

2016 Annual Report



Proxy Statement



1001 Fannin Street
Houston, Texas 77002

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

Date and Time:

May 12, 2017 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 nine 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, 2017;
- To vote on a proposal to approve our executive compensation;
- To vote on a proposal regarding the frequency of the advisory vote on 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 15, 2017 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 24, 2017

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 12, 2017: This Notice of Annual Meeting and Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2016 are available at www.wm.com.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| GENERAL INFORMATION | 1 |
| BOARD OF DIRECTORS | 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 |
| Special Committee | 13 |
| Board of Directors Governing Documents | 13 |
| Non-Employee Director Compensation | 13 |
| ELECTION OF DIRECTORS (Item 1 on the Proxy Card) | 16 |
| DIRECTOR AND OFFICER STOCK OWNERSHIP | 20 |
| SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS | 22 |
| SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE | 22 |
| EXECUTIVE OFFICERS | 23 |
| EXECUTIVE COMPENSATION | 24 |
| Compensation Discussion and Analysis | 24 |
| Executive Summary | 24 |
| Our Compensation Philosophy for Named Executive Officers | 26 |
| Overview of Elements of Our 2016 Compensation Program | 28 |
| How Named Executive Officer Compensation Decisions are Made | 30 |
| Named Executives' 2016 Compensation Program and Results | 35 |
| Other Compensation Policies and Practices | 39 |
| Executive Compensation Tables | 42 |
| Summary Compensation Table | 42 |
| Grant of Plan-Based Awards in 2016 | 45 |
| Outstanding Equity Awards at December 31, 2016 | 47 |
| Option Exercises and Stock Vested | 48 |
| Nonqualified Deferred Compensation in 2016 | 48 |
| Potential Payments Upon Termination or Change in Control | 49 |
| Equity Compensation Plan Table | 55 |
| RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Item 2 on the Proxy Card) | 56 |
| ADVISORY VOTE ON EXECUTIVE COMPENSATION (Item 3 on the Proxy Card) | 57 |
| ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION (Item 4 on the Proxy Card) | 59 |
| STOCKHOLDER PROPOSAL (Item 5 on the Proxy Card) | 60 |
| OTHER MATTERS | 62 |

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 2017 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 24, 2017, 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 24, 2017, 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.

| | |
|------------------------------|---|
| Record Date | March 15, 2017. |
| Quorum | A majority of shares outstanding on the record date must be present in person or by proxy. |
| Shares Outstanding | There were 441,798,677 shares of Common Stock outstanding and entitled to vote as of March 15, 2017. |
| Voting by Proxy | Internet, phone, or mail. |
| Voting at the Meeting | 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. |
| Changing Your Vote | 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 nine 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, except with respect to proposal 4, the frequency of future advisory votes on executive compensation, the alternative receiving a majority of the votes cast — every year, every two years or every three years — will be the frequency that stockholders approve. If none of the frequency alternatives receive a majority of the votes cast, the alternative receiving the greatest number of votes cast will be the frequency that stockholders approve.

Effect of Abstentions and Broker Non-Votes

Abstentions will have no effect on the election of directors or the frequency of future advisory votes on executive compensation. 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, the vote on the frequency of future advisory votes 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 candidates;
- *FOR* the ratification of the independent registered public accounting firm;
- *FOR* approval of our executive compensation;

- *FOR* conducting future advisory votes on executive compensation annually; 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 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 2018 Annual Meeting

Eligible stockholders who wish to submit a proposal for inclusion in the proxy statement for our 2018 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 24, 2017, 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 2018 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 2018 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 2017 Annual Meeting. As a result, any such stockholder's notice for the 2018 Annual Meeting shall be received no earlier than December 13, 2017 and no later than January 12, 2018 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 "Corporate Governance" section of the "Investor Relations" page on our website at 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 2017 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, 2016, which includes our financial statements for fiscal year 2016, 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 nine members. Each member of our Board is elected annually. Mr. Bradbury (Brad) H. Anderson 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. Brad Anderson, 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. On February 4, 2017, Mr. W. Robert Reum, the Company's Chairman of the Board, passed away. The Board elected Mr. Brad Anderson to serve as Chairman of the Board effective February 27, 2017, due to his experience serving in board and executive leadership roles at large public companies, as well as his deep understanding of our Company and strategy. On the same date, Mr. Anderson was named to the Audit Committee of the Board, such that he now 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 framework and processes are coordinated by an ERM Committee consisting of our Chief Financial Officer, Chief Operating Officer, Chief Legal Officer and head of Internal Audit. The ERM process is supported by Internal Audit conducting regular inquiries of our Company's Senior Leadership Team and additional members of senior management. Internal Audit conducts these inquiries to identify and assess enterprise risks, including emerging risk and other key risks that may affect the execution of our strategic priorities or achievement of our long-term outlook. As a result of this process, we have grouped our risk focus across the following areas:

- Strategic;
- Operational;
- Compliance; and
- External.

The ERM program and process continue to evolve with enhancements made annually. Board members are polled to collect their thoughts on significant enterprise risks facing our Company and how the reporting format

should be revised to improve management’s communication of enterprise risks to our Board. We assign champions across the aforementioned areas, who work with the ERM Committee to establish a more comprehensive risk mitigation strategy for identified enterprise risks. The ERM Committee will review the assessment of the risks in each area and the proposed mitigation strategy and determine what adjustments, additions, or changes are appropriate.

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 all Company risks. At each of these meetings, our President and Chief Executive Officer; Chief Financial Officer and Chief Legal Officer are asked to report to our Board and, when appropriate, specific committees. Additionally, other members of management and employees are requested to attend meetings and present information, including those responsible for our Internal Audit, Environmental Audit, Business Ethics and Compliance, Human Resources, Government Affairs, Information Technology, Risk Management, Safety, Finance and Accounting functions.

One of the purposes of these presentations is to provide direct communication between members of our Board and members of management. The presentations provide members of our Board with the information necessary to understand our risk profile, including information regarding the specific risk environment, exposures affecting our operations and our plans to address such risks. In addition to communicating general updates of our operational and financial condition, management reports to our Board on a number of specific issues meant to inform our Board about our outlook and forecasts, and any impediments to meeting those or our strategies generally. These direct communications between management and our Board of Directors allow our Board to assess management’s evaluation and management of risk.

Management is 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 managing our Company’s risks. These intra-Board communications are essential to our Board’s oversight function. Additionally, all members of our Board are invited to attend all committee meetings, regardless of whether the individual sits on the specific committee, and committee chairs report to the full Board. These practices ensure that all issues affecting our Company are considered in relation to each other; and by doing so, risks that affect one aspect of our Company can be taken into consideration when evaluating other risks.

In addition, the Audit Committee is responsible for ensuring that an effective risk assessment process is in place, and quarterly reports are made to the Audit Committee on all financial and compliance risks in accordance with New York Stock Exchange requirements.

Independence of Board Members

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

Bradbury H. Anderson
Frank M. Clark, Jr.
Andrés R. Gluski
Patrick W. Gross
Victoria M. Holt
Kathleen M. Mazzarella
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., The AES Corporation and Proto Labs, Inc. Ms. Mazzarella, Mr. Gluski and Ms. Holt, 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) in which any of the Company's non-employee directors have or had a material direct or indirect interest. 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 2016 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. In 2006, the Board appointed a Special Committee, as described below.

The Audit Committee

Mr. Gross has been the Chairman of our Audit Committee since May 2010. The other members of our Audit Committee are Ms. Holt and Messrs. Anderson, Clark, Gluski and Weidemeyer. Mr. Reum also served on our Audit Committee until his passing in February 2017. 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 2016.

Our Board of Directors has determined that Audit Committee Chairman Mr. Gross, and each of Messrs. Anderson, Clark and 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 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. Anderson served as Vice Chairman and Chief Executive Officer of Best Buy Co., Inc. from 2002 to 2009. Mr. Anderson has also served on the Audit Committee of the Board of Directors for Carlson Company, Inc., a private company, and he has served on the Audit and Compliance Committee of the Board of Trustees for Mayo Clinic. Mr. Anderson holds a bachelor's degree from the University of Denver.

Mr. Clark served as Chairman and Chief Executive Officer of ComEd from November 2005 to February 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 and Chief Executive Officer 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 and Chief Executive Officer of Proto Labs, Inc. since February 2014 and was President and Chief Executive Officer of Spartech Corporation from 2010 to March 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, 2016 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 2016, 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, 2016, 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, 2016, and consolidated statements of operations, comprehensive income, cash flows and changes in equity for the fiscal year ended December 31, 2016, 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, 2016. The Committee has also approved the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2017.

The Audit Committee of the Board of Directors

Patrick W. Gross, *Chairman*
Bradbury H. Anderson
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 Ms. Holt, Ms. Mazzarella and Messrs. Anderson, Gluski and Pope. Mr. Reum also served on our MD&C Committee until his passing in February 2017. 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 regular meetings and four special meetings in 2016.

Our MD&C Committee is responsible for overseeing all of 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 all of our executives;
- Approve the compensation of our executive officers and senior leadership team and set the bonus plan goals for those individuals;
- Conduct an annual evaluation of our Chief Executive Officer by all independent directors to set his compensation;
- Oversee the administration of all 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 24.

Compensation Committee Report

The MD&C Committee has reviewed and discussed the *Compensation Discussion and Analysis*, beginning on page 24, 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*
Bradbury H. Anderson
Andrés R. Gluski
Victoria M. Holt
Kathleen M. Mazzarella
John C. Pope

Compensation Committee Interlocks and Insider Participation

During 2016, Ms. Holt, Ms. Mazzarella and Messrs. Anderson, Clark, Gluski, Pope and Reum served on the MD&C Committee. No member of the MD&C Committee was an officer or employee of the Company during 2016; no member of the MD&C Committee is a former officer of the Company; and during 2016, 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

Mr. Weidemeyer has served as the Chairman of our Nominating and Governance Committee since May 2011. The other members of the Committee include Ms. Mazzarella and Messrs. Anderson, Gross and Pope. Mr. Reum also served on our Nominating and Governance Committee until his passing in February 2017. Each member of our Nominating and Governance Committee is independent in accordance with the rules and regulations of the New York Stock Exchange. In 2016, 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 it 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 Committee uses a matrix of functional and industry experiences 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 25, 2017 and November 26, 2017.

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 2016 that are required to be disclosed.

Special Committee

The Board of Directors appointed a Special Committee in November 2006 to make determinations regarding the Company’s obligation to provide indemnification when and as may be necessary. The Special Committee consists of Mr. Gross and Mr. Weidemeyer. The Special Committee held no meetings in 2016.

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 “Corporate Governance” section of the “Investor Relations” page on our website at 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. Our non-employee director compensation was increased in 2014 and was held flat in 2015 and 2016. 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 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 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 historically have been January 15 and July 15 of each year (or, if not a business day, then the next following business day). The value of the annual stock award granted to non-employee directors in 2016 was \$140,000. Accordingly, each non-employee director received a grant of Common Stock valued at \$70,000 on January 15, 2016 and July 15, 2016 under the 2014 Stock Incentive Plan. Mr. Reum received an additional grant of Common Stock valued at \$100,000 for his service as Non-Executive Chairman of the Board in 2016, which was also made in two equal installments on January 15 and July 15.

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 2016:

| | |
|-------------------------------|---|
| Annual Retainer | \$110,000 |
| Annual Chair Retainers | \$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 |
| Other Annual Retainers | \$10,000 for Special Committee (Paid only in years when convened; the Special Committee was not convened in 2016.) |

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 2016 to increase the assumed stock price from \$40 per share to \$60 per share, to better reflect recent sustained market prices for our Common Stock. As a result, non-employee directors are now required to hold 9,000 shares, valued at approximately five times the 2016 annual cash retainer for non-employee directors. There is no deadline set 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. Each of Messrs. Anderson, Clark, Gross, Pope and Weidemeyer and Ms. Holt have reached the ownership guideline. Our two newest directors, Ms. Mazzarella and Mr. Gluski, are making appropriate progress toward 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 2016 in accordance with the descriptions set forth above:

| <u>Name</u> | <u>Fees Earned or Paid in Cash (\$)</u> | <u>Stock Awards (\$)⁽¹⁾</u> | <u>Total (\$)</u> |
|------------------------------|---|--|-------------------|
| Bradbury H. Anderson | 110,000 | 140,000 | 250,000 |
| Frank M. Clark, Jr. | 130,000 | 140,000 | 270,000 |
| Andrés R. Gluski | 110,000 | 140,000 | 250,000 |
| Patrick W. Gross | 135,000 | 140,000 | 275,000 |
| Victoria M. Holt | 110,000 | 140,000 | 250,000 |
| Kathleen M. Mazzarella | 110,000 | 140,000 | 250,000 |
| John C. Pope | 110,000 | 140,000 | 250,000 |
| W. Robert Reum | 210,000 | 240,000 | 450,000 |
| Thomas H. Weidemeyer | 125,000 | 140,000 | 265,000 |

- (1) Amounts in this column represent the grant date fair value of stock awards granted in 2016, 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.

ELECTION OF DIRECTORS

(ITEM 1 ON THE PROXY CARD)

The first item on the proxy card is the election of nine directors to serve until the 2018 Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified. The Board has nominated the nine 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 indicated the 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. On November 10, 2016, Mr. Fish succeeded Mr. David P. Steiner as Chief Executive Officer of the Company, and Mr. Fish was also elected to the Board on that date. Mr. Steiner resigned from the Board on January 6, 2017.

On February 4, 2017, Mr. W. Robert Reum, the Company’s Chairman of the Board, passed away. On February 27, 2017, Mr. Brad Anderson was elected to succeed Mr. Reum as Chairman of the Board.

Director Nominees

Director

Qualifications

Bradbury H. Anderson, 67

Director since 2011

Chairman of the Board since February 2017

Vice Chairman and Chief Executive Officer — Best Buy Co., Inc. (multinational retailer of technology and entertainment products and services) from 2002 to 2009; President and Chief Operating Officer of Best Buy from 1991 to 2002.

Director of General Mills, Inc. since 2007.

Director of Carlson Company, Inc., a private company, since 2009.

Director of Best Buy Co., Inc. from June 2013 to June 2016.

Mr. Anderson served in the positions of chief executive officer and chief operating officer of a large public retail company for several years, during a customer segmentation transformation, which provided him with extensive knowledge of management and operations of large public companies, including experience implementing customer focused strategies. He also has over 20 years of experience as a member of a public company board of directors.

Director

Qualifications

**Frank M. Clark, Jr., 71
Director since 2002**

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.

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

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. He also brings over 14 years of experience as a member of a public company board of directors.

**James C. Fish, Jr., 54
Chief Executive Officer and Director since November 2016;
President since July 2016**

President and Chief Financial Officer from July 2016 to November 2016.

Executive Vice President and Chief Financial Officer from August 2012 to July 2016.

Senior Vice President — Eastern Group from 2011 to August 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.

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 shareholder value.

**Andrés R. Gluski, 59
Director since January 2015**

President and Chief Executive Officer — The AES Corporation (global power company) since 2011; Executive Vice President and Chief Operating Officer — The AES Corporation from 2007 to 2011.

Director of The AES Corporation since 2011.

Director of AES Gener (Chile) since 2005.

Director of Cliffs Natural Resources from 2011 to July 2014.

During his tenure as President and CEO of the AES Corporation, a Fortune 200 company in the energy business, 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 major corporations, as well as on President Obama's Export Council and is the Chairman of the Americas Society and Council of the Americas.

Director

Qualifications

Patrick W. Gross, 72
Director since 2006

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

Director of Capital One Financial Corporation since 1995.

Director of Liquidity Services, Inc. since 2001.

Director of Career Education Corporation since 2005.

Director of Rosetta Stone, Inc. since 2009.

Director of Taleo Corporation from 2006 to February 2012.

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, 59
Director since January 2013

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

Director of Proto Labs, Inc. since February 2014.

President and Chief Executive Officer — Spartech Corporation (a leading producer of plastic sheet, compounds and packaging products) from 2010 to March 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 December 2012.

Director of Spartech Corporation from 2005 to March 2013.

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, 57
Director since October 2015

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 January 2013; President and Chief Executive Officer — Graybar Electric Company, Inc. from June 2012 to January 2013; Executive Vice President and Chief Operating Officer — Graybar Electric Company, Inc. from 2010 to June 2012.

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

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 37-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 private and non-profit boards.

Director

Qualifications

John C. Pope, 67
Director since 1997

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 November 2012; and Navistar International Corporation from October 2012 to July 2013.

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, 69
Director since 2005

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 since 2007.

Mr. Weidemeyer served in executive positions at a large public company for several years. 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 14 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 NINE 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* on page 39 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 42 beneficially owned as of March 15, 2017, 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

| <u>Name</u> | <u>Shares of Common Stock Owned⁽¹⁾</u> | <u>Shares of Common Stock Covered by Exercisable Options⁽²⁾</u> | <u>Phantom Stock⁽³⁾</u> |
|---|---|--|--|
| Bradbury H. Anderson ⁽⁴⁾ | 20,159 | — | — |
| Frank M. Clark, Jr. | 29,202 | — | — |
| Andrés R. Gluski | 6,182 | — | — |
| Patrick W. Gross | 22,177 | — | — |
| Victoria M. Holt | 12,284 | — | — |
| Kathleen M. Mazarella ⁽⁵⁾ | 4,094 | — | — |
| John C. Pope ⁽⁶⁾ | 50,860 | — | — |
| Thomas H. Weidemeyer | 24,478 | — | — |
| James C. Fish, Jr. | 146,267 | 43,839 | — |
| James E. Trevathan, Jr. ⁽⁷⁾ | 345,962 | 77,547 | — |
| Jeff M. Harris ⁽⁸⁾ | 65,049 | — | — |
| John J. Morris, Jr. | 39,869 | — | 2,277 |
| David P. Steiner ⁽⁹⁾ | 1,240,866 | 816,780 | 108,489 |
| All directors and currently serving executive officers as a group (16 persons) ⁽¹⁰⁾ | 825,710 | 150,487 | 9,284 |

(1) The table reports beneficial ownership in accordance with Rule 13d-3 under the Exchange Act. The amounts reported above include 3,730 stock equivalents attributed to Mr. Fish, 2,098 stock equivalents attributable to Mr. Morris and 12,437 stock equivalents attributed to Mr. Steiner, based on their holdings in the Company's 401(k) Retirement Savings Plan stock fund. The amounts reported above also include 42,992 shares of Common Stock deferred by Mr. Fish, 2,709 shares of Common Stock deferred by Mr. Trevathan and 506,302 shares of Common Stock deferred by Mr. Steiner. 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 Plan.

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

(3) 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 actually invested in stock or funds. Phantom stock receives dividend equivalents, in the form of additional phantom stock, at the same time that holders of shares of Common Stock receive dividends. The value of the phantom stock is paid out, in cash, after the executive's departure from the Company. Phantom stock is not considered as equity ownership for SEC disclosure purposes; we have provided supplemental disclosure of phantom stock in this table because it represents an investment risk based on the performance of our Common Stock.

- (4) The number of shares owned by Mr. Anderson includes 100 shares held by his wife.
- (5) Shares are held by the Mazzarella Living Trust, a joint revocable trust for which Ms. Mazzarella and her husband serve as trustees.
- (6) The number of shares owned by Mr. Pope includes 435 shares held in trusts for the benefit of his children.
- (7) The number of shares owned by Mr. Trevathan includes 170,171 shares that are pledged as security for a loan.
- (8) Includes 34,478 shares held by the Jeff Harris Revocable Trust, for which Mr. Harris serves as trustee.
- (9) Ownership information for Mr. Steiner is as of December 31, 2016, which is the last date Mr. Steiner verified his ownership following his departure from the Company. As of that date, the number of shares owned by Mr. Steiner included 343,294 shares pledged as security for a loan and held by Steiner Family Holdings, LLC, for which Mr. Steiner is the sole manager.
- (10) Included in the “All directors and currently serving executive officers as a group” are 5,828 stock equivalents attributable to the executive officers’ collective holdings in the Company’s 401(k) Retirement Savings Plan stock fund and 66,302 shares of Common Stock deferred on account of vested equity awards pursuant to the Company’s 409A Deferral Plan. Mr. Steiner departed the Company on November 10, 2016, and his ownership is not included in the total above.

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 15, 2017.

| <u>Name and Address</u> | <u>Shares Beneficially Owned</u> | |
|---|----------------------------------|------------------------------|
| | <u>Number</u> | <u>Percent⁽¹⁾</u> |
| William H. Gates III One Microsoft Way Redmond, WA 98052 | 31,894,679 ⁽²⁾ | 7.2 |
| The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355 | 30,962,986 ⁽³⁾ | 7.0 |
| BlackRock, Inc. 55 East 52nd Street New York, NY 10055 | 30,213,702 ⁽⁴⁾ | 6.8 |

- (1) Percentage is calculated using the number of shares of Common Stock outstanding as of March 15, 2017.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 12, 2016, which is the most recent Schedule 13G filed by the investor with respect to ownership of our Common Stock. Mr. Gates reports that he has sole voting and dispositive power over 13,261,007 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.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 10, 2017. The Vanguard Group reports that it has sole or shared voting power over 756,533 shares of Common Stock and sole or shared dispositive power over 30,962,986 shares of Common Stock beneficially owned.
- (4) This information is based on a Schedule 13G/A filed with the SEC on January 27, 2017. BlackRock, Inc. reports that it has sole voting power over 26,201,799 shares of Common Stock and sole dispositive power over 30,213,702 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 2016, except that (a) Mr. John Morris, Senior Vice President — Operations, failed to file a Form 5 in 2016 and instead filed a late Form 4 to disclose that his broker executed a discretionary purchase of our Common Stock in 2015 totaling 123 shares and (b) Mr. David Steiner failed to file a Form 4 in December 2016 to disclose that he received a cash distribution from our 409A Deferral Plan triggered by his separation from service while he remained a director; instead, Mr. Steiner filed a Form 5 in 2017 to disclose the resulting reduction in his phantom stock holdings.

EXECUTIVE OFFICERS

The following is a listing of our current executive officers, other than Mr. Fish, whose age, experience and qualifications are included in the Director Nominees section of this Proxy Statement on page 17, their ages and business experience for at least the past five years. 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> |
|---------------------------------|------------|--|
| Charles C. Boettcher | 43 | <ul style="list-style-type: none"> • Senior Vice President and Chief Legal Officer since January 2017. • Vice President and General Counsel from September 2016 to December 2016. • 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. • Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary of Eagle Rock Energy Partners, L.P., a master limited partnership engaged in the midstream gathering and processing, the upstream exploration and production and a mineral/royalties business, from August 2007 to October 2015. |
| Barry H. Caldwell | 56 | <ul style="list-style-type: none"> • Senior Vice President — Corporate Affairs and Chief People Officer since January 2017. • Senior Vice President — Corporate Affairs and Chief Legal Officer from November 2014 to December 2016. • Senior Vice President — Government Affairs and Corporate Communications from 2002 to November 2014. |
| Jeff M. Harris | 62 | <ul style="list-style-type: none"> • Senior Vice President — Operations since July 2012. • Senior Vice President — Midwest Group from 2006 to July 2012. • Area Vice President — Michigan Market Area from 2000 to 2006. |
| John J. Morris, Jr. | 47 | <ul style="list-style-type: none"> • Senior Vice President — Operations since July 2012. • Chief Strategy Officer from March 2012 to July 2012. • Area Vice President — Greater Mid-Atlantic Area from 2011 to March 2012. • Area Vice President — Waste Management of New Jersey from 2007 to 2011. |
| Devina A. Rankin | 41 | <ul style="list-style-type: none"> • Senior Vice President, Chief Financial Officer and Treasurer since February 2017. • Vice President, Treasurer and Acting Chief Financial Officer from January 2017 to February 2017. • Vice President and Treasurer from August 2012 to January 2017. • Assistant Treasurer from 2010 to August 2012. |
| Darren K. Shade | 41 | <ul style="list-style-type: none"> • Vice President and Chief Accounting Officer since October 2016. • Vice President, Accounting from July 2016 to October 2016. • Director, Midstream Planning and Budgeting, Phillips 66 Company, a downstream oil and gas company, from December 2015 to June 2016. • Senior Consultant, Accounting Policy, Phillips 66 Company, from July 2013 to November 2015. • Senior Manager in the Audit and Assurance Practice, Ernst & Young LLP from October 2004 to June 2013. |
| James E. Trevathan, Jr. | 64 | <ul style="list-style-type: none"> • Executive Vice President and Chief Operating Officer since July 2012. • Executive Vice President — Growth, Innovation and Field Support from 2011 to July 2012. |

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, 2016 aligned with the Company's 2016 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 located 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; President and Chief Financial Officer from July 2016 to November 2016 and Executive Vice President and Chief Financial Officer from August 2012 to July 2016. Mr. Fish served as our principal financial officer throughout 2016.
- Mr. James E. Trevathan, Jr. — Executive Vice President and Chief Operating Officer since July 2012.
- Mr. Jeff M. Harris — Senior Vice President — Operations since July 2012.
- Mr. John J. Morris, Jr. — Senior Vice President — Operations since July 2012.
- Mr. David P. Steiner — Former Chief Executive Officer, serving from 2004 to November 2016 and former President, serving from 2010 to July 2016.

Executive Summary

The objective of our executive compensation program is to attract, retain, reward and incentivize exceptional, 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 a significant difference in total compensation in periods of above-target Company performance as compared to periods of below-target Company performance. Performance-based annual cash incentive and long-term equity-based incentive awards comprised approximately 87% of total 2016 target compensation for our former Chief Executive Officer, while approximately 78% of the 2016 target compensation opportunities for our other named executives was performance-based (in each case, as established in February 2016 before Mr. Steiner's departure and Mr. Fish's promotions);
- at target (as established in February 2016), approximately 71% of total compensation of our former Chief Executive Officer was tied to long-term equity awards, and approximately 57% 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 goals 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 requirements, 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 recent 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; 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.

2016 Company Performance and Compensation Results

We recognize that the waste industry is changing, and we believe we are uniquely equipped to meet the challenges of our 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, with the current state of our strategy taking into account economic conditions, the regulatory environment, asset and resource availability and technology. We believe that focused differentiation in our industry, driven by capitalizing on our extensive, well-placed network of assets, will deliver profitable growth and 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 stockholder value and leadership in a dynamic industry.

The Company had a very successful 2016, carrying forward our momentum from 2015 by generating strong earnings and cash flow. Our commitment to executing on our strategies of disciplined profitable volume growth and controlling costs, through focused differentiation and continuous improvement, drove these impressive results in 2016 and have built a strong foundation to produce solid earnings and generate further growth in 2017. This growth, combined with our commitment to maintain a strong balance sheet, supports the Company's continued focus on investing in our business, paying dividends, pursuing attractive opportunities for strategic growth through acquisitions and considering the market for share repurchases. In December 2016, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.41 to \$0.425 per share for dividends declared in 2017, which is a 3.7% increase from the quarterly dividends we declared in 2016. This is a further reflection of our strong and consistent cash flows and marks the 14th consecutive year of dividend increases. All quarterly dividends will be declared at the discretion of our Board of Directors.

In line with the Company's financial results, the Company exceeded target on each of the performance measures applicable to incentive compensation earned in 2016. Following is a summary of the 2016 compensation program results:

- the MD&C Committee approved a three percent increase in the base salaries of named executive officers, consistent with our Company-wide budget and compensation philosophy, and driven by competitive market data, internal pay equity considerations and individual performance;
- Company performance on annual cash incentive performance measures for named executive officers exceeded the target, but was below the maximum performance level, for all three measures. As a result, each of the named executives received an annual cash incentive payment for fiscal year 2016 equal to 144.95% of target;

- the Company generated cash provided by operating activities, for purposes of the performance goal associated with half of our performance share units (“PSUs”) granted in 2014, of \$4.208 billion, exceeding the maximum performance level of \$3.922 billion for the three-year performance period ended December 31, 2016. This performance resulted in a 200% payout on these PSUs in shares of Common Stock; and
- with respect to the remaining half of the PSUs granted in 2014 with a three-year performance period ended December 31, 2016 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 75th 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 73.47% over the three-year performance period and translating into a percentile rank relative to the S&P 500 of 88.81%.

The 2016 results continue to reinforce our emphasis on performance-based compensation, as we believe the performance criteria underlying our incentive compensation successfully drove outstanding performance in key areas and correlated with total shareholder return. The MD&C Committee strives to establish performance goals that are challenging, but attainable. Accordingly, the MD&C Committee believes that the above-target payouts on incentive awards for 2016 is the result of the named executives exhibiting tremendous dedication and discipline in tackling challenges and delivering results. The MD&C Committee remains dedicated to the principle that executive compensation should be substantially linked to Company performance, and the compensation of the Company’s executive officers set forth in the Summary Compensation Table of this Proxy Statement evidences this commitment to pay for performance in a year when performance exceeded expectations.

Consideration of Stockholder Advisory Vote

When establishing 2016 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.

2017 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 2014 — 2016 compensation program design, which recognized the need to improve the Company’s financial results while continuing our focus on pricing, capital allocation and cost control. As a result, the MD&C Committee has approved continuing to keep the 2017 annual cash and long-term incentive compensation program design consistent with the 2014 — 2016 compensation program design, with an adjustment only to the weighting of the respective annual cash incentive performance metrics. This consistency reinforces the MD&C Committee’s efforts to maintain a compensation program that is straightforward and easy to communicate and understand.

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, but attention must be 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 2016 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 equally-weighted performance measures:</p> <ul style="list-style-type: none"> 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; Income from Operations, excluding Depreciation and Amortization – designed to encourage balanced growth and profitability; and 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. <p>The MD&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 2016 is dependent on cash flow generation, defined as cash 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 2016 is dependent on total shareholder return ("TSR") relative to other companies in the S&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.</p> <p>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.</p> <p>Vesting over a three-year period aids retention.</p> <p>Dividends on RSUs accrue and are paid in cash upon vesting.</p> |

Post-Employment and Change in Control Compensation. The post-employment compensation our named executives receive is based on provisions included in individual equity award agreements, retirement plan documents and employment agreements. Our equity award agreements generally provide that an executive forfeits unvested awards if he or she voluntarily terminates employment. We enter into employment agreements with our named executive officers to provide a form of protection for the Company through restrictive covenant provisions. Employment agreements also aid in retention of senior leadership by providing the individual with comfort that he will be treated fairly in the event of a termination not for cause or under a change in control situation. The change in control provision included in each named executive officer's agreement requires 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. Our stock option awards are also subject to double trigger vesting in the event of a change in control situation. Performance share units 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. RSUs, which are not routinely a component of our executive compensation program, vest upon a change in control, unless the successor entity converts the awards to equivalent grants in the successor. Provided, however, such converted RSU awards 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.

Deferral Plan. Each of our named executive officers is eligible to participate in our 409A Deferral Savings Plan and may elect to defer receipt of portions of their base salary and cash incentives in excess of the annual compensation limit established under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, the "Limit." As of 2016, the Limit was \$265,000. 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 Limit; (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 Limit, and fifty cents on the dollar on the employee's deferrals, up to 6% of the employee's aggregate base salary and cash incentives in excess of the Limit. 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 to eligible employees equal to dividends that would have been payable on the shares deferred. 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. 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 plan can be found in the Nonqualified Deferred Compensation table and the footnotes to the table beginning on page 48.

Perquisites. The Company permits the President and Chief Executive Officer to use the Company's aircraft for business and personal travel whenever reasonably possible; 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. Use of the Company's aircraft is permitted for other employees' personal use only with Chief Executive Officer approval in special circumstances, which seldom occurs. 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 disclose in the Summary Compensation Table, which is based on the SEC requirement to report the incremental cost to us of their use. We also reimburse the cost of physical examinations for our senior executives, as we believe it is beneficial to the Company to facilitate its executives receiving preventive healthcare. Other than as described in this section, we have eliminated all perquisites for our named executive officers.

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. as its independent consultant since 2002. The Company makes regular payments to Frederic W. 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, Frederic W. Cook also provides the MD&C Committee information and advice with respect to compensation of the independent directors. Frederic W. 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 Frederic W. 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 Frederic W. Cook addressing the independence of Frederic W. Cook and the members of the consulting team serving the MD&C Committee, including the following factors: (i) other services provided to us by Frederic W. Cook; (ii) fees paid by us as a percentage of Frederic W. Cook's total revenue; (iii) policies or procedures of Frederic W. 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 Frederic W. 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 2016 executive compensation program, the MD&C Committee considered a competitive analysis of total direct compensation levels and compensation mixes for our executive officers during the second half of 2015, using information from:

- Size-adjusted median compensation data from two general industry surveys in which management annually participates; the Aon Hewitt 2015 Total Compensation Measurement (TCM) survey and the

Towers Watson 2015 Compensation Data Bank (CDB) survey. The Aon Hewitt TCM survey includes 401 companies ranging in size from \$30 million to over \$100 billion in annual revenue. The Towers Watson CDB survey includes 465 organizations ranging in size from \$100 million to over \$100 billion in annual revenue. Data selected from these surveys is scoped based on Company revenue; and

- Median compensation data from a comparison group of 18 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 Waste Management. 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. Prior to establishing compensation for 2016, the MD&C Committee received a statistical analysis of the growth profile, profitability profile, size and shareholder return of all companies in the comparison group to verify that the Company is appropriately positioned versus the comparison group. The comparison group used for consideration of 2016 compensation follows, including the Company’s composite percentile ranking among the companies in the comparison group based on statistical measures. For purposes of this table, “size” is based on numerous factors as of December 31, 2014; “profitability” and “growth” are based on numerous factors measured over a one-year period and three-year period ended December 31, 2014; and “TSR” is based on the companies’ average TSR percentile ranking for a one-year period and three year-period as of December 31, 2014. This table is provided to reflect how the MD&C Committee confirmed that the Company was appropriately positioned within its peer group for purposes of establishing 2016 compensation during 2015; as a result, the information that follows does not reflect the Company’s performance for 2015 or 2016.

| <u>Company Name</u> | <u>Composite Percentile Rank</u> | | | |
|-------------------------------|----------------------------------|----------------------|---------------|------------|
| | <u>Size</u> | <u>Profitability</u> | <u>Growth</u> | <u>TSR</u> |
| American Electric Power | 58% | 33% | 46% | 65% |
| Avis Budget | 15% | 35% | 82% | 97% |
| C.H. Robinson WW | 12% | 59% | 58% | 35% |
| CSX | 60% | 68% | 34% | 62% |
| Entergy | 40% | 28% | 49% | 53% |
| FedEx | 76% | 41% | 49% | 56% |
| Grainger (WW) | 23% | 65% | 53% | 18% |
| Halliburton | 73% | 69% | 58% | 3% |
| Hertz | 30% | 47% | 91% | 44% |
| NextEra Energy | 70% | 44% | 59% | 62% |
| Norfolk Southern | 54% | 62% | 28% | 35% |
| Republic Services | 31% | 25% | 17% | 38% |
| Ryder System | 13% | 11% | 51% | 62% |
| Southern | 74% | 54% | 31% | 29% |
| Southwest Airlines | 52% | 48% | 84% | 97% |
| Sysco | 51% | 47% | 35% | 26% |
| Union Pacific | 88% | 87% | 70% | 85% |
| UPS | 79% | 78% | 14% | 32% |
| Waste Management | 46% | 52% | 31% | 42% |

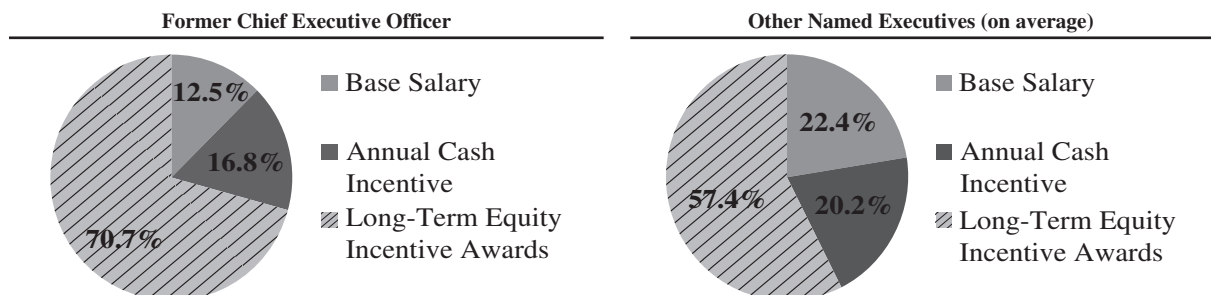
For purposes of each of the named executives, the general industry data and the comparison group data are blended when composing the competitive analysis, when possible, such that the combined general industry data

and the comparison group are each weighted 50%. Competitive compensation analysis for the other executive officers consists only of an average of size-adjusted median general industry survey data. 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. The competitive analysis showed that 2016 total direct compensation opportunities were above the competitive median, but within the desired range around the competitive median, for Mr. Steiner, our President and Chief Executive Officer at the time. The competitive analysis also showed that 2016 total direct compensation opportunities did not exceed the median for our other named executive officers, on average.

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 2016 target compensation (as established in February 2016 before Mr. Steiner’s departure and Mr. Fish’s promotions) among base salary, annual cash incentive and long-term incentives for (a) our former Chief Executive Officer and (b) our other named executives, on average. These charts reflect the MD&C Committee’s 2016 desired total mix of target compensation for named executives, which includes approximately 57% of total compensation derived from long-term equity awards, while long-term equity awards comprised approximately 71% of Mr. Steiner’s total target compensation. These charts also reflect that approximately 87% of Mr. Steiner’s total target compensation opportunities awarded in 2016 were performance-based, while approximately 78% of the total target compensation established in February 2016 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 confirms 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 MD&C Committee has adopted guidelines that are generally consistent with the Company's guidelines for reporting adjusted non-GAAP earnings to the investment community, while retaining discretion to evaluate all adjustments, both income and expense, as circumstances warrant. Additionally, 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.

Tax and Accounting Matters. Section 162(m) of the Internal Revenue Code of 1985, as amended ("Code Section 162(m)"), denies a compensation deduction for federal income tax purposes for certain compensation in excess of \$1 million per person paid in any year to our President and Chief Executive Officer and our other three highest paid executives other than our principal financial officer. "Performance-based" compensation meeting specified standards is deductible without regard to the \$1 million cap. We design our compensation plans to be tax efficient for the Company where possible. However, our MD&C Committee reserves the right to structure the compensation of our executive officers without regard for whether the compensation is fully deductible if, in the MD&C Committee's judgment, it is in the best interests of the Company and stockholders to do so.

Section 409A of the Internal Revenue Code of 1986, as amended ("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' 2016 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 2016, 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 very high percentage of shares present and entitled to vote at the annual meeting voting in favor of the Company's executive compensation the past six years, the results of the stockholder advisory votes have not caused the MD&C Committee to recommend any changes to our compensation practices.

Promotion of Mr. Fish and Departure of Mr. Steiner. As a result of the Company's succession planning process, in July 2016, Mr. Fish was promoted to President and Chief Financial Officer, reporting to Mr. Steiner, who remained Chief Executive Officer. Mr. Fish's annual base salary was increased to \$700,000, effective upon the date of his promotion. Then, in November 2016, Mr. Fish succeeded Mr. Steiner and was promoted to President and Chief Executive Officer and elected to the Board of Directors. In connection with such promotion, his annual base salary was further increased to \$1 million, effective upon this promotion, and his target annual cash incentive was increased to 135% of his base salary in effect for the year. Please see "Named Executives' 2016 Compensation Program and Results — Annual Cash Incentive" for more information about the calculation of Mr. Fish's annual cash incentive payment for 2016. Additionally, on November 11, 2016, the Company granted Mr. Fish an award of 15,625 RSUs under the Company's 2014 Stock Incentive Plan, with each RSU to convert to one share of Common Stock upon vesting. One-third of the RSUs granted to Mr. Fish vest on each of the first, second and third anniversaries of the date of grant.

When establishing compensation increases in connection with Mr. Fish's promotions in 2016, the MD&C Committee considered the responsibilities of the position, the compensation level of his predecessor and the competitive analysis prepared when 2016 executive compensation was established. In particular, the promotional grant of RSUs to Mr. Fish was made in light of his increased responsibilities, in order to encourage and reward long-term performance, and in order to promote retention and increase alignment with stockholders. The MD&C Committee anticipates that grants of RSUs to 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 executive compensation.

Under Mr. Steiner's employment agreement, his departure from the Company was treated as termination without cause by the Company and entitled him to certain payments and benefits provided for in his employment agreement. Mr. Steiner's outstanding PSU awards were prorated as of the last date of his employment, with any payout on such PSUs dependent on actual performance at the end of the applicable performance period. The Company also entered into a separation agreement with Mr. Steiner, setting forth additional terms of his departure from the Company. With respect to Mr. Steiner's unexercised stock options, the separation agreement provides that Mr. Steiner's departure from the Company shall be considered "Retirement" pursuant to the terms of the applicable award agreements. For accounting purposes, the Company's agreement to retirement treatment for Mr. Steiner's unexercised stock options resulted in a non-cash charge of \$9.9 million in the first quarter of 2017. The separation agreement also expanded the post-employment covenants in Mr. Steiner's employment agreement, including, but not limited to, the inclusion of a release and a "standstill" that were not required by his employment agreement. See "Potential Payments Upon Termination or Change-in-Control — Payments and Obligations Associated with the Departure of Mr. Steiner" for more information.

Named Executives' 2016 Compensation Program and Results

Base Salary

In February 2016, the MD&C Committee approved a three percent increase to the base salaries of named executive officers, consistent with our Company-wide budget and 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 2015 annual base salary and 2016 annual base salary (effective as of March 27, 2016) for each of our named executive officers.

| <u>Named Executive Officer</u> | <u>2015 Base Salary</u> | <u>2016 Base Salary</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Mr. Fish ⁽¹⁾ | \$ 623,150 | \$ 642,000 |
| Mr. Trevathan | \$ 661,500 | \$ 681,500 |
| Mr. Harris | \$ 595,000 | \$ 613,000 |
| Mr. Morris | \$ 580,000 | \$ 597,500 |
| Mr. Steiner | \$1,240,000 | \$1,277,200 |

- (1) Mr. Fish's base salary was subsequently increased to \$700,000 upon his promotion to President and Chief Financial Officer in July 2016 and was further increased to \$1 million upon his promotion to President and Chief Executive Officer in November 2016, in each case, effective upon the date of promotion. Please see "How Named Executive Officer Compensation Decisions are Made — Promotion of Mr. Fish and Departure of Mr. Steiner" for additional information.

Annual Cash Incentive

- Annual cash incentives were dependent on the following equally-weighted performance measures: *Income from Operations as a percentage of Revenue, or Income from Operations Margin; Income from Operations, excluding Depreciation and Amortization; and Operating Expense, less depreciation, depletion and amortization, as a percentage of Net Revenue, both less fuel, or Cost Measure.*
- Each of the named executives received an annual cash incentive payment in March 2017 for fiscal year 2016 equal to 144.95% 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 Margin performance measure continues to keep the Company focused on cost control, operational improvements and yield, while the Income from Operations, excluding Depreciation and Amortization, performance measure encourages balanced focus on growth and profitability. Finally, the MD&C Committee maintained the Cost Measure in 2016 and its focus on operating cost control, after successfully driving reductions in operating cost the prior years. 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 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 table below details the performance measures set by the MD&C Committee for purposes of the named executive officers' annual cash incentive for 2016.

| | <u>Threshold Performance (60% Payment)</u> | <u>Target Performance (100% Payment)</u> | <u>Maximum Performance (200% Payment)</u> |
|---|--|--|---|
| Income from Operations Margin | 16.9% | 17.5% | 18.1% |
| Income from Operations excluding Depreciation and Amortization | \$3.458 billion | \$3.68 billion | \$3.902 billion |
| Cost Measure | 60.3% | 60.0% | 59.5% |

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.

| Income from Operations Margin (weighted 1/3) | | Income from Operations, excluding Depreciation and Amortization (weighted 1/3) | | Cost Measure (weighted 1/3) | | Total Payout Earned (as a percentage of Target) |
|---|------------------|--|------------------|--------------------------------|------------------|--|
| Actual | Payout Earned | Actual | Payout Earned | Actual | Payout Earned | |
| 17.72% | 136.89% | \$3.713 billion | 114.93% | 59.58% | 183.04% | 144.95% |

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 2016 annual cash incentive performance measures was made on a basis consistent with the Company's reporting of its 2016 financial results, including exclusion of asset impairments and unusual items. The 2016 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 2016 and annual cash incentive for 2016 paid in March 2017.

| <u>Named Executive Officer</u> | <u>Target Percentage of Base Salary</u> | <u>Annual Cash Incentive For 2016⁽¹⁾</u> |
|----------------------------------|---|---|
| Mr. Fish ⁽²⁾ | 99 | \$1,013,304 |
| Mr. Trevathan | 90 | \$ 882,920 |
| Mr. Harris ⁽³⁾ | 88 | \$ 773,906 |
| Mr. Morris ⁽³⁾ | 88 | \$ 754,350 |
| Mr. Steiner ⁽⁴⁾ | 135 | \$2,133,895 |

- (1) Base salary increases for 2016 were not implemented until March 27, 2016. 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 2016.
- (2) As of Mr. Fish's promotion to President and Chief Executive Officer in November 2016, his target percentage of base salary for annual cash incentive payments was increased from 90% to 135%. Mr. Fish's annual cash incentive payment for 2016 was prorated between his time spent as Executive Vice President and Chief Financial Officer, President and Chief Financial Officer and President and Chief Executive Officer, in each case calculated using the applicable salary and target percentage of base salary for each position. This calculation yielded a 99% target percentage of base salary, which was applied to Mr. Fish's base salary received in 2016.
- (3) In February 2016, the target percentage of base salary was increased from 80% to 90% for Messrs. Harris and Morris, yielding an 88% target percentage of base salary for the full year of 2016. These changes were made to better position the executives around the competitive median and to reflect their contributions.
- (4) Pursuant to the terms of his employment agreement, Mr. Steiner was entitled to an annual cash incentive payment, payable to the same extent and at the same time payments were made to other senior executives, prorated as of the last day of his employment with the Company.

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' 2016 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. Payout on half of each named executives' PSUs granted in 2016 is dependent on cash flow generation. Payout on the remaining half of PSUs granted in 2016 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 2016, 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 an analysis 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 Annual Long-Term Equity Incentives Set by the Committee (at Target)</u> |
|--------------------------------|---|
| Mr. Fish | \$1,750,000 |
| Mr. Trevathan | \$1,750,000 |
| Mr. Harris | \$1,500,000 |
| Mr. Morris | \$1,500,000 |
| Mr. Steiner | \$7,250,000 |

Performance Share Units

- *Named executives were granted new PSUs with a three-year performance period ending December 31, 2018.*
- *Payout on half of each named executive's PSUs granted in 2016 is dependent on cash flow generation, and payout on the remaining half of PSUs granted in 2016 is dependent on total shareholder return relative to the S&P 500.*
- *Named executives received a 200% payout in shares of Common Stock with respect to the half of the PSUs granted in 2014 with a performance period ended December 31, 2016 that were dependent on cash flow generation.*
- *Named executives received a 200% payout in shares of Common Stock with respect to the half of the PSUs granted in 2014 with a performance period ended December 31, 2016 that were subject to total shareholder return relative to the S&P 500.*

PSUs Granted in 2016. 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. Performance share units provide an immediate retention value 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 2016 by taking the targeted dollar amounts established for total long-term equity incentives (set forth in the table above) and multiplying 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 2016 are shown in the table below.

| <u>Named Executive Officer</u> | <u>Number of Performance Share Units</u> |
|----------------------------------|--|
| Mr. Fish | 25,926 |
| Mr. Trevathan | 25,926 |
| Mr. Harris | 22,222 |
| Mr. Morris | 22,222 |
| Mr. Steiner ⁽¹⁾ | 107,408 |

(1) Mr. Steiner's outstanding PSUs were subsequently prorated as of his last day of employment with the Company.

Half of each named executive's PSUs included in the table set forth 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 exclusions: capital expenditures for purposes of internal growth; costs associated with labor disruptions; and strategic acquisition, restructuring, and transformation and reorganization costs. The table below shows the required achievement of the cash flow generation performance measure and the corresponding potential payouts under our PSUs granted in 2016.

| | <u>Threshold</u> | | <u>Target</u> | | <u>Maximum</u> | |
|----------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| | <u>Performance</u> | <u>Payout</u> | <u>Performance</u> | <u>Payout</u> | <u>Performance</u> | <u>Payout</u> |
| Cash Flow | \$ 3.934 billion | 60% | \$ 4.234 billion | 100% | \$ 4.564 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 shareholder 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 2016.

| <u>Total Shareholder Return Relative to the S&P 500</u> | | |
|---|-------|---------------|
| <u>Performance</u> | | <u>Payout</u> |
| 75 th percentile (Maximum) | | 200% |
| 50 th percentile (Target) | | 100% |
| 25 th 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 2016 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, 2016. Half of the PSUs granted in 2014 with the performance period ended December 31, 2016 were subject to the cash flow generation performance measure, and the remaining half of the PSUs granted in 2014 were subject to total shareholder return relative to the S&P 500. For the three-year performance period ended December 31, 2016, the Company generated cash provided by operating activities of \$4.208 billion, exceeding the maximum of \$3.922 billion; this performance level yielded a 200% payout in shares of Common Stock that were issued in February 2017. With respect to the PSUs with a three-year performance period ended December 31, 2016 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 88.81%, resulting in a 200% payout in shares of Common Stock that were issued in February 2017. As discussed above, the MD&C Committee had discretion to make adjustments to the 2016 performance calculations for unusual or otherwise non-operational matters, but in line with the MD&C Committee's policy on calculation adjustments adopted in 2014, no adjustments were made to the 2016 performance calculations for 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 2016 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%. 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.

| <u>Named Executive Officer</u> | <u>Number of Options</u> |
|--------------------------------|--------------------------|
| Mr. Fish | 54,517 |
| Mr. Trevathan | 54,517 |
| Mr. Harris | 46,729 |
| Mr. Morris | 46,729 |
| Mr. Steiner | 225,857 |

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 2016 is \$56.235, 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. The MD&C Committee anticipates that grants of RSUs to 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 executive compensation.

One-third of the RSUs granted to Mr. Fish vest on each of the first, second and third anniversaries of the date of grant. Dividends on the RSUs will accrue and be paid in cash upon vesting. The RSUs may not be voted or sold until vested. Unvested RSUs are subject to forfeiture in the event of voluntary or for-cause termination. RSUs will be prorated upon an employee’s retirement or involuntary termination other than for cause, and RSUs immediately vest in the event of an employee’s death or disability.

Other Compensation Policies and Practices

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 requirements, 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 requirement is achieved. Designated Vice Presidents must hold 50% 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 50% of all such net shares until the individual’s ownership guideline requirement 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 or otherwise fleeting increases in the market value of our stock.

The MD&C Committee regularly reviews its ownership guidelines to ensure that the appropriate share ownership requirements are in place. Guidelines are expressed as a fixed number of shares and were revised in November 2016 to account for the Company’s recent sustained Common Stock market value. The ownership requirement of Mr. Fish, our President and Chief Executive Officer, was approximately 7.2 times base salary, using his base salary as of December 31, 2016 and an assumed \$60 per share stock price. Using the closing price of the Company’s Common Stock on March 15, 2017, the ownership requirement of our President and Chief Executive Officer is approximately 8.9 times his base salary as of December 31, 2016. 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 targeted ownership requirements. PSUs, RSUs and restricted stock, if any, do not count toward meeting the requirement until they are vested or earned.

The following table outlines the ownership requirements and attainment of those requirements for the currently serving named executive officers.

| <u>Named Executive Officer</u> | <u>Ownership Requirement (number of shares)</u> | <u>Attainment as of March 15, 2017</u> |
|--|---|--|
| Mr. Fish | 120,500 | 121% |
| Mr. Trevathan ⁽¹⁾ | 31,000 | 567% |
| Mr. Harris | 18,000 | 361% |
| Mr. Morris | 18,000 | 234% |

(1) The table above does not include 170,171 shares that are pledged as security for a loan. The Company has a policy prohibiting pledges of Company securities by executive officers without Board-level approval (which was obtained in the case of Mr. Trevathan) and requiring that such pledged shares are not required to meet the executive’s ownership requirement under the ownership guidelines.

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.

Policy Limiting Severance Benefits — The MD&C Committee has approved an Executive Officer Severance 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.

Policy Limiting Death Benefits and Gross-up Payments — The Company has adopted a “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. The policy is 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.

Insider Trading — The Company maintains an insider trading policy that 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. “Designated insiders” are employees who have been designated as such for purposes of the Company’s insider trading policy because they are likely to have access to material non-public information; this group currently includes approximately 125 employees, primarily in a wide range of financial, accounting and managerial positions. 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. Further, as noted above, the Company has 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 requirement under the ownership guidelines.

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. Information pertaining to Mr. Steiner, our former President and Chief Executive Officer, is included in the following tables in accordance with SEC rules, although his employment with the Company ended in November 2016. Mr. Fish was promoted from Executive Vice President and Chief Financial Officer to President and Chief Financial Officer in July 2016, and he was further promoted to President and Chief Executive Officer in November 2016. Mr. Fish remained the Company's principal financial officer throughout 2016. Please see "Compensation Discussion and Analysis — How Named Executive Officer Compensation Decisions are Made — Promotion of Mr. Fish and Departure of Mr. Steiner" for additional information.

Summary Compensation Table

| Year | Salary (\$) | Stock Awards (\$) ⁽¹⁾ | Option Awards (\$) ⁽²⁾ | Non-Equity Incentive Plan Compensation (\$) ⁽³⁾ | All Other Compensation (\$) ⁽⁴⁾ | Total (\$) |
|---|----------------|--|---|---|--|---------------|
| James C. Fish, Jr. President and Chief Executive Officer | | | | | | |
| 2016 | 705,996 | 3,104,074 | 344,002 | 1,013,304 | 59,482 | 5,226,858 |
| 2015 | 631,865 | 1,727,621 | 334,123 | 595,320 | 49,060 | 3,337,989 |
| 2014 | 552,635 | 1,278,954 | 295,956 | 816,830 | 36,319 | 2,980,694 |
| James E. Trevathan, Jr. Executive Vice President and Chief Operating Officer | | | | | | |
| 2016 | 676,885 | 2,055,089 | 344,002 | 882,920 | 79,740 | 4,038,636 |
| 2015 | 678,462 | 1,727,621 | 334,123 | 638,623 | 77,368 | 3,456,197 |
| 2014 | 621,923 | 1,278,954 | 295,956 | 918,083 | 60,961 | 3,175,877 |
| Jeff M. Harris Senior Vice President — Operations | | | | | | |
| 2016 | 608,846 | 1,761,482 | 294,860 | 773,906 | 54,163 | 3,493,257 |
| 2015 | 610,124 | 1,442,184 | 278,922 | 510,496 | 62,786 | 2,904,512 |
| 2014 | 562,458 | 1,023,145 | 236,766 | 691,457 | 32,419 | 2,546,245 |
| John J. Morris, Jr. Senior Vice President — Operations | | | | | | |
| 2016 | 593,462 | 1,761,482 | 294,860 | 754,350 | 52,630 | 3,456,784 |
| 2015 | 586,827 | 1,442,184 | 278,922 | 491,544 | 64,356 | 2,863,833 |
| 2014 | 509,711 | 1,023,145 | 236,766 | 627,822 | 47,315 | 2,444,759 |
| David P. Steiner ⁽⁵⁾ Former President and Chief Executive Officer | | | | | | |
| 2016 | 1,091,772 | 8,513,964 | 1,425,158 | 2,133,895 | 4,057,875 | 17,222,664 |
| 2015 | 1,275,891 | 6,760,136 | 1,307,441 | 1,800,986 | 428,921 | 11,573,375 |
| 2014 | 1,186,785 | 5,328,822 | 1,233,147 | 2,626,505 | 395,597 | 10,770,856 |

(1) Amounts in this column represent the grant date fair value of performance share units granted to all named executives in 2014, 2015 and 2016 and 15,625 restricted stock units 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 16 in the Notes to the Consolidated Financial Statements in our 2016 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 performance share units 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 performance share units 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 (\$) |
|----------------------|------|--|--|
| Mr. Fish | 2016 | 921,475 | 1,842,950 |
| | 2015 | 698,600 | 1,397,200 |
| | 2014 | 720,236 | 1,440,472 |
| Mr. Trevathan | 2016 | 921,475 | 1,842,950 |
| | 2015 | 698,600 | 1,397,200 |
| | 2014 | 720,236 | 1,440,472 |
| Mr. Harris | 2016 | 789,825 | 1,579,650 |
| | 2015 | 583,177 | 1,166,354 |
| | 2014 | 576,178 | 1,152,356 |
| Mr. Morris | 2016 | 789,825 | 1,579,650 |
| | 2015 | 583,177 | 1,166,354 |
| | 2014 | 576,178 | 1,152,356 |
| Mr. Steiner | 2016 | 3,817,549 | 7,635,098 |
| | 2015 | 2,733,601 | 5,467,202 |
| | 2014 | 3,000,896 | 6,001,792 |

- (2) Amounts in this column represent the grant date fair value of stock options granted in 2014, 2015 and 2016, 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 16 in the Notes to the Consolidated Financial Statements in our 2016 Annual Report on Form 10-K.
- (3) 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 2016 Compensation Program and Results — Annual Cash Incentive” for additional information.
- (4) The amounts included in “All Other Compensation” for 2016 are shown below (in dollars):

| | Personal Use of Company Aircraft ^(a) | 401(k) Plan Matching Contributions | Deferral Plan Matching Contributions | Life Insurance Premiums | Severance ^(b) |
|----------------------|---|------------------------------------|--------------------------------------|-------------------------|--------------------------|
| Mr. Fish | — | 11,925 | 46,268 | 1,289 | — |
| Mr. Trevathan | 16,770 | 11,925 | 49,687 | 1,358 | — |
| Mr. Harris | — | 11,925 | 41,016 | 1,222 | — |
| Mr. Morris | — | 11,925 | 39,506 | 1,199 | — |
| Mr. Steiner | 174,272 | 11,925 | 125,930 | 2,121 | 3,743,627 |

- (a) Please see “Compensation Discussion and Analysis — Overview of Elements of Our 2016 Compensation Program — Perquisites” for additional information regarding personal use of Company aircraft. We calculated these amounts based on the incremental cost to us, which includes fuel, crew travel expenses, on-board catering, landing fees, trip related hangar/parking costs and other variable

costs. We own or operate our aircraft primarily for business use; therefore, we do not include the fixed costs associated with the ownership or operation such as pilots' salaries, purchase costs and non-trip related maintenance.

- (b) This amount does not include additional cash severance payable in 2017 and 2018 that is contingent on Mr. Steiner's continuing compliance with post-employment covenants. For more information, please see "Payments and Obligations Associated with the Departure of Mr. Steiner" on page 54.
- (5) Upon Mr. Steiner's departure from the Company in November 2016, his outstanding performance share units were prorated, and any payout on performance share units will depend on the Company's actual performance at the end of the applicable performance period. The Non-Equity Incentive Plan Compensation paid to Mr. Steiner in 2016 reflects his annual cash incentive earned for 2016, prorated to his last day of employment. The Company's separation agreement with Mr. Steiner provides that his departure from the Company shall be considered "Retirement" pursuant to the terms of the award agreements governing his unexercised stock options. For accounting purposes, the Company's agreement to retirement treatment for Mr. Steiner's unexercised stock options resulted in a non-cash charge of \$9.9 million. Because such charge occurred in the first quarter of 2017, it is not included above or in the Grant of Plan Based Awards in 2016 table.

Grant of Plan-Based Awards in 2016

| Grant Date | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾ | | | Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾ | | | All other Stock Awards: Number of Shares of Stock or Units (#) ⁽³⁾⁽⁴⁾ | All other Option Awards: Number of Securities Underlying Options (#) ⁽⁴⁾⁽⁵⁾ | Exercise or Base Price of Option Awards (\$/sh) ⁽⁶⁾ | Closing Market Price on Date of Grant (\$) | Grant Date Fair Value of Stock and Option Awards (\$) ⁽⁷⁾ |
|--------------------------------|--|-------------|--------------|--|------------|-------------|--|--|--|--|--|
| | Threshold (\$) | Target (\$) | Maximum (\$) | Threshold (#) | Target (#) | Maximum (#) | | | | | |
| James C. Fish, Jr. | | | | | | | | | | | |
| | 419,443 | 699,071 | 1,398,142 | | | | | | | | |
| 02/26/16 | | | | 15,556 | 25,926 | 51,852 | | | | | 2,055,089 |
| 02/26/16 | | | | | | | | 54,517 | 56.235 | 56.04 | 344,002 |
| 11/11/16 | | | | | | | 15,625 | | | | 1,048,984 |
| James E. Trevathan, Jr. | | | | | | | | | | | |
| | 365,472 | 609,120 | 1,218,240 | | | | | | | | |
| 02/26/16 | | | | 15,556 | 25,926 | 51,852 | | | | | 2,055,089 |
| 02/26/16 | | | | | | | | 54,517 | 56.235 | 56.04 | 344,002 |
| Jeff M. Harris | | | | | | | | | | | |
| | 320,348 | 533,913 | 1,067,826 | | | | | | | | |
| 02/26/16 | | | | 13,333 | 22,222 | 44,444 | | | | | 1,761,482 |
| 02/26/16 | | | | | | | | 46,729 | 56.235 | 56.04 | 294,860 |
| John J. Morris, Jr. | | | | | | | | | | | |
| | 312,253 | 520,421 | 1,040,842 | | | | | | | | |
| 02/26/16 | | | | 13,333 | 22,222 | 44,444 | | | | | 1,761,482 |
| 02/26/16 | | | | | | | | 46,729 | 56.235 | 56.04 | 294,860 |
| David P. Steiner | | | | | | | | | | | |
| | 1,054,007 | 1,756,679 | 3,513,358 | | | | | | | | |
| 02/26/16 | | | | 64,445 | 107,408 | 214,816 | | | | | 8,513,964 |
| 02/26/16 | | | | | | | | 225,857 | 56.235 | 56.04 | 1,425,158 |

- (1) Actual payouts of cash incentive awards for 2016 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 Mr. Fish reflects that his base salary and target percentage of base salary was increased in connection with promotions during 2016. The possible payouts for Mr. Steiner set forth above were subsequently prorated upon his departure from the Company. Please see “Compensation Discussion and Analysis — Named Executive’s 2016 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 2016 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, 2018. Performance share units earn dividend equivalents, which are paid out based on the number of shares earned at the end of the performance period. Mr. Steiner’s outstanding performance share unit awards were subsequently prorated upon his departure from the Company.
- (3) Represents the number of shares of Common Stock potentially issuable upon the vesting of restricted stock units granted under our 2014 Stock Incentive Plan to Mr. Fish following his promotion to President and Chief Executive Officer. One-third of the restricted stock units vest on each of the first, second and third anniversaries of the date of grant.
- (4) 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, restricted stock units and option awards are not included as “Equity Incentive Plan Awards” in the table above or the Outstanding Equity Awards at December 31, 2016 table.

- (5) 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 2016 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.
- (6) 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.
- (7) These amounts are grant date fair values of the awards as calculated under ASC Topic 718 and as further described in Note 16 in the Notes to the Consolidated Financial Statements in our 2016 Annual Report on Form 10-K.

Outstanding Equity Awards at December 31, 2016

| Name | Option Awards | | | | Stock Awards ⁽¹⁾ | | | |
|--|--|---|----------------------------|------------------------|--|---|--|---|
| | Number of Securities Underlying Unexercised Options Exercisable (#) ⁽²⁾ | Number of Securities Underlying Unexercised Options Unexercisable (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) ⁽⁶⁾ | Market Value of Shares or Units of Stock that Have Not Vested (\$) ⁽⁶⁾ | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) ⁽⁷⁾ | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) ⁽⁷⁾ |
| James C. Fish, Jr. | | | | | | | | |
| | — | 54,517 ⁽³⁾ | 56.235 | 2/26/2026 | 15,625 | 1,107,969 | 51,964 | 7,369,534 |
| | 15,105 | 45,315 ⁽⁴⁾ | 54.635 | 2/25/2025 | — | — | — | — |
| | — | 33,708 ⁽⁵⁾ | 41.37 | 3/7/2024 | — | — | — | — |
| James E. Trevathan, Jr. | | | | | | | | |
| | — | 54,517 ⁽³⁾ | 56.235 | 2/26/2026 | — | — | 51,964 | 7,369,534 |
| | 15,105 | 45,315 ⁽⁴⁾ | 54.635 | 2/25/2025 | — | — | — | — |
| | 33,708 | 33,708 ⁽⁵⁾ | 41.37 | 3/7/2024 | — | — | — | — |
| | 29,457 | — | 36.885 | 3/8/2023 | — | — | — | — |
| Jeff M. Harris | | | | | | | | |
| | — | 46,729 ⁽³⁾ | 56.235 | 2/26/2026 | — | — | 43,958 | 6,234,124 |
| | 12,609 | 37,829 ⁽⁴⁾ | 54.635 | 2/25/2025 | — | — | — | — |
| | — | 26,967 ⁽⁵⁾ | 41.37 | 3/7/2024 | — | — | — | — |
| John J. Morris, Jr. | | | | | | | | |
| | — | 46,729 ⁽³⁾ | 56.235 | 2/26/2026 | — | — | 43,958 | 6,234,124 |
| | 12,609 | 37,829 ⁽⁴⁾ | 54.635 | 2/25/2025 | — | — | — | — |
| | — | 26,967 ⁽⁵⁾ | 41.37 | 3/7/2024 | — | — | — | — |
| David P. Steiner ⁽⁸⁾ | | | | | | | | |
| | — | 225,857 ⁽³⁾ | 56.235 | 11/10/2019 | — | — | 94,084 | 13,342,993 |
| | 59,106 | 177,321 ⁽⁴⁾ | 54.635 | 11/10/2019 | — | — | — | — |
| | 140,448 | 140,451 ⁽⁵⁾ | 41.37 | 11/10/2019 | — | — | — | — |
| | 282,775 | — | 36.885 | 11/10/2019 | — | — | — | — |
| | 218,881 | — | 34.935 | 11/10/2019 | — | — | — | — |

(1) Values are based on the closing price of the Company's Common Stock on December 31, 2016 of \$70.91.

(2) Represents vested stock options granted on March 9, 2012, March 8, 2013 and March 7, 2014 pursuant to our 2009 Stock Incentive Plan, as well as vested stock options granted on February 25, 2015 pursuant to our 2014 Stock Incentive Plan.

(3) Represents stock options granted on February 26, 2016 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) Represents stock options granted on February 25, 2015 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) Represents stock options granted on March 7, 2014 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) Represents restricted stock units granted under our 2014 Stock Incentive Plan to Mr. Fish following his promotion to President and Chief Executive Officer. One-third of the restricted stock units vest on each of the first, second and third anniversaries of the date of grant.

- (7) Includes performance share units with three-year performance periods ending December 31, 2017 and December 31, 2018. Payouts on performance share units 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 performance share units for the performance period ended on December 31, 2016 are not included in the table as they are considered earned as of December 31, 2016 for proxy statement disclosure purposes; instead, such performance share units 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 performance share units with the performance period ended on December 31, 2016 exceeded target, the payout value of unearned awards is calculated assuming maximum performance criteria is achieved. The following number of performance share units have a performance period ending on December 31, 2017: Mr. Fish – 26,038; Mr. Trevathan – 26,038; Mr. Harris – 21,736; Mr. Morris – 21,736 and Mr. Steiner (after proration upon his departure from the Company) – 63,214. The following number of performance share units have a performance period ending December 31, 2018: Mr. Fish – 25,926; Mr. Trevathan – 25,926; Mr. Harris – 22,222; Mr. Morris – 22,222 and Mr. Steiner (after proration upon his departure from the Company) – 30,870.
- (8) Pursuant to the Company's separation agreement with Mr. Steiner, all of his outstanding stock options will expire three years from his last day of employment.

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 (#) ⁽¹⁾ | Value Realized on Vesting (\$) |
| James C. Fish, Jr. | 88,708 ⁽²⁾ | 1,957,627 | 55,816 | 3,928,888 |
| James E. Trevathan, Jr. | — | — | 55,816 | 3,928,888 |
| Jeff M. Harris | 77,253 ⁽³⁾ | 1,670,539 | 44,652 | 3,143,054 |
| John J. Morris, Jr. | 33,914 ⁽⁴⁾ | 708,997 | 44,652 | 3,143,054 |
| David P. Steiner | 914,341 ⁽⁵⁾ | 26,994,615 | 221,740 | 15,608,279 |

- (1) Includes shares of the Company's Common Stock issued on account of performance share units granted in 2014 with a performance period ended December 31, 2016. The determination of achievement of performance results and corresponding vesting of such performance share units was performed by the MD&C Committee in February 2017. Following such determination, shares of the Company's Common Stock earned under this award were issued on February 16, 2017, based on the average of the high and low market price of the Company's Common Stock on that date.
- (2) Mr. Fish received 19,256 net shares, after payment of option costs and tax withholding.
- (3) Mr. Harris received 14,326 net shares, after payment of option costs and tax withholding.
- (4) Mr. Morris received 6,909 net shares, after payment of option costs and tax withholding.
- (5) Mr. Steiner received 239,878 net shares, after payment of option costs and tax withholding.

Nonqualified Deferred Compensation in 2016

| Name | Executive Contributions in Last Fiscal Year (\$) ⁽¹⁾ | Registrant Contributions in Last Fiscal Year (\$) ⁽²⁾ | Aggregate Earnings in Last Fiscal Year (\$) ⁽³⁾ | Aggregate Withdrawals/Distributions (\$) ⁽⁴⁾ | Aggregate Balance at Last Fiscal Year End (\$) ⁽⁵⁾ |
|-------------------------|---|--|--|---|---|
| James C. Fish, Jr. | 2,321,963 | 46,268 | 851,630 | 70,507 | 3,632,981 |
| James E. Trevathan, Jr. | 62,984 | 49,687 | 109,969 | 4,443 | 3,576,899 |
| Jeff M. Harris | 120,341 | 41,016 | 36,009 | — | 728,503 |
| John J. Morris, Jr. | 49,160 | 39,506 | 125,181 | — | 885,862 |
| David P. Steiner | 11,837,599 | 125,930 | 11,974,756 | 1,548,218 | 44,474,688 |

- (1) Contributions are made pursuant to the Company's 409A Deferral Plan, described in "Compensation Discussion and Analysis — Overview of Elements of Our 2016 Compensation Program — 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. Contributions in the last fiscal year include deferral of 216,063 shares of Common Stock by Mr. Steiner and deferral of 42,023 shares of Common Stock by Mr. Fish, in each case earned on account of performance share units with the

performance period ended December 31, 2015 that were paid out in February 2016. The value of such deferred shares was included in the Option Exercises and Stock Vested table for 2015, and the grant date fair value of the underlying performance share unit awards was included in the Stock Awards column of the Summary Compensation Table for 2013.

- (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, Trevathan and Steiner, who have deferred receipt of 42,992 shares, 2,709 shares and 506,302 shares, respectively, earnings also includes the change in the closing price per share of the Company's Common Stock from December 31, 2015 to December 31 2016, plus \$1.64 of dividends paid per share of Common Stock in 2016, multiplied by the number of shares deferred.
- (4) Amounts shown in this column consist of dividend equivalents paid out on deferred shares. Dividend equivalents are paid out at the same time and at the same rate as dividends on the Company's Common Stock. Additionally, Mr. Steiner received a \$717,884 cash distribution on December 1, 2016 that was triggered by his separation.

Participating employees can generally 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.

- (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 2014-2016: Mr. Fish — \$267,474; Mr. Trevathan — \$302,751; Mr. Harris — \$442,364; Mr. Morris — \$338,830; and Mr. Steiner — \$1,427,681.

Potential Payments Upon Termination or Change in Control

The payments our named executives receive upon termination or change in control are based on provisions included in employment agreements and individual equity award agreements. We enter into employment agreements with our named executive officers to provide a form of protection for the Company through restrictive covenant provisions; each of the agreements contains post-termination restrictive covenants, including a covenant not to compete, non-solicitation covenants, and a non-disparagement covenant, each of which lasts for two years after termination. Employment agreements also aid in retention of senior leadership by providing the individual with comfort that he will be treated fairly in the event of a termination not for cause or under a change in control situation. The change in control provision included in each named executive officer's agreement requires 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 his employment for good reason or the Company must terminate his employment without cause within six months prior to or two years following the change in control event. 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.

Employment agreements entered into with named executive officers after February 2004 (which includes all currently serving named executives except Mr. Trevathan) contain (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 in the agreements 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 form of award agreements for equity awards also contain provisions regarding termination and change in control. Our stock option awards are also subject to double trigger vesting in the event of a change in control situation. The award agreement for restricted stock units granted to Mr. Fish provides that restricted stock units vest upon a change in control, unless the successor entity converts the awards to equivalent grants in the

successor. Provided, however, such converted restricted stock units will vest in full if the executive is involuntarily terminated without cause following the change in control. Award agreements applicable to performance share units provide that awards will be 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 be compensated for the lost opportunity from the date of the change in control to the end of the original performance period by receiving a replacement award of restricted stock units in 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. However, if the employee is thereafter involuntarily terminated other than for cause within the change in control window referenced, he would vest in full in the replacement award.

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 performance share unit, stock option and restricted stock unit 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.

The terms "Cause," "Good Reason," and "Change in Control" as used in the table below are defined in the executives' employment agreements and/or the applicable equity award agreement and have the meanings generally described below. You should refer to the individual agreements for the actual definitions.

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

"Good Reason" generally means that, without the named executive's consent: his duties or responsibilities have been substantially changed; he has been removed from his position; the Company has breached his employment agreement; any successor to the Company has not assumed the obligations under his employment agreement; or he 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; the majority of the Board of Directors consists of individuals other than those serving as of the date of the named executive's employment agreement or those that were not elected by at least two-thirds of those directors; 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.

The following tables represent potential payouts to our named executives still serving the Company at year-end upon termination of employment in the circumstances indicated pursuant to the terms of their employment agreements and outstanding incentive awards. In the event a named executive is terminated for cause, he is entitled to any accrued but unpaid salary only. Please see the Non-Qualified Deferred Compensation table above for aggregate balances payable to the named executives under our 409A Deferral Plan pursuant to the executive's distribution elections.

The payouts set forth below assume the triggering event indicated occurred on December 31, 2016, when the closing price of our Common Stock was \$70.91 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 2014, 2015 and 2016, 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 at December 31, 2016, 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 performance share units that would be forfeited based on the prorated acceleration of the performance share units, multiplied by the closing price of our Common Stock on December 31, 2016.
- 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.

Potential Consideration upon Termination of Employment:

James C. Fish, Jr.

| <u>Triggering Event</u> | <u>Compensation Component</u> | <u>Payout (\$)</u> |
|--|---|-------------------------|
| <i>Death or Disability</i> | Severance Benefits | |
| | • Accelerated vesting of stock options | 2,533,273 |
| | • Payment of performance share units (contingent on actual performance at end of performance period) | 3,684,767 |
| | • Accelerated vesting of restricted stock units | 1,107,969 |
| | • Life insurance benefit paid by insurance company (in the case of death) . . | 624,000 |
| | Total | <u>7,950,009</u> |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee</i> | Severance Benefits | |
| | • 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) | 4,700,000 |
| | • Continued coverage under health and welfare benefit plans for two years | 25,560 |
| | • Prorated payment of performance share units (contingent on actual performance at end of performance period) | 1,843,707 |
| | • Prorated vesting of restricted stock units | 51,662 |
| | Total | <u>6,620,889</u> |

| <u>Triggering Event</u> | <u>Compensation Component</u> | <u>Payout (\$)</u> |
|--|---|--------------------|
| <i>Termination Without Cause by the Company or For Good Reason by the Employee Six Months Prior to or Two Years Following a Change in Control (Double Trigger)</i> | Severance Benefits | |
| | • 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) | 4,700,000 |
| | • Continued coverage under health and welfare benefit plans for two years | 25,560 |
| | • Accelerated vesting of stock options | 2,533,273 |
| | • Prorated accelerated payment of performance share units | 1,843,707 |
| | • Accelerated payment of performance share units replacement grant | 1,841,060 |
| | • Accelerated vesting of restricted stock units | 1,107,969 |
| | • Prorated maximum annual cash bonus | 2,700,000 |
| Total | <u>14,751,569</u> | |

James E. Trevathan, Jr.

| <u>Triggering Event</u> | <u>Compensation Component</u> | <u>Payout (\$)</u> |
|----------------------------|---|-------------------------|
| <i>Death or Disability</i> | Severance Benefits | |
| | • Accelerated vesting of stock options | 2,533,273 |
| | • Payment of performance share units (contingent on actual performance at end of performance period) | 3,684,767 |
| | • Two times base salary as of the date of termination (payable in bi-weekly installments over a two-year period) ⁽¹⁾ | 1,363,000 |
| | • Life insurance benefit paid by insurance company (in the case of death) | 662,000 |
| | Total | <u>8,243,040</u> |

| | | |
|--|---|-----------|
| <i>Termination Without Cause by the Company or For Good Reason by the Employee</i> | Severance Benefits | |
| | • 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) | 2,589,700 |
| | • Continued coverage under benefit plans for two years | |
| | • Health and welfare benefit plans | 25,560 |
| | • 409A Deferral Plan contributions | 99,374 |
| | • 401(k) Retirement Savings Plan contributions | 23,850 |
| | • Prorated payment of performance share units (contingent on actual performance at end of performance period) | 1,843,707 |
| Total | <u>4,582,191</u> | |

| | | |
|--|---|-----------|
| <i>Termination Without Cause by the Company or For Good Reason by the Employee Six Months Prior to or Two Years Following a Change in Control (Double Trigger)</i> | Severance Benefits | |
| | • Two times base salary plus target annual cash bonus, paid in lump sum | 2,589,700 |
| | • Continued coverage under benefit plans for two years | |
| | • Health and welfare benefit plans | 25,560 |
| | • 409A Deferral Plan contributions | 99,374 |
| | • 401(k) Retirement Savings Plan contributions | 23,850 |
| | • Accelerated vesting of stock options | 2,533,273 |
| | • Prorated accelerated payment of performance share units | 1,843,707 |
| | • Accelerated payment of performance share units replacement grant | 1,841,060 |
| | • Prorated maximum annual cash bonus | 1,226,700 |
| • Gross-up payment for any excise taxes ⁽¹⁾ | — | |
| Total | <u>10,183,224</u> | |

Jeff M. Harris

| <u>Triggering Event</u> | <u>Compensation Component</u> | <u>Payout (\$)</u> |
|--|---|-------------------------|
| <i>Death or Disability</i> | Severance Benefits | |
| | • Accelerated vesting of stock options | 2,098,020 |
| | • Payment of performance share units (contingent on actual performance at end of performance period) | 3,117,062 |
| | • Life insurance benefit paid by insurance company (in the case of death) | 595,000 |
| | Total | <u>5,810,082</u> |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee</i> | Severance Benefits | |
| | • 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) | 2,329,400 |
| | • Continued coverage under health and welfare benefit plans for two years | 25,560 |
| | • Prorated payment of performance share units (contingent on actual performance at end of performance period) | 1,552,787 |
| | Total | <u>3,907,747</u> |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee Six Months Prior to or Two Years Following a Change-in-Control (Double Trigger)</i> | Severance Benefits | |
| | • Three times base salary plus target annual cash bonus, paid in lump sum ⁽¹⁾ | 3,494,100 |
| | • Continued coverage under health and welfare benefit plans for three years | 38,340 |
| | • Accelerated vesting of stock options | 2,098,020 |
| | • Prorated accelerated payment of performance share units | 1,552,787 |
| | • Accelerated payment of performance share units replacement grant | 1,564,275 |
| | • Prorated maximum annual cash bonus | 1,103,400 |
| | Total | <u>9,850,922</u> |

John J. Morris, Jr.

| <u>Triggering Event</u> | <u>Compensation Component</u> | <u>Payout (\$)</u> |
|--|---|-------------------------|
| <i>Death or Disability</i> | Severance Benefits | |
| | • Accelerated vesting of stock options | 2,098,020 |
| | • Payment of performance share units (contingent on actual performance at end of performance period) | 3,117,062 |
| | • Life insurance benefit paid by insurance company (in the case of death) | 580,000 |
| | Total | <u>5,795,082</u> |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee</i> | Severance Benefits | |
| | • 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) | 2,270,500 |
| | • Continued coverage under health and welfare benefit plans for two years | 25,560 |
| | • Prorated payment of performance share units (contingent on actual performance at end of performance period) | 1,552,787 |
| | Total | <u>3,848,847</u> |

| <u>Triggering Event</u> | <u>Compensation Component</u> | <u>Payout (\$)</u> |
|--|---|--------------------|
| <i>Termination Without Cause by the Company or For Good Reason by the Employee Six Months Prior to or Two Years Following a Change in Control (Double Trigger)</i> | Severance Benefits | |
| | • 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) | 2,270,500 |
| | • Continued coverage under health and welfare benefit plans for two years | 25,560 |
| | • Accelerated vesting of stock options | 2,098,020 |
| | • Prorated accelerated payment of performance share units | 1,552,787 |
| | • Accelerated payment of performance share units replacement grant | 1,564,275 |
| | • Prorated maximum annual cash bonus | 1,075,500 |
| Total | 8,586,642 | |

(1) In the past, such provisions had been included in certain named executives’ employment agreements. The Company has adopted a compensation policy that provides that it will not enter into any future compensation arrangements that obligate the Company to provide increased payments in the event of death or to make tax gross up payments, subject to certain exceptions. Additionally, our Executive Officer Severance Policy generally provides that the Company may not enter into new severance arrangements with its executive officers 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 bonus. For additional details, see “Compensation Discussion and Analysis — Other Compensation Policies and Practices.”

Payments and Obligations Associated with the Departure of Mr. Steiner

November 10, 2016 was the last day of Mr. Steiner’s employment with the Company. Please see “Compensation Discussion and Analysis — How Named Executive Officer Compensation Decisions are Made — Promotion of Mr. Fish and Departure of Mr. Steiner” for additional information. Under Mr. Steiner’s employment agreement, his departure from the Company was treated as termination without cause by the Company and entitled him to certain payments and benefits provided for in his employment agreement. Mr. Steiner’s outstanding performance share unit awards were prorated as of the last date of his employment, with any payout on such awards dependent on actual performance at the end of the applicable performance period. Please see the Outstanding Equity Awards at December 31, 2016 table above for information on Mr. Steiner’s outstanding PSUs after proration.

Pursuant to his employment agreement, Mr. Steiner received, or is continuing to receive, the following:

| | |
|--|-------------|
| • Cash severance payable in lump sum | \$3,001,420 |
| • Cash severance payable over two years | \$3,001,420 |
| • Annual cash incentive payment, payable to the same extent and at the same time payments are made to other senior executives, prorated as of last day of employment | \$2,133,895 |
| • Twenty-four months of continued group health and/or dental insurance coverage (or until eligible for coverage from a subsequent employer) | \$ 25,560 |
| • Lump sum payment in lieu of any obligation to continue any other benefits | \$ 334,252 |
| • Four weeks accrued unused vacation | \$ 98,246 |

The Company also entered into a separation agreement with Mr. Steiner, setting forth additional terms of his departure from the Company and expanding Mr. Steiner’s post-employment covenants. With respect to Mr. Steiner’s unexercised stock option awards, the separation agreement provides that Mr. Steiner’s departure from the Company shall be considered “Retirement” pursuant to the terms of the applicable award agreements. For accounting purposes, the Company’s agreement to retirement treatment for Mr. Steiner’s unexercised stock options resulted in a non-cash charge of \$9.9 million in the first quarter of 2017. The value of continued vesting and exercisability afforded by retirement treatment of Mr. Steiner’s options depends on the market value of our Common Stock at the time Mr. Steiner exercises such options. Please see the Outstanding Equity Awards at December 31, 2016 table above for information about Mr. Steiner’s outstanding vested and unvested stock options following his departure. The Company also paid Mr. Steiner \$75,000 in lieu of any obligation to reimburse his legal fees in connection with negotiation of the separation agreement.

Equity Compensation Plan Table

The following table provides information as of December 31, 2016 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 ⁽¹⁾ | 8,335,791 ⁽²⁾ | \$45.12 ⁽³⁾ | 25,704,158 ⁽⁴⁾ |

(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 5,642,500 shares of Common Stock; 698,323 shares of Common Stock to be issued in connection with deferred compensation obligations; 490,342 shares underlying unvested restricted stock units and 1,504,626 shares of Common Stock that would be issued on account of outstanding performance share units if the target performance level is achieved. Assuming, instead, that the maximum performance level was achieved on such performance share units, the number of shares of Common Stock that would be issued on account of outstanding awards would increase by 1,504,626 shares.

The total number of shares subject to outstanding awards in the table above includes 570,072 shares on account of performance share units with the performance period ended December 31, 2016. The determination of achievement of performance results on such performance share units was performed by the MD&C Committee in February 2017, and the Company achieved maximum performance criteria. A total of 737,642 shares of Common Stock were issued on account of such performance share units in February 2017, net of units deferred, of which 368,821 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 performance share units 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 2,520,108 shares under our ESPP and 23,184,050 shares under our 2014 Stock Incentive Plan, assuming payout of performance share units at maximum. Assuming payout of performance share units at target, the number of shares remaining available for issuance under our 2014 Stock Incentive Plan would be 24,688,676.

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 2017, 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.

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 2017.

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:

| | 2016 | 2015 |
|--------------------------|---------------|---------------|
| | (In millions) | |
| Audit Fees | \$ 4.8 | \$ 5.1 |
| Audit-Related Fees | — | 0.6 |
| Tax Fees | — | 0.1 |
| All Other Fees | — | — |
| Total | \$ 4.8 | \$ 5.8 |

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, both domestically and internationally. 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 ratified by 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 2016 and 2015, the Audit Committee 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.

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 the results on the advisory stockholder vote on the frequency of this advisory vote on executive compensation. See the proposal below (Item 4 on the Proxy Card) for additional information.

We encourage stockholders to review the *Compensation Discussion and Analysis* and the *Executive Compensation Tables* on pages 24 to 55 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:

- 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 a significant difference in total compensation in periods of above-target Company performance as compared to periods of below-target Company performance. Performance-based annual cash incentive and long-term equity-based incentive awards comprised approximately 87% of total 2016 target compensation for our former Chief Executive Officer, while approximately 78% of the total 2016 target compensation opportunities for our other named executives was performance-based (in each case, as established in February 2016 before Mr. Steiner’s departure and Mr. Fish’s promotions);
- at target (as established in February 2016), approximately 71% of total target compensation of our former Chief Executive Officer was tied to long-term equity awards, and approximately 57% of total target 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 goals 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 requirements, 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 recent 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; 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 upon the Board or the MD&C Committee 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 FOR THE APPROVAL OF THE COMPANY'S EXECUTIVE COMPENSATION.

ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

(ITEM 4 ON THE PROXY CARD)

Stockholders are asked to cast an advisory (non-binding) vote on whether future “say on pay” advisory votes should occur every year, every two years or every three years.

The Board has determined that an advisory vote on executive compensation that occurs annually is the most appropriate interval. Conducting an advisory vote on executive compensation every year will enhance stockholder communication and provide the Company with regular feedback on its executive compensation practices and philosophy. Accordingly, our Board recommends you vote for a one-year interval for the advisory vote on executive compensation.

Vote Required for Approval

The proxy card provides stockholders with the opportunity to choose among four options (holding the vote every one, two or three years, or abstaining) and, therefore, stockholders will not be voting to approve or disapprove the Board’s recommendation. The alternative receiving a majority of the votes cast — every year, every two years or every three years — will be the frequency that stockholders approve. If none of the frequency alternatives receive a majority of the votes cast, the alternative receiving the greatest number of votes cast will be the frequency that stockholders approve.

Because the vote is advisory, it will not be binding upon the Board or the MD&C Committee. However, the MD&C Committee will carefully consider the outcome of the vote when deciding how often to conduct future stockholder advisory votes on executive compensation.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE OPTION OF EVERY YEAR FOR
FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION.**

STOCKHOLDER PROPOSAL

(ITEM 5 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 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., 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, that 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 2017 annual meeting.

SUPPORTING STATEMENT:

Waste Management, Inc. (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, that 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 2015 fiscal year could have accelerated the vesting of \$31.0 million worth of long term equity and grants to five senior executives, with the CEO entitled to \$16.5 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.

We urge you to vote FOR this proposal.

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 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 over 96% of shares present and entitled to vote casting votes in favor of our Company's executive compensation at the last six 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 THE ADOPTION OF 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)

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

For the fiscal year ended December 31, 2016

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)

1001 Fannin Street
Houston, Texas
(Address of principal executive offices)

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

77002
(Zip code)

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

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

| <u>Title of Each Class</u> | <u>Name of Exchange on Which Registered</u> |
|-------------------------------|---|
| Common Stock, \$.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 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 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.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2016 was approximately \$29.2 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 at February 2, 2017 was 439,703,007 (excluding treasury shares of 190,579,454).

DOCUMENTS INCORPORATED BY REFERENCE

| <u>Document</u> | <u>Incorporated as to</u> |
|--|---------------------------|
| Proxy Statement for the 2017 Annual Meeting of Stockholders | Part III |

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| PART I | |
| Item 1. Business | 3 |
| Item 1A. Risk Factors | 16 |
| Item 1B. Unresolved Staff Comments | 28 |
| Item 2. Properties | 28 |
| Item 3. Legal Proceedings | 29 |
| Item 4. Mine Safety Disclosures | 29 |
| PART II | |
| Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 29 |
| Item 6. Selected Financial Data | 32 |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 33 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 68 |
| Item 8. Financial Statements and Supplementary Data | 69 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 142 |
| Item 9A. Controls and Procedures | 142 |
| Item 9B. Other Information | 142 |
| PART III | |
| Item 10. Directors, Executive Officers and Corporate Governance | 142 |
| Item 11. Executive Compensation | 143 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 143 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | 143 |
| Item 14. Principal Accounting Fees and Services | 143 |
| PART IV | |
| Item 15. Exhibits, Financial Statement Schedules | 143 |

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 23 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. 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. In December 2014, we sold our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. During 2016, our largest customer represented 1% of annual revenues. We employed approximately 41,200 people as of December 31, 2016.

We own or operate 248 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 310 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 United States 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, with the current state of our strategy taking into account economic conditions, the regulatory environment, asset and resource availability and current technology. We believe that focused differentiation in our industry, driven by capitalizing on our extensive, well-placed network of assets, will deliver profitable growth and 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 common stock repurchases. In December 2016, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.41 to \$0.425 per share for dividends declared in 2017, which is a 3.7% increase from the quarterly dividends we declared in 2016. This is an indication of our ability to generate strong and consistent cash flows and marks the 14th consecutive year of dividend increases. All quarterly dividends will be declared at the discretion of our Board of Directors.

Operations

General

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. See Note 21 to the Consolidated Financial Statements for additional information about our reportable segments. In December 2014, we sold our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. Refer to Note 19 to the Consolidated Financial Statements for additional information related to this divestiture. 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."

We have expanded certain of our operations through acquisitions, which are discussed further in Note 19 to the Consolidated Financial Statements. In January 2016, Waste Management Inc. of Florida, a wholly-owned subsidiary of WM, acquired certain operations and business assets of Southern Waste Systems/Sun Recycling ("SWS") in Southern Florida. The acquired business assets include residential, commercial, and industrial solid waste collection, processing/recycling and transfer operations, equipment, vehicles, real estate and customer agreements. In March 2015, we acquired Deffenbaugh Disposal, Inc., ("Deffenbaugh"), one of the largest privately owned collection and disposal firms in the Midwest with assets including collection operations, transfer stations, recycling facilities and landfills.

The services we currently provide include collection, landfill (solid and hazardous waste landfills), transfer, recycling and resource recovery and other services, as described below. The following table shows revenues (in millions) contributed by these services for the years ended December 31:

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------------|-----------------|-----------------|-----------------|
| Collection | \$ 8,802 | \$ 8,439 | \$ 8,507 |
| Landfill | 3,110 | 2,919 | 2,849 |
| Transfer | 1,512 | 1,377 | 1,353 |
| Recycling | 1,221 | 1,163 | 1,370 |
| Other | 1,601 | 1,452 | 1,561 |
| Wheelabrator | — | — | 817 |
| Intercompany | <u>(2,637)</u> | <u>(2,389)</u> | <u>(2,461)</u> |
| Total | <u>\$13,609</u> | <u>\$12,961</u> | <u>\$13,996</u> |

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 seven 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. At December 31, 2016, we owned or operated 243 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, as a result, 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. At December 31, 2016, we owned or operated 310 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. At December 31, 2016, we operated 95 MRFs where paper, cardboard, metals, plastics, glass, construction and demolition materials and other recyclable commodities are recovered for resale.

Commodities recycling — We market and resell recyclable commodities globally. We manage the marketing of recyclable 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 recyclable 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 recyclable 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, which are recorded as “Operating expenses” within our Consolidated Statements of Operations. 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 organization, works with customers whose locations span the United States. Our strategic accounts program provides centralized customer service, billing and management of accounts to streamline the administration of customers' multiple and nationwide locations' waste management needs.

Our Energy and Environmental Services 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 Energy and Environmental Services organization but reflected principally in our collection 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 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. At December 31, 2016, we had 131 landfill gas beneficial use projects producing commercial quantities of methane gas at owned or operated landfills. For 103 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 16 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. For 11 of these projects, the landfill gas is processed to pipeline-quality natural gas and then sold to natural gas suppliers. For one of these projects, the gas is processed into liquefied natural gas and used as vehicle fuel.

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® 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 offer portable self-storage and long distance moving services through a joint venture; fluorescent bulb and universal waste mail-back through our LampTracker® program; portable restroom servicing under the name Port-o-Let®; and street and parking lot sweeping services. In addition, we hold interests in oil and gas producing properties.

Wheelabrator. On December 19, 2014, we sold our Wheelabrator business to an affiliate of Energy Capital Partners and received cash proceeds of \$1.95 billion, net of cash divested, subject to certain post-closing adjustments. We recognized a gain of \$519 million on this sale which is included within “(Income) expense from divestitures, asset impairments and unusual items” in the Consolidated Statement of Operations. In conjunction with the sale, the Company entered into several agreements to dispose of a minimum number of tons of waste at certain Wheelabrator facilities. See Note 11 to the Consolidated Financial Statements for further discussion of these agreements.

Wheelabrator provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. Our Wheelabrator business was a separate reportable segment until the sale of the business in 2014 as discussed in Note 21 to the Consolidated Financial Statements.

Competition

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

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 volume of construction and demolition waste. 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 affected Areas. On the other

hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern United States, can increase our revenues in the areas affected. While weather-related and other unusual event occurrences 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

At December 31, 2016, we had approximately 41,200 full-time employees, of which approximately 7,800 were employed in administrative and sales positions and the balance in operations. Approximately 8,000 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 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 subsidiary, National Guaranty Insurance Company of Vermont, 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. revolving credit facility (“\$2.25 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, real and personal property, workers’ compensation, 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. As of December 31, 2016, our commercial General Liability Insurance Policy carried self-insurance exposures of up to \$2.5 million per incident and our workers’ compensation insurance program carried self-insurance exposures of up to \$5 million per incident. As of December 31, 2016, our automobile liability insurance program included a per-incident base deductible of \$5 million, subject to an additional deductible of \$4.8 million in the \$5 million to \$10 million layer. 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, 2016 are summarized in Note 11 to the Consolidated Financial Statements.

The Directors’ and Officers’ Liability Insurance policy we choose to maintain covers only individual executive liability, often referred to as “Broad Form Side A,” and does not provide corporate reimbursement coverage, often referred to as “Side B.” The Side A policy covers directors and officers directly for loss, including defense costs, when corporate indemnification is unavailable. Side A-only coverage cannot be exhausted by payments to the Company, as the Company is not insured for any money it advances for defense costs or pays as indemnity to the insured directors and officers.

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 United States 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 are related, either directly or indirectly, to environmental protection measures, including compliance with federal, state or 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. In connection with our 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. However, the new United States presidential administration has called for substantial changes to areas of federal tax and foreign trade policy and has generally appeared to be in favor of reducing regulation, including environmental regulation. We cannot predict what impact the new administration will have on the political and regulatory environment in the United States, the timing of any such changes, or the impact of any such changes on our business. While reduction of regulation may have a favorable impact on our operating costs, the extensive environmental regulation applicable to landfills is a substantial barrier to entry that benefits our Company. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us.

The primary United States 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 its 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.
- 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, even as a result of lawful, unintentional and non-negligent action, of hazardous substances 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 run-off from our operations may be discharged 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. In addition, 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. Also, 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 increased 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 our large municipal solid waste 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. The EPA entered into a settlement agreement with the Environmental Defense Fund to evaluate the 1996 NSPS for new landfills as required by the Clean Air Act every eight years and revise them if deemed necessary. The EPA entered into a consent decree to finalize the NSPS rule in July 2016. On August 29, 2016, the EPA published two rules with new requirements for landfill gas control 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). The stated intent of the rules was to reduce methane emissions from landfills as part of the federal regulatory efforts to curtail emission of greenhouse gases (“GHGs”) to ameliorate the effects of climate change. Working with our trade associations and other landfill owners and operators, we have identified significant legal, technical and implementation concerns with the rules. Together we have filed administrative petitions asking that the EPA stay the rules and initiate a rulemaking process to address our concerns, while also filing a petition for judicial review.

Should the EPA or the court not address our legal and technical concerns in the final rules, we will reassess the capital and operating cost impact to our operations. However, we do not believe that the ultimate regulatory changes would have a material adverse impact on our business as a whole.

Additionally, emission and fuel economy standards have been imposed on manufacturers of transportation vehicles (including heavy-duty waste collection vehicles). 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; however, we expect to be able to purchase fully compliant vehicles that will meet our operational needs. The regulations could increase the costs of operating our fleet, but 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 developments in United States federal regulations affecting our business:

- In 2010, the EPA issued the Prevention of Significant Deterioration (“PSD”) and Title V 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.

In June 2014, the U.S. Supreme Court issued a decision that significantly limited the applicability and scope of EPA permitting requirements for GHGs from stationary sources, concluding that: the EPA may not treat GHGs as an air pollutant for purposes of determining whether a source is required to obtain a PSD or Title V permit; and the EPA can continue to require that PSD permits otherwise required based on emissions of conventional pollutants contain limitations on GHG emissions based on Best Available Control Technology (“BACT”). Following this ruling, the EPA issued a policy memorandum in July 2014 advising that the U.S. Supreme Court ruling effectively narrows the scope of biogenic CO₂ permitting issues that remain for the EPA to address. Further, on October 3, 2016, the EPA proposed revisions to the PSD and Title V GHG permitting regulations and proposed establishing a significant emissions rate (“SER”) of 75,000 tons of CO₂ equivalent, 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 CO₂ emissions as carbon neutral. The EPA has not yet finalized the rulemaking, nor has it addressed how it will exempt biogenic carbon dioxide emissions from waste-derived feedstocks (municipal solid waste and landfill gas) from PSD and Title V air permitting. The EPA nonetheless anticipates basing this proposal on the rationale that those emissions are likely to have minimal or no net atmospheric contributions, or may even reduce such impacts, when compared to an alternate method of disposal. These conclusions have been recommended to the EPA by its independent Science Advisory Board. As a result of the U.S. Supreme Court ruling and the EPA policy and proposed regulatory action, we continue to believe the potential impact of the PSD and Title V GHG Tailoring Rule on our air permits, compliance and results of operations is significantly reduced.

Other recent final and proposed rules to increase the stringency of certain National Ambient Air Quality Standards, such as the Ozone rule finalized in October 2015, and related PSD increment/significance thresholds 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. In general, controlling emissions involves installing collection wells in a landfill and routing the gas to a suitable

energy recovery system or combustion device. As of December 31, 2016, we had 131 projects at owned or operated landfills where landfill gas was captured and utilized for its renewable energy value rather than flared. Efforts to curtail the emission of GHGs and to ameliorate the effect of climate change may require our landfills to deploy more stringent emission controls, with associated capital or operating costs; however, we do not believe that such regulations will have a material adverse impact on our business as a whole. See Item 1A. *Risk Factors* — *The adoption of climate change legislation or regulations restricting emissions of “greenhouse gases” could increase our costs to operate.*

The EPA clarified in its November 19, 2014 policy memorandum that states may rely on waste-derived biogenic feedstocks in their future proposed compliance plans required by the final Clean Power Plan rules and the proposed federal plan, both published in October 2015, which may create new or expanded opportunities for renewable energy projects. According to the EPA, the federal plan would fill any gaps pending implementation of State or Tribal plans to achieve required emissions reductions, but would no longer apply when a State or Tribal plan is approved.

We are taking steps to anticipate the future needs of our customers which include investing in and developing ever-more-advanced recycling and reuse technologies. Potential climate change and GHG regulatory 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 United States 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 2011, the EPA published the Non-Hazardous Secondary Materials (“NHSM”) Rule, which provides the standards and procedures for identifying whether NHSM are solid waste under RCRA when used as fuels or ingredients in combustion units. The EPA also published New Source Performance Standards and Emission Guidelines for commercial and industrial solid waste incineration units (“CISWI”) and Maximum Achievable Control Technology Standards for commercial and industrial boilers (“Boiler MACT”). The EPA published clarifications and amendments to the three rules in 2013 and legal challenges to the rules were subsequently filed by both industry and environmental groups. In May 2015, the Court of Appeals for the D.C. Circuit upheld the NHSM Rule together with the amendments to the rule that support some of our projects in which we are seeking to convert biomass or other secondary materials into products, fuels or energy. Through rulings in July and December of 2016 related to the CISWI and Boiler MACT challenges, the Court vacated certain elements of those rules while remanding other aspects of the rules to the EPA for reconsideration. Because the EPA reconsideration process is ongoing it is not possible to quantify the financial impact of all these rulemakings at the present time. However, we believe the rules and administrative determinations will not have a material adverse impact on our business as a whole and are more likely to facilitate our efforts to reuse or recover energy value from secondary material streams.
- In December 2014, the EPA issued a final rule regulating the disposal and beneficial use of coal combustion residuals (“CCR”). The regulations encourage 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 we believe the new standards will provide a potential 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. This codification of the CCR rule provides utilities with a stable regulatory regime.

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 United States 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 United States 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 United States 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 United States 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.

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 is 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 as well as restricting the import of certain other plastic recyclables. The higher quality expectations resulting from initiatives such as “Operation Green Fence,” as well as increased container weight tracking and port fees, have driven up operating costs in the recycling industry. Additionally, the new presidential administration has called for substantial changes to foreign trade policy and has raised the possibility of imposing significant increases in tariffs on international trade. Restrictions and tariffs on exporting would have a significant impact on our recycling operations.

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. Despite increased costs associated with export requirements, we believe we are well positioned among our potential competitors to respond to and comply with such regulations. In recent years, we have been revising our service agreements to address these increased costs and are working with stakeholders to educate the general public on the need to recycle properly.

Hydraulic Fracturing Regulation

Our Energy Services line of business provides specialized environmental management and disposal services for oil and gas exploration and production operations. There remains heightened attention from the public, some states and the EPA on the alleged potential for hydraulic fracturing to impact drinking water supplies. There is also heightened federal regulatory focus on emissions of methane that occur during drilling and transportation of natural gas with regulations promulgated in 2012 and 2015, as well as state attention to protective disposal of drilling residuals. Increased regulation of hydraulic fracturing and new rules regarding the treatment and disposal of wastes associated with exploration and production operations could increase our costs to provide oilfield services and reduce our margins and revenue from such services. On the other hand, 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, 2016, we were operating 95 natural gas fueling facilities, 28 of which also serve the public or pre-approved third parties, in 31 states and three Canadian provinces. 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.

Federal, State and Local Climate Change Initiatives

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.

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.

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 2017 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. In North America, the industry consists primarily of three national waste management companies and regional and local companies of varying sizes and financial resources, including companies that specialize in certain discrete areas of waste management, operators of alternative disposal facilities and companies that seek to use parts of the waste stream as feedstock for renewable energy and other by-products. In recent years, the industry has seen some additional consolidation, though the industry remains intensely competitive. The industry's national and regional competitors are often significant competitors in local markets. We compete with these companies as well as with counties and municipalities that maintain their own waste collection and disposal operations and waste brokers that rely upon haulers in local markets to address customer

needs. These 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 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview* 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 restructuring 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, 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 a number of factors beyond our control, such as increased competition, legal developments, government regulation, general economic conditions, increased operating costs or expenses 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 United States and Canada have a substantial impact on our business, and compliance with such regulations is costly. A large number of 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.

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.

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, 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.

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 United States 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 United States 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 United States 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 United States 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. However, the new United States presidential administration has called for substantial changes to areas of federal tax and foreign trade policy and has generally appeared to be in favor of reducing regulation, including environmental regulation. We cannot predict what impact the new administration will have on the political and regulatory environment in the United States, the timing of any such changes, or the impact of any such changes on our business. While reduction of regulation may have a favorable impact on our operating costs, the extensive environmental regulation applicable to landfills is a substantial barrier to entry that benefits our Company. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us.

Enforcement or implementation of foreign regulations can affect our ability to export products. A significant portion of the fiber that we market is 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 as well as restricting the import of certain other plastic recyclables. The higher quality expectations resulting from initiatives such as “Operation Green Fence” have driven up operating costs in the recycling industry, particularly for single stream MRFs. 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. Additionally, the new presidential administration has called for substantial changes to foreign trade policy and has raised the possibility of imposing significant increases in tariffs on international trade. If Operation Green Fence or other similar initiatives, such as increased container weight tracking and port fees, new regulations, or restrictions and tariffs on exporting increase our operating costs in the future, and we are not able to recapture those costs from our customers, such initiatives regulations, restrictions and tariffs could have a material adverse effect on our results of operations.

Our revenues, earnings and cash flows will fluctuate based on changes in commodity prices.

Our recycling operations process for sale certain recyclable materials, including fibers, aluminum and plastics, which are subject to significant market price fluctuations. The majority of the recyclables that we process for sale are paper fibers, including old corrugated cardboard and old newsprint, and the price fluctuations for these commodities could be impacted by significant changes in United States foreign trade policy and increased tariffs on international trade, as Chinese paper mills are the primary consumer of the fiber we market. The fluctuations in the market prices or demand for these commodities can affect our operating income and cash

flows positively, as we experienced in 2016, or negatively, as we experienced in 2015 and 2014. As we have increased the size of our recycling operations, we have also increased our exposure to commodity price fluctuations. The increase in market prices in 2016 for commodities resulted in a year-over-year increase in revenue of \$51 million. The decline in market prices in 2015 and 2014 for commodities resulted in year-over-year decreases in revenue of \$138 million and \$53 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 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 Energy Services business. Demand for these services decreases when drilling activity slows due to depressed oil and gas prices, such as the pronounced price decreases beginning in late 2014 and continuing low prices throughout 2015 and 2016. 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 drilling and production could adversely affect our Energy Services business.

Energy Services business demand may also be adversely affected if drilling activity slows due to industry conditions beyond our control, in addition to changes in oil and gas prices. Changes in laws or government regulations regarding GHG emissions from oil and gas operations and/or hydraulic fracturing could increase our customers' costs of doing business and reduce oil and gas exploration and production by customers. There remains heightened attention from the public, some states and the EPA to the alleged potential for hydraulic fracturing to impact drinking water supplies. There is also heightened federal regulatory focus on emissions of methane that occur during drilling and transportation of natural gas with regulations promulgated in 2012 and 2015 as well as state attention to protective disposal of drilling residuals. Increased regulation of oil and gas exploration and production and new rules regarding the treatment and disposal of wastes associated with exploration and production operations could increase our costs to provide oilfield services and reduce our margins and revenue from such services.

Increasing customer preference for alternatives to landfill disposal 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 and, together with our divested waste-to-energy facilities, have historically provided 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.

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. This risk is 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.

Additionally, we could be liable if we arrange for the transportation, disposal or treatment of hazardous substances that cause environmental contamination, or if a predecessor owner made such arrangements and, under applicable law, we are treated as a successor to the prior owner. 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 decreases our revenues. 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. In addition, we have a relatively high fixed-cost structure, which is difficult to quickly adjust to match shifting volume levels. Consumer uncertainty and the loss of consumer confidence may limit the number or amount of services requested by customers. Economic conditions may also limit our ability to implement our pricing strategy. For example, 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 in excess of the increase, if any, in the Consumer Price Index. Additionally, a prolonged economic downturn in China could significantly impact prices for post-consumer fiber and metals processed by our recycling operations.

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

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 recyclable 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, 2016, we had \$491 million of variable-rate tax-exempt bonds with interest rates reset on either a daily or a weekly basis through a remarketing process and \$473 million of tax-exempt bonds with term interest rate periods that are subject to repricing within the next 12 months, which is prior to their scheduled maturities. If the weakness in the municipal debt market results in repricing of our tax-exempt bonds at significantly higher interest rates, we will 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 as a means 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, we have recently settled cases that pertained to our fuel and environmental charges included on our invoices, and we continue to face similar claims. See Note 11 to the Consolidated Financial Statements for more information. 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.

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities 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. 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. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks. Additionally, while we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. 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, negative publicity, brand damage, violation of privacy laws, loss of customers, potential litigation and liability and competitive disadvantage.

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, the negotiation of collective bargaining agreements could divert management attention and 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 several employee bargaining units from underfunded Multiemployer Pension Plans, and we recognized related expenses of \$51 million in 2015 and \$4 million in 2014. See Notes 10 and 11 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, 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, 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 Sheet, 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 value. 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, as well as a number of 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 \$1.6 billion of debt as of December 31, 2016 that is exposed to changes in market interest rates within the next 12 months because of the combined impact of our tax-exempt bonds and borrowings outstanding under our \$2.25 billion revolving credit facility and Canadian term loan. If interest rates increase, our interest expense would also increase, lowering our net income and decreasing our cash flow.

We may use our \$2.25 billion revolving credit facility and our C\$50 million Canadian revolving credit facility to meet our cash needs, to the extent available, until maturity in July 2020 and March 2019, respectively. At December 31, 2016, we had \$426 million of outstanding borrowings and \$789 million of letters of credit issued and supported by the \$2.25 billion revolving credit facility, leaving unused and available credit capacity of \$1,035 million, and we had no outstanding borrowings under the Canadian revolving credit facility. In the event of a default under our credit facilities, 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 Greenhouse Gas 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 volume of construction and demolition waste. 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 affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern United States, can increase our revenues in the areas affected. While weather-related and other unusual event occurrences 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.

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 United States 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 United States 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 366,000 square feet under leases expiring through 2020. We also have administrative offices in Arizona, Illinois, Connecticut 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, 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 replacement of assets and in connection with our strategic growth plans. 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 at December 31:

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Landfills owned or operated(a) | 248 | 249 |
| Transfer stations | 310 | 297 |
| Material recovery facilities | 95 | 104 |

(a) At December 31, 2016 and 2015, our landfills owned or operated consisted of total acreage of 158,054 and 157,790, permitted acreage of 42,182 and 41,983 and expansion acreage of 905 and 1,395, 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 herein.

Item 3. Legal Proceedings.

Information regarding our legal proceedings can be found under the *Environmental Matters* and *Litigation* sections of Note 11 to the Consolidated Financial Statements included in 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.

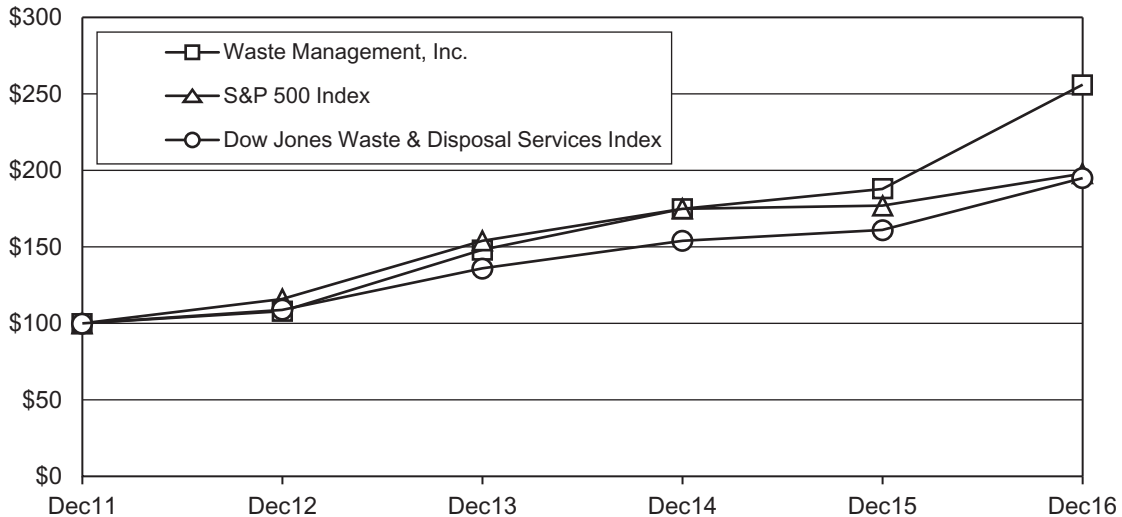
Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “WM.” The following table sets forth the range of the high and low per share sales prices for our common stock as reported on the NYSE:

| | <u>High</u> | <u>Low</u> |
|--|-------------|------------|
| 2015 | | |
| First Quarter | \$55.30 | \$50.67 |
| Second Quarter | 55.93 | 46.31 |
| Third Quarter | 53.05 | 45.88 |
| Fourth Quarter | 55.25 | 49.49 |
| 2016 | | |
| First Quarter | \$59.99 | \$50.36 |
| Second Quarter | 66.27 | 56.06 |
| Third Quarter | 70.49 | 62.42 |
| Fourth Quarter | 71.71 | 61.09 |
| 2017 | | |
| First Quarter (through February 2, 2017) | \$71.28 | \$69.00 |

On February 2, 2017, the closing sales price as reported on the NYSE was \$69.64 per share. The number of holders of record of our common stock on February 2, 2017 was 9,661.

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>12/31/11</u> | <u>12/31/12</u> | <u>12/31/13</u> | <u>12/31/14</u> | <u>12/31/15</u> | <u>12/31/16</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Waste Management, Inc. | \$100 | \$108 | \$148 | \$175 | \$188 | \$256 |
| S&P 500 Index | \$100 | \$116 | \$154 | \$175 | \$177 | \$198 |
| Dow Jones Waste & Disposal Services Index | \$100 | \$109 | \$136 | \$154 | \$161 | \$195 |

Our quarterly dividends have been declared by our Board of Directors. Cash dividends declared and paid were \$726 million in 2016, or \$1.64 per common share, \$695 million in 2015, or \$1.54 per common share, and \$693 million in 2014, or \$1.50 per common share.

In December 2016, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.41 to \$0.425 per share for dividends declared in 2017. 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 and other factors the Board of Directors may deem relevant.

Our share repurchases have also been made in accordance with plans approved by our Board of Directors. We announced in December 2015 that the Board of Directors authorized up to \$1 billion in future share repurchases. During 2016, we repurchased an aggregate of \$725 million of our common stock under accelerated share repurchase (“ASR”) agreements, of which \$150 million was repurchased pursuant to the Board of Directors authorization granted in February 2015. We received a total of 11.2 million shares pursuant to these ASR agreements with a weighted average per share purchase price of \$60.49. See Note 15 to the Consolidated Financial Statements for additional information.

The following table summarizes common stock repurchases made during the fourth quarter of 2016 (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 | — | \$ — | — | \$650 million |
| November 1 — 30 | 2.8(a) | \$63.41(a) | 2.8(a) | \$425 million(a) |
| December 1 — 31 | — | \$ — | — | \$750 million(b) |
| Total | <u>2.8</u> | \$63.41 | <u>2.8</u> | |

- (a) In November 2016, the Company entered into an ASR agreement to repurchase \$225 million of our common stock. At the beginning of the repurchase period, we delivered \$225 million in cash and received 2.8 million shares based on a stock price of \$63.41 per share. The ASR agreement completed in February 2017, at which time we received 0.4 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$69.43.
- (b) We announced in December 2016 that the Board of Directors has authorized up to \$750 million in future share repurchases, which supersedes and replaces remaining authority under any prior Board of Directors authorization for 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.

Item 6. Selected Financial Data.

The information below was derived from the audited Consolidated Financial Statements included in 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, | | | | |
|--|---|----------------|-----------------|----------------|----------------|
| | 2016(a) | 2015(a) | 2014(a) | 2013 | 2012 |
| | (In Millions, Except per Share Amounts) | | | | |
| Statement of Operations Data: | | | | | |
| Operating revenues | \$13,609 | \$12,961 | \$13,996 | \$13,983 | \$13,649 |
| Costs and expenses: | | | | | |
| Operating | 8,486 | 8,231 | 9,002 | 9,112 | 8,879 |
| Selling, general and administrative | 1,410 | 1,343 | 1,481 | 1,468 | 1,472 |
| Depreciation and amortization | 1,301 | 1,245 | 1,292 | 1,333 | 1,297 |
| Restructuring | 4 | 15 | 82 | 18 | 67 |
| (Income) expense from divestitures, asset impairments and unusual items | 112 | 82 | (160) | 973 | 83 |
| | <u>11,313</u> | <u>10,916</u> | <u>11,697</u> | <u>12,904</u> | <u>11,798</u> |
| Income from operations | 2,296 | 2,045 | 2,299 | 1,079 | 1,851 |
| Other expense, net | (474) | (985) | (548) | (585) | (548) |
| Income before income taxes | 1,822 | 1,060 | 1,751 | 494 | 1,303 |
| Provision for income taxes | 642 | 308 | 413 | 364 | 443 |
| Consolidated net income | 1,180 | 752 | 1,338 | 130 | 860 |
| Less: Net income (loss) attributable to noncontrolling interests | (2) | (1) | 40 | 32 | 43 |
| Net income attributable to Waste Management, Inc. | <u>\$ 1,182</u> | <u>\$ 753</u> | <u>\$ 1,298</u> | <u>\$ 98</u> | <u>\$ 817</u> |
| Basic earnings per common share | <u>\$ 2.66</u> | <u>\$ 1.66</u> | <u>\$ 2.80</u> | <u>\$ 0.21</u> | <u>\$ 1.76</u> |
| Diluted earnings per common share | <u>\$ 2.65</u> | <u>\$ 1.65</u> | <u>\$ 2.79</u> | <u>\$ 0.21</u> | <u>\$ 1.76</u> |
| Cash dividends declared per common share | <u>\$ 1.64</u> | <u>\$ 1.54</u> | <u>\$ 1.50</u> | <u>\$ 1.46</u> | <u>\$ 1.42</u> |
| Balance Sheet Data (at end of period): | | | | | |
| Working capital (deficit) | \$ (418) | \$ (165) | \$ 41 | \$ (628) | \$ (689) |
| Goodwill and other intangible assets, net | 6,806 | 6,461 | 6,180 | 6,599 | 6,688 |
| Total assets(b) | 20,859 | 20,367 | 21,252 | 22,441 | 22,966 |
| Debt, including current portion(b) | 9,310 | 8,929 | 9,390 | 10,177 | 9,861 |
| Total Waste Management, Inc. stockholders' equity | 5,297 | 5,345 | 5,866 | 5,707 | 6,354 |
| Total equity | 5,320 | 5,367 | 5,889 | 6,002 | 6,675 |

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

(b) For disclosures associated with the impact of the adoption of new accounting standards on the comparability of this information, see Note 2 to the Consolidated Financial Statements included in this report.

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, 2016. 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

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, with the current state of our strategy taking into account economic conditions, the regulatory environment, asset and resource availability and current technology. We believe that focused differentiation in our industry, driven by capitalizing on our extensive, well-placed network of assets, will deliver profitable growth and 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.

Notable items of our 2016 financial results include:

- Revenues of \$13,609 million in 2016 compared with \$12,961 million in 2015, an increase of \$648 million. This increase in revenues is primarily attributable to (i) the combined impact of yield and volume growth, which contributed \$437 million of additional revenues, primarily in our collection and disposal and recycling operations and (ii) acquisitions, net of divestitures, which contributed \$238 million of revenue growth, primarily due to the acquisition of certain operations and business assets of SWS in January 2016. These increases were partially offset by foreign currency translation related to our Canadian operations;
- Operating expenses of \$8,486 million in 2016, or 62.4% of revenues, compared with \$8,231 million, or 63.5% of revenues, in 2015. This increase of \$255 million is primarily attributable to (i) incremental costs attributable to acquired businesses, net of divestitures, of approximately \$143 million; (ii) increased landfill operating costs of \$97 million, primarily landfill leachate management costs; (iii) increased cost of goods sold of \$60 million, primarily related to higher recycling commodity prices and (iv) costs associated with higher volumes, estimated at \$60 million. These increases were partially offset by lower fuel costs of \$66 million, primarily due to lower year-over-year average fuel prices;
- Selling, general and administrative expenses of \$1,410 million in 2016, compared with \$1,343 million in 2015, or 10.4% of revenues for both periods. This increase of \$67 million is primarily attributable to higher labor and related benefits of \$94 million, primarily due to increased incentive compensation

costs, merit increases and higher severance costs. These increases were partially offset by reduced legal fees, lower bank charges and favorable litigation settlements;

- Income from operations of \$2,296 million, or 16.9% of revenues, in 2016 compared with \$2,045 million, or 15.8% of revenues, in 2015, an increase of \$251 million. In addition to the items discussed above, the comparability was also affected by asset impairments and unusual items in both periods, as discussed below;
- Net income attributable to Waste Management, Inc. of \$1,182 million, or \$2.65 per diluted share, for 2016, as compared with \$753 million, or \$1.65 per diluted share, for 2015. The increase was primarily driven by the earnings growth of our core operations discussed above as well as the 2015 loss on early extinguishment of debt discussed below; and
- In 2016, we returned \$1,451 million to our shareholders through dividends and share repurchases compared with \$1,295 million in 2015.

The Company had a very successful 2016, exceeding expectations and carrying forward our momentum from 2015 by generating strong earnings and cash flow. Our commitment to executing on our strategies of disciplined profitable volume growth and controlling costs, through focused differentiation and continuous improvement, drove these impressive results in 2016 and have built a strong foundation to produce solid earnings and generate further growth in 2017. This growth, combined with our commitment to maintain a strong balance sheet, supports the Company's continued focus on investing in our business, paying dividends, pursuing attractive opportunities for strategic growth through acquisitions and considering the market for share repurchases.

The following explanations of certain items that affected the comparability of the years presented has been provided to support investors' understanding of our performance. Our 2016 results were affected by the following:

- The recognition of pre-tax charges aggregating to \$151 million, primarily related to (i) a \$43 million impairment charge due to a loss of expected volumes for a landfill; (ii) a \$42 million charge to adjust our subsidiary's estimated environmental remediation liability related to a closed site in Harris County, Texas; (iii) \$41 million of impairment charges related to minority-owned, cost method investments in waste diversion technology companies; (iv) a \$10 million goodwill impairment charge related to our LampTracker® reporting unit and (v) an \$8 million loss on the sale of a majority-owned organics company. These charges had a negative impact of \$0.26 on our diluted earnings per share.

Our 2015 results were affected by the following:

- The recognition of a pre-tax loss of \$555 million, primarily related to the early extinguishment of almost \$2 billion of our high-coupon senior notes through make-whole redemption and cash tender offers. These charges had a negative impact of \$0.75 on our diluted earnings per share;
- Pre-tax charges of \$51 million associated with the withdrawal from certain underfunded Multiemployer Pension Plans had a negative impact of \$0.07 on our diluted earnings per share; and
- Net pre-tax charges of \$102 million resulting from impairments, restructuring and divestitures, of which \$66 million related to the impairment of our oil and gas producing properties. These items had a negative impact of \$0.14 on our diluted earnings per share.

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. However, we believe free cash flow gives investors useful insight into how we view our liquidity. Nonetheless, the use of free cash flow as a liquidity measure has material limitations because it excludes certain expenditures that are required or that we have committed to, such as declared dividend payments and debt service requirements.

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

| | <u>Years Ended December 31,</u> | | |
|---|---------------------------------|-----------------|-----------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Net cash provided by operating activities | \$ 2,960 | \$ 2,498 | \$ 2,331 |
| Capital expenditures | (1,339) | (1,233) | (1,151) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 43 | 145 | 2,253 |
| Free cash flow | <u>\$ 1,664</u> | <u>\$ 1,410</u> | <u>\$ 3,433</u> |

When comparing our cash flows from operating activities for the year ended December 31, 2016 to the comparable period in 2015, the increase of \$462 million is primarily related to (i) higher earnings from our Traditional Solid Waste business; (ii) cash proceeds of \$67 million from the termination of our cross-currency swaps in the first quarter of 2016; (iii) trustee-managed multiemployer defined benefit pension plan (“Multiemployer Pension Plan”) settlement payments of approximately \$60 million in 2015 and (iv) lower annual incentive plan cash payments of \$46 million in the current year; partially offset, by higher income tax payments, net of excess tax benefits associated with equity-based transactions, of \$36 million in the current year. Additionally, we experienced net favorable changes in our assets and liabilities, net of effects of acquisitions and divestitures, particularly non-trade related items including payroll and incentive accruals.

When comparing our cash flows from operating activities for the year ended December 31, 2015 to 2014, the increase of \$167 million is primarily related to (i) lower income tax payments, net of excess tax benefits associated with equity-based transactions, of \$329 million in 2015; (ii) lower interest paid of \$77 million in 2015 and (iii) the settlement of forward-starting swap liabilities of \$36 million in 2014. These increases were partially offset by (i) a decrease in cash earnings due to the sale of our Wheelabrator business in 2014; (ii) Multiemployer Pension Plan settlement payments of approximately \$60 million in 2015 and (iii) higher year-over-year annual incentive plan payments of approximately \$65 million in 2015. Finally, we experienced net unfavorable changes in our assets and liabilities, net of effects of acquisitions and divestitures, particularly non-trade related items including payroll and incentive accruals.

Capital expenditures increased by \$106 million in 2016 compared to 2015 and by \$82 million in 2015 compared to 2014. The increase in our capital expenditures in both years is generally the result of additional spending on new business opportunities and acquisitions, growth in our existing business and asset replacement timing. In addition, the construction of a waste-water treatment facility at one of our landfills also contributed to the increase in 2016. Although we experienced capital expenditure increases in both 2016 and 2015, the Company continues to maintain a disciplined focus on capital management.

The significantly higher proceeds from divestitures of businesses and other assets (net of cash divested) for the year ended December 31, 2014 compared to the years ended December 31, 2016 and 2015 is largely driven by the 2014 sales of (i) our Wheelabrator business for \$1.95 billion; (ii) our investment in Shanghai Environment Group, which was part of our Wheelabrator business, for \$155 million and (iii) our Puerto Rico operations for consideration of \$80 million, including \$65 million in cash.

Acquisitions

Southern Waste Systems/Sun Recycling (“SWS”) — On January 8, 2016, Waste Management Inc. of Florida, a 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.

Deffenbaugh Disposal, Inc. (“Deffenbaugh”) — On March 26, 2015, we acquired Deffenbaugh, one of the largest privately owned collection and disposal firms in the Midwest, for total consideration, net of cash acquired, of \$400 million. Deffenbaugh’s assets include collection operations, transfer stations, recycling facilities and landfills.

Divestitures

Wheelabrator Business — On December 19, 2014, we sold our Wheelabrator business to an affiliate of Energy Capital Partners and received cash proceeds of \$1.95 billion, net of cash divested, subject to certain post-closing adjustments. We recognized a gain of \$519 million on this sale, which is included within “(Income) expense from divestitures, asset impairments and unusual items” in the Consolidated Statement of Operations. For the year ended December 31, 2015, net adjustments to this gain were immaterial on a pre-tax basis. In conjunction with the sale, the Company entered into several agreements to dispose of a minimum number of tons of waste at certain Wheelabrator facilities. See Note 11 to the Consolidated Financial Statements for further discussion of these agreements.

Other — In addition to the divestiture of our Wheelabrator business, we also divested our Puerto Rico operations, as well as certain landfill and collection operations in our Eastern Canada Area in 2014.

In total, these divested businesses and assets provided \$0.18 of diluted earnings per diluted share for the year ended December 31, 2014.

Adoption of New Accounting Standards

Debt Issuance Costs — In April 2015, and as subsequently amended, the Financial Accounting Standards Board (“FASB”) issued amended authoritative guidance associated with debt issuance costs which were previously presented as assets related to recognized debt liabilities. The amended guidance requires that debt issuance costs, other than those costs related to line of credit arrangements, be presented on the balance sheet as a direct deduction from the related debt liability, which is similar to the presentation for debt discounts and premiums. This guidance was effective for the Company on January 1, 2016. The Company’s adoption of this guidance was applied retrospectively and resulted in a reclassification of \$52 million of such costs in our Consolidated Balance Sheet at December 31, 2015.

Consolidation — In February 2015, the FASB issued amended authoritative guidance associated with consolidation. The amended guidance makes changes to existing consolidation requirements associated with the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities, including limited partnerships and variable interest entities. The guidance was effective for the Company on January 1, 2016. The Company’s adoption of this guidance did not impact our consolidated financial statements.

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, deferred income taxes 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.

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 of 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 16 landfill sites with expansions included at December 31, 2016, three 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.

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 potentially responsible party (“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 the “(Income) expense from divestitures, asset impairments and unusual items” line item 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. 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. If the fair value of an asset or asset group is determined to be less

than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs. 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. See Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates and Assumptions — Expansion Airspace* above for discussion of criteria involved in assessing our likelihood of obtaining an expansion permit.

Goodwill — At least annually, and more frequently if warranted, we assess the goodwill of our reporting units for impairment using Level 3 inputs.

We assess whether a goodwill impairment exists using both qualitative and quantitative assessments. Our qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we will not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, we perform a quantitative assessment, or two-step impairment test, to determine whether a goodwill impairment exists at the reporting unit. The first step in our quantitative assessment identifies potential impairments by comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. 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 — (Income) Expense from Divestitures, Asset Impairments and Unusual Items* and Note 13 to the Consolidated Financial Statements for information related to goodwill impairments recognized during the reported periods.

Indefinite-Lived Intangible Assets Other Than Goodwill — At least annually, and more frequently if warranted, we assess indefinite-lived intangible assets other than goodwill for impairment.

When performing the impairment test for indefinite-lived intangible assets, we generally first conduct a qualitative analysis to determine whether we believe it is more likely than not that an asset has been impaired. If it is more likely than not that an asset has been impaired, we then evaluate for impairment by comparing the estimated fair value of the asset to its carrying value. An impairment charge is recognized if the asset's estimated fair value is less than its carrying value.

Fair value is typically estimated using an income approach. The income approach is based on the long-term projected future cash flows. 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 this approach is appropriate because it provides a fair value estimate based upon the expected long-term performance considering the economic and market conditions that generally affect our business.

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 these assets is reasonable.

Deferred Income Taxes

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision 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. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. 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 provision for income taxes. 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 provision for income taxes in our Consolidated Statements of Operations.

Insured and Self-Insured Claims

We have retained a significant portion of the risks related to our health and welfare, automobile, general 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.

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. 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 MRF 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 recyclable commodities to third parties. The fees we charge for our collection, disposal, transfer and recycling services generally include fuel surcharges, which are indexed to current market costs for diesel fuel. We also provide additional services that are not managed through our Solid Waste business, including both our Strategic Business Solutions (“WMSBS”) and Energy and Environmental Services organizations, recycling brokerage services, landfill gas-to-energy services and expanded service offerings and solutions. We also offer portable self-storage and long distance moving services; fluorescent bulb and universal waste mail-back through our LampTracker® program; portable restroom servicing under the name Port-o-Let®; and street and parking lot sweeping services. In addition, we hold interests in oil and gas producing properties. These operations are presented as “Other” in the table below. Our Wheelabrator business, divested in December 2014, provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. The following table summarizes revenues during the years ended December 31 (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------------|-----------------|-----------------|-----------------|
| Solid Waste | \$13,968 | \$13,285 | \$13,449 |
| Other | 2,278 | 2,065 | 2,191 |
| Wheelabrator | — | — | 817 |
| Intercompany | <u>(2,637)</u> | <u>(2,389)</u> | <u>(2,461)</u> |
| Total | <u>\$13,609</u> | <u>\$12,961</u> | <u>\$13,996</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>2016</u> | <u>2015</u> | <u>2014</u> |
|------------------------|-----------------|-----------------|-----------------|
| Commercial | \$ 3,480 | \$ 3,332 | \$ 3,393 |
| Residential | 2,487 | 2,499 | 2,543 |
| Industrial | 2,412 | 2,252 | 2,231 |
| Other | <u>423</u> | <u>356</u> | <u>340</u> |
| Total collection | 8,802 | 8,439 | 8,507 |
| Landfill | 3,110 | 2,919 | 2,849 |
| Transfer | 1,512 | 1,377 | 1,353 |
| Recycling | 1,221 | 1,163 | 1,370 |
| Other | 1,601 | 1,452 | 1,561 |
| Wheelabrator | — | — | 817 |
| Intercompany | <u>(2,637)</u> | <u>(2,389)</u> | <u>(2,461)</u> |
| Total | <u>\$13,609</u> | <u>\$12,961</u> | <u>\$13,996</u> |

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

| | Period-to-Period Change 2016 vs. 2015 | | Period-to-Period Change 2015 vs. 2014 | |
|--------------------------------------|--|----------------------------------|--|----------------------------------|
| | Amount | As a % of Total Company(a) | Amount | As a % of Total Company(a) |
| Average yield(b) | \$251 | 1.9% | \$ (106) | (0.8)% |
| Volume | 186 | 1.4 | (215) | (1.6) |
| Internal revenue growth | 437 | 3.3 | (321) | (2.4) |
| Acquisitions | 268 | 2.1 | 174 | 1.3 |
| Foreign currency translation | (27) | (0.2) | (126) | (1.0) |
| Subtotal (before Divestitures) | 678 | 5.2% | (273) | (2.1)% |
| Divestitures | (30) | | (762) | |
| Total | <u>\$648</u> | | <u>\$(1,035)</u> | |

- (a) Calculated by dividing the amount of the current year increase or decrease by the prior year's total Company revenue adjusted to exclude the impacts of divestitures for the current year (\$12,931 million and \$13,234 million for 2016 and 2015, respectively).
- (b) The amounts reported herein represent the changes in our revenue attributable to average yield for the total Company. We also analyze the changes in average yield in terms of related business revenues in order to differentiate the changes in yield attributable to our pricing strategies from the changes that are caused by market-driven price changes in commodities. The following table summarizes changes in revenues from average yield on a related business basis (dollars in millions):

| | Period-to-Period Change 2016 vs. 2015 | | Period-to-Period Change 2015 vs. 2014 | |
|---|---|-------------------------------------|---|-------------------------------------|
| | Amount | As a % of Related Business(i) | Amount | As a % of Related Business(i) |
| Average yield: | | | | |
| Collection and disposal | \$267 | 2.4% | \$ 203 | 1.8% |
| Recycling commodities | 51 | 4.6 | (138) | (10.4) |
| Fuel surcharges and mandated fees | (67) | (13.1) | (171) | (24.8) |
| Total | <u>\$251</u> | 1.9% | <u>\$(106)</u> | (0.8)% |

- (i) 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.

Our revenues increased \$648 million, or 5.0%, for the year ended December 31, 2016 as compared to the prior year, driven by (i) acquisitions, primarily the acquired operations of SWS in January 2016; (ii) revenue growth from yield on our collection and disposal operations; (iii) higher volumes and (iv) higher market prices for the recycling commodities we sell. Partially offsetting these revenue increases were (i) lower revenues from our fuel surcharges program due to lower year-over-year diesel fuel prices; (ii) divestitures and (iii) foreign currency translation which affects revenues from our Canadian operations.

Our revenues decreased \$1,035 million, or 7.4%, for the year ended December 31, 2015 as compared to the prior year, driven by (i) divestitures in 2014, principally our Wheelabrator business, our Puerto Rico operations, and certain landfill and collection operations in our Eastern Canada Area; (ii) lower volumes; (iii) lower revenues from our fuel surcharge program due to declining diesel fuel prices; (iv) lower market prices for the recycling commodities we sell and (v) foreign currency translation. Partially offsetting these revenue declines were

(i) revenue growth from yield on our collection and disposal operations and (ii) revenue from acquired operations, primarily the acquired operations of Deffenbaugh in March 2015.

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 \$267 million, or 2.4%, and \$203 million, or 1.8%, for the years ended December 31, 2016 and 2015, respectively. We experienced growth in yield for all of our collection and disposal lines of business in both 2016 and 2015. The details are as follows (dollars in millions):

| | Period-to-Period Change 2016 vs. 2015 | | Period-to-Period Change 2015 vs. 2014 | |
|-------------------------------------|---|----------------------------------|---|----------------------------------|
| | Amount | As a % of Related Business | Amount | As a % of Related Business |
| Commercial | \$130 | 4.2% | \$ 92 | 3.0% |
| Industrial | 59 | 2.8 | 55 | 2.7 |
| Residential | 46 | 1.9 | 39 | 1.6 |
| Total collection | 235 | 3.0 | 186 | 2.4 |
| Landfill | 15 | 0.8 | 9 | 0.6 |
| Transfer | 17 | 2.5 | 8 | 1.2 |
| Total collection and disposal | <u>\$267</u> | 2.4% | <u>\$203</u> | 1.8% |

Revenues from our environmental fee contributed \$72 million and \$17 million for the years ended December 31, 2016 and 2015, respectively, to our collection and disposal average yield.

Recycling commodities — Our revenues increased \$51 million for the year ended December 31, 2016 as compared with the prior year period due to a 7% year-over-year increase in the market prices for the recycling commodities we sell at our recycling facilities and through our recycling brokerage services. During 2015, revenues declined by \$138 million as compared with the prior year due to a 12% year-over-year decline in recycling commodities prices.

Fuel surcharges and mandated fees — These revenues, which are predominantly generated by our fuel surcharge program, decreased \$67 million and \$171 million for the years ended December 31, 2016 and 2015, respectively. 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 decreased approximately 14% in 2016 and 30% in 2015, which caused the decline in fuel surcharge revenues in 2016 and 2015. The mandated fees included in this line item are primarily related to pass-through fees and taxes assessed by various state, county and municipal government agencies at our landfills and transfer stations. These fees did not have a significant impact on the comparability of the periods presented.

Volume

Our revenues increased \$186 million, or 1.4%, for the year ended December 31, 2016 as compared with the prior year due to higher volumes. The year-over-year comparison does not include volumes from acquisitions, as discussed below. We experienced higher volumes in all of our collection and disposal lines of business, with the exception of our residential line of business, as a result of (i) improving market conditions; (ii) reduced customer churn and improved sales performance supported by our focus on disciplined growth and (iii) an additional workday in 2016.

Additional drivers affecting the comparability of volumes for 2016 to 2015 are as follows:

- Due to our focus on renegotiating existing contracts and winning new contracts with reasonable returns, we continue to see revenue declines in our residential line of business; and
- In our ancillary service businesses, we experienced higher volumes in 2016 as compared with the prior year resulting from our Energy and Environmental Services organization, particularly our remediation and construction services, WM Renewable Energy and our portable self-storage businesses. These volume increases were partially offset by lower volumes resulting from lower oil prices, which negatively affected both our oil and gas producing properties and our oilfield services business.

Declines in our volumes caused our revenue to decrease \$215 million, or 1.6%, for the year ended December 31, 2015, as compared with the prior year. We experienced lower volumes in (i) our collection line of business, primarily due to competition and our pricing strategies; (ii) our MRFs, primarily driven by the rationalization of our underperforming assets and our strategy to not renew municipal contracts that did not reflect current market conditions and (iii) our ancillary services businesses, primarily due to the loss of certain large accounts in our WMSBS organization and lower oil prices, which negatively affected both our oil and gas producing properties and our oilfield services business. These decreases in volumes were partially offset by increases in the municipal solid waste business driven by new business and improving market conditions that favorably affected our landfill and transfer lines of business.

Acquisitions and divestitures

Revenues increased \$268 million and \$174 million for the years ended December 31, 2016 and 2015, respectively, as compared with the prior year periods, due to acquisitions. The increase in revenues in 2016 was principally due to the acquired operations of SWS in January 2016. The revenue increase in 2015 was principally due to the acquired operations of Deffenbaugh in March 2015.

These revenues were offset by revenue decreases of \$30 million and \$762 million for the years ended December 31, 2016 and 2015, respectively, as compared with the prior year periods, due to divestitures. The decrease in revenues in 2015 was primarily driven by the divestitures in 2014 of our Wheelabrator business, our Puerto Rico operations and certain landfill and collection operations in our Eastern Canada Area.

Operating Expenses

Our operating expenses are comprised of (i) labor and related benefits (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 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 business, including 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, workers' compensation and insurance and claim costs and (x) other operating costs, which include telecommunications, equipment and facility rent, property taxes, utilities and supplies.

Our operating expenses increased \$255 million, or 3.1%, when comparing 2016 with 2015 and decreased \$771 million, or 8.6%, when comparing 2015 with 2014. Operating expenses as a percentage of revenues were 62.4% in 2016, 63.5% in 2015, and 64.3% in 2014.

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

| | <u>2016</u> | <u>Period-to-Period Change</u> | | <u>2015</u> | <u>Period-to-Period Change</u> | | <u>2014</u> |
|---------------------------------------|----------------|------------------------------------|-------------|----------------|------------------------------------|---------------|----------------|
| Labor and related benefits | \$2,410 | \$ 29 | 1.2% | \$2,381 | \$ (71) | (2.9)% | \$2,452 |
| Transfer and disposal costs | 974 | 35 | 3.7 | 939 | 4 | 0.4 | 935 |
| Maintenance and repairs | 1,076 | 54 | 5.3 | 1,022 | (159) | (13.5) | 1,181 |
| Subcontractor costs | 1,193 | 56 | 4.9 | 1,137 | (86) | (7.0) | 1,223 |
| Cost of goods sold | 858 | 67 | 8.5 | 791 | (183) | (18.8) | 974 |
| Fuel | 300 | (61) | (16.9) | 361 | (192) | (34.7) | 553 |
| Disposal and franchise fees and taxes | 702 | 40 | 6.0 | 662 | (7) | (1.0) | 669 |
| Landfill operating costs | 352 | 97 | 38.0 | 255 | (11) | (4.1) | 266 |
| Risk management | 192 | (29) | (13.1) | 221 | 2 | 0.9 | 219 |
| Other | 429 | (33) | (7.1) | 462 | (68) | (12.8) | 530 |
| | <u>\$8,486</u> | <u>\$255</u> | <u>3.1%</u> | <u>\$8,231</u> | <u>\$(771)</u> | <u>(8.6)%</u> | <u>\$9,002</u> |

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

Labor and related benefits — The increase in labor and related benefits in 2016 as compared with 2015 was due to (i) higher wages due to merit increases; (ii) additional costs associated with the acquired operations of SWS in January 2016; (iii) health and welfare cost increases; (iv) an additional workday in 2016 and (v) higher incentive compensation costs. These cost increases were partially offset by (i) \$51 million of charges in 2015 associated with the withdrawal from certain underfunded Multiemployer Pension Plans and (ii) lower headcount and contract labor costs in 2016 due to operating efficiencies in our recycling line of business.

The decrease in labor and related benefits in 2015 as compared with 2014 was due to (i) reduced costs of \$88 million due to the divestitures in 2014 of our Wheelabrator business, our Puerto Rico operations, and certain landfill and collection operations in our Eastern Canada Area; (ii) lower headcount and contract labor costs due to operating efficiencies in our recycling line of business and lower volumes in our collection line of business and (iii) lower health and welfare costs. These cost decreases were partially offset by (i) \$51 million of charges in 2015 associated with the withdrawal from certain underfunded Multiemployer Pension Plans; (ii) higher wages due to merit increases and (iii) additional costs associated with the acquired operations of Deffenbaugh in March 2015.

Transfer and disposal costs — The increase in transfer and disposal costs in 2016 compared to 2015 was driven by acquisitions, primarily SWS, and our overall increase in volumes. The increase in costs in 2015 compared to 2014 was primarily due to incurring third-party costs for services previously provided on an intercompany basis prior to the divestiture of our Wheelabrator business in December 2014. These cost increases were partially offset by \$53 million in reduced costs due to the divestitures in 2014.

Maintenance and repairs — The increase in maintenance and repairs in 2016 compared to 2015 was primarily driven by (i) higher labor and parts and supplies costs and (ii) acquisitions, primarily the acquired operations of SWS. The decrease in costs in 2015 compared to 2014 was largely driven by a \$177 million decrease due to the divestitures in 2014, which was partially offset by increased costs related to the acquired operations of Deffenbaugh.

Subcontractor costs — The increase in subcontractor cost in 2016 compared to 2015 was driven by (i) acquisitions and (ii) higher volumes in our WMSBS organization. These increases were partially offset by a decrease in subcontracted remediation services to industrial customers. The decrease in costs in 2015 compared to 2014 was primarily driven by (i) volume decreases in our WMSBS organization and (ii) lower landfill and recycling costs. These decreases were partially offset by an increase in subcontracted remediation services to industrial customers.

Cost of goods sold — The increase in cost of goods sold in 2016 compared to 2015 was due to (i) higher market prices for recycling commodities and (ii) increased costs in our remediation services business, partially offset by lower costs due to continued efforts to restructure recycling rebates paid to customers. The decrease in costs in 2015 compared to 2014 was due to (i) lower market prices for recycling commodities; (ii) lower costs of \$81 million due to the 2014 divestitures; (iii) increased efforts to restructure recycling rebates paid to customers and (iv) ongoing recycling business improvement efforts around inbound quality control.

Fuel — The decrease in fuel costs in 2016 and 2015 when compared to the prior year periods was driven by (i) lower fuel prices; (ii) lower costs resulting from the continued conversion of our fleet to natural gas vehicles; (iii) year-over-year increases in natural gas fuel excise credits and (iv) reduced fuel consumption due to efficiency gains in the routing of our fleet. The increase in collection volumes in 2016 partially offset these decreases.

Disposal and franchise fees and taxes — The increase in disposal and franchise fees and taxes in 2016 compared to 2015 is primarily due to (i) higher landfill volumes and (ii) increased municipal franchise fees and subcontracted remediation services to industrial customers. The decrease when comparing 2015 to 2014 is primarily driven by the divestitures in 2014.

Landfill operating costs — The increase in landfill operating costs when comparing 2016 to 2015 is primarily due to higher leachate management costs. Leachate management costs have increased because, in certain parts of the country, we are transporting leachate further in order to reach treatment facilities, the third-party fees charged for treatment of waste water have increased and the volume of leachate being disposed has increased.

Higher leachate transportation and disposal costs also affected the comparison of our landfill operating costs for 2015 and 2014, though the increased costs were more than offset by the impact of 2014 divestitures and discount rate adjustments. As discussed in Note 3 to the Consolidated Financial Statements, we record adjustments to our landfill operating costs for changes in U.S. Treasury rates used to discount the present value of our environmental remediation liabilities and recovery assets.

Risk management — The decrease in costs in 2016 compared to 2015 was primarily due to a reduction in certain uninsured losses and, to a lesser extent, decreased workers' compensation claims.

Other — The decrease in costs in 2016 compared to 2015 was primarily related to lower rental costs and favorable adjustments to our contingent consideration liabilities associated with certain acquisitions. The decrease in costs in 2015 compared to 2014 was principally driven by a decrease of \$63 million due to the divestitures in 2014.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of (i) labor and related benefits 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.

Our selling, general and administrative expenses increased \$67 million, or 5.0%, when comparing 2016 with 2015 and decreased \$138 million, or 9.3%, when comparing 2015 with 2014. Our selling, general and administrative expenses as a percentage of revenues were 10.4% in 2016, 10.4% in 2015 and 10.6% in 2014.

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

| | 2016 | Period-to-Period Change | | 2015 | Period-to-Period Change | | 2014 |
|--------------------------------------|---------|-------------------------|--------|---------|-------------------------|--------|---------|
| Labor and related benefits | \$ 968 | \$ 94 | 10.8% | \$ 874 | \$ (59) | (6.3)% | \$ 933 |
| Professional fees | 97 | (15) | (13.4) | 112 | (14) | (11.1) | 126 |
| Provision for bad debts | 40 | 4 | 11.1 | 36 | (5) | (12.2) | 41 |
| Other | 305 | (16) | (5.0) | 321 | (60) | (15.7) | 381 |
| | \$1,410 | \$ 67 | 5.0% | \$1,343 | \$(138) | (9.3)% | \$1,481 |

Significant factors affecting our expense in 2016 as compared to 2015 include:

Labor and related benefits — The increase in labor and related benefits was primarily due to (i) higher incentive compensation costs; (ii) merit increases; (iii) higher severance costs and (iv) acquisitions.

Professional fees — The decrease in professional fees was primarily due to lower legal fees.

Other — The decrease in other expenses was principally driven by favorable litigation settlements and lower bank charges.

The divestitures in 2014, primarily the sale of our Wheelabrator business in December 2014, favorably affected all cost categories when comparing expenses in 2015 to 2014. In addition to the impact of divestitures, other significant factors affecting our expense in 2015 as compared to 2014 include:

Labor and related benefits — The decrease in labor and related benefits was due to (i) cost savings from our August 2014 reorganization and (ii) lower incentive compensation costs, which were partially offset by merit increases.

Other — The decrease in other expenses was principally driven by lower litigation settlement costs and our continued focus on controlling costs.

Depreciation and Amortization Expenses

Depreciation and amortization expenses include (i) depreciation of property and equipment, including assets recorded for capital leases, on a straight-line basis from three to 40 years; (ii) amortization of landfill costs, including those incurred and all estimated future costs for landfill development, construction and asset retirement costs arising from closure and post-closure, on a units-of-consumption method as landfill airspace is consumed over the total estimated remaining capacity of a site, which includes both permitted capacity and expansion capacity that meets our Company-specific criteria for amortization purposes; (iii) amortization of landfill asset retirement costs arising from final capping obligations on a units-of-consumption method as airspace is

consumed over the estimated capacity associated with each final capping event and (iv) amortization of intangible assets with a definite life, using either a 150% declining balance approach or a straight-line basis over the definitive terms of the related agreements, which are generally from two to 15 years depending on the type of asset.

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

| | <u>2016</u> | <u>Period-to- Period Change</u> | | <u>2015</u> | <u>Period-to- Period Change</u> | | <u>2014</u> |
|---|----------------|---|-------------|----------------|---|---------------|----------------|
| Depreciation of tangible property and equipment | \$ 773 | \$13 | 1.7% | \$ 760 | \$(74) | (8.9)% | \$ 834 |
| Amortization of landfill airspace | 428 | 19 | 4.6 | 409 | 29 | 7.6 | 380 |
| Amortization of intangible assets | 100 | 24 | 31.6 | 76 | (2) | (2.6) | 78 |
| | <u>\$1,301</u> | <u>\$56</u> | <u>4.5%</u> | <u>\$1,245</u> | <u>\$(47)</u> | <u>(3.6)%</u> | <u>\$1,292</u> |

The increase in depreciation of tangible property and equipment and amortization of intangible assets during 2016 as compared to the prior year is primarily due to the acquired operations of SWS in January 2016. The increase in amortization of landfill airspace during 2016 as compared to the prior year is due to increased volumes at our landfills, partially offset by changes in our landfill estimates.

The decrease in depreciation of tangible property and equipment during 2015 as compared to the prior year is primarily due to the December 2014 sale of our Wheelabrator business as discussed further in Note 19 to the Consolidated Financial Statements. The increase in amortization of landfill airspace during 2015 as compared to the prior year is primarily due to increased volumes, a portion of which relates to the acquisition of Deffenbaugh in March 2015. This increase was partially offset by favorable adjustments resulting from changes in landfill estimates.

Restructuring Costs

During the year ended December 31, 2016, we recognized \$4 million of pre-tax restructuring charges, of which \$2 million was related to employee severance and benefit costs. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

During the year ended December 31, 2015, we recognized \$15 million of pre-tax restructuring charges, of which \$10 million was related to employee severance and benefit costs, including costs associated with the loss of a municipal contract in our Eastern Canada Area and our acquisition of Deffenbaugh. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

In August 2014, we announced a consolidation and realignment of several Corporate functions to better support achievement of the Company's strategic goals, including cost reduction. Voluntary separation arrangements were offered to all salaried employees within these organizations. Approximately 650 employees separated from our Corporate and recycling organizations in connection with this restructuring. During the year ended December 31, 2014, we recognized a total of \$82 million of pre-tax restructuring charges, of which \$70 million was related to employee severance and benefit costs. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

(Income) Expense from Divestitures, Asset Impairments and Unusual Items

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|----------------|
| (Income) expense from divestitures | \$ 9 | \$ (7) | \$(515) |
| Asset impairments | 59 | 89 | 355 |
| Other | 44 | — | — |
| | <u>\$112</u> | <u>\$ 82</u> | <u>\$(160)</u> |

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 environmental remediation liability related to a closed site in Harris County, Texas, as further discussed in Note 11 to the Consolidated Financial Statements; (ii) a \$43 million charge to impair a landfill in Western Pennsylvania 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.

During the year ended December 31, 2015, we recognized net charges of \$82 million, primarily related to (i) \$66 million of charges to impair certain of our oil and gas producing properties as a result of the continued decline in oil and gas prices; (ii) \$18 million of charges to write down or divest certain assets in our recycling operations and (iii) a \$5 million impairment of a landfill in our Western Canada Area due to revised post-closure cost estimates. Partially offsetting these charges was \$7 million in net gains from divestitures, including a \$6 million gain on the sale of an oil and gas producing property in 2015.

During the year ended December 31, 2014, we recognized net gains of \$160 million, primarily related to the following:

- *Divestitures* — We recognized net gains of \$515 million, primarily as a result of a \$519 million gain on the sale of our Wheelabrator business and an \$18 million gain on the sale of certain landfill and collection operations in our Eastern Canada Area. Partially offsetting these gains was a \$25 million loss on the divestiture of our Puerto Rico operations. Refer to Note 19 to the Consolidated Financial Statements for additional information related to our divestitures.
- *Oil and gas producing properties impairments* — We recognized \$272 million of charges to impair certain of our oil and gas producing properties, primarily as a result of the pronounced decrease in oil and gas prices in the fourth quarter of 2014.
- *Goodwill impairments* — We recognized \$10 million of goodwill impairment charges related to our recycling reporting unit.
- *Other impairments* — We recognized additional impairment charges of \$73 million to write down assets in our waste diversion technology, renewable energy, recycling and medical waste operations.

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>2016</u> | <u>Period-to-Period Change</u> | | <u>2015</u> | <u>Period-to-Period Change</u> | | <u>2014</u> |
|---------------------------|----------------|------------------------------------|--------|----------------|------------------------------------|---------|----------------|
| Solid Waste: | | | | | | | |
| Tier 1 | \$1,430 | \$140 | 10.9% | \$1,290 | \$ (11) | (0.8)% | \$1,301 |
| Tier 2 | 604 | (25) | (4.0) | 629 | (82) | (11.5) | 711 |
| Tier 3 | <u>912</u> | <u>104</u> | 12.9 | <u>808</u> | <u>21</u> | 2.7 | <u>787</u> |
| Solid Waste | 2,946 | 219 | 8.0 | 2,727 | (72) | (2.6) | 2,799 |
| Other | (100) | 60 | (37.5) | (160) | 240 | (60.0) | (400) |
| Corporate and other | (550) | (28) | 5.4 | (522) | 247 | (32.1) | (769) |
| Wheelabrator | <u>—</u> | <u>—</u> | — | <u>—</u> | (669) | * | <u>669</u> |
| Total | <u>\$2,296</u> | <u>\$251</u> | 12.3% | <u>\$2,045</u> | <u>\$(254)</u> | (11.0)% | <u>\$2,299</u> |

* Percentage change does not provide a meaningful comparison.

Our segments are discussed further in Note 21 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, 2016 are summarized below:

- Our Traditional Solid Waste business benefited from internal revenue growth; and
- We recognized \$51 million of charges associated with the withdrawal from certain underfunded Multiemployer Pension Plans in 2015 impacting all three tiers.

In addition, the following items affected the comparability of 2016 to 2015:

- Our recycling business was favorable in 2016 compared to 2015 principally due to (i) continued cost reductions; (ii) higher market prices for recycling commodities and (iii) the impairment of various recycling assets in 2015;
- Increased leachate management costs in Tier 2 in 2016;
- Higher labor and related benefit costs in 2016 due to merit increases, higher incentive compensation costs and increases in health and welfare costs; and
- The impairment of a landfill in Tier 2 in 2016 due to a loss of expected volumes.

In addition, the following items affected the comparability of 2015 to 2014:

- The unfavorable impact of foreign currency translation on the results of our Canadian operations in Tiers 1 and 2 in 2015;
- The unfavorable impact on our oilfield services business, primarily in Tier 2, of reduced drilling and auxiliary activities as a result of declining oil and gas prices in 2015;
- The transfer of certain sales employees from our Corporate and Other segment to this segment in 2015; and
- Our recycling business was unfavorable in 2015 compared to 2014 principally due to (i) lower market prices for recycling commodities and (ii) the impairment of various recycling assets in 2015. These unfavorable amounts were partially offset by continued cost reductions.

Other — Our “Other” income from operations includes (i) our WMSBS organization; (ii) those elements of our landfill gas-to-energy operations and third-party subcontract and administration revenues managed by our Energy and Environmental Services and WM Renewable Energy organizations that are not included with the operations of our reportable segments; (iii) our recycling brokerage services and (iv) our expanded service offerings and solutions, such as portable self-storage and long distance moving services, fluorescent lamp recycling, and interests we hold in oil and gas producing properties. In addition, our “Other” income from operations reflects the results of non-operating entities that provide financial assurance and self-insurance support for our Solid Waste business.

The following items affected comparability of 2016 to 2015:

- A \$66 million charge related to impairments of oil and gas producing properties recognized in 2015;
- Our energy related businesses’ results were higher in 2016 principally driven by an increase in remediation services costs to industrial customers in 2015;
- Increased WMSBS costs, driven in part by the transfer of certain sales employees from our Corporate and Other segment to this segment in 2016; and
- Increased expenses in 2016 from divestitures, asset impairments and unusual items related to a loss on the sale of a majority-owned organics company and goodwill impairments, primarily related to our LampTracker® reporting unit.

The following items affected comparability of 2015 to 2014:

- Net charges of \$66 million and \$339 million primarily related to impairments of oil and gas producing properties recognized in 2015 and 2014, respectively;
- Our energy related businesses’ results were lower in 2015 principally driven by an increase in remediation services costs to industrial customers in 2015; and
- The transfer of certain sales employees from our Corporate and Other segment to this segment in 2015.

Corporate and Other

The following items affected comparability of 2016 to 2015:

- Higher labor and related benefit costs in 2016 due to higher incentive compensation costs, severance costs, health and welfare costs and merit increases;
- An increase in a subsidiary’s estimated environmental remediation liability related to a closed site in Harris County, Texas in 2016;
- Decreased risk management costs in 2016; and
- The transfer of certain sales employees to our Other segment from this segment in 2016.

The following items affected comparability of 2015 to 2014:

- Restructuring costs related to our August 2014 reorganization and subsequent benefits resulting from our restructuring efforts;
- Lower health and welfare costs in 2015 primarily driven by lower claims and reduced headcount;
- The transfer of certain sales employees to our Solid Waste and Other segments from this segment in 2015;
- Continued focus on controlling costs resulting in lower professional fees, telecommunications, contract labor, and travel and entertainment in 2015;

- Charges for the settlement of a legal dispute and related fees in 2014;
- Unfavorable adjustments in 2014 related to changes in U.S. Treasury rates used to discount our environmental remediation liabilities and recovery assets to present value; and
- Increased risk management costs in 2015 primarily related to certain higher than anticipated general liability claim settlements and a favorable risk management allocation in 2014.

Wheelabrator — The most significant item affecting the results of operations of our Wheelabrator business in 2014 was a \$519 million gain on sale of this business in December 2014.

Interest Expense, net

Our interest expense, net was \$376 million in 2016, \$385 million in 2015 and \$466 million in 2014. During 2016, the decrease in interest expense was primarily attributable to the impacts of lower market interest rates on certain of our tax-exempt bonds, partially offset by increased borrowings under our \$2.25 billion revolving credit facility. During 2015, the decrease in interest expense was primarily attributable to the refinancing of a significant portion of our high-coupon senior notes. As a result of the combination of make-whole redemptions of certain senior notes, cash tender offers to purchase certain senior notes and the issuance of \$1.8 billion of new senior notes, we reduced the weighted average interest rate of our senior note portfolio by 1%.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt was \$4 million and \$555 million in 2016 and 2015, respectively. The amount for 2015 was primarily associated with the early extinguishment of almost \$2 billion of our high-coupon senior notes through make-whole redemption and cash tender offers. We replaced substantially all of the debt extinguished with new senior notes at significantly lower coupon interest rates and extended the weighted average duration of these debt obligations. The “Loss on early extinguishment of debt” reflected in our Consolidated Statement of Operations for 2015 includes \$122 million of charges related to make-whole redemptions and \$430 million of charges related to cash tender offers.

Equity in Net Losses of Unconsolidated Entities

We recognized equity in net losses of unconsolidated entities of \$44 million, \$38 million and \$53 million in 2016, 2015 and 2014, respectively. These losses are primarily related to our noncontrolling interests in entities established to invest in and manage low-income housing properties and a refined coal facility. The tax impacts realized as a result of our investments in low-income housing properties and the refined coal facility are discussed below in *Provision for Income Taxes*. Refer to Notes 9 and 20 to the Consolidated Financial Statements for more information related to these investments. The amount in 2014 includes charges of \$11 million primarily to write down equity method investments in waste diversion technology companies to their fair value.

Other, net

We recognized other, net expense of \$50 million, \$7 million and \$29 million in 2016, 2015 and 2014, respectively. The expenses for 2016, 2015 and 2014 were impacted by impairment charges of \$42 million, \$5 million and \$22 million, respectively, related to other-than-temporary declines in the value of minority-owned, cost method investments in waste diversion technology companies. In addition, we recognized \$8 million of expense during the first quarter of 2016 associated with the termination of our cross-currency swaps, which is discussed further in Note 8 to the Consolidated Financial Statements.

Provision for Income Taxes

We recorded provisions for income taxes of \$642 million, \$308 million and \$413 million in 2016, 2015 and 2014, respectively. These tax provisions resulted in effective income tax rates of 35.2%, 29.1% and 23.6% for the

years ended 2016, 2015 and 2014, respectively. The comparability of our reported income taxes for the years ended December 31, 2016, 2015 and 2014 is primarily affected by (i) variations in our income before income taxes, as discussed above; (ii) federal tax credits; (iii) tax audit settlements; (iv) the realization of state net operating losses and credits; (v) adjustments to our accruals and related deferred taxes and (vi) the tax implications of impairments and divestitures. The impacts of these items are summarized below:

- *Investments Qualifying for Federal Tax Credits* — Our low-income housing properties and refined coal facility investments reduced our provision for income taxes by \$55 million, \$57 million and \$58 million, primarily as a result of the tax credits realized from these investments for the years ended December 31, 2016, 2015 and 2014, respectively. Refer to Note 9 to the Consolidated Financial Statements for more information related to these investments.
- *Other Federal Tax Credits* — During 2016, 2015 and 2014, 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 to our provision for income taxes of \$14 million, \$15 million and \$13 million, respectively.
- *Tax Audit Settlements* — The settlement of various tax audits resulted in a reduction to our provision for income taxes of \$11 million, \$10 million and \$12 million for the years ended December 31, 2016, 2015 and 2014, respectively.
- *State Net Operating Losses and Credits* — During 2016, 2015 and 2014, we recognized state net operating losses and credits resulting in a reduction to our provision for income taxes of \$10 million, \$17 million and \$16 million, respectively.
- *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 of \$10 million, \$18 million and \$24 million to our provision for income taxes for the years ended December 31, 2016, 2015 and 2014, respectively.
- *Tax Implications of Impairments* — A portion of the impairment charges recognized in 2016, 2015 and 2014 are not deductible for tax purposes. Had the charges been fully deductible, our provision for income taxes would have been reduced by \$15 million, \$2 million and \$8 million for the years ended December 31, 2016, 2015 and 2014, respectively. See Note 13 to the Consolidated Financial Statements for more information related to our impairment charges.
- *Tax Implications of Divestitures* — During 2014, the Company recorded a net gain of \$515 million primarily related to the divestiture of our Wheelabrator business, our Puerto Rico operations and certain landfill and collection operations in our Eastern Canada Area. Had this net gain been fully taxable, our provision for income taxes would have increased by \$138 million. During 2015, the Company recorded an additional \$10 million net gain primarily related to post-closing adjustments on the Wheelabrator divestiture and had this gain been fully taxable, our provision for income taxes would have increased by \$4 million. During 2016, the Company recorded a loss of \$9 million related to the divestiture of certain assets and had the associated tax loss been fully deductible, our provision for income taxes would have decreased by \$5 million. Refer to Note 19 to the Consolidated Financial Statements for more information related to our divestitures.

Based on current tax laws and regulations, we expect our 2017 recurring effective tax rate will be approximately 36.5% based on projected income before income taxes, federal tax credits and other permanent items.

Noncontrolling Interests

Net loss attributable to noncontrolling interests was \$2 million in 2016 and \$1 million in 2015 and net income attributable to noncontrolling interests was \$40 million in 2014. The income for 2014 was principally related to third-parties' equity interests in two limited liability companies ("LLCs") that owned three waste-to-

energy facilities operated by our Wheelabrator business. In December 2014, we purchased the noncontrolling interests in the LLCs from the third parties. The LLCs were then subsequently sold as part of the divestiture of our Wheelabrator business. Refer to Notes 19 and 20 to the Consolidated Financial Statements for information related to the sale of our Wheelabrator business and the consolidation of these variable interest entities, respectively.

Landfill and Environmental Remediation Discussion and Analysis

We owned or operated 243 solid waste and five secure hazardous waste landfills at December 31, 2016 and 244 solid waste and five secure hazardous waste landfills at December 31, 2015. 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, at December 31 (in millions):

| | 2016 | | | 2015 | | |
|--|------------------------------|--------------------|----------------|------------------------------|--------------------|----------------|
| | Remaining Permitted Capacity | Expansion Capacity | Total Capacity | Remaining Permitted Capacity | Expansion Capacity | Total Capacity |
| Balance at beginning of year (in tons) | 4,728 | 304 | 5,032 | 4,660 | 275 | 4,935 |
| Acquisitions, divestitures, newly permitted landfills and closures | — | — | — | 32 | 4 | 36 |
| Changes in expansions pursued(a) | — | 77 | 77 | — | 105 | 105 |
| Expansion permits granted(b) | 166 | (166) | — | 82 | (82) | — |
| Airspace consumed | (104) | — | (104) | (97) | — | (97) |
| Changes in engineering estimates and other(c) | (36) | 4 | (32) | 51 | 2 | 53 |
| Balance at end of year (in tons) | <u>4,754</u> | <u>219</u> | <u>4,973</u> | <u>4,728</u> | <u>304</u> | <u>5,032</u> |
| Balance at end of year (in cubic yards) | <u>4,787</u> | <u>200</u> | <u>4,987</u> | <u>4,740</u> | <u>298</u> | <u>5,038</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 13 of our landfills during 2016 and six of our landfills during 2015, 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 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 in 2016 and 2015 are shown below (tons in thousands):

| | 2016 | | | 2015 | | |
|--|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| | <u># of Sites</u> | <u>Total Tons</u> | <u>Tons per Day</u> | <u># of Sites</u> | <u>Total Tons</u> | <u>Tons per Day</u> |
| Solid waste landfills | 243(a) | 104,913 | 384 | 244 | 96,777 | 355 |
| Hazardous waste landfills. | 5 | 646 | 2 | 5 | 567 | 2 |
| | 248 | 105,559 | <u>386</u> | 249 | 97,344 | <u>357</u> |
| Solid waste landfills closed, divested or contract expired during related year | 2 | — | | 5 | 960 | |
| | | <u>105,559(b)</u> | | | <u>98,304(b)</u> | |

- (a) In 2016, we developed one landfill, our contract expired at one landfill and we closed one landfill.
(b) These amounts include 1.2 million tons at both December 31, 2016 and 2015, 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 closed sites management group. As of December 31, 2016, our closed sites management group managed 213 closed landfills.

Based on remaining permitted airspace as of December 31, 2016 and projected annual disposal volumes, the weighted average remaining landfill life for all of our owned or operated landfills is approximately 45 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 16 of our landfills that meet the expansion criteria outlined in the *Critical Accounting Estimates and Assumptions — Landfills* section above. 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 47 years when considering remaining permitted airspace, expansion airspace and projected annual disposal volume.

The number of landfills owned or operated as of December 31, 2016, segregated by their estimated operating lives based on remaining permitted and expansion capacity and projected annual disposal volume, was as follows:

| | <u># of Landfills</u> |
|----------------------|-----------------------|
| 0 to 5 years | 22 |
| 6 to 10 years | 27 |
| 11 to 20 years | 23 |
| 21 to 40 years | 76 |
| 41+ years | <u>100</u> |
| Total | <u>248(a)</u> |

- (a) Of the 248 landfills, 200 are owned, 35 are operated under lease agreements and the remaining 13 are operated under other contractual agreements. We are usually responsible for the final capping, closure and post-closure obligations of these landfills.

As of December 31, 2016, we have 15 landfills which are not currently accepting waste. We performed tests of recoverability for eight of these landfills and during the year ended December 31, 2016, we recognized a \$43 million charge to impair one of these landfills in Western Pennsylvania due to a loss of expected volumes. For the other seven landfills, with an aggregate net recorded capitalized landfill asset cost of \$281 million, 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 seven landfills as the net recorded capitalized landfill asset cost was immaterial.

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, 2016 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, 2015 | \$13,772 | \$(7,925) | \$5,847 |
| Capital additions | 488 | — | 488 |
| Asset retirement obligations incurred and capitalized | 55 | — | 55 |
| Amortization of landfill airspace . . . | — | (428) | (428) |
| Foreign currency translation | 28 | (9) | 19 |
| Asset retirements and other adjustments | (67) | 22 | (45) |
| December 31, 2016 | <u>\$14,276</u> | <u>\$(8,340)</u> | <u>\$5,936</u> |

As of December 31, 2016, we estimate that we will spend approximately \$400 million in 2017, and approximately \$900 million in 2018 and 2019 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, 2016 are reflected in the table below (in millions):

| | <u>Landfill</u> | <u>Environmental Remediation</u> |
|--|-----------------|--------------------------------------|
| December 31, 2015 | \$1,518 | \$209 |
| Obligations incurred and capitalized | 59 | — |
| Obligations settled | (91) | (24) |
| Interest accretion | 91 | 3 |
| Revisions in estimates and interest rate assumptions ... | (1) | 58 |
| December 31, 2016 | <u>\$1,576</u> | <u>\$246</u> |

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|--------------|
| Interest accretion on landfill liabilities | \$ 91 | \$ 89 | \$ 88 |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets | — | 1 | 14 |
| Leachate and methane collection and treatment(a) | 176 | 96 | 84 |
| Landfill remediation costs | 15 | 5 | 9 |
| Other landfill site costs | 70 | 64 | 71 |
| Total landfill operating costs | <u>\$352</u> | <u>\$255</u> | <u>\$266</u> |

- (a) Leachate management costs have increased because, in certain parts of the country, we are transporting leachate further in order to reach treatment facilities, the third-party fees charged for treatment of waste water have increased and the volume of leachate being disposed has increased.

Amortization of Landfill Airspace — Amortization of landfill airspace, which is included as a component of “Depreciation and amortization” expense, 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>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|
| Amortization of landfill airspace (in millions) | \$ 428 | \$ 409 | \$ 380 |
| Tons received, net of redirected waste (in millions) | 104 | 97 | 96 |
| Average landfill airspace amortization expense per ton | \$4.10 | \$4.21 | \$3.96 |

Different per-ton amortization rates are applied at each of our 248 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 year-over-year.

Liquidity and Capital Resources

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. In addition to our working capital needs for the general and administrative costs of our ongoing operations, we have cash requirements for: (i) the construction and expansion of our landfills; (ii) additions to and maintenance of our trucking fleet and landfill equipment; (iii) construction, refurbishments and improvements at materials recovery facilities; (iv) the container and equipment needs of our operations; (v) final capping, closure and post-closure activities at our landfills; (vi) the repayment of debt, payment of interest and discharging of other obligations and (vii) capital expenditures, acquisitions and investments in support of our strategic growth plans. We also are committed to providing our shareholders with a return on their investment through dividend payments and our common stock repurchase program.

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>2016</u> | <u>2015</u> |
|---|----------------|----------------|
| Cash and cash equivalents | \$ 32 | \$ 39 |
| Restricted trust and escrow accounts: | | |
| Final capping, closure, post-closure and environmental remediation funds | \$ 95 | \$ 94 |
| Other | 10 | 11 |
| Total restricted trust and escrow accounts | <u>\$ 105</u> | <u>\$ 105</u> |
| Debt: | | |
| Current portion | \$ 417 | \$ 253 |
| Long-term portion | 8,893 | 8,676 |
| Total debt | <u>\$9,310</u> | <u>\$8,929</u> |

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, 2016 are described in Note 7 to the Consolidated Financial Statements.

Changes in our outstanding debt balances from December 31, 2015 to December 31, 2016 were primarily attributable to (i) net debt borrowings of \$375 million and (ii) the impacts of other non-cash changes in our debt balances due to hedge accounting for interest rate swaps, foreign currency translation, discounts, premiums and deferred loan costs.

As of December 31, 2016, the current portion of our long-term debt balance of \$417 million includes (i) \$230 million of short-term borrowings under our long-term \$2.25 billion revolving credit facility and (ii)

\$187 million of other debt with scheduled maturities within the next 12 months, including \$126 million of tax-exempt bonds.

As of December 31, 2016, we have classified \$196 million of borrowings outstanding under our \$2.25 billion revolving credit facility as long-term because we intend and have the ability to refinance or maintain these borrowings on a long-term basis. We generally use available cash to repay borrowings outstanding under our \$2.25 billion revolving credit facility and any remaining balances are maintained by extending the maturities of the borrowings. Our current projections indicate that we will maintain \$196 million of the \$426 million of borrowings outstanding for the next 12 months. The remaining \$230 million of borrowings outstanding under our \$2.25 billion revolving credit facility is classified as current in our Consolidated Balance Sheet at December 31, 2016.

As of December 31, 2016, we also have \$473 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months and an additional \$491 million of variable-rate tax-exempt bonds that are supported by letters of credit. 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 intent and ability to use availability under our \$2.25 billion revolving credit facility to fund the debt obligations until they can be remarketed successfully. Accordingly, we classified these borrowings as long-term in our Consolidated Balance Sheet at December 31, 2016.

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 at December 31 (in millions):

| | <u>2016</u> | <u>2015</u> |
|---|----------------|----------------|
| \$2.25 billion revolving credit facility(a) | \$ 789 | \$ 831 |
| Other letter of credit facilities(b) | 492 | 466 |
| | <u>\$1,281</u> | <u>\$1,297</u> |

- (a) In July 2015, we amended and restated our \$2.25 billion revolving credit facility extending the term through July 2020. At December 31, 2016, we had \$426 million of outstanding borrowings and \$789 million of letters of credit issued and supported by the facility, leaving an unused and available credit capacity of \$1,035 million.
- (b) As of December 31, 2016, we had utilized \$492 million of other letter of credit facilities, which are both committed and uncommitted, with terms extending through December 2018.

Summary of Cash Flow Activity

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|
| Net cash provided by operating activities | \$ 2,960 | \$ 2,498 | \$ 2,331 |
| Net cash provided by (used in) investing activities | \$(1,932) | \$(1,608) | \$ 995 |
| Net cash used in financing activities | \$(1,035) | \$(2,155) | \$(2,072) |

Net Cash Provided by Operating Activities — The most significant items affecting the comparison of our operating cash flows in 2016 as compared to 2015 are summarized below:

- *Increase in earnings* — Our income from operations, excluding depreciation and amortization and asset impairments and unusual items, increased by \$337 million on a year-over-year basis, principally driven

by earnings from our Traditional Solid Waste business. Our 2015 results included \$51 million of charges associated with the withdrawal from certain underfunded Multiemployer Pension Plans, of which payments of approximately \$60 million were made in 2015.

- *Cross-currency swaps* — During the first quarter of 2016, we terminated our cross-currency swaps associated with the anticipated cash flows of intercompany loans between WM Holdings and its wholly-owned Canadian subsidiaries, as discussed further in Note 8 to the Consolidated Financial Statements. In connection with the termination, we received cash proceeds of \$67 million, which were classified as a change in “Other current assets” and “Other assets.”
- *Decrease in annual incentive plan cash payments* — Payments for our annual incentive plans are typically made in the first quarter of the year based on prior year performance. Our cash flow from operating activities was favorably impacted by \$46 million on a year-over-year basis, as the annual incentive cash payments made in 2016 were lower than the cash payments made in 2015.
- *Increase in income tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was \$36 million higher on a year-over-year basis largely driven by higher pre-tax earnings in the current year.
- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flows from operating activities were favorably impacted on a year-over-year basis due to net changes in our assets and liabilities, exclusive of the items noted above, particularly non-trade related items including payroll and incentive accruals.

The most significant items affecting the comparison of our operating cash flows in 2015 as compared with 2014 are summarized below:

- *Increased earnings from our Traditional Solid Waste business* — In 2015, we saw an increase in earnings from our Traditional Solid Waste business, which was enhanced by acquisitions and corporate overhead cost reductions. These cash flow improvements were slightly offset by a decrease in earnings from our recycling operations.
- *Cash flow of divested businesses* — The divestiture of Wheelabrator in December 2014 coupled with the sale of other Solid Waste businesses throughout 2014 negatively affected the year-over-year comparison by approximately \$140 million.
- *Decrease in income tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was approximately \$329 million lower on a year-over-year basis, largely driven by (i) lower year-over-year pre-tax earnings primarily due to the loss on early extinguishment of debt in 2015 and (ii) the income tax implications and related impacts of divestitures and impairment charges.
- *Decrease in interest payments* — Cash paid for interest decreased \$77 million primarily due to the refinancing of a significant portion of our high-coupon senior notes during 2015, which is discussed further in Note 7 to the Consolidated Financial Statements.
- *Increase in annual incentive plan cash payments* — Payments for our annual incentive plans are typically made in the first quarter of the year based on prior year performance. Our cash flow from operations was unfavorably impacted by approximately \$65 million on a year-over-year basis, as the annual incentive plan payments made in 2015 were significantly higher than payments made in 2014.
- *Multiemployer Pension Plan settlements* — In 2015, we paid approximately \$60 million for the withdrawal from certain underfunded Multiemployer Pension Plans. See Note 11 to the Consolidated Financial Statements for additional information.
- *Forward-starting swaps* — During the first quarter of 2014, the forward-starting interest rate swaps associated with the anticipated issuance of senior notes in 2014 matured and we paid cash of

\$36 million to settle the liabilities related to these swaps, as discussed further in Note 8 to the Consolidated Financial Statements. This cash payment was classified as a change in “Accounts payable and accrued liabilities.”

- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operating activities was unfavorably impacted on a year-over-year basis by net changes in our assets and liabilities, exclusive of the items noted above, particularly non-trade related items including payroll and incentive accruals.

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

- *Capital expenditures* — We used \$1,339 million during 2016 for capital expenditures, compared with \$1,233 million in 2015 and \$1,151 million in 2014. The increase in our capital expenditures in both years is generally the result of additional spending on new business opportunities and acquisitions, growth in our existing business and asset replacement timing. In addition, the construction of a wastewater treatment facility at one of our landfills also contributed to the increase in 2016. Although, we experienced capital expenditure increases in both 2016 and 2015, the Company continues to maintain a disciplined focus on capital management.
- *Proceeds from divestitures* — Proceeds from divestitures of businesses and other assets (net of cash divested) were \$43 million in 2016, \$145 million in 2015 and \$2,253 million in 2014. In 2016 and 2015, \$2 million and \$79 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. In 2014, our proceeds from divestitures were primarily related to the sale of our Wheelabrator business for \$1.95 billion and, to a lesser extent, the sale of our Puerto Rico operations and certain landfill and collection operations in our Eastern Canada Area.
- *Acquisitions* — Our spending on acquisitions was \$611 million, \$554 million and \$35 million in 2016, 2015 and 2014, respectively. In 2016, \$525 million of our spending on acquisitions was for certain operations and business assets of SWS. The remainder of our 2016 acquisition spending primarily related to our Solid Waste business. In 2015, \$400 million of our spending on acquisitions was for the collection and disposal operations of Deffenbaugh. The remainder of our 2015 acquisition spending primarily related to our Solid Waste business. All of our 2014 acquisitions related to our Solid Waste business. See Note 19 to the Consolidated Financial Statements for additional information related to our acquisitions. We continue to focus on accretive acquisitions and growth opportunities that will enhance and expand our existing service offerings.
- *Investments in unconsolidated entities* — We made \$21 million, \$20 million and \$33 million of cash investments in unconsolidated entities during 2016, 2015 and 2014, respectively. In 2016 and 2015, our investments primarily consisted of additional capital contributions associated with our investment in a refined coal facility, which generates federal tax credits. In 2014, our investments primarily related to additional capital contributions associated with our investment in a refined coal facility and waste diversion technology companies.
- *Net receipts from restricted funds* — Net cash received from our restricted trust and escrow accounts contributed \$51 million and \$19 million to our investing activities in 2015 and 2014, respectively. In 2015, these activities were largely related to our replacement of funded trust and escrow accounts with alternative forms of financial assurance.
- *Other* — Net cash used by our other investing activities was \$4 million and \$58 million in 2016 and 2014, respectively, and net cash provided by our other investing activities was \$3 million during 2015. Net cash used by our other investing activities of \$58 million during 2014 was primarily associated with the funding of notes receivable associated with Wheelabrator’s investments in the United Kingdom, prior to the sale of our Wheelabrator business in December 2014.

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:

- *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 paid \$725 million, \$600 million and \$600 million for share repurchases during 2016, 2015 and 2014, respectively. See Note 15 to the Consolidated Financial Statements for additional information.

We announced in December 2016 that the Board of Directors has authorized up to \$750 million 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 \$726 million, \$695 million and \$693 million during 2016, 2015 and 2014, respectively. The increase in dividend payments is due to our quarterly per share dividend increasing from \$0.375 in 2014 to \$0.385 in 2015 and to \$0.41 in 2016 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 2016, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.41 to \$0.425 per share for dividends declared in 2017. 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 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 \$63 million, \$77 million and \$93 million during 2016, 2015 and 2014, respectively. The year-over-year changes are generally due to the number of stock options exercised and the exercise price of those options.

- *Debt borrowings (repayments)* — The following summarizes our cash borrowings and debt repayments made for the years ended December 31 (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|
| <i>Borrowings:</i> | | | |
| \$2.25 billion revolving credit facility | \$ 1,889 | \$ 100 | \$ 2,225 |
| Canadian credit facility and term loan | 347 | 11 | 88 |
| Senior notes | 496 | 1,781 | 347 |
| Tax-exempt bonds | 143 | 262 | — |
| Capital leases and other debt | 182 | 183 | 157 |
| | <u>\$ 3,057</u> | <u>\$ 2,337</u> | <u>\$ 2,817</u> |
| <i>Repayments:</i> | | | |
| \$2.25 billion revolving credit facility | \$(1,483) | \$ (80) | \$(2,645) |
| Canadian credit facility and term loan | (193) | (130) | (243) |
| Senior notes | (510) | (1,970) | (350) |
| Tax-exempt bonds | (289) | (341) | (123) |
| Capital leases and other debt | (207) | (243) | (207) |
| | <u>\$(2,682)</u> | <u>\$(2,764)</u> | <u>\$(3,568)</u> |
| <i>Net borrowings (repayments)</i> | <u>\$ 375</u> | <u>\$ (427)</u> | <u>\$ (751)</u> |

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

- *Premiums paid on early extinguishment of debt* — Premiums paid on early extinguishment of debt were \$2 million and \$555 million in 2016 and 2015, respectively. The amount for 2015 was primarily related to (i) make-whole premiums paid on certain senior notes that the Company decided to redeem in advance of their scheduled maturities and (ii) premiums paid to tender certain high-coupon senior notes. See Note 7 to the Consolidated Financial Statements for further discussion of these transactions.
- *Acquisitions of and distributions paid to noncontrolling interests* — The acquisitions of and distributions paid to our noncontrolling interests were \$1 million, \$1 million and \$125 million in 2016, 2015 and 2014, respectively. The amount for 2014 is primarily attributable to the purchase of the noncontrolling interests in the LLCs related to our waste-to-energy facilities in December 2014 for \$91 million. The LLCs were then subsequently sold as part of the Wheelabrator divestiture, also in December 2014. See Note 20 to the Consolidated Financial Statements for further discussion of these LLCs.

Summary of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2016 and the anticipated effect of these obligations on our liquidity in future years (in millions):

| | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>Thereafter</u> | <u>Total</u> |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|-----------------|
| Recorded Obligations: | | | | | | | |
| Expected environmental liabilities:(a) | | | | | | | |
| Final capping, closure and post-closure | \$ 119 | \$ 144 | \$ 110 | \$ 147 | \$ 109 | \$ 2,169 | \$ 2,798 |
| Environmental remediation | 28 | 21 | 29 | 63 | 17 | 88 | 246 |
| | 147 | 165 | 139 | 210 | 126 | 2,257 | 3,044 |
| Debt payments(b),(c),(d) | 610 | 783 | 432 | 746 | 540 | 6,304 | 9,415 |
| Unrecorded Obligations:(e) | | | | | | | |
| Interest on debt(f) | 336 | 315 | 289 | 271 | 245 | 2,228 | 3,684 |
| Non-cancelable operating lease obligations | 109 | 90 | 73 | 62 | 44 | 306 | 684 |
| Estimated unconditional purchase obligations(g) | 179 | 149 | 112 | 92 | 88 | 336 | 956 |
| Anticipated liquidity impact as of December 31, 2016 | <u>\$1,381</u> | <u>\$1,502</u> | <u>\$1,045</u> | <u>\$1,381</u> | <u>\$1,043</u> | <u>\$11,431</u> | <u>\$17,783</u> |

- (a) Environmental liabilities include final capping, closure, post-closure and environmental remediation costs recorded in our Consolidated Balance Sheet as of December 31, 2016, 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, 2016 include \$473 million of tax-exempt bonds with term interest rate periods scheduled to expire within the next 12 months. If the re-offerings of the 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, 2016, refer to Note 7 to the Consolidated Financial Statements.
- (d) Our recorded debt obligations include non-cash adjustments associated with discounts, premiums, deferred loan costs and fair value adjustments for interest rate hedging activities. 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 11 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 at December 31, 2016. For debt balances outstanding under our \$2.25 billion revolving credit facility, we have reflected limited interest amounts due to the short-term nature of the borrowings. For debt balances outstanding under our Canadian term loan, we have reflected interest based on the current outstanding principal assuming the amount remains unchanged through maturity. As of December 31, 2016, we had \$88 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 11 to the Consolidated Financial Statements for discussion of the nature and terms of our unconditional purchase obligations.

Off-Balance Sheet Arrangements

We have financial interests in unconsolidated variable interest entities as discussed in Note 20 to the Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 11 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, 2016, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

New Accounting Standards Pending Adoption

Income Taxes — In October 2016, the FASB issued amended authoritative guidance associated with the timing of recognition of income taxes for intra-entity transfers of assets other than inventory. The amended guidance requires the recognition of income taxes when the transfer of the asset occurs, which replaces current U.S. Generally Accepted Accounting Principles (“GAAP”) that defers the recognition of income taxes until the transferred asset is sold to a third party or otherwise recovered through use. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. We are in the process of assessing the provisions of this amended guidance; however, we currently do not expect that the adoption of this amended guidance will have a material impact on our consolidated financial statements.

Statement of Cash Flows — In August 2016, the FASB issued amended authoritative guidance associated with the classification of certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued additional guidance on the presentation of restricted cash and cash equivalents in the statement of cash flows. The objective of both amendments was to reduce existing diversity in practice. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. We are in the process of assessing the provisions of this amended guidance; however, we currently do not expect that the adoption of this amended guidance will have a material impact on our consolidated financial statements.

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

Stock Compensation — In March 2016, the FASB issued amended authoritative guidance associated with stock-based compensation as part of its simplification initiative to reduce the cost and complexity of compliance with GAAP, while maintaining or improving the usefulness of the information provided. The amended guidance changes both the accounting and financial reporting for certain income tax impacts of stock-based compensation. All excess tax benefits and tax deficiencies will be required to be recognized as an income tax benefit or provision rather than as a component of equity. The guidance also provides for changes in the calculation of forfeitures related to the expense of stock-based compensation. The amended guidance is effective for the Company on January 1, 2017. The adoption of this amended guidance will not have a material impact on our consolidated financial statements.

Leases — In February 2016, the FASB issued amended authoritative guidance associated with lease accounting. 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. The disclosure of key information about leasing arrangements will also be required. The amended guidance is effective for the Company on January 1, 2019, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements and disclosures.

Financial Instruments — In January 2016, the FASB issued amended authoritative guidance associated with the recognition and measurement of financial assets and liabilities. The amended guidance will require certain equity investments that are not consolidated 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. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements.

Revenue Recognition — In May 2014, the FASB issued amended authoritative guidance associated with revenue recognition. The amended guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amendments will require enhanced qualitative and quantitative disclosures regarding customer contracts. The amended guidance associated with revenue recognition is effective for the Company on January 1, 2018. The amended guidance may be applied retrospectively for all periods presented (“full retrospective method”) or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial adoption (“modified retrospective method”).

To assess the impact of the standard, we utilized internal resources to lead the implementation effort and supplemented them with external resources. Our internal resources read the amended guidance, attended trainings and consulted with non-authoritative groups to assist with interpretation of the amended guidance. Surveys were sent to and returned by all operating segments to assess the potential impact of the amended guidance and to tailor specific procedures to evaluate the potential impact. Based on the results of these surveys, we judgmentally selected a sample of contracts based on size and specifically identified contract traits that could be accounted for differently under the amended guidance. We also selected a representative sample of contracts to corroborate the survey results. We have completed our preliminary review of all contracts and are in the process of compiling and summarizing the results to determine whether additional review and analysis is necessary.

Based on our work to date, we believe we have identified all material contract types and costs that may be impacted by this amended guidance. We expect to quantify and disclose the expected impact, if any, of adopting this amended guidance in the third quarter Form 10-Q. While we are still evaluating the impact of the amended guidance, we currently do not expect it to have a material impact on operating revenues.

Upon adoption of the amended guidance, we anticipate recognizing an asset from the capitalization of sales incentives as contract acquisitions costs. Under the amended guidance, sales incentives will be capitalized and amortized over the expected life of the customer relationship. Currently, the Company expenses approximately \$65 million in sales incentives annually. As noted above, we are still evaluating other possible impacts on our consolidated financial statements, including potential changes in the classification of certain revenue streams currently reported on a gross basis and on our disclosures. The Company is also currently planning to adopt the amended guidance using the modified retrospective method as of January 1, 2018.

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, 2016, approximately 30% 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, Canadian currency rates and certain commodity prices. From time to time, we use derivatives to manage some portion of these risks. The Company had no derivatives outstanding at December 31, 2016.

Interest Rate Exposure — Our exposure to market risk for changes in interest rates relates primarily to our financing activities. As of December 31, 2016, we had \$9.4 billion of long-term debt, excluding the impacts of accounting for fair value adjustments attributable to terminated interest rate derivatives, discounts, premiums and debt issuance costs. We have \$1.6 billion of debt that is exposed to changes in market interest rates within the next 12 months. Our variable-rate debt obligations include (i) \$491 million of tax-exempt bonds that are subject to repricing on either a daily or weekly basis through a remarketing process; (ii) \$473 million of tax-exempt bonds with term interest rate periods scheduled to expire within the next 12 months; (iii) \$426 million of borrowings outstanding under our \$2.25 billion revolving credit facility and (iv) \$239 million of borrowings outstanding under our Canadian term loan. We currently estimate that a 100-basis point increase in the interest rates of our outstanding variable-rate debt obligations would increase our 2017 interest expense by approximately \$15 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 \$595 million at December 31, 2016.

We are also exposed to interest rate market risk because we have 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. Because of the short-term maturity of these investments, we believe that our exposure to changes in fair value due to interest rate fluctuations is insignificant.

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 and investments in Hong Kong. Where significant, we have quantified and described the impact of foreign currency translation on components of income, including operating revenue and operating costs. However, the impact of foreign currency has not materially affected our results of operations. Historically, we hedged a portion of our foreign currency risk using currency derivatives to mitigate the impact of currency translation on cash flows of intercompany Canadian-currency denominated debt transactions. In March 2016, we terminated our cross-currency swaps. At termination, we received \$67 million in cash for the fair value of the hedged position and reported this amount as a component of “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows. The realized loss from the termination did not materially affect our results of operations. Refer to Notes 8 and 14 to the Consolidated Financial Statements for additional information regarding our foreign currency derivatives and translation.

Item 8. Financial Statements and Supplementary Data.

**INDEX TO
CONSOLIDATED FINANCIAL STATEMENTS**

| | <u>Page</u> |
|---|-------------|
| Management’s Report on Internal Control Over Financial Reporting | 70 |
| Reports of Independent Registered Public Accounting Firm | 71 |
| Consolidated Balance Sheets as of December 31, 2016 and 2015 | 73 |
| Consolidated Statements of Operations for the Years Ended December 31, 2016, 2015 and 2014 | 74 |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015 and 2014 | 74 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014 | 75 |
| Consolidated Statements of Changes in Equity for the Years Ended December 31, 2016, 2015 and 2014 .. | 76 |
| Notes to Consolidated Financial Statements | 77 |

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, 2016 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, 2016.

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 herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Waste Management, Inc.'s internal control over financial reporting as of December 31, 2016, 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). Waste Management, Inc.'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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, Waste Management, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Waste Management, Inc. as of December 31, 2016 and 2015, and 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, 2016, and our report dated February 16, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 16, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Waste Management, Inc. (the “Company”) as of December 31, 2016 and 2015, and 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, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Waste Management, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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), Waste Management, Inc.’s internal control over financial reporting as of December 31, 2016, 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 16, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 16, 2017

WASTE MANAGEMENT, INC.
CONSOLIDATED BALANCE SHEETS
(In Millions, Except Share and Par Value Amounts)

| | December 31, | |
|---|---------------------|-------------|
| | 2016 | 2015 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 32 | \$ 39 |
| Accounts receivable, net of allowance for doubtful accounts of \$24 and \$25, respectively . . | 1,700 | 1,549 |
| Other receivables | 432 | 545 |
| Parts and supplies | 90 | 92 |
| Other assets | 122 | 120 |
| Total current assets | 2,376 | 2,345 |
| Property and equipment, net of accumulated depreciation and amortization of \$17,152 and \$16,420, respectively | 10,950 | 10,665 |
| Goodwill | 6,215 | 5,984 |
| Other intangible assets, net | 591 | 477 |
| Investments in unconsolidated entities | 320 | 360 |
| Other assets | 407 | 536 |
| Total assets | \$20,859 | \$20,367 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 799 | \$ 721 |
| Accrued liabilities | 1,085 | 1,064 |
| Deferred revenues | 493 | 472 |
| Current portion of long-term debt | 417 | 253 |
| Total current liabilities | 2,794 | 2,510 |
| Long-term debt, less current portion | 8,893 | 8,676 |
| Deferred income taxes | 1,482 | 1,391 |
| Landfill and environmental remediation liabilities | 1,675 | 1,584 |
| Other liabilities | 695 | 839 |
| Total liabilities | 15,539 | 15,000 |
| 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 | 4,850 | 4,827 |
| Retained earnings | 7,388 | 6,939 |
| Accumulated other comprehensive income (loss) | (80) | (127) |
| Treasury stock at cost, 190,966,584 and 183,105,326 shares, respectively | (6,867) | (6,300) |
| Total Waste Management, Inc. stockholders' equity | 5,297 | 5,345 |
| Noncontrolling interests | 23 | 22 |
| Total equity | 5,320 | 5,367 |
| Total liabilities and equity | \$20,859 | \$20,367 |

See notes to Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Millions, Except per Share Amounts)

| | <u>Years Ended December 31,</u> | | |
|--|---------------------------------|----------------|-----------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Operating revenues | \$13,609 | \$12,961 | \$13,996 |
| Costs and expenses: | | | |
| Operating | 8,486 | 8,231 | 9,002 |
| Selling, general and administrative | 1,410 | 1,343 | 1,481 |
| Depreciation and amortization | 1,301 | 1,245 | 1,292 |
| Restructuring | 4 | 15 | 82 |
| (Income) expense from divestitures, asset impairments and unusual items .. | 112 | 82 | (160) |
| | <u>11,313</u> | <u>10,916</u> | <u>11,697</u> |
| Income from operations | <u>2,296</u> | <u>2,045</u> | <u>2,299</u> |
| Other income (expense): | | | |
| Interest expense, net | (376) | (385) | (466) |
| Loss on early extinguishment of debt | (4) | (555) | — |
| Equity in net losses of unconsolidated entities | (44) | (38) | (53) |
| Other, net | (50) | (7) | (29) |
| | <u>(474)</u> | <u>(985)</u> | <u>(548)</u> |
| Income before income taxes | 1,822 | 1,060 | 1,751 |
| Provision for income taxes | 642 | 308 | 413 |
| Consolidated net income | <u>1,180</u> | <u>752</u> | <u>1,338</u> |
| Less: Net income (loss) attributable to noncontrolling interests | (2) | (1) | 40 |
| Net income attributable to Waste Management, Inc. | <u>\$ 1,182</u> | <u>\$ 753</u> | <u>\$ 1,298</u> |
| Basic earnings per common share | <u>\$ 2.66</u> | <u>\$ 1.66</u> | <u>\$ 2.80</u> |
| Diluted earnings per common share | <u>\$ 2.65</u> | <u>\$ 1.65</u> | <u>\$ 2.79</u> |
| Cash dividends declared per common share | <u>\$ 1.64</u> | <u>\$ 1.54</u> | <u>\$ 1.50</u> |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

| | <u>Years Ended December 31,</u> | | |
|--|---------------------------------|---------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Consolidated net income | \$1,180 | \$ 752 | \$1,338 |
| Other comprehensive income (loss), net of tax provision (benefit): | | | |
| Derivative instruments, net | 12 | 9 | 1 |
| Available-for-sale securities, net | 5 | (2) | 4 |
| Foreign currency translation adjustments | 28 | (159) | (124) |
| Post-retirement benefit obligation, net | 2 | 2 | (12) |
| Other comprehensive income (loss), net of tax provision (benefit) | <u>47</u> | <u>(150)</u> | <u>(131)</u> |
| Comprehensive income | 1,227 | 602 | 1,207 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | (2) | (1) | 40 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$1,229</u> | <u>\$ 603</u> | <u>\$1,167</u> |

See notes to Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

| | Years Ended December 31, | | |
|--|--------------------------|----------------|-----------------|
| | 2016 | 2015 | 2014 |
| Cash flows from operating activities: | | | |
| Consolidated net income | \$ 1,180 | \$ 752 | \$ 1,338 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,301 | 1,245 | 1,292 |
| Deferred income tax (benefit) provision | 73 | 30 | (118) |
| Interest accretion on landfill liabilities | 91 | 89 | 88 |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets | — | 1 | 14 |
| Provision for bad debts | 42 | 36 | 42 |
| Equity-based compensation expense | 90 | 72 | 65 |
| Excess tax benefits associated with equity-based transactions | (28) | (15) | (5) |
| Net gain on disposal of assets | (24) | (18) | (35) |
| (Income) expense from divestitures, asset impairments and other, net | 110 | 87 | (127) |
| Equity in net losses of unconsolidated entities, net of dividends | 44 | 42 | 42 |
| Loss on early extinguishment of debt | 4 | 555 | — |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures: | | | |
| Receivables | (78) | (178) | (268) |
| Other current assets | (12) | 16 | (19) |
| Other assets | 78 | (7) | 22 |
| Accounts payable and accrued liabilities | 174 | (112) | 117 |
| Deferred revenues and other liabilities | (85) | (97) | (117) |
| Net cash provided by operating activities | <u>2,960</u> | <u>2,498</u> | <u>2,331</u> |
| Cash flows from investing activities: | | | |
| Acquisitions of businesses, net of cash acquired | (611) | (554) | (35) |
| Capital expenditures | (1,339) | (1,233) | (1,151) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 43 | 145 | 2,253 |
| Net receipts from restricted trust and escrow accounts | — | 51 | 19 |
| Investments in unconsolidated entities | (21) | (20) | (33) |
| Other, net | (4) | 3 | (58) |
| Net cash provided by (used in) investing activities | <u>(1,932)</u> | <u>(1,608)</u> | <u>995</u> |
| Cash flows from financing activities: | | | |
| New borrowings | 3,057 | 2,337 | 2,817 |
| Debt repayments | (2,682) | (2,764) | (3,568) |
| Premiums paid on early extinguishment of debt | (2) | (555) | — |
| Common stock repurchase program | (725) | (600) | (600) |
| Cash dividends | (726) | (695) | (693) |
| Exercise of common stock options | 63 | 77 | 93 |
| Excess tax benefits associated with equity-based transactions | 28 | 15 | 5 |
| Acquisitions of and distributions paid to noncontrolling interests | (1) | (1) | (125) |
| Other, net | (47) | 31 | (1) |
| Net cash used in financing activities | <u>(1,035)</u> | <u>(2,155)</u> | <u>(2,072)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | (3) | (5) |
| Increase (decrease) in cash and cash equivalents | (7) | (1,268) | 1,249 |
| Cash and cash equivalents at beginning of year | 39 | 1,307 | 58 |
| Cash and cash equivalents at end of year | <u>\$ 32</u> | <u>\$ 39</u> | <u>\$ 1,307</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, 2013 | \$6,002 | 630,282 | \$ 6 | \$4,596 | \$6,289 | \$ 154 | (165,962) | \$(5,338) | \$ 295 |
| Consolidated net income | 1,338 | — | — | — | 1,298 | — | — | — | 40 |
| Other comprehensive income (loss), net of tax provision (benefit) | (131) | — | — | — | — | (131) | — | — | — |
| Cash dividends | (693) | — | — | — | (693) | — | — | — | — |
| Equity-based compensation transactions, including dividend equivalents, net of tax provision (benefit) | 195 | — | — | 79 | (6) | — | 3,779 | 122 | — |
| Common stock repurchase program | (600) | — | — | (180) | — | — | (9,569) | (420) | — |
| Distributions paid to noncontrolling interests | (34) | — | — | — | — | — | — | — | (34) |
| Acquisitions of noncontrolling interests and divestiture of Wheelabrator business | (188) | — | — | 90 | — | — | — | — | (278) |
| Other, net | — | — | — | — | — | — | 7 | — | — |
| Balance, December 31, 2014 | \$5,889 | 630,282 | \$ 6 | \$4,585 | \$6,888 | \$ 23 | (171,745) | \$(5,636) | \$ 23 |
| Consolidated net income | 752 | — | — | — | 753 | — | — | — | (1) |
| Other comprehensive income (loss), net of tax provision (benefit) | (150) | — | — | — | — | (150) | — | — | — |
| Cash dividends | (695) | — | — | — | (695) | — | — | — | — |
| Equity-based compensation transactions, including dividend equivalents, net of tax provision (benefit) | 171 | — | — | 62 | (7) | — | 3,457 | 116 | — |
| Common stock repurchase program | (600) | — | — | 180 | — | — | (14,823) | (780) | — |
| Other, net | — | — | — | — | — | — | 6 | — | — |
| 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 provision (benefit) | 47 | — | — | — | — | 47 | — | — | — |
| Cash dividends | (726) | — | — | — | (726) | — | — | — | — |
| Equity-based compensation transactions, including dividend equivalents, net of tax provision (benefit) | 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 |

See notes to Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2016, 2015 and 2014

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 20. 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.

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 21.

In December 2014, we sold our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. Refer to Note 19 for additional information related to our divestitures.

2. Adoption of New Accounting Standards and Reclassifications

Adoption of New Accounting Standards

Debt Issuance Costs — In April 2015, and as subsequently amended, the Financial Accounting Standards Board (“FASB”) issued amended authoritative guidance associated with debt issuance costs which were previously presented as assets related to recognized debt liabilities. The amended guidance requires that debt issuance costs, other than those costs related to line of credit arrangements, be presented on the balance sheet as a direct deduction from the related debt liability, which is similar to the presentation for debt discounts and premiums. This guidance was effective for the Company on January 1, 2016. The Company’s adoption of this guidance was applied retrospectively and resulted in a reclassification of \$52 million of such costs in our Consolidated Balance Sheet at December 31, 2015.

Consolidation — In February 2015, the FASB issued amended authoritative guidance associated with consolidation. The amended guidance makes changes to existing consolidation requirements associated with the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities, including limited partnerships and variable interest entities. The guidance was effective for the Company on January 1, 2016. The Company’s adoption of this guidance did not impact our consolidated financial statements.

Reclassifications

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 either the equity method or cost method of accounting, as appropriate.

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, deferred income taxes 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 trust funds 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. At December 31, 2016 and 2015, 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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when our internal collection efforts have been unsuccessful. 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, at December 31, 2016 and 2015, include receivables related to income tax payments in excess of our current provision for income taxes of \$352 million and \$439 million, respectively.

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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 and 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.

Once we have determined the 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, 2016, 2015 and 2014, we inflated these costs in current dollars until 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 at December 31, 2016 is approximately 6.0%. We expect to apply a credit-adjusted, risk-free discount rate of 4.0% to liabilities incurred in the first quarter of 2017.

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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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 of 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 16 landfill sites with expansions included at December 31, 2016, three 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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 potentially responsible party (“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;

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- 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 investigation of the extent of environmental impact. In these cases, we use the amount within the range that constitutes 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 \$120 million higher than the \$246 million recorded in the Consolidated Financial Statements as of December 31, 2016. 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 income from operations. These adjustments could be material in any given period.

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% at December 31, 2016 and 2015) 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 significantly 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 during the reported periods (in millions) and the risk-free discount rate applied as of each reporting date:

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Charge (reduction) to operating expenses | \$ (2) | \$ (2) | \$ 10 |
| Risk-free discount rate applied to environmental remediation liabilities and recovery assets | 2.5% | 2.25% | 2.00% |

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 \$90 million and \$52 million at December 31, 2016 and 2015, respectively. Had we not inflated and discounted any portion of our environmental remediation liability, the amount recorded would have remained the same at December 31, 2016 and decreased \$3 million at December 31, 2015.

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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):

| | <u>Useful Lives</u> |
|--|---------------------|
| Vehicles — excluding rail haul cars | 3 to 10 |
| Vehicles — rail haul cars | 10 to 20 |
| 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 other obligations that we consider in determining minimum lease payments. The leases are classified as either operating leases or capital leases, as appropriate.

Operating Leases (excluding landfills 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, 2016 are disclosed in Note 11.

Capital Leases (excluding landfills 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 total 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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 at 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 at 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.

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 ranging between 10 and 15 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 the “(Income) expense from divestitures, asset impairments and unusual items” line item 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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. 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. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs. 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.

Goodwill — At least annually, and more frequently if warranted, we assess the goodwill of our reporting units for impairment using Level 3 inputs.

We assess whether a goodwill impairment exists using both qualitative and quantitative assessments. Our qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we will not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, we perform a quantitative assessment, or two-step impairment test, to determine whether a goodwill impairment exists at a reporting unit. The first step in our quantitative assessment identifies potential impairments by comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. 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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 13 for information related to impairments recognized during the reported periods.

Indefinite-Lived Intangible Assets Other Than Goodwill — At least annually, and more frequently if warranted, we assess indefinite-lived intangible assets other than goodwill for impairment.

When performing the impairment test for indefinite-lived intangible assets, we generally first conduct a qualitative analysis to determine whether we believe it is more likely than not that an asset has been impaired. If it is more likely than not that an asset has been impaired, we then evaluate for impairment by comparing the estimated fair value of the asset to its carrying value. An impairment charge is recognized if the asset's estimated fair value is less than its carrying value.

Fair value is typically estimated using an income approach. The income approach is based on the long-term projected future cash flows. 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 this approach is appropriate because it provides a fair value estimate based upon the expected long-term performance considering the economic and market conditions that generally affect our business.

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 these assets is reasonable.

Restricted Trust and Escrow Accounts

Our restricted trust and escrow accounts consist principally of funds deposited for purposes of settling landfill final capping, closure, post-closure and environmental remediation obligations. 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. Balances maintained in these trust funds 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 for qualifying final capping, closure, post-closure and environmental remediation activities; (iv) acquisitions or divestitures of landfills and (v) changes in the fair value of the financial instruments held in the trust fund or escrow accounts. As of December 31, 2016 and 2015, we had \$105 million of restricted trust and escrow accounts, which are primarily included in "Other assets" in our Consolidated Balance Sheets. See Note 20 for additional discussion related to restricted trust and escrow accounts for final capping, closure, post-closure or environmental remediation obligations.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Investments in Unconsolidated Entities

Investments in unconsolidated entities over which the Company has significant influence are accounted for under the equity method of accounting. Investments in entities in which the Company does not have the ability to exert significant influence over the investees' operating and financing activities are accounted for under the cost method of accounting. The following table summarizes our equity and cost method investments as of December 31 (in millions):

| | 2016 | 2015 |
|--|--------------|--------------|
| Equity method investments | \$173 | \$186 |
| Cost method investments | 147 | 174 |
| Investments in unconsolidated entities | \$320 | \$360 |

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 and/or (iii) a market or income approach, as deemed appropriate. Impairments of equity and cost method investments are recorded in "Equity in net losses of unconsolidated entities" and "Other, net" in the Consolidated Statements of Operations, respectively.

Foreign Currency

We have operations in Canada, as well as certain support functions in India and investments in Hong Kong. Local currencies generally are considered the functional currencies of our operations and investments outside the United States. The assets and liabilities of our foreign operations are translated to U.S. dollars using the exchange rate at 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 comprehensive income.

Derivative Financial Instruments

From time to time, we will use derivative financial instruments to manage our risk associated with fluctuations in interest rates and foreign currency exchange rates. In prior years, we used interest rate swaps to maintain a strategic portion of our long-term debt obligations at variable, market-driven interest rates or in anticipation of planned senior note issuances to effectively lock in a fixed interest rate for those anticipated issuances. Through March 2016, we used foreign currency exchange rate derivatives 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. Prior to the sale of our Wheelabrator business in December 2014, we used electricity commodity derivatives to mitigate the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. The financial statement impacts of our derivatives are discussed in Notes 8 and 14.

We obtain valuations of our hedging instruments from third-party pricing models. The estimated fair values of derivatives used to hedge risks fluctuate over time and should be viewed in relation to the underlying hedged transaction and the overall management of our exposure to fluctuations in the underlying risks. The fair value of derivatives is included in other current assets, other long-term assets, current accrued liabilities or other long-term liabilities, as appropriate. Any ineffectiveness present in either fair value or cash flow hedges is recognized immediately in earnings without offset. There was no significant hedge ineffectiveness in 2016, 2015 or 2014.

- *Foreign Currency Derivatives* — 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 the equity

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

section of our Consolidated Balance Sheets. The associated balance in accumulated other comprehensive income (loss) was reclassified to earnings as the hedged cash flows affected earnings. In each of the periods presented, these derivatives effectively mitigated the impacts of the hedged transactions, resulting in immaterial impacts to our results of operations for the periods presented.

- *Interest Rate Derivatives* — Our previously outstanding interest rate swaps associated with outstanding fixed-rate senior notes had been designated as fair value hedges for accounting purposes. Accordingly, derivative assets were accounted for as an increase in the carrying value of our underlying debt obligations and derivative liabilities were accounted for as a decrease in the carrying value of our underlying debt instruments. These fair value adjustments are deferred and recognized as an adjustment to interest expense over the remaining term of the hedged instruments. Treasury locks and forward-starting swaps executed in prior years were designated as cash flow hedges for accounting purposes. The fair value of these derivative instruments was recorded in “Accumulated other comprehensive income (loss)” within the equity section of our Consolidated Balance Sheets. The associated balance in accumulated other comprehensive income (loss) is reclassified to earnings as the hedged cash flows occur.

Insured and Self-Insured Claims

We have retained a significant portion of the risks related to our health and welfare, automobile, general 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 long-term “Other liabilities.” Estimated insurance recoveries related to recorded liabilities are reflected as current “Other receivables” or long-term “Other assets” in our Consolidated Balance Sheets when we believe that the receipt of such amounts is probable.

Revenue Recognition

Our revenues are generated from the fees we charge for waste collection, transfer, disposal, and recycling and resource recovery services; from the sale of recyclable commodities; from the sale of electricity and landfill gas, which are byproducts of our landfill operations and from the sale of oil and gas and organic lawn and garden products. The fees charged for our services are generally defined in our service agreements and vary based on contract-specific terms such as frequency of service, weight, volume and the general market factors influencing a region’s rates. 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 increased direct and indirect costs incurred. 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 delivered.

We bill for certain services prior to performance. Such services include, among others, certain residential contracts that are billed on a quarterly basis and equipment rentals. These advance billings are included in deferred revenues and recognized as revenue in the period service is provided.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 2016, 2015 and 2014, total interest costs were \$394 million, \$407 million and \$487 million, respectively, of which \$9 million was capitalized in 2016, \$16 million was capitalized in 2015 and \$16 million was capitalized in 2014. In 2016, 2015 and 2014, interest was capitalized primarily for landfills under construction.

Income Taxes

The Company is subject to income tax in the U.S. and Canada. Current tax obligations associated with our provision for income taxes are reflected in the accompanying Consolidated Balance Sheets as a component of “Accrued liabilities” and the 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. The deferred income tax provision 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. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. 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 provision for income taxes.

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 provision for income taxes in our Consolidated Statements of Operations.

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 11 for discussion of our commitments and contingencies.

Supplemental Cash Flow Information

| Cash paid during the years ended December 31 (in millions): | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|
| Interest, net of capitalized interest and periodic settlements from interest rate swap agreements | \$375 | \$384 | \$461 |
| Income taxes | 442 | 419 | 758 |

During 2016, 2015 and 2014, 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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Landfill and Environmental Remediation Liabilities

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

| | <u>December 31, 2016</u> | | | <u>December 31, 2015</u> | | |
|--|--------------------------|--------------------------------------|----------------|--------------------------|--------------------------------------|----------------|
| | <u>Landfill</u> | <u>Environmental Remediation</u> | <u>Total</u> | <u>Landfill</u> | <u>Environmental Remediation</u> | <u>Total</u> |
| Current (in accrued liabilities) | \$ 119 | \$ 28 | \$ 147 | \$ 112 | \$ 31 | \$ 143 |
| Long-term | <u>1,457</u> | <u>218</u> | <u>1,675</u> | <u>1,406</u> | <u>178</u> | <u>1,584</u> |
| | <u>\$1,576</u> | <u>\$246</u> | <u>\$1,822</u> | <u>\$1,518</u> | <u>\$209</u> | <u>\$1,727</u> |

The changes to landfill and environmental remediation liabilities for the years ended December 31, 2015 and 2016 are reflected in the table below (in millions):

| | <u>Landfill</u> | <u>Environmental Remediation</u> |
|--|-----------------|--------------------------------------|
| December 31, 2014 | \$1,443 | \$235 |
| Obligations incurred and capitalized | 61 | — |
| Obligations settled | (71) | (30) |
| Interest accretion | 89 | 3 |
| Revisions in estimates and interest rate assumptions(a)(b) | (11) | 5 |
| Acquisitions, divestitures and other adjustments(d) | <u>7</u> | <u>(4)</u> |
| December 31, 2015 | \$1,518 | \$209 |
| Obligations incurred and capitalized | 59 | — |
| Obligations settled | (91) | (24) |
| Interest accretion | 91 | 3 |
| Revisions in estimates and interest rate assumptions(a)(b)(c) | <u>(1)</u> | <u>58</u> |
| December 31, 2016 | <u>\$1,576</u> | <u>\$246</u> |

(a) The amount reported for our landfill liabilities includes a decrease of approximately \$18 million for 2015 and \$11 million for 2016, related to our year-end annual review of landfill final capping, closure and post-closure obligations.

(b) The amount reported in 2015 for our environmental remediation liabilities includes the impact of an increase in the risk-free discount rate used to measure our liabilities from 2.0% at December 31, 2014 to 2.25% at December 31, 2015, resulting in a decrease of \$3 million to our environmental remediation liabilities and a corresponding decrease to “Operating” expenses.

The amount reported in 2016 for environmental remediation liabilities includes the impact of an increase in the risk-free discount rate used to measure our liabilities from 2.25% at December 31, 2015 to 2.5% at December 31, 2016, resulting in a decrease of \$2 million to our environmental remediation liabilities and a corresponding decrease to “Operating” expenses.

(c) The amount reported in 2016 for our landfill liabilities includes an increase of \$13 million due to acceleration of the expected timing of closure and post-closure activities for a landfill. See Note 13 for further discussion of the impairment charge related to this landfill.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The amount reported in 2016 for our environmental remediation liabilities includes the impact of an increase of \$44 million in our cost estimates associated with a subsidiary's closed site in Harris County, Texas. See Notes 11 and 13 for further discussion of this environmental remediation adjustment.

- (d) The amount reported for our 2015 landfill liabilities include an increase of approximately \$18 million as a result of our acquisition of Deffenbaugh Disposal, Inc. ("Deffenbaugh").

Our recorded liabilities as of December 31, 2016 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 \$28 million in 2017, \$21 million in 2018, \$29 million in 2019, \$63 million in 2020, \$17 million in 2021 and \$88 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 18 and 20 for additional information related to these trusts.

5. Property and Equipment

Property and equipment at December 31 consisted of the following (in millions):

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Land | \$ 608 | \$ 592 |
| Landfills | 14,276 | 13,772 |
| Vehicles | 4,433 | 4,257 |
| Machinery and equipment | 2,639 | 2,499 |
| Containers | 2,469 | 2,426 |
| Buildings and improvements | 2,667 | 2,546 |
| Furniture, fixtures and office equipment | 1,010 | 993 |
| | <u>28,102</u> | <u>27,085</u> |
| Less accumulated depreciation of tangible property and equipment | (8,812) | (8,495) |
| Less accumulated amortization of landfill airspace | <u>(8,340)</u> | <u>(7,925)</u> |
| | <u>\$10,950</u> | <u>\$10,665</u> |

Depreciation and amortization expense, including amortization expense for assets recorded as capital leases, was comprised of the following for the years ended December 31 (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------|----------------|----------------|
| Depreciation of tangible property and equipment | \$ 773 | \$ 760 | \$ 834 |
| Amortization of landfill airspace | 428 | 409 | 380 |
| Depreciation and amortization expense | <u>\$1,201</u> | <u>\$1,169</u> | <u>\$1,214</u> |

6. Goodwill and Other Intangible Assets

Goodwill was \$6,215 million as of December 31, 2016 compared with \$5,984 million as of December 31, 2015. The \$231 million increase in goodwill during 2016 is primarily related to the acquisition of certain

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

operations and business assets of Southern Waste Systems/Sun Recycling (“SWS”) in Southern Florida. See Notes 19 and 21 for additional information.

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. See Note 13 for discussion of goodwill impairments.

Our other intangible assets as of December 31, 2016 and 2015 were comprised of the following (in millions):

| | <u>Customer and Supplier Relationships</u> | <u>Covenants Not-to- Compete</u> | <u>Licenses, Permits and Other</u> | <u>Total</u> |
|-------------------------------------|--|--|--|---------------|
| December 31, 2016: | | | | |
| Intangible assets | \$ 835 | \$ 59 | \$123 | \$1,017 |
| Less accumulated amortization | (342) | (31) | (53) | (426) |
| | <u>\$ 493</u> | <u>\$ 28</u> | <u>\$ 70</u> | <u>\$ 591</u> |
| December 31, 2015: | | | | |
| Intangible assets | \$ 658 | \$ 51 | \$119 | \$ 828 |
| Less accumulated amortization | (270) | (35) | (46) | (351) |
| | <u>\$ 388</u> | <u>\$ 16</u> | <u>\$ 73</u> | <u>\$ 477</u> |

Amortization expense for other intangible assets was \$100 million for 2016, \$76 million for 2015 and \$78 million for 2014. At December 31, 2016, 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 19. As of December 31, 2016, we expect annual amortization expense related to other intangible assets to be \$97 million in 2017; \$87 million in 2018; \$77 million in 2019; \$69 million in 2020 and \$58 million in 2021.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Debt

The following table summarizes the major components of debt at each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of December 31, 2016:

| | <u>2016</u> | <u>2015</u> |
|---|----------------|----------------|
| \$2.25 billion revolving credit facility, maturing July 2020 (weighted average interest rate of 1.9% at December 31, 2016) | \$ 426 | \$ 20 |
| Commercial paper program | — | — |
| Other letter of credit facilities, maturing through December 2018 | — | — |
| Canadian term loan and revolving credit facility, maturing March 2019 (weighted average effective interest rate of 2.1% at December 31, 2016 and 2.2% at December 31, 2015) | 239 | 84 |
| Senior notes maturing through 2045, interest rates ranging from 2.40% to 7.75% (weighted average interest rate of 4.6% at December 31, 2016 and 4.7% at December 31, 2015) | 6,033 | 6,050 |
| Tax-exempt bonds maturing through 2045, fixed and variable interest rates ranging from 0.7% to 5.7% (weighted average interest rate of 1.8% at December 31, 2016 and 1.9% at December 31, 2015) | 2,304 | 2,447 |
| Capital leases and other, maturing through 2055, interest rates up to 12% | 308 | 328 |
| | <u>\$9,310</u> | <u>\$8,929</u> |
| Current portion of long-term debt | 417 | 253 |
| | <u>\$8,893</u> | <u>\$8,676</u> |

Debt Classification

As of December 31, 2016, the current portion of our long-term debt balance of \$417 million includes (i) \$230 million of short-term borrowings under our long-term U.S. revolving credit facility (“\$2.25 billion revolving credit facility”) and (ii) \$187 million of other debt with scheduled maturities within the next 12 months, including \$126 million of tax-exempt bonds.

As of December 31, 2016, we have classified \$196 million of borrowings outstanding under our \$2.25 billion revolving credit facility as long-term because we intend and have the ability to refinance or maintain these borrowings on a long-term basis. We generally use available cash to repay borrowings outstanding under our \$2.25 billion revolving credit facility and any remaining balances are maintained by extending the maturities of the borrowings. Our current projections indicate that we will maintain \$196 million of the \$426 million of borrowings outstanding for the next 12 months. The remaining \$230 million of borrowings outstanding under our \$2.25 billion revolving credit facility is classified as current in our Consolidated Balance Sheet at December 31, 2016.

As of December 31, 2016, we also have \$473 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months and an additional \$491 million of variable-rate tax-exempt bonds that are supported by letters of credit. 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 intent and ability to

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

use availability under our \$2.25 billion revolving credit facility to fund the debt obligations until they can be remarketed successfully. Accordingly, we classified these borrowings as long-term in our Consolidated Balance Sheet at December 31, 2016.

Access to and Utilization of Credit Facilities

\$2.25 Billion Revolving Credit Facility — Our \$2.25 billion revolving credit facility maturing in July 2020 provides us with credit capacity to be used for either cash borrowings or to support letters of credit. The rates we pay for outstanding loans are generally based on LIBOR 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 ranges from 0.805% to 1.3%. At December 31, 2016, we had \$426 million of outstanding borrowings and \$789 million of letters of credit issued and supported by this facility, leaving unused and available credit capacity of \$1,035 million.

Commercial Paper Program — In August 2016, we entered into a \$1.5 billion commercial paper program that enables us to borrow funds for up to 397 days at competitive interest rates. The commercial paper program is fully supported by our \$2.25 billion revolving credit facility. In order to borrow in the commercial paper market, the Company must obtain short-term credit ratings. We are in the process of working with the credit rating agencies to obtain these ratings and, as a result, we did not have any commercial paper borrowings as of or during the year ended December 31, 2016.

Canadian Term Loan and Revolving Credit Facility — In March 2016, we amended and restated our Canadian credit agreement (which includes a term loan and revolving credit facility), to decrease the revolving credit capacity, increase the amount of term credit, and extend the term through March 2019. Waste Management of Canada Corporation and WM Quebec Inc., wholly-owned subsidiaries of WM, are borrowers under this agreement. The amended and restated credit agreement provides the Company (i) C\$50 million of revolving credit capacity, which can be used for borrowings or letters of credit, and (ii) C\$460 million of non-revolving term credit that is prepayable without penalty. Prior to closing, there was a balance of C\$90 million remaining on the prior C\$500 million term loan. Upon closing, the term loan was fully drawn to repay the indebtedness owed under the prior Canadian credit agreement and to repay C\$370 million of intercompany debt. WM and WM Holdings guarantee all subsidiary obligations outstanding under this credit agreement. The rates we pay for outstanding loans under the Canadian credit agreement are generally based on the applicable LIBOR 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 ranges from 0.875% to 1.5%. At December 31, 2016 and 2015, we had no borrowings or letters of credit outstanding under the Canadian revolving credit agreement.

Other Letter of Credit Facilities — As of December 31, 2016, we had utilized \$492 million of other letter of credit facilities, which are both committed and uncommitted, with terms extending through December 2018.

Debt Borrowings and Repayments

\$2.25 Billion Revolving Credit Facility — During the year ended December 31, 2016, we had net borrowings of \$406 million under our \$2.25 billion revolving credit facility. These net borrowings included funds to support our acquisition of certain operations and business assets of SWS. Refer to Note 19 for additional information related to this acquisition.

Canadian Term Loan — During the three months ended March 31, 2016, we repaid C\$27 million, or \$20 million, of advances under our prior Canadian term loan reducing the balance to C\$90 million at the time of the amendment and restatement of the credit agreement. Upon closing of the new Canadian credit agreement, we borrowed C\$460 million, or \$347 million, to repay the prior term loan and to allow our Canadian subsidiaries to repay C\$370 million, or \$280 million, of intercompany debt. From April 1, 2016 through December 31, 2016, we repaid C\$139 million, or \$105 million, of advances under our Canadian term loan.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Senior Notes — In May 2016, we issued \$500 million of 2.4% senior notes that mature in May 2023. We utilized the net proceeds of \$496 million to repay \$500 million of 2.6% senior notes that matured in September 2016.

Tax-Exempt Bonds — During the year ended December 31, 2016, we repaid \$146 million of our tax-exempt bonds with available cash. In May 2016, we elected to refund and reissue \$143 million of tax-exempt bonds in order to reduce the interest costs associated with this debt. The “Loss on early extinguishment of debt” reflected in our Consolidated Statement of Operations for the year ended December 31, 2016 includes \$3 million of charges related to these refundings.

Scheduled Debt Payments — Principal payments of our debt and capital leases for the next five years, based on scheduled maturities are as follows: \$610 million in 2017, \$783 million in 2018, \$432 million in 2019, \$746 million in 2020, and \$540 million in 2021. Our recorded debt and capital lease obligations include non-cash adjustments associated with discounts, premiums, deferred loan costs and fair value adjustments for interest rate hedging activities, which have been excluded from these amounts because they will not result in cash payments.

Senior Notes Refinancing

During 2015, we recognized a pre-tax loss of \$552 million associated with the early extinguishment of almost \$2 billion of our high-coupon senior notes through make-whole redemption and cash tender offers. We replaced substantially all of the debt extinguished with new senior notes at significantly lower coupon interest rates and extended the weighted average duration of these debt obligations.

Secured Debt

Our debt balances are generally unsecured, except for capital leases and the note payable associated with our investment in low-income housing properties.

Debt Covenants

Our \$2.25 billion revolving credit facility, our Canadian credit agreement and certain other financing agreements contain financial covenants. The following table summarizes the most restrictive requirements of these financial covenants (all terms used to measure these ratios are defined by the facilities):

| | |
|-----------------------------------|-------------|
| Interest coverage ratio | > 2.75 to 1 |
| Total debt to EBITDA | < 3.50 to 1 |

Our credit facilities and senior notes also contain certain restrictions intended to monitor our level of subsidiary indebtedness, types of investments and net worth. 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, 2016 and 2015, we were in compliance with the covenants and restrictions under all of our debt agreements that may have a material effect on our Consolidated Financial Statements.

8. Derivative Instruments and Hedging Activities

The Company had no derivatives outstanding at December 31, 2016. The following discussion relates to our terminated derivatives:

Foreign Currency Derivatives — As of December 31, 2015, we had cross-currency swaps outstanding for all of the anticipated cash flows associated with C\$370 million of intercompany debt between WM Holdings and

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

its wholly-owned Canadian subsidiaries. As discussed in Note 7, in March 2016, our Canadian subsidiaries repaid the intercompany debt with proceeds from our Canadian term loan. Concurrent with the repayment of the intercompany debt, we terminated the cross-currency swaps and received \$67 million in cash. The cash received from our termination of the swaps was classified as a change in “Other current assets” and “Other assets” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows. In addition, we recognized \$8 million of expense associated with the termination of these swaps, which was included in “Other, net” in the Consolidated Statement of Operations.

These cross-currency swaps had been designated as cash flow hedges and as of December 31, 2015, the carrying value of the hedge position was reflected in our Consolidated Balance Sheet as \$15 million of current other assets and \$63 million of long-term other assets. Through March 2016, when the intercompany loans and the related cross-currency swaps were terminated, gains or losses resulting from the remeasurement of the underlying non-functional currency intercompany loans were recognized in current earnings in the same financial statement line item as the offsetting gains or losses on the related cross-currency swaps. There was no significant ineffectiveness associated with our cash flow hedges during the reported periods.

Forward-Starting Interest Rate Swaps — At December 31, 2016 and 2015, our “Accumulated other comprehensive income (loss)” included \$37 million and \$43 million, respectively, of after-tax deferred losses related to terminated cash flow swaps, which are being amortized as an increase to interest expense using the effective interest method over the ten-year terms of the related senior notes, which extend through 2024. As of December 31, 2016, \$10 million of the pre-tax deferred losses for these previously terminated swaps is scheduled to be reclassified as an increase to interest expense over the next 12 months.

During the first quarter of 2014, forward-starting interest rate swaps with a notional value of \$175 million matured and we paid cash of \$36 million to settle the associated liabilities. The loss associated with the matured forward-starting swaps was deferred and included as a component of the “Accumulated other comprehensive income (loss)” balance discussed above.

Refer to Note 14 for information regarding the impacts of our cash flow derivatives on our comprehensive income and results of operations.

9. Income Taxes

Provision for Income Taxes

Our provision for income taxes consisted of the following for the years ended December 31 (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------|--------------|--------------|---------------|
| Current: | | | |
| Federal | \$443 | \$192 | \$ 414 |
| State | 88 | 50 | 61 |
| Foreign | 38 | 36 | 56 |
| | <u>569</u> | <u>278</u> | <u>531</u> |
| Deferred: | | | |
| Federal | 57 | 43 | (89) |
| State | 17 | (17) | (33) |
| Foreign | (1) | 4 | 4 |
| | <u>73</u> | <u>30</u> | <u>(118)</u> |
| Provision for income taxes | <u>\$642</u> | <u>\$308</u> | <u>\$ 413</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>2016</u> | <u>2015</u> | <u>2014</u> |
|---|---------------|---------------|---------------|
| Income tax expense at U.S. federal statutory rate | 35.00% | 35.00% | 35.00% |
| Federal tax credits | (3.08) | (5.49) | (3.21) |
| Taxing authority audit settlements and other tax adjustments | (0.53) | (2.67) | (1.59) |
| State and local income taxes, net of federal income tax benefit | 3.31 | 3.20 | 1.77 |
| Tax impact of impairments | 0.80 | 0.23 | 0.46 |
| Tax impact of divestitures | 0.26 | (0.34) | (7.89) |
| Tax rate differential on foreign income | (0.63) | (0.99) | (0.46) |
| Other | 0.10 | 0.17 | (0.47) |
| Provision for income taxes | <u>35.23%</u> | <u>29.11%</u> | <u>23.61%</u> |

The comparability of our provision for income taxes for the reported periods has been primarily affected by (i) variations in our income before income taxes; (ii) federal tax credits; (iii) tax audit settlements; (iv) the realization of state net operating losses and credits; (v) adjustments to our accruals and related deferred taxes and (vi) the tax implications of impairments and divestitures.

For financial reporting purposes, income before income taxes by source for the years ended December 31 was as follows (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------------------------------|----------------|----------------|----------------|
| Domestic | \$1,681 | \$ 922 | \$1,601 |
| Foreign | 141 | 138 | 150 |
| Income before income taxes | <u>\$1,822</u> | <u>\$1,060</u> | <u>\$1,751</u> |

Investments Qualifying for Federal Tax Credits — We have significant financial interests in entities established to invest in and manage low-income housing properties and a refined coal facility. We support the operations of these entities in exchange for a pro-rata share of the tax credits they generate. The low-income housing investments and the coal facility’s refinement processes qualify for federal tax credits that we expect to realize through 2020 under Section 42 and through 2019 under Section 45, respectively, of the Internal Revenue Code.

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, 2016, 2015 and 2014, we recognized \$31 million, \$30 million and \$32 million of net losses and a reduction in our tax provision of \$55 million, \$57 million and \$58 million, respectively, primarily as a result of tax credits realized from these investments. In addition, during the years ended December 31, 2016, 2015 and 2014, we recognized interest expense of \$3 million, \$4 million and \$5 million, respectively, associated with our investment in low-income housing properties.

See Note 20 for additional information related to these unconsolidated variable interest entities.

Other Federal Tax Credits — During 2016, 2015 and 2014, 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 to our provision for income taxes of \$14 million, \$15 million and \$13 million, respectively.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Tax Audit Settlements — We file income tax returns in the United States and Canada, as well as various state and local jurisdictions. We are currently under audit by the IRS, Canada Revenue Agency and various state and local taxing authorities. Our audits are in various stages of completion.

During 2016, 2015 and 2014, we settled various tax audits. The settlement of these tax audits resulted in a reduction to our provision for income taxes of \$11 million, \$10 million and \$12 million for the years ended December 31, 2016, 2015 and 2014, respectively.

We participate in the IRS's Compliance Assurance Process, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our annual tax return. We are currently in the examination phase of IRS audits for the tax years 2014, 2015, 2016 and 2017 and expect these audits to be completed within the next nine, 12, 18 and 30 months, respectively. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2009, with the exception of affirmative claims in a limited number of jurisdictions that date back to 2000.

State Net Operating Losses and Credits — During 2016, 2015 and 2014, we recognized state net operating losses and credits resulting in a reduction to our provision for income taxes of \$10 million, \$17 million and \$16 million, respectively.

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 of \$10 million, \$18 million and \$24 million to our provision for income taxes for the years ended December 31, 2016, 2015 and 2014, respectively.

Tax Implications of Impairments — A portion of the impairment charges recognized in 2016, 2015 and 2014 are not deductible for tax purposes. Had the charges been fully deductible, our provision for income taxes would have been reduced by \$15 million, \$2 million and \$8 million for the years ended December 31, 2016, 2015 and 2014, respectively. See Note 13 for more information related to our impairment charges.

Tax Implications of Divestitures — During 2014, the Company recorded a net gain of \$515 million primarily related to the divestiture of our Wheelabrator business, our Puerto Rico operations and certain landfill and collection operations in our Eastern Canada Area. Had this net gain been fully taxable, our provision for income taxes would have increased by \$138 million. During 2015, the Company recorded an additional \$10 million net gain primarily related to post-closing adjustments on the Wheelabrator divestiture and had this gain been fully taxable, our provision for income taxes would have increased by \$4 million. During 2016, the Company recorded a loss of \$9 million related to the divestiture of certain asset and had the associated tax loss been fully deductible, our provision for income taxes would have decreased by \$5 million. See Note 19 for more information related to our divestitures.

Unremitted Earnings in Foreign Subsidiaries — At December 31, 2016, remaining unremitted earnings in foreign operations were approximately \$950 million, which are considered permanently invested and, therefore, no provision for U.S. income taxes were accrued for these unremitted earnings. Determination of the unrecognized deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred Tax Assets (Liabilities)

The components of net deferred tax assets (liabilities) at December 31 are as follows (in millions):

| | 2016 | 2015 |
|--|-------------|-------------|
| Deferred tax assets: | | |
| Net operating loss, capital loss and tax credit carry-forwards | \$ 285 | \$ 280 |
| Landfill and environmental remediation liabilities | 116 | 120 |
| Miscellaneous and other reserves, net | 355 | 373 |
| Subtotal | 756 | 773 |
| Valuation allowance | (292) | (273) |
| Deferred tax liabilities: | | |
| Property and equipment | (728) | (709) |
| Goodwill and other intangibles | (1,218) | (1,182) |
| Net deferred tax liabilities | \$(1,482) | \$(1,391) |

The valuation allowance increased by \$19 million in 2016 primarily due to changes in our capital loss and state net operating loss carry-forwards, as well as the tax impacts of impairments.

At December 31, 2016, we had \$25 million of federal net operating loss carry-forwards and \$2.0 billion of state net operating loss carry-forwards. The federal and state net operating loss carry-forwards have expiration dates through the year 2036. We also had \$453 million of federal capital loss carry-forwards which expire in 2019 and 2021 and \$24 million of state tax credit carry-forwards.

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.

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):

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| Balance at January 1 | \$ 71 | \$42 | \$ 49 |
| Additions based on tax positions related to the current year ... | 19 | 18 | 9 |
| Additions based on tax positions of prior years | 4 | 21 | 2 |
| Accrued interest | 2 | 2 | 1 |
| Reductions for tax positions of prior years | (7) | (1) | — |
| Settlements | — | (3) | (11) |
| Lapse of statute of limitations | (7) | (8) | (8) |
| Balance at December 31 | \$ 82 | \$71 | \$ 42 |

These liabilities are included as a component of long-term “Other 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, 2016, \$69 million of net unrecognized tax benefits, if recognized in future periods, would impact our effective tax rate.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We recognize interest expense related to unrecognized tax benefits in our provision for income taxes. During the years ended December 31, 2016, 2015 and 2014, we recognized \$2 million, \$2 million and \$1 million, respectively, of such interest expense as a component of our provisions for income taxes. We had \$5 million and \$3 million of accrued interest expense in our Consolidated Balance Sheets as of December 31, 2016 and 2015, respectively. We did not have any accrued liabilities or expense for penalties related to unrecognized tax benefits for the years ended December 31, 2016, 2015 and 2014.

We are not able to reasonably estimate when we might make any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. As of December 31, 2016, we anticipate that approximately \$7 million of liabilities for unrecognized tax benefits, including accrued interest, and \$3 million of related tax assets may be reversed within the next 12 months. The anticipated reversals primarily relate to miscellaneous state tax items, each of which is individually insignificant. The recognition of the unrecognized tax benefits is expected to result from tax audit settlements or the expiration of the applicable statute of limitations period.

10. 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. United States 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, effective January 1, 2016, 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. Prior to January 1, 2016, such employees could contribute as much as 25% of their eligible annual compensation, 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. Both employee and Company contributions are in cash and vest immediately. Certain United States 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 United States, 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 \$64 million, \$61 million and \$63 million for the years ended December 31, 2016, 2015 and 2014, 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 which have previously been frozen to new participants. As of December 31, 2016, the combined benefit obligation of these pension plans was \$114 million, and the plans had \$103 million of combined plan assets, resulting in an aggregate unfunded benefit obligation for these plans of \$11 million. As of December 31, 2015, the combined benefit obligation of these pension plans was \$116 million, and the plans had \$88 million of combined plan assets, resulting in an aggregate unfunded benefit obligation for these plans of \$28 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 \$26 million and \$28 million as of December 31, 2016 and 2015, respectively.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our accrued benefit liabilities for our defined benefit pension and other post-retirement plans were \$37 million and \$56 million as of December 31, 2016 and 2015, 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) |
|---|--------------------------------------|--|----------------------------|-----------------------------|---------------------------------|-------------|-------------|---|
| | | 2016 | 2015 | | 2016 | 2015 | 2014 | |
| Automotive Industries Pension Plan | EIN: 94-1133245; Plan Number: 001 | Critical and Declining | Critical | Implemented | \$ 1 | \$ 1 | \$ 1 | Various dates through 6/30/2018 |
| Distributors Association Warehousemen’s Pension Trust | EIN: 94-0294755; Plan Number: 002 | Critical as of 5/31/2015 | Critical as of 5/31/2014 | Implemented | 1 | 1 | 1 | 4/7/2018 |
| Local 731 Private Scavengers and Garage Attendants Pension Trust Fund | EIN: 36-6513567; Plan Number: 001 | Not Endangered or Critical as of 9/30/2015 | Endangered as of 9/30/2014 | Implemented | 7 | 7 | 6 | 9/30/2018 |
| Suburban Teamsters of Northern Illinois Pension Plan | EIN: 36-6155778; Plan Number: 001 | Endangered | Critical | Implemented | 3 | 2 | 3 | Various dates through 9/30/2017 |
| Teamsters Local 301 Pension Plan | EIN: 36-6492992; Plan Number: 001 | Not Endangered or Critical | Not Endangered or Critical | Not Applicable | 2 | 1 | 1 | 9/30/2018 |
| Western Conference of Teamsters Pension Plan | EIN: 91-6145047; Plan Number: 001 | Not Endangered or Critical | Not Endangered or Critical | Not Applicable | 25 | 24 | 24 | Various dates through 12/31/2019 |
| Western Pennsylvania Teamsters and Employers Pension Plan | EIN: 25-6029946; Plan Number: 001 | Critical | Critical | Implemented | 1 | 1 | 1 | 12/31/2016; 90-day extension with agreements currently under negotiation |
| | | | | | \$40 | \$37 | \$37 | |
| Contributions to other Multiemployer Pension Plans | | | | | 7 | 6 | 7 | |
| Total contributions to Multiemployer Pension Plans(e) | | | | | \$47 | \$43 | \$44 | |

- (a) Unless otherwise noted in the table above, the most recent Pension Protection Act zone status available in 2016 and 2015 is for the plan’s year-end at December 31, 2015 and 2014, 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.
- (b) The “FIP/RP Status” column indicates plans for which a Funding Improvement Plan (“FIP”) or a Rehabilitation Plan (“RP”) is either pending or has been implemented.
- (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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (d) The Company was listed in the Form 5500 of the Multiemployer Pension Plans considered to be individually significant as providing more than 5% of the total contributions for each of the following plans and plan years:

| | Year Contributions to Plan Exceeded 5% of Total Contributions (as of Plan's Year End) |
|---|--|
| Distributors Association Warehousemen's Pension Trust | 5/31/2015 and 5/31/2014 |
| Local 731 Private Scavengers and Garage Attendants Pension Trust Fund | 9/30/2015 and 9/30/2014 |
| Suburban Teamsters of Northern Illinois Pension Plan | 12/31/2015 and 12/31/2014 |
| Teamsters Local 301 Pension Plan | 12/31/2015 and 12/31/2014 |

- (e) Total contributions to Multiemployer Pension Plans excludes contributions related to withdrawal liabilities discussed below.

At the date the financial statements were issued, Forms 5500 were not available for the plan years ended in 2016.

Our portion of the projected benefit obligation, plan assets and unfunded liability of 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 2015 and 2014, we recognized aggregate charges of \$51 million and \$4 million, respectively, to "Operating" expenses for the withdrawal of certain bargaining units from Multiemployer Pension Plans. In 2016, we did not recognize any charges for the withdrawal from Multiemployer Pension Plans. Refer to Note 11 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, 2016, 2015 and 2014, the Company made contributions of \$40 million, \$33 million and \$34 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 rates as negotiated in the respective collective bargaining agreements as costs are incurred.

11. 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 \$2.25 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) wholly-owned insurance companies, 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 consolidated financial statements. We have not experienced any unmanageable difficulty in

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

obtaining the required financial assurance instruments for our current operations. In an ongoing effort to mitigate risks of future cost increases and reductions in available capacity, we continue to evaluate various options to access cost-effective sources of financial assurance.

Insurance — We carry insurance coverage for protection of our assets and operations from certain risks including general liability, automobile liability, real and personal property, workers’ compensation, 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, however, 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 retentions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from our assumptions used. As of December 31, 2016, our commercial General Liability Insurance Policy carried self-insurance exposures of up to \$2.5 million per incident and our workers’ compensation insurance program carried self-insurance exposures of up to \$5 million per incident. As of December 31, 2016, our automobile liability insurance program included a per-incident base deductible of \$5 million, subject to an additional deductible of \$4.8 million in the \$5 million to \$10 million layer. The changes to our net insurance liabilities for the three years ended December 31, 2016 are summarized below (in millions):

| | <u>Gross Claims Liability</u> | <u>Receivables Associated with Insured Claims(a)</u> | <u>Net Claims Liability</u> |
|--|-----------------------------------|--|---------------------------------|
| Balance, December 31, 2013 | \$ 590 | \$(197) | \$ 393 |
| Self-insurance expense (benefit) | 135 | (9) | 126 |
| Cash (paid) received | <u>(128)</u> | <u>23</u> | <u>(105)</u> |
| Balance, December 31, 2014 | 597 | (183) | 414 |
| Self-insurance expense (benefit) | 169 | (39) | 130 |
| Cash (paid) received | <u>(123)</u> | <u>4</u> | <u>(119)</u> |
| Balance, December 31, 2015 | 643 | (218) | 425 |
| Self-insurance expense (benefit) | 71 | 30 | 101 |
| Cash (paid) received | <u>(126)</u> | <u>17</u> | <u>(109)</u> |
| Balance, December 31, 2016(b) | <u>\$ 588</u> | <u>\$(171)</u> | <u>\$ 417</u> |
| Current portion at December 31, 2016 | \$ 133 | \$ (20) | \$ 113 |
| Long-term portion at December 31, 2016 | \$ 455 | \$(151) | \$ 304 |

(a) Amounts reported as receivables associated with insured claims are related to both paid and unpaid claims liabilities.

(b) We currently expect substantially all of our net claims liability to be settled in cash over the next six years.

The Directors’ and Officers’ Liability Insurance policy we choose to maintain covers only individual executive liability, often referred to as “Broad Form Side A,” and does not provide corporate reimbursement coverage, often referred to as “Side B.” The Side A policy covers directors and officers directly for loss, including defense costs, when corporate indemnification is unavailable. Side A-only coverage cannot be

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

exhausted by payments to the Company, as the Company is not insured for any money it advances for defense costs or pays as indemnity to the insured directors and officers.

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 — Rental expense for leased assets was \$125 million during 2016, \$140 million during 2015 and \$159 million during 2014. Minimum contractual payments due for our operating lease obligations are \$109 million in 2017, \$90 million in 2018, \$73 million in 2019, \$62 million in 2020, \$44 million in 2021 and \$306 million thereafter. Our minimum contractual payments for lease agreements during future periods is less than current year rent expense primarily due to the effect of short-term leases.

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. Additionally, following the sale of our Wheelabrator business, we entered into several agreements to dispose of a minimum number of tons of waste at certain Wheelabrator facilities. These agreements generally 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 2019 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. 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, 2016. 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. As of December 31, 2016, our estimated minimum obligations for the above-described purchase obligations, which are not recognized in our Consolidated Balance Sheets, were \$179 million in 2017, \$149 million in 2018, \$112 million in 2019, \$92 million in 2020, \$88 million in 2021 and \$336 million thereafter. 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, 2016, WM Holdings has fully and unconditionally guaranteed all of WM’s senior indebtedness, including its senior notes, \$2.25 billion revolving credit facility and certain letter of

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 23 for further information.

- WM and WM Holdings have guaranteed subsidiary debt obligations, including the Canadian term loan and revolving credit facility, 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, 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. Wheelabrator is working with the various third-party beneficiaries to release WM from these guarantees, but until they are successful, WM has agreed to retain the guarantees and, in exchange, receive a credit support fee. The most significant of these guarantees specifically define WM's maximum financial obligation over the course of the relevant agreements. As of December 31, 2016 and 2015, WM's maximum future payments under these guarantees were \$96 million and \$106 million, respectively. 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. The estimated fair value of WM's potential obligation associated with guarantees of Wheelabrator obligations (net of credit support fee) at December 31, 2016 and 2015 was \$11 million and \$13 million, respectively. We currently do not expect the financial impact of such operational and financial performance guarantees to materially exceed the recorded fair value.
- We have guaranteed certain financial obligations of unconsolidated entities. The related obligations, which mature through 2020, are not recorded in our Consolidated Balance Sheets. As of December 31, 2016, our maximum future payments associated with these guarantees are \$6 million. Any requirement to act under these guarantees would not materially impact our financial position, results of operations or cash flows.
- Certain of our subsidiaries have guaranteed the market or contractually-determined value of certain homeowners' properties that are adjacent to 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, 2016, we have agreements guaranteeing certain market value losses for approximately 850 homeowners' properties adjacent to or near 22 of our landfills. We do not believe that these contingent obligations will have a material effect on our 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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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.

As of December 31, 2016, we had been notified by the government that we are a PRP in connection with 75 locations listed on the EPA's Superfund National Priorities List ("NPL"). Of the 75 sites at which claims have been made against us, 15 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to evaluate or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any amounts due from other participating parties at or near the time that we make the remedial expenditures. The other 60 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

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

In September 2016, the EPA announced a proposed remediation plan for the San Jacinto waste pits in Harris County, Texas, naming McGinnes Industrial Maintenance Corporation ("MIMC"), a subsidiary of WM, as a

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

PRP. MIMC operated the waste pits from 1965 to 1966. In 1998, WM acquired the stock of the parent entity of MIMC. During the six months ended December 31, 2016, we increased our environmental remediation liability reserve by \$44 million to record MIMC's estimated share of the EPA's proposed remedy. The remedy and remedial design plan for the site are not yet final. A notice and comment period with respect to the remedy closed on January 12, 2017. MIMC filed comments, detailing its disagreement with the proposed remedy put forth by the EPA and is continuing to focus on a solution that it believes best protects the environment and public health. MIMC's ultimate liability could be materially different from current estimates. We remain an active participant in the EPA's process established to evaluate and determine the appropriate remedy and remedial design plan for this site. As this site was never owned by the Company and never operated by MIMC while under the Company's ownership, the increase in this liability was recorded in "(Income) expense from divestitures, asset impairments and unusual items" instead of "Operating" expenses in our Consolidated Statement of Operations. See Note 13 for further discussion.

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 matter is disclosed in accordance with that requirement.

Waste Management of Hawaii, Inc. ("WMHI") may face civil claims from the Hawaii Department of Health and/or the EPA based upon water discharges at the Waimanalo Gulch Sanitary Landfill, which WMHI operates for the city and county of Honolulu, following three major rainstorms in December 2010 and January 2011. We do not anticipate such claims could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third parties, among other factors. Additionally, we often enter into agreements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these agreements inherently involves subjective determinations and may result in disputes, including litigation.

Litigation — On March 26, 2015, the Company acquired Deffenbaugh. In May 2012 and December 2013, Deffenbaugh was named as a defendant in purported class actions filed in the United States District Court for the District of Kansas. These cases pertained to fuel, environmental and base rate charges included on invoices, generally alleging that such charges were not properly disclosed, were unfair or were contrary to the customer service contracts. We settled both cases, and we received final court approval of these settlements on December 14, 2016. The settlements did not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

As a large company with operations across the United States and Canada, we are subject to various proceedings, lawsuits, disputes and claims arising in the ordinary course of our business. Many of these actions

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 entitled 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, our President and Chief Executive Officer, our Chief Operating Officer and certain other senior vice presidents. 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 United States 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 10 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 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.

One of the most significant Multiemployer Pension Plans in which we have participated is the Central States, Southeast and Southwest Areas Pension Plan ("Central States Pension Plan"). In 2008, we reached agreement with all of the unions involved to cease participation in the Central States Pension Plan. Since that time, litigation with the Central States Pension Plan had been pending over several matters, including the effective date that our contribution obligations ceased. In the third quarter of 2015, we settled and paid all amounts due for all pending litigation with the trustees for the Central States Pension Plan regarding liability for contributions to the plan and withdrawal liability resulting from the cessation of contributions. Similarly, in the fourth quarter of 2015, we settled and paid all amounts due for outstanding issues regarding plan contributions and withdrawal liability with the Teamsters Employers Local 945 Pension Fund.

In 2015, we recognized a \$51 million charge in "Operating" expenses associated with withdrawal from certain underfunded Multiemployer Pension Plans, nearly all of which was associated with the Central States

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pension Plan and the Teamsters Employers Local 945 Pension Fund withdrawals discussed above. We do not believe that any future liability for withdrawals from the Multiemployer Pension Plans to which we contribute, will have a material adverse effect on our business, financial condition or liquidity. However, liability for future withdrawals could have a material adverse effect on our results of operations or cash flows for a particular reporting period, depending on the number of employees withdrawn and the financial condition of the Multiemployer Pension Plan(s) at the time of such withdrawal(s).

Tax Matters — We 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 impact on our results of operations or cash flows. See Note 9 for additional discussion regarding tax matters.

12. Restructuring Costs

The following table summarizes pre-tax restructuring charges, including employee severance and benefit costs and other charges, for the years ended December 31 (in millions):

| | 2016 | 2015 | 2014 |
|---------------------------|-------------|--------------|-------------|
| Solid Waste | \$ 4 | \$ 14 | \$10 |
| Corporate and Other | — | 1 | 71 |
| Wheelabrator | — | — | 1 |
| | \$ 4 | \$ 15 | \$82 |

During the year ended December 31, 2016, we recognized \$4 million of pre-tax restructuring charges, of which \$2 million was related to employee severance and benefit costs. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

During the year ended December 31, 2015, we recognized \$15 million of pre-tax restructuring charges, of which \$10 million was related to employee severance and benefit costs, including costs associated with the loss of a municipal contract in our Eastern Canada Area and our acquisition of Deffenbaugh. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

In August 2014, we announced a consolidation and realignment of several Corporate functions to better support achievement of the Company's strategic goals, including cost reduction. Voluntary separation arrangements were offered to all salaried employees within these organizations. Approximately 650 employees separated from our Corporate and recycling organizations in connection with this restructuring. During the year ended December 31, 2014, we recognized a total of \$82 million of pre-tax restructuring charges, of which \$70 million was related to employee severance and benefit costs. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

As of December 31, 2016, substantially all of the accrued employee severance and benefits related to our restructuring efforts was paid.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Asset Impairments and Unusual Items

(Income) expense from divestitures, asset impairments and unusual items

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

| | 2016 | 2015 | 2014 |
|--|--------------|--------------|----------------|
| (Income) expense from divestitures | \$ 9 | \$ (7) | \$(515) |
| Asset impairments | 59 | 89 | 355 |
| Other | 44 | — | — |
| | \$112 | \$ 82 | \$(160) |

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 environmental remediation liability related to a closed site in Harris County, Texas, as further discussed in Note 11; (ii) a \$43 million charge to impair a landfill in Western Pennsylvania 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.

During the year ended December 31, 2015, we recognized net charges of \$82 million, primarily related to (i) \$66 million of charges to impair certain of our oil and gas producing properties as a result of the continued decline in oil and gas prices; (ii) \$18 million of charges to write down or divest certain assets in our recycling operations and (iii) a \$5 million impairment of a landfill in our Western Canada Area due to revised post-closure cost estimates. Partially offsetting these charges was \$7 million of net gains from divestitures, including a \$6 million gain on the sale of an oil and gas producing property in 2015.

During the year ended December 31, 2014, we recognized net gains of \$160 million, primarily related to the following:

- *Divestitures* — We recognized net gains of \$515 million, primarily as a result of a \$519 million gain on the sale of our Wheelabrator business and an \$18 million gain on the sale of certain landfill and collection operations in our Eastern Canada Area. Partially offsetting these gains was a \$25 million loss on the divestiture of our Puerto Rico operations. Refer to Note 19 for additional information related to our divestitures.
- *Oil and gas producing properties impairments* — We recognized \$272 million of charges to impair certain of our oil and gas producing properties, primarily as a result of the pronounced decrease in oil and gas prices in the fourth quarter of 2014.
- *Goodwill impairments* — We recognized \$10 million of goodwill impairment charges related to our recycling reporting unit.
- *Other impairments* — We recognized additional impairment charges of \$73 million to write down assets in our waste diversion technology, renewable energy, recycling and medical waste operations.

See Note 3 for additional information related to the accounting policy and analysis involved in identifying and calculating impairments; and see Note 21 for additional information related to the impact of impairments on the results of operations of our reportable segments.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Equity in net losses of unconsolidated entities

During the year ended December 31, 2014, we recognized charges of \$11 million primarily to write down equity method investments in waste diversion technology companies to their fair value.

Other income (expense)

During the years ended December 31, 2016, 2015 and 2014, we recognized impairment charges of \$42 million, \$5 million and \$22 million, respectively, related to other-than-temporary declines in the value of minority-owned, cost method investments in waste diversion technology companies. We wrote down our investments to their fair value 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.

Also, during the year ended December 31, 2014, we sold our cost method investment in Shanghai Environment Group, which was part of our Wheelabrator business. We received cash proceeds from the sale of \$155 million, which have been included in "Proceeds from divestitures of businesses and other assets (net of cash divested)" within "Net cash provided by (used in) investing activities" in the Consolidated Statement of Cash Flows. The loss recognized related to the sale was not material.

These charges are recorded in "Other, net" in our Consolidated Statements of Operations.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. 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 Obligation</u> | <u>Total</u> |
|--|-----------------------------------|---|---|--|----------------|
| Balance, December 31, 2013 | \$(62) | \$ 6 | \$ 208 | \$ 2 | \$ 154 |
| Other comprehensive income (loss) before reclassifications, net of tax provision (benefit) of \$4, \$2, \$0 and \$(8), respectively | 6 | 4 | (107) | (11) | (108) |
| Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (provision) benefit of \$(3), \$0, \$0 and \$0, respectively | <u>(5)</u> | <u>—</u> | <u>(17)</u> | <u>(1)</u> | <u>(23)</u> |
| Net current period other comprehensive income (loss) . . . | <u>1</u> | <u>4</u> | <u>(124)</u> | <u>(12)</u> | <u>(131)</u> |
| Balance, December 31, 2014 | \$(61) | \$ 10 | \$ 84 | \$(10) | \$ 23 |
| Other comprehensive income (loss) before reclassifications, net of tax provision (benefit) of \$20, \$(1), \$0 and \$1, respectively | 30 | (2) | (164) | 2 | (134) |
| Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (provision) benefit of \$(14), \$0, \$0 and \$0, respectively | <u>(21)</u> | <u>—</u> | <u>5</u> | <u>—</u> | <u>(16)</u> |
| Net current period other comprehensive income (loss) . . . | <u>9</u> | <u>(2)</u> | <u>(159)</u> | <u>2</u> | <u>(150)</u> |
| Balance, December 31, 2015 | \$(52) | \$ 8 | \$ (75) | \$ (8) | \$(127) |
| Other comprehensive income (loss) before reclassifications, net of tax provision (benefit) of \$(4), \$3, \$0 and \$0, respectively | (7) | 5 | 26 | — | 24 |
| Amounts reclassified from accumulated other comprehensive (income) loss, net of tax (provision) benefit of \$12, \$0, \$0 and \$1, respectively | <u>19</u> | <u>—</u> | <u>2</u> | <u>2</u> | <u>23</u> |
| 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 | <u>\$(40)</u> | <u>\$ 13</u> | <u>\$ (47)</u> | <u>\$ (6)</u> | <u>\$ (80)</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The amounts of other comprehensive income (loss) before reclassifications associated with the effective portion of derivatives designated as cash flow hedges for the years ended December 31 are as follows (in millions):

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| Forward-starting interest rate swaps | \$— | \$— | \$(8) |
| Foreign currency derivatives | (11) | 50 | 23 |
| Electricity commodity derivatives | — | — | (5) |
| Total before tax | (11) | 50 | 10 |
| Tax (provision) benefit | 4 | (20) | (4) |
| Net of tax (provision) benefit | \$ (7) | \$ 30 | \$ 6 |

The significant amounts reclassified out of each component of accumulated other comprehensive income (loss) associated with our 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):

| | 2016 | 2015 | 2014 | Statement of Operations Classification |
|--|-------------|-------------|-------------|---|
| Forward-starting interest rate swaps | \$ (10) | \$ (12) | \$ (10) | Interest expense, net |
| Treasury rate locks | (1) | (4) | (1) | Interest expense, net |
| Foreign currency derivatives | (20) | 51 | 27 | Other, net |
| Electricity commodity derivatives | — | — | (8) | Operating revenues |
| | (31) | 35 | 8 | Total before tax |
| | 12 | (14) | (3) | Tax (provision) benefit |
| Total reclassifications for the period | \$ (19) | \$ 21 | \$ 5 | Net of tax |

15. 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, 2016, we had 439.3 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 \$726 million in 2016, or \$1.64 per common share, \$695 million in 2015, or \$1.54 per common share, and \$693 million in 2014, or \$1.50 per common share.

In December 2016, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.41 to \$0.425 per share for dividends declared in 2017. 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 and other factors the Board of Directors may deem relevant.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Common Stock Repurchase Program

Our share repurchases have been authorized by our Board of Directors. Share repurchases during 2016, 2015 and 2014 were completed through accelerated share repurchase (“ASR”) agreements. The terms of these 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 reflected in the period the shares are delivered to us. Additional information related to our ASR agreements is included below. The following is a summary of our share repurchases under our common stock repurchase program for the years ended December 31:

| | 2016(a) | 2015(b) | 2014(c) |
|---|----------------|----------------|----------------|
| Shares repurchased (in thousands) | 11,241 | 14,823 | 9,569 |
| Weighted average per share purchase price | \$60.49 | \$49.83 | \$43.89 |
| Total repurchases (in millions) | \$725 | \$600 | \$600 |

- (a) 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. At the beginning of the repurchase period, we delivered \$225 million in cash and received 2.8 million shares based on a stock price of \$63.41 per share. The ASR agreement completed in February 2017, at which time we received 0.4 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$69.43.
- (b) During 2015, we executed and completed two ASR agreements to repurchase \$600 million of our common stock. Our “Shares repurchased” also includes 2.8 million shares related to ASR agreements that were executed in 2014, discussed further below.
- (c) During 2014, we executed two ASR agreements to repurchase \$600 million of our common stock. Our “Shares repurchased” includes the initial portion of shares repurchased based on the then-current market price of our common stock. The ASR agreements were completed in 2015 and the final weighted average per share purchase price during the repurchase period was \$48.58.

Each ASR agreement is accounted for as two separate transactions: (i) as shares of reacquired common stock for the shares delivered to us upon effectiveness of the ASR agreement and (ii) as a forward contract indexed to our own common stock for the undelivered shares. The initial delivery of shares is included in treasury stock at cost, and results in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share. The forward contracts indexed to our own stock meets the criteria for equity classification, and these amounts are initially recorded in additional paid-in capital and reclassified to treasury stock upon completion of the ASR agreement. As of December 31, 2016, \$45 million of the ASR agreement executed in November 2016 is recorded in additional paid-in capital pending completion of this ASR agreement in February 2017.

We announced in December 2016 that the Board of Directors has authorized up to \$750 million in future share repurchases, which supersedes and replaces remaining authority under any prior Board of Directors authorization for 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.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. Stock-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, and the number of shares that may be purchased is limited by IRS regulations. The total number of shares issued under the plan for the offering periods in each of 2016, 2015 and 2014 was approximately 647,000, 786,000 and 774,000, respectively. Including the impact of the January 2017 issuance of shares associated with the July to December 2016 offering period, approximately 2.5 million shares remain available for issuance under the plan.

Accounting for our ESPP increased annual compensation expense by approximately \$7 million, or \$4 million net of tax provision, for 2016 and \$6 million, or \$4 million net of tax provision, for 2015 and 2014.

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 the 2009 Plan that are subsequently cancelled, forfeited, terminate, expire or lapse. As of December 31, 2016, approximately 23.2 million shares were available for future grants under the 2014 Plan. All of our stock-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 2016 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 certain key employees included a combination of PSUs, RSUs and stock options in 2016. The Company has also periodically granted RSUs and stock options 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 at January 1, 2016 | 524 | \$43.76 |
| Granted | 186 | \$57.38 |
| Vested | (205) | \$37.45 |
| Forfeited | (15) | \$51.17 |
| Unvested at December 31, 2016 | 490 | \$51.32 |

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The total fair market value of RSUs that vested during the years ended December 31, 2016, 2015 and 2014 was \$12 million, \$13 million and \$3 million, respectively. During the year ended December 31, 2016, we issued approximately 136,000 shares of common stock for these vested RSUs, net of approximately 69,000 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 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. 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 at January 1, 2016 | 1,762 | \$52.90 |
| Granted | 555 | \$79.27 |
| Vested | (664) | \$48.38 |
| Forfeited | (148) | \$76.01 |
| Unvested at December 31, 2016 | 1,505 | \$68.98 |

The determination of achievement of performance results and corresponding vesting of PSUs for the three-year performance period ended December 31, 2016 was performed by the Management Development and Compensation Committee in February 2017. Accordingly, vesting information for such awards is not included in the table above as of December 31, 2016. The “vested” PSUs are for the three-year performance period ended December 31, 2015, as achievement of performance results and corresponding vesting was determined in February 2016. The Company’s financial results, as measured for purposes of these awards, were higher than the target levels established but not in excess of the maximum performance criteria. Accordingly, recipients of these PSU awards were entitled to receive a payout of 132.88% of the vested TSR PSUs and 196.15% of the vested PSUs for which payout was dependent on the Company’s performance against a pre-established return on invested capital metric. In February 2016, approximately 1,093,000 PSUs vested and we issued approximately 547,000 shares of common stock for these vested PSUs, net of units deferred or used for payment of associated taxes.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The shares of common stock that were issued or deferred during the years ended December 31, 2016, 2015 and 2014 for prior PSU award grants had a fair market value of \$50 million, \$35 million and \$8 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. 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, are subject to pro-rata vesting upon an employee's retirement or involuntary termination other than for cause and are subject to forfeiture in the event of voluntary or for-cause termination.

Compensation expense associated with our Cash Flow PSUs that continue to vest based on future performance is measured based on the fair value of our common stock at the end of each reporting period until the performance period ends. 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 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 — Recipients 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. At December 31, 2016, we had approximately 698,000 vested deferred units outstanding.

Stock Options — Stock options granted primarily vest 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 10 years. A summary of our stock options is presented in the table below (options in thousands):

| | Options | Weighted Average Per Share Exercise Price |
|---|----------------|--|
| Outstanding at January 1, 2016 | 7,507 | \$40.80 |
| Granted | 1,387 | \$56.24 |
| Exercised | (2,645) | \$37.20 |
| Forfeited or expired | (606) | \$51.70 |
| Outstanding at December 31, 2016(a) | 5,643 | \$45.12 |
| Exercisable at December 31, 2016(b) | 2,921 | \$38.84 |

- (a) Stock options outstanding as of December 31, 2016 have a weighted average remaining contractual term of 6.9 years and an aggregate intrinsic value of \$146 million based on the market value of our common stock on December 31, 2016.
- (b) Stock options exercisable as of December 31, 2016 have an aggregate intrinsic value of \$94 million based on the market value of our common stock on December 31, 2016.

We received cash proceeds of \$63 million, \$77 million and \$93 million during the years ended December 31, 2016, 2015 and 2014, respectively, from employee stock option exercises. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2016, 2015 and 2014 was \$67 million, \$37 million and \$27 million, respectively.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Exercisable stock options at December 31, 2016, 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> |
|---------------------------------|----------------|--|---|
| \$32.315-\$40.00 | 2,141 | \$36.12 | 4.9 |
| \$40.01-\$50.00 | 491 | \$41.36 | 7.2 |
| \$50.01-\$54.635 | 289 | \$54.64 | 8.2 |
| \$32.315-\$54.635 | <u>2,921</u> | \$38.84 | 5.6 |

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 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, 2016, 2015 and 2014 was \$6.31, \$5.56 and \$4.55, respectively. 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 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>2016</u> | <u>2015</u> | <u>2014</u> |
|-------------------------------|-------------|-------------|-------------|
| Expected option life | 4.7 years | 4.4 years | 4.8 years |
| Expected volatility | 18.4% | 16.7% | 18.4% |
| Expected dividend yield | 2.9% | 2.8% | 3.6% |
| Risk-free interest rate | 1.3% | 1.4% | 1.6% |

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, 2016, 2015 and 2014, we recognized \$81 million, \$64 million and \$59 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 "Provision for income taxes," for the years ended December 31, 2016, 2015 and 2014, includes related deferred income tax benefits of \$32 million, \$26 million and \$23 million, respectively. We also realized excess tax benefits from stock option exercises and the vesting of RSUs and PSUs during the years ended December 31, 2016, 2015 and 2014 of \$28 million, \$15 million and \$5 million, respectively. These amounts have been presented as cash inflows in the "Cash flows from financing activities" section of our Consolidated Statements of Cash Flows. We have not capitalized any equity-based compensation costs during the years ended December 31, 2016, 2015 and 2014.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Compensation expense recognized in 2016 increased when compared to 2015 and 2014, primarily due to increases in the fair values and expected payouts of our PSUs. As of December 31, 2016, we estimate that \$51 million of currently unrecognized compensation expense will be recognized over a weighted average period of 1.5 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 Incentive Plans described above.

17. 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>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|
| Number of common shares outstanding at year-end | 439.3 | 447.2 | 458.5 |
| Effect of using weighted average common shares outstanding | <u>4.2</u> | <u>5.5</u> | <u>4.1</u> |
| Weighted average basic common shares outstanding | 443.5 | 452.7 | 462.6 |
| Dilutive effect of equity-based compensation awards and other contingently issuable shares | <u>3.0</u> | <u>3.2</u> | <u>3.0</u> |
| Weighted average diluted common shares outstanding | <u>446.5</u> | <u>455.9</u> | <u>465.6</u> |
| Potentially issuable shares | 9.8 | 10.2 | 11.3 |
| Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding | 1.0 | 2.0 | 0.4 |

18. 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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

that we believe market 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 (in millions):

| | <u>Total</u> | <u>Fair Value Measurements at December 31, 2016 Using</u> | | |
|---|--------------|--|--|--|
| | | <u>Quoted Prices in Active Markets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| Assets: | | | | |
| Money market funds | \$ 35 | \$ 35 | \$— | \$— |
| Available-for-sale securities | 46 | — | 46 | — |
| Fixed-income securities | 39 | — | 39 | — |
| Redeemable preferred stock | 54 | — | — | 54 |
| Total assets | <u>\$174</u> | <u>\$ 35</u> | <u>\$ 85</u> | <u>\$ 54</u> |

| | <u>Total</u> | <u>Fair Value Measurements at December 31, 2015 Using</u> | | |
|---|--------------|--|--|--|
| | | <u>Quoted Prices in Active Markets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| Assets: | | | | |
| Money market funds | \$ 35 | \$ 35 | \$— | \$— |
| Available-for-sale securities | 43 | — | 43 | — |
| Fixed-income securities | 40 | — | 40 | — |
| Foreign currency derivatives | 78 | — | 78 | — |
| Redeemable preferred stock | 47 | — | — | 47 |
| Total assets | <u>\$243</u> | <u>\$ 35</u> | <u>\$161</u> | <u>\$ 47</u> |

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.

Available-for-Sale Securities

Available-for-sale securities are primarily related to the restricted trust funds that were created to settle certain of our final capping, closure, post-closure or environmental remediation obligations, which are discussed further in Note 20. These trust funds are invested in U.S. Treasury securities and equity and bond funds. 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).”

Fixed-Income Securities

We invest a portion of our restricted trust and escrow account balances in fixed-income securities, including U.S. Treasury securities, U.S. agency securities, municipal securities and mortgage- and asset-backed securities.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We measure the fair value of these securities using quoted prices for identical or similar assets in inactive markets. The fair value of our fixed-income securities approximates our cost basis in these investments.

Foreign Currency Derivatives

In March 2016, we terminated our cross-currency swaps. Previously, our cross-currency swaps were valued using a third-party pricing model that incorporated information about forward Canadian dollar rates, or observable market data, as of the reporting date. The third-party pricing model used to value our cross-currency swaps also incorporated Company and counterparty credit valuation adjustments, as appropriate. Counterparties to these contracts were financial institutions who participated in our \$2.25 billion revolving credit facility. Valuations fluctuated from period-to-period due to volatility in the Canadian dollar to U.S. dollar exchange rate over the term of the agreements.

Refer to Notes 8 and 14 for additional information regarding the derivative instruments discussed above.

Redeemable Preferred Stock

Redeemable preferred stock is primarily related to a noncontrolling investment in an unconsolidated entity and is included in “Investments in unconsolidated entities” in our Consolidated Balance Sheets. The fair value of our investment has been measured based on third-party investors’ recent or pending transactions in these securities, which is considered the best evidence of fair value currently available. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public comparables. Redeemable preferred stock also includes stock received in conjunction with the 2014 sale of our Puerto Rico operations, as discussed in Note 19.

Fair Value of Debt

At December 31, 2016 and 2015, the carrying value of our debt was approximately \$9.3 billion and \$8.9 billion, respectively. The estimated fair value of our debt was approximately \$9.7 billion and \$9.2 billion at December 31, 2016 and 2015, respectively. The fair value of our fixed-rate debt is estimated by using a discounted cash flow approach and current market rates for similar types of instruments. The carrying value of our variable-rate debt approximates fair value due to the short-term nature of the interest rates. The increase in the fair value of our debt when comparing December 31, 2016 with December 31, 2015 is primarily related to \$375 million of net borrowings during 2016.

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 and/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, 2016 and 2015. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

19. 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, 2016, we acquired 30

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. For businesses acquired in 2016, our estimated maximum obligations for contingent consideration was not material. In 2016, we also paid \$4 million of contingent consideration for acquisitions completed prior to 2016. In addition, we paid \$26 million of holdbacks, of which \$16 million related to current year 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 is primarily a result of expected synergies from combining the acquired businesses with our existing operations and is tax deductible.

Southern Waste Systems/Sun Recycling (“SWS”) — On January 8, 2016, Waste Management Inc. of Florida, a 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 \$2.25 billion 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 acquisition accounting for this transaction was finalized in the third quarter of 2016. There were no significant measurement period adjustments recorded in 2016. The goodwill has been assigned to our Florida Area, in Tier 3, and is tax deductible.

Since the acquisition date in 2016, SWS contributed revenues of \$148 million for the year ended December 31, 2016, which are included in our Consolidated Statement of Operations. The acquired operations have not materially affected our “Consolidated net income” for the year ended December 31, 2016.

Contingent consideration obligations are primarily based on achievement by the acquired businesses of certain negotiated goals, which generally include targeted financial metrics. As of December 31, 2016 and 2015, the balance of our estimated contingent consideration obligations was \$37 million and \$96 million, respectively. The decrease in this balance is primarily due to adjustments to write down our estimated obligations to fair value, including a \$47 million decrease resulting from the finalization of our purchase accounting that occurred during the measurement period, see Note 21 for further discussion, and post measurement period decreases to reflect changes in the estimated achievement of the targeted financial metrics.

During the year ended December 31, 2015, we acquired 27 businesses primarily related to our Solid Waste business. Total consideration, net of cash acquired, for all acquisitions was \$646 million, which included \$537 million in cash paid, purchase price holdbacks of \$13 million and a liability for contingent consideration with a preliminary estimated fair value of \$96 million. Our estimated maximum obligations for the contingent cash payments were \$126 million at the dates of acquisition. As of December 31, 2015, we had paid \$13 million of these holdbacks and contingent consideration. In 2015, we also paid \$4 million of contingent consideration associated with acquisitions completed prior to 2015.

Total consideration for our 2015 acquisitions was primarily allocated to \$243 million of property and equipment, \$145 million of other intangible assets and \$325 million of goodwill. Other intangible assets included \$131 million of customer and supplier relationships, \$8 million of covenants not-to-compete and \$6 million of trade name. The goodwill is primarily a result of expected synergies from combining the acquired businesses with our existing operations and \$166 million is tax deductible and \$159 million is not tax deductible.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deffenbaugh Disposal, Inc. (“Deffenbaugh”) — On March 26, 2015, we acquired Deffenbaugh, one of the largest privately owned collection and disposal firms in the Midwest, for total consideration, net of cash acquired, of \$400 million. Deffenbaugh’s assets include collection operations, transfer stations, recycling facilities and landfills. The acquisition accounting for this transaction was finalized in the first quarter of 2016. There were no significant measurement period adjustments recorded in 2016.

Total consideration for Deffenbaugh was allocated to \$207 million of property and equipment, \$159 million in goodwill, \$100 million in other intangible assets, \$50 million in other assets, including \$15 million cash acquired, and \$101 million in total liabilities. Goodwill has been assigned to our Areas, primarily Tier 3 and to a lesser extent Tier 1, and is not tax deductible.

The following table presents the fair value assigned to other intangible assets for the Deffenbaugh and SWS acquisitions, respectively, (amounts in millions, except for amortization periods):

| | Deffenbaugh | | SWS | |
|--|--------------|---|--------------|---|
| | Amount | Weighted Average Amortization Periods (in Years) | Amount | Weighted Average Amortization Periods (in Years) |
| Customer relationships | \$ 94 | 15.0 | \$160 | 10.0 |
| Noncompete agreements | — | — | 18 | 5.0 |
| Trade name | 6 | 15.0 | 4 | 10.0 |
| Total other intangible assets subject to amortization | <u>\$100</u> | 15.0 | <u>\$182</u> | 9.5 |

The following pro forma consolidated results of operations for the years ended December 31 have been prepared as if the acquisitions of Deffenbaugh and SWS occurred at January 1, 2015 (in millions, except per share amounts):

| | 2016 | 2015 |
|---|----------|----------|
| Operating revenues | \$13,611 | \$13,137 |
| Net income attributable to Waste Management, Inc. | 1,182 | 751 |
| Basic earnings per common share | 2.67 | 1.66 |
| Diluted earnings per common share | 2.65 | 1.65 |

During the year ended December 31, 2014, we acquired 15 businesses related to our Solid Waste business. Total consideration, net of cash acquired, for all acquisitions was \$32 million, which included \$26 million in cash paid and a liability for contingent consideration with a preliminary estimated fair value of \$6 million. Our estimated maximum obligations for the contingent cash payments were \$6 million at the dates of acquisition. As of December 31, 2014, we had paid \$4 million of this contingent consideration. In 2014, we also paid \$5 million of contingent consideration associated with acquisitions completed prior to 2014.

Total consideration for our 2014 acquisitions was primarily allocated to \$6 million of property and equipment, \$9 million of other intangible assets and \$17 million of goodwill. Other intangible assets included \$7 million of customer and supplier relationships and \$2 million of covenants not-to-compete. The goodwill is primarily a result of expected synergies from combining the acquired businesses with our existing operations and is tax deductible.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Divestitures

In 2016 and 2015, the aggregate sales price for divestitures of operations was \$2 million and \$79 million and we recognized net losses of \$9 million and net gains of \$7 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.

The aggregate sales price for divestitures of operations was \$2.09 billion in 2014, primarily related to (i) the sale of our Wheelabrator business; (ii) the sale of our Puerto Rico operations and (iii) the sale of certain landfill and collection operations in our Eastern Canada Area, as discussed further below. We recognized net gains on these divestitures of \$515 million in 2014. The remaining amounts reported in the Consolidated Statement of Cash Flows generally relate to the sale of fixed assets.

On December 19, 2014, we sold our Wheelabrator business to an affiliate of Energy Capital Partners and received cash proceeds of \$1.95 billion, net of cash divested, subject to certain post-closing adjustments. We recognized a gain of \$519 million on this sale which is included within “(Income) expense from divestitures, asset impairments and unusual items” in the Consolidated Statement of Operations. For the year ended December 31, 2015, net adjustments to this gain were immaterial on a pre-tax basis. In conjunction with the sale, the Company entered into several agreements to dispose of a minimum number of tons of waste at certain Wheelabrator facilities. See Note 11 for further discussion of these agreements.

During 2014, we also sold our Puerto Rico operations and received proceeds of \$80 million, consisting of \$65 million of cash and \$15 million of preferred stock and recognized a loss of \$25 million. In addition, we sold certain landfill and collection operations in our Eastern Canada Area and received cash proceeds of \$39 million and recognized a gain of \$18 million. The gain or loss on these divestitures is included within “(Income) expense from divestitures, asset impairments and unusual items” in the Consolidated Statement of Operations. The remaining proceeds from divestitures in 2014 were comprised substantially of cash.

20. Variable Interest Entities

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

Unconsolidated Variable Interest Entities

Low-Income Housing Properties and Refined Coal Facility Investments — We have significant financial interests in entities established to invest in and manage low-income housing properties and a refined coal facility. We support the operations of these entities in exchange for a pro-rata share of the tax credits they generate. We do not consolidate these entities as we have determined we are not the primary beneficiary of these entities as we do not have the power to individually direct the activities of these entities. Accordingly, we account for these investments under the equity method of accounting. As of December 31, 2016 and 2015, our aggregate investment balance in these two entities was \$84 million and \$110 million, respectively. The debt balance related to our investment in low-income housing properties was \$57 million and \$80 million at December 31, 2016 and 2015, respectively. Additional information related to these investments is discussed in Note 9.

Trust Funds for Final Capping, Closure, Post-Closure or Environmental Remediation Obligations — We have significant financial interests in trust funds that were created to settle certain of our final capping, closure, post-closure or environmental remediation obligations. Certain of the funds have been established for the benefit

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of both the Company and the host community in which we operate. We have determined that these trust funds are variable interest entities; however, we do not consolidate these trust funds as we are not the primary beneficiary of these entities because either (i) we do not have the 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. Our investments and receivables related to these trusts had an aggregate carrying value of \$93 million as of December 31, 2016 and 2015.

As the party with primary responsibility to fund the related final capping, closure, post-closure or environmental remediation activities for these trust funds, we are exposed to risk of loss as a result of potential changes in the fair value of the assets of the trust. We currently expect the trust funds to continue to meet the statutory requirements for which they were established.

Consolidated Variable Interest Entities

Trust Funds for Final Capping, Closure, Post-Closure or Environmental Remediation Obligations — We also have significant financial interests in trust funds that were created to settle certain of our final capping, closure, post-closure or environmental remediation obligations of which we are the sole beneficiary of these restricted balances. We have determined that these trust funds are variable interest entities and we consolidate these trust funds as we are the primary beneficiary. We account for the trust funds for which we are the sole beneficiary as long-term "Other assets" in our Consolidated Balance Sheets. We reflect our interests in the unrealized gains and losses on available-for-sale securities held by these trusts as a component of "Accumulated other comprehensive income (loss)." These trusts had a fair value of \$95 million and \$94 million at December 31, 2016 and 2015, respectively.

We are also the party with primary responsibility to fund the related final capping, closure, post-closure or environmental remediation activities for these trust funds and we are exposed to risk of loss as a result of potential changes in the fair value of the assets of the trust. We currently expect the trust funds to continue to meet the statutory requirements for which they were established.

Waste-to-Energy LLCs — In June 2000, two limited liability companies were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that we leased, operated and maintained. We initially owned a 0.5% interest in one of the LLCs ("LLC I") and a 0.25% interest in the second LLC ("LLC II"). John Hancock Life Insurance Company ("Hancock") owned 99.5% of LLC I and 99.75% of LLC II was owned by LLC I and the CIT Group ("CIT"). We determined that we were the primary beneficiary of the LLCs and consolidated these entities in our Consolidated Financial Statements because (i) all of the equity owners of the LLCs were considered related parties for purposes of applying this accounting guidance; (ii) the equity owners shared power over the significant activities of the LLCs and (iii) we were the entity within the related party group whose activities were most closely associated with the LLCs. During the year ended December 31, 2014 we recognized a reduction in earnings of \$39 million for Hancock's and CIT's noncontrolling interests in the LLCs' earnings, which was included in our consolidated net income. The LLCs' earnings related to the rental income generated from leasing the facilities to our subsidiaries, reduced by depreciation expense. The LLCs' rental income was eliminated in WM's consolidation.

In December 2014, we purchased the noncontrolling interests in the LLCs from Hancock and CIT. The LLCs were then subsequently sold as part of the divestiture of our Wheelabrator business. See Note 19 for further discussion of the sale of our Wheelabrator business.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21. Segment and Related Information

We evaluate, oversee and manage the financial performance of our Solid Waste subsidiaries through our 17 Areas. The 17 Areas constitute our operating segments and none of the Areas individually meet the quantitative criteria to be a separate reportable segment. 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 is 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 2015, 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 were the result of various factors including acquisitions, divestitures, business mix and the economic climate of various geographies. In 2016, there were no realignments of our Solid Waste tiers.

Tier 1 is comprised of our operations across the Southern United States, 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, Minnesota and a portion of the lower Mid-Atlantic region of the United States. Tier 3 encompasses all the remaining operations including the Pacific Northwest and Northern California, the majority of the Mid-Atlantic region of the United States, the Florida peninsula, Illinois and Missouri.

Our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants, was a separate reportable segment until the sale of the business in 2014, as it met the quantitative disclosure thresholds.

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized financial information concerning our reportable segments as of and for the years ended December 31 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> |
|------------------------------|---|---|---------------------------------------|---|--|---|-------------------------------------|
| 2016 | | | | | | | |
| Solid Waste: | | | | | | | |
| Tier 1 | \$ 5,241 | \$ (911) | \$ 4,330 | \$1,430 | \$ 424 | \$ 452 | \$ 6,188 |
| Tier 2 | 3,391 | (620) | 2,771 | 604 | 280 | 295 | 5,488 |
| Tier 3 | 5,336 | (921) | 4,415 | 912 | 440 | 451 | 6,571 |
| Other(a) | 2,278 | (185) | 2,093 | (100) | 101 | 104 | 1,489 |
| | <u>16,246</u> | <u>(2,637)</u> | <u>13,609</u> | <u>2,846</u> | <u>1,245</u> | <u>1,302</u> | <u>19,736</u> |
| 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> |
| 2015 | | | | | | | |
| Solid Waste: | | | | | | | |
| Tier 1 | \$ 5,083 | \$ (856) | \$ 4,227 | \$1,290 | \$ 428 | \$ 382 | \$ 6,098 |
| Tier 2 | 3,304 | (613) | 2,691 | 629 | 280 | 251 | 5,394 |
| Tier 3 | 4,898 | (813) | 4,085 | 808 | 379 | 412 | 5,930 |
| Other(a) | 2,065 | (107) | 1,958 | (160) | 94 | 128 | 1,701 |
| | <u>15,350</u> | <u>(2,389)</u> | <u>12,961</u> | <u>2,567</u> | <u>1,181</u> | <u>1,173</u> | <u>19,123</u> |
| Corporate and Other(b) | — | — | — | (522) | 64 | 56 | 1,783 |
| Total | <u>\$15,350</u> | <u>\$(2,389)</u> | <u>\$12,961</u> | <u>\$2,045</u> | <u>\$1,245</u> | <u>\$1,229</u> | <u>\$20,906</u> |
| 2014 | | | | | | | |
| Solid Waste: | | | | | | | |
| Tier 1 | \$ 5,117 | \$ (834) | \$ 4,283 | \$1,301 | \$ 408 | \$ 388 | \$ 6,150 |
| Tier 2 | 3,516 | (663) | 2,853 | 711 | 287 | 223 | 5,648 |
| Tier 3 | 4,816 | (786) | 4,030 | 787 | 361 | 351 | 5,449 |
| Other(a) | 2,191 | (76) | 2,115 | (400) | 128 | 134 | 1,791 |
| Wheelabrator | 817 | (102) | 715 | 669 | 37 | 11 | — |
| | <u>16,457</u> | <u>(2,461)</u> | <u>13,996</u> | <u>3,068</u> | <u>1,221</u> | <u>1,107</u> | <u>19,038</u> |
| Corporate and Other(b) | — | — | — | (769) | 71 | 74 | 2,805 |
| Total | <u>\$16,457</u> | <u>\$(2,461)</u> | <u>\$13,996</u> | <u>\$2,299</u> | <u>\$1,292</u> | <u>\$1,181</u> | <u>\$21,843</u> |

- (a) Our “Other” net operating revenues and “Other” income from operations include (i) our Strategic Business Solutions (“WMSBS”) organization; (ii) those elements of our landfill gas-to-energy operations and third-party subcontract and administration revenues managed by our Energy and Environmental Services and WM Renewable Energy organizations that are not included in the operations of our reportable segments; (iii) our recycling brokerage services and (iv) our expanded service offerings and solutions, such as portable self-storage and long distance moving services, fluorescent lamp recycling and interests we hold in oil and gas producing properties. In addition, our “Other” income from operations reflects the results of non-operating entities that provide financial assurance and self-insurance support for our Solid Waste business.
- (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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. In 2014, we recognized a \$519 million gain on the sale of our Wheelabrator business. Refer to Notes 12 and 13 for explanations of certain other 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 is as follows (in millions):

| | December 31, | | |
|--|--------------|----------|----------|
| | 2016 | 2015 | 2014 |
| Total assets, as reported above | \$21,137 | \$20,906 | \$21,843 |
| Elimination of intercompany investments and advances | (278) | (539) | (591) |
| Total assets, per Consolidated Balance Sheet | \$20,859 | \$20,367 | \$21,252 |

- (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 is included as part of our "Other" operations. The goodwill associated with our acquisition of Deffenbaugh in 2015 has been assigned to our Areas, primarily Tier 3 and to a lesser extent Tier 1. The goodwill associated with our acquisition of SWS in 2016 has been assigned to our Florida Area, in Tier 3. Other adjustments in 2016 relate to the finalization of purchase accounting for acquisitions executed in 2015. These adjustments primarily resulted in a decrease in the related contingent consideration liability. See Note 19 for additional information on our acquisitions. The following table presents changes in goodwill during 2015 and 2016 by reportable segment (in millions):

| | Solid Waste | | | | |
|--|-------------|---------|---------|-------|---------|
| | Tier 1 | Tier 2 | Tier 3 | Other | Total |
| Balance, December 31, 2014 | \$2,178 | \$1,795 | \$1,662 | \$105 | \$5,740 |
| Acquired goodwill | 27 | 42 | 151 | 105 | 325 |
| Divested goodwill | — | (6) | (1) | — | (7) |
| Foreign currency translation | (15) | (59) | — | — | (74) |
| Balance, December 31, 2015 | \$2,190 | \$1,772 | \$1,812 | \$210 | \$5,984 |
| Acquired goodwill | 11 | 12 | 254 | 3 | 280 |
| Divested goodwill | — | — | (1) | — | (1) |
| Impairments | — | — | — | (12) | (12) |
| Foreign currency translation | 2 | 10 | — | — | 12 |
| Other adjustments | — | (2) | — | (46) | (48) |
| Balance, December 31, 2016 | \$2,203 | \$1,792 | \$2,065 | \$155 | \$6,215 |

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The mix of operating revenues from our major lines of business for the years ended December 31 are as follows (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|------------------------|-----------------|-----------------|-----------------|
| Commercial | \$ 3,480 | \$ 3,332 | \$ 3,393 |
| Residential | 2,487 | 2,499 | 2,543 |
| Industrial | 2,412 | 2,252 | 2,231 |
| Other | 423 | 356 | 340 |
| Total collection | <u>8,802</u> | <u>8,439</u> | <u>8,507</u> |
| Landfill | 3,110 | 2,919 | 2,849 |
| Transfer | 1,512 | 1,377 | 1,353 |
| Recycling | 1,221 | 1,163 | 1,370 |
| Other(a) | 1,601 | 1,452 | 1,561 |
| Wheelabrator | — | — | 817 |
| Intercompany(b) | <u>(2,637)</u> | <u>(2,389)</u> | <u>(2,461)</u> |
| Total | <u>\$13,609</u> | <u>\$12,961</u> | <u>\$13,996</u> |

- (a) The “Other” line of business includes (i) our WMSBS organization; (ii) our landfill gas-to-energy operations; (iii) certain services within our Energy and Environmental Services organization, including our construction and remediation services and our services associated with the disposal of fly ash and (iv) our expanded service offerings and solutions, such as portable self-storage and long distance moving services, and interests we hold in oil and gas producing properties.
- (b) Intercompany revenues between lines of business are eliminated within the Consolidated Financial Statements included herein.

Net operating revenues relating to operations in the United States and Puerto Rico, and Canada for the years ended December 31 are as follows (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|-----------------|
| United States and Puerto Rico(a) | \$12,915 | \$12,196 | \$13,064 |
| Canada | 694 | 765 | 932 |
| Total | <u>\$13,609</u> | <u>\$12,961</u> | <u>\$13,996</u> |

- (a) We sold our Puerto Rico operations in 2014. Refer to Note 19 for additional information.

Property and equipment, net of accumulated depreciation and amortization, relating to operations in the United States and Puerto Rico, and Canada for the years ended December 31 are as follows (in millions):

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|-----------------|
| United States and Puerto Rico(a) | \$10,040 | \$ 9,778 | \$ 9,586 |
| Canada | 910 | 887 | 1,071 |
| Total | <u>\$10,950</u> | <u>\$10,665</u> | <u>\$10,657</u> |

- (a) We sold our Puerto Rico operations in 2014. Refer to Note 19 for additional information.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. Quarterly Financial Data (Unaudited)

The following table summarizes the unaudited quarterly results of operations for 2016 and 2015 (in millions, except per share amounts):

| | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| 2016 | | | | |
| Operating revenues | \$3,176 | \$3,425 | \$3,548 | \$3,460 |
| Income from operations | 508 | 611 | 560 | 617 |
| Consolidated net income | 256 | 286 | 304 | 334 |
| Net income attributable to Waste Management, Inc. | 258 | 287 | 302 | 335 |
| Basic earnings per common share | 0.58 | 0.65 | 0.68 | 0.76 |
| Diluted earnings per common share | 0.58 | 0.64 | 0.68 | 0.75 |
| 2015 | | | | |
| Operating revenues | \$3,040 | \$3,315 | \$3,360 | \$3,246 |
| Income from operations | 440 | 502 | 601 | 502 |
| Consolidated net income (loss) | (131) | 273 | 337 | 273 |
| Net income (loss) attributable to Waste Management, Inc. | (129) | 274 | 335 | 273 |
| Basic earnings (loss) per common share | (0.28) | 0.60 | 0.75 | 0.61 |
| Diluted earnings (loss) per common share | (0.28) | 0.60 | 0.74 | 0.61 |

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 the summer months, primarily due to the higher volume of construction and demolition waste. 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 results. The following significant items have affected the comparison of our operating results during the periods indicated:

Second Quarter 2016

- The recognition of pre-tax charges of \$45 million, primarily related to the impairment of minority-owned, cost method investments in waste diversion technology companies. These impairments were substantially nondeductible for income taxes and had a negative impact of \$0.10 on our diluted earnings per share.

Third Quarter 2016

- The recognition of pre-tax charges of \$106 million consisting primarily of (i) a \$43 million impairment due to a loss of expected volumes for a landfill; (ii) a \$42 million charge to adjust our subsidiary's estimated environmental remediation liability related to a closed site in Harris County, Texas; (iii) a \$10 million goodwill impairment charge related to our LampTracker® reporting unit and (iv) an \$8 million loss on the sale of a majority-owned organics company. These charges had a negative impact of \$0.16 on our diluted earnings per share.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

First Quarter 2015

- The recognition of a pre-tax loss of \$550 million associated with the early extinguishment of almost \$2 billion of our high-coupon senior notes through make-whole redemption and cash tender offers. These charges had a negative impact of \$0.74 on our diluted loss per share.
- The recognition of pre-tax charges of \$14 million associated with divestitures, impairments and restructuring, which include a \$7 million net loss associated with the sale of our Wheelabrator business in December 2014 and a \$5 million impairment charge related to a landfill in our Western Canada Area. These charges had a negative impact of \$0.03 on our diluted loss per share.

Second Quarter 2015

- The recognition of a \$55 million charge associated with the withdrawal from certain underfunded Multiemployer Pension Plans had a negative impact of \$0.07 on our diluted earnings per share.
- The recognition of net pre-tax losses of \$6 million primarily related to the impairment of various recycling assets and certain adjustments associated with the sale of our Wheelabrator business. Combined, these charges had a favorable after-tax impact of \$0.01 on our diluted earnings per share.

Fourth Quarter 2015

- The recognition of \$70 million of pre-tax charges primarily to impair our oil and gas producing properties, which negatively affected our diluted earnings per share by \$0.09.
- The recognition of \$8 million of pre-tax restructuring charges and a \$4 million other-than-temporary decline in the value of a minority-owned, cost method investment in a waste diversion technology company. These charges had a negative impact of \$0.02 on our diluted earnings per share.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

23. 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, 2016

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------|--------------------|-----------------------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 32 | \$ — | \$ 32 |
| Other current assets | 5 | 5 | 2,334 | — | 2,344 |
| | 5 | 5 | 2,366 | — | 2,376 |
| Property and equipment, net | — | — | 10,950 | — | 10,950 |
| Investments in affiliates | 19,924 | 20,331 | — | (40,255) | — |
| Advances to affiliates(a) | — | — | 13,000 | (13,000) | — |
| Other assets | 14 | 30 | 7,489 | — | 7,533 |
| Total assets | <u>\$19,943</u> | <u>\$20,366</u> | <u>\$33,805</u> | <u>\$(53,255)</u> | <u>\$20,859</u> |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 269 | \$ — | \$ 148 | \$ — | \$ 417 |
| Accounts payable and other current liabilities | 81 | 9 | 2,287 | — | 2,377 |
| | 350 | 9 | 2,435 | — | 2,794 |
| Long-term debt, less current portion(a) | 6,229 | 304 | 2,360 | — | 8,893 |
| Due to affiliates(a) | 13,350 | 128 | 5,299 | (18,777) | — |
| Other liabilities | 16 | — | 3,836 | — | 3,852 |
| Total liabilities | 19,945 | 441 | 13,930 | (18,777) | 15,539 |
| Equity: | | | | | |
| Stockholders’ equity | 5,297 | 19,925 | 20,330 | (40,255) | 5,297 |
| Advances to affiliates | (5,299) | — | (478) | 5,777 | — |
| Noncontrolling interests | — | — | 23 | — | 23 |
| | (2) | 19,925 | 19,875 | (34,478) | 5,320 |
| Total liabilities and equity | <u>\$19,943</u> | <u>\$20,366</u> | <u>\$33,805</u> | <u>\$(53,255)</u> | <u>\$20,859</u> |

(a) In conjunction with the preparation of our June 30, 2016 Condensed Consolidating Balance Sheet, we identified and corrected the presentation of \$126 million of tax-exempt bonds previously reported in Non-Guarantor Subsidiaries’ rather than WM’s “Long-term debt, less current portion,” which had corresponding impacts on “Advances to affiliates” and “Due to affiliates.” This immaterial correction has been reflected in our 2016 Condensed Consolidating Financial Statements.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2015

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------|------------------------|---------------------------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 39 | \$ — | \$ 39 |
| Other current assets | 3 | 6 | 2,297 | — | 2,306 |
| | 3 | 6 | 2,336 | — | 2,345 |
| Property and equipment, net | — | — | 10,665 | — | 10,665 |
| Investments in affiliates(b) | 18,557 | 18,925 | — | (37,482) | — |
| Advances to affiliates | — | — | 12,113 | (12,113) | — |
| Other assets | 23 | 29 | 7,305 | — | 7,357 |
| Total assets | \$18,583 | \$18,960 | \$32,419 | \$(49,595) | \$20,367 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 41 | \$ — | \$ 212 | \$ — | \$ 253 |
| Accounts payable and other current liabilities | 83 | 9 | 2,165 | — | 2,257 |
| | 124 | 9 | 2,377 | — | 2,510 |
| Long-term debt, less current portion | 5,801 | 304 | 2,571 | — | 8,676 |
| Due to affiliates(b) | 12,588 | 76 | 5,299 | (17,963) | — |
| Other liabilities | 24 | — | 3,790 | — | 3,814 |
| Total liabilities | 18,537 | 389 | 14,037 | (17,963) | 15,000 |
| Equity: | | | | | |
| Stockholders' equity | 5,345 | 18,571 | 18,911 | (37,482) | 5,345 |
| Advances to affiliates(b) | (5,299) | — | (551) | 5,850 | — |
| Noncontrolling interests | — | — | 22 | — | 22 |
| | 46 | 18,571 | 18,382 | (31,632) | 5,367 |
| Total liabilities and equity | \$18,583 | \$18,960 | \$32,419 | \$(49,595) | \$20,367 |

(b) In conjunction with the preparation of our September 30, 2016 Condensed Consolidating Balance Sheet, we identified \$5.9 billion of intercompany loans between WM and Non-Guarantor Subsidiaries previously included in “Due to affiliates” and “Advances to affiliates” that based on intent are not expected to be collected, and as such are being presented as part of “Equity” in WM’s and Non-Guarantor Subsidiaries’ balance sheet. Accordingly, the 2015 Condensed Consolidating Balance Sheet included herein has been revised to reflect this presentation.

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> |
|--|----------------|--------------------|-----------------------------------|---------------------|---------------------|
| Year Ended December 31, 2016 | | | | | |
| Operating revenues | \$ — | \$ — | \$13,609 | \$ — | \$13,609 |
| Costs and expenses | — | — | 11,313 | — | 11,313 |
| Income from operations | — | — | 2,296 | — | 2,296 |
| Other income (expense): | | | | | |
| Interest expense, net | (303) | (20) | (53) | — | (376) |
| Loss on early extinguishment of debt | (1) | — | (3) | — | (4) |
| Equity in earnings of subsidiaries, net of tax provision | 1,367 | 1,381 | — | (2,748) | — |
| Other, net | — | — | (94) | — | (94) |
| | <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 |
| Provision for (benefit from) income taxes | (119) | (8) | 769 | — | 642 |
| Consolidated net income | 1,182 | 1,369 | 1,377 | (2,748) | 1,180 |
| Less: Net income (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> |
| Year Ended December 31, 2015 | | | | | |
| Operating revenues | \$ — | \$ — | \$12,961 | \$ — | \$12,961 |
| Costs and expenses | — | (1) | 10,917 | — | 10,916 |
| Income from operations | — | 1 | 2,044 | — | 2,045 |
| Other income (expense): | | | | | |
| Interest expense, net | (298) | (22) | (65) | — | (385) |
| Loss on early extinguishment of debt | (500) | (52) | (3) | — | (555) |
| Equity in earnings of subsidiaries, net of tax provision | 1,245 | 1,289 | — | (2,534) | — |
| Other, net | — | — | (45) | — | (45) |
| | <u>447</u> | <u>1,215</u> | <u>(113)</u> | <u>(2,534)</u> | <u>(985)</u> |
| Income before income taxes | 447 | 1,216 | 1,931 | (2,534) | 1,060 |
| Provision for (benefit from) income taxes | (306) | (29) | 643 | — | 308 |
| Consolidated net income | 753 | 1,245 | 1,288 | (2,534) | 752 |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | (1) | — | (1) |
| Net income attributable to Waste Management, Inc. | <u>\$ 753</u> | <u>\$1,245</u> | <u>\$ 1,289</u> | <u>\$(2,534)</u> | <u>\$ 753</u> |
| Year Ended December 31, 2014 | | | | | |
| Operating revenues | \$ — | \$ — | \$13,996 | \$ — | \$13,996 |
| Costs and expenses | — | (459) | 12,156 | — | 11,697 |
| Income from operations | — | 459 | 1,840 | — | 2,299 |
| Other income (expense): | | | | | |
| Interest expense, net | (351) | (31) | (84) | — | (466) |
| Equity in earnings of subsidiaries, net of tax provision | 1,510 | 1,070 | — | (2,580) | — |
| Other, net | — | — | (82) | — | (82) |
| | <u>1,159</u> | <u>1,039</u> | <u>(166)</u> | <u>(2,580)</u> | <u>(548)</u> |
| Income before income taxes | 1,159 | 1,498 | 1,674 | (2,580) | 1,751 |
| Provision for (benefit from) income taxes | (139) | (12) | 564 | — | 413 |
| Consolidated net income | 1,298 | 1,510 | 1,110 | (2,580) | 1,338 |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | 40 | — | 40 |
| Net income attributable to Waste Management, Inc. | <u>\$1,298</u> | <u>\$1,510</u> | <u>\$ 1,070</u> | <u>\$(2,580)</u> | <u>\$ 1,298</u> |

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> |
|--|----------------|--------------------|-----------------------------------|---------------------|---------------------|
| Year Ended December 31, 2016 | | | | | |
| Comprehensive income | \$1,189 | \$1,369 | \$1,417 | \$(2,748) | \$1,227 |
| Less: Comprehensive income (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> |
| Year Ended December 31, 2015 | | | | | |
| Comprehensive income | \$ 762 | \$1,245 | \$1,129 | \$(2,534) | \$ 602 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | — | — | (1) | — | (1) |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$ 762</u> | <u>\$1,245</u> | <u>\$1,130</u> | <u>\$(2,534)</u> | <u>\$ 603</u> |
| Year Ended December 31, 2014 | | | | | |
| Comprehensive income | \$1,300 | \$1,510 | \$ 977 | \$(2,580) | \$1,207 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | — | — | 40 | — | 40 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$1,300</u> | <u>\$1,510</u> | <u>\$ 937</u> | <u>\$(2,580)</u> | <u>\$1,167</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| | <u>WM(c)</u> | <u>WM Holdings(c)</u> | <u>Non-Guarantor Subsidiaries(c)</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--------------|-----------------------|--------------------------------------|---------------------|---------------------|
| Year Ended December 31, 2016 | | | | | |
| Cash flows from operating activities: | | | | | |
| Consolidated net income | \$ 1,182 | \$ 1,369 | \$ 1,377 | \$(2,748) | \$ 1,180 |
| Equity in earnings of subsidiaries, net of tax provision | (1,367) | (1,381) | — | 2,748 | — |
| Other adjustments | 185 | 12 | 1,583 | — | 1,780 |
| Net cash provided by operating activities | <u>—</u> | <u>—</u> | <u>2,960</u> | <u>—</u> | <u>2,960</u> |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | — | — | (611) | — | (611) |
| Capital expenditures | — | — | (1,339) | — | (1,339) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | — | — | 43 | — | 43 |
| Net receipts from restricted trust and escrow accounts and other, net | — | — | (25) | — | (25) |
| Net cash provided by (used in) investing activities | <u>—</u> | <u>—</u> | <u>(1,932)</u> | <u>—</u> | <u>(1,932)</u> |
| Cash flows from financing activities: | | | | | |
| New borrowings | — | — | 3,057 | — | 3,057 |
| Debt repayments | — | — | (2,682) | — | (2,682) |
| Premiums paid on early extinguishment of debt | — | — | (2) | — | (2) |
| Common stock repurchase program | — | — | (725) | — | (725) |
| Cash dividends | — | — | (726) | — | (726) |
| Exercise of common stock options | — | — | 63 | — | 63 |
| Other, net | — | — | (20) | — | (20) |
| (Increase) decrease in intercompany and investments, net | — | — | — | — | — |
| Net cash provided by (used in) financing activities | <u>—</u> | <u>—</u> | <u>(1,035)</u> | <u>—</u> | <u>(1,035)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | — | — |
| Increase (decrease) in cash and cash equivalents | — | — | (7) | — | (7) |
| Cash and cash equivalents at beginning of year | — | — | 39 | — | 39 |
| Cash and cash equivalents at end of year | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 32</u> | <u>\$ —</u> | <u>\$ 32</u> |

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

| | <u>WM(d)</u> | <u>WM Holdings(d)</u> | <u>Non-Guarantor Subsidiaries(d)</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|----------------|-----------------------|--------------------------------------|---------------------|---------------------|
| Year Ended December 31, 2015 | | | | | |
| Cash flows from operating activities: | | | | | |
| Consolidated net income | \$ 753 | \$ 1,245 | \$ 1,288 | \$(2,534) | \$ 752 |
| Equity in earnings of subsidiaries, net of tax provision | (1,245) | (1,289) | — | 2,534 | — |
| Other adjustments | 492 | 44 | 1,210 | — | 1,746 |
| Net cash provided by operating activities | <u>—</u> | <u>—</u> | <u>2,498</u> | <u>—</u> | <u>2,498</u> |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | — | — | (554) | — | (554) |
| Capital expenditures | — | — | (1,233) | — | (1,233) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | — | — | 145 | — | 145 |
| Net receipts from restricted trust and escrow accounts and other, net | — | — | 34 | — | 34 |
| Net cash provided by (used in) investing activities | <u>—</u> | <u>—</u> | <u>(1,608)</u> | <u>—</u> | <u>(1,608)</u> |
| Cash flows from financing activities: | | | | | |
| New borrowings | — | — | 2,337 | — | 2,337 |
| Debt repayments | — | — | (2,764) | — | (2,764) |
| Premiums paid on early extinguishment of debt | — | — | (555) | — | (555) |
| Common stock repurchase program | — | — | (600) | — | (600) |
| Cash dividends | — | — | (695) | — | (695) |
| Exercise of common stock options | — | — | 77 | — | 77 |
| Other, net | — | — | 45 | — | 45 |
| (Increase) decrease in intercompany and investments, net | (1,235) | — | 1,235 | — | — |
| Net cash provided by (used in) financing activities | <u>(1,235)</u> | <u>—</u> | <u>(920)</u> | <u>—</u> | <u>(2,155)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | — | (3) | — | (3) |
| Increase (decrease) in cash and cash equivalents | (1,235) | — | (33) | — | (1,268) |
| Cash and cash equivalents at beginning of year | 1,235 | — | 72 | — | 1,307 |
| Cash and cash equivalents at end of year | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 39</u> | <u>\$ —</u> | <u>\$ 39</u> |

(d) Cash receipts and payments of WM and WM Holdings are transacted by Non-Guarantor Subsidiaries. We have revised the prior year presentation to reflect all relevant cash flow activities in the Non-Guarantor Subsidiaries column.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

| | <u>WM(e)</u> | <u>WM Holdings(e)</u> | <u>Non-Guarantor Subsidiaries(e)</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------|-----------------------|--------------------------------------|---------------------|---------------------|
| Year Ended December 31, 2014 | | | | | |
| Cash flows from operating activities: | | | | | |
| Consolidated net income | \$ 1,298 | \$ 1,510 | \$ 1,110 | \$(2,580) | \$ 1,338 |
| Equity in earnings of subsidiaries, net of tax provision | (1,510) | (1,070) | — | 2,580 | — |
| Other adjustments | 212 | (440) | 1,221 | — | 993 |
| Net cash provided by operating activities | <u>—</u> | <u>—</u> | <u>2,331</u> | <u>—</u> | <u>2,331</u> |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | — | — | (35) | — | (35) |
| Capital expenditures | — | — | (1,151) | — | (1,151) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | — | — | 2,253 | — | 2,253 |
| Net receipts from restricted trust and escrow accounts and other, net | — | — | (72) | — | (72) |
| Net cash provided by (used in) investing activities | <u>—</u> | <u>—</u> | <u>995</u> | <u>—</u> | <u>995</u> |
| Cash flows from financing activities: | | | | | |
| New borrowings | — | — | 2,817 | — | 2,817 |
| Debt repayments | — | — | (3,568) | — | (3,568) |
| Common stock repurchase program | — | — | (600) | — | (600) |
| Cash dividends | — | — | (693) | — | (693) |
| Exercise of common stock options | — | — | 93 | — | 93 |
| Other, net | — | — | (121) | — | (121) |
| (Increase) decrease in intercompany and investments, net | 1,235 | — | (1,235) | — | — |
| Net cash provided by (used in) financing activities | <u>1,235</u> | <u>—</u> | <u>(3,307)</u> | <u>—</u> | <u>(2,072)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | — | (5) | — | (5) |
| Increase (decrease) in cash and cash equivalents | 1,235 | — | 14 | — | 1,249 |
| Cash and cash equivalents at beginning of year | — | — | 58 | — | 58 |
| Cash and cash equivalents at end of year | <u>\$ 1,235</u> | <u>\$ —</u> | <u>\$ 72</u> | <u>\$ —</u> | <u>\$ 1,307</u> |

(e) Cash receipts and payments of WM and WM Holdings are transacted by Non-Guarantor Subsidiaries. We have revised the prior year presentation to reflect all relevant cash flow activities in the Non-Guarantor Subsidiaries column.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

24. New Accounting Standards Pending Adoption (Unaudited)

Income Taxes — In October 2016, the FASB issued amended authoritative guidance associated with the timing of recognition of income taxes for intra-entity transfers of assets other than inventory. The amended guidance requires the recognition of income taxes when the transfer of the asset occurs, which replaces current U.S. Generally Accepted Accounting Principles (“GAAP”) that defers the recognition of income taxes until the transferred asset is sold to a third party or otherwise recovered through use. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. We are in the process of assessing the provisions of this amended guidance; however, we currently do not expect that the adoption of this amended guidance will have a material impact on our consolidated financial statements.

Statement of Cash Flows — In August 2016, the FASB issued amended authoritative guidance associated with the classification of certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued additional guidance on the presentation of restricted cash and cash equivalents in the statement of cash flows. The objective of both amendments was to reduce existing diversity in practice. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. We are in the process of assessing the provisions of this amended guidance; however, we currently do not expect that the adoption of this amended guidance will have a material impact on our consolidated financial statements.

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

Stock Compensation — In March 2016, the FASB issued amended authoritative guidance associated with stock-based compensation as part of its simplification initiative to reduce the cost and complexity of compliance with GAAP, while maintaining or improving the usefulness of the information provided. The amended guidance changes both the accounting and financial reporting for certain income tax impacts of stock-based compensation. All excess tax benefits and tax deficiencies will be required to be recognized as an income tax benefit or provision rather than as a component of equity. The guidance also provides for changes in the calculation of forfeitures related to the expense of stock-based compensation. The amended guidance is effective for the Company on January 1, 2017. The adoption of this amended guidance will not have a material impact on our consolidated financial statements.

Leases — In February 2016, the FASB issued amended authoritative guidance associated with lease accounting. 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. The disclosure of key information about leasing arrangements will also be required. The amended guidance is effective for the Company on January 1, 2019, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements and disclosures.

Financial Instruments — In January 2016, the FASB issued amended authoritative guidance associated with the recognition and measurement of financial assets and liabilities. The amended guidance will require certain equity investments that are not consolidated 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. The amended guidance is

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

effective for the Company on January 1, 2018, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements.

Revenue Recognition — In May 2014, the FASB issued amended authoritative guidance associated with revenue recognition. The amended guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amendments will require enhanced qualitative and quantitative disclosures regarding customer contracts. The amended guidance associated with revenue recognition is effective for the Company on January 1, 2018. The amended guidance may be applied retrospectively for all periods presented (“full retrospective method”) or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial adoption (“modified retrospective method”).

To assess the impact of the standard, we utilized internal resources to lead the implementation effort and supplemented them with external resources. Our internal resources read the amended guidance, attended trainings and consulted with non-authoritative groups to assist with interpretation of the amended guidance. Surveys were sent to and returned by all operating segments to assess the potential impact of the amended guidance and to tailor specific procedures to evaluate the potential impact. Based on the results of these surveys, we judgmentally selected a sample of contracts based on size and specifically identified contract traits that could be accounted for differently under the amended guidance. We also selected a representative sample of contracts to corroborate the survey results. We have completed our preliminary review of all contracts and are in the process of compiling and summarizing the results to determine whether additional review and analysis is necessary.

Based on our work to date, we believe we have identified all material contract types and costs that may be impacted by this amended guidance. We expect to quantify and disclose the expected impact, if any, of adopting this amended guidance in the third quarter Form 10-Q. While we are still evaluating the impact of the amended guidance, we currently do not expect it to have a material impact on operating revenues.

Upon adoption of the amended guidance, we anticipate recognizing an asset from the capitalization of sales incentives as contract acquisitions costs. Under the amended guidance, sales incentives will be capitalized and amortized over the expected life of the customer relationship. Currently, the Company expenses approximately \$65 million in sales incentives annually. As noted above, we are still evaluating other possible impacts on our consolidated financial statements, including potential changes in the classification of certain revenue streams currently reported on a gross basis and on our disclosures. The Company is also currently planning to adopt the amended guidance using the modified retrospective method as of January 1, 2018.

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, 2016 (the end of the period covered by this Annual Report on Form 10-K).

Management's Report on Internal Control Over Financial Reporting

Management's report on our internal control over financial reporting can be found in Item 8. *Financial Statements and Supplementary Data* of this report. Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016 as stated in their report, which appears in Item 8 of 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, 2016. We determined that there were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 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 2017 Annual Meeting of Stockholders (the "Proxy Statement"), to be held May 12, 2017. 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 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 — Non-Employee Director Compensation,” “— Compensation Committee Report,” “— Compensation Committee Interlocks and Insider Participation,” “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, 2016 and 2015
Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Changes in Equity for the years ended December 31, 2016, 2015 and 2014
Notes to Consolidated Financial Statements

(a) (2) *Consolidated Financial Statement Schedules:*

Schedule II — Valuation and Qualifying Accounts

All other 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.

(b) *Exhibits:*

The exhibit list required by this Item is incorporated by reference to the Exhibit Index filed as part of this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Waste Management, Inc. as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, and have issued our report thereon dated February 16, 2017 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 16, 2017

WASTE MANAGEMENT, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In Millions)

| | <u>Balance Beginning of Year</u> | <u>Charged to Income</u> | <u>Accounts Written Off/Use of Reserve</u> | <u>Balance End of Year</u> |
|---|--|----------------------------------|--|------------------------------------|
| 2014 — Reserves for doubtful accounts(a) | \$34 | \$42 | \$(45) | \$31 |
| 2015 — Reserves for doubtful accounts(a) | \$31 | \$36 | \$(42) | \$25 |
| 2016 — Reserves for doubtful accounts(a) | \$25 | \$42 | \$(43) | \$24 |
| 2014 — Merger and restructuring accruals(b) | \$14 | \$82 | \$(51) | \$45 |
| 2015 — Merger and restructuring accruals(b) | \$45 | \$15 | \$(47) | \$13 |
| 2016 — Merger and restructuring accruals(b) | \$13 | \$ 4 | \$(10) | \$ 7 |

(a) Includes reserves for doubtful accounts receivable and notes receivable.

(b) Included in “Accrued liabilities” in our Consolidated Balance Sheets. These accruals represent employee severance and benefit costs and transitional costs.

INDEX TO 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 November 10, 2015]. |
| 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 2.400% Senior Notes due 2023 [incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended June 30, 2016.] |
| 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 2.400% Senior Notes due 2023 [incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended June 30, 2016]. |
| 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 — \$2.25 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, Bank of America, N.A., as administrative agent, JPMorgan Chase Bank, N.A. and Barclays Bank PLC, as syndication agents, BNP Paribas, Citibank, N.A., Deutsche Bank Securities Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., U.S. Bank National Association and Wells Fargo Bank, National Association, as co-documentation agents and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Barclays Bank PLC, as lead arrangers and joint bookrunners [incorporated by reference to Exhibit 10.1 to Form 8-K dated July 10, 2015].
- 10.8 — CDN\$650 Million Credit Facilities 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, JP Morgan Chase Bank, N.A., Bank of America, N.A. and PNC Bank, National Association, as co-syndication agents, the Bank of Nova Scotia, J.P. Morgan Securities LLC, 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 10.2 to Form 10-Q for the quarter ended September 30, 2013].
- 10.9 — First Amendment Agreement to CDN\$650 Credit Facilities 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 Lenders from time to time party thereto, and The Bank of Nova Scotia, as administrative agent [incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2013].
- 10.10 — 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].
- 10.11* — 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.
- 10.12* — Commercial Paper Issuing and Paying Agent Agreement between Waste Management, Inc. and Bank of America, National Association dated August 15, 2016.
- 10.13† — Employment Agreement between the Company and David Steiner dated May 6, 2002 [incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2002].
- 10.14† — Separation and Release Agreement between the Company and David Steiner dated January 6, 2017 [incorporated by reference to Exhibit 10.1 to Form 8-K dated January 6, 2017].

- 10.15† — Employment Agreement between the Company and James E. Trevathan dated June 1, 2000 [incorporated by reference to Exhibit 10.20 to Form 10-K for the year ended December 31, 2000].
- 10.16† — Amendment to Employment Agreement between the Company and James E. Trevathan [incorporated by reference to Exhibit 10.3 to Form 8-K dated March 9, 2011].
- 10.17† — Employment Agreement between the Company and James C. Fish, Jr. dated August 15, 2011 [incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2011].
- 10.18† — First Amendment to Employment Agreement between the Company and James C. Fish, Jr. dated July 20, 2012 [incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2012].
- 10.19† — 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].
- 10.20† — 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 30, 2011].
- 10.21† — Employment Agreement between the Company and John Morris dated June 18, 2012 [incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2012].
- 10.22† — 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].
- 10.23†* — Employment Offer Letter to Charles Boettcher dated August 5, 2016.
- 10.24† — Employment Agreement between the Company and Puneet Bhasin dated December 7, 2009 [incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended December 31, 2009].
- 10.25† — Employment Agreement between the Company and Mark Schwartz dated July 5, 2012 [incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended June 30, 2012].
- 10.26†* — Separation and Release Agreement between USA Waste Management Resources, LLC and Mark Schwartz dated January 1, 2017.
- 10.27† — Employment Agreement between the Company and Don P. Carpenter dated July 31, 2000, as amended by First Amendment to Employment Agreement between USA Waste-Management Resources, LLC and Don P. Carpenter effective as of August 24, 2012 [incorporated by reference to Exhibit 10.23 to Form 10-K for the year ended December 31, 2012].
- 10.28† — 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].
- 10.29† — Form of 2014 Senior Leadership Team Award Agreement for Long Term Incentive Compensation under the Waste Management, Inc. 2009 Stock Incentive Plan [incorporated by reference to Exhibit 10.1 to Form 8-K dated March 7, 2014].
- 10.30† — Form of 2015 Senior Leadership Team Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K dated February 25, 2015].
- 10.31† — Form of 2016 Senior Leadership Team Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K dated February 26, 2016].
- 10.32†* — Form of 2016 Individual Restricted Stock Unit Award Agreement.

- 12.1* — Computation of Ratio of Earnings to Fixed Charges.
- 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, Vice President, Treasurer and Acting 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, Vice President, Treasurer and Acting 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.

† Denotes management contract or compensatory plan or arrangement.

BOARD OF DIRECTORS

BRADBURY H. ANDERSON (A, C, N)

Non-Executive Chairman of the Board
Waste Management, Inc.
Retired Vice Chairman
and Chief Executive Officer
Best Buy Co., Inc.

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, N)

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

CHARLES C. BOETTCHER

Senior Vice President and
Chief Legal Officer

BARRY H. CALDWELL

Senior Vice President,
Corporate Affairs and
Chief People Officer

JEFF M. HARRIS

Senior Vice President,
Operations

JOHN J. MORRIS, JR.

Senior Vice President,
Operations

DEVINA A. RANKIN

Senior Vice President,
Chief Financial Officer and Treasurer

JAMES E. TREVATHAN, JR.

Executive Vice President and
Chief Operating Officer

STEVEN M. MORGAN

Vice President and
Chief Compliance Officer

DARREN K. SHADE

Vice President and
Chief Accounting Officer

COURTNEY A. TIPPY

Vice President and Corporate Secretary

CORPORATE HEADQUARTERS

Waste Management, Inc.
1001 Fannin
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 8, 2017 was approximately 9,650. Based on security position listings, the company believes it had at that date approximately 486,280 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 12, 2017 at: The Maury Myers Conference Center
Waste Management, Inc.
1021 Main Street
Houston, Texas 77002

WEB SITE

www.wm.com



1001 Fannin - Houston, Texas 77002
www.wm.com