

TransAlta Corporation Annual Meeting of Shareholders, held April 29, 2005  
at the Hotel Macdonald, Edmonton, Alberta.

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**Mr. J.T. Ferguson:** Good morning, ladies and gentlemen. On behalf of the Board of Directors, it is my pleasure to welcome you to the annual meeting of shareholders of TransAlta Corporation. My name is John Ferguson, and as chair of the board of TransAlta, I will chair the annual meeting this morning.

Before we begin the formal part of these proceedings, I would like to draw your attention to the area to my left or your right which has been set up with a closed captioned screen for the hearing impaired.

I would now like to introduce those sitting at the head table: Steve Snyder, President and Chief Executive Officer; Ian Bourne, Chief Financial Officer of the corporation; and Allison Love, Corporate Secretary.

I would also like to recognize just a few people that are with us here today as well. Our former Director of the company and former Chairman of the Audit Committee, Wally Madill and his wife Anita is here. Also we have with us a former President, Chairman and Chief Executive Officer of TransAlta -- I refer to as Mr. Transalta -- Marshall Williams and his wife Joan. Delighted to have you both with us.

After the end of the formal business of the meeting, I will make some comments from the board perspective. Mr. Bourne will present the Chief Financial Officer's report, and Mr. Snyder will present the Chief Executive Officer's report. Following these presentations, there will be time for any questions that you may have for me or for any of the TransAlta management team.

This meeting is being webcast for shareholders who are participating through the internet. Those shareholders may also ask questions via the

internet during the question period. Persons who wish to ask questions at the meeting are asked to state their full name and whether they are a shareholder or proxy holder.

Directors and officers of TransAlta are wearing nametags and will be available after the meeting to discuss any other matters with you.

I will now call the TransAlta Corporation annual meeting to order. The board has set the number of directors at ten. This is a decrease of two in the number of directors of the board as Jack Donald and I are both retiring from the board after this meeting.

We are satisfied at this time that the number of members nominated for election to the board is appropriate to provide a significant range of depth and expertise and to meet all Corporate Governance requirements.

I would now like to introduce those directors standing for election to the board and ask that directors stand and remain standing while I call their names, please.

William D. Anderson. Bill Anderson, a resident of Westmount, Quebec joined the board in January, 2003. Mr. Anderson is president of BCE Ventures, a subsidiary of BCE Inc. and a director of Bell Canada International Inc. Mr. Anderson chairs the Audit and Environment Committee of the board.

Stanley J. Bright. Stan Bright is a resident of Vero Beach, Florida and has been a director since 1999. Mr. Bright is a director of MidAmerican Energy Holdings Company. He chairs the Human Resource Committee of the board.

Timothy W. Faithfull. Tim Faithfull is a resident of London, England, joined the board in August, 2003. Mr. Faithfull is a director of Canadian Pacific Railway Company and AMEC PLC and Shell Pension Trust Limited

in the UK. He is former President and CEO of Shell Canada Limited.

Louis D Hyndman. Lou Hyndman, a resident of Edmonton, Alberta, has been a director of TransAlta since 1986. Mr. Hyndman is a senior partner in the law firm of Field LLP, and a director of Canadian Urban Ltd., EllisDon Inc., Enbridge Inc., Melcor Developments, Meloche Monnex Inc.

J. Kent Jespersen. Kent Jespersen is a resident of Calgary, Alberta, joined the board in January, 2004. Mr. Jespersen is chair and director of Geac Computer Corporation, CCR Technologies, lead director of Telesystem International Wireless Inc. and director of Matrikom and Axia NetMedia Corporation.

Michael M. Kanovsky. Michael Kanovsky is a resident of Victoria, British Columbia, also joined our board in January, 2004. Mr. Kanovsky is an independent businessman and a director of Accrete Energy Corporation, Devon Energy Corporation, ARC Energy Trust, Bonavista Energy Trust and Pure Technologies Inc.

Donna Soble Kaufman. Donna Kaufman, a resident of Toronto, Ontario has been a director of TransAlta since 1989. Ms. Kaufman is a director of BCE Inc, Bell Canada, Telesat Canada, and Hudson's Bay Company. She chairs the nominating and Corporate Governance Committee of our board.

Luis Vazquez Senties. Luis Vazquez, a resident of Mexico City, Mexico has been a director of TransAlta since 2001. Mr. Vazquez is chair of Group Diavaz and Compania Mexicana de Gas.

Stephen G. Snyder. Steve Snyder, who's already been introduced as President and Chief Executive Officer, is a resident of Calgary and has been a director since 1996. Mr. Snyder is a director of the Canadian Imperial Bank of Commerce.

In addition to those directors present, we have Ambassador Gordon

Giffin who couldn't join us today. He was at our board meeting yesterday but had to leave before our annual meeting. He's a resident of Atlanta, Georgia and has been a director of TransAlta since 2002. Mr. Giffin is senior partner of a law firm, McKenna Lawn and Aldridge. From 1997 to 2001, he served as United States Ambassador to Canada. He's a director of Bowater Inc., Canadian National Railway Company, Canadian Imperial Bank of Commerce and Canadian National Resource Inc.

These are the individuals being proposed at election at this meeting.

Thank you for standing.

[ Applause ]

**Mr. J.T. Ferguson:** We will now go through the formal parts of the meeting. I propose that Ms. Love act as secretary of the meeting and Francis van der Basch and Sandra Evans, of CIBC Mellon Trust company, transfer agent and registrar, act as scrutineers. Are there any objections?

I ask Ms. Love to file a copy of the Notice of Meeting and the Declaration of Mailing of the Notice of the Meeting and related meeting materials to shareholders of the corporation with records of this meeting. Since the scrutineers have advised that a quorum is present, it is in order to proceed with the business of the meeting.

The minutes of the last annual meeting held on April 30, 2004, are available on a table at the back of the room. They have been signed by the secretary and the chair and filed in the corporation minute book.

The next item of business is the receipt of the consolidated financial statements of the corporation and the auditor's report for the year ended December 31, 2004.

A copy of the corporation's annual report, the consolidated financial statements of the corporation, and auditor's report were mailed to

shareholders in accordance with the securities requirements and copies are available at this meeting. I request the secretary to file a copy of the annual report with the minutes of this meeting.

A representative of Ernst and Young, LLP, the auditors of the corporation, is available at this meeting to answer questions during the general question period.

In order to have the meeting move as smoothly as possible, we have asked a number of individuals, who are shareholders or proxy holders, to move and second the motions put before the meeting. However, anyone who wishes to speak to any motion is welcome to do so.

The next item of business is the election of directors. Two members of the board, as I mentioned, Jack Donald and I are retiring at the close of this meeting and effective today, the board of directors has been reduced in size from 12 to 10 directors.

I declare the meeting open for nominations for the election of the ten directors of the corporation to hold office for the ensuing year.

**Fred Gallagher:** Mr. Chairman, my name is Fred Gallagher. I'm a shareholder of the corporation. And I nominate William D. Anderson, Stanley J. Bright, Timothy W. Faithfull, Gordon D. Giffin, Louis D. Hyndman, Kent Jespersen, Michael M. Kanovsky, Donna Soble Kaufman, Stephen G. Snyder, Luis Vazquez Senties as directors of the corporation to hold office until the next annual general meeting of shareholders or until their successors are elected or appointed.

**Mr. J.T. Ferguson:** Thanks, Fred. Are there any further nominations?

I declare that nominations close. Since the number of nominees does not exceed the number of directors to be elected by the shareholders, I request a motion to elect the nominees as directors of the corporation to hold office

until the next annual meeting of the shareholders or until their successors are elected or appointed.

**Bunny Ferguson:** Mr. Chairman, Bunny Ferguson, shareholder, I so move.

**Will Bridge:** My name is Will Bridge. I second the motion.

**Mr. J.T. Ferguson:** All in favour, please raise their hand? Contrary?

I declare the motion carried.

The next item of business is the appointment of auditors. I would request a motion to reappoint Ernst and Young, LLP as auditors of the corporation for the ensuing year at such remuneration as shall be fixed by the board of directors.

**Wally Madill:** Mr. Chairman, my name is Wallace Madill, I so move.

**Joan Donald:** My name is Joan Donald. I'm a shareholder, and I second the motion.

**Mr. J.T. Ferguson:** Thank you. All those in favour, please raise their hand? Contrary, if any? I declare the motion carried.

The scrutineers have completed their report on shareholders' attendance for the corporation. The count indicates that 2,950 common shareholders are present in person and by proxy representing over 67.5 million common shares. Accordingly, 34.62% of the outstanding common shares are represented at this meeting.

This concludes the formal business of the meeting, and I therefore declare the meeting terminated.

Before I turn the podium over to Ian Bourne and Steve Snyder, I would like to make a few comments.

First as chair of the board since 1998, and as a shareholder, I've been proud to serve you as a director of TransAlta since 1981 and to participate in the company's achievements. In the years that I've been chair, TransAlta has

changed from a regulated utility to an unregulated electricity generator. I've been fortunate to have experienced the company expanding into the United States, Australia, and Mexico, growing as generation capacity, investing in renewable energy including wind power through Vision Quest, one of Canada's largest wind generating companies, and enhancing its reputation for operational excellence, as well as being one of the best power plant operators in North America.

Over the past few years, in preparing for a retirement of a number of directors, the board has done a great deal in succession planning. We were all very saddened this past year with the passing of our colleague, John Lane, who had served as a director since 1993 and served as chair of the audit committee at the time of his passing.

At the conclusion of this meeting, Jack Donald and I will be retiring from the board. Jack has served on the board since 1993 and with his great down-to-earth entrepreneurial approach and solid business experience, he's been a great contributor to this company.

[ Applause ]

**Mr. J.T. Ferguson:** But the Board has added some very experienced new directors. Since the beginning of 2003, Bill Anderson, Tim Faithfull, Kent Jespersen and Michael Kanovsky have joined the Board. All of them are successful business executives, experienced in various segments of the energy industry and other Canadian businesses. The Board has also established a process for the succession of chair of the Board and the chairs of the Board committees.

After today's meeting, Donna Kaufman will become chair of the Board, Gord Giffin will become chair of the nominating and corporate governance committee, Bill Anderson became chair of the Audit and Environment

Committee following John Lane's passing and Stan Bright will continue as chair of the HR committee.

Our board continues to ensure that TransAlta ranks among the best in Canada in corporate governance practices. Each member of the board is fully engaged in establishing the company's strategy and understanding the major risks. The board consists of a combination of individuals whose skills and expertise proactively coach and challenge the senior management team. In closing, I wish TransAlta and all its stakeholders, shareholders, employees, customers and communities where we work and live, great success in the future.

Now Ian Bourne will present the Chief Financial Officer's report, followed by Steve Snyder with the Chief Executive Officer's report. Following Steve's report, we will begin the question and answer period. Ian?

**Ian Bourne:** Thank you, John and good morning, ladies and gentlemen. I will review our 2004 financial results and describe the financial health of TransAlta.

I will address changes from 2003 as well as performance on a key company objective, which is to strengthen our balance sheet. I will also update you on how we are affected by new securities regulations and changes to accounting standards.

Revenue in 2004 at \$2.8 billion was up 13% from the prior year. Much of the increase was due to full versus partial year operation of our new plants in Mexico, Sarnia, and the McBride windfarm in Alberta.

Full year production at 54.6 thousand gigawatt hours was 3% higher than 2003, and the average price increased by 4.7%.

The gross margin from the plants, defined as revenue less the cost of fuel and purchased power was \$1.4 billion, an increase of \$53 million.



In TransAlta, with a lot of our operating costs being fixed, increasing margins is an essential element of increasing earnings and cash flow. The operating expenses at \$971 million increased by \$50 million driven by higher planned maintenance costs and additional depreciation associated with the new plants we commissioned in 2003 and 2004.

The interest expense recorded on the financial statements represents interest costs after the allocation to new plants under construction. In 2004, at \$222 million, the interest expense was the same as 2003. However, it is important to note that gross interest paid, which is before the allocation to plants under construction at \$252 million was \$21 million lower than 2003. This reduction was due to reducing our debt load and being able to capture lower interest rates. We expect a further reduction in 2005.

Whereas 2003 included a number of non-recurring items, the aggregate of which generated a pretax gain of \$127 million in 2003, 2004 events only provided \$40 of pretax gains. And after provision for non-controlling interests and income taxes, net income was \$170 million or 88 cents a share. In summary, the earnings, excluding non-recurring items, was at the same level as the prior year, which the reduction in total earnings coming from lower gains from those items in 2004.

Cash flow is the lifeblood of any business. Our cash flow was higher in 2004 than it was in 2003. Cash flow from operating activities at \$613 million was \$86 million higher than 2003. \$50 million of the improvement came from plant operations and \$36 million was from reduced working capital. The increase from operations reflects the commercialization of new plants in 2003 and 2004. The trend of increased operating cash flow will continue in 2005.

As we committed last year, we wanted to strengthen our balance sheet in

2004. Therefore, we used the increased operating cash flow, combined with \$190 million less capital expenditures and \$160 million from asset dispositions to reduce debt.

During 2004, we paid down debt by \$375 million. Comparing 2004 with 2003, long-term debt declined from \$3.6 billion to \$3.2 billion and other long term liabilities were reduced by \$80 million to \$1.1 billion. Shareholders equity stayed constant at \$2.5 billion. Our balance sheet was stronger at the end of 2004 than 2003.

Relative to our commitment to improve credit ratings, we were ahead of our plan at the end of the year and making good progress toward meeting our medium term targets. Cash flow to interest expense increased to 4.1 times versus 3.3 times in 2003. And cash flow to total debt increased to 18.5% versus 17.2%. Our debt as a percent of invested capital was 47.4%, about the same as 2003.

It's also important to note that our pension plans performed well again in 2004, and we were adequately funded at year end. We also have executed a foreign exchange hedging strategy to effectively immunize us from fluctuations in foreign exchange relative to the Canadian dollar.

I hope you saw the release last week of our first quarter financial results. The highlights were increased earnings at 27 cents a share. Strong cash flow from operations at \$160 million and a further \$53 million reduction in total outstanding debt.

I will now spend a few minutes on our situation relative to new capital markets regulations. In that our shares trade on the Toronto and New York exchanges and we have bonds outstanding in both Canada the United States, we are governed by regulations on both sides of the border. We ensure full compliance with all regulations. Steve and I have been certifying our

financial statements each quarter since mid 2002. As well, we have spent significant time and effort documenting our internal controls and ensuring that they are being applied consistently across the whole company.

At the same time, as new securities regulations have been coming into effect, the frequency and complexity of accounting changes has also been increasing. As a result, our financial statements, accompanying notes and related documents have become longer and increasingly complex. We will continue to ensure full compliance with regulations and do our best to explain the financial facts of TransAlta as clearly as we can.

Thank you very much. I will now turn the podium over to Steve Snyder.

[ Applause ]

**Steve Snyder:** Thank you, Ian, and a warm welcome to our shareowners and special guests today. Just before I start my formal comments here, you heard during John's opening comments, the comments he made about Jack Donald who is retiring as a director this year and his well deserved contribution and the recognition of that.

Clearly, though, as chair and at the podium, it's hard for John to recognize himself. And, you know, John has, as he says, been on the board for nearly 25 years, served seven years as chair and really has been through this company through all the years, '80s, '90s and into the 2000s now, and the huge change that's gone on in this industry and has been a guiding light and source of strength for everyone, particularly the management team and particularly for myself during the last seven years as chair, certainly when I came on and joined this company back in 1996. So I would like to ask you to join me in applauding John and thanking him for his contributions to this company.

[ Applause ]

**Steve Snyder:** Now last year at our annual meeting, I told shareowners about the challenges that we would face in 2004. Uncertain regulatory regimes, rising fuel costs combined with low electricity prices, credit agency concerns, and a general oversupply of power in most regions. I called this "clutter" because these challenges made it difficult for investors to see our long term value.

The clutter put pressures on our short-term margins and in addition, we wanted to introduce an ambitious and important life cycle maintenance program to improve productivity and extend the useful lives of all of our plants.

The combination of these forces resulted in 2004 reported earnings per share of 88 cents. These earnings are lower than our dividend, and none of us at this board or management team like that. But let me assure you of two things: First, this situation is temporary. Our business model, as I outlined in this year's annual report, is robust and is expected to deliver long term earnings sustainability as we work through these immediate issues. I would also remind you that from 1999 to 2004, we added 2400 megawatts to our generation portfolio, a 40% increase. This represented new investment of several billion dollars and at the peak of our expansion program, we spent \$1.7 billion in 2000. Now contrast that with our capital expenditures in 2004 of only \$365 million. In other words, we are transitioning our business from asset gathering to earnings gathering.

Now second, please remember that our business continues to produce strong cash flow as our CFO just outlined, and last year our cash flow from operations was over \$600 million. After paying \$135 million in dividends, and meeting our debt obligations to retire debt of \$50 million, we had \$420 million left. We reinvested in our business and paid down even more debt.

In 2005, we expect our free cash flow to increase. We will continue to pay down debt, reduce our interest expenses, and invest in our assets while reducing our ongoing expenses.

We are firmly fixed on ensuring that this excellent cash flow will sustain your dividend and it will continue to do so in 2005.

I do hope you had a chance to read our 2004 annual report. It focuses on the factors that underlie our ability to generate earnings and cash. Let me review some of these key factors: Over 80% of our capacity is fully contracted for the long term. Our availability levels remain in the top quartile in our industry, and this is a very important measure of operational excellence. Our cost reduction efforts are offsetting rising inflationary pressures. Our Alberta PPA capacity, about 35% of our total, is largely protected from rising interest rates.

And even while we reinvested over \$200 million in our life cycle maintenance program last year, these capital expenditures are still substantially below our rate of depreciation. In other words, this leaves lots of cash for dividends and debt retirement.

Now, if you are an electric industry investor, as you are in this room, you know that power producing companies like TransAlta must be managed for the long term. This industry has a huge infrastructure, nearly \$1 trillion in North America. It provides an essential service. And it is never far from the doorstep of the public policy makers. So this industry will change slowly. What are the big picture issues facing our industry today? Here are the three that top my list:

In many North America provinces and states, the race to deregulation in the 1990s has turned into a retreat. And as a result, it is not clear if new plants will end up operating under regulated, deregulated, or partially regulated

market rules. It's uncertain how you'll make a return on your investment. And this forces generators to often sit on the sidelines, even as the demand for power continues to grow.

But there are exceptions. Mexico has clear, long term policies and plans. We are investing there. Rules for earning returns similarly exist for renewables, and we are investing in wind projects under the leadership of Fred Gallagher and his team at Vision Quest. Since 2001 we've installed 150 megawatts of wind generation.

And even Ontario is starting to address the need to remove regulatory uncertainties. We are following all of these changing dynamics very closely. In the meantime, we are focused on strengthening our balance sheet so we will be prepared to invest wisely as these rules are finally laid out and as the next growth cycle emerges for our industry.

North America has over a 250-year supply of coal. As one of the lowest cost fuels, coal will continue to be the fuel of choice for power generation. It's one of the reasons of course Kyoto is front page challenge today. New proposed Kyoto related emission standards will add costs to coal-fired generation. We must find cost effective, technical solutions that allow low cost carbon, like coal to be used as a fuel while dramatically reducing its environmental footprint. These technologies are unproven today but they are emerging, and at TransAlta we're investing time and money in clean coal technologies and improved efficiencies.

We established a more aggressive goal for greenhouse gas emissions reductions for ourselves than is required under the Kyoto protocol. We have set out to reduce our GHG emissions to a net zero level by 2024. Kyoto expects reductions of 6% from 1990 levels by 2012. However, our ambitious goal cannot be achieved in that time frame.

The current time frame for Kyoto goals in my opinion is a challenging one that cannot be met by us or by others. Our economic prosperity over the last 15 years now means we have to achieve a 35% reduction from forecasted 2010 levels, and no one knows how to do that today in our industry. But I do believe that our multi-pronged, longer time frame approach provides the best result for the environment and for the economy and for TransAlta. Ken Stickland, our EVP legal, Bob Page, our VP sustainable development and their teams have made us an industry leader in sustainable development and environmental practices.

Our recently commissioned Genesee 3 plant is the most environmentally advanced coal plant in Canada. We've been at the forefront of a developing effective emission trading and offset programs. These efforts have already produced results.

SO<sub>2</sub> emission reductions reduced 55% since 2000. GHG emission intensity reduced 11% since 1999 despite generation growth of 75%. Top quartile safety performance in the North America electricity sector. Quarterly reporting of our environmental performance and industry best practice. Dow Jones sustainability index listing for the last five years and top 10% of sustainable corporations worldwide according to Dow Jones. We fully intend to remain a leader and make strategic, economic, and environmental best practice sense.

My third issue is the long-term cost effective access to both transmission and natural gas. We need to know our plants will be able to ship power to our customers and that our gas plants will still be running twenty years from now.

To date, policy makers have been slow to approve new transmission capacity. In the North American system, it is starting to show the strains of

age and overuse. We simply must do a better job of moving energy supply to where it is needed. Similarly, we are counting on our cousins in the oil and gas sector to find the gas we will need. Alberta's recent announcements that they will build new transmission capacity is a positive sign for our industry.

These bigger picture issues will be with us for some time. They will get resolved. Where we can control our own destiny, we have. Where we need to develop coalitions and partnerships, we will do so. We've diversified our business risk by diversifying our geographic reach and our fuel sourcing, and we've entered into long-term contracts to minimize our exposure to price volatility.

This business model is built to constantly produce cash, to allow us to reinvest capital wisely, and to reward you, our shareowners, for your patient capital.

So, with that context in mind, let's take a look at how we performed. Last year, I told you we would work our way through this challenging period by putting our heads down, working extremely hard, and being very disciplined about everything we do. We had to be focused, and not distracted. I outlined five key tasks we had to implement and with excellence. We had to work our assets very hard. We had to drive out every excess cost we had in our system. Obviously we had to invest with great discipline. We needed to have a strong balance sheet. And clearly we had to nurture and develop our people and all their talents.

I said at that time, we must generate enough cash from operations to reinvest in our plants for the future, to pay down debt and to pay our dividends. And we did that. With the \$600 million of cash we generated in 2004, we reinvested \$100 million in our plants, paid down our debt obligation of \$50 million, provided U.S. shareowners with dividends of \$135 million.



The excess cash, plus some additional cash from the sale of some assets to our limited partnership, meant we were able to further pay down debt by \$325 million.

I said we must improve our key financial ratios in order to preserve our investment grade credit rating, and we did that. Our cash flow to debt was 18.5, up from 17.2. Our cash flow interest coverage improved to 4.1, up from 3.3.

And of course in this business, I said we had to reduce costs, and we did that. Our total operating maintenance and administration costs dropped from \$10.53 per megawatt/hour to \$10.50. If we hadn't taken action, inflation would have driven these costs to nearly \$11 per megawatt.

And I said we had to operate our plants with operational excellence, and we did that. The availability levels remained at the top quartile for our industry at 89.1%, just below our internal record of 90.6% that we set in 2003. This helped improve our margin dollars per megawatt/hour to \$25.83 up from \$25.52 in 2003 and way up from \$22.46 in 2002.

I said we had to stay disciplined in our energy trading and marketing operations, and we did that. We set a target of earning \$5 to \$10 million in EBIT each and every quarter. That was accomplished in 2004. And by the way, again in the first quarter of 2005. Tom Rainwater, our EVP corporate development and marketing and his team continue to drive that discipline.

I said we had to make progress on improving the earnings potential of our Centralia and Sarnia gas plants. And we did that in Sarnia. In 2004, our Sarnia asset team improved the heat rate 17%. And this is a key indicator of plant efficiency. But the key for this facility is to find a way to sell its output into a distorted Ontario market. We have a great plant in what has unfortunately turned out to be a very difficult market for generators. Our

team has worked day and night in 2004 with the Ontario government to find a solution. We are seeing a huge amount of goodwill on their part and a truly dedicated effort. It's clear they need the power from our Sarnia power plant. It's important for us and Ontario that the contract for this output be competitive with the new capacity the government is currently in the process of building. Now that these proposals for these projects are public, we expect the process for contracting Sarnia to quickly accelerate.

We made less progress with our Centralia gas plant. The plant remains one of our most efficient but market prices in the Pacific Northwest continue to be below what we need to run this plant at a level that will give us an acceptable rate of return.

Now prices in the Pacific Northwest have started to move upward. They averaged \$20 in 2002, \$38 in 2003, \$43 in 2004 and slightly above that again in the first quarter of this year. It's been a long haul, but there's light at the end of the tunnel for this plant. And I do not think it's the lights of another train coming at us.

Now all these efforts and successes could not get us to our immediate goal of earning at least \$1 per share for you, our shareowners. The combined drags of a peak period for maintenance, up \$26 million from 2002, poor market prices at a time of high fuel costs, and the interest costs from our capacity expansion, up \$100 million from 2002, overcame these efforts. But we do have a plan to get us to our goal and well beyond. These brakes on our earnings are not going to last.

I discussed last year how we would navigate through this difficult period. I said we could find simplicity in all this clutter. I said we had a solid operating plan that focused on three key principles for success. We'd optimize our existing assets, we'd generate cash, and we would take a

long-term view.

I said we would shift to a rolling -- pardon me. We'd do a complete detailed engineering equipment assessment and maintenance plans for all of our plants. We'd develop a 20-year business plan for every asset in our fleet.

We know where to put our capital in every asset that we have. And we built a five-year financial plan based on these assessments with specific goals year-by-year that achieve earnings well north of \$1 per share. And we shifted to a rolling proactive 10-year life maintenance plan and developed key strategies to reduce costs and improve quality. Our supply chain management team led by Greg Wilson is helping to lead that effort.

Now a fair question of course: are these efforts and will these efforts, produce results?

I'm confident they will. And I can tell you our employees and our board share this confidence.

Very specifically, here is what we'll change over the next two to three years that will lead to steadily improving results:

Our major maintenance expenditures will drop to a range of \$150 million to \$175 million from a peak of over \$200 million in 2005. This is the result of the work of Linda Chambers, our EVP technology and her team have done to fully leverage our equipment assets and our newly developing strategic supplier relationship. It also reflects the age and fuel mix of our fleet of assets. Our interest costs peaked at \$270 million and that will start to decline as our newer facilities pay down debt and start to produce long term earnings increases. Our generation operations team, led by Rob Soeldner is focused on two big opportunities for us. First, continue to drive down our operating and maintenance costs, despite inflationary pressures of over 3% in our industry. And second, they will look to find ways to get more out of one of

our most strategy assets, our huge reserves, of relatively low sulphur, mine mouth surface coal.

Sometimes lost in our results is the fact that TransAlta is the 12th largest coal producer and the fourth largest coal user in North America. While coal clearly has some related environmental challenges, it will remain the most reliably available, most accessible and lowest cost form of fuel available today for electricity. So this is a 50-year edge for our company, not a five-year edge. A new contract for our Sarnia plant could become a big contributor to our earnings starting in 2006.

And the reality is, markets and pricing will improve. Current industry returns are generally too low to attract new investment. Prices don't have to go up too much to turn this around. So consumers need not panic. But as a high fixed cost business, even modest price increases translate into excellent profit improvement for TransAlta. And time has shifted to be on our side. With our tough focus on costs, we will retain most of these increases. As our profits and cash grow, your board and management will have many options open to them for improving shareowner value. We can reinvest in additional capacity and grow our revenues even faster. We can pay down more debt and reduce interest costs even faster. We can buy back shares. All of these individually or in some combination clearly create more value for you, our shareowners.

Let me conclude by recognizing and thanking our employees, from Australia, to Mexico, to the United States, to here in Canada and Alberta. We work hard to find, retain, and nurture great people, operators, managers, and leaders. And we are doing just that. They are delivering on all cylinders. They're in firm control of their business. Forecasts are met, cost targets are achieved.

And I'm very proud of what this team has accomplished under some very, very difficult industry conditions.

I think everyone felt last year that they did 15 months of work. Our employees are dedicated, they're committed, and I can tell you they're excited and they will continue to deliver with excellence and execution. And Mike Williams, our senior VP in HR and his team never let us take our eye off of those efforts. Every single employee in this company, and I mean every single employee, thanks to yours and the board's support is a shareowner, either through a stock ownership plan like our senior officers participate, in or through stock options which all other employees receive. We want them to think like shareowner. This team is focused on becoming a top decile performer in our industry and they will be relentless in achieving this goal.

So I leave you today with a few simple messages. Our cash flow is strong and sustainable. Our balance sheet is strong and strengthening. Our assets are operating well and will for many years to come. Our risk profile is stable due to contracts and diversity in geographies and fuels. We have demonstrated the discipline needed to succeed in this industry. And our plan is sound and based on our core competencies.

So before I conclude and turn the podium back to our chair to lead the question and answer session, I can assure you that your employees at TransAlta are dedicated to improving our results each and every day. Thank you for your attention.

[ Applause ]

**Mr. J.T. Ferguson:** Thank you, Steve, and thank you, Ian. We now invite general questions from our shareholders. Microphones are available for shareholders wishing to ask questions. There's one on each side and one in the middle here. In addition, as I mentioned earlier, we will take questions

from shareholders who are listening via the internet. Before you present your questions, please identify yourself and confirm whether you're a shareholder or proxy holder. Following our question period, I invite you to enjoy us for a light lunch outside of the meeting room over here. I'll open it up if you have any questions of ourselves or the management team.

**John Proutcam:** Hi. My name is John Proutcam. I'm a shareholder from Ontario. I went quite a few kilometers, it used to be miles, to find out what you guys had to say. I wanted to meet you face-to-face because I have heard some negative opinions about it, what you had to say because what I understood is that you couldn't keep up the dividends you had. But I looked at the cash flow you had and said, no, they can do it and I look what you have done and I personally come to the conclusion that you lied to me that some of the big corporations have done too, like Enron and Nortel and something like that, but I don't think you guys do that. I don't believe so. And I think you guys are correct, and I'm not critical of you, I don't think I'll sell my shares anyway. Thank you.

[ Applause ]

**Mr. J.T. Ferguson:** Well, thank you very much. And I want to assure you that from a board of directors' point-of-view, we have no intention whatsoever to change our dividend. We feel as Steve said, and maybe he can add to this, that the company has a very strong cash flow, a cash flow that's going to be increasing. We have a five-year plan in place to bring the earnings per share back over \$1 a share. And if all things are executed in accordance with the plan, this company I think should do well into the future. Steve, would you have anything to add to that?

**Steve Snyder:** I think you said that very well, John.

**Mr. J.T. Ferguson:** Other questions? Over here to the microphone.

**Tom Maders:** Hi. My name is Tom Maders. I'm a shareholder. I don't have a question, I just have a comment or two or three. First of all, I'd like to thank you as an Edmontonian. I'd like to thank you for holding the meeting here. It gives me an opportunity to come. I think I speak on behalf of others.  
[ Applause ]

**Tom Maders:** The other aspect is the -- what the gentleman, he obviously was very committed as a shareholder to come all the way from Ontario, and I thank him for that. As a shareholder myself, I also appreciate what you're doing to reposition the company and to maintain the dividend.  
Thank you.

**Mr. J.T. Ferguson:** Thank you for your comments to both of you.  
[ Applause ]

**Charles Godperson:** I'm Dr. Charles Godperson from Barrhead, Alberta, and I'm a shareholder. I want to compliment Mr. Snyder on a well-planned financial report. Easy to remember, easy to read, and give me ten minutes.  
Thank you, sir.  
[ Applause ]

**Steve Snyder:** You didn't use your ten minutes!

**Mr. J.T. Ferguson:** Other questions or comments? On behalf of -- Steve, do you have any final words that you'd like to share?

**Steve Snyder:** I would just like to thank our shareholders for joining us today and do hope you'll join us afterwards and look for people with the nametags and ask them lots of questions.

**Mr. J.T. Ferguson:** Thank you very much for joining us.

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