

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended June 30, 2016

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12154

**Waste Management, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**1001 Fannin Street  
Houston, Texas 77002**  
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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

(Do not check if a 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 number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at July 18, 2016 was 442,288,938 (excluding treasury shares of 187,993,523).

## PART I.

Item 1. *Financial Statements.*

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

|   | June 30,<br>2016<br>(Unaudited) | December 31,<br>2015 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 39                           | \$ 39                |
| Accounts receivable, net of allowance for doubtful accounts of \$21 and \$25, respectively                      | 1,650                           | 1,549                |
| Other receivables   | 373                             | 545                  |
| Parts and supplies  | 93                              | 92                   |
| Other assets  | 121                             | 120                  |
| Total current assets  | 2,276                           | 2,345                |
| Property and equipment, net of accumulated depreciation and amortization of \$16,820 and \$16,420, respectively | 10,841                          | 10,665               |
| Goodwill  | 6,230                           | 5,984                |
| Other intangible assets, net  | 632                             | 477                  |
| Investments in unconsolidated entities  | 321                             | 360                  |
| Other assets  | 452                             | 536                  |
| Total assets  | <u>\$ 20,752</u>                | <u>\$ 20,367</u>     |
| <b>LIABILITIES AND EQUITY</b>   |                                 |                      |
| Current liabilities:  |                                 |                      |
| Accounts payable  | \$ 620                          | \$ 721               |
| Accrued liabilities   | 1,089                           | 1,064                |
| Deferred revenues   | 483                             | 472                  |
| Current portion of long-term debt   | 614                             | 253                  |
| Total current liabilities   | 2,806                           | 2,510                |
| Long-term debt, less current portion  | 8,916                           | 8,676                |
| Deferred income taxes   | 1,395                           | 1,391                |
| Landfill and environmental remediation liabilities  | 1,622                           | 1,584                |
| Other liabilities   | 785                             | 839                  |
| Total liabilities   | <u>15,524</u>                   | <u>15,000</u>        |
| 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  | 4,802                           | 4,827                |
| Retained earnings   | 7,116                           | 6,939                |
| Accumulated other comprehensive income (loss)   | (49)                            | (127)                |
| Treasury stock at cost, 188,540,093 and 183,105,326 shares, respectively  | (6,667)                         | (6,300)              |
| Total Waste Management, Inc. stockholders' equity   | 5,208                           | 5,345                |
| Noncontrolling interests  | 20                              | 22                   |
| Total equity  | <u>5,228</u>                    | <u>5,367</u>         |
| Total liabilities and equity  | <u>\$ 20,752</u>                | <u>\$ 20,367</u>     |

See notes to Condensed Consolidated Financial Statements.

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

|  | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                |
|--|--------------------------------|-----------------|------------------------------|----------------|
|  | 2016                           | 2015            | 2016                         | 2015           |
| Operating revenues   | \$ 3,425                       | \$ 3,315        | \$ 6,601                     | \$ 6,355       |
| Costs and expenses:  |                                |                 |                              |                |
| Operating  | 2,130                          | 2,163           | 4,123                        | 4,109          |
| Selling, general and administrative                              | 340                            | 322             | 702                          | 670            |
| Depreciation and amortization                                    | 340                            | 322             | 652                          | 614            |
| Restructuring  | 2                              | 4               | 4                            | 5              |
| Expense from divestitures, asset impairments and unusual items   | 2                              | 2               | 1                            | 15             |
|  | <u>2,814</u>                   | <u>2,813</u>    | <u>5,482</u>                 | <u>5,413</u>   |
| Income from operations   | <u>611</u>                     | <u>502</u>      | <u>1,119</u>                 | <u>942</u>     |
| Other income (expense):  |                                |                 |                              |                |
| Interest expense, net  | (93)                           | (95)            | (188)                        | (199)          |
| Loss on early extinguishment of debt                             | (3)                            | (2)             | (4)                          | (552)          |
| Equity in net losses of unconsolidated entities                  | (16)                           | (15)            | (23)                         | (23)           |
| Other, net   | (40)                           | (1)             | (49)                         | (1)            |
|  | <u>(152)</u>                   | <u>(113)</u>    | <u>(264)</u>                 | <u>(775)</u>   |
| Income before income taxes                                       | 459                            | 389             | 855                          | 167            |
| Provision for income taxes                                       | 173                            | 116             | 313                          | 25             |
| Consolidated net income  | 286                            | 273             | 542                          | 142            |
| Less: Net income (loss) attributable to noncontrolling interests | (1)                            | (1)             | (3)                          | (3)            |
| Net income attributable to Waste Management, Inc.                | <u>\$ 287</u>                  | <u>\$ 274</u>   | <u>\$ 545</u>                | <u>\$ 145</u>  |
| Basic earnings per common share                                  | <u>\$ 0.65</u>                 | <u>\$ 0.60</u>  | <u>\$ 1.22</u>               | <u>\$ 0.32</u> |
| Diluted earnings per common share                                | <u>\$ 0.64</u>                 | <u>\$ 0.60</u>  | <u>\$ 1.22</u>               | <u>\$ 0.32</u> |
| Cash dividends declared per common share                         | <u>\$ 0.41</u>                 | <u>\$ 0.385</u> | <u>\$ 0.82</u>               | <u>\$ 0.77</u> |

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

|  | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |              |
|--|--------------------------------|---------------|------------------------------|--------------|
|  | 2016                           | 2015          | 2016                         | 2015         |
| Consolidated net income  | \$ 286                         | \$ 273        | \$ 542                       | \$ 142       |
| Other comprehensive income (loss), net of taxes:                           |                                |               |                              |              |
| Derivative instruments, net  | 2                              | 2             | 9                            | 5            |
| Available-for-sale securities, net   | 1                              | 1             | 2                            | 1            |
| Foreign currency translation adjustments                                   | 6                              | 13            | 67                           | (63)         |
| Other comprehensive income (loss), net of taxes                            | <u>9</u>                       | <u>16</u>     | <u>78</u>                    | <u>(57)</u>  |
| Comprehensive income   | 295                            | 289           | 620                          | 85           |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | (1)                            | (1)           | (3)                          | (3)          |
| Comprehensive income attributable to Waste Management, Inc.                | <u>\$ 296</u>                  | <u>\$ 290</u> | <u>\$ 623</u>                | <u>\$ 88</u> |

See notes to Condensed Consolidated Financial Statements.

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

|  | Six Months Ended |                |
|--|------------------|----------------|
|  | June 30,         |                |
|  | 2016             | 2015           |
| Cash flows from operating activities:  |                  |                |
| Consolidated net income  | \$ 542           | \$ 142         |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities:                   |                  |                |
| Depreciation and amortization  | 652              | 614            |
| Deferred income tax benefit  | (14)             | (42)           |
| Interest accretion on landfill liabilities   | 44               | 43             |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets | 8                | 1              |
| Provision for bad debts  | 18               | 18             |
| Equity-based compensation expense  | 51               | 30             |
| Excess tax benefits associated with equity-based transactions  | (17)             | (9)            |
| Net gain from disposal of assets   | (10)             | (6)            |
| Expense from divestitures, asset impairments and unusual items and other, net                                    | 42               | 15             |
| Equity in net losses of unconsolidated entities, net of dividends  | 23               | 23             |
| Loss on early extinguishment of debt   | 4                | 552            |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures:                     |                  |                |
| Receivables  | 66               | (18)           |
| Other current assets   | (8)              | 11             |
| Other assets   | 75               | (21)           |
| Accounts payable and accrued liabilities   | 17               | (53)           |
| Deferred revenues and other liabilities  | (39)             | 15             |
| Net cash provided by operating activities  | <u>1,454</u>     | <u>1,315</u>   |
| Cash flows from investing activities:  |                  |                |
| Acquisitions of businesses, net of cash acquired   | (572)            | (454)          |
| Capital expenditures   | (629)            | (529)          |
| Proceeds from divestitures of businesses and other assets (net of cash divested)                                 | 24               | 78             |
| Net receipts from restricted trust and escrow accounts   | —                | 35             |
| Other, net   | (9)              | (9)            |
| Net cash used in investing activities  | <u>(1,186)</u>   | <u>(879)</u>   |
| Cash flows from financing activities:  |                  |                |
| New borrowings   | 2,094            | 1,866          |
| Debt repayments  | (1,517)          | (2,181)        |
| Premiums paid on early extinguishment of debt  | (2)              | (555)          |
| Common stock repurchases   | (500)            | (300)          |
| Cash dividends   | (364)            | (351)          |
| Exercise of common stock options   | 44               | 47             |
| Excess tax benefits associated with equity-based transactions  | 17               | 9              |
| Other, net   | (41)             | (4)            |
| Net cash used in financing activities  | <u>(269)</u>     | <u>(1,469)</u> |
| Effect of exchange rate changes on cash and cash equivalents   | <u>1</u>         | <u>(1)</u>     |
| Decrease in cash and cash equivalents  | —                | (1,034)        |
| Cash and cash equivalents at beginning of period   | 39               | 1,307          |
| Cash and cash equivalents at end of period   | <u>\$ 39</u>     | <u>\$ 273</u>  |

See notes to Condensed Consolidated Financial Statements.

**WASTE MANAGEMENT, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
(In Millions, Except Shares in Thousands)  
(Unaudited)

|   | Waste Management, Inc. Stockholders' Equity |                |             |                                  |                      |  |                  |                   |                             |
|---|---|----------------|-------------|----------------------------------|----------------------|--|------------------|-------------------|-----------------------------|
|   | Total                                       | Common Stock   |             | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury Stock   |                   | Noncontrolling<br>Interests |
|   |   | Shares         | Amounts     |                                  |                      |  | Shares           | Amounts           |                             |
| Balance, December 31, 2015  | \$5,367                                     | 630,282        | \$ 6        | \$ 4,827                         | \$ 6,939             | \$ (127)   | (183,105)        | \$ (6,300)        | \$ 22                       |
| Consolidated net income   | 542   | —              | —           | —                                | 545                  | —  | —                | —                 | (3)                         |
| Other comprehensive income (loss), net of taxes   | 78  | —              | —           | —                                | —                    | 78   | —                | —                 | —                           |
| Cash dividends declared   | (364)                                       | —              | —           | —                                | (364)                | —  | —                | —                 | —                           |
| Equity-based compensation transactions, including dividend<br>equivalents, net of taxes | 102   | —              | —           | 23                               | (4)                  | —  | 2,405            | 83                | —                           |
| Common stock repurchases  | (500)                                       | —              | —           | (50)                             | —                    | —  | (7,843)          | (450)             | —                           |
| Other   | 3   | —              | —           | 2                                | —                    | —  | 3                | —                 | 1                           |
| Balance, June 30, 2016  | <u>\$5,228</u>                              | <u>630,282</u> | <u>\$ 6</u> | <u>\$ 4,802</u>                  | <u>\$ 7,116</u>      | <u>\$ (49)</u>   | <u>(188,540)</u> | <u>\$ (6,667)</u> | <u>\$ 20</u>                |

See notes to Condensed Consolidated Financial Statements.

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation, and Waste Management's wholly-owned and majority-owned subsidiaries. Waste Management 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. and its consolidated subsidiaries. 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, recycling and resource recovery, and disposal 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 geographic Areas. We also provide additional services that are not managed through our Solid Waste business, which are presented in this report as "Other." Additional information related to our segments is included in Note 8.

The Condensed Consolidated Financial Statements as of June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

***Adoption of New Accounting Standards***

***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 Condensed Consolidated Balance Sheet at December 31, 2015.

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

*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 consolidated financial information in order to conform to the current year presentation.

**2. Landfill and Environmental Remediation Liabilities**

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

|                                  | June 30, 2016  |                           |                | December 31, 2015 |                           |                |
|----------------------------------|----------------|---------------------------|----------------|-------------------|---------------------------|----------------|
|                                  | Landfill       | Environmental Remediation | Total          | Landfill          | Environmental Remediation | Total          |
| Current (in accrued liabilities) | \$ 116         | \$ 31                     | \$ 147         | \$ 112            | \$ 31                     | \$ 143         |
| Long-term                        | 1,440          | 182                       | 1,622          | 1,406             | 178                       | 1,584          |
|                                  | <u>\$1,556</u> | <u>\$ 213</u>             | <u>\$1,769</u> | <u>\$1,518</u>    | <u>\$ 209</u>             | <u>\$1,727</u> |

The changes to landfill and environmental remediation liabilities for the six months ended June 30, 2016 are reflected in the table below (in millions):

|   | Landfill       | Environmental Remediation |
|---|----------------|---------------------------|
| December 31, 2015                                       | \$1,518        | \$ 209                    |
| Obligations incurred and capitalized                    | 29             | —                         |
| Obligations settled                                     | (40)           | (10)                      |
| Interest accretion                                      | 44             | 2                         |
| Revisions in estimates and interest rate assumptions(a) | 1              | 12                        |
| Acquisitions, divestitures and other adjustments        | 4              | —                         |
| June 30, 2016   | <u>\$1,556</u> | <u>\$ 213</u>             |

- (a) The amount reported in 2016 for our environmental remediation liabilities includes the impact of a decrease in the risk-free discount rate used to measure our liabilities from 2.25% at December 31, 2015 to 1.50% at June 30, 2016, resulting in an increase of \$9 million to our environmental remediation liabilities and a corresponding increase to "Operating" expenses.

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 Note 14 for additional information related to these trusts.

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

**3. 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 June 30, 2016:

|   | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| \$2.25 billion revolving credit facility, maturing July 2020  | \$ —             | \$ 20                |
| Letter of credit facilities, maturing through December 2018   | —                | —                    |
| Canadian credit facility and term loan, maturing March 2019 (weighted average effective interest rate of 2.0% at June 30, 2016 and 2.2% at December 31, 2015)                                 | 313              | 84                   |
| Senior notes maturing through 2045, interest rates ranging from 2.4% to 7.75% (weighted average interest rate of 4.5% at June 30, 2016 and 4.7% at December 31, 2015)                         | 6,534            | 6,050                |
| Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 0.45% to 5.7% (weighted average interest rate of 1.7% at June 30, 2016 and 1.9% at December 31, 2015) | 2,350            | 2,447                |
| Capital leases and other, maturing through 2055, interest rates up to 12%   | 333              | 328                  |
|   | <u>9,530</u>     | <u>8,929</u>         |
| Current portion of long-term debt   | 614              | 253                  |
|   | <u>\$8,916</u>   | <u>\$ 8,676</u>      |

**Debt Classification**

As of June 30, 2016, our current debt balances include (i) \$500 million of 2.6% senior notes that mature in September 2016 and (ii) \$114 million of other debt with scheduled maturities within the next 12 months, including \$48 million of tax-exempt bonds.

As of June 30, 2016, we also have \$454 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 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 long-term U.S. revolving credit facility (“\$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 Condensed Consolidated Balance Sheet at June 30, 2016.

**Access to and Utilization of Credit Facilities**

**\$2.25 Billion Revolving Credit Facility and Other Letter of Credit Facilities** — As of June 30, 2016, we had an aggregate committed capacity of \$2.4 billion for letters of credit under various U.S. credit facilities. Our \$2.25 billion revolving credit facility expires in July 2020 and is our primary source of letter of credit capacity. Our remaining committed letter of credit capacity is provided under facilities with terms extending through December 2018. As of June 30, 2016, we had an aggregate of \$964 million of letters of credit outstanding under various credit facilities. As of June 30, 2016, we had no outstanding borrowings under our \$2.25 billion revolving credit facility and \$814 million of letters of credit issued and supported by the facility, leaving \$1,436 million of unused and available capacity.



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

*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), decreasing the revolving credit capacity, increasing the amount of term credit, and extending the term through March 2019. Waste Management of Canada Corporation and WM Quebec Inc., wholly-owned subsidiaries of WM, are borrowers under the 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. At no time during the six months ended June 30, 2016, did we have borrowings or letters of credit outstanding under the Canadian revolving credit agreement.

**Debt Borrowings and Repayments**

*\$2.25 Billion Revolving Credit Facility* — During the six months ended June 30, 2016, borrowings under our \$2.25 billion revolving credit facility included funds to support our acquisition of certain operations and business assets of Southern Waste Systems/Sun Recycling (“SWS”) in Southern Florida. Refer to Note 9 for additional information related to this acquisition. These borrowings were repaid with proceeds from the May 2016 issuance of senior notes discussed below.

*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 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. During the three months ended June 30, 2016, we repaid C\$55 million, or \$42 million, of advances under our Canadian term loan. The remaining increase in the carrying value of borrowings outstanding under our Canadian term loan is due to foreign currency translation.

*Senior Notes* — In May 2016, we issued \$500 million of 2.4% senior notes due May 2023. We used the net proceeds of \$496 million to pay down short-term borrowings under our \$2.25 billion revolving credit facility. We issued the senior notes for the ultimate purpose of repaying \$500 million of 2.6% senior notes when they mature in September 2016.

*Tax-Exempt Bonds* — During the six months ended June 30, 2016, we repaid \$98 million of tax-exempt bonds with available cash. In May 2016, we elected to refund and reissue \$143 million of tax-exempt bonds. The “Loss on early extinguishment of debt” reflected in our Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2016 includes \$3 million of charges related to these refundings.

**Senior Notes Refinancing**

During the six months ended June 30, 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.

**4. Derivative Instruments and Hedging Activities****Cash Flow Hedges**

*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 its wholly-owned Canadian subsidiaries. As discussed in Note 3, in March 2016, our Canadian subsidiaries repaid the intercompany debt with proceeds from our Canadian term loan. Concurrent with the repayment of the

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

intercompany debt, we terminated the cross currency swaps and received \$67 million in cash. The cash received from our termination of the swaps has been classified as a change in “Other current assets” and “Other assets” within “Net cash provided by operating activities” in the Condensed 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 Condensed 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 Condensed 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 hedges 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 June 30, 2016 and December 31, 2015, our “Accumulated other comprehensive income (loss)” included \$39 million and \$43 million, respectively, of after-tax deferred losses related to terminated 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 June 30, 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.

Refer to Note 11 for information regarding the impacts of our cash flow derivatives on our comprehensive income and results of operations.

## 5. Income Taxes

Our effective income tax rate for the three and six months ended June 30, 2016 was 37.6% and 36.5%, respectively, compared with 29.6% and 14.5%, respectively, for the comparable prior year periods. We evaluate our effective income tax rate at each interim period and adjust it as facts and circumstances warrant. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2016 was primarily due to the unfavorable impact of nondeductible investment impairments and state and local income taxes offset, in part, by the favorable impact of federal tax credits and tax audit settlements.

The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2015 was primarily due to the favorable impact of federal tax credits, revaluation of our deferred taxes and utilization of state net operating losses resulting from changes in state law and nontaxable post-closing adjustments related to the divestiture of our Wheelabrator business offset, in part, by the unfavorable impact of state and local income taxes. In addition, the loss on early extinguishment of debt included in our pre-tax income for the six months ended June 30, 2015 contributed to a lower effective tax rate.

*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 Condensed Consolidated Statements of Operations. During the three and six months ended June 30, 2016, we recognized \$9 million and \$15 million of net losses and a

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

reduction in our tax provision of \$14 million and \$25 million, respectively, primarily as a result of tax credits realized from these investments. In addition, during the three and six months ended June 30, 2016, we recognized interest expense of \$1 million and \$2 million, respectively, associated with the low-income housing investments. During the three and six months ended June 30, 2015, we recognized \$7 million and \$14 million of net losses and a reduction in our tax provision of \$13 million and \$24 million, respectively, primarily as a result of tax credits realized from these investments. In addition, during the three and six months ended June 30, 2015, we recognized interest expense of \$1 million and \$2 million, respectively, associated with the low-income housing investments.

See Note 14 for additional information related to these unconsolidated variable interest entities.

## 6. Earnings Per Share

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

|   | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|---|--------------------------------|-------|------------------------------|-------|
|   | 2016                           | 2015  | 2016                         | 2015  |
| Number of common shares outstanding at end of period  | 441.7                          | 451.8 | 441.7                        | 451.8 |
| Effect of using weighted average common shares outstanding  | 2.3                            | 3.7   | 3.3                          | 5.2   |
| Weighted average basic common shares outstanding  | 444.0                          | 455.5 | 445.0                        | 457.0 |
| Dilutive effect of equity-based compensation awards and other contingently issuable shares          | 2.7                            | 2.5   | 2.5                          | 2.6   |
| Weighted average diluted common shares outstanding  | 446.7                          | 458.0 | 447.5                        | 459.6 |
| Potentially issuable shares   | 10.1                           | 11.2  | 10.1                         | 11.2  |
| Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding | 0.5                            | 2.3   | 0.8                          | 2.3   |

## 7. Commitments and Contingencies

*Financial Instruments* — We have obtained letters of credit, surety bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation, and other obligations. Letters of credit generally are supported by our \$2.25 billion revolving credit facility and other credit facilities established for that purpose. These facilities are discussed further in Note 3. Surety bonds and insurance policies are supported by (i) a diverse group of third-party surety and insurance companies; (ii) an entity in which we have a noncontrolling financial interest or (iii) 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 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 automobile liability, general 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.

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

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

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

We also have guaranteed the obligations and certain performance requirements of, and provided indemnification to, third parties in connection with both consolidated and unconsolidated entities. Guarantee agreements outstanding as of June 30, 2016 (excluding those related to Wheelabrator obligations that are discussed below) include agreements guaranteeing certain market value losses for approximately 850 homeowners' properties adjacent to or near 21 of our landfills. Our indemnification obligations generally arise from divestitures and provide that we will be responsible for liabilities associated with our operations for events that occurred prior to the sale of the operations. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets or other market conditions are achieved post-closing and we have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. We do not currently believe that contingent obligations to provide indemnification or pay additional post-closing consideration in connection with our divestitures or acquisitions will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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. 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, and as of June 30, 2016 and December 31, 2015, WM's maximum future payments under these guarantees were \$106 million. WM's exposure under certain of the performance guarantees is variable and a maximum exposure is not defined. We have recorded the fair value of the operational and financial performance guarantees, some of which could extend through 2038 if not terminated, in our Condensed Consolidated Balance Sheets. The estimated fair value of WM's potential obligation associated with guarantees of Wheelabrator obligations (net of credit support fee) at June 30, 2016 and December 31, 2015 was \$12 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.

*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

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

potentially responsible party, or PRP, investigations. The costs associated with these liabilities can include settlements, certain legal and consultant fees, as well as incremental internal and external costs directly associated with site investigation and clean-up.

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the 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 \$195 million higher than the \$213 million recorded in the Condensed Consolidated Financial Statements as of June 30, 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.

As of June 30, 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, or 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.

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.

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

*Litigation* — On March 26, 2015, the Company acquired Deffenbaugh Disposal Inc. (“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 have agreed on settlement terms for both cases. We submitted a request for preliminary court approval during the fourth quarter of 2015 and are awaiting action on our request. The anticipated settlements will not 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.

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 raise complex factual and legal issues and are subject to uncertainties. Actions filed against us include commercial, customer, and employment-related claims, including purported class action lawsuits related to our sales and marketing practices and our customer service agreements and purported class actions involving 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 could 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 and each of our executive officers and 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 trustee-managed multiemployer defined benefit pension plans for the covered employees. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. A complete or partial withdrawal from a multiemployer defined benefit pension plan may also occur if employees covered by a collective bargaining

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

agreement vote to decertify a union from continuing to represent them. Any other circumstance resulting in a decline in Company contributions to a multiemployer defined benefit pension plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans. We do not believe that any future liability for withdrawals from the multiemployer defined benefit pension plans to which we contribute, could 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 defined benefit pension plan(s) at the time of such withdrawal(s).

In the second quarter of 2015, we recognized a \$55 million charge to “Operating” expenses associated with the withdrawal from the Central States, Southeast and Southwest Areas Pension Plan and the Teamsters Employers Local 945 Pension Fund.

*Tax Matters* — 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 and 2016 and expect these audits to be completed within the next three, 12 and 24 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. We acquired Deffenbaugh, which is subject to potential IRS examination for the years 2012 through the date of acquisition in 2015. 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.

## 8. 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 geography with the same services offered across the Areas, aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas’ income from operations margins. The economic variations experienced by our Areas are attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area’s current or future economic performance.

Annually, we analyze the Areas’ income from operations margins for purposes of segment reporting and in the fourth quarter of 2015, we realigned our Solid Waste tiers to reflect changes in their relative economic characteristics and prospects. These changes are the results of various factors including acquisitions, divestments, business mix and the economic climate of various geographies. Reclassifications have been made to our prior period consolidated financial information in order to conform to the current year presentation.

Tier 1 is now 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.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

|                            | <u>Gross<br/>Operating<br/>Revenues</u> | <u>Intercompany<br/>Operating<br/>Revenues</u> | <u>Net<br/>Operating<br/>Revenues</u> | <u>Income<br/>from<br/>Operations</u> |
|----------------------------|---|--|---------------------------------------|---------------------------------------|
| <b>Three Months Ended:</b> |   |  |                                       |                                       |
| <b>June 30, 2016</b>       |   |  |                                       |                                       |
| Solid Waste:               |   |  |                                       |                                       |
| Tier 1                     | \$ 1,316                                | \$ (229)                                       | \$ 1,087                              | \$ 362                                |
| Tier 2                     | 856                                     | (158)  | 698                                   | 157                                   |
| Tier 3                     | 1,347                                   | (233)  | 1,114                                 | 235                                   |
| Solid Waste                | <u>3,519</u>                            | <u>(620)</u>                                   | <u>2,899</u>                          | <u>754</u>                            |
| Other                      | 572                                     | (46)   | 526                                   | (20)                                  |
|                            | <u>4,091</u>                            | <u>(666)</u>                                   | <u>3,425</u>                          | <u>734</u>                            |
| Corporate and Other        | —                                       | —  | —                                     | (123)                                 |
| Total                      | <u>\$ 4,091</u>                         | <u>\$ (666)</u>                                | <u>\$ 3,425</u>                       | <u>\$ 611</u>                         |
| <b>June 30, 2015</b>       |   |  |                                       |                                       |
| Solid Waste:               |   |  |                                       |                                       |
| Tier 1                     | \$ 1,292                                | \$ (218)                                       | \$ 1,074                              | \$ 297                                |
| Tier 2                     | 853                                     | (162)  | 691                                   | 151                                   |
| Tier 3                     | 1,264                                   | (215)  | 1,049                                 | 182                                   |
| Solid Waste                | <u>3,409</u>                            | <u>(595)</u>                                   | <u>2,814</u>                          | <u>630</u>                            |
| Wheelabrator               | —                                       | —  | —                                     | 8                                     |
| Other                      | 525                                     | (24)   | 501                                   | (17)                                  |
|                            | <u>3,934</u>                            | <u>(619)</u>                                   | <u>3,315</u>                          | <u>621</u>                            |
| Corporate and Other        | —                                       | —  | —                                     | (119)                                 |
| Total                      | <u>\$ 3,934</u>                         | <u>\$ (619)</u>                                | <u>\$ 3,315</u>                       | <u>\$ 502</u>                         |



WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

|                          | Gross<br>Operating<br>Revenues | Intercompany<br>Operating<br>Revenues | Net<br>Operating<br>Revenues | Income<br>from<br>Operations |
|--------------------------|--------------------------------|---------------------------------------|------------------------------|------------------------------|
| <b>Six Months Ended:</b> |                                |                                       |                              |                              |
| <b>June 30, 2016</b>     |                                |                                       |                              |                              |
| Solid Waste:             |                                |                                       |                              |                              |
| Tier 1                   | \$ 2,557                       | \$ (441)                              | \$ 2,116                     | \$ 696                       |
| Tier 2                   | 1,637                          | (300)                                 | 1,337                        | 302                          |
| Tier 3                   | 2,607                          | (445)                                 | 2,162                        | 443                          |
| Solid Waste              | 6,801                          | (1,186)                               | 5,615                        | 1,441                        |
| Other                    | 1,072                          | (86)                                  | 986                          | (56)                         |
|                          | 7,873                          | (1,272)                               | 6,601                        | 1,385                        |
| Corporate and Other      | —                              | —                                     | —                            | (266)                        |
| Total                    | <u>\$ 7,873</u>                | <u>\$ (1,272)</u>                     | <u>\$ 6,601</u>              | <u>\$ 1,119</u>              |
| <b>June 30, 2015</b>     |                                |                                       |                              |                              |
| Solid Waste:             |                                |                                       |                              |                              |
| Tier 1                   | \$ 2,487                       | \$ (408)                              | \$ 2,079                     | \$ 593                       |
| Tier 2                   | 1,633                          | (305)                                 | 1,328                        | 290                          |
| Tier 3                   | 2,386                          | (395)                                 | 1,991                        | 360                          |
| Solid Waste              | 6,506                          | (1,108)                               | 5,398                        | 1,243                        |
| Wheelabrator             | —                              | —                                     | —                            | 1                            |
| Other                    | 1,003                          | (46)                                  | 957                          | (40)                         |
|                          | 7,509                          | (1,154)                               | 6,355                        | 1,204                        |
| Corporate and Other      | —                              | —                                     | —                            | (262)                        |
| Total                    | <u>\$ 7,509</u>                | <u>\$ (1,154)</u>                     | <u>\$ 6,355</u>              | <u>\$ 942</u>                |

Fluctuations in our operating results may be caused by many factors, including period-to-period changes in the relative contribution of revenue by each line of business, changes in commodity prices and by general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher 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 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 actually increase our revenues in the areas affected. While weather-related and other “one-time” 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.

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

**9. Acquisitions**

*Southern Waste Systems/Sun Recycling* — 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.

We have provisionally recorded \$93 million of property and equipment, \$182 million of other intangible assets and \$250 million of goodwill. The completion of our acquisition accounting is subject to change based on the finalization of our detailed valuations. There have been no adjustments to the preliminary purchase price allocation since the acquisition date. The goodwill allocation was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned to our Florida Area as it is expected to benefit from the synergies of the combination. Goodwill related to this acquisition is deductible for income tax purposes.

The following table presents the preliminary allocation of the purchase price for SWS to other intangible assets (amounts in millions, except for amortization periods):

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

For the three and six months ended June 30, 2016, the acquired operations of SWS contributed revenues of \$39 million and \$76 million, respectively, and net income of less than \$1 million and \$1 million, respectively, which are included in our Condensed Consolidated Statements of Operations.

*Deffenbaugh Disposal, Inc.* — 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.

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

|   | <u>Three Months Ended<br/>June 30,</u> |       | <u>Six Months Ended<br/>June 30,</u> |         |
|---|--|-------|--------------------------------------|---------|
|   | 2015                                   | 2015  | 2016                                 | 2015    |
| Operating revenues                                | \$                                     | 3,350 | \$6,603                              | \$6,461 |
| Net income attributable to Waste Management, Inc. |  | 274   | 545                                  | 144     |
| Basic earnings per common share                   |  | 0.60  | 1.23                                 | 0.31    |
| Diluted earnings per common share                 |  | 0.60  | 1.22                                 | 0.31    |

**10. Asset Impairments and Unusual Items***Expense from divestitures, asset impairments and unusual items*

During the six months ended June 30, 2015, we recognized net charges of \$15 million, including \$16 million of charges to write down or divest of certain assets in our recycling operations and a \$5 million impairment charge related to a landfill in our Western Canada Area. Partially offsetting these charges was a \$6 million gain on the sale of an oil and gas producing property.

*Other income (expense)*

During the second quarter of 2016, we recognized \$41 million of impairments to write down minority-owned investments in waste diversion technology companies to their fair value. These charges are recorded in “Other, net” in our Condensed Consolidated Statement of Operations.

**11. Accumulated Other Comprehensive Income (Loss)**

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

|   | Derivative<br>Instruments | Available-<br>for-Sale<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Post-<br>Retirement<br>Benefit<br>Plans | Total   |
|---|---------------------------|--------------------------------------|---|---|---------|
| Balance, December 31, 2015  | \$ (52)                   | \$ 8                                 | \$ (75)   | \$ (8)                                  | \$(127) |
| Other comprehensive income (loss) before reclassifications net of tax expense<br>(benefit) of \$(4), \$1, \$0 and \$0, respectively             | (7)                       | 2                                    | 67  | —                                       | 62      |
| Amounts reclassified from accumulated other comprehensive (income) loss net of<br>tax (expense) benefit of \$10, \$0, \$0 and \$0, respectively | 16                        | —                                    | —   | —                                       | 16      |
| Net current period other comprehensive income (loss)  | 9                         | 2                                    | 67  | —                                       | 78      |
| Balance, June 30, 2016  | \$ (43)                   | \$ 10                                | \$ (8)  | \$ (8)                                  | \$(49)  |

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

|                              | Three Months Ended June 30, |        | Six Months Ended June 30, |       |
|------------------------------|-----------------------------|--------|---------------------------|-------|
|                              | 2016                        | 2015   | 2016                      | 2015  |
| Foreign currency derivatives | \$ —                        | \$ (3) | \$ (11)                   | \$ 21 |
| Tax (expense) benefit        | —                           | 1      | 4                         | (8)   |
| Net of tax                   | \$ —                        | \$ (2) | \$ (7)                    | \$ 13 |

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

The significant amounts reclassified out of each component of accumulated other comprehensive income (loss) are as follows (in millions, with amounts in parentheses representing debits to the statement of operations classification):

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        | Statement of<br>Operations Classification |
|--|--------------------------------|--------|------------------------------|--------|---|
|  | 2016                           | 2015   | 2016                         | 2015   |   |
| Gains and losses on cash flow hedges:  |                                |        |                              |        |   |
| Forward-starting interest rate swaps   | \$ (3)                         | \$ (2) | \$ (6)                       | \$ (5) | Interest expense, net                     |
| Treasury rate locks                    | —                              | —      | —                            | (3)    | Interest expense, net                     |
| Foreign currency derivatives           | —                              | (5)    | (20)                         | 21     | Other, net                                |
|  | (3)                            | (7)    | (26)                         | 13     | Total before tax                          |
|  | 1                              | 3      | 10                           | (5)    | Tax (expense) benefit                     |
| Total reclassifications for the period | \$ (2)                         | \$ (4) | \$ (16)                      | \$ 8   | Net of tax                                |

## 12. Share Repurchases

Our share repurchases have been made in accordance with financial plans approved by our Board of Directors. The Company entered into an accelerated share repurchase (“ASR”) agreement in December 2015 to repurchase \$150 million of our common stock in early 2016. In January 2016, we delivered \$150 million in cash and received 2.0 million shares based on a stock price of \$53.37. The ASR agreement completed in February 2016, at which time we received 0.9 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$53.15.

In March 2016, the Company entered into an ASR agreement to repurchase \$100 million of our common stock. At the beginning of the ASR repurchase period, we delivered \$100 million in cash and received 1.2 million shares based on a stock price of \$56.95. The ASR agreement completed in April 2016, at which time we received 0.5 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$58.33.

In May 2016, the Company entered into an ASR agreement to repurchase \$250 million of our common stock. At the beginning of the ASR repurchase period, we delivered \$250 million in cash and received 3.3 million shares based on a stock price of \$60.49. The final number of shares to be repurchased and the final average price per share under the ASR agreement will depend on the volume-weighted average price of our stock, less a discount, during the term of the agreement. Purchases under the ASR agreement are expected to be completed in August 2016.

After completion of these ASRs, the Company has Board authorization remaining for \$650 million of future share repurchases. Any future share repurchases pursuant to such authorization will be made at the discretion of management.

Each ASR agreement was accounted for as two separate transactions: (i) as shares of reacquired common stock for the shares delivered to us upon effectiveness of the ASR agreements 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 resulted 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 met 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.

**13. Fair Value Measurements***Assets and Liabilities Accounted for at Fair Value*

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

|                               | Total        | Fair Value Measurements at<br>June 30, 2016 Using     |   |   |
|-------------------------------|--------------|---|---|---|
|                               |              | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3)(a) |
| <b>Assets:</b>                |              |   |   |   |
| Money market funds            | \$ 40        | \$ 40   | \$ —  | \$ —  |
| Available-for-sale securities | 45           | —   | 45  | —   |
| Fixed-income securities       | 36           | —   | 36  | —   |
| Redeemable preferred stock    | 48           | —   | —   | 48  |
| Total assets                  | <u>\$169</u> | <u>\$ 40</u>  | <u>\$ 81</u>  | <u>\$ 48</u>  |

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

- (a) When available, Level 3 investments have been measured based on third-party investors' recent or pending transactions in these securities, which are considered the best evidence of fair value. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow analysis, third-party appraisals or industry multiples and public comparables. There has not been any significant change in the fair value of the redeemable preferred stock since our assessment at December 31, 2015.
- (b) In March 2016, we terminated our foreign currency derivatives. Refer to Note 4 for additional information.

*Fair Value of Debt*

At June 30, 2016 and December 31, 2015, the carrying value of our debt was approximately \$9.5 billion and \$8.9 billion, respectively. The estimated fair value of our debt was approximately \$10.4 billion and \$9.2 billion at June 30, 2016 and December 31, 2015, respectively. The fair value of our fixed-rate debt is estimated using discounted cash flow analysis, based on 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 June 30, 2016 with December 31, 2015 is primarily related to \$577 million of net borrowings during 2016, as well as recent decreases in long-term interest rates.

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

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 June 30, 2016 and December 31, 2015. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

**14. Variable Interest Entities**

Following is a description of our financial interests in variable interest entities that we consider significant, including (i) those that represent a significant interest in an unconsolidated entity and (ii) trusts for final capping, closure, post-closure or environmental remediation obligations.

***Significant Unconsolidated Variable Interest Entities***

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 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 and do not consolidate them. As of June 30, 2016 and December 31, 2015, our aggregate investment balance in these two entities was \$98 million and \$110 million, respectively. The debt balance related to our investment in low-income housing properties was \$68 million and \$80 million at June 30, 2016 and December 31, 2015, respectively. Additional information related to these investments is discussed in Note 5.

***Trusts 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. Generally, we are the sole beneficiary of these restricted balances; however, certain of the funds have been established for the benefit 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 are not the primary beneficiary of certain 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.

We account for the trusts for which we are the sole beneficiary as long-term "Other assets" in our Condensed 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 June 30, 2016 and December 31, 2015, respectively. Our interests in the trusts that have been established for the benefit of both the Company and the host community in which we operate are accounted for as investments in unconsolidated entities and receivables. These amounts are recorded in "Other receivables," "Investments in unconsolidated entities" and long-term "Other assets" in our Condensed Consolidated Balance Sheets, as appropriate. Our investments and receivables related to these trusts had an aggregate carrying value of \$95 million and \$93 million as of June 30, 2016 and December 31, 2015, respectively.

As the party with primary responsibility to fund the related final capping, closure, post-closure or environmental remediation activities, we are exposed to risk of loss as a result of potential changes in the fair value of the assets of the trust. The fair value of trust assets can fluctuate due to (i) changes in the market value of the investments held by the trusts and (ii) credit risk associated with trust receivables. Although we are exposed to changes in the fair value of the trust assets, we currently expect the trust funds to continue to meet the statutory requirements for which they were established.

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

## 15. Condensed Consolidating Financial Statements

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

## CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2016  
(Unaudited)

|  | WM              | WM              | Non-Guarantor       | Eliminations       | Consolidated     |
|--|-----------------|-----------------|---------------------|--------------------|------------------|
|  | <u>ASSETS</u>   | <u>Holdings</u> | <u>Subsidiaries</u> |                    |                  |
| Current assets:                                |                 |                 |                     |                    |                  |
| Cash and cash equivalents                      | \$ —            | \$ —            | \$ 39               | \$ —               | \$ 39            |
| Other current assets                           | 6               | 7               | 2,224               | —                  | 2,237            |
|  | <u>6</u>        | <u>7</u>        | <u>2,263</u>        | <u>—</u>           | <u>2,276</u>     |
| Property and equipment, net                    | —               | —               | 10,841              | —                  | 10,841           |
| Investments in and advances to affiliates(a)   | 19,194          | 19,628          | 7,490               | (46,312)           | —                |
| Other assets                                   | 15              | 30              | 7,590               | —                  | 7,635            |
| Total assets                                   | <u>\$19,215</u> | <u>\$19,665</u> | <u>\$ 28,184</u>    | <u>\$ (46,312)</u> | <u>\$ 20,752</u> |
| <b>LIABILITIES AND EQUITY</b>                  |                 |                 |                     |                    |                  |
| Current liabilities:                           |                 |                 |                     |                    |                  |
| Current portion of long-term debt              | \$ 500          | \$ —            | \$ 114              | \$ —               | \$ 614           |
| Accounts payable and other current liabilities | 84              | 11              | 2,097               | —                  | 2,192            |
|  | <u>584</u>      | <u>11</u>       | <u>2,211</u>        | <u>—</u>           | <u>2,806</u>     |
| Long-term debt, less current portion(a)        | 6,073           | 304             | 2,539               | —                  | 8,916            |
| Due to affiliates(a)                           | 7,334           | 156             | —                   | (7,490)            | —                |
| Other liabilities                              | 16              | —               | 3,786               | —                  | 3,802            |
| Total liabilities                              | <u>14,007</u>   | <u>471</u>      | <u>8,536</u>        | <u>(7,490)</u>     | <u>15,524</u>    |
| Equity:  |                 |                 |                     |                    |                  |
| Stockholders' equity                           | 5,208           | 19,194          | 19,628              | (38,822)           | 5,208            |
| Noncontrolling interests                       | —               | —               | 20                  | —                  | 20               |
|  | <u>5,208</u>    | <u>19,194</u>   | <u>19,648</u>       | <u>(38,822)</u>    | <u>5,228</u>     |
| Total liabilities and equity                   | <u>\$19,215</u> | <u>\$19,665</u> | <u>\$ 28,184</u>    | <u>\$ (46,312)</u> | <u>\$ 20,752</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 "Investments in and advances to affiliates" and "Due to affiliates." This immaterial correction has been reflected in our June 30, 2016 Condensed Consolidating Financial Statements.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2015

|  | WM               | WM<br>Holdings   | Non-Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|--|------------------|------------------|-------------------------------|--------------------|------------------|
| <b>ASSETS</b>                                  |                  |                  |                               |                    |                  |
| 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 and advances to affiliates      | 18,557           | 18,911           | 7,365                         | (44,833)           | —                |
| Other assets                                   | 23               | 29               | 7,305                         | —                  | 7,357            |
| Total assets                                   | <u>\$ 18,583</u> | <u>\$ 18,946</u> | <u>\$ 27,671</u>              | <u>\$ (44,833)</u> | <u>\$ 20,367</u> |
| <b>LIABILITIES AND EQUITY</b>                  |                  |                  |                               |                    |                  |
| 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                              | 7,289            | 76               | —                             | (7,365)            | —                |
| Other liabilities                              | 24               | —                | 3,790                         | —                  | 3,814            |
| Total liabilities                              | 13,238           | 389              | 8,738                         | (7,365)            | 15,000           |
| Equity:  |                  |                  |                               |                    |                  |
| Stockholders' equity                           | 5,345            | 18,557           | 18,911                        | (37,468)           | 5,345            |
| Noncontrolling interests                       | —                | —                | 22                            | —                  | 22               |
|  | 5,345            | 18,557           | 18,933                        | (37,468)           | 5,367            |
| Total liabilities and equity                   | <u>\$ 18,583</u> | <u>\$ 18,946</u> | <u>\$ 27,671</u>              | <u>\$ (44,833)</u> | <u>\$ 20,367</u> |



WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended June 30, 2016

(Unaudited)

|  | WM           | WM Holdings   | Non-Guarantor Subsidiaries | Eliminations    | Consolidated  |
|--|--------------|---------------|----------------------------|-----------------|---------------|
| Operating revenues   | \$ —         | \$ —          | \$ 3,425                   | \$ —            | \$ 3,425      |
| Costs and expenses   | —            | —             | 2,814                      | —               | 2,814         |
| Income from operations   | —            | —             | 611                        | —               | 611           |
| Other income (expense):  |              |               |                            |                 |               |
| Interest expense, net  | (76)         | (5)           | (12)                       | —               | (93)          |
| Loss on early extinguishment of debt                             | —            | —             | (3)                        | —               | (3)           |
| Equity in earnings of subsidiaries, net of taxes                 | 333          | 336           | —                          | (669)           | —             |
| Other, net   | —            | —             | (56)                       | —               | (56)          |
|  | 257          | 331           | (71)                       | (669)           | (152)         |
| Income (loss) before income taxes                                | 257          | 331           | 540                        | (669)           | 459           |
| Provision for (benefit from) income taxes                        | (30)         | (2)           | 205                        | —               | 173           |
| Consolidated net income  | 287          | 333           | 335                        | (669)           | 286           |
| Less: Net income (loss) attributable to noncontrolling interests | —            | —             | (1)                        | —               | (1)           |
| Net income attributable to Waste Management, Inc.                | <u>\$287</u> | <u>\$ 333</u> | <u>\$ 336</u>              | <u>\$ (669)</u> | <u>\$ 287</u> |

Three Months Ended June 30, 2015

(Unaudited)

|  | WM           | WM Holdings   | Non-Guarantor Subsidiaries | Eliminations    | Consolidated  |
|--|--------------|---------------|----------------------------|-----------------|---------------|
| Operating revenues   | \$ —         | \$ —          | \$ 3,315                   | \$ —            | \$ 3,315      |
| Costs and expenses   | —            | (6)           | 2,819                      | —               | 2,813         |
| Income from operations   | —            | 6             | 496                        | —               | 502           |
| Other income (expense):  |              |               |                            |                 |               |
| Interest expense, net  | (75)         | (5)           | (15)                       | —               | (95)          |
| Loss on early extinguishment of debt                             | (2)          | —             | —                          | —               | (2)           |
| Equity in earnings of subsidiaries, net of taxes                 | 320          | 317           | —                          | (637)           | —             |
| Other, net   | —            | —             | (16)                       | —               | (16)          |
|  | 243          | 312           | (31)                       | (637)           | (113)         |
| Income (loss) before income taxes                                | 243          | 318           | 465                        | (637)           | 389           |
| Provision for (benefit from) income taxes                        | (31)         | (2)           | 149                        | —               | 116           |
| Consolidated net income  | 274          | 320           | 316                        | (637)           | 273           |
| Less: Net income (loss) attributable to noncontrolling interests | —            | —             | (1)                        | —               | (1)           |
| Net income attributable to Waste Management, Inc.                | <u>\$274</u> | <u>\$ 320</u> | <u>\$ 317</u>              | <u>\$ (637)</u> | <u>\$ 274</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)

Six Months Ended June 30, 2016  
(Unaudited)

|  | WM            | WM Holdings   | Non-Guarantor Subsidiaries | Eliminations      | Consolidated  |
|--|---------------|---------------|----------------------------|-------------------|---------------|
| Operating revenues   | \$ —          | \$ —          | \$ 6,601                   | \$ —              | \$ 6,601      |
| Costs and expenses   | —             | —             | 5,482                      | —                 | 5,482         |
| Income from operations   | —             | —             | 1,119                      | —                 | 1,119         |
| Other income (expense):  |               |               |                            |                   |               |
| Interest expense, net  | (150)         | (10)          | (28)                       | —                 | (188)         |
| Loss on early extinguishment of debt                             | (1)           | —             | (3)                        | —                 | (4)           |
| Equity in earnings of subsidiaries, net of taxes                 | 637           | 643           | —                          | (1,280)           | —             |
| Other, net   | —             | —             | (72)                       | —                 | (72)          |
|  | <u>486</u>    | <u>633</u>    | <u>(103)</u>               | <u>(1,280)</u>    | <u>(264)</u>  |
| Income (loss) before income taxes                                | 486           | 633           | 1,016                      | (1,280)           | 855           |
| Provision for (benefit from) income taxes                        | (59)          | (4)           | 376                        | —                 | 313           |
| Consolidated net income  | 545           | 637           | 640                        | (1,280)           | 542           |
| Less: Net income (loss) attributable to noncontrolling interests | —             | —             | (3)                        | —                 | (3)           |
| Net income attributable to Waste Management, Inc.                | <u>\$ 545</u> | <u>\$ 637</u> | <u>\$ 643</u>              | <u>\$ (1,280)</u> | <u>\$ 545</u> |

Six Months Ended June 30, 2015  
(Unaudited)

|  | WM            | WM Holdings   | Non-Guarantor Subsidiaries | Eliminations      | Consolidated  |
|--|---------------|---------------|----------------------------|-------------------|---------------|
| Operating revenues   | \$ —          | \$ —          | \$ 6,355                   | \$ —              | \$ 6,355      |
| Costs and expenses   | —             | —             | 5,413                      | —                 | 5,413         |
| Income from operations   | —             | —             | 942                        | —                 | 942           |
| Other income (expense):  |               |               |                            |                   |               |
| Interest expense, net  | (154)         | (12)          | (33)                       | —                 | (199)         |
| Loss on early extinguishment of debt                             | (500)         | (52)          | —                          | —                 | (552)         |
| Equity in earnings of subsidiaries, net of taxes                 | 551           | 590           | —                          | (1,141)           | —             |
| Other, net   | —             | —             | (24)                       | —                 | (24)          |
|  | <u>(103)</u>  | <u>526</u>    | <u>(57)</u>                | <u>(1,141)</u>    | <u>(775)</u>  |
| Income (loss) before income taxes                                | (103)         | 526           | 885                        | (1,141)           | 167           |
| Provision for (benefit from) income taxes                        | (248)         | (25)          | 298                        | —                 | 25            |
| Consolidated net income  | 145           | 551           | 587                        | (1,141)           | 142           |
| Less: Net income (loss) attributable to noncontrolling interests | —             | —             | (3)                        | —                 | (3)           |
| Net income attributable to Waste Management, Inc.                | <u>\$ 145</u> | <u>\$ 551</u> | <u>\$ 590</u>              | <u>\$ (1,141)</u> | <u>\$ 145</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

|  | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b><u>Three Months Ended June 30, 2016</u></b>                             |              |                        |                                       |                     |                     |
| Comprehensive income   | \$289        | \$ 333                 | \$ 342                                | \$ (669)            | \$ 295              |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | —            | —                      | (1)                                   | —                   | (1)                 |
| Comprehensive income attributable to Waste Management, Inc.                | <u>\$289</u> | <u>\$ 333</u>          | <u>\$ 343</u>                         | <u>\$ (669)</u>     | <u>\$ 296</u>       |
| <b><u>Three Months Ended June 30, 2015</u></b>                             |              |                        |                                       |                     |                     |
| Comprehensive income   | \$276        | \$ 320                 | \$ 330                                | \$ (637)            | \$ 289              |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | —            | —                      | (1)                                   | —                   | (1)                 |
| Comprehensive income attributable to Waste Management, Inc.                | <u>\$276</u> | <u>\$ 320</u>          | <u>\$ 331</u>                         | <u>\$ (637)</u>     | <u>\$ 290</u>       |
| <b><u>Six Months Ended June 30, 2016</u></b>                               |              |                        |                                       |                     |                     |
| Comprehensive income   | \$549        | \$ 637                 | \$ 714                                | \$ (1,280)          | \$ 620              |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | —            | —                      | (3)                                   | —                   | (3)                 |
| Comprehensive income attributable to Waste Management, Inc.                | <u>\$549</u> | <u>\$ 637</u>          | <u>\$ 717</u>                         | <u>\$ (1,280)</u>   | <u>\$ 623</u>       |
| <b><u>Six Months Ended June 30, 2015</u></b>                               |              |                        |                                       |                     |                     |
| Comprehensive income   | \$151        | \$ 551                 | \$ 524                                | \$ (1,141)          | \$ 85               |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | —            | —                      | (3)                                   | —                   | (3)                 |
| Comprehensive income attributable to Waste Management, Inc.                | <u>\$151</u> | <u>\$ 551</u>          | <u>\$ 527</u>                         | <u>\$ (1,141)</u>   | <u>\$ 88</u>        |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2016

(Unaudited)

|  | WM          | WM<br>Holdings | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated   |
|--|-------------|----------------|-------------------------------|--------------|----------------|
| Cash flows from operating activities:  |             |                |                               |              |                |
| Consolidated net income  | \$ 545      | \$ 637         | \$ 640                        | \$ (1,280)   | \$ 542         |
| Equity in earnings of subsidiaries, net of taxes                                 | (637)       | (643)          | —                             | 1,280        | —              |
| Other adjustments  | 6           | (1)            | 907                           | —            | 912            |
| Net cash provided by (used in) operating activities                              | <u>(86)</u> | <u>(7)</u>     | <u>1,547</u>                  | <u>—</u>     | <u>1,454</u>   |
| Cash flows from investing activities:  |             |                |                               |              |                |
| Acquisitions of businesses, net of cash acquired                                 | —           | —              | (572)                         | —            | (572)          |
| Capital expenditures   | —           | —              | (629)                         | —            | (629)          |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | —           | —              | 24                            | —            | 24             |
| Net receipts from restricted trust and escrow accounts and other, net            | —           | —              | (9)                           | —            | (9)            |
| Net cash used in investing activities  | <u>—</u>    | <u>—</u>       | <u>(1,186)</u>                | <u>—</u>     | <u>(1,186)</u> |
| Cash flows from financing activities:  |             |                |                               |              |                |
| New borrowings   | 1,647       | —              | 447                           | —            | 2,094          |
| Debt repayments  | (1,038)     | —              | (479)                         | —            | (1,517)        |
| Premiums paid on early extinguishment of debt                                    | (1)         | —              | (1)                           | —            | (2)            |
| Common stock repurchases   | (500)       | —              | —                             | —            | (500)          |
| Cash dividends   | (364)       | —              | —                             | —            | (364)          |
| Exercise of common stock options   | 44          | —              | —                             | —            | 44             |
| Other, net   | 15          | —              | (39)                          | —            | (24)           |
| (Increase) decrease in intercompany and investments, net                         | 283         | 7              | (290)                         | —            | —              |
| Net cash provided by (used in) financing activities                              | <u>86</u>   | <u>7</u>       | <u>(362)</u>                  | <u>—</u>     | <u>(269)</u>   |
| Effect of exchange rate changes on cash and cash equivalents                     | —           | —              | 1                             | —            | 1              |
| Increase (decrease) in cash and cash equivalents                                 | —           | —              | —                             | —            | —              |
| Cash and cash equivalents at beginning of period                                 | —           | —              | 39                            | —            | 39             |
| Cash and cash equivalents at end of period                                       | <u>\$ —</u> | <u>\$ —</u>    | <u>\$ 39</u>                  | <u>\$ —</u>  | <u>\$ 39</u>   |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Six Months Ended June 30, 2015

(Unaudited)

|  | WM             | WM<br>Holdings | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated   |
|--|----------------|----------------|-------------------------------|--------------|----------------|
| Cash flows from operating activities:  |                |                |                               |              |                |
| Consolidated net income  | \$ 145         | \$ 551         | \$ 587                        | \$ (1,141)   | \$ 142         |
| Equity in earnings of subsidiaries, net of taxes                                 | (551)          | (590)          | —                             | 1,141        | —              |
| Other adjustments  | 5              | (5)            | 1,173                         | —            | 1,173          |
| Net cash provided by (used in) operating activities                              | <u>(401)</u>   | <u>(44)</u>    | <u>1,760</u>                  | <u>—</u>     | <u>1,315</u>   |
| Cash flows from investing activities:  |                |                |                               |              |                |
| Acquisitions of businesses, net of cash acquired                                 | —              | —              | (454)                         | —            | (454)          |
| Capital expenditures   | —              | —              | (529)                         | —            | (529)          |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | —              | —              | 78                            | —            | 78             |
| Net receipts from restricted trust and escrow accounts and other, net            | —              | —              | 26                            | —            | 26             |
| Net cash used in investing activities  | <u>—</u>       | <u>—</u>       | <u>(879)</u>                  | <u>—</u>     | <u>(879)</u>   |
| Cash flows from financing activities:  |                |                |                               |              |                |
| New borrowings   | 1,781          | —              | 85                            | —            | 1,866          |
| Debt repayments  | (1,825)        | (144)          | (212)                         | —            | (2,181)        |
| Premiums paid on early extinguishment of debt                                    | (503)          | (52)           | —                             | —            | (555)          |
| Common stock repurchases   | (300)          | —              | —                             | —            | (300)          |
| Cash dividends   | (351)          | —              | —                             | —            | (351)          |
| Exercise of common stock options   | 47             | —              | —                             | —            | 47             |
| Other, net   | 5              | —              | —                             | —            | 5              |
| (Increase) decrease in intercompany and investments, net                         | 460            | 240            | (700)                         | —            | —              |
| Net cash provided by (used in) financing activities                              | <u>(686)</u>   | <u>44</u>      | <u>(827)</u>                  | <u>—</u>     | <u>(1,469)</u> |
| Effect of exchange rate changes on cash and cash equivalents                     | —              | —              | (1)                           | —            | (1)            |
| Increase (decrease) in cash and cash equivalents                                 | <u>(1,087)</u> | <u>—</u>       | <u>53</u>                     | <u>—</u>     | <u>(1,034)</u> |
| Cash and cash equivalents at beginning of period                                 | 1,235          | —              | 72                            | —            | 1,307          |
| Cash and cash equivalents at end of period                                       | <u>\$ 148</u>  | <u>\$ —</u>    | <u>\$ 125</u>                 | <u>\$ —</u>  | <u>\$ 273</u>  |

**16. New Accounting Standards Pending Adoption**

*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 incurred loss impairment methodology in current U.S. Generally Accepted Accounting Principles (“GAAP”) 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 employee 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 employee compensation. All excess tax benefits and tax deficiencies will be required to be recognized as an income tax benefit or expense 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 employee compensation. The amended guidance is effective for the Company on January 1, 2017, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and 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 in the process of 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. The adoption of this amended guidance will not have a material 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 or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial adoption. We are in the process of assessing the provisions of the amended guidance and their impact on our consolidated financial statements. We have formed an implementation work team, completed training on the new standard and started performing reviews of our contractual arrangements. We have not determined whether the adoption will have a material impact on our consolidated financial statements.

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included under Item 1 and our Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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.

Some of the risks that we believe could affect our business and financial statements for 2016 and beyond and that could cause actual results to be materially different from those that may be set forth in forward-looking statements made by the Company include the following:

- competition may negatively affect our profitability or cash flows, our pricing strategy may have negative effects on volumes, and inability to execute our pricing strategy while retaining and attracting customers may negatively affect our average yield on collection and disposal business;
- we may fail in implementing or maintaining our cost saving, optimization and growth initiatives and overall business strategy, which could adversely impact our financial performance and growth, and implementation of our initiatives and strategy may have associated negative consequences, such as fragmentation of efforts, increased indebtedness, asset impairments, business disruption, employee distraction, and regulatory issues;
- a key element of our strategy is yield management through focus on price leadership, which has presented challenges to keep existing business and win new business at reasonable returns; the loss of volumes as a result of price increases and our unwillingness to pursue lower margin volumes may negatively affect our cash flows or results of operations;
- we may be unable to identify desirable acquisition targets, negotiate advantageous transactions or realize the benefits expected from such transactions, which could adversely impact our growth strategy, earnings and cash flow;
- compliance with existing or future regulations may impact our business by, among other things, restricting our operations, increasing costs of operations or requiring additional capital expenditures;
- possible changes in our estimates of costs for site remediation requirements, final capping, closure and post-closure obligations, compliance and regulatory developments may increase our expenses;
- certain materials processed by our recycling operations are subject to significant commodity price fluctuations, as are methane gas, electricity and other energy-related products marketed and sold by our landfill gas recovery operations; fluctuations in commodity prices may have negative effects on our operating results;

- changes in oil and gas prices and drilling activity, and changes in applicable regulations, could adversely affect our Energy Services business;
- increasing customer preference for alternatives to traditional disposal, government mandates supporting diversion of waste and recycling and prohibiting disposal of certain types of waste, and overall reduction of waste generated could continue to have a negative effect on volumes of waste going to our landfills;
- developments in technology could trigger a fundamental change in the waste management industry, as waste streams are increasingly viewed as a resource, which may adversely impact volumes at our landfills and our profitability;
- our existing and proposed service offerings to customers may require that we develop or license, and protect, new technologies; and our inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources;
- we are investing in emerging technologies to provide disposal alternatives; such emerging technologies may not perform as intended or may experience other difficulties or delays that prevent us from realizing a return on our investment;
- 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;
- there is a risk of incurring significant environmental liabilities in the use, treatment, storage, transfer and disposal of waste materials; any substantial liability for environmental damage could have a material adverse effect on our financial condition and cash flows;
- weak economic conditions may negatively affect the volumes of waste generated and demand for post-consumer fiber and metals processed by our recycling operations;
- some of our customers, including governmental entities, have suffered financial difficulties that could affect our business and operating results, due to their credit risk and the impact of the municipal debt market on remarketing of our tax-exempt bonds;
- if we are unable to obtain and maintain permits needed to open, operate, and/or expand our facilities, our results of operations will be negatively impacted;
- diesel fuel price increases or diesel fuel supply shortages may increase our expenses and restrict our ability to operate;
- we are increasingly dependent on the availability of natural gas and fueling infrastructure and vulnerable to natural gas prices; difficulty obtaining natural gas and increases in natural gas prices could increase our operating costs;
- problems with the operation of current information technology or the development and deployment of new information systems could decrease our efficiencies and increase our costs;
- a cybersecurity incident could negatively impact our business and our relationships with customers;
- efforts by labor unions to organize our employees may increase operating expenses and we may be unable to negotiate acceptable collective bargaining agreements with those who have chosen to be represented by unions, which could lead to labor disruptions, including strikes and lock-outs, which could adversely affect our results of operations and cash flows;
- we could face significant liability for withdrawal from multiemployer pension plans;
- we are subject to operational and safety risks; such risks could potentially result in injury or death of employees and others, a need to shut down or reduce operation of facilities, increased operating expense and exposure to liability for pollution and other environmental damage, and property damage or destruction;
- increased costs for financial assurance or the inadequacy of our insurance coverage could negatively impact our liquidity and increase our liabilities;



- possible charges as a result of shut-down operations, uncompleted development or expansion projects or other events may negatively affect earnings;
- we may reduce or suspend capital expenditures, acquisition activity, dividend declarations or share repurchases if we suffer a significant reduction in cash flows;
- we may be unable to incur future indebtedness to support our growth and development plans or to refinance our debt obligations, including near-term maturities, on terms consistent with current borrowings, and higher interest rates and market conditions may increase our expense;
- climate change legislation, including possible limits on carbon emissions, may negatively impact our results of operations by increasing expenses;
- weather conditions and one-time special projects cause our results to fluctuate, and harsh weather or natural disasters may cause us to temporarily suspend operations; 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 business, or third parties with whom we have relationships, were to fail to comply with United States or foreign laws or regulations;
- negative outcomes of litigation or threatened litigation or governmental proceedings may increase our costs, limit our ability to conduct or expand our operations, or limit our ability to execute our business plans and strategies; and
- the adoption of new accounting standards or interpretations may cause fluctuations in reported quarterly results of operations or adversely impact our reported results of operations.

## **General**

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

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

## **Overview**

Our Company’s goals are targeted at serving our customers, our employees, the environment, the communities in which we work and our stockholders, and achievement of our goals is intended to meet the needs of a changing industry. Our Company and others have recognized the value of the traditional waste stream as a potential resource. Increasingly, customers want more of their waste materials recovered, while waste streams are becoming more complex, and our aim is to address, and anticipate, the current, expanding and evolving needs of our customers. Accomplishment of our goals will grow our Company and allow us to meet the needs of our customers and communities as they, too, Think Green®.

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.

Drawing on our resources and experience, we also pursue projects and initiatives that benefit the waste industry, the customers and communities we serve and the environment.

We remain dedicated to providing long-term value to our stockholders by successfully executing our strategy: to know and service our customers better than anyone in our industry, to extract more value from the materials we manage, and to innovate and optimize our business. We plan to accomplish our strategic goals through competitive advantages derived from operational improvements and focused differentiation in our industry, driven by capitalizing on our extensive, well-placed network of assets. While we will continue to monitor emerging diversion technologies that may generate additional value, our current attention will be on improving existing diversion technologies, such as our recycling operations.

In pursuit of these long-term goals, we recognize that we must grow the business, and do so as efficiently and cost effectively as possible. Accordingly, we are focusing on the following five key company priorities:

- Customers: provide the best possible service to our customers;
- Solid Waste Business: continuously improve our operational performance;
- Growth: take advantage of opportunities in our current business, as well as considering attractive acquisition opportunities;
- Yield Management: remain focused on price leadership while considering competitive dynamics; and
- Costs: minimize both operating costs and selling, general and administrative expenses.

We believe that execution of our strategy through these key priorities will drive continued financial performance and leadership in a dynamic industry.

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

- Revenues of \$3,425 million compared with \$3,315 million in the second quarter of 2015, an increase of \$110 million, or 3.3%. This increase is attributable to (i) yield on our collection and disposal operations, which increased revenues by \$77 million; (ii) acquisitions, which increased revenues by \$64 million, primarily due to the acquisition of SWS in January 2016 and (iii) higher volumes, which increased our revenues by \$12 million. These increases were partially offset by (i) lower fuel surcharges and mandated fees of \$24 million, primarily due to lower year-over-year average fuel prices; (ii) divestitures, which decreased revenue by \$12 million and (iii) foreign currency translation of \$10 million related to our Canadian operations;
- Operating expenses of \$2,130 million, or 62.2% of revenues, compared with \$2,163 million, or 65.2% of revenues in the second quarter of 2015. This decrease of \$33 million is primarily attributable to (i) the recognition of a \$55 million charge associated with the withdrawal from certain underfunded multiemployer pension plans in the second quarter of 2015 and (ii) lower fuel costs primarily due to lower year-over-year average fuel prices. These decreases were partially offset by (i) the acquisition of SWS; (ii) increased landfill leachate disposal costs and (iii) higher volumes in the current year period;
- Selling, general and administrative expenses of \$340 million, or 9.9% of revenues, compared with \$322 million, or 9.7% of revenues, in the second quarter of 2015. This increase of \$18 million is primarily attributable to higher stock-based incentive compensation costs;
- Income from operations of \$611 million, or 17.8% of revenues, compared with \$502 million, or 15.1% of revenues, in the second quarter of 2015; and
- Net income attributable to Waste Management, Inc. of \$287 million, or \$0.64 per diluted share, compared with \$274 million, or \$0.60 per diluted share, in the second quarter of 2015.

The following are key items that affected our diluted earnings per share in the second quarters of 2016 and 2015:

- Our 2016 second quarter results were affected by the recognition of after-tax charges of \$42 million, primarily related to the impairment of minority-owned investments in waste diversion technology companies, which had a negative impact of \$0.10 on our diluted earnings per share.

- Our 2015 second quarter results were affected by after-tax net charges of \$27 million, primarily associated with the withdrawal from certain underfunded multiemployer pension plans, which had a negative impact of \$0.06 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. Nevertheless, the use of free cash flow as a liquidity measure has material limitations because it excludes certain expenditures that are required or that we have committed to, such as declared dividend payments and debt service requirements.

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

|  | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|--|--------------------------------|---------------|------------------------------|---------------|
|  | 2016                           | 2015          | 2016                         | 2015          |
| Net cash provided by operating activities  | \$ 748                         | \$ 816        | \$1,454                      | \$1,315       |
| Capital expenditures   | (312)                          | (296)         | (629)                        | (529)         |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 11                             | 59            | 24                           | 78            |
| Free cash flow   | <u>\$ 447</u>                  | <u>\$ 579</u> | <u>\$ 849</u>                | <u>\$ 864</u> |

Our cash flows from operating activities decreased \$68 million when comparing the three months ended June 30, 2016 to the comparable period in 2015, and increased \$139 million when comparing the six months ended June 30, 2016 to the comparable period in 2015. The three months ended June 30, 2016 was impacted by higher earnings from our Traditional Solid Waste business, although the earnings were more than offset by higher income tax payments in the current year and remaining unfavorable changes in our assets and liabilities, net of effects from business acquisitions and divestitures. The six months ended June 30, 2016, was impacted by (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 and (iii) a decrease of \$46 million in annual incentive plan cash payments in the first quarter of 2016 when compared to the prior year period. These increases were partially offset by higher income tax payments in the current year and remaining unfavorable changes in our assets and liabilities, net of effects from business acquisitions and divestitures.

Although capital expenditures were \$16 million and \$100 million higher, when comparing the three and six months ended June 30, 2016 to the comparable prior year periods, respectively, the Company continues to maintain a disciplined focus on capital management. The increase in our capital expenditures is generally the result of additional spending on new business opportunities and acquisitions, growth in our existing business and the timing of replacement of aging assets. Furthermore, the increase when compared to prior year periods is a result of continual efforts to spend capital more ratably throughout the year.

### Acquisitions

*Southern Waste Systems/Sun Recycling* — On January 8, 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 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 long-term U.S. revolving credit facility (“\$2.25 billion revolving credit facility”). For the three and six months ended June 30, 2016, the acquired operations of SWS contributed revenues of \$39 million and \$76 million, respectively, and net income of less than \$1 million and \$1 million, respectively, which are included in our Condensed Consolidated Statements of Operations.

*Deffenbaugh Disposal, Inc.* — On March 26, 2015, we acquired Deffenbaugh Disposal, Inc. (“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.

#### ***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 Condensed 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, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

## Results of Operations

### Operating Revenues

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. We also provide additional services that are not managed through our Solid Waste business, including 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. In addition, we 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. These operations are presented as “Other” in the table below. The following table summarizes revenues during each period (in millions):

|              | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|--------------|--------------------------------|----------------|------------------------------|-----------------|
|              | 2016                           | 2015           | 2016                         | 2015            |
| Solid Waste: |                                |                |                              |                 |
| Tier 1       | \$1,316                        | \$1,292        | \$ 2,557                     | \$ 2,487        |
| Tier 2       | 856                            | 853            | 1,637                        | 1,633           |
| Tier 3       | 1,347                          | 1,264          | 2,607                        | 2,386           |
| Solid Waste  | 3,519                          | 3,409          | 6,801                        | 6,506           |
| Other        | 572                            | 525            | 1,072                        | 1,003           |
| Intercompany | (666)                          | (619)          | (1,272)                      | (1,154)         |
| Total        | <u>\$3,425</u>                 | <u>\$3,315</u> | <u>\$ 6,601</u>              | <u>\$ 6,355</u> |

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

|                  | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|------------------|--------------------------------|----------------|------------------------------|-----------------|
|                  | 2016                           | 2015           | 2016                         | 2015            |
| Commercial       | \$ 865                         | \$ 837         | \$ 1,711                     | \$ 1,657        |
| Residential      | 622                            | 631            | 1,232                        | 1,243           |
| Industrial       | 613                            | 582            | 1,174                        | 1,091           |
| Other            | 111                            | 91             | 207                          | 167             |
| Total collection | 2,211                          | 2,141          | 4,324                        | 4,158           |
| Landfill         | 792                            | 758            | 1,499                        | 1,393           |
| Transfer         | 391                            | 362            | 737                          | 670             |
| Recycling        | 290                            | 299            | 558                          | 581             |
| Other            | 407                            | 374            | 755                          | 707             |
| Intercompany     | (666)                          | (619)          | (1,272)                      | (1,154)         |
| Total            | <u>\$3,425</u>                 | <u>\$3,315</u> | <u>\$ 6,601</u>              | <u>\$ 6,355</u> |

The following table provides details associated with the period-to-period change in revenues (dollars in millions) along with an explanation of the significant components of the current period changes:

|                              | Period-to-Period<br>Change for the<br>Three Months Ended<br>June 30,<br>2016 vs. 2015 |                                  | Period-to-Period<br>Change for the<br>Six Months Ended<br>June 30,<br>2016 vs. 2015 |                                  |
|------------------------------|---|----------------------------------|---|----------------------------------|
|                              | Amount  | As a % of<br>Total<br>Company(a) | Amount  | As a % of<br>Total<br>Company(a) |
| Average yield(b)             | \$ 56   | 1.7%                             | \$ 72   | 1.1%                             |
| Volume                       | 12  | 0.4                              | 69  | 1.1                              |
| Internal revenue growth      | 68  | 2.1                              | 141   | 2.2                              |
| Acquisitions                 | 64  | 1.9                              | 156   | 2.5                              |
| Divestitures                 | (12)  | (0.4)                            | (23)  | (0.4)                            |
| Foreign currency translation | (10)  | (0.3)                            | (28)  | (0.4)                            |
| Total                        | \$ 110  | 3.3%                             | \$ 246  | 3.9%                             |

- (a) Calculated by dividing the amount of current period increase or decrease by the prior period's total Company revenue adjusted to exclude the impacts of divestitures for the current period (\$3,303 million and \$6,332 million for the three and six months, 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<br>Change for the<br>Three Months Ended<br>June 30,<br>2016 vs. 2015 |                                     | Period-to-Period<br>Change for the<br>Six Months Ended<br>June 30,<br>2016 vs. 2015 |                                     |
|-----------------------------------|---|-------------------------------------|---|-------------------------------------|
|                                   | Amount  | As a % of<br>Related<br>Business(i) | Amount  | As a % of<br>Related<br>Business(i) |
| Average yield:                    |   |                                     |   |                                     |
| Collection and disposal           | \$ 77   | 2.6%                                | \$ 146  | 2.6%                                |
| Recycling commodities             | 3   | 1.1                                 | (18)  | (3.3)                               |
| Fuel surcharges and mandated fees | (24)  | (17.8)                              | (56)  | (21.1)                              |
| Total                             | \$ 56   | 1.7%                                | \$ 72   | 1.1%                                |

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

Our revenues increased \$110 million, or 3.3%, and \$246 million, or 3.9%, for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods. Our revenue increases were driven by (i) acquisitions, particularly the acquisitions of SWS in January 2016 and Deffenbaugh in March 2015; (ii) revenue growth from yield on our collection and disposal operations and (iii) higher volumes. Partially offsetting these revenue increases were (i) lower revenues from our fuel surcharges program due to lower year-over-year fuel costs; (ii) lower average commodity prices for the first six months in 2016; (iii) foreign currency translation, which affects revenues from our Canadian operations and (iv) divestitures.

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

## Average yield

*Collection and disposal average yield* — This measure reflects the effect on our revenue from the pricing activities of our collection, transfer and landfill 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) rollbacks to retain customers. Revenue growth from collection and disposal average yield was \$77 million, or 2.6%, and \$146 million, or 2.6%, for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods.

We experienced growth in all of our collection and disposal lines of business in the current periods. The details are as follows (dollars in millions):

|                               | Period-to-Period<br>Change for the<br>Three Months<br>Ended<br>June 30, 2016 |                                     | Period-to-Period<br>Change for the<br>Six Months<br>Ended<br>June 30, 2016 |                                     |
|-------------------------------|--|-------------------------------------|--|-------------------------------------|
|                               | Amount   | As a %<br>of<br>Related<br>Business | Amount   | As a %<br>of<br>Related<br>Business |
| Commercial                    | \$ 37  | 4.7%                                | \$ 72  | 4.7%                                |
| Residential                   | 14   | 2.3                                 | 24   | 2.0                                 |
| Industrial                    | 16   | 2.9                                 | 34   | 3.3                                 |
| Total collection              | 67   | 3.3                                 | 130  | 3.4                                 |
| Landfill                      | 5  | 1.1                                 | 8  | 1.0                                 |
| Transfer                      | 5  | 2.8                                 | 8  | 2.3                                 |
| Total collection and disposal | \$ 77  | 2.6                                 | \$ 146   | 2.6                                 |

Revenues from our environmental fee contributed \$18 million and \$34 million for the three and six months ended June 30, 2016, respectively, to our collection and disposal average yield.

*Recycling commodities* — Our revenues increased \$3 million for the three months ended June 30, 2016 as a result of the 2% increase in the prices of the recycling commodities we sell. This is the first revenue increase resulting from commodity price increases since the fourth quarter of 2013. However, commodity prices declined 3% for the first six months in 2016 compared to the prior year period, which resulted in a revenue decline of \$18 million for the six months ended June 30, 2016.

*Fuel surcharges and mandated fees* — These revenues, which are predominantly generated by our fuel surcharge program, decreased \$24 million and \$56 million for the three and six months ended June 30, 2016, respectively, compared to the prior year periods. These revenues fluctuate in response to changes in the national average prices for diesel fuel on which our surcharge is based. We experienced fuel price declines of approximately 19% and 24% for the three and six months ended June 30, 2016, respectively, compared to the prior year periods, which caused a decline in our fuel surcharge revenues. 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.

## Volume

Our revenues increased \$12 million, or 0.4%, and \$69 million, or 1.1%, for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods due to higher volumes. The year-over-year comparison does not include volumes from acquisitions, which are discussed below. Overall, we experienced higher volumes as a result of improving market conditions and an additional workday in the first six months of 2016. We experienced revenue increases due to higher volumes particularly in our industrial collection business, our municipal solid waste, construction and demolition, and special waste landfill businesses, and our transfer station business.

Additional drivers affecting the comparability of volumes for the periods presented 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 business.
- In our ancillary service businesses, we experienced lower volumes resulting from 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 higher volumes in our remediation and construction services and portable self-storage businesses.

#### Acquisitions and divestitures

Revenues increased \$64 million and \$156 million for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods, principally due to the acquisition of SWS in January 2016. Additionally, the acquisition of Deffenbaugh in March 2015 also contributed to the revenue increase for the first six months of 2016. These revenues were partially offset by revenue decreases due to divestitures of \$12 million and \$23 million for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods.

#### Operating Expenses

Our operating expenses decreased \$33 million, or 1.5%, and increased \$14 million, or 0.3%, for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods. Our operating expenses as a percentage of revenues decreased to 62.2% in the second quarter of 2016 from 65.2% in the second quarter of 2015, and decreased to 62.5% for the six months ended June 30, 2016 from 64.7% for the six months ended June 30, 2015.

The following table summarizes the major components of our operating expenses for the three and six months ended June 30 (dollars in millions), with significant changes in our operating expenses discussed below:

|                                       | Three Months Ended June 30, |                | Period-to-Period Change |               | Six Months Ended June 30, |                | Period-to-Period Change |             |
|---------------------------------------|-----------------------------|----------------|-------------------------|---------------|---------------------------|----------------|-------------------------|-------------|
|                                       | 2016                        | 2015           |                         |               | 2016                      | 2015           |                         |             |
| Labor and related benefits            | \$ 598                      | \$ 640         | \$(42)                  | (6.6)%        | \$ 1,177                  | \$ 1,204       | \$(27)                  | (2.2)%      |
| Transfer and disposal costs           | 252                         | 242            | 10                      | 4.1           | 483                       | 459            | 24                      | 5.2         |
| Maintenance and repairs               | 269                         | 258            | 11                      | 4.3           | 525                       | 499            | 26                      | 5.2         |
| Subcontractor costs                   | 298                         | 285            | 13                      | 4.6           | 571                       | 547            | 24                      | 4.4         |
| Cost of goods sold                    | 210                         | 206            | 4                       | 1.9           | 391                       | 391            | —                       | —           |
| Fuel                                  | 74                          | 105            | (31)                    | (29.5)        | 138                       | 202            | (64)                    | (31.7)      |
| Disposal and franchise fees and taxes | 177                         | 173            | 4                       | 2.3           | 340                       | 322            | 18                      | 5.6         |
| Landfill operating costs              | 95                          | 67             | 28                      | 41.8          | 173                       | 128            | 45                      | 35.2        |
| Risk management                       | 51                          | 65             | (14)                    | (21.5)        | 107                       | 118            | (11)                    | (9.3)       |
| Other                                 | 106                         | 122            | (16)                    | (13.1)        | 218                       | 239            | (21)                    | (8.8)       |
|                                       | <u>\$2,130</u>              | <u>\$2,163</u> | <u>\$(33)</u>           | <u>(1.5)%</u> | <u>\$4,123</u>            | <u>\$4,109</u> | <u>\$ 14</u>            | <u>0.3%</u> |

Operating expenses for the three and six months ended June 30, 2015 included a \$55 million charge associated with the withdrawal from certain underfunded multiemployer pension plans reflected in labor and related benefits costs. Excluding the impact of this charge, we experienced higher current year operating costs for the three and six months when compared to the prior year periods related to:

- The acquired operations of Deffenbaugh in March 2015 and SWS in January 2016, which increased costs in substantially all categories; and
- Higher volumes in the current year periods, primarily the six months ended June 30, 2016, as discussed above in *Operating Revenues*. The most significant cost increases were in the (i) transfer and disposal; (ii) subcontractor and (iii) disposal and franchise fees and taxes cost categories.



Other significant items affecting the comparability of the costs for the periods presented include:

*Fuel* — The decrease in fuel expense in the current year periods when compared to the prior year periods was driven by (i) lower fuel prices; (ii) lower costs resulting from the conversion of our fleet to natural gas vehicles and (iii) increases in natural gas fuel excise credits that could not be recognized until the fourth quarter of the prior year.

*Landfill operating costs* — The increase in landfill operating costs in the current year periods when compared to the prior year periods was primarily driven by higher leachate disposal costs and an unfavorable adjustment related to changes in U.S. Treasury rates used to discount the present value of our environmental remediation obligations and recovery assets in the current quarter.

*Risk management* — The decrease in costs was primarily related to lower auto and general liability claim settlements in the current year periods.

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

Our selling, general and administrative expenses increased by \$18 million, or 5.6%, and \$32 million, or 4.8%, for the three and six months ended June 30, 2016, respectively, as compared with the prior year periods. As a percentage of revenue, our selling, general and administrative expenses increased from 9.7% for the second quarter of 2015 to 9.9% for the second quarter of 2016, and increased from 10.5% for the six months ended June 30, 2015 to 10.6% for the six months ended June 30, 2016.

The following table summarizes the major components of our selling, general and administrative expenses for the three and six months ended June 30 (dollars in millions):

|                            | Three Months Ended June 30, |              | Period-to-Period Change |        | Six Months Ended June 30, |              | Period-to-Period Change |        |
|----------------------------|-----------------------------|--------------|-------------------------|--------|---------------------------|--------------|-------------------------|--------|
|                            | 2016                        | 2015         |                         |        | 2016                      | 2015         |                         |        |
| Labor and related benefits | \$233                       | \$215        | \$18                    | 8.4%   | \$476                     | \$438        | \$38                    | 8.7%   |
| Professional fees          | 24                          | 28           | (4)                     | (14.3) | 46                        | 56           | (10)                    | (17.9) |
| Provision for bad debts    | 7                           | 6            | 1                       | 16.7   | 18                        | 18           | —                       | —      |
| Other                      | 76                          | 73           | 3                       | 4.1    | 162                       | 158          | 4                       | 2.5    |
|                            | <u>\$340</u>                | <u>\$322</u> | <u>\$18</u>             | 5.6%   | <u>\$702</u>              | <u>\$670</u> | <u>\$32</u>             | 4.8%   |

Our labor and related benefits costs increased as a result of (i) higher stock-based incentive compensation costs; (ii) increased headcount, primarily from our acquisition of SWS in January 2016 and (iii) merit increases. Our professional fees decreased as a result of lower legal fees.

### **Depreciation and Amortization**

The following table summarizes the components of our depreciation and amortization expense for the three and six months ended June 30 (dollars in millions):

|   | Three Months Ended June 30, |              | Period-to-Period Change |      | Six Months Ended June 30, |              | Period-to-Period Change |      |
|---|-----------------------------|--------------|-------------------------|------|---------------------------|--------------|-------------------------|------|
|   | 2016                        | 2015         |                         |      | 2016                      | 2015         |                         |      |
| Depreciation of tangible property and equipment | \$198                       | \$192        | \$6                     | 3.1% | \$388                     | \$378        | \$10                    | 2.6% |
| Amortization of landfill airspace               | 116                         | 110          | 6                       | 5.5  | 215                       | 199          | 16                      | 8.0  |
| Amortization of intangible assets               | 26                          | 20           | 6                       | 30.0 | 49                        | 37           | 12                      | 32.4 |
|   | <u>\$340</u>                | <u>\$322</u> | <u>\$18</u>             | 5.6% | <u>\$652</u>              | <u>\$614</u> | <u>\$38</u>             | 6.2% |

The increase in depreciation of tangible property and equipment and amortization of intangible assets during the 2016 periods as compared to the prior year periods is primarily due to the acquisitions of SWS and Deffenbaugh. The increase in amortization of landfill airspace during the 2016 periods as compared to the prior year periods is primarily due to increased volumes at our landfills.

### Expense from Divestitures, Asset Impairments and Unusual Items

During the six months ended June 30, 2015, we recognized net charges of \$15 million, including \$16 million of charges to write down or divest of certain assets in our recycling operations and a \$5 million impairment charge related to a landfill in our Western Canada Area. Partially offsetting these charges was a \$6 million gain on the sale of an oil and gas producing property.

### Income from Operations

The following table summarizes income from operations for the three and six months ended June 30 (dollars in millions):

|                     | Three Months Ended June 30, |               | Period-to-Period Change |              | Six Months Ended June 30, |               | Period-to-Period Change |              |
|---------------------|-----------------------------|---------------|-------------------------|--------------|---------------------------|---------------|-------------------------|--------------|
|                     | 2016                        | 2015          |                         |              | 2016                      | 2015          |                         |              |
| <b>Solid Waste:</b> |                             |               |                         |              |                           |               |                         |              |
| Tier 1              | \$ 362                      | \$ 297        | \$ 65                   | 21.9%        | \$ 696                    | \$ 593        | \$103                   | 17.4%        |
| Tier 2              | 157                         | 151           | 6                       | 4.0          | 302                       | 290           | 12                      | 4.1          |
| Tier 3              | 235                         | 182           | 53                      | 29.1         | 443                       | 360           | 83                      | 23.1         |
| <b>Solid Waste</b>  | <u>754</u>                  | <u>630</u>    | <u>124</u>              | <u>19.7</u>  | <u>1,441</u>              | <u>1,243</u>  | <u>198</u>              | <u>15.9</u>  |
| Wheelabrator        | —                           | 8             | (8)                     | *            | —                         | 1             | (1)                     | *            |
| Other               | (20)                        | (17)          | (3)                     | 17.6         | (56)                      | (40)          | (16)                    | 40.0         |
| Corporate and Other | (123)                       | (119)         | (4)                     | 3.4          | (266)                     | (262)         | (4)                     | 1.5          |
| <b>Total</b>        | <u>\$ 611</u>               | <u>\$ 502</u> | <u>\$109</u>            | <u>21.7%</u> | <u>\$1,119</u>            | <u>\$ 942</u> | <u>\$177</u>            | <u>18.8%</u> |

\* Percentage change does not provide a meaningful comparison.

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

*Solid Waste* — The most significant items affecting the results of operations of our Solid Waste business during the three and six months ended June 30, 2016 as compared with the prior year periods are summarized below:

- Our Traditional Solid Waste business benefited from internal revenue growth;
- In the second quarter of 2015, we recognized a \$55 million charge associated with the withdrawal from certain underfunded multiemployer pension plans;
- Our recycling business was favorable compared to the prior year periods principally due to continued cost reductions. Additionally, market prices for commodities favorably affected our current quarter results, although prices negatively affected our year-to-date results;
- Increased leachate disposal costs in Tier 2; and
- Merit increases effective in the second quarter of 2016.

Significant items affecting the comparison of the remaining components of our results of operations for the three and six months ended June 30, 2016 with the comparable prior year periods are summarized below:

*Wheelabrator* — Amounts reported in 2015 reflect post-closing adjustments to the gain on the sale of our Wheelabrator business in December 2014.

*Other* — Lower year-over-year earnings in our WMSBS and energy related businesses.

*Corporate and Other* — The most significant items affecting the comparability of expenses for the periods presented include:

- Higher stock-based incentive compensation;
- Decreased risk management costs primarily related to lower auto and general liability claim settlements; and
- An unfavorable adjustment in the second quarter of 2016 related to changes in U.S. Treasury rates used to discount the present value of our environmental remediation obligations and recovery assets.

***Interest Expense, net***

Our interest expense, net was \$93 million and \$188 million during the three and six months ended June 30, 2016, respectively, compared to \$95 million and \$199 million during the three and six months ended June 30, 2015, respectively. The year-over-year decreases are primarily attributable to the refinancing of a significant portion of our high-coupon senior notes during the first quarter of 2015 as discussed below in *Loss on Early Extinguishment of Debt*.

***Loss on Early Extinguishment of Debt***

During the six months ended June 30, 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.

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

We recognized “Equity in net losses of unconsolidated entities” of \$16 million and \$23 million during the three and six months ended June 30, 2016, respectively, compared with \$15 million and \$23 million during the three and six months ended June 30, 2015, 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 5 and 14 to the Condensed Consolidated Financial Statements for more information related to these investments.

***Other, net***

We recognized other, net expense of \$40 million and \$49 million for the three and six months ended June 30, 2016, respectively, primarily related to impairment charges of \$41 million to write down minority-owned investments in waste diversion technology companies to their fair value during the second quarter of 2016. 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 4 to the Condensed Consolidated Financial Statements.

***Provision for Income Taxes***

Our provision for income taxes and effective income tax rates were \$173 million, or 37.6%, and \$313 million, or 36.5%, for the three and six months ended June 30, 2016, respectively, compared to \$116 million, or 29.6%, and \$25 million, or 14.5%, for the three and six months ended June 30, 2015, respectively.

Our provision for income taxes and effective tax rate for the three and six months ended June 30, 2016 was unfavorably impacted primarily by nondeductible investment impairments and state and local income taxes offset, in part, by the favorable impact of federal tax credits and tax audit settlements. Our provision for income taxes and effective tax rate for the three and six months ended June 30, 2015 was favorably impacted primarily by federal tax credits, revaluation of our deferred taxes and utilization of state net operating losses resulting from changes in state law and nontaxable post-closing adjustments related to the divestiture of our Wheelabrator

business offset, in part, by the unfavorable impact of state and local income taxes. In addition, the loss on early extinguishment of debt included in our pre-tax income for the six months ended June 30, 2015 contributed to a lower effective tax rate.

Our investments in the low-income housing properties and the refined coal facility reduced our provision for income taxes by a total of \$14 million and \$25 million for the three and six months ended June 30, 2016, respectively, and by \$13 million and \$24 million for the three and six months ended June 30, 2015, respectively. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information related to these investments.

## Liquidity and Capital Resources

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

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

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Cash and cash equivalents  | \$ 39            | \$ 39                |
| Restricted trust and escrow accounts:                                    |                  |                      |
| Final capping, closure, post-closure and environmental remediation funds | \$ 95            | \$ 94                |
| Other  | 11               | 11                   |
| Total restricted trust and escrow accounts                               | \$ 106           | \$ 105               |
| Debt:  |                  |                      |
| Current portion  | \$ 614           | \$ 253               |
| Long-term portion  | 8,916            | 8,676                |
| Total debt   | \$9,530          | \$ 8,929             |

As of June 30, 2016, our current debt balances include (i) \$500 million of 2.6% senior notes that mature in September 2016 and (ii) \$114 million of other debt with scheduled maturities within the next 12 months, including \$48 million of tax-exempt bonds.

As of June 30, 2016, we also have \$454 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 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 Condensed Consolidated Balance Sheet at June 30, 2016.

### Summary of Cash Flow Activity

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

|   | 2016      | 2015      |
|---|-----------|-----------|
| Net cash provided by operating activities | \$ 1,454  | \$ 1,315  |
| Net cash used in investing activities     | \$(1,186) | \$ (879)  |
| Net cash used in financing activities     | \$ (269)  | \$(1,469) |

*Net Cash Provided by Operating Activities* — The most significant items affecting the comparison of our operating cash flows for the six months ended June 30, 2016 as compared with the six months ended June 30, 2015 are summarized below:

- *Increase in earnings* — Our income from operations, excluding depreciation and amortization, increased by \$215 million on a year-over-year basis, principally driven by earnings from our Traditional Solid Waste business. Additionally, the recognition of a \$55 million charge in the second quarter of 2015 associated with the withdrawal from certain underfunded multiemployer pension plans favorably affected our year-over-year earnings; however, the associated payments were not made until the second half of 2015.
- *Increase in tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was \$68 million higher on a year-over-year basis largely driven by higher earnings in the current year.
- *Foreign currency derivatives* — 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 4 to the Condensed Consolidated Financial Statements. In connection with the termination, we received cash proceeds of \$67 million, which has been classified as a change in “Other current assets” and “Other assets” within “Net cash provided by operating activities” in the Condensed Consolidated Statement of Cash Flows.
- *Decrease in 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 favorably impacted by \$46 million on a year-over-year basis, as the annual incentive plan cash payments made in the first quarter of 2016 were significantly lower than the cash payments made in the first quarter of 2015.
- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operations was unfavorably impacted by \$66 million on a year-over-year basis due to changes in our asset and liability accounts, exclusive of the items noted above. Although our working capital changes may vary from year to year, they are typically driven by changes in accounts receivable and accounts payable, which result from changes in revenue and costs and the timing of receipts and payments.

*Net Cash Used in Investing Activities* — The most significant items included in our investing cash flows for the six months ended June 30, 2016 and 2015 are summarized below:

- *Acquisitions* — Our spending on acquisitions was \$572 million during the six months ended June 30, 2016 compared with \$454 million during the six months ended June 30, 2015. In 2016, our acquisitions consisted primarily of certain operations and business assets of SWS. In 2015, our acquisitions consisted principally of the collection and disposal operations of Deffenbaugh. These acquisitions are discussed in Note 9 to the Condensed Consolidated Financial Statements.
- *Capital expenditures* — We used \$629 million and \$529 million during the six months ended June 30, 2016 and 2015, respectively, for capital expenditures. The increase in our capital expenditures is generally the result of additional spending on new business opportunities and acquisitions, growth in our existing business and the timing of replacement of aging assets. Furthermore, the increase when compared to prior year period is a result of continual efforts to spend capital more ratably throughout the year.

*Net Cash Used in Financing Activities* — The most significant items affecting the comparison of our financing cash flows for the six months ended June 30, 2016 and 2015 are summarized below:

- *Debt borrowings (repayments)* — The following summarizes our cash borrowings and debt repayments for the six months ended June 30 (in millions):

|  | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| <b>Borrowings:</b>                       |                  |                  |
| \$2.25 billion revolving credit facility | \$ 1,008         | \$ —             |
| Canadian term loan                       | 347              | —                |
| Senior notes                             | 496              | 1,781            |
| Tax-exempt bonds                         | 143              | —                |
| Capital leases and other debt            | 100              | 85               |
|  | <u>\$ 2,094</u>  | <u>\$ 1,866</u>  |
| <b>Repayments:</b>                       |                  |                  |
| \$2.25 billion revolving credit facility | \$(1,028)        | \$ —             |
| Canadian term loan                       | (129)            | (54)             |
| Senior notes                             | (10)             | (1,970)          |
| Tax-exempt bonds                         | (241)            | (50)             |
| Capital leases and other debt            | (109)            | (107)            |
|  | <u>\$(1,517)</u> | <u>\$(2,181)</u> |
| <b>Net borrowings (repayments)</b>       | <u>\$ 577</u>    | <u>\$ (315)</u>  |

Refer to Note 3 to the Condensed 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 of \$555 million during the six months ended June 30, 2015 relate to (i) charges for make-whole premiums on certain senior notes that the Company decided to redeem in advance of their scheduled maturities and (ii) charges related to the tender offer for certain senior notes of WM and WM Holdings. For further discussion see *Loss on Early Extinguishment of Debt* above.
- *Dividend payments* — We paid cash dividends of \$364 million and \$351 million during the six months ended June 30, 2016 and 2015, respectively. The increase in dividend payments is primarily due to our quarterly per share dividend increasing from \$0.385 in 2015 to \$0.41 in 2016 and has been offset, in part, by a reduction in our common stock outstanding during 2016 as a result of our share repurchase program.
- *Share repurchases* — We paid \$500 million and \$300 million for share repurchases during the six months ended June 30, 2016 and 2015, respectively. See Note 12 to the Condensed Consolidated Financial Statements for additional information.

#### **Liquidity Impacts of Income Tax Items**

We have liabilities associated with unrecognized tax benefits and related interest. These liabilities are included as a component of long-term “Other liabilities” in our Condensed Consolidated Balance Sheets because the Company does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. We are not able to reasonably estimate when we would 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. At June 30, 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 audit settlements or the expiration of the applicable statute of limitations period.

## Off-Balance Sheet Arrangements

We have financial interests in unconsolidated variable interest entities as discussed in Note 14 to the Condensed Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 7 to the Condensed Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 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

*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 incurred loss impairment methodology in current U.S. Generally Accepted Accounting Principles (“GAAP”) 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 employee 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 employee compensation. All excess tax benefits and tax deficiencies will be required to be recognized as an income tax benefit or expense 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 employee compensation. The amended guidance is effective for the Company on January 1, 2017, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and 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 in the process of 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. The adoption of this amended guidance will not have a material 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 or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial adoption. We are in the process of assessing the provisions of the amended guidance and their impact on our consolidated financial statements. We have formed an implementation work team, completed training on the new standard and started performing reviews of our contractual arrangements. We have not determined whether the adoption will have a material impact on our consolidated financial statements.

## 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 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 actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue can generate earnings at comparatively lower margins.

## Inflation

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

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

Information about market risks as of June 30, 2016, does not differ materially from that discussed under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2015.

### **Item 4. Controls and Procedures.**

#### **Effectiveness of Controls and Procedures**

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2016 (the end of the period covered by this Quarterly Report on Form 10-Q).

#### **Changes in Internal Control over Financial Reporting**

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended June 30, 2016. We determined that there were no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II.

### Item 1. *Legal Proceedings.*

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

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

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 in response to Item 1A to Part I of Form 10-K.

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

The following table summarizes common stock repurchases made during the second quarter of 2016 (shares in millions):

#### Issuer Purchases of Equity Securities

| <u>Period</u> | <u>Total<br/>Number of<br/>Shares<br/>Purchased</u> | <u>Average<br/>Price Paid<br/>per Share</u> | <u>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans or<br/>Programs</u> | <u>Approximate Maximum<br/>Dollar Value of Shares that<br/>May Yet be Purchased Under<br/>the Plans or Programs</u> |
|---------------|---|---|---|---|
| April 1 — 30  | 0.5(a)  | \$ 61.84(a)                                 | 0.5   | \$ 900 million(a)   |
| May 1 — 31    | 3.3(b)  | \$ 60.49(b)                                 | 3.3   | \$ 650 million(b)   |
| June 1 — 30   | —   | \$ —  | —   | \$ 650 million  |
| Total         | <u>3.8</u>  | \$ 60.66                                    | <u>3.8</u>  |   |

- (a) In March 2016, the Company entered into an accelerated share repurchase (“ASR”) agreement to repurchase \$100 million of our common stock. At the beginning of the ASR repurchase period, we delivered \$100 million in cash and received 1.2 million shares based on a stock price of \$56.95. The ASR agreement completed in April 2016, at which time we received 0.5 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$58.33.
- (b) In May 2016, the Company entered into an ASR agreement to repurchase \$250 million of our common stock. At the beginning of the ASR repurchase period, we delivered \$250 million in cash and received 3.3 million shares based on a stock price of \$60.49. The final number of shares to be repurchased and the final average price per share under the ASR agreement will depend on the volume-weighted average price of our stock, less a discount, during the term of the agreement. Purchases under the ASR agreement are expected to be completed in August 2016.

### Item 4. *Mine Safety Disclosures.*

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

**Item 6. Exhibits.**

| <u>Exhibit<br/>No.</u> | <u>Description</u>  |
|------------------------|---|
| 4.1                    | — Officers' Certificate delivered pursuant to Section 3.01 of the Indenture establishing the terms and form of the 2.400% Senior Notes due 2023.  |
| 4.2                    | — Guarantee Agreement by WM Holdings in favor of the holders of Waste Management, Inc.'s 2.400% Senior Notes due 2023.  |
| 31.1                   | — Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, President and Chief Executive Officer.                  |
| 31.2                   | — Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., Executive Vice President and Chief Financial Officer. |
| 32.1                   | — Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, President and Chief Executive Officer.   |
| 32.2                   | — Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.  |
| 95                     | — Mine Safety Disclosures.  |
| 101.INS                | — XBRL Instance Document.   |
| 101.SCH                | — XBRL Taxonomy Extension Schema Document.  |
| 101.CAL                | — XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF                | — XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB                | — XBRL Taxonomy Extension Labels Linkbase Document.   |
| 101.PRE                | — XBRL Taxonomy Extension Presentation Linkbase Document.   |



**WASTE MANAGEMENT, INC.**  
**Officers' Certificate Delivered Pursuant to**  
**Section 301 of the Indenture dated as of September 10, 1997**

The undersigned, the Vice President and Treasurer, and the Corporate Secretary of Waste Management, Inc. (the "Company"), hereby certify that:

1. This Certificate is delivered to The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee (the "Trustee"), pursuant to Sections 102 and 301 of the Indenture dated as of September 10, 1997 between the Company, formerly known as USA Waste Services, Inc., and the Trustee in connection with the Company Order dated May 16, 2016 (the "Order") for the authentication and delivery by the Trustee of \$500,000,000 aggregate principal amount of 2.400% Senior Notes due 2023 (the "Notes").
2. The undersigned have read Sections 102, 103, 301 and 303 of the Indenture and the definitions in the Indenture relating thereto.
3. The statements made herein are based either upon the personal knowledge of the persons making this Certificate or on information, data and reports furnished to such persons by the officers, counsel, department heads or employees of the Company who have knowledge of the facts involved.
4. The undersigned have examined the Order, and they have read the covenants, conditions and provisions of the Indenture relating thereto.
5. In the opinion of the persons making this Certificate, they have made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not all covenants and conditions provided for in the Indenture with respect to the Order have been complied with.
6. All covenants and conditions (including all conditions precedent) provided in the Indenture to the authentication and delivery by the Trustee of \$500,000,000 aggregate principal amount of the Notes have been complied with, and such Notes may be delivered in accordance with the Order as provided in the Indenture.
7. The terms of the Notes (including the Form of Note) as set forth in Annex A to this Officers' Certificate have been approved by officers of the Company as duly authorized by resolutions of the Board of Directors of the Company as of August 20, 2015 and such resolutions, copies of which are attached hereto as Annex B, are in full force and effect as of the date hereof.

[signature page follows]

IN WITNESS WHEREOF, the undersigned has hereunto executed as of the date first written above.

/s/ Devina A. Rankin

Devina A. Rankin  
Vice President and Treasurer

/s/ Courtney A. Tippy

Courtney A. Tippy  
Corporate Secretary

**Annex A**  
**Terms of the Notes**

Pursuant to authority granted by the Board of Directors of the Company on August 20, 2015 and the Sole Director of Waste Management Holdings, Inc. on October 19, 2015 and May 3, 2016, the Company has approved the establishment, issuance, execution and delivery of a new series of Securities (as defined in the Indenture) to be issued under the Indenture dated as of September 10, 1997 (the "Indenture"), between the Company, formerly known as USA Waste Services, Inc., and The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee (the "Trustee"), the terms of which are set forth below. Capitalized terms used but not defined herein are used herein as defined in the Indenture.

- (1) The title of the series of Securities shall be "2.400% Senior Notes due 2023" (the "Notes").
- (2) The Notes shall be general unsecured, senior obligations of the Company.
- (3) The initial aggregate principal amount of the Notes that may be authenticated and delivered under the Indenture shall be \$500,000,000 (except for Notes authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Notes pursuant to Section 304, 305, 306, 906 or 1107 of the Indenture); provided, however, that the authorized aggregate principal amount of such series may be increased before or after the issuance of any Notes of such series by a Board Resolution (or action pursuant to a Board Resolution) to such effect.
- (4) The principal amount of each Note shall be payable on May 15, 2023.
- (5) Each Note shall bear interest from May 16, 2016 at the fixed rate of 2.400% per annum; the Interest Payment Dates on which such interest shall be payable shall be May 15 and November 15, of each year, commencing November 15, 2016, until maturity unless such date falls on a day that is not a Business Day, in which case, such payment shall be made on the next day that is a Business Day. The Regular Record Date for the determination of Holders to whom interest is payable shall be May 1 or November 1, respectively, immediately preceding such date, as the case may be.
- (6) If a "Change of Control Triggering Event" (as defined in the Notes) occurs, each Holder of the Notes may require the Company to purchase all or a portion of such Holder's Notes at a price equal to 101% of the principal amount, plus accrued interest, if any, to the date of purchase, on the terms and subject to the conditions set forth in the Notes.
- (7) The Notes are to be issued as Registered Securities only. Each Note is to be issued as a book-entry note ("Book-Entry Note") but in certain circumstances may be represented by Notes in definitive form. The Book-Entry Notes shall be issued, in whole or in part, in the form of one or more Notes in global form as contemplated by Section 203 of the Indenture. The Depository with respect to the Book-Entry Notes shall be The Depository Trust Company, New York, New York.

- (8) Payments of principal of, premium, if any, and interest due on the Notes representing Book-Entry Notes on any Interest Payment Date or at maturity will be made available to the Trustee by 11:00 a.m., New York City time, on such date, unless such date falls on a day which is not a Business Day, in which case such payments will be made available to the Trustee by 11:00 a.m., New York City time, on the next Business Day. As soon as possible thereafter, the Trustee will make such payments to the Depository.
- (9) Before the Par Call Date, the Notes will be redeemable and repayable, at the option of the Company, at any time in whole, or from time to time in part, at a Redemption Price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed or (ii) the sum, as calculated by the Company, of the present values of the remaining scheduled payments of principal and interest thereon that would be due if the Notes matured on the Par Call Date (exclusive of interest accrued to the Redemption Date (as defined in the Notes) discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield (as defined in the Notes) plus 15 basis points; plus, in either case, accrued interest to the Redemption Date. On or after the Par Call Date, the Notes will be redeemable and repayable, at the option of the Company, at any time in whole, or from time to time in part, at a Redemption Price equal to 100% of the principal amount of the Notes to be redeemed plus accrued interest on the Notes to be redeemed to the Redemption Date. "Par Call Date" means March 15, 2023.
- (10) The Company shall have no obligation to redeem, purchase or repay the Notes pursuant to any mandatory redemption, sinking fund or analogous provisions or at the option of a Holder thereof.
- (11) The Notes will be subject to defeasance and discharge as contemplated by Section 1302 of the Indenture and to covenant defeasance under Section 1303 of the Indenture.
- (12) The Notes shall be entitled to the benefit of the covenants contained in Sections 1008 and 1009 of the Indenture.
- (13) The Bank of New York Mellon Trust Company, N.A. shall serve initially as Security Registrar for the Notes.
- (14) The Notes shall be substantially in the form of Exhibit A hereto.
- (15) The Notes will be fully and unconditionally guaranteed on a senior basis by the Company's wholly owned subsidiary, Waste Management Holdings, Inc., pursuant to the terms and conditions of a Guarantee Agreement dated May 16, 2016 (the "Guarantee"). The amount of the Guarantee will be limited to the extent required under applicable fraudulent conveyance laws to cause the Guarantee to be enforceable. The terms and conditions of the Guarantee shall continue in full force and effect for the benefit of holders of the Notes until release thereof as set forth in Section 6 of the Guarantee.

BOOK-ENTRY SECURITY

THIS SECURITY IS A BOOK-ENTRY SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITORY OR A NOMINEE OF A DEPOSITORY. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITORY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY) MAY BE REGISTERED EXCEPT IN SUCH LIMITED CIRCUMSTANCES.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY (AS DEFINED BELOW) OR ITS AGENT FOR REGISTRATION FOR TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

RGN

Principal Amount

U.S. \$ \_\_\_\_\_,  
which may be decreased  
by the Schedule of  
Exchanges of Definitive  
Security attached hereto

WASTE MANAGEMENT, INC.

2.400% SENIOR NOTES DUE 2023

CUSIP 94106L BD0

WASTE MANAGEMENT, INC., a Delaware corporation (the "Company," which term includes any successors under the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO. or registered assigns, at the office or agency of the Company, the principal sum of \_\_\_\_\_ Million (\$ \_\_\_\_\_) U.S. dollars, or such lesser principal sum as is shown on the attached Schedule of Exchanges of Definitive Security, on May 15, 2023 in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest at an annual rate of 2.400% payable on May 15 and November 15 of each year, to the person in whose name this Security is registered at the close of business on the record date for such interest, which shall be the preceding May 1 or November 1, respectively, payable commencing November 15, 2016, with interest consisting of interest accrued from May 16, 2016.



Reference is made to the further provisions of this Security set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

The statements in the legends set forth above are an integral part of the terms of this Security and by acceptance hereof the Holder of this Security agrees to be subject to, and bound by, the terms and provisions set forth in each such legend.

This Security is issued in respect of a series of Securities of an initial aggregate of U.S. \$500,000,000 in principal amount designated as the 2.400% Senior Notes due 2023 of the Company and is governed by the Indenture dated as of September 10, 1997, duly executed and delivered by the Company, formerly known as USA Waste Services, Inc., to The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association) as trustee (the "Trustee"), as supplemented by Board Resolutions (as defined in the Indenture) (such Indenture and Board Resolutions, collectively, the "Indenture"). The terms of the Indenture are incorporated herein by reference. This Security shall in all respects be entitled to the same benefits as definitive Securities under the Indenture.

If and to the extent that any provision of the Indenture limits, qualifies or conflicts with any other provision of the Indenture that is required to be included in the Indenture or is deemed applicable to the Indenture by virtue of the provisions of the Trust Indenture Act of 1939, as amended, such required provision shall control.

The Company hereby irrevocably undertakes to the Holder hereof to exchange this Security in accordance with the terms of the Indenture without charge.

This Security shall not be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been manually signed by the Trustee under the Indenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated: May 16, 2016

WASTE MANAGEMENT, INC.,  
a Delaware corporation

By: \_\_\_\_\_  
Devina A. Rankin  
Vice President and Treasurer

Attest:

By: \_\_\_\_\_  
Courtney A. Tippy  
Corporate Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: May 16, 2016

The Bank of New York Mellon Trust Company, N.A., as Trustee

By: \_\_\_\_\_  
Lawrence M. Kusch  
Vice President

REVERSE OF BOOK-ENTRY SECURITY

WASTE MANAGEMENT, INC.

2.400% SENIOR NOTES DUE 2023

This Security is one of a duly authorized issue of unsecured debentures, notes or other evidences of indebtedness of the Company (the “Debt Securities”) of the series hereinafter specified, all issued or to be issued under and pursuant to the Indenture, to which Indenture reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of the Debt Securities. The Debt Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different sinking, purchase or analogous funds (if any) and may otherwise vary as provided in the Indenture. This Security is one of a series designated as the 2.400% Senior Notes due 2023 of the Company, in initial aggregate principal amount of \$500,000,000 (the “Securities”).

1. *Interest.*

The Company promises to pay interest on the principal amount of this Security at the rate of 2.400% per annum.

The Company will pay interest semi-annually on May 15 and November 15 of each year (each an “Interest Payment Date”), commencing November 15, 2016. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid on the Securities, from May 16, 2016. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Company shall pay interest (including post-petition interest in any proceeding under any applicable bankruptcy laws) on overdue installments of interest (without regard to any applicable grace period) and on overdue principal and premium, if any, from time to time on demand at the rate of 2.400% per annum, in each case to the extent lawful.

2. *Method of Payment.*

The Company shall pay interest on the Securities (except Defaulted Interest) to the persons who are the registered Holders at the close of business on the Regular Record Date immediately preceding the Interest Payment Date. Any such interest not so punctually paid or duly provided for (“Defaulted Interest”) may be paid to the persons who are registered Holders at the close of business on a Special Record Date for the payment of such Defaulted Interest, or in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may then be listed if such manner of payment shall be deemed practicable by the Trustee, as more fully provided in the Indenture. Except as provided below, the Company shall pay principal and interest in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts (“U.S. Legal Tender”). Payments in respect of a Book-Entry Security (including principal, premium, if any, and interest) will be made by wire transfer of immediately available funds to the accounts

specified by the Depository. Payments in respect of Securities in definitive form (including principal, premium, if any, and interest) will be made at the office or agency of the Company maintained for such purpose within the Borough of Manhattan, the City of New York, which initially will be at the corporate trust office of The Bank of New York Mellon, located at 101 Barclay Street, Floor 21W, New York, New York, 10286 or at the option of the Company, payment of interest may be made by check mailed to the Holders on the Regular Record Date or on the Special Record Date at their addresses set forth in the Security Register of Holders.

3. *Paying Agent and Registrar.*

Initially, The Bank of New York Mellon Trust Company, N.A. will act as Paying Agent and Registrar. The Company may change any Paying Agent, Registrar or co-Registrar at any time upon notice to the Trustee and the Holders. The Company or any of its Subsidiaries may, subject to certain exceptions, act as Paying Agent, Registrar or co-Registrar.

4. *Indenture.*

This Security is one of a duly authorized issue of Debt Securities of the Company issued and to be issued in one or more series under the Indenture.

Capitalized terms herein are used as defined in the Indenture unless otherwise defined herein. The terms of the Securities include those stated in the Indenture and all indentures supplemental thereto, those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended, as in effect on the date of the Indenture, and those terms stated in the Officers' Certificate to the Trustee, duly authorized by resolutions of the Board of Directors of the Company on August 20, 2015 (the "Resolutions") and the written consents of the Sole Director of Waste Management Holdings, Inc. on October 19, 2015 and May 3, 2016 (the "Consents"). The Securities are subject to all such terms, and Holders of Securities are referred to the Indenture, all indentures supplemental thereto, said Act, said Resolutions and said Consents and Officers' Certificate for a statement of them. The Securities of this series are general unsecured obligations of the Company limited with an initial aggregate principal amount of \$500,000,000.

5. *Redemption.*

Before the Par Call Date, the Securities will be redeemable and repayable, at the option of the Company, at any time in whole, or from time to time in part, at a Redemption Price (the "Make-Whole Price") equal to the greater of: (i) 100% of the principal amount of the Securities to be redeemed; or (ii) the sum, as calculated by the Company, of the present values of the remaining scheduled payments of principal and interest on the Securities that would be due if such Securities matured on the Par Call Date (exclusive of interest accrued to the Redemption Date) discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield plus 15 basis points; plus, in either case, accrued interest to the Redemption Date.

On or after the Par Call Date, the Securities will be redeemable and repayable, at the option of the Company, at any time in whole, or from time to time in part, at a Redemption Price equal to 100% of the principal amount of the Securities to be redeemed plus accrued interest on the Securities to be redeemed to the Redemption Date.

Securities called for redemption become due on the Redemption Date. Notices of redemption will be mailed at least 30 but not more than 60 days before the Redemption Date to each holder of record of the Securities to be redeemed at its registered address. The notice of redemption for the Securities will state, among other things, the amount of Securities to be redeemed, the Redemption Date, the Redemption Price or, if not ascertainable, the manner of determining the Make-Whole Price and the place(s) that payment will be made upon presentation and surrender of Securities to be redeemed. Unless the Company defaults in payment of the Make-Whole Price, interest will cease to accrue on any Securities that have been called for redemption at the Redemption Date. If less than all the Securities are redeemed at any time, the Trustee will select the Securities to be redeemed on a pro rata basis or by any other method the Trustee deems fair and appropriate.

For purposes of determining the Make-Whole Price, the following definitions are applicable:

“Treasury Yield” means, with respect to any Redemption Date applicable to the Securities, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding such Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such Redemption Date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Securities, calculated as if the maturity date of such Securities were the Par Call Date (the “Remaining Life”), that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the Remaining Life of the Securities.

“Independent Investment Banker” means any of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Mizuho Securities USA Inc. (and their respective successors), or, if all such firms are unwilling or unable to select the applicable Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the Company.

“Comparable Treasury Price” means, with respect to any Redemption Date, (i) the average of the Reference Treasury Dealer Quotations obtained by the Trustee for the Redemption Date, after excluding the highest and lowest of all Reference Treasury Dealer Quotations obtained, or (ii) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations obtained by the Trustee.

“Par Call Date” means March 15, 2023.

“Reference Treasury Dealer” means (i) each of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Mizuho Securities USA Inc. (and their respective successors), unless any of them ceases to be a primary U.S. government securities dealer in New York City (a “Primary Treasury Dealer”), in which case the Company will substitute therefor another Primary Treasury Dealer, and (ii) any other Primary Treasury Dealer selected by the Company.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any Redemption Date for the Securities, an average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue for the Securities (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such Redemption Date.

Except as set forth above, the Securities will not be redeemable prior to their Stated Maturity and will not be entitled to the benefit of any sinking fund.

The Securities may be redeemed in part in a minimum principal amount of \$2,000, or any integral multiple of \$1,000 in excess thereof.

Any such redemption will also comply with Article Eleven of the Indenture.

#### 6. *Change of Control Offer.*

If a Change of Control Triggering Event occurs, unless the Company has exercised its option to redeem the Securities as described in Section 5, the Company shall make an offer (a “Change of Control Offer”) to each Holder of the Securities to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of that Holder’s Securities on the terms set forth herein. In a Change of Control Offer, the Company shall offer payment in cash equal to 101% of the aggregate principal amount of Securities repurchased (a “Change of Control Payment”), plus accrued and unpaid interest, if any, on the Securities repurchased to the date of repurchase, subject to the right of holders of record on the applicable record date to receive interest due on the next Interest Payment Date.

Within 30 days following any Change of Control Triggering Event or, at the Company’s option, prior to any Change of Control, but after public announcement of the transaction that constitutes or may constitute the Change of Control, the Company shall mail a notice to Holders of the Securities describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase such Securities on the date specified in the applicable notice, which date shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed (a “Change of Control Payment Date”). The notice may, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the applicable Change of Control Payment Date.

Upon the Change of Control Payment Date, the Company shall, to the extent lawful:

- accept for payment all Securities or portions of Securities properly tendered and not withdrawn pursuant to the Change of Control Offer;
- deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Securities or portions of Securities properly tendered; and
- deliver or cause to be delivered to the Trustee the Securities properly accepted together with an Officers' Certificate stating the aggregate principal amount of Securities or portions of Securities being repurchased.

The Company need not make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Company and the third party repurchases all Securities properly tendered and not withdrawn under its offer. In addition, the Company shall not repurchase any Securities if there has occurred and is continuing on the Change of Control Payment Date an Event of Default under the Indenture, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

The Company will comply with the applicable requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Securities as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Offer provisions of this Security, the Company will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Offer provisions of this Security by virtue of any such conflict.

For purposes of the Change of Control Offer provisions of the Securities, the following terms are applicable:

"Change of Control" means the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or more series of related transactions, of all or substantially all of the Company's assets and the assets of its Subsidiaries, taken as a whole, to any person, other than the Company or one of its Subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the outstanding Voting Stock of the Company or other Voting Stock into which the Company's Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (3) the Company consolidates with, or merges with or into, any person, or any person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or the Voting Stock of such other person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Voting Stock of the Company outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person or

any direct or indirect parent company of the surviving person, measured by voting power rather than number of shares, immediately after giving effect to such transaction; (4) the first day on which a majority of the members of the Board of Directors of the Company are not Continuing Directors; or (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

Notwithstanding the preceding, a transaction will not be deemed to involve a Change of Control under clause (2) above if (i) the Company becomes a direct or indirect wholly-owned subsidiary of a holding company and (ii)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of Voting Stock of the Company immediately prior to that transaction or (B) immediately following that transaction no person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company. The term “person,” as used in this definition, has the meaning given thereto in Section 13(d)(3) of the Exchange Act.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Event.

“Continuing Directors” means, as of any date of determination, any member of the Board of Directors of the Company who (1) was a member of such Board of Directors on the date the Securities were issued or (2) was nominated for election, elected or appointed to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination, election or appointment (either by a specific vote or by approval of the Company’s proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

“Fitch” means Fitch Inc. and its successors.

“Investment Grade Rating” means a rating equal to or higher than BBB- (or the equivalent) by Fitch, Baa3 (or the equivalent) by Moody’s and BBB- (or the equivalent) by S&P, and the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Company.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Rating Agencies” means (1) each of Fitch, Moody’s and S&P and (2) if any of Fitch, Moody’s or S&P ceases to rate the Securities or fails to make a rating of the Securities publicly available for reasons outside of the Company’s control, a “nationally recognized statistical rating organization” within the meaning of Section 3(a)(62) of the Exchange Act selected by the Company (as certified by a resolution of our Board of Directors) as a replacement agency for Fitch, Moody’s or S&P, or all of them, as the case may be.

“Rating Event” means the rating on the Securities is lowered by at least two of the three Rating Agencies and the Securities are rated below an Investment Grade Rating by at least two of the three Rating Agencies, in any case on any day during the period (which period will be extended so long as the rating of the Securities is under publicly announced consideration for a possible downgrade by any of the rating agencies) commencing 60 days prior to the first public notice of the occurrence of a Change of Control or the Company’s intention to effect a Change of Control and ending 60 days following consummation of such Change of Control.



“S&P” means S&P Global Ratings, a division of S&P Global Inc., and its successors.

“Voting Stock” means, with respect to any specified “person” (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date, the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

7. *Denominations; Transfer; Exchange.*

The Securities are issued in registered form, without coupons, in a minimum denomination of \$2,000 and integral multiples of \$1,000 in excess thereof. A Holder may register the transfer of, or exchange, Securities in accordance with the Indenture. The Securities Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

8. *Person Deemed Owners.*

The registered Holder of a Security may be treated as the owner of it for all purposes.

9. *Amendment; Supplement; Waiver.*

Subject to certain exceptions, the Indenture may be amended or supplemented, and any existing Event of Default or compliance with any provision may be waived, with the consent of the Holders of a majority in principal amount of the Outstanding Debt Securities of each series affected. Without consent of any Holder, the parties thereto may amend or supplement the Indenture or the Securities to, among other things, cure any ambiguity, defect or inconsistency, or make any other change that does not adversely affect the interests of any Holder of a Security in any material respect. Any such consent or waiver by the Holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Security and any Securities which may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Security or such other Securities.

10. *Defaults and Remedies.*

If an Event of Default with respect to the Securities occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Securities then Outstanding may declare the principal amount of all the Securities to be due and payable immediately in the manner and with the effect provided in the Indenture. Notwithstanding the preceding sentence, however, if at any time after such a declaration of acceleration has been made and before judgment or decree for payment of the money due has been obtained by the Trustee as provided in the Indenture, the Holders of a majority in principal amount of the Outstanding Securities, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences if (1) the Company has paid or deposited with the Trustee a sum sufficient to pay (A) all overdue interest on all Securities, (B) the principal of (and premium, if any, on) any Securities which has become due otherwise than

by such declaration of acceleration and any interest thereon at the rate prescribed therefor herein, (C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate prescribed therefor herein, and (D) all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and (2) all Events of Default under the Indenture with respect to the Securities, other than the nonpayment of the principal of Securities which has become due solely by such declaration acceleration, shall have been cured or shall have been waived. No such rescission shall affect any subsequent Event of Default or shall impair any right consequent thereon. Holders of Securities may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Securities. Subject to certain limitations, Holders of a majority in aggregate principal amount of the Securities then outstanding may direct the Trustee in its exercise of any trust or power.

11. *Trustee Dealings with Company.*

The Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company and its Affiliates and any subsidiary of the Company's Affiliates, and may otherwise deal with the Company and its Affiliates as if it were not the Trustee.

12. *Authentication.*

This Security shall not be valid until the Trustee or authenticating agent signs the certificate of authentication on the other side of this Security.

13. *Abbreviations and Defined Terms.*

Customary abbreviations may be used in the name of a Holder of a Security or an assignee, such as: TEN COM (tenant in common), TEN ENT (tenants by the entireties), JT TEN (joint tenants with right of survivorship and not as tenants in common), CUST (Custodian), and U/G/M/A (Uniform Gifts to Minors Act).

14. *CUSIP Numbers.*

Pursuant to a recommendation promulgated by the Committee on Uniform Note Identification Procedures, the Company has caused CUSIP numbers to be printed on the Securities as a convenience to the Holders of the Securities. No representation is made as to the accuracy of such number as printed on the Securities and reliance may be placed only on the other identification numbers printed hereon.

15. *Absolute Obligation.*

No reference herein to the Indenture and no provision of this Security or the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Security in the manner, at the respective times, at the rate and in the coin or currency herein prescribed.

16. *No Recourse.*

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any Security, or because of any indebtedness evidenced thereby, shall be had against any incorporator, past, present or future stockholder, officer or director, as such of the Company or of any successor, either directly or through the Company or of any successor, either directly or through the Company or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Security by the Holder and as part of the consideration for the issue of the Security.

17. *Governing Law.*

This Security shall be construed in accordance with and governed by the laws of the State of New York.

18. *Guarantee.*

The Securities will be fully and unconditionally guaranteed on a senior basis by the Company's wholly owned subsidiary, Waste Management Holdings, Inc., pursuant to the terms and conditions of a Guarantee Agreement dated May 16, 2016 (the "Guarantee"). The amount of the Guarantee will be limited to the extent required under applicable fraudulent conveyance laws to cause the Guarantee to be enforceable. The terms and conditions of the Guarantee shall continue in full force and effect for the benefit of holders of the Securities until release thereof as set forth in Section 6 of the Guarantee.

SCHEDULE OF EXCHANGES OF DEFINITIVE SECURITY

The following exchanges of a part of this Book-Entry Security for definitive Securities have been made:

| <u>Date of Exchange</u> | <u>Amount of decrease in Principal Amount of this Book-Entry Security</u> | <u>Amount of increase in Principal Amount of this Book-Entry Security</u> | <u>Principal Amount of this Book-Entry Security following such decrease (or increase)</u> | <u>Signature of authorized officer of Trustee or Security Custodian</u> |
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**Annex B**  
**Resolutions of the Board of Directors**  
**of Waste Management, Inc.**

**WHEREAS**, on September 28, 2012, Waste Management, Inc. (the “Company”) filed with the Securities Exchange Commission (the “SEC”) an automatic shelf registration statement on Form S-3, File No. 333-184157 (the “Automatic Shelf Registration Statement”), which registered the offer and sale by the Company from time to time of common stock; senior and subordinated debt securities; preferred stock; warrants; units; and guarantees by Waste Management Holdings, Inc., a wholly-owned subsidiary of the Company (“WMHI”), with respect to debt securities, in one or more classes or series in amounts as may be determined at the time of any offering; and

**WHEREAS**, pursuant to rules and regulations promulgated by the SEC, the Automatic Shelf Registration Statement will expire, by its terms, on September 28, 2015, three years after the effective date of the Automatic Shelf Registration Statement; and

**WHEREAS**, at the time of the Board of Directors’ approval of the Automatic Shelf Registration Statement, the Board of Directors also authorized the Company to offer and sell up to an aggregate of \$3,000,000,000 of Securities (the “2012 Issuance Authorization”); and

**WHEREAS**, the Company desires, and finds it in the best interests of the Company, to file a new automatic shelf registration statement on Form S-3 in order to facilitate any future offerings of securities by the Company or any selling security holders.

**NOW, THEREFORE, BE IT RESOLVED**, that the Company is hereby authorized to prepare and file with the SEC an automatic shelf registration statement on Form S-3 (the “New Registration Statement”), pursuant to the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the “Securities Act”), which New Registration Statement may cover, among other things, unsecured senior or subordinated debentures, notes or other evidences of indebtedness of the Company (collectively “Debt Securities”); shares of common stock, par value \$0.01 per share, of the Company (the “Common Stock”); warrants to purchase shares of Common Stock; shares of preferred stock in such series with such designations, powers, preferences and relative and other special rights and qualifications, limitations and restrictions as the Board of Directors may from time to time authorize; guarantees of securities by WMHI; and any units consisting of one or more of the foregoing (the Debt Securities, Common Stock, warrants, preferred stock, guarantees and units collectively referred to herein as the “Securities”), to be issued from time to time;

**RESOLVED FURTHER**, that the proper officers (as established pursuant to these resolutions) be, and they hereby are, authorized, in their sole and absolute discretion, subject to any limitations set forth in these resolutions, to cause the Company to offer and sell up to an aggregate of \$3,000,000,000 of Securities without further approval of the Board of Directors;

**RESOLVED FURTHER**, that upon the filing date of the New Registration Statement, authority to make new issuances of Securities pursuant to the 2012 Issuance Authorization shall be deemed rescinded;

**RESOLVED FURTHER**, that the proper officers and the authorized employees (as established pursuant to these resolutions) be, and each of them hereby is, authorized, in the name and on behalf of the Company, to execute and cause to be filed with the SEC any and all amendments (including, without limitation, post-effective amendments) or supplements to the New Registration Statement and any prospectus included therein and any additional documents which such officer or employee may deem necessary or desirable with respect to the registration and offering of the Securities, and such amendments, supplements, registration statements and documents to be in such form as the officer or employee executing the same may approve, as conclusively evidenced by his execution thereof;

**RESOLVED FURTHER**, that the Chief Legal Officer of the Company be, and he hereby is, designated and appointed the agent for service of process on the Company under the Securities Act in connection with the New Registration Statement and any and all amendments and supplements thereto, with all powers incident to such appointment;

**RESOLVED FURTHER**, that the proper officers and authorized employees be and hereby are authorized and directed in the name and on behalf of the Company to take any and all action which they may deem necessary or advisable in order to effect the registration or qualification of all or part of the Securities to be registered under the Securities Act, for offer and sale under the securities or Blue Sky laws of the states of the United States of America, and in connection therewith, to execute, acknowledge, verify, deliver, file and publish all such applications, reports, issuer's covenants, resolutions, consents to service of process, or appointments of governmental officials for the purpose of receiving and accepting service of process on the laws, and to take any and all further action which they may deem necessary or advisable in order to maintain any such registration or qualification for as long as they deem the same to be in the best interest of the Company;

**RESOLVED FURTHER**, that the form of any additional resolutions required in connection with the appropriate qualification or registration of the Securities for offer and sale under such securities or Blue Sky laws, be and hereby is approved and adopted, provided the appropriate officers of the Company, on the advice of counsel, consider the adoption thereof necessary or advisable, in which case the Secretary or any Assistant Secretary of the Company is hereby directed to insert as an appendix hereto a copy of such resolutions, which shall thereupon be deemed to have been adopted by this Board of Directors with the same force and effect as if set out verbatim herein;

**RESOLVED FURTHER**, that any of the proper officers or authorized employees be, and each of them hereby is, authorized to approve at any time and from time to time, one or more forms of underwriting agreements (and related terms agreement) and agency agreement (and related purchase agreement) and any other agreement or agreements any of such persons may deem necessary or appropriate in connection with the arrangements for the purchase of any of the Securities, and that such persons be, and each of them hereby is, authorized to execute and deliver, in the name and on behalf of the Company, any such agreement or agreements in substantially the form approved by any of them, with such changes therein as the person executing the same may approve, as conclusively evidenced by the execution and delivery thereof, it being understood that, in the case of any terms agreement or purchase agreement referred to above, it shall not be necessary for any of the proper officers to approve any individual agreement pursuant to which Securities are to be sold if the form thereof has previously been approved as provided in this resolution;

**RESOLVED FURTHER**, that any of the proper officers be, and each of them hereby is, authorized, at any time and from time to time, on behalf of the Company, (i) to determine, within any limits that may be set by the Board of Directors, the number of shares of Common Stock, preferred stock or other equity securities to be offered and sold by the Company pursuant to the New Registration Statement, including any shares underlying warrants or convertible Debt Securities, (ii) to authorize the reserve and issuance of such shares and (iii) to take any and all action and to do or cause to be done any and all things which may appear to any of the proper officers to be necessary or advisable in order to authorize, offer, issue, and sell such shares of Common Stock, pursuant to the New Registration Statement and the applicable purchase agreement, which action could be taken or which things could be done by the Board of Directors of the Company;

**RESOLVED FURTHER**, that any of the proper officers may, at any time and from time to time, on behalf of the Company, authorize the issuance of one or more series of Securities under the Company's indentures, within any limits that may be set by the Board of Directors, and in connection therewith establish, or, if all of the Securities of such series may not be originally issued at one time, to the extent deemed appropriate, prescribe the manner of determining, within any limitations established by any of the proper officers and subject in either case to the limitations set forth in these resolutions, all of the terms of such Securities;

**RESOLVED FURTHER**, that, in connection with any such series of Securities (but without limiting the authority hereinafter in these resolutions conferred with respect to the issuance of Securities of a series which may not all be originally issued at one time), any of the proper officers is authorized at any time or from time to time to determine the price or prices to be received by the Company in any offering or sale of Securities of such series, any public offering price or prices thereof, any discounts to be allowed or commissions to be paid to any agent, dealer or underwriter and any other terms of offering or sale of Securities of such series and to sell Securities of such series in accordance with any applicable purchase agreement or other agreement(s);

**RESOLVED FURTHER**, that, in connection with the issuance of Securities of any series which may not be originally issued at one time (except as may be inconsistent with any action taken by any of the proper officers, as hereinabove provided, in connection with such series), any of the proper officers may delegate any of its authority pursuant to these resolutions to any officer of the Company, including authority to fix the terms of such Securities;

**RESOLVED FURTHER**, that, in connection with any such series of Securities, any of the proper officers is authorized to approve any amendment, modification or supplement to the Company's indentures and that any proper officer be, and each of them hereby is, authorized to execute and deliver, in the name and on behalf of the Company, any such amendment, modification or supplement, substantially in the form approved by any proper officer;

**RESOLVED FURTHER**, that the proper officers and authorized employees be, and each of them hereby is, authorized, in the name and on behalf of the Company, to execute and deliver such other agreements (including indemnity agreements), documents, certificates, orders, requests and instruments as may be contemplated by the Company's indentures or required by the trustee thereunder, the security registrar or any other agent of the Company under such indentures in connection therewith or as may be necessary or appropriate in connection with the issuance and sale of Securities thereunder;

**RESOLVED FURTHER**, that the proper officers be, and each of them hereby is, authorized, subject to and in accordance with the Company's indentures and any action taken by any of the proper officers in connection therewith, from time to time to appoint or designate on behalf of the Company one or more security registrars, paying agents and transfer agents for each series of Securities, to rescind on behalf of the Company any such appointment or designation and to approve on behalf of the Company any change in the location of any office through which any such security registrar, paying agent or transfer agent acts, and in connection therewith to take such action and to make, execute and deliver, or cause to be made, executed and delivered, such agreements, instruments and other documents as any such officer may deem necessary or appropriate;

**RESOLVED FURTHER**, that the proper officers and authorized employees be, and each of them hereby is, authorized, in the name and on behalf of the Company, to make application to such securities exchange or exchanges as the persons acting shall deem necessary or appropriate for the listing thereof of any of the Securities (including any Common Stock or preferred stock underlying any convertible Securities) and in connection therewith to appoint one or more listing agents and to prepare, or cause to be prepared, execute and file, or cause to be filed, an application or applications for such listing and any and all amendments thereto and any additional certificates, documents, letters and other instruments which any such officer may deem necessary or desirable; that such officers, or such other person as any such officer may designate in writing, be, and each of them hereby is, authorized to appear before any official or officials or before any body of any such exchange, with authority to make such changes in such application, amendments, certificates, documents, letters and other instruments and to execute and deliver such agreements relative thereto, including, without limitation, listing agreements, fee agreements and indemnity agreements relating to the use of facsimile signatures as they, or any one of them, may deem necessary or appropriate in order to comply with the requirements of any such exchange or to effect such listing;

**RESOLVED FURTHER**, that the proper officers be, and each of them hereby is, authorized, in the name and on behalf of the Company, to make application to the SEC for registration of any series of the Securities under Section 12 or other applicable section of the Securities Exchange Act of 1934, and the proper officers and authorized employees are hereby authorized to prepare or cause to be prepared, and to execute and file, or cause to be filed, with the SEC and any securities exchange an application or applications for such registration and any and all amendments thereto and any additional certificates, documents, letters and other instruments which any such officer may deem necessary or desirable;

**RESOLVED FURTHER**, that the officers and authorized employees of the Company be, and each of them hereby is, authorized to take, or cause to be taken, any and all action which any such officer may deem necessary or desirable in order to carry out the purpose and intent of the foregoing resolutions or in order to perform, or cause to be performed, the obligations of the Company under the Securities, the New Registration Statement and any indenture, purchase agreement, or other agreement referred to herein, and, in connection therewith, to make, execute and deliver, or cause to be made, executed and delivered, all agreements, undertakings, documents, certificates, orders, requests or instruments in the name and on behalf of the Company as each such officer or authorized employee may deem necessary or appropriate;

**RESOLVED FURTHER**, that for purposes of these resolutions, the term “proper officer” shall mean any or all of the Chief Executive Officer, the Chief Financial Officer, the Chief Legal Officer, the Chief Accounting Officer and the Treasurer of the Company and the term “authorized employees” shall mean either or both of the Vice President and General Counsel – Corporate and Securities and the Assistant General Counsel – Securities & Governance of the Company;

**RESOLVED FURTHER**, that the form of any additional resolutions required in connection with the foregoing resolutions be and hereby is approved and adopted, provided the proper officers of the Company, on the advice of counsel, consider the adoption thereof necessary or advisable, in which case the Secretary or any Assistant Secretary of the Company is hereby directed to insert as an appendix hereto a copy of such resolutions, which shall, upon execution, be deemed to have been adopted by this Board of Directors with the same force and effect as if set out verbatim herein; and

**RESOLVED FURTHER**, that any officer of the Company is hereby authorized and directed to make, provide, execute, and deliver any and all statements, applications, certificates, representations, payments, notices, receipts, and other instruments and documents and take any and all other actions which in the opinion of such officer is or may be necessary or appropriate in connection with or to consummate any of the matters covered by the foregoing resolutions.



GUARANTEE

BY WASTE MANAGEMENT HOLDINGS, INC.

(formerly known as Waste Management, Inc.)

in Favor of The Bank of New York Mellon Trust Company, N.A., as Trustee for the Holders of Certain Debt Securities of

WASTE MANAGEMENT, INC.

\$500,000,000

2.400% Senior Notes due 2023

May 16, 2016

GUARANTEE, dated as of May 16, 2016 (as amended from time to time, this "Guarantee"), made by Waste Management Holdings, Inc. (formerly known as Waste Management, Inc.), a Delaware corporation (the "Guarantor"), in favor of The Bank of New York Mellon Trust Company, N.A., as trustee for the holders of the \$500 million aggregate principal amount of 2.400% Senior Notes due 2023 (the "Debt Securities") of Waste Management, Inc. (formerly known as USA Waste Services, Inc.), a Delaware corporation (the "Issuer").

WITNESSETH:

SECTION 1. Guarantee

(a) The Guarantor hereby unconditionally guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the principal of, premium, if any, and interest on the Debt Securities and any amounts and obligations due and payable with respect to the Debt Securities under Section 607 of the Indenture (as amended, modified or otherwise supplemented from time to time, the "Indenture"), dated as of September 10, 1997, between the Issuer, as successor to USA Waste Services, Inc., and The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee (the "Trustee") (the "Obligations"), according to the terms of the Debt Securities and the Indenture, as applicable.

(b) It is the intention of the Guarantor that this Guarantee not constitute a fraudulent transfer or conveyance for purposes of Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to this Guarantee. To effectuate the foregoing intention, the amount guaranteed by the Guarantor under this Guarantee shall be limited to the maximum amount as will, after giving effect to such maximum amount and all other contingent and fixed liabilities of the Guarantor (other than guarantees of the Guarantor in respect of subordinated debt) that are relevant under such laws, result in the Obligations of the Guarantor under this Guarantee not constituting a fraudulent transfer or conveyance. For purposes hereof, "Bankruptcy Law" means Title 11, U.S. Code, or any similar Federal or state law for the relief of debtors.

SECTION 2. Guarantee Absolute. The Guarantor guarantees that the Obligations will be paid strictly in accordance with the terms of the Indenture, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of holders of the Debt Securities with respect thereto. The liability of the Guarantor under this Guarantee shall be absolute and unconditional irrespective of:

- (i) any lack of validity or enforceability of the Indenture, the Debt Securities or any other agreement or instrument relating thereto;
- (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from the Indenture;

(iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or

(iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Issuer or a guarantor.

SECTION 3. Subordination. The Guarantor covenants and agrees that its obligation to make payments of the Obligations hereunder constitutes an unsecured obligation of the Guarantor ranking (a) pari passu with all existing and future senior indebtedness of the Guarantor and (b) senior in right of payment to all existing and future subordinated indebtedness of the Guarantor.

SECTION 4. Waiver; Subrogation

(a) The Guarantor hereby waives notice of acceptance of this Guarantee, diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Issuer, any right to require a proceeding filed first against the Issuer, protest or notice with respect to the Debt Securities or the indebtedness evidenced thereby and all demands whatsoever.

(b) The Guarantor shall be subrogated to all rights of the Trustee or the holders of any Debt Securities against the Issuer in respect of any amounts paid to the Trustee or such holder by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that the Guarantor shall not be entitled to enforce, or to receive any payments arising out of, or based upon, such right of subrogation until all Obligations shall have been paid in full.

SECTION 5. No Waiver, Remedies. No failure on the part of the Trustee or any holder of the Debt Securities to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 6. Continuing Guarantee; Transfer of Interest. This Guarantee is a continuing guaranty and shall (i) remain in full force and effect until the earliest to occur of (A) the date, if any, on which the Guarantor shall consolidate with or merge into the Issuer or any successor thereto, (B) the date, if any, on which the Issuer or any successor thereto shall consolidate with or merge into the Guarantor, (C) payment in full of the Obligations and (D) the release by the lenders under the Third Amended and Restated Revolving Credit Agreement dated July 10, 2015, by and among the Issuer, the Guarantor (as guarantor), Bank of America, N.A., as administrative agent, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Barclays Bank PLC, as lead arrangers and joint book runners (or under any replacement or new principal credit facility of the Issuer) of the guarantee of the Guarantor thereunder, (ii) be binding upon the Guarantor, its successors and assigns, and (iii) inure to the benefit of and be enforceable by any holder of Debt Securities, the Trustee, and by their respective successors, transferees, and assigns.

SECTION 7. Reinstatement. This Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by any holder of the Debt Securities or the Trustee upon the insolvency, bankruptcy or reorganization of the Issuer or otherwise, all as though such payment had not been made.

SECTION 8. Amendment. The Guarantor may amend this Guarantee at any time for any purpose without the consent of the Trustee or any holder of the Debt Securities; provided, however, that if such amendment adversely affects the rights of the Trustee or any holder of the Debt Securities, the prior written consent of the Trustee shall be required.

SECTION 9. Governing Law. THIS GUARANTEE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE PROVISIONS THEREOF RELATING TO CONFLICT OF LAWS.

IN WITNESS WHEREOF, the Guarantor has caused this Guarantee to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

WASTE MANAGEMENT HOLDINGS, INC.

By: /s/ Devina A. Rankin  
Devina A. Rankin  
Vice President and Treasurer

By: /s/ Ed Egl  
Ed Egl  
Assistant Treasurer

*Signature Page to Guarantee*

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a)  
UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David P. Steiner, certify that:

i. I have reviewed this report on Form 10-Q of Waste Management, Inc.;

ii. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

iii. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID P. STEINER

David P. Steiner

*President and Chief Executive Officer*

Date: July 27, 2016

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a)  
UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James C. Fish, Jr., certify that:

i. I have reviewed this report on Form 10-Q of Waste Management, Inc.;

ii. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

iii. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JAMES C. FISH, JR.

James C. Fish, Jr.  
*Executive Vice President and  
Chief Financial Officer*

Date: July 27, 2016

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Waste Management, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Steiner, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID P. STEINER  
David P. Steiner  
*President and Chief Executive Officer*

July 27, 2016



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Waste Management, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Fish, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAMES C. FISH, JR.

James C. Fish, Jr.  
*Executive Vice President and  
Chief Financial Officer*

July 27, 2016

### Mine Safety Disclosures

This exhibit contains certain specified disclosures regarding mine safety required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K. Certain of our subsidiaries have permits for surface mining operations that are incidental to excavation work for landfill development.

During the quarter ended June 30, 2016, we did not receive any of the following: (a) a citation from the U.S. Mine Safety and Health Administration (“MSHA”) for a violation of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Federal Mine Safety and Health Act of 1977 (the “Mine Safety Act”); (b) an order issued under section 104(b) of the Mine Safety Act; (c) a citation or order for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Safety Act; (d) a flagrant violation under section 110(b)(2) of the Mine Safety Act; (e) an imminent danger order under section 107(a) of the Mine Safety Act; or (f) a proposed assessment from the MSHA.

In addition, during the quarter ended June 30, 2016, we had no mining-related fatalities, we had no pending legal actions before the Federal Mine Safety and Health Review Commission involving a coal or other mine, and we did not receive any written notice from the MSHA involving a pattern of violations, or the potential to have such a pattern, of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Mine Safety Act.