

2018

# ANNUAL REPORT





Proxy Statement



1001 Fannin Street  
Houston, Texas 77002

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
OF WASTE MANAGEMENT, INC.**

**Date and Time:**

May 14, 2019 at 11:00 a.m., Central Time

**Place:**

The Maury Myers Conference Center  
Waste Management, Inc.  
1021 Main Street  
Houston, Texas 77002

**Purpose:**

- To elect eight directors;
- To vote on a proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019;
- To vote on a proposal to approve our executive compensation;
- To vote on a stockholder proposal regarding a policy on acceleration of vesting of equity awards in the event of a change in control, if properly presented at the meeting; and
- To conduct other business that is properly raised at the meeting.

Only stockholders of record on March 19, 2019 may vote at the meeting.

Your vote is important. We urge you to promptly vote your shares by telephone, by the Internet or, if this Proxy Statement was mailed to you, by completing, signing, dating and returning your proxy card as soon as possible in the enclosed postage prepaid envelope.

A handwritten signature in black ink that reads 'Courtney A. Tippy'.

COURTNEY A. TIPPY  
*Corporate Secretary*

March 27, 2019

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 14, 2019: This Notice of Annual Meeting and Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2018 are available at [www.wm.com](http://www.wm.com).**

## TABLE OF CONTENTS

	<b>Page</b>
<b>GENERAL INFORMATION</b> .....	1
<b>BOARD OF DIRECTORS</b> .....	5
Leadership Structure .....	5
Role in Risk Oversight .....	5
Independence of Board Members .....	6
Meetings and Board Committees .....	7
Audit Committee .....	7
Audit Committee Report .....	9
Management Development and Compensation Committee .....	10
Compensation Committee Report .....	11
Compensation Committee Interlocks and Insider Participation .....	11
Nominating and Governance Committee .....	11
Related Party Transactions .....	12
Board of Directors Governing Documents .....	13
Non-Employee Director Compensation .....	14
<b>ELECTION OF DIRECTORS (Item 1 on the Proxy Card)</b> .....	16
<b>DIRECTOR AND OFFICER STOCK OWNERSHIP</b> .....	21
<b>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS</b> .....	23
<b>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</b> .....	23
<b>EXECUTIVE OFFICERS</b> .....	24
<b>EXECUTIVE COMPENSATION</b> .....	26
<b>Compensation Discussion and Analysis</b> .....	26
Executive Summary .....	26
Our Compensation Philosophy for Named Executive Officers .....	29
Overview of Elements of Our 2018 Compensation Program .....	30
How Named Executive Officer Compensation Decisions are Made .....	31
Named Executives' 2018 Compensation Program and Results .....	36
Post-Employment and Change in Control Compensation; Clawback Policies .....	41
Other Compensation Policies and Practices .....	42
<b>Executive Compensation Tables</b> .....	44
Summary Compensation Table .....	44
Grant of Plan-Based Awards in 2018 .....	46
Outstanding Equity Awards as of December 31, 2018 .....	47
Option Exercises and Stock Vested .....	48
Nonqualified Deferred Compensation in 2018 .....	49
Potential Payments Upon Termination or Change in Control .....	50
Chief Executive Officer Pay Ratio .....	53
Equity Compensation Plan Table .....	54
<b>RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b> <b>(Item 2 on the Proxy Card)</b> .....	55
<b>ADVISORY VOTE ON EXECUTIVE COMPENSATION (Item 3 on the Proxy Card)</b> .....	56
<b>STOCKHOLDER PROPOSAL (Item 4 on the Proxy Card)</b> .....	58
<b>OTHER MATTERS</b> .....	60

**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**WASTE MANAGEMENT, INC.**  
**1001 Fannin Street**  
**Houston, Texas 77002**

Waste Management, Inc. is a holding company, and all operations are conducted by its subsidiaries. Our subsidiaries are operated and managed locally and focus on providing services in distinct geographic areas. Through our subsidiaries, we are North America's leading provider of comprehensive waste management environmental services, and we are also a leading developer, operator and owner of landfill gas-to-energy facilities in the United States.

Our Board of Directors is soliciting your proxy for the 2019 Annual Meeting of Stockholders and at any postponement or adjournment of the meeting. We are furnishing proxy materials to our stockholders primarily via the Internet. On March 27, 2019, we sent an electronic notice of how to access our proxy materials and our Annual Report to stockholders that have previously signed up to receive their proxy materials via the Internet. On March 27, 2019, we began mailing a Notice of Internet Availability of Proxy Materials to those stockholders that previously have not signed up for electronic delivery. The Notice contains instructions on how stockholders can access our proxy materials on the website referred to in the Notice or request that a printed set of the proxy materials be sent to them. Internet distribution of our proxy materials is designed to expedite receipt by stockholders, lower the costs of the annual meeting, and conserve natural resources.

<b>Record Date</b>	March 19, 2019.
<b>Quorum</b>	A majority of shares outstanding on the record date must be present in person or by proxy.
<b>Shares Outstanding</b>	There were 424,681,723 shares of our Common Stock outstanding and entitled to vote as of March 19, 2019.
<b>Voting by Proxy</b>	Internet, phone, or mail.
<b>Voting at the Meeting</b>	Stockholders can vote in person during the meeting. Stockholders of record will be on a list held by the inspector of elections. Beneficial holders must obtain a proxy from their brokerage firm, bank, or other stockholder of record and present it to the inspector of elections with their ballot. Voting in person by a stockholder will replace any previous votes submitted by proxy.
<b>Changing Your Vote</b>	Stockholders of record may revoke their proxy at any time before we vote it at the meeting by submitting a later-dated proxy via the Internet, by telephone, by mail, by delivering instructions to our Corporate Secretary before the annual meeting revoking the proxy or by voting in person at the annual meeting. If you hold shares through a bank or brokerage firm, you may revoke any prior voting instructions by contacting that firm.



## **Votes Required to Adopt Proposals**

Each share of our Common Stock outstanding on the record date is entitled to one vote on each of the eight director nominees and one vote on each other matter. To be elected, a director must receive a majority of the votes cast with respect to that director at the meeting. This means that the number of shares voted “for” a director must exceed 50% of the votes cast with respect to that director. Each of the other proposals requires the favorable vote of a majority of the shares present, either by proxy or in person, and entitled to vote.

## **Effect of Abstentions and Broker Non-Votes**

Abstentions will have no effect on the election of directors. For each of the other proposals, abstentions will have the same effect as a vote *against* these matters because they are considered present and entitled to vote.

If your shares are held by a broker, the broker will ask you how you want your shares to be voted. If you give the broker instructions, your shares must be voted as you direct. If you do not give instructions, one of two things can happen depending on the type of proposal. For the proposal to ratify selection of the Company’s independent registered public accounting firm, the broker may vote your shares at its discretion. But for all other proposals in this Proxy Statement, including the election of directors, the advisory vote on executive compensation and the stockholder proposal, the broker cannot vote your shares at all. When that happens, it is called a “broker non-vote.” Broker non-votes are counted in determining the presence of a quorum at the meeting, but they are not counted for purposes of calculating the shares present and entitled to vote on particular proposals at the meeting.

## **Voting Instructions**

You may receive more than one proxy card depending on how you hold your shares. If you hold shares through a broker, your ability to vote by phone or over the Internet depends on your broker’s voting process. You should complete and return each proxy or other voting instruction request provided to you.

If you complete and submit your proxy voting instructions, the persons named as proxies will follow your instructions. If you submit your proxy but do not give voting instructions, we will vote your shares as follows:

- *FOR* our director nominees;
- *FOR* the ratification of the independent registered public accounting firm;
- *FOR* approval of our executive compensation; and
- *AGAINST* the stockholder proposal regarding a policy restricting accelerated vesting of equity awards upon a change in control.

If you give us your proxy, any other matters that may properly come before the meeting will be voted at the discretion of the proxy holders.

**Attending in Person**

Only stockholders, their proxy holders and our invited guests may attend the meeting. If you plan to attend, please bring identification and, if you hold shares in street name, bring your bank or broker statement showing your beneficial ownership of Waste Management, Inc. stock in order to be admitted to the meeting. If you are planning to attend our annual meeting and require directions to the meeting, please contact our Corporate Secretary at 713-512-6200.

The only items on the agenda for this year's annual meeting are the items set out in the Notice. There will be no presentations.

**Stockholder Proposals and Nominees for the 2019 Annual Meeting**

Eligible stockholders who wish to submit a proposal for inclusion in the proxy statement for our 2020 Annual Meeting should notify our Corporate Secretary at Waste Management, Inc., 1001 Fannin Street, Houston, Texas 77002. The written proposal must be received at our offices on or before November 28, 2019, and the stockholder must have been the registered or beneficial owner of (a) at least 1% of our outstanding Common Stock or (b) shares of our Common Stock with a market value of \$2,000 for at least one year before submitting the proposal. The proposal must comply with the requirements set forth in the federal securities laws, including Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in order to be included in the Company's proxy statement and proxy card for the 2020 Annual Meeting.

In addition, the Company's By-laws establish an advance notice procedure with regard to certain matters to be brought before an annual meeting of stockholders, including stockholder proposals that are not included in the Company's proxy materials and nominations of persons for election as directors. In accordance with our By-laws, for a proposal or nominee not included in our proxy materials to be properly brought before the 2020 Annual Meeting, a stockholder's notice must be delivered to or mailed and received by the Company not less than 120 days nor more than 150 days in advance of the first anniversary of the 2019 Annual Meeting. As a result, any such stockholder's notice for the 2020 Annual Meeting shall be received no earlier than December 16, 2019 and no later than January 15, 2020 and must contain certain information specified in the Company's By-laws. The stockholder's notice should be delivered to our Corporate Secretary at Waste Management, Inc., 1001 Fannin Street, Houston, Texas 77002. A copy of our By-laws may be obtained free of charge by writing to our Corporate Secretary and is available in the "ESG — Corporate Governance" section of the "Investor Relations" page on our website at [www.wm.com](http://www.wm.com).

**Expenses of Solicitation**

We pay the cost of preparing, assembling and mailing this proxy-soliciting material. In addition to the use of the mail, proxies may be solicited personally, by Internet or telephone, or by Waste Management officers and employees without additional compensation. We pay all costs of solicitation, including certain expenses of brokers and nominees who mail proxy materials to their customers or principals. Also, Innisfree M&A Incorporated has been hired to help in the solicitation of proxies for the 2019 Annual Meeting for a fee of \$15,000 plus associated costs and expenses.

**Annual Report**

A copy of our Annual Report on Form 10-K for the year ended December 31, 2018, which includes our financial statements for fiscal year 2018, is included with this Proxy Statement. The Annual Report on Form 10-K is not incorporated by reference into this Proxy Statement or deemed to be a part of the materials for the solicitation of proxies.

**Householding Information**

We have adopted a procedure approved by the SEC called “householding.” Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of the Proxy Statement and Annual Report unless we are notified that one or more of these individuals wishes to receive separate copies. This procedure helps reduce our printing costs and postage fees.

If you wish to receive a separate copy of this Proxy Statement and the Annual Report, please contact: Waste Management, Inc., Corporate Secretary, 1001 Fannin Street, Houston, Texas 77002, telephone 713-512-6200.

If you do not wish to participate in householding in the future and prefer to receive separate copies of the proxy materials, please contact: Broadridge Financial Solutions, Attention Household Department, 51 Mercedes Way, Edgewood, NY 11717, telephone 1-866-540-7095. If you are currently receiving multiple copies of proxy materials and wish to receive only one copy for your household, please contact Broadridge.



## **BOARD OF DIRECTORS**

---

Our Board of Directors currently has eight members. Each member of our Board is elected annually. Mr. Thomas H. Weidemeyer is the Non-Executive Chairman of the Board and presides over all meetings of the Board, including executive sessions that only non-employee directors attend.

Stockholders and interested parties wishing to communicate with the Board or the non-employee directors should address their communications to Mr. Thomas H. Weidemeyer, Non-Executive Chairman of the Board, c/o Waste Management, Inc., P.O. Box 53569, Houston, Texas 77052-3569.

### **Leadership Structure**

We separated the roles of Chairman of the Board and Chief Executive Officer at our Company in 2004. We believe that having a Non-Executive Chairman of the Board is in the best interests of the Company and stockholders, due in part to the ever-increasing demands made on boards of directors under federal securities laws, national stock exchange rules and other federal and state regulations. The Non-Executive Chairman's responsibilities include leading full Board meetings and executive sessions and managing the Board function. Effective May 17, 2018, the Board elected Mr. Thomas H. Weidemeyer to serve as Chairman of the Board due to his many years as a valuable member of our Board, his experience serving on boards of other large public companies, and his extensive operational and leadership experience. Mr. Weidemeyer also serves on all three Board committees.

The separation of the positions allows our Chairman of the Board to focus on management of Board matters and allows our Chief Executive Officer to focus his attention on managing our business. Additionally, we believe the separation of those roles contributes to the independence of the Board in its oversight role and in assessing the Chief Executive Officer and management generally.

### **Role in Risk Oversight**

Our executive officers have primary responsibility for risk management within our Company. Our Board of Directors oversees risk management to ensure that the processes designed, implemented and maintained by our executives are functioning as intended and adapted when necessary to respond to changes in our Company's strategy as well as emerging risks. The primary means by which our Board oversees our risk management processes is through its regular communications with management and by regularly reviewing our enterprise risk management, or ERM, framework. We believe that our leadership team's engagement and communication methods are supportive of comprehensive risk management practices and that our Board's involvement is appropriate to ensure effective oversight.

Our ERM process is supported by regular inquiries of our Company's Senior Leadership Team, and additional members of management and operations leadership across the enterprise, as to the risks, including emerging risks, that may affect the execution of our strategic priorities or achievement of our long-term outlook. For the most significant risks, the ERM process is designed to generate actionable insights that are actively discussed and reviewed with the Senior Leadership Team and our Board of Directors.

Risks and opportunities are assessed and then prioritized using internal evaluations of financial impact, likelihood of occurrence, outlook for changes in the nature or extent of risk exposure and a self-assessment of the Company's confidence in existing risk mitigation efforts. The Senior Leadership Team reviews the outcomes of the risk assessments, focusing largely on the estimated scope of impacts, as well as the adequacy of current support by internal staff, the sufficiency of financial support for mitigation measures needed to manage and reduce risk, and the sufficiency of any third-party expertise that may be necessary to supplement internal resources. All significant risks have a standardized scorecard that includes forward-looking action plans with measurable indicators and progress updates on action plans from previous assessments.

Our Board of Directors generally has seven regular meetings per year, five of which are in person, including one meeting that is dedicated specifically to strategic planning, and regular updates are given to our Board of Directors on Company risks. At each of these meetings, our President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Legal Officer report to our Board and, when appropriate, specific committees. Additionally, other members of management and employees attend meetings periodically and present information, including those responsible for our Internal Audit, Environmental Audit, Business Ethics and Compliance, Human Resources, Government Affairs, Digital, Insurance, Safety, Finance and Accounting functions. These presentations allow our Board to have direct communication with members of management and assess management's evaluation and administration of the Company's risk profile through our ERM process. For example, our Digital organization briefs our Board or Audit Committee on cybersecurity risk and potentially disruptive technologies at least twice a year, and environmental impacts, risks and opportunities are discussed with our Board or Audit Committee at least annually. Other key areas of assessment addressed by our ERM process and overseen by our Board include legislative and regulatory risk and opportunity; operational risk; financial policy and capital allocation risk; employee engagement, readiness, safety and health risk; new acquisition evaluation for environment, health, safety and social indicators; recycling market risk and municipal contract risk. Consistent with our Company's long-standing commitment to corporate sustainability and environmental stewardship, we have published our 2018 Sustainability Report, "Driving Change," which provides additional information about our management of these risks. The information in this report can be found on our Company website but does not constitute a part of our Proxy Statement or Annual Report.

Management is also encouraged to communicate with our Board of Directors with respect to extraordinary risk issues or developments that may require more immediate attention between regularly scheduled Board meetings. Our Non-Executive Chairman of the Board facilitates communications with our Board of Directors as a whole and is integral in initiating the discussions among the independent Board members necessary to ensure management is adequately evaluating and overseeing our Company's risk management. Additionally, in accordance with New York Stock Exchange requirements, the Audit Committee of our Board is responsible for discussing our major financial risk exposures, steps management has taken to monitor and control such exposures and the Company's process for risk assessment and management, and quarterly reports are made to the Audit Committee on financial and compliance risks.

### **Independence of Board Members**

The Board of Directors has determined that each of the following seven non-employee director nominees is independent in accordance with the New York Stock Exchange listing standards:

Frank M. Clark, Jr.  
Andrés R. Gluski  
Patrick W. Gross  
Victoria M. Holt  
Kathleen M. Mazarella  
John C. Pope  
Thomas H. Weidemeyer

Mr. James C. Fish, Jr., our President and Chief Executive Officer, is also a director of the Company. As an employee of the Company, Mr. Fish is not an "independent" director.

To assist the Board in determining independence, the Board of Directors adopted categorical standards of director independence, which meet or exceed the requirements of the New York Stock Exchange. These standards specify certain relationships that are prohibited in order for the non-employee director to be deemed independent. The categorical standards our Board uses in determining independence are included in our Corporate Governance Guidelines, which can be found on our website.

In addition to these categorical standards, our Board makes a subjective determination of independence considering relevant facts and circumstances.

The Board reviewed all commercial and non-profit affiliations of each non-employee director and the dollar amount of all transactions between the Company and each entity with which a non-employee director is affiliated to determine independence. These transactions consisted of the Company, through its subsidiaries, providing waste management services in the ordinary course of business and the Company's subsidiaries purchasing goods and services in the ordinary course of business and included commercial dealings with Graybar Electric Company, Inc. and The AES Corporation. Ms. Mazzarella and Mr. Gluski, respectively, are the chief executive officer of these entities. The Board concluded there are no transactions between the Company and any entity with which a non-employee director is affiliated that (a) are prohibited by our categorical standards of independence, (b) are material individually or in the aggregate or (c) give rise to a material direct or indirect interest for that non-employee director. Accordingly, the Board has determined that each non-employee director candidate meets the categorical standards of independence and that there are no relationships that would affect independence.

### **Meetings and Board Committees**

Last year the Board held seven regular meetings and three special meetings, and each committee of the Board met independently as set forth below. Each director attended at least 75% of the meetings of the Board and the committees on which he or she served. In addition, all directors attended the 2018 Annual Meeting of Stockholders. Although we do not have a formal policy regarding director attendance at annual meetings, it has been longstanding practice that all directors attend unless there are unavoidable schedule conflicts or unforeseen circumstances.

The Board appoints committees to help carry out its duties. Committee members take on greater responsibility for key issues, although all members of the Board are invited to attend all committee meetings and the committee reviews the results of its meetings with the full Board. The Board has three separate standing committees: the Audit Committee; the Management Development and Compensation Committee (the "MD&C Committee"); and the Nominating and Governance Committee. Additionally, the Board has the power to appoint additional committees, as it deems necessary.

#### ***The Audit Committee***

Mr. Gross has been the Chairman of our Audit Committee since May 2010. The other members of our Audit Committee are Messrs. Clark, Gluski and Weidemeyer and Ms. Holt. Each member of our Audit Committee satisfies the additional New York Stock Exchange independence standards for audit committees set forth in Section 10A of the Exchange Act. Our Audit Committee held nine meetings in 2018.

Our Board of Directors has determined that Audit Committee Chairman Mr. Gross, Mr. Clark, Mr. Gluski and Ms. Holt are audit committee financial experts as defined by the SEC based on a thorough review of their education and financial and public company experience.

Mr. Gross was a founder of American Management Systems Inc. where he was principal executive officer for over 30 years. Since 2001, he has served as Chairman of The Lovell Group, a private investment and advisory firm. Mr. Gross holds an MBA from the Stanford University Graduate School of Business, a master's degree in engineering science from the University of Michigan and a bachelor's degree in engineering science from Rensselaer Polytechnic Institute.

Mr. Clark served as Chairman and Chief Executive Officer of ComEd from 2005 to 2012 and President of ComEd from 2001 to 2005. Mr. Clark holds a LLB from DePaul University College of Law and a BBA from DePaul University.

Mr. Gluski has served as President, Chief Executive Officer and Director of The AES Corporation since 2011 and was Executive Vice President and Chief Operating Officer of The AES Corporation from 2007 to 2011. Mr. Gluski is a graduate of Wake Forest University and holds a PhD and MA in Economics from the University of Virginia.

Ms. Holt has served as President, Chief Executive Officer and Director of Proto Labs, Inc. since February 2014 and was President and Chief Executive Officer of Spartech Corporation from 2010 to 2013. Prior to joining Spartech, she served as Senior Vice President of PPG Industries, Inc. for over five years. Ms. Holt holds an MBA from Pace University and a bachelor's degree in chemistry from Duke University.

The Audit Committee's duties are set forth in a written charter that was approved by the Board of Directors. A copy of the charter can be found on our website. The Audit Committee generally is responsible for overseeing all matters relating to our financial statements and reporting, independent auditors and internal audit function. As part of its function, the Audit Committee reports the results of all of its reviews to the full Board. In fulfilling its duties, the Audit Committee, has the following responsibilities:

#### *Administrative Responsibilities*

- Report to the Board, at least annually, all public company audit committee memberships by members of the Audit Committee;
- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board; and
- Adopt an orientation program for new Audit Committee members.

#### *Financial Statements*

- Review financial statements and Forms 10-K and 10-Q with management and the independent auditor;
- Review all earnings press releases and discuss with management the type of earnings guidance that we provide to analysts and rating agencies;
- Discuss with the independent auditor any material changes to our accounting principles and matters required to be communicated by Public Company Accounting Oversight Board (United States) Auditing Standard No. 1301 *Communications with Audit Committees*;
- Review our financial reporting, accounting and auditing practices with management, the independent auditor and our internal auditors;
- Review management's and the independent auditor's assessment of the adequacy and effectiveness of internal controls over financial reporting; and
- Review executive officer certifications related to our reports and filings.

#### *Independent Auditor*

- Engage an independent auditor, determine the auditor's compensation and replace the auditor if necessary;
- Review the independence of the independent auditor and establish our policies for hiring current or former employees of the independent auditor;
- Evaluate the lead partner of our independent audit team and review a report, at least annually, describing the independent auditor's internal control procedures; and

- Pre-approve all services, including non-audit engagements, provided by the independent auditor.

#### *Internal Audit*

- Review the plans, staffing, reports and activities of the internal auditors; and
- Review and establish procedures for receiving, retaining and handling complaints, including anonymous complaints by our employees, regarding accounting, internal controls and auditing matters.

### **Audit Committee Report**

The role of the Audit Committee is, among other things, to oversee the Company's financial reporting process on behalf of the Board of Directors, to recommend to the Board whether the Company's financial statements should be included in the Company's Annual Report on Form 10-K and to select the independent auditor for ratification by stockholders. Company management is responsible for the Company's financial statements as well as for its financial reporting process, accounting principles and internal controls. The Company's independent auditors are responsible for performing an audit of the Company's financial statements and expressing an opinion as to the conformity of such financial statements with accounting principles generally accepted in the United States.

The Audit Committee has reviewed and discussed the Company's audited financial statements as of and for the year ended December 31, 2018 with management and the independent registered public accounting firm, and has taken the following steps in making its recommendation that the Company's financial statements be included in its annual report:

- First, the Audit Committee discussed with Ernst & Young, the Company's independent registered public accounting firm for fiscal year 2018, those matters required to be discussed by Public Company Accounting Oversight Board (United States) Auditing Standard No. 1301 *Communications with Audit Committees*, including information regarding the scope and results of the audit. These communications and discussions are intended to assist the Audit Committee in overseeing the financial reporting and disclosure process.
- Second, the Audit Committee discussed with Ernst & Young its independence and received from Ernst & Young a letter concerning independence as required under applicable independence standards for auditors of public companies. This discussion and disclosure helped the Audit Committee in evaluating such independence. The Audit Committee also considered whether the provision of other non-audit services to the Company is compatible with the auditor's independence.
- Third, the Audit Committee met periodically with members of management, the internal auditors and Ernst & Young to review and discuss internal controls over financial reporting. Further, the Audit Committee reviewed and discussed management's report on internal control over financial reporting as of December 31, 2018, as well as Ernst & Young's report regarding the effectiveness of internal control over financial reporting.
- Finally, the Audit Committee reviewed and discussed, with the Company's management and Ernst & Young, the Company's audited consolidated balance sheet as of December 31, 2018, and consolidated statements of operations, comprehensive income, cash flows and changes in equity for the fiscal year ended December 31, 2018, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of the disclosure.

The Committee has also discussed with the Company's internal auditors and independent registered public accounting firm the overall scope and plans of their respective audits. The Committee meets periodically with both the internal auditors and independent registered public accounting firm, with and



without management present, to discuss the results of their examinations and their evaluations of the Company's internal controls over financial reporting.

The members of the Audit Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting. In the performance of their oversight function, the members of the Audit Committee necessarily relied upon the information, opinions, reports and statements presented to them by Company management and by the independent registered public accounting firm.

Based on the reviews and discussions explained above (and without other independent verification), the Audit Committee recommended to the Board (and the Board approved) that the Company's financial statements be included in its annual report for its fiscal year ended December 31, 2018. The Committee has also approved the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2019.

The Audit Committee of the Board of Directors

Patrick W. Gross, *Chairman*  
Frank M. Clark, Jr.  
Andrés R. Gluski  
Victoria M. Holt  
Thomas H. Weidemeyer

#### ***The Management Development and Compensation Committee***

Mr. Clark has served as the Chairman of our MD&C Committee since May 2011. The other members of the Committee are Mr. Gluski, Ms. Holt, Ms. Mazzarella, Mr. Pope and Mr. Weidemeyer. Each member of our MD&C Committee is independent in accordance with the rules and regulations of the New York Stock Exchange. The MD&C Committee held six meetings in 2018.

Our MD&C Committee is responsible for overseeing our executive officer compensation, as well as developing the Company's compensation philosophy generally. The MD&C Committee's written charter, which was approved by the Board of Directors, can be found on our website. In fulfilling its duties, the MD&C Committee has the following responsibilities:

- Review and establish policies governing the compensation and benefits of our executive officers;
- Approve the compensation of our executive officers and set the bonus plan goals for those individuals;
- Conduct an annual evaluation of our Chief Executive Officer by all independent directors and set his compensation;
- Oversee the administration of our equity-based incentive plans;
- Review the results of the stockholder advisory vote on executive compensation and consider any implications of such voting results on the Company's compensation programs;
- Recommend to the full Board new Company compensation and benefit plans or changes to our existing plans;
- Evaluate and recommend to the Board the compensation paid to our non-employee directors;
- Review the independence of the MD&C Committee's compensation consultant annually; and
- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board.

In overseeing compensation matters, the MD&C Committee may delegate authority for day-to-day administration and interpretation of the Company's plans, including selection of participants, determination of award levels within plan parameters, and approval of award documents, to Company employees. However, the MD&C Committee may not delegate any authority to Company employees under those plans for matters affecting the compensation and benefits of the executive officers. For additional information on the MD&C Committee, see the *Compensation Discussion and Analysis* beginning on page 26.

### **Compensation Committee Report**

The MD&C Committee has reviewed and discussed the *Compensation Discussion and Analysis*, beginning on page 26, with management. Based on the review and discussions, the MD&C Committee recommended to the Board of Directors that the *Compensation Discussion and Analysis* be included in the Company's Proxy Statement.

The Management Development and Compensation  
Committee of the Board of Directors

Frank M. Clark, Jr., *Chairman*  
Andrés R. Gluski  
Victoria M. Holt  
Kathleen M. Mazzarella  
John C. Pope  
Thomas H. Weidemeyer

### **Compensation Committee Interlocks and Insider Participation**

During 2018, Ms. Holt, Ms. Mazzarella and Messrs. Clark, Gluski, Pope and Weidemeyer served on the MD&C Committee. Mr. Bradbury H. Anderson also served on the MD&C Committee and attended two meetings in 2018 before he resigned from our Board in April 2018. No member of the MD&C Committee was an officer or employee of the Company during 2018; no member of the MD&C Committee is a former officer of the Company; and during 2018, none of our executive officers served as a member of a board of directors or compensation committee of any entity that has one or more executive officers who serve on our Board of Directors or MD&C Committee.

#### ***The Nominating and Governance Committee***

Ms. Mazzarella was named Chairman of our Nominating and Governance Committee in May 2018. The other members of the Committee include Messrs. Gross, Pope and Weidemeyer. Each member of our Nominating and Governance Committee is independent in accordance with the rules and regulations of the New York Stock Exchange. In 2018, the Nominating and Governance Committee met five times.

The Nominating and Governance Committee has a written charter that has been approved by the Board of Directors and can be found on our website. It is the duty of the Nominating and Governance Committee to oversee matters regarding corporate governance. In fulfilling its duties, the Nominating and Governance Committee has the following responsibilities:

- Review and recommend the composition of our Board, including the nature and duties of each of our committees, in accordance with our Corporate Governance Guidelines;
- Evaluate the charters of each of the committees and recommend directors to serve as committee chairs;

- Review individual director's performance in consultation with the Chairman of the Board and review the overall effectiveness of the Board;
- Recommend retirement policies for the Board, the terms for directors and the proper ratio of employee directors to outside directors;
- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board;
- Review stockholder proposals received for inclusion in the Company's proxy statement and recommend action to be taken with regard to the proposals to the Board; and
- Identify and recommend to the Board candidates to fill director vacancies.

Potential new director candidates are identified through various methods; the Nominating and Governance Committee welcomes suggestions from directors, members of management, and stockholders. From time to time, the Nominating and Governance Committee uses outside consultants to assist with identifying potential director candidates. For all potential candidates, the Nominating and Governance Committee considers all factors it deems relevant, such as a candidate's personal and professional integrity and sound judgment, business and professional skills and experience, independence, possible conflicts of interest, diversity, and the potential for effectiveness, in conjunction with the other directors, to serve the long-term interests of the stockholders. While there is no formal policy with regard to consideration of diversity in identifying director nominees, the Committee considers diversity in business experience, professional expertise, gender and ethnic background, along with various other factors when evaluating director nominees. The Nominating and Governance Committee has considered the gender and racial / ethnic composition of our Board, including the presence of two women, Mr. Clark's self-identification as African American / Black and Mr. Gluski's self-identification as Hispanic, and believes these factors, among numerous others, contribute to a valuable diversity of background, thoughts and opinions on our Board. The Committee uses a matrix of experience, skills and expertise to develop criteria to select candidates. Before being nominated by the Nominating and Governance Committee, director candidates are interviewed by the Chief Executive Officer and a minimum of two members of the Nominating and Governance Committee, including the Non-Executive Chairman of the Board. Additional interviews typically include other members of the Board, representatives from senior levels of management and an outside consultant.

The Nominating and Governance Committee will consider all potential nominees on their merits without regard to the source of recommendation. The Nominating and Governance Committee believes that the nominating process will and should continue to involve significant subjective judgments. To suggest a nominee for consideration by the Nominating and Governance Committee, you should submit your candidate's name, together with biographical information and his or her written consent to nomination to the Chairman of the Nominating and Governance Committee, Waste Management, Inc., 1001 Fannin Street, Houston, Texas 77002, between October 29, 2019 and November 28, 2019.

### **Related Party Transactions**

The Board of Directors has adopted a written Related Party Transactions Policy for the review and approval or ratification of related party transactions. Our policy generally defines related party transactions as current or proposed transactions in excess of \$120,000 in which (i) the Company is a participant and (ii) any director, executive officer or immediate family member of any director or executive officer has a direct or indirect material interest. In addition, the policy sets forth certain transactions that will not be considered related party transactions, including (i) executive officer compensation and benefit arrangements; (ii) director compensation arrangements; (iii) business travel and expenses, advances and reimbursements in the ordinary course of business; (iv) indemnification payments and advancement of expenses, and payments under directors' and officers' indemnification insurance policies; (v) any transaction between the Company and any entity in which a related party has a relationship solely as a

director, a less than 5% equity holder, or an employee (other than an executive officer); and (vi) purchases of Company debt securities, provided that the related party has a passive ownership of no more than 2% of the principal amount of any outstanding series. The Nominating and Governance Committee is responsible for overseeing the policy.

All executive officers and directors are required to notify the Chief Legal Officer or the Corporate Secretary as soon as practicable of any proposed transaction that they or their family members are considering entering into that involves the Company. The Chief Legal Officer will determine whether potential transactions or relationships constitute related party transactions that must be referred to the Nominating and Governance Committee.

The Nominating and Governance Committee will review a detailed description of the transaction, including:

- the terms of the transaction;
- the business purpose of the transaction;
- the benefits to the Company and to the relevant related party; and
- whether the transaction would require a waiver of the Company's Code of Conduct.

In determining whether to approve a related party transaction, the Nominating and Governance Committee will consider, among other things, whether:

- the terms of the related party transaction are fair to the Company and such terms would be reasonable in an arms-length transaction;
- there are business reasons for the Company to enter into the related party transaction;
- the related party transaction would impair the independence of any non-employee director;
- the related party transaction would present an improper conflict of interest for any director or executive officer of the Company; and
- the related party transaction is material to the Company or the individual.

Any member of the Nominating and Governance Committee who has an interest in a transaction presented for consideration will abstain from voting on the related party transaction.

The Nominating and Governance Committee's consideration of related party transactions and its determination of whether to approve such a transaction are reflected in the minutes of the Nominating and Governance Committee's meetings. As discussed above under "Independence of Board Members," the Company reviewed all transactions between the Company and each entity with which a non-employee director is affiliated, as well as all transactions between the Company and each entity with which an executive officer is affiliated, and the Company is not aware of any transactions in 2018 that are required to be disclosed.

### **Board of Directors Governing Documents**

Stockholders may obtain copies of our Corporate Governance Guidelines, the charters of the Audit Committee, the MD&C Committee, and the Nominating and Governance Committee, and our Code of Conduct free of charge by contacting the Corporate Secretary, c/o Waste Management, Inc., 1001 Fannin Street, Houston, Texas 77002 or by accessing the "ESG — Corporate Governance" section of the "Investor Relations" page on our website at [www.wm.com](http://www.wm.com).

## **Non-Employee Director Compensation**

Our non-employee director compensation program consists of equity awards and cash consideration. Director compensation is recommended annually by the MD&C Committee, with the assistance of an independent third-party consultant, and set by action of the Board of Directors. Non-employee director compensation had been held flat since 2014, until the equity component of our non-employee director compensation was increased in February 2017. The Board's goal in designing directors' compensation is to provide a competitive package that will enable the Company to attract and retain highly skilled individuals with relevant experience. The compensation is also designed to reward the time and talent required to serve on the board of a company of our size and complexity. The Board seeks to provide sufficient flexibility in the form of compensation delivered to meet the needs of different individuals while ensuring that a substantial portion of directors' compensation is linked to the long-term success of the Company.

### ***Equity Compensation***

Non-employee directors receive an annual grant of shares of Common Stock under the Company's 2014 Stock Incentive Plan. The shares are fully vested at the time of grant; however, non-employee directors are required to hold all net shares until one year after retirement and are subject to ownership guidelines, as discussed below. The grant of shares is generally made in two equal installments, and the number of shares issued is based on the market value of our Common Stock on the dates of grant, which are typically January 15 and July 15 of each year. Each non-employee director received a grant of Common Stock valued at \$77,500 in each of January 2018 and July 2018.

Mr. Bradbury H. Anderson served as our Non-Executive Chairman of the Board until his resignation in April 2018. On January 15, 2018, he received an additional grant of Common Stock valued at \$50,000 for his service in such role for the first half of 2018. Upon Mr. Weidemeyer's election as Non-Executive Chairman of the Board in May 2018, he received an additional prorated grant of Common Stock valued at approximately \$16,500 for his service in such role from the date of his election until July 15, 2018. Mr. Weidemeyer then received an additional grant of Common Stock valued at \$50,000 on July 15, 2018 for his service as Non-Executive Chairman of the Board for the remainder of 2018.

### ***Cash Compensation***

All non-employee directors receive an annual cash retainer for Board service and additional cash retainers for serving as a committee chair. Directors do not receive meeting fees in addition to the retainers. The annual cash retainer is generally paid in advance in two equal installments in January and July of each year. The table below sets forth the cash retainers for 2018:

<b>Annual Retainer</b>	\$110,000
<b>Annual Chair Retainers</b>	\$100,000 for Non-Executive Chairman
	\$25,000 for Audit Committee Chair
	\$20,000 for MD&C Committee Chair
	\$15,000 for Nominating and Governance Committee Chair

### ***Stock Ownership Guidelines for Non-Employee Directors***

Our non-employee directors are subject to ownership guidelines that establish a minimum ownership level and require that all net shares received in connection with a stock award, after selling shares to pay all applicable taxes, be held during their tenure as a director and for one year following termination of Board service. The MD&C Committee amended the ownership guidelines for employees and directors in November 2018 to increase the assumed stock price from \$60 per share to \$80 per share, to better reflect more recent sustained market prices for our Common Stock. As a result, non-employee directors are now required to hold 7,000 shares, valued at approximately five times the 2018 annual cash retainer for non-employee directors. There is no deadline for non-employee directors to reach their ownership



guideline; however, the MD&C Committee performs regular reviews to confirm that all non-employee directors are in compliance or are showing sustained progress toward achievement of their ownership guideline. All of our non-employee directors have reached the ownership guideline. Additionally, our Insider Trading Policy provides that directors are not permitted to hedge their ownership of Company securities, including trading in options, warrants, puts and calls or similar derivative instruments on any security of the Company or selling any security of the Company “short.”

***Director Compensation Table***

The table below shows the aggregate cash paid, and stock awards issued, to the non-employee directors in 2018 in accordance with the descriptions set forth above:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	Total (\$)
Bradbury H. Anderson <sup>(2)</sup> . . . . .	105,000	127,501	232,501
Frank M. Clark, Jr. . . . .	130,000	154,954	284,954
Andrés R. Gluski . . . . .	110,000	154,954	264,954
Patrick W. Gross . . . . .	135,000	154,954	289,954
Victoria M. Holt . . . . .	110,000	154,954	264,954
Kathleen M. Mazzarella <sup>(3)</sup> . . . . .	120,000	154,954	274,954
John C. Pope . . . . .	110,000	154,954	264,954
Thomas H. Weidemeyer <sup>(4)</sup> . . . . .	184,167	221,668	405,835

- (1) Amounts in this column represent the grant date fair value of stock awards granted in 2018, in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. The grant date fair value of the awards is equal to the number of shares issued multiplied by the average of the high and low market price of our Common Stock on each date of grant; there are no assumptions used in the valuation of shares.
- (2) Mr. Anderson served as a director and Non-Executive Chairman of the Board until his resignation in April 2018.
- (3) “Fees Earned or Paid in Cash” includes a prorated cash retainer installment of \$2,500 for Ms. Mazzarella’s service as Chairman of the Nominating and Governance Committee from her appointment in May 2018 to July 15, 2018. She received an additional \$7,500 cash retainer for her service in such role for the remainder of 2018.
- (4) “Fees Earned or Paid in Cash” includes a cash retainer of \$7,500 for Mr. Weidemeyer’s service as Chairman of the Nominating and Governance Committee prior to Ms. Mazzarella’s appointment to such position and a prorated cash retainer installment of \$16,667 for Mr. Weidemeyer’s service as Non-Executive Chairman of the Board from his election in May 2018 to July 15, 2018. He received an additional \$50,000 cash retainer for his service in such role for the remainder of 2018.

# ELECTION OF DIRECTORS

## (ITEM 1 ON THE PROXY CARD)

The first item on the proxy card is the election of eight directors to serve until the 2020 Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified. The Board has nominated the eight director candidates named below and recommends that you vote **FOR** their election. If any nominee is unable or unwilling to serve as a director, which we do not anticipate, the Board, by resolution, may reduce the number of directors that constitute the Board or may choose a substitute. To be elected, a director must receive a majority of the votes cast with respect to that director at the meeting. Our By-laws provide that if the number of shares voted “for” any director nominee does not exceed 50% of the votes cast with respect to that director, he or she will tender his or her resignation to the Board of Directors. The Nominating and Governance Committee will then make a recommendation to the Board on whether to accept or reject the resignation, or whether other action should be taken.

The table below shows all of our director nominees; their ages, terms of office on our Board; experience within at least the past five years; and qualifications our Board considered when inviting them to serve as a director as well as nominating them for re-election. We believe that, as a general matter, our directors’ past five years of experience gives an indication of the wealth of knowledge and experience these individuals have and that our Board considered; however, we have also included specific skills and areas of expertise that makes each of these individuals a valuable member of our Board. Each of the director nominees currently serves on our Board of Directors.

### DIRECTOR NOMINEES

#### FRANK M. CLARK, JR.



#### POSITION AND BUSINESS EXPERIENCE

Chairman and Chief Executive Officer — ComEd (energy services company and subsidiary of Exelon Corporation) from 2005 to 2012; President — ComEd from 2001 to 2005.

Executive Vice President and Chief of Staff — Exelon Corporation (public utility holding company) from 2004 to 2005; Senior Vice President — Exelon Corporation from 2001 to 2004.

Director of Aetna, Inc. since 2006.

President of the Chicago Board of Education.

Director of BMO Financial Corp., a private company, from 2005 to December 2016.

**Age:** 73

**Director since:** 2002

**Board Committees:**  
Audit and Management  
Development &  
Compensation (Chair)

#### QUALIFICATIONS

Mr. Clark served in executive positions at a large public utility company for over a decade, providing him with extensive experience and knowledge of large company management, operations and business critical functions. His background in policy-related matters, including regulatory and governmental affairs, human resources and labor relations are a valuable asset to the Company. He also brings over 15 years of experience as a member of a public company board of directors.

## JAMES C. FISH, JR.



**Age:** 56

**Director since:**  
November 2016

### **POSITION AND BUSINESS EXPERIENCE**

President and Chief Financial Officer from July 2016 to November 2016.  
Executive Vice President and Chief Financial Officer from 2012 to July 2016.  
Senior Vice President — Eastern Group from 2011 to 2012.  
Area Vice President — Pennsylvania and West Virginia Area from 2009 to 2011.  
Market Area General Manager — Western Pennsylvania/West Virginia from 2008 to 2009 and Rhode Island/Southern Massachusetts from 2006 to 2008.

### **QUALIFICATIONS**

Mr. Fish is our President and Chief Executive Officer, having been promoted to the position of Chief Executive Officer and elected to our Board of Directors in November 2016. Mr. Fish joined the Company in 2001 and held several key positions with the Company prior to his promotion, including Executive Vice President and Chief Financial Officer, Senior Vice President for the Company's Eastern Group, Area Vice President for the Pennsylvania and West Virginia Area and Vice President of Price Management. As a result, Mr. Fish has a broad and deep understanding of the Company and the strategic actions necessary to deliver stockholder value.

## ANDRÉS R. GLUSKI



**Age:** 61

**Director since:**  
January 2015

**Board Committees:**  
Audit and Management  
Development &  
Compensation

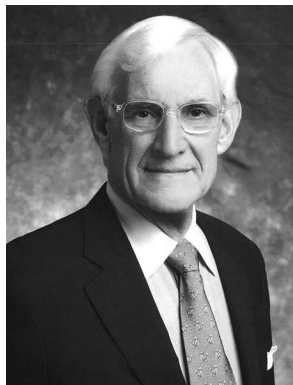
### **POSITION AND BUSINESS EXPERIENCE**

President, Chief Executive Officer and Director — The AES Corporation (global energy company) since 2011; Executive Vice President and Chief Operating Officer — The AES Corporation from 2007 to 2011.  
Director of AES Gener (Chile) since 2005.  
Director of Cliffs Natural Resources from 2011 to July 2014.

### **QUALIFICATIONS**

During his tenure as President and CEO of The AES Corporation, a Fortune 500 company that is a global energy business in renewables, energy storage and conventional energy, Mr. Gluski has led a major reorganization and cost savings program and construction program. Over the past twenty years, Mr. Gluski has served in executive positions in the electricity, telecoms and banking sectors and has been involved in many aspects of acquisitions, sales, financings and debt restructurings. He has served on boards of Fortune 200 corporations, as well as on President Obama's Export Council, and is the Chairman of the Americas Society and Council of the Americas.

## PATRICK W. GROSS



**Age:** 74

**Director since:** 2006

**Board Committees:**  
Audit (Chair) and  
Nominating &  
Governance

### POSITION AND BUSINESS EXPERIENCE

Chairman — The Lovell Group (private investment and advisory firm) since 2001.

Director of Liquidity Services, Inc. since 2001.

Director of Career Education Corporation since 2005.

Director of Rosetta Stone, Inc. since 2009.

Director of Capital One Financial Corporation from 1995 to July 2017.

### QUALIFICATIONS

Mr. Gross was a founder of American Management Systems, Inc., a global business and information technology firm, where he was a principal executive officer for over 30 years. Mr. Gross was responsible for major corporate clients in providing IT-based applications and advanced data analytics. As a result, he has extensive experience in applying information technology, advanced analytics and risk management analytics in global companies. He has served on boards of major public and private corporations in distribution, technology and services sectors. His background, education and board service provide him with expertise in finance, accounting and cybersecurity.

## VICTORIA M. HOLT



**Age:** 61

**Director since:** 2013

**Board Committees:**  
Audit and Management  
Development &  
Compensation

### POSITION AND BUSINESS EXPERIENCE

President, Chief Executive Officer and Director — Proto Labs, Inc. (online and technology-enabled quick-turn manufacturer) since February 2014.

President and Chief Executive Officer — Spartech Corporation (a leading producer of plastic sheet, compounds and packaging products) from 2010 to 2013; Director of Spartech Corporation from 2005 to 2013.

Senior Vice President, Glass and Fiber Glass, PPG Industries, Inc. (a coatings and specialty products company) from 2005 to 2010.

Director of Watlow Electric Manufacturing Company, a private company, since 2012.

### QUALIFICATIONS

Ms. Holt has served in executive positions at public companies for many years, providing her with extensive knowledge about operations, management, logistical requirements and measuring financial performance of large public companies. Her background and education provide her with expertise in applying environmental solutions critical to our Company's strategy. She also has many years of experience serving on a public company board of directors.

## KATHLEEN M. MAZZARELLA



**Age:** 59

**Director since:**

October 2015

**Board Committees:**

Management  
Development &  
Compensation and  
Nominating &  
Governance (Chair)

### POSITION AND BUSINESS EXPERIENCE

Chairman, President and Chief Executive Officer — Graybar Electric Company, Inc. (distributor of electrical, communications and data networking products and provider of related supply chain management and logistics services) since 2013; President and Chief Executive Officer — Graybar Electric Company, Inc. from 2012 to 2013; Executive Vice President and Chief Operating Officer — Graybar Electric Company, Inc. from 2010 to 2012. Director of Express Scripts Holding Company from June 2017 until acquisition by Cigna Corporation in December 2018; Director of Cigna Corporation since December 2018.

Director of Core & Main, a private company, since January 2019.

Director of Federal Reserve Bank of St. Louis since January 2015; Chair of the Board since April 2016.

### QUALIFICATIONS

Ms. Mazzarella has experience serving as the chief executive of a large corporation, developing expertise in the areas of logistics and supply chain management. During her 39-year tenure at Graybar, Ms. Mazzarella has held executive-level positions in sales, human resources, strategic planning and marketing. This diverse background combined with her deep and valuable experience leading various aspects of a customer-focused business will help the Company achieve its strategy to know and service its customers better than anyone in the industry. She also has experience serving on large public company, private company and non-profit boards.

## JOHN C. POPE



**Age:** 69

**Director since:** 1997

**Board Committees:**

Management  
Development &  
Compensation and  
Nominating &  
Governance

### POSITION AND BUSINESS EXPERIENCE

Chairman of the Board — PFI Group (private investment firm) since 1994. Chairman of the Board — R.R. Donnelley & Sons Company since May 2014; Director of R.R. Donnelley & Sons Company, or predecessor companies, since 1996.

Director of The Kraft Heinz Company, or predecessor companies including Kraft Foods Group, Inc., since 2001.

Director of Talgo S.A. since May 2015.

Former Directorships: Con-way, Inc., or predecessor companies, from 2003 to October 2015; Dollar Thrifty Automotive Group, Inc. from 1997 to 2012; and Navistar International Corporation from 2012 to 2013.

### QUALIFICATIONS

Prior to his service on the boards of multiple major corporations, Mr. Pope served in executive operational and financial positions at large airline companies for almost 20 years, providing him with extensive experience and knowledge of management of large public companies with large-scale logistical challenges, high fixed-cost structure and significant capital requirements. His background, education and board service also provide him with expertise in finance and accounting. Mr. Pope has served on the board of directors for many public companies for over 30 years.



**THOMAS H. WEIDEMEYER**



**Age:** 71

**Director since:** 2005

**Chairman of the Board since:** May 2018

**Board Committees:**  
Audit, Management  
Development &  
Compensation and  
Nominating &  
Governance

**POSITION AND BUSINESS EXPERIENCE**

Chief Operating Officer — United Parcel Service, Inc. (package delivery and supply chain services company) from 2001 to 2003; Senior Vice President — United Parcel Service, Inc. from 1994 to 2003.

President, UPS Airlines (UPS owned airline) from 1994 to 2003.

Director of NRG Energy, Inc. since 2003.

Director of The Goodyear Tire & Rubber Company since 2004.

Director of Amsted Industries Incorporated, a private company, since 2007.

**QUALIFICATIONS**

Mr. Weidemeyer served in executive positions at a large public company for several years and has served as our Non-Executive Chairman of the Board since May 2018. His roles encompassed significant operational management responsibility, providing him knowledge and experience in an array of functional areas critical to large public companies, including supply chain and logistics management. Mr. Weidemeyer also has over 15 years of experience serving on the board of directors for public companies.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE EIGHT DIRECTOR NOMINEES.**

## DIRECTOR AND OFFICER STOCK OWNERSHIP

Our Board of Directors has adopted stock ownership guidelines for our non-employee directors based on the recommendation of the MD&C Committee, as described in Non-Employee Director Compensation on page 14 of this Proxy Statement. Our executive officers, including Mr. Fish, are also subject to stock ownership guidelines, as described in the *Compensation Discussion and Analysis* beginning on page 26 of this Proxy Statement.

The Security Ownership of Management table below shows the number of shares of Common Stock each director nominee and each executive officer named in the Summary Compensation Table on page 44 beneficially owned as of March 19, 2019, our record date for the annual meeting, as well as the number owned by all directors and currently-serving executive officers as a group. These individuals, both individually and in the aggregate, own less than 1% of our outstanding shares as of the record date.

### Security Ownership of Management

Name	Shares of Common Stock Owned <sup>(1)</sup>	Shares of Common Stock Covered by Exercisable Options <sup>(2)</sup>
Frank M. Clark, Jr. . . . .	31,352	—
Andrés R. Gluski . . . . .	9,857	—
Patrick W. Gross . . . . .	24,207	—
Victoria M. Holt . . . . .	15,959	—
Kathleen M. Mazzarella <sup>(3)</sup> . . . . .	7,769	—
John C. Pope . . . . .	52,720	—
Thomas H. Weidemeyer <sup>(4)</sup> . . . . .	29,007	—
James C. Fish, Jr. . . . .	249,858	84,314
Devina A. Rankin . . . . .	20,017	26,329
James E. Trevathan, Jr. <sup>(5)</sup> . . . . .	398,038	135,310
Jeff M. Harris <sup>(5)</sup> . . . . .	51,490	—
John J. Morris, Jr. . . . .	80,151	50,196
All directors and currently-serving executive officers as a group (17 persons) <sup>(6)</sup> . . . . .	585,375	317,174

(1) The table reports beneficial ownership in accordance with Rule 13d-3 under the Exchange Act. The amounts reported above include 3,883 stock equivalents attributed to Mr. Fish and 2,184 stock equivalents attributable to Mr. Morris, based on their holdings in the Company's 401(k) Retirement Savings Plan stock fund. The amounts reported above also include 94,844 shares of Common Stock deferred by Mr. Fish and 54,785 shares of Common Stock deferred by Mr. Trevathan. Deferred shares were earned on account of vested equity awards and pay out in shares of Common Stock after the executive's departure from the Company pursuant to the Company's 409A Deferral Savings Plan ("409A Deferral Plan").

Executive officers may choose a Waste Management stock fund as an investment option for deferred cash compensation under the Company's 409A Deferral Plan. Interests in the fund are considered phantom stock because they are equal in value to shares of our Common Stock, but these amounts are not invested in stock or funds and are paid out in cash after the executive's departure from the Company. Phantom stock is not included in the table above, but it represents an investment risk based on the performance of our Common Stock. Mr. Morris has 2,370 phantom stock equivalents under the 409A Deferral Plan.

(2) Includes the number of options currently exercisable and options that will become exercisable within 60 days of our record date.

- (3) Shares are held by the Mazzarella Living Trust, a joint revocable trust for which Ms. Mazzarella and her husband serve as trustees.
- (4) Shares are held by the Weidemeyer Living Trust, a joint revocable trust for which Mr. Weidemeyer and his wife serve as trustees.
- (5) Ownership information for Mr. Harris and Mr. Trevathan is as of December 31, 2018, which is the date that they each retired from the Company and the last date that each of them verified their ownership of the Company's Common Stock. As of that date, (i) the shares owned by Mr. Harris were held by the Jeff Harris Revocable Trust, for which Mr. Harris serves as trustee and (ii) the number of shares owned by Mr. Trevathan included 170,171 shares that are pledged as security for a loan. None of our directors or currently-serving executive officers have pledged Company Common Stock.
- (6) Included in the "All directors and currently-serving executive officers as a group" are 10,145 stock equivalents attributable to the executive officers' collective holdings in the Company's 401(k) Retirement Savings Plan stock fund. This group also holds an aggregate of 8,939 phantom stock equivalents under the 409A Deferral Plan that are not included in the table.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

---

The table below shows information for persons known to us to beneficially own more than 5% of our Common Stock based on their filings with the SEC through March 19, 2019.

<u>Name and Address</u>	<u>Shares Beneficially Owned</u>	
	<u>Number</u>	<u>Percent<sup>(1)</sup></u>
The Vanguard Group . . . . . 100 Vanguard Boulevard Malvern, PA 19355	35,868,555 <sup>(2)</sup>	8.4
William H. Gates III . . . . . One Microsoft Way Redmond, WA 98052	33,117,344 <sup>(3)</sup>	7.8
BlackRock, Inc. . . . . 55 East 52nd Street New York, NY 10055	31,659,414 <sup>(4)</sup>	7.5

- 
- (1) Percentage is calculated using the number of shares of Common Stock outstanding as of March 19, 2019.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 11, 2019. The Vanguard Group reports that it has sole or shared voting power over 639,032 shares of Common Stock and sole or shared dispositive power over 35,868,555 shares of Common Stock beneficially owned.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2019. Mr. Gates reports that he has sole voting and dispositive power over 14,483,672 shares of Common Stock held by Cascade Investment, L.L.C., as the sole member of such entity. Additionally, the Schedule 13G/A reports that Mr. Gates and Melinda French Gates share voting and dispositive power over 18,633,672 shares of Common Stock beneficially owned by Bill & Melinda Gates Foundation Trust.
- (4) This information is based on a Schedule 13G/A filed with the SEC on February 6, 2019. BlackRock, Inc. reports that it has sole voting power over 28,081,035 shares of Common Stock and sole dispositive power over 31,659,414 shares of Common Stock beneficially owned.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

---

The federal securities laws require our executive officers and directors to file reports of their holdings and transactions in our Common Stock with the SEC and the New York Stock Exchange. Based on a review of the forms and written representations from our executive officers and directors, we believe that all applicable requirements were complied with in 2018.

## EXECUTIVE OFFICERS

The following is a listing of our current executive officers, their ages and their business experience for at least the past five years (other than Mr. Fish, whose age, experience and qualifications are included in the Director Nominees section of this Proxy Statement beginning on page 16). Unless otherwise specified, all prior positions listed below were with our Company.

<u>Name</u>	<u>Age</u>	<u>Positions Held and Business Experience for Past Five Years</u>
Steven R. Batchelor . . . . .	61	<ul style="list-style-type: none"> <li>• Senior Vice President — Operations since January 2019.</li> <li>• Vice President, Collections and Fleet Operations from 2013 to December 2018.</li> </ul>
Charles C. Boettcher . . . . .	45	<ul style="list-style-type: none"> <li>• Senior Vice President and Chief Legal Officer since January 2017.</li> <li>• Also served as Chief Compliance Officer from May 2017 to February 2018.</li> <li>• Vice President and General Counsel from September 2016 to December 2016.</li> <li>• Executive Vice President, Chief Financial Officer and General Counsel of Oilfield Water Logistics, a produced water gathering, transportation and disposal company, from November 2015 to August 2016.</li> <li>• Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary of Eagle Rock Energy Partners, L.P., a master limited partnership engaged in midstream gathering and processing, upstream exploration and production and minerals/royalties, from 2007 to October 2015.</li> </ul>
Tara J. Hemmer . . . . .	46	<ul style="list-style-type: none"> <li>• Senior Vice President — Operations since January 2019.</li> <li>• Senior Vice President — Operations, Safety and Environmental Compliance from January 2018 to December 2018.</li> <li>• Vice President — Disposal Operations, Closed Sites and Environmental Compliance from September 2017 to January 2018.</li> <li>• Area Vice President — Greater Mid-Atlantic Area from 2012 to May 2017.</li> </ul>
John J. Morris, Jr. . . . .	49	<ul style="list-style-type: none"> <li>• Executive Vice President and Chief Operating Officer since January 2019.</li> <li>• Senior Vice President — Operations from 2012 to December 2018.</li> <li>• Chief Strategy Officer from March 2012 to July 2012.</li> <li>• Area Vice President — Greater Mid-Atlantic Area from 2011 to 2012.</li> </ul>



<u>Name</u>	<u>Age</u>	<u>Positions Held and Business Experience for Past Five Years</u>
Leslie K. Nagy . . . . .	44	<ul style="list-style-type: none"> <li>• Vice President and Chief Accounting Officer since November 2017.</li> <li>• Principal Accounting Officer and Controller, Parker Drilling Company, an oilfield services company, from April 2014 to November 2017.</li> <li>• Director of Finance and Assistant Controller, Parker Drilling Company, from 2011 to March 2014.</li> </ul>
Tamla D. Oates-Forney . . .	47	<ul style="list-style-type: none"> <li>• Senior Vice President and Chief Human Resources Officer since December 2018.</li> <li>• Vice President, Human Resources, GE Energy Connections, an electrification and automation business included in the General Electric Company multinational conglomerate, from October 2014 to April 2018.</li> <li>• Senior Executive, Human Resources Director, GE Africa, an emerging market included in the General Electric multinational conglomerate, from 2010 to September 2014.</li> </ul>
Devina A. Rankin . . . . .	43	<ul style="list-style-type: none"> <li>• Senior Vice President and Chief Financial Officer since February 2017.</li> <li>• Also continued to serve as Treasurer from February 2017 to August 2017.</li> <li>• Vice President, Treasurer and Acting Chief Financial Officer from January 2017 to February 2017.</li> <li>• Vice President and Treasurer from 2012 to January 2017.</li> </ul>
Nikolaj H. Sjoqvist . . . . .	46	<ul style="list-style-type: none"> <li>• Senior Vice President and Chief Digital Officer since October 2017.</li> <li>• Vice President — Revenue Management from 2012 to October 2017.</li> </ul>
Michael J. Watson . . . . .	49	<ul style="list-style-type: none"> <li>• Senior Vice President and Chief Customer Officer since October 2018.</li> <li>• Area Vice President — Illinois / Missouri Valley Area from 2013 to September 2018.</li> </ul>

# EXECUTIVE COMPENSATION

---

## COMPENSATION DISCUSSION AND ANALYSIS

### Introduction

The Company's Compensation Discussion and Analysis provides information about the Company's executive compensation philosophy and the components of its compensation programs. This includes information about how compensation of the Company's named executive officers for the fiscal year ended December 31, 2018 aligned with the Company's 2018 financial goals and performance. The Compensation Discussion and Analysis helps readers better understand the information found in the Summary Compensation Table and other accompanying tables included in this Proxy Statement.

This Compensation Discussion and Analysis focuses on our executive pay program as it relates to the following executive officers, whom we refer to as the "named executive officers" or "named executives":

- Mr. James C. Fish, Jr. — President and Chief Executive Officer since November 2016.
- Ms. Devina A. Rankin — Senior Vice President and Chief Financial Officer since February 2017.
- Mr. James E. Trevathan, Jr. — Executive Vice President and Chief Operating Officer since July 2012. Mr. Trevathan retired from the Company as of December 31, 2018.
- Mr. Jeff M. Harris — Senior Vice President — Operations since July 2012. Mr. Harris retired from the Company as of December 31, 2018.
- Mr. John J. Morris, Jr. — Senior Vice President — Operations since July 2012. Mr. Morris was promoted to Executive Vice President and Chief Operating Officer as of January 1, 2019, following Mr. Trevathan's retirement.

### Executive Summary

The objective of our executive compensation program is to attract, retain, reward and incentivize talented employees who will lead the Company in the successful execution of our strategy. The Company seeks to accomplish this goal by designing a compensation program that is supportive of and aligns with the strategy of the Company and the creation of stockholder value, while discouraging excessive risk-taking. The following key structural elements and policies further the objective of our executive compensation program:

- a substantial portion of executive compensation is linked to Company performance, through annual cash incentive performance criteria and long-term equity-based incentive awards. As a result, our executive compensation program provides for notably higher total compensation in periods of above-target Company performance, as we saw with respect to some compensation elements in 2018. Performance-based annual cash incentive and long-term equity-based incentive awards comprised approximately 87% of total 2018 target compensation for our President and Chief Executive Officer, while approximately 80% of the 2018 target compensation opportunities for our other named executives was performance-based;
- at target, 68.5% of total compensation of our President and Chief Executive Officer was tied to long-term equity awards, and 61% of total compensation of our other named executives was tied to long-term equity awards, which aligns executives' interests with those of stockholders;
- our total direct compensation opportunities for named executive officers are targeted to fall in a range around the competitive median;
- performance-based awards include threshold, target and maximum payouts correlating to a range of performance outcomes and are based on a variety of indicators of performance, which limits risk-taking behavior;

- performance stock units with a three-year performance period, as well as stock options that vest over a three-year period, link executives' interests with long-term performance and reduce incentives to maximize performance in any one year;
- all of our executive officers are subject to stock ownership guidelines, which we believe demonstrates a commitment to, and confidence in, the Company's long-term prospects;
- the Company has clawback provisions in its equity award agreements and executive officer employment agreements, and has adopted a clawback policy applicable to annual incentive compensation, designed to recoup compensation when cause and/or misconduct are found;
- our executive officer severance policy implemented a limitation on the amount of benefits the Company may provide to its executive officers under severance agreements entered into after the date of such policy (the "Severance Limitation Policy"); and
- the Company has adopted a policy that prohibits it from entering into new agreements with executive officers that provide for certain death benefits or tax gross-up payments.

### ***2018 Pay-for-Performance***

During 2018, we continued to produce strong operating results from our traditional solid waste business, driven by strong yield and volume growth in our collection and disposal business. Net income and earnings per diluted share both increased primarily as a result of these strong operating results, as well as the favorable impact on our effective tax rate due to enactment of tax reform. The Company continued its commitment to supporting both organic and inorganic growth during 2018, allocating \$1,694 million of available cash to capital expenditures and \$466 million to the acquisition of solid waste businesses. We also returned \$1,806 million to our stockholders during 2018 through common stock repurchases and dividends. The Company delivered these very strong results despite the toughest recycling commodity price environment in over a decade. Overall, the Company believes that this positive 2018 performance reinforces that its strategy drives solid growth for the benefit of stockholders. Following is a summary of the 2018 compensation program results:

#### **Total Shareholder Return**

With respect to the half of the performance share units ("PSUs") granted in 2016 with a three-year performance period ended December 31, 2018 that was subject to total shareholder return relative to the S&P 500, the performance of the Company's Common Stock on this measure exceeded the 75<sup>th</sup> percentile, resulting in a maximum 200% payout on these PSUs in shares of Common Stock. This performance directly benefited our stockholders, delivering total shareholder return of 82.09% over the three-year performance period and translating into a percentile rank relative to the S&P 500 of 89.08%.

#### **Cash Flow Generation**

The Company generated cash provided by operating activities, for purposes of the performance goal associated with the other half of our PSUs granted in 2016, of \$5.568 billion, exceeding the maximum performance level of \$4.564 billion for the three-year performance period ended December 31, 2018. This performance resulted in a maximum 200% payout on these PSUs in shares of Common Stock.

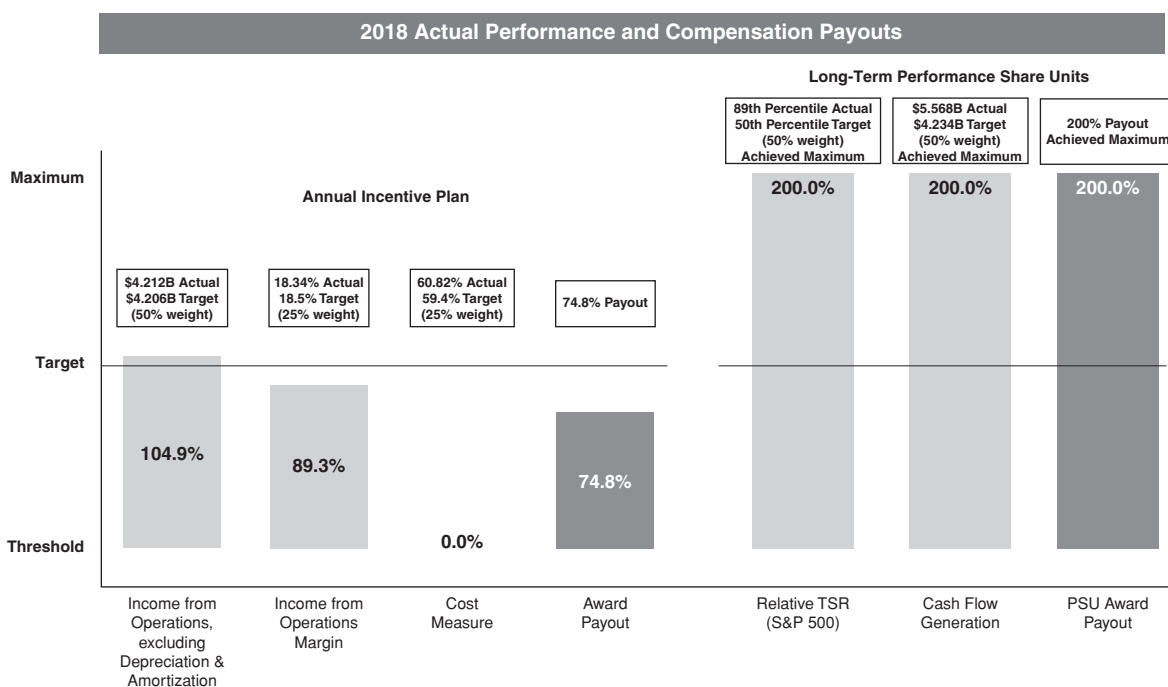
### Company Performance on Annual Incentive Performance Measures

Company performance on annual cash incentive performance measures for named executive officers is set forth below. Due to these results, each of the named executives received an annual cash incentive payment for fiscal year 2018 equal to 74.8% of target.

Income from Operations, excluding Depreciation and Amortization – \$4.212 billion, exceeding target of \$4.206 billion.

Income from Operations Margin – 18.34%, exceeding threshold of 17.9%, but below target of 18.5%.

Cost Measure – defined as Operating Expense, less depreciation, depletion and amortization, as a percentage of Net Revenue, both less fuel – 60.82%, which did not meet the threshold of 59.7%.



On the whole, the 2018 compensation program continued to demonstrate alignment between executive pay and Company performance. The maximum 200% payouts on the PSUs granted in 2016 correlate with outstanding cash flow generation and total shareholder return over the three-year performance period. The Company again exceeded target for the annual income from operations, excluding depreciation and amortization measure, and the Company performed well on the income from operations margin measure. All of these results reflect strong pay-for-performance, with both shareholders and executives being rewarded. However, the Company's sub-threshold performance on the annual Cost Measure, largely the result of international trade and regulatory actions that resulted in increased costs and decreased revenues in our recycling line of business, did not reflect a strong correlation to the Company's overall continued trend of exceptional performance. Due to the impact of the Cost Measure on the annual cash incentive payouts, the total compensation of three of our named executives set forth in the Summary Compensation Table below declined from 2017 levels.

### *Consideration of Stockholder Advisory Vote*

When establishing 2018 compensation for the named executives, the MD&C Committee noted the results of the advisory stockholder votes on executive compensation, with at least 96% of shares present and entitled to vote at the annual meeting voting in favor of the Company's executive compensation every year since the advisory vote on compensation was implemented. Accordingly, the results of the stockholder advisory vote have not caused the MD&C Committee to recommend any changes to our compensation practices.

### *2019 Compensation Program Preview*

The MD&C Committee continually reviews our compensation program to ensure that it is clearly aligned with the business strategy and best supports the accomplishment of our goals. The MD&C Committee is pleased with the results that were delivered under the 2016 through 2018 long-term incentive program design, which aimed to support continued outstanding financial results while maintaining our focus on pricing, capital allocation and cost control, and has approved keeping the 2019 long-term incentive program design consistent with the 2018 design. The MD&C Committee has also approved retaining the annual incentive program design consistent with the prior year, except that the Cost Measure, weighted at 25%, is being replaced with a new internal revenue growth measure, defined as internal revenue growth from yield, plus internal revenue growth from volume, at the consolidated level for the traditional solid waste business. This consistency reinforces the MD&C Committee's efforts to maintain a compensation program that is straightforward, easy to communicate and readily translates into actionable goals; whereas, the MD&C Committee believes that the substitution of the Cost Measure with the internal revenue growth measure will better reflect the Company's progress toward its strategic growth goals and will better correspond to the overall performance of the Company and creation of shareholder value.

### **Our Compensation Philosophy for Named Executive Officers**

The Company's compensation philosophy is designed to:

- Attract and retain exceptional employees through competitive compensation opportunities;
- Encourage and reward performance through substantial at-risk performance-based compensation, while discouraging excessive risk-taking behavior; and
- Align our decision makers' long-term interests with those of our stockholders through emphasis on equity ownership.

Additionally, our compensation philosophy is intended to encourage executives to embrace the Company's strategy and to lead the Company in setting aspirations that will continue to drive exemplary performance.

With respect to our named executive officers, the MD&C Committee believes that total direct compensation at target should be in a range around the competitive median according to the following:

- Base salaries should be paid within a range of plus or minus 10% around the competitive median, with attention given to individual circumstances, including strategic importance of the named executive's role, the executive's experience and individual performance;
- Target short-term and long-term incentive opportunities should generally be set at the competitive median; and
- Total direct compensation opportunities should generally be within a range of plus or minus 20% around the competitive median.

## Overview of Elements of Our 2018 Compensation Program

Timing	Component	Purpose	Key Features
Current	Base Salary	To attract and retain executives with a competitive level of regular income	Adjustments to base salary primarily consider competitive market data and the executive's individual performance and responsibilities.
Short-Term Performance Incentive	Annual Cash Incentive	To encourage and reward contributions to our annual financial objectives through performance-based compensation subject to challenging, yet attainable, objective and transparent metrics	<p>Cash incentives are targeted at a percentage of base salary and range from zero to 200% of target based on the following performance measures:</p> <ul style="list-style-type: none"> <li>Income from Operations, excluding Depreciation and Amortization – designed to encourage balanced growth and profitability (weighted 50%);</li> <li>Income from Operations Margin – defined as Income from Operations as a percentage of Revenue – motivates executives to control costs and operate efficiently while focusing on yield (weighted 25%); and</li> <li>Cost Measure – defined as Operating Expense, less depreciation, depletion and amortization, as a percentage of Net Revenue, both less fuel – designed to support cost control innovation initiatives (weighted 25%).</li> </ul> <p>The MD&amp;C Committee has discretion to increase or decrease an individual's payment by up to 25% based on individual performance, but such modifier has never been used to increase a payment to a named executive.</p>
Long-Term Performance Incentives	Performance Share Units	<p>To encourage and reward building long-term stockholder value through successful strategy execution;</p> <p>To retain executives; and</p> <p>To increase stockholder alignment through executives' stock ownership</p>	<p>Number of shares delivered range from zero to 200% of the initial target grant based on performance over a three-year performance period.</p> <p>Payout on half of each executive's PSUs granted in 2018 is dependent on cash flow generation, defined as cash flow provided by operating activities with certain exclusions, which continues our focus on capital discipline, while also aligning the Company with stockholders' free cash flow expectations.</p> <p>Payout on the remaining half of the PSUs granted in 2018 is dependent on total shareholder return relative to other companies in the S&amp;P 500 over the three-year performance period.</p> <p>PSUs earn dividend equivalents that are paid at the end of the performance period based on the number of shares earned. Recipients can defer the receipt of shares, in which case such shares of Common Stock will be paid out, without interest, at the end of the deferral period.</p>
	Stock Options	<p>To support the growth element of the Company's strategy and encourage and reward stock price appreciation over the long-term;</p> <p>To retain executives; and</p> <p>To increase stockholder alignment through executives' stock ownership</p>	<p>Stock options vest in 25% increments on the first two anniversaries of the date of grant and the remaining 50% vest on the third anniversary.</p> <p>Exercise price is the average of the high and low market price of our Common Stock on the date of grant.</p> <p>Stock options have a term of ten years.</p>
	Restricted Stock Units	Used on a limited basis (e.g. promotion and new hire) to make awards that encourage and reward long-term performance and increase alignment with stockholders	<p>Restricted stock units ("RSUs") were granted to Mr. Fish in 2016 in connection with his promotion to Chief Executive Officer. Ms. Rankin received RSUs as part of her annual equity-based incentive compensation prior to her promotion to the senior leadership team.</p> <p>Time-based vesting aids retention.</p> <p>Dividends on RSUs accrue and are paid in cash upon vesting.</p>



*Deferral Plan.* Each of our named executive officers is eligible to participate in our 409A Deferral Plan and may elect to defer receipt of portions of their base salary and cash incentives in excess of the annual compensation threshold established under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the “IRC”). We believe that providing a program that allows and encourages planning for retirement is a key factor in our ability to attract and retain talent. Additional details on the 409A Deferral Plan can be found in the Nonqualified Deferred Compensation in 2018 table and accompanying disclosure on page 49.

*Perquisites.* The Company provides very limited perquisites or personal benefits to executive officers, consisting of reimbursement of the cost of physical exams, cost to the Company for spousal or guest participation in corporate events, and use of Company aircraft for personal travel. The MD&C Committee permits our President and Chief Executive Officer to use the Company’s aircraft for business and personal travel; provided, however, that personal use of the Company aircraft attributed to him that results in incremental cost to the Company shall not exceed 90 hours during any calendar year without approval from the Chairman of the MD&C Committee. In 2018, our President and Chief Executive Officer had 2¼ hours of personal use of Company aircraft under this standard. Personal use of the Company’s aircraft by other employees is permitted with Chief Executive Officer approval, but this occurs infrequently. The value of our named executives’ personal use of the Company’s aircraft is treated as taxable income to the respective executive in accordance with IRS regulations using the Standard Industry Fare Level formula. This is a different amount than we calculate pursuant to the SEC requirement to report the incremental cost to us of their use. In 2018, the Company also provided retirement gifts to Messrs. Trevathan and Harris to thank them for their service. See note (5) to the Summary Compensation Table below for additional information.

*Post-Employment and Change in Control Compensation.* The Company provides severance protections that aid in retention of senior leadership by providing the individual with comfort that he or she will be treated fairly in the event of an involuntary termination not for cause. The change in control provisions included in our Executive Severance Protection Plan, our stock option award documentation and, if applicable, employment agreements require a double trigger in order to receive any payment in the event of a change in control situation. Additional details can be found under “— Post Employment and Change in Control Compensation; Clawback Policies” and “Potential Payments Upon Termination or Change in Control.”

## **How Named Executive Officer Compensation Decisions are Made**

The MD&C Committee meets several times each year to perform its responsibilities as delegated by the Board of Directors and as set forth in the MD&C Committee’s charter. These responsibilities include evaluating and approving the Company’s compensation philosophy, policies, plans and programs for our named executive officers.

In the performance of its duties, the MD&C Committee regularly reviews the total compensation, including the base salary, target annual cash incentive award opportunities, long-term incentive award opportunities and other benefits, including potential severance payments for each of our named executive officers. At a regularly scheduled meeting each year, the MD&C Committee reviews our named executives’ total compensation and compares that compensation to the competitive market, as discussed below. In the first quarter of each year, the MD&C Committee meets to determine salary increases, if any, for the named executive officers; verifies the results of the Company’s performance for annual cash incentive and performance share unit calculations; reviews the individual annual cash incentive targets for the current year as a percent of base salary for each of the named executive officers; and makes decisions on granting long-term equity awards.

*Compensation Consultant.* The MD&C Committee uses several resources in its analysis of the appropriate compensation for the named executive officers. The MD&C Committee selects and employs

an independent consultant to provide advice relating to market and general compensation trends. The MD&C Committee also uses the services of its independent consultant for data gathering and analyses. The MD&C Committee has retained Frederic W. Cook & Co., Inc. (“FW Cook”) as its independent consultant since 2002. The Company makes regular payments to FW Cook for its services around executive compensation, including meeting preparation and attendance, advice, and best practice information, as well as competitive data. Information about such payments is submitted to the chair of the MD&C Committee.

In addition to services related to executive compensation, FW Cook also provides the MD&C Committee information and advice with respect to compensation of the independent directors. FW Cook has no other business relationships with the Company and receives no other payments from the Company. The MD&C Committee adopted a charter provision requiring that it consider the independence of any compensation consultants it uses for executive compensation matters. The MD&C Committee has considered the independence of FW Cook in light of SEC rules and New York Stock Exchange listing standards. In connection with this process, the MD&C Committee has reviewed, among other items, a letter from FW Cook addressing the independence of FW Cook and the members of the consulting team serving the MD&C Committee, including the following factors: (i) other services provided to us by FW Cook; (ii) fees paid by us as a percentage of FW Cook’s total revenue; (iii) policies or procedures of FW Cook that are designed to prevent conflicts of interest; (iv) any business or personal relationships between the senior advisor of the consulting team with a member of the MD&C Committee; (v) any Company stock owned by the senior advisor or any member of his immediate family and (vi) any business or personal relationships between our executive officers and the senior advisor. The MD&C Committee reviewed these considerations and concluded that the work performed by FW Cook and its senior advisor involved in the engagement did not raise any conflict of interest.

*Role of CEO and Human Resources.* Our President and Chief Executive Officer contributes to compensation determinations by assessing the performance of the other named executive officers and providing these assessments with recommendations to the MD&C Committee. Personnel within the Company’s Human Resources Department assist the MD&C Committee by working with the independent consultant to provide information requested by the MD&C Committee and assisting it in designing and administering the Company’s compensation programs.

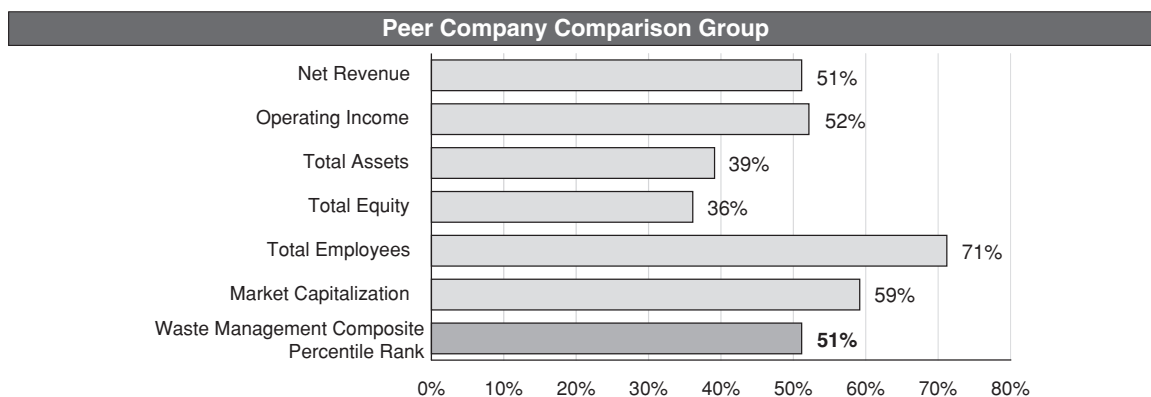
*Peer Company Comparisons.* The MD&C Committee uses compensation information of comparison groups of companies to gauge the competitive market, which is relevant for attracting and retaining key talent and for ensuring that the Company’s compensation practices are aligned with prevalent practices. For purposes of establishing the 2018 executive compensation program, the MD&C Committee considered a competitive analysis of total direct compensation levels and compensation mix for our executive officers during the second half of 2017, using information from:

- Size-adjusted median compensation data from two general industry surveys in which management annually participates; the Aon Hewitt 2017 Total Compensation Measurement (“TCM”) survey and the Willis Towers Watson 2017 Compensation Data Bank (“CDB”) survey. The Aon Hewitt TCM and Willis Towers Watson CDB surveys include over 500 companies ranging in size from approximately \$100 million to \$200 billion in annual revenue. Data selected from these surveys is scoped based on Company revenue; and
- Median compensation data from a comparison group of 19 publicly traded U.S. companies, described below.

The comparison group of companies is initially recommended by the independent consultant prior to the data gathering process, with input from management and the MD&C Committee. The composition of the group is evaluated, and a final comparison group of companies is approved by the MD&C Committee each year. The selection process for the comparison group begins with all companies in the Standard & Poor’s North American database that are publicly traded U.S. companies in 15 different Global Industry

Classifications. These industry classifications are meant to provide a collection of companies in industries that share similar characteristics with us. The companies are then limited to those with at least \$5 billion in annual revenue to ensure appropriate comparisons, and further narrowed by choosing those with asset intensive domestic operations, as well as those focusing on transportation and logistics. Companies with these characteristics are chosen because the MD&C Committee believes that it is appropriate to compare our executives' compensation with executives that have similar responsibilities and challenges at other companies.

The following chart sets forth various size comparisons to companies in the comparison group; this table is provided to evidence that the Company was appropriately positioned within its peer group for purposes of establishing 2018 compensation during 2017. All financial and market data are taken from Standard & Poor's Capital IQ, with financial data as of each company's 2016 fiscal year end and market capitalization as of December 31, 2016.



**19 Company Comparison Group**

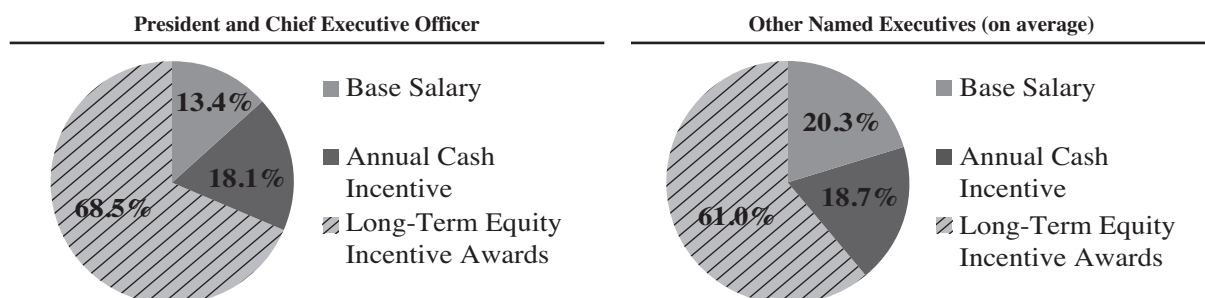
American Electric Power	Entergy	NextEra Energy	Southwest Airlines
Avis Budget	FedEx	Norfolk Southern	Sysco
Baker Hughes	Grainger (WW)	Republic Services	Union Pacific
C.H. Robison WW	Halliburton	Ryder System	UPS
CSX	Hertz Global Holdings	Southern	

For purposes of each of the named executives, the general industry data and the comparison group data are blended when composing the competitive analysis, when possible, such that the combined general industry data and the comparison group are each weighted 50%. For competitive comparisons, the MD&C Committee has determined that total direct compensation packages for our named executive officers within a range of plus or minus 20% of the median total compensation of the competitive analysis is appropriate. In making these determinations, total direct compensation consists of base salary, target annual cash incentive, and the annualized grant date fair value of long-term equity incentive awards.

*Allocation of Compensation Elements and Tally Sheets.* The MD&C Committee considers the forms in which total compensation will be paid to executive officers and seeks to achieve an appropriate balance between base salary, annual cash incentive compensation and long-term incentive compensation. The MD&C Committee determines the size of each element based primarily on comparison group data and individual and Company performance. The percentage of compensation that is contingent on achievement of performance criteria typically increases in correlation to an executive officer's responsibilities within the Company, with performance-based incentive compensation making up a greater percentage of total compensation for our most senior executive officers. Additionally, as an executive becomes more senior, a greater percentage of the executive's compensation shifts away from short-term to long-term incentive awards.

The MD&C Committee uses tally sheets to review the compensation of our named executive officers, which show the cumulative impact of all elements of compensation. These tally sheets include detailed information and dollar amounts for each component of compensation, the value of all equity held by each named executive, and the value of welfare and retirement benefits and severance payments. Tally sheets provide the MD&C Committee with the relevant information necessary to determine whether the balance between short-term and long-term compensation, as well as fixed and variable compensation, is consistent with the overall compensation philosophy of the Company. This information is also useful in the MD&C Committee's analysis of whether total direct compensation provides a compensation package that is appropriate and competitive. Tally sheets are provided annually to the full Board of Directors.

The following charts display the allocation of total 2018 target compensation among base salary, annual cash incentive and long-term incentives for (a) our President and Chief Executive Officer and (b) our other named executives, on average. These charts reflect the MD&C Committee's 2018 desired total mix of target compensation for named executives, which includes 61% of total compensation derived from long-term equity awards, while long-term equity awards comprised 68.5% of our President and Chief Executive Officer's total target compensation. These charts also reflect that approximately 87% of our President and Chief Executive Officer's total target compensation opportunities awarded in 2018 were performance-based, while approximately 80% of the total target compensation established in February 2018 for the other named executives was performance-based. We consider stock options granted under our long-term incentive plan to be performance-based because their value will increase as the market value of our Common Stock increases.



**Internal Pay Equity.** The MD&C Committee considers the differentials between compensation of the named executive officers. The MD&C Committee also reviews compensation comparisons between the President and Chief Executive Officer and the other executive officers, while recognizing the additional responsibilities of the President and Chief Executive Officer and that such differentials will increase in periods of above-target performance and decrease in times of below-target performance. Based on these considerations, the MD&C Committee concluded that the compensation paid to the President and Chief Executive Officer is reasonable compared to that of the other executive officers.

**Policy on Calculation Adjustments.** In 2014, the MD&C Committee adopted a policy on calculation adjustments that affect payouts under annual and long-term incentive awards in order to address the potentially distorting effect of certain items. Such adjustments are intended to align award payments with the underlying performance of the business; avoid volatile, artificial inflation or deflation of awards due to unusual items in either the award year or the previous comparator year; and eliminate counterproductive incentives to pursue short-term gains and protect current incentive opportunities. To ensure the integrity of the adjustments, the policy provides that the MD&C Committee's approach to adjustments shall generally be consistent with the Company's approach to reporting adjusted non-GAAP earnings to the investment community, except that the MD&C Committee has determined that potential adjustments arising from a single transaction or event generally should be disregarded unless, taken together, they change the calculated award payout by at least five percent. For this reason, actual results reported in this proxy statement on financial performance metrics may differ from earnings results reported to the investment

community. The MD&C Committee retains discretion to evaluate all adjustments, both income and expense, as circumstances warrant; however, beginning with long-term equity incentive awards granted in 2017, the MD&C Committee agreed that it shall not have the ability to use negative discretion with respect to the calculation of cash flow for purposes of the PSUs subject to that performance measure, in order to avoid variable accounting treatment for those awards.

*Tax and Accounting Matters.* Our compensation programs were designed to permit the Company to deduct compensation expense under Section 162(m) of the IRC, which historically limited the tax deductibility of annual compensation paid to certain named executives to \$1 million, unless the compensation qualified as performance-based. The Company also reserved the right to pay compensation that did not qualify as performance-based. Other than some limited exceptions relating to certain previously-granted awards, the ability to rely on this performance-based exception was eliminated in 2017, and the limitation on deductibility of compensation was expanded to include all named executive officers. As a result, the Company generally may no longer take a deduction for any compensation paid to any of its named executive officers in excess of \$1 million.

Section 409A of the IRC (“Code Section 409A”) generally provides that any deferred compensation arrangement which does not meet specific requirements will result in immediate taxation of any amounts deferred to the extent not subject to a substantial risk of forfeiture. In general, to avoid a Code Section 409A violation, amounts deferred may only be paid out on separation from service, disability, death, a specified time or fixed schedule, a change in control or an unforeseen emergency. Furthermore, the election to defer generally must be made in the calendar year prior to performance of services. We intend to structure all of our compensation arrangements, including our 409A Deferral Plan, in a manner that complies with or is exempt from Code Section 409A.

We account for equity-based payments, including stock options, PSUs and RSUs, in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation (“ASC Topic 718”). The MD&C Committee takes into consideration the accounting treatment under ASC Topic 718 when determining the form and amount of annual long-term equity incentive awards. However, because our long-term equity incentive awards are based on a target dollar value established prior to grant (described in further detail under “Named Executives’ 2018 Compensation Program and Results — Long-Term Equity Incentives”), this “value” will differ from the grant date fair value of awards calculated pursuant to ASC Topic 718.

*Risk Assessment.* The MD&C Committee uses the structural elements set forth in the Executive Summary earlier to establish compensation that will provide sufficient incentives for named executive officers to drive results while avoiding unnecessary or excessive risk taking that could harm the long-term value of the Company. During 2018, the MD&C Committee reviewed the Company’s compensation policies and practices and the assessment and analysis of related risk conducted by the independent compensation consultant. Based on this review and analysis, the MD&C Committee and the independent compensation consultant concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

*Consideration of Stockholder Advisory Vote on Executive Compensation.* The MD&C Committee reviews the results of the stockholder advisory vote on executive compensation and considers any implications of such voting results on the Company’s compensation programs. In light of the fact that at least 96% of shares present and entitled to vote at the annual meeting have voted in favor of the Company’s executive compensation every year since the advisory vote on compensation was implemented, the results of the stockholder advisory votes have not caused the MD&C Committee to recommend any changes to our compensation practices.



## Named Executives' 2018 Compensation Program and Results

### Base Salary

In February 2018, the MD&C Committee approved increases to the base salaries of named executive officers, consistent with our compensation philosophy and driven by competitive market data, internal pay equity considerations and individual performance relative to the executive's responsibilities and contributions. The table below shows the annual base salary established by the MD&C Committee for each of our named executive officers in February of the corresponding year.

<u>Named Executive Officer</u>	<u>2017 Base Salary</u>	<u>2018 Base Salary</u>
Mr. Fish . . . . .	\$ 1,100,000	\$ 1,175,000
Ms. Rankin . . . . .	\$ 500,000	\$ 551,900
Mr. Trevathan . . . . .	\$ 738,000	\$ 756,500
Mr. Harris . . . . .	\$ 691,000	\$ 708,275
Mr. Morris . . . . .	\$ 634,000	\$ 649,850

### Annual Cash Incentive

- *Annual cash incentives were dependent on the following performance measures: Income from Operations, excluding Depreciation and Amortization; Income from Operations Margin and Operating Expense, less depreciation, depletion and amortization, as a percentage of Net Revenue, both less fuel, or Cost Measure.*
- *Company performance on each of the performance measures set forth below resulted in each of the named executives receiving an annual cash incentive payment in March 2019 for fiscal year 2018 equal to 74.8% of target.*

The MD&C Committee develops financial performance measures for annual cash incentive awards to drive improvements in business operations, as well as support and fund the long-term strategy of the Company. The MD&C Committee found that the Income from Operations, excluding Depreciation and Amortization, performance measure encourages balanced focus on growth and profitability, while the Income from Operations Margin performance measure continues to keep the Company focused on cost control, operational improvements and yield. The MD&C Committee believes these financial performance measures support and align with the strategy of the Company and are appropriate indicators of our progress toward the Company's goals.

The MD&C Committee also maintained the Cost Measure in 2018 and its focus on operating cost control, after successfully driving reductions in operating cost the prior years. The MD&C Committee observed in 2018 that the results on the Cost Measure were significantly impacted by international trade and regulatory actions that resulted in increased costs and decreased revenues in our recycling line of business; as a result, the MD&C Committee concluded that the results on this performance measure were not ideally aligned with the overall very favorable Company performance in 2018 and the creation of shareholder value. When setting threshold, target and maximum performance measure levels each year, the MD&C Committee looks to the Company's historical results of operations and analyses and forecasts for the coming year. Specifically, the MD&C Committee considers expected revenue based on analyses of pricing and volume trends, as affected by operational and general economic factors and expected costs.



The table below details the performance measures set by the MD&C Committee for purposes of the named executive officers' annual cash incentive for 2018.

	<b>Threshold Performance (60% Payment)</b>	<b>Target Performance (100% Payment)</b>	<b>Maximum Performance (200% Payment)</b>
<b>Income from Operations, excluding</b>			
<b>Depreciation and Amortization</b> . . . . .	\$3.942 billion	\$4.206 billion	\$4.336 billion
<b>Income from Operations Margin</b> . . . . .	17.9%	18.5%	18.8%
<b>Cost Measure</b> . . . . .	59.7%	59.4%	59.1%

The following table sets forth the Company's performance achieved on each of the annual cash incentive performance measures and the payout earned on account of such performance.

<b>Income from Operations, excluding Depreciation and Amortization (weighted 50%)</b>		<b>Income from Operations Margin (weighted 25%)</b>		<b>Cost Measure (weighted 25%)</b>		<b>Total Payout Earned (as a percentage of Target)</b>
<b>Actual</b>	<b>Payout Earned</b>	<b>Actual</b>	<b>Payout Earned</b>	<b>Actual</b>	<b>Payout Earned</b>	
\$ 4.212 billion	104.93%	18.345%	89.34%	60.82%	0%	74.8%

As discussed above, the MD&C Committee has discretion to make adjustments to the performance calculations for unusual or otherwise non-operational matters in line with its policy on calculation adjustments. The calculation of 2018 annual cash incentive performance measures was generally made on a basis consistent with the Company's reporting of its 2018 financial results, including exclusion of restructuring and asset impairments and unusual items; however, the calculation did not include potential adjustments that fell below the MD&C Committee's five percent impact threshold. As a result, the actual results on the Income from Operations, excluding Depreciation and Amortization, measure stated above were lower than the actual results on this measure reported to the investment community. The 2018 cash incentive performance calculations were not otherwise adjusted.

Target annual cash incentives are a specified percentage of the executives' base salary. The following table shows each named executive's target percentage of base salary for 2018 and annual cash incentive for 2018 paid in March 2019.

<b>Named Executive Officer</b>	<b>Target Percentage of Base Salary</b>	<b>Annual Cash Incentive For 2018<sup>(1)</sup></b>
Mr. Fish . . . . .	135	\$ 1,169,293
Ms. Rankin <sup>(2)</sup> . . . . .	94	\$ 379,541
Mr. Trevathan <sup>(2)</sup> . . . . .	94	\$ 528,303
Mr. Harris . . . . .	90	\$ 474,166
Mr. Morris . . . . .	90	\$ 435,053

(1) Base salary increases for 2018 were implemented March 25, 2018. The calculations of annual cash incentive payouts, as a percentage of base salary, were made using the named executive's actual base salary received in 2018.

(2) In February 2018, the target percentage of base salary for Ms. Rankin and Mr. Trevathan was increased from 90% to 95%, yielding a 94% target percentage of base salary for the full year of 2018.

### Long-Term Equity Incentives

Our equity awards are designed to hold individuals accountable for long-term decisions by rewarding the success of those decisions. The MD&C Committee continuously evaluates the components of its programs. In determining which forms of equity compensation are appropriate, the MD&C Committee considers whether the awards granted are achieving their purpose; the competitive market; and accounting, tax or other regulatory issues, among others. In determining the appropriate awards for the named executives' 2018 annual long-term incentive award, the MD&C Committee decided to grant both PSUs comprising 80% of each named executive's award and stock options comprising 20% of each named executive's award, consistent with prior years, except in the case of Mr. Harris, who received an additional \$500,000 allocation of PSUs as described in note (1) below. Payout on half of each named executives' PSUs granted in 2018 is dependent on cash flow generation. Payout on the remaining half of PSUs granted in 2018 is dependent on total shareholder return relative to the S&P 500. Meanwhile, stock options encourage focus on increasing the market value of our stock. Before determining the actual number of PSUs and stock options that were granted to each of the named executives in 2018, the MD&C Committee established a target dollar amount for each named executive's annual total long-term equity incentive award. The values chosen were based primarily on the comparison information for the competitive market and consideration of the named executives' responsibility for meeting the Company's strategic objectives. Target dollar amounts for equity incentive awards will vary from grant date fair values calculated for accounting purposes.

<u>Named Executive Officer</u>	<u>Dollar Values of 2018 Long-Term Equity Incentives Set by the Committee (at Target)</u>
Mr. Fish . . . . .	\$ 6,000,000
Ms. Rankin . . . . .	\$ 1,700,000
Mr. Trevathan . . . . .	\$ 2,220,000
Mr. Harris <sup>(1)</sup> . . . . .	\$ 2,300,000
Mr. Morris . . . . .	\$ 1,800,000

- (1) For PSUs granted in 2018, the MD&C Committee changed the treatment of such awards upon a qualifying retirement to provide all executive officers with full vesting at the end of the performance period based on actual performance achieved, instead of *pro rata* vesting, provided that qualifying retirement occurred on or after December 31, 2018. This action was taken to align with market practices and aid recruitment and retention by providing a more competitive retirement benefit. The PSUs granted to Mr. Trevathan in 2017 already provided for full vesting at the end of the performance period after a qualifying retirement, but the PSUs granted to Mr. Harris in 2017 did not. In consideration of Mr. Trevathan's and Mr. Harris' plans to retire and the desire to avoid an arbitrarily unfair result, the MD&C Committee increased the value of Mr. Harris' PSU award for 2018 by \$500,000 to approximate the value of his PSUs granted in 2017 that he would forfeit due to *pro rata* vesting upon retirement.

#### Overview of Performance Share Units.

- *Named executives were granted new PSUs with a three-year performance period ending December 31, 2020. Payout on half of each named executive's PSUs granted in 2018 is dependent on cash flow generation, and payout on the remaining half of PSUs granted in 2018 is dependent on total shareholder return relative to the S&P 500.*
- *Named executives received a payout of 200% of the PSUs granted in 2016 with a three-year performance period ended December 31, 2018. The Company exceeded the maximum level of performance for each of the cash flow generation and the relative total shareholder return performance measures.*

*PSUs Granted in 2018.* Performance share units are granted to our named executive officers annually to align compensation with the achievement of our long-term financial goals and to increase stockholder alignment through stock ownership. PSUs provide an immediate retention benefit to the Company because there is unvested potential value at the date of grant. The number of PSUs granted to our named executive officers corresponds to an equal number of shares of Common Stock. At the end of the three-year performance period for each grant, the Company will deliver a number of shares ranging from 0% to 200% of the initial number of PSUs granted, depending on the Company's three-year performance against pre-established targets.

The MD&C Committee determined the number of PSUs that were granted to each of the named executives in 2018 by taking the targeted dollar amounts established for total long-term equity incentives (set forth in the table above) and multiplying by 80%, except that Mr. Harris received a specific allocation of \$500,000 for PSUs as described above, and the remaining targeted dollar amount of \$1.8 million was then multiplied by 80%. Those values were then divided by the average of the high and low price of our Common Stock over the 30 trading days preceding the date of the MD&C Committee meeting at which the grants were approved to determine the number of PSUs granted. The number of PSUs granted in 2018 are shown in the table below.

Named Executive Officer	Number of PSUs
Mr. Fish . . . . .	55,172
Ms. Rankin . . . . .	15,632
Mr. Trevathan . . . . .	20,414
Mr. Harris . . . . .	22,298
Mr. Morris . . . . .	16,552

Half of each named executive's PSUs included in the table above are subject to a cash flow generation performance measure; the cash flow generation performance measure requires focus on capital discipline and strengthens alignment with stockholders' free cash flow expectations. For purposes of these PSUs, we generally define cash flow as cash provided by operating activities, with the following adjustments: (a) capital expenditures are excluded; (b) costs associated with labor disruptions and multiemployer plan withdrawal liabilities are excluded due to being required as a result of past labor commitments combined with changing economic conditions and business climate; (c) strategic acquisition, restructuring, and transformation and reorganization costs are excluded in recognition of goals to increase customer and business base while minimizing operating costs; and (d) cash proceeds from the divestiture of businesses and other assets are included. The table below shows the required achievement of the cash flow generation performance measure and the corresponding potential payouts under our PSUs granted in 2018.

	Threshold		Target		Maximum	
	Performance	Payout	Performance	Payout	Performance	Payout
Cash Flow . . . \$	5.496 billion	60%	\$ 5.906 billion	100%	\$ 6.316 billion	200%

The remaining half of each named executive's PSUs are subject to total shareholder return relative to the S&P 500. This measure directly correlates executive compensation with creation of stockholder value. Total shareholder return is calculated as follows: (Common Stock price at end of performance period – Common Stock price at beginning of performance period + dividends during performance period) / Common Stock price at beginning of performance period. The table below shows the required achievement of the total shareholder return performance measure and the corresponding potential payouts under our PSUs granted in 2018.

**Total Shareholder Return Relative to the S&P 500**

<b>Performance</b>	<b>Payout</b>
75 <sup>th</sup> percentile (Maximum)	200%
50 <sup>th</sup> percentile (Target)	100%
25 <sup>th</sup> percentile (Threshold)	50%

If actual performance falls between performance levels for either of the PSU performance measures, then the number of PSUs earned will be interpolated between the two performance levels, rounded to the nearest 0.1%.

The different performance measure levels are determined based on an analysis of historical performance and current projections and trends. The MD&C Committee uses this analysis and modeling of different scenarios related to items that affect the Company's performance such as yield, volumes and capital to set the performance measures. As with the consideration of targets for the annual cash incentives, when the MD&C Committee established the cash flow targets, the MD&C Committee carefully considered several material factors affecting the Company for 2018 and beyond, including general economic and market conditions and economic indicators for future periods, to ensure that the cash flow targets align with the Company's long-range strategic plan.

*Payout on PSUs for the Performance Period Ended December 31, 2018.* Half of the PSUs granted in 2016 with the performance period ended December 31, 2018 were subject to the cash flow generation performance measure, and the remaining half of the PSUs granted in 2016 were subject to total shareholder return relative to the S&P 500. For the three-year performance period ended December 31, 2018, the Company generated cash provided by operating activities of \$5.568 billion, exceeding the maximum of \$4.564 billion; this performance level yielded a 200% payout in shares of Common Stock that were issued in February 2019. With respect to the PSUs with a three-year performance period ended December 31, 2018 that were subject to total shareholder return relative to the S&P 500, the performance of the Company's Common Stock on this measure translated into a percentile rank relative to the S&P 500 of 89.08%, resulting in a 200% payout in shares of Common Stock that were issued in February 2019. In line with the MD&C Committee's policy on calculation adjustments discussed above, no adjustments were made to the performance calculations for these PSUs.

*Stock Options.* The MD&C Committee believes use of stock options is appropriate to support the growth element of the Company's strategy. The grant of options made to the named executive officers in the first quarter of 2018 in connection with the annual grant of long-term equity awards was based on the targeted dollar amounts established for total long-term equity incentives (set forth in the table above) and multiplied by 20%, except that Mr. Harris received a specific allocation of \$500,000 for PSUs as described above, and the remaining targeted dollar amount of \$1.8 million was then multiplied by 20%. The actual number of stock options granted was determined by assigning a value to the options using an option pricing model and dividing the dollar value of target compensation by the value of an option. The resulting number of stock options are shown in the table below.

<b>Named Executive Officer</b>	<b>Number of Options</b>
Mr. Fish . . . . .	98,684
Ms. Rankin . . . . .	27,961
Mr. Trevathan . . . . .	36,513
Mr. Harris . . . . .	29,605
Mr. Morris . . . . .	29,605

The stock options will vest in 25% increments on the first two anniversaries of the date of grant and the remaining 50% will vest on the third anniversary. The exercise price of the options granted in 2018 is \$85.34, which is the average of the high and low market price of our Common Stock on the date of grant,

and the options have a term of ten years. We account for our employee stock options under the fair value method of accounting using a Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period less expected forfeitures, except for stock options granted to retirement-eligible employees, for which expense is fully recognized at the time of grant.

*Restricted Stock Units.* The MD&C Committee approved an award of 15,625 RSUs to Mr. Fish upon his promotion to President and Chief Executive Officer in November 2016. This promotional grant of RSUs to Mr. Fish was made in consideration of his increased responsibilities and the competitive compensation analysis, in order to encourage and reward long-term performance, and in order to promote retention and increase alignment with stockholders. One-third of the RSUs granted to Mr. Fish vested in 2017 and 2018 on each of the first and second anniversaries of the date of grant. The remaining one-third of the RSUs will vest in 2019 on the third anniversary of the date of grant. Ms. Rankin also received RSUs as part of her annual equity incentive compensation granted in February of each year up to and including 2016, prior to her promotion to the senior leadership team. As of December 31, 2018, she had 759 RSUs outstanding that were granted on February 26, 2016. These RSUs vested in February 2019 on the third anniversary of the date of grant.

The MD&C Committee anticipates that grants of RSUs to named executives will continue to be made on a limited basis in cases such as a significant promotion and increased responsibilities and to attract new hires, and that RSUs will not be a routine component of named executive compensation. Dividends on RSUs accrue and are paid in cash upon vesting. RSUs may not be voted or transferred until vested.

### **Post-Employment and Change in Control Compensation; Clawback Policies**

*Severance Protection Plan.* In December 2017, we adopted an Executive Severance Protection Plan (the “Severance Protection Plan”) and each of Messrs. Fish and Morris and Ms. Rankin entered into new or amended and restated employment agreements (the “2017 Employment Agreements”). The Severance Protection Plan covers each currently-serving executive officer. The 2017 Employment Agreements do not contain separate severance entitlements, but instead provide for additional terms and protections relating to the respective executive’s participation in the Severance Protection Plan. The 2017 Employment Agreements are intended to transition the Company’s severance protections away from contract-based protections and onto a standardized and flexible plan-based approach. Going forward, the Company does not anticipate entering into new employment agreements with our executive officers.

Each of Messrs. Trevathan and Harris retired under the terms of their legacy employment agreements, which did not require any payments to be made to an executive in connection with retirement. Additional information can be found under “Potential Payments Upon Termination or Change in Control” beginning on page 50.

*Post-Employment Covenants and Clawback Policies.* The 2017 Employment Agreements contain noncompetition and nonsolicitation restrictions that apply during employment and for a two-year period following termination. Additionally, the Severance Protection Plan contains (a) a requirement that the individual execute a general release prior to receiving post-termination benefits and (b) a clawback feature that allows for the suspension and refund of termination benefits for subsequently discovered cause. The clawback feature generally allows the Company to cancel any remaining payments due and obligates the named executive to refund to the Company severance payments already made if, within one year of termination of employment of the named executive by the Company for any reason other than for cause, the Company determines that the named executive could have been terminated for cause.

Our current equity award agreements also include a requirement that, in order to be eligible to vest in any portion of the award, the employee must enter into an agreement containing restrictive covenants applicable to the employee’s behavior following termination. Additionally, our equity award agreements



include compensation clawback provisions that provide, if the MD&C Committee determines that an employee either engaged in or benefited from misconduct, then the employee will refund any amounts received under the equity award agreements. Misconduct generally includes any act or failure to act that caused or was intended to cause a violation of the Company's policies, generally accepted accounting principles or applicable laws and that materially increased the value of the equity award. Further, our MD&C Committee has adopted a clawback policy applicable to our annual cash incentive awards that is designed to recoup annual cash incentive payments when the recipient's personal misconduct affects the payout calculations for the awards. Clawback terms applicable to our incentive awards allow recovery within the earlier to occur of one year after discovery of misconduct and the second anniversary of the employee's termination of employment.

### **Other Compensation Policies and Practices**

*Compensation Limitation Policies.* The Company has adopted a Severance Limitation Policy that generally provides that the Company may not enter into new severance arrangements with its executive officers, as defined in the federal securities laws, that provide for benefits, less the value of vested equity awards and benefits provided to employees generally, in an amount that exceeds 2.99 times the executive officer's then current base salary and target annual cash incentive, unless such future severance arrangement receives stockholder approval. The Company has also adopted its Policy Limiting Certain Compensation Practices, which generally provides that the Company will not enter into new compensation arrangements that would obligate the Company to pay a death benefit or gross-up payment to an executive officer unless such arrangement receives stockholder approval. Both of these compensation limitation policies are subject to certain exceptions, including benefits generally available to management-level employees and any payment in reasonable settlement of a legal claim. Additionally, "Death Benefits" under the policy does not include deferred compensation, retirement benefits or accelerated vesting or continuation of equity-based awards pursuant to generally-applicable equity award plan provisions.

In the past, the legacy employment agreements of Messrs. Trevathan and Harris contained certain provisions that exceeded benefits permitted under these compensation limitation policies. Following their retirements, none of our currently-serving executive officers are party to any employment agreement or arrangement with the Company that provides for severance, gross-up or death benefits that exceed amounts permitted by these compensation limitation policies.

*Stock Ownership Guidelines and Holding Requirements.* All of our currently-serving named executive officers are subject to stock ownership guidelines. We instituted stock ownership guidelines because we believe that ownership of Company stock demonstrates a commitment to, and confidence in, the Company's long-term prospects and further aligns employees' interests with those of our stockholders. We believe that the requirement that these individuals maintain a portion of their individual wealth in the form of Company stock deters actions that would not benefit stockholders generally. Although there is no deadline set for executives to reach their ownership guidelines, the MD&C Committee monitors ownership levels to confirm that executives are making sustained progress toward achievement of their ownership guidelines.

Additionally, our stock ownership guidelines contain holding requirements. Executives with a title of Senior Vice President or higher, which includes all of our currently-serving named executives, must hold 100% of all net shares acquired through the Company's long-term incentive plans for at least one year, and those individuals must continue to hold 100% of all such net shares until the individual's ownership guideline is achieved. Once achieved, the requisite stock ownership level must continue to be retained throughout the executive's employment with the Company. Our MD&C Committee believes these holding periods discourage executives from taking actions in an effort to gain from short-term increases in the market value of our stock.

The MD&C Committee regularly reviews the ownership guidelines to ensure that the appropriate share ownership levels are in place. Guidelines are expressed as a fixed number of shares and were revised



in November 2018 to account for the Company’s more recent sustained Common Stock market value. The ownership requirement of Mr. Fish, our President and Chief Executive Officer, was approximately 6.5 times base salary, using his base salary as of December 31, 2018 and an assumed \$80 per share stock price. Using the closing price of the Company’s Common Stock on March 19, 2019, the ownership requirement of our President and Chief Executive Officer is approximately 8.2 times his base salary as of December 31, 2018. Shares owned outright, vested RSUs and PSUs that have been deferred, stock equivalents based on holdings in the Company’s 401(k) Retirement Savings Plan and phantom stock held in the Company’s 409A Deferral Plan count toward meeting the ownership guidelines. Stock options, PSUs, RSUs and restricted stock, if any, do not count toward meeting the ownership guidelines until they are vested or earned. The following table outlines the stock ownership guidelines and attainment for the currently-serving named executive officers.

Named Executive Officer	Ownership Guideline (number of shares)	Attainment as of March 19, 2019
Mr. Fish . . . . .	95,000	263%
Ms. Rankin . . . . .	25,000	80%
Mr. Morris <sup>(1)</sup> . . . . .	27,500	300%

(1) Mr. Morris’ stock ownership guideline increased from 14,000 shares to 27,500 shares on January 1, 2019 in connection with his promotion to Executive Vice President and Chief Operating Officer.

As discussed under “Director and Officer Stock Ownership,” the MD&C Committee also establishes ownership guidelines for the independent directors and performs regular reviews to ensure all independent directors are in compliance or are showing sustained progress toward achievement of their ownership guideline.

*Insider Trading; Restrictions on Hedging and Pledging Company Securities.* The Company’s Insider Trading Policy prohibits directors, executive officers and other “designated insiders” from engaging in most transactions involving the Company’s Common Stock during periods, determined by the Company, that those individuals are most likely to be aware of material, non-public information. Directors, executive officers and other designated insiders must clear all their transactions in our Common Stock with the Company’s office of the Chief Legal Officer in advance. Additionally, it is our policy that directors, executive officers and designated insiders are not permitted to hedge their ownership of Company securities, including (a) trading in options, warrants, puts and calls or similar derivative instruments on any security of the Company, (b) selling any security of the Company “short” and (c) purchasing any financial instruments (including prepaid variable forward contracts, equity swaps, collars and exchange funds) or otherwise engaging in transactions that are designed to or have the effect of offsetting any decrease in the market value of any security of the Company granted as compensation or held, directly or indirectly, by the director, executive officer or designated insider. The Company has also adopted a policy prohibiting pledges of Company securities by executive officers without Board-level approval and requiring that such pledged shares are not required to meet the executive’s ownership level under the ownership guidelines. None of our directors or currently-serving executive officers have pledged Company securities.

# EXECUTIVE COMPENSATION

## EXECUTIVE COMPENSATION TABLES

We are required to present compensation information in the tabular format prescribed by the SEC. This format, including the tables' column headings, may be different from the way we describe or consider elements and components of compensation internally. The *Compensation Discussion and Analysis* contains a discussion that should be read in conjunction with these tables to gain a complete understanding of our executive compensation philosophy, programs and decisions.

### Summary Compensation Table

Year	Salary (\$)	Bonus \$( <sup>(1)</sup> )	Stock Awards \$( <sup>(2)</sup> )	Option Awards \$( <sup>(3)</sup> )	Non-Equity Incentive Plan Compensation \$( <sup>(4)</sup> )	All Other Compensation \$( <sup>(5)</sup> )	Total (\$)
<b>James C. Fish, Jr.</b> President and Chief Executive Officer							
2018	1,157,692 <sup>(6)</sup>	—	5,431,408	1,199,997	1,169,293	166,891	9,125,281
2017	1,076,923	—	4,762,674	1,000,002	2,062,111	92,395	8,994,105
2016	705,996	—	3,104,074	344,002	1,013,304	59,482	5,226,858
<b>Devina A. Rankin</b> Senior Vice President and Chief Financial Officer							
2018	539,923	—	1,538,892	340,006	379,541	53,956	2,852,318
2017	470,077	50,000	952,569	200,002	572,398	34,062	2,279,108
<b>James E. Trevathan, Jr.</b> Executive Vice President and Chief Operating Officer							
2018	752,231	—	2,009,656	443,998	528,303	141,746	3,875,934
2017	724,962	—	2,048,005	429,996	925,437	50,685	4,179,085
2016	676,885	—	2,055,089	344,002	882,920	79,740	4,038,636
<b>Jeff M. Harris</b> Senior Vice President — Operations							
2018	704,289	—	2,195,127	359,997	474,166	96,879	3,830,458
2017	673,000	—	1,428,853	299,999	859,127	68,869	3,329,848
2016	608,846	—	1,761,482	294,860	773,906	54,163	3,493,257
<b>John J. Morris, Jr.</b> Senior Vice President — Operations							
2018	646,192	—	1,629,462	359,997	435,053	116,032	3,186,736
2017	625,577	—	1,428,853	299,999	798,560	65,941	3,218,930
2016	593,462	—	1,761,482	294,860	754,350	52,630	3,456,784

(1) Ms. Rankin received a \$50,000 cash bonus in January 2017 in recognition of her additional responsibilities while serving as Acting Chief Financial Officer. Ms. Rankin's promotion was made permanent in February 2017.

(2) Amounts in this column represent the grant date fair value of PSUs granted to all named executives annually, and 15,625 RSUs granted to Mr. Fish in 2016 with a fair value of \$1,048,984. The grant date fair values were calculated in accordance with ASC Topic 718, as further described in Note 14 in the Notes to the Consolidated Financial Statements in our 2018 Annual Report on Form 10-K. The grant date fair value of our performance share units subject to total shareholder return relative to the S&P 500 was based on a Monte Carlo valuation, and because total shareholder return is a market condition, projected achievement is embedded in the grant date fair value.

For purposes of calculating the grant date fair value of PSUs subject to the cash flow generation performance measure, we have assumed that the Company will achieve target performance levels. The table below shows (a) the aggregate grant date fair value of performance share units subject to the cash flow generation performance measure assuming target level of performance is achieved (this is the amount included in the Stock Awards column in the Summary Compensation Table) and (b) the aggregate grant date fair value of the same PSUs assuming the Company will reach the highest level of achievement for this performance measure and maximum payouts will be earned.

	Year	Aggregate Grant Date Fair Value of Cash Flow Generation PSUs Assuming Target Level of Performance Achieved (\$)	Aggregate Grant Date Fair Value of Cash Flow Generation PSUs Assuming Highest Level of Performance Achieved (\$)
<b>Mr. Fish</b>	2018	2,354,189	4,708,378
	2017	2,065,774	4,131,548
	2016	921,475	1,842,950
<b>Ms. Rankin</b>	2018	667,017	1,334,034
	2017	413,169	826,338
<b>Mr. Trevathan</b>	2018	871,065	1,742,130
	2017	888,307	1,776,614
	2016	921,475	1,842,950
<b>Mr. Harris</b>	2018	951,456	1,902,912
	2017	619,754	1,239,508
	2016	789,825	1,579,650
<b>Mr. Morris</b>	2018	706,274	1,412,548
	2017	619,754	1,239,508
	2016	789,825	1,579,650

- (3) Amounts in this column represent the grant date fair value of stock options granted annually, in accordance with ASC Topic 718. The grant date fair value of the options was estimated using the Black-Scholes option pricing model. The assumptions made in determining the grant date fair values of options are disclosed in Note 14 in the Notes to the Consolidated Financial Statements in our 2018 Annual Report on Form 10-K.
- (4) Amounts in this column represent cash incentive awards earned and paid based on the achievement of performance criteria. Please see “Compensation Discussion and Analysis — Named Executive’s 2018 Compensation Program and Results — Annual Cash Incentive” for additional information.
- (5) The amounts included in “All Other Compensation” for 2018 are shown below (in dollars):

	401(k) Plan Matching Contributions	409A Deferral Plan Matching Contributions	Life Insurance Premiums	Perquisites and Other Personal Benefits <sup>(a)</sup>
<b>Mr. Fish</b>	12,375	135,329	2,260	16,927
<b>Ms. Rankin</b>	12,375	40,561	1,020	—
<b>Mr. Trevathan</b>	12,375	26,591	911	101,869 <sup>(b)</sup>
<b>Mr. Harris</b>	12,375	61,222	1,417	21,865 <sup>(b)</sup>
<b>Mr. Morris</b>	12,375	55,273	1,309	47,075

- (a) Includes perquisites and personal benefits received by a named executive officer in 2018, to the extent that the total value of such perquisites and personal benefits was at least \$10,000. Amounts in this column include incremental cost to us for personal use of Company aircraft in the following amounts: Mr. Fish — \$11,562; Mr. Trevathan — \$46,504; and Mr. Morris — \$41,710. Annually, we calculate an hourly direct operating cost for Company aircraft using industry standard measurements of costs for fuel, catering, telecommunications, maintenance, landing and hangar fees, flight plans and permits, and crew. We then allocate incremental cost to the named executive based on the amount of aircraft time required for the personal use, multiplied by the direct operating cost. For example, the majority of all named executive personal aircraft use reported above resulted from deviations from business travel flight plans to pick up or drop off the executive in another location for personal reasons; in such case, we calculate the time difference resulting from the flight plan deviation and multiply it by the direct operating cost. We also allocate incremental cost to the named executive for any deadhead flights required to position the aircraft to serve personal needs. We own and operate our aircraft primarily for business use; therefore, we do not include purchase costs or other fixed costs associated with the ownership or operation of our aircraft in the direct operating cost. Amounts in this column also include \$5,365 of imputed income for each of Messrs. Fish, Trevathan, Harris and Morris reflecting the cost to the Company for his spouse’s participation in corporate events.
- (b) In recognition of their decades of dedicated service to the Company, Mr. Trevathan received a retirement gift consisting of a set of golf clubs and a cash gift of \$45,000, and Mr. Harris received a cash retirement gift of \$16,500. The Company also made a contribution of \$5,000 to a charity chosen by each of Mr. Trevathan and Mr. Harris in honor of his retirement. These charitable contributions are not included above, as the named executives did not receive a personal benefit, nor were the contributions intended to serve as compensation.
- (6) Includes \$50,000 of base salary in 2018 to which Mr. Fish was entitled but voluntarily relinquished to fund a scholarship program for children of Company employees.

## Grant of Plan-Based Awards in 2018

Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All other Option Awards: Number of Securities Underlying Options (#) <sup>(3)</sup>	Exercise or Base Price of Option Awards (\$/sh) <sup>(4)</sup>	Closing Market Price on Date of Grant (\$)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(5)</sup>
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
<b>James C. Fish, Jr.</b>										
Annual Cash Incentive	937,936	1,563,226	3,126,452							
2/20/18				33,103	55,172	110,344				5,431,408
2/20/18							98,684	85.34	84.87	1,199,997
<b>Devina A. Rankin</b>										
Annual Cash Incentive	304,171	506,952	1,013,904							
2/20/18				9,379	15,632	31,264				1,538,892
2/20/18							27,961	85.34	84.87	340,006
<b>James E. Trevathan, Jr.</b>										
Annual Cash Incentive	423,675	706,125	1,412,250							
2/20/18				12,248	20,414	40,828				2,009,656
2/20/18							36,513	85.34	84.87	443,998
<b>Jeff M. Harris</b>										
Annual Cash Incentive	380,347	633,912	1,267,824							
2/20/18				13,379	22,298	44,596				2,195,127
2/20/18							29,605	85.34	84.87	359,997
<b>John J. Morris, Jr.</b>										
Annual Cash Incentive	348,973	581,621	1,163,242							
2/20/18				9,931	16,552	33,104				1,629,462
2/20/18							29,605	85.34	84.87	359,997

- (1) Actual payouts of cash incentive awards for 2018 performance are shown in the Summary Compensation Table under “Non-Equity Incentive Plan Compensation.” The named executives’ possible annual cash incentive payouts are calculated using a percentage of base salary approved by the MD&C Committee. The threshold levels represent the amounts that would have been payable if the minimum performance requirements were met for each performance measure. The possible payouts for Ms. Rankin and Mr. Trevathan reflect that each received an increase in their target percentage of base salary effective February 2018. Please see “Compensation Discussion and Analysis — Named Executive’s 2018 Compensation Program and Results — Annual Cash Incentive” for additional information about these awards, including performance criteria.
- (2) Represents the number of shares of Common Stock potentially issuable based on the achievement of performance criteria under performance share unit awards granted under our 2014 Stock Incentive Plan. Please see “Compensation Discussion and Analysis — Named Executive’s 2018 Compensation Program and Results — Long-Term Equity Incentives — Performance Share Units” for additional information about these awards, including performance criteria. The performance period for these awards ends December 31, 2020. PSUs earn dividend equivalents, which are paid out based on the number of shares earned at the end of the performance period.
- (3) Represents the number of shares of Common Stock potentially issuable upon the exercise of options granted under our 2014 Stock Incentive Plan. Please see “Compensation Discussion and Analysis — Named Executive’s 2018 Compensation Program and Results — Long-Term Equity Incentives — Stock Options” for additional information about these awards. The stock options will vest in 25% increments on the first two anniversaries of the date of grant and the remaining 50% will vest on the third anniversary. Although we consider all of our equity awards to be a form of incentive compensation because their value will increase as the market value of our Common Stock increases, only awards with performance criteria are considered “equity incentive plan awards” for SEC disclosure purposes. As a result, stock option awards are not included as “Equity Incentive Plan Awards” in the table above or the Outstanding Equity Awards as of December 31, 2018 table.
- (4) The exercise price represents the average of the high and low market price on the date of the grant, in accordance with our 2014 Stock Incentive Plan.
- (5) These amounts are grant date fair values of the awards as calculated under ASC Topic 718 and as further described in Note 14 in the Notes to the Consolidated Financial Statements in our 2018 Annual Report on Form 10-K.

## Outstanding Equity Awards as of December 31, 2018

Name	Option Awards				Stock Awards <sup>(1)</sup>			
	Number of Securities Underlying Unexercised Options Exercisable (#) <sup>(2)</sup>	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(6)</sup>	Market Value of Shares or Units of Stock that Have Not Vested (\$) <sup>(6)</sup>	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#) <sup>(7)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(7)</sup>
<b>James C. Fish, Jr.</b>								
	—	98,684 <sup>(3)</sup>	85.34	2/20/2028	5,208	463,460	111,510	19,846,550
	—	97,151 <sup>(4)</sup>	73.335	2/28/2027	—	—	—	—
	—	27,259 <sup>(5)</sup>	56.235	2/26/2026	—	—	—	—
<b>Devina A. Rankin</b>								
	—	27,961 <sup>(3)</sup>	85.34	2/20/2028	759	67,543	26,900	4,787,662
	6,476	19,431 <sup>(4)</sup>	73.335	2/28/2027	—	—	—	—
	3,193	3,193 <sup>(5)</sup>	56.235	2/26/2026	—	—	—	—
<b>James E. Trevathan, Jr.</b>								
	—	36,513 <sup>(3)</sup>	85.34	2/20/2028	—	—	44,640	7,945,027
	13,924	41,775 <sup>(4)</sup>	73.335	2/28/2027	—	—	—	—
	27,258	27,259 <sup>(5)</sup>	56.235	2/26/2026	—	—	—	—
	60,420	—	54.635	2/25/2025	—	—	—	—
	33,708	—	41.37	3/7/2024	—	—	—	—
<b>Jeff M. Harris</b>								
	—	29,605 <sup>(3)</sup>	85.34	2/20/2028	—	—	39,200	6,976,816
	—	29,145 <sup>(4)</sup>	73.335	2/28/2027	—	—	—	—
	—	23,365 <sup>(5)</sup>	56.235	2/26/2026	—	—	—	—
<b>John J. Morris, Jr.</b>								
	—	29,605 <sup>(3)</sup>	85.34	2/20/2028	—	—	33,454	5,954,143
	9,715	29,145 <sup>(4)</sup>	73.335	2/28/2027	—	—	—	—
	—	23,365 <sup>(5)</sup>	56.235	2/26/2026	—	—	—	—

- (1) Values are based on the closing price of the Company's Common Stock on December 31, 2018 of \$88.99.
- (2) Includes vested stock options granted on March 7, 2014 pursuant to our 2009 Stock Incentive Plan and vested stock options granted on February 25, 2015, February 26, 2016 and February 28, 2017 pursuant to our 2014 Stock Incentive Plan.
- (3) Includes stock options granted on February 20, 2018 that vest 25% on the first and second anniversary of the date of grant and 50% on the third anniversary of the date of grant.
- (4) Includes stock options granted on February 28, 2017 that vested 25% on the first anniversary of the date of grant. An additional 25% will vest on the second anniversary of the date of grant and 50% will vest on the third anniversary of the date of grant.
- (5) Includes stock options granted on February 26, 2016 that vested 25% on the first and second anniversary of the date of grant. The remaining 50% will vest on the third anniversary of the date of grant.
- (6) Includes RSUs granted under our 2014 Stock Incentive Plan to Mr. Fish on November 11, 2016 in connection with his promotion to President and Chief Executive Officer. One-third of the RSUs granted to Mr. Fish vested in 2017 and 2018 on each of the first and second anniversaries of the date of grant. The remaining one-third of the RSUs will vest in 2019 on the third anniversary of the date of grant. Also includes RSUs granted under our 2014 Stock Incentive Plan to Ms. Rankin on February 26, 2016 as part of her annual incentive compensation prior to her promotion to the senior leadership team. Ms. Rankin's RSUs vested in February 2019 on the third anniversary of the date of grant.
- (7) Includes PSUs with three-year performance periods ending December 31, 2019 and December 31, 2020. Payouts on PSUs are made after the Company's financial results for the performance period are reported and the MD&C Committee determines achievement of performance results and corresponding vesting, typically in mid to late February of the succeeding year. The PSUs for the performance period ended December 31, 2018 are not included in the table as they are considered earned as of December 31, 2018 for proxy statement disclosure purposes; instead, such

PSUs are included in the Option Exercises and Stock Vested table below. Pursuant to SEC disclosure instructions, because the Company's performance on the metrics governing our PSUs with the performance period ended December 31, 2018 exceeded target, the payout value of unearned awards is calculated assuming maximum performance criteria is achieved. The following number of PSUs have a performance period ending December 31, 2019: Mr. Fish – 56,338; Ms. Rankin – 11,268; Mr. Trevathan – 24,226; Mr. Harris – 16,902; and Mr. Morris – 16,902. The following number of PSUs have a performance period ending December 31, 2020: Mr. Fish – 55,172; Ms. Rankin – 15,632; Mr. Trevathan – 20,414; Mr. Harris – 22,298; and Mr. Morris – 16,552.

### Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#) <sup>(1)</sup>	Value Realized on Vesting (\$) <sup>(1)</sup>
James C. Fish, Jr.	76,222 <sup>(2)</sup>	2,068,223	57,060 <sup>(3)</sup>	5,583,018
Devina A. Rankin	11,341 <sup>(4)</sup>	506,312	5,330 <sup>(3)</sup>	514,988
James E. Trevathan, Jr.	—	—	51,852	5,113,126
Jeff M. Harris	46,617 <sup>(5)</sup>	1,293,732	44,444	4,382,623
John J. Morris, Jr.	36,902 <sup>(6)</sup>	1,259,272	44,444	4,382,623

(1) Includes shares of the Company's Common Stock issued on account of PSUs granted in 2016 with a performance period ended December 31, 2018. The determination of achievement of performance results and corresponding vesting of such PSUs was performed by the MD&C Committee in February 2019. Following such determination, shares of the Company's Common Stock earned under this award were issued on February 14, 2019, based on the average of the high and low market price of the Company's Common Stock on that date.

(2) Mr. Fish received 13,939 net shares after payment of, or withholding of shares to cover, option costs and tax withholding.

(3) Includes 5,208 and 774 restricted stock units granted to Mr. Fish and Ms. Rankin, respectively. The value of restricted stock units realized on vesting was calculated using the average of the high and low market price of the Company's Common Stock on the date of vesting.

Mr. Fish deferred receipt of 51,852 shares of Common Stock valued at \$5,113,126 earned on account of PSUs with the performance period ended December 31, 2018. See the Nonqualified Deferred Compensation in 2018 table below and accompanying disclosure for additional information.

(4) Ms. Rankin received 3,234 net shares after payment of option costs and tax withholding.

(5) Mr. Harris received 8,371 net shares after payment of option costs and tax withholding.

(6) Mr. Morris received 5,612 net shares after payment of, or withholding of shares to cover, option costs and tax withholding.



## Nonqualified Deferred Compensation in 2018

Each of our named executive officers is eligible to participate in our 409A Deferral Plan and may elect to defer receipt of portions of their base salary and cash incentives in excess of the annual compensation threshold established under Section 401(a)(17) of the IRC, referred to as the “Threshold.” As of 2018, the Threshold was \$275,000. The plan provides that eligible employees may defer for payment at a future date (i) up to 25% of base salary and up to 100% of annual cash incentives payable after the aggregate of such compensation components reaches the Threshold; (ii) receipt of any RSUs and (iii) receipt of any PSUs. The Company match provided under the 409A Deferral Plan is dollar for dollar on the employee’s deferrals, up to 3% of the employee’s aggregate base salary and cash incentives in excess of the Threshold, and fifty cents on the dollar on the employee’s deferrals, in excess of 3% and up to 6% of the employee’s aggregate base salary and cash incentives in excess of the Threshold. Additional deferral contributions will not be matched but will be tax-deferred. Amounts deferred under this plan are allocated into accounts that mirror selected investment funds in our 401(k) Retirement Savings Plan, including a Company stock fund, although the amounts deferred are not actually invested in stock or funds. There is no Company match on deferred RSUs or PSUs, but the Company makes a cash payment of dividend equivalents on the shares deferred at the same time and at the same rate as dividends on the Company’s Common Stock.

Participating employees generally can elect to receive distributions commencing six months after the employee leaves the Company in the form of annual installments or a lump sum payment. Special circumstances may allow for a modified or accelerated distribution, such as the employee’s death, an unforeseen emergency, or upon termination of the plan. In the event of death, distribution will be made to the designated beneficiary in a single lump sum in the following calendar year. In the event of an unforeseen emergency, the plan administrator may allow an early payment in the amount necessary to satisfy the emergency. All participants are immediately 100% vested in all of their contributions, Company matching contributions, and gains and/or losses related to their investment choices.

Name	Executive Contributions in Last Fiscal Year (\$) <sup>(1)</sup>	Registrant Contributions in Last Fiscal Year (\$) <sup>(2)</sup>	Aggregate Earnings in Last Fiscal Year (\$) <sup>(3)</sup>	Aggregate Withdrawals/Distributions (\$) <sup>(4)</sup>	Aggregate Balance at Last Fiscal Year End (\$) <sup>(5)</sup>
James C. Fish, Jr.	262,240	135,329	177,929	79,965	5,044,494
Devina A. Rankin	50,119	40,561	(149)	—	207,733
James E. Trevathan, Jr.	4,529,031	26,591	332,701	101,900	8,556,442
Jeff M. Harris	157,169	61,222	(29,105)	—	1,183,134
John J. Morris, Jr.	70,148	55,273	(50,596)	—	1,287,093

- (1) Contributions are made pursuant to the Company’s 409A Deferral Plan. Executive contributions of base salary and annual cash incentive compensation is included in the Salary column and the Non-Equity Incentive Plan Compensation column, respectively, of the Summary Compensation Table.
- (2) Company contributions to the executives’ 409A Deferral Plan accounts are included in the All Other Compensation column in the Summary Compensation Table.
- (3) Earnings on these accounts are not included in any other amounts in the tables included in this Proxy Statement, as the amounts of the named executives’ earnings on deferred cash compensation represent the general market gains (or losses) on investments, rather than amounts or rates set by the Company for the benefit of the named executives. In case of Messrs. Fish and Trevathan, who have deferred receipt of 42,992 shares (not including the shares deferred in February 2019) and 54,785 shares, respectively, earnings also include the change in the closing price per share of the Company’s Common Stock from December 31, 2017 to December 31, 2018, plus \$1.86 of dividends paid per share of Common Stock in 2018, multiplied by the number of shares deferred. The value of all such deferred shares was included in the Option Exercises and Stock Vested table for the year of vesting.
- (4) Amounts shown in this column consist of dividend equivalents paid out on deferred shares.
- (5) Amounts shown in this column include the following amounts that were reported as compensation to the named executive in the Summary Compensation Table for 2016-2018: Mr. Fish — \$711,421; Ms. Rankin — \$139,201; Mr. Trevathan — \$257,482; Mr. Harris — \$582,940; and Mr. Morris — \$333,153.

## Potential Payments Upon Termination or Change in Control

*Change in Control.* The post-employment compensation our named executives receive is based on provisions included in retirement and severance plan documents, employment agreements and equity incentive award documentation. Severance protections aid in retention of senior leadership by providing the individual with comfort that he or she will be treated fairly in the event of an involuntary termination not for cause. The change in control provisions included in the Severance Protection Plan, our stock option award agreements and, if applicable, employment agreements require a double trigger in order to receive any payment in the event of a change in control situation. First, a change in control must occur, and second, the individual must terminate employment for good reason or the Company must terminate employment without cause within six months prior to or two years following the change in control event. PSUs are paid out in cash on a prorated basis based on actual results achieved through the end of the fiscal quarter prior to a change in control. Thereafter, the executive would typically receive a replacement award from the successor entity, provided that the successor entity is publicly traded. If the successor is not publicly traded, the executive will be entitled to a replacement award of cash. RSUs, which are not routinely a component of our named executive officer compensation, vest upon a change in control, unless the successor entity converts the awards to equivalent grants in the successor. In the case of both converted RSU and PSU awards, they will vest in full if the executive is terminated without cause following the change in control. We believe providing change in control protection encourages our named executives to pursue and facilitate transactions that are in the best interests of stockholders while not granting executives an undeserved windfall.

*Involuntary Termination or Resignation for Good Reason.* Under the Severance Protection Plan, in the event a participant is terminated without cause or resigns for good reason, subject to execution of a release of claims and continued compliance with all restrictive covenants, he or she will be entitled to receive: (a) cash severance in an aggregate amount equal to two times the sum of the participant's base salary and target annual bonus (with one half payable in a lump sum at termination, and the remaining half payable in installments over a two-year period); (b) continuation of group health benefits over a two-year period following termination and (c) a *pro rata* annual cash incentive payment for the year of termination. In the event a named executive is terminated for cause, he or she is entitled to any accrued but unpaid salary only, and all unvested awards and outstanding stock options, whether exercisable or not, are forfeited.

The terms "cause," "good reason," and "change in control" are defined in the executives' employment agreements, the Severance Protection Plan and equity award plans and agreements, as applicable, but such terms have the meanings generally described below. You should refer to the applicable documentation for the actual definitions.

"Cause" generally means the named executive has: deliberately refused to perform his or her duties; breached his or her duty of loyalty to the Company; been convicted of a felony; intentionally and materially harmed the Company; materially violated the Company's policies and procedures or breached the covenants contained in his or her agreement.

"Good Reason" generally means that, without the named executive's consent: his or her duties or responsibilities have been substantially changed; he or she has been removed from his or her position; the Company has breached his or her employment agreement; any successor to the Company has not assumed the obligations under his or her employment agreement; or he or she has been reassigned to a location more than 50 miles away.

"Change in Control" generally means that: at least 25% of the Company's Common Stock has been acquired by one person or persons acting as a group; certain significant turnover in our Board of Directors has occurred; there has been a merger of the Company in which at least 50% of the combined post-merger voting power of the surviving entity does not consist of the Company's pre-merger voting power, or a merger to effect a recapitalization that resulted in a person or persons

acting as a group acquired 25% or more of the Company's voting securities; or the Company is liquidating or selling all or substantially all of its assets.

Benefits to a participant under the Severance Protection Plan are subject to reduction to the extent required by the Company's Severance Limitation Policy or if the excise tax described in Sections 280G or 4999 of the IRC is applicable and such reduction would place the participant in a better net after tax position.

*Voluntary Termination; Retirement.* Our equity award agreements generally provide that an executive forfeits unvested awards if he or she voluntarily terminates employment. RSUs generally vest on a *pro rata* basis upon an employee's qualifying retirement, and RSUs and PSUs generally vest on a *pro rata* basis upon involuntary termination other than for cause. With respect to outstanding PSUs granted in 2017, such awards vest on a *pro rata* basis upon an employee's qualifying retirement, except that the award agreement for PSUs granted to Mr. Trevathan in 2017 provides that such PSUs would not be prorated if his qualifying retirement occurred on or after December 31, 2018. For PSUs granted in 2018, the MD&C Committee changed the treatment of such awards upon a qualifying retirement to provide all executive officers with full vesting of PSUs at the end of the performance period based on actual results achieved, instead of *pro rata* vesting, provided that qualifying retirement occurred on or after December 31, 2018. This action was taken to align with market practices and aid recruitment and retention by providing a more competitive retirement benefit.

In the event of a recipient's qualifying retirement, stock options shall continue to vest pursuant to the original schedule set forth in the award agreement. If the recipient is terminated by the Company without cause or voluntarily resigns, the recipient shall be entitled to exercise all stock options outstanding and exercisable within a specified time frame after such termination.

*Explanation of Tabular Disclosure.* The following table presents potential payouts to our currently-serving named executives at year-end upon termination of employment in the circumstances indicated pursuant to the terms of applicable plans and agreements. The payouts set forth below assume the triggering event indicated occurred on December 31, 2018, when the closing price of our Common Stock was \$88.99 per share. These payouts are calculated for SEC disclosure purposes and are not necessarily indicative of the actual amounts the named executive would receive. Please note the following when reviewing the payouts set forth below:

- The compensation component set forth below for accelerated vesting of stock options is comprised of the unvested stock options granted in 2016, 2017 and 2018, which vest 25% on the first and second anniversary of the date of grant and 50% on the third anniversary of the date of grant.
- For purposes of calculating the payout of performance share unit awards outstanding as of December 31, 2018, we have assumed that target performance was achieved; any actual performance share unit payouts will be based on actual performance of the Company during the performance period.
- For purposes of calculating the payout upon the "double trigger" of change in control and subsequent involuntary termination not for cause, the value of the performance share unit replacement award is equal to the number of PSUs that would be forfeited based on the prorated acceleration of the PSUs, multiplied by the closing price of our Common Stock on December 31, 2018.
- The payout for continuation of benefits is an estimate of the cost the Company would incur to continue those benefits.
- The Company's practice is to provide all benefits eligible employees with life insurance that pays one times annual base salary upon death. The insurance benefit is a payment by an insurance company, not the Company, and is payable under the terms of the insurance policy.
- Refer to the Nonqualified Deferred Compensation in 2018 table above for aggregate balances payable to the named executives under our 409A Deferral Plan pursuant to the named executive's distribution elections.

## Potential Consideration upon Termination of Employment

James C. Fish, Jr.   Devina A. Rankin   John J. Morris, Jr.

### Payout or Value of Compensation Components, in dollars

<b><i>In Event of Death or Disability</i></b>			
• Accelerated vesting of stock options	2,773,964	510,837	1,329,644
• Payment of PSUs (contingent on actual performance at end of performance period)	9,923,275	2,393,831	2,977,071
• Accelerated vesting of restricted stock units	463,460	67,543	—
• Life insurance benefit paid by insurance company (in the case of death)	1,100,000	500,000	634,000
<b>Total</b>	<b>14,260,699</b>	<b>3,472,211</b>	<b>4,940,715</b>
<b><i>In Event of Termination Without Cause by the Company or For Good Reason by the Employee</i></b>			
• Two times base salary plus target annual cash bonus (one-half payable in lump sum; one-half payable in bi-weekly installments over a two-year period)	5,522,500	2,152,410	2,469,430
• Continued coverage under health and welfare benefit plans for two years	26,040	26,040	26,040
• Prorated payment of PSUs (contingent on actual performance at end of performance period)	4,978,931	1,132,190	1,493,727
• Prorated vesting of restricted stock units	64,888	64,166	—
<b>Total</b>	<b>10,592,359</b>	<b>3,374,806</b>	<b>3,989,197</b>
<b><i>In Event of Termination Without Cause by the Company or For Good Reasons by the Employee Six Months Following a Change in Control (Double Trigger)</i></b>			
• Two times base salary plus target annual cash bonus (one-half payable in lump sum; one-half payable in bi-weekly installments over a two-year period)	5,522,500	2,152,410	2,469,430
• Continued coverage under health and welfare benefit plans for two years	26,040	26,040	26,040
• Accelerated vesting of stock options	2,773,964	510,837	1,329,644
• Prorated accelerated payment of PSUs	4,978,931	1,132,190	1,493,727
• Accelerated payment of PSUs replacement grant	4,944,344	1,261,641	1,483,344
• Accelerated vesting of restricted stock units	463,460	67,543	—
• Prorated maximum annual cash bonus	3,172,500	1,048,610	1,169,730
<b>Total</b>	<b>21,881,739</b>	<b>6,199,271</b>	<b>7,971,915</b>

## **Retirement of Messrs. Trevathan and Harris**

In February 2018, Mr. Trevathan and Mr. Harris announced their intention to retire at the end of the year, and each of them retired from the Company as of December 31, 2018. No payments were made to Messrs. Trevathan or Harris as a result of their retirement from the Company, other than the retirement gifts included in the “All Other Compensation” column of the Summary Compensation Table and described in note (5) thereto. The outstanding PSUs and stock options held by Messrs. Trevathan and Harris will be treated under the retirement provisions of their applicable award agreements, as described immediately above under “Potential Payments Upon Termination or Change in Control — Voluntary Termination; Retirement.”

## **Chief Executive Officer Pay Ratio**

Last year we identified the Company’s median employee, based on total annual compensation for all employees other than our Chief Executive Officer, in accordance with SEC Regulation S-K, Item 402(u) for purposes of the proxy statement filed in March 2018 (the “Median Employee”). The Median Employee, a Driver in the United States, was identified from a list of Company employees as of December 31, 2017. Out of a total worldwide employee population of 42,075 on that date, the list included 41,585 employees and excluded the Chief Executive Officer and our 489 employees based in India. Approximately 90% of these total employees work in the United States and approximately 10% work in Canada. Over 99% of these individuals are full-time employees. Any temporary or seasonal employees are included; any subcontracted workers are not employees and are excluded. To select the Median Employee, we determined the actual taxable compensation paid to each listed employee in 2017, converted to U.S. dollars at appropriate exchange rates for non-U.S. employees and annualized for salaried employees hired during the year. We did not apply any cost-of-living adjustments nor did we use any form of statistical sampling.

Since December 31, 2017, there been no changes to the Company’s employee population, compensation arrangements, or the circumstances of the Median Employee that the Company believes would significantly impact this pay ratio disclosure. Accordingly, as permitted by SEC Regulation S-K, Item 402(u), the Company is providing the following information based on the Median Employee identified last year.

For 2018, total annual compensation for the Median Employee was \$81,096. The annual compensation of our Chief Executive Officer was \$9,125,281, for a ratio of 1:113. These compensation values were calculated in accordance with SEC Regulation S-K, Item 402(c)(2)(x) requirements for reporting total compensation in the Summary Compensation Table.

## Equity Compensation Plan Table

The following table provides information as of December 31, 2018 about the number of shares to be issued upon vesting or exercise of equity awards and the number of shares remaining available for issuance under our equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	Weighted-Average Exercise Price of Outstanding Options and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders <sup>(1)</sup>	6,258,851 <sup>(2)</sup>	\$ 59.46 <sup>(3)</sup>	22,112,282 <sup>(4)</sup>

(1) Includes our 2009 Stock Incentive Plan, 2014 Stock Incentive Plan and Employee Stock Purchase Plan (“ESPP”). No additional awards may be granted under our 2009 Stock Incentive Plan.

(2) Includes: options outstanding for 4,441,456 shares of Common Stock; 261,645 shares of Common Stock to be issued in connection with deferred compensation obligations; 391,858 shares underlying unvested restricted stock units and 1,163,892 shares of Common Stock that would be issued on account of outstanding PSUs if the target performance level is achieved. Assuming, instead, that the maximum performance level was achieved on such PSUs, the number of shares of Common Stock that would be issued on account of outstanding awards would increase by 1,163,892 shares.

The total number of shares subject to outstanding awards in the table above includes 426,662 shares on account of PSUs, at target, with the performance period ended December 31, 2018. The determination of achievement of performance results on such PSUs was performed by the MD&C Committee in February 2019, and the Company achieved maximum performance criteria. A total of 532,473 shares of Common Stock were issued on account of such PSUs in February 2019, net of units deferred, of which 266,236 shares of Common Stock were included in the first column of the table above.

Excludes purchase rights that accrue under the ESPP. Purchase rights under the ESPP are considered equity compensation for accounting purposes; however, the number of shares to be purchased is indeterminable until the time shares are actually issued, as automatic employee contributions may be terminated before the end of an offering period and, due to the look-back pricing feature, the purchase price and corresponding number of shares to be purchased is unknown.

(3) Excludes PSUs and restricted stock units because those awards do not have exercise prices associated with them. Also excludes purchase rights under the ESPP for the reasons described in (2) above.

(4) The shares remaining available include 1,344,502 shares under our ESPP and 20,767,780 shares under our 2014 Stock Incentive Plan, assuming payout of PSUs at maximum. Assuming payout of PSUs at target, the number of shares remaining available for issuance under our 2014 Stock Incentive Plan would be 21,931,672.



# RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## (ITEM 2 ON THE PROXY CARD)

Our Board of Directors, upon the recommendation of the Audit Committee, has ratified the selection of Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal year 2019, subject to ratification by our stockholders.

Representatives of Ernst & Young LLP will be at the annual meeting. They will be able to make a statement if they want, and will be available to answer any appropriate questions stockholders may have.

Although ratification of the selection of Ernst & Young is not required by our By-laws or otherwise, we are submitting the selection to stockholders for ratification because we value our stockholders' views on our independent registered public accounting firm and as a matter of good governance. If our stockholders do not ratify our selection, it will be considered a direction to our Board and Audit Committee to consider selecting another firm. Even if the selection is ratified, the Audit Committee may, in its discretion, select a different independent registered public accounting firm, subject to ratification by the Board, at any time during the year if it determines that such a change is in the best interests of the Company and our stockholders.

### Independent Registered Public Accounting Firm Fee Information

Fees for professional services provided by our independent registered public accounting firm in each of the last two fiscal years, in each of the following categories, were as follows:

	2018	2017
	(In millions)	
<b>Audit Fees</b> . . . . .	\$ 4.6	\$ 4.8
<b>Audit-Related Fees</b> . . . . .	0.1	0.2
<b>Tax Fees</b> . . . . .	—	—
<b>All Other Fees</b> . . . . .	—	—
<b>Total</b> . . . . .	\$ 4.7	\$ 5.0

Audit fees includes fees for the annual audit, reviews of the Company's Quarterly Reports on Form 10-Q, work performed to support the Company's debt issuances, accounting consultations, and separate subsidiary audits required by statute or regulation. Audit-related fees principally include financial due diligence services relating to certain potential acquisitions.

The Audit Committee has adopted procedures for the approval of Ernst & Young's services and related fees. At the beginning of each year, all audit and audit-related services, tax fees and other fees for the upcoming audit are provided to the Audit Committee for approval. The services are grouped into significant categories and provided to the Audit Committee in the format shown above. All projects that have the potential to exceed \$100,000 are separately identified and reported to the Committee for approval. The Audit Committee Chairman has the authority to approve additional services, not previously approved, between Committee meetings. Any additional services approved by the Audit Committee Chairman between Committee meetings are reported to the full Audit Committee at the next regularly scheduled meeting. The Audit Committee is updated on the status of all services and related fees at every regular meeting. In 2018 and 2017, the Audit Committee or Audit Committee Chairman pre-approved all audit and audit-related services performed by Ernst & Young.

As set forth in the Audit Committee Report on page 9, the Audit Committee has considered whether the provision of these audit-related services is compatible with maintaining auditor independence and has determined that it is.

### Vote Required for Approval

Approval of this proposal requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2019.**

# ADVISORY VOTE ON EXECUTIVE COMPENSATION

---

## (ITEM 3 ON THE PROXY CARD)

Pursuant to Section 14A of the Exchange Act, stockholders are entitled to an advisory (non-binding) vote on compensation programs for our named executive officers (sometimes referred to as “say on pay”). The Board of Directors has determined that it will include this “say on pay” vote in the Company’s proxy materials annually, pending consideration of future advisory stockholder votes on the frequency of this advisory vote on executive compensation.

We encourage stockholders to review the *Compensation Discussion and Analysis* and the *Executive Compensation Tables* on pages 26 to 54 of this Proxy Statement. The Company has designed its executive compensation program to be supportive of, and align with, the strategy of the Company and the creation of stockholder value, while discouraging excessive risk-taking. The following key structural elements and policies, discussed in more detail in the *Compensation Discussion and Analysis*, further the objective of our executive compensation program and evidence our dedication to competitive and reasonable compensation practices that are in the best interests of stockholders:

- over 75% of our named executive’s target compensation is linked to Company performance, through annual cash incentive performance criteria and long-term equity-based incentive awards, and over 60% of our named executive’s target compensation is tied to long-term equity awards, which aligns executives’ interests with those of stockholders;
- our total direct compensation opportunities for named executive officers are targeted to fall in a range around the competitive median;
- performance-based awards include threshold, target and maximum payouts correlating to a range of performance outcomes and are based on a variety of indicators of performance, which limits risk-taking behavior;
- performance stock units with a three-year performance period, as well as stock options that vest over a three-year period, link executives’ interests with long-term performance and reduce incentives to maximize performance in any one year;
- all of our executive officers are subject to stock ownership guidelines, which we believe demonstrates a commitment to, and confidence in, the Company’s long-term prospects;
- the Company has clawback provisions in its equity award agreements and executive officer employment agreements, and has adopted a clawback policy applicable to annual incentive compensation, designed to recoup compensation when cause and/or misconduct are found;
- our Severance Limitation Policy limits the amount of benefits the Company may provide to its executive officers under severance agreements entered into after the date of such policy; and
- the Company has adopted a policy that prohibits it from entering into new agreements with executive officers that provide for certain death benefits or tax gross-up payments.

The Board strongly endorses the Company’s executive compensation program and recommends that the stockholders vote in favor of the following resolution:

RESOLVED, that the compensation of the Company’s named executive officers as described in this Proxy Statement under “Executive Compensation,” including the *Compensation Discussion and Analysis* and the tabular and narrative disclosure contained in this Proxy Statement, is hereby APPROVED.

### **Vote Required for Approval**

Approval of this proposal requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote. Because the vote is advisory, it will not be

binding, and neither the Board nor the MD&C Committee will be required to take any action as a result of the outcome of the vote on this proposal. The MD&C Committee will carefully consider the outcome of the vote in connection with future executive compensation arrangements.

**THE BOARD RECOMMENDS THAT YOU VOTE TO APPROVE THE COMPANY'S EXECUTIVE COMPENSATION.**

# STOCKHOLDER PROPOSAL

---

## (ITEM 4 ON THE PROXY CARD)

*Waste Management is not responsible for the content of this stockholder proposal or supporting statement.*

The following proposal was submitted by the International Brotherhood of Teamsters General Fund, 25 Louisiana Avenue, NW, Washington, DC 20001, which owns 143 shares of Waste Management, Inc. Common Stock. The proposal has been included verbatim as we received it.

### **Stockholder Proposal**

**RESOLVED:** The shareholders ask the board of directors of Waste Management, Inc. (the “Company”), to adopt a policy that in the event of a change in control (as defined under any applicable employment agreement, equity incentive plan or other plan), there shall be no acceleration of vesting of any equity award granted to any senior executive officer, provided, however, the Board’s Compensation Committee may provide in an applicable grant or purchase agreement that any unvested award will vest on a partial, *pro rata* basis up to the time of the named executive officer’s termination, with such qualifications for an award as the Committee may determine.

For purposes of this Policy, “equity award” means an award granted under an equity incentive plan as defined in Item 402 of the SEC’s Regulation S-K, which addresses elements of executive compensation to be disclosed to shareholders. This resolution shall be implemented so as not to affect any contractual rights in existence on the date this proposal is adopted, and it shall apply only to equity awards made under equity incentive plans or plan amendments the shareholders approve after the date of the 2019 annual meeting.

### **SUPPORTING STATEMENT:**

The Company allows senior executives to receive an accelerated award of unearned equity under certain conditions after a change of control of the Company. We do not question that some form of severance payments may be appropriate in that situation. We are concerned, however, current practices at the Company may permit windfall awards that have nothing to do with an executive’s performance.

Per last year’s proxy statement, a termination following a change in control at the end of the 2017 fiscal year could have accelerated the vesting of \$32.5 million worth of long term equity and grants to five senior executives, with the CEO entitled to \$11.9 million. In the event of a change in control and termination, Waste Management’s performance share units vest *pro-rata* but the provision is meaningless because the company compensates the executives through a replacement grant for any lost earnings due to proration.

To accelerate the vesting of unearned equity on the theory that an executive was denied the opportunity to earn those shares seems inconsistent with a “pay for performance” philosophy worthy of the name.

We do believe, however, that an affected executive should be eligible to receive an accelerated vesting of equity awards on a *pro rata* basis as of his or her termination date, with the details of any *pro rata* award to be determined by the Compensation Committee. Other major corporations, including: Apple, Chevron, Dell, Exxon Mobil, IBM, Intel, Microsoft, and Occidental Petroleum, have limitations on accelerated vesting of unearned equity, such as, providing *pro rata* awards or simply forfeiting unearned awards. Research from James Reda & Associates found that over one-third of the largest 200 companies now *pro rate*, forfeit, or only partially vest performance shares upon a change of control.

## **Waste Management Response to Stockholder Proposal on Policy Restricting Accelerated Vesting and Requiring Partial Forfeiture of Equity Awards to Named Executive Officers upon a Change in Control**

**The Board recommends that stockholders vote AGAINST this proposal.**

The Board does not believe that adoption of a rigid policy restricting the acceleration of vesting and requiring partial forfeiture of named executive officers' equity awards is in the best interests of the Company or our stockholders. Such a policy could put the Company at a competitive disadvantage in attracting and retaining key executives, it would disrupt the alignment of interests between our management and our stockholders by discouraging pursuit of any transaction that could result in a change in control, and it would unduly restrict our MD&C Committee from designing and administering appropriate compensation arrangements.

### Competitive disadvantage in attracting and retaining key executives

The proponent's supporting statement asserts that over a third of the largest 200 companies now pro rate, forfeit, or only partially vest performance shares upon a change in control. Waste Management is among those companies, as the proponent notes that we only vest performance share units on a *pro rata* basis upon a change in control, and only based on actual performance to date.

However, a very substantial majority of the companies with which we compete for executive talent are not restricted in their ability to attract and retain key executives through the use of change in control equity vesting triggers, and in fact, routinely provide for accelerated vesting of equity-based awards upon a change in control. As a result, the proposed policy could significantly jeopardize the objective of our compensation program to attract, retain, reward and incentivize exceptional, talented employees who will lead the Company in the successful execution of its strategy.

Additionally, the proposed policy would permit *pro rata* vesting of equity-based awards following both a change in control and termination of a named executive officer. Yet, vesting of equity-based awards, even on a *pro rata* basis, would not be permitted with respect to named executives that continue employment at the post-change in control successor entity. As noted above, our current award agreements for performance share units provide for accelerated vesting on a *pro rata* basis, based on actual performance achieved, upon a change in control event, as it is likely not to be feasible to carry forward the performance metrics of the outstanding awards to the successor entity. Under the proposed policy, named executives leaving the Company could have more certainty regarding the value of their outstanding performance share units than named executives that remain, who would have to forfeit their awards or rely on the successor entity to grant replacement awards. Such a result is clearly contrary to the retention objective of our compensation program and fails to appreciate the practical realities of change in control scenarios where the successor is a materially different entity.

The proposed policy may also make it particularly difficult for us to retain key executives during the pendency of a potential change in control, which could be disruptive to the transaction. Allowing executives to retain the value of their awards encourages our executives to remain with us through consummation of a merger or similar change in control transaction, reinforcing the retention value of those awards. Accelerated vesting provisions therefore help provide stability and ensure continuity of executive management during the critical stages of a potential change in control transaction.

### Disruption of alignment between management and our stockholders

The Board believes that executives should not be discouraged from pursuing and facilitating change in control transactions when they are in the best interests of stockholders. Putting executives' compensation at risk in the event of a change in control could create a conflict of interest if the Board believed a potential change in control transaction was in the best interests of our stockholders. One of the essential purposes of providing executives with equity-based awards is to align their interests with those of our stockholders. As described in our *Compensation Discussion and Analysis*, a significant percentage of

each named executive officer's compensation opportunity is in the form of equity-based awards, and at any time, our named executives' unvested equity awards represent a significant portion of their total compensation. The proposal would eliminate our ability to provide reasonable assurance to named executives that they can realize the expected value of their equity-based awards and would penalize named executives that consummate a change in control transaction, particularly those that remain with the Company afterwards, with the loss of their incentive compensation.

Undue restriction on the MD&C Committee's structuring of executive compensation

Our Board believes that stockholders' interests are best served by recognizing that the MD&C Committee, comprised of six independent, non-management directors, is in the best position to set the terms of executive compensation arrangements. Our stockholders have evidenced their overwhelming support of the MD&C Committee's actions, with at least 96% of shares present and entitled to vote casting votes in favor of our Company's executive compensation at the last eight annual meetings of stockholders. The Board believes that the Company's treatment of equity-based awards upon a change in control, as summarized in our *Compensation Discussion and Analysis*, is already prudent and appropriately balances the interests of all parties, while not granting executives an undeserved windfall.

The MD&C Committee should continue to retain the flexibility to design and administer competitive compensation programs that reflect market conditions. Permitting the MD&C Committee to accelerate vesting of equity awards can incentivize management to maximize stockholder value, further aligning the interests of management with our stockholders. Conversely, adopting the rigid policy advanced by the proponent would frustrate the purpose of the MD&C Committee and interfere with the objective of our compensation program. The Board recommends that you vote against this proposal.

**Vote Required for Approval**

If this proposal is properly presented at the meeting, approval requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE AGAINST THIS PROPOSAL.**

## **OTHER MATTERS**

---

The Company does not intend to bring any other matters before the annual meeting, nor does the Company have any present knowledge that any other matters will be presented by others for action at the meeting. If any other matters are properly presented, your proxy card authorizes the people named as proxy holders to vote using their judgment.





UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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
(Address of principal executive offices)

77002
(Zip code)

Registrant's telephone number, including area code:
(713) 512-6200

Securities registered pursuant to Section 12(b) of the Act:

Table with 2 columns: Title of Each Class, Name of Each Exchange on Which Registered. Row 1: Common Stock, \$0.01 par value; New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [X] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [ ]
Emerging growth company [ ]

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2018 was approximately \$34.8 billion. The aggregate market value was computed by using the closing price of the common stock as of that date on the New York Stock Exchange ("NYSE"). (For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.)

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding as of February 8, 2019 was 423,779,540 (excluding treasury shares of 206,502,921).

DOCUMENTS INCORPORATED BY REFERENCE

Table with 2 columns: Document, Incorporated as to. Row 1: Proxy Statement for the 2019 Annual Meeting of Stockholders; Part III

## TABLE OF CONTENTS

	<u>Page</u>
<b>PART I</b>	
Item 1. Business .....	3
Item 1A. Risk Factors .....	15
Item 1B. Unresolved Staff Comments .....	27
Item 2. Properties .....	27
Item 3. Legal Proceedings .....	27
Item 4. Mine Safety Disclosures .....	27
<b>PART II</b>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	28
Item 6. Selected Financial Data .....	30
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	30
Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....	56
Item 8. Financial Statements and Supplementary Data .....	57
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	120
Item 9A. Controls and Procedures .....	120
Item 9B. Other Information .....	121
<b>PART III</b>	
Item 10. Directors, Executive Officers and Corporate Governance .....	121
Item 11. Executive Compensation .....	121
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	121
Item 13. Certain Relationships and Related Transactions, and Director Independence .....	121
Item 14. Principal Accounting Fees and Services .....	121
<b>PART IV</b>	
Item 15. Exhibits .....	122
Item 16. Form 10-K Summary .....	124

## PART I

### Item 1. *Business.*

#### General

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.

WM was incorporated in Oklahoma in 1987 under the name “USA Waste Services, Inc.” and was reincorporated as a Delaware company in 1995. In a 1998 merger, the Illinois-based waste services company formerly known as Waste Management, Inc. became a wholly-owned subsidiary of WM and changed its name to Waste Management Holdings, Inc. (“WM Holdings”). At the same time, our parent holding company changed its name from USA Waste Services to Waste Management, Inc. Like WM, WM Holdings is a holding company and all operations are conducted by subsidiaries. For details on the financial position, results of operations and cash flows of WM, WM Holdings and their subsidiaries, see Note 21 to the Consolidated Financial Statements.

Our principal executive offices are located at 1001 Fannin Street, Houston, Texas 77002. Our telephone number is (713) 512-6200. Our website address is [www.wm.com](http://www.wm.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are all available, free of charge, on our website as soon as practicable after we file the reports with the SEC. Our stock is traded on the New York Stock Exchange under the symbol “WM.”

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. 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 United States (“U.S.”). During 2018, our largest customer represented 1% of annual revenues. We employed approximately 43,700 people as of December 31, 2018.

We own or operate 252 landfill sites, which is 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 314 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. We are a leading recycler in North America, handling materials that include paper, cardboard, glass, plastic and metal. We provide cost-efficient, environmentally sound recycling programs for municipalities, businesses and households across the U.S. and Canada as well as other services that supplement our Traditional Solid Waste business.

Our Company’s goals are targeted at serving our customers, our employees, the environment, the communities in which we work and our stockholders. Increasingly, customers want more of their waste materials recovered while waste streams are becoming more complex, and our aim is to address the current needs, while anticipating the expanding and evolving needs of our customers.

We believe we are uniquely equipped to meet the challenges of the changing waste industry and our customers’ waste management needs, both today and as we work together to envision and create a more sustainable future. As the waste industry leader, we have the expertise necessary to collect and handle our customers’ waste efficiently and responsibly by delivering environmental performance — maximizing resource value, while minimizing environmental impact — so that both our economy and our environment can thrive.

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. In addition, we intend to continue to return value to our stockholders through dividend payments and our common stock repurchase program. In December 2018, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.465 to \$0.5125 per share for dividends declared in 2019, which is a 10.2% increase from the quarterly dividends we declared in 2018. This is an indication of our ability to generate strong and consistent cash flows and marks the 16th consecutive year of dividend increases. All quarterly dividends will be declared at the discretion of our Board of Directors and depend on various factors, including our net earnings, financial condition, cash required for future business plans, growth and acquisitions and other factors the Board of Directors may deem relevant.

## **Operations**

### ***General***

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. See Note 19 to the Consolidated Financial Statements for additional information about our reportable segments. We also provide additional services that are not managed through our Solid Waste business, as described below. These operations are presented in this report as "Other." The services we currently provide include collection, landfill (solid and hazardous waste landfills), transfer, recycling and resource recovery and other services, as described below.

*Collection.* Our commitment to customers begins with a vast waste collection network. Collection involves picking up and transporting waste and recyclable materials from where it was generated to a transfer station, material recovery facility ("MRF") or disposal site. We generally provide collection services under one of two types of arrangements:

- For commercial and industrial collection services, typically we have a three-year service agreement. The fees under the agreements are influenced by factors such as collection frequency, type of collection equipment we furnish, type and volume or weight of the waste collected, distance to the disposal facility, labor costs, cost of disposal and general market factors. As part of the service, we provide steel containers to most customers to store their solid waste between pick-up dates. Containers vary in size and type according to the needs of our customers and the restrictions of their communities. Many are designed to be lifted mechanically and either emptied into a truck's compaction hopper or directly into a disposal site. By using these containers, we can service most of our commercial and industrial customers with trucks operated by only one employee.
- For most residential collection services, we have a contract with, or a franchise granted by, a municipality, homeowners' association or some other regional authority that gives us the exclusive right to service all or a portion of the homes in an area. These contracts or franchises are typically for periods of three to ten years. We also provide services under individual monthly subscriptions directly to households. The fees for residential collection are either paid by the municipality or authority from their tax revenues or service charges, or are paid directly by the residents receiving the service.

*Landfill.* Landfills are the main depositories for solid waste in North America. As of December 31, 2018, we owned or operated 247 solid waste landfills and five secure hazardous waste landfills, which represents the largest network of landfills in North America. Solid waste landfills are constructed and operated on land with engineering safeguards that limit the possibility of water and air pollution, and are operated under procedures prescribed by regulation. A landfill must

meet federal, state or provincial, and local regulations during its design, construction, operation and closure. The operation and closure activities of a solid waste landfill include excavation, construction of liners, continuous spreading and compacting of waste, covering of waste with earth or other acceptable material and constructing final capping of the landfill. These operations are carefully planned to maintain environmentally safe conditions and to maximize the use of the airspace.

All solid waste management companies must have access to a disposal facility, such as a solid waste landfill. The significant capital requirements of developing and operating a landfill serve as a barrier to landfill ownership and, thus, third-party haulers often dispose of waste at our landfills. It is usually preferable for our collection operations to use disposal facilities that we own or operate, a practice we refer to as internalization, rather than using third-party disposal facilities. Internalization generally allows us to realize higher consolidated margins and stronger operating cash flows. The fees charged at disposal facilities, which are referred to as tipping fees, are based on several factors, including competition and the type and weight or volume of solid waste deposited.

Under environmental laws, the federal government (or states with delegated authority) must issue permits for all hazardous waste landfills. All of our hazardous waste landfills have obtained the required permits, although some can accept only certain types of hazardous waste. These landfills must also comply with specialized operating standards. Only hazardous waste in a stable, solid form, which meets regulatory requirements, can be deposited in our secure disposal cells. In some cases, hazardous waste can be treated before disposal. Generally, these treatments involve the separation or removal of solid materials from liquids and chemical treatments that transform waste into inert materials that are no longer hazardous. Our hazardous waste landfills are sited, constructed and operated in a manner designed to provide long-term containment of waste. We also operate a hazardous waste facility at which we isolate treated hazardous waste in liquid form by injection into deep wells that have been drilled in certain acceptable geologic formations far below the base of fresh water to a point that is safely separated by other substantial geological confining layers.

*Transfer.* As of December 31, 2018, we owned or operated 314 transfer stations in North America. We deposit waste at these stations, as do other waste haulers. The solid waste is then consolidated and compacted to reduce the volume and increase the density of the waste and transported by transfer trucks or by rail to disposal sites.

Access to transfer stations is critical to haulers who collect waste in areas not in close proximity to disposal facilities. Fees charged to third parties at transfer stations are usually based on the type and volume or weight of the waste deposited at the transfer station, the distance to the disposal site, market rates for disposal costs and other general market factors.

The utilization of our transfer stations by our own collection operations improves internalization by allowing us to retain fees that we would otherwise pay to third parties for the disposal of the waste we collect. It enables us to manage costs associated with waste disposal because (i) transfer trucks, railcars or rail containers have larger capacities than collection trucks, allowing us to deliver more waste to the disposal facility in each trip; (ii) waste is accumulated and compacted at transfer stations that are strategically located to increase the efficiency of our network of operations and (iii) we can retain the volume by managing the transfer of the waste to one of our own disposal sites.

The transfer stations that we operate but do not own generally are operated through lease agreements under which we lease property from third parties. There are some instances where transfer stations are operated under contract, generally for municipalities. In most cases, we own the permits and will be responsible for any regulatory requirements relating to the operation and closure of the transfer station.

*Recycling.* Our recycling operations provide communities and businesses with an alternative to traditional landfill disposal and support our strategic goals to extract more value from the materials we manage. We were the first major solid waste company to focus on residential single-stream recycling, which allows customers to mix recyclable paper, plastic and glass in one bin. Residential single-stream programs have greatly increased the recycling volumes. Single-stream recycling is possible through the use of various mechanized screens and optical sorting technologies. We have also been advancing the single-stream recycling programs for commercial applications. Recycling involves the separation of



reusable materials from the waste stream for processing and resale or other disposition. Our recycling operations include the following:

*Materials processing* — Through our collection operations, we collect recyclable materials from residential, commercial and industrial customers and direct these materials to one of our MRFs for processing. As of December 31, 2018, we operated 102 MRFs where paper, cardboard, metals, plastics, glass, construction and demolition materials and other recycling commodities are recovered for resale or redirected for other purposes.

*Recycling commodities* — We market and resell recycling commodities globally. We manage the marketing of recycling commodities that are processed in our facilities by maintaining comprehensive service centers that continuously analyze market prices, logistics, market demands and product quality.

*Recycling brokerage services* — We also provide recycling brokerage services, which involve managing the marketing of recyclable materials for third parties. The experience of our recycling operations in managing recycling commodities for our own operations gives us the expertise needed to effectively manage volumes for third parties. Utilizing the resources and knowledge of our recycling operations' service centers, we can assist customers in marketing and selling their recycling commodities with minimal capital requirements.

Some of the recyclable materials processed in our MRFs are purchased from various sources, including third parties and our own operations. The price we pay for recyclable materials is often referred to as a "rebate." In some cases, rebates are based on fixed contractual rates or on defined minimum per-ton rates but are generally based upon the price we receive for sales of processed goods, market conditions and transportation costs. As a result, changes in commodity prices for recycled materials also significantly affect the rebates we pay to our suppliers and depending on the key terms of the agreement are recorded as either operating expenses or a reduction in operating revenues within our Consolidated Statements of Operations, subsequent to the adoption of Accounting Standards Update ("ASU") 2014-09 on January 1, 2018. See Note 2 to the Consolidated Financial Statements for additional information. In recent years, we have been focused on revising our rebate structures to ensure that we cover our cost of handling and processing the materials and generate an acceptable margin on the materials we process and sell.

*Other.* Other services we provide include the following:

Although many waste management services such as collection and disposal are local services, our strategic accounts organization, which is managed by our Strategic Business Solutions ("WMSBS") organization, works with customers whose locations span the U.S. and Canada. Our strategic accounts program provides centralized customer service, billing and management of accounts to streamline the administration of customers multiple locations' waste management needs.

Our Energy and Environmental Services ("EES") organization offers our customers in all Areas a variety of services in collaboration with our Area and strategic accounts programs, including (i) construction and remediation services; (ii) services associated with the disposal of fly ash, residue generated from the combustion of coal and other fuel stocks; (iii) in-plant services, where our employees work full-time inside our customers' facilities to provide full-service waste management solutions and consulting services; this service is managed through our EES organization but reflected principally in our collection line of business and (iv) specialized disposal services for oil and gas exploration and production operations; revenues for this service are also reflected principally in our collection line of business. Our vertically integrated waste management operations enable us to provide customers with full management of their waste. The breadth of our service offerings and the familiarity we have with waste management practices gives us the unique ability to assist customers in minimizing the amount of waste they generate, identifying recycling opportunities, determining the most efficient means available for waste collection and disposal and ensuring that disposal is achieved in a manner that is both reflective of the current regulatory environment and environmentally friendly.

We develop, operate and promote projects for the beneficial use of landfill gas through our WM Renewable Energy organization. Landfill gas is produced naturally as waste decomposes in a landfill. The methane component of the landfill gas is a readily available, renewable energy source that can be gathered and used beneficially as an alternative to fossil fuel. The U.S. Environmental Protection Agency ("EPA") endorses landfill gas as a renewable energy resource, in the

same category as wind, solar and geothermal resources. As of December 31, 2018, we had 130 landfill gas beneficial use projects producing commercial quantities of methane gas at owned or operated landfills. For 101 of these projects, the processed gas is used to fuel electricity generators. The electricity is then sold to public utilities, municipal utilities or power cooperatives. For 15 of these projects, the landfill gas is processed to pipeline-quality natural gas and then sold to natural gas suppliers. For 14 of these projects, the gas is used at the landfill or delivered by pipeline to industrial customers as a direct substitute for fossil fuels in industrial processes.

We continue to invest in businesses and technologies that are designed to offer services and solutions ancillary or supplementary to our current operations. These investments include joint ventures, acquisitions and partial ownership interests. The solutions and services include the collection of project waste, including construction debris and household or yard waste, through our Bagster<sup>®</sup> program; the development, operation and marketing of plasma gasification facilities; operation of a landfill gas-to-liquid natural gas plant; solar powered trash compactors and organic waste-to-fuel conversion technology. We also have expanded service offerings and solutions including fluorescent bulb and universal waste mail-back through our LampTracker<sup>®</sup> program; portable restroom servicing under the name Port-o-Let<sup>®</sup>; and street and parking lot sweeping services.

## **Competition**

We encounter intense competition from governmental, quasi-governmental and private sources in all aspects of our operations. We principally compete with large national waste management companies, counties and municipalities that maintain their own waste collection and disposal operations and regional and local companies of varying sizes and financial resources. The industry also includes companies that specialize in certain discrete areas of waste management, operators of alternative disposal facilities, companies that seek to use parts of the waste stream as feedstock for renewable energy and other by-products, and waste brokers that rely upon haulers in local markets to address customer needs. In recent years, the industry has seen some additional consolidation, though the industry remains intensely competitive.

Operating costs, disposal costs and collection fees vary widely throughout the areas in which we operate. The prices that we charge are determined locally, and typically vary by volume and weight, type of waste collected, treatment requirements, risk of handling or disposal, frequency of collections, distance to final disposal sites, the availability of airspace within the geographic region, labor costs and amount and type of equipment furnished to the customer. We face intense competition in our Solid Waste business based on pricing and quality of service. We have also begun competing for business based on breadth of service offerings. As companies, individuals and communities look for ways to be more sustainable, we are investing in greener technologies and promoting our comprehensive services that go beyond our core business of collecting and disposing of waste.

## **Seasonal Trends**

Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher construction and demolition waste volumes. The volumes of industrial and residential 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 and climate conditions, such as wildfires in the Western U.S. and hurricanes that most often impact our operations in the Southern and Eastern U.S. during the second half of the year, 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.

## **Employees**

As of December 31, 2018, we had approximately 43,700 full-time employees, of which approximately 8,200 were employed in administrative and sales positions and the balance in operations. Approximately 8,300 of our employees are covered by collective bargaining agreements.

## **Financial Assurance and Insurance Obligations**

### *Financial Assurance*

Municipal and governmental waste service contracts generally require contracting parties to demonstrate financial responsibility for their obligations under the contract. Financial assurance is also a requirement for (i) obtaining or retaining disposal site or transfer station operating permits; (ii) supporting certain variable-rate tax-exempt debt and (iii) estimated final capping, closure, post-closure and environmental remedial obligations at many of our landfills. We establish financial assurance using surety bonds, letters of credit, insurance policies, trust and escrow agreements and financial guarantees. The type of assurance used is based on several factors, most importantly: the jurisdiction, contractual requirements, market factors and availability of credit capacity.

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. Letters of credit generally are supported by our long-term U.S. and Canadian revolving credit facility (“\$2.75 billion revolving credit facility”) and other credit facilities established for that purpose.

### *Insurance*

We carry a broad range of insurance coverages, including general liability, automobile liability, workers’ compensation, real and personal property, directors’ and officers’ liability, pollution legal liability and other coverages we believe are customary to the industry. Our exposure to loss for insurance claims is generally limited to the per-incident deductible under the related insurance policy. 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. As of December 31, 2018, both our commercial General Liability Insurance Policy and our workers’ compensation insurance program carried self-insurance exposures of up to \$5 million per incident. As of December 31, 2018, our automobile liability insurance program included a per-incident deductible of up to \$10 million. 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. Our estimated insurance liabilities as of December 31, 2018 are summarized in Note 10 to the Consolidated Financial Statements.

## **Regulation**

Our business is subject to extensive and evolving federal, state or provincial and local environmental, health, safety and transportation laws and regulations. These laws and regulations are administered by the EPA, Environment Canada, and various other federal, state, provincial and local environmental, zoning, transportation, land use, health and safety agencies in the U.S. and Canada. Many of these agencies regularly examine our operations to monitor compliance with these laws and regulations and have the power to enforce compliance, obtain injunctions or impose civil or criminal penalties in case of violations.

Because the primary mission of our business is to collect and manage solid waste in an environmentally sound manner, a significant amount of our capital expenditures is related, either directly or indirectly, to environmental protection measures, including compliance with federal, state, provincial and local rules. There are costs associated with siting, design, permitting, operations, monitoring, site maintenance, corrective actions, financial assurance, and facility closure and post-closure obligations. With acquisition, development or expansion of a waste management or disposal facility or transfer station, we must often spend considerable time, effort and money to obtain or maintain required permits and

approvals. There are no assurances that we will be able to obtain or maintain required governmental approvals. Once obtained, operating permits are subject to renewal, modification, suspension or revocation by the issuing agency. Compliance with current regulations and future requirements could require us to make significant capital and operating expenditures. However, most of these expenditures are made in the normal course of business and do not place us at any competitive disadvantage.

In recent years, we perceived an increase in both the amount of government regulation and the number of enforcement actions being brought by regulatory entities against operations in the waste services industry. The current U.S. presidential administration has called for substantial changes to foreign trade policy and has generally appeared to be in favor of reducing regulation, including environmental regulation. We cannot predict what impact the current administration will have on regulations impacting our industry, especially given the number of rules currently in litigation, nor can we predict the timing of any such changes. Reduction of regulation may have a favorable impact on our operating costs, but the extensive environmental regulation applicable to landfills is a substantial barrier to entry that benefits our Company. Moreover, the risk reduction provided by stringent regulation is valuable to our customers and the communities we serve.

The primary U.S. federal statutes affecting our business are summarized below:

- The Resource Conservation and Recovery Act of 1976 (“RCRA”), as amended, regulates handling, transporting and disposing of hazardous and non-hazardous waste and delegates authority to states to develop programs to ensure the safe disposal of solid waste. In 1991, the EPA issued final regulations under Subtitle D of RCRA, which set forth minimum federal performance and design criteria for solid waste landfills. These regulations are typically implemented by the states, although states can impose requirements that are more stringent than the Subtitle D standards. We incur costs in complying with these standards in the ordinary course of our operations. In December 2018, the EPA signed a final rule that establishes management standards for pharmaceutical wastes that are classified as hazardous wastes. The requirements of the rule apply primarily to healthcare facilities and reverse distributors of hazardous waste pharmaceuticals and include a broad prohibition on disposal of hazardous waste pharmaceuticals in sewage systems. The rule is not currently anticipated to materially affect our industry, but we do expect that it will create new waste volumes for disposal at facilities permitted to incinerate hazardous waste. Also, in December 2018, the EPA published an Advanced Notice of Proposed Rulemaking to consider whether to propose revisions to the MSW Landfill criteria to support advances in liquids management. The notice does not reopen any existing regulations; we will review the topic for both risks and opportunities for our business and respond appropriately.
- The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (“CERCLA”) which is also known as Superfund, provides for federal authority to respond directly to releases or threatened releases of hazardous substances into the environment that have created actual or potential environmental hazards. CERCLA’s primary means for addressing such releases is to impose strict liability for cleanup of disposal sites upon current and former site owners and operators, generators of the hazardous substances at the site and transporters who selected the disposal site and transported substances thereto. Liability under CERCLA is not dependent on the intentional release of hazardous substances; it can be based upon the release or threatened release of hazardous substances, even resulting from lawful, unintentional and attentive action, as the term is defined by CERCLA and other applicable statutes and regulations. The EPA may issue orders requiring responsible parties to perform response actions at sites, or the EPA may seek recovery of funds expended or to be expended in the future at sites. Liability may include contribution for cleanup costs incurred by a defendant in a CERCLA civil action or by an entity that has previously resolved its liability to federal or state regulators in an administrative or judicially-approved settlement. Liability under CERCLA could also include obligations to a potentially responsible party (“PRP”) that voluntarily expends site clean-up costs. Further, liability for damage to publicly-owned natural resources may also be imposed. We are subject to potential liability under CERCLA as an owner or operator of facilities at which hazardous substances have been disposed and as a generator or transporter of hazardous substances disposed of at other locations.
- The Federal Water Pollution Control Act of 1972, as amended, known as the Clean Water Act, regulates the discharge of pollutants into streams, rivers, groundwater, or other surface waters from a variety of sources, including solid and hazardous waste disposal sites. If our operations discharge any pollutants into surface waters, the Clean Water Act requires us to apply for and obtain discharge permits, conduct sampling and monitoring,

and, under certain circumstances, reduce the quantity of pollutants in those discharges. In 1990, the EPA issued additional standards for management of storm water run-off that require landfills and other waste-handling facilities to obtain storm water discharge permits. Also, if a landfill or other facility discharges wastewater through a sewage system to a publicly-owned treatment works, the facility must comply with discharge limits imposed by the treatment works. Further, before the development or expansion of a landfill can alter or affect “wetlands,” a permit may have to be obtained providing for mitigation or replacement wetlands. The Clean Water Act provides for civil, criminal and administrative penalties for violations of its provisions.

- The Clean Air Act of 1970, as amended, provides for federal, state and local regulation of the emission of air pollutants. Certain of our operations are subject to the requirements of the Clean Air Act, including large municipal solid waste landfills and landfill gas-to-energy facilities. In 1996 the EPA issued new source performance standards (“NSPS”) and emission guidelines controlling landfill gases from new and existing large landfills. In January 2003, the EPA issued Maximum Achievable Control Technology (“MACT”) standards for municipal solid waste landfills subject to the NSPS. These regulations impose limits on air emissions from large municipal solid waste landfills, subject most of these landfills to certain operating permit requirements under Title V of the Clean Air Act and, in many instances, require installation of landfill gas collection and control systems to control emissions or to treat and utilize landfill gas on- or off-site. On August 29, 2016, the EPA published two rules with new requirements for landfill gas control and monitoring at both new municipal solid waste landfills (constructed or modified after July 17, 2014) as well as existing landfills (operating after November 8, 1987 and not modified after July 17, 2014). Working with our trade associations and other landfill owners and operators, we identified significant legal, technical and implementation concerns with the rules and together filed a judicial appeal of the rules while also filing administrative petitions asking that the EPA stay the rules and initiate a rulemaking process, which the EPA has convened. The EPA is also reviewing the landfill MACT standards to determine whether revisions are warranted. A court has required that this Risk Technology Review must be completed, and a final rule issued by March 2020. We cannot predict the outcome of either rulemaking process; however, we do not believe regulatory changes, if determined, will have a material adverse impact on our business as a whole.

The EPA and the Department of Transportation finalized Greenhouse Gas Emissions and Fuel Efficiency Standards for Medium and Heavy-Duty Engines and Vehicles – Phase 2 on August 16, 2016. The rule will increase fuel economy standards and reduce vehicle emissions standards for our collection fleet between model years 2021 and 2027. We expect to be able to purchase fully compliant vehicles that will meet our operational needs, and while the regulations could increase the costs of operating our fleet, we do not believe any such regulations would have a material adverse impact on our business as a whole.

- The Occupational Safety and Health Act of 1970, as amended, (“OSHA”) establishes certain employer responsibilities, including maintenance of a workplace free of recognized hazards likely to cause death or serious injury, compliance with standards promulgated by the Occupational Safety and Health Administration, and various reporting and record keeping obligations as well as disclosure and procedural requirements. Various standards for notices of hazards, safety in excavation and demolition work and the handling of asbestos, may apply to our operations. The Department of Transportation and OSHA, along with other federal agencies, have jurisdiction over certain aspects of hazardous materials and hazardous waste, including safety, movement and disposal. Various state and local agencies with jurisdiction over disposal of hazardous waste may seek to regulate movement of hazardous materials in areas not otherwise preempted by federal law.

We are also actively monitoring the following recent regulatory developments affecting our business:

- In 2010, the EPA issued the Prevention of Significant Deterioration (“PSD”) and Title V Greenhouse Gas (“GHG”) Tailoring Rule, which expanded the EPA’s federal air permitting authority to include the six GHGs, including methane and carbon dioxide. The rule sets new thresholds for GHG emissions that define when Clean Air Act permits are required. The requirements of these rules have not significantly affected our operations or cash flows, due to the tailored thresholds and exclusions of certain emissions from regulation.

Since 2014, decisions from the U.S Supreme Court and U.S. Court of Appeals for the D.C Circuit, as well as EPA policy memorandum, have significantly narrowed the applicability and scope of EPA permitting requirements for GHGs from stationary sources, including with respect to biogenic carbon dioxide (“CO<sub>2</sub>”) permitting. In

2016, the EPA proposed revisions to the PSD and Title V GHG permitting regulations establishing a significant emissions rate (“SER”) threshold, below which sources would not be required to implement additional control technologies for their GHG emissions. This SER threshold should prevent most of our operational changes, such as landfill expansions and beneficial gas recovery projects, from being subject to PSD or Title V permit requirements due to our GHG emissions – assuming the EPA classifies biogenic CO<sub>2</sub> emissions from municipal solid waste and landfill gas as carbon neutral. The EPA has not yet finalized this rulemaking. The EPA also has not yet finalized its policy for addressing biogenic CO<sub>2</sub> emissions from waste management; however, the EPA’s independent Science Advisory Board has recommended it treat waste-derived CO<sub>2</sub> emissions as carbon-neutral. These recent judicial and regulatory actions have reduced, and are expected to continue to reduce, the potential impact of the PSD and Title V GHG Tailoring Rule on our air permits, compliance and operating requirements. See Item 1A. *Risk Factors — The adoption of climate change legislation or regulations restricting emissions of “greenhouse gases” could increase our costs to operate.*

Other recent regulatory actions to increase the stringency of certain National Ambient Air Quality Standards (“NAAQS”) could affect the cost, timeliness and availability of air permits for new and modified large municipal solid waste landfills and landfill gas-to-energy facilities. However, the EPA under the current administration is reviewing the implementation of the new NAAQS and considering revisions to make the regulations less stringent. While we cannot predict the ultimate outcome of potential revisions to NAAQS, we do not believe that the ultimate requirements will have a material adverse impact on our business as a whole.

We continue to anticipate the needs of our customers, which includes investing in and developing ever-more-advanced recycling and reuse technologies. Potential climate change, GHG regulatory, and corporate sustainability initiatives have influenced our business strategy to provide low-carbon services to our customers, and we increasingly view our ability to offer lower carbon services as a key component of our business growth. If the U.S. were to impose a carbon tax or other form of GHG regulation increasing demand for low-carbon service offerings in the future, the services we are developing will be increasingly valuable.

- In December 2014, the EPA issued a final rule regulating the disposal and beneficial use of coal combustion residuals (“CCR”). This codification of the CCR rule provides utilities with a stable regulatory regime and encourages beneficial use of CCR in encapsulated uses (e.g., used in cement or wallboard), and use according to established industry standards (e.g., application of sludge for agricultural enrichment). The EPA also deemed disposal and beneficial use of CCR at permitted municipal solid waste landfills exempt from the new regulations because the RCRA Subtitle D standards applicable at municipal solid waste landfills provide at least equivalent protection. The new standards are consistent with our approach to handling CCR at our sites currently, and the new standards have provided a growth opportunity for the Company. States may impose standards more stringent than the federal program, and under the 2016 Water Infrastructure Improvements for the Nation Act, may receive approval to run permitting programs for CCR in their states. In 2018, the U.S. Court of Appeals for the D.C. Circuit vacated significant portions of the 2014 final rule and remanded the rule to the EPA for further revision. Because vacated elements of the rule had allowed for the continued operation of unlined CCR ash ponds, the ongoing EPA rulemaking may further expand the Company’s opportunity to provide CCR disposal services.
- In May 2016, the EPA established lifetime health advisories for certain per- and polyfluoroalkyl substances (“PFAS”), a group of man-made chemicals that have been manufactured and used globally since the 1940s in products such as textiles, fire suppressants, cookware, packaging and plastics. PFAS are typically very persistent in the environment and can be found in water, soil and air. Citing concerns about potential adverse human health effects from exposure to PFAS, several states have recently enacted new drinking water, surface water and/or groundwater limits for various PFAS, and the EPA has stated that it will be considering additional regulatory action related to the compounds. We are working with both the EPA and state regulatory agencies to maintain compliance with these evolving PFAS standards and anticipate additional expense that will result from these efforts

#### *State, Provincial and Local Regulations*

There are also various state or provincial and local regulations that affect our operations. Each state and province in which we operate has its own laws and regulations governing solid waste disposal, water and air pollution, and, in most



cases, releases and cleanup of hazardous substances and liabilities for such matters. States and provinces have also adopted regulations governing the design, operation, maintenance and closure of landfills and transfer stations. Some counties, municipalities and other local governments have adopted similar laws and regulations. Our facilities and operations are likely to be subject to these types of requirements.

Our landfill operations are affected by the increasing preference for alternatives to landfill disposal. Many state and local governments mandate recycling and waste reduction at the source and prohibit the disposal of certain types of waste, such as yard waste, food waste and electronics at landfills. The number of state and local governments with recycling requirements and disposal bans continues to grow, while the logistics and economics of recycling the items remain challenging.

Various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid waste generated outside the state. While laws that overtly discriminate against out-of-state waste have been found to be unconstitutional, some laws that are less overtly discriminatory have been upheld in court. From time to time, the U.S. Congress has considered legislation authorizing states to adopt regulations, restrictions, or taxes on the importation of out-of-state or out-of-jurisdiction waste. Additionally, several state and local governments have enacted “flow control” regulations, which attempt to require that all waste generated within the state or local jurisdiction be deposited at specific sites. In 1994, the U.S. Supreme Court ruled that a flow control ordinance that gave preference to a local facility that was privately owned was unconstitutional, but in 2007, the Court ruled that an ordinance directing waste to a facility owned by the local government was constitutional. The U.S. Congress’ adoption of legislation allowing restrictions on interstate transportation of out-of-state or out-of-jurisdiction waste or certain types of flow control, or courts’ interpretations of interstate waste and flow control legislation, could adversely affect our solid and hazardous waste management services.

Additionally, regulations establishing extended producer responsibility (“EPR”) are being considered or implemented in many places around the world, including in the U.S. and Canada. EPR regulations are designed to place either partial or total responsibility on producers to fund the post-use life cycle of the products they create. Along with the funding responsibility, producers may be required to take over management of local recycling programs by taking back their products from end users or managing the collection operations and recycling processing infrastructure. There is no federal law establishing EPR in the U.S. or Canada; however, state, provincial and local governments could take, and in some cases have taken, steps to implement EPR regulations. If wide-ranging EPR regulations were adopted, they could have a fundamental impact on the waste, recycling and other streams we manage and how we operate our business, including contract terms and pricing.

Many states, provinces and local jurisdictions have enacted “fitness” laws that allow the agencies that have jurisdiction over waste services contracts or permits to deny or revoke these contracts or permits based on the applicant’s or permit holder’s compliance history. Some states, provinces and local jurisdictions go further and consider the compliance history of the parent, subsidiaries or affiliated companies, in addition to the applicant or permit holder. These laws authorize the agencies to make determinations of an applicant’s or permit holder’s fitness to be awarded a contract to operate, and to deny or revoke a contract or permit because of unfitness, unless there is a showing that the applicant or permit holder has been rehabilitated through the adoption of various operating policies and procedures put in place to assure future compliance with applicable laws and regulations. While fitness laws can present potential increased costs and barriers to entry into market areas, these laws have not, and are not expected to have a material adverse impact on our business as a whole.

#### *Recycling; Foreign Import and Export Regulations*

Enforcement or implementation of foreign and domestic regulations can affect our ability to export products. A significant portion of the fiber that we market has been shipped to export markets across the globe, particularly China. In 2013, the Chinese government began to strictly enforce regulations that establish limits on moisture and non-conforming materials that may be contained in imported recycled paper and plastics and restrict the import of certain other plastic recyclables. In 2017, the Chinese government announced a ban on certain materials, including mixed waste paper and mixed plastics, effective January 1, 2018, as well as extremely restrictive quality requirements effective March 1, 2018 that have been difficult for the industry to achieve. Many other markets, both domestic and foreign, have tightened their quality expectations as well. In addition, other countries have limited or restricted the import of certain recyclables.

Single stream MRFs process a wide range of commingled materials and tend to receive a higher percentage of non-recyclables, which results in increased processing and residual disposal costs to achieve quality standards. Also in 2017, the Chinese government began to limit the flow of material into the country by restricting the issuance of required import licenses. The use of restrictions on import licenses to restrict flow into China continued in 2018 and is expected to continue to constrict in 2019. Additionally, increased container weight tracking and port fees have driven up operating costs in the recycling industry and have resulted in increased price volatility. The current U.S. presidential administration has made substantial changes to foreign trade policy and imposed increases in tariffs on international trade. In response, China has imposed new tariffs on the import of recyclable commodities, including wastepaper, plastics and metals. Such restrictions and tariffs may have a significant impact on our recycling operations.

In recent years, we have been revising our service agreements to address increased costs and are working with stakeholders to educate the public on the need to recycle properly. We are investing time and labor and working with customers to help improve quality. However, there is uncertainty about the industry's ability to adapt to the stricter quality expectations. We have been actively working to identify alternative markets for recycled commodities, but it is possible there may not be sufficient demand for all of the material we produce, resulting in price decreases and volatility. Industry trade organizations and government agencies are engaged in discussions to mitigate long-term impacts to recycling programs and the industry as a whole.

With a heightened awareness of the global problems of plastic waste in the environment, an increasing number of cities across the country have passed ordinances banning certain types of plastics from sale or use. Bans on single use plastic bags, straws, and polystyrene food containers have been passed in over 350 cities, and a ban on single use plastic bags has been implemented in the State of California. These bans have increased pressure by manufacturers on our recycling facilities to accept a broader array of materials in curbside recycling programs to alleviate public pressures to ban the sale of those materials. However, with no viable end markets for recycling these materials, we and other recyclers are working to educate and remind customers of the need for end market demand and economic viability to support sustainable recycling programs.

#### *Regulation of Oil and Gas Exploration, Production and Disposal*

Our EES organization provides specialized environmental management and disposal services for fluids used and wastes generated by customers engaged in oil and gas exploration and production, and these disposal services include use of underground injection wells. There is heightened federal regulatory focus on emissions of methane that occur during drilling and transportation of natural gas, as well as state attention to protective disposal of drilling residuals. There also remains heightened attention from the public, some states and the EPA to the alleged potential for hydraulic fracturing that occurs during drilling to impact drinking water supplies. Increased regulation of oil and gas exploration and production, including GHG emissions or hydraulic fracturing, could make it more difficult or cost-prohibitive for our EES customers to continue operations, adversely affecting our business.

Additionally, any new regulations regarding the treatment and disposal of wastes associated with exploration and production operations, including through use of injection wells, could increase our costs to provide oilfield services and reduce our margins and revenue from such services. Conversely, any loosening of regulations regarding how such wastes are handled or disposed of could adversely affect our business, as we believe the size, capital structure, regulatory sophistication and established reliability of our Company provide us with an advantage in providing services that must comply with any complex regulatory regime that may govern providing oilfield waste services.

#### *Emissions from Natural Gas Fueling and Infrastructure*

We operate a large fleet of natural gas vehicles, and we plan to continue to invest in these assets for our collection fleet. As of December 31, 2018, we were operating 7,621 natural gas trucks and 123 natural gas fueling facilities; 25 of these fueling stations also serve the public, and in some cases our facilities serve the fleet of pre-approved third parties. Concerns have been raised about the potential for emissions from the fueling stations and infrastructure that serve natural gas-fueled vehicles. We have partnered with the environmental organization Environmental Defense Fund, as well as other heavy-duty equipment users and experts, on an emissions study to be made available to policy makers. We anticipate that

this comprehensive study of emissions from our heavy-duty fleet may ultimately help inform regulations that will affect equipment manufacturers and will define operating procedures across the industry. Additional regulation of, or restrictions on, natural gas fueling infrastructure or reductions in associated tax incentives could increase our operating costs. We are not yet able to evaluate potential operating changes or costs associated with such regulations, but we do not anticipate that such regulations would have a material adverse impact on our business or our future investment in natural gas vehicles.

#### *Renewable Fuel Production*

We have invested, and continue to invest, in facilities to capture and treat renewable natural gas (“RNG”) from the Company’s landfills, and we use RNG from landfill biogas in approximately 30% of our natural gas collection vehicles. The Energy Policy Act of 2005 and Energy Independence and Security Act of 2007 authorize the Renewable Fuels Standards (“RFS”) program that promotes the production and use of renewable transportation fuels. The Company is an EPA-registered producer of transportation fuel making compressed and liquefied RNG from landfill biogas, which qualifies as a cellulosic biofuel under the RFS program. Oil refiners and importers are required through the RFS program to blend specified volumes of various categories of renewable transportation fuels with gasoline or buy credits, referred to as renewable identification numbers (“RINs”), from renewable fuel producers. The market value for RINs is tied to renewable fuel volumes set by the EPA annually, and the final 2019 required volumes for cellulosic biofuel are 45% higher than in 2018. The EPA is required to develop a rulemaking this year that will set required volume requirements for a three-year period from 2020 through 2022. Based on the overall political framework and the upcoming rulemakings, we anticipate a stable market for the Company’s RINs.

#### *Federal, State and Local Climate Change Initiatives; Sustainability*

In light of regulatory and business developments related to concerns about climate change, we have identified a strategic business opportunity to provide our public and private sector customers with sustainable solutions to reduce their GHG emissions. As part of our on-going marketing evaluations, we assess customer demand for and opportunities to develop waste services offering verifiable carbon reductions, such as waste reduction, increased recycling, and conversion of landfill gas and discarded materials into electricity and fuel. We use carbon life cycle tools in evaluating potential new services and in establishing the value proposition that makes us attractive as an environmental service provider. We are active in support of public policies that encourage development and use of lower carbon energy and waste services that lower users’ carbon footprints. We understand the importance of broad stakeholder engagement in these endeavors, and actively seek opportunities for public policy discussion on more sustainable materials management practices. In addition, we work with stakeholders at the federal and state level in support of legislation that encourages production and use of renewable, low-carbon fuels and electricity. Despite the announcement that the U.S. will withdraw from the Paris Climate Accords, we have seen no reduction in customer demand for services aligned with their GHG reduction goals and strategies. Moreover, we have seen initiatives at the federal, state and local level to enhance the environmental benefits in terms of GHG reductions realized by recycling programs by focusing on reducing contamination in the recyclable material.

We continue to assess the physical risks to company operations from the effects of severe weather events and use risk mitigation planning to increase our resiliency in the face of such events. We are investing in infrastructure to withstand more severe storm events, which may afford us a competitive advantage and reinforce our reputation as a reliable service provider through continued service in the aftermath of such events.

Consistent with our Company’s long-standing commitment to corporate sustainability and environmental stewardship, we have published our 2018 Sustainability Report, “Driving Change,” which details the GHG emissions reductions we have facilitated to date and our determination to expand these reductions in the future, as well as our commitment to help make the communities in which we live and work safe, resilient and sustainable. The information in this report can be found at our Company website but does not constitute a part of this Form 10-K. The Company actively participates in a number of sustainability reporting programs and frameworks, including the Dow Jones Sustainability Index, where we are “Sector Leader” for Commercial Services, the CDP, where we are among “A List” companies, and the Sustainability Accounting Standards Board, on which we serve as a member of the Board’s advisory council.

## **Item 1A. Risk Factors.**

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 words of a similar 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. The following discussion should be read together with the Consolidated Financial Statements and the notes thereto. Outlined below are some of the risks that we believe could affect our business and financial statements for 2019 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.

***The waste industry is highly competitive, and if we cannot successfully compete in the marketplace, our business, financial condition and operating results may be materially adversely affected.***

We encounter intense competition from governmental, quasi-governmental and private sources in all aspects of our operations. We principally compete with large national waste management companies, counties and municipalities that maintain their own waste collection and disposal operations and regional and local companies of varying sizes and financial resources. The industry also includes companies that specialize in certain discrete areas of waste management, operators of alternative disposal facilities, companies that seek to use parts of the waste stream as feedstock for renewable energy and other by-products, and waste brokers that rely upon haulers in local markets to address customer needs. In recent years, the industry has seen some additional consolidation, though the industry remains intensely competitive. Counties and municipalities may have financial competitive advantages because tax revenues are available to them and tax-exempt financing is more readily available to them. Also, such governmental units may attempt to impose flow control or other restrictions that would give them a competitive advantage. In addition, some of our competitors may have lower financial expectations, allowing them to reduce their prices to expand sales volume or to win competitively-bid contracts, including large national accounts and exclusive franchise arrangements with municipalities. When this happens, we may lose customers and be unable to execute our pricing strategy, resulting in a negative impact to our revenue growth from yield on base business.

***If we fail to implement our business strategy, our financial performance and our growth could be materially and adversely affected.***

Our future financial performance and success are dependent in large part upon our ability to implement our business strategy successfully. Implementation of our strategy will require effective management of our operational, financial and human resources and will place significant demands on those resources. See Item 1. *Business* for more information on our business strategy.

There are risks involved in pursuing our strategy, including the following:

- Our employees, customers or investors may not embrace and support our strategy.

- We may not be able to hire or retain the personnel necessary to manage our strategy effectively.
- 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. We have also continued our environmental fee, fuel surcharge and regulatory recovery fee to offset costs. 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. Additionally, we have in the past and continue to face purported class action lawsuits related to our customer service agreements, prices and fees.
- We may be unsuccessful in implementing improvements to operational efficiency and such efforts may not yield the intended result.
- We may not be able to maintain cost savings achieved through optimization efforts.
- Strategic decisions with respect to our asset portfolio may result in impairments to our assets. See Item 1A. *Risk Factors* — *We may record material charges against our earnings due to impairments to our assets.*
- Our ability to make strategic acquisitions depends on our ability to identify desirable acquisition targets, negotiate advantageous transactions despite competition for such opportunities, fund such acquisitions on favorable terms, obtain regulatory approvals and realize the benefits we expect from those transactions.
- 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.
- Integration of acquisitions and/or new services offerings could increase our exposure to the risk of inadvertent noncompliance with applicable laws and regulations.
- Liabilities associated with acquisitions, including ones that may exist only because of past operations of an acquired business, may prove to be more difficult or costly to address than anticipated.
- Execution of our strategy, particularly growth through acquisitions, may cause us to incur substantial additional indebtedness, which may divert capital away from our traditional business operations and other financial plans.
- We continue to seek to divest underperforming and non-strategic assets if we cannot improve their profitability. We may not be able to successfully negotiate the divestiture of underperforming and non-strategic operations, which could result in asset impairments or the continued operation of low-margin businesses.

In addition to the risks set forth above, implementation of our business strategy could also be affected by factors beyond our control, such as increased competition, legal developments, government regulation, general economic conditions, increased operating costs or expenses, subcontractor costs and availability and changes in industry trends. We may decide to alter or discontinue certain aspects of our business strategy at any time. If we are not able to implement our business strategy successfully, our long-term growth and profitability may be adversely affected. Even if we are able to implement some or all of the initiatives of our business strategy successfully, our operating results may not improve to the extent we anticipate, or at all.

***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.***

Stringent government regulations at the federal, state, provincial and local level in the U.S. and Canada have a substantial impact on our business, and compliance with such regulations is costly. Many complex laws, rules, orders and interpretations govern environmental protection, health, safety, land use, zoning, transportation and related matters.

Among other things, governmental regulations and enforcement actions may restrict our operations and adversely affect our financial condition, results of operations and cash flows by imposing conditions such as:

- limitations on siting and constructing new waste disposal, transfer, recycling or processing facilities or on expanding existing facilities;
- limitations, regulations or levies on collection and disposal prices, rates and volumes;
- limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste;
- mandates regarding the management of solid waste, including requirements to recycle, divert or otherwise process certain waste, recycling and other streams; or
- limitations or restrictions on the recycling, processing or transformation of waste, recycling and other streams.

Regulations affecting the siting, design and closure of landfills could require us to undertake investigatory or remedial activities, curtail operations or close landfills temporarily or permanently. Future changes in these regulations may require us to modify, supplement or replace equipment or facilities. The costs of complying with these regulations could be substantial.

We also have significant financial obligations relating to final capping, closure, post-closure and environmental remediation at our existing landfills. We establish accruals for these estimated costs, but we could underestimate such accruals because of the types of waste collected and manner in which it is transported and disposed of, including actions taken in the past by companies we have acquired or third-party landfill operators or due to new information about waste types previously collected, among other reasons. Environmental regulatory changes could accelerate or increase capping, closure, post-closure and remediation costs, requiring our expenditures to materially exceed our current accruals.

In order to develop, expand or operate a landfill or other waste management facility, we must have various facility permits and other governmental approvals, including those relating to zoning, environmental protection and land use. The permits and approvals are often difficult, time consuming and costly to obtain and could contain conditions that limit our operations.

Various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid waste generated outside the state. From time to time, the U.S. Congress has considered legislation authorizing states to adopt regulations, restrictions, or taxes on the importation of out-of-state or out-of-jurisdiction waste. Additionally, several state and local governments have enacted “flow control” regulations, which attempt to require that all waste generated within the state or local jurisdiction be deposited at specific sites. The U.S. Congress’ adoption of legislation allowing restrictions on interstate transportation of out-of-state or out-of-jurisdiction waste certain types of flow control, or courts’ interpretations of interstate waste and flow control legislation, could adversely affect our solid and hazardous waste management services.

Additionally, regulations establishing extended producer responsibility (“EPR”) are being considered or implemented in many places around the world, including in the U.S. and Canada. EPR regulations are designed to place either partial or total responsibility on producers to fund the post-use life cycle of the products they create. Along with the funding responsibility, producers may be required to take over management of local recycling programs by taking back their products from end users or managing the collection operations and recycling processing infrastructure. There is no federal law establishing EPR in the U.S. or Canada; however, state, provincial and local governments could, and in some cases have, taken steps to implement EPR regulations. If wide-ranging EPR regulations were adopted, they could have a fundamental impact on the waste streams we manage and how we operate our business, including contract terms and pricing. A significant reduction in the waste, recycling and other streams we manage could have a material adverse effect on our financial condition, results of operations and cash flows.

In recent years, we perceived an increase in both the amount of government regulation and the number of enforcement actions being brought by regulatory entities against operations in the waste services industry. The current U.S. presidential administration has called for substantial changes to foreign trade policy and has generally appeared to be in favor of reducing regulation, including environmental regulation. We cannot predict what impact the current administration will

have on the political and regulatory environment in the U.S., the timing of any such changes, or the impact of any such changes on our business. Reduction of regulation may have a favorable impact on our operating costs, but the extensive environmental regulation applicable to landfills is a substantial barrier to entry that benefits our Company. Moreover, the risk reduction provided by stringent regulation is valuable to our customers and the communities we serve. It is likely that some policies adopted by the current administration will benefit us and others will negatively affect us.

***Our revenues, earnings and cash flows will fluctuate based on changes in commodity prices, and commodity prices for recyclable materials are particularly susceptible to volatility based on regulations and tariffs that affect our ability to export products.***

Our recycling operations process for sale certain recyclable materials, including fibers, aluminum and plastics, which are subject to significant market price fluctuations. Most of the recyclables that we process for sale are paper fibers, including old corrugated cardboard and old newsprint, and a significant portion of the fiber that we market has been shipped to export markets across the globe, particularly China. In 2013, the Chinese government began to strictly enforce regulations that establish limits on moisture and non-conforming materials that may be contained in imported recycled paper and plastics and restrict the import of certain other plastic recyclables. In 2017, the Chinese government announced a ban on certain materials, including mixed waste paper and mixed plastics, effective January 1, 2018, as well as extremely restrictive quality requirements effective March 1, 2018 that have been difficult for the industry to achieve. Many other markets, both domestic and foreign, have tightened their quality expectations as well. In addition, other countries have limited or restricted the import of certain recyclables. Single stream MRFs process a wide range of commingled materials and tend to receive a higher percentage of non-recyclables, which results in increased processing and residual disposal costs to achieve quality standards. Also in 2017, the Chinese government began to limit the flow of material into the country by restricting the issuance of required import licenses. The use of restrictions on import licenses to restrict flow into China continued in 2018 and is expected to continue in 2019. The current U.S. presidential administration has made substantial changes to foreign trade policy and imposed increases in tariffs on international trade. In response, China has imposed new tariffs on the import of recyclable commodities, including wastepaper, plastics and metals. If the Chinese government's regulations and tariffs or initiatives or other similar regulations, tariffs or initiatives result in further reduced demand or increased operating costs, the profitability of our recycling operations may decline.

We have been actively working to identify alternative markets for recycled commodities, but it is possible there may not be sufficient demand for all of the material we produce, resulting in price decreases and increased volatility. The fluctuations in the market prices or demand for these commodities can affect our operating income and cash flows negatively, as we experienced in 2018 or positively, as we experienced in 2017 and 2016. As we have increased the size of our recycling operations, we have also increased our exposure to commodity price fluctuations.

The decline in market prices in 2018 for recycling commodities resulted in a decrease in revenue of \$273 million. The increase in market prices in 2017 and 2016 for recycling commodities resulted in increases in revenue of \$237 million and \$51 million, respectively. Additionally, under some agreements, our recycling operations are required to pay rebates to suppliers. In some cases, if we experience higher revenues based on increased market prices for recycling commodities, the rebates we pay will also increase. In other circumstances, the rebates may be subject to a floor, such that as market prices decrease, any expected profit margins on materials subject to the rebate floor are reduced or eliminated. As we work to revise service agreements to mitigate the impact of commodity price fluctuations, the potential increase in the cost for recycling services may make it more difficult for us to win bids and may slow the growth of recycling overall.

Fluctuation in energy prices also affects our business, including recycling of plastics manufactured from petroleum products. Significant variations in the price of methane gas, electricity and other energy-related products that are marketed and sold by our landfill gas recovery operations can result in a corresponding significant impact to our revenue from yield from such operations. Additionally, we provide specialized disposal services for oil and gas exploration and production operations through our EES organization. Demand for these services decreases when drilling activity slows due to depressed oil and gas prices, such as the low prices throughout the last few years. Any of the commodity prices to which we are subject may fluctuate substantially and without notice in the future.



***Changes in regulations applicable to oil and gas exploration, production and disposal could adversely affect our EES organization.***

Our EES organization provides specialized environmental management and disposal services for fluids used and wastes generated by customers engaged in oil and gas exploration and production, and these disposal services include the use of underground injection wells. Demand for these services may be adversely affected if drilling activity slows due to regulation and industry conditions beyond our control, in addition to changes in oil and gas prices. There is heightened federal regulatory focus on emissions of methane that occur during drilling and transportation, as well as state attention to protective disposal of drilling residuals. There also remains heightened attention from the public, some states and the EPA to the alleged potential for hydraulic fracturing that occurs during drilling to impact drinking water supplies. Increased regulation of oil and gas exploration and production, including GHG emissions or hydraulic fracturing, could make it more difficult or cost-prohibitive for our EES customers to continue operations, adversely affecting our business.

Additionally, any new regulations regarding the treatment and disposal of wastes associated with exploration and production operations, including through the use of injection wells, could increase our costs to provide oilfield services and reduce our margins and revenue from such services. Conversely, any loosening of regulations regarding how such wastes are handled or disposed of could adversely impact demand for our EES services.

***Changes to the regulatory framework related to renewable fuel standards could affect our financial performance in that sector as a renewable fuel producer.***

The Company acts as a renewable fuel producer in the RFS program enacted by Congress under the Energy Policy Act and Energy Independence and Security Act. Oil refiners and importers are required through the RFS program to blend specified volumes of renewable transportation fuels with gasoline or buy credits, referred to as RINs, from renewable fuel producers. The Company has invested, and continues to invest, in facilities to capture and treat renewable natural gas from the Company's landfills so that we can participate in the program. The value of the RINs associated with our landfill gas is set through a market established by the program. Changes in the RFS market or the structure of the RFS program could reduce the value of landfill gas RINs and negatively impact the financial performance of the facilities constructed to capture and treat the gas.

***Increasing customer preference for alternatives to landfill disposal and bans on certain types of waste could reduce our landfill volumes and cause our revenues and operating results to decline.***

Our customers are increasingly diverting waste to alternatives to landfill disposal, such as recycling and composting, while also working to reduce the amount of waste they generate. 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, such as yard waste, food waste and electronics at landfills. Where such organic waste is not banned from the landfill, some large customers such as grocery stores and restaurants are choosing to divert their organic waste from landfills. Zero-waste goals (sending no waste to the landfill) have been set by many of North America's largest companies. Although such mandates and initiatives help to protect our environment, these developments reduce the volume of waste going to our landfills which may affect the prices that we can charge for landfill disposal. Our landfills currently provide our highest income from operations margins. If we are not successful in expanding our service offerings and growing lines of businesses to service waste streams that do not go to landfills and to provide services for customers that wish to reduce waste entirely, then our revenues and operating results may decline. Additionally, despite the development of new service offerings and lines of business, it is possible that our revenues and our income from operations margins could be negatively affected due to disposal alternatives.

Additionally, with a heightened awareness of the global problems of plastic waste in the environment, an increasing number of cities across the country have passed ordinances banning certain types of plastics from sale or use. Bans on single use plastic bags, straws, and polystyrene food containers have been passed in over 350 cities, and a ban on single use plastic bags has been implemented in the State of California. These bans have increased pressure by manufacturers on our recycling facilities to accept a broader array of materials in curbside recycling programs to alleviate public pressure to ban the sale of those materials. However, there are currently no viable end markets for recycling these materials and

inclusion of such materials in our recycling stream can increase contamination of the recycling stream and negatively affect the results of our recycling operations.

***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 Company and others have recognized the value of the traditional waste stream as a potential resource. Research and development activities are on-going to provide disposal alternatives that maximize the value of waste, including using waste as a source for renewable energy and other valuable by-products. We and many other companies are investing in these technologies. It is possible that such investments and technological advancements may reduce the cost of waste disposal or the value of landfill gas recovery to a level below our costs and may reduce the demand for landfill space. As a result, our revenues and margins could be adversely affected due to advancements in disposal alternatives.

***If we are not able to develop new service offerings and protect intellectual property, or if a competitor develops or obtains exclusive rights to a breakthrough technology, our financial results may suffer.***

Our existing and proposed service offerings to customers may require that we invest in, develop or license, and protect new technologies. Research and development of new technologies and investment in emerging technologies often requires significant spending that may divert capital investment away from our traditional business operations. We may experience difficulties or delays in the research, development, production and/or marketing of new products and services or emerging technologies in which we have invested, which may negatively impact our operating results and prevent us from recouping or realizing a return on the investments required to bring new products and services to market. Further, protecting our intellectual property rights and combating unlicensed copying and use of intellectual property is difficult, and any inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources. Our Company and others are increasingly focusing on new technologies that provide alternatives to traditional disposal and maximize the resource value of waste. If a competitor develops or obtains exclusive rights to a “breakthrough technology” that provides a revolutionary change in traditional waste management, or if we have inferior intellectual property to our competitors, our financial results may suffer.

***Our business depends on our reputation and the value of our brand.***

We believe we have developed a reputation for high-quality service, reliability and social and environmental responsibility, and we believe our brand symbolizes these attributes. The Waste Management brand name, trademarks and logos and our reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. 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. Damage to our reputation and loss of brand equity could reduce demand for our services. This reduction in demand, together with the dedication of time and expense necessary to defend our reputation, could have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand.

***Our operations are subject to environmental, health and safety laws and regulations, as well as contractual obligations that may result in significant liabilities.***

There is risk of incurring significant environmental liabilities in the use, treatment, storage, transfer and disposal of waste materials. Under applicable environmental laws and regulations, we could be liable if our operations cause environmental damage to our properties or to the property of other landowners, particularly as a result of the contamination of air, drinking water or soil. Under current law, we could also be held liable for damage caused by conditions that existed before we acquired the assets or operations involved and for conditions resulting from waste types or compounds previously considered non-hazardous but later determined to present possible threat to public health or the environment. The risks of successor liability and emerging contaminants are of particular concern as we execute our growth strategy, partially through acquisitions, because we may be unsuccessful in identifying and assessing potential liabilities during our due diligence investigations. Further, the counterparties in such transactions may be unable to perform their

indemnification obligations owed to us. Any substantial liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows.

In the ordinary course of our business, we have in the past, we are currently, and we may in the future, become involved in legal and administrative proceedings relating to land use and environmental laws and regulations. These include proceedings in which:

- agencies of federal, state, local or foreign governments seek to impose liability on us under applicable statutes, sometimes involving civil or criminal penalties for violations, or to revoke or deny renewal of a permit we need; and
- local communities, citizen groups, landowners or governmental agencies oppose the issuance of a permit or approval we need, allege violations of the permits under which we operate or laws or regulations to which we are subject, or seek to impose liability on us for environmental damage.

We generally seek to work with the authorities or other persons involved in these proceedings to resolve any issues raised. If we are not successful, the adverse outcome of one or more of these proceedings could result in, among other things, material increases in our costs or liabilities as well as material charges for asset impairments.

Further, 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. Costs to remediate or restore the condition of closed sites may be significant.

***General economic conditions can directly and adversely affect our revenues and our income from operations margins.***

Our business is directly affected by changes in national and general economic factors that are outside of our control, including consumer confidence, interest rates and access to capital markets. A weak economy generally results in decreased consumer spending and decreases in volumes of waste generated, which negatively impacts the ability to grow through new business or service upgrades, and may result in customer turnover and reduction in customers' waste service needs. Consumer uncertainty and the loss of consumer confidence may also reduce the number and variety of services requested by customers. Additionally, a weak market for consumer goods can significantly decrease demand by paper mills for recycled corrugated cardboard used in packaging; such decrease in demand can negatively impact commodity prices and our operating income and cash flows.

A decrease in waste volumes generated results in an increase in competitive pricing pressure, and such economic conditions may also interfere with our ability to implement our pricing strategy. Many of our contracts have price adjustment provisions that are tied to an index such as the Consumer Price Index, and our costs may increase more than the increase, if any, in the Consumer Price Index. This is partially due to our relatively high fixed-cost structure, which is difficult to quickly adjust to match shifting volume levels and vendor costs, which may not correlate with the Consumer Price Index or the waste industry.

***Some of our customers, including governmental entities, have suffered financial difficulties affecting their credit risk, which could negatively impact our operating results.***

We provide service to a number of governmental entities and municipalities, some of which have suffered significant financial difficulties in recent years, due in part to reduced tax revenue and/or high cost structures. Some of these entities could be unable to pay amounts owed to us or renew contracts with us at previous or increased rates.

Many non-governmental customers have also suffered serious financial difficulties, including bankruptcy in some cases. Purchasers of our recycling commodities can be particularly vulnerable to financial difficulties in times of commodity price volatility. The inability of our customers to pay us in a timely manner or to pay increased rates, particularly large national accounts, could negatively affect our operating results.

In addition, the financial difficulties of municipalities could result in a decline in investors' demand for municipal bonds and a correlating increase in interest rates. As of December 31, 2018, we had \$705 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months and \$513 million of variable-rate tax-exempt bonds with interest rates reset on either a daily or a weekly basis. If market dynamics resulted in repricing of our tax-exempt bonds at significantly higher interest rates, we would incur increased interest expenses that may negatively affect our operating results and cash flows.

***We may be unable to obtain or maintain required permits or to expand existing permitted capacity of our landfills, which could decrease our revenue and increase our costs.***

Our ability to meet our financial and operating objectives depends in part on our ability to obtain and maintain the permits necessary to operate landfill sites. Permits to build, operate and expand solid waste management facilities, including landfills and transfer stations, have become more difficult and expensive to obtain and maintain. Permits often take years to obtain as a result of numerous hearings and compliance requirements with regard to zoning, environmental and other regulations. These permits are also often subject to resistance from citizen or other groups and other political pressures. Local communities and citizen groups, adjacent landowners or governmental agencies may oppose the issuance of a permit or approval we may need, allege violations of the permits under which we currently operate or laws or regulations to which we are subject, or seek to impose liability on us for environmental damage. Responding to these challenges has, at times, increased our costs and extended the time associated with establishing new facilities and expanding existing facilities. In addition, failure to receive regulatory and zoning approval may prohibit us from establishing new facilities or expanding existing facilities. Our failure to obtain the required permits to operate our landfills could have a material adverse impact on our financial condition, results of operations and cash flows.

***Significant shortages in diesel fuel supply or increases in diesel fuel prices will increase our operating expenses.***

The price and supply of diesel fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries ("OPEC") and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. We need diesel fuel to run a significant portion of our collection and transfer trucks and our equipment used in our landfill operations. Supply shortages could substantially increase our operating expenses. Additionally, if fuel prices increase, our direct operating expenses increase and many of our vendors raise their prices to offset their own rising costs. We have in place a fuel surcharge program, designed to offset increased fuel expenses; however, we may not be able to pass through all of our increased costs and some customers' contracts prohibit any pass-through of the increased costs. Additionally, lawsuits have challenged our fuel and environmental charges included on our invoices. Regardless of any offsetting surcharge programs, increased operating costs due to higher diesel fuel prices will decrease our income from operations margins.

***We have an extensive natural gas truck fleet, which makes us partially dependent on the availability of natural gas and fueling infrastructure and vulnerable to natural gas prices.***

We operate a large fleet of natural gas vehicles, and we plan to continue to invest in these assets for our collection fleet. However, natural gas fueling infrastructure is not yet broadly available in North America; as a result, we have constructed and operate natural gas fueling stations, some of which also serve the public or pre-approved third parties. It will remain necessary for us to invest capital in fueling infrastructure in order to power our natural gas fleet. Concerns have been raised about the potential for emissions from fueling infrastructure that serve natural gas-fueled vehicles. New regulation of, or restrictions on, natural gas fueling infrastructure or reductions in associated tax incentives could increase our operating costs. Additionally, fluctuations in the price and supply of natural gas could substantially increase our operating expenses, and a reduction in the existing cost differential between natural gas and diesel fuel could materially reduce the benefits we anticipate from our investment in natural gas vehicles. Further, our fuel surcharge program is currently indexed to diesel fuel prices, and price fluctuations for natural gas may not effectively be recovered by this program.

***We are increasingly dependent on technology in our operations and if our technology fails, our business could be adversely affected.***

We may experience 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, that could adversely affect, or even temporarily disrupt, all or a portion of our operations until resolved. Inabilities and delays in implementing new systems can also affect our ability to realize projected or expected cost savings. Additionally, any systems failures could impede our ability to timely collect and report financial results in accordance with applicable laws and regulations.

***A cybersecurity incident could negatively impact our business and our relationships with customers and expose us to litigation risk.***

Substantially all aspects of our business operations rely on digital technology. We use computers, mobile devices, social networking and other online platforms to connect with our employees and our customers. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers' personal information, private information about employees, and financial and strategic information about the Company and its business partners. We also rely on a Payment Card Industry compliant third party to protect our customers' credit card information.

We are regularly the target of attempted cyber intrusions, and we must commit substantial resources to continuously monitor and further develop our networks and infrastructure to prevent, detect, and address the risk of unauthorized access, misuse, computer viruses and other events. Our preventative measures and incident response efforts may not be effective in all cases. The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, direct financial loss, negative publicity, brand damage, violation of privacy laws, loss of customers, potential litigation and liability and competitive disadvantage.

Further, as the Company pursues its strategy to grow through acquisitions and to pursue new initiatives that improve our operations and cost structure, the Company is also expanding and improving its information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. Certain new technologies, such as use of autonomous vehicles, remote-controlled equipment and virtual reality, present new and significant cybersecurity safety risks that must be analyzed and addressed before implementation. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks.

***Our operating expenses could increase as a result of labor unions organizing or changes in regulations related to labor unions.***

Labor unions continually attempt to organize our employees, and these efforts will likely continue in the future. Certain groups of our employees are currently represented by unions, and we have negotiated collective bargaining agreements with these unions. Additional groups of employees may seek union representation in the future, and, if successful, would enhance organized labor's leverage to obtain higher than expected wage and benefits costs and resist the introduction of new technology and other initiatives, which can result in increased operating expenses and lower net income. If we are unable to negotiate acceptable collective bargaining agreements, our operating expenses could increase significantly as a result of work stoppages, including strikes. Any of these matters 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 a participating employer in a number of trustee-managed multiemployer defined benefit pension plans ("Multiemployer Pension Plans") for employees who are covered by collective bargaining agreements. In the event of our withdrawal from a Multiemployer Pension Plan, we may incur expenses associated with our obligations for unfunded

vested benefits at the time of the withdrawal. Depending on various factors, future withdrawals could have a material adverse effect on results of operations or cash flows for a particular reporting period. We have previously withdrawn from certain underfunded Multiemployer Pension Plans, and we recognized related expenses of \$3 million and \$12 million in 2018 and 2017, respectively. In 2016, we did not recognize any charges for the withdrawal from Multiemployer Pension Plans. See Notes 9 and 10 to the Consolidated Financial Statements for more information related to our participation in Multiemployer Pension Plans.

***Our business is subject to operational and safety risks, including the risk of personal injury to employees and others.***

Providing environmental and waste management services, including constructing and operating landfills, transfer stations, MRFs and other disposal facilities, involves risks such as truck accidents, equipment defects, malfunctions and failures. Additionally, 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. There may also be risks presented by the potential for subsurface heat reactions causing elevated landfill temperatures and increased production of leachate, landfill gas and odors. We also build and operate natural gas fueling stations, some of which also serve the public or third parties. Operation of fueling stations and landfill gas collection and control systems involves additional risks of fire and explosion. Any of these 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.

While we seek to minimize our exposure to such risks through comprehensive training, compliance and response and recovery programs, as well as vehicle and equipment maintenance programs, if we were to incur substantial liabilities in excess of any applicable insurance, our business, results of operations and financial condition could be adversely affected. Any such incidents could also 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.

***We have substantial financial assurance and insurance requirements, and increases in the costs of obtaining adequate financial assurance, or the inadequacy of our insurance coverages, could negatively impact our liquidity and increase our liabilities.***

The amount of insurance we are required to maintain for environmental liability is governed by statutory requirements. We believe that the cost for such insurance is high relative to the coverage it would provide and, therefore, our coverages are generally maintained at the minimum statutorily-required levels. We face the risk of incurring additional costs for environmental damage if our insurance coverage is ultimately inadequate to cover those damages. We also carry a broad range of other insurance coverages that are customary for a company our size. We use these programs to mitigate risk of loss, thereby enabling us to manage our self-insurance exposure associated with claims. The inability of our insurers to meet their commitments in a timely manner and the effect of significant claims or litigation against insurance companies may subject us to additional risks. To the extent our insurers are unable to meet their obligations, or our own obligations for claims are more than we estimated, there could be a material adverse effect to our financial results.

In addition, to fulfill our financial assurance obligations with respect to variable-rate tax-exempt debt, final capping, closure, post-closure and environmental remediation obligations, we generally obtain letters of credit or surety bonds, rely on insurance, including captive insurance, fund trust and escrow accounts or rely upon WM financial guarantees. We currently have in place all financial assurance instruments necessary for our operations. Our financial position, which can be negatively affected by asset impairments, our credit profile and general economic factors, may adversely affect the cost of our current financial assurance instruments, and changes in regulations may impose stricter requirements on the types of financial assurance that will be accepted. Additionally, in the event we are unable to obtain sufficient surety bonding, letters of credit or third-party insurance coverage at reasonable cost, or one or more states cease to view captive insurance as adequate coverage, we would need to rely on other forms of financial assurance. It is possible that we could be forced to deposit cash to collateralize our obligations. Other forms of financial assurance could be more expensive to obtain, and any requirements to use cash to support our obligations would negatively impact our liquidity and capital resources and could affect our ability to meet our obligations as they become due.

***We may record material charges against our earnings due to impairments to our assets.***

In accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), we capitalize certain expenditures and advances relating to disposal site development, expansion projects, acquisitions, software development costs and other projects. Events that could, in some circumstances, lead to an impairment include, but are not limited to, shutting down a facility or operation or abandoning a development project or the denial of an expansion permit. Additionally, declining waste volumes and development of, and customer preference for, alternatives to traditional waste disposal could warrant asset impairments. If we determine an asset or expansion project is impaired, we will charge against earnings any unamortized capitalized expenditures and advances relating to such asset or project reduced by any portion of the capitalized costs that we estimate will be recoverable, through sale or otherwise. We also carry a significant amount of goodwill on our Consolidated Balance Sheets, which is required to be assessed for impairment annually, and more frequently in the case of certain triggering events. We may be required to incur charges against earnings if such impairment tests indicate that the fair value of a reporting unit is below its carrying amount. Any such charges could have a material adverse effect on our results of operations.

***Our capital requirements and our business strategy could increase our expenses, cause us to change our growth and development plans, or result in an inability to maintain our desired credit profile.***

If economic conditions or other risks and uncertainties cause a significant reduction in our cash flows from operations, we may reduce or suspend capital expenditures, growth and acquisition activity, implementation of our business strategy, dividend declarations or share repurchases. We may choose to incur indebtedness to pay for these activities, although our access to capital markets is not assured and we may not be able to incur indebtedness at a cost that is consistent with current borrowing rates. We also may need to incur indebtedness to refinance scheduled debt maturities, and it is possible that the cost of financing could increase significantly, thereby increasing our expenses and decreasing our net income. Further, our ability to execute our financial strategy and our ability to incur indebtedness is somewhat dependent upon our ability to maintain investment grade credit ratings on our senior debt. The credit rating process is contingent upon our credit profile and several other factors, many of which are beyond our control, including methodologies established and interpreted by third-party rating agencies. If we were unable to maintain our investment grade credit ratings in the future, our interest expense would increase and our ability to obtain financing on favorable terms could be adversely affected.

Additionally, we have \$2.2 billion of debt as of December 31, 2018 that is exposed to changes in market interest rates within the next 12 months because of the combined impact of our tax-exempt bonds, outstanding borrowings under our commercial paper program and our \$2.75 billion revolving credit facility. If interest rates increase, our interest expense would also increase, lowering our net income and decreasing our cash flow.

We may use our \$2.75 billion revolving credit facility to meet our cash needs, to the extent available, until maturity in June 2023. As of December 31, 2018, we had C\$15 million, or \$11 million, of Canadian borrowings outstanding under this facility. We had \$587 million of letters of credit issued and \$990 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 December 31, 2018. In the event of a default under our credit facility, we could be required to immediately repay all outstanding borrowings and make cash deposits as collateral for all obligations the facility supports, which we may not be able to do. Additionally, any such default could cause a default under many of our other credit agreements and debt instruments. Without waivers from lenders party to those agreements, any such default would have a material adverse effect on our ability to continue to operate.

***The adoption of climate change legislation or regulations restricting emissions of “greenhouse gases” could increase our costs to operate.***

Our landfill operations emit methane, identified as a GHG. There are a number of legislative and regulatory efforts at the state, regional and federal levels to curtail the emission of GHGs to ameliorate the effect of climate change. Should comprehensive federal climate change legislation be enacted, we expect it could impose costs on our operations that might not be offset by the revenue increases associated with our lower-carbon service options, the materiality of which we cannot predict. In 2010, the EPA published a Prevention of Significant Deterioration and Title V GHG Tailoring Rule, which



expanded the EPA's federal air permitting authority to include the six GHGs. The rule sets new thresholds for GHG emissions that define when Clean Air Act permits are required. The current requirements of these rules have not significantly affected our operations or cash flows, due to the tailored thresholds and exclusions of certain emissions from regulation. However, if certain changes to these regulations were enacted, such as lowering the thresholds or the inclusion of biogenic emissions, then the amendments could have an adverse effect on our operating costs.

***The seasonal nature of our business, severe weather events and event driven special projects cause our results to fluctuate, and prior performance is not necessarily indicative of our future results.***

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 and climate conditions, such as wildfires in the Western U.S. and hurricanes that most often impact our operations in the Southern and Eastern U.S. during the second half of the year, 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, due to significant start-up costs and other factors, such revenue can generate earnings at comparatively lower margins.

For these and other reasons, operating results in any interim period are not necessarily indicative of operating results for an entire year, and operating results for any historical period are not necessarily indicative of operating results for a future period. Our stock price may be negatively impacted by 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 U.S. or foreign laws or regulations.***

Some of our projects and new business may be conducted in countries where corruption has historically been prevalent. It is our policy to comply with all applicable anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, and with applicable local laws of the foreign countries in which we operate, and we monitor our local partners' compliance with such laws as well. Our reputation may be adversely affected if we were reported to be associated with corrupt practices or if we or our local partners failed to comply with such laws. Such damage to our reputation could adversely affect our ability to grow our business. Additionally, violations of such laws could subject us to significant fines and penalties.

***Currently pending or future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements.***

From time to time we are involved in governmental proceedings relating to the conduct of our business. We are also party to civil 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. 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 materials and odors;
- sales and marketing practices, customer service agreements, prices and fees; and
- federal and state wage and hour and other laws.

The timing of the final resolutions to these types of matters is often uncertain. Additionally, the possible outcomes or resolutions to these matters could include adverse judgments or settlements, either of which could require substantial payments, adversely affecting our liquidity.

***We may experience adverse impacts on our reported results of operations as a result of adopting new accounting standards or interpretations.***

Our implementation of and compliance with changes in accounting rules, including new accounting rules and interpretations, could adversely affect our reported financial position or operating results or cause unanticipated fluctuations in our reported operating results in future periods.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our principal executive offices are in Houston, Texas, where we occupy approximately 345,000 square feet under leases expiring through 2020. We also have administrative offices in Arizona, Connecticut, Illinois and India. We own or lease real property in most locations where we have operations or administrative functions. We have operations in all 50 states except Montana, the District of Columbia and throughout Canada.

Our principal property and equipment consists of land (primarily landfills and other disposal facilities, transfer stations and bases for collection operations), buildings, vehicles and equipment. We believe that our operating properties, vehicles and equipment are adequately maintained and sufficient for our current operations. However, we expect to continue to make investments in additional property and equipment for expansion, for the replacement of aging assets and investment in assets that support our strategy of continuous improvement through efficiency and innovation. For more information, see Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* included within this report.

The following table summarizes our various operations as of December 31:

	<u>2018</u>	<u>2017</u>
Landfills owned or operated (a) . . . . .	252	249
Transfer stations . . . . .	314	305
Material recovery facilities . . . . .	102	90

(a) As of December 31, 2018 and 2017, our landfills owned or operated consisted of total acreage of 157,369 and 156,784; permitted acreage of 42,730 and 42,590; and expansion acreage of 944 and 821, respectively. Total acreage includes permitted acreage, expansion acreage, other acreage available for future disposal that has not been permitted, buffer land and other land. Permitted acreage consists of all acreage at the landfill encompassed by an active permit to dispose of waste. Expansion acreage consists of unpermitted acreage where the related expansion efforts meet our criteria to be included as expansion airspace. A discussion of the related criteria is included within Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates and Assumptions* included within this report.

**Item 3. Legal Proceedings.**

Information regarding our legal proceedings can be found under the *Environmental Matters* and *Litigation* sections of Note 10 to the Consolidated Financial Statements included within this report.

**Item 4. Mine Safety Disclosures.**

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

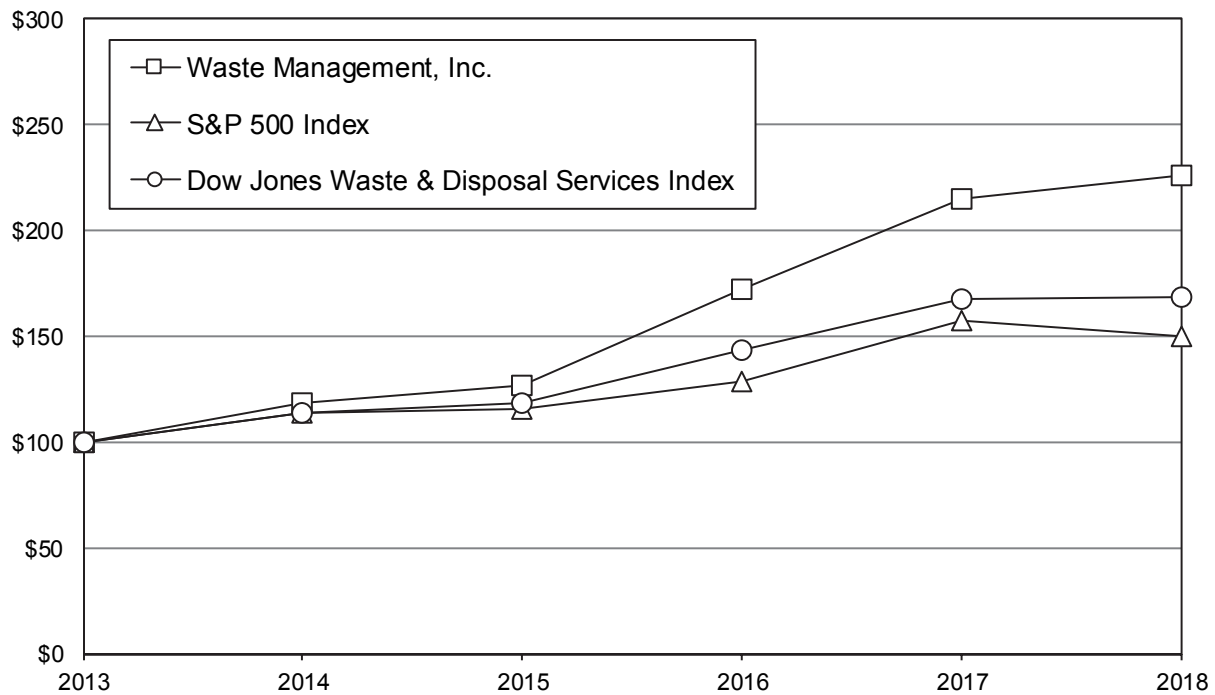
## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “WM.” The number of holders of record of our common stock on February 8, 2019 was 8,942.

The graph below shows the relative investment performance of Waste Management, Inc. common stock, the S&P 500 Index and the Dow Jones Waste & Disposal Services Index for the last five years, assuming reinvestment of dividends at date of payment into the common stock. The graph is presented pursuant to SEC rules and is not meant to be an indication of our future performance.

**Comparison of Cumulative Five Year Total Return**



	<u>12/31/13</u>	<u>12/31/14</u>	<u>12/31/15</u>	<u>12/31/16</u>	<u>12/31/17</u>	<u>12/31/18</u>
Waste Management, Inc. ....	\$ 100	\$ 118	\$ 127	\$ 173	\$ 215	\$ 226
S&P 500 Index .....	\$ 100	\$ 114	\$ 115	\$ 129	\$ 157	\$ 150
Dow Jones Waste & Disposal Services Index....	\$ 100	\$ 114	\$ 119	\$ 144	\$ 168	\$ 168

The Company repurchases shares of its common stock as part of capital allocation programs authorized by our Board of Directors. We announced in December 2017 that the Board of Directors authorized up to \$1.25 billion in future share repurchases. During 2018, we repurchased an aggregate of \$1,008 million of our common stock under accelerated share repurchase (“ASR”) agreements and open market repurchases, which equated to 11.7 million shares with a weighted average price per share of \$86.35. See Note 13 to the Consolidated Financial Statements for additional information.

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

### Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</u>
October 1 — 31 .....	2.8	\$ 89.60 (a)	2.8	\$ 252 million
November 1 — 30 .....	—	\$ —	—	\$ 252 million
December 1 — 31 .....	0.5	\$ 88.88 (b)	0.5	\$ 1.5 billion (c)
Total .....	<u>3.3</u>	<u>\$ 89.49</u>	<u>3.3</u>	

(a) In October 2018, we completed an ASR agreement that was entered into in July 2018 to repurchase \$200 million of our common stock. At the beginning of the repurchase period, we delivered \$200 million in cash and received 1.8 million shares. The ASR agreement completed in October 2018, at which time we received 0.4 million additional shares. At the beginning of October, subsequent to the completion of the July 2018 ASR agreement, we repurchased 0.5 million shares of our common stock in open market transactions in compliance with Rule 10b5-1 and Rule 10b-18 of the Exchange Act for \$48 million, inclusive of per-share commissions.

At the end of October 2018, we entered into a new ASR agreement to repurchase \$200 million of our common stock. At the beginning of the repurchase period, we delivered \$200 million in cash and received 1.9 million shares. The October 2018 ASR agreement completed in December 2018.

The “Average Price Paid per Share” in the table represents the final weighted average price per share paid for the completed ASR agreements and the open market repurchases.

(b) In December 2018, we completed the October 2018 ASR agreement discussed above at which time we received 0.4 million additional shares. Subsequent to the completion of the October 2018 ASR agreement, we repurchased an additional 0.1 million shares of our common stock in open market transactions in compliance with Rule 10b5-1 and Rule 10b-18 of the Exchange Act for \$10 million, inclusive of per-share commissions. The “Average Price Paid per Share” in the table represents the final weighted average price per share paid for the completed ASR agreement and the open market repurchases.

(c) We announced in December 2018 that the Board of Directors has authorized up to \$1.5 billion in future share repurchases, which supersedes and replaces remaining authority under any prior Board of Directors authorization for share repurchases after the completion of our current open market repurchase plan ending February 15, 2019.

Any future share repurchases will be made at the discretion of management and will depend on various factors including our net earnings, financial condition, cash required for future business plans, and growth and acquisitions.

## Item 6. Selected Financial Data.

The information below was derived from the audited Consolidated Financial Statements included within this report and in previous annual reports we filed with the SEC. This information should be read together with those Consolidated Financial Statements and the notes thereto. These historical results are not necessarily indicative of the results to be expected in the future.

	Years Ended December 31,				
	2018(a)	2017(a)	2016(a)	2015	2014
(In Millions, Except per Share Amounts)					
<b>Statement of Operations Data:</b>					
Operating revenues	\$ 14,914	\$ 14,485	\$ 13,609	\$ 12,961	\$ 13,996
Consolidated net income	1,923	1,949	1,180	752	1,338
Net income attributable to Waste Management, Inc.	1,925	1,949	1,182	753	1,298
Basic earnings per common share	4.49	4.44	2.66	1.66	2.80
Diluted earnings per common share	4.45	4.41	2.65	1.65	2.79
Cash dividends declared per common share	1.86	1.70	1.64	1.54	1.50
<b>Balance Sheet Data:</b>					
Working capital (deficit) (b)	\$ (463)	\$ (568)	\$ (418)	\$ (165)	\$ 41
Total assets	22,650	21,829	20,859	20,367	21,252
Long-term debt, including current portion	10,026	9,491	9,310	8,929	9,390
Total Waste Management, Inc. stockholders' equity	6,275	6,019	5,297	5,345	5,866
Total equity	6,276	6,042	5,320	5,367	5,889

(a) For more information see Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

(b) Prior year information was revised to conform to our current year presentation.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This section includes a discussion of our results of operations for the three years ended December 31, 2018. This discussion may contain forward-looking statements that anticipate results based on management's plans that are subject to uncertainty. We discuss in more detail various factors that could cause actual results to differ materially from expectations in Item 1A. *Risk Factors*. The following discussion should be read considering those disclosures and together with the Consolidated Financial Statements and the notes thereto.

### Overview

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. Additionally, 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. 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.

### ***Business Environment***

The waste industry is a comparatively mature and stable industry. However, customers increasingly expect more of their waste materials to be recovered and those 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. Due to this, 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 in order to meet their needs.

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. We also encounter competition for acquisition and growth opportunities. Our industry is directly affected by changes in general economic factors, as increases and decreases in consumer spending, business expansions and construction starts generally correlate to volumes of waste generated and our revenues. Negative economic conditions, in addition to competitor actions, can make it more challenging to negotiate, renew or expand service contracts with acceptable margins and customers may reduce their service needs. 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. We are not expecting any significant shift in the near term, but there is increased market volatility and uncertainty about longer-term macro-economic indicators. Disruptions in the global movement of recycling commodities, due in part to actions by the Chinese government, resulted in significantly lower average markets prices in 2018 compared to 2017; however, we currently expect market price declines for recycling commodities to moderate in 2019. The recycling industry is continuing to adapt to the heightened quality standards and regulations. In addition, we are also focusing on managing processing costs, developing alternative markets and educating customers to reduce contamination in the recycling stream.

### ***Current Year Financial Results***

During 2018, we continued to produce strong operating results from our Traditional Solid Waste business, driven by strong yield and volume growth in our collection and disposal business. Net income and earnings per diluted share both increased primarily as a result of the strong operating results from our Traditional Solid Waste business as well as the favorable impact on our effective tax rate due to enactment of tax reform. The Company continued its commitment to supporting both organic and inorganic growth during 2018, allocating \$1,694 million of available cash to capital expenditures and \$466 million to the acquisition of solid waste businesses. We also allocated \$1,806 million to our shareholders during 2018 through common stock repurchases and dividends.

Key items of our 2018 financial results include:

- Revenues of \$14,914 million for 2018 compared with \$14,485 million in 2017, an increase of \$429 million, or 3.0%. This increase is primarily attributable to (i) higher volumes due to improving market conditions; (ii) increased yield in our collection and disposal business and (iii) increased recycling brokerage volumes, partially offset by (i) lower market prices for recycling commodities and (ii) fluctuations in foreign currency and other;
- Operating expenses of \$9,249 million in 2018, or 62.0% of revenues, compared with \$9,021 million, or 62.3% of revenues, in 2017. This increase of \$228 million is primarily attributable to higher volumes and cost inflation in the current year period, partially offset by (i) changes in accounting for rebates and certain franchise fees required by the adoption of ASU 2014-09 and (ii) decreased cost of goods sold due to lower market prices for recycling commodities;
- Selling, general and administrative expenses of \$1,453 million in 2018, or 9.7% of revenues, compared with \$1,468 million, or 10.1% of revenues, in 2017. This decrease of \$15 million is primarily attributable to lower incentive compensation accruals partially offset by increased professional fees and bad debt expense;
- Income from operations of \$2,789 million, or 18.7% of revenues, in 2018 compared with \$2,636 million, or 18.2% of revenues, in 2017, an increase of \$153 million;
- Net income attributable to Waste Management, Inc. of \$1,925 million, or \$4.45 per diluted share, for 2018 as compared with \$1,949 million, or \$4.41 per diluted share, for 2017. The comparability is impacted by an increase in the effective income tax rate in the current year period of 19% compared with 11% in the prior year period primarily due to the one-time impacts associated with enactment of tax reform in late 2017. The current year was favorably impacted by (i) improved operating results in our Traditional Solid Waste business and (ii) net gains associated with the sale of certain hauling and ancillary operations. Partially offsetting these increases was lower earnings from our recycling line of business due to lower market prices for recycling commodities and the impairment of a landfill;
- Net cash provided by operating activities was \$3,570 million in 2018 compared with \$3,180 million in 2017; and
- Free cash flow was \$2,084 million in 2018 compared with \$1,770 million in 2017. The \$314 million increase was a result of (i) higher earnings from our Traditional Solid Waste business; (ii) lower income tax payments associated with enactment of tax reform in late 2017 and timing of income tax payments and (iii) divestitures of certain hauling and ancillary operations partially offset by higher capital expenditures to support organic growth in our business. Free cash flow is a non-GAAP measure of liquidity. Refer to *Free Cash Flow* below for our definition of free cash flow, additional information about our use of this measure, and a reconciliation to net cash provided by operating activities, which is the most comparable GAAP measure.

## Results of Operations

### *Operating Revenues*

Our operating revenues set forth below 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. We also provide additional services that are not managed through our Solid Waste business, including both our WMSBS and 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 the years ended December 31 (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Solid Waste .....	\$ 15,537	\$ 14,832	\$ 13,968
Other .....	2,487	2,538	2,278
Intercompany .....	<u>(3,110)</u>	<u>(2,885)</u>	<u>(2,637)</u>
Total .....	<u>\$ 14,914</u>	<u>\$ 14,485</u>	<u>\$ 13,609</u>

The mix of operating revenues from our major lines of business is reflected in the table below for the years ended December 31 (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Commercial .....	\$ 3,972	\$ 3,714	\$ 3,480
Residential .....	2,529	2,528	2,487
Industrial .....	2,773	2,583	2,412
Other .....	<u>450</u>	<u>439</u>	<u>423</u>
Total collection .....	9,724	9,264	8,802
Landfill .....	3,560	3,370	3,110
Transfer .....	1,711	1,591	1,512
Recycling .....	1,293	1,432	1,221
Other (a) .....	1,736	1,713	1,601
Intercompany (b) .....	<u>(3,110)</u>	<u>(2,885)</u>	<u>(2,637)</u>
Total .....	<u>\$ 14,914</u>	<u>\$ 14,485</u>	<u>\$ 13,609</u>

- (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 Consolidated Financial Statements included within this report.

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

	2018 vs. 2017				2017 vs. 2016			
	As a % of Related		As a % of Total		As a % of Related		As a % of Total	
	Amount	Business(a)	Amount	Company(b)	Amount	Business(a)	Amount	Company(b)
Collection and disposal . . . .	\$ 291	2.3 %			\$ 241	2.0 %		
Recycling commodities . . . .	(273)	(19.1)			237	20.1		
Fuel surcharges and mandated fees . . . . .	<u>111</u>	21.3			<u>73</u>	16.3		
Total average yield (c) . . .			\$ 129	0.9 %			\$ 551	4.1 %
Volume . . . . .			<u>478</u>	<u>3.3</u>			<u>289</u>	<u>2.1</u>
Internal revenue growth . . .			<u>607</u>	<u>4.2</u>			<u>840</u>	<u>6.2</u>
Acquisitions . . . . .			199	1.4			48	0.3
Divestitures . . . . .			(133)	(0.9)			(27)	(0.2)
Foreign currency translation and other . . .			<u>(244)</u>	<u>(1.7)</u>			<u>15</u>	<u>0.1</u>
Total . . . . .			<u>\$ 429</u>	<u>3.0 %</u>			<u>\$ 876</u>	<u>6.4 %</u>

- (a) Calculated by dividing the increase or decrease for the current year by the prior year's related business revenue adjusted to exclude the impacts of divestitures for the current year.
- (b) Calculated by dividing the increase or decrease for the current year by the prior year's total Company revenue adjusted to exclude the impacts of divestitures for the current year.
- (c) The amounts reported herein represent the changes in our revenue attributable to average yield for the total Company.

The following provides further details about 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 operations, 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 \$291 million, or 2.3%, and \$241 million, or 2.0%, for the years ended December 31, 2018 and 2017, respectively. We experienced growth in yield for all of our collection and disposal lines of business in both 2018 and 2017. The period-to-period changes are as follows (dollars in millions):

	2018 vs. 2017		2017 vs. 2016	
	As a % of Related		As a % of Related	
	Amount	Business	Amount	Business
Commercial . . . . .	\$ 99	2.9 %	\$ 99	3.0 %
Industrial . . . . .	107	4.4	69	3.1
Residential . . . . .	<u>47</u>	<u>1.9</u>	<u>44</u>	<u>1.8</u>
Total collection . . . . .	253	2.9	212	2.6
Landfill . . . . .	22	1.1	17	0.9
Transfer . . . . .	<u>16</u>	<u>1.9</u>	<u>12</u>	<u>1.5</u>
Total collection and disposal . . . . .	<u>\$ 291</u>	<u>2.3 %</u>	<u>\$ 241</u>	<u>2.0 %</u>

Our increase in collection and disposal yield for the years ended December 31, 2018 and 2017, compared with the prior years, includes increased revenues from our environmental fees of \$74 million and \$67 million, respectively.

*Recycling Commodities* — Fluctuations in the market prices for recycling commodities resulted in revenue decline of \$273 million and revenue growth of \$237 million for the years ended December 31, 2018 and 2017, respectively, as compared with the prior years. Disruptions in the global movement of recycling commodities began in September 2017 and continued throughout 2018. Average market prices for recycling commodities at the Company's facilities were 40% lower in 2018 compared to 2017. We currently expect market prices for recycling commodities to moderate in 2019.

*Fuel Surcharges and Mandated Fees* — These revenues, which are predominantly generated by our fuel surcharge program, increased \$111 million and \$73 million for the years ended December 31, 2018 and 2017, respectively, as compared with the prior years. 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 20% and 15% for the years ended December 31, 2018 and 2017, respectively, compared with the prior years. The mandated fees included in this line item are primarily related to fees and taxes assessed by various state, county and municipal government agencies at our landfills and transfer stations where we are the primary obligor in the contractual arrangement.

### *Volume*

Our revenues from volume increased \$478 million, or 3.3%, and \$289 million, or 2.1%, for the years ended December 31, 2018 and 2017, respectively, as compared with the prior years. The comparison does not include volumes from acquisitions.

We experienced higher volumes throughout 2018 and 2017 due to our focus on customer service and disciplined growth, combined with favorable market conditions in our Traditional Solid Waste business. We have experienced significant volume growth with existing customers, particularly in our commercial collection business. The volume growth is the result of proactive efforts taken to work with our customers as their businesses expand and grow to identify service upgrade opportunities. Contributors to our volume increase in both 2018 and 2017 included a large new contract addition in the second half of 2017 that continued to favorably impact volume growth for our commercial collection business into 2018. Additionally, a large contract executed in the second half of 2017 increased our volumes at our transfer stations with incremental volume additions during 2018 that will continue to favorably impact our volumes into 2019. The clean-up efforts of natural disasters throughout the U.S. in the second half of 2017 favorably affected our landfill volumes primarily in the fourth quarter of 2017 as compared with 2016 but negatively impacted the comparability of volumes for 2018. Furthermore, our WMSBS organization experienced favorable volume growth in both 2018 and 2017.

Additionally, a volume increase from our recycling brokerage services affected the comparability of volumes for 2018 and 2017. Drivers affecting the comparability of volumes for 2017 and 2016 included a volume increase from an eleven-month outage at a waste-to-energy facility in Virginia that ended in mid-December 2017 offset, in part, by one less workday in 2017 that negatively impacted our volume growth.

### *Foreign Currency Translation and Other*

Fluctuations in foreign currency affect revenues from our Canadian operations. We also experienced revenue decline associated with the adoption of ASU 2014-09 and other changes. See Notes 2 and 3 to the Consolidated Financial Statements for further discussion.

### ***Operating Expenses***

Our operating expenses are comprised of (i) labor and related benefits costs (excluding labor costs associated with maintenance and repairs discussed below), which include salaries and wages, bonuses, related payroll taxes, insurance and benefits costs and the costs associated with contract labor; (ii) transfer and disposal costs, which include tipping fees paid to third-party disposal facilities and transfer stations; (iii) maintenance and repairs costs relating to equipment, vehicles and facilities and related labor costs; (iv) subcontractor costs, which include the costs of independent haulers who transport waste collected by us to disposal facilities and are affected by variables such as volumes, distance and fuel prices; (v) costs of goods sold, which includes the cost to purchase recycling materials for our recycling line of business, including certain rebates paid to suppliers; (vi) fuel costs, which represent the costs of fuel and oil to operate our truck fleet and landfill

operating equipment; (vii) disposal and franchise fees and taxes, which include landfill taxes, municipal franchise fees, host community fees, contingent landfill lease payments and royalties; (viii) landfill operating costs, which include interest accretion on landfill liabilities, interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets, leachate and methane collection and treatment, landfill remediation costs and other landfill site costs; (ix) risk management costs, which include general liability, automobile liability and workers' compensation claims programs costs and (x) other operating costs, which include gains and losses on sale of assets, telecommunications, equipment and facility lease expenses, property taxes, utilities and supplies.

The following table summarizes the major components of our operating expenses for the years ended December 31 (dollars in millions):

	Period-to-Period			Period-to-Period			
	2018	Change		2017	Change		2016
Labor and related benefits	\$ 2,703	\$ 203	8.1 %	\$ 2,500	\$ 90	3.7 %	\$ 2,410
Transfer and disposal costs	1,105	109	10.9	996	22	2.3	974
Maintenance and repairs	1,255	85	7.3	1,170	94	8.7	1,076
Subcontractor costs	1,375	139	11.2	1,236	43	3.6	1,193
Cost of goods sold	783	(186)	(19.2)	969	111	12.9	858
Fuel	409	34	9.1	375	75	25.0	300
Disposal and franchise fees and taxes	598	(155)	(20.6)	753	51	7.3	702
Landfill operating costs	331	3	0.9	328	(24)	(6.8)	352
Risk management	235	16	7.3	219	27	14.1	192
Other	455	(20)	(4.2)	475	46	10.7	429
	<u>\$ 9,249</u>	<u>\$ 228</u>	<u>2.5 %</u>	<u>\$ 9,021</u>	<u>\$ 535</u>	<u>6.3 %</u>	<u>\$ 8,486</u>
Percentage of revenues	<u>62.0 %</u>			<u>62.3 %</u>			<u>62.4 %</u>

The increase in volumes in the current year periods, as discussed above in *Operating Revenues*, affect the comparability of operating expenses for the periods presented. In addition, cost inflation affects the comparability of operating expenses particularly between 2018 and 2017.

Other significant items affecting the comparison of operating expenses between reported periods include:

*Labor and Related Benefits* — The increase in labor and related benefits costs in 2018 as compared with 2017 was driven by (i) volume growth in our collection line of business; (ii) a bonus plan established in early 2018 targeted at improving employee retention and (iii) merit increases. The increase in labor and related benefits costs in 2017 as compared with 2016 was due to (i) merit increases; (ii) increased headcount driven by higher volumes and (iii) charges for the withdrawal from certain underfunded Multiemployer Pension Plans. These cost increases were partially offset by one less workday in 2017.

*Maintenance and Repairs* — The increase in maintenance and repairs costs in 2018 and 2017 as compared with the prior year periods was primarily driven by (i) higher labor costs from volume growth and cost inflation and (ii) higher third-party service and parts costs.

*Cost of Goods Sold* — The decrease in cost of goods sold in 2018 as compared with 2017 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 period. See Notes 2 and 3 to the Consolidated Financial Statements for further discussion of ASU 2014-09. The increase in cost of goods sold in 2017 as compared with 2016 was due to higher market prices for recycling commodities, partially offset by lower costs due to (i) continued efforts to restructure recycling rebates paid to customers and (ii) the divestiture of a majority-owned organics company in 2016.

*Fuel* — The increase in fuel costs in 2018 as compared with 2017 was due to higher market prices for diesel fuel, partially offset 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. The increase in fuel costs in 2017 as compared with 2016 was primarily due to (i) higher market prices for diesel fuel; (ii) the expiration of certain natural gas fuel excise tax credits as of December 31, 2016 and (iii) higher volumes in our collection line of business. These cost increases were partially offset by (i) lower costs resulting from the continued conversion of our fleet to natural gas vehicles and (ii) reduced fuel consumption due to efficiency gains in the routing of our fleet.

*Disposal and Franchise Fees and Taxes* — The decrease in disposal and franchise fees and taxes in 2018 as compared with 2017 was driven by the adoption of ASU 2014-09 in the current year period; specifically, certain franchise fees were treated as disposal fees and taxes in the prior year periods and are treated as a reduction in operating revenues in the current year period. See Notes 2 and 3 to the Consolidated Financial Statements for further discussion of ASU 2014-09. The increase in disposal and franchise fees and taxes in 2017 as compared with 2016 is primarily due to higher landfill volumes and increased municipal franchise fees.

*Risk Management* — The increase in risk management costs in 2018 and 2017 was primarily due to increases in losses within our self-insured retention.

*Other* — The decrease in other operating costs in 2018 as compared with 2017 was primarily driven by net gains on sales of certain assets in the current year period. The increase in other operating costs in 2017 as compared with 2016 was principally driven by favorable adjustments to our contingent consideration liabilities associated with certain acquisitions in 2016 and higher operating lease expenses in 2017.

### ***Selling, General and Administrative Expenses***

Our selling, general and administrative expenses consist of (i) labor and related benefits costs, which include salaries, bonuses, related insurance and benefits, contract labor, payroll taxes and equity-based compensation; (ii) professional fees, which include fees for consulting, legal, audit and tax services; (iii) provision for bad debts, which includes allowances for uncollectible customer accounts and collection fees and (iv) other selling, general and administrative expenses, which include, among other costs, facility-related expenses, voice and data telecommunication, advertising, bank charges, computer costs, travel and entertainment, rentals, postage and printing. In addition, the financial impacts of litigation settlements generally are included in our “Other” selling, general and administrative expenses.

The following table summarizes the major components of our selling, general and administrative expenses for the years ended December 31 (dollars in millions):

	<b>2018</b>	<b>Period-to-Period Change</b>		<b>2017</b>	<b>Period-to-Period Change</b>		<b>2016</b>
Labor and related benefits . . . . .	\$ 957	\$ (43)	(4.3)%	\$ 1,000	\$ 32	3.3 %	\$ 968
Professional fees . . . . .	113	11	10.8	102	5	5.2	97
Provision for bad debts . . . . .	53	11	26.2	42	2	5.0	40
Other . . . . .	330	6	1.9	324	19	6.2	305
	<u>\$ 1,453</u>	<u>\$ (15)</u>	<u>(1.0)%</u>	<u>\$ 1,468</u>	<u>\$ 58</u>	<u>4.1 %</u>	<u>\$ 1,410</u>
Percentage of revenues . . . . .	<u>9.7 %</u>			<u>10.1 %</u>			<u>10.4 %</u>

Significant items affecting the comparison of our selling, general and administrative expenses between reported periods include:

*Labor and Related Benefits* — The decrease in labor and related benefits costs in 2018 compared with 2017 was primarily due to (i) lower incentive compensation accruals in the current year period and (ii) severance costs for former executives incurred in 2017 partially offset by merit increases and a bonus plan established in early 2018 targeted at improving employee retention. The increase in labor and related benefits costs in 2017 compared with 2016 was primarily due to (i) merit increases; (ii) higher incentive compensation accruals and (iii) higher severance costs for former executives in 2017.

*Professional Fees* — The increase in professional fees in 2018 compared with 2017 was primarily due to the investments we are making in technology to improve our operations and our customer service and higher legal fees.

*Provision for Bad Debts* — Our provision for bad debts increased in 2018 compared with 2017 primarily due to (i) an increase in revenues and (ii) the bankruptcy of a strategic customer in our WMSBS organization.

*Other* — The increase in other expenses in 2018 compared with 2017 was primarily due to higher litigation settlements in 2018, which were partially offset by lower costs associated with advertising and travel and entertainment as we continued to focus on controlling costs. The increase in other expenses in 2017 compared with 2016 was primarily due to favorable litigation settlements in 2016 and charitable contributions made for hurricane relief efforts in 2017.

### **Depreciation and Amortization Expenses**

The following table summarizes the components of our depreciation and amortization expenses for the years ended December 31 (dollars in millions):

	2018	Period-to-Period Change		2017	Period-to-Period Change		2016
Depreciation of tangible property and equipment . . .	\$ 838	\$ 55	7.0 %	\$ 783	\$ 10	1.3 %	\$ 773
Amortization of landfill airspace . . . . .	538	41	8.2	497	69	16.1	428
Amortization of intangible assets . . . . .	101	5	5.2	96	(4)	(4.0)	100
	<u>\$ 1,477</u>	<u>\$ 101</u>	7.3 %	<u>\$ 1,376</u>	<u>\$ 75</u>	5.8 %	<u>\$ 1,301</u>
Percentage of revenues . . . . .	<u>9.9 %</u>			<u>9.5 %</u>			<u>9.6 %</u>

The increase in depreciation of tangible property and equipment during 2018 as compared to 2017 is primarily due to increased capital expenditures to support organic growth in our business. The increase in amortization of landfill airspace during 2018 and 2017 as compared with the prior year periods is primarily due to higher volumes at our landfills and changes in our landfill estimates.

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

The following table summarizes the major components of (gain) loss from divestitures, asset impairments and unusual items, net for the years ended December 31 (in millions):

	2018	2017	2016
(Gain) loss from divestitures . . . . .	\$ (96)	\$ (38)	\$ 9
Asset impairments . . . . .	38	41	59
Other . . . . .	—	(19)	44
	<u>\$ (58)</u>	<u>\$ (16)</u>	<u>\$ 112</u>

During the year ended December 31, 2018, we recognized net gains of \$58 million, primarily related to (i) a \$52 million gain associated with the sale of certain hauling operations in Tier 1 and (ii) net gains of \$44 million substantially all from divestitures of certain ancillary operations. These gains were partially offset by (i) a \$30 million charge to impair a landfill in Tier 3 based on an internally developed discounted projected cash flow analysis, taking into account continued volume decreases and revised capping cost estimates and (ii) \$8 million of impairment charges primarily related to our LampTracker® reporting unit.

During the year ended December 31, 2017, we recognized net gains of \$16 million, primarily related to (i) gains of \$31 million from the sale of certain oil and gas producing properties and (ii) a \$30 million reduction in post-closing, performance-based contingent consideration obligations associated with an acquired business in our EES organization. These gains were partially offset by (i) \$34 million of goodwill impairment charges primarily related to our EES organization; (ii) \$11 million of charges to adjust our subsidiary's estimated potential share of an environmental

remediation liability and related costs for a closed site in Harris County, Texas, as discussed in Note 10 to the Consolidated Financial Statements and (iii) \$7 million of charges to write down certain renewable energy assets.

During the year ended December 31, 2016, we recognized net charges of \$112 million, primarily related to (i) \$44 million of charges to adjust our subsidiary's estimated potential share of an environmental remediation liability and related costs for a closed site in Harris County, Texas, as discussed in Note 10 to the Consolidated Financial Statements; (ii) a \$43 million charge to impair a landfill in Tier 3 due to a loss of expected volumes; (iii) \$12 million of goodwill impairment charges primarily related to our LampTracker<sup>®</sup> reporting unit and (iv) an \$8 million loss on the sale of a majority-owned organics company.

See Note 3 to the Consolidated Financial Statements for additional information related to the accounting policy and analysis involved in identifying and calculating impairments.

### ***Income from Operations***

The following table summarizes income from operations for the years ended December 31 (dollars in millions):

	<u>2018</u>	<u>Period-to- Period Change</u>		<u>2017</u>	<u>Period-to- Period Change</u>		<u>2016</u>
Solid Waste:							
Tier 1 .....	\$ 1,642	\$ 104	6.8 %	\$ 1,538	\$ 108	7.6 %	\$ 1,430
Tier 2 .....	542	(10)	(1.8)	552	30	5.7	522
Tier 3 .....	<u>1,211</u>	<u>12</u>	1.0	<u>1,199</u>	<u>205</u>	20.6	<u>994</u>
Solid Waste .....	3,395	106	3.2	3,289	343	11.6	2,946
Other .....	(66)	2	(2.9)	(68)	32	(32.0)	(100)
Corporate and Other .....	<u>(540)</u>	<u>45</u>	(7.7)	<u>(585)</u>	<u>(35)</u>	6.4	<u>(550)</u>
Total .....	<u>\$ 2,789</u>	<u>\$ 153</u>	5.8 %	<u>\$ 2,636</u>	<u>\$ 340</u>	14.8 %	<u>\$ 2,296</u>
Percentage of revenues .....	<u>18.7 %</u>			<u>18.2 %</u>			<u>16.9 %</u>

Our segments are discussed further in Note 19 to the Consolidated Financial Statements.

*Solid Waste* — The most significant items affecting the results of operations of our Solid Waste business during the three years ended December 31, 2018 are summarized below:

The following items affected both comparable periods:

- Our Solid Waste business benefited from internal revenue growth offset, in part, by merit increases and increased maintenance and repair costs.

In addition, the following items affected 2018 when compared with 2017:

- Our income from operations for our Solid Waste business benefited from certain federal natural gas fuel credits in the first quarter of 2018 and was negatively impacted by (i) lower market prices for recycling commodities; (ii) higher operating costs, including a bonus plan established in early 2018 targeted at improving employee retention and (iii) increased depreciation and amortization expenses to support growth of our business. During 2018, Tier 1 also benefited from the divestiture of certain hauling operations and Tier 3 was negatively impacted by an impairment of a landfill.

In addition, the following items affected 2017 when compared with 2016:

- Our Solid Waste business benefited from (i) higher market prices for recycling commodities; (ii) decreased landfill leachate management costs in Tier 3 and (iii) an impairment charge for a landfill in Tier 3 in 2016. However, our income from operations was negatively impacted by (i) charges for the withdrawal from certain underfunded Multiemployer Pension Plans, primarily in Tier 3 and (ii) increased landfill amortization expense related to higher volumes at our landfills and changes in our landfill estimates, primarily in Tier 3.



*Other* — In 2018 compared with 2017, our Other segment benefited from net gains from divestitures of certain ancillary operations and improved results in our EES and WM Renewable Energy businesses, partially offset by higher risk management costs. A reduction in contingent consideration obligations in our EES business favorably affected 2017 when compared with 2016.

*Corporate and Other* — Corporate and other was affected by charges in 2016, and to a lesser extent in 2017, to adjust our subsidiary's estimated potential share of an environmental remediation liability and related costs for a closed site in Harris County, Texas.

In addition, the following items affected 2018 when compared with 2017:

- Decreased expenses in 2018 as a result of lower incentive compensation accruals and severance costs for former executives incurred in 2017. These decreases were offset, in part, by higher professional fees primarily due to the investments we are making in technology to improve our operations and our customer service in 2018.

In addition, the following items affected 2017 when compared with 2016:

- Increased expenses in 2017 as a result of higher incentive compensation accruals and severance costs. These increases were offset, in part, by a favorable litigation settlement in 2016.

### ***Interest Expense, Net***

Our interest expense, net was \$374 million, \$363 million and \$376 million in 2018, 2017 and 2016, respectively. Our 2017 interest expense benefited from higher capitalized interest on certain projects under development and the early repayment of high-coupon senior notes and issuance of new senior notes at lower coupon interest rates in 2017.

### ***Equity in Net Losses of Unconsolidated Entities***

We recognized equity in net losses of unconsolidated entities of \$41 million, \$68 million and \$44 million in 2018, 2017 and 2016, respectively. The amount in 2017 includes impairment charges of \$29 million to write down equity method investments in waste diversion technology companies to their estimated fair values. The remaining losses for each period are primarily related to our noncontrolling interests in entities established to invest in and manage low-income housing properties and a refined coal facility. We generate tax benefits, including tax credits, from the losses incurred from these investments, which are discussed further in Note 8 to the Consolidated Financial Statements.

### ***Other, Net***

We recognized other, net income of \$2 million in 2018 compared to other, net expense of \$14 million and \$54 million in 2017 and 2016, respectively. The expenses for 2017 and 2016 were impacted by impairment charges of \$11 million and \$42 million, respectively, related to other-than-temporary declines in the value of minority-owned investments in waste diversion technology companies. In addition, we also recognized (i) \$8 million of expense during 2016 associated with the termination of our cross-currency swaps, which is discussed further in Note 7 to the Consolidated Financial Statements and (ii) a loss on early extinguishment of debt of \$6 million and \$4 million in 2017 and 2016, respectively.

### ***Income Tax Expense***

We recorded income tax expense of \$453 million, \$242 million and \$642 million in 2018, 2017 and 2016, respectively, resulting in effective income tax rates of 19.0%, 11.0% and 35.2% for the years ended December 31, 2018, 2017 and 2016, respectively. The comparability of our income tax expense for the reported periods has been primarily affected by the following:

- *Enactment of Tax Reform* — For the year ended December 31, 2018, we recognized measurement period adjustments related to enactment of the Tax Cuts and Jobs Act primarily due to the filing of our income tax returns resulting in a reduction in our income tax expense of \$12 million. The reduction consisted of a net income tax benefit of (i) \$7 million for the remeasurement of our deferred income tax assets and liabilities and other reserves

due to the decrease in the federal corporate income tax rate and (ii) a \$5 million adjustment for the one-time, mandatory transition tax. For the year ended December 31, 2017, we recognized a reduction in our income tax expense of \$529 million consisting of a net tax benefit of \$595 million for the initial remeasurement of our deferred income tax assets and liabilities due to the decrease in the federal corporate income tax rate, partially offset by income tax expense of \$66 million for the one-time, mandatory transition tax.

- *Other Adjustments* – We recognized reductions in our income tax expense of \$92 million, \$7 million and \$21 million for the years ended December 31, 2018, 2017 and 2016, respectively, associated with adjustments to accruals and related deferred taxes and tax audit settlements.

See Note 8 to the Consolidated Financial Statements for more information related to income taxes.

### ***Landfill and Environmental Remediation Discussion and Analysis***

We owned or operated 247 solid waste and five secure hazardous waste landfills as of December 31, 2018 and 244 solid waste and five secure hazardous waste landfills as of December 31, 2017. For these landfills, the following table reflects changes in capacity, as measured in tons of waste, for the years ended December 31 and remaining capacity, measured in cubic yards of waste, as of December 31 (in millions):

	2018			2017		
	Remaining Permitted Capacity	Expansion Capacity	Total Capacity	Remaining Permitted Capacity	Expansion Capacity	Total Capacity
Balance as of beginning of year (in tons) . . . . .	4,799	186	4,985	4,754	219	4,973
Acquisitions, divestitures, newly permitted landfills and closures . . . . .	5	—	5	6	—	6
Changes in expansions pursued (a) . . . . .	—	72	72	—	65	65
Expansion permits granted (b) . . . . .	42	(42)	—	98	(98)	—
Airspace consumed . . . . .	(116)	—	(116)	(112)	—	(112)
Changes in engineering estimates and other (c) . . . . .	32	4	36	53	—	53
Balance as of end of year (in tons) . . . . .	<u>4,762</u>	<u>220</u>	<u>4,982</u>	<u>4,799</u>	<u>186</u>	<u>4,985</u>
Balance as of end of year (in cubic yards) . . . . .	<u>4,735</u>	<u>194</u>	<u>4,929</u>	<u>4,815</u>	<u>169</u>	<u>4,984</u>

- (a) Amounts reflected here relate to the combined impacts of (i) new expansions pursued; (ii) increases or decreases in the airspace being pursued for ongoing expansion efforts; (iii) adjustments for differences between the airspace being pursued and airspace granted and (iv) decreases due to decisions to no longer pursue expansion permits, if any.
- (b) We received expansion permits at six of our landfills during 2018 and nine of our landfills during 2017, demonstrating our continued success in working with municipalities and regulatory agencies to expand the disposal capacity of our existing landfills.
- (c) Changes in engineering estimates can result in changes to the estimated available remaining capacity of a landfill or changes in the utilization of such landfill capacity, affecting the number of tons that can be placed in the future. Estimates of the amount of waste that can be placed in the future are reviewed annually by our engineers and are based on a number of factors, including standard engineering techniques and site-specific factors such as current and projected mix of waste type; initial and projected waste density; estimated number of years of life remaining; depth of underlying waste; anticipated access to moisture through precipitation or recirculation of landfill leachate and operating practices. We continually focus on improving the utilization of airspace through efforts that may include recirculating landfill leachate where allowed by permit; optimizing the placement of daily cover materials and increasing initial compaction through improved landfill equipment, operations and training.

The tons received at our landfills are shown below (tons in thousands):

	2018			2017		
	# of Sites	Total Tons	Tons per Day	# of Sites	Total Tons	Tons per Day
Solid waste landfills .....	247 (a)	115,972	426	244	112,849	415
Hazardous waste landfills .....	5	739	3	5	584	2
	<u>252</u>	<u>116,711</u>	<u>429</u>	<u>249</u>	<u>113,433</u>	<u>417</u>
Solid waste landfills closed, divested or contract expired during related year .....	1	424		1	139	
		<u>117,135 (b)</u>			<u>113,572 (b)</u>	

(a) In 2018, we acquired four landfills and closed one landfill.

(b) These amounts include 1.5 million tons and 1.8 million tons as of December 31, 2018 and 2017, respectively, that were received at our landfills but were used for beneficial purposes and generally were redirected from the permitted airspace to other areas of the landfill. Waste types that are frequently identified for beneficial use include green waste for composting and clean dirt for on-site construction projects.

When a landfill we own or operate receives certification of closure from the applicable regulatory agency, we generally transfer the management of the site, including any remediation activities, to our environmental legacy management group. As of December 31, 2018, our environmental legacy management group managed 207 closed landfills.

Based on remaining permitted airspace as of December 31, 2018 and projected annual disposal volumes, the weighted average remaining landfill life for all of our owned or operated landfills is approximately 41 years. Many of our landfills have the potential for expanded disposal capacity beyond what is currently permitted. We monitor the availability of permitted disposal capacity at each of our landfills and evaluate whether to pursue an expansion at a given landfill based on estimated future waste volumes, disposal prices, construction and operating costs, remaining capacity and likelihood of obtaining an expansion permit. We are seeking expansion permits at 15 of our landfills that meet the expansion criteria outlined in the *Critical Accounting Estimates and Assumptions — Landfills* section below. Although no assurances can be made that all future expansions will be permitted or permitted as designed, the weighted average remaining landfill life for all owned or operated landfills is approximately 43 years when considering remaining permitted airspace, expansion airspace and projected annual disposal volume.

The number of landfills owned or operated as of December 31, 2018, segregated by their estimated operating lives based on remaining permitted and expansion capacity and projected annual disposal volume, was as follows:

	# of Landfills
0 to 5 years .....	30
6 to 10 years .....	16
11 to 20 years .....	35
21 to 40 years .....	68
41+ years .....	103
Total .....	<u>252 (a)</u>

(a) Of the 252 landfills, 204 are owned, 35 are operated under lease agreements and 13 are operated under other contractual agreements. For the landfills not owned, we are usually responsible for final capping, closure and post-closure obligations.

As of December 31, 2018, we have 16 landfills which are not currently accepting waste. During the year ended December 31, 2018, we performed tests of recoverability for seven of these landfills with an aggregate net recorded capitalized landfill asset cost of \$270 million, for which the undiscounted expected future cash flows resulting from our

probability-weighted estimation approach exceeded the carrying values. We did not perform recoverability tests for the remaining nine landfills as the net recorded capitalized landfill asset cost was not material.

*Landfill Assets* — We capitalize various costs that we incur to prepare a landfill to accept waste. These costs generally include expenditures for land (including the landfill footprint and required landfill buffer property), permitting, excavation, liner material and installation, landfill leachate collection systems, landfill gas collection systems, environmental monitoring equipment for groundwater and landfill gas, directly related engineering, capitalized interest, and on-site road construction and other capital infrastructure costs. The cost basis of our landfill assets also includes estimates of future costs associated with landfill final capping, closure and post-closure activities, which are discussed further below.

The changes to the cost basis of our landfill assets and accumulated landfill airspace amortization for the year ended December 31, 2018 are reflected in the table below:

	<u>Cost Basis of Landfill Assets</u>	<u>Accumulated Landfill Airspace Amortization</u>	<u>Landfill Assets</u>
December 31, 2017 . . . . .	\$ 14,904	\$ (8,788)	\$ 6,116
Capital additions . . . . .	513	—	513
Asset retirement obligations incurred and capitalized . . . . .	83	—	83
Acquisitions . . . . .	2	—	2
Amortization of landfill airspace . . . . .	—	(538)	(538)
Foreign currency translation . . . . .	(89)	35	(54)
Asset retirements and other adjustments . . . . .	(173)	134	(39)
December 31, 2018 . . . . .	<u>\$ 15,240</u>	<u>\$ (9,157)</u>	<u>\$ 6,083</u>

As of December 31, 2018, we estimate that we will spend approximately \$600 million in 2019, and approximately \$1.25 billion in 2020 and 2021 combined, for the construction and development of our landfill assets. The specific timing of landfill capital spending is dependent on future events and spending estimates are subject to change due to fluctuations in landfill waste volumes, changes in environmental requirements and other factors impacting landfill operations.

*Landfill and Environmental Remediation Liabilities* — As we accept waste at our landfills, we incur significant asset retirement obligations, which include liabilities associated with landfill final capping, closure and post-closure activities. These liabilities are accounted for in accordance with authoritative guidance on accounting for asset retirement obligations and are discussed in Note 3 to the Consolidated Financial Statements. We also have liabilities for the remediation of properties that have incurred environmental damage, which generally was caused by operations or for damage caused by conditions that existed before we acquired operations or a site. We recognize environmental remediation liabilities when we determine that the liability is probable and the estimated cost for the likely remedy can be reasonably estimated.

The changes to landfill and environmental remediation liabilities for the year ended December 31, 2018 are reflected in the table below (in millions):

	<u>Landfill</u>	<u>Environmental Remediation</u>
December 31, 2017 . . . . .	\$ 1,675	\$ 251
Obligations incurred and capitalized . . . . .	83	—
Obligations settled . . . . .	(108)	(26)
Interest accretion . . . . .	95	5
Revisions in estimates and interest rate assumptions (a) (b) . . . . .	(3)	9
Acquisitions, divestitures and other adjustments (c) . . . . .	18	(2)
December 31, 2018 . . . . .	<u>\$ 1,760</u>	<u>\$ 237</u>

(a) The amount reported for our landfill liabilities includes a net decrease of \$15 million primarily related to our year-end annual review of landfill final capping, closure and post-closure obligations partially offset by an increase of

\$12 million due to the acceleration of the expected timing of capping activities for a landfill. See Note 11 to the Consolidated Financial Statements for discussion of the impairment charge related to this landfill.

- (b) The amount reported for our environmental remediation liabilities includes changes in cost estimates associated with environmental remediation projects resulting in an increase in the required obligation. These charges were partially offset by a decrease of \$3 million in our environmental remediation liabilities due to an increase in the risk-free discount rate used to measure our liabilities from 2.5% at December 31, 2017 to 2.75% at December 31, 2018.
- (c) The amount reported for our landfill liabilities includes an increase of \$27 million due to landfill acquisitions partially offset by landfill divestitures and other adjustments.

*Landfill Operating Costs* — The following table summarizes our landfill operating costs for the years ended December 31 (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Interest accretion on landfill liabilities .....	\$ 95	\$ 92	\$ 91
Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets .....	(2)	3	—
Leachate and methane collection and treatment .....	150	143	176
Landfill remediation costs .....	13	14	15
Other landfill site costs .....	<u>75</u>	<u>76</u>	<u>70</u>
Total landfill operating costs .....	<u>\$ 331</u>	<u>\$ 328</u>	<u>\$ 352</u>

*Amortization of Landfill Airspace* — Amortization of landfill airspace, which is included as a component of depreciation and amortization expenses, includes the following:

- the amortization of landfill capital costs, including (i) costs that have been incurred and capitalized and (ii) estimated future costs for landfill development and construction required to develop our landfills to their remaining permitted and expansion airspace; and
- the amortization of asset retirement costs arising from landfill final capping, closure and post-closure obligations, including (i) costs that have been incurred and capitalized and (ii) projected asset retirement costs.

Amortization expense is recorded on a units-of-consumption basis, applying cost as a rate per ton. The rate per ton is calculated by dividing each component of the amortizable basis of a landfill by the number of tons needed to fill the corresponding asset's airspace. Landfill capital costs and closure and post-closure asset retirement costs are generally incurred to support the operation of the landfill over its entire operating life and are, therefore, amortized on a per-ton basis using a landfill's total airspace capacity. Final capping asset retirement costs are related to a specific final capping event and are, therefore, amortized on a per-ton basis using each discrete final capping event's estimated airspace capacity. Accordingly, each landfill has multiple per-ton amortization rates.

The following table presents our landfill airspace amortization expense on a per-ton basis for the years ended December 31:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Amortization of landfill airspace (in millions) .....	\$ 538	\$ 497	\$ 428
Tons received, net of redirected waste (in millions) .....	116	112	104
Average landfill airspace amortization expense per ton .....	\$ 4.64	\$ 4.44	\$ 4.10

Different per-ton amortization rates are applied at each of our 252 landfills, and per-ton amortization rates vary significantly from one landfill to another due to (i) inconsistencies that often exist in construction costs and provincial, state and local regulatory requirements for landfill development and landfill final capping, closure and post-closure activities and (ii) differences in the cost basis of landfills that we develop versus those that we acquire. Accordingly, our landfill airspace amortization expense measured on a per-ton basis can fluctuate due to changes in the mix of volumes we receive across the Company each year.

## Liquidity and Capital Resources

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

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

The following is a summary of our cash and cash equivalents, restricted trust and escrow accounts and debt balances as of December 31 (in millions):

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents .....	\$ 61	\$ 22
Restricted trust and escrow accounts:		
Insurance reserves (a) .....	\$ 252	\$ 203
Final capping, closure, post-closure and environmental remediation funds .....	103	101
Other .....	11	15
Total restricted trust and escrow accounts .....	<u>\$ 366</u>	<u>\$ 319</u>
Debt:		
Current portion .....	\$ 432	\$ 739
Long-term portion .....	9,594	8,752
Total debt .....	<u>\$ 10,026</u>	<u>\$ 9,491</u>

(a) Includes \$70 million as of December 31, 2018 and 2017 in other current assets in our Consolidated Balance Sheets.

We use long-term borrowings in addition to the cash we generate from operations as part of our overall financial strategy to support and grow our business. We primarily use senior notes and tax-exempt bonds to borrow on a long-term basis, but we also use other instruments and facilities, when appropriate. The components of our borrowings as of December 31, 2018 are described in Note 7 to the Consolidated Financial Statements.

Changes in our outstanding debt balances from December 31, 2017 to December 31, 2018 were primarily attributable to (i) net debt cash borrowings of \$313 million; (ii) our recent federal low-income housing investment discussed in Note 8 to the Consolidated Financial Statements and new capital leases, which increased our debt obligations by \$250 million and (iii) the impacts of other non-cash changes in our debt balances such as divestitures, debt issuance costs, discounts, premiums, foreign currency translation and terminated interest rate derivatives.

As of December 31, 2018, we had \$1.9 billion of debt maturing within the next 12 months, including (i) \$990 million of short-term borrowings under our commercial paper program; (ii) \$705 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) \$161 million of other debt with scheduled maturities within the next 12 months, including \$106 million of tax-exempt bonds and (iv) C\$15 million, or \$11 million, of Canadian borrowings under our \$2.75 billion revolving credit facility. Of the \$990 million of short-term borrowings outstanding under our commercial paper program as of December 31, 2018 that are supported by our \$2.75 billion revolving credit facility, we have the intent and ability to refinance or maintain approximately \$730 million of these borrowings on a long-term basis, and we have classified these amounts as long-term debt. As of December 31, 2018, we have classified an additional \$705 million of debt maturing in the next 12 months 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 \$432 million of debt maturing in the next 12 months is classified as current obligations.

As of December 31, 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 Consolidated Balance Sheet as of December 31, 2018.

We have credit facilities in place to support our liquidity and financial assurance needs. The following table summarizes our outstanding letters of credit, categorized by type of facility as of December 31 (in millions):

	<u>2018</u>	<u>2017</u>
Revolving credit facility (a) .....	\$ 587	\$ 642
Other letter of credit facilities (b) .....	556	507
	<u>\$ 1,143</u>	<u>\$ 1,149</u>

(a) As of December 31, 2018, we had an unused and available credit capacity of \$1.2 billion.

(b) As of December 31, 2018, these other letter of credit facilities are both committed and uncommitted with terms extending through December 2020.

### ***Refinancing of Revolving Credit Facility***

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

### ***Summary of Cash Flow Activity***

The following is a summary of our cash flows for the years ended December 31 (in millions):

	<u>2018</u>	<u>2017(a)</u>	<u>2016(a)</u>
Net cash provided by operating activities .....	\$ 3,570	\$ 3,180	\$ 3,003
Net cash used in investing activities .....	\$ (2,169)	\$ (1,620)	\$ (1,929)
Net cash used in financing activities .....	\$ (1,508)	\$ (1,361)	\$ (1,084)

(a) Prior year information was revised to reflect the adoption of ASU 2016-15 and ASU 2016-18 and conform to our current year presentation. See Note 2 to the Consolidated Financial Statements for further discussion.

*Net Cash Provided by Operating Activities* — Our operating cash flows increased by \$390 million for the year ended December 31, 2018, as compared with the prior year period, as a result of (i) higher earnings from our Traditional Solid Waste business and (ii) lower income tax payments of \$213 million, driven by enactment of tax reform and timing of income tax payments partially offset by lower earnings from our recycling line of business.

Our operating cash flows increased by \$177 million for the year ended December 31, 2017, as compared with the prior year period, as a result of higher earnings from our Traditional Solid Waste business and recycling line of business.



This increase is partially offset by cash paid for income taxes, which was \$120 million higher in 2017, largely driven by higher earnings and timing of income tax payments.

*Net Cash Used in Investing Activities* — The most significant items affecting the comparison of our investing cash flows for the periods presented are summarized below:

- *Acquisitions* — Our spending on acquisitions was \$466 million, \$200 million and \$611 million in 2018, 2017 and 2016, respectively, of which \$460 million, \$198 million and \$608 million, respectively, are considered cash used in investing activities. The remaining spend is either cash used in a financing or an operating activity related to the timing of contingent consideration paid subsequent to the adoption of ASU 2016-15. Substantially all of these acquisitions are related to our Solid Waste business. Our acquisitions in 2016 included \$525 million for certain operations and business assets of Southern Waste Systems/Sun Recycling. See Notes 2 and 17 to the Consolidated Financial Statements for additional information. We continue to focus on accretive acquisitions and growth opportunities that will enhance and expand our existing service offerings.
- *Capital Expenditures* — We used \$1,694 million, \$1,509 million and \$1,339 million for capital expenditures in 2018, 2017 and 2016, respectively. The Company continues to maintain a disciplined focus on capital management and fluctuations in our capital expenditures are a result of new business opportunities, growth in our existing business, the timing of replacement of aging assets and investment in assets that support our strategy of continuous improvement through efficiency and innovation.
- *Proceeds from Divestitures* — Proceeds from divestitures of businesses and other assets (net of cash divested) were \$208 million, \$99 million and \$43 million in 2018, 2017 and 2016, respectively. In 2018, 2017 and 2016, \$153 million, \$62 million and \$2 million of these divestitures, respectively, were made as part of our continuous focus on improving or divesting certain non-strategic or underperforming operations, with the remaining amounts generally related to the sale of fixed assets.
- *Other, Net* — Our spending within other, net was \$223 million, \$12 million, and \$25 million in 2018, 2017 and 2016, respectively. The increase in 2018 is primarily due to changes in our investments portfolio associated with our wholly-owned insurance captive from restricted cash and cash equivalents to available-for-sale securities. See Note 16 to the Consolidated Financial Statements for additional information.

*Net Cash Used in Financing Activities* — The most significant items affecting the comparison of our financing cash flows for the periods presented are summarized below:

- *Debt Borrowings (Repayments)* — The following summarizes our cash borrowings and repayments of debt (excluding our commercial paper program discussed below) for the years ended December 31 (in millions):

	<u>2018</u>	<u>2017(a)</u>	<u>2016(a)</u>
<i>Borrowings:</i>			
Revolving credit facility (b) .....	\$ 119	\$ 302	\$ 1,889
Canadian term loan and revolving credit facility .....	8	9	347
Senior notes .....	—	745	496
Tax-exempt bonds .....	185	299	143
Other debt .....	47	124	182
	<u>\$ 359</u>	<u>\$ 1,479</u>	<u>\$ 3,057</u>
<i>Repayments:</i>			
Revolving credit facility (b) .....	\$ (108)	\$ (728)	\$ (1,483)
Canadian term loan and revolving credit facility .....	(117)	(146)	(193)
Senior notes .....	—	(590)	(510)
Tax-exempt bonds .....	(167)	(251)	(289)
Other debt .....	(107)	(192)	(207)
	<u>\$ (499)</u>	<u>\$ (1,907)</u>	<u>\$ (2,682)</u>
<i>Net cash borrowings (repayments)</i> .....	<u>\$ (140)</u>	<u>\$ (428)</u>	<u>\$ 375</u>

(a) Prior year information was revised to reflect the adoption of ASU 2016-18 and conform to our current year presentation. See Note 2 to the Consolidated Financial Statements for further discussion.

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

During 2018, we had \$250 million of non-cash financing activities from our recent federal low-income housing investment discussed in Note 8 to the Consolidated Financial Statements and new capital leases. During 2017 and 2016, we did not have any significant non-cash investing and financing activities. Non-cash investing and financing activities are generally excluded from the Consolidated Statements of Cash Flows.

Refer to Note 7 to the Consolidated Financial Statements for additional information related to our debt borrowings and repayments.

- *Commercial Paper Program* — During 2018 and 2017, we had net cash borrowings of \$453 million and \$513 million (net of the related discounts on issuance), respectively, under our commercial paper program. Borrowings were primarily to support new business opportunities and for general corporate purposes.
- *Common Stock Repurchase Program* — For the periods presented, all share repurchases have been made in accordance with financial plans approved by our Board of Directors. We repurchased \$1,008 million, \$750 million and \$725 million of our common stock during 2018 (including \$4 million paid in January 2019), 2017 and 2016, respectively. See Note 13 to the Consolidated Financial Statements for additional information.

We announced in December 2018 that our Board of Directors has authorized up to \$1.5 billion in future share repurchases. Any future share repurchases 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.

- *Cash Dividends* — For the periods presented, all dividends have been declared by our Board of Directors.

We paid aggregate cash dividends of \$802 million, \$750 million and \$726 million during 2018, 2017 and 2016, respectively. The increase in dividend payments is due to our quarterly per share dividend increasing from \$0.41 in 2016 to \$0.425 in 2017 and to \$0.465 in 2018 and has been offset, in part, by a reduction in our common stock outstanding as a result of our common stock repurchase program.

In December 2018, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.465 to \$0.5125 per share for dividends declared in 2019. However, all future dividend declarations are at the discretion of the Board of Directors and depend on various factors, including our net earnings, financial condition, cash required for future business plans, growth and acquisitions and other factors the Board of Directors may deem relevant.

- *Proceeds from the Exercise of Common Stock Options* — The exercise of common stock options generated financing cash inflows of \$52 million, \$95 million and \$63 million during 2018, 2017 and 2016, respectively. The year-over-year changes are generally due to the number of stock options exercised and the exercise price of those options.

### ***Free Cash Flow***

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

Our calculation of free cash flow and reconciliation to net cash provided by operating activities is shown in the table below for the years ended December 31 (in millions), and may not be calculated the same as similarly-titled measures presented by other companies:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net cash provided by operating activities (a) . . . . .	\$ 3,570	\$ 3,180	\$ 3,003
Capital expenditures . . . . .	(1,694)	(1,509)	(1,339)
Proceeds from divestitures of businesses and other assets (net of cash divested)	208	99	43
Free cash flow (a) . . . . .	<u>\$ 2,084</u>	<u>\$ 1,770</u>	<u>\$ 1,707</u>

(a) Prior year information was revised to reflect the adoption of ASU 2016-18 and conform to our current year presentation. See Note 2 to the Consolidated Financial Statements.

## Summary of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018 and the anticipated effect of these obligations on our liquidity in future years (in millions):

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
<b>Recorded Obligations:</b>							
Expected environmental liabilities: (a)							
Final capping, closure and post-closure .....	\$ 143	\$ 170	\$ 132	\$ 105	\$ 98	\$ 2,450	\$ 3,098
Environmental remediation .....	26	19	65	37	13	81	241
	<u>169</u>	<u>189</u>	<u>197</u>	<u>142</u>	<u>111</u>	<u>2,531</u>	<u>3,339</u>
Debt payments (b) (c) (d) .....	1,166	780	584	622	614	6,382	10,148
<b>Unrecorded Obligations: (e)</b>							
Interest on debt (f) .....	340	319	291	278	254	2,101	3,583
Non-cancelable operating lease obligations .....	74	69	54	40	37	370	644
Estimated unconditional purchase obligations (g) .....	138	121	110	45	41	399	854
Anticipated liquidity impact as of December 31, 2018 ..	<u>\$ 1,887</u>	<u>\$ 1,478</u>	<u>\$ 1,236</u>	<u>\$ 1,127</u>	<u>\$ 1,057</u>	<u>\$ 11,783</u>	<u>\$ 18,568</u>

- (a) Environmental liabilities include final capping, closure, post-closure and environmental remediation costs recorded in our Consolidated Balance Sheet as of December 31, 2018, without the impact of discounting and inflation. Our recorded environmental liabilities for final capping, closure and post-closure will increase as we continue to place additional tons within the permitted airspace at our landfills.
- (b) These amounts represent the scheduled principal payments related to our long-term debt, excluding interest.
- (c) Our debt obligations as of December 31, 2018 include \$705 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months. If the remarketings of our bonds are unsuccessful, then the bonds can be put to us, requiring immediate repayment. We have classified the anticipated cash flows for these contractual obligations based on the scheduled maturity of the borrowings for purposes of this disclosure. For additional information regarding the classification of these borrowings in our Consolidated Balance Sheet as of December 31, 2018, refer to Note 7 to the Consolidated Financial Statements.
- (d) Our recorded debt obligations include non-cash adjustments associated with debt issuance costs, discounts, premiums and fair value adjustments attributable to terminated interest rate derivatives. These amounts have been excluded as they will not impact our liquidity in future periods.
- (e) Our unrecorded obligations represent operating lease obligations and purchase commitments from which we expect to realize an economic benefit in future periods and interest payable on our debt. We have also made certain guarantees, as discussed in Note 10 to the Consolidated Financial Statements, that we do not expect to materially affect our current or future financial position, results of operations or liquidity.
- (f) Interest on our fixed-rate debt was calculated based on contractual rates and interest on our variable-rate debt was calculated based on interest rates as of December 31, 2018. For debt balances outstanding under our commercial paper program, we have reflected limited interest amounts due to the short-term nature of the borrowings. For debt balances outstanding under our \$2.75 billion revolving credit facility, we have reflected interest based on the current outstanding principal assuming the amount remains unchanged through maturity. As of December 31, 2018, we had \$82 million of accrued interest related to our debt obligations.
- (g) Our unconditional purchase obligations are for various contractual obligations that we generally incur in the ordinary course of our business. Certain of our obligations are quantity driven. For contracts that require us to purchase minimum quantities of goods or services, we have estimated our future minimum obligations based on the current market values of the underlying products or services. Accordingly, the amounts reported in the table are subject to change and actual cash flow obligations in the near future may be different. See Note 10 to the Consolidated Financial Statements for discussion of the nature and terms of our unconditional purchase obligations.

## Critical Accounting Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are difficult to determine, and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, long-lived asset impairments and reserves associated with our insured and self-insured claims. Each of these items is discussed in additional detail below and in Note 3 to the Consolidated Financial Statements. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

### *Landfills*

Accounting for landfills requires that significant estimates and assumptions be made regarding (i) the cost to construct and develop each landfill asset; (ii) the estimated fair value of final capping, closure and post-closure asset retirement obligations, which must consider both the expected cost and timing of these activities; (iii) the determination of each landfill's remaining permitted and expansion airspace and (iv) the airspace associated with each final capping event.

*Landfill Costs* — We estimate the total cost to develop each of our landfill sites to its remaining permitted and expansion capacity. This estimate includes such costs as landfill liner material and installation, excavation for airspace, landfill leachate collection systems, landfill gas collection systems, environmental monitoring equipment for groundwater and landfill gas, directly related engineering, capitalized interest, on-site road construction and other capital infrastructure costs. Additionally, landfill development includes all land purchases for the landfill footprint and required landfill buffer property. The projection of these landfill costs is dependent, in part, on future events. The remaining amortizable basis of each landfill includes costs to develop a site to its remaining permitted and expansion capacity and includes amounts previously expended and capitalized, net of accumulated airspace amortization, and projections of future purchase and development costs.

*Final Capping Costs* — We estimate the cost for each final capping event based on the area to be capped and the capping materials and activities required. The estimates also consider when these costs are anticipated to be paid and factor in inflation and discount rates. Our engineering personnel allocate landfill final capping costs to specific final capping events. The landfill capacity associated with each final capping event is then quantified and the final capping costs for each event are amortized over the related capacity associated with the event as waste is disposed of at the landfill. We review these costs annually, or more often if significant facts change. Changes in estimates, such as timing or cost of construction, for final capping events immediately impact the required liability and the corresponding asset. When the change in estimate relates to a fully consumed asset, the adjustment to the asset must be amortized immediately through expense. When the change in estimate relates to a final capping event that has not been fully consumed, the adjustment to the asset is recognized in income prospectively as a component of landfill airspace amortization.

*Closure and Post-Closure Costs* — We base our estimates for closure and post-closure costs on our interpretations of permit and regulatory requirements for closure and post-closure monitoring and maintenance. The estimates for landfill closure and post-closure costs also consider when the costs are anticipated to be paid and factor in inflation and discount rates. The possibility of changing legal and regulatory requirements and the forward-looking nature of these types of costs make any estimation or assumption less certain. Changes in estimates for closure and post-closure events immediately impact the required liability and the corresponding asset. When the change in estimate relates to a fully consumed asset, the adjustment to the asset must be amortized immediately through expense. When the change in estimate relates to a landfill asset that has not been fully consumed, the adjustment to the asset is recognized in income prospectively as a component of landfill airspace amortization.

*Remaining Permitted Airspace* — Our engineers, in consultation with third-party engineering consultants and surveyors, are responsible for determining remaining permitted airspace at our landfills. The remaining permitted airspace

is determined by an annual survey, which is used to compare the existing landfill topography to the expected final landfill topography.

*Expansion Airspace* — We also include currently unpermitted expansion airspace in our estimate of remaining permitted and expansion airspace in certain circumstances. First, to include airspace associated with an expansion effort, we must generally expect the initial expansion permit application to be submitted within one year and the final expansion permit to be received within five years. Second, we must believe that obtaining the expansion permit is likely, considering the following criteria:

- Personnel are actively working on the expansion of an existing landfill, including efforts to obtain land use and local, state or provincial approvals;
- We have a legal right to use or obtain land to be included in the expansion plan;
- There are no significant known technical, legal, community, business, or political restrictions or similar issues that could negatively affect the success of such expansion; and
- Financial analysis has been completed based on conceptual design, and the results demonstrate that the expansion meets Company criteria for investment.

For unpermitted airspace to be initially included in our estimate of remaining permitted and expansion airspace, the expansion effort must meet all the criteria listed above. These criteria are evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. Once the unpermitted airspace is included, our policy provides that airspace may continue to be included in remaining permitted and expansion airspace even if certain of these criteria are no longer met as long as we continue to believe we will ultimately obtain the permit, based on the facts and circumstances of a specific landfill. In these circumstances, continued inclusion must be approved through a landfill-specific review process that includes approval by our Chief Financial Officer and a review by the Audit Committee of our Board of Directors on a quarterly basis.

When we include the expansion airspace in our calculations of remaining permitted and expansion airspace, we also include the projected costs for development, as well as the projected asset retirement costs related to final capping, closure and post-closure of the expansion in the amortization basis of the landfill.

Once the remaining permitted and expansion airspace is determined in cubic yards, an airspace utilization factor (“AUF”) is established to calculate the remaining permitted and expansion capacity in tons. The AUF is established using the measured density obtained from previous annual surveys and is then adjusted to account for future settlement. The amount of settlement that is forecasted will take into account several site-specific factors including current and projected mix of waste type, initial and projected waste density, estimated number of years of life remaining, depth of underlying waste, anticipated access to moisture through precipitation or recirculation of landfill leachate and operating practices. In addition, the initial selection of the AUF is subject to a subsequent multi-level review by our engineering group and the AUF used is reviewed on a periodic basis and revised as necessary. Our historical experience generally indicates that the impact of settlement at a landfill is greater later in the life of the landfill when the waste placed at the landfill approaches its highest point under the permit requirements.

After determining the costs and remaining permitted and expansion capacity at each of our landfills, we determine the per ton rates that will be expensed as waste is received and deposited at the landfill by dividing the costs by the corresponding number of tons. We calculate per ton amortization rates for each landfill for assets associated with each final capping event, for assets related to closure and post-closure activities and for all other costs capitalized or to be capitalized in the future. These rates per ton are updated annually, or more often, as significant facts change.

It is possible that actual results, including the amount of costs incurred, the timing of final capping, closure and post-closure activities, our airspace utilization or the success of our expansion efforts could ultimately turn out to be significantly different from our estimates and assumptions. To the extent that such estimates, or related assumptions, prove to be significantly different than actual results, lower profitability may be experienced due to higher amortization rates or higher expenses; or higher profitability may result if the opposite occurs. Most significantly, if it is determined that

expansion capacity should no longer be considered in calculating the recoverability of a landfill asset, we may be required to recognize an asset impairment or incur significantly higher amortization expense. If at any time management makes the decision to abandon the expansion effort, the capitalized costs related to the expansion effort are expensed immediately.

### ***Environmental Remediation Liabilities***

We are subject 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 operations, or for damage caused by conditions that existed before we acquired a site. These liabilities include PRP investigations, settlements, and certain legal and consultant fees, as well as costs directly associated with site investigation and clean up, such as materials, external contractor costs and incremental internal costs directly related to the remedy. We provide for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We routinely review and evaluate sites that require remediation and determine our estimated cost for the likely remedy based on a number of estimates and assumptions.

Where it is probable that a liability has been incurred, we estimate costs required to remediate sites based on site-specific facts and circumstances. We routinely review and evaluate sites that require remediation, considering whether we were an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years we were associated with the site. Next, we review the same type of information with respect to other named and unnamed PRPs. Estimates of the costs for the likely remedy are then either developed using our internal resources or by third-party environmental engineers or other service providers. Internally developed estimates are based on:

- Management's judgment and experience in remediating our own and unrelated parties' sites;
- Information available from regulatory agencies as to costs of remediation;
- The number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site; and
- The typical allocation of costs among PRPs, unless the actual allocation has been determined.

### ***Long-Lived Asset Impairments***

We assess our long-lived assets for impairment as required under the applicable accounting standards. If necessary, impairments are recorded in (gain) loss from divestitures, asset impairments and unusual items, net in our Consolidated Statement of Operations.

*Property and Equipment, Including Landfills and Definite-Lived Intangible Assets* — We monitor the carrying value of our long-lived assets for potential impairment on an ongoing basis and test the recoverability of such assets generally using significant unobservable ("Level 3") inputs whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. These events or changes in circumstances, including management decisions pertaining to such assets, are referred to as impairment indicators. If an impairment indicator occurs, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset or asset group to its carrying value and the difference is recorded in the period that the impairment indicator occurs. Fair value is generally determined by considering (i) internally developed discounted projected cash flow analysis of the asset or asset group; (ii) actual third-party valuations and/or (iii) information available regarding the current market for similar assets. Estimating future cash flows requires significant judgment and projections may vary from the cash flows eventually realized, which could impact our ability to accurately assess whether an asset has been impaired.

The assessment of impairment indicators and the recoverability of our capitalized costs associated with landfills and related expansion projects require significant judgment due to the unique nature of the waste industry, the highly regulated

permitting process and the sensitive estimates involved. During the review of a landfill expansion application, a regulator may initially deny the expansion application although the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace, or a landfill may be required to cease accepting waste, prior to receipt of the expansion permit. However, such events occur in the ordinary course of business in the waste industry and do not necessarily result in impairment of our landfill assets because, after consideration of all facts, such events may not affect our belief that we will ultimately obtain the expansion permit. As a result, our tests of recoverability, which generally make use of a probability-weighted cash flow estimation approach, may indicate that no impairment loss should be recorded.

*Indefinite-Lived Intangible Assets, Including Goodwill* — At least annually, and more frequently if warranted, we assess the indefinite-lived intangible assets including the goodwill of our reporting units for impairment using Level 3 inputs.

Beginning in 2018, we first performed a qualitative assessment to determine if it was more likely than not that the fair value of a reporting unit was less than its carrying value. If the assessment indicated a possible impairment, we completed a quantitative review, comparing the estimated fair value of a reporting unit to its carrying amount, including goodwill. An impairment charge was recognized if the asset's estimated fair value was less than its carrying amount. Fair value is typically estimated using an income approach. However, when appropriate, we may also use a market approach. The income approach is based on the long-term projected future cash flows of the reporting units. We discount the estimated cash flows to present value using a weighted average cost of capital that considers factors such as market assumptions, the timing of the cash flows and the risks inherent in those cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting units' expected long-term performance considering the economic and market conditions that generally affect our business. The market approach estimates fair value by measuring the aggregate market value of publicly-traded companies with similar characteristics to our business as a multiple of their reported earnings. We then apply that multiple to the reporting units' earnings to estimate their fair values. We believe that this approach may also be appropriate in certain circumstances because it provides a fair value estimate using valuation inputs from entities with operations and economic characteristics comparable to our reporting units.

Fair value is computed using several factors, including projected future operating results, economic projections, anticipated future cash flows, comparable marketplace data and the cost of capital. There are inherent uncertainties related to these factors and to our judgment in applying them in our analysis. However, we believe our methodology for estimating the fair value of our reporting units is reasonable.

See Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* — (Gain) Loss from Divestitures, Asset Impairments and Unusual Items, Net and Note 6 to the Consolidated Financial Statements for information related to goodwill impairments recognized during the reported periods.

### ***Insured and Self-Insured Claims***

We have retained a significant portion of the risks related to our health and welfare, general liability, automobile liability and workers' compensation claims programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, are based on an actuarial valuations and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss developments significantly differ from our assumptions used. Estimated recoveries associated with our insured claims are recorded as assets when we believe that the receipt of such amounts is probable.

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 continue to maintain conventional insurance policies with third-party insurers. In addition to certain business and operating benefits of having a wholly-owned insurance captive, we expect to receive certain cash flow benefits related to the timing of tax deductions related to these claims. WM will pay an annual premium to the insurance captive, typically in the first quarter of the year, for the estimated losses based on the external actuarial analysis. These premiums are held in a restricted escrow account to be



used solely for paying insurance claims, resulting in a transfer of risk from WM to the insurance captive and are allocated between current and long-term assets in our Consolidated Balance Sheets depending on timing on the use of funds.

### **Off-Balance Sheet Arrangements**

We have financial interests in unconsolidated variable interest entities as discussed in Note 18 to the Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 10 to the Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the year ended December 31, 2018, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

### **New Accounting Standard Pending Adoption**

*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, ASU 2018-11 in July 2018 and ASU 2018-20 in December 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. We elected the optional transition method which allows entities to continue to apply historical accounting guidance in the comparative periods presented in the year of adoption.

At transition, lessees and lessors may elect to apply a package of practical expedients permitting entities not to reassess: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance. These practical expedients must be elected as a package and consistently applied. We have elected to apply the package of practical expedients upon adoption.

We identified our leases or other contracts impacted by the new standard and are currently in the process of (i) finalizing our implementation of a software solution to manage and account for leases under the new standard and (ii) updating our business processes and related policies, systems and controls to support recognition and disclosure under the new standard.

Upon adoption of the amended guidance, we expect to recognize right-of-use assets and related liabilities of approximately \$300 million to \$350 million for our contracts which contain an operating lease. We currently do not expect the amended guidance to have any other material impacts on our consolidated financial statements.

### **Inflation**

While inflationary increases in costs can affect our income from operations margins, we believe that inflation generally has not had, and in the near future is not expected to have, any material adverse effect on our results of operations. However, as of December 31, 2018, approximately 35% of our collection revenues are generated under long-term agreements with price adjustments based on various indices intended to measure inflation. Additionally, management's estimates associated with inflation have had, and will continue to have, an impact on our accounting for landfill and environmental remediation liabilities.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

In the normal course of business, we are exposed to market risks, including changes in interest rates, certain commodity prices and Canadian currency rates. From time to time, we use derivatives to manage some portion of these risks. The Company had no derivatives outstanding as of December 31, 2018.

*Interest Rate Exposure* — Our exposure to market risk for changes in interest rates relates primarily to our financing activities. As of December 31, 2018, we had \$10.1 billion of long-term debt, excluding the impacts of accounting for debt issuance costs, discounts, premiums and fair value adjustments attributable to terminated interest rate derivatives. We have \$2.2 billion of debt that is exposed to changes in market interest rates within the next 12 months comprised of (i) \$990 million of short-term borrowings under our commercial paper program; (ii) \$705 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months; (iii) \$513 million of variable-rate tax-exempt bonds that are subject to repricing on either a daily or weekly basis and (iv) C\$15 million, or \$11 million, of Canadian borrowings under our \$2.75 billion revolving credit facility. We currently estimate that a 100-basis point increase in the interest rates of our outstanding variable-rate debt obligations would increase our 2019 interest expense by \$19 million.

Our remaining outstanding debt obligations have fixed interest rates through either the scheduled maturity of the debt or, for certain of our fixed-rate tax-exempt bonds, through the end of a term interest rate period that exceeds 12 months. The fair value of our fixed-rate debt obligations can increase or decrease significantly if market interest rates change.

We performed a sensitivity analysis to determine how market rate changes might affect the fair value of our market risk-sensitive debt instruments. This analysis is inherently limited because it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. An instantaneous, 100-basis point increase in interest rates across all maturities attributable to these instruments would have decreased the fair value of our debt by approximately \$575 million as of December 31, 2018.

We are also exposed to interest rate market risk from our cash and cash equivalent balances, as well as assets held in restricted trust funds and escrow accounts. These assets are generally invested in high quality, liquid instruments including money market funds that invest in U.S. government obligations with original maturities of three months or less. We believe that our exposure to changes in fair value of these assets due to interest rate fluctuations is insignificant as the fair value generally approximates our cost basis. We also invest a portion of our restricted trust and escrow account balances in available-for-sale securities, including U.S. Treasury securities, U.S. agency securities, municipal securities, mortgage- and asset-backed securities and equity securities.

*Commodity Price Exposure* — In the normal course of our business, we are subject to operating agreements that expose us to market risks arising from changes in the prices for commodities such as diesel fuel; recyclable materials, including old corrugated cardboard, old newsprint and plastics; and electricity, which generally correlates with natural gas prices in many of the markets in which we operate. We attempt to manage these risks through operational strategies that focus on capturing our costs in the prices we charge our customers for the services provided. Accordingly, as the market prices for these commodities increase or decrease, our revenues may also increase or decrease.

*Currency Rate Exposure* — We have operations in Canada as well as certain support functions in India. Where significant, we have quantified and described the impact of foreign currency translation on components of income, including operating revenue and operating expenses. However, the impact of foreign currency has not materially affected our results of operations.

**Item 8. *Financial Statements and Supplementary Data.***

**INDEX TO**

**CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page</u>
Reports of Independent Registered Public Accounting Firm . . . . .	58
Consolidated Balance Sheets as of December 31, 2018 and 2017. . . . .	60
Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016 . . . . .	61
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016 . . . . .	61
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016. . . . .	62
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2018, 2017 and 2016 . . . . .	63
Notes to Consolidated Financial Statements . . . . .	64

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Waste Management, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited Waste Management, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Waste Management, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company, and our report dated February 14, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP

Houston, Texas  
February 14, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Waste Management, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Waste Management, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, cash flows, and changes in equity for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 14, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP

We have served as the Company’s auditor since 2002.

Houston, Texas  
February 14, 2019

**WASTE MANAGEMENT, INC.**

**CONSOLIDATED BALANCE SHEETS**  
(In Millions, Except Share and Par Value Amounts)

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 61	\$ 22
Accounts receivable, net of allowance for doubtful accounts of \$29 and \$21, respectively ..	1,931	1,805
Other receivables .....	344	569
Parts and supplies .....	102	96
Other assets .....	207	202
Total current assets .....	2,645	2,694
Property and equipment, net of accumulated depreciation and amortization of \$18,264 and \$17,704, respectively .....	11,942	11,559
Goodwill .....	6,430	6,247
Other intangible assets, net .....	572	547
Restricted trust and escrow accounts .....	296	249
Investments in unconsolidated entities .....	406	269
Other assets .....	359	264
Total assets .....	\$ 22,650	\$ 21,829
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 1,037	\$ 1,040
Accrued liabilities .....	1,117	980
Deferred revenues .....	522	503
Current portion of long-term debt .....	432	739
Total current liabilities .....	3,108	3,262
Long-term debt, less current portion .....	9,594	8,752
Deferred income taxes .....	1,291	1,248
Landfill and environmental remediation liabilities .....	1,828	1,770
Other liabilities .....	553	755
Total liabilities .....	16,374	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 .....	4,993	4,933
Retained earnings .....	9,797	8,588
Accumulated other comprehensive income (loss) .....	(87)	8
Treasury stock at cost, 206,299,352 and 196,963,558 shares, respectively .....	(8,434)	(7,516)
Total Waste Management, Inc. stockholders' equity .....	6,275	6,019
Noncontrolling interests .....	1	23
Total equity .....	6,276	6,042
Total liabilities and equity .....	\$ 22,650	\$ 21,829

See Notes to Consolidated Financial Statements.

**WASTE MANAGEMENT, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Millions, Except per Share Amounts)

	Years Ended December 31,		
	2018	2017	2016
Operating revenues .....	\$ 14,914	\$ 14,485	\$ 13,609
Costs and expenses:			
Operating .....	9,249	9,021	8,486
Selling, general and administrative .....	1,453	1,468	1,410
Depreciation and amortization .....	1,477	1,376	1,301
Restructuring .....	4	—	4
(Gain) loss from divestitures, asset impairments and unusual items, net. . . .	(58)	(16)	112
	<u>12,125</u>	<u>11,849</u>	<u>11,313</u>
Income from operations .....	<u>2,789</u>	<u>2,636</u>	<u>2,296</u>
Other income (expense):			
Interest expense, net. ....	(374)	(363)	(376)
Equity in net losses of unconsolidated entities. ....	(41)	(68)	(44)
Other, net .....	2	(14)	(54)
	<u>(413)</u>	<u>(445)</u>	<u>(474)</u>
Income before income taxes .....	2,376	2,191	1,822
Income tax expense .....	453	242	642
Consolidated net income .....	<u>1,923</u>	<u>1,949</u>	<u>1,180</u>
Less: Net loss attributable to noncontrolling interests. ....	(2)	—	(2)
Net income attributable to Waste Management, Inc. ....	<u>\$ 1,925</u>	<u>\$ 1,949</u>	<u>\$ 1,182</u>
Basic earnings per common share .....	<u>\$ 4.49</u>	<u>\$ 4.44</u>	<u>\$ 2.66</u>
Diluted earnings per common share .....	<u>\$ 4.45</u>	<u>\$ 4.41</u>	<u>\$ 2.65</u>
Cash dividends declared per common share .....	<u>\$ 1.86</u>	<u>\$ 1.70</u>	<u>\$ 1.64</u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In Millions)

	Years Ended December 31,		
	2018	2017	2016
Consolidated net income .....	\$ 1,923	\$ 1,949	\$ 1,180
Other comprehensive income (loss), net of tax:			
Derivative instruments, net .....	8	7	12
Available-for-sale securities, net. ....	5	2	5
Foreign currency translation adjustments .....	(105)	76	28
Post-retirement benefit obligation, net .....	2	3	2
Other comprehensive income (loss), net of tax .....	<u>(90)</u>	<u>88</u>	<u>47</u>
Comprehensive income .....	1,833	2,037	1,227
Less: Comprehensive loss attributable to noncontrolling interests. ....	(2)	—	(2)
Comprehensive income attributable to Waste Management, Inc. ....	<u>\$ 1,835</u>	<u>\$ 2,037</u>	<u>\$ 1,229</u>

See Notes to Consolidated Financial Statements.

**WASTE MANAGEMENT, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In Millions)**

	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:			
Consolidated net income	\$ 1,923	\$ 1,949	\$ 1,180
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Depreciation and amortization	1,477	1,376	1,301
Deferred income tax expense (benefit)	25	(251)	73
Interest accretion on landfill liabilities	95	92	91
Provision for bad debts	54	43	42
Equity-based compensation expense	89	101	90
Net gain on disposal of assets	(47)	(20)	(24)
(Gain) loss from divestitures, asset impairments and other, net	(58)	49	114
Equity in net losses of unconsolidated entities, net of dividends	41	39	44
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Receivables	(16)	(271)	(78)
Other current assets	(16)	50	(12)
Other assets	(14)	(66)	75
Accounts payable and accrued liabilities	203	126	192
Deferred revenues and other liabilities	(186)	(37)	(85)
Net cash provided by operating activities	<u>3,570</u>	<u>3,180</u>	<u>3,003</u>
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	(460)	(198)	(608)
Capital expenditures	(1,694)	(1,509)	(1,339)
Proceeds from divestitures of businesses and other assets (net of cash divested)	208	99	43
Other, net	(223)	(12)	(25)
Net cash used in investing activities	<u>(2,169)</u>	<u>(1,620)</u>	<u>(1,929)</u>
Cash flows from financing activities:			
New borrowings	359	1,479	3,057
Debt repayments	(499)	(1,907)	(2,682)
Net commercial paper borrowings	453	513	—
Common stock repurchase program	(1,004)	(750)	(725)
Cash dividends	(802)	(750)	(726)
Exercise of common stock options	52	95	63
Tax payments associated with equity-based compensation transactions	(29)	(47)	(30)
Other, net	(38)	6	(41)
Net cash used in financing activities	<u>(1,508)</u>	<u>(1,361)</u>	<u>(1,084)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents	(3)	—	—
Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	(110)	199	(10)
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	293	94	104
Cash, cash equivalents and restricted cash and cash equivalents at end of period	<u>\$ 183</u>	<u>\$ 293</u>	<u>\$ 94</u>
Reconciliation of cash, cash equivalents and restricted cash and cash equivalents at end of period:			
Cash and cash equivalents	\$ 61	\$ 22	\$ 32
Restricted cash and cash equivalents included in other current assets	49	70	—
Restricted cash and cash equivalents included in restricted trust and escrow accounts	73	201	62
Cash, cash equivalents and restricted cash and cash equivalents at end of period	<u>\$ 183</u>	<u>\$ 293</u>	<u>\$ 94</u>

See Notes to Consolidated Financial Statements.



**WASTE MANAGEMENT, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(In Millions, Except Shares in Thousands)**

	Waste Management, Inc. Stockholders' Equity									
	Total	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Noncontrolling Interests
		Shares	Amounts			Shares	Amounts			
Balance, December 31, 2015 . . . . .	\$ 5,367	630,282	\$ 6	\$ 4,827	\$ 6,939	\$ (127)	(183,105)	\$ (6,300)	\$ 22	
Consolidated net income . . . . .	1,180	—	—	—	1,182	—	—	—	(2)	
Other comprehensive income (loss), net of tax . . . . .	47	—	—	—	—	47	—	—	—	
Cash dividends . . . . .	(726)	—	—	—	(726)	—	—	—	—	
Equity-based compensation transactions, net of tax . . . . .	186	—	—	69	(7)	—	3,556	124	—	
Common stock repurchase program . . . . .	(725)	—	—	(45)	—	—	(11,241)	(680)	—	
Other, net . . . . .	(9)	—	—	(1)	—	—	(177)	(11)	3	
Balance, December 31, 2016 . . . . .	\$ 5,320	630,282	\$ 6	\$ 4,850	\$ 7,388	\$ (80)	(190,967)	\$ (6,867)	\$ 23	
Consolidated net income . . . . .	1,949	—	—	—	1,949	—	—	—	—	
Other comprehensive income (loss), net of tax . . . . .	88	—	—	—	—	88	—	—	—	
Cash dividends . . . . .	(750)	—	—	—	(750)	—	—	—	—	
Equity-based compensation transactions, net . . . . .	185	—	—	38	1	—	4,064	146	—	
Common stock repurchase program . . . . .	(750)	—	—	45	—	—	(10,058)	(795)	—	
Other, net . . . . .	—	—	—	—	—	—	(3)	—	—	
Balance, December 31, 2017 . . . . .	\$ 6,042	630,282	\$ 6	\$ 4,933	\$ 8,588	\$ 8	(196,964)	\$ (7,516)	\$ 23	
Adoption of new accounting standards . . . . .	80	—	—	—	85	(5)	—	—	—	
Consolidated net income . . . . .	1,923	—	—	—	1,925	—	—	—	(2)	
Other comprehensive income (loss), net of tax . . . . .	(90)	—	—	—	—	(90)	—	—	—	
Cash dividends . . . . .	(802)	—	—	—	(802)	—	—	—	—	
Equity-based compensation transactions, net . . . . .	151	—	—	60	1	—	2,345	90	—	
Common stock repurchase program . . . . .	(1,008)	—	—	—	—	—	(11,673)	(1,008)	—	
Divestiture of noncontrolling interest . . . . .	(19)	—	—	—	—	—	—	—	(19)	
Other, net . . . . .	(1)	—	—	—	—	—	(7)	—	(1)	
Balance, December 31, 2018 . . . . .	\$ 6,276	630,282	\$ 6	\$ 4,993	\$ 9,797	\$ (87)	(206,299)	\$ (8,434)	\$ 1	

See Notes to Consolidated Financial Statements.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 2018, 2017 and 2016

#### 1. Business

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 18. 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 19.

#### 2. New Accounting Standards and Reclassifications

##### *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, 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 3 for additional information and disclosures related to this amended guidance.

## WASTE MANAGEMENT, INC.

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

*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. See Note 3 for additional information and disclosures related to this amended guidance.

*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 Consolidated Statements of Cash Flows now includes restricted cash and cash equivalents of \$65 million, \$62 million and \$271 million as of December 31, 2015, 2016 and 2017, respectively, in restricted trust and escrow accounts and other current assets in our 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 Consolidated Statements of Cash Flows.

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

*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* — In February 2018, the FASB issued ASU 2018-02 associated with the reclassification of certain tax effects from accumulated other comprehensive income (loss). This amended guidance allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Act”) which was signed into law on December 22, 2017. We early adopted this amended guidance on January 1, 2018, and as a result, elected to reclassify \$5 million of stranded tax effects from accumulated other comprehensive income (loss) to retained earnings using a specific identification approach. See Note 12 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 8 for the disclosures related to this amended guidance.

## WASTE MANAGEMENT, INC.

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

#### *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. 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, ASU 2018-11 in July 2018 and ASU 2018-20 in December 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. We elected the optional transition method which allows entities to continue to apply historical accounting guidance in the comparative periods presented in the year of adoption.

At transition, lessees and lessors may elect to apply a package of practical expedients permitting entities not to reassess: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance. These practical expedients must be elected as a package and consistently applied. We have elected to apply the package of practical expedients upon adoption.

We identified our leases or other contracts impacted by the new standard and are currently in the process of (i) finalizing our implementation of a software solution to manage and account for leases under the new standard and (ii) updating our business processes and related policies, systems and controls to support recognition and disclosure under the new standard.

Upon adoption of the amended guidance, we expect to recognize right-of-use assets and related liabilities of approximately \$300 million to \$350 million for our contracts which contain an operating lease. We currently do not expect the amended guidance to have any other material impacts 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 and are not material to our consolidated financial statements.

### **3. Summary of Significant Accounting Policies**

#### *Principles of Consolidation*

The accompanying Consolidated Financial Statements include the accounts of WM, its wholly-owned and majority-owned subsidiaries and certain variable interest entities for which we have determined that we are the primary beneficiary. All material intercompany balances and transactions have been eliminated. Investments in unconsolidated entities are accounted for under the appropriate method of accounting.

## WASTE MANAGEMENT, INC.

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

#### *Estimates and Assumptions*

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

#### *Cash and Cash Equivalents*

Cash in excess of current operating requirements is invested in short-term interest-bearing instruments with maturities of three months or less at the date of purchase and is stated at cost, which approximates market value.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments held within our restricted trust and escrow accounts, and accounts receivable. We make efforts to control our exposure to credit risk associated with these instruments by (i) placing our assets and other financial interests with a diverse group of credit-worthy financial institutions; (ii) holding high-quality financial instruments while limiting investments in any one instrument and (iii) maintaining strict policies over credit extension that include credit evaluations, credit limits and monitoring procedures, although generally we do not have collateral requirements for credit extensions. We also control our exposure associated with trade receivables by discontinuing service, to the extent allowable, to non-paying customers. However, our overall credit risk associated with trade receivables is limited due to the large number and diversity of customers we serve. As of December 31, 2018 and 2017, no single customer represented greater than 5% of total accounts receivable.

#### *Accounts and Other Receivables*

Our receivables, 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. The activity within our allowance for doubtful accounts was not material for the reported periods. Past-due receivable balances are written off when our internal collection efforts have been unsuccessful. Also, we recognize interest income on long-term interest-bearing notes receivable as the interest accrues under the terms of the notes. We no longer accrue interest once the notes are deemed uncollectible.

Other receivables, as of December 31, 2018 and 2017, include receivables related to income tax payments in excess of our current income tax obligations of \$284 million and \$504 million, respectively.

## WASTE MANAGEMENT, INC.

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

#### *Parts and Supplies*

Parts and supplies consist primarily of spare parts, fuel, tires, lubricants and processed recycling materials. Our parts and supplies are stated at the lower of cost, using the average cost method, or market.

#### *Landfill Accounting*

*Cost Basis of Landfill Assets* — We capitalize various costs that we incur to make a landfill ready to accept waste. These costs generally include expenditures for land (including the landfill footprint and required landfill buffer property); permitting; excavation; liner material and installation; landfill leachate collection systems; landfill gas collection systems; environmental monitoring equipment for groundwater and landfill gas; and directly related engineering, capitalized interest, on-site road construction and other capital infrastructure costs. The cost basis of our landfill assets also includes asset retirement costs, which represent estimates of future costs associated with landfill final capping, closure and post-closure activities. These costs are discussed below.

*Final Capping, Closure and Post-Closure Costs* — Following is a description of our asset retirement activities and our related accounting:

- *Final Capping* — Involves the installation of flexible membrane liners and geosynthetic clay liners, drainage and compacted soil layers and topsoil over areas of a landfill where total airspace capacity has been consumed. Final capping asset retirement obligations are recorded on a units-of-consumption basis as airspace is consumed related to the specific final capping event with a corresponding increase in the landfill asset. Each final capping event is accounted for as a discrete obligation and recorded as an asset and a liability based on estimates of the discounted cash flows and capacity associated with each final capping event.
- *Closure* — Includes the construction of the final portion of methane gas collection systems (when required), demobilization and routine maintenance costs. These are costs incurred after the site ceases to accept waste, but before the landfill is certified as closed by the applicable state regulatory agency. These costs are recorded as an asset retirement obligation as airspace is consumed over the life of the landfill with a corresponding increase in the landfill asset. Closure obligations are recorded over the life of the landfill based on estimates of the discounted cash flows associated with performing closure activities.
- *Post-Closure* — Involves the maintenance and monitoring of a landfill site that has been certified closed by the applicable regulatory agency. Generally, we are required to maintain and monitor landfill sites for a 30-year period. These maintenance and monitoring costs are recorded as an asset retirement obligation as airspace is consumed over the life of the landfill with a corresponding increase in the landfill asset. Post-closure obligations are recorded over the life of the landfill based on estimates of the discounted cash flows associated with performing post-closure activities.

We develop our estimates of these obligations using input from our operations personnel, engineers and accountants. Our estimates are based on our interpretation of current requirements and proposed regulatory changes and are intended to approximate fair value. Absent quoted market prices, the estimate of fair value is based on the best available information, including the results of present value techniques. In many cases, we contract with third parties to fulfill our obligations for final capping, closure and post-closure. We use historical experience, professional engineering judgment and quoted or actual prices paid for similar work to determine the fair value of these obligations. We are required to recognize these obligations at market prices whether we plan to contract with third parties or perform the work ourselves. In those instances where we perform the work with internal resources, the incremental profit margin realized is recognized as a component of operating income when the work is completed.

## WASTE MANAGEMENT, INC.

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

Once we have determined final capping, closure and post-closure costs, we inflate those costs to the expected time of payment and discount those expected future costs back to present value. During the years ended December 31, 2018, 2017 and 2016, we inflated these costs in current dollars to the expected time of payment using an inflation rate of 2.5%. We discounted these costs to present value using the credit-adjusted, risk-free rate effective at the time an obligation is incurred, consistent with the expected cash flow approach. Any changes in expectations that result in an upward revision to the estimated cash flows are treated as a new liability and discounted at the current rate while downward revisions are discounted at the historical weighted average rate of the recorded obligation. As a result, the credit-adjusted, risk-free discount rate used to calculate the present value of an obligation is specific to each individual asset retirement obligation. The weighted average rate applicable to our long-term asset retirement obligations as of December 31, 2018 was approximately 5.50%.

We record the estimated fair value of final capping, closure and post-closure liabilities for our landfills based on the capacity consumed through the current period. The fair value of final capping obligations is developed based on our estimates of the airspace consumed to date for each final capping event and the expected timing of each final capping event. The fair value of closure and post-closure obligations is developed based on our estimates of the airspace consumed to date for the entire landfill and the expected timing of each closure and post-closure activity. Because these obligations are measured at estimated fair value using present value techniques, changes in the estimated cost or timing of future final capping, closure and post-closure activities could result in a material change in these liabilities, related assets and results of operations. We assess the appropriateness of the estimates used to develop our recorded balances annually, or more often if significant facts change.

Changes in inflation rates or the estimated costs, timing or extent of future final capping, closure and post-closure activities typically result in both (i) a current adjustment to the recorded liability and landfill asset and (ii) a change in liability and asset amounts to be recorded prospectively over either the remaining capacity of the related discrete final capping event or the remaining permitted and expansion airspace (as defined below) of the landfill. Any changes related to the capitalized and future cost of the landfill assets are then recognized in accordance with our amortization policy, which would generally result in amortization expense being recognized prospectively over the remaining capacity of the final capping event or the remaining permitted and expansion airspace of the landfill, as appropriate. Changes in such estimates associated with airspace that has been fully utilized result in an adjustment to the recorded liability and landfill assets with an immediate corresponding adjustment to landfill airspace amortization expense.

Interest accretion on final capping, closure and post-closure liabilities is recorded using the effective interest method and is recorded as final capping, closure and post-closure expense, which is included in operating expenses within our Consolidated Statements of Operations.

*Amortization of Landfill Assets* — The amortizable basis of a landfill includes (i) amounts previously expended and capitalized; (ii) capitalized landfill final capping, closure and post-closure costs; (iii) projections of future purchase and development costs required to develop the landfill site to its remaining permitted and expansion capacity and (iv) projected asset retirement costs related to landfill final capping, closure and post-closure activities.

Amortization is recorded on a units-of-consumption basis, applying expense as a rate per ton. The rate per ton is calculated by dividing each component of the amortizable basis of a landfill by the number of tons needed to fill the corresponding asset's airspace. For landfills that we do not own, but operate through lease or other contractual agreements, the rate per ton is calculated based on expected capacity to be utilized over the lesser of the contractual term of the underlying agreement or the life of the landfill.

We apply the following guidelines in determining a landfill's remaining permitted and expansion airspace:

- *Remaining Permitted Airspace* — Our engineers, in consultation with third-party engineering consultants and surveyors, are responsible for determining remaining permitted airspace at our landfills. The remaining permitted

## WASTE MANAGEMENT, INC.

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

airspace is determined by an annual survey, which is used to compare the existing landfill topography to the expected final landfill topography.

- *Expansion Airspace* — We also include currently unpermitted expansion airspace in our estimate of remaining permitted and expansion airspace in certain circumstances. First, to include airspace associated with an expansion effort, we must generally expect the initial expansion permit application to be submitted within one year and the final expansion permit to be received within five years. Second, we must believe that obtaining the expansion permit is likely, considering the following criteria:
  - Personnel are actively working on the expansion of an existing landfill, including efforts to obtain land use and local, state or provincial approvals;
  - We have a legal right to use or obtain land to be included in the expansion plan;
  - There are no significant known technical, legal, community, business, or political restrictions or similar issues that could negatively affect the success of such expansion; and
  - Financial analysis has been completed based on conceptual design, and the results demonstrate that the expansion meets Company criteria for investment.

For unpermitted airspace to be initially included in our estimate of remaining permitted and expansion airspace, the expansion effort must meet all the criteria listed above. These criteria are evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. Once the unpermitted airspace is included, our policy provides that airspace may continue to be included in remaining permitted and expansion airspace even if certain of these criteria are no longer met as long as we continue to believe we will ultimately obtain the permit, based on the facts and circumstances of a specific landfill. In these circumstances, continued inclusion must be approved through a landfill-specific review process that includes approval by our Chief Financial Officer and a review by the Audit Committee of our Board of Directors on a quarterly basis. Of the 15 landfill sites with expansions included as of December 31, 2018, two landfills required the Chief Financial Officer to approve the inclusion of the unpermitted airspace because the permit application process did not meet the one- or five-year requirements.

When we include the expansion airspace in our calculations of remaining permitted and expansion airspace, we also include the projected costs for development, as well as the projected asset retirement costs related to final capping, closure and post-closure of the expansion in the amortization basis of the landfill.

Once the remaining permitted and expansion airspace is determined in cubic yards, an airspace utilization factor (“AUF”) is established to calculate the remaining permitted and expansion capacity in tons. The AUF is established using the measured density obtained from previous annual surveys and is then adjusted to account for future settlement. The amount of settlement that is forecasted will take into account several site-specific factors including current and projected mix of waste type, initial and projected waste density, estimated number of years of life remaining, depth of underlying waste, anticipated access to moisture through precipitation or recirculation of landfill leachate and operating practices. In addition, the initial selection of the AUF is subject to a subsequent multi-level review by our engineering group and the AUF used is reviewed on a periodic basis and revised as necessary. Our historical experience generally indicates that the impact of settlement at a landfill is greater later in the life of the landfill when the waste placed at the landfill approaches its highest point under the permit requirements.

After determining the costs and remaining permitted and expansion capacity at each of our landfills, we determine the per ton rates that will be expensed as waste is received and deposited at the landfill by dividing the costs by the corresponding number of tons. We calculate per ton amortization rates for each landfill for assets associated with each final capping event, for assets related to closure and post-closure activities and for all other costs capitalized or to be capitalized in the future. These rates per ton are updated annually, or more often, as significant facts change.



## WASTE MANAGEMENT, INC.

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

It is possible that actual results, including the amount of costs incurred, the timing of final capping, closure and post-closure activities, our airspace utilization or the success of our expansion efforts could ultimately turn out to be significantly different from our estimates and assumptions. To the extent that such estimates, or related assumptions, prove to be significantly different than actual results, lower profitability may be experienced due to higher amortization rates or higher expenses; or higher profitability may result if the opposite occurs. Most significantly, if it is determined that expansion capacity should no longer be considered in calculating the recoverability of a landfill asset, we may be required to recognize an asset impairment or incur significantly higher amortization expense. If at any time management makes the decision to abandon the expansion effort, the capitalized costs related to the expansion effort are expensed immediately.

#### *Environmental Remediation Liabilities*

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.

Where it is probable that a liability has been incurred, we estimate costs required to remediate sites based on site-specific facts and circumstances. We routinely review and evaluate sites that require remediation, considering whether we were an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years we were associated with the site. Next, we review the same type of information with respect to other named and unnamed PRPs. Estimates of the costs for the likely remedy are then either developed using our internal resources or by third-party environmental engineers or other service providers. Internally developed estimates are based on:

- Management’s judgment and experience in remediating our own and unrelated parties’ sites;
- Information available from regulatory agencies as to costs of remediation;
- The number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site; and
- The typical allocation of costs among PRPs, unless the actual allocation has been determined.

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the environmental impact investigation. In these cases, we use the amount within the range that is our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately \$140 million higher than the \$237 million recorded in the Consolidated Balance Sheet as of December 31, 2018. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to our balance sheet and income from operations. These adjustments could be material in any given period.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Where we believe that both the amount of a particular environmental remediation liability and the timing of the payments are fixed or reliably determinable, we inflate the cost in current dollars (by 2.5% as of December 31, 2018 and 2017) until the expected time of payment and discount the cost to present value using a risk-free discount rate, which is based on the rate for U.S. Treasury bonds with a term approximating the weighted average period until settlement of the underlying obligation. We determine the risk-free discount rate and the inflation rate on an annual basis unless interim changes would materially impact our results of operations. For remedial liabilities that have been discounted, we include interest accretion, based on the effective interest method, in operating expenses in our Consolidated Statements of Operations. The following table summarizes the impacts of revisions in the risk-free discount rate applied to our environmental remediation liabilities and recovery assets for the years ended December 31 (in millions) and the risk-free discount rate applied as of December 31:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Decrease in operating expenses .....	\$ (2)	\$ —	\$ (2)
Risk-free discount rate applied to environmental remediation liabilities and recovery assets .....	2.75 %	2.5 %	2.5 %

The portion of our recorded environmental remediation liabilities that were not subject to inflation or discounting, as the amounts and timing of payments are not fixed or reliably determinable, was \$35 million and \$47 million as of December 31, 2018 and 2017, respectively. Had we not inflated and discounted any portion of our environmental remediation liability, the amount recorded would have increased \$3 million as of December 31, 2018 and remained the same as of December 31, 2017.

***Property and Equipment (Exclusive of Landfills, Discussed Above)***

We record property and equipment at cost. Expenditures for major additions and improvements are capitalized and maintenance activities are expensed as incurred. We depreciate property and equipment over the estimated useful life of the asset using the straight-line method. We assume no salvage value for our depreciable property and equipment. When property and equipment are retired, sold or otherwise disposed of, the cost and accumulated depreciation are removed from our accounts and any resulting gain or loss is included in results of operations as an offset or increase to operating expense for the period.

The estimated useful lives for significant property and equipment categories are as follows (in years):

	<b>Useful Lives</b>
Vehicles — excluding rail haul cars .....	3 to 10
Vehicles — rail haul cars .....	10 to 30
Machinery and equipment — including containers .....	3 to 30
Buildings and improvements .....	5 to 40
Furniture, fixtures and office equipment .....	3 to 10

We include capitalized costs associated with developing or obtaining internal-use software within furniture, fixtures and office equipment. These costs include direct external costs of materials and services used in developing or obtaining the software and internal costs for employees directly associated with the software development project.

***Leases***

We lease property and equipment in the ordinary course of our business. Our most significant lease obligations are for property and equipment specific to our industry, including real property operated as a landfill or transfer station. Our leases have varying terms. Some may include renewal or purchase options, escalation clauses, restrictions, penalties or

## WASTE MANAGEMENT, INC.

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

other obligations that we consider in determining minimum lease payments. The leases are classified as either operating leases or capital leases, as appropriate. See Note 2 for information related to the pending adoption of ASU 2016-02.

*Operating Leases (Excluding Landfill Leases Discussed Below)* — The majority of our leases are operating leases. This classification generally can be attributed to either (i) relatively low fixed minimum lease payments as a result of real property lease obligations that vary based on the volume of waste we receive or process or (ii) minimum lease terms that are much shorter than the assets' economic useful lives. Management expects that in the normal course of business our operating leases will be renewed, replaced by other leases, or replaced with fixed asset expenditures. Our rent expense during each of the last three years and our future minimum operating lease payments for each of the next five years for which we are contractually obligated as of December 31, 2018 are disclosed in Note 10.

*Capital Leases (Excluding Landfill Leases Discussed Below)* — Assets under capital leases are capitalized using interest rates determined at the inception of each lease and are amortized over either the useful life of the asset or the lease term, as appropriate, on a straight-line basis. The present value of the related lease payments is recorded as a debt obligation. Our future minimum annual capital lease payments are included in our future debt obligations as disclosed in Note 7.

*Landfill Leases* — From an operating perspective, landfills that we lease are similar to landfills we own because generally we will operate the landfill for the life of the operating permit. The most significant portion of our rental obligations for landfill leases is contingent upon operating factors such as disposal volumes and often there are no contractual minimum rental obligations. Contingent rental obligations are expensed as incurred. For landfill capital leases that provide for minimum contractual rental obligations, we record the present value of the minimum obligation as part of the landfill asset, which is amortized on a units-of-consumption basis over the shorter of the lease term or the life of the landfill.

#### ***Acquisitions***

We generally recognize assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities, based on fair value estimates as of the date of acquisition.

*Contingent Consideration* — In certain acquisitions, we agree to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain negotiated goals, such as targeted revenue levels, targeted disposal volumes or the issuance of permits for expanded landfill airspace. We have recognized liabilities for these contingent obligations based on their estimated fair value as of the date of acquisition with any differences between the acquisition-date fair value and the ultimate settlement of the obligations being recognized as an adjustment to income from operations.

*Acquired Assets and Assumed Liabilities* — Assets and liabilities arising from contingencies such as pre-acquisition environmental matters and litigation are recognized at their acquisition-date fair value when their respective fair values can be determined. If the fair values of such contingencies cannot be determined, they are recognized as of the acquisition date if the contingencies are probable and an amount can be reasonably estimated.

Acquisition-date fair value estimates are revised as necessary if, and when, additional information regarding these contingencies becomes available to further define and quantify assets acquired and liabilities assumed. Subsequent to finalization of purchase accounting, these revisions are accounted for as adjustments to income from operations. All acquisition-related transaction costs are expensed as incurred.

## WASTE MANAGEMENT, INC.

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

#### *Goodwill and Other Intangible Assets*

Goodwill is the excess of our purchase cost over the fair value of the net assets of acquired businesses. We do not amortize goodwill, but as discussed in the *Long-Lived Asset Impairments* section below, we assess our goodwill for impairment at least annually.

Other intangible assets consist primarily of customer and supplier relationships, covenants not-to-compete, licenses, permits (other than landfill permits, as all landfill-related intangible assets are combined with landfill tangible assets and amortized using our landfill amortization policy), and other contracts. Other intangible assets are recorded at fair value on the acquisition date and are generally amortized using either a 150% declining balance approach or a straight-line basis as we determine appropriate. Customer and supplier relationships are typically amortized over a term of ten years. Covenants not-to-compete are amortized over the term of the non-compete covenant, which is generally two to five years. Licenses, permits and other contracts are amortized over the definitive terms of the related agreements. If the underlying agreement does not contain definitive terms and the useful life is determined to be indefinite, the asset is not amortized.

#### *Long-Lived Asset Impairments*

We assess our long-lived assets for impairment as required under the applicable accounting standards. If necessary, impairments are recorded in (gain) loss from divestitures, asset impairments and unusual items, net in our Consolidated Statement of Operations.

*Property and Equipment, Including Landfills and Definite-Lived Intangible Assets* — We monitor the carrying value of our long-lived assets for potential impairment on an ongoing basis and test the recoverability of such assets generally using significant unobservable (“Level 3”) inputs whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. These events or changes in circumstances, including management decisions pertaining to such assets, are referred to as impairment indicators. If an impairment indicator occurs, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset or asset group to its carrying value and the difference is recorded in the period that the impairment indicator occurs. Fair value is generally determined by considering (i) internally developed discounted projected cash flow analysis of the asset or asset group; (ii) actual third-party valuations and/or (iii) information available regarding the current market for similar assets. Estimating future cash flows requires significant judgment and projections may vary from the cash flows eventually realized, which could impact our ability to accurately assess whether an asset has been impaired.

The assessment of impairment indicators and the recoverability of our capitalized costs associated with landfills and related expansion projects require significant judgment due to the unique nature of the waste industry, the highly regulated permitting process and the sensitive estimates involved. During the review of a landfill expansion application, a regulator may initially deny the expansion application although the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace, or a landfill may be required to cease accepting waste, prior to receipt of the expansion permit. However, such events occur in the ordinary course of business in the waste industry and do not necessarily result in impairment of our landfill assets because, after consideration of all facts, such events may not affect our belief that we will ultimately obtain the expansion permit. As a result, our tests of recoverability, which generally make use of a probability-weighted cash flow estimation approach, may indicate that no impairment loss should be recorded.

## WASTE MANAGEMENT, INC.

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

*Indefinite-Lived Intangible Assets, Including Goodwill* — At least annually, and more frequently if warranted, we assess the indefinite-lived intangible assets including the goodwill of our reporting units for impairment using Level 3 inputs.

Beginning in 2018, we first performed a qualitative assessment to determine if it was more likely than not that the fair value of a reporting unit was less than its carrying value. If the assessment indicated a possible impairment, we completed a quantitative review, comparing the estimated fair value of a reporting unit to its carrying amount, including goodwill. An impairment charge was recognized if the asset's estimated fair value was less than its carrying amount. Fair value is typically estimated using an income approach. However, when appropriate, we may also use a market approach. The income approach is based on the long-term projected future cash flows of the reporting units. We discount the estimated cash flows to present value using a weighted average cost of capital that considers factors such as market assumptions, the timing of the cash flows and the risks inherent in those cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting units' expected long-term performance considering the economic and market conditions that generally affect our business. The market approach estimates fair value by measuring the aggregate market value of publicly-traded companies with similar characteristics to our business as a multiple of their reported earnings. We then apply that multiple to the reporting units' earnings to estimate their fair values. We believe that this approach may also be appropriate in certain circumstances because it provides a fair value estimate using valuation inputs from entities with operations and economic characteristics comparable to our reporting units.

Fair value is computed using several factors, including projected future operating results, economic projections, anticipated future cash flows, comparable marketplace data and the cost of capital. There are inherent uncertainties related to these factors and to our judgment in applying them in our analysis. However, we believe our methodology for estimating the fair value of our reporting units is reasonable.

Refer to Note 11 for information related to impairments recognized during the reported periods.

#### ***Insured and Self-Insured Claims***

We have retained a significant portion of the risks related to our health and welfare, general liability, automobile liability and workers' compensation claims programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, generally is estimated with the assistance of external actuaries and by factoring in pending claims and historical trends and data. The gross estimated liability associated with settling unpaid claims is included in accrued liabilities in our Consolidated Balance Sheets if expected to be settled within one year; otherwise, it is included in other long-term liabilities. Estimated insurance recoveries related to recorded liabilities are reflected as other current receivables or other long-term assets in our Consolidated Balance Sheets when we believe that the receipt of such amounts is probable.

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 continue to maintain conventional insurance policies with third-party insurers. In addition to certain business and operating benefits of having a wholly-owned insurance captive, we expect to receive certain cash flow benefits related to the timing of tax deductions related to these claims. WM will pay an annual premium to the insurance captive, typically in the first quarter of the year, for the estimated losses based on the external actuarial analysis. These premiums are held in a restricted escrow account to be used solely for paying insurance claims, resulting in a transfer of risk from WM to the insurance captive and are allocated between current and long-term assets depending on timing on the use of funds.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Restricted Trust and Escrow Accounts***

Our restricted trust and escrow accounts consist principally of funds deposited for purposes of funding insurance claims and settling landfill final capping, closure, post-closure and environmental remediation obligations. These funds are allocated between cash, money market funds and available-for-sale securities depending on the estimated timing and purpose of the use of funds. In December 2017, we elected to use a wholly-owned insurance captive to insure the deductibles for certain claims programs, as discussed above in *Insured and Self-Insured Claims*, and the premiums paid were directly deposited into a restricted escrow account to be used solely for paying insurance claims. At several of our landfills, we provide financial assurance by depositing cash into restricted trust or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Balances maintained in these restricted trust and escrow accounts will fluctuate based on (i) changes in statutory requirements; (ii) future deposits made to comply with contractual arrangements; (iii) the ongoing use of funds; (iv) acquisitions or divestitures and (v) changes in the fair value of the financial instruments held in the restricted trust or escrow accounts.

See Note 18 for additional discussion related to restricted trust and escrow accounts for final capping, closure, post-closure or environmental remediation obligations.

***Investments in Unconsolidated Entities***

Investments in unconsolidated entities over which the Company has significant influence are accounted for under the equity method of accounting. Prior to 2018, investments in entities in which the Company does not have the ability to exert significant influence over the investees' operating and financing activities were accounted for under the cost method of accounting. On January 1, 2018, we adopted ASU 2016-01, which resulted in certain equity investments previously accounted for under the cost method to be measured using a quantitative approach as we concluded these investments did not have readily determinable fair values. The quantitative approach, or measurement alternative, 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. See Note 2 for additional information related to this amended guidance. The fair value of our redeemable preferred stock has been measured based on third-party investors' recent or pending transactions in these securities, which are considered the best evidence of fair value. The following table summarizes our investments in unconsolidated entities as of December 31 (in millions):

	<u>2018</u>	<u>2017</u>
Equity method investments . . . . .	\$ 257	\$ 127
Investments without readily determinable fair values . . . . .	83	87
Redeemable preferred stock . . . . .	66	55
Investments in unconsolidated entities . . . . .	<u>\$ 406</u>	<u>\$ 269</u>

We monitor and assess the carrying value of our investments throughout the year for potential impairment and write them down to their fair value when other-than-temporary declines exist. Fair value is generally based on (i) other third-party investors' recent transactions in the securities; (ii) other information available regarding the current market for similar assets; (iii) a market or income approach, as deemed appropriate and/or (iv) a quantitative approach, or measurement alternative, as noted above. Impairments of our investments are recorded in equity in net losses of unconsolidated entities or other, net in the Consolidated Statements of Operations in accordance with appropriate accounting guidance.

Refer to Notes 11 and 16 for information related to impairments and other adjustments recognized during the reported periods.

## WASTE MANAGEMENT, INC.

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

#### *Foreign Currency*

We have operations in Canada, as well as certain support functions in India. Local currencies generally are considered the functional currencies of our operations and investments outside the U.S. The assets and liabilities of our foreign operations are translated to U.S. dollars using the exchange rate as of the balance sheet date. Revenues and expenses are translated to U.S. dollars using the average exchange rate during the period. The resulting translation difference is reflected as a component of other comprehensive income (loss).

#### *Cross-Currency Swaps*

From time to time, we will use derivative financial instruments to manage our risk associated with fluctuations in foreign currency exchange rates. Through March 2016, we used cross-currency swaps to hedge our exposure to fluctuations in exchange rates for anticipated intercompany cash transactions between Waste Management Holdings, Inc., a wholly-owned subsidiary (“WM Holdings”), and its Canadian subsidiaries.

Our cross-currency swaps had been designated as cash flow hedges for accounting purposes, which resulted in the unrealized changes in the fair value of the derivative instruments being recorded in accumulated other comprehensive income (loss) within our Consolidated Balance Sheets. The associated balance in accumulated other comprehensive income (loss) was reclassified to earnings as the hedged cash flows affected earnings. The financial statement impacts of our cross-currency swaps are discussed in Note 7.

#### *Revenue Recognition*

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

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

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.

See Note 19 for additional information related to revenue by reportable segment and major lines of business.

## WASTE MANAGEMENT, INC.

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

#### *Deferred Revenues*

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

#### *Contract Acquisition Costs*

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

As of December 31, 2018, we had \$145 million of deferred contract costs, of which \$109 million was related to deferred sales incentives. During the year ended December 31, 2018, we amortized \$22 million of sales incentives to selling, general and administrative expense and \$35 million of other contract acquisition costs as a reduction in revenue.

#### *Long-Term Contracts*

Approximately 25% of our total revenue is derived from contracts with a remaining term greater than one year. The consideration for these contracts is primarily variable in nature. The variable elements of these contracts primarily include the number of homes and businesses served and annual rate changes based on consumer price index, fuel prices or other operating costs. Such contracts are generally within our collection, recycling and other lines of business and have a weighted average remaining contract life of approximately four years. We do not disclose the value of unsatisfied performance obligations for these contracts as our right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations.

#### *Capitalized Interest*

We capitalize interest on certain projects under development, including landfill expansion projects, certain assets under construction, including operating landfills and landfill gas-to-energy projects and internal-use software. During 2018, 2017 and 2016, total interest costs were \$400 million, \$383 million and \$394 million, respectively, of which \$16 million, \$15 million and \$9 million was capitalized in 2018, 2017 and 2016, respectively.

#### *Income Taxes*

The Company is subject to income tax in the U.S. and Canada. Current tax obligations associated with our income tax expense are reflected in the accompanying Consolidated Balance Sheets as a component of accrued liabilities and our deferred tax obligations are reflected in deferred income taxes.

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. Deferred income tax expense represents the change during the reporting period in the deferred tax assets and liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carry-forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We establish reserves for uncertain tax positions when, despite our belief that our tax return positions are fully supportable, we believe that certain positions may be challenged and potentially disallowed. When facts and circumstances change, we adjust these reserves through our income tax expense.



**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Should interest and penalties be assessed by taxing authorities on any underpayment of income tax, such amounts would be accrued and classified as a component of our income tax expense in our Consolidated Statements of Operations.

See Note 8 for discussion of the impacts of enactment of the Act which was signed into law on December 22, 2017 and is generally effective for tax years beginning January 1, 2018.

***Contingent Liabilities***

We estimate the amount of potential exposure we may have with respect to claims, assessments and litigation in accordance with authoritative guidance on accounting for contingencies. We are party to pending or threatened legal proceedings covering a wide range of matters in various jurisdictions. It is difficult to predict the outcome of litigation, as it is subject to many uncertainties. Additionally, it is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such contingencies. See Note 10 for discussion of our commitments and contingencies.

***Supplemental Cash Flow Information***

The following table shows supplemental cash flow information for the years ended December 31 (in millions):

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest, net of capitalized interest .....	\$ 339	\$ 380	\$ 375
Income taxes .....	349	562	442

During 2018, we had \$250 million of non-cash financing activities from our recent federal low-income housing investment discussed in Note 8 and new capital leases. During 2017 and 2016, we did not have any significant non-cash investing and financing activities. Non-cash investing and financing activities are generally excluded from the Consolidated Statements of Cash Flows.

**4. Landfill and Environmental Remediation Liabilities**

Liabilities for landfill and environmental remediation costs as of December 31 are presented in the table below (in millions):

	<b>2018</b>			<b>2017</b>		
	<b>Landfill</b>	<b>Environmental Remediation</b>	<b>Total</b>	<b>Landfill</b>	<b>Environmental Remediation</b>	<b>Total</b>
Current (in accrued liabilities) .	\$ 143	\$ 26	\$ 169	\$ 128	\$ 28	\$ 156
Long-term .....	1,617	211	1,828	1,547	223	1,770
	<b>\$ 1,760</b>	<b>\$ 237</b>	<b>\$ 1,997</b>	<b>\$ 1,675</b>	<b>\$ 251</b>	<b>\$ 1,926</b>

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The changes to landfill and environmental remediation liabilities for the year ended December 31, 2018 are reflected in the table below (in millions):

	<b>Landfill</b>	<b>Environmental Remediation</b>
December 31, 2017 .....	\$ 1,675	\$ 251
Obligations incurred and capitalized .....	83	—
Obligations settled .....	(108)	(26)
Interest accretion .....	95	5
Revisions in estimates and interest rate assumptions (a) (b) .....	(3)	9
Acquisitions, divestitures and other adjustments (c) .....	18	(2)
December 31, 2018 .....	\$ 1,760	\$ 237

- (a) The amount reported for our landfill liabilities includes a net decrease of \$15 million primarily related to our year-end annual review of landfill final capping, closure and post-closure obligations partially offset by an increase of \$12 million due to the acceleration of the expected timing of capping activities for a landfill. See Note 11 for discussion of the impairment charge related to this landfill.
- (b) The amount reported for our environmental remediation liabilities includes changes in cost estimates associated with environmental remediation projects resulting in an increase in the required obligation. These charges were partially offset by a decrease of \$3 million in our environmental remediation liabilities due to an increase in the risk-free discount rate used to measure our liabilities from 2.5% at December 31, 2017 to 2.75% at December 31, 2018.
- (c) The amount reported for our landfill liabilities includes an increase of \$27 million due to landfill acquisitions partially offset by landfill divestitures and other adjustments.

Our recorded liabilities as of December 31, 2018 include the impacts of inflating certain of these costs based on our expectations of the timing of cash settlement and of discounting certain of these costs to present value. Anticipated payments of currently identified environmental remediation liabilities, as measured in current dollars, are \$26 million in 2019, \$19 million in 2020, \$65 million in 2021, \$37 million in 2022, \$13 million in 2023 and \$81 million thereafter.

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Notes 16 and 18 for additional information related to these trusts.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**5. Property and Equipment**

Property and equipment as of December 31 consisted of the following (in millions):

	<u>2018</u>	<u>2017</u>
Land . . . . .	\$ 656	\$ 624
Landfills . . . . .	15,240	14,904
Vehicles . . . . .	5,059	4,750
Machinery and equipment . . . . .	2,988	2,824
Containers . . . . .	2,588	2,571
Buildings and improvements . . . . .	2,998	2,846
Furniture, fixtures and office equipment . . . . .	677	744
	<u>30,206</u>	<u>29,263</u>
Less: Accumulated depreciation of tangible property and equipment . . . . .	(9,107)	(8,916)
Less: Accumulated amortization of landfill airspace . . . . .	(9,157)	(8,788)
Property and equipment, net . . . . .	<u>\$ 11,942</u>	<u>\$ 11,559</u>

Depreciation and amortization expense, including amortization expense for assets recorded as capital leases, consisted of the following for the years ended December 31 (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Depreciation of tangible property and equipment . . . . .	\$ 838	\$ 783	\$ 773
Amortization of landfill airspace . . . . .	538	497	428
Depreciation and amortization expense . . . . .	<u>\$ 1,376</u>	<u>\$ 1,280</u>	<u>\$ 1,201</u>

**6. Goodwill and Other Intangible Assets**

Goodwill was \$6,430 million and \$6,247 million as of December 31, 2018 and 2017, respectively. The \$183 million increase in goodwill during 2018 is primarily related to acquisitions partially offset by translation adjustments related to our Canadian operations, divestitures and an impairment charge, which is discussed below.

As discussed more fully in Note 3, we perform our annual impairment test of goodwill balances for our reporting units using a measurement date of October 1. We will also perform interim tests if an impairment indicator exists. During the fourth quarter of 2018, we recorded a goodwill impairment charge of \$6 million related to our LampTracker® reporting unit, as a result of our annual impairment test, as the carrying value including goodwill exceeded the estimated fair value. Fair value was estimated using an income approach based on long-term projected discounted future cash flows of the reporting unit.

See Notes 11, 17 and 19 for additional information related to goodwill.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Our other intangible assets consisted of the following as of December 31 (in millions):

	<u>Customer and Supplier Relationships</u>	<u>Covenants Not-to- Compete</u>	<u>Licenses, Permits and Other</u>	<u>Total</u>
<b>2018</b>				
Intangible assets .....	\$ 949	\$ 60	\$ 109	\$ 1,118
Less: Accumulated amortization .....	(461)	(24)	(61)	(546)
	<u>\$ 488</u>	<u>\$ 36</u>	<u>\$ 48</u>	<u>\$ 572</u>
<b>2017</b>				
Intangible assets .....	\$ 880	\$ 48	\$ 124	\$ 1,052
Less: Accumulated amortization .....	(422)	(21)	(62)	(505)
	<u>\$ 458</u>	<u>\$ 27</u>	<u>\$ 62</u>	<u>\$ 547</u>

Amortization expense for other intangible assets was \$101 million, \$96 million and \$100 million for 2018, 2017 and 2016, respectively. As of December 31, 2018, we had \$18 million of licenses, permits and other intangible assets that are not subject to amortization because they do not have stated expirations or have routine, administrative renewal processes. Additional information related to other intangible assets acquired through business combinations is included in Note 17. As of December 31, 2018, we expect annual amortization expense related to other intangible assets to be \$105 million in 2019, \$94 million in 2020, \$79 million in 2021, \$63 million in 2022 and \$55 million in 2023.

**7. 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 December 31:

	<u>2018</u>	<u>2017</u>
Revolving credit facility (weighted average interest rate of 3.1% as of December 31, 2018) .....	\$ 11	\$ —
Commercial paper program (weighted average interest rate of 2.9% as of December 31, 2018 and 1.9% as of December 31, 2017) .....	990	515
Canadian term loan and revolving credit facility (weighted average effective interest rate of 2.5% as of December 31, 2017) .....	—	113
Senior notes, maturing through 2045, interest rates ranging from 2.4% to 7.75% (weighted average interest rate of 4.3% as of December 31, 2018 and December 31, 2017) .....	6,222	6,222
Tax-exempt bonds, maturing through 2048, fixed and variable interest rates ranging from 1.35% to 4.3% (weighted average interest rate of 2.35% as of December 31, 2018 and 2.0% as of December 31, 2017) .....	2,388	2,370
Capital leases and other, maturing through 2040, interest rates up to 12% .....	467	327
Debt issuance costs, discounts and other .....	(52)	(56)
	<u>10,026</u>	<u>9,491</u>
Current portion of long-term debt .....	432	739
	<u>\$ 9,594</u>	<u>\$ 8,752</u>

***Debt Classification***

As of December 31, 2018, we had \$1.9 billion of debt maturing within the next 12 months, including (i) \$990 million of short-term borrowings under our commercial paper program; (ii) \$705 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) \$161 million of other debt with scheduled maturities within the next 12 months, including \$106 million of tax-exempt bonds and

## WASTE MANAGEMENT, INC.

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

(iv) C\$15 million, or \$11 million, of Canadian borrowings under our long-term U.S. and Canadian revolving credit facility (“\$2.75 billion revolving credit facility”). Of the \$990 million of short-term borrowings outstanding under our commercial paper program as of December 31, 2018 that are supported by our \$2.75 billion revolving credit facility, we have the intent and ability to refinance or maintain approximately \$730 million of these borrowings on a long-term basis, and we have classified these amounts as long-term debt. As of December 31, 2018, we have classified an additional \$705 million of debt maturing in the next 12 months 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 \$432 million of debt maturing in the next 12 months is classified as current obligations.

As of December 31, 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 Consolidated Balance Sheet as of December 31, 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. WM Holdings, a wholly-owned subsidiary of WM, guarantees all the obligations under the \$2.75 billion revolving credit facility.

The \$2.75 billion revolving credit facility provides us with credit capacity to be used for either cash borrowings or to support letters of credit or commercial paper. The rates we pay for outstanding U.S. or Canadian loans are generally based on LIBOR or CDOR, respectively, plus a spread depending on the Company’s debt rating assigned by Moody’s Investors Service and Standard and Poor’s. The spread above LIBOR or CDOR ranges from 0.69% to 1.05%. Our \$2.75 billion revolving credit facility was drafted in anticipation of the phaseout of LIBOR and contains provisions to replace LIBOR with an appropriate alternate benchmark rate as needed. As of December 31, 2018, we had C\$15 million, or \$11 million, of Canadian borrowings outstanding under this facility. We had \$587 million of letters of credit issued and \$990 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 December 31, 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 rates we pay for outstanding borrowings are based on the term of the notes. The commercial paper program is fully supported by our \$2.75 billion revolving credit facility. In June 2018, we amended our commercial paper program, increasing our ability to borrow funds from \$1.5 billion to \$2.75 billion, provided that the aggregate outstanding amount of commercial paper borrowings, together with borrowings and issued letters of credit under the \$2.75 billion revolving credit facility, shall not at any time exceed the aggregate authorized borrowing capacity of such facility. As of December 31, 2018, we had \$990 million of outstanding borrowings under our commercial paper program.

## WASTE MANAGEMENT, INC.

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

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

*Other Letter of Credit Facilities* — As of December 31, 2018, we had utilized \$556 million of other letter of credit facilities, which are both committed and uncommitted, with terms maturing through December 2020.

#### ***Debt Borrowings and Repayments***

*Revolving Credit Facility* — During the first half of 2018, we borrowed and repaid \$28 million under our revolving credit facility, which we amended in June 2018, as discussed above. During the second half of 2018, we had net cash Canadian borrowings of C\$15 million, or \$11 million, under our \$2.75 billion revolving credit facility, a portion of which was used to repay net advances under our Canadian term loan, as discussed below.

*Commercial Paper Program* — During the year ended December 31, 2018, we had net cash borrowings of \$453 million (net of the related discount on issuance) for general corporate purposes.

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

*Tax-Exempt Bonds* — We issued \$80 million of new tax-exempt bonds in 2018. The proceeds from the issuance of these bonds were deposited directly into a restricted trust fund and may only be used for the specific purpose for which the money was raised, which is generally to finance expenditures for landfill and solid waste disposal facility construction and development. Additionally, during the year ended December 31, 2018, we repaid \$62 million of our tax-exempt bonds with available cash at their scheduled maturities. In the fourth quarter of 2018, we elected to refund and reissue \$105 million of tax-exempt bonds to extend the maturities.

*Capital Leases and Other* — The increase in our capital leases and other debt obligations in 2018 is related to our recent federal low-income housing investment discussed in Note 8 and new capital leases, which increased our debt obligations by \$250 million, offset by \$60 million of net cash repayments and \$50 million in divestitures.

#### ***Scheduled Debt Payments***

Principal payments of our debt and capital leases for the next five years and thereafter, based on scheduled maturities are as follows: \$1,166 million in 2019, \$780 million in 2020, \$584 million in 2021, \$622 million in 2022, \$614 million in 2023 and \$6,382 million thereafter. Our recorded debt and capital lease obligations include non-cash adjustments associated with debt issuance costs, discounts, premiums and fair value adjustments attributable to terminated interest rate derivatives, which have been excluded from these amounts because they will not result in cash payments.

#### ***Cross-Currency Swaps***

In March 2016, our Canadian subsidiaries repaid C\$370 million of intercompany debt to WM Holdings with proceeds from our Canadian term loan. Concurrent with the repayment of the intercompany debt, we terminated the related cross-currency swaps and received \$67 million in cash. The cash received from our termination of these swaps was classified as a change in other current assets and other assets within net cash provided by operating activities in the Consolidated

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Statement of Cash Flows. In addition, we recognized \$8 million of expense associated with the termination of these swaps in 2016, which was included in other, net in the Consolidated Statement of Operations.

***Secured Debt***

Our debt balances are generally unsecured, except for capital leases and the notes payable associated with our investments in low-income housing properties.

***Debt Covenants***

The terms of certain of our financing arrangements require that we comply with financial and other covenants. Our most restrictive financial covenant is the one contained in our \$2.75 billion revolving credit facility, which sets forth a maximum total debt to consolidated earnings before interest, taxes, depreciation and amortization ratio (the “Leverage Ratio”). This covenant requires that the Leverage Ratio for the preceding four fiscal quarters will not be more than 3.5 to 1, provided that if an acquisition permitted under the \$2.75 billion revolving credit facility involving aggregate consideration in excess of \$200 million occurs during the fiscal quarter, the Company shall have the right to increase the Leverage Ratio to 4.0 to 1 during such fiscal quarter and for the following three fiscal quarters (the “Elevated Leverage Ratio Period”). There shall be no more than two Elevated Leverage Ratio Periods during the term of the \$2.75 billion revolving credit facility, and the Leverage Ratio must return to 3.5 to 1 for at least one fiscal quarter between Elevated Leverage Ratio Periods. The calculation of all components used in the Leverage Ratio covenant are as defined in the \$2.75 billion revolving credit facility.

Our \$2.75 billion revolving credit facility, senior notes and other financing arrangements also contain certain restrictions on the ability of the Company’s subsidiaries to incur additional indebtedness as well as restrictions on the ability of the Company and its subsidiaries to, among other things, incur liens; engage in sale-leaseback transactions; make certain investments and engage in mergers and consolidations. We monitor our compliance with these restrictions, but do not believe that they significantly impact our ability to enter into investing or financing arrangements typical for our business. As of December 31, 2018 and 2017, we were in compliance with all covenants and restrictions under our financing arrangements that may have a material effect on our Consolidated Financial Statements.

**8. Income Taxes**

***Income Tax Expense***

Our income tax expense consisted of the following for the years ended December 31 (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current:			
Federal.....	\$ 256	\$ 400	\$ 443
State.....	132	56	88
Foreign.....	40	37	38
	<u>428</u>	<u>493</u>	<u>569</u>
Deferred:			
Federal.....	59	(316)	57
State.....	(32)	62	17
Foreign.....	(2)	3	(1)
	<u>25</u>	<u>(251)</u>	<u>73</u>
Income tax expense.....	<u>\$ 453</u>	<u>\$ 242</u>	<u>\$ 642</u>

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The U.S. federal statutory income tax rate is reconciled to the effective income tax rate for the years ended December 31 as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Income tax expense at U.S. federal statutory rate . . . . .	21.00 %	35.00 %	35.00 %
State and local income taxes, net of federal income tax benefit . . . . .	4.41	3.25	3.31
Impacts of enactment of tax reform . . . . .	(0.51)	(24.14)	—
Federal tax credits . . . . .	(2.44)	(2.31)	(3.08)
Taxing authority audit settlements and other tax adjustments . . . . .	(3.85)	0.03	(0.53)
Tax impact of equity-based compensation transactions . . . . .	(0.54)	(1.45)	—
Tax impact of impairments . . . . .	0.03	0.66	0.80
Tax rate differential on foreign income . . . . .	0.43	(0.55)	(0.63)
Other . . . . .	0.51	0.55	0.36
Effective income tax rate . . . . .	<u>19.04 %</u>	<u>11.04 %</u>	<u>35.23 %</u>

The comparability of our income tax expense for the reported periods has been primarily affected by (i) variations in our income before income taxes; (ii) impacts of enactment of tax reform; (iii) federal tax credits; (iv) tax audit settlements; (v) adjustments to our accruals and related deferred taxes; (vi) the realization of state net operating losses and credits; (vii) excess tax benefits associated with equity-based compensation transactions and (viii) the tax implications of impairments.

For financial reporting purposes, income before income taxes by source for the years ended December 31 was as follows (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Domestic . . . . .	\$ 2,235	\$ 2,040	\$ 1,681
Foreign . . . . .	141	151	141
Income before income taxes . . . . .	<u>\$ 2,376</u>	<u>\$ 2,191</u>	<u>\$ 1,822</u>

*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 decrease 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 of the Act to the Company in 2017. For the year ended December 31, 2017, we recognized a reduction in our income tax expense of \$529 million consisting of a net tax benefit of \$595 million for the remeasurement of our deferred income tax assets and liabilities due to the decrease in the federal corporate income tax rate, partially offset by income tax expense of \$66 million for the one-time, mandatory transition tax.

For the year ended December 31, 2018, we recognized measurement period adjustments to the provisional tax impacts, as discussed above, primarily due to the filing of our income tax returns resulting in a reduction in our income tax expense of \$12 million. The reduction consisted of a net income tax benefit of (i) \$7 million for the remeasurement of our deferred income tax assets and liabilities and other reserves due to the decrease in the federal corporate income tax rate and (ii) a \$5 million adjustment for the one-time, mandatory transition tax. The Company has completed the accounting for the impacts of the Act, although adjustments may be necessary in future periods due to potential technical corrections to the Act and/or regulatory guidance that may be issued by the Internal Revenue Service (“IRS”).



## WASTE MANAGEMENT, INC.

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

The Act provides for a territorial tax system, and it includes two new U.S. tax base erosion provisions, the global intangible low-taxed income (“GILTI”) tax and the base erosion and anti-abuse tax (“BEAT”). For the year ended December 31, 2018, we did not have a material impact to our consolidated financial statements from GILTI and no minimum tax from BEAT. The Company does not expect that it will be subject to any material incremental U.S. tax on GILTI in future periods and has elected to account for any potential GILTI tax in the period in which it is incurred, therefore no deferred income tax impacts of GILTI are provided in our consolidated financial statements for the year ended December 31, 2018. In addition, the Company does not expect it will be subject to minimum tax pursuant to the BEAT.

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

We account for our investments in these entities using the equity method of accounting, recognizing our share of each entity’s results of operations and other reductions in the value of our investments in equity in net losses of unconsolidated entities, within our Consolidated Statements of Operations. During the years ended December 31, 2018, 2017 and 2016, we recognized \$30 million, \$30 million and \$31 million of net losses and a reduction in our income tax expense of \$57 million, \$51 million and \$55 million, respectively, primarily due to tax credits realized from these investments. Interest expense associated with our investments in low-income housing properties was not material for the periods presented. See Note 18 for additional information related to these unconsolidated variable interest entities.

*Other Federal Tax Credits* — During 2018, 2017 and 2016, we recognized federal tax credits in addition to the tax credits realized from our investments in low-income housing properties and the refined coal facility, resulting in a reduction in our income tax expense of \$10 million, \$13 million and \$14 million, respectively.

*Tax Audit Settlements* — We file income tax returns in the U.S. and Canada, as well as various state and local jurisdictions. We are currently under audit by the IRS, the Canada Revenue Agency and various state and local taxing authorities. Our audits are in various stages of completion. During the reported periods, we closed various tax audits and the settlements resulted in a reduction in our income tax expense of \$40 million, \$2 million and \$11 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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 15 months. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2011. Additionally, we are under audit by the Canada Revenue Agency for the 2014 tax year.

*Adjustments to Accruals and Related Deferred Taxes* — Adjustments to our accruals and related deferred taxes due to the filing of our income tax returns and changes in state laws resulted in a reduction in our income tax expense of \$35 million, \$5 million and \$10 million for the years ended December 31, 2018, 2017 and 2016, respectively.

An adjustment to our deferred taxes to reduce our deferred tax liability based on an analysis of certain deferred tax balances also resulted in a net reduction of our income tax expense of \$17 million for the year ended December 31, 2018 and is not material to our consolidated financial statements for the reported period.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*State Net Operating Losses and Credits* — During 2018, 2017 and 2016, we recognized state net operating losses and credits resulting in a reduction in our income tax expense of \$22 million, \$12 million and \$10 million, respectively.

*Equity-Based Compensation* — During 2018 and 2017, we recognized excess tax benefits related to the vesting or exercise of equity-based compensation awards resulting in a reduction in our income tax expense of \$17 million and \$37 million, respectively.

*Tax Implications of Impairments* — Portions of the impairment charges recognized during the reported periods are not deductible for tax purposes. Had the charges been fully deductible, our income tax expense would have been reduced by \$1 million, \$15 million and \$15 million for the years ended December 31, 2018, 2017 and 2016, respectively. See Note 11 for more information related to our impairment charges.

*Unremitted Earnings in Foreign Subsidiaries* — No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the one-time, mandatory transition tax, or any additional outside basis difference, as these amounts continue to be indefinitely reinvested in foreign operations.

***Deferred Tax Assets (Liabilities)***

The components of net deferred tax liabilities as of December 31 are as follows (in millions):

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Net operating loss, capital loss and tax credit carry-forwards . . . . .	\$ 258	\$ 259
Landfill and environmental remediation liabilities . . . . .	143	121
Miscellaneous and other reserves, net. . . . .	175	96
Subtotal. . . . .	<u>576</u>	<u>476</u>
Valuation allowance . . . . .	(261)	(264)
Deferred tax liabilities:		
Property and equipment . . . . .	(752)	(595)
Goodwill and other intangibles . . . . .	(854)	(865)
Net deferred tax liabilities. . . . .	<u>\$ (1,291)</u>	<u>\$ (1,248)</u>

The valuation allowance decreased by \$3 million in 2018 primarily due to non-benefited foreign tax credit carry-forwards.

As of December 31, 2018, we had \$1.9 billion of state net operating loss carry-forwards with expiration dates through 2038. We also had \$443 million of federal capital loss carry-forwards with expiration dates through 2021, \$35 million of foreign tax credit carry-forwards with expiration dates through 2028 and \$20 million of state tax credit carry-forwards with expiration dates through 2034.

We have established valuation allowances for uncertainties in realizing the benefit of certain tax loss and credit carry-forwards and other deferred tax assets. While we expect to realize the deferred tax assets, net of the valuation allowances, changes in estimates of future taxable income or in tax laws may alter this expectation.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Liabilities for Uncertain Tax Positions***

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, including accrued interest, is as follows (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance as of January 1 . . . . .	\$ 109	\$ 82	\$ 71
Additions based on tax positions related to the current year . . . . .	6	19	19
Additions based on tax positions of prior years . . . . .	12	11	4
Accrued interest . . . . .	2	4	2
Reductions for tax positions of prior years . . . . .	—	—	(7)
Settlements . . . . .	(88)	(1)	—
Lapse of statute of limitations . . . . .	(5)	(6)	(7)
Balance as of December 31 . . . . .	<u>\$ 36</u>	<u>\$ 109</u>	<u>\$ 82</u>

These liabilities are included as a component of other long-term liabilities in our Consolidated Balance Sheets because the Company does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. As of December 31, 2018, we have \$31 million of net unrecognized tax benefits that, if recognized in future periods, would impact our effective income tax rate.

We recognize interest expense related to unrecognized tax benefits in our income tax expense, which was not material for the reported periods. We did not have any accrued liabilities or expense for penalties related to unrecognized tax benefits for the reported periods.

**9. Employee Benefit Plans**

*Defined Contribution Plans* — Waste Management sponsors a 401(k) retirement savings plan that covers employees, except those working subject to collective bargaining agreements that do not provide for coverage under the plan. U.S. employees who are not subject to such collective bargaining agreements are generally eligible to participate in the plan following a 90-day waiting period after hire and may contribute as much as 50% of their eligible annual compensation and 80% of their annual incentive plan bonus, subject to annual contribution limitations established by the IRS. Under the retirement savings plan, for non-union employees, we match 100% of employee contributions on the first 3% of their eligible annual compensation and 50% of employee contributions on the next 3% of their eligible annual compensation, resulting in a maximum match of 4.5% of eligible annual compensation. Non-union employees hired on or after January 1, 2018 are automatically enrolled in the plan at a 3% contribution rate upon eligibility. Both employee and Company contributions are in cash and vest immediately. Certain U.S. employees who are subject to collective bargaining agreements may participate in the 401(k) retirement savings plan under terms specified in their collective bargaining agreement. Certain employees outside the U.S., including those in Canada, participate in defined contribution plans maintained by the Company in compliance with laws of the appropriate jurisdiction. Charges to operating and selling, general and administrative expenses for our defined contribution plans totaled \$80 million, \$70 million and \$64 million for the years ended December 31, 2018, 2017 and 2016, respectively.

*Defined Benefit Plans (other than multiemployer defined benefit pension plans discussed below)* — WM Holdings sponsors a defined benefit plan for certain employees who are subject to collective bargaining agreements that provide for participation in this plan. Further, certain of our Canadian subsidiaries sponsor defined benefit plans that are frozen to new participants. As of December 31, 2018, the combined benefit obligation of these pension plans was \$120 million, and the plans had \$117 million of combined plan assets, resulting in an aggregate unfunded benefit obligation for these plans of \$3 million. As of December 31, 2017, the combined benefit obligation of these pension plans was \$126 million, and the

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

plans had \$120 million of combined plan assets, resulting in an aggregate unfunded benefit obligation for these plans of \$6 million.

In addition, WM Holdings and certain of its subsidiaries provided post-retirement health care and other benefits to eligible retirees. In conjunction with our acquisition of WM Holdings in July 1998, we limited participation in these plans to participating retirees as of December 31, 1998. The unfunded benefit obligation for these plans was \$18 million and \$23 million as of December 31, 2018 and 2017, respectively.

Our accrued benefit liabilities for our defined benefit pension and other post-retirement plans were \$21 million and \$29 million as of December 31, 2018 and 2017, respectively, and are included as components of accrued liabilities and long-term other liabilities in our Consolidated Balance Sheets.

*Multiemployer Defined Benefit Pension Plans* — We are a participating employer in a number of trustee-managed multiemployer defined benefit pension plans (“Multiemployer Pension Plans”) for employees who are covered by collective bargaining agreements. The risks of participating in these Multiemployer Pension Plans are different from single-employer plans in that (i) assets contributed to the Multiemployer Pension Plan by one employer may be used to provide benefits to employees or former employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be assumed by the remaining participating employers and (iii) if we choose to stop participating in any of our Multiemployer Pension Plans, we may be required to pay those plans a withdrawal amount based on the underfunded status of the plan. The following table outlines our participation in Multiemployer Pension Plans considered to be individually significant (dollar amounts in millions):

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Reported Status(a)		FIP/RP Status(b)(c)	Company Contributions(d)			Expiration Date of Collective Bargaining Agreement(s)
		2018	2017		2018	2017	2016	
Automotive Industries Pension Plan . . . . .	EIN: 94-1133245; Plan Number: 001	Critical and Declining	Critical and Declining	Implemented	\$ 1	\$ 1	\$ 1	9/30/2021
Suburban Teamsters of Northern Illinois Pension Plan . . . . .	EIN: 36-6155778; Plan Number: 001	Endangered	Endangered	Implemented	3	3	3	Various dates through 3/31/2023
Western Conference of Teamsters Pension Plan . . . . .	EIN: 91-6145047; Plan Number: 001	Not Endangered or Critical	Not Endangered or Critical	Not Applicable	29	27	25	Various dates through 10/20/2023
Western Pennsylvania Teamsters and Employers Pension Plan . . . . .	EIN: 25-6029946; Plan Number: 001	Critical and Declining	Critical	Implemented	—	1	1	(f)
					<u>\$ 33</u>	<u>\$ 32</u>	<u>\$ 30</u>	
Contributions to other Multiemployer Pension Plans . . . . .					14	15	17	
Total contributions to Multiemployer Pension Plans (e) . . . . .					<u>\$ 47</u>	<u>\$ 47</u>	<u>\$ 47</u>	

(a) The most recent Pension Protection Act zone status available in 2018 and 2017 is for the plan’s year-end as of December 31, 2017 and 2016, respectively. The zone status is based on information that we received from the plan and is certified by the plan’s actuary. As defined in the Pension Protection Act of 2006, among other factors, plans reported as critical are generally less than 65% funded and plans reported as endangered are generally less than 80% funded. Under the Multiemployer Pension Reform Act of 2014, a plan is generally in critical and declining status if it (i) is certified to be in critical status pursuant to the Pension Protection Act of 2006 and (ii) is projected to be insolvent within the next 15 years or, in certain circumstances, 20 years.

As of the date the financial statements were issued, Forms 5500 were not available for the plan years ended in 2018.

(b) The “FIP/RP Status” column indicates plans for which a Funding Improvement Plan (“FIP”) or a Rehabilitation Plan (“RP”) has been implemented.

## WASTE MANAGEMENT, INC.

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

- (c) A Multiemployer Pension Plan that has been certified as endangered, seriously endangered or critical may begin to levy a statutory surcharge on contribution rates. Once authorized, the surcharge is at the rate of 5% for the first 12 months and 10% for any periods thereafter. Contributing employers, however, may eliminate the surcharge by entering into a collective bargaining agreement that meets the requirements of the applicable FIP or RP.
- (d) Of the Multiemployer Pension Plans considered to be individually significant, the Company was listed in the Form 5500 of the Suburban Teamsters of Northern Illinois Pension Plan as providing more than 5% of the total contributions for plan years ending December 31, 2017 and 2016.
- (e) Total contributions to Multiemployer Pension Plans excludes contributions related to withdrawal liabilities discussed below.
- (f) The Company had a complete withdrawal from this plan during 2017 and correspondingly accrued a liability of \$11 million relating to such withdrawal. In 2018, the Company received the final withdrawal liability assessment from the plan and accrued an additional \$2 million. The total accrual was paid as of December 31, 2018.

Our portion of the projected benefit obligation, plan assets and unfunded liability for the Multiemployer Pension Plans is not material to our financial position. However, the failure of participating employers to remain solvent could affect our portion of the plans' unfunded liability. Specific benefit levels provided by union pension plans are not negotiated with or known by the employer contributors.

In connection with our ongoing renegotiations of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. Further, business events, such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations, which result in the decline of Company contributions to a Multiemployer Pension Plan could trigger a partial or complete withdrawal. In the event of a withdrawal, we may incur expenses associated with our obligations for unfunded vested benefits at the time of the withdrawal. In 2018 and 2017, we recognized charges of \$3 million and \$12 million, respectively, to operating expenses for the withdrawal from certain underfunded Multiemployer Pension Plans. In 2016, we did not recognize any charges for the withdrawal from Multiemployer Pension Plans. Refer to Note 10 for additional information related to our obligations to Multiemployer Pension Plans for which we have withdrawn or partially withdrawn.

*Multiemployer Plan Benefits Other Than Pensions* — During the years ended December 31, 2018, 2017 and 2016, the Company made contributions of \$43 million, \$42 million and \$40 million, respectively, to multiemployer health and welfare plans that also provide other post-retirement employee benefits. Funding of benefit payments for plan participants are made at negotiated rates in the respective collective bargaining agreements as costs are incurred.

#### 10. 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 7. 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

## WASTE MANAGEMENT, INC.

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

of future cost increases and reductions in available capacity, we continue to evaluate various options to access cost-effective sources of financial assurance.

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

We have retained a significant portion of the risks related to our general liability, automobile liability and workers’ compensation claims programs. “General liability” refers to the self-insured portion of specific third-party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our self-insured portions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation or internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from such valuations and estimates. In December 2017, we elected to use a wholly-owned insurance captive to insure the deductibles for our general liability, automobile liability and workers’ compensation claims programs. As of December 31, 2018, both our commercial General Liability Insurance Policy and our workers’ compensation insurance program carried self-insurance exposures of up to \$5 million per incident. As of December 31, 2018, our automobile liability insurance program included a per-incident deductible of up to \$10 million. Our receivable balance associated with insurance claims was \$130 million and \$153 million as of December 31, 2018 and 2017, respectively. The changes to our insurance reserves for the years ended December 31 are summarized below (in millions):

	2018(a)	2017
Balance as of January 1 . . . . .	\$ 582	\$ 588
Self-insurance expense . . . . .	142	142
Cash paid and other . . . . .	(157)	(148)
Balance as of December 31 . . . . .	\$ 567	\$ 582
Current portion as of December 31 . . . . .	\$ 137	\$ 107
Long-term portion as of December 31 . . . . .	\$ 430	\$ 475

(a) Based on current estimates, we anticipate that most of our insurance reserves will be settled in cash over the next six years.

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.

*Operating Leases* — Operating lease expense was \$129 million, \$134 million and \$125 million during 2018, 2017 and 2016, respectively. Minimum contractual payments due for our operating lease obligations are \$74 million in 2019, \$69 million in 2020, \$54 million in 2021, \$40 million in 2022, \$37 million in 2023 and \$370 million thereafter. Our minimum contractual payments for lease agreements during future periods is less than current year operating lease expense primarily due to the effect of short-term leases. See Note 2 for information related to the pending adoption of ASU 2016-02.

#### *Other Commitments*

- *Disposal* — We have several agreements expiring at various dates through 2052 that require us to dispose of a minimum number of tons at third-party disposal facilities. Under these put-or-pay agreements, we are required to pay for the agreed upon minimum volumes regardless of the actual number of tons placed at the facilities. Following the 2014 divestiture of our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants, we entered into several agreements to dispose of a minimum number of tons of waste at certain Wheelabrator facilities. These agreements generally

## WASTE MANAGEMENT, INC.

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

provide for fixed volume commitments with certain market price resets through 2021. We generally fulfill our minimum contractual obligations by disposing of volumes collected in the ordinary course of business at these disposal facilities.

- *Waste Paper* — We are party to waste paper purchase agreements expiring at various dates through 2023 that require us to purchase a minimum number of tons of waste paper. The cost per ton we pay is based on market prices.
- *Royalties* — We have various arrangements that require us to make royalty payments to third parties including prior land owners, lessors or host communities where our operations are located. Our obligations generally are based on per ton rates for waste actually received at our transfer stations or landfills. Royalty agreements that are non-cancelable and require fixed or minimum payments are included in our capital leases and other debt obligations in our Consolidated Balance Sheets as disclosed in Note 7.

Our unconditional purchase obligations are generally established in the ordinary course of our business and are structured in a manner that provides us with access to important resources at competitive, market-driven rates. As of December 31, 2018, our estimated minimum obligations associated with unconditional purchase obligations, which are not recognized in our Consolidated Balance Sheets, were \$138 million in 2019, \$121 million in 2020, \$110 million in 2021, \$45 million in 2022, \$41 million in 2023 and \$399 million thereafter. We may also establish unconditional purchase obligations in conjunction with acquisitions or divestitures. Our actual future minimum obligations under these outstanding purchase agreements are generally quantity driven and, as a result, our associated financial obligations are not fixed as of December 31, 2018. For contracts that require us to purchase minimum quantities of goods or services, we have estimated our future minimum obligations based on the current market values of the underlying products or services. We currently expect the products and services provided by these agreements to continue to meet the needs of our ongoing operations. Therefore, we do not expect these established arrangements to materially impact our future financial position, results of operations or cash flows.

*Guarantees* — We have entered into the following guarantee agreements associated with our operations:

- As of December 31, 2018, WM Holdings has fully and unconditionally guaranteed all of WM's senior indebtedness, including its senior notes, \$2.75 billion revolving credit facility and certain letter of credit facilities, which mature through 2045. WM has fully and unconditionally guaranteed the senior indebtedness of WM Holdings, which matures in 2026. Performance under these guarantee agreements would be required if either party defaulted on their respective obligations. No additional liabilities have been recorded for these intercompany guarantees because all of the underlying obligations are reflected in our Consolidated Balance Sheets. See Note 21 for further discussion.
- WM and WM Holdings have guaranteed subsidiary debt obligations, including tax-exempt bonds, capital leases and other indebtedness. If a subsidiary fails to meet its obligations associated with its debt agreements as they come due, WM or WM Holdings will be required to perform under the related guarantee agreement. No additional liabilities have been recorded for these intercompany guarantees because all of the underlying obligations are reflected in our Consolidated Balance Sheets. See Note 7 for information related to the balances and maturities of these debt obligations.
- Before the divestiture of our Wheelabrator business in 2014, WM had guaranteed certain operational and financial performance obligations of Wheelabrator and its subsidiaries in the ordinary course of business. In conjunction with the divestiture, certain WM guarantees of Wheelabrator obligations were terminated, but others continued and are now guarantees of third-party obligations. When possible, Wheelabrator seeks to have the applicable third-party beneficiaries release WM from these guarantees, but until such efforts are successful, or the underlying financial commitments are restructured, WM has agreed to retain the guarantees and, in exchange, receive a credit support fee or other financial assurances guaranteed by a third-party financial institution to protect WM in the event of non-compliance by Wheelabrator. The most significant of these guarantees specifically define WM's

## WASTE MANAGEMENT, INC.

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

maximum financial obligation over the course of the relevant agreements. As of December 31, 2018, WM's maximum future payments under these guarantees were \$85 million. WM's exposure under certain of the performance guarantees is variable and a maximum exposure is not defined. We have recorded the fair value of the operational and financial performance guarantees, some of which could extend through 2038 if not terminated, in our Consolidated Balance Sheets. We currently do not expect the financial impact of such operational and financial performance guarantees to materially exceed the recorded fair value.

- Certain of our subsidiaries have guaranteed the market or contractually-determined value of certain homeowners' properties that are adjacent to or near certain of our landfills. These guarantee agreements extend over the life of the respective landfill. Under these agreements, we would be responsible for the difference, if any, between the sale value and the guaranteed market or contractually-determined value of the homeowners' properties. As of December 31, 2018, we have agreements guaranteeing certain market value losses for approximately 775 homeowners' properties adjacent to or near 19 of our landfills. We do not believe that these contingent obligations will have a material adverse effect on the Company's financial position, results of operations or cash flows.
- We have indemnified the purchasers of businesses or divested assets for the occurrence of specified events under certain of our divestiture agreements. Other than certain identified items that are currently recorded as obligations, we do not believe that it is possible to determine the contingent obligations associated with these indemnities. 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 currently believe that contingent obligations to provide indemnification or pay additional post-closing consideration in connection with our divestitures or acquisitions will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.
- WM and WM Holdings guarantee the service, lease, financial and general operating obligations of certain of their subsidiaries. If such a subsidiary fails to meet its contractual obligations as they come due, the guarantor has an unconditional obligation to perform on its behalf. No additional liability has been recorded for service, financial or general operating guarantees because the subsidiaries' obligations are properly accounted for as costs of operations as services are provided or general operating obligations as incurred. No additional liability has been recorded for the lease guarantees because the subsidiaries' obligations are properly accounted for as operating or capital leases, as appropriate.

*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 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.

As of December 31, 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



## WASTE MANAGEMENT, INC.

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

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 proposed remedy has not been established. As of December 31, 2018 and 2017, our recorded liability for MIMC’s estimated potential share of the EPA’s proposed remedy and related costs was \$55 million. MIMC’s ultimate liability could be materially different from current estimates.

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

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

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

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

## WASTE MANAGEMENT, INC.

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

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 Multiemployer Pension Plans for the covered employees. Refer to Note 9 for additional information about our participation in Multiemployer Pension Plans considered individually significant. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these Multiemployer Pension Plans. A complete or partial withdrawal from a Multiemployer Pension Plan may also occur if employees covered by a collective bargaining agreement vote to decertify a union from continuing to represent them. Any other circumstance resulting in a decline in Company contributions to a Multiemployer Pension Plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans.

In 2018 and 2017, we recognized \$3 million and \$12 million, respectively, of charges to operating expenses for the withdrawal from certain underfunded Multiemployer Pension Plans. In 2016, we did not recognize any charges for the withdrawal from Multiemployer 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).

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Tax Matters* — 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. See Note 8 for additional discussion regarding income taxes.

**11. Asset Impairments and Unusual Items**

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

The following table summarizes the major components of (gain) loss from divestitures, asset impairments and unusual items, net for the years ended December 31 (in millions):

	<b>2018</b>	<b>2017</b>	<b>2016</b>
(Gain) loss from divestitures .....	\$ (96)	\$ (38)	\$ 9
Asset impairments .....	38	41	59
Other .....	—	(19)	44
	<b>\$ (58)</b>	<b>\$ (16)</b>	<b>\$ 112</b>

During the year ended December 31, 2018, we recognized net gains of \$58 million, primarily related to (i) a \$52 million gain associated with the sale of certain hauling operations in our Tier 1 segment and (ii) net gains of \$44 million substantially all from divestitures of certain ancillary operations. These gains were partially offset by (i) a \$30 million charge to impair a landfill in our Tier 3 segment based on an internally developed discounted projected cash flow analysis, taking into account continued volume decreases and revised capping cost estimates and (ii) \$8 million of impairment charges primarily related to our LampTracker® reporting unit.

During the year ended December 31, 2017, we recognized net gains of \$16 million, primarily related to (i) gains of \$31 million from the sale of certain oil and gas producing properties and (ii) a \$30 million reduction in post-closing, performance-based contingent consideration obligations associated with an acquired business in our EES organization. These gains were partially offset by (i) \$34 million of goodwill impairment charges primarily related to our EES organization; (ii) \$11 million of charges to adjust our subsidiary’s estimated potential share of an environmental remediation liability and related costs for a closed site in Harris County, Texas, as discussed in Note 10 and (iii) \$7 million of charges to write down certain renewable energy assets.

During the year ended December 31, 2016, we recognized net charges of \$112 million, primarily related to (i) \$44 million of charges to adjust our subsidiary’s estimated potential share of an environmental remediation liability and related costs for a closed site in Harris County, Texas, as discussed in Note 10; (ii) a \$43 million charge to impair a landfill in our Tier 3 segment due to a loss of expected volumes; (iii) \$12 million of goodwill impairment charges primarily related to our LampTracker® reporting unit and (iv) an \$8 million loss on the sale of a majority-owned organics company.

See Note 3 for additional information related to the accounting policy and analysis involved in identifying and calculating impairments and see Note 19 for additional information related to the impact of impairments on the results of operations of our reportable segments.

***Equity in Net Losses of Unconsolidated Entities***

During the year ended December 31, 2017, we recognized \$29 million of impairment charges to write down equity method investments in waste diversion technology companies to their estimated fair values.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Other, Net*

During the years ended December 31, 2017 and 2016, we recognized impairment charges of \$11 million and \$42 million, respectively, related to other-than-temporary declines in the value of minority-owned investments in waste diversion technology companies. We wrote down our investments to their estimated fair values which was primarily determined using an income approach based on estimated future cash flow projections and, to a lesser extent, third-party investors' recent transactions in these securities.

**12. 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):

	<u>Derivative Instruments</u>	<u>Available- for-Sale Securities</u>	<u>Foreign Currency Translation Adjustments</u>	<u>Post- Retirement Benefit Obligations</u>	<u>Total</u>
Balance, December 31, 2015 .....	\$ (52)	\$ 8	\$ (75)	\$ (8)	\$ (127)
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$(4), \$3, \$0 and \$0, respectively .....	(7)	5	26	—	24
Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (expense) benefit of \$12, \$0, \$0 and \$1, respectively .....	19	—	2	2	23
Net current period other comprehensive income (loss) .....	<u>12</u>	<u>5</u>	<u>28</u>	<u>2</u>	<u>47</u>
Balance, December 31, 2016 .....	\$ (40)	\$ 13	\$ (47)	\$ (6)	\$ (80)
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$0, \$2, \$0 and \$1, respectively .....	—	3	76	3	82
Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (expense) benefit of \$5, \$(1), \$0 and \$0, respectively .....	7	(1)	—	—	6
Net current period other comprehensive income (loss) .....	<u>7</u>	<u>2</u>	<u>76</u>	<u>3</u>	<u>88</u>
Balance, December 31, 2017 .....	\$ (33)	\$ 15	\$ 29	\$ (3)	\$ 8
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$0, \$2, \$0 and \$1, respectively .....	—	5	(105)	2	(98)
Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (expense) benefit of \$3, \$0, \$0 and \$0, respectively .....	8	—	—	—	8
Net current period other comprehensive income (loss) .....	<u>8</u>	<u>5</u>	<u>(105)</u>	<u>2</u>	<u>(90)</u>
Adoption of new accounting standard (a) .....	<u>(7)</u>	<u>3</u>	<u>—</u>	<u>(1)</u>	<u>(5)</u>
Balance, December 31, 2018 .....	<u>\$ (32)</u>	<u>\$ 23</u>	<u>\$ (76)</u>	<u>\$ (2)</u>	<u>\$ (87)</u>

(a) As of January 1, 2018, we adopted ASU 2018-02 and reclassified stranded tax effects to retained earnings. See Note 2 for further discussion of ASU 2018-02.

## WASTE MANAGEMENT, INC.

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

There have been no derivatives outstanding subsequent to March 31, 2016. For the year ended December 31, 2016, other comprehensive loss before reclassifications associated with the effective portion of derivatives designated as cash flow hedges for foreign currency derivatives was \$7 million, net of tax benefit of \$4 million.

The significant amounts reclassified out of each component of accumulated other comprehensive income (loss) associated with our previously terminated cash flow hedges for the years ended December 31 are as follows (in millions, with amounts in parentheses representing debits to the statement of operations classification):

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Statement of Operations Classification</u>
Forward-starting interest rate swaps .....	\$ (10)	\$ (11)	\$ (10)	Interest expense, net
Treasury rate locks .....	(1)	(1)	(1)	Interest expense, net
Foreign currency derivatives .....	—	—	(20)	Other, net
	(11)	(12)	(31)	Total before tax
	3	5	12	Tax (expense) benefit
Total reclassifications for the period .....	<u>\$ (8)</u>	<u>\$ (7)</u>	<u>\$ (19)</u>	Net of tax

### 13. Capital Stock, Dividends and Common Stock Repurchase Program

#### *Capital Stock*

We have 1.5 billion shares of authorized common stock with a par value of \$0.01 per common share. As of December 31, 2018, we had 424.0 million shares of common stock issued and outstanding. The Board of Directors is authorized to issue preferred stock in series, and with respect to each series, to fix its designation, relative rights (including voting, dividend, conversion, sinking fund, and redemption rights), preferences (including dividends and liquidation) and limitations. We have 10 million shares of authorized preferred stock, \$0.01 par value, none of which is currently outstanding.

#### *Dividends*

Our quarterly dividends have been declared by our Board of Directors. Cash dividends declared and paid were \$802 million in 2018, or \$1.86 per common share, \$750 million in 2017, or \$1.70 per common share, and \$726 million in 2016, or \$1.64 per common share.

In December 2018, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.465 to \$0.5125 per share for dividends declared in 2019. However, all future dividend declarations are at the discretion of the Board of Directors and depend on various factors, including our net earnings, financial condition, cash required for future business plans, growth and acquisitions and other factors the Board of Directors may deem relevant.

#### *Common Stock Repurchase Program*

The Company repurchases shares of its common stock as part of capital allocation programs authorized by our Board of Directors. Share repurchases during the reported periods were completed through accelerated share repurchase (“ASR”) agreements and, to a lesser extent, open market transactions. The terms of these ASR agreements required that we deliver cash at the beginning of each ASR repurchase period. In exchange, we received a portion of the total shares expected to be repurchased based on the then-current market price of our common stock. The remaining shares repurchased over the course of each repurchase period are delivered to us once the repurchase period is complete. Shares repurchased are

## WASTE MANAGEMENT, INC.

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

reflected in the period the shares are delivered to us. The following is a summary of our share repurchases under our common stock repurchase program for the years ended December 31:

	2018(a)	2017(b)	2016(c)
Shares repurchased (in thousands).....	11,673	10,058	11,241
Weighted average price per share .....	\$ 86.35	\$ 77.67	\$ 60.49
Total repurchases (in millions).....	\$ 1,008	\$ 750	\$ 725

(a) During 2018, we executed and completed four ASR agreements to repurchase \$850 million of our common stock and we received 9.8 million shares in connection with these ASR agreements.

During 2018, we repurchased an additional 1.9 million shares of our common stock in open market transactions in compliance with Rule 10b5-1 and Rule 10b-18 of the Exchange Act for \$158 million, inclusive of per-share commissions, which includes \$4 million paid in 2019.

(b) During 2017, we executed and completed two ASR agreements to repurchase \$750 million of our common stock. Our “Shares repurchased” includes the 0.4 million shares related to the ASR agreement executed in November 2016, discussed further below.

(c) During 2016, we executed four ASR agreements to repurchase \$725 million of our common stock. The ASR agreement entered into in November 2016 was for the repurchase of \$225 million of our common stock and was completed in February 2017. We received a total of 3.2 million shares based on a final weighted average price per share during the repurchase period of \$69.43.

Through February 8, 2019, we repurchased an additional 0.6 million shares of our common stock in open market transactions in compliance with Rule 10b5-1 and Rule 10b-18 of the Exchange Act for \$54 million, inclusive of per-share commissions, under our prior \$1.25 billion Board of Directors authorization announced in December 2017.

We announced in December 2018 that the Board of Directors has authorized up to \$1.5 billion in future share repurchases, which supersedes and replaces remaining authority under any prior Board of Directors authorization for share repurchases after the completion of our current open market repurchase plan ending February 15, 2019. Any future share repurchases 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, growth and acquisitions.

#### 14. Equity-Based Compensation

##### *Employee Stock Purchase Plan*

We have an Employee Stock Purchase Plan (“ESPP”) under which employees that have been employed for at least 30 days may purchase shares of our common stock at a discount. The plan provides for two offering periods for purchases: January through June and July through December. At the end of each offering period, enrolled employees purchase shares of our common stock at a price equal to 85% of the lesser of the market value of the stock on the first and last day of such offering period. The purchases are made at the end of an offering period with funds accumulated through payroll deductions over the course of the offering period. Subject to limitations set forth in the plan and under IRS regulations, eligible employees may elect to have up to 10% of their base pay deducted during the offering period. The total number of shares issued under the plan for the offering periods in 2018, 2017 and 2016 was approximately 582,000, 594,000 and 647,000, respectively. After the January 2019 issuance of shares associated with the July to December 2018 offering period, 1.3 million shares remain available for issuance under the ESPP.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Accounting for our ESPP increased annual compensation expense by \$9 million, or \$7 million net of tax expense, for 2018 and \$7 million, or \$4 million net of tax expense, for 2017 and 2016.

***Employee Stock Incentive Plans***

In May 2014, our stockholders approved our 2014 Stock Incentive Plan (the “2014 Plan”) to replace our 2009 Stock Incentive Plan (the “2009 Plan”). The 2014 Plan authorized 23.8 million shares of our common stock for issuance pursuant to the 2014 Plan, plus the approximately 1.1 million shares that then remained available for issuance under the 2009 Plan, and any shares subject to outstanding awards under both incentive plans that are subsequently cancelled, forfeited, terminate, expire or lapse. As of December 31, 2018, approximately 20.8 million shares were available for future grants under the 2014 Plan. All of our equity-based compensation awards described herein have been made pursuant to either our 2009 Plan or our 2014 Plan, collectively referred to as the “Incentive Plans.” We currently utilize treasury shares to meet the needs of our equity-based compensation programs.

Pursuant to the Incentive Plans, we have the ability to issue stock options, stock appreciation rights and stock awards, including restricted stock, restricted stock units (“RSUs”) and performance share units (“PSUs”). The terms and conditions of equity awards granted under the Incentive Plans are determined by the Management Development and Compensation Committee of our Board of Directors.

The 2018 annual Incentive Plan awards granted to the Company’s senior leadership team, which generally includes the Company’s executive officers, included a combination of PSUs and stock options. The annual Incentive Plan awards granted to other eligible employees included a combination of PSUs, RSUs and stock options in 2018. The Company also periodically grants RSUs to employees working on key initiatives, in connection with new hires and promotions and to field-based managers.

*Restricted Stock Units* — A summary of our RSUs is presented in the table below (units in thousands):

	Units	Weighted Average Per Share Fair Value
Unvested as of January 1, 2018 .....	444	\$ 61.20
Granted .....	116	\$ 85.52
Vested .....	(154)	\$ 55.03
Forfeited .....	(14)	\$ 69.19
Unvested as of December 31, 2018 .....	392	\$ 70.52

The total fair market value of RSUs that vested during the years ended December 31, 2018, 2017 and 2016 was \$13 million, \$12 million and \$12 million, respectively. During the year ended December 31, 2018, we issued approximately 106,000 shares of common stock for these vested RSUs, net of approximately 48,000 units deferred or used for payment of associated taxes.

RSUs may not be voted or sold by award recipients until time-based vesting restrictions have lapsed. RSUs primarily provide for three-year cliff vesting and include dividend equivalents accumulated during the vesting period. Unvested units are subject to forfeiture in the event of voluntary or for-cause termination. RSUs are subject to pro-rata vesting upon an employee’s retirement or involuntary termination other than for cause and generally payout at the end of the three-year vesting period and become immediately vested in the event of an employee’s death or disability.

Compensation expense associated with RSUs is measured based on the grant-date fair value of our common stock and is recognized on a straight-line basis over the required employment period, which is generally the vesting period.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Compensation expense is only recognized for those awards that we expect to vest, which we estimate based upon an assessment of expected forfeitures.

*Performance Share Units* — Two types of PSUs are currently outstanding: (i) PSUs for which payout is dependent on total shareholder return relative to the S&P 500 (“TSR PSUs”) and (ii) PSUs for which payout is dependent on the Company’s performance against pre-established adjusted cash flow metrics (“Cash Flow PSUs”). Both types of PSUs are payable in shares of common stock after the end of a three-year performance period, when the Company’s financial performance for the entire performance period is reported, typically in mid- to late-February of the succeeding year. At the end of the performance period, the number of shares awarded can range from 0% to 200% of the targeted amount, depending on the performance against the pre-established targets. A summary of our PSUs, at 100% of the targeted amount, is presented in the table below (units in thousands):

	Units	Weighted Average Per Share Fair Value
Unvested as of January 1, 2018 .....	1,299	\$ 84.78
Granted .....	371	\$ 98.45
Vested .....	(459)	\$ 82.22
Forfeited .....	(47)	\$ 87.59
Unvested as of December 31, 2018 .....	1,164	\$ 90.17

The determination of achievement of performance results and corresponding vesting of PSUs for the three-year performance period ended December 31, 2018 was performed by the Management Development and Compensation Committee in February 2019. Accordingly, vesting information for such awards is not included in the table above as of December 31, 2018. The “vested” PSUs are for the three-year performance period ended December 31, 2017, as achievement of performance results and corresponding vesting was determined in February 2018. The Company’s financial results, as measured for purposes of these awards, achieved the maximum performance criteria. Accordingly, recipients of these PSU awards were entitled to receive a payout of 200% of the vested TSR PSUs and Cash Flow PSUs. In February 2018, approximately 918,000 PSUs vested and we issued approximately 575,000 shares of common stock for these vested PSUs, net of units deferred or used for payment of associated taxes. The shares of common stock that were issued or deferred during the years ended December 31, 2018, 2017 and 2016 for prior PSU award grants had a fair market value of \$78 million, \$80 million and \$50 million, respectively.

PSUs have no voting rights. PSUs receive dividend equivalents that are paid out in cash based on the number of shares that vest at the end of the awards’ performance period. Subject to attainment of the performance metrics described above, PSUs are payable to an employee (or his beneficiary) upon death or disability as if that employee had remained employed until the end of the performance period. PSUs are generally subject to pro-rata vesting upon an employee’s involuntary termination other than for cause and are subject to forfeiture in the event of voluntary or for-cause termination. With respect to outstanding PSUs granted prior to 2018, such awards generally vest on a pro-rata basis upon retirement; whereas, the terms of the award agreements for outstanding PSUs granted in 2018 provide for continued vesting following retirement as if the employee had remained employed until the end of the performance period. As a result, beginning in 2018, compensation expense for PSUs granted to retirement-eligible employees is accelerated over the period that the recipient becomes retirement-eligible plus a defined service requirement.

Prior to 2017, compensation expense associated with our Cash Flow PSUs was primarily measured based on the fair value of our common stock at the end of each reporting period until the performance period ends. Beginning in 2017, compensation expense associated with our Cash Flow PSUs is based on the grant-date fair value of our common stock. Compensation expense is recognized ratably over the performance period based on our estimated achievement of the established performance criteria. Compensation expense is only recognized for those awards that we expect to vest, which we estimate based upon an assessment of both the probability that the performance criteria will be achieved and expected



**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

forfeitures. The grant-date fair value of our TSR PSUs is based on a Monte Carlo valuation and compensation expense is recognized on a straight-line basis over the vesting period. Compensation expense is recognized for all TSR PSUs whether or not the market conditions are achieved less expected forfeitures.

*Deferred Units* — Certain employees can elect to defer some or all of the vested RSU or PSU awards until a specified date or dates they choose. Deferred units are not invested, nor do they earn interest, but deferred amounts do receive dividend equivalents paid in cash during deferral at the same time and at the same rate as dividends on the Company's common stock. Deferred amounts are paid out in shares of common stock at the end of the deferral period. As of December 31, 2018, we had approximately 262,000 vested deferred units outstanding.

*Stock Options* — Stock options granted vest primarily in 25% increments on the first two anniversaries of the date of grant with the remaining 50% vesting on the third anniversary. The exercise price of the options is the average of the high and low market value of our common stock on the date of grant, and the options have a term of ten years. A summary of our stock options is presented in the table below (options in thousands):

	<u>Options</u>	<u>Weighted Average Per Share Exercise Price</u>
Outstanding as of January 1, 2018 .....	4,885	\$ 53.46
Granted .....	779	\$ 85.34
Exercised .....	(1,125)	\$ 50.64
Forfeited or expired .....	(98)	\$ 67.53
Outstanding as of December 31, 2018 (a) .....	<u>4,441</u>	\$ 59.46
Exercisable as of December 31, 2018 (b) .....	<u>2,269</u>	\$ 46.86

(a) Stock options outstanding as of December 31, 2018 have a weighted average remaining contractual term of 6.4 years and an aggregate intrinsic value of \$131 million based on the market value of our common stock on December 31, 2018.

(b) Stock options exercisable as of December 31, 2018 have an aggregate intrinsic value of \$96 million based on the market value of our common stock on December 31, 2018.

We received cash proceeds of \$52 million, \$95 million and \$63 million during the years ended December 31, 2018, 2017 and 2016, respectively, from employee stock option exercises. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2018, 2017 and 2016 was \$41 million, \$71 million and \$67 million, respectively.

Stock options exercisable as of December 31, 2018 were as follows (options in thousands):

<u>Range of Exercise Prices</u>	<u>Options</u>	<u>Weighted Average Per Share Exercise Price</u>	<u>Weighted Average Remaining Years</u>
\$33.49-\$50.00 .....	1,288	\$ 37.89	3.5
\$50.01-\$70.00 .....	797	\$ 55.20	6.5
\$70.01-\$85.34 .....	184	\$ 73.40	8.2
\$33.49-\$85.34 .....	<u>2,269</u>	\$ 46.86	4.9

All unvested stock options shall become exercisable upon the award recipient's death or disability. In the event of a recipient's retirement, stock options shall continue to vest pursuant to the original schedule set forth in the award agreement. If the recipient is terminated by the Company without cause or voluntarily resigns, the recipient shall be entitled

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

to exercise all stock options outstanding and exercisable within a specified time frame after such termination. All outstanding stock options, whether exercisable or not, are forfeited upon termination for cause.

We account for our employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. The weighted average grant-date fair value of stock options granted during the years ended December 31, 2018, 2017 and 2016 was \$12.16, \$11.71 and \$6.31, respectively. The fair value of stock options at the date of grant is amortized to expense over the vesting period less expected forfeitures, except for stock options granted to retirement-eligible employees, for which expense is accelerated over the period that the recipient becomes retirement-eligible. The following table presents the weighted average assumptions used to value employee stock options granted during the years ended December 31 under the Black-Scholes valuation model:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expected option life .....	4.3 years	3.5 years	4.7 years
Expected volatility .....	17.9 %	15.3 %	18.4 %
Expected dividend yield .....	2.2 %	2.3 %	2.9 %
Risk-free interest rate .....	2.6 %	1.7 %	1.3 %

The Company bases its expected option life on the expected exercise and termination behavior of its optionees and an appropriate model of the Company's future stock price. The expected volatility assumption is derived from the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options, combined with other relevant factors including implied volatility in market-traded options on the Company's stock. The dividend yield is the annual rate of dividends per share over the exercise price of the option as of the grant date.

For the years ended December 31, 2018, 2017 and 2016, we recognized \$79 million, \$92 million and \$81 million, respectively, of compensation expense associated with RSU, PSU and stock option awards as a component of selling, general and administrative expenses in our Consolidated Statements of Operations. Our income tax expense for the years ended December 31, 2018, 2017 and 2016 includes related deferred income tax benefits of \$17 million, \$36 million and \$32 million, respectively. We have not capitalized any equity-based compensation costs during the reported periods.

Compensation expense increased in 2017 primarily due to charges related to the retirement treatment for unexercised stock options of certain former employees. As of December 31, 2018, we estimate that \$44 million of currently unrecognized compensation expense will be recognized over a weighted average period of 1.4 years for our unvested RSU, PSU and stock option awards issued and outstanding.

***Non-Employee Director Plan***

Our non-employee directors currently receive annual grants of shares of our common stock, generally payable in two equal installments, under the 2014 Plan described above.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**15. Earnings Per Share**

Basic and diluted earnings per share were computed using the following common share data for the years ended December 31 (shares in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Number of common shares outstanding at end of period . . . . .	424.0	433.3	439.3
Effect of using weighted average common shares outstanding . . . . .	<u>5.1</u>	<u>5.5</u>	<u>4.2</u>
Weighted average basic common shares outstanding . . . . .	429.1	438.8	443.5
Dilutive effect of equity-based compensation awards and other contingently issuable shares (a) . . . . .	<u>3.1</u>	<u>3.1</u>	<u>3.0</u>
Weighted average diluted common shares outstanding . . . . .	<u>432.2</u>	<u>441.9</u>	<u>446.5</u>
Potentially issuable shares . . . . .	7.4	8.1	9.8
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding . . . . .	1.5	1.9	1.0

(a) As of January 1, 2017, we adopted ASU 2016-09 prospectively and no longer include excess tax benefits as assumed proceeds.

**16. Fair Value Measurements**

*Assets and Liabilities Accounted for at Fair Value*

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring assets and liabilities that are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* — Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of our assets and liabilities, we use market data or assumptions that we believe market

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

participants would use in pricing an asset or liability, including assumptions about risk when appropriate. Our assets and liabilities that are measured at fair value on a recurring basis include the following as of December 31 (in millions):

	<b>2018</b>	<b>2017</b>
<b>Fair Value Measurements Using:</b>		
Quoted prices in active markets (Level 1):		
Money market funds . . . . .	\$ 70	\$ 225
	70	225
Significant other observable inputs (Level 2):		
Available-for-sale securities . . . . .	288	96
	288	96
Significant unobservable inputs (Level 3):		
Redeemable preferred stock . . . . .	66	55
	66	55
Total Assets . . . . .	\$ 424	\$ 376

*Money Market Funds*

We invest portions of our restricted trust and escrow account balances in money market funds. We measure the fair value of these investments using quoted prices in active markets for identical assets. The fair value of our money market funds approximates our cost basis in the investments. The decrease in 2018 is primarily attributable to changes in our investments portfolio associated with our wholly-owned insurance captive from money market funds to available-for-sale securities.

*Available-for-Sale Securities*

Our available-for-sale securities include restricted trust and escrow account balances and an investment in an unconsolidated entity, as discussed in Note 18. We invest primarily in debt securities, including U.S. Treasury securities, U.S. agency securities, municipal securities and mortgage- and asset-backed securities. Additionally, some funds are invested in equity securities. We measure the fair value of these securities using quoted prices for identical or similar assets in inactive markets. Any changes in fair value of these trusts related to unrealized gains and losses have been appropriately reflected as a component of accumulated other comprehensive income (loss). The increase in 2018 is primarily attributable to changes in our investments portfolio, as discussed above.

*Redeemable Preferred Stock*

Redeemable preferred stock is related to noncontrolling investments in unconsolidated entities and is included in investments in unconsolidated entities in our Consolidated Balance Sheets. The fair value of our investments have been measured based on third-party investors' recent or pending transactions in these securities, which are considered the best evidence of fair value. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public company comparable transactions. During 2018, the unrealized gain in fair value of our redeemable preferred stock of \$11 million was based on recent third-party investors' transactions in these securities and was reflected as a component of accumulated other comprehensive income (loss).

## WASTE MANAGEMENT, INC.

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

#### *Fair Value of Debt*

As of December 31, 2018 and 2017, the carrying value of our debt was \$10.0 billion and \$9.5 billion, respectively. The estimated fair value of our debt was approximately \$10.1 billion and \$9.9 billion as of December 31, 2018 and 2017, respectively. The increase in the fair value of our debt when comparing December 31, 2018 with December 31, 2017 is primarily related to net borrowings of \$563 million during 2018 and fluctuations in current market rates for similar types of instruments.

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 December 31, 2018 and 2017. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

#### **17. Acquisitions and Divestitures**

##### *Acquisitions*

We continue to pursue the acquisition of businesses that are accretive to our Solid Waste business and enhance and expand our existing service offerings. During the year ended December 31, 2018, we acquired 32 businesses primarily related to our Solid Waste business. Total consideration, net of cash acquired, for all acquisitions was \$471 million, which included \$440 million in cash paid and \$31 million of other consideration, primarily purchase price holdbacks. In 2018, we paid \$6 million of contingent consideration associated with acquisitions completed prior to 2018. In addition, we paid \$20 million of holdbacks, of which \$15 million related to current year acquisitions. Contingent consideration obligations are primarily based on achievement by the acquired businesses of certain negotiated goals, which generally include targeted financial metrics.

Total consideration for our 2018 acquisitions was primarily allocated to \$115 million of property and equipment, \$141 million of other intangible assets and \$248 million of goodwill. Other intangible assets included \$124 million of customer and supplier relationships, \$16 million of covenants not-to-compete and \$1 million of other intangible assets. The goodwill is primarily a result of expected synergies from combining the acquired businesses with our existing operations and substantially all is tax deductible.

During the year ended December 31, 2017, we acquired 24 businesses related to our Solid Waste business. Total consideration, net of cash acquired, for all acquisitions was \$205 million, which included \$183 million in cash paid and other consideration of \$22 million, primarily purchase price holdbacks. In 2017, we paid \$3 million of contingent consideration associated with acquisitions completed prior to 2017. In addition, we paid \$14 million of holdbacks, of which \$13 million related to 2017 acquisitions.

Total consideration for our 2017 acquisitions was primarily allocated to \$127 million of property and equipment, \$46 million of other intangible assets and \$39 million of goodwill. Other intangible assets included \$39 million of customer and supplier relationships and \$7 million of covenants not-to-compete. The goodwill was primarily a result of expected synergies from combining the acquired businesses with our existing operations and was tax deductible.

During the year ended December 31, 2016, we acquired 30 businesses primarily related to our Solid Waste business. Total consideration, net of cash acquired, for all acquisitions was \$604 million, which included \$581 million in cash paid and other consideration of \$23 million, primarily purchase price holdbacks. In 2016, we paid \$4 million of contingent

## WASTE MANAGEMENT, INC.

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

consideration for acquisitions completed prior to 2016. In addition, we paid \$26 million of holdbacks, of which \$16 million related to 2016 acquisitions.

Total consideration for our 2016 acquisitions was primarily allocated to \$115 million of property and equipment, \$212 million of other intangible assets and \$280 million of goodwill. Other intangible assets included \$185 million of customer and supplier relationships, \$23 million of covenants not-to-compete and \$4 million for a trade name. The goodwill was primarily a result of expected synergies from combining the acquired businesses with our existing operations and was tax deductible.

*Southern Waste Systems/Sun Recycling (“SWS”)* — On January 8, 2016, Waste Management Inc. of Florida, an indirect wholly-owned subsidiary of WM, acquired certain operations and business assets of SWS in Southern Florida for total consideration of \$525 million. The acquired business assets include residential, commercial and industrial solid waste collection, processing/recycling and transfer operations, equipment, vehicles, real estate and customer agreements. The acquisition was funded primarily with borrowings under our revolving credit facility.

Total consideration for SWS was allocated to \$93 million of property and equipment, \$182 million of other intangible assets and \$250 million of goodwill. The goodwill was assigned to our Florida Area, in our Tier 3 segment, and was tax deductible. The acquisition accounting for this transaction was finalized in 2016.

The following table presents the fair value assigned to other intangible assets for the SWS acquisition (amounts in millions, except for amortization periods):

	SWS	
Amount	Weighted Average Amortization Periods (in Years)	
Customer and supplier relationships .....	\$ 160	10.0
Covenants not-to-compete .....	18	5.0
Trade name .....	4	10.0
Total other intangible assets subject to amortization .....	\$ 182	9.5

#### ***Divestitures***

In 2018, 2017 and 2016, the aggregate sales price for divestitures of certain hauling and ancillary operations was \$153 million, \$62 million and \$2 million and we recognized net gains of \$96 million, net gains of \$38 million and net losses of \$9 million, respectively. These divestitures were made as part of our continuous focus on improving or divesting certain non-strategic or underperforming operations. The remaining amounts reported in the Consolidated Statements of Cash Flows generally relate to the sale of fixed assets.

#### **18. Variable Interest Entities**

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

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

We do not consolidate our investments in entities established to manage low-income housing properties and a refined coal facility because we are not the primary beneficiary of these entities as we do not have the power to individually direct the activities of these entities. Accordingly, we account for these investments under the equity method of accounting. Our

## WASTE MANAGEMENT, INC.

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

aggregate investment balance in these entities was \$189 million and \$59 million as of December 31, 2018 and 2017, respectively. The debt balance related to our investments in low-income housing properties was \$151 million and \$34 million as of December 31, 2018 and 2017, respectively. Additional information related to these investments is discussed in Note 8.

#### *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 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 \$92 million and \$99 million as of December 31, 2018 and 2017, respectively.

*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 Consolidated Balance Sheets. Unrealized gains and losses on available-for-sale securities held by these trusts are recorded as a component of accumulated other comprehensive income (loss). These trusts had a fair value of \$103 million and \$101 million as of December 31, 2018 and 2017, respectively.

#### **19. 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 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.

In 2017, we analyzed the Areas' income from operations margins for purposes of segment reporting and realigned our Solid Waste tiers to reflect recent 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. In 2018, there was no realignment of our Solid Waste tiers.

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 includes Southern California, Eastern Canada, Wisconsin and Minnesota. Tier 3 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 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 as of December 31 and for the years then ended is shown in the following table (in millions):

	<u>Gross Operating Revenues</u>	<u>Intercompany Operating Revenues(c)</u>	<u>Net Operating Revenues</u>	<u>Income from Operations (d)(e)</u>	<u>Depreciation and Amortization</u>	<u>Capital Expenditures (f)</u>	<u>Total Assets (g)(h)</u>
<b><u>Years Ended December 31:</u></b>							
<b>2018</b>							
Solid Waste:							
Tier 1 .....	\$ 5,868	\$ (1,063)	\$ 4,805	\$ 1,642	\$ 510	\$ 595	\$ 6,958
Tier 2 .....	2,622	(487)	2,135	542	232	257	3,761
Tier 3 .....	7,047	(1,365)	5,682	1,211	614	547	9,119
Solid Waste .....	15,537	(2,915)	12,622	3,395	1,356	1,399	19,838
Other (a) .....	2,487	(195)	2,292	(66)	91	72	1,571
	18,024	(3,110)	14,914	3,329	1,447	1,471	21,409
Corporate and Other (b) .....	—	—	—	(540)	30	200	1,487
Total .....	<u>\$ 18,024</u>	<u>\$ (3,110)</u>	<u>\$ 14,914</u>	<u>\$ 2,789</u>	<u>\$ 1,477</u>	<u>\$ 1,671</u>	<u>\$ 22,896</u>
<b>2017</b>							
Solid Waste:							
Tier 1 .....	\$ 5,576	\$ (1,002)	\$ 4,574	\$ 1,538	\$ 451	\$ 603	\$ 6,528
Tier 2 .....	2,559	(443)	2,116	552	203	185	3,749
Tier 3 .....	6,697	(1,220)	5,477	1,199	574	595	8,727
Solid Waste .....	14,832	(2,665)	12,167	3,289	1,228	1,383	19,004
Other (a) .....	2,538	(220)	2,318	(68)	103	93	1,785
	17,370	(2,885)	14,485	3,221	1,331	1,476	20,789
Corporate and Other (b) .....	—	—	—	(585)	45	92	1,327
Total .....	<u>\$ 17,370</u>	<u>\$ (2,885)</u>	<u>\$ 14,485</u>	<u>\$ 2,636</u>	<u>\$ 1,376</u>	<u>\$ 1,568</u>	<u>\$ 22,116</u>
<b>2016</b>							
Solid Waste:							
Tier 1 .....	\$ 5,241	\$ (911)	\$ 4,330	\$ 1,430	\$ 424	\$ 452	\$ 6,188
Tier 2 .....	2,400	(404)	1,996	522	190	157	3,562
Tier 3 .....	6,327	(1,137)	5,190	994	530	589	8,497
Solid Waste .....	13,968	(2,452)	11,516	2,946	1,144	1,198	18,247
Other (a) .....	2,278	(185)	2,093	(100)	101	104	1,489
	16,246	(2,637)	13,609	2,846	1,245	1,302	19,736
Corporate and Other (b) .....	—	—	—	(550)	56	45	1,401
Total .....	<u>\$ 16,246</u>	<u>\$ (2,637)</u>	<u>\$ 13,609</u>	<u>\$ 2,296</u>	<u>\$ 1,301</u>	<u>\$ 1,347</u>	<u>\$ 21,137</u>

(a) Our “Other” net operating revenues and “Other” income from operations include (i) our WMSBS organization; (ii) those elements of our landfill gas-to-energy operations and third-party subcontract and administration revenues managed by our EES and WM Renewable Energy organizations that are not included in the operations of our reportable segments; (iii) our recycling brokerage services and (iv) certain other expanded service offerings and



**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

solutions. In addition, our “Other” segment reflects the results of non-operating entities that provide financial assurance and self-insurance support for our Solid Waste business, net of intercompany activity.

- (b) Corporate operating results reflect certain costs incurred for various support services that are not allocated to our reportable segments. These support services include, among other things, treasury, legal, information technology, tax, insurance, centralized service center processes, other administrative functions and the maintenance of our closed landfills. Income from operations for “Corporate and other” also includes costs associated with our long-term incentive program and any administrative expenses or revisions to our estimated obligations associated with divested operations.
- (c) Intercompany operating revenues reflect each segment’s total intercompany sales, including intercompany sales within a segment and between segments. Transactions within and between segments are generally made on a basis intended to reflect the market value of the service.
- (d) For those items included in the determination of income from operations, the accounting policies of the segments are the same as those described in Note 3.
- (e) The income from operations provided by our Solid Waste business is generally indicative of the margins provided by our collection, landfill, transfer and recycling lines of business. From time to time, the operating results of our reportable segments are significantly affected by certain transactions or events that management believes are not indicative or representative of our results. Refer to Note 11 for explanations of certain transactions and events affecting our operating results.
- (f) Includes non-cash items. Capital expenditures are reported in our reportable segments at the time they are recorded within the segments’ property and equipment balances and, therefore, may include amounts that have been accrued but not yet paid.
- (g) The reconciliation of total assets reported above to total assets in the Consolidated Balance Sheets as of December 31 is as follows (in millions):

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Total assets, as reported above . . . . .	\$ 22,896	\$ 22,116	\$ 21,137
Elimination of intercompany investments and advances . . . . .	(246)	(287)	(278)
Total assets, per Consolidated Balance Sheet . . . . .	\$ 22,650	\$ 21,829	\$ 20,859

- (h) Goodwill is included within each segment’s total assets. For segment reporting purposes, our material recovery facilities are included as a component of their respective Areas and our recycling brokerage services are included as

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

part of our “Other” operations. The following table presents changes in goodwill during the reported periods by segment (in millions):

	Solid Waste				Total
	Tier 1	Tier 2	Tier 3	Other	
Balance, December 31, 2016 .....	\$ 2,203	\$ 1,196	\$ 2,661	\$ 155	\$ 6,215
Acquired goodwill .....	12	20	7	—	39
Divested goodwill .....	—	(1)	—	—	(1)
Impairments .....	—	—	—	(34)	(34)
Foreign currency translation .....	6	22	—	—	28
Balance, December 31, 2017 .....	<u>\$ 2,221</u>	<u>\$ 1,237</u>	<u>\$ 2,668</u>	<u>\$ 121</u>	<u>\$ 6,247</u>
Acquired goodwill .....	88	17	142	1	248
Divested goodwill .....	(6)	—	—	(19)	(25)
Impairments .....	—	—	—	(6)	(6)
Foreign currency translation .....	(7)	(27)	—	—	(34)
Balance, December 31, 2018 .....	<u>\$ 2,296</u>	<u>\$ 1,227</u>	<u>\$ 2,810</u>	<u>\$ 97</u>	<u>\$ 6,430</u>

The mix of operating revenues from our major lines of business for the years ended December 31 are as follows (in millions):

	2018	2017	2016
Commercial .....	\$ 3,972	\$ 3,714	\$ 3,480
Residential .....	2,529	2,528	2,487
Industrial .....	2,773	2,583	2,412
Other .....	450	439	423
Total collection .....	<u>9,724</u>	<u>9,264</u>	<u>8,802</u>
Landfill .....	3,560	3,370	3,110
Transfer .....	1,711	1,591	1,512
Recycling .....	1,293	1,432	1,221
Other (a) .....	1,736	1,713	1,601
Intercompany (b) .....	<u>(3,110)</u>	<u>(2,885)</u>	<u>(2,637)</u>
Total .....	<u>\$ 14,914</u>	<u>\$ 14,485</u>	<u>\$ 13,609</u>

(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 Consolidated Financial Statements included within this report.

Net operating revenues relating to operations in the U.S. and Canada for the years ended December 31 are as follows (in millions):

	2018	2017	2016
U.S. ....	\$ 14,167	\$ 13,768	\$ 12,915
Canada .....	747	717	694
Total .....	<u>\$ 14,914</u>	<u>\$ 14,485</u>	<u>\$ 13,609</u>

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Property and equipment, net of accumulated depreciation and amortization, relating to operations in the U.S. and Canada for the years ended December 31 are as follows (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
U.S. ....	\$ 11,044	\$ 10,591	\$ 10,040
Canada . . . . .	898	968	910
Total . . . . .	<u>\$ 11,942</u>	<u>\$ 11,559</u>	<u>\$ 10,950</u>

**20. Quarterly Financial Data (Unaudited)**

The following table summarizes the unaudited quarterly results of operations for 2018 and 2017 (in millions, except per share amounts):

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>2018</b>				
Operating revenues . . . . .	\$ 3,511	\$ 3,739	\$ 3,822	\$ 3,842
Income from operations . . . . .	608	715	699	767
Consolidated net income. . . . .	395	499	498	531
Net income attributable to Waste Management, Inc. . . . .	396	499	499	531
Basic earnings per common share . . . . .	0.91	1.16	1.16	1.25
Diluted earnings per common share. . . . .	0.91	1.15	1.16	1.24
<b>2017</b>				
Operating revenues . . . . .	\$ 3,440	\$ 3,677	\$ 3,716	\$ 3,652
Income from operations . . . . .	558	673	701	704
Consolidated net income. . . . .	297	361	388	903
Net income attributable to Waste Management, Inc. . . . .	298	362	386	903
Basic earnings per common share . . . . .	0.68	0.82	0.88	2.08
Diluted earnings per common share . . . . .	0.67	0.81	0.87	2.06

Basic and diluted earnings per common share for each of the quarters presented above is based on the respective weighted average number of common and dilutive potential common shares outstanding for each quarter and the sum of the quarters may not necessarily be equal to the full year basic and diluted earnings per common share amounts.

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. Additionally, from time to time, our operating results are significantly affected by certain transactions or events that management believes are not indicative or representative of our ongoing results. The following items significantly impacted our operating results during the periods indicated:

*Second Quarter 2018*

- The recognition of net pre-tax gains of \$40 million related to the sale of certain ancillary operations, which had a favorable impact of \$0.07 on our diluted earnings per share.
- An income tax benefit of \$33 million due to the settlement of various tax audits, which had a favorable impact of \$0.07 on our diluted earnings per share.

## WASTE MANAGEMENT, INC.

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

#### *Third Quarter 2018*

- Income tax benefits of \$27 million primarily due to impacts of enactment of tax reform and changes in state laws, which had a favorable impact of \$0.06 on our diluted earnings per share.
- The recognition of pre-tax charges of \$32 million primarily related to a \$29 million charge to impair a landfill in our Tier 3 segment, which is discussed further in Note 11. These charges had a negative impact of \$0.05 on our diluted earnings per share.

#### *Fourth Quarter 2018*

- The recognition of a pre-tax gain of \$52 million associated with the sale of certain hauling operations in our Tier 1 segment and \$8 million of impairment charges primarily related to our LampTracker® reporting unit. These items had a favorable impact of \$0.07 on our diluted earnings per share.
- A reduction in our income tax expense of \$17 million for an adjustment to our deferred taxes to reduce our deferred tax liability based on an analysis of certain deferred tax balances. This item had a favorable impact of \$0.04 on our diluted earnings per share.

#### *First Quarter 2017*

- A reduction in our income tax expense of \$32 million for excess tax benefits related to the vesting or exercise of equity-based compensation awards and a \$25 million pre-tax charge to write down an equity method investment in a waste diversion technology company to its fair value. These items had a favorable impact of \$0.01 on our diluted earnings per share.

#### *Third Quarter 2017*

- The recognition of pre-tax charges including (i) an \$11 million charge for the withdrawal from an underfunded Multiemployer Pension Plan and (ii) a \$9 million charge to adjust our subsidiary's estimated potential share of an environmental remediation liability and related costs for a closed site in Harris County, Texas. These charges had a negative impact of \$0.03 on our diluted earnings per share.

#### *Fourth Quarter 2017*

- An income tax benefit of \$529 million related to enactment of the Act, consisting of a net tax benefit of \$595 million related to the remeasurement of our deferred income tax assets and liabilities, partially offset by income tax expense of \$66 million for a one-time, mandatory transition tax on the deemed repatriation of previously tax-deferred and unremitted foreign earnings. This net tax benefit had a favorable impact of \$1.21 on our diluted earnings per share.
- The recognition of net pre-tax gains of \$26 million primarily related to (i) gains of \$31 million from the sale of certain oil and gas producing properties and (ii) a gain of \$30 million related to the reduction in post-closing, performance-based contingent consideration obligations associated with an acquired business in our EES organization, partially offset by goodwill impairment charges of \$34 million, primarily related to our EES organization. These net gains had a favorable impact of \$0.03 on our diluted earnings per share.
- The recognition of pre-tax charges of \$11 million related to the impairment of investments in waste diversion technology companies. These impairments were not deductible for income taxes and had a negative impact of \$0.02 on our diluted earnings per share.
- The recognition of a pre-tax loss of \$6 million associated with the early extinguishment of \$590 million of 6.1% senior notes ahead of their scheduled maturity date, which had a negative impact of \$0.01 on our diluted earnings per share.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**21. 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**

**December 31, 2018**

	<b>WM</b>	<b>WM Holdings</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents .....	\$ —	\$ —	\$ 61	\$ —	\$ 61
Other current assets .....	2	5	2,577	—	2,584
	2	5	2,638	—	2,645
Property and equipment, net .....	—	—	11,942	—	11,942
Investments in affiliates .....	24,676	25,097	—	(49,773)	—
Advances to affiliates .....	—	—	17,258	(17,258)	—
Other assets .....	8	31	8,024	—	8,063
Total assets .....	\$ 24,686	\$ 25,133	\$ 39,862	\$ (67,031)	\$ 22,650
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current portion of long-term debt .....	\$ 258	\$ —	\$ 174	\$ —	\$ 432
Accounts payable and other current liabilities .....	82	9	2,585	—	2,676
	340	9	2,759	—	3,108
Long-term debt, less current portion .....	7,377	304	1,913	—	9,594
Due to affiliates .....	17,398	146	6,709	(24,253)	—
Other liabilities .....	5	—	3,667	—	3,672
Total liabilities .....	25,120	459	15,048	(24,253)	16,374
Equity:					
Stockholders' equity .....	6,275	24,674	25,099	(49,773)	6,275
Advances to affiliates .....	(6,709)	—	(286)	6,995	—
Noncontrolling interests .....	—	—	1	—	1
	(434)	24,674	24,814	(42,778)	6,276
Total liabilities and equity .....	\$ 24,686	\$ 25,133	\$ 39,862	\$ (67,031)	\$ 22,650

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)**

**December 31, 2017**

	<u>WM</u>	<u>WM</u> <u>Holdings</u>	<u>Non-Guarantor</u> <u>Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents . . . . .	\$ —	\$ —	\$ 22	\$ —	\$ 22
Other current assets . . . . .	5	5	2,662	—	2,672
	5	5	2,684	—	2,694
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	7,536	—	7,576
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 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

	<u>WM</u>	<u>WM Holdings</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Years Ended December 31:</b>					
<b>2018</b>					
Operating revenues (a) . . . . .	\$ —	\$ —	\$ 15,090	\$ (176)	\$ 14,914
Costs and expenses (a) . . . . .	176	—	12,125	(176)	12,125
Income from operations . . . . .	<u>(176)</u>	<u>—</u>	<u>2,965</u>	<u>—</u>	<u>2,789</u>
Other income (expense):					
Interest expense, net . . . . .	(312)	(20)	(42)	—	(374)
Equity in earnings of subsidiaries, net of tax . . . . .	2,284	2,298	—	(4,582)	—
Other, net . . . . .	—	—	(39)	—	(39)
	<u>1,972</u>	<u>2,278</u>	<u>(81)</u>	<u>(4,582)</u>	<u>(413)</u>
Income before income taxes . . . . .	1,796	2,278	2,884	(4,582)	2,376
Income tax expense (benefit) . . . . .	(129)	(5)	587	—	453
Consolidated net income . . . . .	1,925	2,283	2,297	(4,582)	1,923
Less: Net loss attributable to noncontrolling interests . . . . .	—	—	(2)	—	(2)
Net income attributable to Waste Management, Inc. . . . .	<u>\$ 1,925</u>	<u>\$ 2,283</u>	<u>\$ 2,299</u>	<u>\$ (4,582)</u>	<u>\$ 1,925</u>
<b>2017</b>					
Operating revenues (a) . . . . .	\$ —	\$ —	\$ 15,040	\$ (555)	\$ 14,485
Costs and expenses (a) . . . . .	555	—	11,849	(555)	11,849
Income from operations . . . . .	<u>(555)</u>	<u>—</u>	<u>3,191</u>	<u>—</u>	<u>2,636</u>
Other income (expense):					
Interest expense, net . . . . .	(299)	(20)	(44)	—	(363)
Equity in earnings of subsidiaries, net of tax . . . . .	2,469	2,482	—	(4,951)	—
Other, net . . . . .	(4)	(1)	(77)	—	(82)
	<u>2,166</u>	<u>2,461</u>	<u>(121)</u>	<u>(4,951)</u>	<u>(445)</u>
Income before income taxes . . . . .	1,611	2,461	3,070	(4,951)	2,191
Income tax expense (benefit) . . . . .	(338)	(8)	588	—	242
Consolidated net income . . . . .	1,949	2,469	2,482	(4,951)	1,949
Less: Net loss attributable to noncontrolling interests . . . . .	—	—	—	—	—
Net income attributable to Waste Management, Inc. . . . .	<u>\$ 1,949</u>	<u>\$ 2,469</u>	<u>\$ 2,482</u>	<u>\$ (4,951)</u>	<u>\$ 1,949</u>
<b>2016</b>					
Operating revenues . . . . .	\$ —	\$ —	\$ 13,609	\$ —	\$ 13,609
Costs and expenses . . . . .	—	—	11,313	—	11,313
Income from operations . . . . .	<u>—</u>	<u>—</u>	<u>2,296</u>	<u>—</u>	<u>2,296</u>
Other income (expense):					
Interest expense, net . . . . .	(303)	(20)	(53)	—	(376)
Equity in earnings of subsidiaries, net of tax . . . . .	1,367	1,381	—	(2,748)	—
Other, net . . . . .	(1)	—	(97)	—	(98)
	<u>1,063</u>	<u>1,361</u>	<u>(150)</u>	<u>(2,748)</u>	<u>(474)</u>
Income before income taxes . . . . .	1,063	1,361	2,146	(2,748)	1,822
Income tax expense (benefit) . . . . .	(119)	(8)	769	—	642
Consolidated net income . . . . .	1,182	1,369	1,377	(2,748)	1,180
Less: Net loss attributable to noncontrolling interests . . . . .	—	—	(2)	—	(2)
Net income attributable to Waste Management, Inc. . . . .	<u>\$ 1,182</u>	<u>\$ 1,369</u>	<u>\$ 1,379</u>	<u>\$ (2,748)</u>	<u>\$ 1,182</u>

(a) For 2018 and 2017, costs and expenses for WM and operating revenues for Non-Guarantor Subsidiaries include insurance premiums for a wholly-owned insurance captive, which are eliminated in consolidation.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME**

	<u>WM</u>	<u>WM Holdings</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b><u>Years Ended December 31:</u></b>					
<b>2018</b>					
Comprehensive income.....	\$ 1,933	\$ 2,283	\$ 2,199	\$ (4,582)	\$ 1,833
Less: Comprehensive loss attributable to noncontrolling interests .....	—	—	(2)	—	(2)
Comprehensive income attributable to Waste Management, Inc. ....	<u>\$ 1,933</u>	<u>\$ 2,283</u>	<u>\$ 2,201</u>	<u>\$ (4,582)</u>	<u>\$ 1,835</u>
<b>2017</b>					
Comprehensive income.....	\$ 1,955	\$ 2,469	\$ 2,564	\$ (4,951)	\$ 2,037
Less: Comprehensive loss attributable to noncontrolling interests .....	—	—	—	—	—
Comprehensive income attributable to Waste Management, Inc. ....	<u>\$ 1,955</u>	<u>\$ 2,469</u>	<u>\$ 2,564</u>	<u>\$ (4,951)</u>	<u>\$ 2,037</u>
<b>2016</b>					
Comprehensive income.....	\$ 1,189	\$ 1,369	\$ 1,417	\$ (2,748)	\$ 1,227
Less: Comprehensive loss attributable to noncontrolling interests .....	—	—	(2)	—	(2)
Comprehensive income attributable to Waste Management, Inc. ....	<u>\$ 1,189</u>	<u>\$ 1,369</u>	<u>\$ 1,419</u>	<u>\$ (2,748)</u>	<u>\$ 1,229</u>



**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

<u>Years Ended December 31:</u>	<u>WM(a)</u>	<u>WM Holdings(a)</u>	<u>Non-Guarantor Subsidiaries(a)</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>2018</b>					
Cash flows provided by (used in):					
Operating activities .....	\$ —	\$ —	\$ 3,570	\$ —	\$ 3,570
Investing activities .....	—	—	(2,169)	—	(2,169)
Financing activities .....	—	—	(1,508)	—	(1,508)
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents .....	—	—	(3)	—	(3)
Intercompany activity .....	—	—	—	—	—
Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents .....	—	—	(110)	—	(110)
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 .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 183</u>	<u>\$ —</u>	<u>\$ 183</u>
<b>2017</b>					
Cash flows provided by (used in):					
Operating activities .....	\$ —	\$ —	\$ 3,180	\$ —	\$ 3,180
Investing activities .....	—	—	(1,620)	—	(1,620)
Financing activities .....	—	—	(1,361)	—	(1,361)
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents .....	—	—	—	—	—
Intercompany activity .....	—	—	—	—	—
Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents .....	—	—	199	—	199
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 .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 293</u>	<u>\$ —</u>	<u>\$ 293</u>
<b>2016</b>					
Cash flows provided by (used in):					
Operating activities .....	\$ —	\$ —	\$ 3,003	\$ —	\$ 3,003
Investing activities .....	—	—	(1,929)	—	(1,929)
Financing activities .....	—	—	(1,084)	—	(1,084)
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents .....	—	—	—	—	—
Intercompany activity .....	—	—	—	—	—
Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents .....	—	—	(10)	—	(10)
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period .....	—	—	104	—	104
Cash, cash equivalents and restricted cash and cash equivalents at end of period .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$ 94</u>

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

**22. Subsequent Event**

On January 31, 2019, we received Hart Scott Rodino antitrust clearance to proceed with the acquisition of landfill assets in West Texas related to our Solid Waste business. This transaction is expected to close in March 2019.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

**Effectiveness of Controls and Procedures**

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2018 (the end of the period covered by this Annual Report on Form 10-K).

**Management's Report on Internal Control Over Financial Reporting**

Management of the Company, including the principal executive and financial officers, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Our internal controls are designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- i. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 based on the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements, as stated in their report, which is included within this report.

## **Changes in Internal Control over Financial Reporting**

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended December 31, 2018. We determined that there were no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. *Other Information.***

None.

## **PART III**

### **Item 10. *Directors, Executive Officers and Corporate Governance.***

The information required by this Item is incorporated by reference to the sections entitled “Board of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Executive Officers,” in the Company’s definitive Proxy Statement for its 2019 Annual Meeting of Stockholders (the “Proxy Statement”), to be held May 14, 2019. The Proxy Statement will be filed with the SEC within 120 days of the end of our fiscal year.

We have adopted a code of ethics that applies to our CEO, CFO and Chief Accounting Officer, as well as other officers, directors and employees of the Company. The code of ethics, entitled “Code of Conduct,” is posted on our website at [www.wm.com](http://www.wm.com) under the section “Corporate Governance” within the “Investor Relations” tab.

### **Item 11. *Executive Compensation.***

The information required by this Item is incorporated herein by reference to the sections entitled “Board of Directors — Compensation Committee Report,” “— Compensation Committee Interlocks and Insider Participation,” “— Non-Employee Director Compensation,” “Executive Compensation — Compensation Discussion and Analysis” and “— Executive Compensation Tables” in the Proxy Statement.

### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item is incorporated herein by reference to the sections entitled “Executive Compensation — Executive Compensation Tables — Equity Compensation Plan Table,” “Director and Officer Stock Ownership,” and “Security Ownership of Certain Beneficial Owners” in the Proxy Statement.

### **Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item is incorporated herein by reference to the sections entitled “Board of Directors — Related Party Transactions” and “— Independence of Board Members” in the Proxy Statement.

### **Item 14. *Principal Accounting Fees and Services.***

The information required by this Item is incorporated herein by reference to the section entitled “Ratification of Independent Registered Public Accounting Firm — Independent Registered Public Accounting Firm Fee Information” in the Proxy Statement.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a) (1) Consolidated Financial Statements:

Reports of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2018 and 2017  
Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016  
Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016  
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016  
Consolidated Statements of Changes in Equity for the years ended December 31, 2018, 2017 and 2016  
Notes to Consolidated Financial Statements

(a) (2) Consolidated Financial Statement Schedules:

All schedules have been omitted because the required information is not significant or is included in the financial statements or notes thereto, or is not applicable.

(a) (3) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
3.1	— Third Restated Certificate of Incorporation of Waste Management, Inc. [incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 2010].
3.2	— Amended and Restated By-laws of Waste Management, Inc. [incorporated by reference to Exhibit 3.2 to Form 8-K dated February 19, 2018].
4.1	— Specimen Stock Certificate [incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 1998].
4.2	— Third Restated Certificate of Incorporation of Waste Management Holdings, Inc. [incorporated by reference to Exhibit 4.2 to Form 10-K for the year ended December 31, 2014].
4.3	— Amended and Restated By-laws of Waste Management Holdings, Inc. [incorporated by reference to Exhibit 4.3 to Form 10-Q for the quarter ended June 30, 2014].
4.4	— Indenture for Subordinated Debt Securities dated February 3, 1997, among the Registrant and The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee [incorporated by reference to Exhibit 4.1 to Form 8-K dated February 7, 1997].
4.5	— Indenture for Senior Debt Securities dated September 10, 1997, among the Registrant and The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee [incorporated by reference to Exhibit 4.1 to Form 8-K dated September 10, 1997].
4.6	— Officers' Certificate delivered pursuant to Section 301 of the Indenture dated September 10, 1997 by and between Waste Management, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee, establishing the terms and form of Waste Management, Inc.'s 3.150% Senior Notes due 2027 [incorporated by reference to Exhibit 4.6 to Form 10-K for the year ended December 31, 2017].
4.7	— Guarantee Agreement by Waste Management Holdings, Inc. in favor of The Bank of New York Mellon Trust Company, N.A., as Trustee for the holders of Waste Management, Inc.'s 3.150% Senior Notes due 2027 [incorporated by reference to Exhibit 4.7 to Form 10-K for the year ended December 31, 2017].

- 4.8\* — Schedule of Officers' Certificates delivered pursuant to Section 301 of the Indenture dated September 10, 1997 establishing the terms and form of Waste Management, Inc.'s Senior Notes. Waste Management and its subsidiaries are parties to debt instruments that have not been filed with the SEC under which the total amount of securities authorized under any single instrument does not exceed 10% of the total assets of Waste Management and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, Waste Management agrees to furnish a copy of such instruments to the SEC upon request.
- 10.1† — 2014 Stock Incentive Plan [incorporated by reference to Exhibit 10.1 to Form 8-K dated May 13, 2014].
- 10.2† — 2009 Stock Incentive Plan [incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed March 25, 2009].
- 10.3† — 2005 Annual Incentive Plan [incorporated by reference to Appendix D to the Proxy Statement on Schedule 14A filed April 8, 2004].
- 10.4† — Waste Management, Inc. Employee Stock Purchase Plan [incorporated by reference to Exhibit 10.1 to Form 8-K dated May 15, 2015].
- 10.5† — First Amendment to Waste Management, Inc. Employee Stock Purchase Plan effective as of July 1, 2015 [incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 2015].
- 10.6† — Waste Management, Inc. 409A Deferral Savings Plan as Amended and Restated effective January 1, 2014 [incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2014].
- 10.7 — \$2.75 Billion Fourth Amended and Restated Revolving Credit Agreement dated as of June 26, 2018 by and among Waste Management, Inc., Waste Management of Canada Corporation, WM Quebec Inc. and Waste Management Holdings, Inc., certain banks party thereto, and Bank of America, N.A., as administrative agent [incorporated by reference to Exhibit 10.1 to Form 8-K filed June 29, 2018].
- 10.8 — \$2.25 Billion Third Amended and Restated Revolving Credit Agreement dated as of July 10, 2015 by and among Waste Management, Inc. and Waste Management Holdings, Inc. and certain banks party thereto, and Bank of America, N.A., as administrative agent [incorporated by reference to Exhibit 10.1 to Form 8-K dated July 10, 2015].
- 10.9 — CDN\$509,500,000 Credit Facilities Amended and Restated Credit Agreement by and among Waste Management of Canada Corporation and WM Quebec Inc., as borrowers, Waste Management, Inc. and Waste Management Holdings, Inc., as guarantors, The Bank of Nova Scotia, as administrative agent, JPMorgan Chase Bank, N.A., Bank of America, N.A. and PNC Bank Canada Branch, as co-syndication agents, The Bank of Nova Scotia, JPMorgan Chase Bank, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and PNC Capital Markets LLC, as joint lead arrangers and joint bookrunners and the Lenders from time to time party thereto [incorporated by reference to Exhibit 10.1 to Form 8-K dated March 24, 2016].
- 10.10 — Commercial Paper Dealer Agreement, substantially in the form as executed with each of Mizuho Securities USA Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and J.P. Morgan Securities LLC, as Dealer, dated August 22, 2016 [incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended December 31, 2016].
- 10.11 — Commercial Paper Issuing and Paying Agent Agreement between Waste Management, Inc. and Bank of America, National Association dated August 15, 2016 [incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended December 31, 2016].
- 10.12† — First Amended and Restated Employment Agreement between USA Waste-Management Resources, LLC and James C. Fish, Jr. dated December 22, 2017 [incorporated by reference to Exhibit 10.2 to Form 8-K dated December 22, 2017].
- 10.13† — Employment Agreement between USA Waste-Management Resources, LLC and Devina A. Rankin dated December 22, 2017 [incorporated by reference to Exhibit 10.3 to Form 8-K dated December 22, 2017].
- 10.14† — Employment Agreement between the Company and James E. Trevathan, Jr. dated June 1, 2000 [incorporated by reference to Exhibit 10.20 to Form 10-K for the year ended December 31, 2000].
- 10.15† — Amendment to Employment Agreement between the Company and James E. Trevathan, Jr. [incorporated by reference to Exhibit 10.3 to Form 8-K dated March 9, 2011].
- 10.16† — Employment Agreement between the Company and Jeff Harris dated December 1, 2006 [incorporated by reference to Exhibit 10.1 to Form 8-K dated December 1, 2006].

- 10.17† — Amendment to Employment Agreement by and between the Company and Jeff Harris [incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 31, 2011].
- 10.18† — First Amended and Restated Employment Agreement between USA Waste-Management Resources, LLC and John J. Morris, Jr. [incorporated by reference to Exhibit 10.4 to Form 8-K dated December 22, 2017].
- 10.19† — Employment Agreement between USA Waste-Management Resources, LLC and Charles C. Boettcher dated December 22, 2017 [incorporated by reference to Exhibit 10.23 to Form 10-K for the year ended December 31, 2017].
- 10.20† — Employment Agreement between the Company and Barry H. Caldwell dated September 23, 2002 [incorporated by reference to Exhibit 10.24 to Form 10-K for the year ended December 31, 2002].
- 10.21†\* — Separation and Release Agreement between USA Waste-Management Resources, LLC and Barry H. Caldwell.
- 10.22† — Form of Director and Executive Officer Indemnity Agreement [incorporated by reference to Exhibit 10.43 to Form 10-K for the year ended December 31, 2012].
- 10.23† — Waste Management Holdings, Inc. Executive Severance Plan [incorporated by reference to Exhibit 10.1 to Form 8-K dated December 22, 2017].
- 10.24† — Form of 2016 Senior Leadership Team Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K dated February 26, 2016].
- 10.25† — Form of 2016 Individual Restricted Stock Unit Award Agreement [incorporated by reference to Exhibit 10.32 to Form 10-K for the year ended December 31, 2016].
- 10.26† — Form of 2017 Senior Leadership Team Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K dated February 27, 2017].
- 10.27† — 2017 Senior Leadership Team Award Agreement with Mr. James E. Trevathan, Jr. [incorporated by reference to Exhibit 10.2 to Form 8-K dated February 27, 2017].
- 10.28† — Form of 2017 Long Term Incentive Compensation Award Agreement (Mid-Year Award) [incorporated by reference to Exhibit 10.37 to Form 10-K for the year ended December 31, 2017].
- 10.29† — Form of 2018 Senior Leadership Team Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K dated February 19, 2018].
- 21.1\* — Subsidiaries of the Registrant.
- 23.1\* — Consent of Independent Registered Public Accounting Firm.
- 31.1\* — Certification Pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., President and Chief Executive Officer.
- 31.2\* — Certification Pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of Devina A. Rankin, Senior Vice President and Chief Financial Officer.
- 32.1\*\* — Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., President and Chief Executive Officer.
- 32.2\*\* — Certification Pursuant to 18 U.S.C. §1350 of Devina A. Rankin, Senior Vice President and Chief Financial Officer.
- 95\* — Mine Safety Disclosures.
- 101.INS\* — XBRL Instance Document.
- 101.SCH\* — XBRL Taxonomy Extension Schema Document.
- 101.CAL\* — XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\* — XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\* — XBRL Taxonomy Extension Labels Linkbase Document.
- 101.PRE\* — XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished herewith.

† Denotes management contract or compensatory plan or arrangement.

#### **Item 16. Form 10-K Summary.**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

WASTE MANAGEMENT, INC.

By:           /s/ JAMES C. FISH, JR.            
James C. Fish, Jr.  
*President, Chief Executive Officer and Director*

Date: February 14, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JAMES C. FISH, JR.</u> James C. Fish, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2019
<u>/s/ DEVINA A. RANKIN</u> Devina A. Rankin	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 14, 2019
<u>/s/ LESLIE K. NAGY</u> Leslie K. Nagy	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 14, 2019
<u>/s/ FRANK M. CLARK, JR.</u> Frank M. Clark, Jr.	Director	February 14, 2019
<u>/s/ ANDRÉS R. GLUSKI</u> Andrés R. Gluski	Director	February 14, 2019
<u>/s/ PARTICK W. GROSS</u> Patrick W. Gross	Director	February 14, 2019
<u>/s/ VICTORIA M. HOLT</u> Victoria M. Holt	Director	February 14, 2019
<u>/s/ KATHLEEN M. MAZZARELLA</u> Kathleen M. Mazzarella	Director	February 14, 2019
<u>/s/ JOHN C. POPE</u> John C. Pope	Director	February 14, 2019
<u>/s/ THOMAS H. WEIDEMEYER</u> Thomas H. Weidemeyer	Chairman of the Board and Director	February 14, 2019

## Corporate Information

### BOARD OF DIRECTORS

**FRANK M. CLARK, JR. (A, C)**

Retired Chairman  
and Chief Executive Officer  
ComEd

**JAMES C. FISH, JR.**

President and Chief Executive Officer  
Waste Management, Inc.

**ANDRÉS R. GLUSKI (A, C)**

President and Chief Executive Officer  
The AES Corporation

**PATRICK W. GROSS (A, N)**

Chairman  
The Lovell Group

**VICTORIA M. HOLT (A, C)**

President and Chief Executive Officer  
Proto Labs, Inc.

**KATHLEEN M. MAZZARELLA (C, N)**

Chairman, President and  
Chief Executive Officer –  
Graybar Electric Company, Inc.

**JOHN C. POPE (C, N)**

Chairman – PFI Group  
Chairman – R.R. Donnelley & Sons

**THOMAS H. WEIDEMEYER (A, C, N)**

Non-Executive Chairman of the Board,  
Retired Senior Vice President  
and Chief Operating Officer  
United Parcel Service, Inc.

(A) Audit Committee

(C) Management Development and  
Compensation Committee

(N) Nominating and Governance  
Committee

### OFFICERS

**JAMES C. FISH, JR.**

President and Chief Executive Officer

**STEVEN R. BATCHELOR**

Senior Vice President, Operations

**CHARLES C. BOETTCHER**

Senior Vice President and  
Chief Legal Officer

**TARA J. HEMMER**

Senior Vice President, Operations

**JOHN J. MORRIS, JR.**

Executive Vice President and  
Chief Operating Officer

**TAMLA D. OATES-FORNEY**

Senior Vice President and  
Chief Human Resources Officer

**DEVINA A. RANKIN**

Senior Vice President and  
Chief Financial Officer

**NIKOLAJ H. SJOQVIST**

Senior Vice President and  
Chief Digital Officer

**MICHAEL J. WATSON**

Senior Vice President and  
Chief Customer Officer

**JEFF R. BENNETT**

Assistant Treasurer

**MARK A. LOCKETT**

Vice President, Tax

**LESLIE K. NAGY**

Vice President and  
Chief Accounting Officer

**DAVID L. REED**

Vice President and Treasurer

**CHARLES S. SCHWAGER**

Vice President and  
Chief Compliance and Ethics Officer

**COURTNEY A. TIPPY**

Vice President and Corporate Secretary

### CORPORATE HEADQUARTERS

Waste Management, Inc.  
1001 Fannin Street  
Houston, Texas 77002  
Telephone: (713) 512-6200  
Facsimile: (713) 512-6299

### INDEPENDENT AUDITORS

Ernst & Young LLP  
5 Houston Center, Suite 1200  
1401 McKinney Street  
Houston, Texas 77010  
(713) 750-1500

### COMPANY STOCK

The Company's common stock is traded on the New York Stock Exchange (NYSE) under the symbol "WM." The number of holders of record of common stock based on the transfer records of the Company at March 5, 2019 was 8,929. Based on security position listings, the Company believes that, as of March 4, 2019, it had approximately 633,227 beneficial owners.

### TRANSFER AGENT AND REGISTRAR

Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845  
(800) 969-1190

### INVESTOR RELATIONS

Security analysts, investment professionals, and shareholders should direct inquiries to Investor Relations at the corporate address or call (713) 265-1656.

### ANNUAL MEETING

The annual meeting of the stockholders of the Company is scheduled to be held at 11:00 a.m. on May 14, 2019 at: The Maury Myers Conference Center  
Waste Management, Inc.  
1021 Main Street  
Houston, Texas 77002

### WEB SITE

[www.wm.com](http://www.wm.com)





1001 Fannin Street - Houston, Texas 77002  
[www.wm.com](http://www.wm.com)