TRANSALTA CORP
Form 40-F
March 16, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[Check one]

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the fiscal year ended	December 31, 2006	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))

Not Applicable

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

110-12th Avenue S.W., Box 1900, Station M ,

Calgary, Alberta, Canada, 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:

None

(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:

At December 31, 2006, 202,425,079 common shares were issued and outstanding.

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

Yes **o** 82-______ No **x**

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 **x** No **o**

INCORPORATION BY REFERENCE

The documents (or portions thereof) forming part of this Form 40-F are incorporated by reference into the following registration statements under the Securities Act of 1933, as amended.

Form	Registration No.
S-8	333-72454
S-8	333-101470
F-10	333-87762

CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS

AND MANAGEMENT S DISCUSSION & ANALYSIS

A. Consolidated Audited Annual Financial Statements

For consolidated audited annual financial statements, including the report of independent chartered accountants with respect thereto, see pages 64 through 101 of the TransAlta Corporation 2006 Annual Report to Shareholders included herein. See Exhibit 13.4 for the related supplementary note entitled United States Generally Accepted Accounting Principles for a reconciliation of the important differences between Canadian and United States generally accepted accounting principles.

B. Management s Discussion & Analysis

For management s discussion & analysis, see pages 31 through 63 of the TransAlta Corporation 2006 Annual Report to Shareholders included herein under the heading Management s Discussion & Analysis.

For the purposes of this Form 40-F, only pages 64 through 101 and 31 through 63 of the TransAlta Corporation 2006 Annual Report to Shareholders as referred to above shall be deemed incorporated herein by reference and filed, and the balance of such 2006 Annual Report, except as otherwise specifically incorporated by reference in the TransAlta Corporation Annual Information Form filed as Exhibit 13.1 hereto, shall not be deemed to be filed under the Exchange Act with the Securities and Exchange Commission as part of this Form 40-F.

DISCLOSURE CONTROLS AND PROCEDURES

TransAlta Corporation (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, and 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, 2006 is being prepared. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by 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 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.

MANAGEMENT S REPORT ON INTERNAL CONTROL

OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2006 using the framework set forth in the report of the Treadway Commission s Committee of Sponsoring Organizations (COSO), Internal Control Integrated Framework. Management has concluded that our internal control over financial reporting was effective as of December 31, 2006. Certain matters relating to the scope of Management s evaluation and limitations of management s conclusions are described below. See Limitations and Scope of Management s Report on Internal Control over Financial Reporting.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on management s assessment of our internal control over financial reporting, expressing an unqualified opinion on management s assessment and expressing an opinion on the effectiveness of our internal control over financial reporting as of December 31, 2006. For Ernst & Young LLP s report see page 67 of the TransAlta Corporation 2006 Annual Report to Shareholders under the heading Independent Auditors Report on Internal Controls under Standards of the Public Company Accounting Oversight Board (United States) .

There has been no change in the internal control over financial reporting during the year covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

LIMITATIONS AND SCOPE OF MANAGEMENT S

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management has not evaluated the internal controls of the Sheerness, CE Generation and Genesee 3 joint ventures (collectively, the Excluded Entities), in accordance with Frequently Asked Question No. 1, Management s Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, of the Office of the Chief Accountant of the Division of Corporation Finance of the U.S. Securities and Exchange Commission (revised Oct. 6, 2004). Accordingly, management s evaluation ofhe Company s internal control over financial reporting did not include an evaluation of the internal controls of any of the Excluded Entities, and management s conclusion regarding the effectiveness of the Company s internal control over financial reporting does not extend to the internal controls of any of the Excluded Entities.

Proportionate consolidation of the Excluded Entities contributes to the Company s financial statements in the amount of $1,749.5 million of the Company s total assets, $839.8 million of net assets, $498.7 million of revenues and $96.6 million of operating income. The Company s financial statements include the accounts of the Excluded Entities, accounted for via proportionate consolidation, in accordance with EITF 00-1, but management has been unable to assess the effectiveness of internal control at the Excluded Entities because the Company does not have the ability to dictate or modify the controls of the Excluded Entities and does not have the ability, in practice, to assess those controls.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant s board of directors has determined that it has at least one audit committee financial expert serving on its Audit and Risk Committee (the ARC). Mr. William D. Anderson has been determined to be an audit committee financial expert, within the meaning of Section 407 of the United States Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), and is independent, as that term is defined by the New York Stock Exchange s (NYSE) listing standards applicable to the Registrant. Mr. Gordon S. Lackenbauer has also been determined to be an audit committee financial expert for purposes of Section 407 of Sarbanes-Oxley and independent under the applicable NYSE listing standards. Under Securities and Exchange Commission rules the designation of persons as audit committee financial experts does not make them experts for any other purpose, impose any duties, obligations or liability on them that are greater than those imposed on members of their committee and the board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of their committee.

CODE OF ETHICS

The Registrant has adopted a code of ethics as part of its Corporate Code of Conduct that applies to all employees and officers which has been filed with the SEC. In addition, the Registrant has adopted a code of conduct applicable to all directors of the Company and a separate financial code of conduct which applies to all financial management employees. The Registrant s Corporate Codes of Conduct are available on its Internet website at www.transalta.com. There has been no waiver of the codes granted during the 2006 fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the years ended December 31, 2006 and 2005, Ernst & Young LLP and its affiliates were paid approximately $3,596,689 and $2,012,754, respectively, as detailed below:

	Year-ended December 31			
	2006		**2005**	
Ernst & Young LLP				
Audit Fees	$	3,286,212	$	2,006,504
Audit-Related Fees	$	300,892	$	
Tax Fees	$	9,585	$	6,250
All Other Fees	$		$	
Total	**$**	**3,596,689**	**$**	**2,012,754**

No other audit firms provided audit services in 2006 or 2005.

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 into French of the Company s financial statements and other documents. Total audit fees paid include payments related to 2005 in the amount of

$2,092,000 and for 2006 in the amount of $1,194,000. The increase in audit fees is mainly attributable to additional work required for SOX certification.

Audit-Related Fees

The audit-related fees in 2006 were primarily for work performed by Ernst & Young LLP in relation to the Corporation s financings.

Tax Fees

The majority of tax fees for 2006 related to the finalization of tax credit recoveries for which work had commenced in prior years.

Pre-Approval Policies and Procedures

The ARC has considered whether the provision of services other than audit services is compatible with maintaining the auditors independence. The ARC has adopted a policy that prohibits the Company from engaging the auditors for prohibited categories of non-audit services and requires pre-approval of the ARC for other permissible categories of non-audit services, such categories as determined under Sarbanes-Oxley.

Percentage of Services Approved by the ARC

For the year ended December 31, 2006, none of the services described above were approved by the ARC pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

See page 49 of Exhibit 13.2.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See page 86 of Exhibit 13.3 and pages 47 and 48, under the heading Financing Arrangements of Exhibit 13.2.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately-designated standing ARC. The members of the ARC are:

William D. Anderson (Chair)

Stanley J. Bright

Michael M. Kanovsky

Timothy W. Faithfull

Gordon S. Lackenbauer

Donna S. Kaufman (ex-officio member)

FORWARD LOOKING INFORMATION

This document, documents incorporated herein by reference, and other reports and filings made with the securities regulatory authorities, include forward-looking statements. All forward looking statements are based on TransAlta s beliefs as well as assumptions based on information available at the time the assumption was made. 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 an 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 electricity demand and electrical generation capacity, cost and availability of fuel necessary for the production of electricity, legislative and regulatory developments, competition, global capital markets activity, changes in 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. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or otherwise, and TransAlta undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

UNDERTAKING

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, in the City of Calgary, Province of Alberta, Canada.

TRANSALTA CORPORATION

By: /s/ Brian Burden
Brian Burden
Executive Vice-President and Chief
Financial Officer

Dated: March 15, 2007

EXHIBITS

13.1	TransAlta Corporation Annual Information Form for the year ended December 31, 2006.
13.2	Consolidated Audited Financial Statements for the year ended December 31, 2006 (included on pages 67 through 101 of the 2006 TransAlta Annual Report to Shareholders).
13.3	Management s Discussion and Analysis (included on pages 31 through 63 of the 2006 TransAlta Annual Report to Shareholders).
13.4	U.S. GAAP reconciliation of the 2006 Consolidated Audited Financial Statements (included on pages 97 through 101 of the 2006 TransAlta Annual Report to Shareholders).
23.1	Consent of Ernst and Young LLP Chartered Accountants.
31.1	Certification of Chief Executive Officer pursuant to Section 302 and Section 404 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 and Section 404 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT INDEX

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TRANSALTA CORPORATION

FOR THE YEAR ENDED DECEMBER 31, 2006

MARCH 14, 2007

TABLE OF CONTENTS

PRESENTATION OF INFORMATION

Unless otherwise noted, the information contained in this annual information form (Annual Information Form) is given at or for the year ended December 31, 2006. Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form, the documents incorporated by reference in this Annual Information Form, and other reports and filings made with the securities regulatory authorities in Canada and the United States include forward-looking statements. All forward-looking statements are based on TransAlta Corporation s (TransAlta or the Corporation) beliefs and assumptions based on information available at the time the assumption was made. In some cases, forward-looking statements can be identified by terms such as may , will , believe , expect , potential , enable , continue or other comparable terminology. Forward-looking statements relate to, among other things, statements regarding the anticipated business prospects and financial performance of TransAlta. 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, including those material risks discussed in this Annual Information Form under the heading Risk Factors , and in TransAlta s Management s Discussion & Analysis of financial condition and results of operations (MD&A) for the year ended December 31, 2006 under the heading Risk Factors and Risk Management . The material assumptions in making these forward-looking statements are disclosed in the MD&A under Outlook , Risk Factors and Risk Management and Critical Accounting Policies and Statements , and in this Annual Information Form under Competitive Environment , and Competitive Strengths . Given these uncertainties, the reader should not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this Annual Information Form or otherwise, and TransAlta undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

MANAGEMENT S DISCUSSION AND ANALYSIS

TransAlta s MD&A for the year ended December 31, 2006 and TransAlta s Audited Consolidated Financial Statements for the year ended December 31, 2006 are hereby specifically incorporated by reference in this Annual Information Form. Copies of these documents are available on SEDAR at www.sedar.com.

CORPORATE STRUCTURE

Name and Incorporation

TransAlta was formed by Certificate of Amalgamation issued under the *Canada Business Corporations Act* on October 8, 1992. On December 31, 1992 a Certificate of Amendment was issued in connection with a plan of arrangement involving the Corporation and TransAlta Utilities Corporation (TransAlta Utilities) under the *Canada Business Corporations Act*. The plan of arrangement, which was approved by shareholders on November 26, 1992, resulted in common shareholders of TransAlta Utilities exchanging their common shares for shares of the Corporation on a one-for-one basis. Upon completion of the arrangement, TransAlta Utilities became a wholly-owned subsidiary of TransAlta.

The registered office and principal place of business of TransAlta are at 110 - 12th Avenue S.W., Calgary, Alberta, Canada, T2R 0G7.

The significant dates and events relating to TransAlta Utilities are set forth in TransAlta Utilities Annual Information Form for the year ended December 31, 2006, a copy of which is available on SEDAR at www.sedar.com.

Intercorporate Relationships

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

Notes:

(1) 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.
(2) Indirectly held.

Unless the context otherwise requires, all references to the Corporation and to TransAlta herein refer to TransAlta Corporation and its subsidiaries, including TransAlta Utilities 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 8,473 megawatts (MW) of electrical generating capacity[(1)] in facilities having approximately 10,181 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 fuelled by coal, gas, hydro, wind and geothermal resources. The following is a brief overview of the Corporation s principal facilities.

(1) 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 Canada, the Corporation holds a net ownership interest of approximately 5,579 MW of electrical generating capacity in coal-fired, gas-fired, wind-powered and hydroelectric facilities, including 4,882 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. The Corporation holds a 50 per cent interest in CE Generation, LLC (CE Generation), resulting in an aggregate net ownership interest of approximately 378 MW of geothermal and gas fired electrical generating capacity in facilities in California, Texas, Arizona and New York. The Corporation also has 53 MW of electrical generating capacity through gas-fired and hydroelectric facilities located in New York, Washington and Hawaii.

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

The Corporation also has 300 MW of net electrical generating capacity in Australia.

The Corporation is organized into two business segments: Generation and Corporate Development and Marketing. The Generation group is responsible for constructing, operating and maintaining power generation facilities. The Corporate Development and 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.

Recent Developments

On February 26, 2007, the Corporation and EPCOR Power Development Corporation (EPCOR) announced that they were proceeding with building the 450 MW Keephills 3 power project located approximately 70 kilometres west of Edmonton, Alberta. The capital cost for the project, including mine capital, is expected to be approximately $1.6 billion. Through the Keephills 3 Limited Partnership (K3LP), an affiliate of the Corporation, TransAlta and EPCOR will be equal partners in the ownership of Keephills 3, with EPCOR responsible for the construction. Upon completion, which is expected at the end of the first quarter in 2011, the Corporation will operate the facility and EPCOR and TransAlta will independently dispatch and market their share of the unit s electrical output. The project has received approval from the Alberta Energy and Utilities Board and Alberta Environment.

On January 19, 2007, the Corporation announced that it had been awarded a 25-year Power Purchase Agreement (PPA) to provide 75 MW of wind power to New Brunswick Power Distribution and Customer Service Corporation. Under the agreement, TransAlta will construct, own and operate a wind power facility in New Brunswick. The capital cost of the project is estimated to be $130 million. The project is subject to regulatory and environmental approvals and is expected to begin commercial operations by the end of 2008. Natural Forces Technologies Inc., an Atlantic Canada based wind developer is TransAlta s co-development partner in this project.

On January 2, 2007, the Corporation redeemed, at par, all of its outstanding 7.75 per cent preferred securities, with an outstanding principal amount of $175 million.

Year ended December 31, 2006

On December 18, 2006, TransAlta Utilities assigned its rights in the development agreement it held with EPCOR, governing the joint development of the Keephills 3 power project, to K3LP. K3LP subsequently sold a 50% undivided interest in the Keephills 3 power project to the EPCOR Power Development (K3) Limited Partnership and has entered into a joint venture agreement governing the continued development of the Keephills 3 power project. In the event the Keephills 3 power project proceeds to operation, TransAlta Utilities will be the operator of the project pursuant to an operations and maintenance agreement and coal supply agreement respectively.

On November 27, 2006, TransAlta Corporation announced it would immediately stop mining operations at its Centralia, Washington coal mine. TransAlta also announced that it had entered into agreements to purchase and transport coal from the Powder River Basin to fuel TransAlta s Centralia coal-fired facility.

On November 17, 2006, TransAlta Utilities, a subsidiary of the Corporation, entered into a settlement agreement with the Canadian National Railway Company for a portion of outstanding claims for lost margin and incremental expenses relating to the train derailment and resulting oil spill into Lake Wabamun in 2005. The terms of the settlement are subject to a confidentiality agreement and cannot be disclosed.

On February 17, 2006, a subsidiary of TransAlta, together with a subsidiary of Mid-American Energy Company (Mid-American), entered into an agreement to purchase a 10 MW hydro facility in Hawaii to be held directly by the Wailuku Holding Company LLC, a company jointly and equally owned by TransAlta and Mid-American.

On February 15, 2006, TransAlta announced it had signed a five-year agreement with the Ontario Power Authority (OPA) for the supply of electricity from TransAlta s Sarnia Regional Cogeneration Power Plant. Under the terms of the agreement, Transalta will be available to supply an average of 400 MW of electricity to the Ontario electricity market. The supply contract is effective until December 31, 2010.

On February 1, 2006, TransAlta Utilities entered into a development agreement with EPCOR to jointly pursue the Keephills 3 power project. Keephills 3, formerly referred to as Centennial 1, is a proposed 450 MW facility adjacent to TransAlta s existing Keephills facility, approximately 70 kilometres west of Edmonton, Alberta.

Year ended December 31, 2005

On December 9, 2005, the Corporation announced that its wholly-owned subsidiary, TransAlta Energy Marketing (U.S.) Inc. had entered into an agreement for the sale of generation from the Corporation s Centralia generating facility for the period from January 1, 2007 to December 31, 2010. The agreement has a value of approximately US $450 million.

On September 12, 2005, the Corporation announced that its 279 MW Wabamun Unit 4 generating facility had resumed full operations on September 11, 2005 following the successful implementation of its return to service plan. TransAlta was forced to shut down the Wabamun facility on August 3, 2005 due to a train derailment and resulting oil spill into Lake Wabamun, Alberta. The Wabamun unit was on standby until an appropriate return to service plan was developed and reviewed with regulators and the Canadian National Railway Company. The Corporation estimates operating income was impacted by $15 to $18 million as a result of the Wabamun shutdown. The Corporation is seeking recovery for all losses.

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 Alberta Energy and Utilities Board (AEUB) to amend its 900 MW Keephills (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, LP (TA Cogen), 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 $30.0 million of limited partnership units of TA Cogen, the payment of $50.0 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 which brings TransAlta s total operated wind generation capacity to 187 MW, including approximately 150 MW of wind energy owned, all of which is operated through Vision Quest Windelectric. 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.

BUSINESS OF TRANSALTA

Generation Business Segment

The following table summarizes the Corporation s generation facilities which are operating, under construction or under development, as at December 31, 2006:

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	770	25	193	Coal	Alberta PPA	2020
(25 facilities)	Sundance (1)	2,073	100	2,073	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(2)	2024
	Genesee 3	450	50	225	Coal	Merchant	-
	Keephills 3 (3)	450	50	225	Coal	Merchant	-
	Hydro assets (4)	801	100	801	Hydro	Alberta PPA	2013-2020
	Summerview	68	100	68	Wind	Merchant	-
	Castle River (5)	46	100	46	Wind	LTC/Merchant	2011
	McBride Lake	75	50	38	Wind	LTC	2022
	Total Alberta	**6,472**		**5,160**			
Eastern	Mississauga	108	50	54	Gas	LTC	2017
Canada	Ottawa	68	50	34	Gas	LTC	2012
(5 facilities)	Sarnia	575	100	575	Gas	LTC/Merchant(6)	2022
	Windsor	68	50	34	Gas	LTC/Merchant(7)	2016
	Kent Hills (3)	75	100	75	Wind	PPA	2033
	Total Eastern Canada	**894**		**772**			
United States	Centralia, WA	1,404	100	1,404	Coal	Merchant	-
(18 facilities)	Centralia Gas (8)	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	-
	Saranac, NY	240	37.5	90	Gas	LTC	2009
	Yuma, AZ	50	50	25	Gas	LTC	2024
	Imperial Valley Geothermal Facilities (9)	327	50	163	Geothermal	LTC /Merchant	2016-2035
	Wailuku	10	50	5	Hydro	LTC/PPA	2023
	Total US	**2,527**		**2,083**			

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 (10)	245	100	245	Gas/Diesel	LTC	2016
	Total Australia	**355**		**300**			
Total		**10,759**		**8,826**			

Notes:

(1) 53 MW currently under development
(2) Approximately 200 MW of the total 356 MW are contracted under a LTC.
(3) These facilities are currently under development, (Keephills 3 formerly referred to as Centennial 1).
(4) Comprised of 13 facilities.
(5) Includes eight individual turbines at other locations, one of which moved from testing to production.
(6) Approximately 150 MW of the total 575 MW capacity are contracted under LTCs.
(7) Approximately 50 MW of the total 68 MW capacity are contracted under a LTC.
(8) Formerly referred to as Big Hanaford.
(9) Comprises 10 facilities.
(10) Comprises 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 (2)	406	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
	Keephills Unit No. 3 (3)	450	50	-
Sheerness	Sheerness Unit No. 1	385	25	1986
	Sheerness Unit No. 2	385	25	1990
Genesee	Genesee 3	450	50	2005
Total		**4,788**		

Notes:

(1) Wabamun unit 4 is expected to be removed from service upon the expiry of its license in 2010.
(2) 53 MW currently under development
(3) Facility 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 (2000) Ltd. (ATCO Power). The Genesee facility is located southwest of Edmonton and is jointly owned by the Corporation and EPCOR. 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 or near their rated capacity. 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 2006 was 88.7 per cent, compared with 87.6 per cent in 2005 and 86.5 per cent in 2004. For the Sheerness facility, the weighted equivalent availability factor was 92.2 percent in 2006 compared to 91.0 per cent in 2005 and 90.2 per cent in 2004. For the Genesee 3 facility, the weighted equivalent availability factor was 96.9 per cent in 2006 compared to 91.8 per cent in 2005.

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 for the life of these facilities including potential life extension and plant expansion.

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 Prairie Mines & Royalties Limited (PMRL). TA Cogen and ATCO Power have entered into coal supply agreements with PMRL, which operates the mine, to supply coal until 2026.

Coal for the Genesee 3 facility is provided from the adjacent Genesee mine. The coal reserves of the mine are owned, leased or controlled jointly by PMRL and EPCOR. The Corporation has entered into coal supply agreements with PMRL, which operates the mine, to supply coal for the life of the facility.

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. 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 Keephills 3 project (formerly referred to as Centennial 1) 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 December 10, 2004, the Corporation applied to the AEUB to amend its 900 MW permit to allow for the construction of a smaller 450 MW facility using improved technology.

On February 1, 2006, the Corporation entered into a development agreement with EPCOR to jointly pursue the Keephills 3 power project. On December 18, 2006, the Corporation assigned its rights in the development agreement it held with EPCOR governing the joint development of the Keephills 3 power project to K3LP. K3LP subsequently sold a 50% undivided interest in the Keephills 3 power project to the EPCOR Power Development (K3) Limited Partnership and has entered into a joint venture agreement governing the continued development of the Keephills 3 power project.

On February 26, 2007, the Corporation and EPCOR announced they were proceeding with building the net 450 MW Keephills 3 power project. The capital cost for the project, including mine capital, is expected to be approximately $1.6 billion. Through K3LP, TransAlta and EPCOR will be equal partners in the ownership of Keephills 3, with EPCOR responsible for construction. Upon completion, which is expected at the end of the first quarter in 2011, TransAlta will operate the facility and EPCOR and TransAlta will independently dispatch and market their share of the unit s electrical output. Through a subsidiary, the Corporation will also provide coal to the facility through the Highvale mine. The project has received approval from the Alberta Energy and Utilities Board and Alberta Environment.

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 plant 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 plant in Alberta, which provides electricity and steam to Dow Chemical Canada Inc.

The Corporation s interests in the Meridian and Fort Saskatchewan facilities are held through TA Cogen. See TA Cogen and TransAlta Power .

Hydroelectric facilities

The following table summarizes the Corporation s 100% ownership in 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 wind generation facilities:

Location	Plant	Capacity (MW)	Ownership (%)	Commissioning Dates
Fort Macleod	McBride Lake	75	50	2003
Pincher Creek	Castle River and Other	46	100	1997 2001
Pincher Creek	Summerview	68	100	2004
New Brunswick (1)	Kent Hills	75	100	2008
Total		**264**		

Note:

(1) Facility under development, reflects expected capacity and commissioning date.

The Corporation owns and operates approximately 152 MW of net capacity (excluding facilities under development) and operates approximately 189 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 71 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 also owns and operates eight additional turbines totalling 6 MW primarily located in the Pincher Creek and Waterton areas of Southwestern Alberta.

McBride Lake, one of Canada s largest wind generation facilities, is a 75 MW facility comprised of 114 Vestas V47 (660 kW) turbines located at Fort Macleod, Alberta. It was constructed by the Corporation and was completed and producing power in the third quarter of 2003. McBride Lake is operated by the Corporation 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 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, brought the total owned wind generation capacity to approximately 152 MW and total operated capacity to approximately 189 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.

On January 19, 2007 the Corporation announced that it had been awarded a 25-year PPA to deliver 75 MWs of wind power to New Brunswick Power Distribution and Customer Service Corporation. Under the agreement, TransAlta will construct, own and operate a wind power facility in New Brunswick. The capital cost of the project is estimated to be $130 million. The project is subject to regulatory and environmental approvals and is expected to begin commercial operations by the end of 2008. Natural Forces Technologies Inc., an Atlantic Canada based wind developer is TransAlta s co-development partner in this project. The single-site, 25-turbine wind farm will be located in the Kent Hills area of New Brunswick. TransAlta expects construction to commence by early 2008. TransAlta will work with local firms for the construction and ongoing operation of the Kent Hills wind farm providing long-term economic benefits to the region. Once complete, the Kent Hills wind farm will provide an estimated 220,000 MWh per year, enough electricity to meet the needs of approximately 13,600 homes. The facility will use 3.0 MW wind turbines purchased from Vestas-Canada Wind Technology Inc.

All of the power generated and sold by the Corporation s wind division is from generation facilities that are EcoLogo-certified. The Corporation 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. The Corporation s wind 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 and Genesee 3 facilities, operate under Alberta PPAs. The PPA for the Wabamun plant expired on December 31, 2003. The Alberta PPAs establish 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 is to 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.

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 financial obligations 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, range from 2013 to 2020. With the expiry of the PPA at the Wabamun facility, the Corporation procured an extension of the license to operate Unit four of the Wabamun facility until March 31, 2010. The Corporation holds various licenses from Alberta Environment and the AEUB to operate its other facilities. 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 and subject to procuring extension of the licenses, the Corporation will then 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 all of the power output from the Wabamun facility under such direct sales agreements.

The Alberta PPAs (together with legislation which applies thereto) permit the Balancing Pool, an entity established by the Government of Alberta, 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 and 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	1992
Mississauga	Mississauga	108	50	1992
Windsor	Windsor	68	50	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., Lanxess (formerly Bayer Inc.), Nova Chemicals (Canada) Ltd. and Suncor Energy Products Inc. Approximately 150 MW of Sarnia s capacity is currently contracted under long term contracts. On February 15, 2006, TransAlta announced that it had signed a five-year agreement with the OPA for production at its Sarnia facility. Under the terms of the contract, TransAlta will be available to supply an average of 400 MW of electricity to the Ontario electricity market. The supply contract is effective until December 31, 2010.

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 Mississauga Plant provided cogeneration services to Boeing Canada Inc. (Boeing) until July 2005 at which time Boeing exercised its right under the cogeneration services agreement to no longer take and pay for cogeneration services due to the recent closure of its manufacturing facility. Boeing remains entitled to any steam credit based on the total plant electricity generation revenue. On or prior to each of January 1, 2013, 2018 and 2023, Boeing may give notice to purchase the Mississauga Plant at fair market value. On January 1, 2028, all provisions under the cogeneration services agreement will terminate and Boeing will have the option at that time to either require the removal of the Mississauga Plant from the leased lands or purchase the Mississauga Plant at its net salvage value.

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
Texas	Power Resources	200	50	1988
Arizona	Yuma	50	50	1994
Hawaii	Wailuku	10	50	1993
Total		**2,527**		

Centralia

The Corporation owns a two-unit 1,404 MW coal-fired facility, an adjacent coal mine and a 248 MW gas-fired facility in Centralia, Washington, located south of Seattle. On November 27, 2006, the Corporation stopped all mining operations at the Centralia coal mine. The Corporation also owns a 1 MW hydro-electric generating facility and related assets on the Skookumchuk River near Centralia, which facilities are used to provide reliable water supply to TransAlta s other generation facilities at Centralia.

The Corporation has entered into a number of medium to long-term energy sales agreements from 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 Corporation stopped mining operations at its Centralia coal mine on November 27, 2006. Prior to that date, the Centralia mine produced approximately five to six million tons of coal annually, or approximately 70 to 85 per cent of the Centralia plant s annual coal requirements. Although the Corporation estimates that certain coal reserves remain to be extracted, the Corporation has not yet received permits for or developed the new area from which this coal could be produced. The Corporation has entered into contracts to purchase and transport coal from the Powder River Basin in Montana and Wyoming to fuel its facility until it is economic to pursue the extraction of coal at its Centralia mine.

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 in the Imperial Valley, California. If TransAlta elects to retain an economic interest and participate in a future phase of this project, Salton Sea VI, TransAlta is required to pay to El Paso certain milestone payments of up to US $10 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 378 MW in 13 facilities, having an aggregate operating capacity of 817 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 PPA to sell approximately 20 MW of its net output. The balance of 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.

Wailuku

On February 17, 2006, a subsidiary of TransAlta, together with a subsidiary of Mid-American entered into an arrangement to purchase a 10 MW hydro facility in Hawaii to be held directly by the Wailuku Holding Company LLC, each of TransAlta and Mid American hold a 50 per cent interest in the facility. The facility sells electricity pursuant to the terms of a 30 year PPA with the Hawaii Electricity Light Company.

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 the 110 MW Parkeston generation facility through a 50/50 joint venture with NP Kalgoorlie Pty Ltd, a subsidiary of Newmount Australia Limited, and the 245 MW Southern Cross gas and diesel generation facilities. In 2005, Southern Cross installed a 20 MW gas turbine, which was commissioned effective January 6, 2006, resulting in additional capacity at this facility of 20 MW from the previous year.

TA Cogen and TransAlta Power

The Corporation s interest in the 220 MW Meridian gas-fired generation facility in Saskatchewan, the 770 MW Sheerness coal-fired generation facility, 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, a publicly held 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.

Corporate Development and Marketing Segment

The Corporate Development and 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 Corporate Development and Marketing group derives additional revenue and earnings from the wholesale trading of electricity and other energy related commodities and derivatives.

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 Corporate Development and 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 within board approved limits.

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 69,400 GWh of electricity in 2006. As at December 31, 2006, the aggregate installed capacity of generating facilities in Alberta was approximately 11,500 MW.

Ontario is Canada s largest province with approximately 12.5 million residents representing approximately 39 per cent of Canada s total population. Ontario consumed approximately 151,000 GWh of electricity in 2006. 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 30,600 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 (NWPP). The WECC estimates that approximately 423,900 GWh of electricity was consumed in the NWPP in 2006. The WECC also reported an estimated aggregate electrical generating capacity of approximately 83,800 MW in the NWPP for the year ending 2006.

The Corporation expects that the demand for electricity will continue to grow in its target markets. 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 Corporate Development and Marketing capabilities, provided that in doing so, the financial position of the Corporation is not compromised.

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 2006 to 2016, the CFE is projecting a growth in demand for electricity of 4.8 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 40 per cent of the total energy produced. At the end of December 2006, the national electrical system had approximately 49,200 MWs. The system is expected to have approximately 69,000 MWs by the end of December 2016. As a result, the CFE has indicated that it is planning to offer for tender the construction of more independent power plants that may be similar to the Corporation s plants in Campeche and Chihuahua. Over the next 10 years increased fuel diversity will be sought with natural gas fuelled generating stations making up no more than 55% of the installed capacity by 2016.

Although significant hydro capacity exists in Mexico, the bulk of generation is currently oil fired and gas fired. Demand requirements are affected to a large degree by the differential in gas prices relative to oil prices. Demand tends to be lower in Northern Mexico in the colder months of December and January and further reduced during the period from December 15 to

January 2, as several assembly plants shutdown or limit shifts for the holiday period. The demand for electricity produced at the Campeche facility is relatively stable due to transmission constraints in the area.

Several factors influence power demand in Mexico ranging from fuel prices, plant major maintenance in the CFE fleet and IPP s fleet, to the recently commissioned plants during the previous year, as well as the geographical location of power plants and various efficiencies and availabilities.

Australia is heavily dependent on coal for electricity, more so than any other developed country except Denmark and Greece. About 80% of power produced is derived from coal. Australia s electricity is low-cost by world standards. Natural gas is increasingly used for electricity, especially in South Australia and Western Australia. In 2006, Australia s power stations produced 255,000 (GWh) of electricity growing at 3.2% pa. The reform of the Australian electricity industry commenced in the early 1990s. Separate commercial structures have been developed for the monopoly transmission and distribution (wires) functions and the competitive generation and retailing functions of the industry. The major reform in the Australian electricity industry involved the establishment in southern and eastern Australia of the National Electricity Market (NEM). The NEM operates in the States of New South Wales, Victoria, Queensland, South Australia and Tasmania and in the Australian Capital Territory.

In Western Australia, where TransAlta s power assets are located, a new Wholesale Electricity Market (WEM) was introduced in late 2006. Although most of TransAlta s generation is used to supply two large mining companies through long term capacity contracts, a small amount of surplus energy and capacity is sold into the WEM. Total installed capacity in the WEM is about 3800MW s, while TransAlta s capacity in the region is approximately 350MW s. TransAlta enjoys a solid competitive advantage in power supply to mining operations, especially remote mining operations, and has built up significant knowledge and expertise in this field.

Competitive Strengths

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

Stable cash flow base In 2006, approximately 95 per cent of the Corporation s expected production was sold under contracts with original durations of at least 12 months, 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.

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

Fuel diversity The Corporation has a diverse mix of fuels used for the generation of electricity, 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 substantial industry, international and local market experience.

Corporate Development and Marketing expertise   The Corporation believes that it s Corporate Development and 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 fulfill electricity delivery obligations in the event of an outage.

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

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 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.

Wind Generation The Corporation is one of the largest owners and operators of wind generation in Canada. The Wind management team 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:

2006	$224.9 million	2003	$757.8 million
2005	$325.5 million	2002	$985.9 million
2004	$345.7 million		

ENVIRONMENTAL RISK MANAGEMENT

TransAlta is subject to federal, provincial, state 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 approach to managing its environmental, health and safety (EHS) risk has three elements:

Compliance-based activities, such as permitting and reporting;

ISO-based EHS Management systems and programs, such as safety programs and auditing; and

Longer-term strategic initiatives, including climate change and government policy development.

These elements are integrated into TransAlta s corporate-wide operations and management systems. They are designed to mitigate risks of TransAlta s activities to employees, the public and the environment, and to address potential competitive risks from future changes in environmental policy. They are also supportive of TransAlta s corporate commitment to sustainability.

To meet regulatory requirements and improve environmental performance, TransAlta made environmental operating and capital expenditures in fiscal year 2006 of approximately $49.8 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 by actions in several areas:

Continued investment in mercury control technology evaluation leading to installation of mercury capture equipment at our Alberta coal plants in 2010;

Uprate improvements delivering higher efficiency generation at the Sundance plant;

The planned decommissioning of the older Wabamun coal-fired plant in 2010; and

Continued expansion of the wind energy business, with minimal emissions footprint.

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.

On October 19, 2006, the Canadian Government introduced its Clean Air Act, designed to regulate greenhouse gases and air pollutants from industries and other sources. 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. The strategy includes, increased use of less carbon-intensive fuels such as natural gas and renewable resources, continued investment in international emission offsets and internal efficiency improvements and development of clean coal technology. TransAlta 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.

Mercury standards are expected to be implemented in both the United States and Alberta by 2010. Requirements for capital control equipment are clear in Alberta, and work is on schedule to select and install the necessary control technology. Mercury control requirements in the United States at TransAlta s Centralia plant are not yet defined.

TransAlta is a member of the Canadian Clean Power Coalition, which is committed to developing and implementing a clean coal technology project in Canada before 2010.

Environmental issues concerning water use are managed within the ISO 14001 framework. TransAlta continues to work with regulators in each jurisdiction in 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 eight years in a row. 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 oxide of nitrogen (NOx) and SO2 from coal-fired operations at Centralia are significantly below national average levels due to installed pollution controls, including scrubbers and low-NOx burners for both units.

RISK FACTORS

Regulatory and political risks exist in all jurisdictions in which TransAlta operates. TransAlta seeks to manage these risks by working with regulators and other stakeholders to resolve issues as fairly and expeditiously as possible. For a discussion of risk factors affecting TransAlta, reference is made to Risk Factors and Risk Management , in TransAlta s MD&A for the year ended December 31, 2006, which is incorporated by reference herein.

EMPLOYEES

As of December 31, 2006, the Corporation had 2,687 (1) full and part-time employees, of which 2,114 were employed in TransAlta s generation business and 148 were employed in TransAlta s energy marketing business. Approximately 1,503 of the Corporation s employees are represented by labour unions. The Corporation is currently a party to 12 different collective bargaining agreements. The Corporation has recently renewed

4 of the agreements and negotiations for the remaining agreements are underway and are expected to be completed before their respective expiry dates.

Note:

(1) Of the 2687 full-time and part-time employees at December 31, 2006, 567 were on notice of termination relating to the closure of the Centralia mine, effective January 31, 2007.

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 14, 2007, 202,627,578 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 and subject to prior rights and privileges attaching to 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 right 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 attend 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.

CREDIT RATINGS

Issuer Rating

As of December 31, 2006, the Corporation s issuer rating from S&P was BBB (stable) and from Moody s was Baa2 (stable).

Commercial Paper

As of December 31, 2006, the Corporation s guaranteed commercial paper was rated R-1(low) (stable) by DBRS. The Corporation s non-guaranteed commercial paper was rated R-2(high) (stable) by DBRS.

Senior Unsecured Long-Term Debt

As of December 31, 2006, the Corporation s senior unsecured long-term debt is rated BBB (stable) by DBRS, BBB (stable) by S&P and Baa2 (stable) by 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 acceptable, but the entity is more susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions 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 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.

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 inasmuch 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.

DIVIDENDS

In setting its dividend, TransAlta s Board of Directors considers several factors: the Corporation s earnings record, cash flow, capital requirements, the expectations of shareholders and future earnings prospects. The payment and level of future dividends on the common shares are 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**
2004	First Quarter	$ 0.25
	Second Quarter	$ 0.25
	Third Quarter	$ 0.25
	Fourth Quarter	$ 0.25
2005	First Quarter	$ 0.25
	Second Quarter	$ 0.25
	Third Quarter	$ 0.25
	Fourth Quarter	$ 0.25
2006	First Quarter	$ 0.25
	Second Quarter	$ 0.25
	Third Quarter	$ 0.25
	Fourth Quarter	$ 0.25

On January 1, 2007, TransAlta paid cash dividends of $0.25 per common share. The Corporation s Board of Directors on January 25, 2007 declared a cash dividend of $0.25 per common share, payable on April 1, 2007.

MARKET FOR SECURITIES

TransAlta s common shares are listed on the Toronto Stock Exchange (TSX) under the symbol TA and the New York Stock Exchange under the symbol TAC . TransAlta s preferred securities were listed on the Toronto Stock Exchange under the symbol TA.PR.C until January 2, 2007 at which time they were redeemed (see General Development of the Business). 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 for the period indicated:

	Price ($)		
Month	**High**	**Low**	**Volume**
2006			
January	26.91	23.15	16,922,946
February	24.64	22.91	15,327,317
March	24.20	21.88	17,224,425
April	23.61	22.00	13,842,416
May	25.00	23.11	11,606,703
June	24.54	22.63	11,746,765
July	24.03	22.25	10,436,526
August	24.96	23.26	10,220,926
September	25.05	23.25	12,609,538
October			