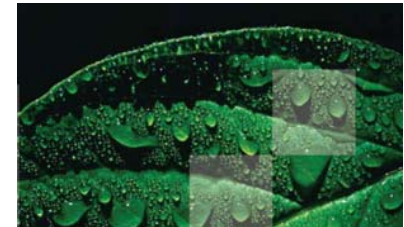




# Fourth Quarter and 2008 Annual Results

**TransAlta™**



# 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.

# Outline

- Fourth Quarter and 2008 Annual Results
- Performance Against Key Measures
- 2009 Outlook

# Q4 and 2008 Annual - Highlights

**Achieved double digit comparable EPS growth and strong cash flow from operations**

<b>Results</b>	<b>Q4'08</b>	<b>Q4'07</b>	<b>2008</b>	<b>2007</b>
<b>Revenue (MM)</b>	\$ 808	\$ 783	\$ 3,110	\$ 2,775
<b>Gross margin (MM)</b>	\$ 410	\$ 435	\$ 1,617	\$ 1,544
<b>Operating Income (MM)</b>	\$ 127	\$ 184	\$ 533	\$ 541
<b>Earnings (MM)</b>	\$ 94	\$ 130	\$ 235	\$ 309
Basic and diluted net earnings per share	\$ 0.47	\$ 0.64	\$ 1.18	\$ 1.53
Comparable earnings per share	\$ 0.40	\$ 0.51	\$ 1.46	\$ 1.31
Cash flow from operating activities (MM)	\$ 428	\$ 192	\$ 1,038	\$ 847
Free cash flow (MM)	\$ 154	\$ (81)	\$ 121	\$ 111
Cash dividends declared per share	\$ 0.27	\$ 0.25	\$ 1.08	\$ 1.00
<b>Availability (%)</b>	86.2	91.8	85.8	87.2
<b>Production (GWh)</b>	12,656	13,440	48,891	50,395

# Q4 2008 - Review

- **Quarterly comparable earnings of \$0.40 vs. \$0.51 per share**

Results were lower due to:

- Decrease of \$31 million in Generation gross margins as a result of higher planned and unplanned outages at Alberta Thermal, and the unplanned outage at Genesee 3
- OM&A increased compared to the same period in 2007 due to increased maintenance activities, compensation costs and unfavourable foreign exchange rates
- Partially offset by \$11 million increase in Energy Trading gross margins due to the success of our disciplined trading strategy and by a \$30 million gain in interest income as a result of a favourable tax assessment

- **Cash flow from operations of \$428 million vs. \$192 million**

- Cash flow from operations increased \$236 million to \$428 million in Q4
- Cash flow in the quarter was higher due to increased PPA receipts, lower inventory balances, and higher accruals

# 2008 - Highlights

- **Annual comparable earnings increased by 11% to \$1.46 per share**

- Energy Trading gross margin increase of \$50 million from the continued success of our disciplined trading strategy
- Generation gross margins increased by \$7 million due to favourable pricing, lower derates at Centralia Thermal, and higher merchant volumes as a result of the uprate on Sundance Unit 4, partially offset by higher unplanned outages at Alberta Thermal and Genesee 3
- Increases partially offset by higher OM&A due to cost escalations, increased planned maintenance costs and higher compensation

- **Cash flow from operations exceeds \$1 billion; balance sheet remains strong**

- Cash flow from operations of \$1,038 million; an increase of \$191 million over 2007 driven by higher cash earnings and favourable movements in working capital
- Ample liquidity with \$2.2 billion in committed facilities; \$1.4 billion in liquidity available as of Dec. 31, 2008
- Stable investment grade credit rating maintained

## 2008 - Comparable earnings per share increase

	Q4'08	Q4'07	2008	2007
<b>Net earnings</b>	\$ 94	\$ 130	\$ 235	\$ 309
Sale of assets in Centralia, net of tax	-	-	(4)	(10)
Change in life of Centralia parts, net of tax	3	4	12	4
Change in tax law in Mexico	-	28	-	28
Tax rate change	-	(40)	-	(48)
Recovery related to tax positions	(15)	(19)	(15)	(19)
Writedown of Mexican investment, net of tax	(3)	-	62	-
<b>Earnings on a comparable basis</b>	\$ 79	\$ 103	\$ 290	\$ 264
<b>Weighted average common shares outstanding in the period</b>	198	202	199	202
<b>Earnings on a comparable basis per share</b>	\$ 0.40	\$ 0.51	\$ 1.46	\$ 1.31

## Higher OM&A and Mexico equity loss reduce net earnings

### Net Earnings

3 mo. Ended Dec. 31

Year Ended Dec. 31

#### Net Earnings, 2007

\$130

\$309

(Decrease) Increase in Generation gross margins

(31)

7

Mark-to-market movements - generation

(5)

16

Increase in COD gross margins

11

50

Increase in OM&A

(23)

(60)

Increase in depreciation expense

(9)

(22)

Gain on sale of mining equipment in 2007

(1)

(11)

Decrease in net interest expense

22

23

Decrease (Increase) in equity loss

36

(47)

Increase in non-controlling interest

(9)

(13)

Increase in income tax expense

(23)

(3)

Other

(4)

(14)

#### Net Earnings, 2008

\$94

\$235



# Subsequent events

- **Dividend Increase**

- On Jan. 28, 2009, the Board of Directors declared an increase to the quarterly dividend to \$0.29 from \$0.27 per share; expected to yield an annual dividend of \$1.16 vs. \$1.08

- **Keephills Units 1 and 2 Uprates**

- On Jan. 29, 2009 TransAlta announced two 23 MW efficiency uprates at Unit 1 and Unit 2 of our Keephills facility
- Total capital cost of the projects is estimated at \$68 million with commercial operations expected to commence by the end of 2011 and 2012, respectively
- Expected returns in excess of 15%

# Sustaining capex supports operational objectives

**Focus of 2009 capital: improving AB Thermal availability, increasing productivity and completing the Centralia transition**

<b>\$M</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>
<b>Sustaining</b>	<b>\$ 465</b>	<b>\$ 340 - 390</b>	<b>\$ 270 - 315</b>
Major Maintenance	\$ 125	\$ 130 - 140	\$ 130 - 150
Mine	\$ 100	\$ 35 - 45	\$ 40 - 50
Routine <sup>1</sup>	\$ 168	\$ 155 - 180	\$ 100 - 115
Centralia Fuel Blend	\$ 73	\$ 20 - 25	

<sup>1</sup> Includes \$50 million of productivity

# Growth capex spend on track

**Increase in Keephills 3 budget primarily due to higher labour and materials costs; focused on finding offsets**

<b>\$M</b>	<b>Total</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<b>Growth</b>	<b>\$ 1,439</b>	<b>\$ 541</b>	<b>\$ 460 - 515</b>	<b>TBD</b>	<b>TBD</b>
Keephills 3	\$ 888	\$ 336	\$ 235 - 255		
Kent Hills	\$ 170	\$ 138	-		
Blue Trail	\$ 115	\$ 26	\$ 85 - 90		
Sun Unit 5 Uprate	\$ 75	\$ 13	\$ 50 - 60		
Summerview II	\$ 123	\$ 25	\$ 80 - 90	\$ 5 - 15	
Keephills Unit 1 Uprate	\$ 34	-	\$ 5 - 10		
Keephills Unit 2 Uprate	\$ 34	-	\$ 5 - 10		

# Performance goals

Objectives	Measures	2008 Goals	2008	Review
<b>Achieve top decile operations</b>	Availability	90 -92%	85.8%	Decreased due to higher unplanned outages at AB Thermal and Genesee 3
<b>Improve Safety<sup>1</sup></b>	Injury Frequency Rate	10%/yr	28%	Reduced injury frequency rate to 1.28 from 1.76
<b>Enhance Productivity</b>	OM&A/installed MWh	Offset Inflation	\$8.61/MWh	10% YOY increase exceeded inflation; higher costs due to increased maintenance and compensation expense
<b>Grow Earnings and Cash Flow</b>	Comparable EPS	>10%/yr	11%	Comparable EPS Increased to \$1.46 from \$1.31
	Operating Cash Flow	\$800 - 900 MM	\$1,038 MM	Increased earnings and favourable working capital
<b>Make Sustaining Capex Predictable</b>	3-yr Avg. Sustaining Capex	\$230 - \$260	\$465 MM	Higher than average due to Centralia PRB conversion and productivity spend
<b>Maintain Investment Grade Ratings <sup>1</sup></b>	Cash Flow to Interest	Min. of 4X	7.2X	Maintained strong balance sheet, financial ratios and ample liquidity
	Cash Flow to Debt	Min. 25%	31.1%	
	Debt to Total Capital	Max. 55%	48.1%	
<b>Deliver Long-term Shareowner Value</b>	ROCE	>10%/yr	9.8%	Continue to create economic value from capital investments; moving closer to 10%
	TSR	>10%/yr	-25%	
	IRR	>10%/yr	✓	

## 2009 outlook

**2009 objectives are to deliver low double digit EPS growth, cash flow of \$800 - \$900M and maintain balance sheet strength**

- The potential change in power prices as a result of current economic conditions is not expected to materially affect results; 90% of 2009 expected capability is contracted
- Production and higher availability are expected to increase in the second half of 2009 primarily due to lower unplanned outages at Alberta Thermal and higher production at Centralia Thermal
- Energy trading is expected to contribute between \$65 million and \$85 million in gross margin
- Alberta coal costs for 2009 expected to increase 5% from prior year due to capital spend; Centralia delivered cost of fuel to increase 10 – 15% due to contract escalations and higher diesel hedges.
- OM&A costs per MWh expected to increase in 2009 due to higher planned maintenance in Alberta and cost escalations, partially offset by productivity initiatives; the increase in planned maintenance is to improve availability at Alberta Thermal

# Long-term investment highlights

## Long-term value proposition remains the same

- Strong balance sheet, solid financial outlook and low to moderate risk business model; contracting strategy provides degree of earnings protection
- Long-term market fundamentals for Western Canada and Western U.S. remain favourable:
  - Alberta reserve margins below 15%; strong pricing and new build opportunities remain
  - Western U.S. renewable portfolio standards require new build
- Disciplined and balanced capital allocation plan: dividends, share buy back, growth and portfolio optimization used to create near and long-term shareowner value
- Progressing on 456 MW of new capacity including Sundance 5 uprate (53 MW), Blue Trail wind farm (66 MW), Summerview II (66 MW), and Keephills 1 and 2 uprates (43 MW)
- Timing of incremental renewable growth within our control given resource position and supplier relationships; current estimates make acquisitions attractive
- A leader in addressing environmental challenges; Project Pioneer CCS project a potential game changer

A lamp with a red shade and a chrome base, set against a red background with a grid pattern. The lamp is positioned on the left side of the frame. The shade is a vibrant red with a subtle grid pattern. The base is a polished chrome tripod style. The background is a solid red color with a faint grid pattern.

# Appendix

# Income Statement

(millions)	Q4 '08	Q4 '07	2008	2007
Revenue	\$ 808	\$ 783	\$ 3,110	\$ 2,775
Fuel & purchased power	(398)	(348)	(1,493)	(\$1,231)
<b>Gross margin</b>	<b>410</b>	<b>435</b>	<b>1,617</b>	<b>1,544</b>
OM&A	163	140	637	577
Depreciation & amortization	116	107	428	406
Taxes, other than income taxes	4	4	19	20
<b>Operating expenses</b>	<b>283</b>	<b>251</b>	<b>1,084</b>	<b>1,003</b>
<b>Operating Income</b>	<b>127</b>	<b>184</b>	<b>533</b>	<b>541</b>
Foreign exchange (loss)/gain	(7)	(3)	(12)	3
Gain on sale of equipment	-	1	5	16
Net interest expense	(9)	(31)	(110)	(133)
Equity loss (income)	-	(36)	(97)	(50)
Non-controlling interests	23	14	61	48
<b>EBIT</b>	<b>88</b>	<b>101</b>	<b>258</b>	<b>329</b>
Income tax (recovery)/ expense	(6)	(29)	23	20
<b>Net earnings</b>	<b>\$ 94</b>	<b>\$ 130</b>	<b>\$ 235</b>	<b>\$ 309</b>
<b>Net earnings per share</b>	<b>\$ 0.47</b>	<b>\$ 0.64</b>	<b>\$ 1.18</b>	<b>\$ 1.53</b>



# Cash Flow

(millions)

## Operating Activities

Cash flow from operations  
Change in non-cash working capital

## Investing Activities

Additions to PP&E  
Proceeds on sale of PP&E  
Proceeds on sale of subsidiary  
Equity Investment  
Restricted Cash  
Income tax receivable  
Realized gains on financial instruments  
Loan to equity investment  
Other

## Financing activities

Increase (Decrease) in short-term debt  
Repayment of long-term debt  
Dividends paid on common shares  
Issuance of long-term debt  
Redemption of preferred securities  
Funds paid to repurchase common shares under NCIB  
Net proceeds on issuance of common shares  
Decrease in advances to TransAlta Power  
Realized gains (losses) on financial instruments  
Distributions to subsidiaries' non-controlling interests  
Other

## Cash flow from operating, investing, and financing

### Effect of translation on foreign currency cash

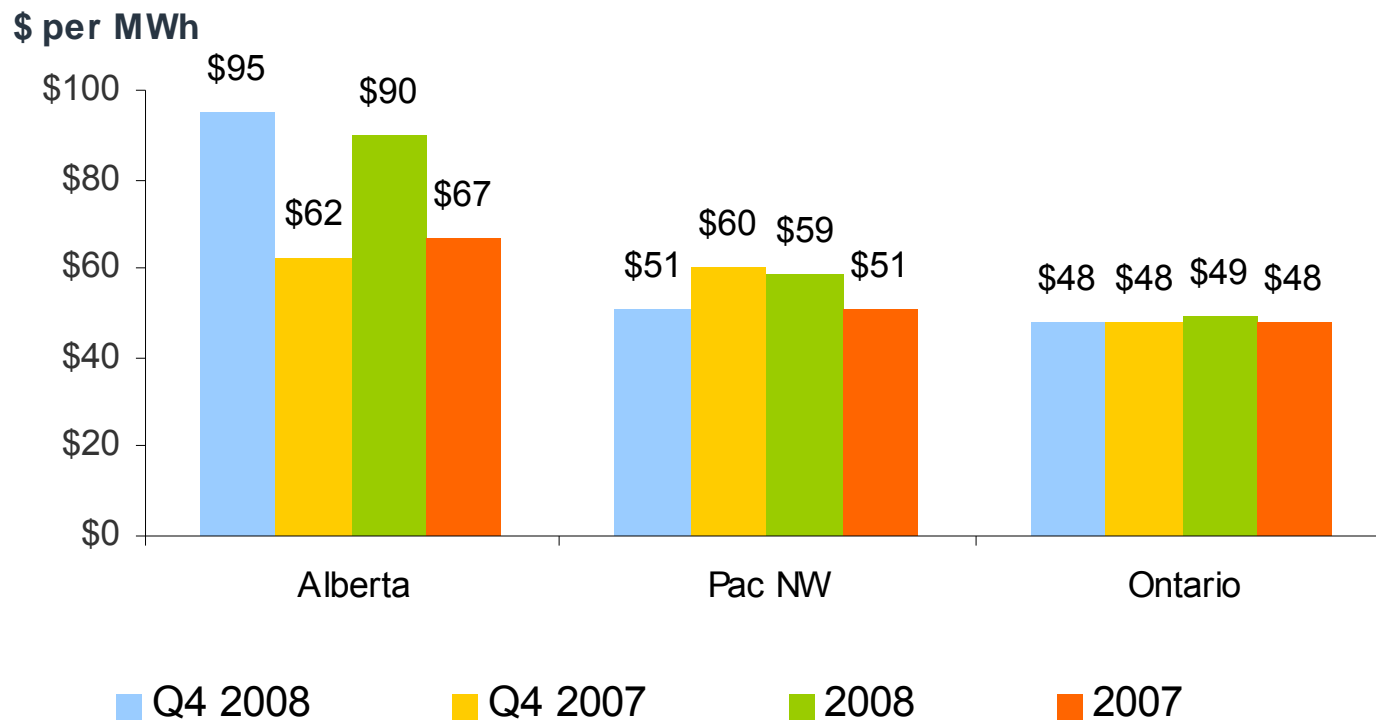
Increase (decrease) in cash and cash equivalents

	Q4 '08	Q4 '07	2008	2007
	\$ 249	\$ 249	\$ 828	\$ 781
	179	(57)	210	66
	<b>428</b>	<b>192</b>	<b>1,038</b>	<b>847</b>
	(311)	(216)	(1,006)	(599)
	4	8	30	47
	332	-	332	-
	-	-	-	(20)
	1	13	248	57
	-	-	(8)	-
	15	107	52	107
	-	-	(245)	-
	4	(2)	16	(2)
	<b>45</b>	<b>(90)</b>	<b>(581)</b>	<b>(410)</b>
	(350)	229	(243)	289
	(68)	(217)	(308)	(252)
	(49)	(51)	(212)	(205)
	-	-	502	30
	-	-	-	(175)
	-	(48)	(130)	(75)
	1	6	15	20
	-	2	-	6
	0	-	12	-
	(29)	(24)	(98)	(87)
	(3)	8	(5)	5
	<b>(498)</b>	<b>(95)</b>	<b>(467)</b>	<b>(444)</b>
	<b>(25)</b>	<b>7</b>	<b>(10)</b>	<b>(7)</b>
	<b>9</b>	<b>(16)</b>	<b>9</b>	<b>(8)</b>
	<b>(16)</b>	<b>(9)</b>	<b>(1)</b>	<b>(15)</b>

# Free cash flow

	Q4 '08	Q4 '07	2008	2007
Cash flow from operating activities	\$ 428	\$ 192	\$ 1,038	\$ 847
Add/(Deduct):				
Sustaining capital expenditures	(171)	(178)	(465)	(417)
Dividends on common shares	(49)	(51)	(212)	(205)
Distribution to subsidiaries' non-controlling interest	(29)	(24)	(98)	(87)
Non-recourse debt repayments	(25)	(15)	(28)	(47)
Timing of contractually scheduled payments	-	-	(116)	-
Centralia closure costs	-	-	-	24
Cash flows from equity investments	-	(5)	2	(4)
<b>Free cash flow</b>	<b>\$154</b>	<b>\$(81)</b>	<b>\$121</b>	<b>\$111</b>

# Average spot electricity prices



# Average spark spreads

