to 2020	**1,354**	**10.9%**	1,354	10.9%
U.S. dollars (2004 US$600; 2003 US$800)	2012 to 2021	**722**	**9.5%**	1,034	9.2%
Medium-Term Notes					
Canadian dollars	2005 to 2031	**2,167**	**6.9%**	2,312	6.9%
U.S. dollars (2004 and 2003 US$120)	2010	**144**	**6.1%**	155	6.1%
Foreign exchange differential recoverable through the tollmaking process[8]				(60)	
		4,445		4,853	
ALBERTA SYSTEM[4]					
Debentures and Notes					
Canadian dollars	2007 to 2024	**607**	**11.6%**	627	11.6%
U.S. dollars (2004 US$375; 2003 US$500)	2012 to 2023	**451**	**8.2%**	646	8.3%
Medium-Term Notes					
Canadian dollars	2005 to 2030	**767**	**7.4%**	767	7.4%
U.S. dollars (2004 and 2003 US$233)	2026 to 2029	**280**	**7.7%**	301	7.7%
Foreign exchange differential recoverable through the tollmaking process[8]				(16)	
		2,105		2,325	
GTN[5]					
Unsecured Debentures and Notes (2004 US$525)	2005 to 2025	**632**	**7.2%**		
FOOTHILLS SYSTEM[3]					
Senior Secured Notes				80	4.3%
Senior Unsecured Notes	2009 to 2014	**400**	**4.9%**	300	4.7%
		400		380	
PORTLAND[6]					
Senior Secured Notes					
U.S. dollars (2004 US$256; 2003 US$271)	2018	**308**	**5.9%**	350	5.9%
OTHER					
Medium-Term Notes[3]					
Canadian dollars	2005 to 2030	**592**	**6.2%**	592	6.2%
U.S. dollars (2004 US$521; 2003 US$665)	2006 to 2025	**627**	**6.9%**	859	6.8%
Subordinated Debentures[3]					
U.S. dollars (2004 and 2003 US$57)	2006	**68**	**9.1%**	74	9.1%

		2004		2003	
Unsecured Loans, Debentures and Notes[7]					
U.S. dollars (2004 US$1,082; 2003 US$446)	2005 to 2034	**1,302**	**5.1%**	582	4.9%
		2,589		2,107	
		10,479		10,015	
Less: Current Portion of Long-Term Debt		**766**		550	
		9,713		9,465	

(1) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in currencies other than Canadian dollars are stated in millions.

(2) Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rates resulting from swap agreements are as follows: Foothills senior unsecured notes in 2003 5.8 per cent; Portland senior secured notes in

2003 6.2 per cent; Other U.S. dollar subordinated debentures 9.0 per cent (2003 9.0 per cent); and Other U.S. dollar unsecured loans, debentures and notes 5.2 per cent (2003 5.2 per cent).

(3) Long-term debt of TCPL.

(4) Long-term debt of NOVA Gas Transmission Ltd. excluding a $241 million note held by TCPL (2003 $258 million).

(5) Long-term debt of Gas Transmission Northwest Corporation.

(6) Long-term debt of Portland.

(7) Long-term debt of TCPL, excluding $85 million held by OSP Finance Company and $14 million held by TC Ocean State Corporation.

(8) See Note 2, Accounting Changes "Generally Accepted Accounting Principles".

Principal Repayments

Principal repayments on the long-term debt of the Company approximate: 2005 $766 million; 2006 $387 million; 2007 $615 million; 2008 $545 million; and 2009 $753 million.

Debt Shelf Programs

At December 31, 2004, $1.5 billion of medium-term note debentures could be issued under a base shelf program in Canada and US$1 billion of debt securities could be issued under a debt shelf program in the U.S. In January 2005, the Company issued $300 million of 12-year medium-term notes bearing interest of 5.1 per cent under the Canadian base shelf program.

CANADIAN MAINLINE

First Mortgage Pipe Line Bonds

The Deed of Trust and Mortgage securing the Company's First Mortgage Pipe Line Bonds limits the specific and floating charges to those assets comprising the present and future Canadian Mainline and TCPL's present and future gas transportation contracts.

ALBERTA SYSTEM

Debentures

Debentures amounting to $225 million have retraction provisions which entitle the holders to require redemption of up to 8 per cent of the then outstanding principal plus accrued and unpaid interest on specified repayment dates. No redemptions have been made to December 31, 2004.

Medium-Term Notes

Medium-term notes amounting to $50 million have a provision entitling the holders to extend the maturity of the medium-term notes from the initial repayment date of 2007 to 2027. If extended, the interest rate would increase from 6.1 per cent to 7.0 per cent and the medium-term notes would become redeemable at the option of the Company.

GAS TRANSMISSION NORTHWEST CORPORATION

Senior Unsecured Notes

Senior unsecured notes amounting to US$250 million are redeemable by the Company at any time on or after June 1, 2005.

OTHER

Medium-Term Notes

Medium-term notes amounting to $150 million have retraction provisions which entitle the holders to require redemption of the principal plus accrued and unpaid interest in 2005.

Financial Charges

Year ended December 31 (millions of dollars)	**2004**	**2003**	**2002**
Interest on long-term debt	**805**	801	850
Regulatory deferrals and amortizations	**(31)**	(14)	(17)
Short-term interest and other financial charges	**38**	34	34
	812	821	867

The Company made interest payments of $816 million for the year ended December 31, 2004 (2003 $846 million; 2002 $866 million). The Company capitalized $11 million of interest for the year ended December 31, 2004 (2003 $9 million; 2002 nil).

NOTE 10 NON-RECOURSE DEBT OF JOINT VENTURES

		2004		**2003**	
	Maturity Dates	**Outstanding December 31(1)**	**Weighted Average Interest Rate(2)**	**Outstanding December 31(1)**	**Weighted Average Interest Rate(2)**
Great Lakes					
Senior Unsecured Notes					
(2004 US$235; 2003 US$240)	2011 to 2030	**283**	**7.9%**	310	7.9%
Iroquois					
Senior Unsecured Notes					
(2004 and 2003 US$151)	2010 to 2027	**182**	**7.5%**	196	7.5%
Bank Loan					
(2004 US$36; 2003 US$43)	2008	**43**	**2.5%**	56	2.3%
Trans Québec & Maritimes					
Bonds	2005 to 2010	**143**	**7.3%**	143	7.3%
Term Loan	2006	**29**	**3.2%**	34	3.5%

TransCanada Power, L.P.					
Senior Unsecured Notes					
(2004 US$58)	2014	**70**	**5.9%**		
Credit Facility	2009	**64**	**3.2%**		
Term Loan	2010	**2**	**11.3%**		
Other	2005 to 2012	**46**	**4.9%**	41	5.4%
		862		780	
Less: Current Portion of Non- Recourse					
Debt of Joint Ventures		**83**		19	
		779		761	

(1) Amounts outstanding represent TCPL's proportionate share and are stated in millions of Canadian dollars; amounts denominated in U.S. dollars are stated in millions.

(2) Weighted average interest rates are stated as at the respective outstanding dates. At December 31, 2004, the effective weighted average interest rates resulting from swap agreements are as follows: Iroquois bank loan 4.1 per cent (2003 4.5 per cent) and Power, L.P. Credit Facility 5.2 per cent.

The debt of joint ventures is non-recourse to TCPL. The security provided by each joint venture is limited to the rights and assets of that joint venture and does not extend to the rights and assets of TCPL, except to the extent of TCPL's investment.

The Company's proportionate share of principal repayments resulting from maturities and sinking fund obligations of the non-recourse joint venture debt approximates: 2005 $83 million; 2006 $49 million; 2007 $18 million; 2008 $18 million; and 2009 $141 million.

The Company's proportionate share of the interest payments of joint ventures was $55 million for the year ended December 31, 2004 (2003 $67 million; 2002 $88 million).

NOTE 11 DEFERRED AMOUNTS

December 31 (millions of dollars)	2004	2003
Derivative contracts	**209**	40
Regulatory deferrals	**229**	131
Other benefit plans	**63**	32
Deferred revenue	**58**	215
Asset retirement obligation	**36**	9
Other	**71**	134
	666	561

NOTE 12 PREFERRED SECURITIES

The US$460 million 8.25 per cent preferred securities are redeemable by the Company at par at any time. The Company may elect to defer interest payments on the preferred securities and settle the deferred interest in either cash or common shares.

Since the deferred interest may be settled through the issuance of common shares at the option of the Company, the preferred securities are classified into their respective debt and equity components. At December 31, 2004, the debt component of the preferred securities is $19 million (US$16 million) (2003 $22 million (US$14 million)) and the equity component of the preferred securities is $670 million (US$444 million) (2003 $672 million (US$446 million)).

Effective January 1, 2005, under new Canadian accounting standards, the equity component of preferred securities will be classified as debt.

NOTE 13 PREFERRED SHARES

December 31	Number of Shares (thousands)	Dividend Rate Per Share	Redemption Price Per Share	2004 (millions of dollars)	2003 (millions of dollars)
Cumulative First Preferred Shares					
Series U	4,000	$2.80	$50.00	**195**	195
Series Y	4,000	$2.80	$50.00	**194**	194
				389	389

The authorized number of preferred shares issuable in series is unlimited. All of the cumulative first preferred shares are without par value.

On or after October 15, 2013, for the Series U shares, and on or after March 5, 2014, for the Series Y shares, the Company may redeem the shares at $50 per share.

NOTE 14 COMMON SHARES

	Number of Shares (thousands)	Amount (millions of dollars)
Outstanding at January 1, 2002	476,631	4,564
Exercise of options	2,871	50
Outstanding at December 31, 2002	479,502	4,614
Exercise of options	1,166	18
Outstanding at December 31, 2003 and 2004	**480,668**	**4,632**

Common Shares Issued and Outstanding

The Company is authorized to issue an unlimited number of common shares of no par value.

Restriction on Dividends

Certain terms of the Company's preferred shares, preferred securities, and debt instruments could restrict the Company's ability to declare dividends on preferred and common shares. At December 31, 2004, under the most restrictive provisions, approximately $1.4 billion was available for the payment of dividends on common shares.

NOTE 15 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company issues short-term and long-term debt, including amounts in foreign currencies, purchases and sells energy commodities and invests in foreign operations. These activities result in exposures to interest rates, energy commodity prices and foreign currency exchange rates. The Company uses derivatives to manage the risk that results from these activities.

Carrying Values of Derivatives

The carrying amounts of derivatives, which hedge the price risk of foreign currency denominated assets and liabilities of self-sustaining foreign operations, are recorded on the balance sheet at their fair value. Gains and losses on these derivatives, realized and unrealized, are included in the foreign exchange adjustment account in Shareholders' Equity as an offset to the corresponding gains and losses on the translation of the assets and liabilities of the foreign subsidiaries. As of January 1, 2004, carrying amounts for interest rate swaps are recorded on the balance sheet at their fair value. Foreign currency transactions hedged by foreign exchange contracts are recorded at the contract rate. Power, natural gas and heat rate derivatives are recorded on the balance sheet at their fair value. The carrying amounts shown in the tables that follow are recorded in the consolidated balance sheet.

Fair Values of Financial Instruments

Cash and short-term investments and notes payable are valued at their carrying amounts due to the short period to maturity. The fair values of long-term debt, non-recourse long-term debt of joint ventures and junior subordinated debentures are determined using market prices for the same or similar issues.

The fair values of foreign exchange and interest rate derivatives have been estimated using year-end market rates. The fair values of power, natural gas and heat rate derivatives have been calculated using estimated forward prices for the relevant period.

Credit Risk

Credit risk results from the possibility that a counterparty to a derivative in which the Company has an unrealized gain fails to perform according to the terms of the contract. Credit exposure is minimized through the use of established credit management techniques, including formal assessment processes, contractual and collateral requirements, master netting arrangements and credit exposure limits. At December 31, 2004, for foreign currency and interest rate derivatives, total credit risk and the largest credit exposure to a single counterparty were $127 million and $40 million, respectively. At December 31, 2004, for power, natural gas and heat rate derivatives, total credit risk and the largest credit exposure to a single counterparty were $19 million and $7 million, respectively.

Notional or Notional Principal Amounts

Notional principal amounts are not recorded in the financial statements because these amounts are not exchanged by the Company and its counterparties and are not a measure of the Company's exposure. Notional amounts are used only as the basis for calculating payments for certain derivatives.

Foreign Investments

At December 31, 2004 and 2003, the Company had foreign currency denominated assets and liabilities which created an exposure to changes in exchange rates. The Company uses foreign currency derivatives to hedge this net exposure on an after-tax basis. The foreign currency derivatives have a floating interest rate exposure which the Company partially hedges by entering into interest rate swaps and forward rate agreements. The fair values shown in the table below for those derivatives that have been designated as and are effective as hedges for foreign exchange risk are offset by translation gains or losses on the net assets and are recorded in the foreign exchange adjustment account in Shareholders' Equity.

Net Investment in Foreign Assets

Asset/(Liability)

		2004		2003	
December 31 (millions of dollars)	**Accounting Treatment**	**Fair Value**	**Notional or Notional Principal Amount (U.S.)**	**Fair Value**	**Notional or Notional Principal Amount (U.S.)**
U.S. dollar cross-currency swaps					
(maturing 2006 to 2009)	Hedge	95	400	65	250
U.S. dollar forward foreign exchange contracts					
(maturing 2005)	Hedge	(1)	305	3	125
U.S. dollar options					
(maturing 2005)	Non-hedge	1	100		

In accordance with the Company's accounting policy, each of the above derivatives is recorded on the consolidated balance sheet at its fair value in 2004. For derivatives that have been designated as and are effective as hedges of the net investment in foreign operations, the offsetting amounts are included in the foreign exchange adjustment account.

In addition, at December 31, 2004, the Company had interest rate swaps associated with the cross-currency swaps with notional principal amounts of $375 million (2003 $311 million) and US$250 million (2003 US$200 million). The carrying amount and fair value of these interest rate swaps was $4 million (2003 $3 million) and $4 million (2003 $1 million), respectively.

Reconciliation of Foreign Exchange Adjustment Gains/(Losses)

December 31 (millions of dollars)	**2004**	**2003**
Balance at beginning of year	**(40)**	14
Translation losses on foreign currency denominated net assets	**(64)**	(136)
Foreign exchange gains on derivatives, net of income taxes	**33**	82
	(71)	(40)

Foreign Exchange Gains/(Losses)

Foreign exchange gains/(losses) included in Other Expenses/(Income) for the year ended December 31, 2004 are $4 million (2003 nil; 2002 $(11) million).

Foreign Exchange and Interest Rate Management Activity

The Company manages certain of the foreign exchange risk of U.S. dollar debt, U.S. dollar expenses and the interest rate exposures of the Canadian Mainline, the Alberta System, GTN and the Foothills System through the use of foreign currency and interest rate derivatives. Certain of the realized gains and losses on these derivatives are shared with shippers on predetermined terms. The details of the foreign exchange and interest rate derivatives are shown in the table below.

Asset/(Liability)

		2004		2003	
December 31 (millions of dollars)	**Accounting Treatment**	**Fair Value**	**Notional or Notional Principal Amount**	**Fair Value**	**Notional or Notional Principal Amount**
Foreign Exchange					
Cross-currency swaps					
(maturing 2010 to 2012)	Hedge	**(39)**	**U.S. 157**	(26)	U.S. 282
Interest Rate					
Interest rate swaps					
Canadian dollars					
(maturing 2005 to 2008)	Hedge	**7**	**145**	(1)	340
(maturing 2006 to 2009)	Non-hedge	**9**	**374**	10	624
		16		9	
U.S. dollars					
(maturing 2010 to 2015)	Hedge	**(2)**	**U.S. 275**	11	U.S. 50
(maturing 2007 to 2009)	Non-hedge	**7**	**U.S. 100**	(3)	U.S. 50
		5		8	

In accordance with the Company's accounting policy, each of the above derivatives is recorded on the consolidated balance sheet at its fair value in 2004. At December 31, 2004, the Company also had interest rate swaps associated with the cross-currency swaps with notional principal amounts of $227 million (2003 $390 million) and US$157 million (2003 US$282 million). The carrying amount and fair value of these interest rate swaps was $(4) million (2003 nil) and $(4) million (2003 $6 million), respectively.

The Company manages the foreign exchange and interest rate exposures of its other businesses through the use of foreign currency and interest rate derivatives. The details of these foreign currency and interest rate derivatives are shown in the table below.

Asset/(Liability)		**2004**		**2003**	
December 31 (millions of dollars)	**Accounting Treatment**	**Fair Value**	**Notional or Notional Principal Amount**	**Fair Value**	**Notional or Notional Principal Amount**
Foreign Exchange					
Options (maturing 2005)	Non-hedge	2	U.S. 225	1	U.S. 25
Forward foreign exchange contracts					
(maturing 2005)	Non-hedge	1	U.S. 29	1	U.S. 19
Cross-currency swaps					
(maturing 2013)	Hedge	(16)	U.S. 100	(7)	U.S. 100
Interest Rate					
Options (maturing 2005)	Non-hedge		U.S. 50	(2)	U.S. 50
Interest rate swaps					
Canadian dollar					
(maturing 2007 to 2009)	Hedge	4	100	2	50
(maturing 2005 to 2011)	Non-hedge	1	110	2	100
		5		4	
U.S. dollar					
(maturing 2006 to 2013)	Hedge	5	U.S. 100	40	U.S. 250
(maturing 2006 to 2010)	Non-hedge	22	U.S. 250	(3)	U.S. 200
		27		37	