Impact of Adopting IFRS

March 24, 2011

Multiple Fuel Sources
Singular Value

Forward looking statements

This presentation contains forward-looking information related to the impact of adopting International Financial Reporting Standards (IFRS). This information is provided to illustrate the anticipated impact of adopting IFRS on TransAlta's financial statements based on the determinations and elections made by TransAlta. This information has not been audited or reviewed by TransAlta's independent auditors, nor has it been reviewed or approved by TransAlta's Audit and Risk Committee of the Board. This information may be subject to change due to unforeseen adjustments, including audit adjustments, and may not be indicative of the future impact of adopting IFRS due to changes in the business and the adoption of new accounting standards in future. As a result, reader's should not place undue reliance on this forward-looking information, which is given as of this date.

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

Agenda

- Introduction
- Bottom line impacts
- IFRS impact assessment
- Review of financial statement impacts
- Key takeaways
- Q&A

Adoption of IFRS - Introduction

- Financial information contained in this presentation is based on TransAlta's Dec. 31, 2010 CGAAP results adjusted to reflect IFRS in effect as of Jan. 1, 2011
- This information is subject to audit and possible further changes up to the release of TransAlta's first annual audited IFRS financial statements
- This presentation contains a summary of the more significant IFRS impacts and is not intended to be a complete review of all of the differences between IFRS and CGAAP
- The adoption of IFRS represents a change in the basis of accounting only; it does not change the underlying fundamentals or value of TransAlta

Bottom line impacts – Dec. 31, 2010

- **2010 comparable earnings under IFRS within $0.01 of CGAAP**
  - Reported earnings lower by $0.19 due primarily to timing of impairment charges
- **Impact to assets are modest ~ 2% decrease**
  - Primarily due to CE Gen and Wailuku being equity accounted and retrospective adjustments
- **2010 Funds from Operations (FFO) & Cash from Operations (CFO) – Flat to up slightly**
  - Due mainly to capitalization of major inspection costs, partially offset by equity accounting CE Gen and Wailuku

($ millions, except where noted)	2010 C-GAAP	2010 IFRS*	Explanation of Difference
Revenue	2,819	2,673	Primarily equity accounting for our joint ventures (CE Gen and Wailuku)
Operating income	497	487	Equity accounting for our joint ventures, partially offset by capitalizing major inspection costs (MIC) and reclassification of asset retirement obligation (ARO) accretion to interest expense
Net earnings	219	260	Primarily due to asset impairment
Earnings per share	1.00	1.19	
Comparable earnings	214	217	
Comparable earnings per share	0.98	0.99	Substantially unchanged
Total assets	9,893	9,702	Equity accounting for our joint ventures partially offset by the capitalization of MIC
Total debt	4,234	4,049	Primarily due to equity accounting for our joint ventures
Total other liabilities	2,482	2,093	NCI reclassification, equity accounting for our joint ventures partially offset by pension adjustment and change to ARO
Shareholder's equity	3,177	3,560	NCI reclassification and capitalization of MIC, partially offset by increase in pension adjustment and ARO adjustments
Funds from operations	783	805	Primarily capitalization of MIC partially offset by equity accounting for our joint ventures
Cash flow from operations	811	838	

*Unaudited

IFRS impact assessment

38 standards

9 have measureable impacts to TransAlta (summary below), of which 6 are significant

9 require process changes and have disclosure impacts or potential future measurement impacts

20 require no changes as they are converged or not applicable to TransAlta

Standard	Primary Impact
IAS 16 – Property, Plant and Equipment	Must now capitalize and amortize major inspection costs.
IAS 19 – Employee Benefits	Recognize our pension plan actuarial gains or losses within Other comprehensive income.
IAS 31 – Interests in Joint Ventures	Apply equity accounting instead of proportionate consolidation for jointly controlled entities.
IAS 36 – Impairment of Assets	Asset impairment testing based on fair value or value in use. Impairments must be reversed if the impairment factors reverse in future periods.
IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	Update ARO to reflect changes in discount rates. Accretion expense is recorded as a finance cost.
IAS 38 – Intangible Assets	Certain assets (e.g. software costs, coal rights) are reclassified as intangibles.
IAS 39 – Financial Instruments	Elimination of “short-cut method” for hedge effectiveness testing.
IFRS 2 – Share-based Payments	Cash settled options are revalued using fair value rather than intrinsic value.
IFRIC 4 – Determining whether an Arrangement Contains a Lease	Guidance is harmonized. Differing implementation dates result in recognition of the Ft Sask agreement as a finance lease.

IFRS Statement of Financial Position
As at Dec. 31, 2010

($ millions)	CGAAP	Adj	IFRS*	**Explanation of Differences** (decrease)
Cash	58	(23)	35	Equity acounting for our joint ventures (CE Gen and Wailuku)
Accounts receivable	428	(16)	412	Equity acounting for our joint ventures
Other current assets	374	61	435	Meridian assets held for sale (AHFS) classified as current assets
	860	**22**	**882**	
PP&E	7,577	(283)	7,294	Equity accounting for our joint ventures ($236), reclassification of coal rights and software to intangibles ($111), additional impairment charge ($23), Ft Sask reclassifed as finance lease ($27) partially offset by capitalized major inspection costs $100 and ARO related assets $14.
Equity accounted investments	-	190	190	Equity acounting for our joint ventures
Other assets	1,456	(120)	1,336	Primarily equity accounting for our joint ventures ($197), Meridian AHFS reclassified to current ($60) partially offset by Ft Sask being reclassified as a finance lease $46 and reclassification of coal rights and software $111
Total Assets	**9,893**	**(191)**	**9,702**	
Accounts payable	503	(22)	481	Equity accounting for our joint ventures ($7) and reclassify provisions to other current liabilities ($16)
Other current liabilities	415	(59)	356	Primarily deferred income taxes reclassified to long-term ($77) and reclass of provisions from AP $16
Current portion - debt	255	(23)	232	Equity accounting for our joint ventures ($18) and financial instruments ($5)
	1,173	**(104)**	**1,069**	
Debt	3,979	(162)	3,817	Equity accounting for our joint ventures ($156) and financial instruments ($6)
Other liabilities	1,129	127	1,256	Primarily pension liability $110, ARO $48, deferred income taxes $62 offset by equity accounting for our joint ventures ($89)
Non-controlling interest	435	(435)	-	Reclassified to equity
Equity	3,177	383	3,560	NCI classified as equity $435, capitalization of MIC $73, partially offset by pension adjustment ($99) and ARO ($25)
Total Liab & Equity	**9,893**	**(191)**	**9,702**	

*Unaudited

IFRS Statement of Earnings
Year ended Dec. 31, 2010

($ millions, except where noted)	CGAAP	Adj	IFRS*	**Explanation of Differences** (decrease)
Revenue	2,819	(146)	2,673	Equity accounting for our joint ventures ($136) and Ft Sask now accounted for as finance lease ($10)
Fuel & purchased power	1,202	(17)	1,185	Equity accounting for our joint ventures ($11), asset impairment charge ($3), and reclass of ARO accretion ($3)
Gross margin	**1,617**	**(129)**	**1,488**	
OM&A	661	(124)	537	Equity accounting for our joint ventures ($59) and capitalization of major inspection costs ($67)
Depreciation & amortization	459	5	464	Amortization of major inspection costs $81 largely offset by equity accounting for our joint ventures ($49), ARO accretion reclassified to interest expense ($17), asset impairment ($9) and reclass of Ft Sask as a finance lease ($3)
Operating Income	**497**	**(10)**	**487**	
Financing costs and FX	168	(11)	157	Equity accounting for our joint ventures ($17), financial instruments ($5), reclass of Ft Sask as a finance lease ($8), offset by accretion $17
Asset impairment charges	89	(61)	28	Difference in timing of recognizing impairment charges
Non-controlling interest	20	4	24	Net impact of various IFRS adjustments
Income tax expense (recovery)	1	24	25	Tax impact of various IFRS adjustments
Equity income	-	(7)	(7)	Equity accounting for our joint ventures
Net earnings	**219**	**41**	**260**	
Net earnings per share	**1.00**		**1.19**	Impact of asset impairment, net of tax is 0.20
Comparable earnings per share	**0.98**		**0.99**	

*Unaudited

IFRS Statement of Cash Flows
Year ended Dec. 31, 2010

($ millions)	CGAAP	Adj	IFRS*	Explanation of Differences (decrease)
Net earnings (loss)	219	41	260	Asset impairment $49 and financial instruments $4 partially offset by capitalization of MIC ($11)
Depreciation	490	21	511	Amortization of MIC $81 partially offset by equity accounting of our joint ventures ($49) asset impairment impact on depreciation ($11) and Ft Sask now treated as a finance lease ($3)
Gain on sale of equipment	(4)		(4)	
Non-controlling interests	20	4	24	Net impact of various IFRS adjustments
Asset retirement obligation accretion	21	(4)	17	Impact of lower ARO discount rate
Asset retirement obligation settled	(37)		(37)	
Future/deferred income taxes	28	27	55	Net impact of IFRS adjustments - mainly impairment
Unrealized risk management and FX (gains) losses	(52)	2	(50)	
Asset impairment charges	89	(61)	28	Timing of impact of impairment charges
Equity income, net of distributions	-	2	2	Equity accounting for our joint ventures
Other non-cash items	9	(10)	(1)	Equity accounting for our joint ventures & fin inst's
	783	22	805	
Change in non-cash operating working capital balances	28	5	33	Equity accounting for our joint ventures
Cash flow from (used in) operating activities	**811**	**27**	**838**	
Additions to property, plant, and equipment	(790)	(47)	(837)	Capitalization of MIC ($67) partially offset by equity accounting for our joint ventures $20
Other	70	2	72	
Cash flow from (used in) investing activities	**(720)**	**(45)**	**(765)**	
Repayment of long-term debt & increase in credit facilities	(431)	21	(410)	Equity accounting for our joint ventures
Issuance of long-term debt	301		301	
Dividends paid on common shares	(216)		(216)	
Distributions paid to subsidiaries' non-controlling interests	(62)		(62)	
Proceeds on issuance of preferred shares	291		291	
Cash received from finance leases	-	2	2	Ft Sask accounted as a finance lease
Other	4		4	
Cash flow from (used in) financing activities	**(113)**	**23**	**(90)**	
Effect of translation on foreign currency cash	(2)	1	(1)	
Net change in cash	**(24)**	**6**	**(18)**	
Cash and cash equivalents, beginning of year	**82**	**(29)**	**53**	
Cash and cash equivalents, end of year	**58**	**(23)**	**35**	

*Unaudited

Key takeaways

- IFRS impact on key performance measures and metrics is modest
- IFRS based financial statements will look largely the same but will contain additional disclosure
- Ongoing changes to IFRS and interpretations are inevitable
- The adoption of IFRS does not impact:
  - our cash flow generation;
  - the value of our business; or
  - our strategy.

Appendix

Presentation differences

- Differences related to significant changes in the underlying accounting:
  - Equity accounting re certain JV’s – CE Gen and Wailuku previously proportionately consolidated now equity accounted
  - Finance lease accounting – Fort Sask removed from PP&E and replaced with a finance lease receivable

- Other differences:
  - Non-controlling interest – Reclassified from being a liability to being a component of equity
  - ARO accretion expense – Now classified as a part of interest expense
  - Provisions – Must be separately disclosed in the Statement of Financial Position
  - Intangibles – Certain assets are reclassified from PP&E to intangibles (i.e. software costs, coal rights)
  - Deferred income taxes (previously future income taxes) - No longer split between current and long-term; now all classified as long-term
  - Meridian asset held for sale – Classified as a long-term asset under CGAAP and as a current asset under IFRS

Jan. 1, 2010 IFRS 1 elections

- IFRS 1 is applicable to the first-time adoption of IFRS, with all adjustments impacting the opening balance sheet
- IFRS must be applied retrospectively with restatement of 2010 results
- IFRS 1 provides relief in certain areas through mandatory exemptions and elections
- Key mandatory exemptions:
  - Derecognition of financial assets and liabilities, retrospective application of hedge accounting and certain requirements related to non-controlling interests
  - None of these exemptions impacted TransAlta’s IFRS implementation
- Key optional elections made by TransAlta:
  - Business combinations requirements were not applied retroactively with the primary impact being the capitalization versus expensing of transaction costs
  - Cumulative translation losses deferred in other comprehensive income were reset to zero, with the offset to opening retained earnings
  - PP&E adjustment related to revised ARO calculated using a simplified retrospective calculation
  - The unrecognized actuarial losses were recorded as part of the pension liability with the offset to opening retained earnings
- In aggregate, the IFRS 1 related adjustments to retained earnings was $143 million, net of tax

IFRS Statement of Financial Position
As at Jan. 1, 2010

($ millions)	CGAAP	MIC	Leases	Joint Ventures	Asset Impairm't	ARO	Financial Instr.	Employee Benefits	Bus. Comb.	Other	IFRS*
Cash	82			(29)							53
Accounts receivable	421			(16)							405
Finance lease receivable	-		2								2
Asset held for sale	-									4	4
Other current assets	318			(1)							317
	821	-	2	(46)	-	-	-	-	-	4	**781**
Finance lease receivable	-		48								48
PP&E	7,559	115	(30)	(263)	(87)	(2)			(103)	(112)	7,077
Equity accounted investments	-			202							202
Goodwill	434			(74)					87		447
Intangible assets	344			(149)					(10)	108	293
Future / Deferred income taxes	234	(3)			22	4		7			264
Other assets	394							(18)			376
Total Assets	**9,786**	112	20	(330)	(65)	2	-	(11)	(26)	-	**9,488**
Accounts payable	521			(12)	2				2	(29)	484
Other current liabilities	234			(1)						29	262
Future income taxes	45									(45)	-
Current portion - debt	31			(22)							9
	831	-	-	(35)	2	-	-	-	2	(45)	**755**
Debt	4,411			(180)			(6)				4,225
Future / Deferred income taxes	662	26	3	(95)	(7)	(6)	2	(22)	(29)	45	579
Other liabilities	475			(5)	8	34		89			601
Non-controlling interest	478	2	10	(16)	(3)					(471)	-
Equity	2,929	84	7	1	(65)	(26)	4	(78)	1	471	3,328
Total Liab & Equity	**9,786**	112	20	(330)	(65)	2	-	(11)	(26)	-	**9,488**

*Unaudited

IFRS Statement of Financial Position
As at Dec. 31, 2010

($ millions)	CGAAP	MIC	Leases	Joint Ventures	Asset Impairm't	ARO	Financial Instr.	Employee Benefits	Other	IFRS*
Cash	58			(23)						35
Accounts receivable	428			(16)						412
Finance lease receivable	-		2							2
Asset held for sale	-								60	60
Other current assets	374			(1)						373
	860	**-**	**2**	**(40)**	**-**	**-**	**-**	**-**	**60**	**882**
Finance lease receivable	-		46							46
PP&E	7,577	100	(27)	(236)	(23)	14			(111)	7,294
Equity accounted investments	-			190						190
Asset held for sale	60								(60)	-
Goodwill	517			(70)						447
Intangible assets	304			(127)					111	288
Future / Deferred income taxes	240	(3)				2		6		245
Other assets	335							(25)		310
Total Assets	**9,893**	**97**	**21**	**(283)**	**(23)**	**16**	**-**	**(19)**	**-**	**9,702**
Accounts payable	503			(7)	1				(16)	481
Other current liabilities	338			(1)					19	356
Future income taxes	77								(77)	-
Current portion - debt	255			(18)			(5)			232
	1,173	**-**	**-**	**(26)**	**1**	**-**	**(5)**	**-**	**(74)**	**1,069**
Debt	3,979			(156)			(6)			3,817
Future / Deferred income taxes	630	22	3	(84)	(6)	(7)	3	(30)	77	608
Other liabilities	499			(5)	(1)	48		110	(3)	648
Non-controlling interest	435	2	11	(16)					(432)	-
Equity	3,177	73	7	4	(17)	(25)	8	(99)	432	3,560
Total Liab & Equity	**9,893**	**97**	**21**	**(283)**	**(23)**	**16**	**-**	**(19)**	**-**	**9,702**

*Unaudited

IFRS Statement of Earnings
Year ended Dec. 31, 2010

($ millions, except where noted)	CGAAP 2010	MIC	Leases	Joint Ventures	Asset Impairm't	ARO	Financial Instr.	Employee Benefits	Bus. Comb.	Other	IFRS* 2010
Revenue	2,819		(10)	(136)							2,673
Fuel & purchased power	1,202			(11)	(3)	(3)					1,185
Gross margin	**1,617**	**-**	**(10)**	**(125)**	**3**	**3**	**-**	**-**	**-**	**-**	**1,488**
OM&A	661	(67)		(59)				2			537
Depreciation & amortization	459	81	(3)	(49)	(9)	1			1	(17)	464
Operating Income	**497**	**(14)**	**(7)**	**(17)**	**12**	**2**	**-**	**(2)**	**(1)**	**17**	**487**
Foreign exchange gain	(10)									2	(8)
Net interest expense	178			(17)			(5)			17	173
Finance lease income	-		(8)								(8)
Asset impairment charges	89				(61)						28
Non-controlling interest	20		1		3						24
Income tax expense	1	(3)		4	24	1	1			(3)	25
Equity income	-			(7)							(7)
Net earnings	**219**	**(11)**	**-**	**3**	**46**	**1**	**4**	**(2)**	**(1)**	**1**	**260**
Net earnings per share	**1.00**										**1.19**

*Unaudited

IFRS Statement of Cash Flows
Year ended Dec. 31, 2010

TransAlta

($ millions)	CGAAP 2010	MIC	Leases	Joint Ventures	Asset Impairm't	ARO	Fin. Instr.	Emp Benefits	Bus. Comb.	Other	IFRS* 2010
Net earnings (loss)	219	(11)	-	3	46	1	4	(2)	(1)	1	260
Depreciation and amortization	490	81	(3)	(49)	(11)	2			1		511
Gain loss on sale of equipment	(4)										(4)
Non-controlling interests	20		1		3						24
Asset retirement obligation accretion	21					(4)					17
Asset retirement obligation settled	(37)										(37)
Future income taxes	28	(3)		7	24	1	1			(3)	55
Unrealized risk management activities and FX (gains) losses	(52)									2	(50)
Asset impairment charges	89				(61)						28
Equity income, net of distributions	-			2							2
Other non-cash items	9			(4)	(1)		(5)				(1)
	783	67	(2)	(41)	-	-	-	(2)	-	-	805
Change in non-cash operating working capital balances	28			5							33
Cash flow from (used in) operating activities	**811**	67	(2)	(36)	-	-	-	(2)	-	-	**838**
Additions to property, plant, and equipment	(790)	(67)		20							(837)
Other	70							2			72
Cash flow (used in) from investing activities	**(720)**	(67)	-	20	-	-	-	2	-	-	**(765)**
Net (decrease) increase in borrowings under credit facilities	(400)			21							(379)
Repayment of long-term debt	(31)										(31)
Issuance of long-term debt	301										301
Dividends paid on common shares	(216)										(216)
Distributions paid to subsidiaries' non-controlling interests	(62)										(62)
Net proceeds on issuance of preferred shares	291										291
Finance lease payments received	-		2								2
Other	4										4
Cash flow (used in) from financing activities	**(113)**	-	2	21	-	-	-	-	-	-	**(90)**
Effect of translation on foreign currency cash	(2)			1							(1)
(Decrease) increase in cash and cash equivalents	**(24)**	-	-	6	-	-	-	-	-	-	**(18)**
Cash and cash equivalents, beginning of year	**82**			(29)							**53**
Cash and cash equivalents, end of year	**58**	-	-	(23)	-	-	-	-	-	-	**35**

*Unaudited