

WASTE MANAGEMENT INC  
Form 10-Q  
July 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 June 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.)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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

(Do not check if a smaller reporting company)

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 July 20, 2018 was 428,716,960 (excluding treasury shares of 201,565,501).



## PART I.

## Item 1. Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share and Par Value Amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47	\$ 22
Accounts receivable, net of allowance for doubtful accounts of \$24 and \$21, respectively	1,838	1,805
Other receivables	351	569
Parts and supplies	100	96
Other assets	135	132
Total current assets	2,471	2,624
Property and equipment, net of accumulated depreciation and amortization of \$18,050 and \$17,704, respectively	11,625	11,559
Goodwill	6,346	6,247
Other intangible assets, net	553	547
Restricted trust and escrow accounts	419	319
Investments in unconsolidated entities	254	269
Other assets	346	264
Total assets	\$ 22,014	\$ 21,829
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 829	\$ 1,040
Accrued liabilities	1,131	980
Deferred revenues	517	503
Current portion of long-term debt	828	739
Total current liabilities	3,305	3,262
Long-term debt, less current portion	8,968	8,752
Deferred income taxes	1,250	1,248
Landfill and environmental remediation liabilities	1,810	1,770
Other liabilities	625	755
Total liabilities	15,958	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	4,935	4,933
Retained earnings	9,166	8,588
Accumulated other comprehensive income (loss)	(49)	8

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Treasury stock at cost, 201,905,532 and 196,963,558 shares, respectively	(8,004)	(7,516)
Total Waste Management, Inc. stockholders' equity	6,054	6,019
Noncontrolling interests	2	23
Total equity	6,056	6,042
Total liabilities and equity	\$ 22,014	\$ 21,829

See Notes to Condensed Consolidated Financial Statements.

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## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions, Except per Share Amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating revenues	\$ 3,739	\$ 3,677	\$ 7,250	\$ 7,117
Costs and expenses:				
Operating	2,313	2,290	4,497	4,456
Selling, general and administrative	365	353	738	743
Depreciation and amortization	384	356	731	684
Restructuring	1	1	3	2
(Gain) loss from divestitures, asset impairments and unusual items, net	(39)	4	(42)	1
	3,024	3,004	5,927	5,886
Income from operations	715	673	1,323	1,231
Other income (expense):				
Interest expense, net	(93)	(90)	(184)	(182)
Equity in net losses of unconsolidated entities	(13)	(13)	(20)	(45)
Other, net	—	—	1	—
	(106)	(103)	(203)	(227)
Income before income taxes	609	570	1,120	1,004
Income tax expense	110	209	226	346
Consolidated net income	499	361	894	658
Less: Net loss attributable to noncontrolling interests	—	(1)	(1)	(2)
Net income attributable to Waste Management, Inc.	\$ 499	\$ 362	\$ 895	\$ 660
Basic earnings per common share	\$ 1.16	\$ 0.82	\$ 2.07	\$ 1.49
Diluted earnings per common share	\$ 1.15	\$ 0.81	\$ 2.06	\$ 1.49
Cash dividends declared per common share	\$ 0.465	\$ 0.425	\$ 0.93	\$ 0.85

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

Three Months Ended June 30,	Six Months Ended June 30,
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	2018	2017	2018	2017
Consolidated net income	\$ 499	\$ 361	\$ 894	\$ 658
Other comprehensive income (loss), net of tax:				
Derivative instruments, net	2	2	4	4
Available-for-sale securities, net	—	1	(1)	2
Foreign currency translation adjustments	(23)	30	(55)	40
Post-retirement benefit obligation, net	—	—	—	1
Other comprehensive income (loss), net of tax	(21)	33	(52)	47
Comprehensive income	478	394	842	705
Less: Comprehensive loss attributable to noncontrolling interests	—	(1)	(1)	(2)
Comprehensive income attributable to Waste Management, Inc.	\$ 478	\$ 395	\$ 843	\$ 707

See Notes to Condensed Consolidated Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Cash flows from operating activities:		
Consolidated net income	\$ 894	\$ 658
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	731	684
Deferred income tax benefit	(21)	(3)
Interest accretion on landfill liabilities	47	45
Provision for bad debts	22	21
Equity-based compensation expense	41	54
Net gain on disposal of assets	(10)	(5)
(Gain) loss from divestitures, asset impairments and other, net	(42)	29
Equity in net losses of unconsolidated entities, net of dividends	20	17
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	202	43
Other current assets	(9)	(3)
Other assets	(2)	(5)
Accounts payable and accrued liabilities	31	32
Deferred revenues and other liabilities	(120)	(32)
Net cash provided by operating activities	1,784	1,535
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(263)	(49)
Capital expenditures	(836)	(631)
Proceeds from divestitures of businesses and other assets (net of cash divested)	96	13
Other, net	(7)	(6)
Net cash used in investing activities	(1,010)	(673)
Cash flows from financing activities:		
New borrowings	83	86
Debt repayments	(196)	(627)
Net commercial paper borrowings	443	253
Common stock repurchase program	(550)	(250)
Cash dividends	(406)	(381)
Exercise of common stock options	33	86
Tax payments associated with equity-based compensation transactions	(28)	(47)
Other, net	(26)	21
Net cash used in financing activities	(647)	(859)
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	126	3
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	293	94



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Cash, cash equivalents and restricted cash and cash equivalents at end of period	\$ 419	\$ 97
Reconciliation of cash, cash equivalents and restricted cash and cash equivalents at end of period:		
Cash and cash equivalents	\$ 47	\$ 32
Restricted cash and cash equivalents included in restricted trust and escrow accounts	372	65
Cash, cash equivalents and restricted cash and cash equivalents at end of period	\$ 419	\$ 97

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 Shares	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	894	—	—	—	895	—	—	—	(1)
Other comprehensive income (loss), net of tax	(52)	—	—	—	—	(52)	—	—	—
Cash dividends	(406)	—	—	—	(406)	—	—	—	—
Equity-based compensation transactions, net	68	—	—	2	4	—	1,624	62	—
Common stock repurchase program	(550)	—	—	—	—	—	(6,568)	(550)	—
Divestiture of noncontrolling interest	(19)	—	—	—	—	—	—	—	(19)
Other, net	(1)	—	—	—	—	—	2	—	(1)
Balance, June 30, 2018	\$ 6,056	630,282	\$ 6	\$ 4,935	\$ 9,166	\$ (49)	(201,906)	\$ (8,004)	\$ 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 13. 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 June 30, 2018 and for the three and six months ended June 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.

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,

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 June 30, 2018, the carrying amount of our investments without readily determinable fair values was \$84 million. During the three and six months ended June 30, 2018, we did not recognize any impairments or other adjustments.

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, \$65 million and \$271 million as of December 31, 2016, June 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 outflows from operating activities. The adoption of this amended guidance did not have a material impact on our Condensed Consolidated Statements of Cash Flows.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 10 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 in January 2018. 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. We are assessing the provisions of this amended guidance and we have (i) formed an implementation work team; (ii) performed training for the various organizations that will be most affected by the new standard; (iii) acquired a software solution to manage and account for leases under the new standard and (iv) identified our initial lease population that will be impacted by the new standard. We are evaluating 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.

## 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):

	June 30, 2018			December 31, 2017		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	\$ 130	\$ 28	\$ 158	\$ 128	\$ 28	\$ 156
Long-term	1,589	221	1,810	1,547	223	1,770
	\$ 1,719	\$ 249	\$ 1,968	\$ 1,675	\$ 251	\$ 1,926

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

	Landfill	Environmental Remediation
December 31, 2017	\$ 1,675	\$ 251
Obligations incurred and capitalized	41	—
Obligations settled	(45)	(10)
Interest accretion	47	2
Revisions in estimates and interest rate assumptions	(7)	6
Acquisitions, divestitures and other adjustments	8	—
June 30, 2018	\$ 1,719	\$ 249

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 13 for additional information related to these trusts.

## 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 June 30, 2018:

	June 30, 2018	December 31, 2017
Revolving credit facility	\$ —	\$ —
Commercial paper program (weighted average interest rate of 2.4% as of June 30, 2018 and 1.9% as of December 31, 2017)	968	515
Canadian term loan and revolving credit facility, maturing March 2019 (weighted average effective interest rate of 2.7% as of June 30, 2018 and 2.5% as of	71	113



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December 31, 2017)

Senior notes, maturing through 2045, interest rates ranging from 2.4% to 7.75% (weighted average interest rate of 4.3% as of June 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 5.7% (weighted average interest rate of 2.2% as of June 30, 2018 and 2.0% as of December 31, 2017)	2,328	2,370
Capital leases and other, maturing through 2040, interest rates up to 12%	260	327
Debt issuance costs, discounts and other	(53)	(56)
	9,796	9,491
Current portion of long-term debt	828	739
	\$ 8,968	\$ 8,752

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## WASTE MANAGEMENT, INC.

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

## Debt Classification

As of June 30, 2018, we had \$2.1 billion of debt maturing within the next 12 months, including (i) \$968 million of short-term borrowings under our commercial paper program; (ii) \$796 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) \$265 million of other debt with scheduled maturities within the next 12 months, including \$219 million of tax-exempt bonds and (iv) C\$94 million, or \$71 million, of borrowings under our Canadian term loan. Of the \$968 million of short-term borrowings outstanding under our commercial paper program as of June 30, 2018 that are supported by our long-term U.S. and Canadian revolving credit facility (“\$2.75 billion revolving credit facility”), we have the intent and ability to refinance or maintain \$476 million of these borrowings on a long-term basis, and we have classified these amounts as long-term debt. As of June 30, 2018, we have classified an additional \$796 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 \$828 million is classified as current obligations.

As of June 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 June 30, 2018.

## 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 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 June 30, 2018, we had no outstanding borrowings under this facility. We had \$603 million of letters of credit issued and \$968 million of outstanding borrowings under our commercial paper program, both supported by this facility, leaving unused and available credit capacity of \$1.2 billion as of June 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 the second quarter of 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 June 30, 2018, we had \$968 million of outstanding borrowings under our commercial paper program.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Canadian Term Loan and Revolving Credit Facility** — We have a Canadian credit agreement (which includes a term loan and revolving credit facility) that matures in March 2019. This agreement provides the Company (i) C\$50 million of revolving credit capacity, which can be used for borrowings or letters of credit, and (ii) C\$460 million of non-revolving term credit that is prepayable without penalty and principal amounts repaid may not be reborrowed. As of June 30, 2018, we had C\$94 million, or \$71 million, of outstanding borrowings under our Canadian term loan. During the third quarter of 2018, we expect to incur borrowings under our \$2.75 billion revolving credit facility to repay the outstanding borrowings under our Canadian term loan. As of June 30, 2018, we had no borrowings or letters of credit outstanding under the Canadian revolving credit facility.

**Other Letter of Credit Facilities** — As of June 30, 2018, we utilized \$503 million of other letter of credit facilities, which are both committed and uncommitted, with terms maturing through June 2019.

**Debt Borrowings and Repayments**

**Revolving Credit Facility** — During the six months ended June 30, 2018, we borrowed and repaid \$28 million under our revolving credit facility, which we amended and restated in June 2018, as discussed above.

**Commercial Paper Program** — During the six months ended June 30, 2018, we had net cash borrowings of \$443 million to support new business opportunities and for general corporate purposes.

**Canadian Term Loan and Revolving Credit Facility** — During the six months ended June 30, 2018, we had net repayments of C\$48 million, or \$37 million, of net advances under our Canadian term loan and revolving credit facility with available cash. The remaining change in the carrying value of outstanding borrowings under our Canadian term loan is due to foreign currency translation.

**Tax-Exempt Bonds** — During the six months ended June 30, 2018, we repaid \$42 million of our tax-exempt bonds with available cash.

**Capital Leases and Other** — During the six months ended June 30, 2018, capital leases and other debt had a net decrease of \$67 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.



WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

#### 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 June 30, 2018, we had \$139 million of deferred contract costs, of which \$108 million was related to deferred sales incentives. During the three and six months ended June 30, 2018, we amortized \$5 million and \$11 million of sales incentives to selling, general and administrative expense, and \$9 million and \$19 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

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 six months ended June 30, 2018 was 18.1% and 20.2%, respectively, compared with 36.6% and 34.4%, 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 six months ended June 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 six months ended June 30, 2018 was primarily due to the favorable impact of tax audit settlements and federal tax credits offset, in part, by the unfavorable impact of state and local income taxes. The six-month period was also favorably impacted by excess tax benefits related to equity-based compensation.

The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended June 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. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the six months ended June 30, 2017 was primarily due to the favorable impact of excess tax benefits related to equity-based compensation and federal tax credits offset, in part, by the unfavorable impact of state and local income taxes and the tax implications of 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 re-measurement 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. As of June 30, 2018, we have not made any additional measurement-period adjustments related to these items. Such 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 with the filing of our 2017 income tax returns during 2018.

Tax Audit Settlements — We are currently under audit by the IRS and various state and local taxing authorities and our audits are in various stages of completion. In June 2018, we settled various tax audits, which resulted in a reduction in our income tax expense of \$33 million.

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. 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 2020 under Section 42 and through 2019 under Section 45, respectively, of the Internal Revenue Code.

## WASTE MANAGEMENT, INC.

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

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 six months ended June 30, 2018, we recognized \$6 million and \$12 million of net losses and a reduction in our income tax expense of \$12 million and \$22 million, respectively, primarily because of tax credits realized from these investments. During the three and six months ended June 30, 2017, we recognized \$9 million and \$15 million of net losses and a reduction in our income tax expense of \$14 million and \$25 million, respectively, primarily because of tax credits realized from these investments. Interest expense associated with our investment in low-income housing properties was not material for the periods presented. See Note 13 for additional information related to these unconsolidated variable interest entities.

Equity-Based Compensation — During the three and six months ended June 30, 2018, we recognized a reduction in our income tax expense of \$1 million and \$12 million, respectively, for excess tax benefits related to the vesting or exercise of equity-based compensation awards compared with \$2 million and \$34 million, respectively, for the comparable prior year periods.

## 6. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Number of common shares outstanding at end of period	428.4	439.7	428.4	439.7
Effect of using weighted average common shares outstanding	1.5	2.2	3.2	1.9
Weighted average basic common shares outstanding	429.9	441.9	431.6	441.6
Dilutive effect of equity-based compensation awards and other contingently issuable shares	2.4	2.5	2.5	2.8
Weighted average diluted common shares outstanding	432.3	444.4	434.1	444.4
Potentially issuable shares	8.0	8.4	8.0	8.4
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding	1.9	2.3	1.9	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

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 14 for further discussion.

As of June 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 19 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 \$145 million higher than the \$249 million recorded in the Condensed Consolidated Balance Sheet as of June 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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 June 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.

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 June 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.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 21 months. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2011. 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.

#### 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 current year 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.

## WASTE MANAGEMENT, INC.

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

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.

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 June 30:				
2018				
Solid Waste:				
Tier 1	\$ 1,485	\$ (269)	\$ 1,216	\$ 395
Tier 2	663	(123)	540	141
Tier 3	1,776	(350)	1,426	295
Solid Waste	3,924	(742)	3,182	831
Other	613	(56)	557	13
	4,537	(798)	3,739	844
Corporate and Other	—	—	—	(129)
Total	\$ 4,537	\$ (798)	\$ 3,739	\$ 715
2017				
Solid Waste:				
Tier 1	\$ 1,417	\$ (258)	\$ 1,159	\$ 395
Tier 2	651	(114)	537	142
Tier 3	1,691	(311)	1,380	296
Solid Waste	3,759	(683)	3,076	833
Other	657	(56)	601	(18)
	4,416	(739)	3,677	815
Corporate and Other	—	—	—	(142)
Total	\$ 4,416	\$ (739)	\$ 3,677	\$ 673

## WASTE MANAGEMENT, INC.

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

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Six Months Ended June 30:				
2018				
Solid Waste:				
Tier 1	\$ 2,858	\$ (510)	\$ 2,348	\$ 760
Tier 2	1,276	(234)	1,042	263
Tier 3	3,409	(659)	2,750	586
Solid Waste	7,543	(1,403)	6,140	1,609
Other	1,220	(110)	1,110	(10)
	8,763	(1,513)	7,250	1,599
Corporate and Other	—	—	—	(276)
Total	\$ 8,763	\$ (1,513)	\$ 7,250	\$ 1,323
2017				
Solid Waste:				
Tier 1	\$ 2,757	\$ (496)	\$ 2,261	\$ 761
Tier 2	1,243	(215)	1,028	258
Tier 3	3,268	(596)	2,672	564
Solid Waste	7,268	(1,307)	5,961	1,583
Other	1,260	(104)	1,156	(50)
	8,528	(1,411)	7,117	1,533
Corporate and Other	—	—	—	(302)
Total	\$ 8,528	\$ (1,411)	\$ 7,117	\$ 1,231

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Commercial	\$ 986	\$ 917	\$ 1,941	\$ 1,828
Residential	632	632	1,246	1,253
Industrial	708	654	1,345	1,257
Other	115	123	216	223
Total collection	2,441	2,326	4,748	4,561
Landfill	915	864	1,720	1,603
Transfer	437	414	812	780
Recycling	305	375	617	747
Other (a)	439	437	866	837
Intercompany (b)	(798)	(739)	(1,513)	(1,411)
Total	\$ 3,739	\$ 3,677	\$ 7,250	\$ 7,117

- (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.

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 six months ended June 30, 2018, we acquired 12 solid waste businesses. Total consideration, net of cash acquired, for these acquisitions was \$266 million, which included \$256 million in cash paid and \$10 million of purchase price holdbacks. The businesses acquired provide collection, transfer and disposal services. As of June 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 six months ended June 30, 2018, we sold certain ancillary operations and received cash proceeds from these divestitures of \$86 million and recognized net gains of \$42 million, which are included in (gain) loss from divestitures, asset impairments and unusual items, net in the Condensed Consolidated Statement of Operations.

## WASTE MANAGEMENT, INC.

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

## 10. 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, \$0, \$0 and \$0, respectively	—	(1)	(55)	—	(56)
Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (expense) benefit of \$2, \$0, \$0 and \$0, respectively	4	—	—	—	4
Net current period other comprehensive income (loss)	4	(1)	(55)	—	(52)
Adoption of new accounting standard (a)	(7)	3	—	(1)	(5)
Balance, June 30, 2018	\$ (36)	\$ 17	\$ (26)	\$ (4)	\$ (49)

(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.

## 11. 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 agreements to repurchase \$450 million of our common stock and received 5.4 million shares based on a final weighted average per share price of \$83.87.

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 June 30, 2018, the Company has authorization for \$700 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.





## WASTE MANAGEMENT, INC.

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

## 12. 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):

	June 30, 2018 (Unaudited)	December 31, 2017
Fair Value Measurements Using:		
Quoted prices in active markets (Level 1):		
Money market funds	\$ 109	\$ 225
	109	225
Significant other observable inputs (Level 2):		
Available-for-sale securities	49	49
Fixed-income securities	46	47
	95	96
Significant unobservable inputs (Level 3):		
Redeemable preferred stock (a)	55	55
	55	55
Total Assets	\$ 259	\$ 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 comparables. There has not been any significant change in the fair value of the redeemable preferred stock since our assessment as of December 31, 2017.

## Fair Value of Debt

As of June 30, 2018 and December 31, 2017, the carrying value of our debt was \$9.8 billion and \$9.5 billion, respectively. The estimated fair value of our debt was approximately \$9.9 billion as of June 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 June 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)

13. 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 as we have determined 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 two entities was \$48 million and \$59 million as of June 30, 2018 and December 31, 2017, respectively. The debt balance related to our investment in low-income housing properties was \$23 million and \$34 million as of June 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 June 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 \$102 million and \$101 million as of June 30, 2018 and December 31, 2017, respectively.

## WASTE MANAGEMENT, INC.

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

## 14. 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

June 30, 2018

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 47	\$ —	\$ 47
Other current assets	91	7	2,326	—	2,424
	91	7	2,373	—	2,471
Property and equipment, net	—	—	11,625	—	11,625
Investments in affiliates	23,466	23,921	—	(47,387)	—
Advances to affiliates	—	—	15,969	(15,969)	—
Other assets	8	31	7,879	—	7,918
Total assets	\$ 23,565	\$ 23,959	\$ 37,846	\$ (63,356)	\$ 22,014
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 491	\$ —	\$ 337	\$ —	\$ 828
Accounts payable and other current liabilities	84	9	2,384	—	2,477
	575	9	2,721	—	3,305
Long-term debt, less current portion	6,936	304	1,728	—	8,968
Due to affiliates	16,069	181	6,073	(22,323)	—
Other liabilities	4	—	3,681	—	3,685
Total liabilities	23,584	494	14,203	(22,323)	15,958
Equity:					
Stockholders' equity	6,054	23,465	23,922	(47,387)	6,054
Advances to affiliates	(6,073)	—	(281)	6,354	—
Noncontrolling interests	—	—	2	—	2
	(19)	23,465	23,643	(41,033)	6,056
Total liabilities and equity	\$ 23,565	\$ 23,959	\$ 37,846	\$ (63,356)	\$ 22,014



## 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 June 30, 2018

(Unaudited)

	WM	WM	Non-Guarantor	Eliminations	Consolidated
	WM	Holdings	Subsidiaries		
Operating revenues	\$ —	\$ —	\$ 3,783	\$ (44)	\$ 3,739
Costs and expenses	44	—	3,024	(44)	3,024
Income from operations	(44)	—	759	—	715
Other income (expense):					
Interest expense, net	(78)	(4)	(11)	—	(93)
Equity in earnings of subsidiaries, net of tax	588	591	—	(1,179)	—
Other, net	—	—	(13)	—	(13)
	510	587	(24)	(1,179)	(106)
Income before income taxes	466	587	735	(1,179)	609
Income tax expense (benefit)	(33)	(1)	144	—	110
Consolidated net income	499	588	591	(1,179)	499
Less: Net loss attributable to noncontrolling interests	—	—	—	—	—
Net income attributable to Waste Management, Inc.	\$ 499	\$ 588	\$ 591	\$ (1,179)	\$ 499

Three Months Ended June 30, 2017

(Unaudited)

	WM	WM	Non-Guarantor	Eliminations	Consolidated
	WM	Holdings	Subsidiaries		
Operating revenues	\$ —	\$ —	\$ 3,677	\$ —	\$ 3,677
Costs and expenses	—	—	3,004	—	3,004
Income from operations	—	—	673	—	673
Other income (expense):					
Interest expense, net	(74)	(5)	(11)	—	(90)
Equity in earnings of subsidiaries, net of tax	406	409	—	(815)	—
Other, net	—	—	(13)	—	(13)
	332	404	(24)	(815)	(103)
Income before income taxes	332	404	649	(815)	570
Income tax expense (benefit)	(30)	(2)	241	—	209
Consolidated net income	362	406	408	(815)	361
	—	—	(1)	—	(1)

Less: Net loss attributable to noncontrolling  
interests

Net income attributable to Waste  
Management, Inc.

\$ 362

\$ 406

\$ 409

\$ (815)

\$ 362

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## WASTE MANAGEMENT, INC.

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

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)

Six Months Ended June 30, 2018

(Unaudited)

	WM	WM Holdings	Non Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 7,338	\$ (88)	\$ 7,250
Costs and expenses	88	—	5,927	(88)	5,927
Income from operations	(88)	—	1,411	—	1,323
Other income (expense):					
Interest expense, net	(154)	(9)	(21)	—	(184)
Equity in earnings of subsidiaries, net of tax	1,073	1,080	—	(2,153)	—
Other, net	—	—	(19)	—	(19)
	919	1,071	(40)	(2,153)	(203)
Income before income taxes	831	1,071	1,371	(2,153)	1,120
Income tax expense (benefit)	(64)	(2)	292	—	226
Consolidated net income	895	1,073	1,079	(2,153)	894
Less: Net loss attributable to noncontrolling interests	—	—	(1)	—	(1)
Net income attributable to Waste Management, Inc.	\$ 895	\$ 1,073	\$ 1,080	\$ (2,153)	\$ 895

Six Months Ended June 30, 2017

(Unaudited)

	WM	WM Holdings	Non Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 7,117	\$ —	\$ 7,117
Costs and expenses	—	—	5,886	—	5,886
Income from operations	—	—	1,231	—	1,231
Other income (expense):					
Interest expense, net	(148)	(10)	(24)	—	(182)
Equity in earnings of subsidiaries, net of tax	749	755	—	(1,504)	—
Other, net	—	—	(45)	—	(45)
	601	745	(69)	(1,504)	(227)
Income before income taxes	601	745	1,162	(1,504)	1,004
Income tax expense (benefit)	(59)	(4)	409	—	346
Consolidated net income	660	749	753	(1,504)	658
	—	—	(2)	—	(2)

Less: Net loss attributable to  
noncontrolling interests

Net income attributable to Waste  
Management, Inc.

\$ 660

\$ 749

\$ 755

\$ (1,504)

\$ 660

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## 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 June 30:					
2018					
Comprehensive income	\$ 501	\$ 588	\$ 568	\$ (1,179)	\$ 478
Less: Comprehensive loss attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income attributable to Waste Management, Inc.	\$ 501	\$ 588	\$ 568	\$ (1,179)	\$ 478
2017					
Comprehensive income	\$ 364	\$ 406	\$ 439	\$ (815)	\$ 394
Less: Comprehensive loss attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income attributable to Waste Management, Inc.	\$ 364	\$ 406	\$ 440	\$ (815)	\$ 395
Six Months Ended June 30:					
2018					
Comprehensive income	\$ 899	\$ 1,073	\$ 1,023	\$ (2,153)	\$ 842
Less: Comprehensive loss attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income attributable to Waste Management, Inc.	\$ 899	\$ 1,073	\$ 1,024	\$ (2,153)	\$ 843
2017					
Comprehensive income	\$ 664	\$ 749	\$ 796	\$ (1,504)	\$ 705
Less: Comprehensive loss attributable to noncontrolling interests	—	—	(2)	—	(2)
Comprehensive income attributable to Waste Management, Inc.	\$ 664	\$ 749	\$ 798	\$ (1,504)	\$ 707

## WASTE MANAGEMENT, INC.

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

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2018

(Unaudited)

	WM(a)	WM Holdings(a)	Non-Guarantor Subsidiaries(a)	Eliminations	Consolidated
Cash flows provided by (used in):					
Operating activities	\$ —	\$ —	\$ 1,784	\$ —	\$ 1,784
Investing activities	—	—	(1,010)	—	(1,010)
Financing activities	—	—	(647)	—	(647)
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	—	—	126	—	126
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	\$ —	\$ —	\$ 419	\$ —	\$ 419

Six Months Ended June 30, 2017

(Unaudited)

	WM(a)	WM Holdings(a)	Non-Guarantor Subsidiaries(a)	Eliminations	Consolidated
Cash flows provided by (used in):					
Operating activities	\$ —	\$ —	\$ 1,535	\$ —	\$ 1,535
Investing activities	—	—	(673)	—	(673)
Financing activities	—	—	(859)	—	(859)
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	—	—	3	—	3
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	\$ —	\$ —	\$ 97	\$ —	\$ 97

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

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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 v 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.

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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 second quarter of 2018, we produced 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 growth was even more pronounced given the reduction in our effective tax rate due to the enactment of tax reform and tax audit settlements. The Company continued its commitment to supporting both organic and inorganic growth during the second quarter of 2018, allocating \$436 million of available cash to capital expenditures and \$21 million to the acquisition of solid waste businesses. We also allocated \$500 million to our shareholders during the second quarter of 2018 through common stock repurchases and dividends.

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

- Revenues were \$3,739 million compared with \$3,677 million in the prior year period, an increase of \$62 million, or 1.7%. The increase is primarily attributable to yield and volume growth in our collection and disposal business, partially offset by lower market prices for recycling commodities;
- Operating expenses were \$2,313 million, or 61.9% of revenues, compared with \$2,290 million, or 62.3% of revenues, in the prior year period. The \$23 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 \$365 million, or 9.8% of revenues, compared with \$353 million, or 9.6% of revenues. The \$12 million increase is primarily attributable to higher litigation settlement costs in the current year period;
- Income from operations was \$715 million, or 19.1% of revenues, compared with \$673 million, or 18.3% of revenues, in the prior year period;
- Net income attributable to Waste Management, Inc. was \$499 million, or \$1.15 per diluted share, compared with \$362 million, or \$0.81 per diluted share, in the prior year period. The increase is primarily attributable (i) the tax reform enacted in December 2017 which decreased the federal corporate income tax rate; (ii) improved operating results in our Traditional Solid Waste business; (iii) net gains associated with the sale of certain ancillary operations and (iv) the settlement of various tax audits, which resulted in a reduction in our income tax expense. Partially offsetting the increase is lower earnings from our recycling line of business due to lower market prices for recycling commodities;
- Net cash provided by operating activities was \$975 million compared with \$813 million in the prior year period; and



- Free cash flow was \$621 million compared with \$520 million in the prior year period. 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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Solid Waste	\$ 3,924	\$ 3,759	\$ 7,543	\$ 7,268
Other	613	657	1,220	1,260
Intercompany	(798)	(739)	(1,513)	(1,411)
Total	\$ 3,739	\$ 3,677	\$ 7,250	\$ 7,117

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Commercial	\$ 986	\$ 917	\$ 1,941	\$ 1,828
Residential	632	632	1,246	1,253
Industrial	708	654	1,345	1,257
Other	115	123	216	223
Total collection	2,441	2,326	4,748	4,561
Landfill	915	864	1,720	1,603
Transfer	437	414	812	780
Recycling	305	375	617	747
Other (a)	439	437	866	837
Intercompany (b)	(798)	(739)	(1,513)	(1,411)
Total	\$ 3,739	\$ 3,677	\$ 7,250	\$ 7,117

- (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.

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 Three Months Ended June 30, 2018 vs. 2017				Period-to-Period Change for the Six Months Ended June 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	\$ 72	2.3 %			\$ 140	2.3 %		
recycling								
commodities	(88)	(23.4)			(161)	(21.6)		
landfill								
charges								
and								
landfilled								
assets	32	24.1			56	22.3		
total average								
yield (c)			\$ 16	0.4 %			\$ 35	0.5
volume			66	1.8			154	2.2
external								
revenue								
growth			82	2.2			189	2.7
acquisitions			61	1.7			89	1.2
divestitures			(29)	(0.8)			(38)	(0.5)
foreign								
currency								
translation								
and other			(52)	(1.4)			(107)	(1.5)
total			\$ 62	1.7 %			\$ 133	1.9

(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.





Revenue growth from collection and disposal average yield was \$72 million, or 2.3%, and \$140 million, or 2.3%, for the three and six months ended June 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 June 30, 2018 vs. 2017			Period-to-Period Change for the Six Months Ended June 30, 2018 vs. 2017		
	Amount	As a % of Related Business	%	Amount	As a % of Related Business	%
Commercial	\$ 24	2.8	%	\$ 52	3.0	%
Industrial	28	4.7		47	4.1	
Residential	10	1.6		22	1.8	
Total collection	62	2.9		121	2.8	
Landfill	6	1.1		13	1.3	
Transfer	4	1.8		6	1.6	
Total collection and disposal	\$ 72	2.3	%	\$ 140	2.3	%

Our increase in collection and disposal yield for the three and six months ended June 30, 2018, compared to the prior year periods, includes increased revenues of \$19 million and \$36 million, respectively, from our environmental fees.

Recycling Commodities — Decreases in the market prices for recycling commodities resulted in revenue decline of \$88 million and \$161 million for the three and six months ended June 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 43% and 40% lower for the three and six months ended June 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 \$32 million and \$56 million for the three and six months ended June 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 25% and 21% for the three and six months ended June 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 \$66 million, or 1.8%, and \$154 million, or 2.2%, for the three and six months ended June 30, 2018, respectively, as compared with the prior year periods, excluding volumes from acquisitions and divestitures.

We experienced higher volumes due to improving market conditions in our Traditional Solid Waste business and strong sales performance. Our focus on customer service and disciplined growth delivered consistent operating results throughout 2017 and into the first half of 2018. Two large new contract additions in the second half of 2017 favorably impacted volume growth for our commercial collection and transfer stations. Additionally, 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. Our residential collection experienced volume declines in the first six months of 2018 because of our continued focus on renegotiating existing contracts and only entering into new contracts with a reasonable rate of return.

## Foreign Currency Translation and Other

Revenue increases from foreign currency translation, which affects revenues from our Canadian operations, were more than offset by the 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				Six Months Ended			
	June 30, 2018	2017	Period-to-Period Change		June 30, 2018	2017	Period-to-Period Change	
Labor and related benefits	\$ 674	\$ 614	\$ 60	9.8 %	\$ 1,327	\$ 1,224	\$ 103	8.4 %
Transfer and disposal costs	282	257	25	9.7	539	490	49	10.0
Maintenance and repairs	312	288	24	8.3	614	567	47	8.3
Subcontractor costs	337	320	17	5.3	651	605	46	7.6
Cost of goods sold	189	255	(66)	(25.9)	380	494	(114)	(23.1)
Fuel	112	91	21	23.1	188	183	5	2.7
Disposal and franchise fees and taxes	155	194	(39)	(20.1)	289	368	(79)	(21.5)
Landfill operating costs	80	88	(8)	(9.1)	160	169	(9)	(5.3)
Risk management	53	60	(7)	(11.7)	105	112	(7)	(6.3)
Other	119	123	(4)	(3.3)	244	244	—	—
	\$ 2,313	\$ 2,290	\$ 23	1.0 %	\$ 4,497	\$ 4,456	\$ 41	0.9 %
Percentage of revenues	61.9 %	62.3 %			62.0 %	62.6 %		

The increase in volumes in the current year periods, as compared to the prior year periods, as discussed above in Operating Revenues, affects 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 were 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.

## 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				Six Months Ended			
	June 30, 2018	2017	Period-to-Period Change		June 30, 2018	2017	Period-to-Period Change	
Labor and related benefits	\$ 240	\$ 241	\$ (1)	(0.4) %	\$ 492	\$ 517	\$ (25)	(4.8) %
Professional fees	29	25	4	16.0	53	46	7	15.2
Provision for bad debts	10	10	—	—	21	20	1	5.0
Other	86	77	9	11.7	172	160	12	7.5
	\$ 365	\$ 353	\$ 12	3.4 %	\$ 738	\$ 743	\$ (5)	(0.7) %
Percentage of revenues	9.8 %	9.6 %			10.2 %	10.4 %		

The decrease in our labor and related benefits costs during the three and six months ended June 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. Increases in our other expenses are a result of higher litigation settlement costs in the current year periods.

## Depreciation and Amortization Expenses

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

	Three Months Ended				Six Months Ended			
	June 30, 2018	2017	Period-to-Period Change		June 30, 2018	2017	Period-to-Period Change	
Depreciation of tangible property and equipment	\$ 212	\$ 195	\$ 17	8.7 %	\$ 416	\$ 386	\$ 30	7.8 %
Amortization of landfill airspace	146	137	9	6.6	266	251	15	6.0
Amortization of intangible assets	26	24	2	8.3	49	47	2	4.3
	\$ 384	\$ 356	\$ 28	7.9 %	\$ 731	\$ 684	\$ 47	6.9 %
Percentage of revenues	10.3 %	9.7 %			10.1 %	9.6 %		

The increase in depreciation of tangible property and equipment during the three and six months ended June 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 six months ended June 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

We recognized net gains from divestitures of \$39 million and \$42 million during the three and six months ended June 30, 2018, respectively, due to the sale of certain ancillary operations.

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## Income from Operations

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

	Three Months Ended		Period-to-Period		Six Months Ended		Period-to-Period	
	June 30, 2018	2017	Change		June 30, 2018	2017	Change	
Solid Waste:								
Tier 1	\$ 395	\$ 395	\$ —	— %	\$ 760	\$ 761	\$ (1)	