



TransAlta

**Macquarie Global Infrastructure  
Conference**

May 2008

**We're ready**  
for a changing world

# 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, unanticipated accounting or audit issues with respect to our financial statements or our internal control over financial reporting, plant availability, 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 2007 Annual Report to shareholders and other disclosure documents filed with securities regulators.

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

# Sustainable shareholder returns in a long-cycle, capital intensive, commodity power industry

## VALUE PROPOSITION

### Consistent Returns

### Yield & Growth

Dividend + earnings growth

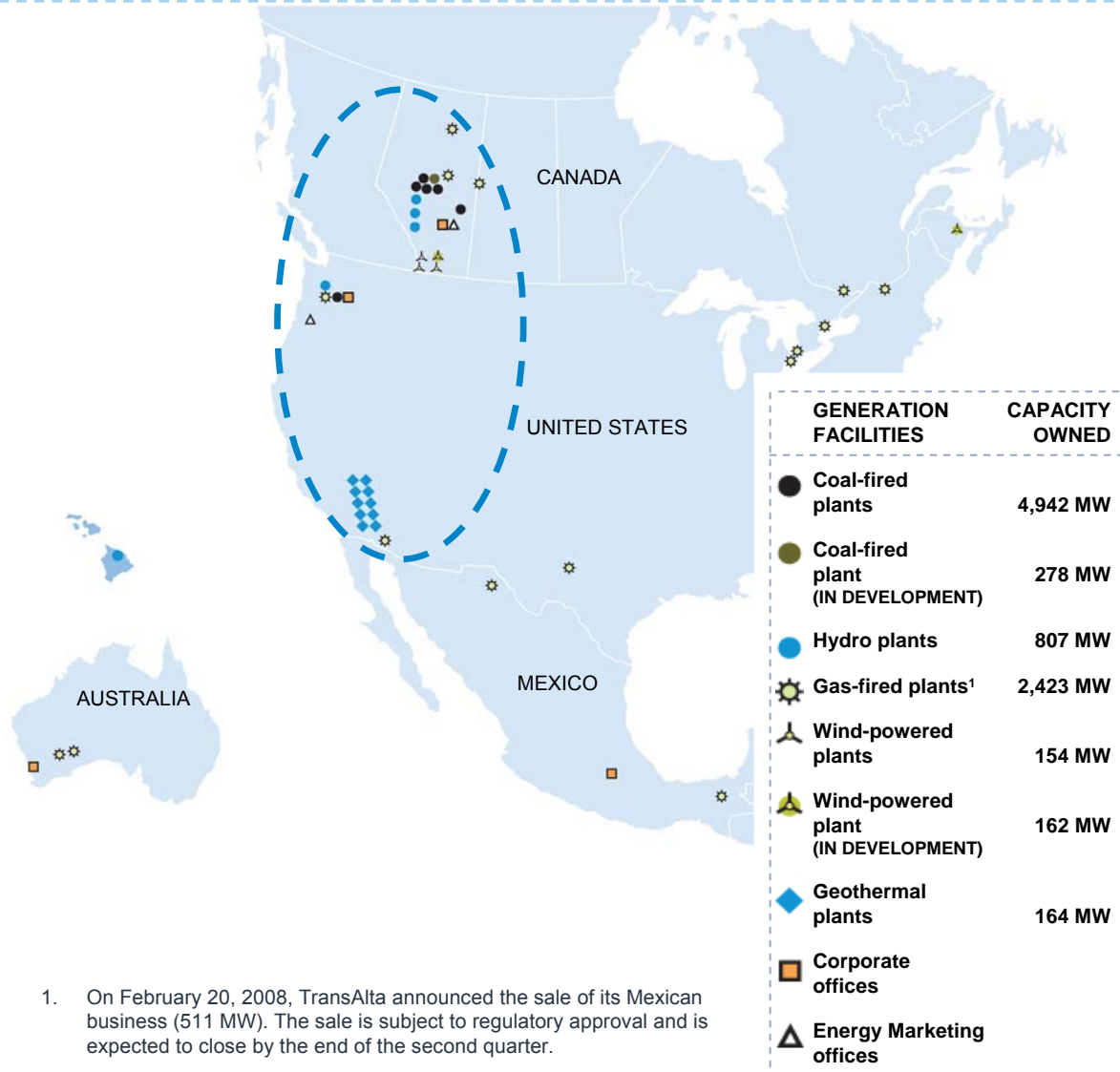
### Exposure to Growing Power Markets

### Low to Moderate Risk Business Model

Diversified fleet  
 Mix of contracts  
 Operational excellence  
 Environmental leadership

### Financial Strength

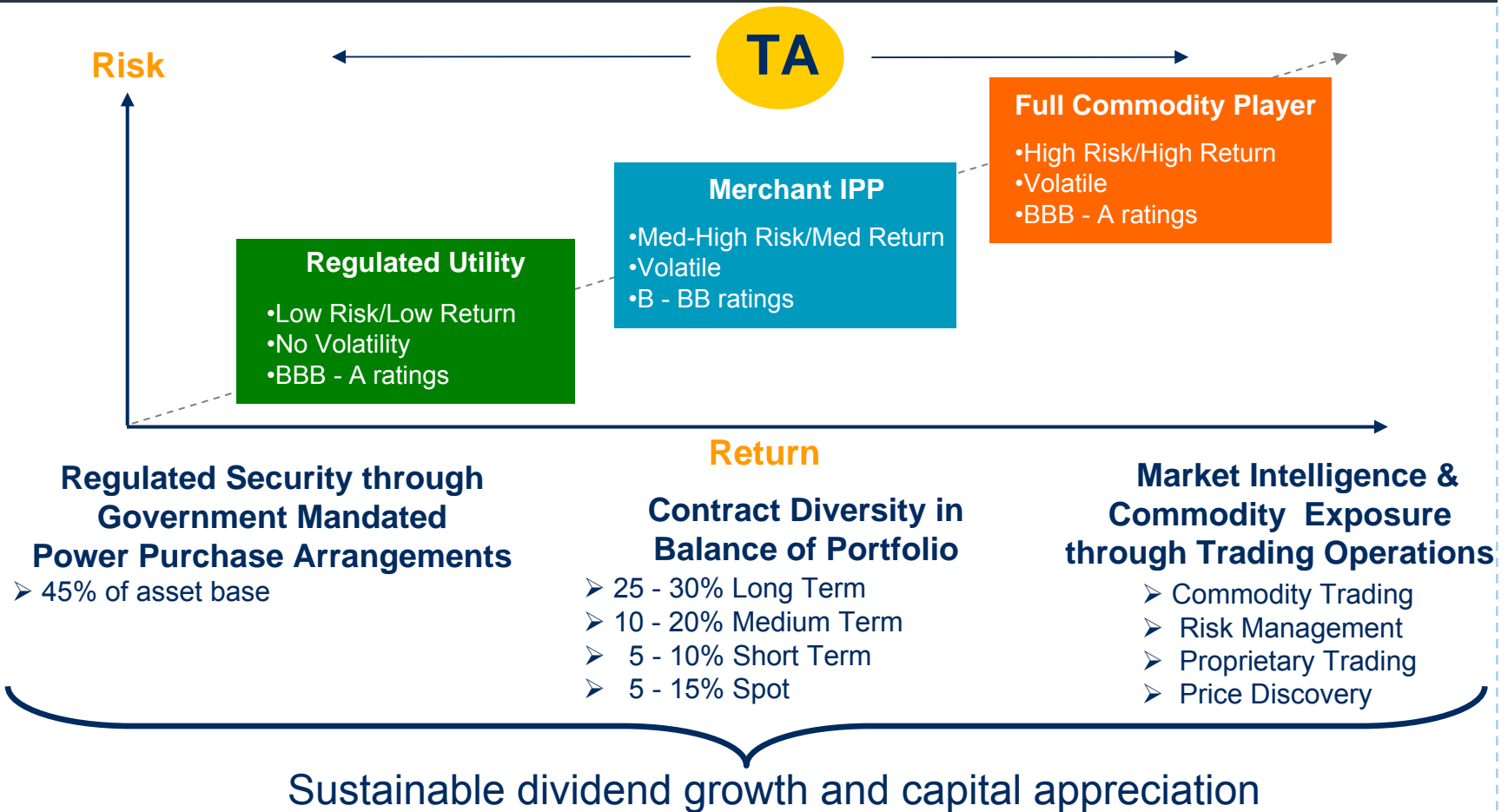
Strong balance sheet  
 Good liquidity  
 Balanced capital allocation



# Unique in the power industry

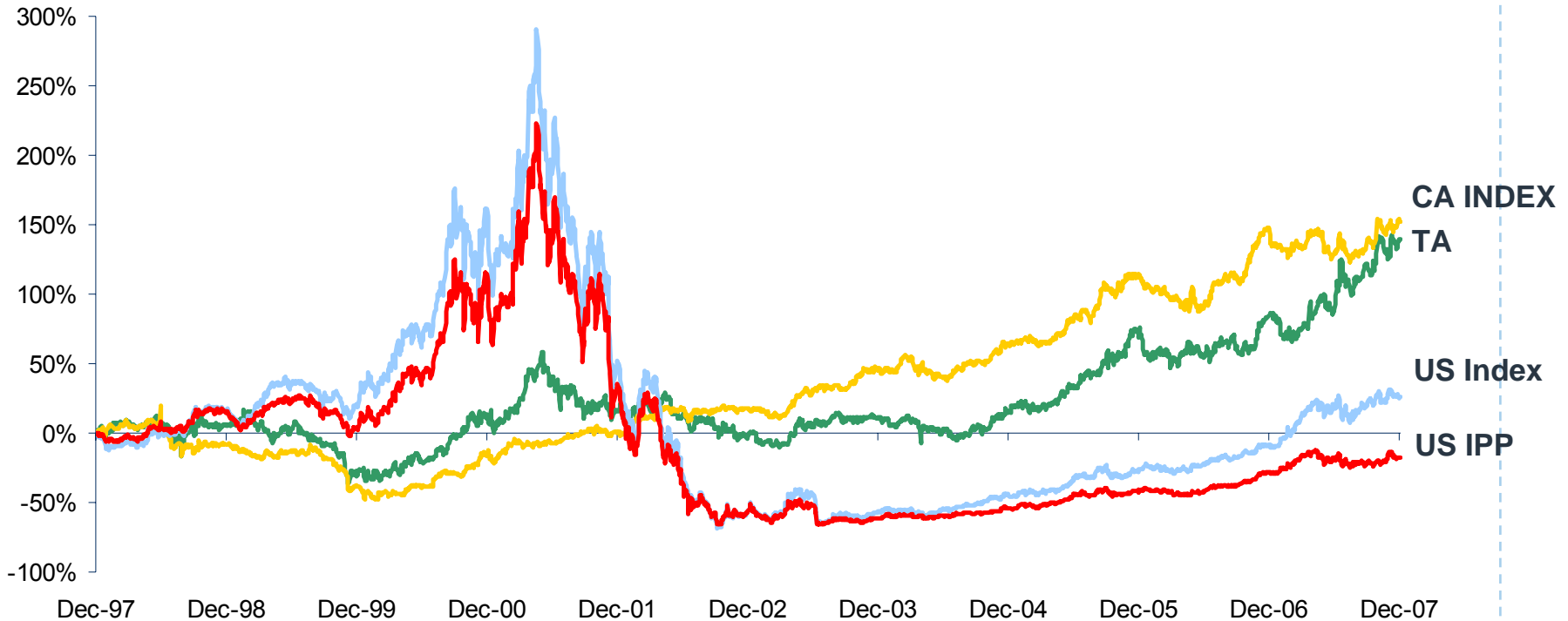
## TransAlta

Low to moderate risk, investment grade, wholesale power generator and marketer



# Stable, long-term returns

## CUMULATIVE COMPARATIVE 10 YEAR TSR

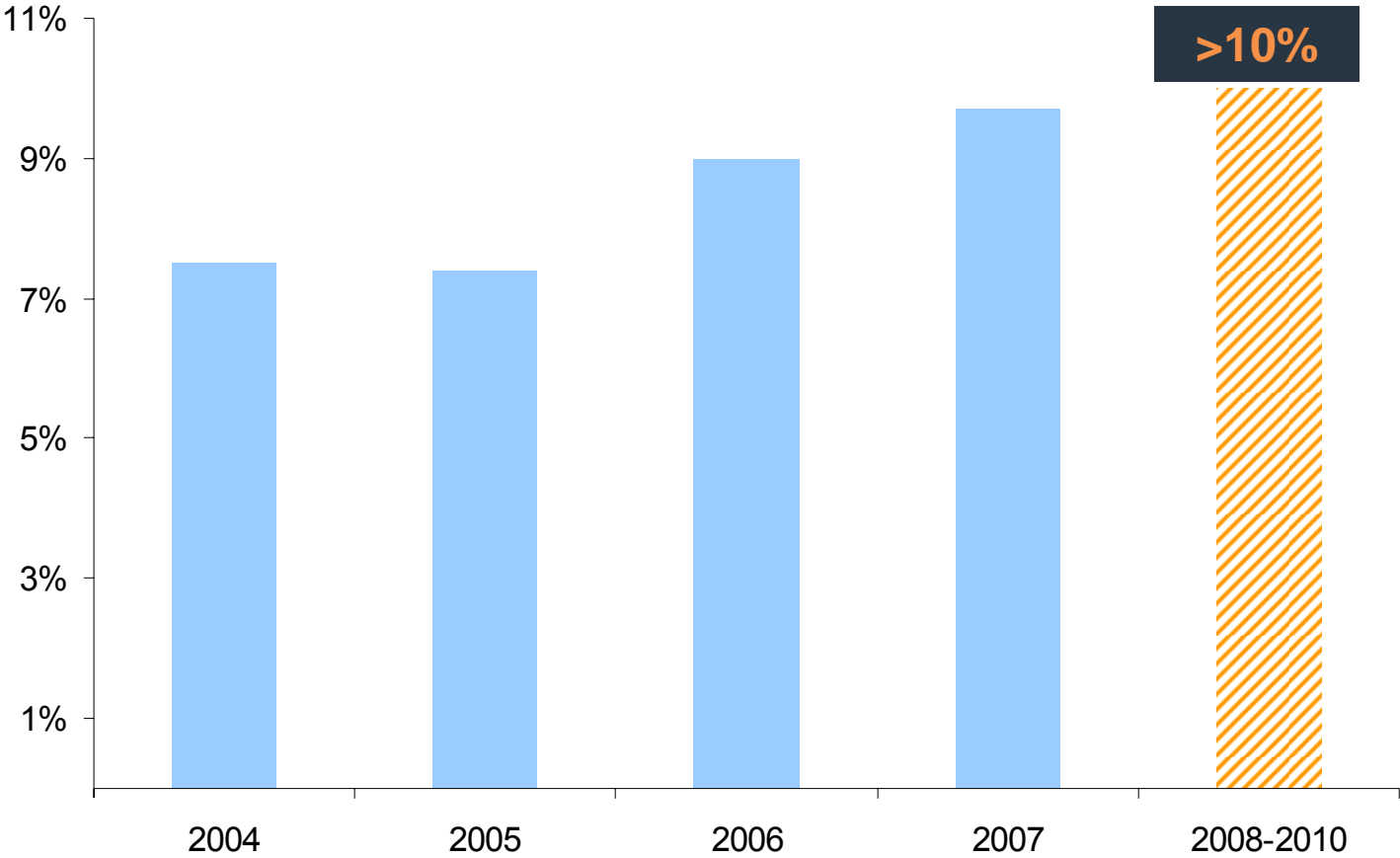


- TA (C\$)
- CA Index (CU, EMA, FTS, TRP) (C\$)
- US Index (PPL, DYN, EXC, ETR, CEG, MIR, NRG, RRI) (US\$)
- US Merchant IPP (DYN, MIR, NRG, RRI)

\*Source: FactSet

# Increasing economic value

**COMPARABLE RETURN ON CAPITAL EMPLOYED**

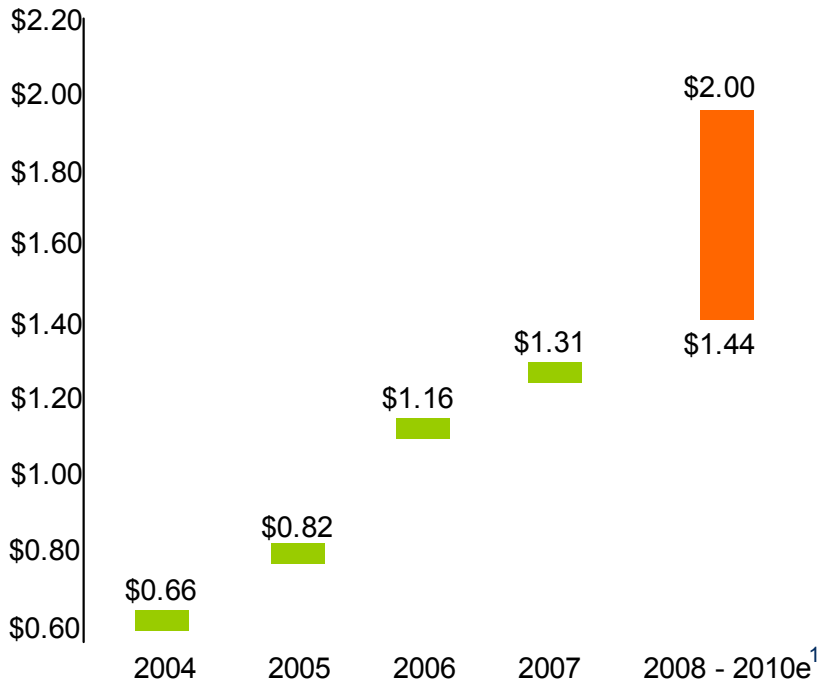


# EPS and cash flow growth

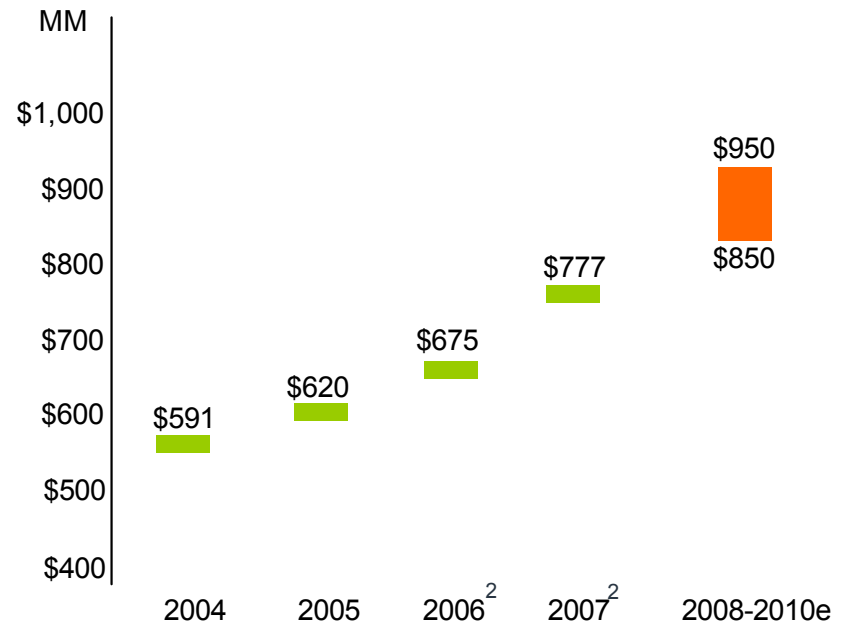
2008 – 2010

Expect low double digit EPS growth and strong cash flow from operations

COMPARABLE EPS



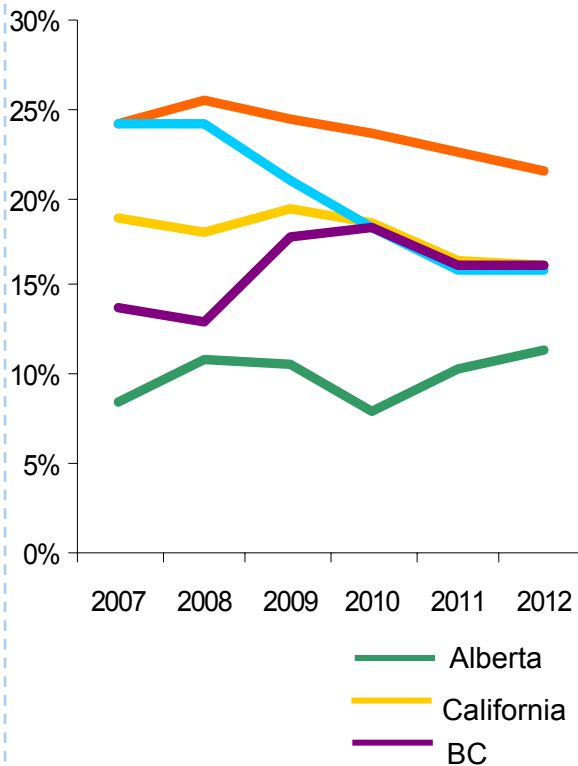
CASH FLOW FROM OPERATIONS



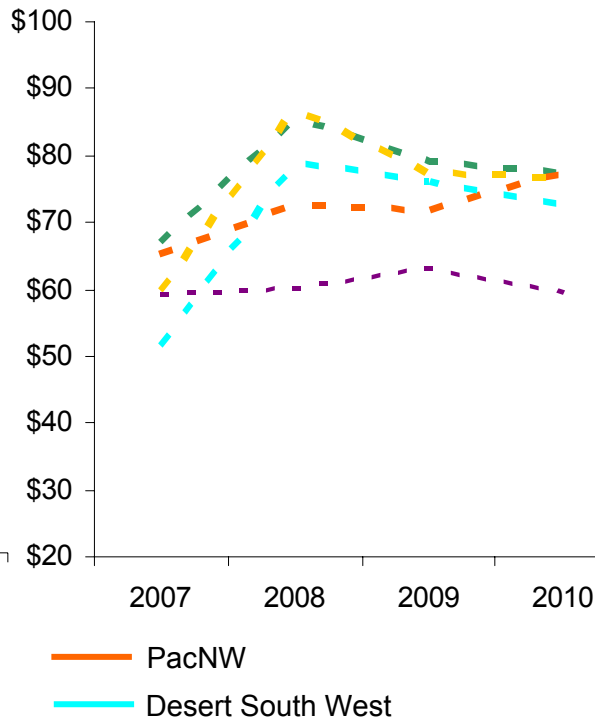
1. Range based on low double digit growth estimate
2. Cash flow adjusted for timing of PPA and contracted revenue payments

# Western market fundamentals support financial expectations and investment priorities

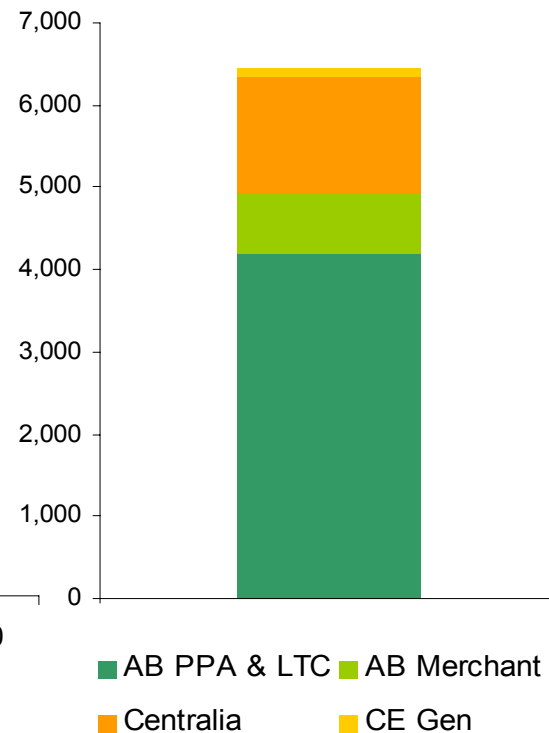
## RESERVE MARGIN<sup>1&2</sup>



## AVERAGE FORWARD TRADING PRICES<sup>1&3</sup>



## WESTERN MARKET EXPOSURE



1. Based on data from PIRA and CERA
2. Assumes normal hydro
3. Average forward trading prices as of Mar. 31, 2008, AB \$C, US \$US



# Balanced capital allocation plan creates consistent value over time

**Increasing capital efficiency is the focus of management and the Board**

ALTERNATIVES	DIRECTION	ACTION
<b>Portfolio Optimization</b>	<p>Divest or improve under-performing assets</p> <p>Divest non-core assets</p>	<p>Mexico - PSA signed for USD \$303.5 MM</p> <p>Sarnia - pursuing improved long-term contract</p> <p>Centralia Gas - assessing contracting options</p> <p>Australia - no action at this time</p>
<b>Dividend</b>	<p>Provide shareholders sustainable dividend growth</p>	<p>2008 annual dividend increased 8% to \$1.08;</p> <p>Board policy is to target a payout of 60 - 70% of comparable EPS</p>
<b>Share Buyback</b>	<p>Provide shareholders incremental return of capital</p>	<p>NCIB expanded to full 10%; 4.3 million shares repurchased to-date = \$135 million</p> <p>2008 plan is to renew and utilize significant portion of NCIB</p>
<b>Asset Investment</b>	<p>Projects must deliver unlevered, free cash, after tax IRR &gt;10%:</p> <p>Greenfield</p> <p>Acquisitions</p>	<p>Announced ~\$1.2 billion to date</p> <ul style="list-style-type: none"> <li>▪ 225 MW    Keephills 3    \$815 MM</li> <li>▪ 96 MW    Kent Hills    \$170 MM</li> <li>▪ 66 MW    Blue Trail    \$115 MM</li> <li>▪ 53 MW    Sun 5 Uprate    \$ 75 MM</li> </ul> <p>Targeting W. U.S. and W. Canada</p>

# Leveraging resources and strengths to create a super regional western wholesale power company

## FOCUS

### Short-term: 2008 - 2010

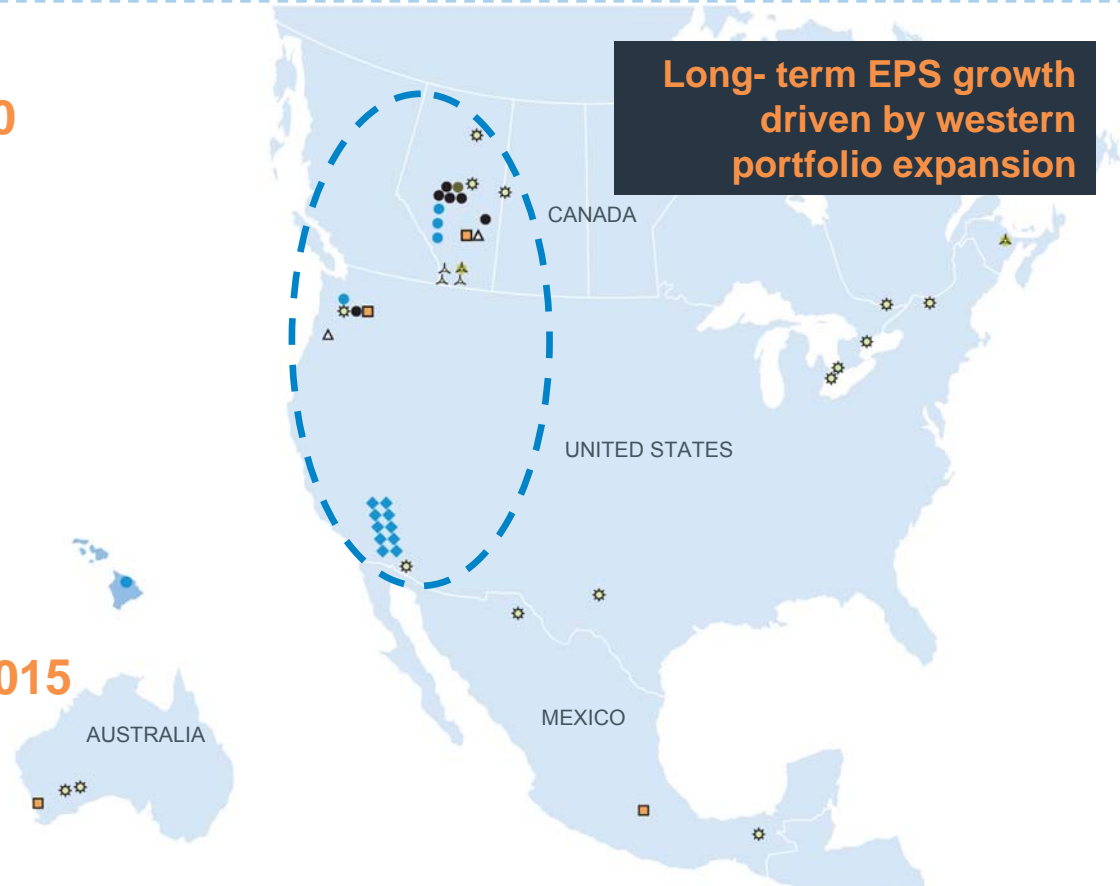
- Plant uprates
- Greenfield priorities
  - Renewable
    - Wind
    - Geothermal
  - Co-generation
  - Clean Coal (AB)
- Portfolio optimization<sup>1</sup>
- CO<sub>2</sub> offsets

### Medium-term: 2011 - 2015

- AB Thermal investments
- Small hydro
- Clean coal investment
- CO<sub>2</sub> offsets

### Longer-term: 2016+

- Transmission options



Geographic focus, contract and asset mix, and fuel selection dominate strategic choices

1. On February 20, 2008, TransAlta announced the sale of its Mexican business (511 MW). The sale is subject to regulatory approval and is expected to close by the end of the second quarter.

# Our development track record



## Project

	<b>Genesee III Alberta</b>	<b>Sun 4 Uprate Alberta</b>	<b>Kent Hills NB</b>	<b>Blue Trail Alberta</b>	<b>Keephills III Alberta</b>
Type	Supercritical Coal	Efficiency Uprate	Wind	Wind	Supercritical Coal
Size	225 MW <sup>(1)</sup>	53 MW	96 MW	66 MW	225 MW <sup>(1)</sup>
Total Project Cost	\$357 MM	\$58 MM	\$170 MM	\$115 MM	\$815 MM
Expected Annual Revenues <sup>(2)</sup>	\$125 - \$180 MM+	\$30 - \$40 MM+	\$20 - \$30 MM	\$14 - \$20 MM+	\$125 - \$180 MM+
Commercial Operations Date	Q2 2005	Q3 2007	Q4 2008	Q4 2009	Q2 2011
Contract Status	Merchant	Merchant	100% Contracted	Merchant	Merchant
Unlevered after tax IRR	15%+	20%+	10%+	10%+	10%+
On time / On budget	✓	✓	Tracking	Tracking	Tracking

(1) 450 MW gross size

(2) Expected range based on \$70-\$100+/MWh

# Financial strategy supports consistent shareholder value creation

**Financial strength provides shareowners an advantage in a long-cycle, capital intensive, cyclical industry**

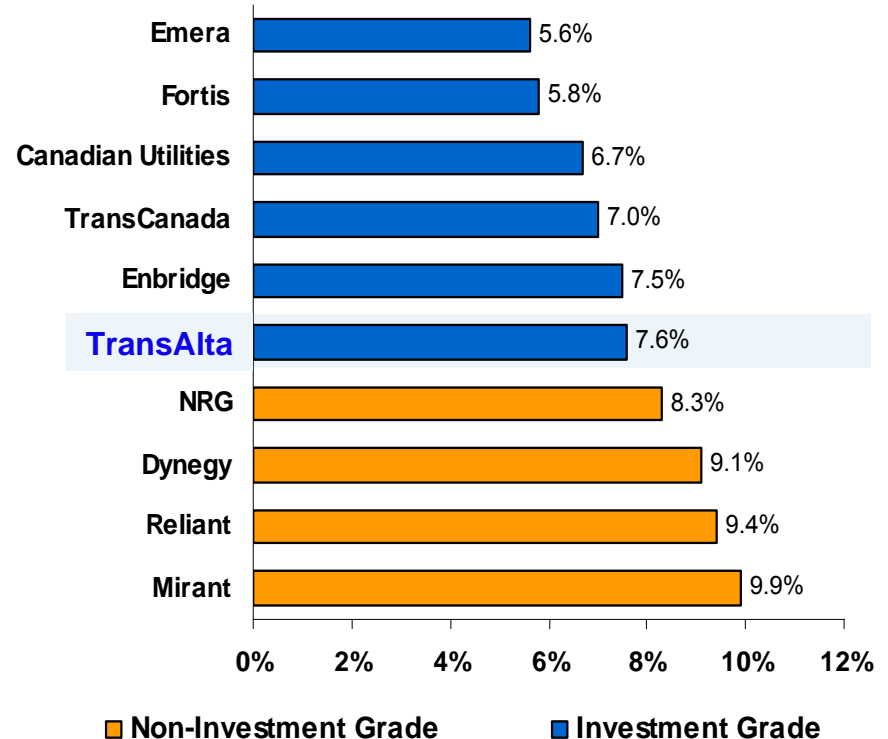
- **Maintain balanced capital allocation plan**
  - Focus on operating and free cash flow growth
  - Allocate capital to strategies delivering consistent returns
  - Recycle capital from under-performing assets
- **Maintain financial flexibility**
  - Hold stable investment-grade credit ratings
  - Drive efficient capital structure; maintain appropriate financial ratios
  - Maintain access to all potential sources of capital to cost effectively finance business plan
  - Maintain sufficient liquidity to support contracting activities
- **Maintain focus on IRR, ROCE, and TSR objectives**
  - Goal is to achieve ROCE and TSR greater than 10 per cent
  - New investments must exceed 10 per cent IRR – if not, return cash to shareholders
  - Monitor, measure and manage exposure to known risks

# We maintain a competitive weighted average cost of capital

## Increasing Debt Spreads<sup>(1)</sup> for Non-Investment Grade Credits

Date	Corporate Spreads to Treasuries (bps)			Spread to BBB (bps)	
	BBB	BB	B	BB	B
2004 YE	113	203	292	90	179
2005 YE	140	269	328	129	188
2006 YE	122	194	286	72	164
2007 YE	245	459	571	214	326
Current	297	462	715	165	418
<b>Increase Since 2004</b>	<b>184</b>	<b>259</b>	<b>423</b>		

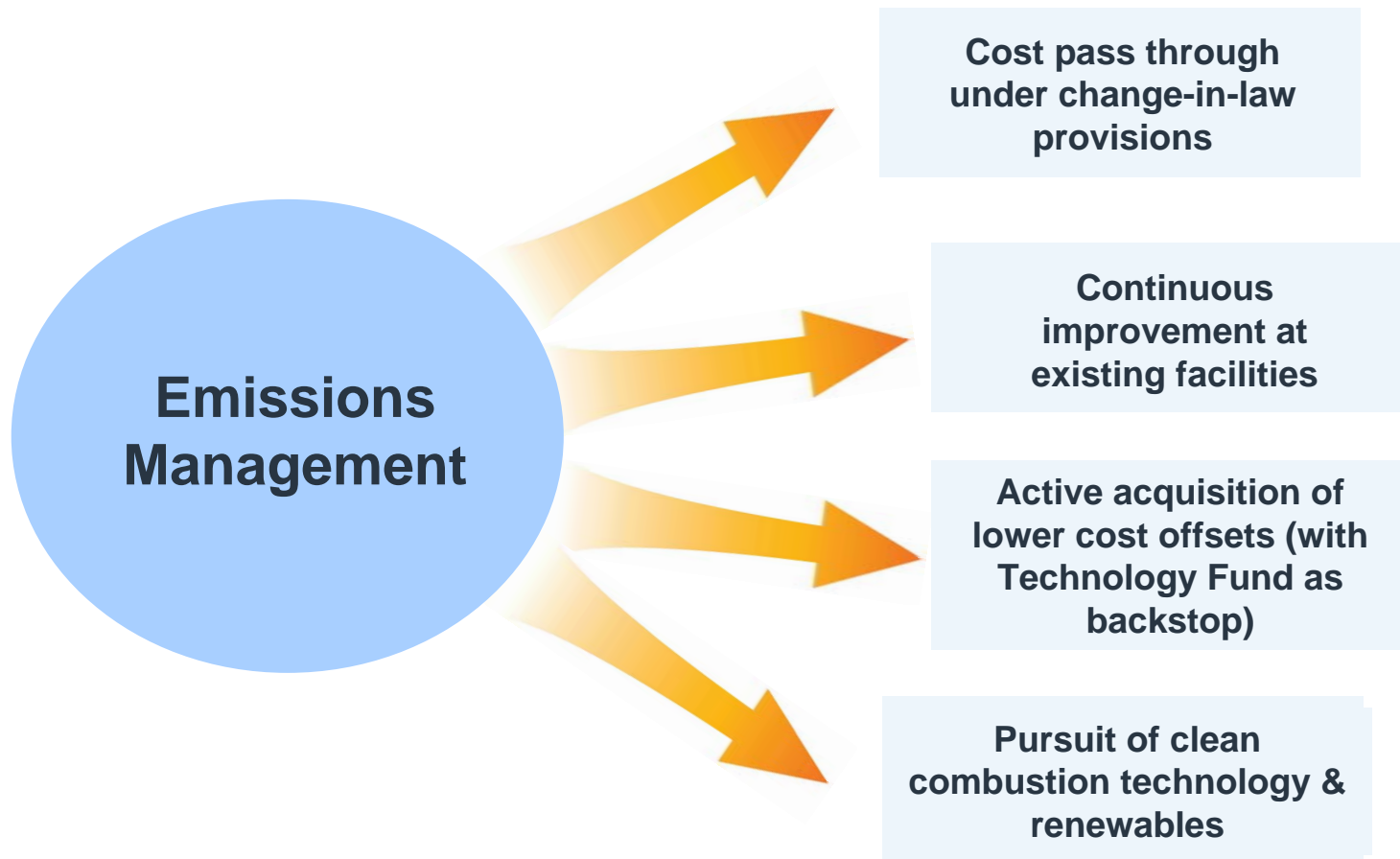
## Lower Weighted Average Cost of Capital<sup>(2)</sup> For Investment Grade Companies



1. Based on all sectors, as of May 9, 2008
2. Sourced from Bloomberg (market risk premiums, 3-year weekly adjusted beta, risk-free rates, cost of debt and preferred, and market value of equity as of March 31, 2008) and Company filings (latest disclosed capital structure, statutory tax rate); Mirant beta calculated from 12/02/05

# Environmental leadership

TransAlta is competitively positioned to mitigate emissions costs through early engagement, a portfolio of initiatives and pass through contracts



# Carbon capture and storage

## TransAlta signs agreement with technology partner Alstom Canada to develop a large scale CO<sub>2</sub> capture and storage facility

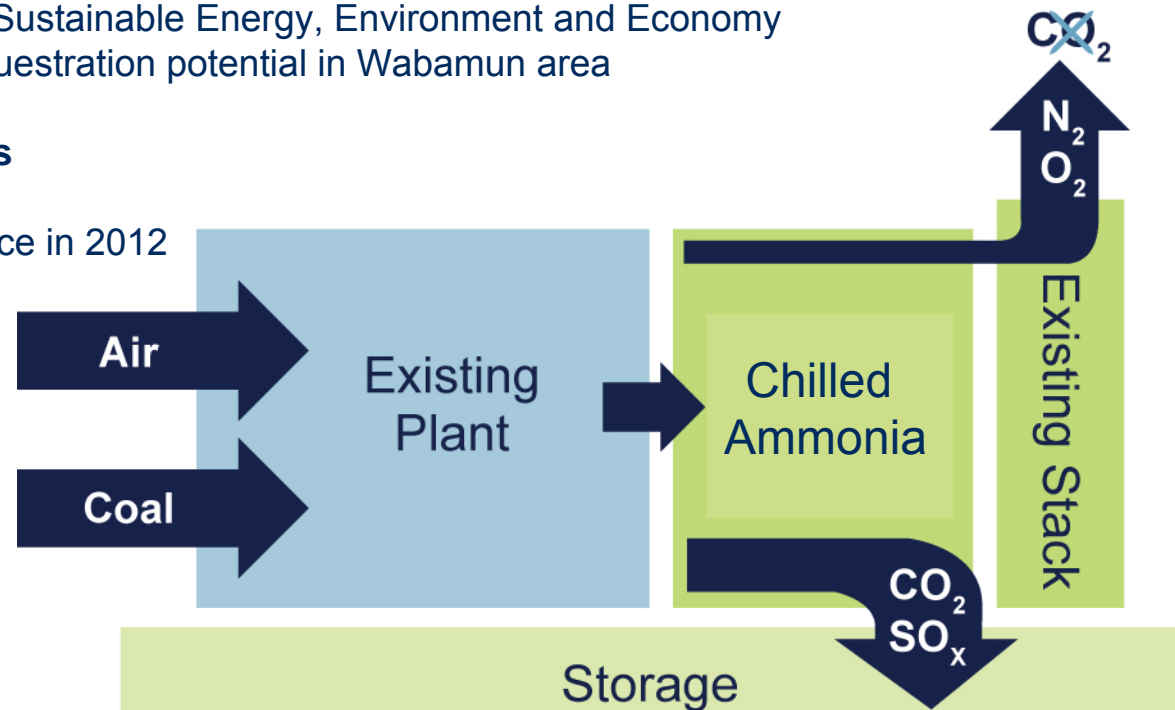
### Phase 1 – Improving our Understanding

- Start in 2008
- Detailed engineering
- Stakeholder relations
- Regulatory work
- Partnership with Institute for Sustainable Energy, Environment and Economy (ISEEE) to quantify CO<sub>2</sub> sequestration potential in Wabamun area

### Phase 2 & Subsequent Phases

- Start in 2009
- Testing expected to commence in 2012

Phase 1 & all subsequent phases are subject to partner and government funding



# TransAlta highlights

**Our unique strategy, resource combination, and proven strengths create shareholder value through commodity and credit cycles**

- Base business expected to deliver low double digit EPS and strong cash flow growth
- Maintaining financial strength and flexibility important to creation of consistent shareholder value
- Capital allocation balances investment in cash generating assets with return of capital to shareholders through dividends and share buyback
- Growth projects executed in 2008 – 2010, estimated to add incremental EPS starting in 2011
- Portfolio optimization could support further share buybacks
- Focused on delivering 10%+ ROCE and TSR consistently



1. On February 20, 2008, TransAlta announced the sale of its Mexican business (511 MW). The sale is subject to regulatory approval and is expected to close by the end of the second quarter.





# Appendix

## Q1 2008 – Another strong quarter

### Results

**Comparable earnings (MM)**

**Q1 2008**

**Q1 2007**

**\$99**

**\$56**

**Net earnings (MM)**

**\$33**

**\$56**

### **Per share**

Comparable earnings

**\$0.50**

**\$0.28**

Net earnings

**\$0.17**

**\$0.28**

Dividends

**\$0.27**

**\$0.25**

**Cash flow from Operations (MM)**

**\$237**

**\$331**

# Q1 2008 – Net earnings impacted by equity loss from sale of Mexico

## Net Earnings

3 mo. Ended March 31

### Net Earnings, 2007

Increase in Generation gross margins	37
Mark-to-market losses in 2007	14
Increase in COD gross margins	4
Increase in depreciation expense	(5)
Gain on sale of Centralia mining equipment	5
Decrease in net interest expense	4
Increase in equity loss	(88)
Increase in income tax expense	6

### Net Earnings, 2008

\$ 33

# Sustaining capex spend

**Sustaining capex peaks in 2008 due to Centralia transition and Alberta mine investments**

<b>\$MM</b>	<b>2007</b>	<b>2008e</b>	<b>2009e</b>	<b>2010e</b>
<b>Sustaining <sup>1</sup></b>	\$371	\$425 – 460	\$265 – 300	\$185 - 215
Routine capital	\$131	\$155 - 165	\$85 - 95	\$90 - 100
Mine capital	\$71	\$100 - 110	\$30 - 40	\$30 - 40
Centralia Fuel Blend	\$92	\$60 - 65	\$25 - 30	-
Major maintenance	\$78	\$110 - 120	\$125 - 135	\$65 - 75

**2010 capex spend significantly reduced due to lower mine capex (2009 - 2010) and timing of the thermal maintenance cycle**

<sup>1</sup> Excludes Mexico

# Growth capex spend

Current growth capex spend peaks in 2008 with Keephills 3 project

\$MM	2007	2008e	2009e	2010e	2011e
<b>Growth</b>	\$228	\$490 – 520	\$330 – 360	\$115 – 135	\$15 – 20
Keephills 3	\$160	\$320 – 330	\$190 – 210	\$115 – 135	\$15 – 20
Kent Hills	\$29	\$135 – 145			
Blue Trail		\$20 – 25	\$85 – 90		
Sun 5 Uprate		\$15 – 20	\$55 – 60		
Sun 4 Uprate	\$39				

# Outstanding long-term debt

	Principal Amount (\$000's)	Rate	Issued Date	Maturity Date
<b>TAC</b>				
<b>CAD</b>				
Series A Unsecured MTN	225,000	6.90%	2001/05/01	2011/06/01
Series A Unsecured MTN	205,000	6.60%	1999/10/13	2009/10/13
Series A Unsecured MTN	110,000	7.30%	1999/10/22	2029/10/22
Series A Unsecured MTN	141,100	6.90%	1995/11/15	2030/11/15
Building Lease	31,000	5.89%	2007/07/05	2023/05/31
<b>U.S.</b>				
Unsecured MTN <sup>1</sup>	300,000	6.75%	2002/06/25	2012/07/15
Unsecured MTN <sup>1</sup>	300,000	5.75%	2003/11/25	2013/12/15
Unsecured MTN <sup>1</sup>	500,000	6.65%	2008/05/09	2018/05/15
<b>TAU</b>				
Debentures - Series A Due 2008	115,000	5.75%	1997/11/20	2008/06/02
Debentures - Series A Due 2023 <sup>2</sup>	100,000	5.49%	1998/07/31	2023/07/31
Debentures - Series A Due 2033 <sup>3</sup>	50,000	5.66%	1998/08/20	2033/08/19

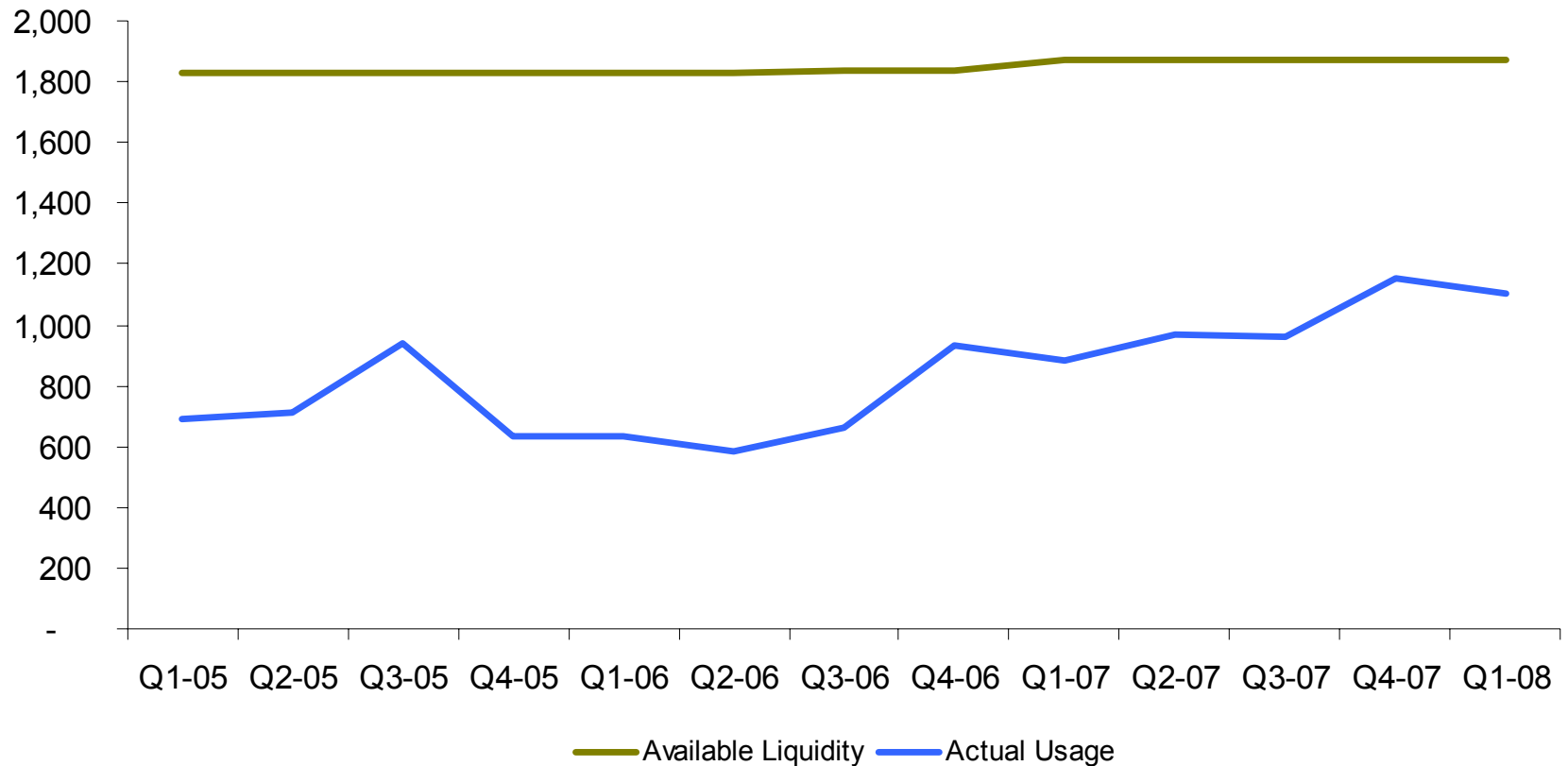
1. US denominated

2. Potential of early redemption in July 2008 if current market rates are greater than coupon rate

3. Potential of early redemption in August 2009 if current market rates are greater than coupon rate

# Ample liquidity in place to manage through credit and commodity cycles

## LIQUIDITY USAGE



- Available liquidity and demand credit lines total \$1.8 billion
- Actual usage is all LCs outstanding plus short term debt, less unrestricted cash

# Centralia expected to be among top performing assets by 2010

## 2007 - 2009 Centralia coal-fired plant transition plan

- Restores annual production to 10,500 GWh and provides long-term fuel flexibility
- \$45 - \$50 MM investment in rail & coal unloading facilities
  - Plan accelerated for completion early 2008
- \$140 - \$150 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 8,535 GWh
  - 2008e - 2009e ~9,200 - 9,500 GWh
  - 2010e ~10,500 GWh





# Genesee III – Case Study

## The Right Market & The Right Investment

### Alberta Market (2003)

Need for Supply as it starts to lag behind Demand



Reserve margins forecasted to decline (15% in '03 declining to ~10% in the 2006 – 2007 period)



Price fundamentals  
\$40/MWh - \$55/MWh  
(2003-2006)



### Genesee III

225 MW<sup>(2)</sup> Supercritical Coal  
Brownfield Expansion  
50:50 JV agreement with  
EPCOR

Reserve margins providing  
support for higher future pricing

Forward price curves based on  
market fundamentals support  
10%+ IRR (after-tax, free cash  
flow)



### Genesee 3 - 2005

Capital Investment: \$357M<sup>(1)</sup>

Estimated IRR: 15%+

Current forward market prices driving  
significantly higher returns

- (1) Total disclosed cost was \$695 million
- (2) 450 MW gross

# Keephills III – Case Study

## The Right Market & The Right Investment

### Alberta Market (2007)

Supply continues struggle to keep pace with demand. Peak demand growth 3.2%; supply growth 3.1%

Reserve margins continue to tighten; estimated at less than 5% by 2010 – net importer status

Prices have shifted from \$40-55/MWh (2003) to \$70-85/MWh range (2007-2010)

2011-2020 forecasts showing ~\$80 to \$100+/MWh pricing in the market



### Keephills III

225 MW<sup>(2)</sup> Supercritical Coal  
50:50 JV agreement with EPCOR

No other significant new build under construction

Direction of the market and new forward price curves more than support investment decision

10%+ IRR (after-tax, free cash flow)



### Keephills 3 - 2011

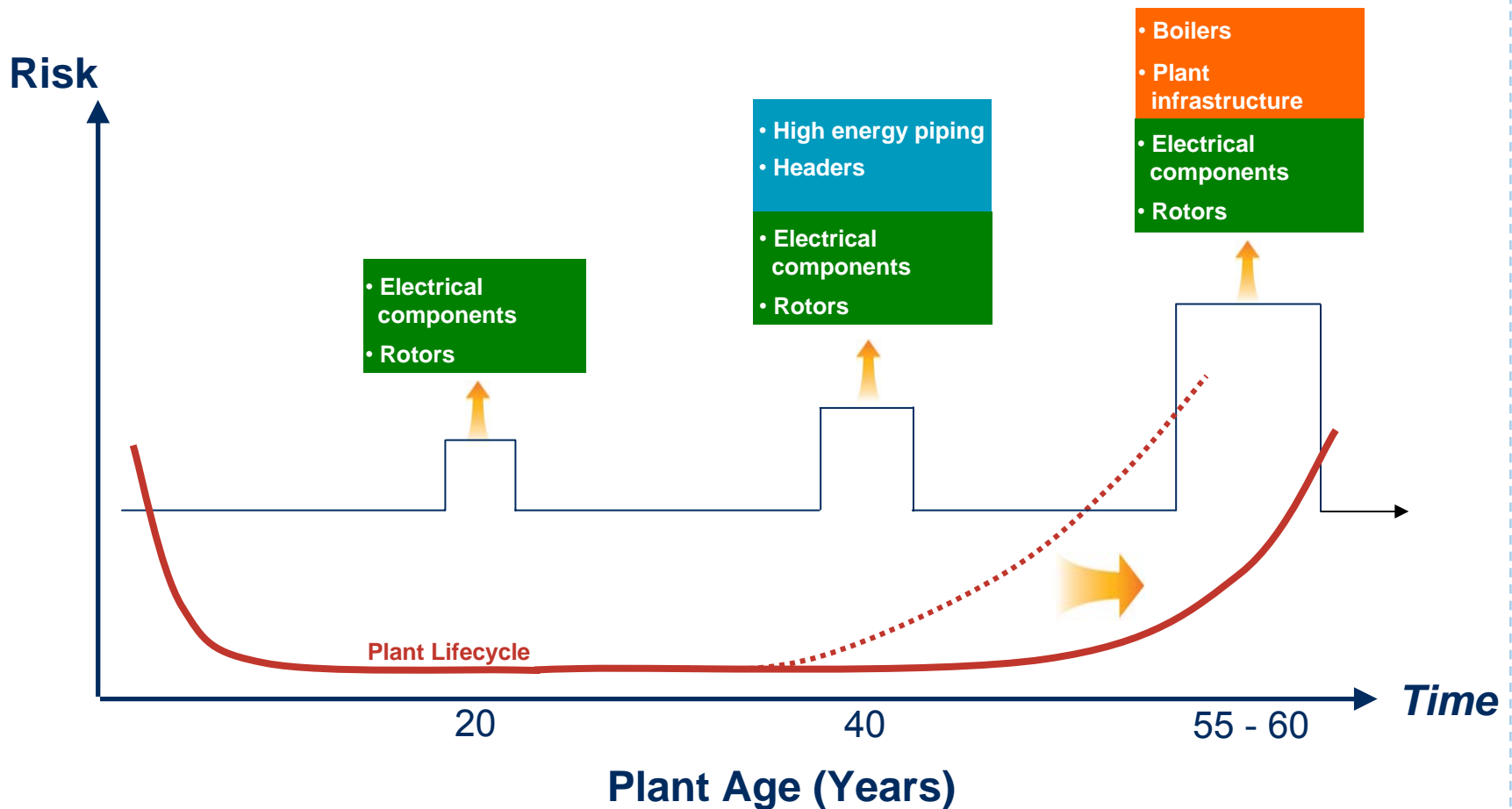
**Capital Investment: \$815M<sup>(1)</sup>**

**Estimated IRR: 10%+**

- (1) \$1.6B total cost (Includes Mine Capital)
- (2) 450 MW gross

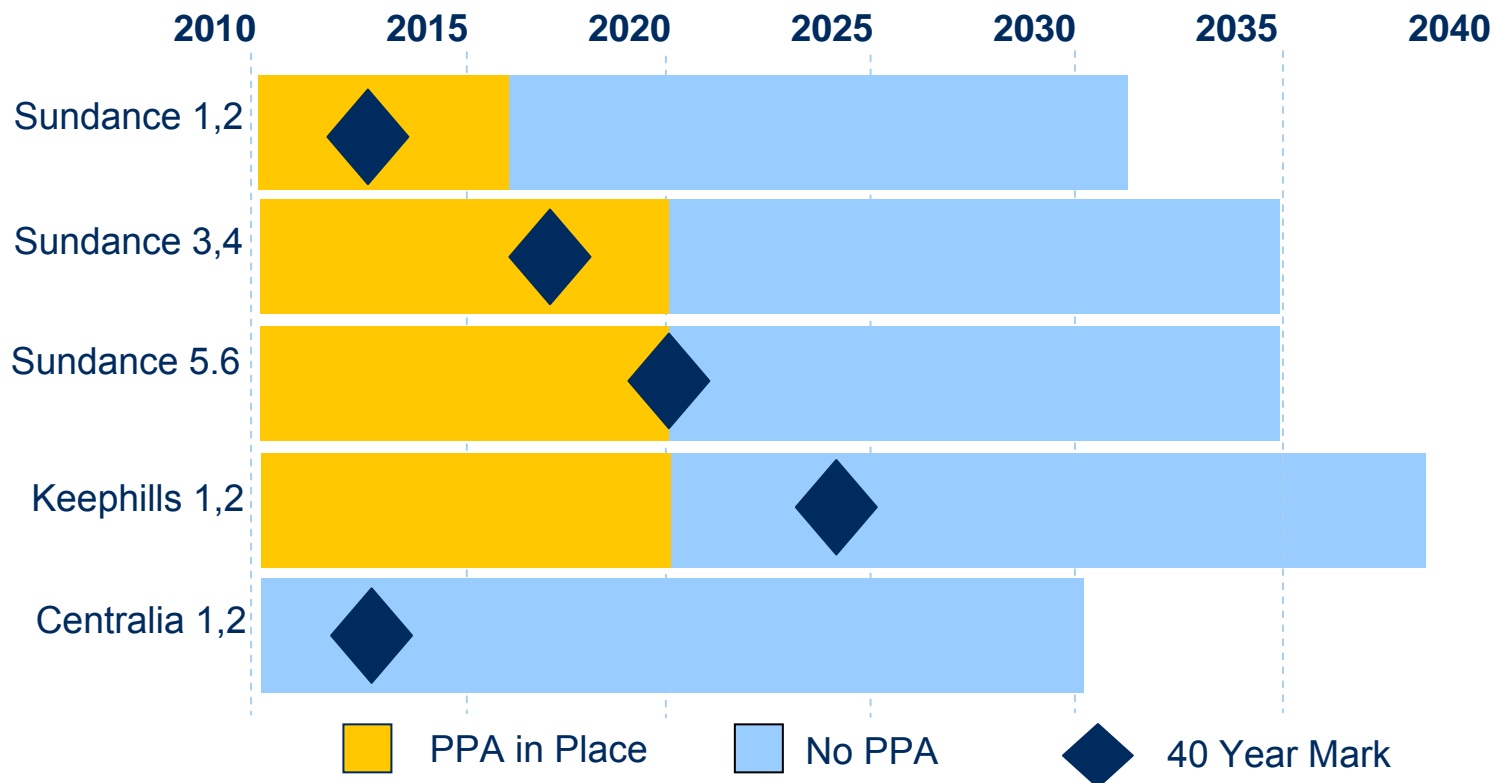
# Key decision points in the life-cycle of a thermal asset

OEMs recommend specific maintenance and equipment replacement around the 40-year mark to run reliably for an additional 10 - 15 years



# TransAlta life-cycle planning – 40 year maintenance interval planning has begun

- Work performed as part of regular maintenance outages
- Moving from feasibility to advanced engineering in 2008
- Based on OEM recommendations, initial estimate of incremental spend of \$200 - \$300 MM per unit; depends on unit and year of work



# Alberta - First GHG compliance successfully completed

**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

### Vast majority of compliance by large emitters in 2007 was achieved using the technology fund

- Only a handful of companies used offsets to reduce their cost generated from seven offset projects

## Impact on TransAlta

**Tough standard but achievable over time**

**Annual compliance cost within expectations**

### Capital stock turnover will create opportunities

- Existing and new wind and cogen assets create offsets reducing over all compliance costs

**Province is the appropriate regulator, they know the sector and our business**

**All cogen plants and G3 are in the 8 yr phase in period and have reduced targets**

**2007 compliance achieved using offsets acquired at a cost significantly below \$15/T**

- Bank of offsets established for future compliance as well

# Federal framework is tougher and requires more expensive compliance options than Alberta

**Near-term compliance through purchase and trading of offsets and credits.  
Investment in new technologies key for long-term**

## Proposed Greenhouse Gas Regulation

- Existing plants: 18% intensity reduction starting in 2010, increasing at 2%/yr until 2020
- In 2020, a 20% absolute reduction in emissions will be required
- New plants: 3 yrs at zero, then increasing 2%/yr until 2020, plus subject to a clean fuel standard
- New coal-fired plants built after 2012 will be required to have carbon capture and storage implemented by 2018. Note: This will not affect our K3 project
- Cogeneration is given favourable treatment
- The electricity sector will be able to comply on a fleet-wide basis rather than plant-by-plant

**In addition, reductions in air pollutants will also be required,  
although the targets and approach have not yet been determined**

# Regional impacts – merchant cost forecasts, next 10 years

Compliance costs net of pass through are built into cost models

	GHG	NOx/SO2	Mercury/PM
Canadian assets	<p>\$2M/yr in 2008 growing to \$26M/yr in 2017</p> <p><i>Potential to mitigate costs further through offsets</i></p>	<p>Est \$1-\$2M/yr after 2015</p> <p><i>Controls optimized across merchant fleet</i></p>	<p>~ \$2M/yr in 2010, ~\$3M/yr after 2015</p> <p><i>Costs are now well understood</i></p>

The above requirements result in fleet average costs growing from \$0.6/MWh to \$3.50/MWh

Market expectations are that much of these costs will get reflected in price

# Regional impacts – merchant cost forecasts next 10 years

**Compliance costs net of pass through are built into cost models**

	<b>GHG</b>	<b>NOx/SO2</b>	<b>Mercury/PM</b>
<b>US Assets</b>	Regulatory regime uncertain, but estimating ~\$25M/yr in 2012 growing to \$50M/yr in 2017	\$1M/yr NOx Beginning in 2013  Optimizing SO2 portfolio with surplus allowances being traded	Regulatory regime fluid, but estimating \$15M-\$30M/yr starting in 2013

The above requirements result in fleet average costs growing from \$2.75/MWh (2012) to \$7.25/MWh (2017)

Market expectations are that much of these costs at Centralia will be reflected in price because:

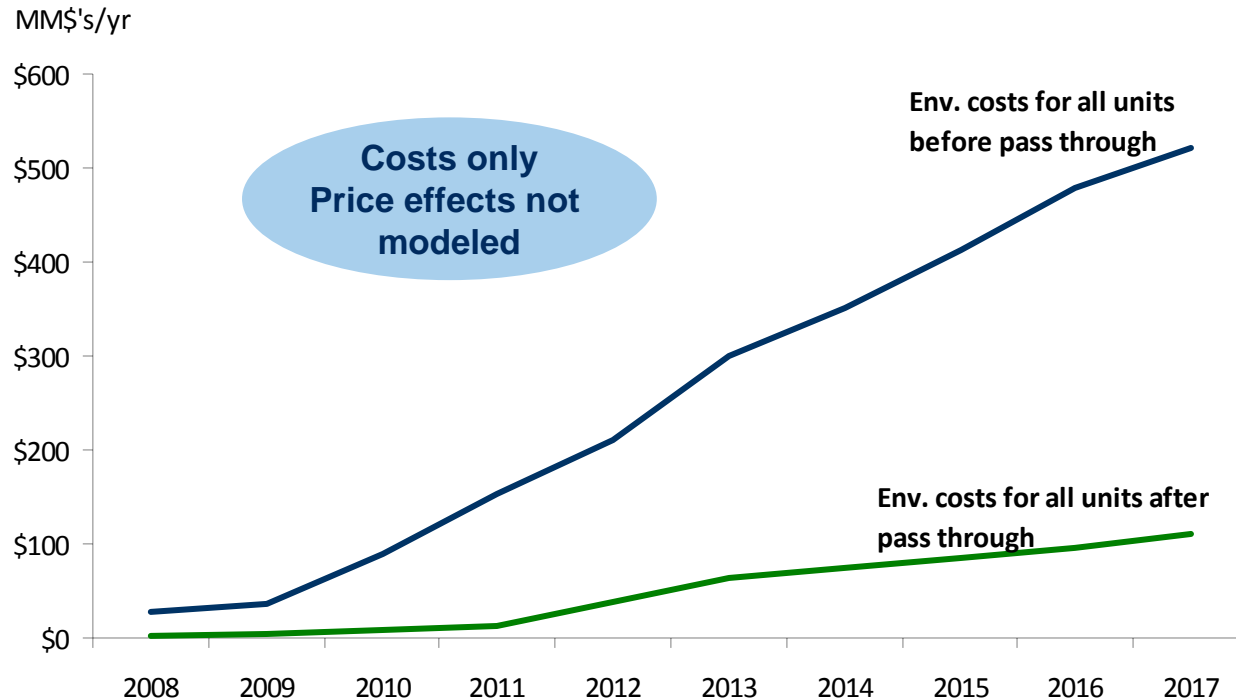
- It is one of only two baseload plants in the region, and
- Its operation is critical to grid stability



# Fleet costs from environmental regulation

**In the next decade, over 75% of emissions compliance costs are transferred by pass through mechanisms; shareowners are protected**

## ENVIRONMENTAL OPERATING COST FORECAST

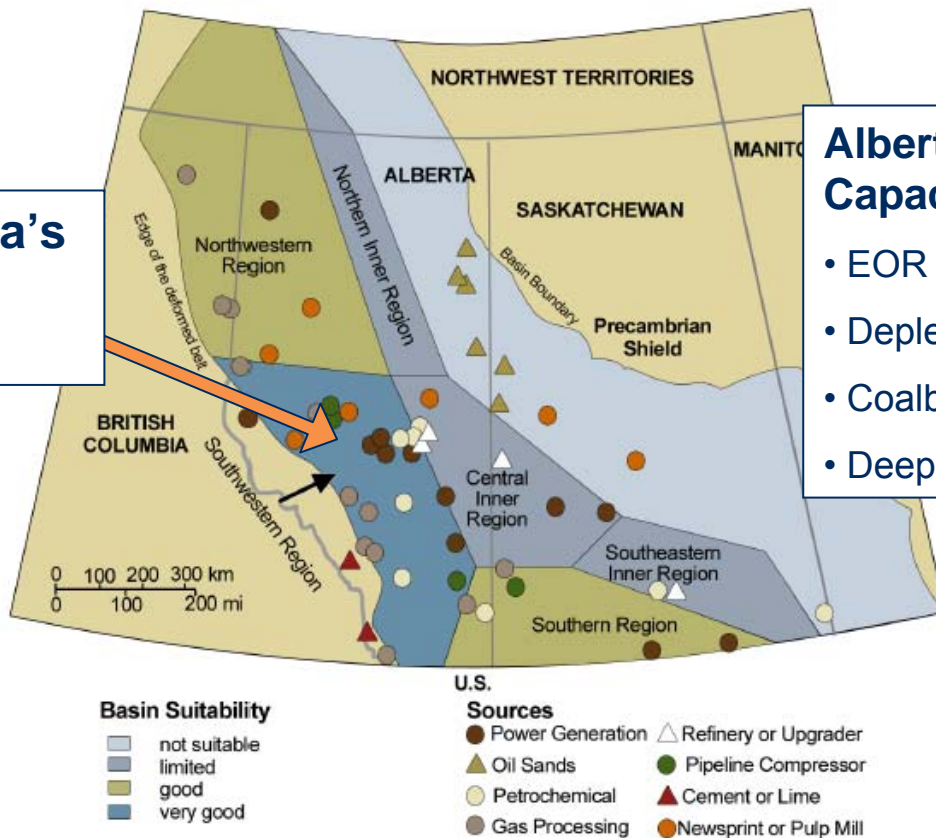


*Compliance cost forecasts include all emissions - GHG's, NOx, SO2 and mercury, with the vast majority being GHG's. Capital costs are not included since the targets and schedules for NOx and SO2 are not yet established. Regardless, over 85% of those costs would also be transferred by pass through mechanisms.*

# Alberta has significant sequestration capacity

TransAlta's plants are located above geology that is capable of storing CO<sub>2</sub>

Figure 3.6 Major CO<sub>2</sub> Sources in the Western Canada Sedimentary Basin



## Alberta CO<sub>2</sub> Sequestration Capacity:

- EOR – 1,000 Mt
- Depleted reservoirs – 3,000 Mt
- Coalbed methane resources – 5,000 Mt
- Deep saline aquifers – 10,000 Mt

TransAlta's  
Thermal  
Fleet

(Source: Bachu and Stewart, 2002)

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