TRANSALTA CORP
Form 6-K/A
April 03, 2003

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of April, 2003

TRANSALTA CORPORATION

(Translation of registrant s name into English)

110-12th Avenue S.W., Box 1900, Station M , Calgary, Alberta, T2P 2M1

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F____ Form 40-F X__

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ..... No ..X...

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-________

Purpose of Amendment

TransAlta is submitting this amendment to correct errors in the filing of its financials and MD&A dated March 27, 2003. These errors arose during the conversion of the files to HTML and therefore are not of a material nature. The revised documents are attached.

Evaluation of Disclosure Controls and Procedures

TransAlta has designed disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company, including its consolidated subsidiaries, on a regular basis, in particular during the period in which its Current Report on Form 6-K relating to financial results for the year ended December 31, 2002 are being prepared. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as of a date within 90 days of the date of this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of that evaluation date, that the Company s disclosure controls and procedures were effective to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities during the period in which this report was being prepared. There have been no significant changes in the internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation by the Chief Executive Officer and Chief Financial Officer, including any corrective action with regard to significant deficiencies and material weaknesses.

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EXHIBITS

Exhibit 1	2002 Management s Discussion and Analysis and consolidated financial statements for the period ended December 31, 2002.

The company's organization chart can be found at www.transalta.com

management's discussion & analysis

This discussion and analysis should be read in conjunction with the consolidated financial statements and Auditors' Report included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The effect of significant differences between Canadian and U.S. GAAP has been disclosed in Note 27 *to the consolidated financial statements. All tabular amounts in the following discussion are in millions of Canadian dollars unless otherwise noted.*

Forward-Looking Statements

Management's discussion and analysis (MD&A) contains forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Corporation (TransAlta or the corporation). In some cases, forward-looking statements can be identified by terms such as 'may', 'will', 'believe', 'expect', 'potential', 'enable', 'continue' or other comparable terminology. These statements are not guarantees of TransAlta's future performance and are subject to risks, uncertainties and other important factors that could cause the corporation's actual performance to be materially different from those projected. Some of the risks, uncertainties and factors include, but are not limited to: legislative and regulatory developments that could affect revenues, costs, the speed and degree of competition entering the market; global capital markets activity; timing and extent of changes in commodity prices, prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where TransAlta operates; results of financing efforts; changes in counterparty risk; and the impact of accounting *policies issued by Canadian and U.S. standard setters. Given these uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under Risk Factors and Risk Management in this MD&A.*

Overview

This review of TransAlta's 2002 financial results is organized by consolidated results and by business segment. TransAlta has two business segments: Generation and Energy Marketing. A third business segment, Independent Power Projects (IPP), was combined with the Generation segment effective Jan. 1, 2002 following changes to TransAlta's organizational structure. TransAlta's Transmission, Alberta Distribution and Retail (D&R), and New Zealand operations were sold on April 29, 2002, Aug. 31, 2000 and March 31, 2000, respectively. Prior period amounts have been reclassified to reflect these changes. Generation and Energy Marketing are supported by a corporate group that provides finance, treasury, legal, human resources and other administrative support. These corporate group overheads are allocated to the business segments if they are not directly attributable to discontinued operations.

Each business segment assumes responsibility for its operating results measured as earnings before interest, taxes and non-controlling interests (EBIT). EBIT should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with Canadian GAAP as an indicator of the corporation's performance or liquidity. TransAlta's EBIT is not necessarily comparable to a similarly titled measure of another company. EBIT has been calculated on a consistent basis for the three years ended Dec. 31, 2002 and is reconciled to net earnings applicable to common shareholders below:

Year ended Dec. 31	**2002**	2001	2000
EBIT	**$ 197.6**	$ 378.9	$ 408.9
Other income (expense)	**0.1**	1.5	(1.1)
Foreign exchange gain	**1.2**	0.8	0.1
Net interest expense	**(82.7)**	(88.1)	(91.4)
Earnings from continuing operations before income taxes and non-controlling interests	**116.2**	293.1	316.5
Income tax expense	**18.1**	89.9	128.5
Non-controlling interests	**20.1**	20.6	41.6
Earnings from continuing operations	**78.0**	182.6	146.4
Earnings from discontinued operations	**12.8**	45.1	89.1
Gain on disposal of discontinued operations	**120.0**	-	266.8
Extraordinary item	**-**	-	(209.7)
Net earnings	**210.8**	227.7	292.6
Preferred securities distribution, net of tax	**20.9**	13.1	12.8
Net earnings applicable to common shareholders	**$ 189.9**	$ 214.6	$ 279.8

Some of the corporation's accounting policies require management to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. Critical accounting policies and estimates for TransAlta include: revenue recognition; valuation and useful life of property, plant and equipment; valuation of goodwill; income taxes; and employee future benefits. See additional discussion under Critical Accounting Policies and Estimates in this MD&A.

TransAlta now measures capacity as net maximum capacity (see glossary for definition of this and other key terms) compared to nameplate capacity which had been previously used. The change was made to better reflect the actual capacities of assets and to be more consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. Prior years have been adjusted to reflect the new method of measurement.

Strategy and Key Performance Indicators

Strategy

The corporation's strategy is to maintain a strong balance sheet, run its existing assets efficiently and carefully manage the risk profile while methodically growing capacity. As discussed in the letter to shareholders, TransAlta has identified 11 goals to implement this strategy.

1. Maintain investment grade credit ratings. TransAlta is focused on maintaining a strong balance sheet and investment grade credit ratings while maintaining the dividend. At Dec. 31, 2002, TransAlta's debt to invested capital ratio was 50.9 per cent, the corporation's credit rating was BBB+ and the 2002 annual dividend was $1.00 per common share.

2. Steadily increase earnings per share. For the year ended Dec. 31, 2002, TransAlta earned $1.12 per common share compared to $1.27 in 2001. Earnings were lower due to lower market prices and increased maintenance costs. The gain on sale related to the Transmission business was offset by an arbitration decision related to the Wabamun power purchase arrangement (PPA), an impairment charge related to the Wabamun plant and turbine cancellation charges. TransAlta expects to achieve average earnings growth of five to 10 per cent per annum in the medium term. However, 2003 earnings will be impacted as a result of TransAlta accelerating maintenance at Alberta thermal plants in order to have assets operating at high availability rates in the future.

3. Increase generation capacity. In 2002, TransAlta increased capacity by 200 megawatts (MW). In 2003, the Sarnia, Campeche and Chihuahua plants, as well as the McBride Lake joint venture project are forecast to be completed, increasing capacity by an additional 989 MW. In addition, the January 2003 acquisition of a 50 per cent interest in CE Generation LLC (CE Gen) increased capacity by an additional 378 MW. Due to this acquisition and the 50 per cent acquisition of Genesee 3, TransAlta reached 9,726 MW of owned capacity in operation, under construction or approved for development in January 2003. While TransAlta continues to explore strategic acquisitions to grow generating capacity, such growth will only be undertaken to the extent that it is affordable and supported by the balance sheet. As a result, the corporation expects that it will take longer than 2005 to increase capacity to 15,000 MW as previously reported.

4. Increase overall plant availability to 90 per cent. Availability is a key performance indicator for TransAlta. The corporation has approximately 90 per cent of its output under long-term contracts; therefore, availability is critical to meeting these contracted quantities. Availability is also essential to producing electricity for sale at spot market prices. Overall plant availability for the year ended Dec. 31, 2002 was 88.4 per cent compared to 86.9 per cent in 2001.

5. Reduce overhead and variable costs by $150 million. As of Dec. 31, 2002, the corporation identified $137.0 million in cost reductions related to coal extraction, variable operating costs and overhead costs compared to those incurred during 2001.

6. Diversify by market and fuel type. To minimize risk, TransAlta's long-term goal is to ensure no more than 30 per cent of the corporation's generating capacity is in one fuel source or market. During 2002 TransAlta increased gas-fired capacity by a net 263 MW, renewable capacity by 44 MW, capacity in the U.S. by a net 126 MW and capacity in Australia by 34 MW. All of the 989 MW forecast to be completed in 2003 are fuelled by gas or renewables and 511 MW are outside of Canada. The 50 per cent acquisition of CE Gen in 2003 increased capacity from renewables by 163 MW and gas-fired assets by 215 MW, all within the U.S.

7. Minimum of 75 per cent of production under long-term contracts. Long-term contracts minimize TransAlta's exposure to market fluctuations. Maintaining a portion of production to be sold at market rates allows the corporation to capitalize on favourable market prices when available and reduces the risk of production shortfalls. In 2002, 90 per cent of the corporation's production was under long-term contracts. Of the new capacity scheduled for completion in 2003, the Mexican plants and McBride Lake joint venture are 100 per cent contracted and Sarnia is approximately 50 per cent contracted.

Capacity in Operation by Fuel Source*

(%)

8. 10 per cent capacity from renewable energy sources by 2010. TransAlta is committed to reducing emissions while increasing production. A key factor in this strategy is increasing production from renewable energy sources. The acquisitions of Vision Quest Windelectric Inc. (Vision Quest) in December 2002 and a 50 per cent interest in CE Gen in January 2003 are part of TransAlta's commitment to sustainable development.

Coal 4,966 MW

Gas 1,333 MW

Hydro 801 MW

Renewable 44 MW

** as of Dec. 31, 2002*

Capacity in Operation by Location*

(%)

Canada 5,165 MW

U.S. 1,699 MW

Australia 280 MW

** as of Dec. 31, 2002*

Contracted

Production

(%)

00	01	**02**
96	92	**90**

9. Continue to capitalize on alliances. TransAlta has strategic alliances with EPCOR Utilities Inc. (EPCOR), ENMAX Corporation (ENMAX) and MidAmerican Energy Holdings Company (MidAmerican). The EPCOR alliance provided the opportunity to acquire a 50 per cent ownership in the 450 MW Genesee 3 project. The ENMAX partnership in the McBride Lake wind project provides the economic support to expand TransAlta's renewable energy business. MidAmerican owns the other 50 per cent interest in CE Gen.

10. Use Energy Marketing to manage the corporation's asset risk. Energy Marketing acts to maximize margins from electricity, minimize the cost of natural gas used to generate electricity and reduce the risk to the corporation from unplanned outages by acquiring replacement power at the lowest possible price. During 2002, TransAlta sold uncontracted electricity at greater than market index prices and purchased electricity to meet contract obligations when it was more economic to buy rather than produce electricity.

11. Reach zero net emissions from Canadian thermal plants by 2024. In 2002 TransAlta added additional gas and renewable capacity in Canada while reducing capacity at the coal-fired Wabamun facility. In addition, the purchase of offset credits and continued focus on technology will position the corporation to manage the future requirements of the Kyoto Protocol.

Key Performance Indicators

For the Generation segment, key performance indicators (KPIs) include availability, production, fuel and operating costs, and pricing applicable to non-contracted production. For the Energy Marketing segment, KPIs include trading volumes, margins and value at risk (VAR), which is a measure to manage earnings exposure from trading activities not related to TransAlta's assets. Each of these KPIs is discussed in greater detail in Segmented Business Results in this MD&A. KPIs for the corporate segment include the debt to invested capital ratio and credit ratings. These KPIs are discussed under Liquidity and Capital Resources.

Market Trends

Changes in the price of electricity can have a significant influence on TransAlta's financial performance. Fluctuating supply and demand resulted in high market volatility and high prices for electricity in late 2000 and early 2001. In the last half of 2001, additional capacity was brought to market and adverse economic conditions reduced demand; this combination resulted in lower volatility and prices throughout 2002, as shown in the graph on page 25. Electricity price levels in Alberta and the Pacific Northwest are expected to be slightly higher in 2003 compared to 2002 due to higher natural gas prices and reduced hydro production as a result of lower snow pack.

Electricity prices generally increase as a result of higher natural gas prices. This benefits TransAlta's coal-fired facilities by increasing margins on merchant output. However, in the short term increased natural gas prices can also reduce spark spreads (the difference between the price of natural gas consumed to produce power and the selling price of electricity). As illustrated in the graph on page 25, spark spreads were reduced in 2002 at TransAlta's merchant gas-fired facilities. The increases in electricity prices are not completely correlated to the increase in natural gas prices due to generation overcapacity in the market. The majority of the corporation's gas costs have been hedged or flow through to customers under the terms of agreements; however, approximately 10 per cent of total production is subject to market prices for electricity and/or spark spread risk.

Since the bankruptcy of Enron and reduction of credit worthiness of other market participants, liquidity in the medium- and longer-term energy trading markets has decreased considerably. Activity levels in the short-term market have increased. Margins in the energy trading business have significantly declined relative to 2000 and 2001 as a result of lower prices and more efficient markets.

Average Monthly Electricity Prices

(brown line) Alberta System Market (Cdn$/MWh)

(blue line) Mid-Columbia (US$/MWh)

600

00 01 02

Average Monthly Spark Spreads1

(brown line) Alberta System Market vs. AECO (Cdn$/MWh)

(blue line) Mid-Columbia vs. Sumas (US$/MWh)

J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

00 01 02

1 For a 7,000 Btu/KWh heat rate plant.

Summary of Results

	2002	2001	2000
Availability (%)	**88.4**	86.9	87.8
Production (GWh)	**46,877**	44,136	40,644
Electricity trading volumes (GWh)	**103,076**	27,619	9,500
Gas trading volumes (million GJ)	**159.8**	99.3	135.7

	Amount	**Per common share**	Amount	Per common share	Amount	Per common share
Revenues [1]	**$1,723.9**		$2,319.4		$ 1,671.1	
Earnings from continuing operations [2]	**57.1**	**$ 0.34**	169.5	$ 1.00	133.6	$ 0.79
Discontinued operations [3]	**12.8**	**0.07**	45.1	0.27	89.1	0.53
Earnings applicable to common shareholders	**69.9**	**0.41**	214.6	1.27	222.7	1.32
Gains on disposal of discontinued operations [3]	**120.0**	**0.71**	-	-	266.8	1.58
Extraordinary item [4]	**-**	**-**	-	-	(209.7)	(1.24)
Net earnings applicable to						

common shareholders	**$ 189.9**	**$ 1.12**	$214.6	$ 1.27	$ 279.8	$ 1.66
Cash flow from operating activities	**$ 437.7**		$715.6		$ 198.7	

1 *From continuing operations. In accordance with changes to U.S. and Canadian GAAP, revenues from energy trading are now presented on a net basis. Prior periods have been reclassified to reflect this change.*

2 *Continuing operations include the Generation and Energy Marketing segments plus corporate costs not directly attributable to discontinued operations, and are net of preferred securities distributions.*

3 *Discontinued operations include the New Zealand operations, the Alberta D&R operation, the Edmonton Composter and the Transmission operation which were disposed of on March 31, 2000, Aug. 31, 2000, June 29, 2001 and April 29, 2002, respectively.*

4 *Extraordinary item arose from the recognition of previously unrecorded future income taxes and a write-down of property, plant and equipment related to Alberta Generation due to a change in accounting policy as a result of deregulation of the electric generation industry in Alberta commencing on Jan. 1, 2001.*

Revenues

($)

Energy Marketing

Generation

00 01 02

In the third quarter of 2002, in response to changes in accounting standards in the U.S. with respect to energy trading activities, the corporation adopted a policy that all gains and losses on energy trading contracts not related to generation assets be shown as the net effect of sales less cost of purchased commodity in the statement of earnings. Consistent with these recommendations, the corporation has chosen to disclose the gross transaction volumes for those energy trading contracts that are physically settled.

Revenues decreased by $595.5 million in 2002 compared to 2001. The decrease is attributable to lower electricity market prices and lower margins on Energy Marketing activities, partially offset by improved availability and production. The $648.3 million increase in 2001 revenues compared to 2000 was primarily a result of high market prices in the first half of 2001, a full year of production from the Centralia plant and increased trading revenues in Energy Marketing.

Net earnings from continuing operations applicable to common shareholders decreased by $112.4 million in 2002 compared to 2001. The decrease was primarily due to lower revenues, the Wabamun plant impairment charge (described below), the cancellation of turbines ordered (described on page 27), and the impact of the accelerated Alberta thermal plant maintenance schedule, partially offset by reduced purchased power requirements. The $35.9 million increase in 2001 over 2000 was primarily a result of increased earnings from Generation, gains on disposition from the sales of the Fort Nelson and the Fort Saskatchewan plants and increased returns from Energy Marketing activities. These increases were partially offset by the impact of unplanned outages at the Centralia plant.

Cash flow from operating activities was $277.9 million lower in 2002 compared to 2001. The decrease was due to lower earnings, the impact of the collection in 2001 of accounts receivable relating to the Alberta Power Pool upon implementation of deregulation on Jan. 1, 2001 ($170.0 million), the payment in 2002 to the Alberta Power Pool relating to the ancillary services revenue settlement ($49.9 million), described on page 27, and the final installment of 2001 income taxes paid in the first quarter of 2002 ($109.0 million). In 2000, significantly increased working capital requirements resulted from deferred accounts receivable related to the sale of the discontinued Alberta D&R operation and increased trade receivables related to Centralia production and Energy Marketing activities.

Significant One-Time Items

These consolidated financial results include the following significant one-time items:

Purchase of Vision Quest

On Dec. 6, 2002 the corporation purchased the remaining interest in Vision Quest for cash of $21.3 million plus a previous loan of $19.8 million and $14.2 million in common shares. This transaction increased the corporation's total investment in the wind power company to $68.8 million. Included in the purchase price was $27.2 million of goodwill. Vision Quest owns and operates 67 wind turbine power plants with 44 MW of capacity and has a substantial resource base available for further expansion. Vision Quest and ENMAX each own a 50 per cent interest in the McBride Lake joint venture project with 75 MW under construction. Vision Quest's financial results for the period after acquisition ($0.6 million EBIT) are included in corporate results for segmented reporting purposes.

Decommissioning of Wabamun Plant

After a detailed unit-by-unit engineering assessment, a review of environmental issues and a review of short- and long-term market forecasts, the corporation decided to implement a phased decommissioning of its four-unit 537 MW coal-fired Wabamun facility. The PPA for the plant expires at the end of 2003. The 139 MW unit three was removed from service on Nov. 29, 2002 after an unplanned outage, as it was not considered economical to return the unit to service. The corporation plans to retire units one and two (62 MW and 57 MW, respectively) in 2004 and unit four (279 MW) in 2010 when its operating licence expires. As a result of this decision, the corporation recognized a pre-tax impairment charge of $110.0 million in the fourth quarter of 2002.

Turbine Order Cancellation

After examining expected market conditions and potential greenfield development opportunities against the corporation's risk profile, the corporation concluded that it could not use all its pre-purchased natural gas turbines. The corporation therefore cancelled orders for four turbines and as a result recorded a pre-tax cancellation charge of $42.5 million for contract termination costs in 2002. The costs consisted solely of progress payments made to date. The remaining five turbines will be used in development projects.

Refinancing of Foreign Operations

During the third quarter of 2002, TransAlta restructured the financing of certain of its foreign operations. As a result, the corporation was able to record the benefit of previously unrecognized foreign tax loss carryforward balances. This restructuring contributed $11.2 million to net earnings in 2002.

Ancillary Services Revenue Settlement

In July 2002, a dispute with the Balancing Pool of Alberta in respect of the allocation of hydro ancillary services deferred revenue under the PPAs was resolved. TransAlta repaid $49.9 million received in advance from the Balancing Pool. The settlement had no earnings impact as the corporation had not previously recognized the amount as revenue.

Wabamun Arbitration Decision

On May 23, 2002, the corporation received the arbitrators' decision with respect to the 10-month outage at Wabamun unit four, which resulted from fatigue cracks within the waterwall tubing of its boiler. The arbitrators confirmed that the outage qualified as a force majeure event, but also ruled that the corporation should have returned the unit to service more quickly. As a result of this decision, the corporation was required to pay $38.9 million plus interest of $2.7 million, all pre-tax. The payment was recorded as a reduction to revenue.

Gains on Disposal of Discontinued Operations

On April 29, 2002, TransAlta's Transmission operation was sold for proceeds of $820.7 million, of which $818.0 million has been collected. The proceeds excluded $31.7 million in accounts receivable, which were retained and subsequently collected, and $4.4 million in accounts payable. The disposal resulted in a gain on sale of $120.0 million ($0.71 per common share), net of income taxes of $36.2 million.

Effective Dec. 31, 2000, the corporation adopted a plan to divest its composter facility in Edmonton, Alberta, Canada, which commenced commercial operations in August 2000. In the fourth quarter of 2000, the corporation recorded a write-down on the carrying value of the assets of $17.9 million, net of income tax recoveries of $13.8 million. On June 29, 2001, the facility was sold for cash proceeds of $97.0 million. No gain or loss resulted from the disposal.

On Aug. 31, 2000, TransAlta completed the disposition of its Alberta D&R operation for proceeds of $857.3 million and recorded an after-tax gain of $262.4 million ($1.55 per common share). In 2002, the outstanding amount due from Aquila Networks Canada (formerly UtiliCorp Networks Canada) relating to the sale of the D&R operation was collected in full.

On March 31, 2000, TransAlta completed the disposition of its investment in TransAlta New Zealand Limited for total proceeds of NZ$832.5 million (approximately Cdn$605 million) and recorded an after-tax gain of $22.3 million ($0.13 per common share).

Prior Period Regulatory Decisions

Financial results for 2000, 2001 and 2002 were affected by Alberta Energy and Utilities Board (EUB) decisions related to other reporting periods. The impact of such regulatory decisions is recorded when the effect of such decisions is known, without adjustment to the financial statements of prior periods.

On April 16, 2002, the EUB rendered a negative decision of $3.3 million (pre-tax) with respect to TransAlta's hydro bidding strategy in 2000.

In December 2001, the EUB ruled that the Wabamun unit four outage qualified for relief under the Temporary Suspension Regulation (TSR) and ordered that TransAlta receive $11.0 million (pre-tax) to compensate the corporation for obligation payments incurred in 2000 as a result of the outage.

In September 2000, TransAlta received a negotiated settlement of $17.8 million (pre-tax) under the TSR to compensate the corporation for obligation payments incurred as a result of Alberta Generation production outages which occurred in 1999 and 2000. Approximately $13.5 million related to outages in 1999 and $4.3 million related to outages in 2000.

In February 2000, the EUB announced an amendment to its Phase I decision concerning a 1999 revenue requirement issue. The amendment resulted in TransAlta recognizing $30.6 million of pre-tax earnings.

Pierce Power

In September 2001, TransAlta reassessed its investment in the 154 MW Pierce Power plant as a result of weak economic conditions. Revenue hedges that were no longer expected to be effective were unwound and realized, resulting in the recognition of $121.8 million in revenue, partially offset by a write-down in the carrying amount of property, plant and equipment of $66.5 million and $52.3 million recognized in anticipated future plant operating costs. The plant remained available for production until it was decommissioned in September 2002. At Dec. 31, 2002, all accrued amounts had been realized.

Extraordinary Item

On Dec. 31, 2000, TransAlta discontinued regulatory accounting and commenced the application of Canadian GAAP for non-regulated businesses for its Alberta Generation operations, following final confirmation of deregulation of the electricity generation industry in Alberta beginning on Jan. 1, 2001. As a result of the discontinuance of regulatory accounting, the corporation recorded an extraordinary non-cash after-tax charge of $209.7 million ($1.24 per common share). Of this amount, $189.9 million resulted from the recognition of future income tax liabilities that the corporation was previously exempted from recording.

New Accounting Standards

On Jan. 1, 2002, the corporation retroactively adopted the new Canadian Institute of Chartered Accountants (CICA) standard for stock-based compensation. The new standard requires that stock-based payments to non-employees, direct awards of stock and awards that call for settlement in cash or other assets be accounted for using the fair value method of accounting. The fair value method is encouraged for other stock-based compensation plans, but other methods of accounting, such as the intrinsic value method, are permitted. Under the fair value method, compensation expense is measured at the grant date and recognized over the service period. Under the intrinsic value method, compensation expense is determined as the difference between the market price of the underlying stock and the exercise price of the equity instrument granted. If the intrinsic value method is used, disclosure is made of earnings and per share amounts as if the fair value method had been used. The corporation has elected to use the intrinsic value method of accounting for its fixed stock option plans and its performance stock option plan. Accordingly, no compensation cost has been recognized for these plans. Had the fair value method been used, the impact would be as disclosed in *Note 16.* Effective Jan. 1, 2003, TransAlta has elected to account for stock-based compensation in accordance with the fair value method and will expense stock-based compensation in respect of stock options granted after that date.

Effective Jan. 1, 2002, the corporation prospectively adopted the new CICA standard for goodwill and other intangibles. The new standards require business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. It also specifies that goodwill and certain intangibles are no longer subject to amortization, but are instead tested

for impairment at least annually. The adoption of this standard resulted in the reclassification of $29.3 million from acquired intangibles to goodwill, which is no longer subject to amortization under the new standard. There was no impairment of goodwill upon adoption of this standard, nor was there an impairment at Dec. 31, 2002.

The CICA amended its standard on foreign currency translation effective Jan. 1, 2002. The changes require that translation gains and losses arising on long-term foreign currency denominated monetary items be included in income in the current period. Previously, these gains and losses were to be amortized over the life of the related item. As TransAlta designates long-term foreign currency denominated items as hedges of net investments in foreign operations, all gains and losses arising on the translation of these items are deferred and included in the cumulative translation adjustment account in shareholders' equity; therefore, this amendment has no impact on TransAlta.

In November 2001, the CICA released an accounting guideline on hedging relationships, which specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges. The guideline also identifies situations where hedge accounting is to be discontinued. The guideline is effective for years beginning on or after July 1, 2003. TransAlta has adopted the guideline effective Jan. 1, 2002 and met the criteria for all hedging relationships with the exception of written swaptions, which are ineffective under the guideline. Hedge accounting was discontinued for the written swaptions in accordance with the guideline. The impact on earnings for the year ended Dec. 31, 2002 was a decrease of $2.0 million after tax.

The CICA has amended its standard on the recognition, measurement and disclosure of the impairment of long-lived assets. This standard is effective April 1, 2003 and requires that an impairment loss be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount that the long-lived asset's carrying value exceeds its fair value. TransAlta early adopted this standard in the fourth quarter of 2002. In accordance with the standard, the impairment calculation for the Wabamun plant resulted in the recognition of an impairment charge of $110.0 million pre-tax, which is included in asset impairment and equipment cancellation charges.

In the third quarter of 2002, in response to changes in accounting standards in the U.S. with respect to energy trading activities, the corporation adopted a policy that all gains and losses on energy trading contracts not related to generation assets be shown net in the statement of earnings. Consistent with these recommendations, the corporation has chosen to disclose the gross transaction volumes for those energy trading contracts that are physically settled.

Outlook

To achieve earnings growth, the corporation's focus will be to increase the efficiency and availability of generating assets, continue to improve productivity in operating, maintenance and administrative (OM&A) costs and add generating capacity. Energy Marketing will focus on maximizing pricing opportunities for non-contracted production from Generation and taking advantage of short-term market opportunities within pre-established risk limits.

Generation

The key factors affecting Generation's financial results for 2003 continue to be the megawatt capacity in production, the availability of and production from facilities, the pricing applicable to non-contracted production and the costs of production.

Grow Capacity

Generating capacity in 2003 will be higher than in 2002 due to completion of the 252 MW Campeche plant, the 259 MW Chihuahua plant and the 75 MW McBride Lake joint venture which are scheduled to commence commercial operations in the first, third and fourth quarters of

2003, respectively. In connection with the construction of the Sarnia Regional Cogeneration Plant, TransAlta purchased 190 MW of existing operational assets during 2002 and subsequently decommissioned 55 MW. Construction of an additional 440 MW at Sarnia is expected to be completed in the first quarter of 2003 to provide 575 MW of ongoing generating capacity. The purchase of a 50 per cent interest in CE Gen in January 2003 will add another 378 MW of capacity. Availability for 2003 is expected to be similar to 2002; however, production is expected to be higher than in 2002 due to the increased capacity. Additional maintenance in Alberta will be offset by increased availability at Centralia.

At Dec. 31, 2002, assets under construction totalled $1,206.8 million and was comprised of the Sarnia, Campeche and Chihuahua plants. When these plants are commissioned, depreciation expense will be charged to operations. Depreciation on the above plants as well as the Big Hanaford plant is expected to be approximately $58 million in 2003.

Power Prices

Electricity spot prices in 2003 are expected to be slightly higher than in 2002 for the Alberta and Pacific Northwest markets due to higher natural gas prices and reduced hydro production as a result of lower snow pack. However, spark spreads are expected to compress due to excess generation capacity and the proportionately higher increase in the cost of natural gas as a result of high gas field decline rates, stagnant drilling activity and an increasing storage deficit. Expected electricity demand compared to levels of supply is expected to prevent prices from materially increasing over the medium term.

Legislation was passed in Ontario in late 2002 capping retail market prices at $43 per megawatt hour (MWh). Wholesale market prices have not been directly impacted by this decision, however liquidity in the Ontario market has declined. As a result, future revenues for merchant capacity at the Sarnia plant may be affected.

Exposure to volatility in electricity prices is substantially mitigated through long-term electricity sales contracts at fixed prices. Exposure to volatility in gas prices is substantially mitigated by the flow-through of the costs of natural gas to customers in some of these contracts and the existence of price caps in certain natural gas supply contracts. For 2003, approximately 85 per cent of output is contracted, a significant portion of which relates to the Alberta PPAs which are capacity related based on achieving agreed availability rates. The corporation will continue to focus on maximizing availability under these contracts.

Improving Efficiency

Generation is continuing its focus on reducing coal costs and ongoing OM&A expenses. Areas for reductions were identified and have been, and continue to be, implemented. The benefits of these initiatives were partially realized in 2002, and are expected to become fully apparent in 2003 and beyond. There will be more planned maintenance expenses incurred at the Alberta thermal plants in 2003 than in 2002.

Energy Marketing

Short-term and real-time markets are expected to continue to be active. Energy Marketing will continue to concentrate on buying and selling electricity and gas in these markets. The electricity trades involve matching buyers and sellers, arranging for transmission capacity and scheduling movement of the commodity. This type of trading does not involve long-term contracts and therefore VAR and volatility related to fair value accounting is low.

In 2003, Energy Marketing is expected to achieve comparable results to 2002 based on similar levels of activity.

Capital Expenditures and Acquisitions

In 2003, capital expenditures will be approximately $830 million, of which approximately $275 million will be spent on the Genesee 3 project, described on page 31, approximately $170 million will be spent to complete the two Mexican plants, $60 million will be spent on other growth projects and approximately $325 million will be spent on maintenance and productivity expenditures as a result

of planned outages and preventative maintenance. Financing for these expenditures is expected to come from a combination of cash flow from operations, monetization of selected assets, the issuance of common shares and the issuance of debt. For further information on financing, see discussion under Liquidity and Capital Resources in this MD&A.

On Jan. 13, 2003, TransAlta and EPCOR announced a