

### **Poplar Creek**

In late 2015, we closed the restructuring of our contractual arrangement for power generation services with Suncor at Suncor's oil sands base site near Fort McMurray and the acquisition of Suncor's interest in two wind projects located in Alberta and Ontario.

The Poplar Creek cogeneration facility had been built and contracted to provide steam and electricity to Suncor until 2023. Under the terms of the new arrangement, Suncor acquired from TransAlta two steam turbines with an installed capacity of 132 MW and certain transmission interconnection assets. In addition, Suncor assumed full operational control of the cogeneration facility, including responsibility for all capital costs and the right to use the full 244 MW capacity of TransAlta's gas generators until Dec. 31, 2030. We provide Suncor with technical support to maximize performance and reliability of plant equipment. Ownership of the entire Poplar Creek cogeneration facility will transfer to Suncor in 2030.

As part of the arrangement, we acquired Suncor's 20 MW Kent Breeze wind facility located in Ontario and Suncor's 51 per cent interest in the 88 MW Wintering Hills merchant wind facility located in Alberta. The Kent Breeze facility has a 20-year contract with the Ontario IESO. On Jan. 26, 2017, we announced the sale of our 51 per cent interest in the Wintering Hills merchant wind facility for approximately \$61 million.

The Poplar Creek transaction creates value by increasing the duration of the contract to 2030 from the prior 2023 expiry, while the sale of Wintering Hills reduces our exposure to Alberta's merchant power market, and allows us an injection of near-term liquidity and financial flexibility to pay down debt. Additionally, we were able to further leverage our interest in the Poplar Creek cogeneration facility by completing a private placement in late December, of \$202.5 million bonds that mature in 2030 and are secured by a first ranking charge over the equity interests of the issuer that issued such bonds, further allowing us to deleverage our corporate debt.

### **Windsor**

During 2015, we executed a new 15-year power supply contract with the Ontario IESO for our Windsor facility, which was effective Dec. 1, 2016. The contract is similar to the contract signed in 2013 for our Ottawa facility. Under the new contract, the plant will become dispatchable for up to 72 MW of capacity. The new contract provides long-term stable earnings for this facility.

### **Parkeston**

During 2015, we executed an extension to our PPA to supply power to the Kalgoorlie Consolidated Gold Mine from our 55 MW share of the Parkeston power station. The agreement extends the previous contract to October 2026 with options for early termination available to either party beginning in 2021. The contract extension will continue to provide stable cash flow for the business.

Over the last four years, we have nearly tripled the weighted average remaining contractual life of our gas fleet from six years to 19 years.

### **Human Capital**

Engaging our workforce, developing our employees, and minimizing safety incidents are the keys to human capital value creation at TransAlta. The most material impacts on our human capital performance are an engaged workforce and keeping our employees safe.

As at Dec. 31, 2017, we had 2,228 (2016 - 2,341) active employees. This number has decreased by four per cent since the previous year, following various restructuring initiatives to reduce costs and increase efficiency.

Approximately 57 per cent of our employees are unionized. We strive to maintain open and positive relationships with union representatives and regularly meet to exchange information, listen to concerns, and share ideas that further our mutual objectives. Collective bargaining is conducted in good faith, and we respect the rights of all employees to participate in collective bargaining.

### **Organizational Culture and Structure**

Our employees are central to value creation. Our corporate culture has been cultivated throughout our more than 100-year heritage of pioneering innovative ways to safely and responsibly generate reliable and affordable electricity. In 2016, we formalized our core values to help provide strategic clarity for our employees. We want our people to align with and live our core values, which are: innovation, respect, loyalty, accountability, integrity, and safety. We seek to challenge our employees to maximize their potential. We encourage alignment with our values and work ethic, while providing a foundation for leadership, collaboration, community support, growth, and work/life balance.

Our organizational structure consists of six levels, which helps facilitate pace and decision-making in our organization. Our business operates in a decentralized, business-centric model, with Coal & Mining, Gas & Renewables, Australia, and Energy Marketing and Trading defined as our four primary businesses. Our Corporate function oversees our business and provides strategic alignment.

### **Employee Benefits**

TransAlta is an attractive employer in all three countries in which we operate. We provide compensation to our employees at levels that are competitive in relation to their respective location. We strive to be an employer of choice through our total rewards program, which includes various incentive plans designed to align performance with our annual and mid-term targets, as determined annually by the Board.

Also included in compensation are various retirement savings plans. We have registered pension plans in Canada and the US, as well as a superannuation plan in Australia. The plans cover substantially all employees of the Corporation, its domestic subsidiaries, and specific named employees working internationally. These plans have defined benefit ("DB") and defined contribution ("DC") options, and in Canada there was an additional DB supplemental pension plan ("SPP") for members whose annual earnings exceed the Canadian income tax limit. The DB SPP was closed as of Dec. 31, 2015, and a new DC SPP commenced for only executive members effective Jan. 1, 2016. Current executives as of Dec. 31, 2015, were grandfathered in the DB SPP. The Australian superannuation plan is compulsory for employers with contributions required at a rate set by the government, currently 9.5 per cent of employees' wages and salaries.

The Canadian and US defined benefit pension plans are closed to new entrants, with the exception of the Highvale pension plan acquired in 2013. The US defined benefit pension plan was frozen effective Dec. 31, 2010, resulting in no future benefits being earned. The defined benefit plans are funded by the Corporation in accordance with governing regulations and actuarial valuations. We provide other health and dental benefits for disabled members and retired members, typically up to the age of 65. The supplemental pension plan is non-registered and an obligation of the Corporation. We are not obligated to fund the supplemental pension plan but are obligated to pay benefits under the terms of the plan as they come due.

### **Talent and Employee Development**

Talent and employee development is viewed as a key pillar of organizational health. In 2017, we conducted a Change Leadership Forum for our managing directors and in 2018 this program will be extended to managers. The two-day session is focused on organizational transformation with an emphasis on identifying root causes of barriers related to driving change.

In 2017, we completed a six-month (intermittent) leadership training program, called Elevate, for our middle management. This resulted in training approximately 75 leaders in the Corporation. 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. In 2018, we are continuing this program with a focus on training our professionals and subject matter experts. Our professionals will be supported by our leaders who completed the program in 2017.

In addition to Elevate, we launched a two-day leadership program in 2017 for all of our employees. The program, called Execution Engine, was designed to build capabilities for our people to create an organization that is both efficient and adaptive, while living our values. The training program was built on research into what is needed for our people to help drive and sustain change. With everyone taking this course (approximately 700 employees or 30 per cent in the past nine months) the learning has become part of how we work. Employees learn project management (i.e., idea generation,

planning, problem solving and prioritization), effective communication (i.e., presentations, meetings, emails), how to get the best out of people (coaching and influencing) and health (organizational health and personal resilience).

### Safety

The safety of our people, communities and environment is one of our seven core values. At TransAlta we operate large and complex facilities. The environments in which we work, including Canadian winters and the Australian outback, often add an additional challenge to keep our employees safe. The safety of our staff, contractors, and visitors is the top priority of our social performance. Our safety culture is further embedded into TransAlta culture each year. Every meeting of more than four people starts with a “safety moment,” which helps share key safety learnings across the Corporation.

Our approach to safety was revised in 2015 from only a focus on occupational safety to a focus on both occupational safety and preventative maintenance (targeted with safety in mind). With collaboration from ScottishPower, who achieve leading safety performance, we launched our total safety management policy, which is a two-pronged approach. The policy builds on our occupational safety program, Target Zero, which is focused on protecting our workers on site, through personal protection equipment, inspections, safety controls, job safety analyses, field-level hazard assessments and safety communications. The policy is supplemented by our Operational Integrity program, which is focused on preventing all hazards from equipment, through definition and measurement of safety-critical performance measures and operating limits. Another way to think of Operational Integrity is preventative safety.

This policy and approach has led to progress and results. In 2017 our Injury Frequency Rate (“IFR”) was 0.72 (2016 - 0.85). IFR is defined as the number of injuries (lost-time and medical) for every 200,000 hours worked. Our ultimate goal is to achieve zero injury incidents, but annually we seek improvement over the prior year. Fortunately, we have experienced no fatalities during the last three years. Our target IFR in 2018 is 0.53, a 20 per cent reduction over 2017 performance.

In 2017, we introduced a new key performance indicator to help us further improve our safety performance. Total Incident Frequency (“TIF”) tracks the total number of injuries (medical aids, lost-time injuries, restricted works and first aids) relative to employee hours worked. First aids can be minor (such as a cut or scratch) nevertheless, incident awareness and understanding provide us with preventative safety knowledge, which translates into education for employees and subsequently injury avoidance. Our TIF in 2017 was 3.54. We are targeting a TIF of 2.83 in 2018, a 20 per cent reduction over 2017 performance. As noted above, our long-term goal is zero.

Year ended Dec. 31	2017	2016	2015
IFR	0.72	0.85	0.75
TIF	3.54	-	-

We reward our plants for safety leadership annually, and this year our President’s Award for Safety Leadership went to the Ottawa Health Sciences Centre Cogeneration Team. Our cogeneration facility in Ottawa supports the Ottawa Hospital. This facility and its team have logged zero lost-time injuries for more than six years — and the effort didn’t only come from our employees. More than 100 contractors, logging more than 50,000 contractor hours, completed their work without a single lost-time injury. Our team at our Sarnia facility also displayed great safety leadership in 2017. The team had 300,000 worker exposure hours in 2017 without injury and has had 1.15 million exposure hours since an injury last occurred.

### Intellectual Capital

Intellectual capital at TransAlta is another key to value creation. Our employee culture is supported by a long-term and sustainable approach, as evidenced by over 100 years in business. A long-term commitment lends itself to goodwill and brand recognition, something we value and don’t take for granted. We believe our low cost and clean power strategy, supported by our internal values and sustainable approach to business, will help support and continue to increase our brand recognition positively.

The experience and acumen of our employees further enhances our capital value creation. This is evidenced by our 18-month ongoing internal transformation, called Project Greenlight. This project is focused on bottom-up innovation, specifically fostering a culture of idea generation, development of ideas into projects with defined KPIs, milestones and