TransAlta

# Second Quarter & Year-to-Date 2007 Results

# Ready

**Strong business model.**

**Diversified generating assets.**

**Technical and commercial expertise.**

**Environmental leadership.**

**Financial discipline.**

# Forward looking statements

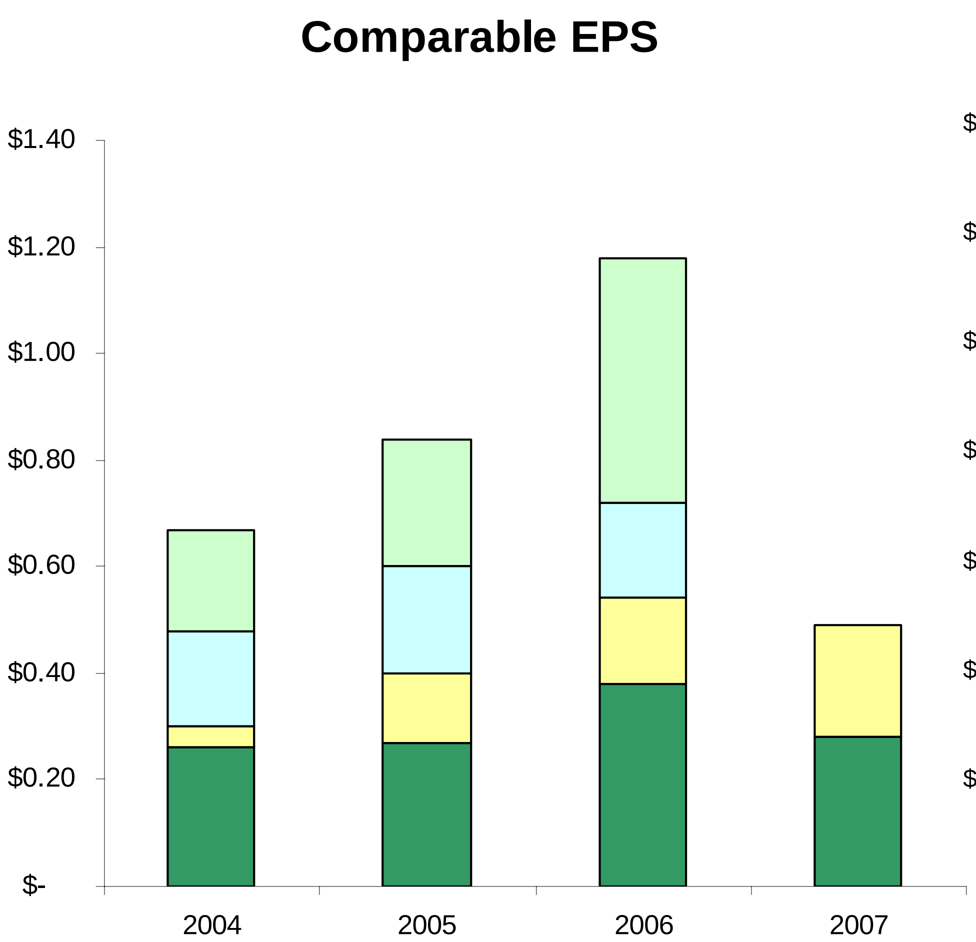
This presentation may contain forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Corporation. These statements are based on TransAlta Corporation's belief and assumptions based on information available at the time the assumption was made. These statements 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 legislative or regulatory developments, competition, global capital markets activity, changes in prevailing interest rates, currency exchange rates, inflation levels, unanticipated accounting or audit issues with respect to our financial statements or our internal control over financial reporting, and general economic conditions in geographic areas where TransAlta Corporation operates. By its nature, such forward-looking information is subject to various risks and uncertainties, which could cause TransAlta's actual results and experience to differ materially from the anticipated results or other expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date of this news release or as otherwise stated. TransAlta undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

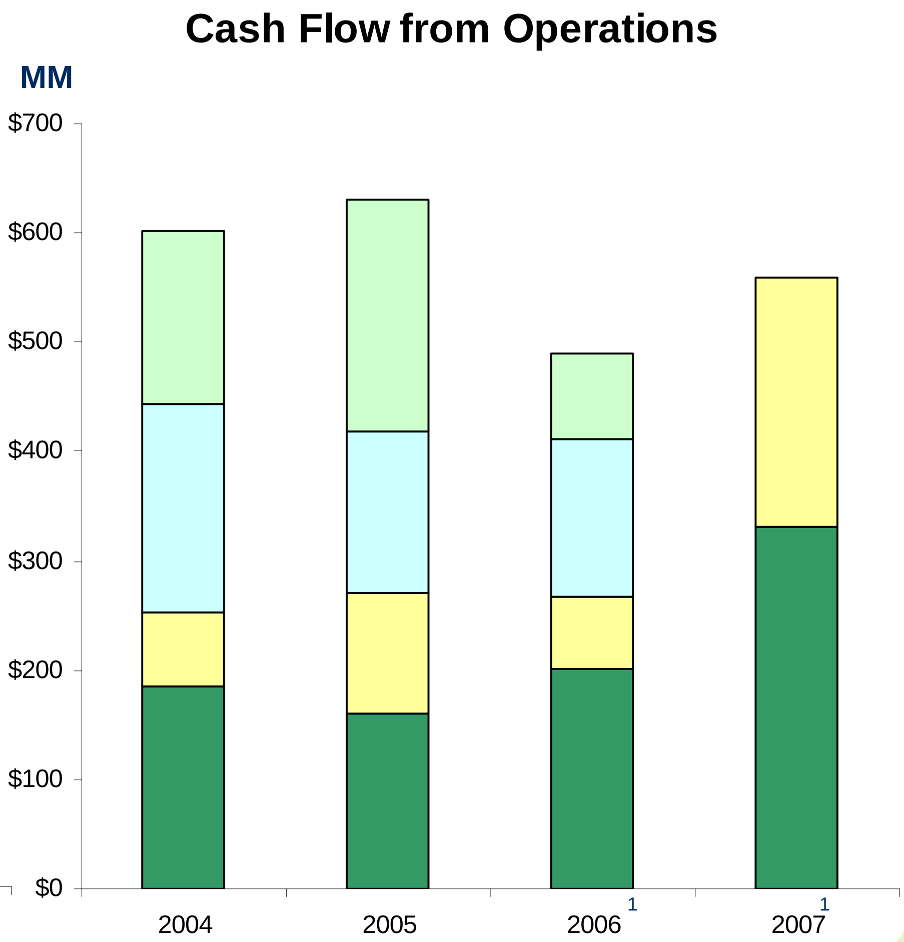
Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

# Outline

- Second Quarter & Year-to-Date 2007 Results
- Performance Against Key Measures
- 2007 - 2009 Outlook

# Establishing a track record of financial growth




**Q1 Q2 Q3 Q4**

[1]Due to the timing of collection of November 2006 sales, a $185 MM receivable was received Jan. 2, 2007

# Gross margin increase due to strong underlying operations and higher prices in key markets

## Q2 2007 vs. Q2 2006

- Underlying operational earnings considerably stronger due to lower derates at Centralia Coal, higher production and pricing at Alberta hydro and thermal assets
- Generation gross margins increased $52 million due to strong Centralia and Alberta performance; excludes $26 million mark-to- market loss related to certain Centralia contracts
- Availability was 83.6% due to derates at Centralia, 87.3% adjusting for derates
- Production increased by 1,446 GWh primarily due to increases at Centralia
- Energy Trading gross margin $17 million

## YTD 2007 vs. YTD 2006

- Continued strong results from Alberta and improved performance from Centralia drives strong underlying performance
- Generation gross margins increased $48.5 million due to favorable pricing in Alberta and Pacific Northwest, combined with lower coal costs and higher production at Centralia; excludes $40 million mark-to-market loss related to Centralia contracts
- Availability was 85.9% due to derates at Centralia, 90.2% adjusting for derates
- Production increased 1,699 GWh primarily due to increases at Centralia
- Energy Trading gross margin $27 million

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# Continued strength of Alberta and improvements at Centralia increase comparable earnings per share

| Results | Q2'07 | Q2'06 | YTD '07 | YTD '06 |
|---|---|---|---|---|
| **Comparable earnings (MM)** | $41.9[1] | $31.1 | $98.1[1] | $106.5 |
| **Net earnings (MM)** | $57.2 | $86.4 | $113.4 | $155.6 |
| **Per share** | | | | |
| Comparable earnings | $0.21[1] | $0.16 | $0.48[1] | $0.53 |
| Net earnings | $0.28 | $0.43 | $0.56 | $0.78 |
| Dividends | $0.25 | $0.25 | $0.50 | $0.50 |
| **Cash flow from Operations (MM)** | $227.6 | $66.8 | $558.4[2] | $267.1 |
| **Free Cash Flow (MM)** | $51.6 | $(59.3) | $93.3 | $57.5 |
| **Availability (%)** | 83.6[3] | 85.1 | 85.9[3] | 91.0 |
| **Production (GWh)** | 11,497 | 10,051 | 24,194 | 22,495 |

1 Adjusting for a mark-to-market loss in generation of $26.2 MM in Q2 and $40.0 MM YTD, comparable earnings would be $58.9 MM in Q2 ($0.29 per share), and $124.1 MM YTD ($0.61 per share)

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

3 Adjusting for derates at Centralia related to the coal transition plan, availability would be 87.3% in Q2 and 90.2% YTD

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# Generation gross margins increase drives results

| Net Earnings | 3 mo. Ended June 30 | 6 mo. Ended June 30 |
|---|---|---|
| **Net Earnings, 2006[1]** | $86.4 | $155.6 |
| Increase in Generation gross margins (before mark-to-market loss) | 52.0 | 48.5 |
| Decrease in Generation mark-to-market loss | (26.2) | (40.0) |
| (Decrease)/Increase in CD&M margins | (9.2) | (8.0) |
| Decrease/(Increase) in operations, maintenance and administration costs | (4.0) | (6.1) |
| Decrease in depreciation expense | 1.9 | 4.4 |
| Gain on sale of Centralia mining equipment | 11.7 | 11.7 |
| Decrease in net interest expense | 2.3 | 5.5 |
| Increase in equity loss | (4.1) | (12.0) |
| (Increase)/Decrease in non-controlling interest | (1.8) | 1.1 |
| Increased income tax expense | (57.7) | (53.9) |
| Other | 5.9 | 6.6 |
| **Net Earnings, 2007** | **$57.2** | **$113.4** |

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 | YTD 2007[1] | 2006[2] |
|---|---|---|---|
| Cash flow to interest (x) | **>4.2** | **5.4** | 5.5 |
| Cash flow to total debt (%) | **>28** | **28.1** | 26.2 |
| Debt to invested capital[3,4,5] (%) | **<48** | **44.0** | 44.0 |

1 YTD ratios are a rolling 12-month average
2 Year ended Dec. 31, 2006
3 Debt = short-term debt + current portion long-term debt + long-term debt – cash
4 Invested capital = debt + preferred securities + non-controlling interest + common equity
5 Debt to invested capital includes non-recourse debt

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# Financial objectives and measures – updated

| Objectives | Measures | 2007 Goals | YTD ‘07 | YTD ‘06 |
|---|---|---|---|---|
| **Deliver long-term shareholder return** | TSR<br>ROCE[1] (annualized) | 10%<br>~10% | 2.3%<br>n/a | (7.3)%<br>n/a |
| **Increase comparable earnings per share** | Comparable EPS | Revised to double digit[2] | $0.48 | $0.53 |
| **Increase operating cash flow** | Operating cash flow | Revised to $700 - $800 MM[3] | $559 MM[4] | $267 MM |
| **Maintain strong financial ratios** | Credit ratios | Investment grade | Investment grade | Investment grade |
| **Improve productivity** | OM&A/installed MWh | Offset inflation | $7.91 | $7.89 |
| **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. Goal increased from original 6% - 10% target
3. Goal increased from original $650 - $750 MM target
4. Includes $185 MM receivable received Jan. 2, 2007 due to timing of collection of November sales

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# Operating objectives and measures – updated

| Objectives | Measures | 2007 Goals | YTD 2007 | YTD 2006 |
|---|---|---|---|---|
| **Maintain targeted availability** | Fleet availability | 90% | 85.9% | 91.0% |
| **Contract plant output** | Contracted output > one year | >75% | 94% [1] | 94% |
| **Increase gross margin** | Margin | Increase | $733.6 MM | $733.1 MM |
| **Make sustaining capex predictable** | Sustaining capex budget | Revised to $350 - $370 MM[2] | $121 MM | $91MM |
| **Reduce environmental footprint** | Emissions reductions | < emissions intensity | Compliance in all markets | Compliance in all markets |

1. At June 30, 2007, 94% of plant capability in 2007 and ~ 81% in 2008 - 2010 is contracted through short, medium and long-term arrangements. At YE 2006, ~ 81% of contracts were for terms greater than one year
2. Goal increased from original $320 - $345 MM target to incorporate Centralia Coal transition plan and accelerated construction of rail and coal unloading facilities

# 2007 sustaining capex includes revised Centralia transition plan spend

**Centralia plan calls for accelerated construction of coal and rail unloading facilities and advances on materials in 2007**

| $MM | 2007E | Q2'07 | Q2'06 | YTD'07 | YTD'06 |
|---|---|---|---|---|---|
| **Sustaining** | $350 - $370 | $80 | $72 | $121 | $87 |
| Routine capital | $95 - $100 | $28 | $10 | $46 | $13 |
| Mine capital | $75 - $80 | $9 | $18 | $9 | $20 |
| Corporate | - | $2 | $6 | $12 | $9 |
| Centralia Fuel Blend | $100 - $105 | $14 | - | $24 | - |
| Major maintenance | $80 - $85 | $27 | $38 | $30 | $45 |
| **Growth** | $255 - $265[1] | $60 | - | $73 | $4 |
| **Mexico** | $3 - $5 | - | - | - | $8 |
| **Total** | $608 - $640 | $140 | $72 | $194 | $99 |

[1] Includes approximately ~$30 million for Kent Hills, ~$35 million for Sundance 4, ~$200 million for Keephills 3

# Centralia coal transition plan update


- **Nov. 27, 2006 announced decision to stop mining immediately – existing operations no longer economic**
- **Sourcing 100% Powder River Basin coal**
  - Long-term transportation contract w/ BNSF Railway
  - Coal contracts w/ Rio Tinto Energy America and Peabody Energy
- **2007- 2009 - Centralia coal-fired plant transition plan**
  - **Restores annual production to 10,500 GWh and provides for long-term fuel flexibility. Centralia expected to be among top performing assets by 2010.**
  - $45 - $50 MM investment in rail & coal unloading facilities
    - Plan accelerated for completion early 2008
  - $135 - $145 MM investment in adaptation of coal plant
    - Plan incorporates seven months of test burn results
    - Scope includes safety and heat transfer equipment
    - Work to be completed first halves of 2008 and 2009
  - Expected production
    - 2007 – ~ 8,300 GWh
    - 2008 – 2009 ~9,200 – 9,500 GWh
    - 2010 – ~10,500 GWh

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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** | $65 - $70 | $15 - $20 | **$80 - $90** |
| **Operating expenditures** | $60 - $765 | $0 - $5 | **$60 - $70** |
| **Total** | **$125 - $135** | **$15 - $25** | **$140 - $160** |
| **Lost GWhs** | 2,000 – 2,050 | 150 - 175 | **2,150 – 2,225** |

**Planned Quarterly Spend**

| Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|
| 5% | 45% | 40% | 10% |

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# Kent Hills expansion announced in Q2 2007

## Kent Hills Wind Facility, New Brunswick

- Greenfield development
- Announced Jan. 19, 2007, amended July 17
- Awarded 25-year PPA to provide 96 MW of wind power to New Brunswick Power, including 21 MW expansion
- TA will construct, own and operate new facility
- Est. $170 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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# Strong outlook for 2007 - 2009

**Our financial performance and the current strong market pricing environment support expectation of double digit EPS growth over next several years**

## 2007 - 2009 Outlook

- Higher pricing in our key markets of Alberta and the Pacific Northwest
- EPS growth projection based on pricing in Alberta of $65 - $75 CAD per MWh and in the Pacific Northwest of $45 - $55 USD per MWh

## Current Outlook for 2H 2007 v. 2H 2006

- Sundance 4 - 53 MW uprate online late Q3
- Production and availability expected to slightly increase due to lower planned outages and lower derates at Centralia
- **Alberta** - Demand growth and delayed supply additions expected to elevate electricity prices and spark spreads
- **Pacific Northwest** - minimal load growth anticipated but warmer temperatures and decreased hydro flows are expected to keep power prices and spark spreads higher
- **Ontario** - prices expected to strengthen with an expectation of higher gas prices and a warmer summer
- Coal costs in Alberta are expected to be $30 million higher than those in 2006

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# APPENDIX

# Comparable earnings

| | 3 mo. Ended June 30, 2007 | 3 mo. Ended June 30, 2006 | 6 mo. Ended June 30, 2007 | 6 mo. Ended June 30, 2006 |
|---|---|---|---|---|
| **Earnings on a comparable basis** | $ 41.9 | $31.1 | $98.1 | $106.5 |
| Sale of assets at Centralia | 7.6 | - | 7.6 | - |
| Tax rate change | 7.7 | 55.3 | 7.7 | 55.3 |
| Turbine impairment, net of tax | - | - | - | (6.2) |
| **Net (loss) earnings** | **$ 57.2** | **$86.4** | **$113.4** | **$ 155.6** |
| **Weighted average common shares outstanding in the period** | **202.8** | **200.5** | **202.8** | **200.5** |
| **Earnings on a comparable basis per share** | **$ 0.21** | **$0.16** | **$0.48** | **$ 0.53** |

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# Free cash flow

| | Q2 '07 | Q2 '06 | YTD '07 | YTD '06 |
|---|---|---|---|---|
| Cash flow from operating activities | $227.6 | $66.8 | $558.4 | $267.1 |
| Add/(Deduct): | | | | |
| Sustaining capital expenditures | (79.8) | (65.6) | (121.2) | (91.2) |
| Dividends on common shares | (50.5) | (33.1) | (104.7) | (66.0) |
| Distribution to subsidiaries' non-controlling interest | (19.7) | (16.9) | (40.5) | (34.1) |
| Non-recourse debt repayments | (37.2) | (17.0) | (45.9) | (25.5) |
| Timing of contractually scheduled payments | - | - | (185.0) | - |
| Centralia closure costs | 1.2 | - | 24.2 | - |
| Cash flows from equity investments | 10.0 | 6.5 | 8.0 | 7.2 |
| **Free cash flow** | **$51.6** | **$(59.3)** | **$93.3** | **$57.5** |

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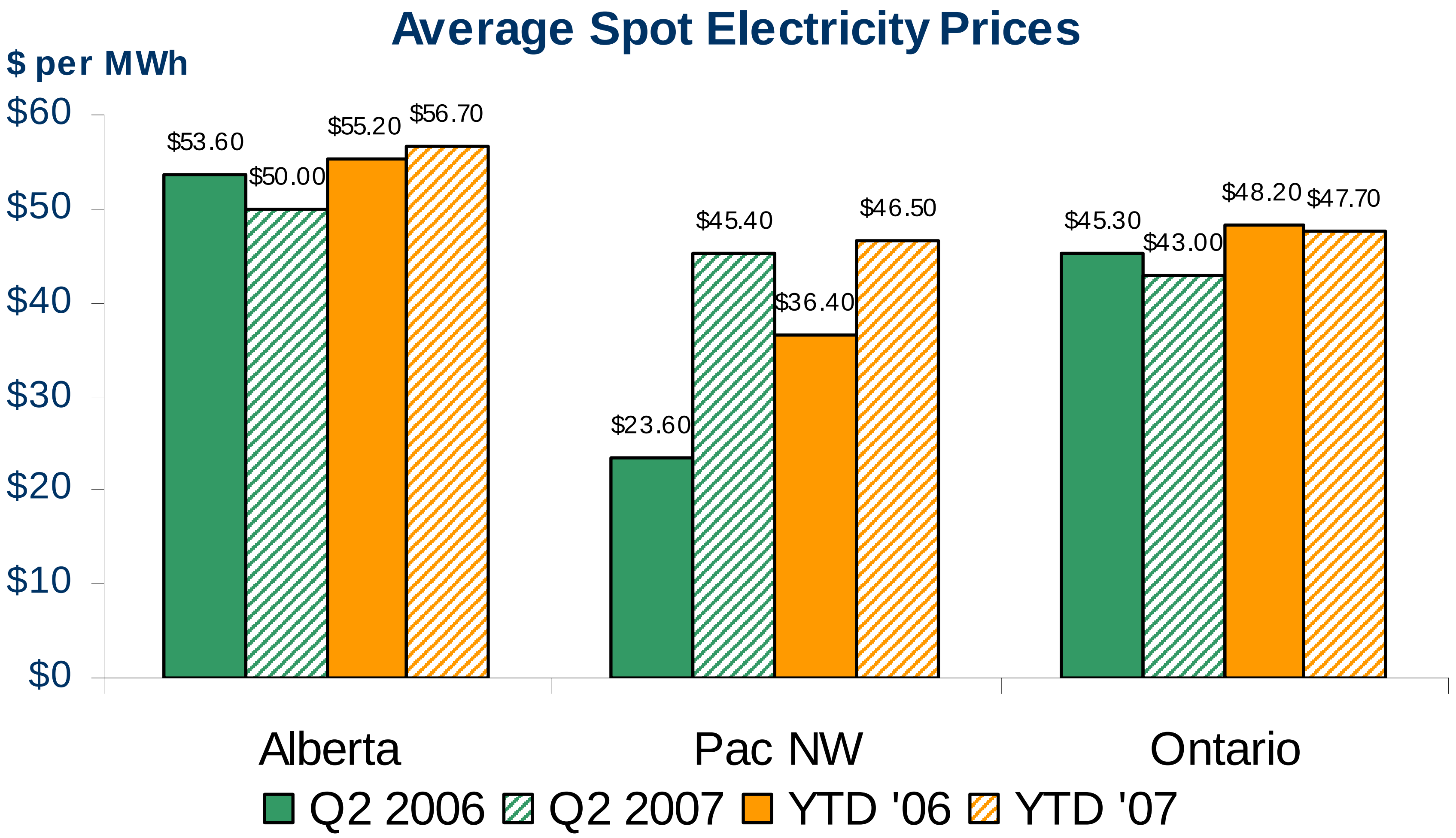
# Q2 & YTD 2007 vs. Q2 & YTD 2006 comparison

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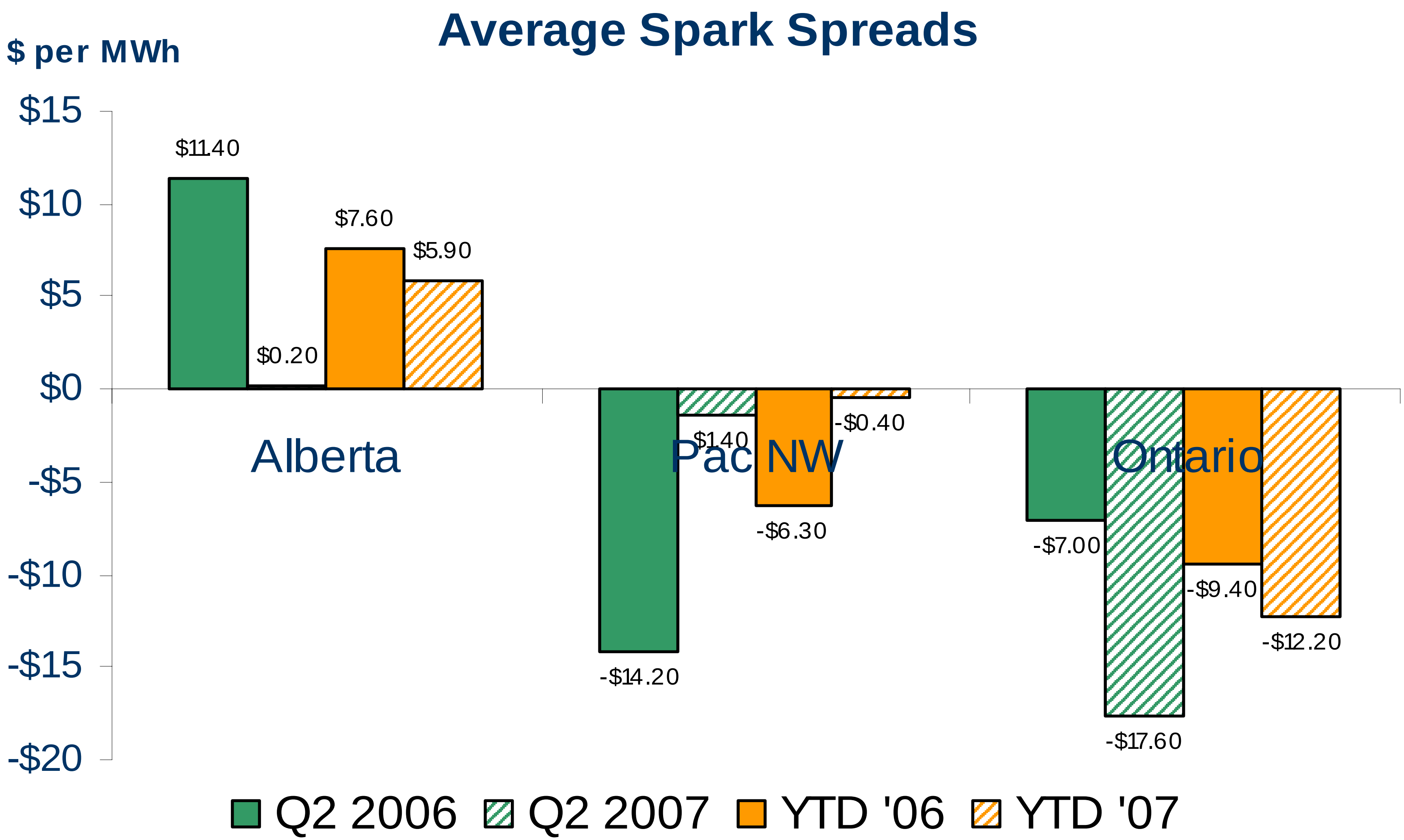
# Q2 & YTD 2007 vs. Q2 & YTD 2006 comparison

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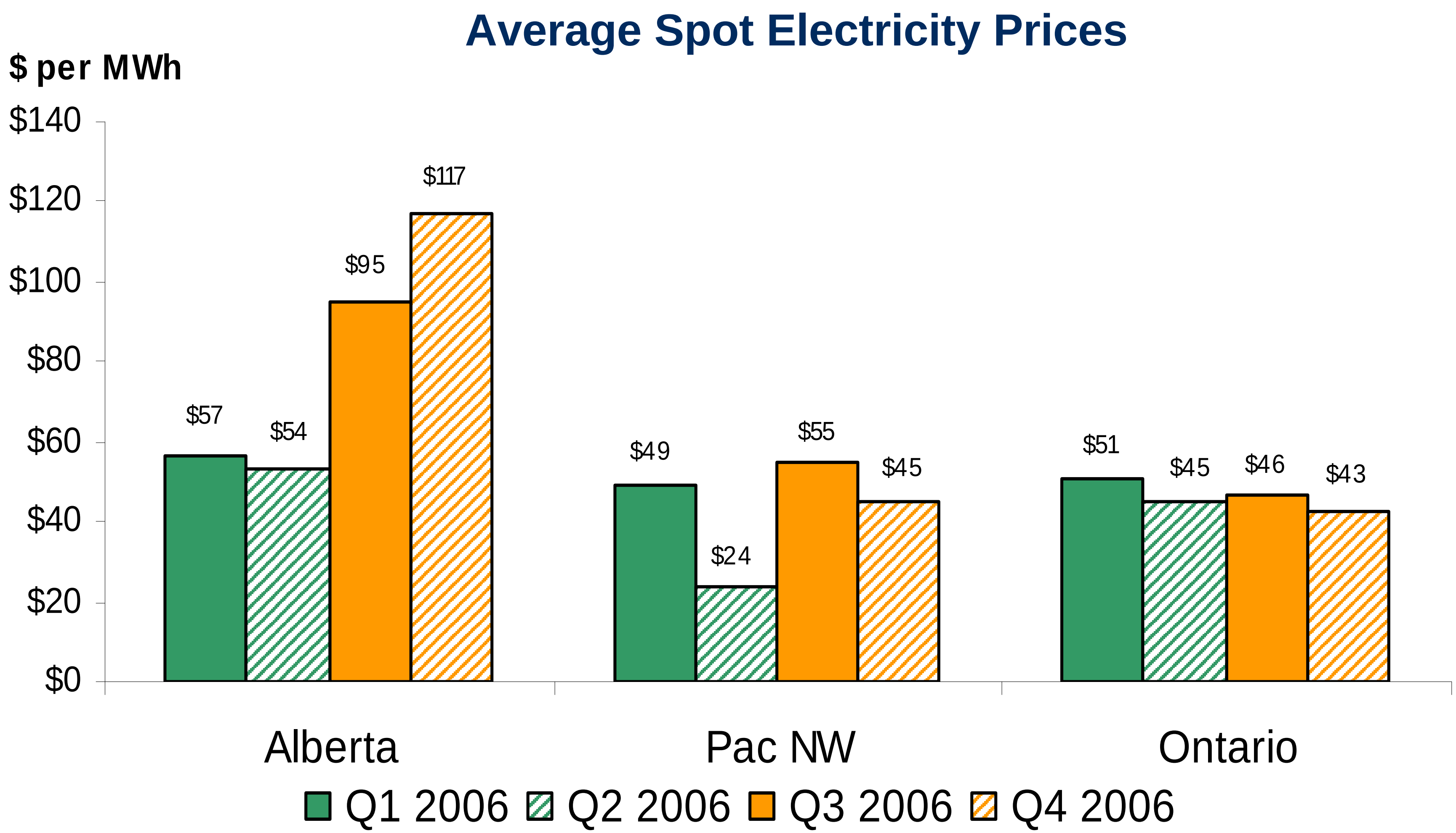
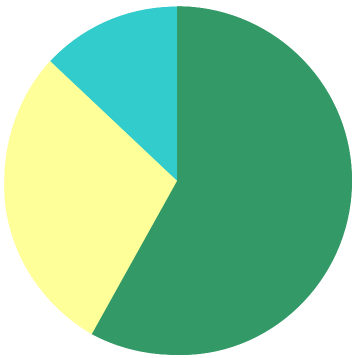
# 2006 quarterly regional market prices



# Diversified portfolio

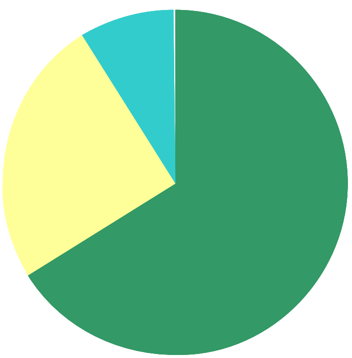
## Diversified, highly contracted portfolio of assets

### Fuel type diversification [1]



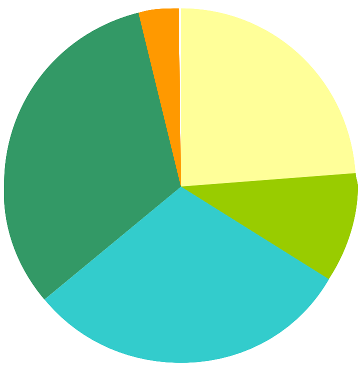
- Coal
- Gas
- Hydro & renewables

### Geographic diversification [1]



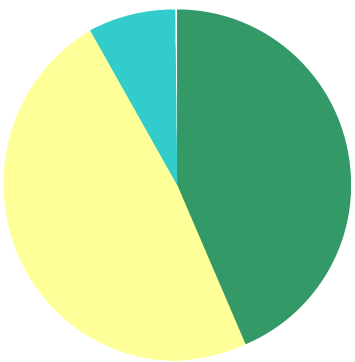
- Canada
- U.S.
- Mexico & Australia

### Fleet age [2]



- 0-5
- 6 -15
- 16-30
- 31-40
- > 40 yrs

### Contract cover [3]



- AB PPA
- Contracted
- Spot Sales

1 Calculation based on MW ownership at June 30, 2007. Net capacity equals ~8,500 MW

2 Based on date of commissioning and percentage ownership at June 30, 2007

3 Based on % of MW capability contracted at June 30, 2007

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

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