

### Dividends

Cash dividends on common shares amounting to \$577 million were paid in 2008 compared to \$546 million in 2007 and \$617 million in 2006. The increase in dividends in 2008 compared to 2007 was primarily due to a greater number of shares outstanding and an increase in the dividend per share amount in 2008, partially offset by the issuance of \$218 million of common shares under the DRP, in lieu of cash dividends. The reduction in 2007 compared to 2006 was primarily due to the Company's issuance of \$157 million of common shares from treasury under the DRP, which more than offset the impact of the higher dividend per share amount.

In January 2009, TransCanada's Board of Directors approved an increase in the quarterly common share dividend payment to \$0.38 per share from \$0.36 per share for the quarter ending March 31, 2009. This was the ninth consecutive year in which the dividend was increased beginning with the dividend of \$0.20 per share declared in fourth quarter 2000 and represents a 90 per cent increase in the dividend over this period.

### Issuer Ratings

TransCanada's issuer rating assigned by Moody's Investors Service (Moody's) is Baa1 with a stable outlook. TransCanada PipeLines Limited's (TCPL) senior unsecured debt is rated A with a stable outlook by DBRS, A3 with a stable outlook by Moody's, and A- with a stable outlook by Standard and Poor's.

## CONTRACTUAL OBLIGATIONS

### Obligations and Commitments

At December 31, 2008, the Company had \$16.2 billion of total Long-Term Debt and \$1.2 billion of Junior Subordinated Notes, compared to \$12.9 billion of total Long-Term Debt and \$1.0 billion of Junior Subordinated Notes at December 31, 2007. TransCanada's share of the total debt of joint ventures, including capital lease obligations, was \$1.1 billion at December 31, 2008, compared to \$903 million at December 31, 2007. Total Notes Payable, including TransCanada's proportionate share of the notes payable of joint ventures, were \$1.7 billion at December 31, 2008, compared to \$421 million at December 31, 2007. TransCanada has provided certain pro-rata guarantees related to the capital lease obligations of Bruce Power and to the performance obligations of Bruce Power and certain other partially owned entities.

<b>CONTRACTUAL OBLIGATIONS</b>					
Year ended December 31 (millions of dollars)					
	Total	Payments Due by Period			
		Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt <sup>(1)</sup>	18,208	980	1,787	2,684	12,757
Capital lease obligations	235	13	25	38	159
Operating leases <sup>(2)</sup>	403	28	56	66	253
Purchase obligations	12,246	3,926	2,595	1,761	3,964
Other long-term liabilities reflected on the balance sheet	610	12	29	34	535
<b>Total contractual obligations</b>	<b>31,702</b>	<b>4,959</b>	<b>4,492</b>	<b>4,583</b>	<b>17,668</b>

<sup>(1)</sup> Includes Junior Subordinated Notes.

<sup>(2)</sup> Represents future annual payments, net of sub-lease receipts, for various premises, services and equipment. The operating lease agreements for premises, services and equipment expire at various dates through 2035, with an option to renew certain lease agreements for one to ten years.

TransCanada's commitments under the Alberta PPAs are considered to be operating leases and a portion of these PPAs have been subleased to third parties under similar terms and conditions. Future payments under these PPAs have been excluded from the above table, as these payments are dependent upon plant availability, among other factors. The amount of power purchased under the PPAs in 2008 was \$471 million (2007 – \$440 million; 2006 – \$499 million).

At December 31, 2008, scheduled principal repayments and interest payments related to long-term debt and the Company's proportionate share of the long-term debt of joint ventures were as follows:

<b>PRINCIPAL REPAYMENTS</b>					
Year ended December 31 (millions of dollars)					
	Total	Payments Due by Period			
		Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt <sup>(1)</sup>	16,154	786	1,545	2,550	11,273
Junior subordinated notes	1,213	–	–	–	1,213
Long-term debt of joint ventures	841	194	242	134	271
<b>Total principal repayments</b>	<b>18,208</b>	<b>980</b>	<b>1,787</b>	<b>2,684</b>	<b>12,757</b>

<sup>(1)</sup> Includes Junior Subordinated Notes.

<b>INTEREST PAYMENTS</b>					
Year ended December 31 (millions of dollars)					
	Total	Payments Due by Period			
		Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Interest payments on long-term debt	14,508	1,072	1,995	1,794	9,647
Interest payments on junior subordinated notes	662	78	156	156	272
Interest payments on long-term debt of joint ventures	328	61	76	56	135
<b>Total interest payments</b>	<b>15,498</b>	<b>1,211</b>	<b>2,227</b>	<b>2,006</b>	<b>10,054</b>

At December 31, 2008, the Company's approximate future purchase obligations were as follows:

<b>PURCHASE OBLIGATIONS<sup>(1)</sup></b>					
Year ended December 31 (millions of dollars)					
	Total	Payments Due by Period			
		Less than one year	1 - 3 years	3 - 5 years	More than 5 years
<b>Pipelines</b>					
Transportation by others <sup>(2)</sup>	931	260	396	199	76
Capital expenditures <sup>(3)(4)</sup>	2,317	2,092	155	70	–
Other	6	3	2	1	–
<b>Energy</b>					
Commodity purchases <sup>(5)</sup>	6,711	945	1,394	1,284	3,088
Capital expenditures <sup>(3)(6)</sup>	1,049	509	456	61	23
Other <sup>(7)</sup>	1,133	88	151	124	770
<b>Corporate</b>					
Information technology and other	99	29	41	22	7
<b>Total purchase obligations</b>	<b>12,246</b>	<b>3,926</b>	<b>2,595</b>	<b>1,761</b>	<b>3,964</b>

<sup>(1)</sup> The amounts in this table exclude funding contributions to pension plans and funding to the APG.

<sup>(2)</sup> Rates are based on known 2009 levels. Beyond 2009, demand rates are subject to change. The contract obligations in the table are based on known or contracted demand volumes only and exclude commodity charges incurred when volumes flow.

<sup>(3)</sup> Amounts are estimates and are subject to variability based on timing of construction and project enhancements. The Company expects to fund capital projects with cash from operations and, if necessary, new debt and equity.

<sup>(4)</sup> Primarily consists of capital expenditures related to TransCanada's share of the construction costs of Keystone, North Central Corridor and other pipeline projects.

<sup>(5)</sup> Commodity purchases include fixed and variable components. The variable components are estimates and are subject to variability in plant production, market prices and regulatory tariffs.

<sup>(6)</sup> Primarily consists of capital expenditures related to TransCanada's share of the construction costs of Coolidge, Bruce Power, the remaining Cartier Wind projects, Halton Hills and Portlands Energy.

<sup>(7)</sup> Includes estimates of certain amounts that are subject to change depending on plant fired hours, the consumer price index, actual plant maintenance costs, plant salaries, and changes in regulated rates for transportation.

TransCanada and its affiliates have long-term natural gas transportation and natural gas purchase arrangements as well as other purchase obligations, all of which are transacted at market prices and in the normal course of business.

In 2009, TransCanada expects to make funding contributions to the Company's pension and other post-retirement benefit plans in the amount of approximately \$140 million and \$27 million, respectively. This represents an increase from total funding contributions of \$90 million in 2008 and is attributable primarily to significantly reduced investment performance and plan experience being different than expectations. TransCanada's proportionate share of funding contributions expected to be made by joint ventures to their respective pension and other post-retirement benefit plans in 2009 is approximately \$37 million and \$4 million, respectively, compared to actual total contributions of \$42 million in 2008.

The next actuarial valuation for the Company's pension and other post-retirement benefit plans is expected to be carried out as at January 1, 2010. Primarily as a result of the significantly lower performance of the pension plan assets in 2008, it is expected that funding requirements for these plans could continue at the anticipated 2009 level for the next

several years to amortize solvency deficiencies in addition to normal costs. The Company's net benefit cost is expected to remain at 2008 levels. However, the net benefit cost and the amount of funding contributions received will be dependent on various factors, including future investment returns achieved on plan assets, the level of interest rates, changes to plan design and actuarial assumptions, actual plan experience versus projections and amendments to pension plan regulations and legislation. Increases in the level of required plan funding are not expected to have a material impact on the Company's liquidity.

#### ***Bruce Power***

Bruce A has signed commitments to third-party suppliers related to refurbishing and restarting Units 1 and 2 and refurbishing Units 3 and 4 to extend their operating life. TransCanada's share of these signed commitments, which extend over the three-year period ending December 31, 2011, are as follows:

#### *Year ended December 31 (millions of dollars)*

2009	204
2010	49
2011	2
	255

#### ***Aboriginal Pipeline Group***

Under its agreement with the APG, TransCanada agreed to finance the APG's one-third share of the MGP project's predevelopment costs. These costs are currently forecast to be between \$150 million and \$200 million, on a cumulative basis, depending on the pace of project development. As at December 31, 2008, the Company had advanced \$140 million of this total. This agreement is discussed further in the "Pipelines – Opportunities and Developments" section of this MD&A.

#### ***Contingencies***

In April 2008, the Ontario Court of Appeal dismissed an appeal filed by the Canadian Alliance of Pipeline Landowners' Associations (CAPLA). CAPLA filed the appeal as a result of a decision by the Ontario Superior Court in November 2006 to dismiss CAPLA's class action lawsuit against TransCanada and Enbridge Inc. for damages alleged to have arisen from the creation of a control zone within 30 metres of a pipeline pursuant to Section 112 of the *National Energy Board Act*. The Ontario Court of Appeal's decision is final and binding as CAPLA did not seek any further appeal within the time frame allowed.

TransCanada is subject to laws and regulations governing environmental quality and pollution control. At December 31, 2008, the Company had recorded liabilities of approximately \$86 million representing the Company's estimate of the amount it expects to expend to remediate certain sites. However, additional liabilities may be incurred as more assessments occur and remediation efforts continue.

TransCanada and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated financial position or results of operations.

#### ***Guarantees***

TransCanada, Cameco Corporation and BPC have severally guaranteed one-third of certain contingent financial obligations of Bruce B related to power sales agreements, operator licenses, a lease agreement and contractor services. The guarantees have terms ranging from one year ending in 2010 to perpetuity. In addition, TransCanada and BPC have severally guaranteed one-half of certain contingent financial obligations related to an agreement with the OPA to refurbish and restart Bruce A power generation units. The guarantees were provided as part of the reorganization of Bruce Power in 2005 and have terms ending in 2019. TransCanada's share of the potential exposure under these Bruce A and Bruce B guarantees was estimated at December 31, 2008 to range from \$711 million to a maximum of \$750 million. The fair value of these guarantees is estimated to be \$17 million.

The Company and its partners in certain jointly owned entities have severally as well as jointly and severally guaranteed the financial performance of these entities related primarily to construction projects, redelivery of natural gas, PPA payments and the payment of liabilities. TransCanada's share of the potential exposure under these guarantees was estimated at December 31, 2008 to range from \$688 million to a maximum of \$1.4 billion. For certain of these entities, any payments made by TransCanada under these guarantees in excess of its ownership interest are to be reimbursed by its partners. Deferred Amounts includes \$9 million for the fair value of these joint and several guarantees.

TransCanada has guaranteed a subsidiary's equity undertaking to support the payment, under certain conditions, of principal and interest on US\$43 million of the public debt obligations of TransGas. The Company has a 46.5 per cent interest in TransGas. Under the terms of a shareholder agreement, TransCanada and another major multinational company may be required to severally fund more than their proportionate share of debt obligations of TransGas in the event that the minority shareholders fail to contribute. Any payments made by TransCanada under this agreement would convert into share capital of TransGas. The Company's potential exposure is contingent on the impact any change of law would have on the ability of TransGas to service the debt. There has been no change in applicable law since the issuance of debt in 1995 and, thus, no exposure for TransCanada. The debt matures in 2010. The Company has made no provision related to this guarantee.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

#### Risk Management Overview

TransCanada has exposure to market risk, counterparty credit risk, and liquidity risk. TransCanada engages in risk management activities with the primary objective being to protect earnings, cash flow and, ultimately, shareholder value.

Risk management strategies, policies and limits are designed to ensure TransCanada's risks and related exposures are in line with the Company's business objectives and risk tolerance. Risks are managed within limits ultimately established by the Company's Board of Directors, implemented by senior management and monitored by risk management and internal audit personnel. The Board of Directors' Audit Committee oversees how management monitors compliance with risk management policies and procedures, and oversees management's review of the adequacy of the risk management framework. Internal audit personnel assist the Audit Committee in its oversight role by performing regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Board of Directors also has a Governance Committee that assists in overseeing the risk management activities of TransCanada. The Governance Committee monitors, reviews with management and makes recommendations related to TransCanada's risk management programs and policies on an ongoing basis.

#### Market Risk

The Company constructs and invests in large infrastructure projects, purchases and sells commodities, issues short-term and long-term debt, including amounts in foreign currencies, and invests in foreign operations. These activities expose the Company to market risk from changes in commodity prices, foreign exchange rates and interest rates, which affect the Company's earnings and the value of the financial instruments it holds.

The Company uses derivatives as part of its overall risk management policy to manage exposure to market risk that results from these activities. Derivative contracts used to manage market risk generally consist of the following:

- Forwards and futures contracts – contractual agreements to purchase or sell a specific financial instrument or commodity at a specified price and date in the future. TransCanada enters into foreign exchange and commodity forwards and futures to mitigate the impact of volatility in foreign exchange rates and commodity prices.