

2017 Sustainability Performance

Stakeholder Communication and Value Creation

The information contained herein seeks to highlight our ability to create value for investors, stakeholders and society in the short, medium and long term. The selection of key information and key metrics disclosed in this integrated report and our full sustainability disclosures follow a materiality assessment process, which identifies key impact areas to our stakeholders. We subsequently are guided by, and place focus on, reporting on these key areas. More information on key areas of materiality can be found in the sustainability section of our website.

Sustainability Targets and Results

Sustainability targets are strategic goals that support the long-term success of our business. Targets are set in line with business unit goals to manage key areas of concern for stakeholders and ultimately improve our environmental and social performance in these areas.

2017 Sustainability Targets			
	Financial	Results	Comments
1. Maintain our investment grade rating	Achieve and maintain investment grade credit metrics	Partly achieved	TransAlta maintains investment grade ratings from three out of four rating agencies: S&P (BBB-) negative outlook, DBRS (BBB low) stable outlook, and Fitch (BBB-) stable outlook
2. Increase focus on FFO⁽¹⁾ and EBITDA⁽¹⁾	Deliver comparable EBITDA and FFO in the range of \$1,025 million to \$1,135 million and \$765 million to \$855 million respectively	Achieved	For the year ended Dec. 31, 2017, comparable EBITDA was \$1,062 million and FFO was reported at \$804 million

(1) Represents our original outlook. In the second quarter we reduced the following 2017 targets: Comparable EBITDA from the previously announced target range of \$1,025 million to \$1,135 million to \$1,025 to \$1,100 million, FFO from the previously announced target range of \$765 million to \$855 million to \$765 million to \$820 million FCF target range to \$270 million to \$310 million from the previously announced target range of \$300 million to \$365 million.

	Human and Intellectual	Results	Comments
3. Reduce safety incidents	Achieve an Injury Frequency Rate below 0.50	Not achieved	Although we missed our target, we achieved one of our lowest IFRs in our history. Our 2017 IFR was 0.72, a 15 per cent improvement over 2016 performance
4. Human Resources	Maintain voluntary turnover percentage under eight per cent	Not achieved	Our voluntary turnover in 2017 was 11 per cent. We seek to maintain voluntary turnover or attrition under eight per cent as this is considered a healthy amount of attrition for a corporation. As we transition away from coal-fired generation and its associated jobs we face significant workforce challenges with retention. The lack of job security and uncertainty is unsettling for many of our coal employees and we faced this challenge in 2017
5. Support employee development	Continue development plans for all high-potential employees at the top three levels of the organization	Achieved	In 2017, we completed a six-month (intermittent) leadership training program, called Elevate, for our middle management. This resulted in the training of approximately 75 leaders in our company. The program was focused on establishing a learner's mindset, building trust and influence, strengths-based leadership, being transparent, providing feedback, collaboration as a team and innovation

	Natural	Results	Comments
6. Minimize fleet-wide environmental incidents	Keep recorded incidents (including spills and air infractions) below 11	Achieved	We recorded 5 significant environmental incidents in 2017, none of which had a material environmental impact. This was a 54 per cent improvement over 2016 performance
7. Increase mine reclaimed acreage	Replace annual topsoil at Highvale mine at a rate of 74 acres/year	Partly achieved	We were able to replace 57 acres in 2017. Competing priorities for equipment and inclement weather (early thaw and rain) limited the opportunities to meet the topsoil placement goal
8. Utilize coal by-product	Sell a minimum of two million tonnes of coal byproduct materials during the period 2015 to 2017	Achieved	We reused and sold over 2 million tonnes of coal byproducts (fly ash, bottom ash, cenospheres and gypsum) from 2015 to 2017
9. Reduce air emissions	95 per cent reduction from 2005 levels of TransAlta coal facility NO _x and SO ₂ emissions by 2030	On track	We reduced levels of NO _x and SO ₂ in 2017 by close to 4,000 tonnes collectively and remain on track to realize these emission reductions by 2030
10. Reduce GHG emissions	a) Our goal, in line with a commitment to the UN Sustainable Development Goals (SDGs), is to reduce our total GHG emissions in 2021 to 30 per cent below 2015 levels	On track	We reduced GHG emissions in 2017 by close to 1 million tonnes and we remain on track to realize emission reductions by 2021/2030
	b) Our goal, in line with a commitment to the UN SDGs and prevention of two degrees Celsius of global warming, is to reduce our total greenhouse gas emissions in 2030 to 60 per cent below 2015 levels	On track	

	Social and Relationship	Results	Comments
11. Support youth education with community investment	Approximately \$0.75 million of community investment spending will be directed to supporting youth education	Achieved	Some of our partnerships included the University of Calgary, Southern and Northern Alberta Institute of Technology, Mount Royal University, Banff Centre for Arts and Creativity (Indigenous leadership scholarships), Mother Earth Children's Charter School (Indigenous kindergarten to grade 9), Calgary Stampede (The Young Canadians - ages 7 to 18), national Canada and US Indigenous scholarships (post-secondary for trades and academic) and the Alberta Council for Environmental Education
12. Increase internal best practice Aboriginal engagement awareness	Develop an engagement and consultation best practices document for project planning and development as a guide for employees to work with Indigenous communities and stakeholders	Achieved	An Indigenous Awareness presentation was developed, which includes historical facts and basic concepts around consultation and engagement, which will be shared with all employees. The same presentation will be used at the Schulich School of Engineering at the University of Calgary in 2018 for one of their ethics courses
	Comprehensive	Results	Comments
13. Transition from coal to gas-fired and renewable generation	Continue negotiations with the Government of Alberta, using a principles-based approach, to ensure we have regulation certainty and the capacity needed to invest in clean power	Achieved	We signed a Memorandum of Understanding with the Alberta Government in 2016 to advance coal to gas conversions, expand credits for existing renewable energy facilities and level the playing field for incumbents from a capacity market. We also signed an OCA with the Alberta Government totaling \$524 million of compensation to the Corporation

2018 Sustainable Development Targets

Our 2018 and longer-term sustainability targets support the long-term success of our business. Targets are set in line with business unit goals to manage key areas of concern for stakeholders and ultimately improve our environmental and social performance in these areas. We continue to evolve and adapt targets to focus on anticipated key areas of materiality to stakeholders. Targets are outlined below:

	Human and Intellectual	Annual Performance Status
1. Reduce safety incidents	Achieve an Injury Frequency Rate below 0.53	20 per cent improvement over 2017 performance (0.75)
	Achieve a Total Incident Frequency rate below 2.83	New target
2. Manage employee turnover	Maintain voluntary turnover percentage under eight per cent	Consistent with 2017 target, we seek to maintain voluntary turnover under 8 per cent as this is considered a healthy amount of turnover
3. Support employee development	Advance our Elevate leadership training, completing training for 75 professionals or subject matter experts	Builds upon 2017 target and our continued focus on employee development