2009 Fourth Quarter and 2009 Annual Results

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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 2008 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 2009 Annual Results
- Performance Against Key Measures
- 2010 Outlook

Improved Alberta Coal performance; partially offset by lower hydro volumes and lower Energy Trading gross margins

- **Comparable earnings per share of $0.40; the same as Q4 2008**
  - Lower planned and unplanned outages at Alberta coal units; lower unplanned outages at Genesee 3
  - Lower OM&A driven by lower compensation costs and targeted cost savings across the organization
  - Lower Energy Trading gross margins and lower hydro volumes partially offset gains
  - Full year 2009 comparable earnings of $0.90 versus $1.46 for same period in 2008 due to higher planned and unplanned outages at Alberta coal plants, reduced earnings from hydro assets as a result of poor water conditions in Alberta, and higher unplanned outages at Centralia Thermal
- **Cash flow from operations of $246 million compared to $428 million in Q4 2008**
  - Higher cash earnings offset by less favorable changes in working capital
  - Full year 2009 cash flow from operations $580 million compared to $1,038 million for same period in 2008 due to lower cash earnings, an extra $116 million PPA payment in 2008, higher inventory balances in 2009, and unfavourable changes in working capital

Q4 and YE 2009

Results ($M)	Q4 2009	Q4 2008	2009	2008
Revenue	$763	$808	$2,770	$3,110
Gross margin	$435	$410	$1,542	$1,617
Operating income	$159	$127	$378	$533
Comparable earnings	$84	$79	$181	$290
Net Earnings	$79	$94	$181	$235
Comparable earnings per share	$0.40	$0.40	$0.90	$1.46
Basic and diluted earnings per share	$0.37	$0.47	$0.90	$1.18
Cash flow from operating activities	$246	$428	$580	$1,038
Cash dividends declared per share	$0.29	$0.27	$1.16	$1.08
Availability (%)	87.0	86.2	85.1	85.8
Production (GWh)	12,297	12,656	45,736	48,891

Q4 2009 Significant events

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Significant events

- **Medium-Term Notes Offering**

  Nov. 18, TransAlta completed the offering of $400 million medium-term notes maturing in 2019 and bearing an interest rate of 6.4%. Net proceeds from the offering were used to repay a portion of the indebtedness relating to the Canadian Hydro acquisition.

- **Senior Notes Offering**

  Nov. 13, TransAlta completed the offering of U.S.$500 million senior notes maturing in 2015 bearing an interest rate of 4.75%. Net proceeds from the offering were used to repay a portion of the indebtedness relating to the Canadian Hydro acquisition.

- **Sale of Common Shares**

  Nov. 5, TransAlta completed the public offering of over 18 million common shares at a price of $20.10 per common share, which resulted in proceeds of $412.5 million, used to repay a portion of the indebtedness relating to the Canadian Hydro acquisition.

- **Acquisition of Canadian Hydro**

  Nov. 4, TransAlta completed the acquisition of Canadian Hydro for $5.25 cash per share.

- **Blue Trail**

  Nov. 2, TransAlta's 66MW Blue Trail wind farm began commercial operations on budget and one month ahead of schedule.

- **Keephills 3**

  Oct. 26, the Board of Directors approved an increase in the construction cost of Keephills 3 to $988 million due to a change in our original expectations of the labour required to complete the project, and a change to the commencement of commercial operations to Q2 2011.

- **Carbon Capture and Storage**

  Oct. 14, the federal and provincial governments announced TransAlta's Project Pioneer has received committed funding of over $770 million.

Subsequent event

- **Kent Hills Expansion**

  Jan. 11, TransAlta announced a 25 year power purchase agreement with NB power and a 54 MW expansion of its wind farm for a cost of $100 million. The project is expected to be completed in Q4 2010.

- **Summerview 2**

  Feb. 23, TransAlta's 66MW Summerview 2 wind farm began commercial operation on budget and ahead of schedule.

Comparable earnings

Results ($M)	Q4 2009	Q4 2008	2009	2008
Net earnings	**$79**	**$94**	**$181**	**$235**
Sale of assets at Centralia, net of tax	-	-	-	(4)
Change in life of Centralia parts, net of tax	-	3	1	12
Write-down of mining development costs, net of tax	10	-	10	-
Settlement of commercial issue, net of tax	-	-	(6)	-
Tax rate change	(5)	-	(5)	-
Recovery related to tax positions	-	(15)	-	(15)
Writedown of Mexican investment, net of tax	-	(3)	-	62
Earnings on a comparable basis	**$84**	**$79**	**$181**	**$290**
Weighted average common shares outstanding in the period	211	198	201	199
Earnings on a comparable basis per share	**$0.40**	**$0.40**	**$0.90**	**$1.46**

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Net earnings

	Q4 2009	2009
Net earnings, 2008	**$94**	**$235**
Increase (decrease) in Generation gross margins	36	(33)
Mark-to-market movements - Generation	3	16
Decrease in COD gross margins	(14)	(58)
Decrease (increase) in operations, maintenance, and admin costs	21	(30)
Increase in depreciation expense	(13)	(47)
Writedown of mining development costs	(16)	(16)
Increase in net interest expense	(33)	(34)
Decrease in equity loss	-	97
Decrease in non-controlling interest	12	23
(Increase) decrease in income tax expense	(21)	8
Other	10	20
Net earnings, 2009	**$79**	**$181**

Performance goals

Financial ratios	Measures	2009 Goals	2009	Review
Achieve top decile operations	Availability	90 - 92%	85.1%	Lower availability due to higher planned and unplanned outages at Alberta Coal and higher unplanned outages at Centralia Thermal.
Improve Safety	Injury Frequency Rate	10%/yr	1.41	IFR increased to 1.41 from 1.28.
Enhance Productivity	OM&A/installed MWh	Offset Inflation	$8.91/MWh	Accelerated major maintenance drove a three per cent year-over-year increase in OM&A costs per MWh of installed capacity.
Grow Earnings and Cash Flow	Comparable EPS	>10%/yr	$0.90	Comparable EPS decreased from $1.46 to $0.90 due to higher planned and unplanned outages at Alberta Coal, lower hydro volumes, lower electricity prices in Alberta and the Pacific Northwest, and lower energy trading gross margins.
	Operating Cash Flow	$800 - 900 MM	$580 MM	Lower operating cash flow over 2009 due to lower cash earnings, the receipt of an additional $116 million PPA payment in 2008, higher inventory balances in 2009, and the timing of operational payments.
Make Sustaining Capex Predictable	Sustaining Capex	$270 - $390	$380 MM	Sustaining Capex in line with target and decreased compared to 2008 due to less spending on routine and mine capital and on planned maintenance.
Maintain Investment Grade Ratings	Cash Flow to Interest Cash Flow to Debt Debt to Total Capital	4 - 5X 20 - 25% 55 - 60%	4.9X 20.1% 56.1%	Balance sheet ratios remain strong but were tighter in 2009 due to less cash flows generated from operating activities and the issuances of debt to fund growth for the Canadian Hydro acquisition.
Deliver Long-term Shareowner Value	Comparable ROCE TSR IRR	>10%/yr >10%/yr >10%/yr	5.8% 1.4% ✓	Comparable ROCE was lower due to planned and unplanned outages at Alberta Coal and the acquisition of Canadian Hydro Developers. Given difficult market conditions, TransAlta's TSR was below 10 per cent.

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Despite operational challenges, TransAlta successfully advanced on a number of key strategic imperatives throughout the year

Drive the base:

- Enhanced our returns at Sarnia through negotiating a new long-term contract
- Completed the Centralia fuel transition
- Completed four major maintenance outages and two pitstops at our Alberta coal operations

Green our portfolio:

- Expanded our renewable portfolio by adding over 750 MW through the acquisition of Canadian Hydro and completing construction of our Blue Trail wind farm
- Became the leading publically traded provider of renewable energy in Canada
- Announced 87 MW of new capacity with the construction of Ardenville (69 MW) and Bone Creek (18 MW)

Reposition Coal:

- Realigned our major maintenance plans on a unit by unit basis
- Awarded over $770 million in government funding to advance the development of North America’s largest carbon capture and storage project; Project Pioneer

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Well positioned to improve results in 2010

Drive the base:

- Targeting low double digit comparable EPS and EBITDA growth
- Approximately 89% of portfolio contracted for 2010 providing a high degree of earnings protection
- Target 90% fleet availability for 2010
- Energy trading expected to contribute between $50 - $70 million in gross margin

Green our portfolio:

- Summerview 2 expansion (66 MW) completed on budget and ahead of schedule, Feb. 2010
- Kent Hills expansion (54 MW) expected to come online in Q4 2010
- Ardenville (69 MW) wind farm expected to come online in Q1 2011
- Bone Creek (18 MW) hydro facility expected to come online in Q1 2011

Reposition coal:

- Project Pioneer Front End Engineering and Design (FEED) underway, expected to be completed in mid-2010
- Lifecycle planning and flexibility provided by revising Alberta coal plants major maintenance schedule on a unit by unit basis

Appendix

Income statement

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(MM)	Q4 '09	Q4 '08	2009	2008
Revenue	**$ 763**	$ 808	**$ 2,770**	$ 3,110
Fuel & purchased power	**(328)**	(398)	**(1228)**	(1,493)
Gross margin	**435**	410	**1,542**	1,617
OM&A	**142**	163	**667**	637
Depreciation & amortization	**129**	116	**475**	428
Taxes, other than income taxes	**5**	4	**22**	19
Operating expenses	**276**	283	**1,164**	1,084
Operating Income	**159**	127	**378**	533
Foreign exchange gain (loss)	**4**	(7)	**8**	(12)
Writedown of mining development costs	**(16)**	-	**(16)**	-
Net interest expense	**(42)**	(9)	**(144)**	(110)
Equity loss	**-**	-	**-**	(97)
Other income	**-**	-	**8**	5
Earnings before non-controlling interest and income taxes	**105**	111	**234**	319
Non-controlling interests	**11**	23	**38**	61
EBIT	**94**	88	**196**	258
Income tax expense (recovery)	**15**	(6)	**15**	23
Net earnings	**$ 79**	$ 94	**$ 181**	$ 235
Net earnings per share	**$ 0.37**	$ 0.47	**$ 0.90**	$ 1.18

Cash flow

($M)	Q4 '09	Q4 '08	2009	2008
Operating Activities	**$ 266**	$ 249	**$ 729**	$ 828
Change in non-cash working capital	**(20)**	179	**(149)**	210
	246	428	**580**	1,038
Investing Activities				
Acquisiton of Canadian Hydro Developers Inc., net of cash acquired	**(766)**	-	**(766)**	-
Additions to property, plant, and equipment	**(223)**	(311)	**(904)**	(1,006)
Proceeds on sale of property, plant, and equipment	**2**	4	**7**	30
Proceeds on sale of minority interest in Kent Hills	**-**	-	**29**	-
Restricted Cash	**1**	1	**-**	248
Income tax receivable	**(41)**	-	**(41)**	(8)
Realized gains (losses) on financial instruments	**-**	15	**(16)**	52
Loan to equity investment	**-**	-	**-**	(245)
Proceeds on sale of equity investment	**-**	332	**-**	332
Net (decrease) increse in collateral received from counterparties	**(18)**	-	**87**	-
Net (increase) decrease in collateral paid to counterparties	**(2)**	-	**7**	-
Settlement of adjustments on sale of Mexican investment	**-**	-	**(7)**	-
Other	**11**	4	**6**	16
	(1,036)	45	**(1,598)**	(581)
Financing activities				
Net increase (decrease) in credit facilities	**320**	(350)	**620**	(243)
Repayment of long-term debt	**(776)**	(68)	**(796)**	(308)
Issuance of long-term debt	**919**	-	**1,119**	502
Dividends paid on common shares	**(57)**	(49)	**(226)**	(212)
Funds paid to repurchase common shares under NCIB	**-**	-	**-**	(130)
Net procees on issuance of common shares	**398**	1	**398**	15
Realized gains on financial instruments	**-**	-	**-**	12
Distributions to subsidiaries' non-controlling interests	**(18)**	(29)	**(58)**	(98)
Other	**1**	(3)	**(4)**	(5)
	787	(498)	**1,053**	(467)
Cash flow from (used in) operating, investing, and financing	**(3)**	(25)	**35**	(10)
Effect of translation on foreign currency cash	**(1)**	9	**(3)**	9
Increase (decrease) in cash and cash equivalents	**$ (4)**	$ (16)	**$ 32**	$ (1)

Free cash flow

($M)	Q4 '09	Q4 '08	2009	2008
Cash flow from operating activities	$246	$428	$580	$1,038
Add (Deduct):				
Sustaining capital expenditures	(187)	(171)	(380)	(465)
Dividends on common shares	(57)	(49)	(226)	(212)
Distribution to subsidiaries' non-controlling interest	(18)	(29)	(58)	(98)
Non-recourse debt repayments	(6)	(25)	(25)	(28)
Timing of contractually scheduled PPA payments	-	-	-	(116)
Other income	-	-	(8)	-
Cash flows from equity investments	-	-	-	2
Free cash flow (deficiency)	**$78**	**$154**	**$(117)**	**$121**

Sustaining capex supports operational objectives

($M)	2009	2010e	2011e
Sustaining	$380	$295 - 340	$310 - 355
Routine capital	$158	$120 - 140	$115 - 130
Productivity capital	$44	$10 - 15	$5 - 10
Mine	$42	$25 - 30	$35 - 40
Centralia modifications	$21	-	-
Major Maintenance	$115	$140 - 155	$155 - 175

Growth capital

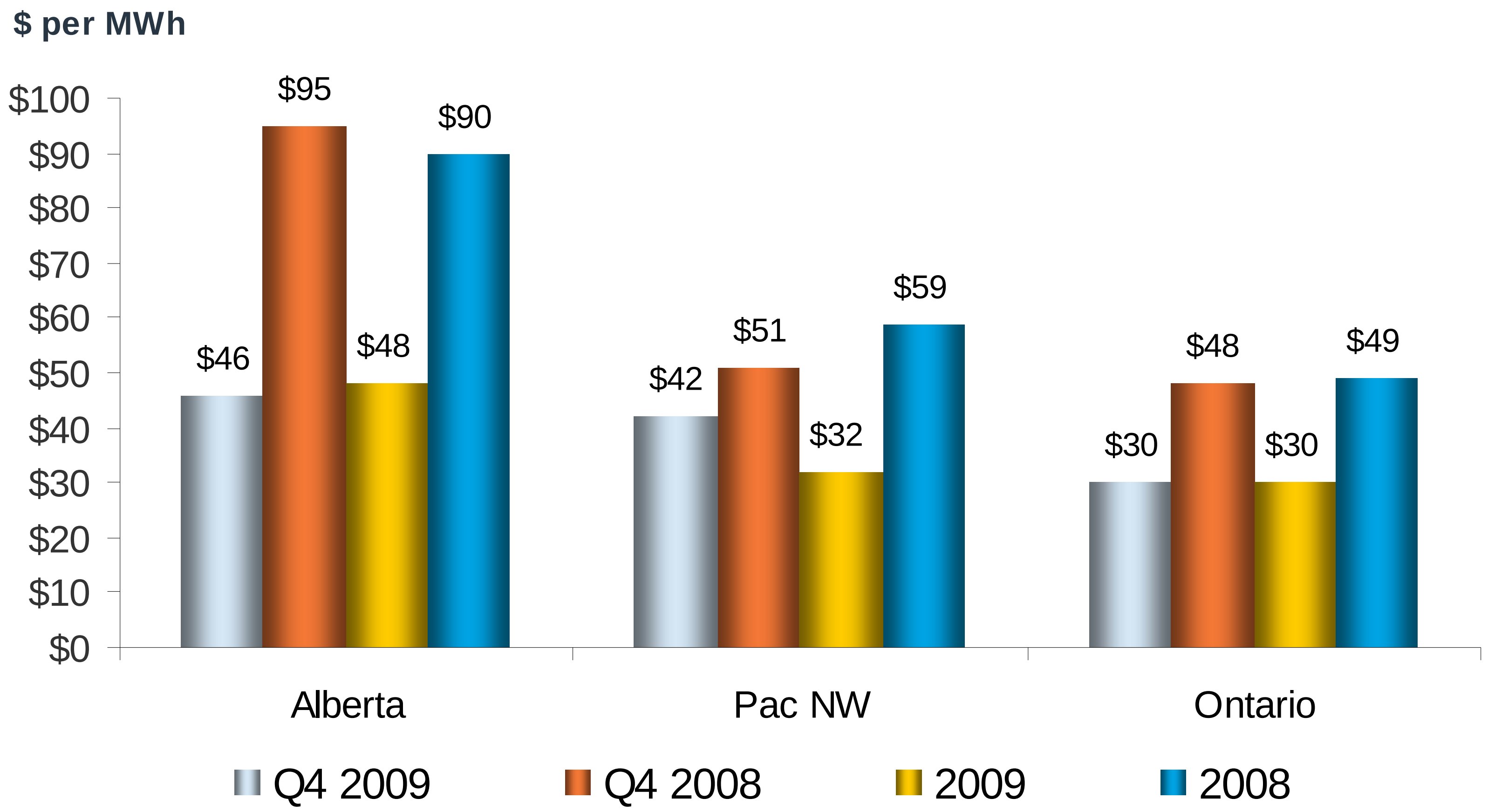
Delivering on growth and creating long-term shareholder value

Completed	MW	2009	2010e	2011e	2012e	Total
Blue Trail	66	$87	-	-	-	$113[1]
Sun 5 uprate	53	$60	-	-	-	$ 77[2]
Summerview 2	66	$81	$15 - 25			$123[3]
Total	**185**	**$228**				**$313**

In Progress	MW	2009	2010e	2011e	2012e	Total
Kent Hills 2	54	$18	$80 - 85			$100
Bone Creek	18	$4	$40 - 45			$48[4]
Keephills 3	225	$231	$225 - 245	$20 - 30		$988[5]
Ardenville	69	$27	$95 - 105			$135
KI & K2 uprates	46	$2	$5 - 15	$25 - 35	$20 - 30	$68
Total	**412**	**$282**	**$445 - 495**	**$45 - 65**	**$20 - 30**	**$1.3B**

1. Blue Trail capital spend prior to 2009 was $26M
2. Sun 5 uprate capital spend prior to 2009 was $17M
3. Summerview II capital spend prior to 2008 was $25M
4. Bone Creek capital spend prior to the acquisition was $23M which does not form part of our total project cost
5. Keephills 3 capital spend prior to 2009 was $476M

Average spot electricity prices



Average spark spreads