

Social and Relationship Capital

Creating shared value for our stakeholders is the key to social and relationship value creation at TransAlta. The most material impacts to our social and relationship performance are public health and safety, anti-competitive behaviour and fostering better relationships and conditions with all stakeholders, but with a key focus on Indigenous groups. Each year we strive to do better in each of these areas.

Public Health and Safety

We seek to ensure public health and safety through measures such as restricting physical access to our operating sites and by minimizing our environmental impact. It is our goal to both keep our employees safe and the peoples and the communities in which we operate.

We specifically look to protect against the following risks:

- harm to person(s);
- damage to property;
- increased liability due to negligence; and
- loss of organizational reputation and integrity.

When addressing concerns such as occupiers' liability, our Corporate Security team liaises with stakeholders to facilitate appropriate security countermeasures and controls to prevent or reduce the identified risk. For example, in 2017 we reduced the risk of cliff jumping on or close to our hydro facilities west of Calgary. We increased awareness through a collaborative multi-agency approach and tightened up the boundaries with the introduction of natural resources, such as foliage and large boulders, to prevent vehicular access to jump spots.

A safety signage project was launched across hydro in the Canmore valley and Seebe area. Our partners also supported this action, with:

- ATCO reinforcing its facility access with fencing;
- CP Rail placed effective signage and patrols; and
- the Stoney Nation Band emergency services increasing patrols and signage.

We also co-ordinated and conducted trespassing patrols in the area with Parks Canada, RCMP and bylaw officers. In addition, identified jump spots were physically taken down with our property owners in the area.

We actively monitor air emissions from our coal and gas plants. Our large coal facilities have Continuous Emissions Monitoring Systems in place, which help us monitor our pollutant emission levels to ensure they are in line with acceptable limits. When we are in breach of regulatory limits we report this to regulatory bodies and conduct a root cause analysis to understand how we can eliminate future breaches from occurring. In 2017, we had one sulphur dioxide breach at our Centralia coal plant.

Of note, our coal plants currently capture 80 per cent of mercury emissions and the majority of particulate matter emissions. Both mercury and particulate matter emissions have been deemed harmful to human health, which we recognize and work to minimize through capture. The health impact risk from emissions that do reach our environment is minimized due to the location of our plants, which are located away from urban environments. Independent studies dated Nov. 19, 2015, and conducted by University of Alberta scientist Dr. Warren Kindzierski, using provincial government monitoring data over nine years, also show that approximately 10 per cent or less of all particulate matter in the airshed in the largest urban environment close to our facilities, Edmonton, can be attributed to coal combustion emissions. Chemical "signatures" for emissions pointed to several sources of air quality concern in Edmonton, including local industry, vehicles and wood-burning fireplaces.

Assuming reasonably anticipated growth and operating scenarios, future GHG emissions and air pollution emissions performance will be dramatically reduced in respect of our existing assets in the next five years following the sale of the Solomon Power Station to FMG and as we execute our coal-to-gas conversion strategy. GHG emissions from coal will be cut within the range of 60 per cent or 12 million tonnes CO_{2e}. We currently capture 80 per cent of mercury emissions at our coal plants, but post-coal burn mercury emissions will be eliminated. Particulate matter and sulphur dioxide emissions

will be virtually eliminated or considered negligible post-coal and diesel burn. Our nitrogen dioxide emissions will also be reduced in the range of approximately 50 per cent.

Indigenous Relationships and Partnerships

The focus of our efforts in this area is to establish solid relationships with Indigenous and Métis communities, recognizing and respecting their rights and focusing on engaging them at the earliest stages of any applicable project or development. Specifically, our Aboriginal Relations team continues to develop and enhance aboriginal relations in areas of employment, economic development, community engagement, and investment. In 2017, we once again achieved the Canadian Council for Aboriginal Business's silver-level Progressive Aboriginal Relations certification. In 2016, we introduced our STAR tracking program, which functions as a communication record-keeping and engagement measurement tool. This capacity fulfils our requirements for consultation with stakeholders and aboriginal groups alike, and is capable of producing reports (notably, government reports) as proof of engagement and consultation efforts.

In 2017, we supported an Indigenous Leadership Program at Banff Centre for Arts and Creativity. Approximately 250 Indigenous leaders from over 120 communities attended. With help from TransAlta and other supporters, Banff Centre awarded scholarships to 191 leaders from 102 Indigenous communities across Canada, giving them the opportunity to attend this Indigenous Leadership Program.

Over the past five years, TransAlta's support has provided 39 scholarships for members of Indigenous communities to attend the programs and take that learning back to their communities. Those participants have come from communities across Alberta and British Columbia including the First Nations of Alexis Nakota Sioux, Bearspaw, Chiniki, Enoch Cree, Ermineskin Cree, Fort McKay, Kainai, Montana, Paul, Piikani, Samson Cree, Siksika, Squamish, Tsuu T'ina, and Wesley.

Stakeholder Relationships

Relationships matter to TransAlta. Driven by our values, we seek to maximize value creation for our stakeholders and TransAlta.

TransAlta Stakeholders

Our stakeholders are people. Regardless of who they represent, our goal is to act in the best interests of the Corporation and to create value across our stakeholder chain. Major stakeholder categories can be summarized as shareholders, debt holders, business partners, contractors, consultants, customers, community organizations, employees, governments, Indigenous groups, industry and professional bodies, media, NGOs, public and regulatory affairs, residents and suppliers. This too encompasses our value chain. Our mindset is value creation across this chain.

Engagement Framework

Our stakeholder engagement framework is modelled and closely tied to the stakeholder engagement aspect of ISO 14001, which is an internationally recognized environmental management standard. This framework is a streamlined corporate-wide approach to ensure that engagement and relationship-building practices are consistent across TransAlta's locations and types of work.

Methods of Engagement

In order to run our business successfully, we are in consistent two-way communication with the majority of our stakeholders, some more than others. As an example, our dialogue with customers is daily, iterative and takes on many forms including meetings (in-person, virtual, and one-one), calls, emails, newsletters and feedback systems (online loops). It is both proactive and reactive. Our approach and our goal is to be proactive, which is communicating consistent messaging and information, while being transparent. There are often times we will need to be reactive, such as to a customer complaint, and we commit to timely and professional resolution using values-based dialogue. We then work to identify how to mitigate further issues, moving back to our proactive approach.

Part of our business is growth, which we achieve by developing or purchasing new assets. We proactively engage with many stakeholders in all of our geographic operating areas in Australia, Canada and the United States in order to develop and maintain relationships; assess needs and fit; and to seek out collaborative and sustainable value creation opportunities.

Recently we completed construction of our South Hedland 150 MW combined-cycle plant in Western Australia. The project took four years from RFP to commercial operation. Achieving construction and commercial operation was the outcome of successful stakeholder engagement and collaboration. We recently announced our coal-to-gas transition plan, secured by way of collaborative stakeholder engagement. This plan involved signing a Memorandum of Understanding with the Alberta government, which highlights the project fit for Alberta, not just TransAlta. The coal-to-gas project is expected to significantly reduce the environmental impact from coal (a reduction in air pollution and GHG emissions) while enabling the transition and addition of 5,000 MW of renewable energy by 2030. We are also currently exploring the expansion of our Brazeau hydro facility, which, once again, involves the collaboration, participation and approval of many stakeholders.

More details on our stakeholder engagement activities can be found via our social media channels.

Engagement Tracking and Reporting

Our Stakeholder and Indigenous Relations tracking program functions as a Corporation-wide communication record-keeping tool, which is managed by our Stakeholder and Indigenous Relations team. This capacity fulfils our requirements for consultation with stakeholders and aboriginal groups alike, and is capable of producing reports (notably, government reports) as proof of engagement and consultation efforts. Built as an in-house application, this tool has no operating cost or fees and has the ability to grant different levels of access to information. Furthermore, the tool can store email conversations, documents and voice-mail messages related to any project, event, or issue, and use them in reports. It can also produce an array of statistical reports showing frequencies and volumes of engagement based on project, stakeholder, stakeholder group, issue or keywords.

Engagement and Board Communication

The Board believes that it is important to have constructive engagement with its shareholders and other stakeholders and has established means for the shareholders of the Corporation and other stakeholders to communicate with the Board through the use of a confidential Ethics Helpline or by writing directly to the Board. The contact information for communicating with the Board is published in the Whistleblower section of this MD&A. Shareholders and other stakeholders may, at their option, communicate with the Board on an anonymous basis. The Corporation has also adopted a Shareholder Engagement Policy that describes the Board's approach to shareholder communication. In addition, the Board has adopted an annual non-binding advisory vote on the Corporation's approach to executive compensation. The Corporation is committed to ensuring continued good relations and communications with its shareholders and other stakeholders and will continue to evaluate its practices in light of any new governance initiatives or developments.

Highlights

In early 2018 we launched our new energy services for customers. Our customer solutions team has partnered with best-in-class energy service providers to help businesses achieve:

- energy consumption and energy costs management;
- market price risks and volume exposure mitigation;
- sustainability initiatives such as self-generated electricity; and
- monitoring of energy market design changes, price signals and applicable and available incentives.

Our energy services include solar, energy efficiency audits, distributed generation and building automation. To learn more, please visit the Energy Services customer page on our website.

Supply Chain

We continue to seek solutions to advance supply chain sustainability. In 2017 we partnered with Ivalua Inc. to optimize our global supply chain management operations. After an exhaustive review of all leading vendors, Ivalua was selected for its comprehensive Source-to-Pay platform, flexible architecture and overall ability to give TransAlta a competitive

advantage. Key business values that we expect include increased supply chain efficiency, reduced lead times, lower costs and improved supplier performance.

We continue to offer our business units optional sustainability terms and conditions for inclusion within supplier agreements. These terms and conditions include suppliers communicating their sustainability policies, strategy and performance; documented systems for labour practices; environmental management systems; disclosure of environmental infringements; disclosure of anticompetitive behavior; disclosure on climate change management; third-party certifications on products; and demonstration of community investments. Furthermore, as we explore major projects, such as our Brazeau hydro expansion, we are assessing vendors both at the RFP evaluation stage and in up-front information requests on such elements as safe work practices, environmental practices and Indigenous spend. This means, for example, getting information on:

- estimated value of services that will be procured through local Indigenous businesses (in RFP template);
- estimated number of local Indigenous persons that will be employed (in RFP template);
- understanding overall community spend and engagement; and
- understanding through interview processes and stakeholder work the state of community relations.

Local Communities

TransAlta creates value for local communities through the generation of an essential service. We provide reliable, cost-efficient and clean power in Australia, Canada and the United States. With the phase-out of coal, we seek to secure favourable outcomes for our workers and the communities surrounding our plants. Our proposed coal-to-gas conversions provide the opportunity to maintain some jobs during conversions, support sector jobs, and redeploy some of our workforce in the plants or toward renewables growth. Electricity and energy have always been at the heart of the economy in Alberta, and any changes in the industry must therefore support our communities. Conversion will also help keep municipal, provincial and federal tax revenues supporting these communities. TransAlta advocates for sufficiently long timelines for transition to minimize disruption and negative economic impact, and to provide support for facility redevelopment, funds for retraining, and economic diversification.

Community Investments

During 2017, TransAlta contributed \$2.6 million in donations and sponsorships (2016 - \$2.5 million). One of our major community investments is to United Way campaigns across Canada and the US. This year, TransAlta employees, retirees, contractors and the Corporation raised over \$1.28 million and directed over \$0.2 million to United Way youth education programs.

In 2017, we had a focus on youth education and achieved our target to direct \$0.75 million of community investment to this cause. Some of our partnerships included the University of Calgary, Southern and Northern Alberta Institutes 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.

On July 30, 2015, we announced a US\$55 million community investment over 10 years to support energy efficiency, economic and community development, and education and retraining initiatives in Washington State. The US\$55 million community investment is part of the TransAlta Energy Transition Bill, passed in 2011. This bill was a historic agreement between policymakers, environmentalists, labour leaders, and TransAlta to transition away from coal in Washington State, closing the Centralia facility's two units, one in 2020 and the other in 2025.

In 2017, some highlights from grant investment included construction of an 86 kW solar project at the Tenino High School and construction of a 56 kW solar photovoltaic project for the library at Centralia College (both projects reducing power bills and CO₂ emissions). A new boiler system for the Toledo Elementary School is planned in 2018. Projects that promote a clean economy transition in Washington State will be ongoing until 2025.