

## Report of Management

The consolidated financial statements included in this Annual Report are the responsibility of TransCanada Corporation's (TransCanada or the Company) management and have been approved by the Board of Directors of the Company. These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles (GAAP) in Canada and include amounts that are based on estimates and judgements. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management's Discussion and Analysis in this Annual Report has been prepared by management based on the Company's financial results prepared in accordance with Canadian GAAP. It compares the Company's financial and operating performance in 2008 to that in 2007 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, it highlights significant changes between 2007 and 2006.

Management has designed and maintains a system of internal accounting controls, including a program of internal audits. Management believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

Under the supervision of, and with the participation of, the President and Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. TransCanada acquired the Ravenswood Generating Station (Ravenswood) in 2008 and began consolidating the operations of Ravenswood from the date of acquisition. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. The net income attributable to this business represented less than one per cent of the Company's consolidated net income for the year ended December 31, 2008 and its aggregate total assets represented approximately nine per cent of the Company's consolidated total assets as at December 31, 2008.

Based on their evaluation, management concluded that internal control over financial reporting is effective as of December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The Board of Directors has appointed an Audit Committee consisting of independent, non-management directors. The Audit Committee meets with management at least six times a year and meets independently with the internal and external auditors and as a group to review any significant accounting, internal control and auditing matters in accordance with the terms of the Charter of the Audit Committee, which is set out in the Annual Information Form. The Audit Committee reviews the Annual Report, including the consolidated financial statements, before the consolidated financial statements are submitted to the Board of Directors for approval. The internal and independent external auditors are able to access the Audit Committee without the requirement to obtain prior management approval.

The Audit Committee approves the terms of engagement of the independent external auditors and reviews the annual audit plan, the Auditors' Report and the results of the audit. It also recommends to the Board of Directors the firm of external auditors to be appointed by the shareholders.

The shareholders have appointed KPMG LLP as independent external auditors to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Company's consolidated financial position, results of operations and cash flows in accordance with Canadian GAAP. The report of KPMG LLP outlines the scope of its examination and its opinion on the consolidated financial statements.



**Harold N. Kvisle**  
President and  
Chief Executive Officer  
February 23, 2009



**Gregory A. Lohnes**  
Executive Vice-President and  
Chief Financial Officer



**Auditors'  
Report**

**To the Shareholders of TransCanada Corporation**

We have audited the consolidated balance sheets of TransCanada Corporation as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

**KPMG LLP**

Chartered Accountants  
Calgary, Canada

February 23, 2009

**TRANSCANADA CORPORATION**  
**CONSOLIDATED INCOME**

Year ended December 31

(millions of dollars except per share amounts)

	2008	2007	2006
<b>Revenues</b>	<b>8,619</b>	8,828	7,520
<b>Operating Expenses</b>			
Plant operating costs and other	3,062	3,030	2,411
Commodity purchases resold	1,511	1,959	1,707
Depreciation	1,189	1,179	1,059
	<b>5,762</b>	6,168	5,177
	<b>2,857</b>	2,660	2,343
<b>Other Expenses/(Income)</b>			
Financial charges (Note 10)	943	943	825
Financial charges of joint ventures (Note 11)	72	75	92
Interest income and other	(92)	(168)	(179)
Calpine bankruptcy settlements (Note 17)	(279)	–	–
Writedown of Broadwater LNG project costs (Note 7)	41	–	–
	<b>685</b>	850	738
<b>Income from Continuing Operations before Income Taxes and Non-Controlling Interests</b>	<b>2,172</b>	1,810	1,605
<b>Income Taxes</b> (Note 18)			
Current	526	432	301
Future	76	58	175
	<b>602</b>	490	476
<b>Non-Controlling Interests</b> (Note 15)	<b>130</b>	97	78
<b>Net Income from Continuing Operations</b>	<b>1,440</b>	1,223	1,051
<b>Net Income from Discontinued Operations</b> (Note 24)	–	–	28
<b>Net Income</b>	<b>1,440</b>	1,223	1,079
<b>Net Income per Share</b> (Note 16)			
Basic			
Continuing operations	<b>\$2.53</b>	\$2.31	\$2.15
Discontinued operations	–	–	0.06
	<b>\$2.53</b>	\$2.31	\$2.21
Diluted			
Continuing operations	<b>\$2.52</b>	\$2.30	\$2.14
Discontinued operations	–	–	0.06
	<b>\$2.52</b>	\$2.30	\$2.20

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

**TRANSCANADA CORPORATION**  
**CONSOLIDATED CASH FLOWS**
*Year ended December 31*
*(millions of dollars)*

	2008	2007	2006
<b>Cash Generated from Operations</b>			
Net income	1,440	1,223	1,079
Depreciation	1,189	1,179	1,059
Future income taxes (Note 18)	76	58	175
Non-controlling interests (Note 15)	130	97	78
Employee future benefits funding lower than/(in excess of) expense (Note 21)	17	43	(31)
Writedown of Broadwater LNG project costs (Note 7)	41	–	–
Other	128	21	18
	<b>3,021</b>	2,621	2,378
(Increase)/decrease in operating working capital (Note 22)	<b>(181)</b>	215	(303)
Net cash provided by operations	<b>2,840</b>	2,836	2,075
<b>Investing Activities</b>			
Capital expenditures	<b>(3,134)</b>	(1,651)	(1,572)
Acquisitions, net of cash acquired (Note 9)	<b>(3,229)</b>	(4,223)	(470)
Disposition of assets, net of current income taxes (Note 9)	28	35	23
Deferred amounts and other	<b>(168)</b>	(340)	(97)
Net cash used in investing activities	<b>(6,503)</b>	(6,179)	(2,116)
<b>Financing Activities</b>			
Dividends on common shares (Note 16)	<b>(577)</b>	(546)	(617)
Distributions paid to non-controlling interests	<b>(141)</b>	(88)	(72)
Notes payable issued/(repaid), net (Note 19)	<b>1,293</b>	(46)	(495)
Long-term debt issued, net of issue costs (Note 10)	<b>2,197</b>	2,616	2,107
Reduction of long-term debt	<b>(840)</b>	(1,088)	(729)
Long-term debt of joint ventures issued (Note 11)	<b>173</b>	142	56
Reduction of long-term debt of joint ventures	<b>(120)</b>	(157)	(70)
Common shares issued, net of issue costs (Note 16)	<b>2,384</b>	1,711	39
Junior subordinated notes issued, net of issue costs (Note 12)	–	1,094	–
Preferred securities redeemed	–	(488)	–
Partnership units of subsidiary issued (Note 9)	–	348	–
Net cash provided by financing activities	<b>4,369</b>	3,498	219
<b>Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>			
	<b>98</b>	(50)	9
<b>Increase in Cash and Cash Equivalents</b>	<b>804</b>	105	187
<b>Cash and Cash Equivalents</b>			
Beginning of year	<b>504</b>	399	212
<b>Cash and Cash Equivalents</b>			
End of year	<b>1,308</b>	504	399

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

**TRANSCANADA CORPORATION  
CONSOLIDATED BALANCE SHEET**

December 31

(millions of dollars)

	2008	2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	1,308	504
Accounts receivable	1,280	1,116
Inventories	489	497
Other	523	188
	<b>3,600</b>	2,305
<b>Plant, Property and Equipment</b> (Note 5)	<b>29,189</b>	23,452
<b>Goodwill</b> (Note 6)	<b>4,397</b>	2,633
<b>Other Assets</b> (Note 7)	<b>2,228</b>	1,940
	<b>39,414</b>	30,330
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Notes payable (Note 19)	1,702	421
Accounts payable	1,876	1,767
Accrued interest	359	261
Current portion of long-term debt (Note 10)	786	556
Current portion of long-term debt of joint ventures (Note 11)	207	30
	<b>4,930</b>	3,035
<b>Deferred Amounts</b> (Note 13)	<b>1,719</b>	1,107
<b>Future Income Taxes</b> (Note 18)	<b>1,223</b>	1,179
<b>Long-Term Debt</b> (Note 10)	<b>15,368</b>	12,377
<b>Long-Term Debt of Joint Ventures</b> (Note 11)	<b>869</b>	873
<b>Junior Subordinated Notes</b> (Note 12)	<b>1,213</b>	975
	<b>25,322</b>	19,546
<b>Non-Controlling Interests</b> (Note 15)	<b>1,194</b>	999
<b>Shareholders' Equity</b>	<b>12,898</b>	9,785
	<b>39,414</b>	30,330

**Commitments, Contingencies and Guarantees** (Note 23)

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

On behalf of the Board:



**Harold N. Kvisle**  
Director



**Kevin E. Benson**  
Director

**TRANSCANADA CORPORATION**  
**CONSOLIDATED COMPREHENSIVE INCOME**

Year ended December 31

(millions of dollars)

	2008	2007	2006
<b>Net Income</b>	<b>1,440</b>	1,223	1,079
Change in foreign currency translation gains and losses on investments in foreign operations <sup>(1)</sup>	571	(350)	6
Change in gains and losses on hedges of investments in foreign operations <sup>(2)</sup>	(589)	79	(6)
Change in gains and losses on derivative instruments designated as cash flow hedges <sup>(3)</sup>	(60)	42	–
Reclassification to net income of gains and losses on derivative instruments designated as cash flow hedges pertaining to prior periods <sup>(4)</sup>	(23)	42	–
Change in gains and losses on available-for-sale financial instruments <sup>(5)</sup>	2	–	–
<b>Other Comprehensive Income/(Loss)</b>	<b>(99)</b>	(187)	–
<b>Comprehensive Income</b>	<b>1,341</b>	1,036	1,079

<sup>(1)</sup> Net of income tax recovery of \$104 million in 2008 (2007 – \$101 million expense; 2006 – \$3 million expense).

<sup>(2)</sup> Net of income tax recovery of \$303 million in 2008 (2007 – \$41 million expense; 2006 – \$3 million recovery).

<sup>(3)</sup> Net of income tax recovery of \$41 million in 2008 (2007 – \$27 million expense).

<sup>(4)</sup> Net of income tax recovery of \$19 million in 2008 (2007 – \$23 million expense).

<sup>(5)</sup> Net of income tax expense of nil in 2008.

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

**TRANSCANADA CORPORATION**  
**CONSOLIDATED ACCUMULATED OTHER COMPREHENSIVE INCOME**

<i>(millions of dollars)</i>	Currency Translation Adjustment	Cash Flow Hedges and Other	Total
Balance at December 31, 2005	(90)	–	(90)
Change in foreign currency translation gains and losses on investments in foreign operations <sup>(1)</sup>	6	–	6
Change in gains and losses on hedges of investments in foreign operations <sup>(2)</sup>	(6)	–	(6)
Balance at December 31, 2006	(90)	–	(90)
Transition adjustment resulting from adopting new financial instruments standards <sup>(3)</sup>	–	(96)	(96)
Change in foreign currency translation gains and losses on investments in foreign operations <sup>(1)</sup>	(350)	–	(350)
Change in gains and losses on hedges of investments in foreign operations <sup>(2)</sup>	79	–	79
Change in gains and losses on derivative instruments designated as cash flow hedges <sup>(4)</sup>	–	42	42
Reclassification to net income of gains and losses on derivative instruments designated as cash flow hedges pertaining to prior periods <sup>(5)(6)</sup>	–	42	42
Balance at December 31, 2007	(361)	(12)	(373)
Change in foreign currency translation gains and losses on investments in foreign operations <sup>(1)</sup>	<b>571</b>	–	<b>571</b>
Change in gains and losses on hedges of investments in foreign operations <sup>(2)</sup>	<b>(589)</b>	–	<b>(589)</b>
Change in gains and losses on derivative instruments designated as cash flow hedges <sup>(4)</sup>	–	<b>(60)</b>	<b>(60)</b>
Reclassification to net income of gains and losses on derivative instruments designated as cash flow hedges pertaining to prior periods <sup>(5)(6)</sup>	–	<b>(23)</b>	<b>(23)</b>
Change in gains and losses on available-for-sale financial instruments <sup>(7)</sup>	–	<b>2</b>	<b>2</b>
Balance at December 31, 2008	<b>(379)</b>	<b>(93)</b>	<b>(472)</b>

<sup>(1)</sup> Net of income tax recovery of \$104 million in 2008 (2007 – \$101 million expense; 2006 – \$3 million expense).

<sup>(2)</sup> Net of income tax recovery of \$303 million in 2008 (2007 – \$41 million expense; 2006 – \$3 million recovery).

<sup>(3)</sup> Net of income tax recovery of \$44 million in 2007.

<sup>(4)</sup> Net of income tax recovery of \$41 million in 2008 (2007 – \$27 million expense).

<sup>(5)</sup> Net of income tax recovery of \$19 million in 2008 (2007 – \$23 million expense).

<sup>(6)</sup> The amount of losses related to cash flow hedges reported in accumulated other comprehensive income that will be reclassified to net income in 2009 is estimated to be \$62 million (\$41 million, net of tax). These estimates assume constant commodity prices, interest rates and foreign exchange rates over time, however, the amounts reclassified will vary based on the actual value of these factors at the date of settlement.

<sup>(7)</sup> Net of income tax expense of nil in 2008.

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

**TRANSCANADA CORPORATION**  
**CONSOLIDATED SHAREHOLDERS' EQUITY**

Year ended December 31  
(millions of dollars)

	2008	2007	2006
<b>Common Shares</b>			
Balance at beginning of year	6,662	4,794	4,755
Proceeds from shares issued under public offering, net of issue costs (Note 16)	2,363	1,683	–
Shares issued under dividend reinvestment plan (Note 16)	218	157	–
Proceeds from shares issued on exercise of stock options (Note 16)	21	28	39
Balance at end of year	9,264	6,662	4,794
<b>Contributed Surplus</b>			
Balance at beginning of year	276	273	272
Issuance of stock options (Note 16)	3	3	1
Balance at end of year	279	276	273
<b>Retained Earnings</b>			
Balance at beginning of year	3,220	2,724	2,269
Net income	1,440	1,223	1,079
Common share dividends	(833)	(731)	(624)
Transition adjustment resulting from adopting new financial instruments accounting standards	–	4	–
Balance at end of year	3,827	3,220	2,724
<b>Accumulated Other Comprehensive Income, Net of Income Taxes</b>			
Balance at beginning of year	(373)	(90)	(90)
Other comprehensive income/(loss)	(99)	(187)	–
Transition adjustment resulting from adopting new financial instruments accounting standards	–	(96)	–
Balance at end of year	(472)	(373)	(90)
	3,355	2,847	2,634
<b>Total Shareholders' Equity</b>	<b>12,898</b>	<b>9,785</b>	<b>7,701</b>

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