

WASTE MANAGEMENT INC  
Form 10-Q  
October 25, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12154

Waste Management, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

73-1309529  
(I.R.S. Employer  
Identification No.)

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

1001 Fannin Street

Houston, Texas 77002

(Address of principal executive offices)

(713) 512-6200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at October 22, 2018 was 426,347,027 (excluding treasury shares of 203,935,434).



## PART I.

## Item 1. Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share and Par Value Amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 83	\$ 22
Accounts receivable, net of allowance for doubtful accounts of \$25 and \$21, respectively	1,943	1,805
Other receivables	399	569
Parts and supplies	103	96
Other assets	147	132
Total current assets	2,675	2,624
Property and equipment, net of accumulated depreciation and amortization of \$18,174 and \$17,704, respectively	11,815	11,559
Goodwill	6,390	6,247
Other intangible assets, net	554	547
Restricted trust and escrow accounts	394	319
Investments in unconsolidated entities	419	269
Other assets	344	264
Total assets	\$ 22,591	\$ 21,829
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 940	\$ 1,040
Accrued liabilities	1,171	980
Deferred revenues	512	503
Current portion of long-term debt	447	739
Total current liabilities	3,070	3,262
Long-term debt, less current portion	9,569	8,752
Deferred income taxes	1,245	1,248
Landfill and environmental remediation liabilities	1,832	1,770
Other liabilities	634	755
Total liabilities	16,350	15,787
Commitments and contingencies		
Equity:		
Waste Management, Inc. stockholders' equity:		
Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued	6	6
Additional paid-in capital	4,927	4,933

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Retained earnings	9,464	8,588
Accumulated other comprehensive income (loss)	(16)	8
Treasury stock at cost, 203,157,357 and 196,963,558 shares, respectively	(8,142)	(7,516)
Total Waste Management, Inc. stockholders' equity	6,239	6,019
Noncontrolling interests	2	23
Total equity	6,241	6,042
Total liabilities and equity	\$ 22,591	\$ 21,829

See Notes to Condensed Consolidated Financial Statements.

2

---

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions, Except per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating revenues	\$ 3,822	\$ 3,716	\$ 11,072	\$ 10,833
Costs and expenses:				
Operating	2,373	2,302	6,870	6,758
Selling, general and administrative	345	356	1,083	1,099
Depreciation and amortization	376	350	1,107	1,034
Restructuring	1	(2)	4	—
(Gain) loss from divestitures, asset impairments and unusual items, net	28	9	(14)	10
Income from operations	3,123	3,015	9,050	8,901
Other income (expense):				
Interest expense, net	(93)	(90)	(277)	(272)
Equity in net losses of unconsolidated entities	(9)	(8)	(29)	(53)
Other, net	—	—	1	—
Income before income taxes	(102)	(98)	(305)	(325)
Income tax expense	597	603	1,717	1,607
Consolidated net income	99	215	325	561
Less: Net income (loss) attributable to noncontrolling interests	498	388	1,392	1,046
Net income attributable to Waste Management, Inc.	(1)	2	(2)	—
Basic earnings per common share	\$ 499	\$ 386	\$ 1,394	\$ 1,046
Diluted earnings per common share	\$ 1.16	\$ 0.88	\$ 3.24	\$ 2.37
Cash dividends declared per common share	\$ 1.16	\$ 0.87	\$ 3.22	\$ 2.36
	\$ 0.465	\$ 0.425	\$ 1.395	\$ 1.275

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

Nine Months Ended

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

	Three Months Ended		September 30,	
	September 30, 2018	2017	2018	2017
Consolidated net income	\$ 498	\$ 388	\$ 1,392	\$ 1,046
Other comprehensive income (loss), net of tax:				
Derivative instruments, net	2	2	6	6
Available-for-sale securities, net	9	—	8	2
Foreign currency translation adjustments	22	46	(33)	86
Post-retirement benefit obligation, net	—	(1)	—	—
Other comprehensive income (loss), net of tax	33	47	(19)	94
Comprehensive income	531	435	1,373	1,140
Less: Comprehensive income (loss) attributable to noncontrolling interests	(1)	2	(2)	—
Comprehensive income attributable to Waste Management, Inc.	\$ 532	\$ 433	\$ 1,375	\$ 1,140

See Notes to Condensed Consolidated Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Consolidated net income	\$ 1,392	\$ 1,046
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	1,107	1,034
Deferred income tax benefit	(32)	(46)
Interest accretion on landfill liabilities	71	68
Provision for bad debts	35	31
Equity-based compensation expense	63	74
Net gain on disposal of assets	(21)	(7)
(Gain) loss from divestitures, asset impairments and other, net	(14)	38
Equity in net losses of unconsolidated entities, net of dividends	29	25
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	43	112
Other current assets	(22)	(25)
Other assets	(3)	(2)
Accounts payable and accrued liabilities	177	105
Deferred revenues and other liabilities	(167)	(65)
Net cash provided by operating activities	2,658	2,388
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(342)	(78)
Capital expenditures	(1,240)	(981)
Proceeds from divestitures of businesses and other assets (net of cash divested)	106	19
Other, net	(30)	(10)
Net cash used in investing activities	(1,506)	(1,050)
Cash flows from financing activities:		
New borrowings	174	197
Debt repayments	(338)	(749)
Net commercial paper borrowings	523	501
Common stock repurchase program	(750)	(750)
Cash dividends	(605)	(566)
Exercise of common stock options	45	92
Tax payments associated with equity-based compensation transactions	(28)	(47)
Other, net	(36)	(9)
Net cash used in financing activities	(1,015)	(1,331)



Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents	—	1
Increase in cash, cash equivalents and restricted cash and cash equivalents	137	8
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	293	94
Cash, cash equivalents and restricted cash and cash equivalents at end of period	\$ 430	\$ 102
Reconciliation of cash, cash equivalents and restricted cash and cash equivalents at end of period:		
Cash and cash equivalents	\$ 83	\$ 35
Restricted cash and cash equivalents included in restricted trust and escrow accounts	347	67
Cash, cash equivalents and restricted cash and cash equivalents at end of period	\$ 430	\$ 102

See Notes to Condensed Consolidated Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Millions, Except Shares in Thousands)

(Unaudited)

	Waste Management, Inc. Stockholders' Equity								
	Total	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amounts	Noncontrolling Interests
Balance, December 31, 2017	\$ 6,042	630,282	\$ 6	\$ 4,933	\$ 8,588	\$ 8	(196,964)	\$ (7,516)	\$ 23
Adoption of new accounting standards	80	—	—	—	85	(5)	—	—	—
Consolidated net income	1,392	—	—	—	1,394	—	—	—	(2)
Other comprehensive income (loss), net of tax	(19)	—	—	—	—	(19)	—	—	—
Cash dividends	(605)	—	—	—	(605)	—	—	—	—
Equity-based compensation transactions, net	120	—	—	34	2	—	2,181	84	—
Common stock repurchase program	(750)	—	—	(40)	—	—	(8,375)	(710)	—
Divestiture of noncontrolling interest	(19)	—	—	—	—	—	—	—	(19)
Other, net	—	—	—	—	—	—	1	—	—
Balance, September 30, 2018	\$ 6,241	630,282	\$ 6	\$ 4,927	\$ 9,464	\$ (16)	(203,157)	\$ (8,142)	\$ 2

See Notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; its wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management, Inc. or its subsidiaries are the primary beneficiaries as described in Note 14. Waste Management, Inc. is a holding company and all operations are conducted by its subsidiaries. When the terms “the Company,” “we,” “us” or “our” are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term “WM,” we are referring only to Waste Management, Inc., the parent holding company.

We are North America’s leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our “Solid Waste” business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, disposal, and recycling and resource recovery services. Through our subsidiaries, we are also a leading developer, operator and owner of landfill gas-to-energy facilities in the United States (“U.S.”).

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. We also provide additional services that are not managed through our Solid Waste business, which are presented in this report as “Other.” Additional information related to our segments is included in Note 8.

The Condensed Consolidated Financial Statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in conjunction with the financial statements included in our Annual Report on Form 10 K for the year ended December 31, 2017.

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are difficult to determine, and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, long-lived asset impairments and reserves associated with our insured and self-insured claims. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Adoption of New Accounting Standards

Revenue Recognition — In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 associated with revenue recognition. On January 1, 2018, we adopted ASU 2014-09 using the modified retrospective approach for all ongoing customer contracts. Our results of operations for the reported periods after January 1, 2018 are presented under this amended guidance, while prior period amounts are not adjusted and continue to be reported in accordance with historical accounting guidance.

WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The impact of adopting the amended guidance primarily relates to (i) the deferral of certain sales incentives, which previously were expensed as incurred, but under the new guidance are capitalized as other assets and amortized to selling, general and administrative expenses over the expected life of the customer relationship and (ii) the recognition of certain consideration payable to our customers as a reduction in operating revenues, which under historical guidance was recorded as operating expenses. We recognized a net \$80 million increase to our retained earnings as of January 1, 2018 for the cumulative impact of adopting the amended guidance associated with the capitalization of sales incentives as contract acquisition costs consisting of a \$108 million asset and a related \$28 million deferred tax liability. There were no material impacts on our consolidated financial statements, which include these changes, as a result of our adoption of this amended guidance.

For contracts with an effective term greater than one year, we applied the standard's practical expedient that permits the exclusion of unsatisfied performance obligations as our right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations. We also applied the standard's optional exemption for performance obligations related to contracts that have an original expected duration of one year or less. See Note 4 for additional information and disclosures related to this amended guidance.

Financial Instruments — In January 2016, the FASB issued ASU 2016-01 associated with the recognition and measurement of financial assets and liabilities with further clarifications made in February 2018 with the issuance of ASU 2018-03. The amended guidance requires certain equity investments that are not consolidated and not accounted for under the equity method to be measured at fair value with changes in fair value recognized in net income rather than as a component of accumulated other comprehensive income (loss). It further states that an entity may choose to measure equity investments that do not have readily determinable fair values using a quantitative approach, or measurement alternative, which is equal to its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company adopted this amended guidance on January 1, 2018 using a prospective transition approach, which did not have an impact on our consolidated financial statements.

We concluded that all equity investments within the scope of ASU 2016-01, which primarily relate to equity securities previously accounted for under the cost method, do not have readily determinable fair values. Accordingly, the value of these investments beginning January 1, 2018 has been measured using a quantitative approach, or the measurement alternative, as noted above. As of September 30, 2018, the carrying amount of our investments without readily determinable fair values was \$85 million. During the three and nine months ended September 30, 2018, we did not recognize any impairments or other adjustments related to these investments.

Statement of Cash Flows — In August 2016, the FASB issued ASU 2016-15 associated with the classification of certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued ASU 2016-18 associated with the presentation of restricted cash and cash equivalents in the statement of cash flows. The objective of the amended guidance was to reduce existing diversity in practice. This amended guidance was retrospectively adopted on January 1, 2018 and required the following disclosures and changes to the presentation of our financial statements:

- Cash, cash equivalents and restricted cash and cash equivalents reported on the Condensed Consolidated Statements of Cash Flows now includes restricted cash and cash equivalents of \$62 million, \$67 million and \$271 million as of December 31, 2016, September 30, 2017 and December 31, 2017, respectively, in restricted trust and escrow

accounts in our Condensed Consolidated Balance Sheets as well as previously reported cash and cash equivalents.

- Cash payments made within 120 days of the acquisition date of a business combination to settle a contingent consideration liability are classified as cash outflows from investing activities. Thereafter, cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) are classified as cash outflows from financing activities and any excess is classified as cash

7

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

outflows from operating activities. The adoption of this amended guidance did not have a material impact on our Condensed Consolidated Statements of Cash Flows.

Our restricted cash and cash equivalents generally consist of funds deposited into specific accounts for purposes of funding insurance claims and demonstrating our ability to meet our landfill final capping, closure, post-closure and environmental remediation obligations.

**Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income** — In February 2018, the FASB issued ASU 2018-02 associated with the reclassification of certain tax effects from accumulated other comprehensive income (loss). This amended guidance allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Act”) which was signed into law on December 22, 2017. We early adopted this amended guidance on January 1, 2018, and as a result, elected to reclassify \$5 million of stranded tax effects from accumulated other comprehensive income (loss) to retained earnings using a specific identification approach. See Note 11 for additional disclosures related to this amended guidance.

**Income Taxes** — In March 2018, the FASB issued ASU 2018-05 associated with the accounting and disclosures around the enactment of the Act and the Securities and Exchange Commission’s Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”)*, which the Company has adopted. See Note 5 for the disclosures related to this amended guidance.

**New Accounting Standards Pending Adoption**

**Financial Instrument Credit Losses** — In June 2016, the FASB issued ASU 2016 13 associated with the measurement of credit losses on financial instruments. The amended guidance replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The amended guidance is effective for the Company on January 1, 2020, with early adoption permitted beginning January 1, 2019. We are assessing the provisions of this amended guidance and evaluating the impact on our consolidated financial statements.

**Leases** — In February 2016, the FASB issued ASU 2016 02 associated with lease accounting. There have been further amendments, including practical expedients, with the issuance of ASU 2018-01 and ASU 2018-11 in January 2018 and July 2018, respectively. The amended guidance requires the recognition of lease assets and lease liabilities on the balance sheet for those leases with terms in excess of 12 months and currently classified as operating leases. Disclosure of key information about leasing arrangements will also be required. The amended guidance is effective for the Company on January 1, 2019. To date, we have performed the following activities related to the adoption of the standard: (i) formed an implementation work team; (ii) performed training for the various organizations that will be most affected by the new standard; (iii) elected our practical expedients, including our transition method; (iv) acquired a software solution to manage and account for leases under the new standard and (v) identified our initial lease population that will be impacted by the new standard. We continue to evaluate the impact of this amended guidance on our consolidated financial statements.

**Reclassifications**

When necessary, reclassifications have been made to our prior period financial information to conform to the current year presentation.

8

---



WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 2. Landfill and Environmental Remediation Liabilities

Liabilities for landfill and environmental remediation costs are presented in the table below (in millions):

	September 30, 2018			December 31, 2017		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	\$ 131	\$ 27	\$ 158	\$ 128	\$ 28	\$ 156
Long-term	1,622	210	1,832	1,547	223	1,770
	\$ 1,753	\$ 237	\$ 1,990	\$ 1,675	\$ 251	\$ 1,926

The changes to landfill and environmental remediation liabilities for the nine months ended September 30, 2018 are reflected in the table below (in millions):

	Landfill	Environmental Remediation
December 31, 2017	\$ 1,675	\$ 251
Obligations incurred and capitalized	62	—
Obligations settled	(71)	(18)
Interest accretion	71	4
Revisions in estimates and interest rate assumptions (a) (b)	7	2
Acquisitions, divestitures and other adjustments	9	(2)
September 30, 2018	\$ 1,753	\$ 237

- (a) The amount reported for our landfill liabilities includes an increase of \$11 million due to the acceleration of the expected timing of capping activities for a landfill. See Note 10 for discussion of the impairment charge related to this landfill.
- (b) The amount reported for our environmental remediation liabilities includes the impact of an increase in the risk-free discount rate used to measure our liabilities from 2.5% at December 31, 2017 to 3.0% at September 30, 2018, resulting in a decrease of \$5 million to our environmental remediation liabilities.

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of demonstrating our ability to meet our final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Note 14 for additional information related to these trusts.

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 3. Debt

The following table summarizes the major components of debt as of each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of September 30, 2018:

	September 30, 2018	December 31, 2017
Revolving credit facility (weighted average interest rate of 2.7% as of September 30, 2018)	\$ 44	\$ —
Commercial paper program (weighted average interest rate of 2.4% as of September 30, 2018 and 1.9% as of December 31, 2017)	1,053	515
Canadian term loan and revolving credit facility (weighted average effective interest rate of 2.5% as of December 31, 2017)	—	113
Senior notes, maturing through 2045, interest rates ranging from 2.4% to 7.75% (weighted average interest rate of 4.3% as of September 30, 2018 and December 31, 2017)	6,222	6,222
Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 1.35% to 4.3% (weighted average interest rate of 2.2% as of September 30, 2018 and 2.0% as of December 31, 2017)	2,318	2,370
Capital leases and other, maturing through 2040, interest rates up to 12%	431	327
Debt issuance costs, discounts and other	(52)	(56)
	10,016	9,491
Current portion of long-term debt	447	739
	\$ 9,569	\$ 8,752

## Debt Classification

As of September 30, 2018, we had \$2.2 billion of debt maturing within the next 12 months, including (i) \$1.1 billion of short-term borrowings under our commercial paper program; (ii) \$806 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months, which is prior to their scheduled maturities; (iii) \$260 million of other debt with scheduled maturities within the next 12 months, including \$209 million of tax-exempt bonds and (iv) C\$57 million, or \$44 million, of Canadian borrowings under our long-term U.S. and Canadian revolving credit facility (“\$2.75 billion revolving credit facility”). Of the \$1.1 billion of short-term borrowings outstanding under our commercial paper program as of September 30, 2018 that are supported by our \$2.75 billion revolving credit facility, we have the intent and ability to refinance or maintain \$955 million of these borrowings on a long-term basis, and we have classified these amounts as long-term debt. As of September 30, 2018, we have classified an additional \$761 million of debt as long-term because we have the intent and ability to refinance these borrowings on a long-term basis as supported by the forecasted available capacity under our \$2.75 billion revolving credit facility, as discussed below. The remaining \$447 million is classified as current obligations.

As of September 30, 2018, we also have \$268 million of variable-rate tax-exempt bonds that are supported by letters of credit under our \$2.75 billion revolving credit facility. The interest rates on our variable-rate tax-exempt bonds are generally reset on either a daily or weekly basis through a remarketing process. All recent tax-exempt bond

remarketings have successfully placed Company bonds with investors at market-driven rates and we currently expect future remarketings to be successful. However, if the remarketing agent is unable to remarket our bonds, the remarketing agent can put the bonds to us. In the event of a failed remarketing, we have the availability under our \$2.75 billion revolving credit facility to fund these bonds until they are remarketed successfully. Accordingly, we have also classified these borrowings as long-term in our Condensed Consolidated Balance Sheet as of September 30, 2018.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Access to and Utilization of Credit Facilities and Commercial Paper Program

**\$2.75 Billion Revolving Credit Facility** — In June 2018, we entered into the \$2.75 billion revolving credit facility, which amended and restated our prior long-term U.S. revolving credit facility. Amendments to the credit agreement included (i) increasing total capacity under the facility from \$2.25 billion to \$2.75 billion; (ii) establishment of a \$750 million accordion feature that may be used to increase total capacity in future periods; (iii) extending the term through June 2023 and (iv) inclusion of two one-year extension options. Waste Management of Canada Corporation and WM Quebec Inc., each an indirect wholly-owned subsidiary of WM, were added as additional borrowers under the \$2.75 billion revolving credit facility, and the agreement permits borrowing in Canadian dollars up to the U.S. dollar equivalent of \$375 million, with such borrowings to be repaid in Canadian dollars. Waste Management Holdings, Inc., a wholly-owned subsidiary of WM, guarantees all of the obligations under the \$2.75 billion revolving credit facility.

The \$2.75 billion revolving credit facility provides us with credit capacity to be used for either cash borrowings or to support letters of credit or commercial paper. The rates we pay for outstanding U.S. or Canadian loans are generally based on LIBOR or CDOR, respectively, plus a spread depending on the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. As of September 30, 2018, we had C\$57 million, or \$44 million, of outstanding borrowings under this facility. We had \$606 million of letters of credit issued and \$1.1 billion of outstanding borrowings under our commercial paper program, both supported by this facility, leaving unused and available credit capacity of \$1.0 billion as of September 30, 2018.

**Commercial Paper Program** — We have a commercial paper program that enables us to borrow funds for up to 397 days at competitive interest rates. The commercial paper program is fully supported by our \$2.75 billion revolving credit facility. In June 2018, we amended our commercial paper program, increasing our ability to borrow funds from \$1.5 billion to \$2.75 billion, provided that the aggregate outstanding amount of commercial paper borrowings, together with borrowings and issued letters of credit under the \$2.75 billion revolving credit facility, shall not at any time exceed the aggregate authorized borrowing capacity of such facility. As of September 30, 2018, we had \$1.1 billion of outstanding borrowings under our commercial paper program.

**Canadian Term Loan and Revolving Credit Facility** — In August 2018, we terminated our Canadian credit agreement, as discussed further below. Prior to its termination, the Canadian credit agreement provided the Company with (i) C\$50 million of revolving credit capacity to be used for borrowings or letters of credit and (ii) C\$460 million of non-revolving term credit that was prepayable without penalty.

**Other Letter of Credit Facilities** — As of September 30, 2018, we utilized \$541 million of other letter of credit facilities, which are both committed and uncommitted, with terms maturing through September 2019.

#### Debt Borrowings and Repayments

**Revolving Credit Facility** — During the first half of 2018, we borrowed and repaid \$28 million under our revolving credit facility, which we amended and restated in June 2018, as discussed above. During the third quarter of 2018, we had net cash Canadian borrowings of C\$57 million, or \$44 million, under our \$2.75 billion revolving credit facility, all of which was used to repay the remaining balance under our Canadian term loan, as discussed below.

Commercial Paper Program — During the nine months ended September 30, 2018, we had net cash borrowings of \$523 million to support new business opportunities and for general corporate purposes.

Canadian Term Loan and Revolving Credit Facility — Through August 2018, we repaid the remaining balance of C\$142 million, or \$109 million, owed under our Canadian term loan and revolving credit facility and subsequently terminated our Canadian credit agreement. The remaining change in the carrying value of outstanding borrowings under our Canadian term loan and revolving credit facility is due to foreign currency translation.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Tax-Exempt Bonds** — During the nine months ended September 30, 2018, we repaid \$52 million of our tax-exempt bonds with available cash.

**Capital Leases and Other** — The increase in our capital leases and other debt obligations during the nine months ended September 30, 2018 is primarily related to our new federal low-income housing investment discussed in Note 5, which increased our debt obligations by \$139 million. This increase was offset by a net decrease of \$35 million, primarily due to divestitures and net cash repayments of debt at maturity.

#### 4. Operating Revenues

Our Solid Waste operating revenues are primarily generated from fees charged for our collection, transfer, disposal, and recycling and resource recovery services, and from sales of commodities by our recycling and landfill gas-to-energy operations. Revenues from our collection operations are influenced by factors such as collection frequency, type of collection equipment furnished, type and volume or weight of the waste collected, distance to the disposal facility or material recovery facility and our disposal costs. Revenues from our landfill operations consist of tipping fees, which are generally based on the type and weight or volume of waste being disposed of at our disposal facilities. Fees charged at transfer stations are generally based on the weight or volume of waste deposited, taking into account our cost of loading, transporting and disposing of the solid waste at a disposal site. Recycling revenues generally consist of tipping fees and the sale of recycling commodities to third parties. The fees we charge for our services generally include our environmental fee, fuel surcharge and regulatory recovery fee, which are intended to pass through to customers direct and indirect costs incurred. We also provide additional services that are not managed through our Solid Waste business, including operations managed by both our Strategic Business Solutions (“WMSBS”) and Energy and Environmental Services (“EES”) organizations, recycling brokerage services, landfill gas-to-energy services and certain other expanded service offerings and solutions.

Our revenue from sources other than customer contracts primarily relates to lease revenue associated with compactors and balers. Revenue from these leasing arrangements was not material and represented approximately 1% of total revenue for each of the reported periods.

See Note 8 for additional information related to revenue by reportable segment and major lines of business.

#### Revenue Recognition

We generally recognize revenue as services are performed or products are delivered. For example, revenue typically is recognized as waste is collected, tons are received at our landfills or transfer stations, or recycling commodities are collected or delivered as product. We bill for certain services prior to performance. Such services include, among others, certain commercial and residential contracts and equipment rentals. These advance billings are included in deferred revenues and recognized as revenue in the period service is provided.

#### Accounts Receivable

Accounts receivable, which are recorded when billed, when services are performed or when cash is advanced, are claims against third parties that will generally be settled in cash. The carrying value of our receivables, net of the allowance for doubtful accounts, represents the estimated net realizable value. We estimate our allowance for doubtful accounts based on historical collection trends; type of customer, such as municipal or commercial; the age of

outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when our internal collection efforts have been unsuccessful.

12

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of our performance and classify them as current since they are earned within a year and there are no significant financing components. Substantially all our deferred revenues during the reported periods are realized as revenues within one to three months, when the related services are performed.

Contract Acquisition Costs

Our incremental direct costs of obtaining a contract, which consist primarily of sales incentives, are generally deferred and amortized to selling, general and administrative expense over the estimated life of the relevant customer relationship, ranging from 5 to 13 years. Contract acquisition costs that are paid to the customer are deferred and amortized as a reduction in revenue over the contract life. Our contract acquisition costs are classified as current or noncurrent based on the timing of when we expect to recognize amortization and are included in other assets in our Condensed Consolidated Balance Sheet.

As of September 30, 2018, we had \$141 million of deferred contract costs, of which \$109 million was related to deferred sales incentives. During the three and nine months ended September 30, 2018, we amortized \$6 million and \$17 million of sales incentives to selling, general and administrative expense, and \$8 million and \$27 million of other contract acquisition costs as a reduction in revenue, respectively.

Long-Term Contracts

Approximately 30% of our total revenue is derived from contracts with an effective term greater than one year. The consideration for these contracts is variable in nature. The variable elements of these contracts primarily include the number of homes and businesses served and annual rate changes based on consumer price index, fuel prices or other operating costs. Such contracts are generally within our collection, recycling and other lines of business and have a weighted average remaining contract life of approximately four years. We do not disclose the value of unsatisfied performance obligations for these contracts as our right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations.

5. Income Taxes

Our effective income tax rate for the three and nine months ended September 30, 2018 was 16.6% and 18.9%, respectively, compared with 35.7% and 34.9%, respectively, for the comparable prior year periods. We evaluate our effective income tax rate at each interim period and adjust it as facts and circumstances warrant. The decrease in the effective income tax rate for the three and nine months ended September 30, 2018, compared with the prior year periods, was primarily due to the enactment of tax reform, as discussed below.

The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and nine months ended September 30, 2018 was primarily due to a reduction in income tax expense related to (i) adjustments to our accruals and related deferred taxes due to the filing of our 2017 income tax returns and changes in state laws; (ii) federal tax credits and (iii) impacts of enactment of tax reform offset, in part, by the unfavorable impact of state and local income taxes. The nine-month period was also favorably impacted by tax audit settlements.



The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended September 30, 2017 was primarily due to the unfavorable impact of state and local income taxes offset, in part, by the favorable impact of federal tax credits and adjustments to our accruals and related deferred taxes due to the filing of our 2016 income tax returns. The difference between federal income taxes computed at the federal statutory rate

13

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and reported income taxes for the nine months ended September 30, 2017 was primarily due to the favorable impact of federal tax credits, excess tax benefits related to equity-based compensation and adjustments to our accruals and related deferred taxes due to the filing of our 2016 income tax returns offset, in part, by the unfavorable impact of state and local income taxes and nondeductible impairments.

**Enactment of Tax Reform** — The Act was signed into law on December 22, 2017. The most significant impacts of the Act to the Company include a reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, and a one-time, mandatory transition tax on deemed repatriation of previously tax-deferred and unremitted foreign earnings.

In accordance with ASU 2018-05 and SAB 118, the Company recognized the provisional tax impacts related to the remeasurement of our deferred income tax assets and liabilities and the one-time, mandatory transition tax on deemed repatriation during the year ended December 31, 2017. In September 2018, measurement period adjustments to the provisional tax impacts due to the filing of our 2017 income tax returns resulted in a reduction in our income tax expense of \$12 million. The reduction consisted of a net income tax benefit of \$7 million for the remeasurement of our deferred income tax assets and liabilities due to the decrease in the federal corporate income tax rate and an income tax benefit of \$5 million for the one-time, mandatory transition tax. Additional adjustments may be necessary in future periods due to, among other things, the significant complexity of the Act and anticipated additional regulatory guidance that may be issued by the Internal Revenue Service (“IRS”), changes in analysis, interpretations and assumptions the Company has made and actions the Company may take as a result of the Act. We are continuing to gather information to assess the application of the Act and expect to complete our analysis during 2018.

**Adjustments to Accruals and Related Deferred Taxes** — During the three and nine months ended September 30, 2018, adjustments to our accruals and related deferred taxes due to the filing of our 2017 income tax returns and changes in state laws resulted in a reduction in our income tax expense of \$27 million and \$35 million, respectively, compared with \$15 million for both of the prior year periods.

**Investments Qualifying for Federal Tax Credits** — We have significant financial interests in entities established to invest in and manage low-income housing properties and a refined coal facility. On September 28, 2018 we acquired an additional noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. Our consideration for this investment totaled \$157 million, which was comprised of a \$139 million note payable and an initial cash payment of \$18 million. We support the operations of these entities in exchange for a pro-rata share of the tax credits they generate. The low-income housing investments and the coal facility’s refinement processes qualify for federal tax credits that we expect to realize through 2030 under Sections 42 and 45D, and through 2019 under Section 45, respectively, of the Internal Revenue Code.

We account for our investments in these entities using the equity method of accounting, recognizing our share of each entity’s results of operations and other reductions in the value of our investments in equity in net losses of unconsolidated entities, in our Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2018, we recognized \$5 million and \$17 million of net losses and a reduction in our income tax expense of \$18 million and \$40 million, respectively, primarily because of tax credits realized from these investments. During the three and nine months ended September 30, 2017, we recognized \$6 million and \$21 million of net losses and a reduction in our income tax expense of \$14 million and \$39 million, respectively, primarily because of tax credits realized from these investments. Interest expense associated with our investments in low-income housing properties was not material for the periods presented. See Note 14 for additional information

related to these unconsolidated variable interest entities.

Tax Audit Settlements — We are currently under audit by the IRS, the Canada Revenue Agency and various state and local taxing authorities and our audits are in various stages of completion. During the three and nine months ended September 30, 2018, we settled various tax audits, which resulted in a reduction in our income tax expense of \$2 million and \$35 million, respectively.

14

---

WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 6. Earnings Per Share

Basic and diluted earnings per share were computed using the following common share data (shares in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Number of common shares outstanding at end of period	427.1	434.2	427.1	434.2
Effect of using weighted average common shares outstanding	0.8	3.6	3.2	6.1
Weighted average basic common shares outstanding	427.9	437.8	430.3	440.3
Dilutive effect of equity-based compensation awards and other contingently issuable shares	2.9	3.0	2.9	3.0
Weighted average diluted common shares outstanding	430.8	440.8	433.2	443.3
Potentially issuable shares	7.6	8.2	7.6	8.2
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding	1.5	1.9	1.5	2.3

## 7. Commitments and Contingencies

**Financial Instruments** — We have obtained letters of credit, surety bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation and other obligations. Letters of credit generally are supported by our \$2.75 billion revolving credit facility and other credit facilities established for that purpose. These facilities are discussed further in Note 3. Surety bonds and insurance policies are supported by (i) a diverse group of third-party surety and insurance companies; (ii) an entity in which we have a noncontrolling financial interest or (iii) a wholly-owned insurance captive, the sole business of which is to issue surety bonds and/or insurance policies on our behalf.

Management does not expect that any claims against or draws on these instruments would have a material adverse effect on our financial condition, results of operations or cash flows. We have not experienced any unmanageable difficulty in obtaining the required financial assurance instruments for our current operations. In an ongoing effort to mitigate risks of future cost increases and reductions in available capacity, we continue to evaluate various options to access cost-effective sources of financial assurance.

**Insurance** — We carry insurance coverage for protection of our assets and operations from certain risks including general liability, automobile liability, workers' compensation, real and personal property, directors' and officers' liability, pollution legal liability and other coverages we believe are customary to the industry. Our exposure to loss for insurance claims is generally limited to the per incident deductible under the related insurance policy. Our exposure could increase if our insurers are unable to meet their commitments on a timely basis.

We have retained a significant portion of the risks related to our general liability, automobile liability and workers' compensation claims programs. "General liability" refers to the self-insured portion of specific third-party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our self-insured portions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation or internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from such valuations and estimates. In December 2017, we elected to use a wholly-owned insurance captive to insure the deductibles for our general liability, automobile liability and workers' compensation claims programs.

We do not expect the impact of any known casualty, property, environmental or other contingency to have a material impact on our financial condition, results of operations or cash flows.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Guarantees** — In the ordinary course of our business, WM and WM Holdings enter into guarantee agreements associated with their subsidiaries' operations. Additionally, WM and WM Holdings have each guaranteed all of the senior debt of the other entity. No additional liabilities have been recorded for these intercompany guarantees because all of the underlying obligations are reflected in our Condensed Consolidated Balance Sheets. See Note 15 for further discussion.

As of September 30, 2018, we have guaranteed the obligations and certain performance requirements of third parties in connection with both consolidated and unconsolidated entities, including (i) guarantees to cover certain market value losses for approximately 775 homeowners' properties adjacent to or near 18 of our landfills and (ii) guarantees totaling \$85 million for performance obligations of our Wheelabrator business, divested in 2014. We have also agreed to indemnify certain third-party purchasers against liabilities associated with divested operations prior to such sale. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets or other market conditions are achieved post-closing, and we have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. We do not believe that these contingent obligations will have a material adverse effect on the Company's financial condition, results of operations or cash flows, and we do not expect the financial impact of operational and financial performance guarantees to materially exceed the recorded fair value.

**Environmental Matters** — A significant portion of our operating costs and capital expenditures could be characterized as costs of environmental protection. The nature of our operations, particularly with respect to the construction, operation and maintenance of our landfills, subjects us to an array of laws and regulations relating to the protection of the environment. Under current laws and regulations, we may have liabilities for environmental damage caused by our operations, or for damage caused by conditions that existed before we acquired a site. In addition to remediation activity required by state or local authorities, such liabilities include potentially responsible party ("PRP") investigations. The costs associated with these liabilities can include settlements, certain legal and consultant fees, as well as incremental internal and external costs directly associated with site investigation and clean-up.

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the environmental impact investigation. In these cases, we use the amount within the range that is our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately \$140 million higher than the \$237 million recorded in the Condensed Consolidated Balance Sheet as of September 30, 2018. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to our balance sheet and income from operations. These adjustments could be material in any given period.

As of September 30, 2018, we have been notified by the government that we are a PRP in connection with 75 locations listed on the Environmental Protection Agency's ("EPA's") Superfund National Priorities List ("NPL"). Of the 75

sites at which claims have been made against us, 15 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to evaluate or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any amounts due from other participating parties at or near the time that we make the remedial expenditures. The other 60 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The majority of proceedings involving NPL sites that we do not own are based on allegations that certain of our subsidiaries (or their predecessors) transported hazardous substances to the sites, often prior to our acquisition of these subsidiaries. CERCLA generally provides for liability for those parties owning, operating, transporting to or disposing at the sites. Proceedings arising under Superfund typically involve numerous waste generators and other waste transportation and disposal companies and seek to allocate or recover costs associated with site investigation and remediation, which costs could be substantial and could have a material adverse effect on our consolidated financial statements. At some of the sites at which we have been identified as a PRP, our liability is well defined as a consequence of a governmental decision and an agreement among liable parties as to the share each will pay for implementing that remedy. At other sites, where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, our future costs are uncertain.

On October 11, 2017, the EPA issued its Record of Decision (“ROD”) with respect to the previously proposed remediation plan for the San Jacinto waste pits in Harris County, Texas. McGinnes Industrial Maintenance Corporation (“MIMC”), an indirect wholly-owned subsidiary of WM, operated some of the waste pits from 1965 to 1966 and has been named as a site PRP. In 1998, WM acquired the stock of the parent entity of MIMC. MIMC has been working with the EPA and other named PRPs as the process of addressing the site proceeds. On April 9, 2018, MIMC and International Paper Company entered into an Administrative Order on Consent agreement with the EPA to develop a remedial design for the EPA’s selected remedy for the site. Allocation of responsibility among the PRPs for the selected remedy has not been established. As of September 30, 2018 and December 31, 2017, the recorded liability for MIMC’s estimated potential share of the EPA’s selected remedy and related costs was \$55 million. MIMC’s ultimate liability could be materially different from current estimates.

Item 103 of the SEC’s Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings, or such proceedings are known to be contemplated, unless we reasonably believe that the matter will result in no monetary sanctions, or in monetary sanctions, exclusive of interest and costs, of less than \$100,000. The following matters are disclosed in accordance with that requirement. We do not currently believe that the eventual outcome of any such matters, individually or in the aggregate, could have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

On July 10, 2013, the EPA issued a Notice of Violation (“NOV”) to Waste Management of Wisconsin, Inc., an indirect wholly-owned subsidiary of WM, alleging violations of the Resource Conservation Recovery Act concerning acceptance of certain waste that was not permitted to be disposed of at the Metro Recycling & Disposal Facility in Franklin, Wisconsin. The parties are exchanging information and working to resolve the NOV.

The Hawaii Department of Health and the EPA have asserted civil penalty claims against Waste Management of Hawaii, Inc. (“WMHI”), an indirect wholly-owned subsidiary of WM, based on stormwater discharges at the Waimanalo Gulch Sanitary Landfill following two major rainstorms in December 2010 and January 2011 and alleged violations of stormwater permit requirements prior to and after the storms. WMHI operates the landfill for the City and County of Honolulu.

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no



actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third parties, among other factors. Additionally, we often enter into agreements with landowners imposing obligations on

17

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these agreements inherently involves subjective determinations and may result in disputes, including litigation.

**Litigation** — As a large company with operations across the U.S. and Canada, we are subject to various proceedings, lawsuits, disputes and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions that have been filed against us, and that may be filed against us in the future, include personal injury, property damage, commercial, customer, and employment-related claims, including purported state and national class action lawsuits related to: alleged environmental contamination, including releases of hazardous material and odors; sales and marketing practices, customer service agreements and prices and fees; and federal and state wage and hour and other laws. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. These actions are in various procedural stages, and some are covered, in part, by insurance. We currently do not believe that the eventual outcome of any such actions will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

WM's charter and bylaws provide that WM shall indemnify against all liabilities and expenses, and upon request shall advance expenses to any person, who is subject to a pending or threatened proceeding because such person is or was a director or officer of the Company. Such indemnification is required to the maximum extent permitted under Delaware law. Accordingly, the director or officer must execute an undertaking to reimburse the Company for any fees advanced if it is later determined that the director or officer was not permitted to have such fees advanced under Delaware law. Additionally, the Company has direct contractual obligations to provide indemnification to each of the members of WM's Board of Directors and each of WM's executive officers. The Company may incur substantial expenses in connection with the fulfillment of its advancement of costs and indemnification obligations in connection with actions or proceedings that may be brought against its former or current officers, directors and employees.

**Multiemployer Defined Benefit Pension Plans** — About 20% of our workforce is covered by collective bargaining agreements with various local unions across the U.S. and Canada. As a result of some of these agreements, certain of our subsidiaries are participating employers in a number of trustee-managed multiemployer defined benefit pension plans ("Multiemployer Pension Plans") for the covered employees. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these Multiemployer Pension Plans. A complete or partial withdrawal from a Multiemployer Pension Plan may also occur if employees covered by a collective bargaining agreement vote to decertify a union from continuing to represent them. Any other circumstance resulting in a decline in Company contributions to a Multiemployer Pension Plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans.

We do not believe that any future liability relating to our past or current participation in, or withdrawals from, the Multiemployer Pension Plans to which we contribute will have a material adverse effect on our business, financial condition or liquidity. However, liability for future withdrawals could have a material adverse effect on our results of operations or cash flows for a particular reporting period, depending on the number of employees withdrawn and the financial condition of the Multiemployer Pension Plan(s) at the time of such withdrawal(s).

Tax Matters — We participate in the IRS's Compliance Assurance Process, which means we work with the IRS throughout the year towards resolving any material issues prior to the filing of our annual tax return. Any unresolved issues as of the tax return filing date are subject to routine examination procedures. We are currently in the examination phase of IRS audits for the 2017 and 2018 tax years and expect these audits to be completed within the next 18 months. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2011. Additionally, we are under audit by the Canada Revenue Agency for the 2014 tax year. We maintain a liability for uncertain tax positions, the balance of which management believes is adequate. Results of audit assessments by taxing authorities are not currently expected to have a material adverse effect on our financial condition, results of operations or cash flows.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 8. Segment and Related Information

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. The 17 Areas constitute our operating segments and we have evaluated the aggregation criteria and concluded that, based on the similarities between our Areas, including the fact that our Solid Waste business is homogenous across geographies with the same services offered across the Areas, aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas' income from operations margins. The economic variations experienced by our Areas are attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area's current or future economic performance.

Annually, we analyze the Areas' income from operations margins for purposes of segment reporting and in the fourth quarter of 2017, we realigned our Solid Waste tiers to reflect changes in their relative economic characteristics and prospects. These changes are the results of various factors including acquisitions, divestments, business mix and the economic climate of various geographies. Reclassifications have been made to our prior period consolidated financial information to conform to the most current presentation.

Tier 1 is comprised of our operations across the Southern U.S., with the exception of Southern California and the Florida peninsula, and also includes the New England states, the tri-state area of Michigan, Indiana and Ohio, and Western Canada. Tier 2 now includes Southern California, Eastern Canada, Wisconsin and Minnesota. Tier 3 now encompasses all the remaining operations including the Pacific Northwest and Northern California, the Mid-Atlantic region of the U.S., the Florida peninsula, Illinois and Missouri.

The operating segments not evaluated and overseen through the 17 Areas are presented herein as "Other" as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized financial information concerning our reportable segments is shown in the following table (in millions):

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Three Months Ended September 30:				
2018				
Solid Waste:				
Tier 1	\$ 1,506	\$ (277)	\$ 1,229	\$ 416
Tier 2	671	(127)	544	142
Tier 3	1,818	(353)	1,465	291
Solid Waste	3,995	(757)	3,238	849
Other	629	(45)	584	(15)
	4,624	(802)	3,822	834
Corporate and Other	—	—	—	(135)
Total	\$ 4,624	\$ (802)	\$ 3,822	\$ 699
2017				
Solid Waste:				
Tier 1	\$ 1,432	\$ (258)	\$ 1,174	\$ 398
Tier 2	660	(114)	546	142
Tier 3	1,711	(313)	1,398	313
Solid Waste	3,803	(685)	3,118	853
Other	662	(64)	598	(16)
	4,465	(749)	3,716	837
Corporate and Other	—	—	—	(136)
Total	\$ 4,465	\$ (749)	\$ 3,716	\$ 701

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Nine Months Ended September 30:				
2018				
Solid Waste:				
Tier 1	\$ 4,364	\$ (787)	\$ 3,577	\$ 1,176
Tier 2	1,947	(361)	1,586	405
Tier 3	5,227	(1,012)	4,215	877
Solid Waste	11,538	(2,160)	9,378	2,458
Other	1,849	(155)	1,694	(25)
	13,387	(2,315)	11,072	2,433
Corporate and Other	—	—	—	(411)
Total	\$ 13,387	\$ (2,315)	\$ 11,072	\$ 2,022
2017				
Solid Waste:				
Tier 1	\$ 4,189	\$ (754)	\$ 3,435	\$ 1,159
Tier 2	1,903	(329)	1,574	400
Tier 3	4,979	(909)	4,070	877
Solid Waste	11,071	(1,992)	9,079	2,436
Other	1,922	(168)	1,754	(66)
	12,993	(2,160)	10,833	2,370
Corporate and Other	—	—	—	(438)
Total	\$ 12,993	\$ (2,160)	\$ 10,833	\$ 1,932

The mix of operating revenues from our major lines of business are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Commercial	\$ 1,007	\$ 936	\$ 2,948	\$ 2,764
Residential	639	635	1,885	1,888
Industrial	723	673	2,068	1,930
Other	117	107	333	330
Total collection	2,486	2,351	7,234	6,912
Landfill	926	884	2,646	2,487
Transfer	445	412	1,257	1,192
Recycling	337	375	954	1,122
Other (a)	430	443	1,296	1,280
Intercompany (b)	(802)	(749)	(2,315)	(2,160)

Total	\$ 3,822	\$ 3,716	\$ 11,072	\$ 10,833
-------	----------	----------	-----------	-----------

---

- (a) The “Other” line of business includes (i) our WMSBS organization; (ii) our landfill gas-to-energy operations; (iii) certain services within our EES organization, including our construction and remediation services and our services associated with the disposal of fly ash and (iv) certain other expanded service offerings and solutions. In addition, our “Other” line of business reflects the results of non-operating entities that provide financial assurance and self-insurance support, net of intercompany activity.
- (b) Intercompany revenues between lines of business are eliminated in the Condensed Consolidated Financial Statements included within this report.

21

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fluctuations in our operating results may be caused by many factors, including period-to-period changes in the relative contribution of revenue by each line of business, changes in commodity prices and general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher construction and demolition waste volumes. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes resulting from climate change can significantly affect the operating results of the Areas affected. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can increase our revenues in the Areas affected. While weather-related and other event driven special projects can boost revenues through additional work for a limited time, as a result of significant start-up costs and other factors, such revenue can generate earnings at comparatively lower margins.

9. Acquisitions and Divestitures

Acquisitions

During the nine months ended September 30, 2018, we acquired 21 solid waste businesses. Total consideration, net of cash acquired, for these acquisitions was \$350 million, which included \$329 million in cash paid and \$21 million of other consideration, primarily purchase price holdbacks. During the nine months ended September 30, 2018, we also paid \$13 million of purchase price holdbacks, of which \$7 million related to current year acquisitions. The businesses acquired provide collection, transfer and disposal services. As of September 30, 2018, the allocation of the purchase price for these acquisitions is preliminary; fair value estimates of identifiable assets acquired and liabilities assumed are based on management's estimates, judgments and assumptions and are subject to change until finalized.

Divestitures

During the nine months ended September 30, 2018, we sold certain ancillary operations and received cash proceeds from these divestitures of \$86 million and recognized net gains of \$43 million, which are included in (gain) loss from divestitures, asset impairments and unusual items, net in the Condensed Consolidated Statement of Operations.

10. Asset Impairments and Unusual Items

(Gain) loss from divestitures, asset impairments and unusual items, net

During the nine months ended September 30, 2018, we recognized a net gain of \$14 million, primarily related to net gains from divestitures of \$43 million due to the sale of certain ancillary operations, which were partially offset by a \$29 million charge to impair a landfill in our Tier 3 segment based on an internally developed discounted projected cash flow analysis, taking into account continued volume decreases and revised capping cost estimates.



Equity in net losses of unconsolidated entities

During the nine months ended September 30, 2017, we recognized \$28 million of impairment charges to write down equity method investments in waste diversion technology companies to their estimated fair values.

22

---

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 11. Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, which is included as a component of Waste Management, Inc. stockholders' equity, are as follows (in millions, with amounts in parentheses representing decreases to accumulated other comprehensive income):

	Derivative Instruments	Available- for-Sale Securities	Foreign Currency Translation Adjustments	Post- Retirement Benefit Obligations	Total
Balance, December 31, 2017	\$ (33)	\$ 15	\$ 29	\$ (3)	\$ 8
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$0, \$3, \$0 and \$0, respectively	—	8	(33)	—	(25)
Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (expense) benefit of \$2, \$0, \$0 and \$0, respectively	6	—	—	—	6
Net current period other comprehensive income (loss)	6	8	(33)	—	(19)
Adoption of new accounting standard (a)	(7)	3	—	(1)	(5)
Balance, September 30, 2018	\$ (34)	\$ 26	\$ (4)	\$ (4)	\$ (16)

(a) As of January 1, 2018, we adopted ASU 2018-02 and reclassified stranded tax effects to retained earnings. See Note 1 for further discussion of ASU 2018-02.

We had no active derivatives outstanding during the reported periods. Amounts reclassified out of accumulated other comprehensive income (loss) associated with our previously terminated cash flow hedges were not material for the periods presented.

## 12. Common Stock Repurchase Program

The Company repurchases shares of its common stock as part of capital allocation programs authorized by our Board of Directors. During the six months ended June 30, 2018, we entered into and completed two accelerated share repurchase (“ASR”) agreements to repurchase \$450 million of our common stock, and we received 5.4 million shares in connection with these two ASR agreements. In July 2018, we entered into a third ASR agreement to repurchase \$200 million of our common stock. Pursuant to the July 2018 ASR agreement, we delivered \$200 million cash and received 1.8 million shares. The weighted average per share price of the 7.2 million shares of common stock received under the three ASR agreements through September 30, 2018 was \$85.04. The July 2018 ASR agreement completed in October 2018, at which time we received 0.4 million additional shares based on a final weighted average per share price of \$90.07.

From March 2018 through May 2018, we repurchased an additional 1.2 million shares in open market transactions in compliance with Rule 10b5-1 and Rule 10b-18 of the Exchange Act for \$100 million, inclusive of per-share

commissions, at a weighted average per share price of \$83.20.

As of September 30, 2018, the Company has authorization for \$500 million of future share repurchases. Any future share repurchases pursuant to this authorization of our Board of Directors will be made at the discretion of management and will depend on factors similar to those considered by the Board of Directors in making dividend declarations, including our net earnings, financial condition and cash required for future business plans.

23

---

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 13. Fair Value Measurements

## Assets and Liabilities Accounted for at Fair Value

Our assets and liabilities that are measured at fair value on a recurring basis include the following (in millions):

	September 30, 2018	December 31, 2017
Fair Value Measurements Using:		
Quoted prices in active markets (Level 1):		
Money market funds	\$ 82	\$ 225
	82	225
Significant other observable inputs (Level 2):		
Available-for-sale securities	50	49
Fixed-income securities	45	47
	95	96
Significant unobservable inputs (Level 3):		
Redeemable preferred stock (a)	66	55
	66	55
Total Assets	\$ 243	\$ 376

(a) When available, Level 3 investments have been measured based on third-party investors' recent or pending transactions in these securities, which are considered the best evidence of fair value. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public company comparable transactions. In September 2018, the fair value of our redeemable preferred stock increased \$11 million based on a recent third-party investors' transaction in these securities.

## Fair Value of Debt

As of September 30, 2018 and December 31, 2017, the carrying value of our debt was \$10.0 billion and \$9.5 billion, respectively. The estimated fair value of our debt was approximately \$10.1 billion and \$9.9 billion as of September 30, 2018 and December 31, 2017.

Although we have determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The use of different assumptions or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of September 30, 2018 and December 31, 2017. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.



WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### 14. Variable Interest Entities

Following is a description of our financial interests in unconsolidated and consolidated variable interest entities that we consider significant:

##### Low-Income Housing Properties and Refined Coal Facility Investments

We do not consolidate our investments in entities established to manage low-income housing properties and a refined coal facility because we are not the primary beneficiary of these entities as we do not have the power to individually direct the activities of these entities. Accordingly, we account for these investments under the equity method of accounting. Our aggregate investment balance in these entities was \$199 million and \$59 million as of September 30, 2018 and December 31, 2017, respectively. The debt balance related to our investments in low-income housing properties was \$156 million and \$34 million as of September 30, 2018 and December 31, 2017, respectively. Additional information related to these investments is discussed in Note 5.

##### Trust Funds for Final Capping, Closure, Post-Closure or Environmental Remediation Obligations

Unconsolidated Variable Interest Entities — Trust funds that are established for both the benefit of the Company and the host community in which we operate are not consolidated because we are not the primary beneficiary of these entities as we either do not have the (i) power to direct the significant activities of the trusts or (ii) power over the trusts' significant activities is shared. Our interests in these trusts are accounted for as investments in unconsolidated entities and receivables. These amounts are recorded in other receivables, investments in unconsolidated entities and long-term other assets in our Condensed Consolidated Balance Sheets, as appropriate. We also reflect our share of the unrealized gains and losses on available-for-sale securities held by these trusts as a component of our accumulated other comprehensive income (loss). Our investments and receivables related to these trusts had an aggregate carrying value of \$99 million as of September 30, 2018 and December 31, 2017.

Consolidated Variable Interest Entities — Trust funds for which we are the sole beneficiary are consolidated because we are the primary beneficiary. These trust funds are recorded in restricted trust and escrow accounts in our Condensed Consolidated Balance Sheets. Unrealized gains and losses on available-for-sale securities held by these trusts are recorded as a component of our accumulated other comprehensive income (loss). These trusts had a fair value of \$103 million and \$101 million as of September 30, 2018 and December 31, 2017, respectively.

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 15. Condensed Consolidating Financial Statements

WM Holdings has fully and unconditionally guaranteed all of WM's senior indebtedness. WM has fully and unconditionally guaranteed all of WM Holdings' senior indebtedness. None of WM's other subsidiaries have guaranteed any of WM's or WM Holdings' debt. As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information (in millions):

## CONDENSED CONSOLIDATING BALANCE SHEETS

September 30, 2018

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 83	\$ —	\$ 83
Other current assets	46	5	2,541	—	2,592
	46	5	2,624	—	2,675
Property and equipment, net	—	—	11,815	—	11,815
Investments in affiliates	24,055	24,544	—	(48,599)	—
Advances to affiliates	—	—	16,289	(16,289)	—
Other assets	7	31	8,063	—	8,101
Total assets	\$ 24,108	\$ 24,580	\$ 38,791	\$ (64,888)	\$ 22,591
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 104	\$ —	\$ 343	\$ —	\$ 447
Accounts payable and other current liabilities	71	4	2,548	—	2,623
	175	4	2,891	—	3,070
Long-term debt, less current portion	7,409	304	1,856	—	9,569
Due to affiliates	16,353	219	6,073	(22,645)	—
Other liabilities	5	—	3,706	—	3,711
Total liabilities	23,942	527	14,526	(22,645)	16,350
Equity:					
Stockholders' equity	6,239	24,053	24,546	(48,599)	6,239
Advances to affiliates	(6,073)	—	(283)	6,356	—
Noncontrolling interests	—	—	2	—	2
	166	24,053	24,265	(42,243)	6,241
Total liabilities and equity	\$ 24,108	\$ 24,580	\$ 38,791	\$ (64,888)	\$ 22,591





## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2017

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 22	\$ —	\$ 22
Other current assets	5	5	2,592	—	2,602
	5	5	2,614	—	2,624
Property and equipment, net	—	—	11,559	—	11,559
Investments in affiliates	22,393	22,893	—	(45,286)	—
Advances to affiliates	—	—	15,349	(15,349)	—
Other assets	9	31	7,606	—	7,646
Total assets	\$ 22,407	\$ 22,929	\$ 37,128	\$ (60,635)	\$ 21,829
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 537	\$ —	\$ 202	\$ —	\$ 739
Accounts payable and other current liabilities	55	9	2,459	—	2,523
	592	9	2,661	—	3,262
Long-term debt, less current portion	6,457	304	1,991	—	8,752
Due to affiliates	15,404	224	6,073	(21,701)	—
Other liabilities	8	—	3,765	—	3,773
Total liabilities	22,461	537	14,490	(21,701)	15,787
Equity:					
Stockholders' equity	6,019	22,392	22,894	(45,286)	6,019
Advances to affiliates	(6,073)	—	(279)	6,352	—
Noncontrolling interests	—	—	23	—	23
	(54)	22,392	22,638	(38,934)	6,042
Total liabilities and equity	\$ 22,407	\$ 22,929	\$ 37,128	\$ (60,635)	\$ 21,829

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2018

(Unaudited)

	WM	WM	Non-Guarantor	Eliminations	Consolidated
	WM	Holdings	Subsidiaries		
Operating revenues	\$ —	\$ —	\$ 3,866	\$ (44)	\$ 3,822
Costs and expenses	44	—	3,123	(44)	3,123
Income from operations	(44)	—	743	—	699
Other income (expense):					
Interest expense, net	(78)	(6)	(9)	—	(93)
Equity in earnings of subsidiaries, net of tax	589	592	—	(1,181)	—
Other, net	—	—	(9)	—	(9)
	511	586	(18)	(1,181)	(102)
Income before income taxes	467	586	725	(1,181)	597
Income tax expense (benefit)	(32)	(2)	133	—	99
Consolidated net income	499	588	592	(1,181)	498
Less: Net income (loss) attributable to noncontrolling interests	—	—	(1)	—	(1)
Net income attributable to Waste Management, Inc.	\$ 499	\$ 588	\$ 593	\$ (1,181)	\$ 499

Three Months Ended September 30, 2017

(Unaudited)

	WM	WM	Non-Guarantor	Eliminations	Consolidated
	WM	Holdings	Subsidiaries		
Operating revenues	\$ —	\$ —	\$ 3,716	\$ —	\$ 3,716
Costs and expenses	—	—	3,015	—	3,015
Income from operations	—	—	701	—	701
Other income (expense):					
Interest expense, net	(75)	(5)	(10)	—	(90)
Equity in earnings of subsidiaries, net of tax	432	435	—	(867)	—
Other, net	—	—	(8)	—	(8)
	357	430	(18)	(867)	(98)
Income before income taxes	357	430	683	(867)	603
Income tax expense (benefit)	(29)	(2)	246	—	215
Consolidated net income	386	432	437	(867)	388
	—	—	2	—	2

Less: Net income (loss) attributable to  
noncontrolling interests

Net income attributable to Waste  
Management, Inc.

\$ 386	\$ 432	\$ 435	\$ (867)	\$ 386
--------	--------	--------	----------	--------

28

---

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)

Nine Months Ended September 30, 2018

(Unaudited)

	WM	WM Holdings	Non Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 11,204	\$ (132)	\$ 11,072
Costs and expenses	132	—	9,050	(132)	9,050
Income from operations	(132)	—	2,154	—	2,022
Other income (expense):					
Interest expense, net	(232)	(15)	(30)	—	(277)
Equity in earnings of subsidiaries, net of tax	1,662	1,672	—	(3,334)	—
Other, net	—	—	(28)	—	(28)
	1,430	1,657	(58)	(3,334)	(305)
Income before income taxes	1,298	1,657	2,096	(3,334)	1,717
Income tax expense (benefit)	(96)	(4)	425	—	325
Consolidated net income	1,394	1,661	1,671	(3,334)	1,392
Less: Net income (loss) attributable to noncontrolling interests	—	—	(2)	—	(2)
Net income attributable to Waste Management, Inc.	\$ 1,394	\$ 1,661	\$ 1,673	\$ (3,334)	\$ 1,394

Nine Months Ended September 30, 2017

(Unaudited)

	WM	WM Holdings	Non Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 10,833	\$ —	\$ 10,833
Costs and expenses	—	—	8,901	—	8,901
Income from operations	—	—	1,932	—	1,932
Other income (expense):					
Interest expense, net	(223)	(15)	(34)	—	(272)
Equity in earnings of subsidiaries, net of tax	1,181	1,190	—	(2,371)	—
Other, net	—	—	(53)	—	(53)
	958	1,175	(87)	(2,371)	(325)
Income before income taxes	958	1,175	1,845	(2,371)	1,607
Income tax expense (benefit)	(88)	(6)	655	—	561

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Consolidated net income	1,046	1,181	1,190	(2,371)	1,046
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	—	—
Net income attributable to Waste Management, Inc.	\$ 1,046	\$ 1,181	\$ 1,190	\$ (2,371)	\$ 1,046

29

---

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Three Months Ended September 30:					
2018					
Comprehensive income	\$ 501	\$ 588	\$ 623	\$ (1,181)	\$ 531
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income attributable to Waste Management, Inc.	\$ 501	\$ 588	\$ 624	\$ (1,181)	\$ 532
2017					
Comprehensive income	\$ 388	\$ 432	\$ 482	\$ (867)	\$ 435
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	—	2	—	2
Comprehensive income attributable to Waste Management, Inc.	\$ 388	\$ 432	\$ 480	\$ (867)	\$ 433
	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Nine Months Ended September 30:					
2018					
Comprehensive income	\$ 1,400	\$ 1,661	\$ 1,646	\$ (3,334)	\$ 1,373
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	—	(2)	—	(2)
Comprehensive income attributable to Waste Management, Inc.	\$ 1,400	\$ 1,661	\$ 1,648	\$ (3,334)	\$ 1,375
2017					
Comprehensive income	\$ 1,052	\$ 1,181	\$ 1,278	\$ (2,371)	\$ 1,140
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income attributable to Waste Management, Inc.	\$ 1,052	\$ 1,181	\$ 1,278	\$ (2,371)	\$ 1,140

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2018

(Unaudited)

	WM(a)	WM Holdings(a)	Non-Guarantor Subsidiaries(a)	Eliminations	Consolidated
Cash flows provided by (used in):					
Operating activities	\$ —	\$ —	\$ 2,658	\$ —	\$ 2,658
Investing activities	—	—	(1,506)	—	(1,506)
Financing activities	—	—	(1,015)	—	(1,015)
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents	—	—	—	—	—
Intercompany activity	—	—	—	—	—
Increase in cash, cash equivalents and restricted cash and cash equivalents	—	—	137	—	137
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	—	—	293	—	293
Cash, cash equivalents and restricted cash and cash equivalents at end of period	\$ —	\$ —	\$ 430	\$ —	\$ 430

Nine Months Ended September 30, 2017

(Unaudited)

	WM(a)	WM Holdings(a)	Non-Guarantor Subsidiaries(a)	Eliminations	Consolidated
Cash flows provided by (used in):					
Operating activities	\$ —	\$ —	\$ 2,388	\$ —	\$ 2,388
Investing activities	—	—	(1,050)	—	(1,050)
Financing activities	—	—	(1,331)	—	(1,331)
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents	—	—	1	—	1
Intercompany activity	—	—	—	—	—
Increase in cash, cash equivalents and restricted cash and cash equivalents	—	—	8	—	8
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	—	—	94	—	94
Cash, cash equivalents and restricted cash and cash equivalents at end of period	\$ —	\$ —	\$ 102	\$ —	\$ 102

Cash, cash equivalents and restricted cash and  
cash equivalents at end of period

---

(a) Cash receipts and payments of WM and WM Holdings are transacted by Non-Guarantor Subsidiaries.

31

---



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included under Item 1 and our Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

In an effort to keep our stockholders and the public informed about our business, we may make "forward-looking statements." Forward-looking statements usually relate to future events and anticipated revenues, earnings, cash flows or other aspects of our operations or operating results. Forward-looking statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "forecast," "project," "estimate," "intend," and nature and generally include statements containing:

- projections about accounting and finances;
- plans and objectives for the future;
- projections or estimates about assumptions relating to our performance; or
- our opinions, views or beliefs about the effects of current or future events, circumstances or performance.

You should view these statements with caution. These statements are not guarantees of future performance, circumstances or events. They are based on facts and circumstances known to us as of the date the statements are made. All aspects of our business are subject to uncertainties, risks and other influences, many of which we do not control. Any of these factors, either alone or taken together, could have a material adverse effect on us and could change whether any forward-looking statement ultimately turns out to be true. Additionally, we assume no obligation to update any forward-looking statement as a result of future events, circumstances or developments.

Some of the risks that we believe could affect our business and financial statements for 2018 and beyond and that could cause actual results to be materially different from those that may be set forth in forward-looking statements made by the Company include the following:

- competition may negatively affect our profitability or cash flows, our pricing strategy may have negative effects on volumes, and inability to execute our pricing strategy while retaining and attracting customers may negatively affect our average yield on our collection and disposal business;
- we may fail in implementing or maintaining our cost saving, optimization and growth initiatives and overall business strategy, which could adversely impact our financial performance and growth, and implementation of our initiatives and strategy may have associated negative consequences, such as increased indebtedness, asset impairments, business disruption, exposure to purported class action lawsuits related to our customer service agreements and regulatory issues;
- a key element of our strategy is yield management through focus on price leadership, which has presented challenges to keep existing business and win new business at reasonable returns; the loss of volumes as a result of price increases and our unwillingness to pursue lower margin volumes may negatively affect our cash flows or results of operations;
- we may be unable to identify desirable acquisition targets, negotiate advantageous transactions or realize the benefits expected from such transactions, which could adversely impact our growth strategy, earnings and cash flow;
- integration of acquisitions and/or new service offerings could increase our exposure to environmental liabilities for past operations and the risk of inadvertent noncompliance with laws and regulations;

- compliance with existing or increased future regulations and/or enforcement of such regulations may restrict or change our operations, increase our operating costs or require us to make additional capital expenditures, and a decrease in regulation may lower barriers to entry for our competitors;
- possible changes in our estimates of costs for site remediation requirements, final capping, closure and post-closure obligations, compliance and regulatory developments may increase our expenses and future cash outflows;
- certain materials processed by our recycling operations are subject to significant commodity price fluctuations, as are methane gas, electricity and other energy-related products marketed and sold by our landfill gas recovery operations; fluctuations in commodity prices may have negative effects on our operating results;
- a significant portion of the recycled fiber we market is shipped to export markets across the globe, particularly China; changes in international or domestic regulations and restrictions or tariffs on American or Chinese imports and exports, including actions taken by the Chinese government, could increase operating expense, result in excess supply and drive down prices;
- changes in oil and gas prices and drilling activity, and changes in applicable regulations, could adversely affect our EES organization;
- increasing customer preference for alternatives to landfill disposal, government mandates supporting diversion of waste and recycling and prohibiting disposal of certain types of waste, and overall reduction of waste generated could continue to have a negative effect on volumes of waste going to our landfills;
- developments in technology could trigger a fundamental change in the waste management industry, as waste streams are increasingly viewed as a resource, which may adversely impact volumes at our landfills and our profitability;
- our existing and proposed service offerings to customers may require that we invest in, develop or license, and protect, new technologies; and our inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources;
- acquisitions, investments and/or new service offerings may not increase our earnings in the timeframe anticipated, or at all, due to difficulties operating in new markets or providing new service offerings, failure of emerging technologies to perform as expected, failure to operate within budget, integration issues, or regulatory issues, among others;
- adverse publicity (whether or not justified) relating to activities by our operations, employees or agents could tarnish our reputation and reduce the value of our brand. Additionally, a major operational failure, even if suffered by a competitor, may bring enhanced scrutiny and regulation of our industry, with a corresponding increase in operating expense;
- there is risk of incurring significant environmental liabilities in the use, treatment, storage, transfer and disposal of waste materials; any substantial liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows;
- weak economic conditions may negatively affect the volumes of waste generated and demand for post-consumer fiber and metals processed by our recycling operations;
- some of our customers, including governmental entities, have suffered financial difficulties affecting their credit risk, which could negatively impact our operating results, due to their credit risk and the impact of the municipal debt market on remarketing of our tax-exempt bonds;
- we may be unable to obtain and maintain required permits or to expand existing permitted capacity of our landfills, which could decrease our revenue and increase our costs;
- diesel fuel price increases or diesel fuel supply shortages may increase our expenses and restrict our ability to operate;

- we are increasingly dependent on the availability of natural gas and fueling infrastructure and vulnerable to natural gas prices; difficulty obtaining natural gas and increases in natural gas prices could increase our operating costs;
- problems with the operation of our current information technology systems or the technology systems of third parties on which we rely as well as the development and deployment of new information technology systems could decrease our efficiencies and increase our costs;
- a cybersecurity incident could negatively impact our business and our relationships with customers and expose us to litigation risk;
  - efforts by labor unions to organize our employees may increase operating expenses and we may be unable to negotiate acceptable collective bargaining agreements with those who have chosen to be represented by unions, which could lead to labor disruptions, including strikes and lock-outs, which could adversely affect our financial condition, results of operations and cash flows;
- we could face significant liabilities for withdrawal from multiemployer pension plans;
- we are subject to operational and safety risks; we closely monitor and manage landfills to minimize the risk of waste mass instability, releases of hazardous materials and odors that could be triggered by weather or natural disasters, as well as risks presented by the potential for subsurface heat reactions causing elevated landfill temperatures and increased production of leachate landfill gas and odor. These and other such risks could potentially result in injury or death of employees and others, a need to shut down or reduce operation of facilities, increased operating expense and exposure to liability for pollution and other environmental damage, and property damage or destruction;
- increased costs for financial assurance or the inadequacy of our insurance coverage could negatively impact our liquidity and increase our liabilities;
  - possible charges as a result of shut-down operations, uncompleted development or expansion projects or other events may negatively affect earnings;
- we may reduce or suspend capital expenditures, growth and acquisition activity, implementation of our business strategy, dividend declarations or share repurchases if we suffer a significant reduction in cash flows;
- we may be unable to incur future indebtedness to support our growth and development plans or to refinance our debt obligations, including near-term maturities, on terms consistent with current borrowings, and higher interest rates and market conditions may increase our expense;
- climate change legislation, including possible limits on carbon emissions, may negatively impact our results of operations by increasing expenses;
- weather-related and other event driven special projects cause our results to fluctuate, and harsh weather or natural disasters may cause us to temporarily suspend operations; these seasonal or event driven items can result in interim variations in our results;
- we could be subject to significant fines and penalties, and our reputation could be adversely affected, if our businesses, or third parties with whom we have a relationship, were to fail to comply with United States (“U.S.”) or foreign laws or regulations;
- we are subject to various proceedings, lawsuits and disputes; claims asserted against us include personal injury, property damage, commercial, customer and employment-related matters, including purported state and national class action lawsuits related to: alleged environmental contamination, including releases of hazardous materials and odors; sales and marketing practices, customer service agreements, prices and fees; and federal and state wage and hour and other laws. Such lawsuits and proceedings may increase our costs, limit our ability to conduct or expand our operations, limit our ability to execute our business plans and strategies and adversely affect our liquidity; and
- the adoption of new accounting standards or interpretations may cause fluctuations in reported quarterly results of operations or adversely impact our reported results of operations.

## Overview

Waste Management, Inc. is a holding company listed on the New York Stock Exchange under the symbol “WM” and all operations are conducted by its subsidiaries. We are North America’s leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. We own or operate the largest network of landfills in North America. In order to make disposal more practical for larger urban markets, where the distance to landfills is typically farther, we manage transfer stations that consolidate, compact and transport waste efficiently and economically. We also use waste to create energy, recovering the gas produced naturally as waste decomposes in landfills and using the gas in generators to make electricity, and we are a leading recycler in North America, handling materials that include paper, cardboard, glass, plastic and metal. Our “Solid Waste” business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, disposal, and recycling and resource recovery services, and our “Traditional Solid Waste” business excludes our recycling and resource recovery services. Through our subsidiaries, we are also a leading developer, operator and owner of landfill gas-to-energy facilities in the U.S.

Our Solid Waste operating revenues are primarily generated from fees charged for our collection, transfer, disposal, and recycling and resource recovery services, and from sales of commodities by our recycling and landfill gas-to-energy operations. Revenues from our collection operations are influenced by factors such as collection frequency, type of collection equipment furnished, type and volume or weight of the waste collected, distance to the disposal facility or material recovery facility and our disposal costs. Revenues from our landfill operations consist of tipping fees, which are generally based on the type and weight or volume of waste being disposed of at our disposal facilities. Fees charged at transfer stations are generally based on the weight or volume of waste deposited, taking into account our cost of loading, transporting and disposing of the solid waste at a disposal site. Recycling revenues generally consist of tipping fees and the sale of recycling commodities to third parties. The fees we charge for our services generally include our environmental fee, fuel surcharge and regulatory recovery fee which are intended to pass through to customers direct and indirect costs incurred. We also provide additional services that are not managed through our Solid Waste business, described under Results of Operations below.

## Strategy

Our fundamental strategy has not changed; we remain dedicated to providing long-term value to our stockholders by successfully executing our core strategy of focused differentiation and continuous improvement. Our strategic planning processes appropriately consider that the future of our business and the industry can be influenced by changes in economic conditions, the competitive landscape, the regulatory environment, asset and resource availability and technology. We believe that focused differentiation, which is driven by capitalizing on our unique and extensive network of assets, will deliver profitable growth and position us to leverage competitive advantages. Simultaneously, we believe the combination of cost control, process improvement and operational efficiency will deliver on the Company’s strategy of continuous improvement and yield an attractive total cost structure and enhanced service quality. While we will continue to monitor emerging diversion technologies that may generate additional value and related market dynamics, our current attention will be on improving existing diversion technologies, such as our recycling operations. We believe that execution of our strategy will deliver shareholder value and leadership in a dynamic industry.

## Business Environment

The waste industry is a comparatively mature and stable industry. However, customers increasingly want more of their waste materials recovered and waste streams are becoming more complex. In addition, many state and local

governments mandate diversion, recycling and waste reduction at the source and prohibit the disposal of certain types of waste at landfills, and we monitor these developments to adapt our services offerings. As companies, individuals and communities look for ways to be more sustainable, we are promoting our comprehensive services that go beyond our core business of collecting and disposing of waste.

35

---

Despite some industry consolidation in recent years, we encounter intense competition from governmental, quasi-governmental and private service providers based on pricing, service quality, customer experience and breadth of service offerings. Our industry is directly affected by changes in general economic factors, as increases and decreases in consumer spending and construction starts generally correlate to volumes of waste generated and our revenues. Negative economic conditions, in addition to price competition, can make it more challenging to negotiate and renew service contracts with acceptable margins. General economic factors and the market for consumer goods, in addition to regulatory developments, can also significantly impact commodity prices for recyclable materials we sell. Our operating expenses are directly impacted by volume levels; as volume levels shift, due to economic and other factors, we must manage our network capacity and cost structure accordingly.

The generally favorable macro-economic environment, including steady spending by consumers and businesses and construction starts, has benefited our volume growth and gross margins in recent quarters, and we are not expecting any significant shift in the near term. However, we have seen disruption and downward price pressure in the global market for recycling commodities, due in part to actions by the Chinese government that have restricted our ability to sell recycled fiber to Chinese paper mills. We and others in the industry continue to work to adapt to the Chinese government's regulations and identify alternative markets.

#### Current Quarter Financial Results

During the third quarter of 2018, we continued to produce strong operating results from our Traditional Solid Waste business, driven by strong yield and volume growth in our collection and disposal business. Net income and earnings per diluted share both increased primarily as a result of the strong operating results from our Traditional Solid Waste business as well as the favorable impact on our effective tax rate due to the enactment of tax reform. The Company continued its commitment to supporting both organic and inorganic growth during the third quarter of 2018, allocating \$404 million of available cash to capital expenditures and \$79 million to the acquisition of solid waste businesses. We also allocated \$399 million to our shareholders during the third quarter of 2018 through common stock repurchases and dividends.

Key elements of our financial results for the current quarter include:

- Revenues were \$3,822 million compared with \$3,716 million in the prior year period, an increase of \$106 million, or 2.9%. The increase is primarily attributable to higher volumes due to improving market conditions and increased yield in our collection and disposal business, partially offset by lower market prices for recycling commodities;
- Operating expenses were \$2,373 million, or 62.1% of revenues, compared with \$2,302 million, or 61.9% of revenues, in the prior year period. The \$71 million increase is primarily attributable to higher volumes in the current year period, partially offset by decreased cost of goods sold due to lower market prices for recycling commodities;
- Selling, general and administrative expenses were \$345 million, or 9.0% of revenues, compared with \$356 million, or 9.6% of revenues, in the prior year period. The Company continues to focus on managing our controllable costs;
- Income from operations was \$699 million, or 18.3% of revenues, compared with \$701 million, or 18.9% of revenues, in the prior year period;
- Net income attributable to Waste Management, Inc. was \$499 million, or \$1.16 per diluted share, compared with \$386 million, or \$0.87 per diluted share, in the prior year period. The increase is primarily attributable to (i) improved operating results in our Traditional Solid Waste business; (ii) adjustments related to the enactment of tax reform and (iii) adjustments to our income tax accruals and related deferred taxes due to the filing of our 2017 income tax returns and changes in state tax laws. Partially offsetting these increases was the impairment of a landfill and lower earnings from our recycling line of business due to lower market prices for recycling commodities;
- Net cash provided by operating activities was \$874 million compared with \$853 million in the prior year period; and



- Free cash flow was \$480 million compared with \$509 million in the prior year period. The \$29 million decrease is due to higher capital expenditures to support organic growth in our business. Free cash flow is a non-GAAP measure of liquidity. Refer to Free Cash Flow below for our definition of free cash flow, additional information about our use of this measure, and a reconciliation to net cash provided by operating activities, which is the most comparable GAAP measure.

## Results of Operations

### Operating Revenues

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. We also provide additional services that are not managed through our Solid Waste business, including operations managed by both our Strategic Business Solutions (“WMSBS”) and Energy and Environmental Services (“EES”) organizations, recycling brokerage services, landfill gas-to-energy services and certain other expanded service offerings and solutions. These operations are presented in our “Other” segment in the table below. The following table summarizes revenues during each period (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Solid Waste	\$ 3,995	\$ 3,803	\$ 11,538	\$ 11,071
Other	629	662	1,849	1,922
Intercompany	(802)	(749)	(2,315)	(2,160)
Total	\$ 3,822	\$ 3,716	\$ 11,072	\$ 10,833

The mix of operating revenues from our major lines of business is reflected in the table below (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Commercial	\$ 1,007	\$ 936	\$ 2,948	\$ 2,764
Residential	639	635	1,885	1,888
Industrial	723	673	2,068	1,930
Other	117	107	333	330
Total collection	2,486	2,351	7,234	6,912
Landfill	926	884	2,646	2,487
Transfer	445	412	1,257	1,192
Recycling	337	375	954	1,122
Other (a)	430	443	1,296	1,280
Intercompany (b)	(802)	(749)	(2,315)	(2,160)
Total	\$ 3,822	\$ 3,716	\$ 11,072	\$ 10,833

- (a) The “Other” line of business includes (i) our WMSBS organization; (ii) our landfill gas-to-energy operations; (iii) certain services within our EES organization, including our construction and remediation services and our services associated with the disposal of fly ash and (iv) certain other expanded service offerings and solutions. In addition, our “Other” line of business reflects the results of non-operating entities that provide financial assurance and self-insurance support, net of intercompany activity.



- (b) Intercompany revenues between lines of business are eliminated in the Condensed Consolidated Financial Statements included within this report.

37

---

The following table provides details associated with the period-to-period changes in revenues and average yield (dollars in millions):

	Period-to-Period Change for the				Period-to-Period Change for the			
	Three Months Ended				Nine Months Ended			
	September 30, 2018 vs. 2017				September 30, 2018 vs. 2017			
	Amount	As a % of Related Business(a)	Amount	As a % of Total Company(b)	Amount	As a % of Related Business(a)	Amount	As a % of Total Company(b)
Collection								
and disposal	\$ 78	2.5 %			\$ 218	2.4 %		
cycling								
commodities	(91)	(24.3)			(252)	(22.5)		
fuel								
recharges								
and								
landfilled								
assets	31	23.8			87	22.8		
Total average			\$ 18	0.5 %			\$ 53	0.5 %
yield (c)			155	4.2			309	2.9
Volume								
Internal								
Revenue								
Growth			173	4.7			362	3.4
Acquisitions			53	1.4			142	1.3
Divestitures			(52)	(1.4)			(90)	(0.9)
Foreign								
Currency								
Translation								
and other			(68)	(1.8)			(175)	(1.6)
Total			\$ 106	2.9 %			\$ 239	2.2 %

(a) Calculated by dividing the increase or decrease for the current year period by the prior year period's related business revenue adjusted to exclude the impacts of divestitures for the current year period.

(b) Calculated by dividing the increase or decrease for the current year period by the prior year period's total Company revenue adjusted to exclude the impacts of divestitures for the current year period.

(c) The amounts reported herein represent the changes in our revenue attributable to average yield for the total Company.

The following provides further details associated with our period-to-period change in revenues:

#### Average Yield

**Collection and Disposal Average Yield** — This measure reflects the effect on our revenue from the pricing activities of our collection, transfer and landfill lines of business, exclusive of volume changes. Revenue growth from collection and disposal average yield includes not only base rate changes and environmental and service fee increases, but also (i) certain average price changes related to the overall mix of services, which are due to the types of services provided;

(ii) changes in average price from new and lost business and (iii) price decreases to retain customers.

38

---

Revenue growth from collection and disposal average yield was \$78 million, or 2.5%, and \$218 million, or 2.4%, for the three and nine months ended September 30, 2018, respectively. We experienced growth in our collection and disposal business in the current year periods. The details are as follows (dollars in millions):

	Period-to-Period Change for the Three Months Ended September 30, 2018 vs. 2017		Period-to-Period Change for the Nine Months Ended September 30, 2018 vs. 2017	
	Amount	As a % of Related Business	Amount	As a % of Related Business
Commercial	\$ 27	3.0 %	\$ 79	3.0 %
Industrial	31	4.8	78	4.3
Residential	12	2.1	34	1.9
Total collection	70	3.2	191	3.0
Landfill	3	0.7	16	1.1
Transfer	5	2.3	11	1.8
Total collection and disposal	\$ 78	2.5 %	\$ 218	2.4 %

Our increase in collection and disposal yield for the three and nine months ended September 30, 2018, compared to the prior year periods, includes increased revenues of \$19 million and \$55 million, respectively, from our environmental fees.

**Recycling Commodities** — Decreases in the market prices for recycling commodities resulted in revenue decline of \$91 million and \$252 million for the three and nine months ended September 30, 2018, respectively, as compared with the prior year periods. Disruptions in the global movement of recycling commodities continued to reduce market prices in the current year periods. Average market prices for recycling commodities at the Company's facilities were 47% and 42% lower for the three and nine months ended September 30, 2018, respectively, compared with the prior year periods. We expect these disruptions in the market to extend through the remainder of 2018, and likely beyond, which will continue to put downward pressure on average market prices for recycling commodities.

**Fuel Surcharges and Mandated Fees** — These revenues, which are predominantly generated by our fuel surcharge program, increased \$31 million and \$87 million for the three and nine months ended September 30, 2018, respectively, as compared with the prior year periods. These revenues fluctuate in response to changes in the national average prices for diesel fuel on which our surcharge is based. Market prices for diesel fuel increased 23% and 22% for the three and nine months ended September 30, 2018, respectively, compared with the prior year periods. The mandated fees included in this line item are primarily related to pass-through fees and taxes assessed by various state, county and municipal government agencies at our landfills and transfer stations. These fees did not have a significant impact on the comparability of the periods.

#### Volume

Our revenues from volumes increased \$155 million, or 4.2%, and \$309 million, or 2.9%, for the three and nine months ended September 30, 2018, respectively, as compared with the prior year periods, excluding volumes from acquisitions and divestitures.

We have experienced higher volumes throughout 2018 due to improving market conditions in our Traditional Solid Waste business and strong sales performance. Our focus on customer service and disciplined growth has delivered

consistent operating results. Contributors to our volume increase include two large new contract additions in the second half of 2017 that favorably impacted volume growth for our commercial collection business and at our transfer stations. In addition, the clean-up efforts of natural disasters throughout the U.S. in the second half of 2017 continued to favorably affect our landfill volumes through the first quarter of 2018. We saw our second consecutive quarter of volume increase in our residential collection business. Other contributors include a volume increase throughout 2018 from our WMSBS organization and a volume increase from our recycling brokerage services for the three months ended September 30, 2018.

## Foreign Currency Translation and Other

Fluctuations in foreign currency affect revenues from our Canadian operations. We also experienced revenue decline associated with the adoption of Accounting Standards Update (“ASU”) 2014-09 and other changes. See Notes 1 and 4 to the Condensed Consolidated Financial Statements for further discussion of ASU 2014-09.

## Operating Expenses

The following table summarizes the major components of our operating expenses (dollars in millions):

	Three Months Ended			Period-to-Period Change	Nine Months Ended			Period-to-Period Change
	September 30, 2018	September 30, 2017			September 30, 2018	September 30, 2017		
Labor and related benefits	\$ 681	\$ 641	\$ 40	6.2 %	\$ 2,008	\$ 1,865	\$ 143	7.7 %
Transfer and disposal costs	285	253	32	12.6	824	743	81	10.9
Maintenance and repairs	320	297	23	7.7	934	864	70	8.1
Subcontractor costs	355	311	44	14.1	1,006	916	90	9.8
Cost of goods sold	202	260	(58)	(22.3)	582	754	(172)	(22.8)
Fuel	111	93	18	19.4	299	276	23	8.3
Disposal and franchise fees and taxes	155	198	(43)	(21.7)	444	566	(122)	(21.6)
Landfill operating costs	80	77	3	3.9	240	246	(6)	(2.4)
Risk management	70	56	14	25.0	175	168	7	4.2
Other	114	116	(2)	(1.7)	358	360	(2)	(0.6)
	\$ 2,373	\$ 2,302	\$ 71	3.1 %	\$ 6,870	\$ 6,758	\$ 112	1.7 %
Percentage of revenues	62.1 %	61.9 %			62.0 %	62.4 %		

The increase in volumes in the current year periods, as discussed above in Operating Revenues, in addition to cost inflation affect the comparability of operating expenses for the periods presented.

Other significant items affecting the comparability of operating expenses for the periods include:

**Labor and Related Benefits** — The increase in labor and related benefits costs was driven by (i) volume growth in our collection business, which led to increased training costs; (ii) a bonus plan established in early 2018 targeted at improving employee retention and (iii) merit increases.

**Maintenance and Repairs** — The increase in maintenance and repairs costs was driven by (i) higher labor costs and (ii) higher parts and third-party service costs.

**Cost of Goods Sold** — The decrease in cost of goods sold was primarily driven by (i) lower market prices for recycling commodities and (ii) a change in accounting for certain customer rebates due to the adoption of ASU 2014-09 in the

current year periods. See Notes 1 and 4 to the Condensed Consolidated Financial Statements for further discussion of ASU 2014-09.

Fuel — The increase in fuel costs was due to higher market prices for diesel fuel. This increase was offset, in part, by the recognition of a \$28 million benefit from the extension of federal natural gas fuel credits. We recognized the benefit in the first quarter of 2018 when the legislation was passed, though the credits relate to 2017 business activity and these credits were not extended into 2018.

Disposal and Franchise Fees and Taxes — The decrease in disposal and franchise fees and taxes was driven by the adoption of ASU 2014-09 in the current year periods; specifically, certain franchise fees were treated as disposal fees and taxes in the prior year periods and are treated as a reduction to revenue in the current year periods. See Notes 1 and 4 to the Condensed Consolidated Financial Statements for further discussion of ASU 2014-09.

Risk Management — The increase in risk management costs for the three months ended September 30, 2018 was primarily due to increases in certain uninsured losses.

#### Selling, General and Administrative Expenses

The following table summarizes the major components of our selling, general and administrative expenses (dollars in millions):

	Three Months Ended		Period-to-Period Change		Nine Months Ended		Period-to-Period Change	
	September 30, 2018	2017			September 30, 2018	2017		
Labor and related benefits	\$ 231	\$ 238	\$ (7)	(2.9) %	\$ 723	\$ 755	\$ (32)	(4.2) %
Professional fees	29	25	4	16.0	82	71	11	15.5
Provision for bad debts	13	10	3	30.0	34	30	4	13.3
Other	72	83	(11)	(13.3)	244	243	1	0.4
	\$ 345	\$ 356	\$ (11)	(3.1) %	\$ 1,083	\$ 1,099	\$ (16)	(1.5) %
Percentage of revenues	9.0 %	9.6 %			9.8 %	10.1 %		

The decrease in our labor and related benefits costs during the three and nine months ended September 30, 2018, compared to the prior year periods, is largely due to lower incentive compensation accruals in the current year periods. Other items affecting the comparability of our labor and related benefits costs for the reported periods include (i) severance costs for former executives incurred during the first quarter of 2017; (ii) merit increases and (iii) a bonus plan established in early 2018 targeted at improving employee retention. During the three months ended September 30, 2018, compared to the prior year period, our other expenses decreased primarily due to (i) lower litigation settlement costs and (ii) charitable contributions made for hurricane relief efforts in the third quarter of 2017.

#### Depreciation and Amortization Expenses

The following table summarizes the components of our depreciation and amortization expenses (dollars in millions):

	Three Months Ended		Period-to-Period Change		Nine Months Ended		Period-to-Period Change	
	September 30, 2018	2017			September 30, 2018	2017		
Depreciation of tangible property and equipment	\$ 208	\$ 196	\$ 12	6.1 %	\$ 624	\$ 582	\$ 42	7.2 %
Amortization of landfill airspace	143	130	13	10.0	409	381	28	7.3
Amortization of intangible assets	25	24	1	4.2	74	71	3	4.2
	\$ 376	\$ 350	\$ 26	7.4 %	\$ 1,107	\$ 1,034	\$ 73	7.1 %
Percentage of revenues	9.8 %	9.4 %			10.0 %	9.5 %		



The increase in depreciation of tangible property and equipment during the three and nine months ended September 30, 2018, compared to the prior year periods, was primarily due to increased capital expenditures to support organic growth in our business. The increase in amortization of landfill airspace during the three and nine months ended September 30, 2018, compared to the prior year periods, was primarily due to increased volumes at our landfills and changes in estimates.

**Gain (Loss) from Divestitures, Asset Impairments and Unusual Items, Net**

During the nine months ended September 30, 2018, we recognized a net gain of \$14 million, primarily related to net gains from divestitures of \$43 million due to the sale of certain ancillary operations, which were partially offset by a \$29 million charge to impair a landfill in our Tier 3 segment based on an internally developed discounted projected cash flow analysis, taking into account continued volume decreases and revised capping cost estimates.

## Income from Operations

The following table summarizes income from operations for our reportable segments (dollars in millions):

	Three Months Ended			Nine Months Ended				
	September 30, 2018	2017	Period-to-Period Change	September 30, 2018	2017	Period-to-Period Change		
<b>Solid Waste:</b>								
Tier 1	\$ 416	\$ 398	\$ 18	4.5 %	\$ 1,176	\$ 1,159	\$ 17	1.5 %
Tier 2	142	142	—	—	405	400	5	1.3
Tier 3	291	313	(22)	(7.0)	877	877	—	—
Solid Waste	849	853	(4)	(0.5)	2,458	2,436	22	0.9
Other	(15)	(16)	1	(6.3)	(25)	(66)	41	(62.1)
<b>Corporate and Other</b>	(135)	(136)	1	(0.7)	(411)	(438)	27	(6.2)
<b>Total</b>	<b>\$ 699</b>	<b>\$ 701</b>	<b>\$ (2)</b>	<b>(0.3) %</b>	<b>\$ 2,022</b>	<b>\$ 1,932</b>	<b>\$ 90</b>	<b>4.7 %</b>
Percentage of revenues	18.3 %	18.9 %			18.3 %	17.8 %		

All information presented has been updated to reflect our realigned segments which are discussed further in Note 8 to the Condensed Consolidated Financial Statements.

The significant items affecting income from operations for our segments during the three and nine months ended September 30, 2018, as compared with the prior year periods, are summarized below:

- **Solid Waste** — Our Traditional Solid Waste business benefited from internal revenue growth and certain natural gas fuel credits in the first quarter of 2018. However, our income from operations has been negatively impacted by (i) lower market prices for recycling commodities; (ii) an impairment of a landfill in Tier 3 and (iii) higher operating costs, including a bonus plan established in early 2018 targeted at improving employee retention, merit increases and increased maintenance and repair costs.
- **Other** — Net gains from divestitures of certain ancillary operations in the second quarter of 2018 and improved results in our EES and WM Renewable Energy businesses.
- **Corporate and Other** — Decreased expenses as a result of (i) lower labor and related benefit costs, influenced by lower incentive compensation accruals in the current year periods and severance costs for former executives incurred during the first quarter of 2017 and (ii) environmental remediation costs related to a closed site in Harris County, Texas incurred in the third quarter of 2017. These cost decreases were offset, in part, by higher risk management costs.

## Equity in Net Losses of Unconsolidated Entities

We recognized equity in net losses of unconsolidated entities of \$9 million and \$29 million during the three and nine months ended September 30, 2018, respectively, compared with \$8 million and \$53 million during the three and nine months ended September 30, 2017, respectively. During the nine months ended September 30, 2017, we recognized \$28 million of impairment charges to write down equity method investments in waste diversion technology companies to their estimated fair values. The remaining losses for each period are primarily related to our noncontrolling interests in entities established to invest in and manage low-income housing properties and a refined coal facility. Refer to Notes 5 and 14 to the Condensed Consolidated Financial Statements for more information related to these

investments.

#### Income Tax Expense

Our income tax expense was \$99 million and \$325 million for the three and nine months ended September 30, 2018, respectively, compared to \$215 million and \$561 million for the three and nine months ended September 30, 2017, respectively. Our effective income tax rate was 16.6% and 18.9% for the three and nine months ended September 30, 2018, respectively, compared with 35.7% and 34.9% for the three and nine months ended September 30, 2017, respectively. The

42

---

decrease in our income tax expense and effective income tax rates for the three and nine months ended September 30, 2018, compared with the prior year periods, was primarily due to (i) the enactment of tax reform, which reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018 and (ii) other adjustments to our deferred taxes. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information.

### Liquidity and Capital Resources

The Company consistently generates cash flow from operations that meets and exceeds its working capital needs, the payments of its dividend and investment in the business through capital expenditures and acquisitions. We continually monitor our actual and forecasted cash flows, our liquidity and our capital resources, enabling us to plan for our present needs and fund unbudgeted business activities that may arise during the year as a result of changing business conditions or new opportunities. The Company believes that its investment grade credit ratings, large value of unencumbered assets and modest leverage enable it to obtain adequate financing to meet its ongoing capital, operating and other liquidity requirements.

### Summary of Cash and Cash Equivalents, Restricted Trust and Escrow Accounts and Debt Obligations

The following is a summary of our cash and cash equivalents, restricted trust and escrow accounts and debt balances (in millions):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 83	\$ 22
Restricted trust and escrow accounts:		
Insurance reserves	\$ 278	\$ 203
Final capping, closure, post-closure and environmental remediation funds	103	101
Other	13	15
Total restricted trust and escrow accounts	\$ 394	\$ 319
Debt:		
Current portion	\$ 447	\$ 739
Long-term portion	9,569	8,752
Total debt	\$ 10,016	\$ 9,491

As of September 30, 2018, we had \$2.2 billion of debt maturing within the next 12 months, including (i) \$1.1 billion of short-term borrowings under our commercial paper program; (ii) \$806 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months, which is prior to their scheduled maturities; (iii) \$260 million of other debt with scheduled maturities within the next 12 months, including \$209 million of tax-exempt bonds and (iv) C\$57 million, or \$44 million, of Canadian borrowings under our long-term U.S. and Canadian revolving credit facility (“\$2.75 billion revolving credit facility”). Of the \$1.1 billion of short-term borrowings outstanding under our commercial paper program as of September 30, 2018 that are supported by our \$2.75 billion revolving credit facility, we have the intent and ability to refinance or maintain \$955 million of these borrowings on a long-term basis, and we have classified these amounts as long-term debt. As of September 30, 2018, we have classified an additional \$761 million of debt as long-term because we have the intent and ability to refinance these borrowings on a long-term basis as supported by the forecasted available capacity under our \$2.75 billion revolving credit facility, as discussed below. The remaining \$447 million is classified as current obligations.

### Refinancing of Revolving Credit Facility

In June 2018, we entered into the \$2.75 billion revolving credit facility, which amended and restated our prior long-term U.S. revolving credit facility. Amendments to the credit agreement included (i) increasing total capacity under the facility from \$2.25 billion to \$2.75 billion; (ii) establishment of a \$750 million accordion feature that may be used to increase total capacity in future periods; (iii) extending the term through June 2023 and (iv) inclusion of two one-year extension options. Waste Management of Canada Corporation and WM Quebec Inc., each an indirect wholly-owned

subsidiary of WM, were added as additional borrowers under the \$2.75 billion revolving credit facility, and the agreement permits borrowing in Canadian dollars up to the U.S. dollar equivalent of \$375 million, with such borrowings to be repaid in Canadian dollars. Waste Management Holdings, Inc., a wholly-owned subsidiary of WM, guarantees all of the obligations under the \$2.75 billion revolving credit facility.

#### Free Cash Flow

As is our practice, we are presenting free cash flow, which is a non-GAAP measure of liquidity, in our disclosures because we use this measure in the evaluation and management of our business. We define free cash flow as net cash provided by operating activities, less capital expenditures, plus proceeds from divestitures of businesses and other assets (net of cash divested). We believe it is indicative of our ability to pay our quarterly dividends, repurchase common stock, fund acquisitions and other investments and, in the absence of refinancings, to repay our debt obligations. Free cash flow is not intended to replace net cash provided by operating activities, which is the most comparable GAAP measure. We believe free cash flow gives investors useful insight into how we view our liquidity, but the use of free cash flow as a liquidity measure has material limitations because it excludes certain expenditures that are required or that we have committed to, such as declared dividend payments and debt service requirements.

Our calculation of free cash flow and reconciliation to net cash provided by operating activities is shown in the table below (in millions), and may not be calculated the same as similarly-titled measures presented by other companies:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Net cash provided by operating activities (a)	\$ 874	\$ 853	\$ 2,658	\$ 2,388
Capital expenditures	(404)	(350)	(1,240)	(981)
Proceeds from divestitures of businesses and other assets (net of cash divested)	10	6	106	19
Free cash flow (a)	\$ 480	\$ 509	\$ 1,524	\$ 1,426

(a) Prior year information has been revised to reflect the adoption of ASU 2016-18 and conform to our current year presentation. See Note 1 to the Condensed Consolidated Financial Statements for further discussion.

#### Summary of Cash Flow Activity

The following is a summary of our cash flows for the nine months ended September 30 (in millions):

	2018	2017(a)
Net cash provided by operating activities	\$ 2,658	\$ 2,388
Net cash used in investing activities	\$ (1,506)	\$ (1,050)
Net cash used in financing activities	\$ (1,015)	\$ (1,331)

(a) Prior year information has been revised to reflect the adoption of ASU 2016-15 and ASU 2016-18 and conform to our current year presentation. See Note 1 to the Condensed Consolidated Financial Statements for further discussion.

Net Cash Provided by Operating Activities — Our operating cash flows increased by \$270 million for the nine months ended September 30, 2018, as compared with the prior year period, as a result of (i) higher earnings from our Traditional Solid Waste business and (ii) lower tax payments, partially offset by lower earnings from our recycling

line of business.

Net Cash Used in Investing Activities — The most significant items included in our investing cash flows for the nine months ended September 30, 2018 and 2017 are summarized below:

- Acquisitions — We spent \$342 million and \$78 million on acquisitions, which include payments for purchase price holdbacks, during the nine months ended September 30, 2018 and 2017, respectively, related to our Solid Waste business.

44

---

· **Capital Expenditures** — We used \$1,240 million and \$981 million for capital expenditures during the nine months ended September 30, 2018 and 2017, respectively. The Company continues to maintain a disciplined focus on capital management and fluctuations in our capital expenditures are a result of new business opportunities, growth in our existing business and the timing of replacement of aging assets.

**Net Cash Used in Financing Activities** — The most significant items affecting the comparison of our financing cash flows for the nine months ended September 30, 2018 and 2017 are summarized below:

· **Debt Borrowings (Repayments)** — The following summarizes our cash borrowings and repayments of debt (excluding our commercial paper program discussed below) for the nine months ended September 30 (in millions):

	2018	2017
<b>Borrowings:</b>		
Revolving credit facility (a)	\$ 119	\$ 25
Canadian term loan and revolving credit facility	8	5
Tax-exempt bonds	—	75
Other debt	47	92
	\$ 174	\$ 197
<b>Repayments:</b>		
Revolving credit facility (a)	\$ (75)	\$ (451)
Canadian term loan and revolving credit facility	(117)	(113)
Tax-exempt bonds	(52)	(40)
Other debt	(94)	(145)
	\$ (338)	\$ (749)
<b>Net cash repayments</b>	<b>\$ (164)</b>	<b>\$ (552)</b>

(a) Our revolving credit facility was amended and restated in June 2018.

Refer to Note 3 to the Condensed Consolidated Financial Statements for additional information related to our debt borrowings and repayments.

· **Commercial Paper Program** — During the nine months ended September 30, 2018 and 2017, we had net cash borrowings of \$523 million and \$501 million, respectively, under our commercial paper program. Borrowings were primarily to support new business opportunities and for general corporate purposes.

· **Common Stock Repurchase Program** — We paid \$750 million for share repurchases during both the nine months ended September 30, 2018 and 2017. See Note 12 to the Condensed Consolidated Financial Statements for additional information.

· **Cash Dividends** — We paid cash dividends of \$605 million and \$566 million during the nine months ended September 30, 2018 and 2017, respectively. The increase in dividend payments is primarily due to our quarterly per share dividend increasing from \$0.425 in 2017 to \$0.465 in 2018 offset, in part, by a reduction in our common stock outstanding during 2018 as a result of our common stock repurchase program.

#### Critical Accounting Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are difficult to determine and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, long-lived asset impairments and reserves associated with our insured and self-insured claims, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31,



2017. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

45

---

### New Accounting Standard Pending Adoption

Leases — In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 associated with lease accounting. There have been further amendments, including practical expedients, with the issuance of ASU 2018-01 and ASU 2018-11 in January 2018 and July 2018, respectively. The amended guidance requires the recognition of lease assets and lease liabilities on the balance sheet for those leases with terms in excess of 12 months and currently classified as operating leases. Disclosure of key information about leasing arrangements will also be required. The amended guidance is effective for the Company on January 1, 2019. To date, we have performed the following activities related to the adoption of the standard: (i) formed an implementation work team; (ii) performed training for the various organizations that will be most affected by the new standard; (iii) elected our practical expedients, including our transition method; (iv) acquired a software solution to manage and account for leases under the new standard and (v) identified our initial lease population that will be impacted by the new standard. We continue to evaluate the impact of this amended guidance on our consolidated financial statements.

### Off-Balance Sheet Arrangements

We have financial interests in unconsolidated variable interest entities as discussed in Note 14 to the Condensed Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the Guarantees section of Note 7 to the Condensed Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the nine months ended September 30, 2018, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

### Seasonal Trends

Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher construction and demolition waste volumes. The volumes of industrial and residential collection waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes resulting from climate change can significantly affect the operating results of the Areas affected. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can increase our revenues in the Areas affected. While weather-related and other event driven special projects can boost revenues through additional work for a limited time, as a result of significant start-up costs and other factors, such revenue can generate earnings at comparatively lower margins.

### Inflation

While inflationary increases in costs can affect our income from operations margins, we believe that inflation generally has not had, and in the near future is not expected to have, any material adverse effect on our results of operations. However, a portion of our collection revenues are generated under long-term agreements with price adjustments based on various indices intended to measure inflation. Additionally, management's estimates associated with inflation have had, and will continue to have, an impact on our accounting for landfill and environmental remediation liabilities.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information about market risks as of September 30, 2018 does not differ materially from that discussed under Item 7A in our Annual Report on Form 10 K for the year ended December 31, 2017.

46

---

## Item 4. Controls and Procedures.

## Effectiveness of Controls and Procedures

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of September 30, 2018 (the end of the period covered by this Quarterly Report on Form 10-Q).

## Changes in Internal Control over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended September 30, 2018. We determined that there were no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II.

## Item 1. Legal Proceedings.

Information regarding our legal proceedings can be found under the Environmental Matters and Litigation sections of Note 7 to the Condensed Consolidated Financial Statements.

## Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 in response to Item 1A to Part I of Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes common stock repurchases made during the third quarter of 2018 (shares in millions):

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1 — 31	1.8	\$ 88.52	1.8	\$ 500 million
August 1 — 31	—	\$ —	—	\$ 500 million
September 1 — 30	—	\$ —	—	\$ 500 million
Total	1.8	\$ 88.52	1.8	

In July 2018, we entered into an accelerated share repurchase (“ASR”) agreement to repurchase \$200 million of our common stock. At the beginning of the repurchase period, we delivered \$200 million in cash and received 1.8 million shares. The ASR agreement completed in October 2018, at which time we received 0.4 million additional shares based on a final weighted average per share price of \$90.07.

47

---

Item 4. Mine Safety Disclosures.

Information concerning mine safety and other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this quarterly report.

Item 6. Exhibits.

Exhibit No.	Description
10.1*	<u>Employment Offer Letter to Mike Watson dated September 10, 2018.</u>
31.1*	<u>Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., President and Chief Executive Officer.</u>
31.2*	<u>Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of Devina A. Rankin, Senior Vice President and Chief Financial Officer.</u>
32.1**	<u>Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., President and Chief Executive Officer.</u>
32.2**	<u>Certification Pursuant to 18 U.S.C. §1350 of Devina A. Rankin, Senior Vice President and Chief Financial Officer.</u>
95*	<u>Mine Safety Disclosures.</u>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

---

\* Filed herewith.

\*\* Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WASTE MANAGEMENT, INC.

By: /s/ DEVINA A. RANKIN  
Devina A. Rankin  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

WASTE MANAGEMENT, INC.

By: /s/ LESLIE K. NAGY  
Leslie K. Nagy  
Vice President and  
Chief Accounting Officer  
(Principal Accounting Officer)

Date: October 25, 2018