SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C 20549

FORM 40-F

ANNUAL REPORT

under

THE SECURITIES EXCHANGE ACT OF 1934

TransAlta Corporation

(Exact name of the Registrant as specified in its charter)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

[Check one]

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

OR

S 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: 001-15214

TRANSALTA CORPORATION
(Exact name of Registrant as specified in its charter)

Not applicable
(Translation of Registrant's name into English (if applicable))

Canada
(Province or other jurisdiction of incorporation or organization)

4911
(Primary Standard Industrial Classification Code Number (if applicable))

None
(I.R.S Employer Identification Number (if applicable))

110-12th Avenue S.W., Box 1900, Station "M", Calgary, Alberta, T2P 2M1, (403) 267-7110
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 8th Avenue, 13th Floor, New York, New York, 10011, (212) 894-8400
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:



Title of each class	Name of each exchange on which registered
Common Shares, no par value	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Common Shares
Common Share Purchase Rights
(Title of Class)

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

S Annual information form **S** 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: 194,100,370 common shares.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby 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 **£** 82-_____ No **T**

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 for 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 **T** No **£**

INCORPORATION BY REFERENCE

Exhibits 1, 2 and 3 to this Form are incorporated by reference.

DISCLOSURE CONTROLS AND PROCEDURES

TransAlta (the "Company") has designed disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company, including its consolidated subsidiaries, on a regular basis, in particular during the period in which its Annual Report on Form 40-F relating to financial results for the fiscal year ended December 31, 2004 are being prepared. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as of a date within 90 days of the date of this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of that evaluation date, that the Company's disclosure controls and procedures were effective to ensure that material and information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities during the period in which this report was being prepared. There have been no significant changes in the internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation by the Chief Executive Officer and Chief Financial Officer, including any corrective actions with regard to significant deficiencies and material weaknesses.

AUDIT COMMITTEE FINANCIAL EXPERT

The Company's board of directors has determined that it has at least one audit committee financial expert serving on its audit and environment committee (the "AE Committee"). Mr. William D. Anderson and Mr. John T. Ferguson have been determined to be the financial experts, within the meaning of Section 407 of the United States Sarbanes-Oxley Act of 2002, and each of them is independent, as that term is defined by the New York Stock Exchange's listing standards applicable to the Company.

CODE OF ETHICS

The Company has adopted a code of ethics (the "Corporate Code of Conduct") that applies to all employees and officers, including its Chief Executive Officer, Chief Financial Officer, principal accounting officer and persons performing similar functions. The Corporate Code of Conduct is available on the Company's Internet website, www.transalta.com.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the years ended December 31, 2004 and 2003, Ernst & Young LLP and its affiliates were paid approximately $2.75 million and $2.37 million, respectively, as detailed below:

	Year-ended December 31	
	2004	**2003**
Ernst & Young LLP		
Audit Fees	$ 1,336,999	$ 1,015,916
Audit-Related Fees	$ 201,866	$ 143,521
Tax Fees	$ 1,062,479	$ 322,496
All Other Fees	$ 146,282	$ 886,644
Total	**$ 2,747,626**	**$ 2,368,577**

No other audit firms provided audit services in 2003 or 2004.

The nature of each category of fees is described below.

Audit Fees

Audit fees were paid for professional services rendered by the auditors for the audit of the Company's annual financial statements or services provided in connection with statutory and regulatory filings or engagements, including the translation from English to French of the Company's financial statements and other documents.

Audit-Related Fees

The audit-related fees were primarily for work performed by Ernst & Young LLP in relation to the Company's financings and the sale of one of its plants.

Tax Fees

The majority of tax fees for 2004 related to the finalization of tax credit recoveries for work which commenced prior to 2002. In 2003, the tax fees primarily related to compliance services provided, including services relating to the filing of tax returns for the Company and its subsidiaries.

All Other Fees

In 2004, the majority of the amounts in "All Other Fees" related to the sublease of office space in Australia. In 2003, the other services performed were primarily related to services performed by the auditors in specific transactions involving the Company, including the acquisition of an interest in CE Generation LLC, the sale of the Company's head office building and assistance in various regulatory proceedings involving the Company.

Pre-Approval Policies and Procedures

The AE Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence. In May 2002, the AE Committee adopted a policy that prohibits the Company from engaging the auditors for "prohibited" categories of non-audit services and requires pre-approval of the AE Committee for other permissible categories of non-audit

services, such categories as determined under the United States Sarbanes Oxley Act of 2002. This policy is set forth in Exhibit 10.

Percentage of Services Approved by the AE Committee

For the year ended December 31, 2004, none of the services described above were approved by the AE Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

See page 48 of Exhibit 2 and pages 91 to 94 of Exhibit 3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See page 47 of Exhibit 2 and page 96 of Exhibit 3.

IDENTIFICATION OF THE AUDIT COMMITTEE

See pages 29 and 30 of Exhibit 1.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

TransAlta Corporation undertakes to make available, in person or by telephone, representatives to respond to inquires 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.

Registrant: **TRANSALTA CORPORATION**

signed “I.A.Bourne”

Ian A. Bourne
Executive Vice President and Chief Financial Officer

signed “Alison T. Love”

Alison T. Love
Corporate Secretary

Dated: March 29, 2005.

EXHIBITS

Exhibit 1	Renewal Annual Information Form of TransAlta Corporation for the year ended December 31, 2004, dated March 30, 2005.
Exhibit 2	Management's Discussion and Analysis for the fiscal year ended December 31, 2004.
Exhibit 3	Audited Consolidated Financial Statements of TransAlta Corporation for the fiscal years ended December 31, 2004 and 2003 found in the Annual Report for the fiscal year ended December 31, 2004 (see note 26 for Differences between Canadian and United States Generally Accepted Accounting Principles for the year ended December 31, 2004).
Exhibit 4	Consent of Ernst & Young LLP.
Exhibit 5.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 5.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 5.3	Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 5.4	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 10	Audit & Environmental Committee Pre-Approval Policies and Procedures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) should be read in conjunction with the consolidated financial statements included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The effect of significant differences between Canadian and U.S. GAAP has been disclosed in Note 26 *to the consolidated financial statements. All tabular amounts in the following discussion are in millions of Canadian dollars unless otherwise noted. This MD&A is current as of Feb. 17, 2005. Additional information respecting TransAlta Corporation (TransAlta or the corporation), including its annual information form, is available on SEDAR at www.sedar.com.*

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta. In some cases, forward-looking statements can be identified by terms such as 'may', 'will', 'believe', 'expect', 'potential', 'enable', 'continue' or other comparable terminology. These statements are not guarantees of TransAlta's future performance and are subject to risks, uncertainties and other important factors that could cause the corporation's actual performance to be materially different from those projected. Some of the risks, uncertainties and factors include, but are not limited to: legislative and regulatory developments that could affect revenues, costs and the speed and degree of competition entering the market; global capital markets activity; timing and extent of changes in commodity prices, prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where TransAlta operates; results of financing efforts; changes in counterparty risk; and the impact of accounting policies issued by Canadian and U.S. standard setters. Given these uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under Risk Factors and Risk Management in this MD&A.

RESULTS OF OPERATIONS

The results of operations are presented on a consolidated basis and by business segment. TransAlta has two business segments: Generation and Energy Marketing. TransAlta's Transmission operations were sold on April 29, 2002. Prior period amounts have been reclassified to reflect this change. TransAlta's segments are supported by a corporate group that provides finance, treasury, legal, human resources and other administrative support. These corporate group overheads are allocated to the business segments if they are not directly attributable to discontinued operations.

Some of the corporation's accounting policies require management to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. Critical accounting policies and estimates for TransAlta include: revenue recognition; valuation and useful life of property, plant and equipment (PP&E); asset retirement obligations; valuation of goodwill; income taxes; and employee future benefits. See additional discussion under Critical Accounting Policies and Estimates in this MD&A.

TransAlta measures capacity as net maximum capacity (see glossary for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated.

In this MD&A, the impact of foreign exchange fluctuations on foreign currency transactions and balances is discussed with the relevant income statement and balance sheet items. While individual balance sheet line items will be impacted by foreign exchange fluctuations, the net impact of the translation of individual items is reflected in the cumulative translation account on the consolidated balance sheet.

CERTIFICATION

The corporation's disclosure controls and procedures have enabled the certification of TransAlta's annual report to shareholders in compliance with the requirements of Section 302 of the Sarbanes-Oxley Act and its annual filings as defined in and in compliance with the requirements of Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings".

STRATEGY AND KEY PERFORMANCE INDICATORS

Strategy

The corporation's strategy is to deliver sustainable and increasing earnings and cash flow through operations and growth of a diversified portfolio of power generating assets. To implement this strategy, TransAlta focuses on maintaining a strong balance sheet, minimizing costs, utilizing existing assets efficiently and carefully managing the risk profile while methodically growing capacity.

In 2004, TransAlta increased net generating capacity by 68 megawatts (MW) as the Summerview Wind Farm was commissioned in the third quarter. TransAlta has 225 MW of capacity under construction at the Genesee 3 project and also has 540 MW approved for development. Genesee 3 is expected to be commissioned in the first quarter of 2005. At Dec. 31, 2004, TransAlta had 9,102 MW of owned capacity in operation, under construction or approved for development.

Availability is a key driver of TransAlta's financial results as approximately 81 per cent of the Generation segment's revenues are derived from contracts with either production or availability components. In 2004, TransAlta spent $173.8 million on planned maintenance and maintained availability at 89.1 per cent as compared to 90.6 per cent in 2003. TransAlta's goal is to have an overall availability of at least 90 per cent. As a result of the increased capacity, production also increased by 3 per cent to 54,560 gigawatt hours (GWh) in 2004.

Long-term contracts minimize TransAlta's exposure to market price fluctuations and provide a stable stream of revenues to support fixed operating costs, pay interest and recover capital expenditures. The corporation also reserves a portion of its capacity to be available to be sold at market rates. In 2004, 84 per cent of the corporation's production was sold under contracts with durations of at least 12 months and 71 per cent was sold under contracts with original terms of 10 years or more.

Energy Marketing is vital to delivering sustainable revenues. Energy Marketing acts to maximize margins from the production and sale of electricity, minimize the cost of natural gas used to generate electricity and steam and reduce the risk to the corporation from unplanned outages by acquiring replacement power at the lowest possible price.

To minimize risk, TransAlta's long-term goal is to diversify market and fuel source exposure and balance the age of generation plants.

TransAlta is positioning itself to meet the requirements of a Canadian climate change program expected in 2008. In addition to increasing production from renewable sources, the corporation will manage climate change regulations through the continued investment in emission offset credits, development of clean coal technology, and internal efficiency improvements. The corporation has reduced its worldwide greenhouse gas intensity by 13 per cent from 1990 levels while increasing generation by over 80 per cent. TransAlta also has a longer-term strategy to seek emission reduction opportunities as its existing plants are retired and as new combustion and environmental technology is developed to further reduce emissions.

TransAlta has strategic alliances with EPCOR Utilities Inc. (EPCOR), ENMAX Corporation (ENMAX) and MidAmerican Energy Holdings Company (MidAmerican). The EPCOR alliance provided the opportunity for TransAlta to acquire a 50 per cent ownership in the 450 MW Genesee 3 project. ENMAX and TransAlta each own 50 per cent of the partnership in the McBride Lake wind project. MidAmerican owns the other 50 per cent interest in CE Generation LLC (CE Gen).

TransAlta is focused on maintaining a strong balance sheet and investment grade credit ratings. At Dec. 31, 2004, TransAlta's total debt (including non-recourse debt) to invested capital ratio was 47.4 per cent (42.0 per cent excluding non-recourse debt) compared to the Dec. 31, 2003 ratio of 47.7 per cent and the Dec. 31, 2002 ratio of 50.4 per cent. Debt to invested capital is defined on page 102 of this annual report.

Key Performance Indicators

For the Generation segment, key performance indicators (KPIs) include availability, production, fuel and operating costs, and pricing applicable to non-contracted production. For the Energy Marketing segment, KPIs include trading volumes, margins and value at risk (VAR), which is a measure used to manage earnings exposure from proprietary (non asset-backed) trading activities. Each of these KPIs is discussed in greater detail in Segmented Business Results in this MD&A. KPIs for the corporate segment include the debt to invested capital ratio, interest- and debt-coverage ratios and credit ratings. These KPIs are discussed under Liquidity and Capital Resources.

MARKET TRENDS

Fluctuations in power supply and demand, together with changes in fuel prices, contribute to power price variations from year to year. Such changes in the price of electricity have an influence on TransAlta's financial performance. In response to previously observed high power prices and increasingly deregulated market conditions, for instance, an overbuild of electricity generation has occurred across most of North America. This led to relatively weak power prices in 2002 before year-over-year demand growth and higher natural gas prices offered some recovery across markets in 2003. Subsequent moderation of natural gas prices, combined with measurable supply additions in each of Alberta and Ontario, contributed to a slight drop in power prices across those markets in 2004. To the contrary, the Pacific Northwest experienced further increases in gas prices in 2004, and with low hydro generation levels, electricity prices increased year over year. For 2005, electricity prices are expected to remain relatively steady across the three regional markets, particularly in Ontario. Power supply additions in Alberta are forecast to dominate expected gas price strength and suppress power prices slightly below 2004 levels, while Pacific Northwest demand growth and higher gas prices are forecast to increase power prices slightly above 2004 levels.

Electricity prices generally increase as a result of higher natural gas prices. However, as experienced from 2002 through 2004 in Ontario and Alberta, stronger natural gas prices can also reduce spark spreads (the difference between the price of natural gas consumed to produce power and the selling price of electricity). The increases in electricity prices may not be completely correlated to the increase in natural gas prices due to the type and composition of generation that exists in the respective market. Lower spark spreads are forecast to continue in Alberta and Ontario, while spark spreads are forecast to remain relatively steady in the Pacific Northwest in 2005.

In 2003 and 2004, the Canadian dollar appreciated significantly against the U.S. dollar. As the Canadian dollar appreciates, U.S.-denominated earnings decrease upon translation to Canadian dollars.

During 2004, the Bank of Canada Target Overnight interest rate decreased from 2.75 per cent to 2.5 per cent at Dec. 31. In the U.S., the Federal Reserve Funding rate increased from 1.0 per cent to 2.25 per cent. Higher short term interest rates increase TransAlta's interest expense to the extent the corporation has short-term debt that needs to be re-financed, or interest rate swaps under which TransAlta pays a floating rate of interest. Over the same time period, longer-term interest rates as represented by Government of Canada 10-year bond yields decreased from 4.66 per cent to 4.30 per cent in Canada, and in the U.S. as represented by the U.S.10-year treasury yield from 4.25 per cent to 4.22 per cent. Higher long-term interest rates increase TransAlta's interest expense on any future debt financings.

HIGHLIGHTS AND SUMMARY OF RESULTS

During 2004, the corporation:

- Generated net earnings of $170.2 million compared to $234.2 million for 2003 and $199.6 million for 2002.
- Generated earnings on a comparable basis of $134.9 million compared to $128.7 million for 2003 and $168.0 million for 2002. Earnings on a comparable basis is not defined under GAAP. Refer to the Non-GAAP Measures section on page 60 of this MD&A for a further discussion of earnings on a comparable basis, including a reconciliation to net earnings.
- Generated cash flow from operations of $613.4 million compared to $526.9 million in 2003 and $398.6 million in 2002.
- Invested $365.8 million in new and existing plants versus $555.7 million in 2003 and $945.8 million in 2002.
- Made net repayments of short- and long-term debt of $374.9 million compared to $226.7 million in 2003 and $90.3 million in 2002.
- Began commercial production at the 68 MW Summerview Wind Farm.
- Sold 6.1 million units of TransAlta Power, L.P. (TransAlta Power) for proceeds of $56.4 million upon exercise of warrants and sold its remaining holding of 7.1 million units of TransAlta Power for gross proceeds of $64.7 million for a total after-tax gain of $29.1 million.
- Completed six major planned outages on the coal plants at a cost of $144.8 million.

The following table depicts key financial results and statistical operating data:

Year ended Dec. 31	**2004**	2003 [5]	2002 [5]
Availability (%)	**89.1**	90.6	88.4
Production (GWh) [1]	**54,560**	53,134	47,172
Electricity trading volumes (GWh) [1]	**84,404**	89,833	92,874
Gas trading volumes (million GJ) [1]	**430.4**	270.2	162.0
Revenue	**$ 2,838.3**	$ 2,520.9	$ 1,814.9
Gross margin	**$ 1,409.3**	$ 1,356.1	$ 1,059.3
Operating income [2 and 6]	**$ 478.1**	$ 561.6	$ 212.6
Earnings from continuing operations [3]	**$ 160.6**	$ 234.2	$ 66.8
Earnings from discontinued operations, net of tax [4]	**–**	–	12.8
Gain on disposal of discontinued operations, net of tax [4]	**9.6**	–	120.0
Net earnings applicable to common shareholders	**$ 170.2**	$ 234.2	$ 199.6
Basic earnings per common share:			
Earnings from continuing operations	**$ 0.83**	$ 1.26	$ 0.39
Earnings from discontinued operations	**–**	–	0.07
Net earnings from operations	**$ 0.83**	$ 1.26	$ 0.46
Gain on disposal of discontinued operations, net of tax	**0.05**	–	0.71
Net earnings	**$ 0.88**	$ 1.26	$ 1.17
Diluted earnings per common share:			

Earnings from continuing operations	**$ 0.83**	$ 1.26	$ 0.39
Earnings from discontinued operations	**–**	–	0.07
Net earnings from operations	**$ 0.83**	$ 1.26	$ 0.46
Gain on disposal of discontinued operations, net of tax	**0.05**	–	0.71
Net earnings	**$ 0.88**	$ 1.26	$ 1.17
Cash flow from operating activities	**$ 613.4**	$ 526.9	$ 398.6

1 *2002 production and electricity and gas trading volumes have been restated to conform with current reporting practices and standards.*

2 *For reconciliation of operating income, see page 26 of this MD&A.*

3 *Continuing operations include the Generation and Energy Marketing segments plus corporate costs not directly attributable to discontinued operations.*

4 *Discontinued operations consist of the Transmission operation, which was sold on April 29, 2002.*

5 *TransAlta early adopted the amended standard on the presentation of liabilities and equity on Jan. 1, 2004. See* Note 1 *to the consolidated financial statements for further discussion. Prior periods have been restated.*

6 *Operating income is not defined under GAAP. Refer to the Non-GAAP Measures section of this MD&A for a further discussion of operating income, including a reconciliation to net earnings.*

In 2004, availability decreased to 89.1 per cent from 90.6 per cent in 2003 primarily due to higher planned maintenance activity. The increase in 2003 compared to 2002 was a result of completion of work to install environmental compliance equipment at the Centralia plant and a higher proportion of gas-fired plant capacity. Planned maintenance at the Alberta thermal plants increased compared to 2002, which partially offset the increased availability at the Centralia plant and new gas plants.

Production increased in 2004 as a result of incremental production from the Mexican and Sarnia plants, which were commissioned during 2003. Production increased in 2003 due to capacity additions from the acquisitions of a 50 per cent interest in CE Gen and the remainder of Vision Quest Windelectric Inc. (Vision Quest); the commencement of commercial operations at the Sarnia, Campeche and Chihuahua plants; and higher production from the Centralia and Poplar Creek plants. The increase was partially offset by the decommission-ing of unit three of the Wabamun plant in November 2002.

OPERATING INCOME

In 2004, operating income decreased to $478.1 million compared to $561.6 million in 2003 and increased compared to $212.6 million in 2002 as shown below:

Operating income Dec. 31, 2002	$ 212.6
Increased Generation gross margins	67.0
Increased CE Gen operating income	79.5
2002 Wabamun Arbitration decision	38.9
Lower Energy Marketing gross margins	(4.4)
2003 Energy Marketing TCC loss	(33.3)
Increase in operational and administrative costs	(68.0)
Increased depreciation	(17.5)
2003 gain on sale of Sheerness Generating Station	191.5
2003 gain on sale of TransAlta Power partnership units	15.2
2002 Wabamun impairment charge	110.0
2002 turbine order cancellation	42.5

2003 turbine impairment		(84.7)
2003 gain on sale of land		10.5
2003 Binghamton impairment		(5.6)
Pension over-accrual and performance share ownership plan recovery in 2003		10.1
Other		(2.7)
Operating income Dec. 31, 2003	$	561.6
Increased Generation gross margins		11.6
Decreased major maintenance costs and lost earnings due to planned outages		18.0
Increase in operational and administrative costs		(8.4)
Increased depreciation		(38.3)
Lower CE Gen operating income		(21.5)
2003 Energy Marketing TCC loss		33.3
Increase in provision for California receivable		(22.9)
Pension over-accrual and performance share ownership plan recovery in 2003		(10.1)
2003 gain on sale of Sheerness Generating Station		(191.5)
Increased gain on sale of TransAlta Power partnership units		29.6
2003 turbine impairment		84.7
2003 Binghamton impairment		5.6
2003 gain on sale of land		(10.5)
2004 gain on sale of Meridian Cogeneration Facility		17.7
Other		19.2
Operating income Dec. 31, 2004	**$**	**478.1**

In 2004, gross margin increased by $53.2 million compared to the same period in 2003 as a result of the incremental margin from the Mexican plants ($27.3 million), the effect of the Wabamun plant becoming merchant ($43.5 million), and lower lost margin due to planned maintenance ($15.6 million), offset by an increase in the cost of fuel and purchased power due to higher diesel prices and increased overburden removal costs ($42.4 million). In addition, a $33.3 million Transmission Congestion Contracts (TCCs) loss was recognized in the second quarter of 2003. Further discussion of the TCC loss is included in Significant Events in this MD&A. Gross margins increased by $296.8 million in 2003 compared to 2002 as a result of increased production and availability and the $38.9 million Wabamun arbitration decision, which was recorded as a reduction to revenues in 2002.

For the year ended Dec. 31, 2004, Operations, Maintenance and Administration (OM&A) increased by $13.4 million ($0.25 per MWh) due in part to incremental operating costs related to the Mexican and Sarnia plants ($14.7 million) offset by decreased planned maintenance ($2.4 million). Additionally, in 2003, OM&A costs were reduced as a result of the reversal of a pension over-accrual and a decrease in expected performance share ownership plan payouts due to market conditions ($10.1 million). In 2003, OM&A increased by $138.8 million ($1.68 per MWh) compared to 2002. Excluding the impact of the CE Gen acquisition, OM&A costs increased by $68.0 million ($0.86 per MWh) due to the commencement of commercial operations at the Sarnia, Campeche and Chihuahua plants and increased planned maintenance at the Alberta Thermal plants.

In the year ended Dec. 31, 2004, depreciation expense increased by $38.3 million ($0.70 per MWh) primarily due to incremental depreciation from the Chihuahua, Campeche and Sarnia plants ($18.1 million), increased depreciation at the Ottawa, Mississauga and Windsor-Essex plants ($7.8 million) and the remainder is primarily due to increased capital spending on planned maintenance. Depreciation and amortization increased by $96.0 million ($1.38 per MWh) in 2003 compared to 2002, of which $83.8 million is the result of the CE Gen acquisition. The remaining increase is due to incremental depreciation from the commissioning of the Sarnia, Campeche and Chihuahua plants, substantially offset by the decommissioning of Wabamun unit three and the strengthening of the Canadian dollar compared to the U.S. dollar.

DISCONTINUED OPERATIONS

In April 2002, TransAlta's Transmission operations were sold for proceeds of $820.7 million. The disposal resulted in an after-tax gain on sale of $120.0 million that was recorded in the second and fourth quarters of 2002. During the second quarter of 2004, final working capital adjustments were made to reflect post-closing adjustments and other provisions related to closing costs, which resulted in an additional $9.6 million after-tax gain, bringing the final gain on the sale of the Transmission operations to $129.6 million.

EARNINGS PER SHARE AND CASH FLOW

Earnings from continuing operations for 2004 were $160.6 million ($0.83 per common share), compared to $234.2 million ($1.26 per common share) for 2003. This variance was due primarily to the $145.8 million after-tax gain on the sale of the Sheerness Generating Station and the $55.4 million after-tax turbine impairment charge in 2003. The increase of $167.4 million in 2003 compared to 2002 was due to these factors, as well as earnings from continuing operations for 2002 including the $11.2 million after-tax gain from the refinanc-ing of foreign operations, the $27.6 million after-tax turbine order cancellation charge, the $71.5 million after-tax Wabamun impairment charge and the $25.2 million after-tax charge resulting from the Wabamun arbitration decision. See Significant Events below for further discussion.

In 2004, cash flow from operating activities was $613.4 million, compared to $526.9 million in 2003. The variance was primarily due to improved non-cash operating working capital balances and increased cash earnings. Cash flow from operating activities in 2003 increased by $128.3 million from $398.6 million in 2002. The increase was primarily due to higher earnings and the collection of commodity tax receivables in the U.S. and Mexico (US$79.0 million) in 2003, the settlement of a disputed ancillary services revenue issue with the Balancing Pool of Alberta ($49.9 million) in 2002 the timing of cash tax obligations ($55.6 million) in 2002 and the final installment of 2001 income taxes paid in 2002 ($109.0 million).

SIGNIFICANT EVENTS

These consolidated financial results include the following significant events. All gains and losses discussed below are presented as pre-tax (after-tax) amounts, unless otherwise noted.

2004

Decommissioning of Wabamun Plant

In the fourth quarter of 2002, TransAlta decided to implement a phased decommissioning of the Wabamun facility by removing the 139 MW unit three from service in 2002, and as a result of this decision, decommis-sioned units one and two (62 MW and 57 MW, respectively) on Dec. 31, 2004. The corporation plans to retire unit four (279 MW) in 2010 when its operating license expires. The Power Purchase Arrangement (PPA) for the plant expired on Dec. 31, 2003. Production in 2004 was sold on the spot market. The costs of decommis-sioning will reduce the Asset Retirement Obligation on the balance sheet.

Sale of Meridian Cogeneration Facility

On Dec. 1, 2004, TransAlta completed the sale of its 50 per cent interest in the 220 MW Meridian Cogeneration Facility located in Lloydminster, Saskatchewan to TransAlta Cogeneration, L.P. (TA Cogen) for its fair value of $110.0 million. TA Cogen (owned 50.01 per cent by TransAlta and 49.99 per cent by TransAlta Power) financed the acquisition through the use of $50.0 million of cash on hand, by issuance of $30.0 million of units to each of TransAlta Power and TransAlta Energy Corporation (TEC) and the issue of an advance to TEC for $30.0 million. TransAlta recorded a gain of $17.7 million ($11.5 million) or $0.06 per common share on an after-tax basis.

Sale of TransAlta Power Units

On Dec. 3, 2004, TransAlta sold 7.1 million units of TransAlta Power at $9.00 each for net proceeds of $64.0 million, resulting in a gain of $20.6 million ($13.4 million) including a dilution gain of $11.6 million that arose as a result of the reduction in TransAlta's ownership of TransAlta Power. These units were the remaining TransAlta Power units that the corporation owned, representing approximately 10 per cent of TransAlta Power's outstanding units, following expiration of warrants on Aug. 3, 2004. TransAlta Power issued the warrants on July 31, 2003 when purchasing an indirect 25 per cent interest in the Sheerness Generating Station.

Summerview Wind Farm

In the third quarter of 2004, TransAlta commissioned the 68 MW Summerview Wind Farm.

Alberta Distribution and Retail (D&R) Operations

In September 2004, a regulatory decision relating to recovery of certain costs was issued that allowed TransAlta to finalize outstanding items relating to the sale of the D&R operations. Effective Aug. 31, 2000, TransAlta sold its D&R operations for proceeds of $857.3 million, which resulted in an after-tax gain on disposal of $262.4 million. The finalization of the sale did not result in any significant adjustments to the consolidated financial statements.

Gain on Transmission Sale

In June 2004, a settlement was reached to finalize the sale of the Transmission operations. In April 2002, TransAlta's Transmission operations were sold for proceeds of $820.7 million. The disposal resulted in an after-tax gain on sale of $120.0 million that was recorded in the second and fourth quarters of 2002. During the second quarter of 2004, final working capital adjustments were made to reflect post-closing adjustments and other provisions related to closing costs, which resulted in an additional $9.6 million after-tax gain, bringing the final gain on the sale of the Transmission operations to $129.6 million.

New Zealand Tax Settlement

In June 2004, TransAlta received notice from the New Zealand Inland Revenue of a favourable settlement relating to the 1999 taxation year. As a result, a NZ$8.0 million (Cdn$6.8 million) income tax recovery was recorded in the second quarter of 2004.

Prior Period Regulatory Decision

At Dec. 31, 2000, TransAlta made a provision of US$28.8 million to account for potential refund liabilities relating to energy sales in California. On Dec. 12, 2002, a U.S. Federal Energy Regulatory Commission (FERC) Administrative Law Judge issued proposed findings of fact that recommended TransAlta refund US$9.0 million for electricity sales made to the California Independent System Operator (CAISO) and US$13.0 million for electricity sales made to the California Power Exchange (CALPX). In March 2003, FERC ordered the CAISO to review reference power and gas prices which are used to determine mitigated market clearing prices and refund obligations. On March 17, 2004, the CAISO released its preliminary adjusted prices. Based on these prices, the

estimated refund liability now owed by TransAlta is US$46.0 million, being US$27.6 million to the CAISO, US$17.9 million to the CALPX and US$0.5 million to the Automated Power Exchange. Therefore, in March 2004, TransAlta recorded an additional pre-tax provision of US$17.2 million (Cdn$22.9 million). The after-tax impact was Cdn$14.9 million. The final adjusted prices were released in October 2004 and were substantially the same as those released on March 17, 2004.

FERC has provided TransAlta with an opportunity to petition for relief from refund obligations. To be successful in such a petition for relief, TransAlta will be required to demonstrate that, as a result of the refund methodology, it has suffered operating losses in respect of California transactions during the refund period. TransAlta has prepared a petition for relief from the refund obligation that may be filed once FERC provides stakeholders with a direction on the filing of such positions. While the outcome of this filing cannot be determined at this time, any such relief would be accounted for only at the time that it is obtained from FERC.

The impact of prior period regulatory decisions relating to prior reporting periods is recorded when the effect of such decisions is known, without adjustment to the financial statements of prior periods.

2003

Acquisitions

In January 2003, the corporation purchased a 50 per cent interest in CE Gen. *Note 4* of the audited consolidated financial statements discloses details of the transaction. TransAlta's share of CE Gen's results are included in the Generation segment.

In January 2003, TransAlta acquired a 50 per cent interest in EPCOR's Genesee 3 project. The 450 MW addition to the existing Genesee Generating Station is currently under construction southwest of Edmonton, Alberta, and TransAlta's share of the project is estimated to cost $379.0 million. Included in the arrangement was an option for EPCOR to purchase a 50 per cent interest in TransAlta's Sarnia plant that was exercisable until March 31, 2004. EPCOR did not exercise the option.

Equity Offering

In March and April 2003, the corporation issued a total of 17.25 million common shares for gross proceeds of $276.0 million.

Sale of Goldfields Gas Pipeline

In April 2003, TransAlta sold its remaining interest in the Goldfields gas pipeline for proceeds of AUD$24.1 million (Cdn$21.6 million), which approximated book value.

Sale of Head Office Building

On May 9, 2003, TransAlta Utilities Corporation (TAU) sold the Calgary head office building for $65.8 million, which was an agreed-upon value. TransAlta is leasing the property for a term of 20 years.

Energy Marketing Loss on Transmission Congestion Contracts

TransAlta submitted an erroneous bid to the New York Independent System Operator (New York ISO) for May 2003 TCCs. The New York ISO manages New York's electricity transmission system and TCCs are financial contracts. TransAlta's computer spreadsheet contained mismatched bids for TCCs due to a clerical error and resulted in TransAlta purchasing more contracts at higher prices than intended. The erroneous bid resulted in a $33.3 million (US$20.0 million) pre-tax loss in May 2003, which was taxed at the statutory rate of 40 per cent.

Asset Impairment Charges

In the third quarter of 2003, following a strategic review and after examining expected market conditions and potential development opportunities against TransAlta's risk profile, the corporation concluded that the book value of its turbine inventory was unlikely to be fully recovered. As a result, TransAlta recorded an $84.7 million impairment charge ($55.4 million).

The corporation performs an annual review of its property, plant and equipment. As a result of this review, TransAlta recorded a $5.6 million ($3.6 million) impairment charge on the Binghamton plant in the fourth quarter of 2003. The Binghamton plant is a peaker plant that sells electricity to the New York area at spot market rates when such prices exceed its marginal operating costs. Due to generation overcapacity in the Northeastern U.S. and transmission constraints, TransAlta does not expect the plant to operate on a regular basis or at prices that would justify its book value prior to the writedown. The impairment charge reduced the Binghamton plant's book value to fair value.

Sale of the Sheerness Generating Station

On July 31, 2003, TransAlta completed the sale of its 50 per cent interest in the two-unit, 756 MW coal-fired Sheerness Generating Station to TA Cogen for $630.0 million. TA Cogen is owned 50.01 per cent by TransAlta and 49.99 per cent by TransAlta Power. TransAlta received cash proceeds of $149.9 million, $315.0 million in TA Cogen units and $165.1 million in TransAlta Power units. As part of the financing and concurrent with the sale, TransAlta Power issued 17.75 million partnership units to TransAlta. Warrants, when exercised, were exchangeable for one TransAlta Power unit at any time until Aug. 3, 2004. Between July 31, 2003 and Aug.3, 2004, 10.4 million warrants were exercised. As the warrants were exercised, TransAlta sold TransAlta Power units back to TransAlta Power for $9.30 per unit, reducing its ownership interest in TransAlta Power. As a result of the exercise of the warrants and subsequent sale of remaining units held by TransAlta in the fourth quarter of 2004, TransAlta has reduced its ownership interest in TransAlta Power to 0.01 per cent held by TransAlta Power Ltd., a wholly-owned subsidiary of TransAlta and the general partner of TransAlta Power, as at Dec. 31, 2004.

In connection with the sale of the Sheerness Generating Station, the obligation for TransAlta to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 that arose on the sale of power generation assets to TA Cogen in 1998 was eliminated; therefore the deferred gain of approximately $119.8 million was recognized in earnings. In addition, the management agreements between TransAlta and TransAlta Power and TA Cogen were amended to remove the mechanism for the deferral of the management fees and remove the obligation for TransAlta Power and TA Cogen to pay management fees to TransAlta in the future. As consideration for the removal of these terms, TransAlta received $1.0 million from TransAlta Power and $5.0 million from TA Cogen in the third quarter of 2003.

As a result of the sale, TransAlta realized a gain on sale of $191.5 million ($145.8 million) recorded in the third quarter of 2003, which included the realization of the approximate $119.8 million 1998 deferred gain. Proceeds from the sale of the Sheerness Generating Station were used to repay debt.

Further gains resulting from the dilution of TransAlta's ownership in TransAlta Power on exercise of the warrants and on the subsequent sale of units totalled $60.0 million, of which $44.8 million ($29.1 million) was recognized in 2004 and $15.2 million ($10.1 million) in 2003.

Investment Write Down

On an annual basis, TransAlta reviews the valuation of its long-term equity investments. As a result of this review, in the fourth quarter of 2003, the corporation recorded a $6.2 million ($4.1 million) charge to recognize an other than temporary decline in fair value. The charge is included in OM&A expenses.

Sale of Seebe Land

On Dec. 31, 2003, TransAlta sold 539 acres of undeveloped land at Seebe, Alberta for $11.0 million. The corporation recognized a gain on sale of $10.5 million ($8.6 million).

2002

Centennial Project

In February 2002, the EUB approved the previously announced Centennial project, which is a 900 MW merchant expansion at the Keephills site. The first phase of the project (Centennial 1) is now part of the arrangement with EPCOR and the two corporations are jointly proceeding with the development phase of the project.

In the fourth quarter of 2004, the corporation announced that it is asking the EUB to amend its 900-MW Centennial permit to allow for the construction of a smaller 450 MW plant using more advanced supercritical technology.

Prior Period Regulatory Decisions

In April 2002, the EUB rendered a negative decision of $3.3 million ($2.1 million) with respect to TransAlta's hydro bidding strategy in 2000.

Wabamun Arbitration Decision

In May 2002, the corporation received the arbitrators' decision with respect to the Wabamun outage. As a result of the decision, the corporation was required to pay $38.9 million ($25.2 million), which was recorded as a reduction of revenue.

Ancillary Services Revenue Settlement

In July 2002, a dispute with the Balancing Pool of Alberta in respect of the allocation of hydro ancillary services deferred revenue under the PPAs was resolved. TransAlta repaid $49.9 million received in advance from the

Balancing Pool. The settlement had no earnings impact as the corporation had not previously recognized the amount as revenue.

Refinancing of Foreign Operations

During the third quarter of 2002, TransAlta restructured the financing of certain of its foreign operations. As a result, the corporation was able to record the benefit of previously unrecognized foreign tax loss carryfor-ward balances. This restructuring contributed $11.2 million to earnings as reduced income tax expense in the third quarter of 2002.

Turbine Order Cancellation

In the fourth quarter of 2002, the corporation cancelled orders for four turbines and recorded a cancellation charge of $42.5 million ($27.6 million). The costs consisted solely of progress payments made to the date of the contract termination.

Purchase of Vision Quest

In the fourth quarter of 2002, TransAlta purchased the remaining interest in Vision Quest. The transaction increased the corporation's total investment in the wind power company to $68.8 million. At the time of acquisition, Vision Quest operated 124 wind turbines with 119 MW of gross generating capacity in operation (82 MW net ownership interest). Vision Quest's financial results are included in Generation's results for segmented reporting purposes.

NEW ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants (CICA) established a new standard on the disposal of long-lived assets and discontinued operations. This standard became effective May 1, 2003; however, TransAlta early adopted the standard on Jan. 1, 2003 with retroactive restatement. The standard requires that a long-lived asset to be disposed of other than by sale shall continue to be classified as held and used until it is disposed of. Certain criteria must be met before a long-lived asset can be classified as held for sale. The standard also defines discontinued operations more broadly than previously and prohibits the inclusion of future operating losses in a loss recognized upon classification of a long-lived asset as held for sale. The impact of adopting this standard was not material to the consolidated financial statements.

In the fourth quarter of 2003, in response to changes in accounting standards in the U.S. with respect to derivative instruments not held for trading, the corporation adopted a policy that all gains and losses on real-time physical trading contracts be shown gross in the statements of earnings. Prior period amounts have been restated.

On Jan. 1, 2004, TransAlta early adopted the amended CICA standard on the presentation of liabilities and equity. The standard addresses the situation in which an entity has a contractual obligation of a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments, but the entity must, or can, settle the obligation by delivery of its own equity instruments (the number of which depends on the amount of the obligation). Such an obligation is a financial liability of the entity. TransAlta has presented the corporation's preferred securities as financial liabilities on the consolidated balance sheets. Preferred securities distributions are included in interest expense on the consolidated statements of earnings *(Note 11 to the consolidated financial statements)* and therefore included as a deduction in arriving at net earnings. This change in accounting policy was recorded retroactively with restatement and, as a result, preferred securities distributions, net of tax, have been reduced to nil in each of 2002, 2003 and 2004, net interest expense for the year ended Dec. 31, 2004 was increased by $44.5 million (2003 – $36.8 million, 2002 – $34.9 million), and income tax expense for the year ended Dec. 31, 2004 was decreased by $15.0 million (2003 – $13.8 million, 2002 – $14.0 million). Preferred securities have been increased to $475.0 million from $450.8 million as at Dec. 31, 2003.

Effective Jan. 1, 2004, the corporation has prospectively presented employee share purchase plan loans as a deduction from shareholders' equity. The impact of this new accounting treatment is not material to the consolidated financial statements.

In March 2004, the U.S. Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 04-02, *Whether Mineral Rights are Tangible or Intangible Assets,* that mineral rights, as defined in the Issue, are tangible assets. As a result of this decision, TransAlta accounts for coal rights under both Canadian and U.S. GAAP as tangible assets. Prior period amounts have been reclassified from intangible assets to tangible assets (Dec. 31, 2003 – $58.5 million). There was no effect on net earnings as a result of the reclassification.

OUTLOOK

The key factors affecting the financial results in 2005 are the megawatt capacity in place, the availability of and production from generating assets, the margins applicable to non-contracted production, the costs of production and the volumes traded and margins achieved on Energy Marketing activities.

The following factors will be influenced by, but not limited to, certain risks and uncertainties. For further discussion, see Risk Factors and Risk Management in this MD&A.

Production, Availability and Capacity

Generating capacity is expected to increase in 2005 due to the completion of the 225 MW Genesee 3 project, partially offset by the decommissioning of units one and two of the Wabamun plant on Dec. 31, 2004 (62 MW and 57 MW, respectively).

Production is expected to increase in 2005 due to the addition of Genesee 3.

The existing contracts have remaining terms ranging from one to 30 years. Contracted production, as a percentage of potential production from existing assets and assets currently under construction at Dec. 31, 2004, is shown for the next five years in the chart to the left.

If certain plants do not meet the availability or production targets specified in the PPAs or other long-term contracts, then the corporation must either compensate the purchaser for the loss in the availability of production or suffer a reduction in electrical or capacity payments. Consequently, an extended outage could have a material adverse effect on the business, financial condition, results of operations or cash flows of the corporation.

Production and gross margins from the merchant gas plants are subject to the changes in spark spreads discussed in the power prices section. TransAlta has not entered into fixed commodity agreements for gas for these merchant plants as gas will be purchased coincident with spot market spark spreads being adequate to produce and sell electricity.

Planned Maintenance

During 2005, TransAlta expects to spend between $210 million and $235 million on planned maintenance as outlined in the following table (excluding CE Gen):

Year ended Dec. 31, 2005	Coal	Gas	Hydro	Total
Capitalized	$ 70-80	$ 65-70	$ 10	$ 145-160
Expensed	55-65	10	–	65-75
	$ 125-145	$ 75-80	$ 10	$ 210-235
GWh lost	2,300	600	–	2,900

TransAlta expects to lose approximately 2,900 GWh of production due to planned maintenance in 2005.

Power Prices

TransAlta is only affected by short-term market prices in certain markets. Electricity spot prices for 2005 are expected to be comparable to those realized in 2004 in all markets. Alberta's spot power prices should soften slightly as new supply is only partially offset by anticipated strength in gas prices in 2005. Mid-Columbia, on the other hand, may see power prices increase slightly on natural gas price strength, assuming normal to below normal hydro conditions. Ontario power prices are expected to remain steady year over year. With higher average gas prices anticipated in 2005, spark spreads are expected to compress in Ontario and Alberta with Mid-Columbia generally unchanged.

Exposure to volatility in electricity prices and spark spreads is substantially mitigated through firm-price, long-term electricity sales contracts. Exposure to volatility in gas prices is partially mitigated by the flow-through of the costs of natural gas to customers in some of these contracts and the existence of price caps in certain natural gas supply contracts. For 2005, approximately 87 per cent of output is contracted, a significant portion of which relates to the Alberta PPAs, which are based on achieving specified availability rates. The corporation will continue to focus on maximizing margins from these contracts.

In December 2004, the Ontario government passed Bill 100 to reform Ontario's electricity sector. The Bill includes a combination of a regulated and competitive market, targets for energy conservation and the use of renewable energy, providing consumer price stability and the creation of a new Ontario Power Authority to ensure an adequate long-term supply of electricity. The future operating results of TransAlta's Sarnia Cogeneration plant may be significantly affected, depending on the legislation being passed and the resultant changes in

merchant pricing or the availability of stable long-term contracts for electricity producers. At this time, TransAlta cannot reasonably assess the impact of the proposed changes to the structure of the Ontario energy sector and its impact on Sarnia's future operating results.

Costs of Production

Fluctuations in the cost of coal are minimized through ownership of reserves in Alberta and the State of Washington and by diversifying into wind generation, which has virtually no variable costs of production. OM&A costs per MWh fluctuate by quarter and are dependent on the timing and nature of maintenance activities. OM&A costs per MWh in 2005 are expected to increase slightly over 2004.

Energy Marketing

Energy Marketing's trading activities are focused on real-time and short-term forward markets. Short-term forward markets show indications of increased volatility in the North American natural gas market. TransAlta will continue to prudently manage its risk profile utilizing value at risk and other measures.

Our objective is for proprietary trading to contribute between $20 million and $40 million in annual operating income.

Net Interest Expense

Net interest expense is expected to increase in 2005 as a result of the reduction of capitalized interest due to the completion of construction of the Genesee 3 plant and the Summerview Wind Farm. During 2004, the corporation capitalized interest of $20.0 million as a result of the construction activity during the year.

Income Tax Rate

Income tax rates in 2005 are expected to be consistent with 2004 levels. Assuming a similar geographic distribution of earnings and no material changes in tax rates, the corporation anticipates an effective tax rate for 2005 of approximately 25 per cent.

Non-controlling Interests

Non-controlling interests are expected to increase in 2005 as a result of the reduction in TransAlta's ownership in TransAlta Power and in the Meridian Cogeneration Facility.

Capital Expenditures

Capital expenditures for 2005 are expected to be approximately $360 million to $375 million, of which approximately $150 million is expected to be spent on major maintenance (excluding CE Gen), $100 million is expected to be spent on the Alberta and Centralia mines and $50 million is expected to be spent to complete the Genesee 3 project. The remainder is expected to be spent at CE Gen and on productivity related investments. Financing for these expenditures is expected to be provided by cash flow from operations.

Exposure to Fluctuations in Foreign Currencies

TransAlta will continue to offset foreign denominated assets with foreign denominated liabilities. TransAlta also has foreign currency expenses, primarily interest charges that offset foreign currency revenues. This strategy minimizes the impact on TransAlta of the recent appreciation in the Canadian dollar against the U.S. dollar.

Cash Requirements

In 2005, cash will be provided by a combination of cash flow from operations and utilization of various credit facilities. Cash will be required for maintenance, additions to property, plant and equipment, dividend payments and repayment of short-term and maturing senior debt.

Climate Change

On Dec. 16, 2002, the Canadian government ratified the Kyoto Protocol, which came into effect on Feb. 16, 2005. It is not expected to have an impact on TransAlta's U.S., Mexican or Australian operations. In Canada, TransAlta is not yet able to estimate the full impact the Protocol will have on its operations, as the Canadian government has not established the regulatory requirements. However, the PPAs for TransAlta's coal-fired plants in Alberta contain 'Change of Law' provisions that should provide for the recovery of compliance costs from the PPA customers.

TransAlta continues to take measured action to mitigate future climate change costs. The corporation is building a portfolio of emission offsets for its merchant plants as part of its response to climate change. In 2004, TransAlta completed the first Canadian purchase of certified emission reductions under the Kyoto mechanisms. As a member of the Canadian Clean Power Coalition, TransAlta, along with its peers, is exploring other means to reduce greenhouse gas emissions, including the development of clean coal technology. TransAlta continues to grow its renewable energy portfolio, reduce its emissions intensity and diversify its fuel mix.

SEGMENTED BUSINESS RESULTS

Generation *Owns and operates hydro, wind, geothermal, gas- and coal-fired plants and related mining operations in Canada, the U.S., Mexico and Australia. At Dec. 31, 2004, Generation had 8,806 MW of gross generating capacity in operation (8,337 MW net ownership interest) and 225 MW under construction.*

For the year ended Dec. 31, 2004, availability decreased to 89.1 per cent from 90.6 per cent in 2003, primarily due to unplanned outages at the Mexico plants in the first quarter and higher planned maintenance at the Sheerness and Centralia plants in the second quarter. In 2003, availability increased to 90.6 per cent from 88.4 per cent in 2002 due to higher availability at the Centralia and Poplar Creek plants and the addition of the new gas plants.

The results of the Generation segment were as follows:

		2004		2003		2002
Year ended Dec. 31	Total	Per MWh	Total	Per MWh	Total	Per MWh
Revenues	**$ 2,593.8**	**$ 47.54**	$ 2,412.2	$ 45.40	$ 1,674.9	$ 35.51
Fuel and purchased power	**(1,231.3)**	**(22.57)**	(1,067.4)	(20.09)	(664.6)	(14.09)
Gross margin	**1,362.5**	**24.97**	1,344.8	25.31	1,010.3	21.42
Operations, maintenance and administration	**501.2**	**9.19**	480.0	9.03	346.7	7.35
Depreciation and amortization	**363.3**	**6.66**	321.6	6.05	220.3	4.67
Taxes, other than income taxes	**20.8**	**0.38**	23.1	0.43	27.3	0.58
Operating expenses	**885.3**	**16.23**	824.7	15.51	594.3	12.60
Gain on sale of Sheerness Generating Station	**–**	**–**	191.5	3.60	–	–
Gain on sale of TransAlta Power partnership units	**44.8**	**0.82**	15.2	0.29	–	–
Gain on sale of Meridian Cogeneration Facility	**17.7**	**0.32**	–	–	–	–
Gain on sale of Seebe land	**–**	**–**	10.5	0.20	–	–
Asset impairment charges	**–**	**–**	(90.3)	(1.70)	(152.5)	(3.23)
Prior period regulatory decision	**–**	**–**	–	–	(3.3)	(0.07)
Operating income before corporate allocations	**539.7**	**9.88**	647.0	12.19	260.2	5.52
Corporate allocations	**69.7**	**1.28**	69.9	1.32	70.6	1.50
Operating income	**$ 470.0**	**$ 8.60**	$ 577.1	$ 10.87	$ 189.6	$ 4.02

For the year ended Dec. 31, 2004, 84 per cent of total production was subject to contracted prices (2003 –91 per cent, 2002 – 93 per cent), with the remaining production subject to market pricing. Revenues received under contractual arrangements are not subject to short-term fluctuations in the spot price for electricity.

Generation's revenues are derived from the production of electricity and steam as well as ancillary services such as system support. In 2004, gas- and coal-fired facilities had exposure to market fluctuations in energy commodity prices representing four per cent and 26 per cent of TransAlta's total generating capacity, respectively. The corporation closely monitors the risks associated with these commodity price changes on its future operations and, where appropriate, uses various physical and financial instruments to hedge its assets and operations from such price risk. These contracts are designated as effective hedge positions of future cash flows or fair values of the output and production of its owned assets. Under Canadian GAAP, settlement accounting is used for transactions that qualify for hedge accounting. Under U.S. GAAP, hedging activities are accounted for in accordance with FASB Statement 133.

TransAlta's results are partly seasonal due to the nature of the electricity market and related fuel costs. Higher maintenance costs are ordinarily incurred in the second and third quarters when electricity prices are expected to be lower as electricity prices generally increase in the winter months in the Canadian market. Margins are also typically impacted in the second quarter due to the volume of hydro production resulting from spring runoff and rainfall in the Canadian and U.S. markets. TransAlta's results reflect the completion, acquisition and disposition of plants and facilities throughout 2003 and 2004 as described previously within this MD&A.

TransAlta's electricity and steam production revenues are generated from the following revenue streams:

Alberta Power Purchase Arrangements are long-term arrangements that apply to the previously regulated Alberta generation plants. All of TransAlta's Alberta coal-fired and hydroelectric facilities operated under PPAs during 2004, except for the Wabamun plant. The PPA for the Wabamun plant expired on Dec. 31, 2003. Under the terms of a PPA, a single customer has the rights to the entire production of a plant or unit for the length of the PPA.

PPAs established committed capacity and electrical energy generation requirements and availability targets to be achieved by each coal-fired plant, energy and ancillary services obligations for the hydroelectric plants, and the pricing formula at which capacity and power would be supplied. The corporation bears the risk or retains the benefit of volume variances (except for those arising from events considered to be force majeure, in the case of the coal-fired plants), and any change in costs required to maintain and operate the facilities. A component of the PPA capacity payment represents fixed operating, maintenance and fuel costs and is escalated annually based on certain indices published by Statistics Canada. The component of the capacity payment representing debt interest and a return on equity invested is subject to changes in the Canadian long-term bond rate.

Under the PPAs, the corporation earns monthly capacity revenues, which are designed to recover fixed costs and provide a return on capital for the plants and mines. The corporation also earns energy payments for the recovery of predetermined variable costs of producing energy, an incentive/penalty for achieving above/below the targeted availability and an excess energy payment for power production above committed capacity.

The corporation's hydroelectric facilities are not contracted on a facility-by-facility basis; rather, facilities are aggregated in a single Alberta PPA that provides for energy and ancillary services obligations based on hourly targets. These targeted amounts are met by TransAlta through physical delivery or third-party purchases.

Long-term Contracts are similar to PPAs. TransAlta defines a long-term contract as having an original term between 10 and 25 years. Long-term contracts are typically for gas-fired cogeneration plants and have between one and four customers per plant. Revenues are derived from payments for capacity and/or the production of electrical energy and steam.

Merchant revenue is derived from the sale of production only, with multiple customers per plant. Production is sold via: medium-term contract sales (typically three to seven years); short-term asset-backed trading; and spot or short-term (less than one year) forward markets.

CE Gen earns revenues from 10 geothermal plants (164 MW) and three gas-fired facilities (215 MW). Eight of the geothermal plants sell their output under long-term contracts expiring between 2016 and 2035. One facility is partially contracted while the remaining facility sells its output on the spot market but has an option to sell output under a 35-year contract based on market prices. The gas-fired facilities sell their output under fixed-price contracts ranging from two to 30 years in length, with expiration dates of 2005, 2009 and 2024. All three facilities have gas supply arrangements in place for the duration of the electricity sales contracts.

TransAlta's production volumes, electricity and steam production revenues and fuel and purchased power costs are presented below:

Year ended Dec. 31, 2004	Production (GWh)	Revenue	Fuel & purchased power	Gross margin	Revenue per MWh	Fuel & purchased power per MWh	Gross margin per MWh
Alberta PPAs	**25,836**	**$ 679.2**	**$ 187.9**	**$ 491.3**	**$ 26.29**	**$ 7.27**	**$ 19.02**
Long-term contracts	**10,347**	**834.0**	**541.5**	**292.5**	**80.60**	**52.33**	**28.27**
Merchant	**15,676**	**799.5**	**435.2**	**364.3**	**51.00**	**27.76**	**23.24**
CE Gen	**2,701**	**281.1**	**66.7**	**214.4**	**104.07**	**24.69**	**79.38**
	54,560	**$ 2,593.8**	**$ 1,231.3**	**$ 1,362.5**	**$ 47.54**	**$ 22.57**	**$ 24.97**

Year ended Dec. 31, 2003	Production (GWh)	Revenue	Fuel & purchased power	Gross margin	Revenue per MWh	Fuel & purchased power per MWh	Gross margin per MWh
Alberta PPAs	28,295	$ 758.8	$ 191.3	$ 567.5	$ 26.82	$ 6.76	$ 20.06
Long-term contracts	8,538	660.2	400.8	259.4	77.32	46.94	30.38
Merchant	13,683	684.2	394.9	289.3	50.00	28.86	21.14

CE Gen	2,618	309.0	80.4	228.6	118.03	30.71	87.32
	53,134	$ 2,412.2	$ 1,067.4	$ 1,344.8	$ 45.40	$ 20.09	$ 25.31

Year ended Dec. 31, 2002	Production (GWh)	Revenue	Fuel & purchased power	Gross margin	Revenue per MWh	Fuel & purchased power per MWh	Gross margin per MWh
Alberta PPAs	29,792	$ 761.6	$ 175.4	$ 586.2	$ 25.56	$ 5.89	$ 19.68
Long-term contracts	6,157	364.8	165.9	198.9	59.25	26.94	32.29
Merchant [1]	11,223	587.4	323.3	264.1	49.14	27.05	22.09
Wabamun arbitration decision	–	(38.9)	–	(38.9)	–	–	–
	47,172	$ 1,674.9	$ 664.6	$ 1,010.3	$ 35.51	$ 14.09	$ 21.41

1 Revenue per MWh and fuel and purchased power per MWh includes actual production volumes and economic dispatch volumes purchased (731 GWh).

Activities in 2004 for the Wabamun plant are now classified as merchant as production from the plant is being sold in the open market. The PPA for the Wabamun plant expired on Dec. 31, 2003.

Production for the year ended Dec. 31, 2004 decreased by 2,459 GWh compared to 2003 primarily due to the Wabamun plant now being classified as merchant (2,940 GWh) and higher unplanned outages at the remaining Alberta Thermal plants (168 GWh) partially offset by reduced planned maintenance (642 GWh). In 2003, production decreased by 1,497 GWh, compared to 2002 as a result of increased planned maintenance at the Alberta Thermal plants and the decommissioning of unit three of the Wabamun plant in November 2002.

Revenues for the year ended Dec. 31, 2004 decreased by $79.6 million compared to the same period in 2003 due to the Wabamun plant now being classified as merchant ($92.2 million) and by higher unplanned outages ($34.2 million) partially offset by reduced penalties related to planned maintenance at the remaining Alberta Thermal plants ($53.0 million). Revenues per MWh were consistent with 2003 on a year-over-year basis. In 2003, revenues increased by $1.26 per MWh compared to 2002 due to incentives earned from exceeding the availability targets in the PPAs.

For the year ended Dec. 31, 2004, fuel costs increased by $0.51 per MWh compared to the same period in 2003 due to higher diesel prices, increased overburden removal costs and decreased coal volumes. In 2003, fuel costs increased by $0.87 per MWh compared to 2002 due to increased commodity prices and higher planned maintenance costs at the coal mines in 2003. Substantially all of the coal used for production under Alberta PPAs is from coal reserves owned by TransAlta.

Long-term Contracts

In the year ended Dec. 31, 2004, production increased by 1,809 GWh compared to the same period in 2003 primarily as a result of the incremental production at the Chihuahua and Campeche plants (1,709 GWh), as these plants were commissioned during 2003. Production increased by 2,381 GWh in 2003 compared to the same period in 2002 primarily due to increased production from the Sarnia plant, the acquisition of Vision Quest and the commencement of commercial operations at the Campeche and Chihuahua plants.

Revenues increased by $3.28 per MWh in 2004 compared to 2003 primarily due to increased natural gas costs which were passed on to the customer. Fuel and purchased power increased by $5.39 per MWh due to higher market prices for natural gas. Revenues increased by $18.07 per MWh in 2003 compared to 2002. The increase is due in part to $102.9 million ($12.05 per MWh) of incremental steam revenues earned from the Sarnia plant in 2003. Revenues also increased as a result of increased natural gas prices. In 2003, 71 per cent of natural gas prices flowed through to customers and were therefore recovered through revenues. Fuel and purchased power increased by $20.00 per MWh in 2003 compared to 2002 primarily due to higher heat rates at Sarnia, higher natural gas market prices and the cost of the gas used for steam production.

For the year ended Dec. 31, 2004, gross margin decreased by $2.11 per MWh compared to the same period of 2003 primarily due to the impact of the incremental production from the Mexican plants, which have lower margins than other long-term contracts. Gross margin per MWh decreased by $1.91 per MWh in 2003 compared to 2002. This decrease is due to higher natural gas prices and the commencement of commercial operations at the Sarnia, Campeche and Chihuahua plants.

Merchant Production

In 2004, electricity spot prices in the Alberta and Ontario markets decreased while the Mid-Columbia price increased compared to 2003. Spark spreads decreased in both Alberta and the Ontario markets, but increased in the Pacific Northwest market.

In 2003, electricity spot prices increased over 2002 prices. The Ontario market was regulated until May 2002. Spark spreads increased in both Alberta and the Pacific Northwest markets, but decreased in Ontario.

For the year ended Dec. 31, 2004, merchant production was 15,676 GWh, of which 6,718 GWh was contracted. For the same period in 2003, merchant production was 13,683 GWh, of which 8,996 GWh was contracted. The increase in merchant production was due to the sale of uncontracted production from the Wabamun plant and incremental production from Sarnia in the first quarter, partially offset by decreased production at Centralia and lower dispatching from the merchant gas plants. For 2002, merchant production was 11,223 GWh, of which 8,020 GWh was contracted. At certain times during 2002, when the market price of electricity was lower than the variable costs of production at certain plants, the corporation reduced production at these plants and purchased electricity from the market to fulfill contractual obligations (economic dispatch). The increase in production in 2003 reflects increased production from the Sarnia, Centralia and Centralia Gas plants as well as the 731 GWh of economic dispatch that occurred in 2002.

In 2004, merchant revenues increased by $115.3 million, fuel and purchased power increased by $40.3 million and gross margins increased by $75.0 million compared to the same period in 2003. These gross margin increases were due to incremental production from the Wabamun plant ($95.6 million) partially offset by lower production and shrinking spark spreads at Centralia ($27.0 million) and Poplar Creek ($8.0 million). On a per MWh basis, merchant revenues increased by $1.00 per MWh while fuel and purchased power decreased by $1.10 compared to the same period in 2003.

In 2003, merchant revenues increased by $0.86 per MWh compared to 2002 as a result of higher electricity spot prices. In 2003, fuel and purchased power increased by $1.81 per MWh as a result of increased natural gas prices. Gross margins decreased by $0.95 per MWh in 2003 compared to 2002 due to increased power prices, substantially offset by increased natural gas costs and the strengthening of the Canadian dollar compared to the U.S. dollar.

CE Gen

TransAlta's share of CE Gen's production for 2004 increased by 83 GWh compared to 2003. This was the result of increased availability due to reduced planned maintenance and increased production at Imperial Valley, partially offset by decreased production at the Power Resources facility following the expiration of the long-term contract in September 2003.

In 2004, revenues decreased by $13.96 per MWh compared to the same period in 2003 due to the expiration of the Power Resources facility's long-term contract and the strengthening of the Canadian dollar compared to the U.S. dollar. In 2004, fuel and purchased power decreased by $6.02 per MWh compared to the same period in 2003 primarily due to the gas remarketing arrangement at the Saranac project in the first quarter of 2004 and the strengthening of the Canadian dollar compared to the U.S. dollar, partially offset by increased fuel prices at the Yuma and Saranac facilities in 2004.

From the date of acquisition on Jan. 29, 2003 to Dec. 31, 2003, CE Gen production was 2,618 GWh, revenue was $118.03 per MWh and fuel and purchased power was $30.71 per MWh.

Operations, Maintenance and Administration Expense

For the year ended Dec. 31, 2004, OM&A increased by $21.2 million ($0.16 per MWh) due in part to incremental operating costs related to the Mexican and Sarnia plants ($14.7 million). Additionally, in 2003, OM&A costs were reduced as a result of the reversal of a pension over-accrual and a decrease in expected performance share ownership plan payouts due to market conditions ($10.1 million). In 2003, OM&A increased by $133.3 million ($1.68 per MWh) compared to 2002. Excluding the impact of the CE Gen acquisition, OM&A costs increased by $68.0 million ($0.86 per MWh) due to the commencement of commercial operations at the Sarnia, Campeche and Chihuahua plants and increased planned maintenance at the Alberta Thermal plants.

Planned Maintenance

The table below shows the amount of planned maintenance capitalized and expensed, excluding CE Gen:

		2004		2003		2002
Capitalized	**$**	**99.1**	$	35.2	$	102.1
Expensed		**74.7**		77.3		46.2
	$	**173.8**	$	112.5	$	148.3

In 2004, 2,587 GWh of production were lost due to planned maintenance compared to 2,198 GWh lost in 2003 and 2,030 GWh lost in 2002.

In 2004, capitalized maintenance increased by $63.9 million while operating maintenance decreased by $2.6 million as compared to the same period in 2003 due to spending on capital replacement activities rather than repair activities in coal outages ($48.8 million) and gas outages ($12.0 million), with no comparable amounts in 2003 for gas outages due to recent additions to the gas fleet.

In 2003, capitalized maintenance decreased by $66.9 million while operating maintenance increased by $31.1 million as compared to the same period in 2002, as the majority of maintenance activity in 2003 related to repairs to existing equipment rather than replacement activities.

Depreciation and Amortization

In 2004, depreciation expense increased by $41.7 million ($0.61 per MWh) primarily due to incremental depreciation from the Chihuahua, Campeche and Sarnia plants ($18.1 million), increased depreciation from CE Gen ($5.4 million), increased depreciation of the Ottawa, Mississauga and Windsor-Essex plants ($7.8 million) and increased capital spending on planned maintenance.

Depreciation and amortization increased by $101.3 million ($1.38 per MWh) in 2003 compared to 2002, of which $83.8 million is the result of the CE Gen acquisition. The remaining increase is due to incremental depreciation from the commissioning of the Sarnia, Campeche and Chihuahua plants, substantially offset by the decom-missioning of Wabamun unit three and the strengthening of the Canadian dollar compared to the U.S. dollar.

Taxes Other than Income Taxes

In 2004, taxes other than income taxes were consistent with both 2003 and 2002.

Energy Marketing *Derives revenue and earnings from the wholesale trading of electricity and other energy-related commodities and derivatives not supported by TransAlta-owned generation assets. Energy Marketing also utilizes contracts of various durations for the forward sales of electricity and purchases of natural gas and transmission capacity to effectively manage available generating capacity and fuel and transmission needs on behalf of Generation. These results are included in the Generation segment. Key performance indicators for Energy Marketing include trading volumes, margins and value at risk (VAR).*

Energy Marketing uses commodity derivatives to manage risk, earn trading revenue and gain market information. The portfolio consists of physical and financial derivative instruments including forwards, swaps, futures and options in various commodities. These contracts meet the definition of trading activities and have been accounted for using fair values for both Canadian and U.S. GAAP. Changes in the fair values of the portfolio are recognized in income in the period they occur.

In compliance with FASB EITF 03-11, *Reporting Realized Gains and Losses on Derivative Instruments that are Subject to FASB Statement 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes* as defined in Issue No. 02-3, TransAlta has concluded that energy trading contracts settled in the real-time physical markets meet the definition of derivative contracts held for delivery and therefore results of these contracts are reported on a gross basis (trading revenues and trading purchases are shown separately) in the consolidated statement of earnings.

The results of the Energy Marketing segment are as follows:

Year ended Dec. 31	**2004**	2003	2002
Revenues	**$ 244.5**	$ 108.7	$ 140.0
Trading purchases	**(197.7)**	(97.4)	(91.0)
Gross margin	**46.8**	11.3	49.0
Operations, maintenance and administration	**5.3**	14.9	15.1
Depreciation and amortization	**2.0**	3.1	2.5
Taxes other than income taxes	**–**	–	0.1
Prior period regulatory decision	**22.9**	–	–
Operating income before corporate allocations	**16.6**	(6.7)	31.3
Corporate allocations	**8.5**	8.8	8.3
Operating income	**$ 8.1**	$ (15.5)	$ 23.0

Gross margin increased by $35.5 million in 2004 compared to the same period in 2003. In the second quarter of 2003, Energy Marketing realized a $33.3 million (US$20.0 million) pre-tax loss on TCCs in the New York area as discussed in the Significant Events section in this MD&A. The remaining increase of $2.2 million for the year ended Dec. 31, 2004 is the result of varying market opportunities across all regions. Purchases for energy trading contracts settled in the real-time physical markets for the year ended Dec. 31, 2004 increased by $100.3 million relative to 2003. The increase is primarily the result of activity relative to an energy services agreement involving purchasing power on behalf of a customer to service retail load.

Gross margin decreased by $37.7 million in 2003 compared to 2002 mainly due to the loss on TCCs in the New York area as discussed above. During the third quarter of 2003, Energy Marketing re-evaluated trading strategies and consolidated the Annapolis trading office in Calgary. The closure of the Annapolis office and changing market opportunities in Alberta resulted in fewer volumes being traded and settled in the remainder of 2003.

OM&A costs for 2004 decreased $9.6 million relative to the same period in 2003. Consolidation of the Annapolis trading office with Calgary occurred in the fourth quarter of 2003, incurring $1.1 million of direct severance and exit costs. The consolidation resulted in lower staff levels and associated savings in general spending activities in 2004. OM&A costs for 2003 included severance and exit costs as noted above and were consistent with 2002.

Depreciation and amortization for 2004 was $1.1 million lower than the same period in 2003 due to closure of the Annapolis office and the resulting asset disposals in 2003. Depreciation and amortization for 2003 was consistent with 2002.

VAR is a measure to manage earnings exposure for Energy Marketing activities. The average daily VAR in fiscal 2004 was approximately $3.8 million compared to $3.6 million in 2003. See additional discussion under commodity price risk in Risk Factors and Risk Management.

At Dec. 31, 2004, TransAlta had a US$51.4 million receivable relating to energy sales in California. As previously discussed in Significant Events, a provision of US$28.8 million to account for potential refund liabilities was recorded in December 2000. On March 17, 2004, the CAISO released its preliminary adjusted prices indicating that TransAlta's refund liability is now US$46.0 million. Based on these preliminary refund estimates, in the first quarter of 2004 TransAlta increased its provision for potential refund liabilities by US$17.2 million (Cdn$22.9 million) to US$46.0 million. The final adjusted prices were released in October 2004 and were substantially the same as those released on March 17, 2004. TransAlta has prepared a petition for relief from the refund obligation that may be filed once FERC provides stakeholders with a direction on the filing of such positions.

TransAlta's fixed price trading positions were as follows:

Units (000s)	Electricity (MWh)	Natural Gas (GJ)
Fixed price payor, notional amounts, Dec. 31, 2004	**14,138.0**	**35,221.7**
Fixed price payor, notional amounts, Dec. 31, 2003	13,872.6	45,638.6
Fixed price receiver, notional amounts, Dec. 31, 2004	**15,854.2**	**29,721.2**
Fixed price receiver, notional amounts, Dec. 31, 2003	13,061.8	67,738.3
Maximum term in months, Dec. 31, 2004	**48**	**34**
Maximum term in months, Dec. 31, 2003	33	24

Proprietary trading encompasses a range of contractual terms spanning from short-term speculative trading of one to 24 months to longer-term marketing transactions with potential terms greater than 24 months. Changes in trading positions from Dec. 31, 2003 to Dec. 31, 2004 are due to changing market conditions and corresponding regional strategy positioning.

Gross physical and financial settled sales of proprietary trading transactions are as follows:

Electricity (GWh) Year ended Dec. 31	**2004**	2003	2002
Physical	**61,165**	55,506	61,089
Financial	**23,239**	34,327	31,785
	84,404	89,833	92,874

Gas (million GJ) Year ended Dec. 31	**2004**	2003	2002

Physical	**122.4**	100.1	101.5
Financial	**308.0**	170.1	60.5
	430.4	270.2	162.0

In 2004, financial electricity volumes were lower than the same period in 2003 due to the elimination of trading in New York TCCs in 2003. Physical electricity volumes were higher in 2004 compared to the same period in 2003 due to the development of Eastern region real-time markets. Power trading strategies consist of shorter-term physical and financial trades in regions where TransAlta has assets and the markets that interconnect with those regions.

Electricity volumes in 2003 were lower than in 2002 due to the consolidation of the Annapolis trading office. The increase in gas volumes relates to the increased use of heat rate contracts, which involve a gas component, to manage power price risk. Gas trading, independent of power trading strategies, continues to be a small part of the risk taken in the marketplace. TransAlta's trading activities are mainly short-term transactions, thereby limiting credit risk and maintaining low working capital requirements.

The corporation's electrical transmission contracts net trading position of 4.4 million MWh at Dec. 31, 2004 is lower than the net trading position of 7.4 million MWh at Dec. 31, 2003, primarily due to the expiration of electrical transmission contracts owned.

In accordance with EITF 02-03, physical transmission is accounted for using accrual accounting. At Dec. 31, 2004, TransAlta recorded a prepaid asset of $1.5 million related to these transmission contracts compared to approximately $2.0 million at Dec. 31, 2003. The transmission contracts relate to the period from April 2004 to March 2005 and are amortized over this period. Physical transmission is widely used in the California market. The maximum term of these contracts is 12 months.

PRICE RISK MANAGEMENT

TransAlta's price risk management assets and liabilities represent the value of unsettled (unrealized) proprietary trading transactions and those asset-backed trading transactions accounted for on a fair value basis. With the exception of transmission contracts, the fair value of all energy trading activities is based on quoted market prices. The fair value of financial transmission contracts is based upon statistical analysis of historical data. All transmission contracts are accounted for in accordance with EITF 02-03. The following tables show the balance sheet classifications for price risk management assets and liabilities as well as the changes in the fair value of the net price risk management assets for the period:

Year ended Dec. 31	**2004**	2003
Balance Sheet		
Price risk management assets		
Current	**$ 61.4**	$ 68.4
Long-term	**32.5**	31.6
Price risk management liabilities		
Current	**(49.9)**	(64.3)
Long-term	**(28.5)**	(29.9)
Net price risk management assets outstanding	**$ 15.5**	$ 5.8

	Fair value
Change in fair value of net assets	
Net price risk management assets outstanding at Dec. 31, 2003	$ 5.8
New contracts entered into during the period	14.9
Changes in values attributable to market price and other market changes	(5.6)
Contracts realized, amortized or settled during the period	(4.3)
Changes in values attributable to discontinued hedge treatment of certain contracts	4.7

Net price risk management assets outstanding at Dec. 31, 2004	**$ 15.5**

The net price risk management assets and liabilities increased by $9.7 million compared to Dec. 31, 2003 primarily due to the realization of a $4.7 million price risk management asset resulting from the discontinuance of hedge accounting related to a long-term power contract. The remaining increase of $5.0 million relates to the net effect of new contracts executed in the period with associated fair value changes, offset by contracts settled or amortized in the period. Changes in net price risk management assets and liabilities are generally reflected within the gross margin of both Energy Marketing and Generation business segments.

The source of the valuations of the above contracts and maturities over each of the next five calendar years

and thereafter is as follows:

	2005	2006	2007	2008	2009 and thereafter	Total
Prices actively quoted	$ 8.1	$ 1.8	$ 1.1	$ 1.0	$ –	$ 12.0
Prices based on models	3.5	–	–	–	–	3.5
	$ 11.6	$ 1.8	$ 1.1	$ 1.0	$ –	$ 15.5

TransAlta's proprietary trading activities are mainly short-term transactions under 24 months in duration, thereby limiting credit risk and maintaining low working capital requirements. Transactions extending past 2005 are Generation asset-backed contracts that do not qualify for hedge accounting and have a low risk profile including long-term fixed for floating power swaps and a heat rate swap.

NET INTEREST EXPENSE AND FOREIGN EXCHANGE

Year ended Dec. 31	**2004**	2003	2002
Interest on recourse and non-recourse debt	**$ 207.9**	$ 234.1	$ 172.9
Interest on preferred securities	**44.5**	36.8	34.9
Interest income	**(10.3)**	(5.0)	(8.7)
Interest allocated to discontinued operations	**–**	–	(2.4)
Capitalized interest	**(20.0)**	(45.2)	(79.1)
Net interest expense	**$ 222.1**	$ 220.7	$ 117.6

In 2004, net interest expense increased by $1.4 million compared to the same period in 2003 due to decreased capitalized interest and recognition of $7.6 million of financing costs related to the $300 million preferred securities that are to be redeemed in February 2005, partially offset by decreased debt levels, decreased interest rates and increased interest income. Capitalized interest is lower as the result of the completion of the Sarnia, Campeche and Chihuahua plants, partially offset by the construction of the Summerview Wind Farm and Genesee 3. Interest income is higher due to favourable income tax assessments.

Net interest expense increased by $103.1 million in 2003 compared to 2002. The increase is primarily due to lower capitalized interest, higher debt levels, higher effective interest rates and approximately $5 million a month of interest expense related to the CE Gen non-recourse debt. The decrease in capitalized interest in 2003 compared to 2002 is a result of the commissioning of the Sarnia, Centralia Gas, Campeche and Chihuahua plants, partially offset by the Genesee 3 project.

The foreign exchange loss in the year ended Dec. 31, 2003 relates primarily to a reduction in the value of a commodity tax receivable in Mexico associated with equipment purchases and was the result of the weakening of the Mexican peso relative to the U.S. dollar. The receivable was collected in the second quarter of 2003.

INCOME TAXES

Year ended Dec. 31	**2004**	2003	2002
Income tax expense	**$ 50.1**	$ 64.6	$ 9.4
Effective tax rate (%)	**23.8**	21.6	12.3

The 2004 expense is $14.5 million lower than the comparable period due to a decrease in pre-tax earnings, and a current income tax recovery of NZ$8.0 million (Cdn$6.8 million) received in the second quarter of 2004. The tax recovery resulted from a favourable settlement from the New Zealand Inland Revenue relating to the 1999 taxation year. The effective income tax rate for 2004 is consistent with the same period in 2003.

Income tax expense increased by $55.2 million in 2003 compared to 2002 due to increased earnings. The 2003 effective income tax rate, expressed as a percentage of earnings from continuing operations before income taxes and non-controlling interests, reflects the impact of the taxation on the sale of the Sheerness Generating Station, the recognition of the deferred gain and the impairment charges.

NON-CONTROLLING INTERESTS

Year ended Dec. 31		**2004**		2003		2002
Non-controlling interests	$	**46.0**	$	34.2	$	20.1

The increase in earnings attributable to non-controlling interests in 2004 of $11.8 million compared to the same period in 2003 is a result of the sale of the Sheerness Generating Station to TA Cogen in the third quarter of 2003.

Earnings attributable to non-controlling interests in 2003 increased by $14.1 million compared to 2002 due to the sale of the Sheerness Generating Station to TA Cogen and the 25 per cent interest in CE Gen's Saranac facility.

CONSOLIDATED BALANCE SHEETS

The following chart outlines significant changes in the consolidated balance sheets between Dec. 31, 2004

and Dec. 31, 2003:

		Increase/ (decrease)	Explanation
Cash and cash equivalents	$	(17.9)	Refer to Consolidated Statements of Cash Flows.
Income taxes receivable		(48.8)	Funding for settlement with taxation authorities on prior year audit issues and refunds of tax prepayments made in prior years.
Long-term receivables		(120.1)	Receipt of the Zinc Recovery receivable at CE Gen, increase in California receivable provision and transfer of remaining California receivable to current receivables. The Zinc Recovery funds were used to repay the CE Gen secured bonds.
Property, plant and equipment, net of accumulated depreciation		(141.1)	Decrease due to depreciation and asset disposals partially offset by the construction of the Summerview Wind Farm and Genesee 3 project and capitalized maintenance.
Intangible assets		(84.9)	Amortization of CE Gen sales contracts.
Future income tax assets (including current portion)		33.8	Increase in unused tax losses that are expected to be recovered in future years.
Other assets (including current portion)		43.7	Increase in mark-to-market valuation of cross-currency swaps.

Short-term debt	(85.4)	Repayment of short-term debt.
Accounts payable and accrued liabilities	(68.9)	Decreased payables related to capital expenditures.
Long-term debt (including current portion)	(88.2)	Repayment of long-term debt.
Deferred credits and other long-term liabilities (including current portion)	13.0	Primarily due to an increase in mark-to-market valuation of cross-currency swaps.
Non-controlling interests	138.5	Increase in non-controlling interest due to the Sheerness and Meridian transactions.
Shareholders' equity	22.2	Issuance of common shares offset by a reduction in retained earnings reflecting higher dividends than earnings.

LIQUIDITY AND CAPITAL RESOURCES

TransAlta raises substantially all external capital to be invested in the various business units and affiliated or subsidiary companies as required. This strategy allows TransAlta to gain access to sufficient capital at the lowest overall cost to finance growth opportunities and provide financial flexibility. Historically, external financing has been obtained from borrowings under credit facilities, proceeds from the disposal of non-core assets and the issuance of debt, preferred securities and equity. Internally, capital is also raised through operations. A summary of cash flows is as follows:

Year ended Dec. 31	**2004**	2003	2002
Cash and cash equivalents, beginning of year	**$ 155.0**	$ 143.3	$ 62.0
Cash flow from (used in):			
Operating activities	**613.4**	526.9	398.6
Investing activities	**(65.4)**	(341.0)	(32.0)
Financing activities	**(558.8)**	(165.5)	(286.0)
Translation of foreign currency cash	**(7.1)**	(8.7)	0.7
Cash and cash equivalents, end of year	**$ 137.1**	$ 155.0	$ 143.3

In October 2003, the corporation renewed its $1.0 billion medium-term note shelf registration. The corporation also increased its committed bank credit facility to $1.5 billion from $1.2 billion in July 2003 in order to increase its liquidity. The corporation maintained approximately $340 million of uncommitted credit facilities.

In November 2003, TransAlta issued US$300.0 million of 10-year senior notes under a US$1.0 billion shelf registration statement filed May 14, 2002. The notes bear interest at 5.75 per cent per annum. Proceeds from the issuance were primarily used to refinance bonds that matured in 2003. In July 2004, the corporation renewed this US$1.0 billion shelf registration.

Operating Activities

Operating activities after changes in non-cash working capital provided cash of $613.4 million in 2004 compared to $526.9 million in 2003 and $398.6 million in 2002. The increase in 2004 is due to an improved working capital position and increased cash earnings. The increase in 2003 is primarily due to higher earnings and the collection of commodity tax receivables in the U.S. and Mexico (US$79.0 million) in 2003, the settlement of a disputed ancillary services revenue issue with the Balancing Pool of Alberta ($49.9 million) in 2002, the timing of cash tax obligations ($55.6 million) in the third quarter of 2002 and the final installment of 2001 income taxes paid in the first quarter of 2002 ($109.0 million).

Investing Activities

Investing activities used cash of $65.4 million in 2004 compared to $341.0 million in 2003 and $32.0 million in 2002.

In 2004, additions to capital assets totalled $365.8 million and consisted primarily of completion of the Summer-view Wind Farm, continuing construction of the Genesee 3 project and capitalized planned maintenance.

In 2003, additions to capital assets totalled $555.7 million and consisted primarily of the completion of the two Mexican plants and the McBride Lake Wind Farm and the continuing construction of the Genesee 3 project. Acquisitions consisted of the purchase of a 50 per cent interest in CE Gen for $323.4 million (net of cash acquired of $43.2 million).

Cash provided by disposals and the sale of capital assets in 2004 was $159.7 million, comprised primarily of $116.5 million of proceeds from the sale of TransAlta Power partnership units and $24.2 million received on the sale of the Meridian Cogeneration Facility and $11.7 million from the sale of a turbine.

Cash provided by disposals and the sale of capital assets in 2003 was $285.5 million, comprised of $149.9 million received from the sale of the Sheerness Generating Station, $65.8 million of proceeds from the sale of the head office building, $37.2 million of proceeds from the sale of TransAlta Power partnership units, $21.6 million of proceeds from the sale of the Goldfields pipeline and $11.0 million of proceeds from the sale of the Seebe land.

Financing Activities

Financing activities used cash of $558.8 million compared to $165.5 million in 2003 and $286.0 million in 2002.

In 2004, payments included net long-term debt repayment ($289.5 million), net repayment of short-term debt ($85.4 million), cash dividends on common shares ($135.4 million) and non-controlling interest distributions ($48.4 million), some of which were funded from cash flow from operating activities.

In 2003, net proceeds on the issuance of common shares ($265.0 million) were more than offset by net long-term debt repayment ($56.5 million), net repayment of short-term debt ($170.2 million), cash dividends on common shares ($158.3 million) and non-controlling interest distributions ($38.9 million), some of which were funded from cash flow from operating activities.

In 2002, the issuance of US$300.0 million in senior notes was more than offset by the repayment of short-term debt ($247.1 million), repayment of long-term debt ($454.5 million), cash dividends ($115.5 million) and the net redemption of common shares ($48.1 million).

In 2003, TransAlta repaid the following senior secured debt of TAU:

	Maturity	Rate	Amount
Debentures	2003	7.25%	$ 150.0
Debentures	2003	8.35%	$ 200.0

In 2004, under the terms of the Normal Course Issuer Bid, the corporation purchased 143,500 common shares for cancellation (2003 – nil; 2002 – 2.0 million).

TransAlta's dividends per common share were $1.00 in 2004, 2003 and 2002.

Financing Arrangements

TransAlta raises capital in the Canadian and U.S. markets. TransAlta has the following financing arrangements in place:

- US$1.0 billion shelf registration program; no amount has been issued since its renewal in July 2004;
- $1.0 billion medium-term note program; no amount has been issued since its renewal in October 2003. This program remains valid until November 2005, and is expected to be renewed;
- $34.4 million of commercial paper issued at Dec. 31, 2004;
- $1.5 billion committed syndicated bank credit facility, with $200.0 million utilized at Dec. 31, 2004. $600.0 million of the facility was renewed in July 2004 and expires in June 2005 and the remainder expires in June 2007. The facility is expected to be renewed; and
- $333.2 million of additional bank credit facilities, with $246.8 million utilized at Dec. 31, 2004. All of these facilities are non-committed.

At Dec. 31, 2004, the corporation had approximately $1.35 billion of credit available from its committed and uncommitted credit facilities.

In addition to the above, the corporation has US$127.9 million of project financing for the Campeche project, which became non-recourse in the first quarter of 2004. It is the corporation's expectation that future financing requirements, including financing requirements in foreign jurisdictions, will be met primarily through raising capital at the TransAlta Corporation level.

At Dec. 31, 2004, TransAlta had a working capital ratio of 0.78 compared to 0.98 at Dec. 31, 2003. This decrease is attributable to an increase in the current portion of long-term debt of $300 million, representing the portion of the preferred securities which will be redeemed in February 2005. TransAlta expects to have sufficient sources of internal and external capital to finance operations and growth in the short and long term.

In 2005, cash will be provided by a combination of cash flow from operations and utilization of various credit facilities. Cash requirements include

planned maintenance, additions to capital assets, dividend payments and repayment of short-term and maturing senior debt. Cash provided by operations in 2004 was $613.4 million and at Dec. 31, 2004, there were approximately $1.35 billion of funds available under credit facilities. In 2005, capital expenditures are expected to be $360 million to $375 million and $587.7 million of existing debt is scheduled to be repaid in 2005.

Long-term funding is provided through the maintenance of investment grade credit ratings and a carefully managed capital structure, which together create a strong balance sheet and ready access to capital markets at competitive rates. The corporation's objective is to manage the maturities of the various securities on issue

such that no more than 15 per cent of the total outstanding securities mature in any one year. The corporation's target is to maintain a capital structure and coverage ratios consistent with investment grade credit ratings. The corporation's capital structure consisted of the following components at Dec. 31, 2004, 2003 and 2002:

	2004		2003		2002
Debt, net of cash and interest-earning investments	**$ 2,655.2**	**42%**	$ 3,110.9	48%	$ 2,830.0	50%
Preferred securities	**475.0**	**8%**	475.0	7%	475.0	8%
Other non-controlling interests	**616.4**	**10%**	477.9	7%	263.0	5%
Common shareholders' equity	**2,472.7**	**40%**	2,450.5	38%	2,092.1	37%
	$ 6,219.3	**100%**	$ 6,514.3	100%	$ 5,660.1	100%

At Dec. 31, 2004, TransAlta's total debt (including non-recourse debt) to invested capital ratio was 47.4 per cent (42.0 per cent excluding non-recourse debt) compared to the Dec. 31, 2003 ratio of 47.7 per cent and the Dec. 31, 2002 ratio of 50.4 per cent.

Additional key financial ratios were as follows:

18.5% 17.2%

1 *Cash flow from operations before changes in working capital plus net interest expense divided by interest on recourse and non-recourse debt less interest income.*

2 *Cash flow from operations before changes in working capital divided by two-year average of total debt.*

Contractual repayments of long-term debt, commitments under operating leases, fixed price purchase contracts and commitments under mining agreements are as follows:

	2005	2006	2007	2008	2009	2010 and thereafter	Total
Long-term debt [1]	$ 587.7	$ 409.2	$ 61.1	$ 169.6	$ 252.1	$ 1,753.2	$ 3,232.9
Operating leases	14.8	13.2	11.6	10.6	10.2	100.0	$ 160.4
Fixed price purchase contracts	51.4	53.1	54.8	56.8	32.4	87.0	$ 335.5
Mining agreements	81.9	36.7	36.8	33.3	18.6	300.3	$ 507.6
Total contractual cash obligations	$ 735.8	$ 512.2	$ 164.3	$ 270.3	$ 313.3	$ 2,240.5	$ 4,236.4

1 Includes capital lease obligations.

In addition, the corporation has entered into a number of long-term power sales, gas purchase and transportation agreements in the normal course of operations as hedges of its operations.

In the normal course of operations, TransAlta and certain of its subsidiaries enter into agreements to provide financial or performance assurances to third parties. This includes guarantees, letters of credit and surety bonds that are entered into to support or enhance creditworthiness in order to facilitate the extension of sufficient credit for Energy Marketing trading activities, treasury hedging, Generation construction projects, equipment purchases and mine reclamation obligations.

At Dec. 31, 2004, the corporation had letters of credit outstanding of $187.6 million, US$197.7 million and 171.9 million Mexican pesos. The letters of credit were issued to counterparties that have credit exposure to certain subsidiaries. If a subsidiary does not pay amounts due under the covered contract, the counterparty may present its claim for payment to the financial institution, which in turn will request payment from the corporation. Any amounts owed by the corporation's subsidiaries are reflected in the consolidated balance sheet. All letters of credit expire in

2005 and 2006.

The corporation had a surety bond in the amount of US$181.6 million in support of future asset retirement obligations at the Centralia mine outstanding at Dec. 31, 2004. The surety bond expires in October 2005. A provision for retirement obligations is included in deferred credits and other long-term liabilities *(Note 12 to the consolidated financial statements)* .

TransAlta has provided guarantees of subsidiaries' obligations under contracts that facilitate physical and financial transactions in various derivatives. To the extent liabilities related to these guaranteed contracts exist for trading activities, they are included in the consolidated balance sheet. To the extent liabilities exist related to these guaranteed contracts for hedges, they are not recognized on the consolidated balance sheet. The guarantees provided for under all contracts facilitating physical and financial transactions in various derivatives

at Dec. 31, 2004 was a maximum of $1.6 billion. In addition, the corporation has a number of unlimited guarantees. The fair value of the trading and hedging positions under contracts where TransAlta has a net liability at Dec. 31, 2004, under the limited and unlimited guarantees, was $345.2 million as compared to $381.3 million at Dec. 31, 2003.

TransAlta has also provided guarantees of subsidiaries' obligations to perform and make payments under various other contracts. The amount guaranteed under these contracts at Dec. 31, 2004 was a maximum of $662.5 million, as compared to $828.6 million at Dec. 31, 2003. To the extent actual obligations exist under the performance guarantees at Dec. 31, 2004, they are included in accounts payable and accrued liabilities.

The corporation has approximately $1.35 billion of undrawn collateral available to secure these exposures.

During construction and until certain conditions were met, the corporation provided a guarantee to the lenders of the Campeche plant. On April 5, 2004, the guarantee was released and the US$133.6 million of debt related to the plant became non-recourse to the corporation.

At Dec. 31, 2004, the credit ratings for the corporation's various securities as determined by Standard & Poor's (S&P), the Dominion Bond Rating Service (DBRS) and Moody's Rating Services were as follows:

Credit Ratings	S&P	DBRS	Moody's
TransAlta Corporation			
Issuer rating	BBB-		Baa 2
Commercial paper		R-2 (high)	
Secured commercial paper		R-1 (low)	
Senior unsecured debentures	BBB-	BBB	Baa 2
Preferred securities/stock	BB	Pfd-3y	
TransAlta Utilities Corporation			
Issuer rating	BBB-		
Secured debt	BBB	A (low)	

In January 2005, DBRS confirmed TransAlta's credit ratings of R-2 (high), BBB and Pfd-3y to the corporation's commercial paper, senior unsecured debentures and preferred securities, respectively, all with a negative trend. In May 2004, DBRS assigned a rating of R-1 (low) to TransAlta's secured commercial paper program. In July 2004, Moody's confirmed TransAlta's credit rating of Baa 2 with a negative outlook. In December 2004, S&P affirmed TransAlta's credit rating of BBB- (stable) and BB to the corporation's unsecured debentures and preferred securities.

On Feb. 17, 2005, TransAlta had approximately 195.1 million common shares outstanding, plus outstanding employee stock options to purchase an additional 2.9 million shares.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The corporation has no such off-balance sheet arrangements.

Under Canadian GAAP, most derivatives used in hedging relationships are not recorded on the balance sheet *(Note 1(O))* to the consolidated financial statements. Gains or losses during the term of the hedge are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The fair values of these derivatives are disclosed in *Note 19* to the consolidated financial statements. The corporation also enters into long-term electricity purchase and sale, gas purchase and transportation agreements in the normal course of operations. These contracts are not recorded on the balance sheet under Canadian GAAP. Under U.S. GAAP, some of these contracts meet the definition of a derivative, and would require mark-to-market accounting, but are eligible for the normal purchase and sale exemption under FASB Statement 133. This exemption is available as electricity cannot be stored in significant quantities and

due to the requirement for electricity generators to maintain sufficient capacity to meet customers' demands, and is also available for physically settled commodity contracts if certain criteria are met.

Information regarding guarantees has been disclosed in the Liquidity and Capital Resources section.

RELATED PARTY TRANSACTIONS

As previously discussed in Significant Events, on Dec. 1, 2004, TransAlta completed the sale of its 50 per cent interest in the 220-MW Meridian Cogeneration Facility located in Lloydminster, Saskatchewan to TA Cogen for fair value of $110.0 million. TA Cogen (owned 50.01 per cent by TransAlta and 49.99 per cent by TA Power) financed the acquisition through the use of $50.0 million of cash on hand and by the issuance of $30.0 million of units to each of TransAlta Power and TEC. TA Cogen also issued an advance to TEC for $30.0 million. TransAlta recorded a gain of $11.5 million after-tax or $0.06 per common share.

On July 31, 2003, TransAlta completed the sale of its 50 per cent interest in the two-unit, 756-MW coal-fired Sheerness Generating Station to TA Cogen for $630.0 million. The exchange amount was at fair value and was determined based on an estimate of the future net cash flows of the plant and approved by the independent directors of TA Cogen. There are no ongoing contractual commitments or arrangements resulting from this sale apart from the provision of operational and management services under normal commercial terms for the Sheerness plant.

The obligation to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 (resulting from the 1998 sale of an interest in three Ontario cogeneration plants held by TA Cogen to TransAlta Power) was removed as part of the Sheerness transaction. Accordingly, the unamortized portion of the 1998 deferred gain was recognized in 2003. In addition, the management agreements between TransAlta, TransAlta Power and TA Cogen were amended to remove the mechanism for the deferral of management fees and remove the obligation for TransAlta Power and TA Cogen to pay management fees to TransAlta in the future. As consideration for the amendments, TransAlta received $1.0 million from TransAlta Power and $5.0 million from TA Cogen.

In February 2003, TransAlta entered into an agreement with CE Gen whereby TransAlta buys available power from certain CE Gen subsidiaries under normal commercial terms. In addition, CE Gen has entered into contracts with related parties to provide administrative and maintenance services.

For the period November 2002 to November 2007, TA Cogen entered into a transportation swap transaction with a wholly-owned subsidiary of TransAlta, TEC. The business purpose of the transportation swap was to provide TA Cogen with the delivery of fixed price gas without being exposed to escalating costs of pipeline transportation for two of its plants over the period of the swap. This stabilizes cash distributions in TA Cogen and thereby preserves the value of the limited partnership as a financing vehicle of TransAlta. The notional gas volume in the transaction was the total delivered fuel for both facilities. Exchange amounts are based on the market value of the contract. TransAlta entered into an offsetting contract with an external third party; therefore TransAlta has no risk other than counterparty risk.

TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provides TA Cogen with fixed price gas for both the Mississauga and Ottawa plants over the period. The floating prices associated with the Mississauga and Ottawa cogen plants' long-term fuel supply agreements were transferred to TransAlta Energy's account. The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration and in negotiation, TA Cogen transferred the right to incremental revenues associated with curtailed electrical production and subsequent higher revenue gas sales. At Dec. 31, 2004, the portion of the contract related to the non-controlling interest had a fair value liability of $4.9 million (2003 – $7.9 million).

EMPLOYEE SHARE OWNERSHIP

TransAlta employs a variety of stock-based compensation plans to align employee and corporate objectives. At Dec. 31, 2004, 2.9 million options to purchase the corporation's common shares were outstanding, with 2.0 million exercisable at the reporting date. At Dec. 31, 2003, 3.1 million options to purchase the corporation's common shares were outstanding, with 1.5 million exercisable at the reporting date.

Under the terms of the Performance Share Ownership Plan (PSOP), certain employees receive awards which, after three years, make them eligible to receive a set number of common shares or cash equivalent plus dividends thereon based upon the performance of the corporation relative to a selected group of publicly traded companies. After three years, once PSOP eligibility has been determined, 50 per cent of the common shares may be released to the participant, while the remaining 50 per cent will be held in trust for one additional year. At Dec. 31, 2004, there were 1.5 million PSOP awards outstanding.

Under the terms of the Employee Share Purchase Plan, the corporation will extend an interest-free loan to employees below executive level of up to 30 per cent of the employee's base salary for the purchase of common shares of the corporation from the open market. The loan is repaid over a three-year period by the employee through payroll deductions unless the shares are sold, at which point the loan becomes due on demand. At Dec. 31, 2004, 0.4 million shares had been purchased by employees under this program.

EMPLOYEE FUTURE BENEFITS

TransAlta has registered pension plans in Canada and the U.S. covering substantially all employees of the corporation, its domestic subsidiaries and specific named employees working internationally. These plans have defined benefit and defined contribution options and, in Canada, there is a supplemental defined benefit plan for certain employees. The defined benefit option of the registered pension plan ceased for new employees on June 30, 1998. The latest actuarial valuations of the registered and supplemental pension plans were as at Dec. 31, 2004.

The corporation provides other health and dental benefits to the age of 65 for both disabled members (other post-employment benefits) and retired members (other post-retirement benefits). The latest actuarial valuation of these other plans was as at April 30, 2002.

The supplemental pension plan is an obligation of the corporation. The corporation is not obligated to fund the supplemental plan but is obligated to pay benefits under the terms of the plan as they come due. The corporation has posted a letter of credit in the amount of $38.5 million to secure the obligations under the supplemental plan.

RISK FACTORS AND RISK MANAGEMENT

TransAlta uses a multi-level risk management oversight structure to manage the corporation's various risk and energy trading exposures.

The Audit and Environment (A&E) Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility relating to the integrity of the corporation's financial statements and the financial reporting process; the systems of internal accounting and financial controls; the internal audit function; the external auditors' qualifications, independence, performance and reports; and the legal and environmental compliance programs as established by management and the Board of Directors.

The Exposure Management (EM) Committee is chaired by the Chief Financial Officer and is comprised of the Directors of Financial Operations for each business unit, the Executive Vice-President of Commercial Development and Marketing, Vice-President and Treasurer, Vice-President and Comptroller and the Director of Risk Management. The EM Committee is responsible for the review, monitoring and reporting on compliance of these financial and commodity risk exposure management policies.

The following addresses some, but not all, risk factors that could affect TransAlta's future results. A discussion of critical estimates made in the application of accounting policies is provided in the Critical Accounting Policies and Estimates section that follows.

Commodity Price Risk

The corporation has exposure to movements in certain commodity prices, including the market price of electricity and fuels used to produce electricity in both its electricity generation and proprietary trading businesses.

The corporation's Alberta coal-fired and hydroelectric facilities operate under the Alberta government mandated PPAs which, among other things, establish the price at which power will be supplied. In addition to the Alberta PPAs, the corporation has entered into a variety of short- and long-term contracts to minimize its exposure to short-term fluctuations in electricity prices. In 2004, TransAlta had approximately 71 per cent of production under long-term contracts (2003 – 74 per cent) and 84 per cent (2003 – 91 per cent) of production was contracted for terms greater than one year. In the event of a planned or unplanned plant outage or other similar event, however, the corporation is exposed to changes in electricity prices on purchases of electricity from the market to fulfill its supply obligations under these short- and long-term contracts. The corporation actively seeks to mitigate this exposure through continued and proper maintenance of its electricity generating plants, force majeure clauses negotiated in its contracts, trading activities and insurance.

The corporation buys natural gas and some of its coal to supply the fuel needed to operate its facilities. The corporation has exposure to increases in the cost of such fuels to the extent such increases are greater than the increases in the price that the corporation can obtain for the electricity it produces. A significant portion

of the coal used in electricity generation is from coal reserves owned by TransAlta, thereby limiting the corporation's exposure to fluctuations in the market price of coal. In 2004, 81 per cent (2003 – 71 per cent) of TransAlta's cost of gas used in generating electricity was contractually fixed or passed through to customers and 100 per cent (2003 – 100 per cent) of the corporation's purchased coal costs were contractually fixed.

The corporation's fuel supply and fuel costs for gas-fired plants are managed with short-, medium- and long-term gas supply contracts, hedging transactions and contractual agreements that provide for the flow-through of gas costs. The corporation believes adequate supplies of natural gas at reasonable prices will be available for plants when existing supply contracts expire.

Production and gross margins from the merchant gas plants are subject to changes in spark spreads. TransAlta has not entered into fixed commodity agreements for gas for these merchant plants as gas will be purchased concurrent with spot market spark spreads being adequate to produce and sell electricity.

The corporation's proprietary trading of gas and electricity is limited, strictly controlled and managed through the use of VAR methodologies.

VAR is the primary measure used to manage Energy Marketing's exposure to market risk resulting from trading activities. VAR is monitored on a daily basis, and is used to determine the potential change in the value of the corporation's marketing portfolio over a three-day period within a 95 per cent confidence level resulting from normal market fluctuations. Stress tests are performed weekly on both earnings and VAR to measure the potential effects of various market events that could impact financial results, including fluctuations in market prices, volatilities of those prices and the relationships between those prices.

The corporation estimates VAR using the historical variance/covariance approach. Currently, there is no uniform energy industry methodology for estimating VAR. An inherent limitation of historical variance/covariance VAR is that historical information used in the estimate may not be indicative of future market risk.

Another method of looking at VAR is based on a 95 per cent confidence interval over a 3-day holding period. For comparison purposes, the following table provides this average daily VAR of the corporation's marketing portfolio for 2004 and 2003:

3-day average VAR – 95% confidence level	**2004**	2003
	$ 3.8	$ 3.6

Currency Rate Exposure

The corporation has exposure to various currencies as a result of its investments and operations in foreign jurisdictions, the earnings from those operations and the acquisition of equipment and services from foreign suppliers. The corporation has exposures primarily to the U.S., Mexican and Australian currencies. These exposures are managed through the use of a variety of hedging instruments including direct-debt, cross-currency interest rate swaps and foreign currency forward sales contracts. At Dec. 31, 2004, the corporation had hedged approximately 98.7 per cent (2003 – 100 per cent) of its foreign currency rate exposure to its investment in foreign operations on a pre-tax basis. TransAlta's strategy is to offset 90-100 per cent of all foreign currency exposures.

Translation gains and losses related to the carrying value of the corporation's foreign operations are deferred and included in the cumulative translation account in shareholders' equity. At Dec. 31, 2004, the balance in this account was a $49.5 million loss compared to a $39.1 million loss at the end of 2003.

Credit Risk

If the counterparties to the corporation's contracts are unable to meet their obligations, the corporation's revenues could be adversely affected. TransAlta actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts. The corporation sets strict credit limits for each counterparty and the mix of counterparties based on their credit ratings. Counterparty exposures for trading activities are monitored daily. If the limits are exceeded, the corporation takes steps to reduce additional credit exposure by requesting collateral if applicable, or by halting trading activity. However, there can be no assurances that the corporation will be successful in identifying creditworthy counterparties or monitoring trading activities.

TransAlta is exposed to minimal credit risk for Alberta PPAs because under the terms of these arrangements all receivables are secured by letters of credit.

A summary of the corporation's credit risk exposure for its trading operations at Dec. 31, 2004, including asset-backed trading is provided below:

Rating	Exposure before credit collateral	Credit collateral	Net exposure	Number of counterparties greater than 10%	c Net exposure of ounterparties greater than 10%
Investment grade	$ 87.0	$ 6.1	$ 80.9	1	$ 15.3
Non-investment grade	3.3	1.8	1.5	–	–
No external rating, internally rated – investment grade	17.2	–	17.2	–	–
No external rating, internally rated – non-investment grade	4.4	4.0	0.4	–	–
	$ 111.9	$ 11.9	$ 100	1	$ 15.3

The maximum credit exposure to any one customer, excluding the California Independent System Operator and California Power Exchange Corp. discussed earlier in the Energy Marketing Segmented discussion, and including the fair value of open trading positions, is $15.3 million receivable.

Liquidity Risk

TransAlta is exposed to liquidity risk under certain electricity and natural gas purchase and sales contracts entered into for the purposes of asset-backed sales or proprietary trading. Liquidity risk relates to TransAlta's commitments to meet margin and collateral requirements under these contracts. The terms and conditions of these contracts may require TransAlta to provide collateral when the fair value of these contracts is both negative (out-of-the-money) and in excess of any credit limits granted by TransAlta's counterparties. The fair value of these contracts changes due to changes in commodity prices and foreign exchange rates. These contracts are out-of-the-money in these circumstances: (i) for purchase agreements, when forward commodity prices are less than contracted prices; and (ii) for sales agreements, when forward commodity prices exceed contracted prices. Downgrades in TransAlta's creditworthiness may decrease the credit limits granted by TransAlta's counterparties.

In the absence of any credit limits granted by TransAlta's counterparties, TransAlta's maximum collateral requirements would have been $528.2 million at Dec. 31, 2004. Collateral available was approximately $1.35 billion.

Interest Rate Exposure

The corporation has exposure to movements in interest rates and manages this exposure by maintaining a limit on the amount of debt subject to floating interest rates. At Dec. 31, 2004, approximately 25 per cent (2003 – 24 per cent) of the corporation's total debt portfolio was subject to movements in floating interest rates through a combination of floating rate debt and interest rate swaps.

Hydro Risk

TransAlta's Hydro operations financial performance is partially dependent upon the availability of water in a given year. The availability of water is

difficult to forecast as it is driven by non-controllable factors, primarily weather, which impact the volume, timing and location of precipitation throughout the province of Alberta. Such water availability introduces a degree of volatility in revenues earned by TransAlta's Hydro operations from year to year. This risk is complicated by obligations imposed within the PPA applicable to the corporation's hydro plants. A monthly financial obligation must be paid to the PPA Buyer, based on a predetermined quantity of energy and ancillary services at market prices, regardless of TransAlta's ability to generate such quantities. TransAlta manages these risks on a real-time basis by monitoring water resources throughout Alberta to the best of its ability, and optimizing this resource against real-time electricity market opportunities. TransAlta also plays an important role in the management of water flows and levels in several key areas of Alberta, including two major cities. TransAlta carefully balances all of these factors together to achieve optimal productivity with the water resources available.

Operational Risk

The corporation's plants are exposed to operational risks such as fatigue cracks in boilers, corrosion in boiler tubing, turbine failures and other issues that can lead to outages. A comprehensive plant maintenance program and regular turnarounds reduce this exposure. If the plants do not meet the availability or production targets specified in the PPAs or other long-term contracts, then the corporation must either compensate the purchaser for the loss in the availability of production or suffer a reduction in electrical or capacity payments. Consequently,

an extended outage could have a material adverse effect on the business, financial condition, results of operations or cash flows of the corporation. Insurance and force majeure clauses in the PPAs and other long-term contracts further mitigate this exposure.

The construction and development of generating facilities and acquisition activities are subject to various environmental, engineering and construction risks relating to cost-overruns, delays and performance. The corporation attempts to minimize these risks by performing detailed analysis of project economics prior to construction or acquisition and by securing favourable power sales agreements.

Of the corporation's labour, 58 per cent is covered under 12 collective bargaining agreements. Nine agreements were renegotiated in 2004 with seven of those being renewed within 2004 and with two anticipated for renewal in early 2005. The remaining three agreements will be renewed in 2005. Management does not anticipate any significant issues in the renegotiation of these agreements.

Environmental, Health and Safety Risk

The corporation's operations are subject to extensive federal, provincial, state and local environmental regulation. If the corporation does not comply with environmental requirements, regulatory agencies could seek to impose civil, administrative or criminal liabilities on the corporation, as well as seek to curtail its operations. TransAlta's approach is to continually improve the management of operational risks in the areas of environment, health and safety while developing mechanisms to manage future risks. These programs are integrated into the operations and management systems of the corporation and are designed to mitigate the potential competitive risks to its fossil-fuelled generation plants from future changes in environmental policy.

TransAlta has implemented an ISO-based environmental, health and safety (EHS) management system, designed to continuously improve environmental and safety performance. At Dec. 31, 2004, 95 per cent of TransAlta's plants had implemented the system. Compliance with both regulatory requirements and management system standards is regularly audited through TransAlta's Performance Assurance policy and results are reported quarterly to the Board of Directors.

TransAlta is subject to federal, provincial and local environmental laws, regulations and guidelines concerning the generation and transmission of electrical and thermal energy and surface mining. TransAlta strives to maintain compliance with all environmental regulations relating to its operations and facilities. Quarterly reports on all EHS regulatory changes are provided to each facility to ensure compliance is maintained. TransAlta works with regulators in Canada and the U.S. to ensure regulatory changes are well-designed and cost-effective. If regulations were to change, however, the operational and financial impact on all plants would need to be assessed. Outcomes may include, but are not limited to: increased compliance, maintenance or capital costs; plant impairment charges; or the decommissioning of certain facilities.

TransAlta's environmental policy requires that the environmental impacts and risks of the corporation's activities are identified, assessed and managed. This is done by the use of an environmental management system to set environmental objectives and regularly review subsequent performance with senior management and mitigative action on longer-term environmental policy impacts such as climate change.

Emission reduction objectives for the power sector are being established by governments in Canada and the U.S. TransAlta has compliance plans over the next decade for greenhouse gases, mercury, sulphur dioxide and oxides of nitrogen, which will be adjusted as regulations are finalized. Where capital investment for control equipment may be required, TransAlta has technology review processes underway.

The Dow Jones Sustainability Index has again recognized TransAlta as one of the world's best utility companies in terms of sustainability performance, and TransAlta is also recognized on the Financial Times Stock Exchange Good Global Index, a London-based sustainability index.

Regulatory and Political Risk

Certain of the markets in which the corporation operates are subject to significant regulatory oversight and control. The corporation is not able to predict whether there will be any changes in the regulatory environment or the ultimate effect of changes in the regulatory environment on its business. TransAlta manages these risks by working with governments, regulators and other stakeholders to attempt to resolve issues. In Ontario, new legislation was passed in December 2004 outlining a new electricity market structure. Over the course of 2005, the details of this new market will be more clearly defined and governing bodies and regulations will

be developed and implemented. The new market design provides for a mix of: i) regulated assets, ii) unregulated assets, and iii) government backed long-term contracts. The corporation's Limited Partnership assets will retain their existing government contracts in the restructured

market. The corporation remains in contact with regulators and legislators over the status of our Sarnia generating facility, but at this time the impact of the proposed changes is uncertain. In Alberta, a wholesale market review task force and a retail market review were initiated in 2004 to evaluate the functioning of the electricity market and consider market design changes. A market design policy recommendation is expected in 2005. TransAlta continues to work with the task force to ensure any regulatory changes are well-designed and cost-effective. If regulations were to change however, the operational and financial impact on all Alberta plants and trading operations would need to be assessed. Outcomes may include, but are not limited to: increased compliance, operating or capital costs; reduced operational flexibility; or reduced power prices and volatility.

International investments are subject to unique risks and uncertainties relating to the political, social and economic structures of the respective country and such country's regulatory regime. The corporation attempts to mitigate this risk through the use of non-recourse financing and political risk insurance.

Transmission Risks

In August 2003, a blackout cut off electricity to millions of residents in the Northeastern U.S. and Eastern Canada. This type of event, although extremely unusual, is an ongoing risk for electric companies. This risk is mitigated through force majeure clauses in the Alberta PPAs and power sales contracts and access to multiple transmission lines.

Corporate Structure

The corporation conducts a significant amount of business through subsidiaries and partnerships. The corporation's ability to meet and service debt obligations is dependent upon the results of operations of its subsidiaries and the payment of funds by such subsidiaries to the corporation in the form of distributions, loans, dividends or otherwise. In addition, TransAlta's subsidiaries may be subject to statutory or contractual restrictions that limit their ability to distribute cash to the ultimate shareholder, the corporation.

General Economic Conditions

Changes in general economic conditions impact product demand, revenue, operating costs, timing and extent of capital expenditures, the net recoverable value of PP&E, results of financing efforts, credit risk and counterparty risk.

Income Taxes

The corporation's operations are complex, and the computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. The corporation's tax filings are subject to audit by taxation authorities. Management believes that it has adequately provided for income taxes based on all information currently available.

Legal Contingencies

The corporation is occasionally named as a defendant in various claims and legal actions. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and active management of these claims. Except as disclosed in *Note 23* to the consolidated financial statements, the corporation does not expect the outcome of the claims or potential claims to have a materially adverse effect on the corporation as a whole.

Other Contingencies

The corporation maintains a level of insurance coverage deemed appropriate by management. There were no significant changes to TransAlta's insurance coverage during 2004. The corporation's insurance coverage may not be available in the future on commercially reasonable terms. There can be no assurance that insurance proceeds received by the corporation for any loss or damage will be sufficient.

Sensitivity Analysis

The following table shows the effect on net earnings and cash flows of changes in certain key variables. The analysis is based on business conditions and production volumes in 2004. Each separate item in the sensitivity assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances, or for a greater magnitude of changes.

			Approximate impact	
Factor		Change	Cash flow	Earnings (after-tax)
Electricity price	$	1.00/MWh increase	$ 10.4	$ 10.4
Natural gas price	$	0.1/GJ increase	(1.0)	(1.0)
Availability/production		1% increase	14.1	14.1
Exchange rate (US$ per Cdn$)		US$0.01 decrease	-	(0.1)
Interest rate		1% increase	(8.2)	(5.5)

Tax rate	1% increase	(2.0)	(2.0)

The impact of a $1.00 per MWh change in electricity prices has minimal impact on cash flow and after-tax earnings, as approximately 84 per cent of output is at contractually fixed prices. A change in natural gas prices also has minimal impact as 81 per cent of gas costs have been contractually fixed or flow through to customers under terms of agreements.

The calculation of the impact of a one per cent change in availability assumes that production levels will change by an equivalent amount at the contracted plants. An increase in availability at the merchant gas plants would not result in increased production.

TransAlta's hedging strategies have minimized the impact of changes in exchange rates and interest rates as the corporation's net investments in foreign operations have been hedged and interest rates on approximately 75 per cent of TransAlta's debt have been fixed.

The income tax rate can change depending on the mix of earnings from various countries. Increased operating income will incur income tax expense at a rate of approximately 35 per cent compared to the forecasted overall rate of approximately 25 per cent.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The selection and application of accounting policies is an important process that has developed as TransAlta's business activities have evolved and as accounting rules have changed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules and the use of judgment relative to the circumstances existing in the corporation's business. Every effort is made to comply with all applicable rules on or before the effective date, and TransAlta believes the proper implementation and consistent application of accounting rules is critical. However, not all situations are specifically addressed in the accounting literature. In these cases, the corporation's best judgment is used to adopt a policy for accounting for these situations. This is accomplished by analogizing to similar situations and the accounting guidelines governing them, consideration of foreign accounting standards and consultation with the corporation's independent auditors about the appropriate interpretation and application of these policies. Each of the critical accounting policies involves complex situations and a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact the corporation's consolidated financial statements.

TransAlta's significant accounting policies are described in *Note 1* to the consolidated financial statements. The most critical of these policies are those related to revenue recognition, PP&E, goodwill, asset retirement obligations, income taxes and employee future benefits *(Notes 1(C), (F), (G), (I), (L) and (M), respectively)*. Each policy involves a number of estimates and assumptions to be made by management about matters that are highly uncertain at the time the estimate is made. Different estimates, with respect to key variables the corporation used for the calculations, or changes to estimates could potentially have a material impact on TransAlta's financial position or results of operations. These critical accounting estimates are described below.

Management has discussed the development and selection of these critical accounting estimates with the A&E Committee and the corporation's independent auditors. The A&E Committee has reviewed and approved the corporation's disclosure relating to critical accounting estimates in this MD&A.

Tables are provided in the following discussion to reflect the sensitivities associated with changes in key assumptions used in the estimates. The tables reflect an increase or decrease in the percentage or other factor for each assumption. The inverse of each change is generally expected to have a similar opposite impact. Each separate item in the sensitivity assumes all other factors remain constant.

Revenue Recognition

The majority of the corporation's revenues are derived from the sale of physical power and from energy marketing and trading activities. Revenues under long-term electricity and thermal sales contracts generally include one or more of the following components: fixed capacity payments for being available; energy payments for generation of electricity; availability incentives or penalties for exceeding or not meeting availability targets; excess energy payments for power generation above committed capacity; and ancillary services. Each is recognized upon output, delivery or satisfaction of specific targets, as specified by contractual terms. Revenues from non-contracted capacity are comprised of energy payments for each MWh produced at market prices, and are recognized upon delivery.

Trading activities use derivatives such as physical and financial swaps, forward sales contracts, futures contracts and options, which are used to earn trading revenues and to gain market information. These derivatives are accounted for using fair value accounting. Derivatives, other than real-time physical contracts, are presented on a net basis in the statements of earnings. The initial recognition of fair value and subsequent changes in fair value affect reported earnings in the period the change occurs. The fair values of those instruments that remain open at the balance sheet date represent unrealized gains or losses and are presented on the balance sheets as price risk management assets and liabilities. Non-derivative contracts are accounted for using the accrual method. To be consistent with the EITF 03-11, TransAlta has concluded that real-time physical contracts meet the definition of derivative contracts held for delivery and therefore realized gains and losses are reported gross in the statement of earnings.

The determination of the fair value of energy trading contracts and derivative instruments is complex and relies on judgments concerning future prices, volatility and liquidity, among other factors. The majority of derivatives traded by TransAlta have quoted market prices or over-the-counter quotes are available from brokers. However, some derivatives are not traded on an active exchange or extend beyond the time period for which exchange-based quotes are available. These derivatives require the use of internal valuation techniques or models (mark-to-model accounting).

Mark-to-model accounting is currently used for physical and financial forward contracts and option contracts on transmission and transmission congestion. Accrual accounting is used for transmission rights acquired to sell production from TransAlta plants, and physical transmission rights used by the Energy Marketing segment. Changes in fair value of derivatives subsequent to inception are recorded on the balance sheet as price risk management assets or liabilities with the offset recorded in revenues. The values can be favourable or unfavourable, and depending on

current market conditions, values can fluctuate significantly, with the effect of changes being recorded through earnings in the period of the change. Modeling techniques require the corporation to model future prices, price correlation, market volatility, liquidity and other forecasted market intelligence, as well as the use of mathematical extrapolation techniques. Where appropriate, the estimates used to derive fair value reflect the potential impact for uncertainties in the modeling process, the potential impact of liquidating the corporation's position in an orderly manner over a reasonable period of time under present market conditions and operational risk. TransAlta validates its mark-to-model results by comparing against settled data. The amounts reported in the financial statements may change as estimates are revised to reflect actual results or new information, changes in market conditions or other factors, many of which are beyond the control of the corporation, and may be material.

Key variables used in the models are uncertain. The estimated value of these contracts at Dec. 31, 2004 using mark-to-model methodology was $3.5 million. Sensitivities of the valuation, which would have been recorded in earnings in the current year, are as follows:

Assumption	Change in assumption	Impact on pre-tax earnings
Change in volatility	1%	$ 1.1
Change in commodity price	1%	3.7

There have been no significant changes to the modeling techniques in the past three years.

Valuation of Property, Plant and Equipment

PP&E makes up 78 per cent of the corporation's assets, of which 99 per cent relates to the Generation segment. On an annual basis, and when indicators of impairment exist, TransAlta determines whether the net carrying amount of PP&E is recoverable from future undiscounted cash flows. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, the strategy for the corporation's overall business and significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. This can be further complicated in situations where TransAlta is not the operator of the facility. Events can occur in these situations that may not be known until a date subsequent to their occurrence.

The corporation's businesses, the markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an event has occurred, an estimate is made of the future undiscounted cash flows from the asset. If the total of the undiscounted future cash flows excluding financing charges, with the exception of plants that have specifically dedicated debt, is less than the carrying amount of the asset, an asset impairment charge must be recognized in the financial statements. The amount of the impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is best estimated by calculating the net present value of future expected cash flows related to the asset. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

The assessment of asset impairment requires management to make significant assumptions about future sales prices, cost of sales, production and fuel consumed over the life of the plants (up to 30 years), retirement costs and discount rates. In addition, when impairment tests are performed, the estimated useful lives of the plants are reassessed, with any change accounted for prospectively.

In estimating future cash flows of the plants, the corporation uses estimates of contracted and future market prices based on expected market supply and demand in the region in which the plant operates, anticipated production levels, planned and unplanned outages, and transmission capacity or constraints for the remaining life of the plant. Actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material.

The results of TransAlta's annual impairment review for all plants showed no indications of impairment in 2004. Had assumptions been made that resulted in future cash flows of the plants declining by 10 per cent, certain of TransAlta's plants would have been impaired at Dec. 31, 2004.

During 2003, the Binghamton plant did not run on a regular basis. This indicated that an impairment may have existed; therefore the plant was reviewed for impairment. The Binghamton plant sells electricity to the New York area at spot market rates when such prices exceed its marginal operating costs of producing electricity. The corporation determined that undiscounted expected future cash flows from the Binghamton plant were less than the carrying value of the asset; therefore a pre-tax impairment charge of $5.6 million was recognized in the fourth quarter of 2003.

The fair value of the Binghamton plant was calculated from the expected present value of future cash flows. Management was required to make several estimates of future results and events. The range of pre-tax impairment charges resulting from management's estimates was from $3.1 million to $8.1 million.

In the second quarter of 2003, TransAlta determined that future growth would be slower than previously anticipated. This reduction in expansion plans, combined with an unsuccessful bid for the Valladolid project in Mexico, indicated that an impairment of TransAlta's turbine inventory may exist. As a result, the turbine inventory was reviewed for impairment. The corporation concluded that the carrying amount of the turbine inventory was not recoverable and the fair value of the turbines was less than the carrying value of the assets; therefore an $84.7 million asset impairment charge was recognized. Fair value was estimated using market prices for the same or similar turbines.

Asset Retirement Obligations

The corporation recognizes asset retirement obligations for PP&E in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The fair value of the liability is described as the amount at which the liability could be settled in a current transaction between willing parties. Expected values are probability weighted to deal with the risks and uncertainties inherent in the timing and amount of settlement of many asset retirement obligations. Expected values are discounted at the risk-free interest rate adjusted to reflect the market's evaluation of the entity's credit standing. Determining asset retirement obligations requires estimating the life of the related asset and the costs of activities such as demolition, dismantling, restoration and remedial work based on present-day methods and technologies.

At Dec. 31, 2004, the asset retirement obligations recorded on the consolidated balance sheet were $243.4 million. TransAlta estimates the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately $1.3 billion, which will be incurred between 2005 and 2072. The majority of the costs will be incurred between 2020 and 2030. A discount rate of eight per cent was used to calculate the carrying value of the asset retirement obligations.

Sensitivities for the major assumptions are as follows:

Assumption	Change in assumption	Impact on pre-tax earnings
Discount rate	1%	$ 2.6
Undiscounted asset retirement obligations	1%	0.2

Useful Life of Property, Plant and Equipment (PP&E)

PP&E is depreciated over its estimated useful life. Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence. Major components of plants are depreciated over their own useful lives. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year.

Depreciation and amortization expense was $377.3 million in 2004, of which $53.3 million relates to mining equipment, and is included in fuel and purchased power.

The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed above.

A five per cent change in the estimated useful life of depreciable assets will result in a change of $17.6 million in depreciation and amortization expense.

Valuation of Goodwill

The corporation evaluates goodwill for impairment at least annually, or more frequently if indicators of impairment exist. If the carrying value of a reporting unit including goodwill exceeds the reporting unit's fair value, any excess represents the impairment loss.

Goodwill was recorded on the acquisitions of Merchant Energy Group of the Americas (MEGA), Vision Quest and CE Gen. At Dec. 31, 2004, this goodwill had a total carrying value of $142.2 million.

The corporation reviewed the goodwill in the fourth quarter of 2004 in connection with the corporation's annual impairment tests. To test for impairment, the fair value of the reporting units to which the goodwill relates were compared to the carrying values of the reporting units. The corporation determined that the fair values of the reporting units, based on historical cash flows and estimates of future cash flows, exceeded their carrying values; therefore, no impairment charges were recorded.

Determining the fair value of the reporting units is susceptible to changes from period to period as management is required to make assumptions about future cash flows, production and trading volumes, margins and fuel and operating costs. Had assumptions been made that resulted in fair values of the reporting units declining by 10 per cent from current levels, there would not have been any impairment of goodwill. To the extent goodwill was impaired, the impairment charge would impact earnings in the period of the charge.

Income Taxes

In accordance with Canadian GAAP, the corporation uses the liability method of accounting for future income taxes and provides future income taxes for all significant income tax temporary differences.

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the corporation operates. The process involves an estimate of the corporation's actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes. These differences result in future tax assets and liabilities that are included in the corporation's consolidated balance sheet.

An assessment must also be made to determine the likelihood that the corporation's future tax assets will be recovered from future taxable income. To the extent that recovery is not considered likely, a valuation allowance must be determined. Judgment is required in determining the

provision for income taxes, future income tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or revised, current period earnings will be affected.

Future tax assets of $153.5 million have been recorded on the consolidated balance sheet at Dec. 31, 2004. This is comprised primarily of unrealized losses on electricity trading contracts, asset retirement obligation costs and net operating and capital loss carryforwards. The corporation believes there will be sufficient taxable income and capital gains that will permit the use of these deductions and carryforwards in the tax jurisdictions where they exist.

Future tax liabilities of $715.0 million have been recorded on the consolidated balance sheet at Dec. 31, 2004. The liability is comprised primarily of unrealized gains on electricity trading contracts and income tax deductions in excess of related depreciation of PP&E.

Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. The impact of different interpretations and applications could potentially be material.

The corporation's tax filings are subject to audit by taxation authorities. The outcome of some audits may change the tax liability of the corporation, although management believes that it has adequately provided for income taxes based on all information currently available. The outcome of the audits is not known, nor is the potential impact on the financial statements determinable.

Employee Future Benefits

As explained in *Note 18* to the consolidated financial statements, the corporation provides post-retirement benefits to employees. The cost of providing these benefits is dependent upon many factors that result from actual plan experience and assumptions of future experience.

The liability for future benefits and associated pension costs included in annual compensation expenses are impacted by employee demographics, including age, compensation levels, employment periods, the level of contributions made to the plans and earnings on plan assets. Changes to the provisions of the plans may also affect current and future pension costs. Pension costs may also be significantly impacted by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation and pension costs.

The plan assets are comprised primarily of equity and fixed income investments. Fluctuations in actual equity market returns and changes in interest rates may result in increased or decreased pension costs in future periods.

The following chart reflects the sensitivities associated with a change in certain actuarial assumptions:

Actuarial assumption	Change in assumption	Impact on projected benefit obligation	Impact on pension cost reported in earnings
Discount rate	1%	$ 43.4	$ 2.0
Rate of return on plan assets	1%	–	3.3

The discount rate used represents high-quality fixed income securities currently available and expected to be available during the period to maturity of the pension benefits. The corporation does not expect to make any changes to the rate in 2005.

The expected long-term rate of return on plan assets is based on past performance and economic forecasts for the types of investments held by the plan. For the year ended Dec. 31, 2004, the plan assets had a return of $33.4 million compared to a return of $36.6 million in 2003 and a loss of $6.7 million in 2002. The 2004 actuarial valuation used the same rate of return on plan assets (7.1 per cent) as was used in 2003 and 2002.

As a result of the corporation's plan asset return experience for its U.S. registered pension plan, at Dec. 31, 2004, the corporation was required under U.S. GAAP to recognize an additional minimum liability *(Note 26 to the consolidated financial statements).* The liability was recorded as a reduction in common equity through a charge to other comprehensive income (OCI), and did not affect net income for 2004.

The amount of the additional pension liability recognized for U.S. GAAP depended on a number of factors, including the discount rate and asset returns experienced, contributions made by the corporation and any resulting change in management's assumptions. Pension cost and cash funding requirements could increase in future years.

NON-GAAP MEASURES

TransAlta evaluates its performance and the performance of its business segments using a variety of measures. Those discussed below are not defined under GAAP and therefore should not be considered in isolation or as an alternative to, or more meaningful than, net income or cash flow from operations as determined in accordance with GAAP as an indicator of the corporation's financial performance or liquidity. These measures are not necessarily comparable to a similarly titled measure of another company.

Each business unit assumes responsibility for its operating results measured to operating income. Operating income is a measure of financial performance used by TransAlta's analysts and investors to analyze and compare companies on the basis of operating performance.

Gross margin less operating expenses and operating income provide management with a measurement of operating performance that is readily

comparable from period to period.

Gross margin less operating expenses and operating income are reconciled to net earnings below:

Year ended Dec. 31	2004	2003[1]	2002[1]
Gross margin	**$ 1,409.3**	$ 1,356.1	$ 1,059.3
Operating expenses	**(970.8)**	(921.4)	(690.9)
	438.5	434.7	368.4
Gain on sale of Sheerness Generating Station	**–**	191.5	–
Gain on sale of Meridian Cogeneration facility	**17.7**	–	–
Gain on sale of TransAlta Power partnership units	**44.8**	15.2	–
Gain on sale of land	**–**	10.5	–
Asset impairment charges	**–**	(90.3)	(152.5)
Prior period regulatory decision	**(22.9)**	–	(3.3)
Operating income	**478.1**	561.6	212.6
Other income	**–**	(3.2)	0.1
Foreign exchange gain (loss)	**0.7**	(4.7)	1.2
Net interest expense	**(222.1)**	(220.7)	(117.6)
Earnings before non-controlling interests and income taxes	**256.7**	333.0	96.3
Non-controlling interests	**46.0**	34.2	20.1
Earnings before income taxes	**210.7**	298.8	76.2
Income tax expense	**50.1**	64.6	9.4
Earnings from continuing operations	**160.6**	234.2	66.8
Earnings from discontinued operations, net of tax	**–**	–	12.8
Gain on disposal of discontinued operations, net of tax	**9.6**	–	120.0
Net earnings	**$ 170.2**	$ 234.2	$ 199.6

1 *TransAlta early adopted the amended standard on the presentation of liabilities and equity on Jan. 1, 2004. See* Note 1 *to the unaudited interim consolidated financial statements for further discussion. Prior periods have been restated.*

Presenting earnings on a comparable basis from period to period provides management with the ability to evaluate earnings trends more readily in comparison with prior periods' results. To do so, the following items, which we believe would otherwise affect the comparability of TransAlta's operating results from period to period, are excluded from net earnings: gains on sale of the Sheerness Generating Station, TransAlta Power units, the Meridian Cogeneration Facility and land, asset impairment charges, prior period regulatory decisions, and earnings from discontinued operations, net of tax.

Earnings presented on a comparable basis from period to period is reconciled to net earnings below:

Year ended Dec. 31	2004	2003)[1]	2002)[1]
Earnings on a comparable basis	**$ 134.9**	$ 128.7	$ 168.0
Gain on sale of Sheerness Generating Station, net of tax	**–**	145.8	–
Gain on sale of Meridian Cogeneration facility, net of tax	**11.5**	–	–

Gain on sale of TA Power units, net of tax	**29.1**	10.1	–
Gain on sale of land, net of tax	**–**	8.6	–
Asset impairment charges, net of tax	**–**	(59.0)	(99.1)
Prior period regulatory decision, net of tax	**(14.9)**	–	(2.1)
Earnings from discontinued operations, net of tax	**–**	–	12.8
Gain from discontinued operations, net of tax	**9.6**	–	120.0
Net earnings	**$ 170.2**	$ 234.2	$ 199.6
Weighted average common shares outstanding in the period	**192.7**	185.3	169.6
Earnings on a comparable basis per share	**$ 0.70**	$ 0.69	$ 0.99

1 TransAlta early adopted the amended standard on the presentation of liabilities and equity on Jan. 1, 2004. See Note 1 *to the unaudited interim consolidated financial statements for further discussion. Prior periods have been restated.*

SELECTED QUARTERLY INFORMATION

(Unaudited , in millions of Canadian dollars except per share amounts)

2004 Quarters	First	Second	Third	Fourth
Revenue	**$ 712.7**	**$ 670.1**	**$743.0**	**$ 712.5**
Earnings from continuing operations	**47.2**	**15.5**	**35.8**	**62.1**
Net earnings	**47.2**	**25.1**	**35.8**	**62.1**
Basic earnings per common share				
Continuing operations	**0.25**	**0.08**	**0.18**	**0.32**
Net earnings	**0.25**	**0.13**	**0.18**	**0.32**
Diluted earnings per common share				
Continuing operations	**0.24**	**0.08**	**0.18**	**0.32**
Net earnings	**0.24**	**0.13**	**0.18**	**0.32**

2003 Quarters	First	Second	Third	Fourth
Revenue	$ 639.5	$ 563.0	$656.9	$ 661.5
Earnings from continuing operations	48.7	23.3	118.4	43.8
Net earnings	48.7	23.3	118.4	43.8
Basic earnings per common share				
Continuing operations	0.28	0.12	0.62	0.23
Net earnings	0.28	0.12	0.62	0.23
Diluted earnings per common share				
Continuing operations	0.28	0.12	0.62	0.23
Net earnings	0.28	0.12	0.62	0.23

TransAlta's results are partly seasonal due to the nature of the electricity market and related fuel costs. Higher maintenance costs are ordinarily incurred in the second and third quarters when electricity prices are expected to be lower, as electricity prices generally increase in the winter months in the Canadian market. Margins are also typically impacted in the second quarter due to the volume of hydro production resulting from spring runoff and rainfall in the Canadian and U.S. markets. TransAlta's results reflect the completion, acquisition and disposition of plants and facilities throughout 2002, 2003 and 2004 as described previously within this MD&A.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form contains both historical and forward-looking statements within the meaning of Section 27A of the *U.S. Securities Act* and Section 21 E of the *U.S. Exchange Act*. In some cases, forward-looking statements can be identified by terms such as “may”, “will”, “believe”, “expect”, “potential”, “enable”, “continue” or other comparable terminology. These statements are not guarantees of TransAlta’s future performance and are subject to risks, uncertainties and other important factors that could cause TransAlta’s actual performance to be materially different from those projected. Some of the risks, uncertainties, and factors include, but are not limited to: legislative and regulatory developments that could affect revenues; cost; the speed and degree of competition entering the market; global capital markets activity; timing and extent of changes in commodity prices; prevailing interest rates; currency exchange rates; inflation levels and general economic conditions in geographic areas where TransAlta operates; results of financing efforts; changes in counterparty risk; and the impact of accounting policies issued by Canadian and U.S. standard setters. Given these uncertainties, the reader should not place undue reliance on these forward-looking statements.

These and additional factors are described in more detail under “Risk Factors”, below, and in management’s discussion and analysis of financial condition and results of operations for the year ended December 31, 2004, which is hereby specifically incorporated by reference in this Annual Information Form.

GLOSSARY OF TERMS

This Annual Information Form includes the following defined terms:

“AEUB” means the Alberta Energy and Utilities Board;

“Alberta PPA” means an Alberta government mandated power purchase arrangement;

“availability” means the “weighted average equivalent availability factor”, which is a term used to calculate availability for a pool or fleet of units of varying sizes. It is a measure of time and energy that, expressed in percentage of continuous operation, 24 hours a day, 365 days a year, that a generating unit is capable of generating electricity, whether or not it is actually generating electricity;

“capacity” means net maximum capacity that a unit can sustain over a period of time;

“gigawatt hour” or **“GWh”** means one million kilowatt hours of electrical power;

“kilowatt” or **“kW”** means 1,000 watts of electrical power;

“kilowatt hour” or **“kWh”** means one hour during which one kilowatt of electrical power has been continuously produced;

“megawatt” or **“MW”** means 1,000 kilowatts of electrical power;

“megawatt hour” or **“MWh”** means 1,000 kilowatt hours;

“PPA” means a power purchase agreement having an initial term of five years or greater;

“watt” means the scientific unit of electrical power, being the rate of energy use that gives rise to the production of energy at a rate of one joule per second;

"watt hour" is a measure of energy production or consumption equal to one watt produced or consumed for one hour; and

"WPPI" means the Government of Canada's Wind Power Production Incentive available to approved wind generation facilities commissioned between April 1, 2002 and March 31, 2007.

CORPORATE STRUCTURE

Name and Incorporation

TransAlta Corporation ("TransAlta" or the "Corporation") is a corporation amalgamated under the *Canada Business Corporations Act*. The registered office and principal place of business of TransAlta are at 110 - 12th Avenue S.W., Calgary, Alberta, Canada, T2R 0G7.

Intercorporate Relationships

The principal subsidiaries of the Corporation and their respective jurisdictions of formation are set out below.

Notes:

(1) All interests shown are 100 per cent ownership interests unless otherwise indicated.

(2) The limited partnership interests in TransAlta Power, L.P. ("TransAlta Power") are held by the public, other than a 0.01 per cent interest held by TransAlta Power Ltd., the general partner of TransAlta Power.

Unless the context otherwise requires, all references to the “Corporation” and to “TransAlta” herein refer to TransAlta Corporation and its subsidiaries, including TransAlta Utilities Corporation and TransAlta Energy Corporation (“TransAlta Energy”).

OVERVIEW

TransAlta and its predecessors have been engaged in the production and sale of electric energy since 1911. The Corporation is among Canada's largest non-regulated electric generation and energy marketing companies with an aggregate net ownership interest of approximately 8,444 MW of electrical generating capacity in facilities having approximately 10,143 MW of aggregate electrical generating capacity. The Corporation is focused on generating electricity in Canada, the United States, Mexico and Australia through its diversified portfolio of facilities fueled by coal, gas, hydro, wind and geothermal resources. The following is a brief overview of the Corporation's principal facilities.

In Canada, the Corporation holds a net ownership interest of approximately 5,575 MW of electrical generating capacity in coal-fired, gas-fired, wind-powered and hydroelectric facilities, including 4,878 MW in Alberta and 697 MW in Ontario.

In the United States, the Corporation's principal facilities include a 1,404-MW coal-fired facility and a 248-MW gas-fired facility, both located in Centralia, Washington, which supply electricity to the Pacific Northwest. In January 2003, the Corporation completed the acquisition of a 50 per cent interest in CE Generation, LLC ("CE Generation") which has an aggregate net ownership interest of approximately 378 MW of electrical generating capacity in facilities in California, Texas, Arizona and New York.

In Mexico, the Corporation owns two facilities with a combined capacity of 511 MW.

The Corporation also has an aggregate net ownership interest of 280 MW of electrical generating capacity in Australia.

The Corporation is organized into two business segments: Generation and Energy Marketing. The Generation group is responsible for constructing, operating and maintaining power generation facilities. The Energy Marketing group is responsible for managing the sale of production, purchases of natural gas, transmission capacity and market risks associated with the Corporation's generation assets and for non-asset backed trading activities. Both segments are supported by a corporate group which includes finance, treasury, legal, human resources and other administrative functions. The corporate group is also responsible for the Corporation's sustainable development initiatives, including investments in renewable energy resources.

GENERAL DEVELOPMENT OF THE BUSINESS

The significant events and conditions affecting TransAlta's business during the last three financial years are summarized below. Certain of these events and conditions are discussed in greater detail under the heading "Business of TransAlta" in this Annual Information Form.

Significant Events since December 31, 2004

- On March 1, 2005, the Corporation announced the completion of the 450 MW Genesee 3 generating facility, a joint venture between the Corporation and EPCOR Utilities Inc. See "Generation Business Segment –Alberta - Coal-fired facilities".

- On February 15, 2005, the Corporation redeemed, at par, all of its outstanding 7.5 per cent and 8.15 per cent preferred securities, with an outstanding principal amount of $175 million and $125 million, respectively.
- On January 3, 2005, the Corporation announced that it had shut down and retired Units 1 (62 MW) and 2 (57 MW) of its Wabamun facility, effective December 31, 2004. See “Generation Business Segment –Alberta - Coal-fired facilities”.

Year ended December 31, 2004

- On December 10, 2004, the Corporation announced that it had applied to the AEUB to amend its 900 MW Centennial permit to allow for the construction of a smaller 450 MW facility using improved technology. See “Generation Business Segment – Alberta – Coal-fired facilities”.
- On December 3, 2004, the Corporation announced the sale by TransAlta Energy of an aggregate of 7.114 million limited partnership units of TransAlta Power at a net price of $9.00 per unit for net proceeds of $64.0 million. The units sold by TransAlta represented the remaining limited partnership units of TransAlta Power held by TransAlta Energy following the expiration on August 3, 2004 of the unit purchase warrants issued to the public on July 31, 2003 in connection with the acquisition by TransAlta Power of a 25 per cent interest in the Sheerness facility. TransAlta recorded a gain of $13.4 million after-tax ($0.07 per common share) as a result of the sale of the units.
- On December 1, 2004, TransAlta announced the completion of the sale of its 50 per cent interest in the 220-MW gas-fired Meridian power plant to TransAlta Cogeneration, L.P. (“TA Cogen”), an Ontario limited partnership for $110 million. The purchase price for the Meridian facility was funded by TA Cogen through the issuance to each of TransAlta Power and TransAlta Energy of $30 million of limited partnership units of TA Cogen, the payment of $50 million in cash and the issue of a promissory note to TransAlta Energy for $30.0 million. The subscription by TransAlta Energy for limited partnership units of TA Cogen enabled the Corporation to retain its 50 per cent interest therein. TransAlta recorded an after-tax gain of approximately $11.5 million ($0.06 per common share) as a result of the sale. See “TA Cogen and TransAlta Power.”
- On October 13, 2004, TransAlta announced the commencement of commercial operations of the $100 million 68-MW Summerview wind farm located approximately 200 kilometres southwest of Calgary, Alberta. The Summerview facility consists of 38 1.8 MW Vestas V80 wind turbines and brings TransAlta’s total operated wind generation capacity to 187 MW, including approximately 150 MW of wind energy owned, and all of which is operated through its division, Vision Quest Windelectric (“Vision Quest”). The Summerview wind farm is a merchant facility and TransAlta receives the Government of Canada’s 10-year Wind Power Production Incentive (“WPPI”) on the output. See “Generation Business Segment — Alberta — Wind Generation Facilities”.
- On October 5, 2004, TransAlta completed the acquisition of a dam, a 1 MW hydroelectric generating facility and related assets on the Skookumchuk River near Centralia, Washington, for approximately US $7.5 million. These facilities are used in connection with TransAlta’s generation facilities at Centralia, Washington.
- At December 31, 2004, TransAlta had a US $51.4 million receivable relating to energy sales in California. At December 31, 2000, TransAlta had made a provision of US $28.8 million to account for potential refund liabilities relating to those energy sales in California. On March 17, 2004, the California Independent System Operator released its preliminary adjusted prices indicating that TransAlta’s refund liability was US $46.0 million. Based on those preliminary refund estimates, in the first quarter of 2004

TransAlta increased its provision for potential refund liabilities by US $17.2 million (Cdn. $22.9 million) to US $46.0 million. The final adjusted prices were released in October 2004 and were substantially the same as those released in March 2004. TransAlta has prepared a petition for relief from the refund obligation that may be filed once the U.S. Federal Energy Regulatory Commission provides stakeholders with a direction on the filing of such positions.

Year ended December 31, 2003

- In December 2003, TransAlta sold 539 acres of undeveloped land at Seebe, Alberta for $11 million. The sale of land was part of a company- wide initiative to sell land and close housing sites that were no longer required for the power generation business.
- In September 2003, TransAlta announced the commencement of commercial operations at its 259-MW Chihuahua combined-cycle gas-fired facility located near Ciudad de Juarez, Mexico, approximately 40 kilometres south of the United States - Mexico border. In May 2003, the Corporation announced the commencement of commercial operations at its 252-MW combined-cycle gas/diesel facility located in the Mexican state of Campeche in the Yucatan Peninsula. Mexico's government-owned utility, Comisión Federal de Electricidad, has agreed to purchase 100 per cent of the electricity output of each of the Chihuahua and Campeche facilities under 25-year contracts with TransAlta. See "Generation Business Segment — Mexico".
- On July 30, 2003, TransAlta announced the completion of the sale of its 50 per cent interest in the 756-MW coal-fired Sheerness facility to TA Cogen. The Corporation realized cash proceeds of $246.5 million from the sale, of which $149.9 million was received by the Corporation at the closing of the transaction and an additional $96.6 million was received from the sale of limited partnership units held by TransAlta Energy upon the exercise of warrants to purchase limited partnership units which were issued to the public as part of the financing and concurrent with the sale. Pursuant to the sale, the Corporation also received limited partnership units of TA Cogen to enable the Corporation to retain its 50 per cent interest therein. See "TA Cogen and TransAlta Power".
- On July 2, 2003, TransAlta, through Vision Quest, announced the completion of the approximately $100 million 75-MW McBride Lake wind farm consisting of 114 - 660 kW wind turbines. The McBride Lake facility, in which the Corporation holds a 50 per cent ownership interest, is fully contracted under a 20-year PPA. The Corporation is entitled to receive WPPI payments in respect of the McBride Lake facility until 2013. See "Generation Business Segment — Alberta — Wind Generation Facilities".
- On May 9, 2003, TransAlta announced the completion of the sale and leaseback of its head office building in Calgary to Forum Leasehold Partners Inc. ("FLPI") for a purchase price of $65.8 million. In connection with the sale, TransAlta agreed to lease the property from FLPI for a term of 20 years. The property is comprised of three buildings of two to 10 storeys and contains an aggregate of 335,000 square feet of rentable area. The complex serves as corporate headquarters for over 500 TransAlta head office employees.
- In April 2003, TransAlta disposed of its interest in an Australian gas transmission pipeline for cash proceeds of AUD $24.1 million (Cdn. $21.6 million).
- In March and April 2003, TransAlta completed a public offering in Canada of 17.25 million common shares for gross proceeds of $276 million.

- On January 29, 2003, TransAlta announced the completion of the acquisition from El Paso Merchant Energy North America Company ("El Paso") of a 50 per cent interest in CE Generation for total consideration of approximately US $240 million, which included approximately US $35 million in working capital. See "Business of TransAlta — Generation Business Segment — United States".

- On January 13, 2003, TransAlta completed the acquisition from EPCOR Utilities Inc. and certain of its affiliates (collectively, "EPCOR") of a 50 per cent interest in EPCOR's 450-MW Genesee 3 facility, construction of which was completed in March 2005, for an estimated total cost of approximately $375 million. Commercial operation of this facility, now operated by EPCOR, began in March 2005.

TransAlta also announced that it granted to EPCOR: (i) an option, exercisable until December 31, 2005, to co-develop the Corporation's 450-MW Centennial 1 project (formerly known as Keephills 3) at a price of 50 per cent of expenditures to the date of the option exercise, plus 50 per cent of future project development costs; and (ii) an option, exercisable until March 2004, to purchase a 50 per cent interest in the Corporation's 575-MW Sarnia facility at a price equal to 50 per cent of the undepreciated capital cost, as at the date of closing. EPCOR did not exercise its option on the Sarnia facility prior to the expiry of that option. See "Generation Business Segment — Alberta — Coal-fired Facilities".

Year ended December 31, 2002

- In December 2002, TransAlta acquired the remaining shares of Vision Quest, now a division of TransAlta Energy, bringing its ownership interest to 100 per cent. The financial and operating results of Vision Quest are now included in the Generation business segment.

- In December 2002, TransAlta acquired the remaining 15 per cent of the Australian Southern Cross Energy Partnership for AUD $8.5 million (Cdn. $7.2 million). See "Business of TransAlta—Generation Business Unit — Australia".

- In November 2002, TransAlta announced a phased decommissioning of its 537-MW coal-fired Wabamun facility located west of Edmonton, Alberta. See "Business of TransAlta — Generation Business Segment — Alberta".

- In August 2002, TransAlta completed construction of the 248-MW gas-fired facility in Centralia, Washington, at a cost of approximately US $210 million. The Centralia facility increased TransAlta's total capacity at Centralia from 1,404 MW to 1,652 MW. See "Business of TransAlta— Generation Business Segment — United States".

- In April 2002, TransAlta completed the sale of its Alberta-based transmission business to AltaLink, L.P.

Generation Business Segment

The following table summarizes the Corporation's generation facilities operating, under construction or under development, as at March 15, 2005:

Region	Facility	Capacity (MW)	Ownership (%)	Net Capacity Ownership Interest	Fuel	Revenue Source	Contract Expiry Date
Canada	Keephills	766	100	766	Coal	Alberta PPA	2020
Alberta	Sheerness	764	25	191	Coal	Alberta PPA	2020
(23 facilities)	Sundance	2,020	100	2,020	Coal	Alberta PPA	2017, 2020
	Wabamun	279	100	279	Coal	Merchant	-
	Fort Saskatchewan	118	30	35	Gas	Long-term contract ("LTC")	2019
	Meridian	220	25	55	Gas	LTC	2024
	Poplar Creek	356	100	356	Gas	LTC/Merchant(1)	2024
	Genesee 3	450	50	225	Coal	Merchant	-
	Centennial 1 (2)	450	100	450	Coal	Merchant	-
	Hydro assets (3)	801	100	801	Hydro	Alberta PPA	2013-2020
	Summerview	68	100	68	Wind	Merchant	-
	Castle River	44	100	44	Wind	LTC/Merchant	2004-2011
	McBride Lake	75	50	38	Wind	LTC	2022
	Total Alberta	**6,411**		**5,328**			
Ontario	Mississauga	108	50	54	Gas	LTC	2017
(4 facilities)	Ottawa	68	50	34	Gas	LTC	2012
	Sarnia	575	100	575	Gas	LTC/Merchant (4)	2022
	Windsor	68	50	34	Gas	LTC/Merchant (5)	2016
	Total Ontario	**819**		**697**			
United States	Centralia, WA	1,404	100	1,404	Coal	Merchant	-
(16 facilities)	Centralia Gas	248	100	248	Gas	Merchant	-
	Binghamton, NY	47	100	47	Gas	Merchant	-
	Skookumchuk, WA	1	100	1	Hydro	-	-
	Power Resources, TX	200	50	100	Gas	LTC	2005
	Saranac, NY	240	37.5	90	Gas	LTC	2009
	Yuma, AZ	50	50	25	Gas	LTC	2024
	Geothermal Facilities (6)	327	50	163	Geothermal	LTC and Merchant	2016-2035
	Salton Sea VI (2)	180	50	90	Geothermal	-	-
	Total US	**2,697**		**2,168**			
Mexico	Campeche	252	100	252	Gas/Diesel	LTC	2028
(2 facilities)	Chihuahua	259	100	259	Gas	LTC	2028
	Total Mexico	**511**		**511**			
Australia	Parkeston	110	50	55	Gas	LTC	2016
(5 facilities)	Southern Cross (7)	225	100	225	Gas/Diesel	LTC	2016
	Total Australia	**335**		**280**			
Total		**10,773**		**8,984**			

Notes:

(1) Approximately 200 MW of the total 356 MW capacity are contracted under a LTC.

(2) These facilities are currently under development.
(3) Comprised of 13 facilities.
(4) Approximately 250 MW of the total 575 MW capacity are contracted under LTCs.
(5) Approximately 50 MW of the total 68 MW capacity are contracted under a LTC.
(6) Comprised of 10 facilities.
(7) Comprised of 4 facilities.

Canada: Alberta

Coal-fired facilities

The following table summarizes the Corporation's Alberta coal-fired generation facilities:

Location	Plant	Capacity (MW)	Ownership (%)	Commissioning Dates
Wabamun[1]	Wabamun Unit No. 4	279	100	1968
Sundance	Sundance Unit No. 1	280	100	1970
	Sundance Unit No. 2	280	100	1973
	Sundance Unit No. 3	353	100	1976
	Sundance Unit No. 4	353	100	1977
	Sundance Unit No. 5	353	100	1978
	Sundance Unit No. 6	401	100	1980
Keephills	Keephills Unit No. 1	383	100	1983
	Keephills Unit No. 2	383	100	1984
Sheerness	Sheerness Unit No. 1	386	25	1986
	Sheerness Unit No. 2	378	25	1990
Genesee	Genesee 3	450	50	2005
Keephills	Centennial 1 [2]	450	100	-
Total		**4,729**		

Notes:

(1) In the fourth quarter of 2002, TransAlta announced its decision to implement a phased decommissioning of its Wabamun facility. The 139-MW unit 3 was shut down in November 2002. Units 1 (62 MW) and 2 (57MW) were shut down on December 31, 2004 and unit 4 is expected to be removed from service upon the expiry of its license in 2010.
(2) These facilities are currently under development.

The Keephills, Sundance and Wabamun facilities (the "Alberta thermal plants") are located approximately 70 kilometres west of Edmonton, Alberta. The Sheerness facility is located northeast of Calgary, Alberta and is jointly owned by TA Cogen and ATCO Power Ltd. ("ATCO Power"). The Corporation completed the sale of its 50 per cent interest in the Sheerness facility to TA Cogen on July 30, 2003. The Corporation's coal-fired plants are generally all base load plants, meaning that they are expected to operate for long periods of time at maximum output. Availability is an important measure of the economic success of a coal-fired plant. The weighted equivalent availability factor for the coal-fired Alberta thermal plants in 2004 was 86.5 per cent, compared with 86.5 per cent in 2003 and 87.2 per cent in 2002. For Sheerness plant, the weighted equivalent availability factor was 90.2 per cent in 2004 compared with 93.8 per cent in 2003 and 93.7 per cent in 2002. The lower availability in 2004 at Sheerness was due to a shut down from May to July to allow for maintenance and a capacity uprate of unit 1 of that plant.

Fuel requirements for TransAlta's coal-fired power facilities are supplied by surface strip coal mines located in close proximity to the facilities. TransAlta owns two surface mines in Alberta that supply coal to its Wabamun, Sundance and Keephills facilities. The Whitewood mine supplies the Wabamun plant and the Highvale mine supplies the Sundance and Keephills facilities. TransAlta estimates that the recoverable coal reserves contained in these mines are sufficient to supply the anticipated requirements of these facilities for over 50 years.

Coal for the Sheerness facility is provided from the adjacent Sheerness mine. The coal reserves of the mine are owned, leased or controlled jointly by TA Cogen, ATCO Power and Luscar Ltd. TA Cogen and ATCO Power have entered into coal supply agreements with Luscar Ltd., which operates the mine, to supply coal until 2026.

In February 2001, the Corporation announced a proposal for a 900 MW expansion at its Keephills facility. In February 2002, the Corporation received regulatory approval to proceed with the expansion, which contemplated the facilities being operational in 2003. On December 10, 2004, the Corporation announced that it had applied to the AEUB to amend its 900 MW Centennial permit to allow for the construction of a smaller 450 MW facility using improved technology.

The Corporation is in the process of updating a feasibility study factoring in the impact of Alberta's transmission constraints, environmental requirements that may be imposed by Alberta Environment, and market conditions, to determine whether to pursue the expansion. The proposed plant design has been adapted to meet expected new environmental requirements beginning in 2006. Material variations to the project or to the construction schedule may require an amendment to the AEUB approval. In January 2003, the Corporation announced that it had granted to EPCOR an option, exercisable until December 31, 2005, to purchase a 50 per cent interest in the Corporation's 450-MW Centennial 1 project (formerly known as Keephills 3) at a price of 50 per cent of expenditures to the date of the option exercise, plus 50 per cent of future project development costs.

On January 13, 2003, the Corporation completed the acquisition from EPCOR of a 50 per cent joint venture interest in EPCOR's 450-MW Genesee 3 facility located southwest of Edmonton, Alberta. On March 1, 2005 EPCOR and TransAlta announced the completion of the Genesee 3 facility, which cost approximately $375 million and will be operated by EPCOR. Coal for this facility will be supplied from an adjacent mine.

Gas-fired Facilities

The following table summarizes the Corporation's Saskatchewan and Alberta gas-fired generation facilities:

Location	**Plant**	**Capacity (MW)**	**Ownership (%)**	**Commissioning Dates**
Lloydminster, SK	Meridian	220	25	1999
Fort McMurray, AB	Poplar Creek	356	100	2001
Fort Saskatchewan, AB	Fort Saskatchewan	118	30	1999
Total		**694**		

The Meridian plant sells electricity to Saskatchewan Power Corporation, a crown corporation owned by the Province of Saskatchewan, and steam to a heavy oil upgrader in Lloydminster, Saskatchewan. The Corporation completed the sale of its 50 per cent interest in the Meridian facility to TA Cogen on December 1, 2004. The remaining 50 per cent interest in the Meridian facility is held by Husky Oil Operations Limited.

The Poplar Creek plant provides electricity and steam to Suncor Energy Inc.'s oil sands project. This 356-MW cogeneration facility became fully operational in the first quarter of 2001 and delivers approximately 200 MW of electricity and steam to Suncor Energy Inc. ("Suncor"). Any surplus power not used by Suncor is available for sale by the Corporation to other parties, in which case Suncor is entitled to a share of that revenue, under certain conditions.

The Corporation also holds an indirect interest in the 118-MW Fort Saskatchewan gas-fired combined cycle cogeneration facility in Alberta, which provides electricity and steam to Dow Chemical Canada Inc. The Corporation's interest in the Fort Saskatchewan facility is held through TA Cogen. See "TA Cogen and TransAlta Power".

Hydroelectric facilities

The following table summarizes the Corporation's wholly-owned Alberta hydroelectric facilities:

Location	Plant	Capacity (MW)	Commissioning Dates
Bow River System	Horseshoe	14	1911
	Kananaskis	19	1913, 1951
	Ghost	51	1929, 1954
	Cascade	36	1942, 1957
	Barrier	13	1947
	Bearspaw	17	1953, 1954
	Pocaterra	15	1955
	Interlakes	5	1955
	Spray	103	1951, 1960
	Three Sisters	3	1951
	Rundle	50	1951, 1960
North Saskatchewan River System	Brazeau	355	1965, 1967
	Bighorn	120	1972
Total		**801**	

The Corporation's hydroelectric facilities are primarily peaking plants, meaning they are generally only operated during times of peak demand.

Wind Generation Facilities

The following table summarizes the Corporation's Alberta wind generation facilities:

Location	Plant	Capacity (MW)	Ownership (%)	Commissioning Dates
Fort Macleod	McBride Lake	75	50	2003
Pincher Creek	Castle River and Other	44	100	1997 – 2001
Pincher Creek	Summerview (1)	68	100	2004
Total		**187**		

Note:

(1) This does not include a 1.8 MW exploratory turbine previously located at the Summerview site acquired by Vision Quest in 2004.

All of the Corporation's wind generation facilities and assets are operated by Vision Quest. The Corporation, through Vision Quest, owns approximately 150 MW of net capacity and operates approximately 187 MW of capacity primarily in three wind farms in Southwestern Alberta.

Castle River is a 40-MW facility comprised of 59 Vestas V47 (660 kW) turbines and 1 Vestas V44 (600 kW) turbine located at Pincher Creek, Alberta. The facility is 75 per cent contracted primarily to ENMAX Energy Corp. and is the sole Green Energy® provider to the City of Calgary's "Ride the Wind" Light Rail Transit program. The Corporation, through Vision Quest, also owns and operates seven additional turbines totalling 4 MW located in the Pincher Creek and Waterton areas of Southwestern Alberta.

McBride Lake, one of Canada's largest wind generation facilities, is comprised of 114 Vestas V47 (660 kW) turbines located at Fort Macleod, Alberta. It was constructed by Vision Quest and was completed and producing power in the third quarter of 2003. McBride Lake is operated by Vision Quest and is jointly owned with ENMAX Green Power Inc., with each partner owning a 50 per cent interest. The output from the facility is 100 per cent contracted in the form of a 20-year PPA with Enmax. The Corporation is also entitled to receive Wind Power Production Incentive ("WPPI") payments from the Federal Government at $12/MWh in respect of the McBride Lake facility until 2013.

On October 13, 2004, TransAlta announced the commencement of commercial operations at its $100 million Summerview 68-MW wind farm located approximately 15 kilometres northeast of Pincher Creek, Alberta. The Summerview facility, comprised of 38 1.8 MW turbines brings the total owned capacity to approximately 150 MW and total operated capacity to approximately 187 MW. The Summerview wind farm is a merchant facility but is entitled to receive WPPI payments from the Federal Government at $10/MWh until 2014.

All of the power generated and sold by Vision Quest is from generation facilities that are EcoLogo-certified. Vision Quest is an EcoLogo-certified distributor of Alternative Source Electricity through Environment Canada's Environmental Choice program. EcoLogo certification is granted to products with environmental performance that meet or exceed all government, industrial safety and performance standards. Vision Quest facilities constructed after April 2001, also qualify for the Green E and Green Leaf certifications.

Alberta PPAs

All of the Corporation's Alberta coal-fired and hydroelectric facilities other than the Wabamun facility, operate under Alberta PPAs. These Alberta PPAs established committed capacity and electrical energy generation requirements and availability targets to be achieved by each coal-fired plant, energy and ancillary services obligations for the hydroelectric plants, and the price at which power would be supplied. The Corporation bears the risk or retains the benefit of volume variances (except for those arising from events considered to be *force majeure*, in the case of the coal-fired plants) and any change in costs required to maintain and operate the facilities.

Under the Alberta PPAs for the formerly regulated coal-fired facilities, the Corporation is exposed to electricity price risk if production declines below contracted levels (other than as a result of outages caused by an event of *force majeure*). In such circumstances, the Corporation must pay a penalty for the lost production based upon a price equal to the 30-day trailing average of Alberta's market electricity prices. This trailing average provision attempts to mitigate price spikes that can occur as a result of sudden outages. The Corporation attempts to further mitigate this exposure by maintaining contracted and uncontracted capacity in the market through operating and maintenance practices and through hedging activities performed by the Corporation's Energy Marketing group.

The Corporation's hydroelectric facilities are not contracted on a facility-by-facility basis; rather, facilities are aggregated in a single Alberta PPA which provides for energy and ancillary services obligations based on hourly targets. These targeted amounts are met by the Corporation through physical delivery or third party purchases.

The Corporation's compensation under the Alberta PPAs is based on a pricing formula which replaced the cost of service regime which applied previously under utility regulation. Key elements of the pricing formula are the amount of common equity deemed to form part of the capital structure, the amount of risk premium attributable to deemed common equity and a recovery of fixed and variable costs. Common equity is deemed to be 45 per cent of total capital and the return on equity is set annually at a 4.5 per cent premium over the rate on a 10-year Government of Canada bond.

The pricing formula includes a provision for site restoration costs of the coal-fired generating plants. Restoration and reclamation costs incurred in excess of those previously recovered through the pricing formula may also be recovered, upon successful application to the AEUB. The Alberta PPAs do not provide compensation for site restoration costs related to the Corporation's hydroelectric facilities. The Corporation does not anticipate that its hydroelectric structures will be dismantled because of the water supply, irrigation, flood control and recreation related purposes they serve. Provisions have been made for the removal of the hydroelectric generating equipment.

The expiry dates for the Corporation's Alberta PPAs, other than for the Wabamun facility, range from 2013 to 2020. The Alberta PPA for the Wabamun facility expired at the end of December 2003. The Corporation holds various licenses from Alberta Environment and the AEUB to operate its facilities, and it has procured an extension of the license to operate unit four of the Wabamun facility until March 31, 2010. The Corporation intends to procure extensions of the licenses for the other facilities upon the expiry of each respective Alberta PPA. Upon the expiry of the Alberta PPAs, the Corporation will be able to sell its power output to the Alberta Power Pool and to third party purchasers through direct sales agreements. The Corporation is currently selling power output from the Wabamun facility under such direct sales agreements.

The Alberta PPAs (together with legislation which applies thereto) permit the Balancing Pool, directly or indirectly as successor to the power purchaser under the Alberta PPAs, to terminate the Alberta PPAs in certain circumstances. These termination provisions are similar to those found in some PPAs entered into by government-related power purchasers. The Corporation will be entitled to receive a lump sum payment in connection with any such termination, other than a termination resulting from the Corporation's default. In any event, the Corporation will thereafter be able to sell the output from any affected facilities for its own account.

Canada: Ontario

The Corporation's Ontario generating facilities are summarized in the following table:

Location	Plant	Capacity (MW)	Ownership (%)	Commissioning Dates
Sarnia	Sarnia	575	100	2003
Ottawa	Ottawa	68	50.01	1992
Mississauga	Mississauga	108	50.01	1992
Windsor	Windsor	68	50.01	1996
Total		**819**		

The Sarnia facility is comprised of a 440-MW facility which commenced commercial operations in March, 2003 and an additional 135 MW of electric generation capacity acquired by the Corporation in 2002. The combined 575-MW facility provides steam and electricity to nearby facilities owned by Dow Chemical Canada Inc., Bayer Inc., Nova Chemicals (Canada) Ltd. and Suncor Energy Products Inc.

The Ottawa plant is a combined cycle cogeneration facility designed to produce 68 MW of electrical energy. This capacity is sold under a long-term contract with the Ontario Electricity Financial Corporation ("OEFC"), an agency of the Province of Ontario. This agreement expires in 2012. The Ottawa plant also provides thermal energy to the member hospitals and treatment centers of the Ottawa Health Sciences Centre, National Defence Medical Centre and the Perley and Rideau Veterans' Health Centre.

The Mississauga plant is a combined cycle cogeneration facility designed to produce 108 MW of electrical energy. This capacity is contracted under a long-term contract with the OEFC which expires in 2017. The plant also supplies thermal energy to the Boeing Canada Inc. manufacturing facility located adjacent to the Mississauga plant.

The Windsor plant is a combined cycle cogeneration facility designed to produce 68 MW of electrical energy. Currently, 50 MW of the capacity is sold under a long-term contract to the OEFC. This agreement expires in 2016. The Windsor plant also provides thermal energy to DaimlerChrysler Canada Ltd.'s minivan assembly facility in Windsor. In 2003, an agreement was reached with the OEFC to sell the remaining 18 MW to the Ontario power market when it is economic to do so.

The Corporation's interests in the Mississauga, Ottawa and Windsor facilities in Ontario are held through TA Cogen. See "TA Cogen and TransAlta Power".

United States

The Corporation's generation facilities in the United States are summarized in the following table:

Location	Plant	Capacity (MW)	Ownership (%)	Commissioning Dates
Washington	Centralia Coal No. 1	702	100	1971
	Centralia Coal No. 2	702	100	1971
	Centralia Gas	248	100	2002
	Skookumchuk	1	100	1970
New York	Binghamton	47	100	1992
	Saranac	240	37.5	1994
California	Vulcan	34	50	1986
	Del Ranch	38	50	1989
	Elmore	38	50	1989
	Leathers	38	50	1990
	CE Turbo	10	50	2000
	Salton Sea I	10	50	1987
	Salton Sea II	20	50	1990
	Salton Sea III	50	50	1989
	Salton Sea IV	40		1996
	Salton Sea V	49	50	2000
	Salton Sea VI (1)	180	50	N/A
Texas	Power Resources	200	50	1988
Arizona	Yuma	50	50	1994
Total		2,697		

Note:

(1) This facility is under development.

Centralia

The Corporation owns a two-unit 1,404-MW coal-fired facility and adjacent mining operations located in Centralia, Washington, south of Seattle, Washington and a 248-MW gas-fired facility at Centralia. The Corporation also owns a dam, a 1-MW hydro-electric generating facility and related assets on the Skookumchuk River near Centralia, which facilities are used to supply water to TransAlta's other generation facilities at Centralia.

The Corporation has entered into a number of medium-to-long term energy sales agreements for a portion of the capacity of the Centralia facility. The Corporation also sells power from the Centralia facility into the Western Electricity Coordinating Council, and in particular, the U.S. Pacific Northwest energy market, on the spot market.

The Corporation's strategy is to balance contracted and non-contracted sales of electricity to manage production and price risk.

The Centralia mine produces approximately six million tonnes of coal annually, or approximately 80 per cent of the Centralia plant's annual coal requirements. The Corporation estimates that the permitted coal reserves, being the amount of coal which can be mined under the existing regulatory-approval, are sufficient to supply the anticipated requirements of this facility for over 17 years, at current production levels. The Corporation currently imports the balance of its coal requirements by rail using coal from the Powder River Basin, located in the U.S. Rocky Mountains, provided under short-term contracts.

Binghamton

The Corporation owns a 47-MW gas-fired peaking facility in Binghamton, New York. This facility was commissioned in 1992 and is located near the Pennsylvania and New York State border. The Binghamton facility provides electricity to the New York Power Pool during periods of high demand.

CE Generation

On January 29, 2003, TransAlta announced the completion of the acquisition from El Paso of a 50 per cent interest in CE Generation, for total consideration of approximately US $240 million, which included approximately US $35 million for working capital. The CE Generation acquisition included the right to a 50 per cent interest in a geothermal project currently under development in Imperial Valley, California. If TransAlta elects to retain a substantial economic interest and participate in a future phase of this project, Salton Sea VI, TransAlta may be required to pay to El Paso certain milestone payments of up to US $30 million.

CE Generation, through its subsidiaries, is primarily engaged in the development, ownership and operation of independent power production facilities in the United States using geothermal and natural gas resources. CE Generation holds a net ownership interest of approximately 379 MW in 13 facilities, having an aggregate operating capacity of 816 MW, including 327 MW of geothermal generation in California and 490 MW of gas-fired cogeneration in New York, Texas and Arizona.

CE Generation affiliates currently operate 10 geothermal facilities in Imperial Valley, California. Each of the geothermal facilities, excluding CE Turbo and Salton Sea V, sells electricity pursuant to independent, long-term contracts which provide for energy payments, capacity payments and capacity bonus payments. Salton Sea V is currently a merchant facility; however, it has a power purchase agreement to sell approximately 20 MW of its net output. Available capacity from Salton Sea V and CE Turbo is sold through market transactions.

CE Generation affiliates currently operate three natural gas-fired facilities in Texas, Arizona and New York State having an aggregate generation capacity of 490 MW. The New York and Arizona facilities sell their output pursuant to long term contracts while the Texas facility has contracted a tolling agreement for capacity.

Mexico

Campeche

In May 2003, the Corporation announced the commencement of commercial operations at its 252-MW combined cycle gas/diesel fuelled facility located in the Mexican state of Campeche in the Yucatan Peninsula. The Corporation and Mexico's state-owned Comisión Federal de Electricidad ("CFE") have entered into a 25-year long term contract for all of the output of this plant, commencing on the date commercial operations began. The Corporation has also entered into a related gas transportation agreement with CFE. In addition to the long term contract and gas transportation agreement, the Corporation has entered into a corresponding 25-year fuel supply agreement with Pemex Gas y Petro Quimica Basica. CFE bears the price risk on fuel up to the guaranteed heat rate under the long term contract.

Chihuahua

In September 2003, the Corporation announced the commencement of commercial operations at its 259-MW Chihuahua combined-cycle gas-fired facility located near Ciudad de Juarez, Mexico, located approximately 40 kilometres south of the United States/Mexico border. The Corporation has entered into a 25-year long term contract with CFE for all of the output of this plant, commencing on the date commercial operations began. The Corporation has also entered into a related 25-year gas transportation agreement with CFE and a 5-year gas supply contract with Cynergy Marketing and Trading, LP. CFE bears the price risk on fuel up to the guaranteed heat rate under the long term contract.

Australia

The Corporation holds interests in Western Australia consisting of: (i) the 110-MW Parkeston generation facility through a 50/50 joint venture with Newmont Power Pty Limited, a subsidiary of Newmount Australia Limited; and (ii) the 225-MW Southern Cross gas and diesel generation facilities. The Corporation's 8.82 per cent interest in a 1,380 kilometre gas transmission pipeline that delivers natural gas from the Australian northwest shelf producing area to Western Australia was sold in April 2003.

TA Cogen and TransAlta Power

The Corporation's interest in the 220-MW Meridian gas-fired generator facility in Saskatchewan, the 756-MW Sheerness coal-fired generation facility and the 118-MW Fort Saskatchewan gas-fired cogeneration facility in Alberta, and the Mississauga, Ottawa and Windsor-Essex facilities in Ontario, are held through TA Cogen, an Ontario limited partnership owned 50.01 per cent by subsidiaries of TransAlta and 49.99 per cent by TransAlta Power, another Ontario limited partnership. The Corporation formed TA Cogen in 1998 to directly or indirectly hold interests in generation facilities capable of producing stable cash flows that would be distributed to TransAlta Power's unitholders. The partnership units of TransAlta Power are publicly traded on the Toronto Stock Exchange.

Energy Marketing Business Segment

The Energy Marketing group provides a number of strategic functions to the Corporation, including the following:

- Gathering and assessing market intelligence, enabling management to more effectively engage in strategic planning and decision-making for the Corporation. This includes identifying and ranking markets which are the most attractive to enter, developing strategies and plans to effectively compete in each market where the Corporation operates, and identifying specific opportunities to develop or acquire assets that will capture value or mitigate risks in the electric generation business;

- Negotiating and entering into contractual agreements with customers for the sale of output from the Corporation's generating assets, including electricity, steam or other energy related commodities;
- Scheduling physical deliveries of natural gas supplies used to generate electricity and the electrical generation outputs from each asset to meet contractual obligations while managing the physical and financial risks associated with the generation and transmission of electrical energy, including during those periods of unplanned outages;
- Increasing the value of electricity output and fuel inputs from each generating asset through a variety of regional portfolio optimization strategies in both the current year and over the long term; and
- Recommending optimum maintenance schedules and operating levels according to current and anticipated market conditions that will maximize earnings from each of the generation assets.

Beyond these functions, the Energy Marketing group derives additional revenue and earnings from the wholesale trading of electricity and other energy related commodities and derivatives. An important factor in the group's trading success has been the ability to access transmission capacity in selective markets, which allows TransAlta to take advantage of price differentials between regional markets by buying and selling energy at different locations and using transmission capacity to deliver the energy from the lower value markets into higher value markets.

The group seeks to manage and limit risk exposures from both financial and physical positions, as well as counterparty risks. The key risk control activities of the Energy Marketing group, in conjunction with other functions of the Corporation, include credit review approval and reporting, risk measurement monitoring and reporting, validation of transactions, and trading portfolio valuation monitoring and reporting.

The Corporation uses mark-to-market valuation and the application of a value at risk ("VAR") determination for risk control practices for its trading portfolios. This approach is a measure of assessing the potential trading losses that the Corporation could experience over a given time, due to fluctuations in energy prices in each market. The Corporation's policy is to actively manage and limit the group's aggregate VAR exposure to $10.0 million at any point in time. The average daily VAR in 2004 was approximately $3.8 million, as compared to $3.6 million in 2003.

Competitive Environment

As the largest generator of electricity in Alberta, measured by capacity, and with generation assets in Ontario, the U.S. Pacific Northwest, California, Arizona, Texas and New York, Mexico and Australia, the Corporation believes it is well-positioned to capitalize on opportunities in these regions. Alberta is Canada's fourth largest province by population with approximately 3.2 million residents representing approximately 10 per cent of Canada's total population. Alberta consumed approximately 65,000 GWh of electricity in 2004. As at December 31, 2004, the aggregate installed capacity of generating facilities in Alberta was approximately 11,900 MW.

Ontario is Canada's largest province with approximately 12.3 million residents representing approximately 39 per cent of Canada's total population. Ontario consumed approximately 153,000 GWh of electricity in 2004. Ontario Power Generation Inc., the successor to the generation business of Ontario's former integrated electric utility, controls over two-thirds of Ontario's approximately 31,700 MW of installed capacity, the balance of which is owned by municipal electric utilities and private independent power producers or industrial consumers.

Electrical utilities in the U.S. Pacific Northwest are organized into the Western Electricity Coordinating Council ("WECC"). The WECC is the largest geographically of the 10 regions in the North American Electric Reliability Council and is divided into four sub-regions, of which Region 1 includes British Columbia, Alberta, Washington, Oregon, Idaho, Montana, Utah, western Wyoming and northern Nevada. This sub-region is referred to as the Northwest Power Pool (the "NWPP"). The WECC estimates that approximately 366,000 GWh of electricity was consumed in the NWPP in 2004. The WECC also reported an estimated aggregate electrical generating capacity of approximately 78,000 MW in the NWPP by the end of 2004.

The Corporation expects that the demand for electricity will continue to grow in its target markets, although some markets are currently overbuilt. In addition to increased demand, the market for electricity in some of these regions has undergone deregulation. Legislation in Alberta and Ontario and many states in the United States mandated the unbundling of generation, transmission and distribution services traditionally provided by vertically integrated utilities to promote competition in the market for generation, which caused some integrated utilities to sell all or parts of their generation assets. While the pace of this process has changed, the Corporation believes that the combination of increased demand for electricity, deregulation and the increased availability of generation assets may provide it with an opportunity to increase its generation capacity and leverage its energy marketing capabilities, provided that in doing so, the financial position of the Corporation is not compromised.

In addition, the Corporation believes that the demand for electricity in Mexico will continue to grow in the next several years due to increased commercial and residential consumption. For the period 2004 to 2013, the CFE is projecting a growth in demand for electricity of 5.6 per cent per year. It is expected that independent power plants will contribute up to 30 per cent of the installed capacity and contribute approximately 50 per cent of the total energy produced. At the end of December 2003 the national electrical system had 44,554 MWs. With proposed retirements of 4,188 MWs and 24,249 MWs expected to be built over the period from 2004 to 2013, the system is expected to have about 64,615 MWs by the end of December 2013. As a result, the CFE has indicted that it is planning to offer for tender more independent power plants that may be similar to the Corporation's plants in Campeche and Chihuahua.

The Corporation believes that yearly fluctuations in demand, similar to those which occurred in 2004, will continue in Mexico. In 2004, dispatch was lower than anticipated in the northern part of the country due to lower than expected demand and higher than average water in the region's dams, which resulted in more power produced from hydro-electric facilities. This did not occur in 2004 in the south-eastern part of Mexico, where the Campeche plant is located.

Competitive Strengths

The Corporation believes it is well positioned to achieve its business strategy due to its competitive strengths, which include the following:

Stable cashflow base. In 2004, approximately 83 per cent of the Corporation's aggregate production was sold under contracts with durations of at least 12 months and 70 per cent was sold under contracts with original terms of 10 years or more. Approximately 50 per cent of the contracted output was sold under Alberta PPAs, most of which expire from 2013 to 2020 and are ultimately backed by the "Balancing Pool"; an entity established by the Government of Alberta. See "Generation Business Segment — Alberta — Alberta PPAs".

Geographic diversity. The Corporation has a geographically diverse asset base with assets in Alberta and Ontario, Canada, in certain parts of the United States, in Mexico and in Australia.

Fuel diversity. The Corporation has a diverse mix of fuels used for electrical generation, including coal, natural gas, hydro, geothermal and wind. The Corporation believes that this mix reduces the impact on corporate performance in the event of external events affecting one fuel source.

Management team. The Corporation's management team has changed significantly in the last four years as the Corporation has moved from a largely Alberta-based and focused regulated utility into an internationally focused deregulated electricity developer, generator and marketer. The current management team has substantial industry, international and local market experience.

Energy Marketing expertise. The Corporation believes that its Energy Marketing group has enhanced returns from the Corporation's existing generation base and has allowed the Corporation to obtain more favourable pricing for uncommitted electricity, secure fuel supply on a cost-effective basis and fulfil electricity delivery obligations in the event of an outage.

Financial strength. The Corporation has investment grade issuer ratings from Moody's Investor Services, Inc., Standard & Poor's, a division of the McGraw-Hill Companies, Inc. and Dominion Bond Rating Service Limited.

Ownership or control of coal supply. The Corporation owns, controls or leases extensive coal reserves in Alberta that provide a long-term and stable source of fuel for all of its coal-fired generation capacity in Alberta. The Corporation also owns a coal mine near its Centralia facility, which currently provides approximately 80 per cent of the fuel required at the Centralia facility. The Corporation's mines in Alberta contain some of the lowest sulphur coal in North America, averaging 0.25 per cent sulphur at the Whitewood mine and 0.25 per cent at the Highvale mine. Coal with lower sulphur content emits less sulphur dioxide when it is burned. By comparison, the sulphur content of coal mined in the Powder River Basin in the U.S. Rocky Mountains typically has sulphur content of about 0.35 per cent.

Wind Generation. The Corporation, through Vision Quest, is one of the largest owners and operators of wind generation in Canada. Vision Quest's management team collectively has over 50 years of experience in the industry and has developed key relationships with customers, suppliers and policy makers that provide a competitive advantage in the development, operations and marketing of wind generation.

Capital Expenditures

Capital expenditures for property and investments (including acquisitions) by TransAlta for the past five years were:

2004	$ 365.8 million	2001	$1,256.3 million
2003	$ 879.1 million	2000	$1,675.1 million
2002	$ 985.9 million		

Capital expenditures of between $360 and $375 million are forecast for 2005.

Environmental Risk Management

TransAlta is subject to federal, provincial and local environmental laws, regulations and guidelines concerning the generation and transmission of electrical and thermal energy and surface mining. TransAlta is committed to complying with legislative and regulatory requirements and to minimizing the environmental impact of its operations. TransAlta works with governments and the public to develop appropriate frameworks to protect the environment and, at the same time, to promote sustainable development.

TransAlta's Environmental Policy requires that the environmental impacts and risks of Company activities are identified, assessed and managed. This is done by two means

- use of an environmental management system to set environmental objectives and regularly review subsequent performance with senior management; and

- mitigative action on longer-term environmental policy impacts such as climate change.

TransAlta has implemented an ISO-based environmental, health and safety management system (the "EHS Management System") designed to continuously improve environmental and safety performance. As of December, 2004, 95 per cent of TransAlta's facilities had implemented the EHS Management System, and implementation of the system is ongoing at the remainder of the Corporation's operated facilities. Compliance with both regulatory requirements and management system standards is regularly audited through TransAlta's "Performance Assurance" policy and results are reported on a quarterly basis to the Corporation's board of directors.

To meet regulatory requirements and improve environmental performance, TransAlta made environmental operating and capital expenditures in fiscal year 2004 of approximately $38.0 million. Environmental expenditures are generally defined as expenditures incurred to comply with Canadian or international environmental regulations, conventions or voluntary agreements.

Environmental risk at the plants operated by TransAlta, has been reduced through improved performance in several areas:

- sulphur dioxide ("SO_2") emission rates were reduced from 1.27 kg/MWh in 2003 to 1.23 kg/MWh in 2004;
- gross carbon dioxide emission rates were 0.88 tonnes/MWh in 2004, a reduction of 9 per cent from 2003; and
- safety performance, as measured by reduced injury frequency rate, has improved by 17 per cent over the past 12 months as a result of the Corporation's focused corporate safety program, known as "Target Zero".

On a longer time horizon, TransAlta anticipates future environmental regulatory developments in areas such as climate change, air quality and water. Regulatory changes and policy developments are tracked in all relevant jurisdictions in Canada and the U.S.

Canada is currently the only country in which TransAlta operates which has emission reduction obligations under the Kyoto Protocol. The Protocol will come into force in 2005, with greenhouse gas reductions for industry required to begin in 2008. While uncertainty still exists as to the ultimate form and specific detail of Canada's climate change regulations, TransAlta's climate change strategy addresses the potential competitive risks to its fossil generation plants. That strategy includes increased use of less carbon-intensive fuels such as natural gas and renewable resources, continued investment in international emission offsets, internal efficiency improvements and development of clean coal technology. By 2004, TransAlta had reduced its worldwide greenhouse gas emissions by 13 per cent from 1990 levels, in spite of increasing generation by approximately 83 per cent over the same period. It continues to be an active participant with federal and provincial governments in the development of climate change policy in the international, national and provincial arenas. Additionally in 2004, TransAlta purchased 1.75 million tonnes of verified emission reductions as part of its offsets portfolio, which will be registered as certified emission reductions by the Kyoto Executive Board. These credits will be used for compliance of its Canadian generation facilities, under an anticipated greenhouse gas regulatory program.

In 2004, the Alberta Government adopted a new air quality policy framework based on stakeholder input and recommendations. These policies provide regulatory clarity to the Alberta electricity industry for the next 20 years, beginning in 2006, and would postpone additional nitrous oxide ("NOx") and SO_2 controls until after the expiry of the Alberta PPAs. Mercury standards are expected to be implemented in the United States by 2009 and in Alberta by 2010. TransAlta is a member of the Canadian Clean Power Coalition, which is committed to developing and implementing clean coal technology projects in Canada before 2010.

Environmental issues concerning water use are managed within the ISO 14001 framework. TransAlta continues to work closely with regulators in each jurisdiction within which it operates, to ensure water is used wisely on site and that all regulations pertaining to water and wetlands management both on and off site are met at all times.

TransAlta's environmental efforts have been recognized by the Dow Jones Sustainability Index for five years in a row, being awarded the top electric utility in 2004. The Index represents the best environmental performance leaders worldwide.

To date, TransAlta does not believe that its competitive position in the wholesale generation business has been adversely affected by environmental concerns. Increasing use of natural gas and renewable generation means typically lower environmental compliance costs. Emissions of NO_x and SO_2 from coal-fired operations at Centralia are significantly below national average levels due to installed pollution controls, including scrubbers and low-NO_x burners for all units. In addition, the PPAs for TransAlta's coal-fired plants in Alberta contain "Change of Law" provisions that TransAlta believes will provide recovery for compliance costs, from the PPA customers.

RISK FACTORS

Regulatory and political risks exist in all jurisdictions in which TransAlta operates, including foreign jurisdictions. TransAlta seeks to manage these risks by working with regulators and other stakeholders to try to resolve issues as fairly and expeditiously as possible. For a discussion of risk factors affecting TransAlta and risk management, reference is made to "Risk Factors and Risk Management", located in TransAlta's Management's Discussion and Analysis for the year ended December 31, 2004, which is incorporated by reference herein.

EMPLOYEES

As of December 31, 2004, the Corporation had 2,505 full and part-time employees, of which 2,109 were employed in TransAlta's generation business and 153 were employed in TransAlta's energy marketing business. Approximately 1,450 of the Corporation's employees are represented by labour unions. The Corporation is currently a party to 12 different collective bargaining agreements. Of its 12 existing collective bargaining agreements, the Corporation has recently renewed seven of the agreements and anticipates negotiating renewed agreements with the other five labour unions in 2005.

CAPITAL STRUCTURE

General

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of first preferred shares, issuable in series. As at March 15, 2005, 195,181,925 million common shares were outstanding and no first preferred shares were outstanding.

Common Shares

Each common share of the Corporation entitles the holder thereof to one vote for each common share held at all meetings of shareholders of the Corporation, except meetings at which only holders of another specified class or series of shares are entitled to vote, to receive dividends if, as and when declared by the board of directors, subject to prior satisfaction of preferential dividends applicable to any first preferred shares, and to participate rateably in any distribution of the assets of the Corporation upon a liquidation, dissolution or winding up, subject to prior rights and privileges attaching to the first preferred shares. The common shares are not convertible and are not entitled to any pre-emptive rights. The common shares are not entitled to cumulative voting.

First Preferred Shares

The Corporation is authorized to issue an unlimited number of first preferred shares, issuable in series and, with respect to each series, the board of directors is authorized to fix the number of shares comprising the series and determine the designation, rights, privileges, restrictions and conditions attaching to such shares, subject to certain limitations.

The first preferred shares of all series rank senior to all other shares of the Corporation with respect to priority in payment of dividends and with respect to distribution of assets in the event of liquidation, dissolution or winding up of the Corporation, or a reduction of stated capital. Holders of first preferred shares are entitled to receive cumulative quarterly dividends on the subscription price thereof as and when declared by the board of directors at the rate established by the board of directors at the time of issue of shares of a series. No dividends may be declared or paid on any other shares of the Corporation unless all cumulative dividends accrued upon all outstanding first preferred shares have been paid or declared and set apart. In the event of the liquidation, dissolution or winding up of the Corporation, or a reduction of stated capital, no sum shall be paid or assets distributed to holders of other shares of the Corporation until the holders of first preferred shares shall have been paid the subscription price of the shares, plus a sum equal to the premium payable on a redemption, plus a sum equal to the arrears of dividends accumulated on the first preferred shares to the date of such liquidation, dissolution, winding up, or reduction of stated capital, as applicable. After payment of such amount, the holders of first preferred shares shall not be entitled to share further in the distribution of the assets of the Corporation.

The Corporation's board of directors may include in the share conditions attaching to a particular series of first preferred shares certain voting rights effective upon the Corporation failing to make payment of six quarterly dividend payments, whether or not consecutive. These voting rights continue for so long as any dividends remain in arrears. These voting rights are the right to one vote for each $25 of subscription price on all matters in respect of which shareholders vote, and additionally, the tight of all series of first preferred shares, voting as a combined class, to elect two directors of the Corporation if the board of directors then consists of less than 16 directors, or three directors if the board of directors consists of 16 or more directors. Otherwise, except as required by law, the holders of first preferred shares shall not be entitled to vote or to receive notice of or to attend at any meeting of the shareholders of the Corporation.

Subject to the share conditions attaching to any particular series providing to the contrary, the Corporation may redeem first preferred shares of a series, in whole or from time to time in part, at the redemption price applicable to each series and the Corporation has the right to acquire any of the first preferred shares of one or more series by purchase for cancellation in the open market or by invitation for tenders at a price not to exceed the redemption price applicable to the series.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the section entitled "Management's Discussion & Analysis" set out at pages 22 to 62 of TransAlta's 2004 Annual Report, which is specifically incorporated by reference in this Annual Information Form.

DIVIDENDS

TransAlta's board of directors considers several factors when reviewing the Corporation's common share dividend policy, including earnings, cash flow, capital requirements, the expectations of shareholders and future earnings prospects. The payment and level of future dividends on the common shares will be determined by the board of directors of TransAlta upon consideration of such factors. TransAlta has declared and paid the following dividends per share on its outstanding common shares during the past three years:

Period		Dividend per Common Share
2002	First Quarter	$ 0.25
	Second Quarter	$ 0.25
	Third Quarter	$ 0.25
	Fourth Quarter	$ 0.25
2003	First Quarter	$ 0.25
	Second Quarter	$ 0.25
	Third Quarter	$ 0.25
	Fourth Quarter	$ 0.25
2004	First Quarter	$ 0.25
	Second Quarter	$ 0.25
	Third Quarter	$ 0.25
	Fourth Quarter	$ 0.25

On January 1, 2005, TransAlta paid cash dividends of $0.25 per common share. The Corporation's board of directors has declared a cash dividend of $0.25 per common share, payable on April 1, 2005.

CREDIT RATINGS

Commercial Paper

The Corporation's guaranteed commercial paper is rated R-1(low) stable by Dominion Bond Rating Service Limited ("DBRS").

Senior Unsecured Long-Term Debt

As of March 25, 2005, the Corporation's senior unsecured long-term debt, is rated BBB, with a negative trend, by DBRS, BBB- (stable) by Standard & Poor's, a division of McGraw Hill Companies ("S&P") and Baa2 (outlook negative) by Moody's Investor Services ("Moody's"). The ratings for debt instruments range from a high of AAA to a low of D in the case of both DBRS and S&P and from a high of Aaa to a low of C in the case of Moody's.

According to the DBRS rating system, debt securities rated BBB are of adequate credit quality. Protection of interest and principal is considered adequate, but the entity is more susceptible to adverse changes in financial and economic conditions, or there may be other adversities present which reduce the strength of the entity and its rated securities. "High" or "Low" grades indicate the relative standing within a rating category. DBRS also assigns rating trends to each of its ratings to give investors an understanding of DBRS' opinion regarding the outlook for the rating in question.

According to the S&P rating system, debt securities rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on such obligations than on obligations in the higher rating 15 categories.

The ratings from AA to B may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

According to the Moody's rating system, debt securities rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Numerical modifiers 1, 2 and 3 are applied to each rating category, with 1 indicating that the obligation ranks in the higher end of the category, 2 indicating a mid-range ranking and 3 indicating a ranking in the lower end of the category.

Preferred Securities

As of March 25, 2005, the Corporation's outstanding preferred securities have been assigned ratings of BB (stable) by S&P and Pfd-3y (negative trend) by DBRS.

S&P's rating of the Corporation's outstanding preferred securities is on a preferred share rating scale that ranges from AA to D, which represents the range from highest to lowest quality of such securities rated. Securities rated in the BB rating category by S&P are in the fourth highest category of the relevant scale. An obligation rated "BB" faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The ratings from AA to B may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

DBRS' rating of the Corporation's outstanding preferred securities is on a preferred share rating scale that ranges from Pfd-1 to D, which represents the range from highest to lowest quality of such securities rated. Securities rated in the Pfd 3 rating category by DBRS are in the third highest category of the relevant scale and are considered of adequate credit quality. The assignment of a "(high)" or "(low)" modifier within each of the five preferred share rating categories indicates relative standing within such category. The "y" modifier is used to indicate a hybrid security.

Note Regarding Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the Corporation's outstanding securities by S&P, Moody's and DBRS, as applicable, are not recommendations to purchase, hold or sell such securities in as much as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that the ratings will remain in effect for any given period or that a rating will not be revised or withdrawn entirely by S&P, Moody's or DBRS in the future if, in its judgment, circumstances so warrant.

MARKET FOR SECURITIES

TransAlta's common shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol "TA" and the New York Stock Exchange under the symbol "TAC". TransAlta's preferred securities are listed on the Toronto Stock Exchange under the symbol "TA.PR.C". On February 15, 2005, the Corporation redeemed, at par, all of its outstanding 7.5 per cent and 8.15 per cent preferred securities, with an aggregate principal amount of $175 million and $125 million, respectively.

The following table sets forth the reported high and low trading prices and trading volumes of the Corporation's common shares as reported by the TSX from January 2004:

	Price ($)		
Month	**High**	**Low**	**Volume**
2004			
January	18.79	17.66	10,235,315
February	18.14	17.46	12,478,085
March	18.65	17.77	11,141,724
April	18.47	15.25	8,985,299
May	17.40	16.68	8,350,954
June	17.00	16.00	10,018,205
July	16.85	15.40	10,643,469
August	16.22	15.40	14,665,811
September	16.99	15.67	9,453,813
October	16.98	15.80	13,870,363
November	18.05	16.31	10,458,463
December	18.74	17.30	8,188,305
2005			
January	19.35	18.02	10,544,271
February	19.50	17.80	13,045,505
March (to March 24)	18.89	17.67	10,207,119

The following table sets forth the reported high and low trading prices and trading volumes of the Corporation's 7.75 per cent preferred securities due 2048 (trading symbol "TA.PR.C") as reported by the TSX from January 2004:

	Price ($)		
Month	**High**	**Low**	**Volume**
2004			
January	27.65	26.52	96,723
February	27.60	26.86	125,127
March	27.34	26.80	126,997
April	27.32	25.41	173,318
May	26.20	25.58	97,827
June	26.15	25.51	85,261
July	26.18	25.73	93,569
August	26.60	25.80	86,177
September	26.40	25.81	91,073
October	26.95	26.20	114,126
November	26.97	26.48	85,650
December	26.99	26.75	125,493
2005			
January	26.95	26.55	101,217
February	27.45	26.66	105,219
March (to March 24)	27.21	26.46	54,268

DIRECTORS AND OFFICERS

The names, principal occupations and municipalities of residence of the directors and officers of TransAlta, as well as the year each director first became a director are set out below. Each director is appointed to serve until the next annual meeting of TransAlta or until his or her successor is elected or appointed.

Directors

Name and Municipality of Residence	Year first became Director	Principal Occupation
William D. Anderson (1) Montreal, PQ	2003	President of BCE Ventures, a subsidiary of BCE Inc., and a director of Bell Canada International Inc. (both in telecommunications).
Stanley J. Bright (1) (2) Vero Beach, FL	1999	Corporate Director. He is a director of MidAmerican Energy Holdings Company (electric generation and delivery, natural gas supply, transportation and delivery), a subsidiary of Berkshire Hathaway, Inc. Mr. Bright was formerly chair and CEO of MidAmerican Energy Company, a Des Moines, Iowa-based electric and gas utility which is now a part of MidAmerican Energy Holdings Company.
Jack C. Donald (2) Red Deer, AB	1993	Chair, Parkland Income Trust and president and Chief Executive Officer of Parkland Properties Ltd. (real estate holdings), also vice president and director of Brandt Industries Ltd. (manufacturing), Chair and a director of Canadian Western Bank (banking) and a director of Ensign Resource Services Group Inc. (drilling & servicing) and Sifton Energy Ltd. (energy).
Timothy W. Faithfull (1) Oxford, U.K.	2003	Corporate Director. He is a director of Canadian Pacific Railway Company (transportation) and AMEC plc. (engineering services and project management) and Shell Pension Trust Limited (pension fund trustee), in the U.K. He is a former President and Chief Executive Officer of Shell Canada Limited (energy).
John T. Ferguson, F.C.A (1) (2) (3) Edmonton, AB	1981	Chair, TransAlta Corporation (power generation), Chair and a director of Princeton Developments Ltd. (commercial real estate development), and a director of Royal Bank of Canada (banking) and Suncor Energy Inc. (energy).
Gordon D. Giffin (3) Atlanta, GA	2002	Senior Partner of McKenna Long & Aldridge LLP (attorneys). From 1997 to 2001 he served as United States Ambassador to Canada. He is a director of Bowater, Inc., (newsprint and paper), Canadian National Railway Company (transportation), Canadian Imperial Bank of Commerce, (banking) and Canadian Natural Resources Ltd. (natural resources).
Louis D. Hyndman, Q.C. (3) Edmonton, AB	1986	Senior Partner of Field LLP (barristers & solicitors), and a director of Canadian Urban Ltd. (real estate), EllisDon Inc. (construction), Enbridge Inc. (energy), Melcor Developments Ltd. (real estate), and Meloche Monnex Inc. (insurance).

C. Kent Jespersen (2) (3) Calgary, AB	2004	Corporate Director. He is a Chair and a director of Geac Computer Corporation Limited (computer software) and CCR Technologies Ltd. (technology), lead director of Telesystem International Wireless Inc. (telecommunications), and a director of Matrikon Inc. (technology) and Axia NetMedia Corporation (telecommunications).
Michael M. Kanovsky, P. Eng (1) (3) Victoria, BC	2004	Independent Businessman. He is also a director of Accrete Energy Corporation, Devon Energy Corporation, ARC Energy Trust and Bonavista Energy Trust (all in the oil and gas business) and Pure Technologies Inc. (technology).
Donna Soble Kaufman (2) (3) Toronto, ON	1989	Lawyer and corporate director. She is also a director of BCE Inc., Bell Canada, Telesat Canada (all telecommunications) and Hudson's Bay Company (retail).
Luis Vazquez Senties (2) Mexico City, MX	2001	Chair of Group Diavaz (oilfield services and natural gas distribution). He is also Chair of Compania Mexicana de Gas, S.A. de CV.
Stephen G. Snyder Calgary, AB	1996	President and Chief Executive Officer of TransAlta Corporation (power generation). He is also a director of Canadian Imperial Bank of Commerce (banking).

Notes:

(1) Member of the Audit and Environment Committee (see "Audit and Environment Committee").
(2) Member of the Human Resources Committee.
(3) Member of the Nominating and Corporate Governance Committee.

Officers

Name	Principal Occupation	Residence
Stephen G. Snyder	President and Chief Executive Officer	Calgary, Alberta
Ian A. Bourne	Executive Vice-President and Chief Financial Officer	Calgary, Alberta
Linda K. Chambers	Executive Vice-President, Technology	Calgary, Alberta
Frederick M. Gallagher	Executive Vice-President, Vision Quest Windelectric	Calgary, Alberta
Thomas M. Rainwater	Executive Vice-President, Corporate Development and Marketing	Calgary, Alberta
Robert M. Soeldner	Executive Vice-President, Operations	Calgary, Alberta
Kenneth S. Stickland	Executive Vice-President, Legal	Calgary, Alberta
Michael Williams	Senior Vice-President, Human Resources	Calgary, Alberta
Gregory Wilson	Senior Vice-President and Chief Information Officer	Calgary, Alberta

William D.A. Bridge	Vice-President, Customer and Asset Management	Calgary, Alberta
Richard P. Langhammer	President, TransAlta Centralia Generation LLC and TransAlta Centralia Mining LLC., subsidiaries of the Corporation	Olympia, Washington
Robert J.D. Page	Vice-President, Sustainable Development	Calgary, Alberta
Gregory P. Reinhart	Vice-President, Generation Human Resources	Calgary, Alberta
Marvin J. Waiand	Vice-President & Treasurer	Calgary, Alberta
Garth A. Wong	Vice-President and Comptroller	Calgary, Alberta
W. Frank Hawkins	Assistant Treasurer	Calgary, Alberta
Alison T. Love	Corporate Secretary	Calgary, Alberta

All of the directors and officers of TransAlta have held their present principal occupations or executive positions with the same or associated firms for the past five years, except for the following:

- Prior to December 2000, William D. Anderson was Chief Financial Officer of BCE Inc.
- Prior to May 2000, Stanley J. Bright was Vice-Chair of MidAmerican Energy Holdings Company and before January 1999 Mr. Bright was Chair and Chief Executive Officer of Iowa-Illinois Gas and Electric Company.
- From 1997 to 2001, Gordon D. Giffin served as United States Ambassador to Canada.
- Prior to July 2003, Tim Faithfull was President and Chief Executive Officer of Shell Canada Limited.
- Prior to July 2003, Linda Chambers was President of TransAlta Centralia Generation LLC and TransAlta Centralia Mining LLC, subsidiaries of TransAlta and prior to June 1999, she was Senior Vice-President of Human Resources of TransAlta.
- Prior to November 2002, Thomas Rainwater was President, Praxis Solutions, Inc. and prior to February 2000, he was Vice-President, Central Region, Illinova Energy Partners Inc., a division of Illinova Corporation.
- Prior to November 2002, Robert Soeldner was Vice-President, Strategic Initiatives, New York Independent System Operator; prior to 2001, he was Senior Director, Enron Europe, Ltd.; prior to August 1999, he was Director, Enron Energy Services; and prior to August 1998, he was General Manager, Enron International.
- Prior to January 2001, Kenneth Stickland was a senior partner at Burnet Duckworth & Palmer, LLP, Barristers & Solicitors.
- Prior to December 2002, Frederick Gallagher was Managing Director and Chief Executive Officer of Vision Quest Windelectric Inc.

- Prior to June 2002, Michael Williams was Vice-President of EMEA HR, Lucent Technologies; prior to April 2001, he was senior director of EMEA HR, Cisco Systems; prior to September 1999, he was Senior Director of Customer Advocacy HR, Cisco Systems; prior to May 1999, he was Executive Vice-President Organizational Transformation, Newbridge Networks Corp and prior to May 1998, he was Global Vice-President of Human Resources and Quality, Newbridge Networks Corp.
- Prior to June 2002, Gregory Wilson was Vice-President and Chief Information Officer of United Dominion Industries and prior to August 1998, he was Group IT Director of Scientific Atlanta.
- Prior to December 2003, Richard Langhammer was Vice-President, Plant Operations of TransAlta.
- Prior to February 2002, Gregory Reinhart was Human Resources Director, IPP of TransAlta and prior to June 1999, he was Vice-President of Human Resources of Engage Energy Ltd.
- Prior to December 2003, Garth Wong was Director, Financial Operations, Generation of TransAlta.
- Prior to February 2001, Frank Hawkins was Director, Corporate Finance of TransAlta; prior to September 2000, he was Director, IPP Development; and prior to September 1998, he was Director, International Project Development of TransCanada PipeLines Limited.
- Prior to October 2001, Alison Love was Vice-President, General Counsel and Corporate Secretary of Canadian Pacific Limited; prior to October 1998, she was Vice-President, Administrative Services and Special Projects and prior to July 1998, she was Corporate Secretary and Associate General Counsel of TransCanada PipeLines Limited.

As of March 25, 2005, the directors and officers of TransAlta and its subsidiaries as a group beneficially own, directly or indirectly, less than one per cent of each class or series of the outstanding securities of TransAlta.

AUDIT AND ENVIRONMENT COMMITTEE

General

The Corporation has established an Audit and Environment Committee (the "AE Committee") comprised of five members: William D. Anderson, Chair, Stanley J. Bright, John T. Ferguson, Tim W. Faithfull and Michael M. Kanovsky. Each member of the AE Committee is considered by the board of directors to be "independent" and "financially literate" within the meaning of Multilateral Instrument 52-110--Audit Committees. In addition, TransAlta's board of directors has determined that Messrs. Anderson and Ferguson are "audit committee financial experts" within the meaning of Section 407 of the United States *Sarbanes-Oxley Act* of 2002 (the "Sarbanes-Oxley Act").

Mandate of the AE Committee

The mandate of the AE Committee is to provide assistance to the board of directors of the Corporation in fulfilling its oversight responsibility to the shareholders of the Corporation, the investment community and others, relating to the integrity of the Corporation's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the external auditors' qualifications, independence, performance and reports, the legal and environmental compliance programs as established by management and the board of directors, and the risk identification, assessment and management program. In so doing, the AE Committee is responsible for maintaining an open avenue of communication between the Committee, the external auditors, the internal auditors and management of the Corporation.

The AE Committee's function is oversight. Management is responsible for the preparation, presentation and integrity of the financial statements of the Corporation. Management and the internal audit group of the Corporation are responsible for maintaining appropriate accounting and financial reporting principles and policy and internal controls and procedures for compliance with accounting standards and applicable laws and regulations.

While the AE Committee has the responsibilities and powers set forth herein, it is not the duty of the AE Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the external auditors.

Management is responsible for preparing the interim and annual financial statements and financial disclosure of the Corporation and for maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, executed, recorded and reported properly. The AE Committee's role is to provide direct, meaningful and effective oversight of the Corporation's financial reporting and counsel to management without assuming responsibility for management's day-to-day duties.

AE Committee Charter

The Charter of the Audit Committee is attached hereto as Appendix A.

Relevant Education and Experience of AE Committee Members

The following is a brief summary of the education or experience of each member of the AE Committee that is relevant to the performance of his responsibilities as a member of the AE Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by TransAlta to prepare its annual and interim financial statements.

Name of AE Committee Member	Relevant Education and Experience
William D. Anderson	Mr. Anderson is a Chartered Accountant. Mr. Anderson has served as Chief Executive Officer of a public company and as Chief Financial Officer of several public companies and, in such capacities, Mr. Anderson actively supervised persons engaged in preparing, auditing, analyzing or evaluating financial statements. Mr. Anderson has also served as a principal financial officer, accounting officer or controller with several public companies and as a director and audit committee member with several public companies.
Stanley J. Bright	Mr. Bright is a Certified Public Accountant and has served as a Chief Executive Officer, Chief Financial Officer and a corporate controller of several public companies. Mr. Bright has actively supervised persons engaged in preparing, auditing, analyzing or evaluating financial statements with several companies. Mr. Bright also has experience actively overseeing or assessing the performance of companies in the preparation of financial statements.
John T. Ferguson	Mr. Ferguson is a Chartered Accountant. Mr. Ferguson has acted as a Chief Executive Officer of several companies and as Chief Financial Officer of a public company and, in such capacities, Mr. Ferguson has actively supervised persons engaged in preparing, auditing, analyzing or evaluating financial statements, Mr. Ferguson has also served as a director, officer and audit committee member of several public companies.

Tim W. Faithfull	Mr. Faithfull acquired significant financial experience and exposure to accounting and financial issues as Chief Executive Officer of Shell Canada Limited and in his other capacities in his 36 years with the Royal Dutch/Shell group of companies. Mr. Faithfull is also a director of another public company, Canadian Pacific Railway Company, and is a director of Shell Pension Trust Limited.
Michael M. Kanovsky	Mr. Kanovsky has over 30 years of financial experience gained through working in the investment banking business as well as a director, officer and audit committee member of several public companies and trusts.

For the years ended December 31, 2004 and 2003, Ernst & Young LLP and its affiliates were paid approximately $2.75 million and $2.37 million, respectively, as detailed below:

	Year ended December 31	
	2004	**2003**
Ernst & Young LLP		
Audit Services	$1,336,999	$1,015,916
Audit-Related Services	201,866	143,521
Tax Services	1,062,479	322,496
Other Fees	146,282	886,644
Total	**$2,747,626**	**$2,368,577**

The nature of each category of fees is described below:

Audit Services

Audit fees were paid for professional services rendered by Ernst & Young LLP for the audit of the Corporation's annual financial statements or services provided in connection with statutory and regulatory filing or engagements, including the translation from English to French of the Corporation's financial statements and other documents.

Audit-Related Services

The audit-related fees were primarily for work performed by Ernst & Young LLP in relation to the Corporation's financings and the sale of one of its plants.

Tax Services

The majority of tax fees for 2004 related to the finalization of tax credit recoveries for work which commenced prior to 2002. In 2003, the tax fees primarily related to compliance services provided, including services relating to the filing of tax returns for the Corporation and its subsidiaries.

All Other Fees

In 2004, the majority of the amounts in "Other Fees" related to the sublease of office space in Australia. In 2003, the other fees included services performed by Ernst & Young LLP in specific transactions involving the Corporation including the acquisition of an interest in CE Generation, the sale of the Corporation's head office building and assistance in various regulatory proceedings involving the Corporation.

The AE Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence. In May 2002, the AE Committee adopted a policy that prohibits TransAlta from engaging the auditors for "prohibited" categories of non-audit services and requires pre-approval of the AE Committee for other permissible categories of non-audit services, such categories as determined under the Sarbanes Oxley Act.

LEGAL PROCEEDINGS

TransAlta is occasionally named as a party in various claims and legal proceedings which arise during the normal course of its business. TransAlta reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. Although there can be no assurance that any particular claim will be resolved in the Corporation's favour, the Corporation does not believe that the outcome of any claims or potential claims of which it is currently aware will have a material adverse effect on the Corporation, taken as a whole, after taking into account amounts reserved by the Corporation. For further information, please refer to Note 23 of the Corporation's audited consolidated financial statements for the year ended December 31, 2004, which note is hereby incorporated by reference herein.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Ernst & Young LLP, Chartered Accountants, 1000,440 - 2nd Avenue, SW., Calgary, are the auditors of the Corporation.

The transfer agent and registrar for TransAlta's common shares and preferred securities is CIBC Mellon Trust Company in Vancouver, Calgary, Winnipeg, Toronto and Montreal. The transfer agent and registrar for the common shares in the United States is Mellon Investor Services LLC at its principal office in New York, New York.

ADDITIONAL INFORMATION

Additional information including compensation of directors and officers of TransAlta, indebtedness of directors and officers of TransAlta, principal holders of TransAlta's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in TransAlta's Management Proxy Circular dated March 15, 2005. Additional financial information is provided in TransAlta's 2004 Annual Report which contains audited comparative consolidated financial statements for the most recently completed financial year and the Management's Discussion and Analysis. The Management's Discussion and Analysis contained in the 2004 Annual Report is specifically incorporated by reference and forms a part of this Annual Information Form. These documents and additional information with respect to the Corporation are available at www.sedar.com.

In 2002, TransAlta adopted a procedure for employees, shareholders or others to report concerns or complaints regarding accounting or auditing matters on an anonymous, confidential basis to the AE Committee. Such submissions may be directed to the AE Committee c/o the Corporate Secretary of the Corporation.

When the securities of TransAlta are in the course of distribution pursuant to a preliminary short form prospectus or a short form prospectus, TransAlta will, upon request to the Corporate Secretary, provide to any person or company the following information:

1. one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;

2. one copy of the comparative consolidated financial statements of TransAlta for its most recently completed financial year for which financial statements have been filed together with the accompanying

report of the auditor and one copy of the most recent interim financial statements of TransAlta that have been filed, if any, for any period after the end of its most recently completed financial year;

3. one copy of TransAlta's Management Proxy Circular in respect of its most recent annual meeting of its shareholders that involved the election of directors; and

4. one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not requited to be provided under clauses (1), (2) or (3) above.

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At any other time, TransAlta will, upon request, provide to any person or company one copy of any documents referred to in clauses (1), (2) and (3) above, provided that TransAlta may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of TransAlta. For additional copies of this AIF or any of the materials listed in this paragraph, please contact Investor Relations, TransAlta Corporation at Box 1900, Station "M", Calgary, Alberta, T2P 2M1; telephone: 1-800-387-3598 in North America outside of Calgary, or (403) 267-2520 in Calgary and outside North America; fax: (403) 267-2590; e-mail: investor_relations@transalta.com.

APPENDIX A

CHARTER OF THE AUDIT AND ENVIRONMENT COMMITTEE

TRANSALTA CORPORATION

CHARTER

A. Establishment of Committee and Procedures

1. Composition of Committee

The Audit and Environment Committee (the "Committee") of the Board of Directors of TransAlta Corporation (the "Corporation") shall consist of not less than three Directors. All members of the Committee shall, in the judgment of the Board, be independent and shall meet the requirements of applicable laws, stock exchanges and regulatory bodies. Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the full Board of Directors (the "Board").

2. Appointment of Committee Members

Members of the Committee shall be appointed from time to time by the Board, having taken into account the recommendation of the Nominating and Corporate Governance Committee, and shall hold office at the pleasure of the Board.

3. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill any vacancy if the membership of the Committee is less than three directors.

4. Committee Chair

The Board shall appoint a Chair for the Committee on the recommendation of the Nominating & Corporate Governance Committee.

5. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

6. Secretary of Committee

The Committee shall appoint a Secretary who need not be a director of the Corporation.

7. Meetings

The Committee shall meet at least four times per year and shall meet at such other times during each year as it deems appropriate. In addition, the Chair of the Committee or any of its members may call a special meeting of the Committee at any time.

8. Quorum

Three members of the Committee shall constitute a quorum.

9. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing (including by way of written facsimile communication or email) to each member of the Committee at least 24 hours prior to the time fixed for such meeting, provided, however, that a member may in any manner waive a notice of a meeting; and attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called. Notice of every meeting shall also be provided to the external and internal auditors.

10. Attendance at Meetings

At the invitation of the Chair of the Committee, other Board members, officers or employees of the Corporation, the external auditors, outside counsel and other experts or consultants may attend any meeting of the Committee.

11. Procedure, Records and Reporting

Subject to any statute or the articles and by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next meeting of the Board that follows a Committee meeting). The minutes of its meetings held since the last meeting of the Board shall be made available at the next meeting of the Board.

12. The Corporation's Auditors

The Committee shall have the direct responsibility for the appointment, compensation, retention and oversight of the external auditors (including nominating the external auditors to be proposed for shareholder approval in any management proxy circular). The Committee shall serve as the ultimate authority to which the Corporation's external auditors are accountable. The Corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation to the external auditors and any experts or advisors employed by the Committee.

The Committee shall meet with the external auditors, as the Committee may deem appropriate, to consider any matter which the Committee or auditors believe should be brought to the attention of the Board or the Shareholders.

13. Review of Charter

The Committee shall review and reassess the adequacy of its Charter at least annually or otherwise, as it deems appropriate, and propose recommended changes to the Board.

B. General Mandate of Committee

The Committee provides assistance to the Board in fulfilling its oversight responsibility to the shareholders, the investment community and others, relating to the integrity of the Corporation's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the external auditors' qualifications, independence, performance and reports, the legal and environmental compliance programs as established by management and the Board, and the financial risk identification, assessment and management program. In so doing, it is the Committee's responsibility to maintain an open avenue of communication between the Committee, the external auditors, the internal auditors and management of the Corporation.

The function of the Committee is oversight. Management is responsible for the preparation, presentation and integrity of the financial statements of the Corporation. Management of the Corporation is responsible for maintaining appropriate accounting and financial reporting principles and policy and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.

While the Committee has the responsibilities and powers set forth herein, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the external auditors.

Management is responsible for preparing the interim and annual financial statements and financial disclosure of the Corporation and for maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, executed, recorded and reported properly. The Committee's role is to provide meaningful and effective oversight and counsel to management without assuming responsibility for management's day-to-day duties.

The Committee will also perform the functions of the Qualified Legal Compliance Committee (the "QLCC") of the Board of the Corporation and in this role will: (i) receive, review and take appropriate action with respect to any report made or referred to the Committee by a counsel or the chief legal officer, of evidence of a material violation of applicable securities laws, a material breach of a fiduciary duty under applicable laws or a similar material violation by the Corporation or by any officer, director, employee, or agent of the Corporation (in this charter a "material violation") and (ii) otherwise fulfill the responsibilities of a qualified legal compliance committee pursuant to Section 307 of the Sarbanes Oxley Act of 2002 and the rules promulgated thereunder.

C. Duties and Responsibilities of the Committee

The Committee shall have the following specific duties and responsibilities:

1. Audit and Financial Matters:

The Committee shall:

(a) have direct responsibility for the appointment, compensation, retention and oversight of the external auditors, and in doing so, shall:

(i) review the experience and qualifications of the external auditors' senior personnel who are providing audit services to the Corporation and the quality control procedures of the external auditors;

(ii) review and approve the basis and amount of the external auditors' fees;

(iii) review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the external auditors' independence, including, without limitation (i) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation, (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, and (iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence;

(iv) resolve disagreements between management and the external auditors regarding financial reporting;

(v) pre-approve audit services (including comfort letters provided in underwritten transactions) and non-audit services provided by the external auditors;

(vi) inform the external auditors and management that the external auditors shall have access directly to the Committee at all times, as well as the Committee to the external auditors; and

(vii) instruct the external auditors that they are ultimately accountable to the Committee as representatives of the shareholders of the Corporation, and that the Committee is directly responsible for the selection (subject to the approval of shareholders of the Corporation), evaluation and termination of the external auditors of the Corporation;

(b) review with management and the Corporation's external auditors the Corporation's financial reporting in connection with the annual audit and the preparation of the financial statements, including, without limitation, the annual audit plan of the external auditors, the judgment of the external auditors as to the quality, not just the acceptability of, and the appropriateness of the Corporation's accounting principles as applied in its financial reporting and the degree of aggressiveness or conservatism of the Corporation's accounting principles and underlying estimates;

(c) review with management and the external auditors all financial statements and financial disclosure which require approval by the Board of Directors. Such review shall include:

(i) the Corporation's annual financial statements including the notes thereto and "Management's Discussion and Analysis";

(ii) any report or opinion to be rendered in connection therewith;

(iii) the cooperation which the external auditors received during the course of their review and their access to all records, data and information which they requested;

(iv) any significant transactions which were not a normal part of the Corporation's business;

(v) management's process for formulating sensitive accounting estimates and the reasonableness of the estimates;

(vi) any change in accounting principles and their applicability to the business;

(vii) all significant adjustments proposed by the external auditors; and

(viii) satisfying itself that there are no unresolved issues between management and the external auditors that could reasonably be expected to materially affect the financial statements.

(d) review the Corporation's interim financial results, including the notes thereto and "Management's Discussion and Analysis" with management and the external auditors and approve the release thereof by management;

(e) review annually the approach taken by management in the preparation of earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;

(f) at least annually, obtain and review a report by the external auditors describing the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review of the auditing firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditors and any steps taken to deal with any such issues and all relationships between the external auditors and the Corporation;

(g) review with senior management, the chief legal officer and, as necessary, outside legal advisors, and the Corporation's internal and external auditors the effectiveness of the Corporation's internal controls to ensure the Corporation is in compliance with legal and regulatory requirements and with the Corporation's policies;

(h) review at least annually with the chief legal officer, and, if necessary, outside legal advisors, significant legal, compliance or regulatory matters that may have a material effect on the financial statements of the business;

(i) discuss with management the Corporation's policies and procedures for identifying and managing the principal financial risks of its business (other than risks assumed directly by the Board or one of its other committees), to determine that management has implemented and is maintaining systems and procedures to manage or mitigate those risks, including programs of insurance and risk reduction;

(j) review the audit plans of the internal and external auditors of the Corporation including the degree of detail of those plans and the coordination between those plans;

(k) review and consider, as appropriate, any significant reports and recommendations made by internal audit relating to internal audit issues, together with management's response thereto;

(l) review management's plans regarding any changes in accounting practices or policies and the financial impact thereof;

(m) discuss with the external auditors their perception of the Corporation's financial and accounting personnel, any recommendations which the external auditors may have, including those contained in the management letter, with respect to improving internal financial controls, choice of accounting principles or management reporting systems, and review all management letters from the external auditors together with management's written responses thereto;

(n) review with management, the external auditors and, as necessary, internal and external legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements;

(o) review with management the Annual Pension Report and financial statements of the Corporation's pension plans including the actuarial valuation, asset/liability forecast, asset allocation, manager performance and plan operating costs;

(p) review annually the internal audit department charter, review with the internal auditors the Corporation's internal control procedures, the scope and plans for the work of the internal audit group, the annual checklist of responsibilities of the Committee, as prepared by the internal auditors; review the adequacy of resources and ensure that the internal auditors have unrestricted access to all functions, records, property and personnel of the Corporation and inform the internal auditors and management that the internal auditors shall have unfettered access directly to the Committee at all times, as well as the Committee to the internal auditors;

(q) at least annually, meet separately with management, the external auditors and internal auditors to review issues and matters of concern respecting audits and financial reporting;

(r) review the annual audit of expense accounts and perquisites of the Directors, the CEO and his direct reports, including the use of the Corporation's assets; as well as the Corporation's annual sponsorship, donations and political contributions;

(s) review incidents or alleged incidents of fraud, illegal acts and conflicts of interest;

(t) review the Corporate Code of Conduct and inquire of management as to policies and practices in place to ensure compliance and inquire of the internal and external auditors as to any instances of deviation from the Corporate Code of Conduct which have come to their attention, and the action taken as a result of same;

(u) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters;

(v) discuss with management and the external auditors any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issue regarding the Corporation's financial statements or accounting policies; and

(w) annually prepare a report from the Committee to shareholders or others, concerning the work of the Committee during that year in the discharge of its responsibilities.

2. Environment, Health and Safety Matters:

The Committee shall:

(a) review and evaluate with management whether the existing environmental, health and safety practices and procedures of the Corporation and its subsidiaries comply with applicable legislation, and conform with industry standards, to prevent or mitigate losses;

(b) review with the management whether the Corporation's environment, health and safety policies (or those of its subsidiaries) are being effectively implemented;

(c) review the effectiveness of the response by the Corporation or its subsidiaries, as the case may be, to environment, health and safety issues, including the compliance with statutory and regulatory requirements;

(d) review and consider reports and recommendations issued by the Corporation and its subsidiaries or by an external party relating to the environment, health and safety issues, together with management's response thereto;

(e) review with management and make recommendations to the Board of Directors as appropriate on the Corporation's environment, health and safety policies and procedures and any other matters relating to the environment, health and safety it considers relevant; and

(f) at least annually, meet separately with the senior environment member of management to review environmental matters that may have a material impact on the Corporation's business or financial results and report to the Board thereon.

3. QLCC Matters:

The Committee shall:

(a) inform the chief legal officer and chief executive officer of any report of evidence of a material violation of applicable securities laws, a material breach of a fiduciary duty under applicable laws or a similar material violation by the Corporation or by any officer, director, employee or agent of the Corporation, which has been reported to the Committee;

(b) determine whether an investigation is necessary regarding any such report;

(c) if the Committee has determined that an investigation is necessary, the Committee shall: (i) notify the Board, (ii) initiate an investigation to be conducted either by the Corporation's chief legal officer or by an outside counsel retained by the Committee and (iii) retain such additional expert personnel as the Committee deems necessary;

(d) at the conclusion of an investigation, the Committee shall: (i) recommend, by majority vote, that the Corporation implement an appropriate response and (ii) inform the chief legal officer, the chief executive officer and the Board of the results of the investigation and the appropriate remedial measures that it recommends to be adopted;

(e) have the authority and responsibility to act, by majority vote, to take all other appropriate action, including the authority to notify, where required, those securities commissions or the U.S. Securities and Exchange Commission having jurisdiction, in the event that the Corporation fails in any material respect to implement an appropriate response that the Committee has recommended to the Corporation;

(f) adopt written procedures for the confidential receipt, retention and consideration of any oral or written reports received by the Committee;

(g) report to the Board on a regular basis regarding QLCC matters that it deals with;

(h) take appropriate measures so that, to the maximum extent possible, consistent with its obligations, the Corporation's legal privileges are protected in connection with the Committee's activities; and

(i) maintain confidentiality in its activities to the maximum extent possible consistent with performing a full and fair investigation.

4. The Committee may, at the request of the Board or on its own initiative, investigate such other matters as are considered necessary or appropriate in carrying out its mandate and in such matters shall have the authority to retain such counsel, experts or other advisors (financial or otherwise) as it may determine are necessary or appropriate.

Document Number: 205

205: Policy for the Provision of Non-Audit Services by the Corporation's Auditors

Applies to TransAlta Corporation and all Subsidiaries

Approved by: **Executive Vice President & CFO TransAlta Corporation**
Effective Date: **2004/05/14**
Content & Interpretation: **Vice President & Comptroller, TransAlta Corporation**

INTRODUCTION

The intent of this policy is to outline the services TransAlta will and will not seek to be provided from its auditors to ensure compliance with statutory and regulatory requirements. The underlying principle shall be that the auditors will not be engaged to perform services on which they will ultimately be required to provide an audit opinion on.

RESPONSIBILITY

Vice President and Comptroller is responsible for ensuring the policy is in compliance with statutory and regulatory requirements.

Directors of Financial Operations and Country Financial Controllers are responsible for ensuring their respective business units / countries comply with the policy.

All staff should be aware of the policy and be in compliance.

POLICY

In general, audit, audit-related and tax compliance services may be provided by the corporation's auditors. Consulting engagements will not be provided by the corporation's auditors, nor will engagements where fees are contingent on success. Specific examples are set out below.

May Be Provided by the Corporation's Auditors (subject to approval process)			Will Not Be Provided by the Corporation's Auditors
Audit	**Audit-related**	**Tax Compliance**	**Consulting/Other**
Consolidated financial statements	Local statutory financial statement audits	Tax compliance reviews and filings	Internal Audit engagements
Quarterly reviews	Pension plan audits	Expatriate tax services (existing expatriates only)	Management functions
	Regulatory audits		HR services
	Prospectuses and registration documents		Information systems design and implementation
	Accounting advice		Tax planning / strategy with an audit impact
	Co-sourced internal audits used for internal & external audit purposes - Treasury / EM risk management reviews - IT security reviews		Legal Services (unrelated to audit) Tax litigation support
	French translation		Actuarial Services Acquisition reviews / due diligence Contingent fee engagements Outsourcing arrangements Accounting / bookkeeping Process efficiency reviews (non-control related) Valuation / fairness opinions

It is intended that total non-audit fees should not exceed audit and audit-related fees in total in any one financial year.

APPROVAL PROCESS

All audit or non-audit services to be performed by the corporation’s auditors require pre-approval by the Audit and Environment Committee, TransAlta Corporation, before any work is started.

The Audit and Environment Committee may delegate the authority to grant pre-approvals. The Audit and Environment Committee member to whom this authority is delegated must also be an independent member of the Board. Any

services pre-approved under this delegated process must be presented to the full Audit and Environment Committee at the next scheduled meeting.

Boards of Directors of subsidiary companies are required to approve all services, irrespective of fee level, to be performed by the auditor and these services are subject to final approval by the TransAlta Corporation Audit and Environment Committee.

Approvals shall be evidenced in writing and maintained by the VP & Comptroller. Subsidiary companies are required to submit their approvals to the VP & Comptroller for filing and presentation to the TransAlta Corporation Audit and Environment Committee.

REPORTING PROCESS

A summary of all approved work shall be presented to the Audit Committee at each quarterly meeting.

The Vice President and Comptroller is responsible for preparing and presenting this information.

Exhibit 5.1

CERTIFICATION

I, Stephen G. Snyder, certify that:

1. I have reviewed this annual report on Form 40-F of TransAlta Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 29, 2005.

signed "S.G. Snyder"
Stephen G. Snyder
President and Chief Executive Officer

Exhibit 5.2

CERTIFICATION

I, Ian A. Bourne, certify that:

1. I have reviewed this annual report on Form 40-F of TransAlta Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 29, 2005.

signed "I.A.Bourne"
Ian A Bourne
Executive Vice President, Chief Financial Officer

Exhibit 5.3

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TransAlta Corporation (the "Company") on Form 40-F for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the dated hereof (the "Report"), I, Stephen G. Snyder, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all materials respects, the financial condition and result of operations of the Company.

signed "S.G. Snyder"
Stephen G. Snyder
President and Chief Executive Officer

Dated: March 29, 2005.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 5.4

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TransAlta Corporation (the "Company") on Form 40-F for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the dated hereof (the "Report"), I, Ian A. Bourne, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all materials respects, the financial condition and result of operations of the Company.

signed " I.A. Bourne"
Ian A. Bourne
Executive Vice President and Chief Financial Officer

Dated: March 29, 2005.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Ernst & Young LLP
Chartered Accountants
Ernst & Young Tower
1000 440 2 Avenue SW
Calgary AB Canada T2P 5E9

Phone: 403 290-4100
Fax: 403 290-4265

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 40-F) of TransAlta Corporation of our report dated February 25, 2005 included in the 2004 Annual Report to shareholders of TransAlta Corporation.

We also consent to the incorporation by reference in the Registration Statements on Form S-8 (File Number 333-72454 and File Number 333-101470) pertaining to TransAlta Corporation's Share Option Plan and Form F-10 (File Number 333-87762 and File Number 333-117408) pertaining to the registration of Debt and Equity Securities of TransAlta Corporation, previously filed with the Securities and Exchange Commission of our report dated February 25, 2005 i n corporated by reference in this Annual Report (Form 40-F).

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
March 29, 2005

MANAGEMENT'S RESPONSIBILITY

TransAlta's management is responsible for presentation and preparation of the annual consolidated financial statements, management's discussion and analysis (MD&A) and all other information in this annual report.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission (SEC) in the U.S., as applicable.

The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instruments 44-101 and 51-102 of the Canadian Securities Administrators, as well as Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration for materiality. In addition, in preparing financial information, the corporation must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control that are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit and Environment (A&E) Committee of the Board of Directors is comprised of independent directors. The A&E Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and MD&A. The A&E Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The A&E Committee also recommends, for review by the Board of Directors and approval of shareholders, the appointment of the external auditors. The internal and external auditors have full and free access to the A&E Committee.

TransAlta's Chief Executive Officer and Chief Financial Officer have certified TransAlta Corporation's annual disclosure documents in the U.S., as required by the U.S. Sarbanes-Oxley Act, and in Canada by the Canadian securities regulators.



STEPHEN G. SNYDER
PRESIDENT & CHIEF EXECUTIVE OFFICER
FEBRUARY 17, 2005



IAN A. BOURNE
EXECUTIVE VICE-PRESIDENT & CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

To the Shareholders of TransAlta Corporation

We have audited the consolidated balance sheets of TransAlta Corporation as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings and cash flows for each of 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an 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, assessing the accounting principles used and significant estimates made by management, and 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, 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. We also report that, in our opinion, these principles have been applied, except for changes in the method of accounting for preferred shares, employee share purchase plan loans and mineral rights as explained in *Note 1(R)* to the consolidated financial statements, on a basis consistent with that of the preceding year.

Ernst & Young LLP

CHARTERED ACCOUNTANTS

CALGARY, CANADA

FEBRUARY 25, 2005

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

Year ended Dec. 31	2004	2003	2002
(in millions of Canadian dollars except per share amounts)		(Restated, Note 1)	(Restated, Note 1)
Revenues	**$ 2,838.3**	$ 2,520.9	$ 1,814.9
Trading purchases	**(197.7)**	(97.4)	(91.0)
Fuel and purchased power	**(1,231.3)**	(1,067.4)	(664.6)
Gross margin	**1,409.3**	1,356.1	1,059.3
Operations, maintenance and administration	**572.7**	559.3	420.5
Depreciation and amortization *(Note 2)*	**377.3**	339.0	243.0
Taxes, other than income taxes	**20.8**	23.1	27.4
Operating expenses	**970.8**	921.4	690.9
Gain on sale of Sheerness Generating Station *(Note 4)*	**–**	(191.5)	–
Gain on sale of Meridian Cogeneration Facility *(Note 4)*	**(17.7)**	–	–
Gain on sale of TransAlta Power partnership units *(Note 4)*	**(44.8)**	(15.2)	–
Gain on sale of land *(Note 4)*	**–**	(10.5)	–
Asset impairment charges *(Notes 6 and 7)*	**–**	90.3	152.5
Prior period regulatory decision *(Note 16)*	**22.9**	–	3.3
	(39.6)	(126.9)	155.8
Operating income	**478.1**	561.6	212.6
Other income (expense)	**–**	(3.2)	0.1
Foreign exchange gain (loss)	**0.7**	(4.7)	1.2
Net interest expense *(Note 11)*	**(222.1)**	(220.7)	(117.6)
Earnings before non-controlling interests and income taxes	**256.7**	333.0	96.3
Non-controlling interests *(Note 13)*	**46.0**	34.2	20.1
Earnings before income taxes	**210.7**	298.8	76.2
Income tax expense *(Note 17)*	**50.1**	64.6	9.4
Earnings from continuing operations	**160.6**	234.2	66.8
Earnings from discontinued operations, net of tax *(Note 3)*	**–**	–	12.8
Gain on disposal of discontinued operations, net of tax *(Notes 3 and 4)*	**9.6**	–	120.0
Net earnings	**170.2**	234.2	199.6
Common share dividends	**(192.7)**	(185.0)	(169.0)
Adjustment arising from normal course issuer bid *(Note 14)*	**(1.1)**	–	(27.0)
Retained earnings			
Opening balance	**933.9**	884.7	881.1
Closing balance	**$ 910.3**	$ 933.9	$ 884.7
Weighted average common shares outstanding in the year	**192.7**	185.3	169.6
Basic earnings per share			
Earnings from continuing operations	**$ 0.83**	$ 1.26	$ 0.39
Earnings from discontinued operations	**–**	–	0.07
Net earnings from operations	**0.83**	1.26	0.46
Gain on disposal of discontinued operations, net of tax	**0.05**	–	0.71
Net earnings	**$ 0.88**	$ 1.26	$ 1.17
Diluted earnings per share *(Note 14)*			
Earnings from continuing operations	**$ 0.83**	$ 1.26	$ 0.39
Earnings from discontinued operations	**–**	–	0.07
Net earnings from operations	**0.83**	1.26	0.46
Gain on disposal of discontinued operations, net of tax	**0.05**	–	0.71
Net earnings	**$ 0.88**	$ 1.26	$ 1.17

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

Dec. 31	2004	2003

(in millions of Canadian dollars)			(Restated, Note 1)
ASSETS *(Note 11)*			
Current assets			
Cash and cash equivalents	**$**	**137.1**	$ 155.0
Accounts receivable *(Notes 4 and 21)*		**429.1**	420.1
Prepaid expenses		**54.7**	53.8
Price risk management assets *(Note 19)*		**61.4**	68.4
Future income tax assets *(Note 17)*		**21.5**	29.4
Income taxes receivable		**60.1**	108.9
Inventory		**39.9**	47.0
Current portion of other assets *(Note 9)*		**192.7**	49.4
		996.5	932.0
Restricted cash *(Note 4)*		**8.9**	9.9
Investments *(Note 5)*		**3.0**	5.0
Long-term receivables *(Note 6)*		**–**	120.1
Property, plant and equipment *(Note 7)*			
Cost		**8,865.4**	8,693.2
Accumulated depreciation		(2,621.0)	(2,307.7)
		6,244.4	6,385.5
Goodwill *(Note 4)*		**142.2**	149.6
Intangible assets *(Note 8)*		**392.3**	477.2
Future income tax assets *(Note 17)*		**132.0**	90.3
Price risk management assets *(Note 19)*		**32.5**	31.6
Other assets *(Note 9)*		**181.2**	280.8
Total assets	**$**	**8,133.0**	$ 8,482.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term debt *(Note 10)*	**$**	**34.4**	$ 119.8
Accounts payable and accrued liabilities		**432.3**	501.2
Price risk management liabilities *(Note 19)*		**49.9**	64.3
Income taxes payable		**6.9**	–
Future income tax liabilities *(Note 17)*		**11.1**	4.6
Dividends payable		**19.3**	14.9
Deferred credits and other current liabilities *(Note 12)*		**133.4**	24.1
Current portion of long-term debt – recourse *(Note 11)*		**538.1**	138.5
Current portion of long-term debt – non-recourse *(Note 11)*		**49.6**	45.3
		1,275.0	912.7
Long-term debt – recourse *(Note 11)*		**1,939.8**	2,428.1
Long-term debt – non-recourse *(Note 11)*		**530.4**	534.2
Preferred securities *(Note 11)*		**175.0**	475.0
Deferred credits and other long-term liabilities *(Note 12)*		**391.3**	487.6
Future income tax liabilities *(Note 17)*		**703.9**	686.1
Price risk management liabilities *(Note 19)*		**28.5**	29.9
Non-controlling interests *(Note 13)*		**616.4**	477.9
Common shareholders' equity			
Common shares *(Note 14)*		**1,611.9**	1,555.7
Retained earnings		**910.3**	933.9
Cumulative translation adjustment		(49.5)	(39.1)
		2,472.7	2,450.5
Total liabilities and shareholders' equity	**$**	**8,133.0**	$ 8,482.0

Contingencies *(Notes 6, 16 and 23)*
Subsequent events *(Note 25)*
Commitments *(Note 22)*
See accompanying notes.

On behalf of the Board:

JOHN T. FERGUSON
DIRECTOR

WILLIAM D. ANDERSON
DIRECTOR

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended Dec. 31		**2004**		2003		2002
(in millions of Canadian dollars)				(Restated, Note 1)		(Restated, Note 1)
Operating activities						
Net earnings	$	170.2	$	234.2	$	199.6
Depreciation and amortization *(Note 2)*		**411.8**		378.1		276.8
California receivable provision *(Note 6)*		**22.9**		–		–
Gain on sale of TransAlta Power partnership units *(Note 4)*		(44.8)		(15.2)		–
Non-controlling interests		**46.0**		34.2		20.1
Writedown of investments *(Note 5)*		**–**		6.2		–
Asset retirement obligation accretion *(Note 12)*		**19.3**		22.0		18.7
Future income taxes *(Note 17)*		**17.8**		27.4		(54.4)
Unrealized loss (gain) from energy marketing activities		(9.7)		(18.6)		31.7
Asset retirement obligation costs settled *(Note 12)*		(19.7)		(26.5)		(14.5)
Foreign exchange loss (gain)		(0.7)		4.7		(1.2)
Asset impairment charge		**–**		90.3		152.5
Loss (gain) on sale of assets		(15.1)		(202.0)		15.6
Gain on disposal of discontinued operations		(9.6)		–		(120.0)
Other non-cash items		**–**		3.2		(15.2)
		588.4		538.0		509.7
Change in non-cash operating working capital balances		**25.0**		(11.1)		(111.1)
Cash flow from operating activities		**613.4**		526.9		398.6
Investing activities						
Long-term receivables		**90.8**		–		165.3
Additions to property, plant and equipment		(365.8)		(555.7)		(945.8)
Proceeds on sale of property, plant and equipment *(Note 4)*		**43.2**		226.7		2.3
Proceeds on sale of TransAlta Power partnership units *(Note 4)*		**116.5**		37.2		–
Investments		**–**		–		(6.1)
Restricted cash *(Note 4)*		**1.1**		46.7		–
Acquisitions *(Note 4)*		**–**		(323.4)		(40.1)
Proceeds on sale of long-term investments *(Note 5)*		**–**		21.6		–
Reduction in advance to TransAlta Power *(Note 4)*		**2.0**		–		–
Realized foreign exchange gains on net investments *(Note 19)*		**47.8**		194.1		4.2
Deferred charges and other		(1.0)		11.8		(29.8)
Proceeds on sale of discontinued operations *(Note 3)*		**–**		–		818.0
Cash flow used in investing activities		(65.4)		(341.0)		(32.0)
Financing activities						
Repayment of short-term debt		(85.4)		(170.2)		(247.1)
Repayment of long-term debt		(292.2)		(601.1)		(454.5)
Dividends on common shares		(135.4)		(158.3)		(115.5)
Issuance of long-term debt		**2.7**		544.6		611.3
Redemption of common shares		(2.3)		–		(49.9)
Net proceeds on issuance of common shares		**3.4**		265.0		1.8
Distributions to subsidiary's non-controlling limited partner		(48.4)		(38.9)		(24.5)
Deferred financing charges and other		(1.2)		(6.6)		(7.6)
Cash flow used in financing activities		(558.8)		(165.5)		(286.0)
Cash flow from operating, investing and financing activities		(10.8)		20.4		80.6
Effect of translation on foreign currency cash		(7.1)		(8.7)		0.7
Increase in cash and cash equivalents		(17.9)		11.7		81.3
Cash and cash equivalents, beginning of year		**155.0**		143.3		62.0
Cash and cash equivalents, end of year	$	137.1	$	155.0	$	143.3
Cash taxes paid	$	4.6	$	34.1	$	123.1
Cash interest paid	$	253.4	$	232.8	$	210.8

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR DOLLAR AMOUNTS IN MILLIONS OF CANADIAN DOLLARS, EXCEPT AS OTHERWISE NOTED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Consolidation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These accounting principles are different in some respects from United States generally accepted accounting principles (U.S. GAAP). The significant differences are described in *Note 26*.

The consolidated financial statements include the accounts of TransAlta Corporation (TransAlta or the corporation), all subsidiaries and the proportionate share of the accounts of jointly controlled corporations.

B. Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates due to factors such as fluctuations in interest rates, currency exchange rates, inflation levels and commodity prices, changes in economic conditions and legislative and regulatory changes *(Notes 7, 18, 19 and 23)*.

C. Revenue Recognition

The majority of the corporation's revenues are derived from the sale of physical power and from energy marketing and trading activities. Revenues under long-term electricity and thermal sales contracts generally include one or more of the following components: fixed capacity payments for being available, energy payments for generation of electricity, incentives or penalties for exceeding or not meeting availability targets, excess energy payments for power generation above committed capacity and ancillary services. Each is recognized upon output, delivery or satisfaction of specific targets, all as specified by contractual terms. Revenues from non-contracted capacity are comprised of energy payments for each MWh produced at market prices, and are recognized upon delivery.

Derivatives used in trading activities include physical and financial swaps, forward sales contracts, futures contracts and options, which are used to earn trading revenues and to gain market information. These derivatives are accounted for using the fair value method of accounting. Derivatives, other than real-time physical contracts, are presented on a net basis in the statements of earnings. The initial recognition of fair value and subsequent changes in fair value affect reported earnings in the period the change occurs. The fair values of those instruments that remain open at the balance sheet date represent unrealized gains or losses and are presented on the balance sheets as price risk management assets and liabilities. Non-derivative contracts are accounted for using the accrual method.

To be consistent with the U.S. Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) pronouncement 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes,* TransAlta has concluded that real-time physical contracts meet the definition of derivative contracts held for delivery and therefore realized gains and losses are reported gross in the consolidated statements of earnings.

The majority of the corporation's derivatives have quoted market prices or over-the-counter quotes are available from brokers. However, some derivatives are not traded on an active exchange or extend beyond the time period for which exchange-based quotes are available, requiring the use of internal valuation techniques or models (mark-to-model accounting).

D. Discontinued Operations

The results of discontinued operations are presented net of tax on a one-line basis in the consolidated statements of earnings. Interest expense, direct corporate overheads and income taxes are allocated to discontinued operations. General corporate overheads are not allocated to discontinued operations.

E. Inventory

The corporation's inventory balance represents fuel which is valued at the lower of cost and market value, defined as net replacement value. Inventory cost is determined using moving average cost. The costing method used is direct costing, which is determined as the sum of all applicable expenditures and charges directly or indirectly incurred in bringing an inventory item to its existing condition and location.

F. Property, Plant and Equipment

The corporation's investment in property, plant and equipment (PP&E) is stated at original cost at the time of construction, purchase or acquisition. Original cost includes items such as materials, labour, interest and other appropriately allocated costs. As costs are expended for new construction, the entire amount is capitalized as PP&E on the consolidated balance sheet and is subject to depreciation upon

commencement of commercial operations. The cost of routine maintenance and repairs, such as inspections and corrosion removal, and the

replacement of minor parts, are charged to expense as incurred. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. A component is a tangible portion of the asset that can be separately identified as an asset and depreciated over its own expected useful life, and is expected to provide a benefit of greater than one year.

The estimate of the useful life of PP&E is based on current facts and past experience, and takes into consideration existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence. The useful life is used to estimate the rate at which the PP&E is depreciated or amortized. These estimates are subject to revision in future periods based on new or additional information. Depreciation and amortization is calculated using straight-line, declining balance and unit of production methods. Coal rights are amortized on a unit of production basis, based on the estimated mine reserve.

TransAlta capitalizes interest on capital invested in projects under construction. Upon commencement of commercial operations, capitalized interest, as a portion of the total cost of the plant, is amortized over the estimated useful life of the plant.

On an annual basis, and when indicators of impairment exist, TransAlta determines whether the net carrying amount of PP&E is recoverable from future undiscounted cash flows. Factors that could indicate an impairment exists include significant underperformance relative to historical or projected future operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for the corporation's overall business. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. This can be further complicated where TransAlta is not the operator of the facility. Events can occur in these situations that may not be known until a date subsequent to their occurrence.

The corporation's businesses, the markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the PP&E. If the total of the undiscounted future cash flows, excluding financing charges with the exception of plants that have specifically dedicated debt, is less than the carrying amount of the PP&E, an asset impairment must be recognized in the financial statements. The amount of the impairment charge to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is estimated by calculating the present value of expected future cash flows related to the asset.

G. Goodwill

Goodwill is the cost of an acquisition less the fair value of the net assets of an acquired business. Goodwill and certain intangibles are no longer subject to amortization, but are instead tested for impairment at least annually, or more frequently if an analysis of events and circumstances indicate that a possible impairment may arise earlier. These events could include a significant change in financial position of the reporting unit to which the goodwill relates or significant negative industry or economic trends. To test for impairment, the fair value of the reporting units to which the goodwill relates is compared to the carrying values of the reporting units. The corporation determined that the fair values of the reporting units, based on historical cash flows and estimates of future cash flows, exceeded their carrying values. There was no impairment of goodwill at Dec. 31, 2004, 2003 or 2002.

H. Intangible Assets

Intangible assets consist of power sale contracts, with rates higher than market rates at the date of acquisition, acquired in the purchase of CE Generation LLC (CE Gen), a jointly controlled enterprise *(Note 4).* Sale contracts are valued at cost and are amortized on a straight-line basis over the remaining contract period, which ranges from seven to 30 years.

I. Asset Retirement Obligations

Effective Jan. 1, 2003, TransAlta early adopted the new Canadian Institute of Chartered Accountants (CICA) standard for accounting for asset retirement obligations. Under the new standard, the corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. Previously, future site restoration costs for coal and hydro plants were recognized over the estimated life of the plant on a straight-line basis. Reclamation costs for mining assets were recognized on a unit-of-production basis. No provision for future site restoration for gas generation plants had been recorded as the costs of restoration were expected to be offset by the salvage value of the related plant.

TransAlta recorded an asset retirement obligation for all generating facilities, as it is legally required to remove the facilities at the end of their useful lives and restore the plant and mine sites to their original condition. For the hydro facilities, the corporation is required to remove the generating equipment, but is not legally required to remove the structures. TransAlta has recognized legal obligations arising from

government legislation, written agreements between entities and case law. The asset retirement liabilities are recognized when the asset retirement obligation is incurred. Asset retirement liabilities for coal mines are incurred over time, as new areas are mined, and a portion of the liability is settled over time as areas are reclaimed prior to final pit reclamation.

The effect of this change in accounting policy was recorded retroactively with restatement of prior periods.

J. Investments

Investments in shares of companies over which the corporation exercises significant influence are accounted for using the equity method. Other investments are carried at cost. If there is other than a temporary decline in the value of the investment, it is written down to net realizable value.

K. Other Assets

Deferred license fees and deferred contract costs are amortized on a straight-line basis over the useful life of the related assets or long-term contracts.

Financing costs for the issuance of long-term debt and preferred securities are amortized to earnings on a straight-line basis over the term of the related issue.

Other costs capitalized on the balance sheet include project development costs, which includes external, direct and incremental costs that are necessary for completion of a potential acquisition or construction project. Business development costs are included in operating expenses until construction of a plant or acquisition of an investment is likely to occur, there is reason to believe that future costs are recoverable and that efforts will result in future value to the corporation, at which time the future costs are included in PP&E or investments. The appropriateness of the carrying value of these costs is evaluated each reporting period, and unrecoverable amounts of capitalized costs for projects no longer probable of occurring are charged to expense in the current period.

L. Income Taxes

The corporation uses the liability method of accounting for income taxes for its operations. Under the liability method, income taxes are recognized for the differences between financial statement carrying values and the respective income tax basis of assets and liabilities (temporary differences), and the carry forward of unused tax losses. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in earnings in the period the change is substantively enacted. Future income tax assets are evaluated annually and if realization is not considered 'more likely than not', a valuation allowance is provided.

M. Employee Future Benefits

The corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other post-employment and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The defined benefit pension plans are based on an employee's final average earnings and years of service. Pension benefits will increase annually by two per cent. For the purpose of calculating the expected return on plan assets, those assets are valued at quoted market value. The discount rate used to calculate the interest cost on the accrued benefit obligation is determined by reference to market interest rates at the balance sheet date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service period of employees active at the date of amendment (EARSL). The excess of the net cumulative unamortized actuarial gain or loss over 10 per cent of the greater of the accrued benefit obligation and the market value of plan assets is amortized over the estimated average remaining service period of the active employees. When the restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement. Transition obligations and assets arising from the prospective adoption of new accounting standards are amortized over EARSL.

N. Foreign Currency Translation

The corporation's self-sustaining foreign operations are translated using the current rate method. Translation gains and losses are deferred and included in the cumulative translation adjustment (CTA) account in shareholders' equity. Foreign currency denominated monetary and non-monetary assets and liabilities are translated at exchange rates in effect on the balance sheet date.

Transactions denominated in foreign currencies are translated at the exchange rate on the transaction date. The resulting exchange gains and losses on these items are included in net earnings.

O. Derivatives and Financial Instruments

Derivatives used in trading activities are described in *Note 1(C)*.

Physical and financial swaps, forward sales contracts, futures contracts and options are used to hedge the corporation's exposure to fluctuations in electricity and natural gas prices related to output from the plants. Under Canadian GAAP, if hedging criteria are met (described

below), gains and losses on these derivatives are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The derivatives are not recorded on the balance sheet.

Cross-currency interest rate swaps, foreign currency forward contracts and foreign currency long-term debt are used to hedge exposure to changes in the carrying values of the corporation's net investments in foreign operations as a result of changes in foreign exchange rates. Under Canadian GAAP, gains and losses on the principal component of the cross-currency interest rate swaps as well as gains and losses on the forward sales contracts and foreign currency long-term debt are deferred and included in CTA, a separate component of shareholders' equity. The principal component of the cross-currency interest rate swaps is deferred and recorded in other assets *(Note 9)* or deferred credits and other long-term liabilities *(Note 12)* as appropriate. The forward sales contracts are not recognized on the balance sheet in accordance with Canadian GAAP.

Foreign currency forward contracts are used to hedge the foreign exchange exposures resulting from anticipated contracts and firm commitments denominated in foreign currencies. Under Canadian GAAP, if hedge criteria are met, these derivatives are not recognized on the balance sheet. Upon settlement of the derivative, any gain or loss on the forward contracts is deferred and included in other assets *(Note 9)* or deferred credits and other long-term liabilities *(Note 12),* and is included in the cost of the asset when the asset is purchased and depreciated over the asset's estimated useful life (settlement accounting).

Interest rate swaps are used to manage the impact of fluctuating interest rates on existing debt. These instruments are not recognized on the balance sheet under Canadian GAAP. Interest rate swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. If hedge criteria are met, interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps (settlement accounting).

To be accounted for as a hedge under both Canadian and U.S. GAAP, a derivative must be designated and documented as a hedge, and must be effective at inception and on an ongoing basis. The documentation defines all relationships between hedging instruments and hedged items, as well as the corporation's risk management objective and strategy for undertaking various hedge transactions. The process includes linking derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness of cash flows is achieved if the derivatives' cash flows substantially offset the cash flows of the hedged item and the timing of the cash flows is similar. Hedge effectiveness of fair values is achieved if changes in the fair value of the derivative substantially offset changes in the fair value of the item hedged. In a highly effective hedging relationship, U.S. GAAP requires any hedge ineffectiveness to be recognized in earnings in the current period. If the above hedge criteria are not met, the derivative is accounted for on the balance sheet at fair value, with the initial fair value and subsequent changes in fair value recorded in earnings in the period of change.

If a derivative that has been accorded hedge accounting matures, expires, is sold, terminated or cancelled, and is not replaced as part of the corporation's hedging strategy, the termination gain or loss is deferred and recognized when the gain or loss on the item hedged is recognized. If a designated hedged item matures, expires, is sold, extinguished or terminated, and the hedged item is no longer probable of occurring, any previously deferred amounts associated with the hedging item are recognized in current earnings along with the corresponding gains or losses recognized on the hedged item. If a hedging relationship is terminated or ceases to be effective, hedge accounting is not applied to subsequent gains or losses. Any previously deferred amounts are carried forward and recognized in earnings in the same period as the hedged item.

P. Stock-based Compensation Plans

The corporation has three types of stock-based compensation plans comprised of two stock option-based plans, and a Performance Share Ownership Plan (PSOP), described in *Note 15.* On Jan. 1, 2002, the corporation retroactively adopted the new CICA standard for stock-based compensation. The new standard requires that stock-based payments to non-employees, direct awards of stock and awards that call for settlement in cash or other assets be accounted for using the fair value method of accounting. The fair value method is encouraged for other stock-based compensation plans, but other methods of accounting, such as the intrinsic value method, are permitted. Under the fair value method, compensation expense is measured at the grant date at fair value and recognized over the service period. Under the intrinsic value method, compensation expense is determined as the difference between the market price of the underlying stock and the exercise price of the equity instrument granted on the date of the grant. If the intrinsic value method is used, disclosure is made of earnings and per share amounts as if the fair value method had been used. Effective Jan. 1, 2003, the corporation elected to prospectively use the fair value method of accounting for stock-based compensation arrangements. No awards were granted in 2003 or 2004. *Note 15* provides pro forma measures of net earnings and earnings per share had compensation expense been recognized for awards granted prior to 2003 based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

Stock grants under PSOP are accrued in corporate operations, maintenance and administration expense as earned to the balance sheet date, based upon the percentile ranking of the total shareholder return of the corporation's common shares in comparison to the total

shareholder returns of a selected group of publicly traded companies. Compensation expense under the phantom stock option plan is recognized in operations, maintenance and administration expense for the amount by which the quoted market price of TransAlta's shares exceed the option price, and adjusted for changes in each period for changes in the excess over the option price. If stock options or stock are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option or stock cancelled is charged to retained earnings.

Q. Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

R. Changes in Accounting Standards

The CICA established a new standard on the disposal of long-lived assets and discontinued operations. This standard became effective May 1, 2003, however TransAlta early adopted the standard on Jan. 1, 2003 with retroactive restatement. The standard requires that a long-lived asset to be disposed of other than by sale shall continue to be classified as held and used until it is disposed of. Certain criteria must be met before a long-lived asset can be classified as held for sale. The standard also defines discontinued operations more broadly than previously and prohibits the inclusion of future operating losses in a loss recognized upon classification of a long-lived asset as held for sale. The impact of adopting this standard was not material to the consolidated financial statements.

In the fourth quarter of 2003, in response to changes in accounting standards in the U.S. with respect to derivative instruments not held for trading, the corporation adopted a policy that all gains and losses on real-time physical trading contracts be shown gross in the statements of earnings. Prior period amounts have been restated.

Effective Jan. 1, 2004, TransAlta early adopted the amended CICA standard on the presentation of liabilities and equity. The standard addresses the situation in which an entity has a contractual obligation of a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments, but the entity must, or can, settle the obligation by delivery of its own equity instruments (the number of which depends on the amount of the obligation). Such an obligation is a financial liability of the entity.

TransAlta has presented the corporation's preferred securities as financial liabilities on the consolidated balance sheets. Preferred securities distributions are included in interest expense on the consolidated statements of earnings *(Note 11)* and therefore included as a deduction in arriving at net earnings. This change in accounting policy was recorded retroactively with restatement and as a result, preferred securities

distributions, net of tax, have been reduced to nil in each of 2004, 2003 and 2002, net interest expense for the year ended Dec. 31, 2004 was increased by $44.5 million (2003 – $36.8 million, 2002 – $34.9 million), and income tax expense for the year ended Dec. 31, 2004 was decreased by $15.0 million (2003 – $13.8 million, 2002 – $14.0 million). The liability component of the preferred securities has increased to $475.0 million from $450.8 million as at Dec. 31, 2003 as a result of this restatement.

Effective Jan. 1, 2004, the corporation has prospectively presented employee share purchase plan loans as a deduction from shareholders' equity. The impact of this new accounting treatment is not material to the consolidated financial statements.

In March 2004, the U.S. Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 04-02, *Whether Mineral Rights are Tangible or Intangible Assets,* that mineral rights, as defined in the Issue, are tangible assets. As a result of this decision, TransAlta accounts for coal rights under both Canadian and U.S. GAAP as tangible assets. Prior period amounts have been reclassified from intangible assets to tangible assets (Dec. 31, 2003 – $58.5 million). There was no effect on net earnings as a result of the reclassification.

2. SEGMENT DISCLOSURES

A. Description of Reportable Segments

The corporation has two reportable segments: Generation and Energy Marketing. Both segments are supported by the corporate group. A third business segment, Transmission, was reclassified as a discontinued operation following the announcement of the agreement to dispose of the segment on July 4, 2001. The operation was sold on April 29, 2002 *(Notes 3 and 4)*. The business segments are strategic business units that offer different products and services, and each is managed separately. The corporate group provides finance, treasury, legal, human resources and other administrative support to the business segments. Corporate overheads are allocated to the business segments to the extent they are not directly attributable to discontinued operations.

Each business segment assumes responsibility for its operating results measured as operating income.

The Generation segment owns coal, gas, wind, geothermal and hydro power plants in Canada, the U.S., Mexico and Australia, and generates its revenue from the sale of electricity, steam and ancillary services. Generation expenses include Energy Marketing's intersegment charge for energy marketing and financial risk management services in the amount of $26.0 million (2003 – $24.8 million, 2002 – $8.7 million).

The Energy Marketing segment derives revenue from the wholesale trading of electricity and other energy-related commodities and physical and financial contracts in Canada and the U.S. Expenses are net of intersegment charges to the Generation segment for the provision of energy marketing and financial risk management services as stated in the previous paragraph.

The accounting policies of the segments are the same as those described in *Note 1.* Intersegment transactions are accounted for on a cost recovery basis that approximates market rates. Segment revenues are net of intersegment transactions.

B. Reported Segment Profit or Loss and Segment Assets

I. Earnings Information

Year ended Dec. 31, 2004	Generation	Energy Marketing	Corporate	Total
Revenues	**$ 2,593.8**	**$ 244.5**	**$ –**	**$ 2,838.3**
Trading purchases	**–**	(197.7)	**–**	(197.7)
Fuel and purchased power	(1,231.3)	**–**	**–**	(1,231.3)
Gross margin	**1,362.5**	**46.8**	**–**	**1,409.3**
Operations, maintenance and administration	**501.2**	**5.3**	**66.2**	**572.7**
Depreciation and amortization	**363.3**	**2.0**	**12.0**	**377.3**
Taxes, other than income taxes	**20.8**	**–**	**–**	**20.8**
Operating expenses	**885.3**	**7.3**	**78.2**	**970.8**
Gain on sale of TransAlta Power partnership units	**44.8**	**–**	**–**	**44.8**
Gain on sale of Meridian Cogeneration Facility	**17.7**	**–**	**–**	**17.7**
Prior period regulatory decision	**–**	(22.9)	**–**	(22.9)
Operating income (loss) before corporate allocations	**539.7**	**16.6**	(78.2)	**478.1**
Corporate allocations	**69.7**	**8.5**	(78.2)	**–**
Operating income	**$ 470.0**	**$ 8.1**	**$ –**	**$ 478.1**
Foreign exchange gain				**0.7**
Net interest expense				(222.1)
Earnings from continuing operations before income taxes and non-controlling interests				**$ 256.7**

Year ended Dec. 31, 2003	Generation	Energy Marketing	Corporate	Total
Revenues	$ 2,412.2	$ 108.7	$ –	$ 2,520.9
Trading purchases	–	(97.4)	–	(97.4)
Fuel and purchased power	(1,067.4)	–	–	(1,067.4)

Gross margin	1,344.8	11.3	–	1,356.1
Operations, maintenance and administration	480.0	14.9	64.4	559.3
Depreciation and amortization	321.6	3.1	14.3	339.0
Taxes, other than income taxes	23.1	–	–	23.1
Operating expenses	824.7	18.0	78.7	921.4
Asset impairment charges	(90.3)	–	–	(90.3)
Gain on land sale	10.5	–	–	10.5
Gain on sale of TransAlta Power partnership units	15.2	–	–	15.2
Gain on sale of Sheerness Generating Station	191.5	–	–	191.5
Operating income (loss) before corporate allocations	647.0	(6.7)	(78.7)	561.6
Corporate allocations	69.9	8.8	(78.7)	–
Operating income (loss)	$ 577.1	$ (15.5)	$ –	$ 561.6
Other expense				(3.2)
Foreign exchange loss				(4.7)
Net interest expense				(220.7)
Earnings from continuing operations before income taxes and non-controlling interests				$ 333.0

Year ended Dec. 31, 2002	Generation	Energy Marketing	Corporate	Total
Revenues	$ 1,674.9	$ 140.0	$ –	$ 1,814.9
Trading purchases	–	(91.0)	–	(91.0)
Fuel and purchased power	(664.6)	–	–	(664.6)
Gross margin	1,010.3	49.0	–	1,059.3
Operations, maintenance and administration	346.7	15.1	58.7	420.5
Depreciation and amortization	220.3	2.5	20.2	243.0
Taxes, other than income taxes	27.3	0.1	–	27.4
Operating expenses	594.3	17.7	78.9	690.9
Asset impairment and equipment cancellation charges	(152.5)	–	–	(152.5)
Prior period regulatory decisions	(3.3)	–	–	(3.3)
Operating income (loss) before corporate allocations	260.2	31.3	(78.9)	212.6
Corporate allocations	70.6	8.3	(78.9)	–
Operating income	$ 189.6	$ 23.0	$ –	$ 212.6
Other income				0.1
Foreign exchange gain				1.2
Net interest expense				(117.6)
Earnings from continuing operations before income taxes and non-controlling interests				$ 96.3

II. Selected Balance Sheet Information

Dec. 31, 2004	Generation	Energy Marketing	Corporate	Total
Goodwill	$ 112.7	**$ 29.5**	**$ –**	**$ 142.2**
Total segment assets	$ 7,198.3	**$ 229.5**	**$ 705.2**	**$ 8,133.0**
Dec. 31, 2003				
Goodwill	$ 120.3	$ 29.3	$ –	$ 149.6
Total segment assets	$ 7,594.6	$ 232.4	$ 655.0	$ 8,482.0

III. Selected Cash Flow Information

Year ended Dec. 31, 2004	Generation	Energy Marketing	Corporate	Discontinued Operations	Total
Capital expenditures	$ 352.4	**$ 2.3**	**$ 11.1**	**$ –**	**$ 365.8**
Year ended Dec. 31, 2003					
Capital expenditures	$ 542.4	$ 0.8	$ 12.5	$ –	$ 555.7
Acquisitions	$ 323.4	$ –	$ –	$ –	$ 323.4
Year ended Dec. 31, 2002					
Capital expenditures	$ 909.1	$ 4.2	$ 10.7	$ 21.8	$ 945.8

Acquisitions	$ 40.1	$ –	$ –	$ –	$ 40.1

Year ended Dec. 31	2004	2003	2002
Depreciation and amortization expense for reportable segments	**$ 377.3**	$ 339.0	$ 243.0
Mining equipment depreciation, included in fuel and purchased power	**53.3**	47.1	37.1
Accretion expense, included in depreciation and amortization expense	(19.3)	(22.0)	(22.8)
Discontinued operations	**–**	–	15.6
Other	**0.5**	14.0	3.9
Depreciation and amortization expense per statements of cash flows	**$ 411.8**	$ 378.1	$ 276.8

C. Geographic Information

I. Revenues

Year ended Dec. 31	2004	2003	2002
Canada	$ 1,662.7	$ 1,412.4	$ 1,207.6
U.S.	**833.0**	918.8	532.9
Mexico	**252.1**	107.4	–
Australia	**90.5**	82.3	74.4
	$ 2,838.3	$ 2,520.9	$ 1,814.9

Revenues are attributed to countries based on the location of customers. The Mexican plants commenced commercial operations in 2003.

II. Property, Plant and Equipment and Goodwill

Year ended Dec. 31	2004	2003	2004	2003
Canada	$ 3,858.5	$ 3,764.0	**$ 56.5**	$ 56.5
U.S.	**1,657.2**	1,830.3	**85.7**	93.1
Mexico	**542.0**	589.3	**–**	–
Australia	**186.7**	201.9	**–**	–
	$ 6,244.4	$ 6,385.5	**$ 142.2**	$ 149.6

3. DISCONTINUED OPERATIONS

A. Transmission

In June 2004, a settlement was reached to finalize the sale of the Transmission operations. In April 2002, TransAlta's Transmission operations were sold for proceeds of $820.7 million. The disposal resulted in an after-tax gain on sale of $120.0 million that was recorded in the second and fourth quarters of 2002. During the second quarter of 2004, final working capital adjustments were made to reflect post-closing adjustments and other provisions related to closing costs, which resulted in an additional $9.6 million after-tax gain, bringing the final gain on the sale of the Transmission operations to $129.6 million.

B. Statements of Earnings

Interest is allocated to discontinued operations based on the ratio of assets to be discontinued, net of directly attributable debt, to the total assets of the entity, net of debt that can be directly attributed to the discontinued operation or to particular continuing operations of the corporation. The statements of earnings amounts applicable to discontinued operations are as follows:

Year ended Dec. 31	2002
Revenues	$ 55.8
Operating expenses	(30.8)
Operating income	25.0
Net interest expense	(2.4)
Earnings before income taxes	22.6
Income taxes	(9.8)
Earnings before gain on disposal	$ 12.8

C. Balance Sheets

At Dec. 31, 2004 and 2003, all of the corporation's discontinued operations had been sold.

4. ACQUISITIONS AND DISPOSALS

A. Acquisitions

On Jan. 29, 2003, the corporation acquired a 50 per cent interest in CE Gen for US$240.0 million (Cdn$366.6 million). The acquisition was accounted for using the purchase method of accounting. CE Gen is controlled jointly by TransAlta and MidAmerican Energy Holdings Company (MidAmerican). As such, the financial results of CE Gen subsequent to the acquisition date are proportionately consolidated with those of TransAlta and are included in the Generation segment. The purchase price was finalized in the second quarter of 2003 and is presented below:

Net assets acquired at assigned values		
Working capital, including cash of $43.2 million	$	60.3
Restricted cash		57.9
Current income tax receivable		2.4
Property, plant and equipment		414.6
Intangibles		610.5
Goodwill		108.9
Note receivable		90.0
Non-recourse long-term debt, including current portion		(717.4)
Future income tax liability		(216.0)
Non-controlling interests		(44.6)
Total	$	366.6
Consideration		
Cash	$	366.6

Acquired intangibles relate to the fair value of power sale contracts. The amount is being amortized on a straight-line basis over the remaining contract period *(Note 8)*.

Goodwill resulted from the purchase of PP&E with no tax basis.

The restricted cash is comprised of debt service funds, which are legally restricted and require the maintenance of specific minimum balances equal to the next debt service payment, and amounts restricted for capital and maintenance expenditures. The amount of restricted cash acquired has been reduced subsequent to the acquisition primarily as a result of TransAlta issuing a letter of credit in lieu of holding the restricted cash *(Note 11)*.

Supplemental pro forma information for the year ended Dec. 31, 2002, as though the CE Gen purchase had been completed at Jan.1, 2002, is as follows:

Year ended Dec. 31 (unaudited)		2002
Revenues	$	2,117.1
Earnings from continuing operations	$	99.8
Net earnings applicable to common shareholders	$	211.7
Earnings per share from continuing operations	$	0.42
Earnings per share	$	1.13

On Dec. 6, 2002, the corporation completed a step acquisition of Vision Quest Windelectric Inc. (Vision Quest). The initial acquisitions between 2000 and 2002 resulted in 41 per cent ownership of Vision Quest for $13.5 million, accounted for using the equity method. Book values of the corporation's proportionate interest at the time of the initial acquisitions approximated fair values. The final step of the acquisition brought TransAlta's ownership to 100 per cent and TransAlta's total investment in Vision Quest to $68.8 million. The results of Vision Quest's operations have been included in the Generation segment of the consolidated financial statements. At the time of acquisition, Vision Quest operated 124 wind turbines with 119 MW of gross generating capacity in operation (82 MW net ownership interest).

The aggregate purchase price included the previous investments of $13.5 million, plus $21.3 million of cash and 745,791 common shares valued at $14.2 million. In addition, a loan of $19.8 million was previously advanced to Vision Quest. The value of the common shares issued was determined based on the average market price of TransAlta's common shares for the five days before and after the terms of the acquisition were agreed to and announced. In 2004, 36,698 (2003 – 91,478) of these shares were issued and 8,111 will be issued in 2005.

The transaction was accounted for using the purchase method. The purchase price was finalized in the first quarter of 2003, and is presented below:

Net assets acquired at assigned values		
Working capital, including cash of $8.2 million	$	6.5
Property, plant and equipment		70.1
Goodwill		27.2
Power purchase arrangement		2.5

Short-term debt		(32.2)
Future income tax liability		(4.7)
Interest rate swaps		(0.6)
Total	$	68.8
Consideration		
Initial investments	$	13.5
Cash, including previous advances of $19.8 million		41.1
Common shares		14.2
Total	$	68.8

On Dec. 6, 2002, the corporation purchased the remaining 15 per cent interest in the Southern Cross Energy Partnership, located in Western Australia, for AUD$8.5 million (Cdn$7.2 million). At the time of acquisition, book values approximated fair values. The partnership is included in the Generation segment.

B. Disposals

On Dec. 1, 2004, TransAlta completed the sale of its 50 per cent interest in the 220-megawatt Meridian Cogeneration Facility located in Lloydminster, Saskatchewan to TransAlta Cogeneration, L.P. (TA Cogen, owned 50.01% by TransAlta and 49.99% by TransAlta Power), for its fair value of $110.0 million. TA Cogen financed the acquisition through the use of $50.0 million of cash on hand, by issuance of $30.0 million of units to each of TransAlta Energy Corporation (TEC) and TransAlta Power L.P. (TransAlta Power) and by issuing an advance to TEC for $30.0 million. TransAlta recorded a gain of $11.5 million after-tax or $0.06 per common share ($17.7 million pre-tax).

On July 31, 2003, TransAlta completed the sale of its 50 per cent interest in the two-unit 756 MW coal-fired Sheerness Generating Station to TA Cogen for $630.0 million. TransAlta received cash proceeds of $149.9 million, $315.0 million in TA Cogen units and $165.1 million in TransAlta Power units. As part of the financing, and concurrent with the sale, TransAlta Power issued 17.75 million partnership units and 17.75 million warrants to the public for gross proceeds of $165.1 million, and 17.75 million partnership units to TransAlta for gross proceeds of $165.1 million. As a result of the unit issuance, TransAlta's ownership interest in TransAlta Power on July 31, 2003 was approximately 26 per cent. Each warrant, when exercised, was exchangeable for one TransAlta Power unit at any time until Aug. 3, 2004. As the warrants were exercised, TransAlta sold TransAlta Power units back to TransAlta Power for $9.30 per unit, reducing its ownership interest in TransAlta Power and increasing cash proceeds. As a result of exercising warrants and the subsequent sale of TransAlta Power units by the corporation, TransAlta's ownership interest in TransAlta Power was reduced to 0.01% held by TransAlta Power Ltd., the general partner of TransAlta Power, as at Dec. 31, 2004.

As a result of the sale, TransAlta realized a gain on sale of $191.5 million recorded in the third quarter of 2003, which included the realization of the $119.8 million 1998 deferred gain. Proceeds from the sale of the Sheerness Generating Station were used to repay debt. For the year ended Dec. 31, 2004, TransAlta recognized $44.8 million (2003 – $15.2 million) of dilution gains on the exercise of warrants and subsequent sale of units. Prior to Aug. 3, 2004, 10.4 million warrants were exercised while a further 0.3 million units were sold in the third quarter subsequent to the expiry of the warrants. In the fourth quarter of 2004, TransAlta sold 7.1 million units for net proceeds of $64.0 million.

On Dec. 31, 2003, TransAlta completed the sale of 539 acres of undeveloped land at Seebe, Alberta for $11.0 million, resulting in a pre-tax gain on sale of $10.5 million.

On May 9, 2003, TransAlta sold the Calgary head office building for $65.8 million, which was an agreed upon value. TransAlta is leasing the property for a term of 20 years. The lease is accounted for as an operating lease.

5 . INVESTMENTS

Year ended Dec. 31		**2004**		2003
Investment in distributed generation companies	**$**	**3.0**	$	5.0

In 2004, the corporation disposed of its investment in Simmax Corporation for gross proceeds of $1.0 million and recorded a loss of $1.0 million on the transaction.

In 2003, as a result of its annual review of its long-term investments, the corporation recorded a $6.2 million charge to recognize an other than temporary decline in fair value. The charge is included in corporate operations, maintenance and administration expenses.

Also in 2003, the corporation sold its 8.82 per cent interest in the Goldfields gas pipeline for proceeds of AUD$24.1 million (Cdn$21.6 million), which approximated book value.

6. LONG-TERM RECEIVABLES

Year ended Dec. 31		**2004**		2003
Note receivable	$	**–**	$	78.6
California receivable		**6.6**		32.2
Other		**–**		9.3
		6.6		120.1
Less current portion included in accounts receivable		**(6.6)**		–
	$	**–**	$	120.1

The note receivable represented amounts advanced to MidAmerican affiliates by CE Gen. During the first quarter of 2004, CE Gen collected amounts advanced to the Zinc Recovery Project. TransAlta's portion of the proceeds was $90.8 million. Funds collected were used to repay a portion of the CE Gen secured bonds included in long-term debt.

At Dec. 31, 2000, TransAlta made a provision of US$28.8 million to account for potential refund liabilities relating to energy sales in California. On Dec. 12, 2002, a U.S. Federal Energy Regulatory Commission (FERC) Administrative Law Judge issued proposed findings of fact that recommended TransAlta refund US$9.0 million for electricity sales made to the California Independent System Operator (CAISO) and US$13.0 million for electricity sales made to the California Power Exchange (CALPX). In March 2003, FERC ordered the CAISO to review reference power and gas prices which are used to determine mitigated market clearing prices and refund obligations. On March 17, 2004, the CAISO released its preliminary adjusted prices. Based on these prices, the estimated refund liability now owed by TransAlta is US$46.0 million, being US$27.6 million to the CAISO, US$17.9 million to the CALPX and US$0.5 million to the Automated Power Exchange. Therefore, in March 2004, TransAlta recorded an additional pre-tax provision of US$17.2 million (Cdn$22.9 million). The after-tax impact was Cdn$14.9 million. The final adjusted prices were released in October 2004 and were substantially the same as those released on March 17, 2004. The remaining receivable has been reclassified to current accounts receivable as collection is expected within the next 12 months.

FERC has provided TransAlta with an opportunity to petition for relief from refund obligations. To be successful in such a petition for relief TransAlta will be required to demonstrate that, as a result of the refund methodology, it has suffered operating losses in respect of California transactions during the refund period. TransAlta has prepared a petition for relief from the refund obligation that may be filed once FERC provides stakeholders with a direction on the filing of such positions. While the outcome of this filing cannot be determined at this time, any such relief would be accounted for only at the time that it is obtained from FERC.

The impact of prior period regulatory decisions relating to prior reporting periods is recorded when the effect of such decisions is known, without adjustment to the financial statements of prior periods.

7. PROPERTY, PLANT AND EQUIPMENT

Year ended Dec. 31		**2004**			2003		
	Depreciation rates	Cost	Accumulated depreciation & amortization	Net book value	Cost	Accumulated depreciation & amortization	Net book value
Thermal generation	3%-33%	**$ 3,129.4**	**$ 1,078.4**	**$ 2,051.0**	$ 3,172.2	$ 966.8	$ 2,205.4
Thermal environmental equipment	4%-13%	**621.5**	**253.1**	**368.4**	591.5	234.4	357.1
Mining property & equipment	4%-33%	**732.6**	**353.4**	**379.2**	730.3	317.3	413.0
Gas generation	2%-50%	**2,706.1**	**568.0**	**2,138.1**	2,732.3	514.6	2,217.7
Geothermal generation	3%-33%	**394.6**	**85.1**	**309.5**	395.3	35.2	360.1
Hydro generation	2%-5%	**343.5**	**189.1**	**154.4**	339.0	181.1	157.9
Wind generation	2%-3%	**206.8**	**10.7**	**196.1**	105.9	5.5	100.4
Capital spares and other	2%-50%	**249.7**	**51.4**	**198.3**	164.3	25.3	139.0
Assets under construction	–	**334.7**	**–**	**334.7**	316.1	–	316.1
Coal rights [1]	–	**73.9**	**18.4**	**55.5**	73.8	15.3	58.5
Land	–	**41.3**	**–**	**41.3**	40.5	–	40.5
Transmission systems	2%-20%	**31.3**	**13.4**	**17.9**	32.0	12.2	19.8
		$ 8,865.4	**$ 2,621.0**	**$ 6,244.4**	$ 8,693.2	$ 2,307.7	$ 6,385.5

1 Coal rights are amortized on a unit of production basis, based on the estimated mine reserve.

Year ended Dec. 31	**2004**	2003	2002
Capitalized interest	**$ 20.0**	$ 45.2	$ 79.1

In September 2003, the corporation concluded that the book value of its turbine inventory was unlikely to be recovered. As a result, TransAlta recorded an $84.7 million pre-tax impairment charge to write the turbines down to fair value, included in gas generation. Fair value was based on quoted market prices.

In the fourth quarter of 2003, TransAlta recorded a $5.6 million pre-tax impairment charge on the Binghamton plant to reduce the plant's book value to fair value, based on the present value of expected future cash flows.

In November 2002, the corporation implemented a phased decommissioning of its 537 MW coal-fired Wabamun facility. As a result of this decision, the corporation recorded a $110.0 million pre-tax impairment charge during 2002, included in thermal generation equipment. The fair value of the facility was determined by estimating the present value of expected future cash flows.

In November 2002, the corporation cancelled orders for four natural gas turbines and, as a result, recorded a $42.5 million pre-tax impairment charge for contract termination costs. The costs consisted of progress payments made to date.

8. INTANGIBLE ASSETS

Year ended Dec. 31	**2004**			2003		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Sales contracts [1]	**$ 488.7**	**$ 96.4**	**$ 392.3**	$ 530.6	$ 53.4	$ 477.2

1 Sales contracts are amortized on a straight-line basis over the remaining contract period, which ranges from seven to 30 years at the date of acquisition.

9. OTHER ASSETS

Year ended Dec. 31		**2004**		2003
Cross-currency interest rate swaps and foreign currency forward contracts *(Note 19)*	**$**	**240.2**	$	169.5
Interest rate swaps *(Note 19)*		**44.4**		51.3
Deferred financing costs		**29.1**		44.9
Deferred license fees		**27.1**		29.9
Deferred contract costs		**21.1**		21.0
Deferred project development costs and other		**2.3**		2.7
Long-term gas transportation deals		**9.7**		10.9
		373.9		330.2
Less current portion		**(192.7)**		(49.4)
	$	**181.2**	$	280.8

Deferred financing costs are costs associated with the issuance of long-term debt and preferred securities and are being amortized on a straight-line basis over the term of the related issue.

Deferred license fees consist primarily of an Australian license that is being amortized on a straight-line basis over the useful life of the power station assets to which the license relates.

Deferred contract costs consist of prepayments related to long-term contracts, which are being amortized on a straight-line basis over the term of the related contracts.

10. SHORT-TERM DEBT

Year ended Dec. 31			**2004**			2003
		Outstanding	Interest(1)		Outstanding	Interest(1)
Commercial paper	$	34.4	2.6%	$	61.1	3.0%
Bank debt		**–**	**–**		58.7	3.2%
	$	34.4		$	119.8	

1 Interest is an average rate weighted by principal amounts outstanding before the effect of hedging.

11. LONG-TERM DEBT

A. Amounts Outstanding

Year ended Dec. 31			**2004**			2003
	Outstanding		Interest(1)	Outstanding		Interest (1)
Debentures, due 2005 to 2033 [2]	**$**	**1,388.5**	**6.5%**	$	1,513.4	6.5%
Senior notes, US$600.0 million [3]		**733.6**	**6.3%**		796.4	6.3%
Non-recourse debt [4]		**580.0**	**6.9%**		579.5	7.6%
Bank credit facility – Campeche, US$127.9 million (2003 – US$133.6 million) [5]		**–**	**–**		177.7	2.5%
Notes payable – Windsor plant, due 2003 to 2014 [6]		**55.0**	**7.4%**		58.7	7.4%
Preferred securities, due 2048 to 2050 [7]		**475.0**	**7.8%**		475.0	7.8%
Commercial paper [8]		**–**	**–**		13.7	1.4%
Capital lease obligation, due 2004 to 2006 [9]		**0.8**	**8.0%**		6.7	9.1%
	$	**3,232.9**		$	3,621.1	
Less current portion		**587.7**			183.8	
	$	**2,645.2**		$	3,437.3	

1 *Interest is an average rate weighted by principal amounts outstanding before the effect of hedging.*

2 *Debentures: The debentures bear interest at fixed rates ranging from 5.5 per cent to 8.6 per cent. A floating charge on the property and assets of TransAlta Utilities (TAU) has been provided as collateral for $448.4 million of the debentures as at Dec. 31, 2004. The interest rate on $375.0 million of the 2002 amount has been converted to floating rates based on bankers' acceptance rates using receive fixed pay floating interest rate swaps maturing in 2006 to 2011* (Note 19). *Debentures of $100.0 million maturing in 2023 and $50.0 million maturing in 2033 are redeemable at the option of the holder in 2008 and 2009, respectively. Another debenture of $150.0 million maturing in 2005 is extendable until 2030 at the option of the holder.*

3 *Senior notes: In November 2003, the corporation issued debt of US$300.0 million through a prospectus supplement to a US$1.0 billion shelf prospectus filed on May 14, 2002. The notes bear an interest rate of 5.75 per cent and mature in 2013. Of the 2003 debt issue, US$200.0 million has been converted to a floating rate based on LIBOR using interest rate swaps maturing in 2013. In June 2002, the corporation issued debt of US$300.0 million under the US$1.0 billion shelf prospectus. The notes bear interest at 6.75 per cent and mature on July 15, 2012. All senior notes have been designated as a hedge of the corporation's net investment in U.S. and Mexican operations* (Note 19).

4 *Non-recourse debt: The debt consists of project financing debt, debt securities and senior secured bonds of CE Gen. The related assets have been pledged as security for the project financing debt. Maturity dates range from 2004 to 2008, and the interest rates range from LIBOR plus 1.25 per cent to 8.31 per cent. The debt securities are non-recourse, have maturity dates ranging from 2005 to 2018 and interest rates ranging from 7.37 per cent to 8.30 per cent. The senior secured bonds of $198.4 million are also non-recourse to the corporation, bear interest at 7.42 per cent, and are due in 2018. In April 2004, the Campeche plant in Mexico was pledged as collateral and the corporation was relieved of its guarantee. At that time, the US$133.6 million of debt became non-recourse to the corporation (see 5). The value of this debt at Dec. 31, 2004 was US$127.9 million.*

5 *Bank credit facility: In December 2000, the corporation established a US$133.6 million 16-year credit facility for the financing of the construction of a gas-fired plant in Campeche, Mexico. The outstanding borrowing totalled US$133.6 million with an interest rate of LIBOR plus 0.875 per cent during construction and LIBOR plus 2.25 per cent effective Sept. 30, 2003, increasing to LIBOR plus 3.25 per cent by 2016. In March 2003, 70 per cent of the floating portion of the facility was converted to a fixed rate of 7.4 per cent with a forward starting swap* (Note 19). *The plant began commercial operations in May 2003. During construction and until certain conditions were met, the corporation had provided a guarantee to the lenders for the completion of the plant. In April 2004, the Campeche plant in Mexico was pledged as collateral and the corporation was relieved of its guarantee. At that time, the US$133.6 million of debt became non-recourse to the corporation. The value of this debt at Dec. 31, 2004 is US$127.9 million.*

6 *Notes payable – Windsor Plant: The Windsor plant notes bear interest at fixed rates and are recourse to the corporation through a standby letter of credit.*

7 *Preferred securities: The preferred securities consist of $175.0 million 7.75% and $125.0 million 8.15% due in 2048 and $175.0 million 7.50% due in 2050. The $300.0 million are subordinated and unsecured and the corporation may redeem the preferred securities in whole or in part in 2004 at a redemption price equal to 100 per cent of the principal amount of the preferred securities plus accrued and unpaid distributions thereon to the date of such redemption. In 1999, the corporation monetized a portion of this redemption feature by writing pay fixed swaptions exercisable in 2004 having a notional amount of $75.0 million and a weighted average interest rate of 6.1 per cent. These swaptions matured in March 2004 (Dec. 31, 2003 fair value of $6.1 million). The $175.0 million are subordinated and unsecured and the corporation may redeem the preferred securities in whole or in part in 2006 at a redemption price equal to 100 per cent of the principal amount of the preferred securities plus accrued and unpaid distributions thereon to the date of such redemption. The corporation may elect to defer coupon payments on the preferred securities and settle deferred coupon payments in either cash or common shares of the corporation. Historically, the coupon payments have been in cash; therefore, the preferred securities have no dilutive effect on earnings per share. Supplemental diluted earnings per share for 2004 from continuing operations and net earnings as though the coupon payments were settled with shares were $0.87 (2003 – $1.22, 2002 – $0.44) and $0.91 (2003 – $1.22, 2002 – $1.12). Interest accretion at the coupon rate is included in interest expense.*

8 *Commercial paper: There is no amount outstanding at Dec. 31, 2004 (2003 – US$10.3 million). Under the terms of TransAlta's credit facility, the corporation has the ability and intent to maintain these borrowings beyond one year. The corporation had designated this 2003 amount of commercial paper as a long-term hedge of a portion of its net investment in U.S. and Mexican operations.*

9 *Capital lease obligation: Certain coal mining assets of TAU have been provided as collateral. The obligation bears interest at a fixed rate.*

B. Principal Repayments

2005	$ 587.7
2006	409.2
2007	61.1
2008	169.6
2009	252.1
2010 and thereafter	1,753.2
Total	$ 3,232.9

C. Interest Expense

TransAlta has included the corporation's preferred securities in long-term debt on the consolidated balance sheets *(Note 1)*. Preferred securities distributions are included in interest expense as shown below:

Year ended Dec. 31	**2004**	2003	2002
Interest on recourse and non-recourse debt	$ 207.9	$ 234.1	$ 172.9
Interest on preferred securities	**44.5**	36.8	34.9
Interest income	**(10.3)**	(5.0)	(8.7)
Interest allocated to discontinued operations	**–**	–	(2.4)

Capitalized interest	**(20.0)**	(45.2)	(79.1)
Net interest expense	$ 222.1	$ 220.7	$ 117.6

D. Guarantees

In the normal course of operations, TransAlta and certain of its subsidiaries enter into agreements to provide financial or performance assurances to third parties. These include guarantees, letters of credit and surety bonds that are entered into to support or enhance creditworthiness in order to facilitate the extension of sufficient credit for Energy Marketing trading activities, treasury hedging, Generation construction projects, equipment purchases and mine reclamation obligations.

At Dec. 31, 2004, the corporation had letters of credit outstanding of $187.6 million, US$197.7 million and 171.9 million Mexican pesos (total Canadian dollar equivalent $447.3 million). The letters of credit were issued to counterparties that have credit exposure to certain subsidiaries. If a subsidiary does not pay amounts due under the covered contract, the counterparty may present its claim for payment to the financial institution, which in turn will request payment from the corporation. Any amounts owed by the corporation's subsidiaries are reflected in the consolidated balance sheet. All letters of credit expire in 2005 and 2006.

The corporation had a surety bond in the amount of US$181.6 million in support of asset retirement obligations at the Centralia mine outstanding at Dec. 31, 2004. Asset retirement obligations are included in deferred credits and other long-term liabilities *(Note 12).* The surety bond expires in 2005.

TransAlta has provided guarantees of subsidiaries' obligations under contracts that facilitate physical and financial transactions in various derivatives. To the extent liabilities related to these guaranteed contracts exist for trading activities, they are included in the consolidated balance sheet. To the extent liabilities exist related to these guaranteed contracts for hedges, they are not recognized on the consolidated balance sheet. The guarantees provided for under all contracts facilitating physical and financial transactions in various derivatives at Dec. 31, 2004 were a maximum of $1.6 billion. In addition, the corporation has a number of unlimited guarantees. The fair value of the trading and hedging positions under contracts where TransAlta has a net liability at Dec. 31, 2004, under the limited and unlimited guarantees, was $345.2 million (2003 – $381.3 million).

TransAlta has also provided guarantees of subsidiaries' obligations to perform and make payments under various other contracts. The amount guaranteed under these contracts at Dec. 31, 2004 was a maximum of $662.5 million (2003 – $828.6 million). To the extent actual obligations exist under the performance guarantees at Dec. 31, 2004, they are included in accounts payable and accrued liabilities.

The corporation has approximately $1.35 billion of undrawn collateral available to secure these exposures.

During construction and until certain conditions were met, the corporation provided a guarantee to the lenders of the Campeche plant. On April 5, 2004, the guarantee was released and the US$133.6 million of debt related to the plant became non-recourse to the corporation.

12. DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

Year ended Dec. 31	**2004**	2003
Asset retirement obligation	$ 243.4	$ 258.2
Deferred revenues and other	**44.4**	43.8
Power purchase arrangement in limited partnership	**31.4**	29.9
Accrued benefit liability *(Note 18)*	**58.2**	54.1
Cross-currency interest rate swaps and foreign currency forward contracts *(Note 19)*	**136.1**	112.0
Fair value of swap transaction with limited partnership	**4.9**	7.9
Long-term gas transportation deals	**6.3**	5.8
	524.7	511.7
Less current portion	**(133.4)**	(24.1)
	$ 391.3	$ 487.6

A reconciliation between the opening and closing asset retirement obligation balances is provided below:

Balance, Dec. 31, 2002	$ 264.9
Liabilities incurred in period	9.3
Liabilities settled in period	(26.5)
Accretion expense	22.0
Acquisition of CE Gen	5.2
Change in foreign exchange rates	(16.7)
Balance, Dec. 31, 2003	$ 258.2
Liabilities incurred in period	21.8
Liabilities settled in period	(19.7)
Accretion expense	19.3
Revisions in estimated cash flows	(21.9)
Change in foreign exchange rates	(14.3)

Balance, Dec. 31, 2004	**$**	**243.4**

TransAlta estimates the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately $1.3 billion, which will be incurred between 2005 and 2072. The majority of the costs will be incurred between 2020 and 2030. A discount rate of eight per cent was used to calculate the carrying value of the asset retirement obligations. At Dec. 31, 2004, the corporation had a surety bond in the amount of US$181.6 million in support of future retirement obligations at the Centralia mine.

The power purchase arrangement represents the fair value adjustments for the Sheerness Generating Station to deliver power at less than the prevailing market price at the time of the acquisition of the plant by TA Cogen.

13. NON-CONTROLLING INTERESTS

A. Statement of Earnings

Year ended Dec. 31		**2004**		2003		2002
TransAlta Power's limited partnership interest in TA Cogen *(Note 21)*	$	31.5	$	21.3	$	19.0
Other shareholders' interests		**14.5**		12.9		1.1
	$	46.0	$	34.2	$	20.1

B. Balance Sheets – Other Non-controlling Interests

Year ended Dec. 31		**2004**		2003
TransAlta Power's limited partnership interest in TA Cogen	**$**	**582.4**	$	440.4
Other shareholders' interests		**34.0**		37.5
	$	**616.4**	$	477.9

Other shareholders' interests represents the 25 per cent interest in the Saranac Partnership not owned by CE Gen.

14. COMMON SHARES

A. Issued and Outstanding

The corporation is authorized to issue an unlimited number of voting common shares without nominal or par value.

Year ended Dec. 31	**2004**		2003		2002	
	Common shares (millions)	Amount	Common shares (millions)	Amount	Common shares (millions)	Amount
Issued and outstanding, beginning of year	**190.7**	**$ 1,555.7**	169.8	$ 1,226.2	168.3	$ 1,170.9
Issued as a public offering and other	**–**	**–**	17.3	270.4	–	–
Issued under dividend reinvestment and share purchase plan	**3.4**	**55.3**	3.3	54.6	2.7	53.4
Issued on purchase of Vision Quest	**–**	**0.7**	0.1	1.7	0.6	11.6
Issued for cash under stock option plans	**0.1**	**1.1**	0.1	1.4	0.1	1.8
Issued under Performance Share Ownership Plan	**–**	**1.1**	0.1	1.4	0.1	1.9
Repurchased by the corporation	**(0.1)**	**(1.2)**	–	–	(2.0)	(13.4)
Employee share purchase loans	**–**	**(0.8)**	–	–	–	–
	194.1	**$ 1,611.9**	190.7	$ 1,555.7	169.8	$ 1,226.2

At Dec. 31, 2004, the corporation had 194.1 million (2003 – 190.7 million, 2002 – 169.8 million) common shares issued and outstanding plus outstanding employee stock options to purchase an additional 2.9 million shares (2003 – 3.1 million, 2002 – 3.2 million).

In February 2004, TransAlta announced a normal course issuer bid to repurchase up to 3.0 million common shares for cancellation. In 2004, 143,500 shares were repurchased. No shares were repurchased during 2003. In 2002, the corporation purchased for cancellation 2.0 million common shares. The $1.1 million in 2004 and the $27.0 million in 2002 in excess of the repurchase price over the average net book value of the common shares was charged to retained earnings.

In March 2003, the corporation issued 15.0 million common shares for gross proceeds of $240.0 million, with issue costs of $8.0 million. The offering included an option for the underwriters to purchase a further 2.25 million common shares for $36.0 million. This option was exercised on April 17, 2003, with issue costs of $3.0 million.

B. Shareholder Rights Plan

The primary objective of the shareholder rights plan is to provide the corporation's Board of Directors sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made for the corporation and to provide every shareholder with an equal opportunity to participate in such a bid. The plan was originally approved in 1992, and has been revised from time to time for conformity with current practices.

When an acquiring shareholder acquires 20 per cent or more of the outstanding common shares of the corporation and that shareholder does not make a bid for all of the common shares outstanding, each shareholder other than the acquiring shareholder may receive one right for each common share owned. Each right will entitle the holder to acquire an additional $160 worth of common shares for $80.

C. Dividend Reinvestment and Share Purchase Plan

Under the terms of the dividend reinvestment and share purchase plan, participants are able to purchase additional common shares by reinvesting dividends. Common shares will be issued from treasury. In 2004, 3.4 million (2003 – 3.3 million, 2002 – 2.7 million) common shares were purchased under this program for $55.3 million (2003 – $54.6 million, 2002 – $53.4 million).

D. Diluted Earnings Per Share (EPS)

Year ended Dec. 31	**2004**		2003		2002	
	Numerator	Denominator	Numerator	Denominator	Numerator	Denominator
Basic EPS from continuing operations	**160.6**	**192.7**	234.2	185.3	66.8	169.6
Impact of PSOP	**–**	**0.1**	–	0.1	–	0.1
Diluted EPS from continuing operations	**160.6**	**192.8**	234.2	185.4	66.8	169.7

Options to purchase common shares were not included in the computation of diluted EPS as the exercise price of the options was greater than the average market price of the common shares during the periods. The impact of settling preferred securities' coupon payments in shares did not have a dilutive effect on EPS from continuing operations in 2002.

1 5. STOCK-BASED COMPENSATION PLANS

At Dec. 31, 2004, the corporation had three types of stock-based compensation plans and an employee share purchase plan.

The corporation is authorized to grant employees options to purchase up to an aggregate of 13.0 million common shares at prices based on the market price of the shares as determined on the grant date. The corporation has reserved 13.0 million common shares for issue.

A. Fixed Stock Option Plans

I. Management Plan

The granting of options under this fixed stock option plan was discontinued in 1997. Options were granted under this plan to certain eligible employees. The options could not be exercised until one year after grant and thereafter at an amount not exceeding 20 per cent of the grant per year on a cumulative basis until the sixth year, after which the entire grant may be exercised until the tenth year, which is the expiry date.

II. Canadian Employee Plan

This plan came into effect in 2000 and was offered to all full-time and part-time employees in Canada at or below the level of manager. Options granted under this plan may not be exercised until one year after grant and thereafter at an amount not exceeding 25 per cent of the grant per year on a cumulative basis until the fifth year, after which the entire grant may be exercised until the tenth year, which is the expiry date.

III. Alberta Distribution and Retail (D&R) Plan

This plan came into effect in 2000 and was offered to all full-time and part-time employees of the Alberta D&R business segment. Options granted under this plan could not be exercised until the date of the closing of the Alberta D&R sale on August 31, 2000, after which the entire grant could be exercised for up to three years after the closing. The outstanding options under this plan at Dec. 31, 2003 expired in January 2004.

IV. U.S. Plan

This plan came into effect in 2001 and was offered to all full-time and part-time employees in the U.S. at or below the level of manager. Options granted under this plan may not be exercised until one year after grant and thereafter at an amount not exceeding 25 per cent of the grant per year on a cumulative basis until the fifth year, after which the entire grant may be exercised until the tenth year, which is the expiry date.

V. Australian Phantom Plan

This plan came into effect in 2001 and was offered to all full-time and part-time employees in Australia, excluding directors and officers. Options under this plan are not physically granted; rather, employees receive the equivalent value of shares in cash when exercised. Options granted under this plan may not be exercised until one year after grant and thereafter at an amount not exceeding 25 per cent of the grant per year on a cumulative basis until the fifth year, after which the entire grant may be exercised until the tenth year, which is the expiry date.

	Management plan		Canadian employee plan		Alberta D&R plan		U.S. employee plan		Australian phantom plan	
	Number	Weighted	Number	Weighted	Number	Weighted	Number	Weighted	Number	Weighted

	of share options (millions)	average exercise price	of share options (millions)	average exercise price	of share options (millions)	average exercise price	of share options (millions)	average exercise price	of share options (millions)	average exercise price
Outstanding, Jan.1, 2002	0.2	$ 14.84	1.3	$ 22.27	0.1	$ 14.20	0.8	$ 14.19	–	$ –
Granted	–	–	0.7	20.92	–	–	0.4	12.51	0.1	22.00
Exercised	(0.1)	14.57	(0.1)	14.23	–	–	–	–	–	–
Cancelled or expired	–	–	(0.3)	22.98	–	–	(0.1)	13.53	–	–
Outstanding, Dec. 31, 2002	0.1	$ 14.91	1.6	$ 21.89	0.1	$ 14.20	1.1	$ 13.61	0.1	$ 22.00
Granted	–	–	0.1	17.11	–	–	–	–	–	–
Exercised	–	–	–	–	(0.1)	14.20	–	–	–	–
Cancelled or expired	–	–	(0.1)	21.39	–	–	–	–	–	–
Outstanding, Dec. 31, 2003	0.1	$ 14.91	1.6	$ 21.18	–	$ –	1.1	$ 13.61	0.1	$ 22.00
Granted	–	–	–	–	–	–	–	–	–	–
Exercised	–	–	(0.1)	–	–	–	–	–	–	–
Cancelled or expired	–	–	–	22.52	–	–	(0.1)	13.47	–	–
Outstanding, Dec. 31, 2004	**0.1**	**$ 14.91**	**1.5**	**$ 21.93**	**–**	**$ –**	**1.0**	**$ 13.56**	**0.1**	**$ 22.00**

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at Dec. 31, 2004(millions)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Dec. 31, 2004 (millions)	Weighted average exercise price
$13.12 - $18.00	**0.8**	**5.8**	**$ 13.71**	**0.5**	**$ 13.84**
$18.01 - $23.00	**1.4**	**6.7**	**16.89**	**0.9**	**17.24**
$27.70	**0.5**	**6.3**	**27.70**	**0.4**	**27.70**
$13.12 - $27.70	**2.7**	**6.3**	**$ 17.99**	**1.8**	**$ 18.40**

B.Performance Stock Option Plan

In 1999, the corporation expanded enrolment in the share option program to include all Canadian employees of the corporation, excluding the level of director and above, by issuing stock options with an expiry date of 2009 and vesting dependent upon achieving certain earnings per share targets.

Year ended Dec. 31

	2004		2003		2002	
	Number of share options (millions)	Weighted average exercise price	Number of share options (millions)	Weighted average exercise price	Number of share options (millions)	Weighted average exercise price
Outstanding, beginning of year	**0.2**	**$ 22.44**	0.2	$ 22.44	0.4	$ 22.31
Exercised	**–**	**–**	–	–	(0.1)	15.16
Cancelled or expired	**–**	**–**	–	–	(0.1)	22.99
Outstanding, end of year	**0.2**	**$ 22.44**	0.2	$ 22.44	0.2	$ 22.44

At Dec. 31, 2004, the corporation had 13,008 options under this plan with an exercise price of $14.15 and a weighted average remaining contractual life of 5.0 years and 203,800 options with an exercise price of $23.05 and a weighted average remaining contractual life of 4.1 years outstanding. At Dec. 31, 2004, all outstanding options had vested.

C. Performance Share Ownership Plan (PSOP)

Under the terms of the PSOP, which commenced in 1997, the corporation was authorized to grant to employees and directors up to an aggregate of 2.0 million common shares. The number of common shares which could be issued under both the PSOP and the share option plans, however, could not exceed 6.0 million common shares. Participants in the PSOP receive awards which, after three years, make them eligible to receive a set number of common shares or cash equivalent up to the maximum of the award amount plus any accrued dividends thereon. The actual number of common shares or cash equivalent a participant may receive is determined by the percentile ranking of the total shareholder return over three years of the corporation's common shares amongst a selected group of publicly traded companies. Until Dec. 31, 2001, where common shares were awarded, such shares were then held in trust and therefore could not be disposed of for a period of two additional years.

On Dec. 31, 2001, the plan was modified so that after three years, once the PSOP eligibility has been determined, 50 per cent of the shares may be released to the participant, while the remaining 50 per cent will be held in trust for one additional year. In addition, the number of common shares the corporation is authorized to grant under the terms of the PSOP was increased to 4.0 million common shares and the maximum number of common shares which may be issued under both the PSOP and share option plans was increased to 13.0 million common shares.

Year ended Dec. 31	**2004**	2003	2002
Number of awards outstanding; beginning of year	**1.5**	1.3	0.9

Granted	**0.4**	0.7	0.6
Awarded	**–**	(0.1)	(0.1)
Cancelled or expired	**(0.4)**	(0.4)	(0.1)
Number of awards outstanding; end of year	**1.5**	1.5	1.3

In 2004, PSOP compensation expense was $3.4 million (2003 – $nil, 2002 – $5.3 million), which is included in operations, maintenance and administration expense in the statements of earnings. In 2002, 84,578 common shares were issued at $21.60 per share. In 2003, 83,300 common shares were issued at $17.11 per share. In 2004, 16,457 common shares were issued at $17.11 per share and 44,846 common shares were issued at $18.53 per share.

D. Employee Share Purchase Plan

Under the terms of the employee share purchase plan, the corporation will extend an interest-free loan (up to 30 per cent of an employee's base salary) to employees below executive level and allow for payroll deductions over a three-year period to repay the loan. Executives are no longer eligible for this program in accordance with the Sarbanes-Oxley legislation. The corporation will purchase these common shares on the open market on behalf of employees at prices based on the market price of the shares as determined on the date of purchase. Employee sales of these shares are handled in the same manner. At Dec. 31, 2004, accounts receivable from employees under the plan totalled $0.8 million (2003 – $0.9 million).

E. Stock-Based Compensation

As disclosed in *Note 1(P),* the corporation adopted the intrinsic value method of accounting for stock-based compensation effective Jan.1, 2002. On Jan.1, 2003, the corporation adopted the fair value method of accounting for stock-based compensation prospectively, under which a compensation expense is measured at the grant date and recognized over the service period. No awards were granted in 2004 or 2003. The following table provides pro forma measures of net earnings and earnings per share had compensation expense been recognized based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation for grants made in 2002:

Year ended Dec. 31		**2004**		2003		2002
Reported net earnings	$	170.2	$	234.2	$	199.6
Compensation expense		**1.7**		2.6		3.7
Pro forma net earnings	$	168.5	$	231.6	$	195.9
Reported basic earnings per share	$	0.88	$	1.26	$	1.17
Compensation expense per share		**0.01**		0.01		0.02
Pro forma basic earnings per share	$	0.87	$	1.25	$	1.15
Reported diluted earnings per share	$	0.88	$	1.26	$	1.17
Compensation expense per share		**0.01**		0.01		0.02
Pro forma diluted earnings per share	$	0.87	$	1.25	$	1.15

The estimated fair value of these stock options granted in 2002 and prior was determined using the binomial model using the following assumptions, resulting in a weighted-average fair value of $4.25 in 2002.

	2002
Risk-free interest rate	5.9%
Expected hold period to exercise (years)	7.0
Volatility in the price of the corporation's shares	28.3%

16. PRIOR PERIOD REGULATORY DECISION

At Dec. 31, 2000, the corporation had made a provision of US$28.8 million against US$58.0 million of receivables outstanding related to sales to the California market. US$5.0 million of this amount was received during 2001. In March 2004, TransAlta recorded an additional pre-tax provision of US$17.2 million ($22.9 million). However, ultimate collection of the remaining balance remains uncertain.

On April 16, 2002, the Alberta Energy and Utilities Board (EUB) rendered a negative decision of $3.3 million pre-tax with respect to TransAlta's hydro bidding strategy in 2000.

17. INCOME TAXES

The corporation follows Canadian GAAP for non-regulated entities for all electricity generation operations and, as a result, future income taxes have been recorded for all operations.

A. Statements of Earnings

I. Rate Reconciliations

Year ended Dec. 31		**2004**		2003		2002
Earnings from continuing operations before income taxes	$	210.7	$	298.8	$	76.2
Statutory Canadian federal and provincial income tax rate		**33.9%**		36.8%		39.3%
Expected taxes on income	$	71.4	$	109.8	$	29.9
Increase (decrease) in income taxes resulting from:						
Lower effective foreign tax rates		**(19.2)**		(22.9)		(19.9)
Benefit of favourable audit outcome		**(6.8)**		–		–
Utilization of previously unrecognized tax losses		**–**		–		(11.2)
Resource allowance net of non-deductible royalties		**(1.6)**		(2.5)		(3.1)
Manufacturing and processing rate reduction		**(1.7)**		(3.5)		(3.5)
Non-taxable portion of gain on disposal of assets		**–**		(22.7)		–
Non-deductible costs and other		**(1.2)**		(2.2)		4.6
Large corporations tax (net of surtax)		**10.3**		9.5		8.0
Asset impairment and equipment cancellation recognized at lower rate		**–**		1.8		6.3
Effect of tax rate changes		**(7.8)**		(4.4)		(1.7)
Unrecognized future income tax assets		**6.7**		1.7		–
Income tax expense	$	50.1	$	64.6	$	9.4
Effective tax rate		**23.8%**		21.6%		12.3%

The corporation's operations are complex, and the computation and provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. The corporation's tax filings are subject to audit by taxation authorities. The outcome of some audits may change the tax liability of the corporation. Management believes it has adequately provided for income taxes based on all information currently available.

II. Components of Income Tax Expense

Year ended Dec. 31		**2004**		2003		2002
Current tax expense	$	36.1	$	51.0	$	77.8
Future income tax (benefit) expense related to the origination and reversal of temporary differences		**21.8**		17.9		(55.5)
Future income tax (benefit) expense resulting from changes in tax rates or laws		**(7.8)**		(4.3)		(1.7)
Utilization of previously unrecognized tax losses		**–**		–		(11.2)
Income tax expense	$	50.1	$	64.6	$	9.4

B. Balance Sheets

Significant components of the corporation's future income tax assets and liabilities are as follows:

Year ended Dec. 31		**2004**		2003
Net operating and capital loss carryforwards	**$**	**275.7**	$	188.0
Asset retirement obligations		**88.9**		79.1
Unrealized losses on electricity trading contracts		**29.7**		62.8
Property, plant and equipment		(949.4)		(866.4)
Unrealized gains on electricity trading contracts		(36.4)		(68.3)
Other deductible temporary differences		**30.0**		33.8
	$	(561.5)	$	(571.0)

Presented in the balance sheet as follows:

Year ended Dec. 31		**2004**		2003
Assets				
Current	$	21.5	$	29.4
Long-term		**132.0**		90.3
Liabilities				
Current		**(11.1)**		(4.6)
Long-term		**(703.9)**		(686.1)
	$	(561.5)	$	(571.0)

As at Dec. 31, 2004, there are income tax loss carryforwards of $66.6 million (2003 – $80.3 million) for which no tax benefit has been recognized. These losses begin to expire in 2012.

18. EMPLOYEE FUTURE BENEFITS

A. Description

The corporation has registered pension plans in Canada and the U.S. covering substantially all employees of the corporation in these countries and specific named employees working internationally. These plans have defined benefit and defined contribution options and, in Canada, there is an additional supplemental defined benefit plan for certain employees. The defined benefit option of the registered pension plans has been closed for new employees for all periods presented.

The latest actuarial valuations of the registered and supplemental pension plans were as at Dec. 31, 2004. The measurement date used to determine plan assets and accrued benefit obligation was Dec. 31, 2004. The effective date of the next required valuation for funding purposes is Dec. 31, 2007. The supplemental pension plan is solely the obligation of the corporation. The corporation is not obligated to fund the supplemental plan but is obligated to pay benefits under the terms of the plan as they come due. The corporation has posted a letter of credit in the amount of $38.5 million to secure the obligations under the supplemental plan.

The corporation provides other health and dental benefits to the age of 65 for both disabled members (other post-employment benefits) and retired members (other post-retirement benefits). The latest actuarial valuation of these other plans was as at April 30, 2002. The measurement date used to determine the accrued benefit obligation was also April 30, 2002. The effective date of the next required valuation for funding purposes is Dec. 31, 2005.

B. Costs Recognized

Year ended Dec. 31, 2004	Registered	Supplemental	Other	Total
Current service cost	$ 4.2	**$ 1.1**	**$ 0.6**	**$ 5.9**
Interest cost	**20.5**	**2.1**	**1.0**	**23.6**
Actual return on plan assets	**(33.4)**	**–**	**–**	**(33.4)**
Actuarial (gains) losses in 2004	**14.4**	**(1.5)**	**0.2**	**13.1**
Plan amendments in 2004	**–**	**–**	**3.8**	**3.8**
Difference between expected return and actual return on plan assets	**9.6**	**–**	**–**	**9.6**
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefit obligation for the year	**(12.3)**	**2.0**	**0.3**	**(10.0)**
Difference between amortization of past service costs for the year and actual plan amendments for the year	**0.1**	**(0.1)**	**(3.8)**	**(3.8)**
Amortization of net transition obligation (asset)	**(9.2)**	**0.3**	**–**	**(8.9)**
Defined benefit (income) cost	**(6.1)**	**3.9**	**2.1**	**(0.1)**
Defined contribution option expense of registered pension plan	**9.0**	**–**	**–**	**9.0**
Net expense	$ 2.9	**$ 3.9**	**$ 2.1**	**$ 8.9**

Year ended Dec. 31, 2003	Registered	Supplemental	Other	Total
Current service cost	$ 3.8	$ 1.4	$ 0.6	$ 5.8
Interest cost	21.0	2.2	1.1	24.3
Actual return on plan assets	(35.9)	–	–	(35.9)
Actuarial (gains) losses in 2003	21.5	(0.7)	0.5	21.3
Difference between expected return and actual return on plan assets	12.3	–	–	12.3
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefit obligation for the year	(20.2)	1.3	(0.1)	(19.0)
Difference between amortization of past service costs for the year and actual plan amendments for the year	0.1	(0.1)	–	–
Amortization of net transition obligation (asset)	(9.1)	0.3	–	(8.8)
Defined benefit (income) cost	(6.5)	4.4	2.1	–
Defined contribution option expense of registered pension plan	9.7	–	–	9.7
Net expense	$ 3.2	$ 4.4	$ 2.1	$ 9.7

Year ended Dec. 31, 2002	Registered	Supplemental	Other	Total
Current service cost	$ 4.0	$ 1.0	$ 0.6	$ 5.6
Interest cost	21.7	1.9	1.0	24.6
Actual return on plan assets	7.7	–	–	7.7
Actuarial (gains) losses in 2002	9.9	6.6	1.4	17.9
Settlement upon sale of Transmission operation	3.8	–	(0.5)	3.3

Difference between expected return and actual return on plan assets	(34.5)	–	–	(34.5)
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefit obligation for the year	(9.7)	(6.4)	(0.9)	(17.0)
Difference between amortization of past service costs for the year and actual plan amendments for the year	–	–	–	–
Amortization of net transition obligation (asset)	(9.2)	0.3	–	(8.9)
Defined benefit (income) cost	(6.3)	3.4	1.6	(1.3)
Defined contribution option expense of registered pension plan	9.2	–	–	9.2
Net expense	$ 2.9	$ 3.4	$ 1.6	$ 7.9

In 2004 and 2003, the entire net expense related to continuing operations while in 2002, $3.6 million related to discontinued operations.

C. Status of Plans

Year ended Dec. 31, 2004	Registered	Supplemental	Other
Fair value of plan assets	**$ 352.0**	**$ 1.4**	**$ –**
Accrued benefit obligation	**379.0**	**36.6**	**21.7**
Funded status – plan deficit	**(27.0)**	**(35.2)**	**(21.7)**
Amounts not yet recognized in financial statements:			
Unrecognized past service costs	**0.5**	**(0.5)**	**3.8**
Unamortized transition (asset) obligation	**(55.0)**	**3.0**	**–**
Unamortized net actuarial gains	**57.1**	**6.6**	**6.2**
Total recognized in financial statements:			
Accrued benefit liability	**$ (24.4)**	**$ (26.1)**	**$ (11.7)**
Amortization period in years (EARSL)	**9**	**9**	**11**

Year ended Dec. 31, 2003	Registered	Supplemental	Other
Fair value of plan assets	$ 351.9	$ 0.9	$ –
Accrued benefit obligation	366.6	36.5	18.0
Funded status – plan deficit	(14.7)	(35.6)	(18.0)
Amounts not yet recognized in financial statements:			
Unrecognized past service costs	0.6	(0.5)	–
Unamortized transition (asset) obligation	(64.2)	3.3	–
Unamortized net actuarial gains	55.7	7.9	6.9
Total recognized in financial statements:			
Accrued benefit liability	$ (22.6)	$ (24.9)	$ (11.1)
Amortization period in years (EARSL)	9	9	12

The accrued benefit liability is included in accounts payable and accrued liabilities on the consolidated balance sheets.

Year ended Dec. 31, 2004	Registered	Supplemental	Other
Accrued current liabilities	$ 2.2	**$ 0.7**	**$ 1.1**
Other long-term liabilities	**22.2**	**25.4**	**10.6**
Accrued benefit liability	$ 24.4	**$ 26.1**	**$ 11.7**

Year ended Dec. 31, 2003			
Accrued current liabilities	$ 2.7	$ 0.6	$ 1.2
Other long-term liabilities	19.9	24.3	9.9
Accrued benefit liability	$ 22.6	$ 24.9	$ 11.1

D. Contributions

Expected cash flows are as follows:

	Registered	Supplemental	Other	Total
Employer contributions				
2005 (expected)	$ 2.2	$ 0.6	$ 0.1	$ 2.9

Expected benefit payments

2005	23.2	1.7	1.2	26.1
2006	24	1.8	1.3	27.1
2007	24.3	2	1.5	27.8
2008	25	2	1.6	28.6
2009	25.8	2.1	1.7	29.6
2010 – 2014	137.6	12.2	9.6	159.4

E. Plan Assets

	Registered	Supplemental	Other
Fair value of plan assets at Dec. 31, 2002	$ 353.3	$ 0.4	$ –
Contributions	0.5	0.5	$ 0.1
Transfers to defined contribution option	(9.7)	–	–
Benefits paid	(26.2)	–	(0.1)
Effect of translation on U.S. plans	(1.9)	–	–
Actual return on plan assets [1]	35.9	–	–
Fair value of plan assets at Dec. 31, 2003	$ 351.9	$ 0.9	$ –
Contributions	2.6	0.5	0.1
Transfers to defined contribution option	(9.0)	–	–
Benefits paid	(25.3)	–	(0.1)
Effect of translation on U.S. plans	(1.6)	–	–
Actual return on plan assets [1]	33.4	–	–
Fair value of plan assets at Dec. 31, 2004	**$ 352.0**	**$ 1.4**	$ **–**

1 Net of expenses.

The corporation's investment policy is to achieve a consistently high investment return over time while maintaining an acceptable level of risk to satisfy the benefit obligations of the pension plans. The goal is to maintain a long-term rate of return on the fund that exceeds inflation by four per cent. The pension fund may be invested in publicly traded common or preferred equity shares, rights or warrants; convertible debentures or preferred securities; bonds, debentures, mortgages, notes or other debt instruments of government agencies or corporations; private company securities; guaranteed investment contracts; term deposits; cash or money market securities; and mutual or pooled funds eligible for pension fund investment. The target allocation percentages are 60 per cent equity and 40 per cent fixed income. Cash and money market instruments may be held from time to time as short-term investment decisions or as defensive reserves within the portfolios of each asset class. The fund may invest in derivatives for the purpose of hedging the portfolio or altering the desired mix of the fund. Derivative transactions that leverage the fund in any way are not permitted without the specific approval of the Pension Committee.

The allocation of plan assets by major asset category at Dec. 31, 2004 and 2003 is as follows:

Year ended Dec. 31, 2004	Registered	Supplemental
Equity securities	**55.9%**	**–**
Debt securities	**42.5%**	**–**
Cash equivalents	**1.6%**	**100.0%**
Total	**100.0%**	**100.0%**

Year ended Dec. 31, 2003	Registered	Supplemental
Equity securities	55.0%	–
Debt securities	44.2%	–
Cash equivalents	0.8%	100.0%
Total	100.0%	100.0%

Plan assets include common shares of the corporation having a fair value of $0.7 million at Dec. 31, 2004 (2003 – $0.7 million). The corporation charged the registered plan $0.1 million for administrative services provided for the year ended Dec. 31, 2004 (2003 – $0.1 million).

F. Reconciliation of Accrued Benefit Obligations

	Registered	Supplemental	Other
Accrued benefit obligation as at Dec. 31, 2002	$ 349.8	$ 35.5	$ 18.2
Current service cost	3.8	1.4	0.6
Interest cost	21.0	2.2	1.1
Expected benefits paid	(25.0)	(1.3)	(1.0)
Past service charge	0.6	(0.6)	–
Plan amendments	0.1	–	–
Effect of translation on U.S. plans	(5.2)	–	(1.4)

Actuarial loss (gain)		21.5		(0.7)		0.5
Accrued benefit obligation as at Dec. 31, 2003	$	366.6	$	36.5	$	18.0
Current service cost		4.2		1.1		0.6
Interest cost		20.5		2.1		1.0
Expected benefits paid		(23.7)		(1.6)		(1.2)
Past service charge		–		–		3.8
Effect of translation on U.S. plans		(3.0)		–		(0.7)
Actuarial loss (gain)		14.4		(1.5)		0.2
Accrued benefit obligation as at Dec. 31, 2004	$	379.0	**$**	**36.6**	**$**	**21.7**

G. Assumptions

The significant actuarial assumptions adopted in measuring the corporation's accrued benefit obligations were as follows:

Year ended Dec. 31, 2004	Registered	Supplemental	Other
Accrued benefit obligation at Dec. 31			
Discount rate	**5.5%**	**5.5%**	**5.6%**
Rate of compensation increase	**3.5%**	**3.5%**	**–**
Benefit cost for year ended Dec. 31			
Discount rate	**5.8%**	**5.8%**	**5.9%**
Rate of compensation increase	**3.5%**	**3.5%**	**–**
Expected rate of return on plan assets	**7.1%**	**–**	**–**
Assumed health care cost trend rate at Dec. 31			
Health care cost escalation	**–**	**–**	**10.0 -12.5%1)**
Dental care cost escalation	**–**	**–**	**4.0%**
Provincial health care premium escalation	**–**	**–**	**2.5%**

Year ended Dec. 31, 2003	Registered	Supplemental	Other
Accrued benefit obligation at Dec. 31			
Discount rate	5.8%	5.8%	6.1%
Rate of compensation increase	3.5%	3.5%	–
Benefit cost for year ended Dec. 31			
Discount rate	6.3%	6.3%	6.4%
Rate of compensation increase	3.6%	3.5%	–
Expected rate of return on plan assets	7.1%	–	–
Assumed health care cost trend rate at Dec. 31			
Health care cost escalation	–	–	6.6-7.0%[2]
Dental care cost escalation	–	–	3.5%
Provincial health care premium escalation	–	–	2.5%

1 *For the next 10 years and five per cent thereafter for Canadian plans. For U.S. plans, decreasing to five per cent for 2012 and remaining at that level thereafter.*

2 *For five years and 5 per cent thereafter for Canadian plans. For U.S. plans, decreasing gradually to 4.5 per cent for 2016 and remaining at that level thereafter.*

The expected long-term rate of return on plan assets is based on past performance and economic forecasts for the types of investments held by the plan. The estimated rate of return is lower than the historical returns of the appropriate indices.

Sensitivity to changes in assumed health care cost trend rates are as follows:

		One percentage point increase		One percentage point decrease
Effect on total service and interest costs	$	0.1	$	(0.1)
Effect on post-retirement benefit obligation	$	1.2	$	(1.0)

19. FINANCIAL RISK MANAGEMENT

A. Foreign Exchange Rate Risk Management

I. Hedges of Foreign Operations

The corporation has exposure to changes in the carrying values of its self-sustaining foreign operations as a result of changes in foreign exchange rates. The corporation uses cross-currency interest rate swaps at fixed and floating rate terms, forward sales contracts and direct

foreign currency debt to hedge these exposures. The principal component of the cross-currency interest rate swaps and direct foreign currency debt hedge a portion of the carrying value of foreign operations. Translation gains and losses related to these components are deferred and included in CTA in shareholders' equity on a net of tax basis.

Realized gains and losses arising from the hedging of net investments and inter-company transactions are reflected as an investing activity in the statement of cash flows. Upon the settlement of certain financial instruments designated as net investment hedges, a foreign exchange gain of $47.8 million was realized in 2004 (2003 – $194.1 million, 2002 – $4.2 million). This is recorded in the corporation's cumulative translation account in total equity. During 2004, the corporation reclassified prior year cash flows to be consistent with the current presentation.

Details of the notional amounts of cross-currency interest rate swaps are as follows:

Year ended Dec. 31	**2004**			2003		
	Amount	Fair Value	Maturities	Amount	Fair Value	Maturities
Australian dollars	**AUD$34.0**	$ (3.4)	**2005**	AUD$221.0	$ (13.1)	2005-2010
U.S. dollars	**US$706.9**	$ 128.7	**2005-2012**	US$429.0	$ 60.1	2004-2012

In addition, the corporation has designated U.S. dollar denominated long-term debt *(Note 11)* in the amount of US$727.9 million (2003 – US$743.9 million) as a hedge of its net investment in U.S. and Mexico operations with $147.6 million of related foreign currency losses (2003 – $103.1 million loss) deferred and included in CTA.

The corporation has also hedged a portion of its net investment in self-sustaining subsidiaries with foreign currency forward sales contracts as shown below:

Year ended Dec. 31	**2004**			2003		
	Amount	Fair Value	Maturities	Amount	Fair value	Maturities
New Zealand dollars	**NZ$513.3**	$ (142.5)	**2005**	NZ$448.5	$ (98.2)	2004
U.S. dollars	**US$499.5**	$ 82.1	**2005**	US$510.3	$ 4.0	2004
Australian dollars	**AUD$8.6**	$ –	**2005**	AUD$34.3	$ (2.4)	2004
Mexican pesos	**MXN 871.6**	$ 10.8	**2009**	–	–	–

In addition, the corporation has hedged foreign currency denominated intercompany loans to a self-sustaining foreign subsidiary using forward contracts with a notional amount of US$209.0 million (2003 – $206.7 million) and $78.3 million (2003 – $163.1 million) and a net fair value liability of $78.2 million (2003 – $52.4 million).

At Dec. 31, 2004, a $231.5 million asset (2003 – $74.9 million) and a $83.9 million liability (2003 – $87.7 million) related to the cross-currency interest rate swaps and forward sales contracts was recorded in other assets *(Note 9)* and deferred credits and other long-term liabilities *(Note 12)* respectively.

II. Hedges of Future Foreign Currency Obligations

The corporation has hedged future foreign currency obligations through forward purchase contracts as follows:

Year ended Dec. 31		**2004**				2003			
Currency sold	Currency purchased	Amount sold	Amount purchased	Fair Value asset (liability)	Maturities	Amount sold	Amount purchased	Fair value asset (liability)	Maturities
Canadian dollars	U.S. dollars	**$ 43.00**	**$ US29.5**	$ (6.80)	**2005**	$ 60.40	$ US44.1	$ (1.60)	2004-2005
U.S. dollars	Canadian dollars	**$ US24.5**	**$ 37.30**	**$ 7.10**	**2005**	–	–	–	–
Mexican pesos	U.S. dollars	**MXN 51.6**	**$ US4.6**	**$ 0.10**	**2005**	–	–	–	–
Canadian dollars	New Zealand dollars	**$ 17.80**	**$ NZ20.0**	$ (0.50)	**2005**	–	–	–	–
U.S. dollars	New Zealand dollars	**$ US207.1**	**$ NZ456.7**	**$ 141.10**	**2005**	$US184.8	$ NZ425.0	$ 98.70	2005

At Dec. 31, 2004, a $8.7 million asset (2003 – $94.7 million) and a $52.2 million liability (2003 – $24.4 million) related to these hedges was recorded in other assets *(Note 9)* and deferred credits and other long-term liabilities *(Note 12),* respectively.

B. Interest Rate Risk Management

I. Existing Debt

The corporation has converted fixed interest rate debt at fixed rates ranging from 5.75 per cent to 6.9 per cent to floating rates through receive fixed interest rate swaps *(Note 11)* as shown below:

Year ended Dec. 31	**2004**		2003	
	Notional	Fair value	Notional	Fair value

		amount		of swaps	Maturities		amount		of swaps	Maturities
Fixed rate debt	**$**	**375.0**	**$**	**39.9**	**2006-2011**	$	375.0	$	36.8	2006-2011
	$	**US300.0**	**$**	**1.6**	**2013**	$	US200.0	$	1.1	2013

The corporation has converted floating interest rate debt to fixed rate debt at a fixed rate of 7.4 per cent through receive floating rate swaps *(Note 11)* as shown below:

Year ended Dec. 31

			2004			2003
	Notional amount	Fair value of swaps	Maturity	Notional amount	Fair value of swaps	Maturity
Floating rate debt	**$ US87.9**	**$ (21.1)**	**2016**	$ US91.8	$ (26.8)	2016

Including the interest rate swaps above, 25.0 per cent of the corporation's debt is subject to floating interest rates (2003 – 23.6 per cent).

The fair value of the corporation's fixed interest long-term debt changes as interest rates change, with details as follows:

Year ended Dec. 31

		2004		2003
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt, including current portion	**$ 3,232.9**	**$ 3,416.6**	$ 3,621.1	$ 3,823.3

At Dec. 31, 2004, a $44.4 million asset (2003 – $51.3 million) related to the interest rate swaps was recorded in other assets *(Note 9)*.

C. Energy Commodities Price Risk Management

I. Trading Activities

The corporation markets energy derivatives, including physical and financial swaps, forwards and options, to optimize returns from assets, to earn trading revenues and to gain market information.

At Dec. 31, 2004 and 2003, details of the corporation's fixed price trading positions were as follows:

Units (000s)	Electricity (MWh)	Natural gas (GJ)
Fixed price payor, notional amounts, Dec. 31, 2004	**14,138.00**	**35,221.70**
Fixed price payor, notional amounts, Dec. 31, 2003	13,872.60	45,638.60
Fixed price receiver, notional amounts, Dec. 31, 2004	**15,854.20**	**29,721.20**
Fixed price receiver, notional amounts, Dec. 31, 2003	13,061.80	67,738.30
Maximum term in months, Dec. 31, 2004	**48**	**34**
Maximum term in months, Dec. 31, 2003	33	24

The gross physical and financial volumes of settled sales of proprietary trading transactions are as follows:

Electricity (GWh)

Year ended Dec. 31	**2004**	2003	2002
Physical	**61,165**	55,506	61,089
Financial	**23,239**	34,327	31,785
	84,404	89,833	92,874

Gas (million GJ)

Year ended Dec. 31	**2004**	2003	2002
Physical	**122.4**	100.1	101.5
Financial	**308.0**	170.1	60.5
	430.4	270.2	162.0

The carrying and fair value of energy commodity trading assets and liabilities included on the balance sheet are as follows:

Year ended Dec. 31		**2004**		2003
Price risk management assets				
Current	**$**	**61.4**	$	68.4
Long-term		**32.5**		31.6
Price risk management liabilities				

Current		**(49.9)**		(64.3)
Long-term		**(28.5)**		(29.9)
Net price risk management assets outstanding	**$**	**15.5**	$	5.8

The change in fair value of contracts outstanding at Dec. 31, 2004 and 2003, as well as the changes in fair value of the net price risk management assets for 2004, is attributed to the following:

Change in fair value of net assets	Fair value	
Net price risk management assets outstanding at Dec. 31, 2003	$	5.8
New contracts entered into during the period		14.9
Changes in values attributable to market price and other market changes		(5.6)
Contracts realized, amortized or settled during the period		(4.3)
Changes in values attributable to discontinued hedge treatment of certain contracts		4.7
Net price risk management assets outstanding at Dec. 31, 2004	**$**	**15.5**

II. Hedging Activities

The corporation uses energy derivatives, including physical and financial swaps, forwards and options, to manage its exposure to changes in electricity and natural gas prices. At Dec. 31, 2004, details of the corporation's hedging position were as follows:

	Fixed price payor notional amount	Fixed price receiver notional amount	Maximum term in months
Commodity hedges (000s)	**11,015.21 GJ**	**10,908.4 MWh**	**45**
Diesel swap (millions of litres)	**12.9**	**–**	**12**

The fair value of these hedges is a $12.6 million liability (2003 – $2.7 million).

In addition, the corporation has entered into a number of long-term gas purchase and transportation agreements in the normal course of business to hedge its long-term electricity sales contracts. The maximum term of these contracts is four years.

D. Credit Risk Management

The corporation actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures. For Energy Marketing, the corporation sets strict credit limits for each counterparty and halts trading activities with the counterparty if the limits are exceeded. The corporation makes detailed assessments of the credit quality of all counterparties and, where appropriate, obtains corporate guarantees and/or letters of credit to support the ultimate collection of these receivables. TransAlta is exposed to minimal credit risk for Alberta Generation Power Purchase Arrangements (PPA) as all receivables are guaranteed by letters of credit.

The maximum credit exposure to any one customer, excluding the California market receivables discussed above and including the fair value of open trading positions, is $67.7 million.

20. JOINT VENTURES

Joint ventures at Dec. 31, 2004 included the following:

Joint venture	Ownership interest	Description
Sheerness joint venture	25%	Coal-fired plant in Alberta, of which TA Cogen has a 50 per cent interest, and is operated by Canadian Utilities
Meridian joint venture	25%	Cogeneration plant in Alberta, of which TA Cogen has a 50 per cent interest, and is operated by Husky Energy
Fort Saskatchewan joint venture	30%	Cogeneration plant in Alberta, of which TA Cogen has a 50 per cent interest, and is operated by Husky Energy
McBride Lake joint venture	50%	Wind generation facilities in Alberta, operated by TransAlta
Goldfields Power joint venture	50%	Gas-fired plant in Australia, operated by TransAlta
CE Generation LLC	50%	Geothermal and gas plants in the US, operated by CE Gen affiliates
Genesee 3	50%	Coal-fired plant in Alberta, operated by EPCOR Utilities Inc.

Summarized information on the results of operations, financial position and cash flows relating to the corporation's pro-rata interests in its jointly controlled corporations was as follows:

		2004		2003		2002
Results of operations						
Revenues	**$**	**505.2**	$	539.0	$	195.3
Expenses		**(424.3)**		(429.3)		(123.7)
Non-controlling interests		**(37.1)**		(25.9)		(3.0)
Proportionate share of net earnings	**$**	**43.8**	$	83.8	$	68.6
Cash flows						
Cash flow from operations	**$**	**153.2**	$	498.7	$	7.2

Cash flow used in investing activities		**(21.6)**		(1,603.4)	(33.2)
Cash flow used in financing activities		**(129.1)**		1,131.5	–
Proportionate share of decrease in cash and cash equivalents	**$**	**2.5**	$	26.8	$ (26.0)
Financial position					
Current assets	**$**	**112.7**	$	125.9	$ 37.0
Long-term assets		**2,033.7**		2,214.4	587.8
Current liabilities		**(110.9)**		(135.1)	(11.9)
Long-term liabilities		**(635.6)**		(806.2)	(5.5)
Non-controlling interests		**(416.3)**		(164.5)	(27.4)
Proportionate share of net assets	**$**	**983.6**	$	1,234.5	$ 580.0

21. RELATED PARTY TRANSACTIONS

On Dec. 1, 2004, TransAlta completed the sale of its 50 per cent interest in the 220-MW Meridian Cogeneration Facility located in Lloydminster, Saskatchewan to TA Cogen for its fair value of $110.0 million. TA Cogen (owned 50.01 per cent by TransAlta and 49.99 per cent by TransAlta Power) financed the acquisition through the use of $50.0 million of cash on hand and by the issuance of $30.0 million of units to each of TransAlta Power and TEC. TA Cogen also issued an advance to TEC for $30.0 million. The advance outstanding at Dec. 31, 2004 was $28.0 million and is included in accounts receivable. TransAlta recorded a gain of $11.5 million after-tax or $0.06 per common share ($17.7 million pre-tax).

On July 31, 2003, TransAlta completed the sale of its 50 per cent interest in the two-unit, 756-MW coal-fired Sheerness Generating Station to TA Cogen for $630.0 million. The exchange amount was at fair value and was determined based on an estimate of the future net cash flows of the plant and approved by the independent directors of TA Cogen. There are no ongoing contractual commitments or arrangements resulting from this sale apart from the provision of operational and management services under normal commercial terms for the Sheerness Generating Station.

In connection with the sale of the Sheerness Generating Station, the obligation for TransAlta to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 that arose on the sale of power generation assets to TA Cogen in 1998 has been eliminated; therefore the deferred gain of $119.8 million related to this sale was recognized in earnings in 2003. In addition, the management agreements between TransAlta, TransAlta Power and TA Cogen were amended to remove the mechanism for the deferral of management fees and remove the obligation for TransAlta Power and TA Cogen to pay management fees to TransAlta in the future. As consideration for the amendments, TransAlta received $1.0 million from TransAlta Power and $5.0 million from TA Cogen.

In February 2003, TransAlta entered into an agreement with CE Gen whereby TransAlta buys available power from certain CE Gen subsidiaries under normal commercial terms. In addition, CE Gen has entered into contracts with related parties to provide administrative and maintenance services.

For the period November 2002 to November 2007, TA Cogen entered into a transportation swap transaction with a wholly-owned subsidiary of TransAlta, TEC *(Note 12).* TEC operates and maintains TA Cogen's three combined-cycle power plants in Ontario and a plant in Fort Saskatchewan, Alberta. TEC also provides management services to the Sheerness Generating Station in Alberta, which is operated by Canadian Utilities. The business purpose of the transportation swap was to provide TA Cogen with the delivery of fixed price gas without being exposed to escalating costs of pipeline transportation for two of its plants over the period of the swap. This stabilizes cash distributions in TA Cogen and thereby preserves the value of the limited partnership as a financing vehicle of TransAlta. The notional gas volume in the transaction was the total delivered fuel for both facilities. Exchange amounts are based on the market value of the contract. TransAlta entered into an offsetting contract with an external third party, therefore TransAlta has no risk other than counterparty risk.

TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provides TA Cogen with fixed price gas for both the Mississauga and Ottawa plants over the period. The floating prices associated with the Mississauga and Ottawa cogeneration plants' long-term fuel supply agreements were transferred to TEC's account. The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration and in negotiation, TA Cogen transferred the right to incremental revenues associated with curtailed electrical production and subsequent higher revenue gas sales. At Dec. 31, 2004, the portion of the contract related to the non-controlling interest had a fair value liability of $4.9 million (2003 – $7.9 million).

22. COMMITMENTS

A significant portion of the corporation's electricity and thermal sales revenues are subject to PPAs and long-term contracts. Commencing Jan. 1, 2001, Alberta Generation assets became subject to long-term PPAs for a period approximating the remaining life of each plant or unit. These PPAs set a production requirement and availability target to be supplied by each plant or unit and the price at which each megawatt-hour will be supplied to the customer. For Mexico, the plants' energy production is subject to 25-year contracts with the Comisión Federal de Electricidad. These contracts set availability targets and the price at which the plant will be paid per kilowatt of available capacity, as well as plant efficiency targets for recovery of fuel costs based on market prices. At Sarnia, there are 20-year contracts with a customer group with three, five-year options for extensions to the contracts. The contracts allow for up to 40 per cent of the plant's maximum capacity. These contracts set payments for peak megawatts, total megawatt hours and steam consumed, while TransAlta assumes the availability and heat rate risk. The remaining capacity is available for export to the merchant market, based on market conditions. Energy production at the remaining Ontario plants is subject to contracts expiring in nine to 14 years. These contracts set availability targets and the price at which the plant will be paid per MWhs produced, as well as risk sharing of fuel costs based on market prices.

Thermal energy contracts for these Ontario plants expire the same time as the energy production contracts and are with a different customer

base. These contracts set payments for volumes consumed, while TA Cogen assumes the heat rate risk. At Centralia, a significant portion of production is subject to short- to medium-term energy sales contracts. In addition, a portion of the corporation's energy sales from its gas plants are subject to medium- to long-term energy sales contracts.

The corporation has entered into a number of long-term gas purchase agreements, transportation and transmission agreements, royalty and right-of-way agreements in the normal course of operations. In 2002, the corporation cancelled orders on several turbines, and incurred a pre-tax impairment charge of $42.5 million *(Note 7).* Approximate future payments under the fixed price purchase contracts, operating lease and mining agreements are as follows:

	Fixed price gas purchase contracts	Operating leases	Mining agreements	Total
2005	$ 51.4	$ 14.8	$ 81.9	$ 148.1
2006	$ 53.1	$ 13.2	$ 36.7	$ 103.0
2007	$ 54.8	$ 11.6	$ 36.8	$ 103.2
2008	$ 56.8	$ 10.6	$ 33.3	$ 100.7
2009	$ 32.4	$ 10.2	$ 18.6	$ 61.2
2010 and thereafter	$ 87.0	$ 100.0	$ 300.3	$ 487.3
Total	$ 335.5	$ 160.4	$ 507.6	$ 1,003.5

23. OTHER CONTINGENCIES

In March 2003, FERC completed its investigation of natural gas and power markets and indicated that the total industry refunds for price overcharges will be higher than originally anticipated.

In June 2003, FERC issued two show cause orders, the Partnership Gaming Order and the Gaming Practices Order, in which TransAlta's U.S. subsidiaries were named. These orders required TransAlta to justify certain trading activities in California between Oct. 1, 2000 and June 20, 2001. In response to FERC's show cause orders, TransAlta confirmed that it did not engage in gaming behavior. Based on the information provided by TransAlta, FERC Trial Staff filed a Motion to Dismiss with respect to TransAlta in the two show cause proceedings. On Jan. 22, 2004, FERC granted the FERC Trial Staff's motion to dismiss TransAlta from both the Partnership Gaming Order and the Gaming Practices Order. FERC found that TransAlta did not engage in prohibited gaming practices.

On May 30, 2002, the California Attorney General's Office filed civil complaints in the state court of California against eight wholesale power companies, including TransAlta. The complaint alleges violations of California's unfair business practices law in connection with rates charged for wholesale electricity sales. The state court denied the Attorney General's complaint and granted an order to dismiss the claims against TransAlta. The Attorney General dropped its appeal of this decision on Nov. 2, 2004; as such, the decision is final as of such date.

On Dec. 16, 2002, the Canadian government ratified the Kyoto Protocol, which came into effect on Feb. 16, 2005. The Kyoto Protocol is not expected to have an impact on TransAlta's U.S., Mexican or Australian operations. TransAlta is not able to estimate the full impact the Protocol will have on its Canadian operations, as the Canadian government has not yet established an implementation plan. However, the PPAs for TransAlta's coal-fired plants in Alberta contain 'Change of Law' provisions that should provide an opportunity to recover compliance costs from the PPA customers.

The corporation is involved in various other claims and legal actions arising from the normal course of business. The corporation does not expect that the outcome of these proceedings having regard to insurance available to it, and the amounts reserved in respect of such claims, will have a materially adverse effect on the corporation as a whole.

24. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation. Such reclassification did not impact previously reported net income or retained earnings.

2 5. SUBSEQUENT EVENTS

On Feb. 15, 2005, the corporation redeemed all of its 7.50 per cent Preferred Securities, which had an aggregate principal amount of $175.0 million and all of its 8.15 per cent Preferred Securities, which had an aggregate principal amount of $125.0 million. As a result, $300.0 million of Preferred Securities are included in the current portion of long-term debt at Dec. 31, 2004.

2 6. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian GAAP, which, in most respects, conform to U.S. GAAP. Significant differences between Canadian and U.S. GAAP are as follows:

A. Earnings and Earnings Per Share (EPS)

Year ended Dec. 31	Reconciling items	**2004**	2003	2002
Earnings from continuing operations – Canadian GAAP		$ 160.6	$ 234.2	$ 66.8
Effect of asset retirement obligations adoption – Canadian GAAP	X	**–**	–	(9.7)
Derivatives and hedging activities, net of tax	I	**(3.8)**	(4.5)	(3.8)
Start-up costs, net of tax	II	**(0.1)**	(6.7)	(4.5)

Amortization of debt extinguishment, net of tax	III	**–**	–	0.8
Recognition of debt extinguishment, net of tax	III	**–**	11.1	–
Amortization of pension transition adjustment	V	**(4.5)**	(4.6)	(5.8)
Earnings from continuing operations – U.S. GAAP		**152.2**	229.5	43.8
Earnings from discontinued operations – Canadian and U.S. GAAP		**–**	–	12.8
Net gain on disposal of discontinued operations – Canadian and U.S. GAAP		**9.6**	–	120.0
Net earnings before change in accounting principle – U.S. GAAP		**161.8**	229.5	176.6
Cumulative effect of change in accounting principle, net of tax	X	**–**	52.5	–
Net earnings – U.S. GAAP		$ 161.8	$ 282.0	$ 176.6
Foreign currency cumulative translation adjustment	I, VII	**3.7**	8.2	(16.8)
Net gain (loss) on derivative instruments	I, VII	**10.4**	8.8	(51.5)
Registered pension alternate minimum liability	V, VII	**(0.6)**	0.6	(1.7)
Comprehensive income – U.S. GAAP		$ 175.3	$ 299.6	$ 106.6
Basic EPS – U.S. GAAP				
Earnings from continuing operations		$ 0.79	$ 1.24	$ 0.26
Earnings from discontinued operations		**–**	–	0.08
Net gain on disposal of discontinued operations		**0.05**	–	0.71
Cumulative effect of change in accounting principle		**–**	0.28	–
Net earnings		$ 0.84	$ 1.52	$ 1.05
Diluted EPS – U.S. GAAP				
Earnings from continuing operations		$ 0.79	$ 1.24	$ 0.26
Earnings from discontinued operations		**–**	–	0.08
Net gain on disposal of discontinued operations		**0.05**	–	0.71
Cumulative effect of change in accounting principle		**–**	0.28	–
Net earnings		$ 0.84	$ 1.52	$ 1.05

B. Balance Sheet Information

Year ended Dec. 31		**2004**		2003	
	Reconciling items	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets					
Cash	IX, XII	$ 137.1	**$ 101.2**	$ 155.0	$ 155.0
Current derivative assets	I	**–**	**47.8**	–	6.9
Accounts receivable	VIII, XII	**429.1**	**396.4**	420.1	419.2
Prepaid expenses	XII	**54.7**	**52.3**	53.8	53.8
Income taxes receivable	I	**60.1**	**75.1**	108.9	126.3
Investments	XII	**3.0**	**371.7**	5.0	189.4
Property, plant and equipment, net	II, XII	**6,244.4**	**5,699.5**	6,385.5	6,382.6
Long-term derivative asset	I	**–**	**187.7**	–	102.8
Other assets (including current portion)	I, II, XII	**373.9**	**166.2**	330.2	205.8
Liabilities					
Accounts payable and accrued liabilities	V, XII	**432.3**	**338.5**	501.2	471.1
Income taxes payable	II, XII	**6.9**	**0.7**	–	–
Current derivative liabilities	I	**–**	**32.2**	–	40.3
Current portion of long-term debt	IX, XII	**587.7**	**580.1**	183.8	183.8
Long-term debt	I, XII	**2,470.2**	**2,365.0**	2,962.3	3,185.9
Deferred credits and other liabilities (including current portion)	I, XI, XII	**524.7**	**511.8**	511.7	517.8
Firm commitment	I	**–**	**0.4**	–	–
Long-term derivative liabilities	I	**–**	**48.2**	–	12.2
Future or deferred income tax liabilities	I, II, IV, V	**703.9**	**694.8**	686.1	671.2
Non-controlling interest	I	**616.4**	**615.4**	477.9	475.6
Equity					
Common shares	VIII	**1,611.9**	**1,611.9**	1,555.7	1,554.8
Retained earnings	I, II, V	**910.3**	**904.0**	933.9	936.0
Cumulative translation adjustment	I	**(49.5)**	**–**	(39.1)	–
Accumulated other comprehensive income	I, V	**–**	**(92.6)**	–	(106.1)

C. Reconciling Items

I. Derivatives and Hedging Activities

Under U.S. GAAP, trading and non-trading activities are accounted for in accordance with Statement 133, which requires that derivative instruments be recorded in the consolidated balance sheets at fair value as either assets or liabilities, and that changes in fair value be recognized currently in earnings, unless specific hedge accounting criteria are met. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized currently in earnings. If the derivative is designated as a cash flow hedge, the changes in the fair value of the derivative are recorded in other comprehensive income, and the gains and losses related to these derivatives are recognized in earnings in the same period as the settlement of the underlying hedged transaction. Any ineffectiveness relating to these hedges is recognized currently in earnings. The assets and liabilities related to derivative instruments for which hedge accounting criteria are met are reflected as derivative hedging instruments in the consolidated balance sheets. Many of the corporation's electricity sales and fuel supply agreements that otherwise would be required to follow derivative accounting qualify as normal purchases and normal sales under Statement 133 and are therefore exempt from fair value accounting treatment. This exemption is available for the electricity industry as electricity cannot be stored in significant quantities and generators may be required to maintain sufficient capacity to meet customer demands. This exemption is also available for some physically settled commodity contracts if certain criteria are met. Non-derivatives used in trading activities are accounted for using the accrual method under U.S. GAAP.

i. Fair Value Hedging Strategy The corporation enters into forward exchange contracts to hedge certain firm commitments denominated in foreign currencies to protect against adverse changes in exchange rates and uses interest rate swaps to manage interest rate exposure. The swaps modify exposure to interest rate risk by converting a portion of the corporation's fixed-rate debt to a floating rate.
The corporation's fair value hedges resulted in no net impact in the years ended Dec. 31, 2004, 2003 and 2002 related to the ineffective portion of its hedging instruments (inclusive of the time value of money) as well as the portion not designated as a hedge.

ii. Cash Flow Hedging Strategy In the year ended Dec. 31, 2004, the corporation's cash flow hedges resulted in an after-tax loss of $nil (2003 – $1.9 million, 2002 – $nil) related to the ineffective portion of its hedging instruments, and an after-tax gain of $nil for year ended Dec. 31, 2004 (2003 – $2.0 million, 2002 – $nil) related to the portion not designated as a hedge.

In November 2003, forward starting swaps with a notional amount of US$200.0 million and treasury and spread locks with a notional amount of $100.0 million were settled and debt was issued, resulting in an after-tax loss of $25.3 million. The loss is being reclassified from accumulated other comprehensive income (AOCI) into income as interest expense is recognized on the debt.

Over the next 12 months, the corporation estimates that $3.3 million of after-tax losses that arose from cash flow hedges will be reclassified from AOCI to net earnings. The corporation also estimates that $3.7 million of after-tax losses on cash flow hedging instruments that arose on adoption of Statement 133 will be reclassified from AOCI to earnings. These estimates assume constant gas and power prices, interest rates and exchange rates over time; however, the actual amounts that will be reclassified will vary based on changes in these factors. Therefore, management is unable to predict what the actual reclassification from AOCI to earnings (positive or negative) will be for the next 12 months.

iii. Net Investment Hedges The company uses cross-currency interest rate swaps, forward sales contracts and direct foreign currency debt to hedge its exposure to changes in the carrying value of its investments in its foreign subsidiaries in the U.S., Australia and Mexico. Realized and unrealized gains and losses from these hedges are included in Other Comprehensive Income (OCI), with the related amounts due to or from counterparties included in long-term derivative assets and liabilities and long-term debt.

In the year ended Dec. 31, 2004, the corporation recognized an after-tax gain of $3.7 million (2003 – $8.2 million gain, 2002 – $16.8 million loss) on its net investment hedges, included in OCI.

In the year ended Dec. 31, 2004, the corporation recognized after-tax gains of $nil (2003 – $0.2 million, 2002 – $nil), related to ineffectiveness of net investment hedges.

iv. Trading Activities The corporation markets energy derivatives to optimize returns from assets, to earn trading revenues and to gain market information. Derivatives, as defined under Statement 133, are recorded on the consolidated balance sheets at fair value under both Canadian and U.S. GAAP. Non-derivative contracts entered into subsequent to the rescission of EITF 98-10 are accounted for using the accrual method

v. Other Hedging Activities In the year ended Dec. 31, 2004, the corporation recognized pre-tax losses of $1.1 million (2003 – $0.7 million, 2002 – $1.1 million gains) related to hedging activities that do not qualify for hedge accounting under Statement 133.

II. Start-up Costs

Under U.S. GAAP, certain start-up costs, including revenues and expenses in the pre-operating period, are expensed rather than capitalized to deferred charges and property, plant and equipment as under Canadian GAAP, which also results in decreased depreciation and amortization expense under U.S. GAAP.

III. Debt Extinguishment

Under U.S. GAAP, the premium on redemption of long-term debt related to the 1998 limited partnership transaction was recorded when incurred, whereas for Canadian GAAP, the loss was being amortized to earnings over the period of the limited partnership (20 years). As the buyback option was terminated in connection with the sale of the Sheerness plant, the deferred amount was recognized in earnings in 2003.

IV. Income Taxes

Future income taxes under Canadian GAAP are referred to as deferred income taxes under U.S. GAAP.

Deferred income taxes under U.S. GAAP would be as follows:

Year ended Dec. 31		**2004**		2003
Future income tax liabilities (net) under Canadian GAAP	**$**	**(561.5)**	$	(571.0)
Derivatives		**23.2**		31.3
Start-up costs		**(2.3)**		(2.3)
Employee future benefits		**(11.8)**		(14.1)
	$	**(552.4)**	$	(556.1)

Comprised of the following:

Year ended Dec. 31		**2004**		2003
Current deferred income tax assets	**$**	**21.5**	$	29.4
Long-term deferred income tax assets		**132.0**		90.3
Current deferred income tax liabilities		**(11.1)**		(4.6)
Long-term deferred income tax liabilities		**(694.8)**		(671.2)
	$	**(552.4)**	$	(556.1)

V. Employee Future Benefits

U.S. GAAP requires that the cost of employee pension benefits be determined using the accrual method with application from 1989. It was not feasible to apply this standard using this effective date. The transition asset as at Jan. 1, 1998 was determined in accordance with elected practice prescribed by the Securities and Exchange Commission (SEC) and is amortized over 10 years.

As a result of the corporation's plan asset return experience for its U.S. registered pension plan, at Dec. 31, 2004, the corporation was required under U.S. GAAP to recognize an additional minimum liability. The liability was recorded as a reduction in common equity through a charge to OCI, and did not affect net income for 2004. The charge to OCI will be restored through common equity in future periods to the extent the fair value of trust assets exceeds the accumulated benefit obligation.

VI. Joint Ventures

In accordance with Canadian GAAP, joint ventures are required to be proportionately consolidated regardless of the legal form of the entity. Under U.S. GAAP, incorporated joint ventures are required to be accounted for by the equity method. However, in accordance with practices prescribed by the SEC, the corporation, as a Foreign Private Issuer, has elected for the purpose of this reconciliation to account for incorporated joint ventures by the proportionate consolidation method.

VII. Other Comprehensive Income (Loss)

The changes in the components of OCI were as follows:

Year ended Dec. 31		**2004**		2003		2002
Net gain on derivative instruments:						
Unrealized gain, net of taxes of $4.3 million	$	7.0	$	5.4	$	(55.5)
Reclassification adjustment for gains included in net income, net of taxes of $2.2 million		**3.4**		3.4		4.0
Net gain on derivative instruments		**10.4**		8.8		(51.5)
Translation adjustments		**3.7**		8.2		(16.8)
Registered pension alternate minimum liability		**(0.6)**		0.6		(1.7)
Other comprehensive income (loss)	$	13.5	$	17.6	$	(70.0)

The components of AOCI were:

		2004		2003		2002
Net loss on derivative instruments	$	(60.8)	$	(71.2)	$	(80.0)
Translation adjustments		**(30.1)**		(33.8)		(42.0)
Registered pension alternate minimum liabilities		**(1.7)**		(1.1)		(1.7)
Accumulated other comprehensive loss	$	(92.6)	$	(106.1)	$	(123.7)

VIII. Share Capital

Under U.S. GAAP, amounts receivable for share capital should be recorded as a deduction from shareholders' equity. Under Canadian GAAP, effective Jan. 1, 2004, TransAlta has prospectively presented employee share purchase plan loans as a deduction from shareholders' equity, thereby eliminating the difference between U.S. and Canadian GAAP as of Jan. 1, 2004. Under the corporation's employee share purchase plan, accounts receivable at Dec. 31, 2003 were $0.9 million.

IX. Right of Offset Agreement

The corporation had a New Zealand bank deposit that had been offset with a New Zealand bank facility under a right of offset agreement. The arrangement did not qualify for offsetting under U.S. GAAP. During the second quarter of 2004, the corporation refinanced certain foreign operations and the bank deposit was used to settle the bank facility in full.

X. Asset Retirement Obligations

FASB issued Statement 143, *Asset Retirement Obligations,* which requires asset retirement obligations to be measured at fair value and recognized when the obligation is incurred. A corresponding amount is capitalized as part of the asset's carrying amount and depreciated over the asset's useful life. TransAlta adopted the provisions of Statement 143 effective Jan. 1, 2003.

In accordance with Canadian GAAP, the asset retirement obligations standard was adopted retroactively with restatement of prior periods. Under U.S. GAAP, the impact of adopting Statement 143 was recognized as a cumulative effect of a change in accounting principle as of Jan. 1, 2003, the beginning of the fiscal year in which the Statement was first applied. The change resulted in an after-tax increase in net earnings of $52.5 million ($82.7 million pre-tax).

XI. Guarantees

TransAlta accounts for guarantees and related contracts, for which it is the guarantor, under FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others.* In accordance with FIN 45, upon issuance or modification of a guarantee on or after Jan. 1, 2003, the corporation recognizes a liability at the time of issuance or material modification for the estimated fair value of the obligation it assumes under the guarantee. TransAlta reduces the obligation over the term of the guarantee or related contract in a systematic and rational manner as risk is reduced under the obligation.

XII. Variable Interest Entities

In January 2003, FASB issued FIN 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51.*

FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, FASB issued FIN 46R, which served to clarify guidance in FIN 46. During the fourth quarter of 2003, the corporation adopted the provisions of FIN 46R with respect to special purpose entities. The adoption did not have a significant impact on the corporation's financial position, results of operations or cash flows. During the first quarter of 2004, the corporation adopted the provisions of FIN 46R related to non-special purpose entities. The corporation has considered the provisions of FIN 46R for all subsidiaries and their related power purchase, power sale or tolling agreements. Factors considered in the analysis include the duration of the agreements, how capacity and energy payments are determined, source of payment terms for fuel, as well as responsibility and payment for operating and maintenance expenses. The corporation has two wholly-owned subsidiaries in Mexico, which were created to hold the corporation's 100 per cent interest in the Campeche and Chihuahua power plants. These subsidiaries were formed in 2000 and 2001, respectively, and are considered variable interest entities under FIN 46R. As a result of the foregoing considerations, the corporation has determined that the nature of the fuel purchase and power sale contracts relating to the wholly-owned Mexican operations insulate the corporation from significant variability in the cash flows relating to the assets. Therefore, TransAlta is not the primary beneficiary and does not consolidate the entities. Accordingly, the subsidiaries owning the Campeche and Chihuahua plants are presented as equity investments rather than consolidated subsidiaries on the consolidated financial statements. One hundred per cent of the results from operations of the two plants are presented as equity income on the consolidated income statements. There was no impact to net earnings as a result of adoption of this interpretation. TransAlta wholly owns and operates the 252-MW Campeche and 259-MW Chihuahua plants which were commissioned in 2003. The plants' electrical output is sold under 25-year contracts to Mexico's government-owned utility, the Comisión Federal de Electricidad. At Dec. 31, 2004, the corporation's maximum exposure to loss is its $404.0 million investment in the two plants.

XIII. Changes in Accounting Standards

On May 19, 2004, FASB issued FASB Staff Position (FSP) 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act) that provides guidance on the accounting for the effects of the Act for employers that sponsor post-retirement health care plans that provide drug benefits. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare. TransAlta's prescription drug benefit plan in the U.S. is not material to the corporation's post-retirement benefit plan and therefore the impact of the FSP is not material to the consolidated financial statements.