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# First Quarter 2007 Results

# Ready

**Strong business model.**

**Diversified generating assets.**

**Technical and commercial expertise.**

**Environment leadership.**

**Financial discipline.**

# Forward looking statements

This presentation may contain forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Corporation. All forward-looking statements are based on our beliefs and assumptions based on information available at the time the assumption was made. These statements are not guarantees of our future performance and are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include cost of fuels to produce electricity, legislative or 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 Corporation operates. Given these uncertainties, the reader should not place undue reliance on this forward-looking information, which is given as of this date. The material assumptions in making these forward-looking statements are disclosed in our 2006 Annual Report to shareholders and other disclosure documents filed with securities regulators.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

# Outline

- First Quarter 2007 Results
- Performance Against Key Measures
- 2007 Outlook

# Q1 2007 v. Q1 2006 highlights

**Variance primarily due to more normal unplanned outages and higher planned outages at Alberta Thermal, and accelerated test burns of PRB coal**

- Lower generation gross margins from Alberta Thermal due to an increase of major maintenance and a more normal rate of unplanned outages
- Availability 88.2 per cent compared to 96.9 per cent primarily due to accelerated PRB coal test burning
- Higher Alberta coal costs as expected due to greater overburden
- More normal operations at our Ottawa facility resulting in lower opportunistic natural gas sales
- Increased equity loss in Mexico due to lower margins and increased maintenance, and also increased interest costs as a result of our refinancing in 2006

**Offsets:**

- Lower coal costs and more favorable contract pricing at Centralia
- Higher production, pricing and spark spreads at Genesse 3, Poplar Creek and Sarnia contributed favorably
- Energy Trading contributed slightly higher results

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# Q1 2007 highlights

| Results | Q1'07 | Q1'06 | % Variance |
|---|---|---|---|
| **Comparable earnings (MM)** | $66.0 | $75.4 | (13) |
| **Net earnings (MM)** | $66.0 | $69.2[1] | (5) |
| **Per share** | | | |
| Comparable earnings | $0.33 | $0.38 | (13) |
| Net earnings | $0.33 | $0.35 | (6) |
| Dividends | $0.25 | $0.25 | - |
| **Cash flow from Operations (MM)** | $330.8[2] | $200.7 | 64 |
| **Free Cash Flow** | $41.6 | $114.4 | (63) |
| **Availability (%)** | 88.2[3] | 96.9 | (9) |
| **Production (GWh)** | 12,697 | 12,444 | 2 |

1 Includes $6.2 million after tax write down of a turbine in inventory

2 Includes $185 MM receivable received Jan. 2, 2007, due to timing of collection of November sales

3 Normalizing the impact of Centralia derates, availability was 94%

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# Increased maintenance, more normal planned outage rate, and increased equity loss modestly impact earnings

| Net Earnings | 3 mo. Ended March 31 |
|---|---|
| **Net Earnings, 2006[1]** | $ 69.2 |
| Decrease in Generation gross margins | (3.5) |
| Increase in CD&M margins | 1.1 |
| Increase in operations, maintenance and administration costs | (2.0) |
| Decrease in depreciation expense | 2.5 |
| Decrease in net interest expense | 3.2 |
| Increase in equity loss | (7.9) |
| Decrease in non-controlling interest | 2.9 |
| Increased income tax expense | (0.2) |
| Other | 0.7 |
| **Net Earnings, 2007** | **$ 66.0** |

1 TransAlta adopted the standard for stripping costs incurred in the production phase of a mining operation on Jan. 1, 2006

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# Strong credit ratios indicative of commitment to remaining investment grade

| Financial ratios | Target | Q1'07 | Q1'06 | 2006 |
|---|---|---|---|---|
| Cash flow to interest (x) | **>4.2** | **6.3** | 6.9 | 5.5 |
| Cash flow to total debt (%) | **>28** | **26.1** | 26.2 | 26.1 |
| Debt to total capital (%) | **<48** | **41.4** | 40.9 | 40.4 |

# Financial objectives and measures

| Objectives | Measures | 2007 Goals | Q1 2007 | Q1 2006 |
|---|---|---|---|---|
| **Deliver long-term shareholder return** | TSR<br>ROCE[1] (annualized) | 10%<br>~10% | (5.2)%<br>8.3%[2] | (11.4)%<br>7.9% |
| **Increase comparable earnings per share** | Comparable EPS | 6 - 10% | $0.33 | $0.38 |
| **Increase operating cash flow** | Operating cash flow | $650 - $750 MM | $340 MM[3] | $200 MM |
| **Maintain strong financial ratios** | Credit ratios | Investment grade | Investment grade | Investment grade |
| **Improve productivity** | OM&A/installed MWh | Offset inflation | $1.84 | $1.81 |
| **Grow capacity profitably** | Installed capacity | Increase ~5%/yr | Flat | Flat |

1. Return on capital employed (ROCE) = earnings before non-controlling interests, income taxes and net interest expense/average annual invested capital.
2. 8.3% ROCE is on a comparable basis. Q1 2007 reported ROCE is 2.4%
3. Includes $185 MM receivable received Jan. 2, 2007 due to timing of collection of November sales

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# Operating objectives and measures

| Objectives | Measures | 2007 Goals | Q1 2007 | Q1 2006 |
|---|---|---|---|---|
| **Maintain targeted availability** | Fleet availability | 90% | 88.2% | 96.9% |
| **Contract plant output** | Contracted output > one year | >75% | 93% [1] | 94% [1] |
| **Increase gross margin** | Margin | Increase | $391.6 MM | $394.0 MM |
| **Make sustaining capex predictable** | Sustaining capex budget | $290 - $305 MM | $41 MM | $16 MM |
| **Reduce environmental footprint** | Emissions reductions | < emissions intensity | Compliance in all markets | Compliance in all markets |

1. At March 31, 2007, 93% of plant capability in 2007 and 94% in 2008 was contracted through short, medium and long-term arrangements. At YE 2006, ~ 81% of contracts were for terms greater than one year

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# Short term increase in sustaining capex

**Increase in sustaining capital supports Alberta mine activities and Centralia fuel blend modifications. Growth capex includes Sun 4 uprate, Kent Hills, and Keephills 3 projects.**

| $MM | 2007E | Q1'07 | Q1'06 |
|---|---|---|---|
| **Sustaining** | $320 - $345 | $41 | $16 |
| Routine capital | $100 - $105 | $18 | $7 |
| Mine capital | $80 - $85 | - | $1 |
| Corporate | - | $10 | |
| Centralia Fuel Blend | $55 - $60 | $10 | - |
| Major maintenance | $85 - $95 | $3 | $8 |
| **Growth** | $255 - $265[1] | $13 | $3 |
| **Mexico** | $3 - $5 | - | $10 |
| **Total** | $578 - $615 | $54 | $29 |

[1] Includes approximately ~$20 million for Kent Hills, ~$35 million for Sundance 4, ~$200 million for Keephills 3

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# 2007 major maintenance plan

**Given scope of work on coal plants, opex will be higher in 2007**

| $ millions | Coal | Gas and Hydro | Total |
|---|---|---|---|
| **Capital expenditures** | $70 - $75 | $15 - $20 | **$85 - $95** |
| **Operating expenditures** | $65 - $70 | $0 - $5 | **$65 - $75** |
| **Total** | **$135 - $145** | **$15 - $25** | **$150 - $170** |
| **Lost GWhs** | 2,000 – 2,050 | 125 - 150 | **2,125 – 2,200** |

**Planned Quarterly Spend**

| Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|
| 5% | 50% | 25% | 20% |

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# Centralia coal transition plan



- **Nov. 27, 2006 announced decision to stop mining immediately – existing operations no longer economic**
    - 600 employees laid off
    - $154MM ($0.76 per share) after tax charge to Q4'06 earnings
- **Sourcing 100% Powder River Basin coal**
    - Long-term transportation contract w/ BNSF Railway
    - Coal contracts w/ Rio Tinto Energy America and Peabody Energy
- **2007/2008 - Centralia coal-fired plant transition**
    - $50 - $60 MM planned investment in rail uploading facilities – increase to 10 trains/wk
    - $50 - $60 MM estimated in plant modifications to burn PRB at 100% sustainably
        - Accelerated test burns in Q1 resulting in lower production
        - Finalization of transition plan Q2
    - Plant derated to 1,000 MW 2007-2008

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# 300 MW of new build announced in Q1 2007

## Kent Hills Wind Facility, New Brunswick

- Greenfield development
- Announced Jan. 19, 2007
- Awarded 25-year PPA to provide 75 MW of wind power to New Brunswick Power
- TA will construct, own and operate new facility
- Est. $130 MM capital investment
- Construction start: Q1 2008
- Commercial start: Q4 2008

## Keephills 3, Alberta

- 450 MW Brownfield expansion, merchant
- 50:50 JV with EPCOR
- Supercritical facility utilizing the same technology currently in operation at the Genesee 3 facility – only second plant in Canada
- Est. $1.6 B total capital investment, including $160 MM of mine capital
- Construction start: Q1 2007
- Commercial start: Q1 2011

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# Alberta Bill 3 effective July 2007

**The majority of environmental costs are flowed through to PPA holders under change of law provisions. Alberta consumers' electricity price will reflect higher cost of compliance.**

## Alberta Climate Change Regulation

Emissions intensity reduction by 12%; plant-by-plant

Baseline is avg. of emissions from '03 – '05

Compliance options:

- Reductions at the source
- Payment into a Technology Fund at a cost of $15/ tonne of emissions over 12% target
- Application of emissions offsets from AB market

Plants commercially operational after 2000 given an eight-year phase-in period

- Three years no reductions
- Five years gradual reductions to achieve 12% target

## Impact on TransAlta

Tough standard but achievable over time

Nominal value given to early shutdown of Wab 1-3; plan to appeal

Annual compliance cost within expectations:

- All TA assets before flow thru $45 - $55 MM
- TA assets after 100% PPA flow thru $4 - $6 MM

Capital stock turnover will create opportunities

Province is the appropriate regulator, well advanced on air pollutant controls

Trading expertise could further mitigate costs

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# 2007 outlook in-line with expectations

**Increased seasonality of earnings due to higher pricing in second half, timing of maintenance and Centralia transition**

- Improved outlook for AB power prices and spark spreads compared to beginning of the year, not expected to be at levels realized in the third and fourth quarters 2006
- Strong natural gas prices expected to support higher power prices and spark spreads in the Pacific Northwest region and Ontario
- Exposure to price volatility substantially mitigated -- approximately 93 per cent of plant capability contracted
- Target fleet availability is 90 per cent, excluding Centralia coal-fired facility
- Alberta coal annual costs estimated to be $30 million higher, two-thirds of increase flows through first half of 2007 due to standard cost adjustment in second half of 2006
- OM&A broadly in-line with 2006 with exception of Centralia transition costs and higher major maintenance expense
- Energy Trading expected to be at the lower end of $50 - $70 million gross margin range

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# APPENDIX

# Comparable earnings

| | 3 mo. Ended Mar. 31, 2007 | 3 mo. Ended Mar. 31, 2006 |
|---|---|---|
| **Earnings on a comparable basis** | $ 66.0 | $75.4 |
| Turbine impairment, net of tax | - | (6.2) |
| **Net (loss) earnings** | **$ 66.0** | **$ 69.2** |
| **Weighted average common shares outstanding in the period** | **202.6** | **199.5** |
| **Earnings on a comparable basis per share** | **$ 0.33** | **$ 0.38** |

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# Increased sustaining capital & discontinuation of discount on DRASP[1] impact free cash flow

| | Q1 '07 | Q1 '06 |
|---|---|---|
| Cash flow from operating activities | 330.8 | 200.7 |
| Less: | | |
| Sustaining capital expenses | (41.3) | (29.2) |
| Dividends on common shares | (54.2) | (32.9) |
| Distribution to subsidiaries' non-controlling interest | (20.8) | (17.2) |
| Non-recourse debt repayments | (8.7) | (4.5) |
| Timing of contractually scheduled payments | (185.0) | - |
| Centralia closure costs | 23.0 | - |
| Cash flows from equity investments | (2.2) | (2.5) |
| **Free cash flow** | **$ 41.6** | **$ 114.4** |

[1] DRASP = dividend reinvestment and share purchase program

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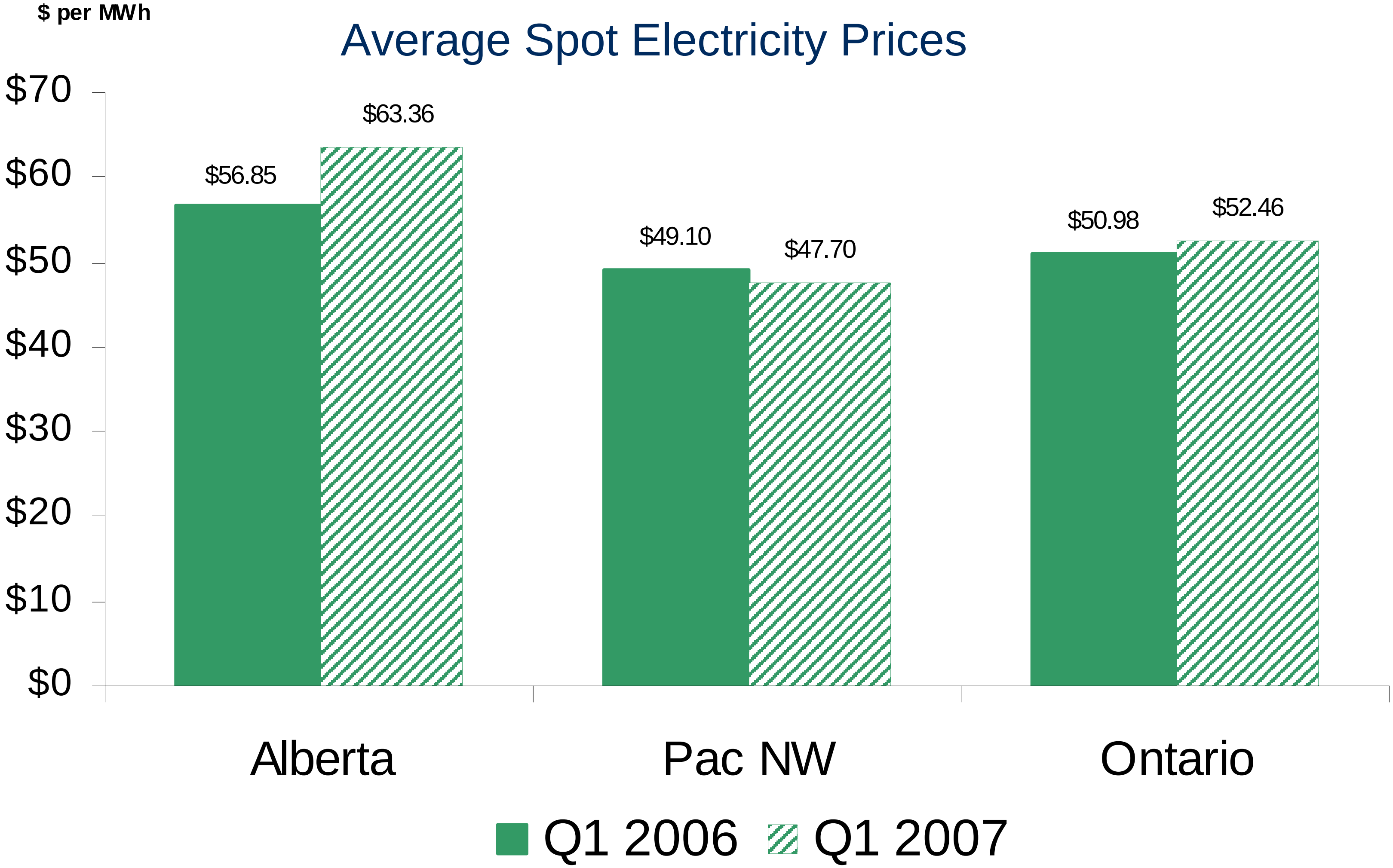
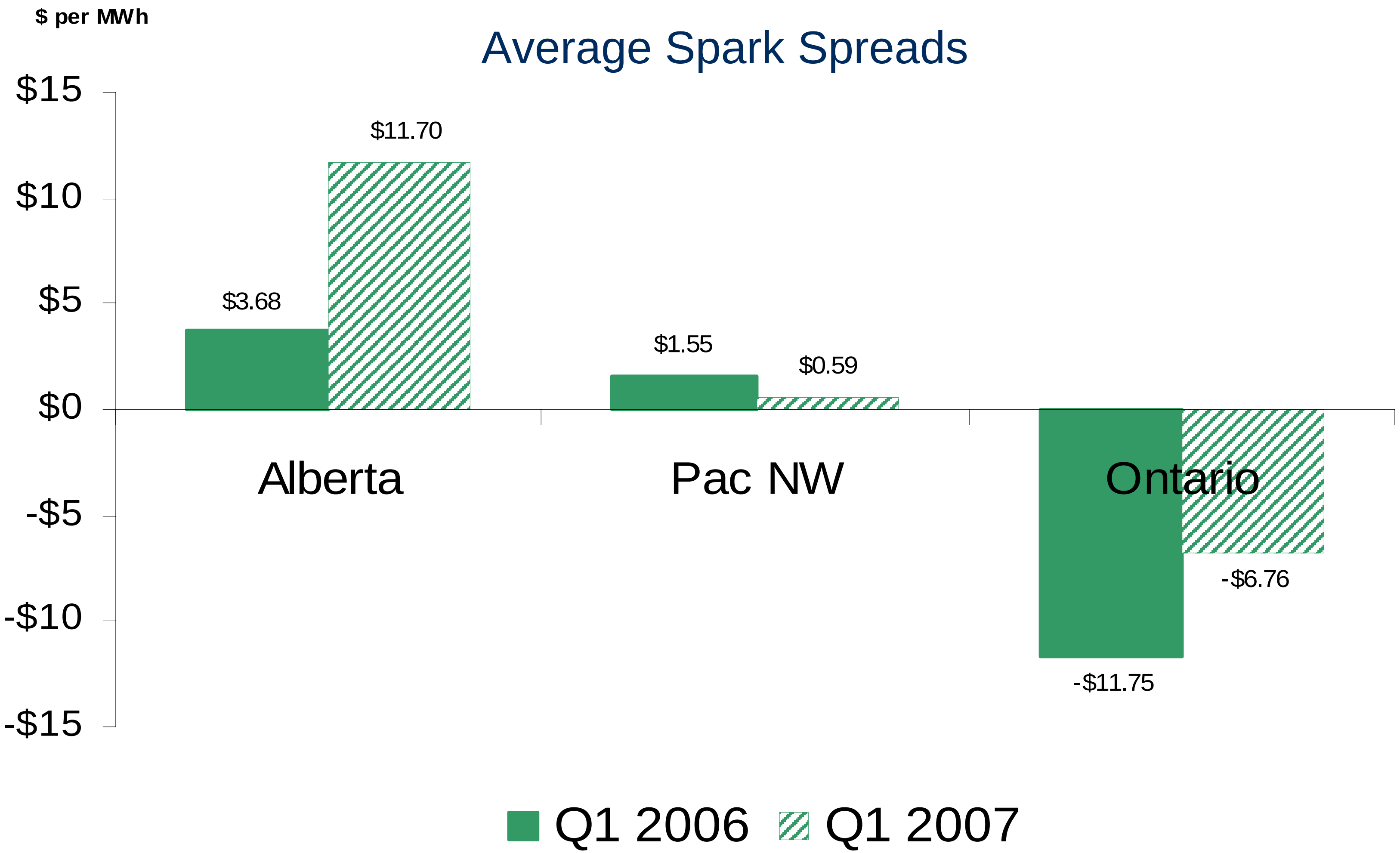
# Q1 2007 versus Q1 2006 comparison



# Q1 2007 versus Q1 2006 comparison

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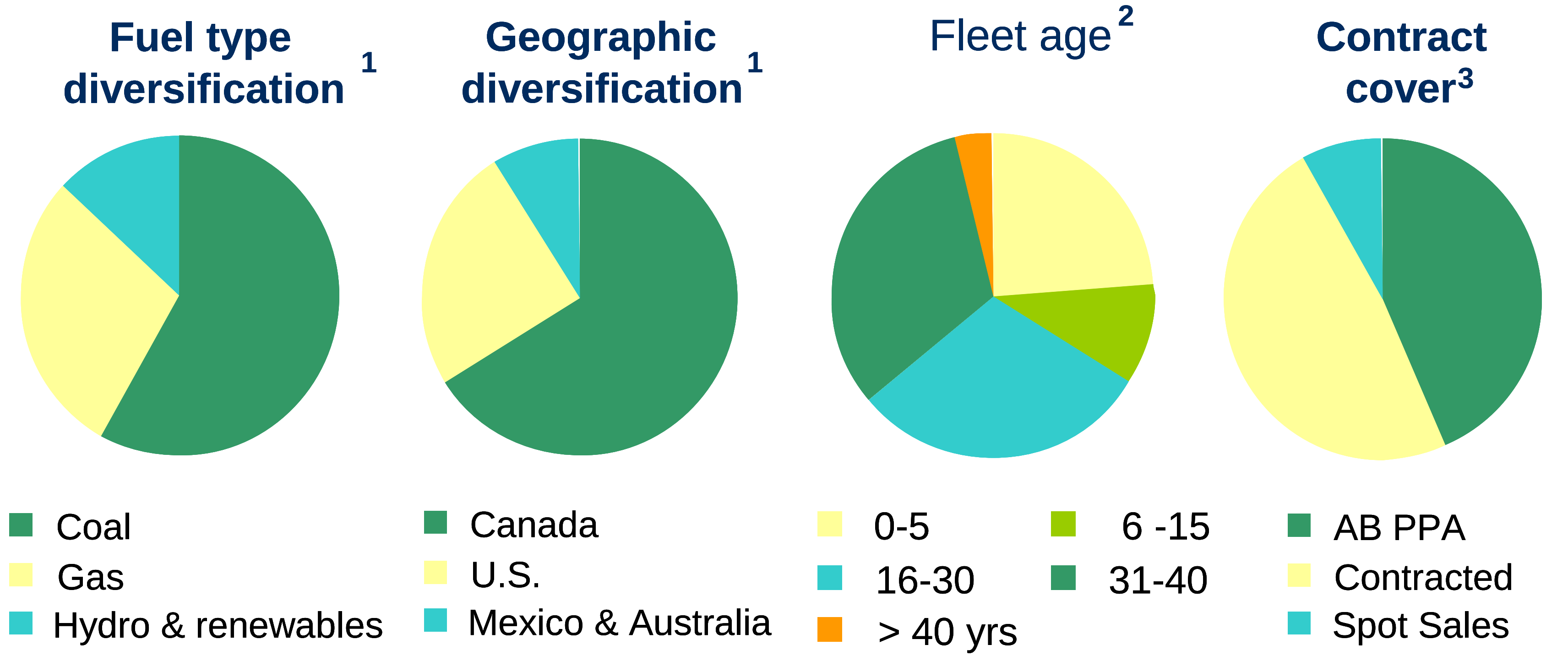
# Diversified portfolio

## Diversified, highly contracted portfolio of assets




1 Calculation based on MW ownership at Dec.31, 2006. Net capacity equals ~8,500 MW

2 Based on date of commissioning and percentage ownership at Dec.31, 2006

3 Based on % of MW capability contracted at Dec 31, 2006

PPA- A long term arrangement established by regulation for the sale of electricity energy from formerly regulated generating units to PPA buyers

Contracted- Any forward sale transacted prior to entering the delivery month

Spot- Un-contracted at this point in time