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WMI #06-07

Waste Management Announces First Quarter 2006 Earnings

Earnings Per Diluted Share Increase 31%

HOUSTON – April 27, 2006 – Waste Management, Inc. (NYSE: WMI) today announced financial results for its first quarter ended March 31, 2006. Revenues for the quarter were $3.23 billion as compared with $3.04 billion in the year ago period, or an increase of 6.3%. Net income for the quarter was $186 million, or $0.34 per diluted share, compared with $150 million, or $0.26 per diluted share in the prior year period, a 31% increase in earnings per diluted share.

"We are very pleased with our results in the first quarter as we again accomplished our primary financial goals of earnings growth, margin expansion and strong free cash flow," said David P. Steiner, Chief Executive Officer of Waste Management. "The continued success of our Pricing Excellence Program and our cost control and productivity initiatives helped drive the 31% increase in earnings per diluted share. Our internal revenue growth from yield on base business increased 3.9% in the first quarter of 2006 compared with the prior year quarter, and it grew 5.3% when you include the impact of our fuel surcharge program. Significantly higher disposal volumes also contributed to the increase in revenues. We believe that unusually warm and dry weather and a solid economic environment contributed to the higher disposal volumes in the first quarter."

The Company noted two items which impacted the current quarter's results.

- A $20 million before tax, or $0.02 per diluted share, charge with respect to unclaimed property obligations dating back to 1980.
- A $4 million after tax, or $0.01 per diluted share, benefit due primarily to favorable state tax audit settlements.

"There were a number of other encouraging factors in our first quarter results. Net cash provided by operating activities and free cash flow were both strong for the quarter. We returned $496 million to shareholders in the form of our $0.22 per share quarterly dividend and our share repurchase program. We improved productivity in all of our collection lines of business and produced excellent safety results, both of which are important components of our cost control initiatives. And our previously announced divestiture program, which represents over $900 million in annual revenue, is progressing according to our timetable. Finally, on an as reported basis, income from operations as a percent of revenue improved 150 basis points in the quarter compared with the prior year quarter."

Key Highlights for the Quarter

- Net cash provided by operating activities of $563 million, a 10.8% increase compared with the first quarter of 2005.
- Capital expenditures of $171 million.
- Free cash flow[a] of $410 million.
- Operating expenses were 65.0% of revenue, down from 67.3% of revenue in the same period in 2005.
- Selling, general and administrative expenses were 11.4% of revenue. Excluding the unclaimed property charge, selling, general and administrative expenses were 10.8% of revenue in the first quarter of 2006, approximately the same level as the first quarter of 2005. [a]
- Income from operations as a percent of revenue was 13.5%, an increase of approximately 150 basis points compared with the prior year quarter.
- Internal revenue growth on base business of 5.8%, with 3.9% of that from yield and 1.9% from volume. The yield component excludes the net 0.3% positive impact of higher fuel surcharges and fees, lower recycling commodity prices and slight increases in electricity rates at Independent Power Production facilities.
- $496 million in cash returned to shareholders in the form of $375 million in common stock repurchases and $121 million in dividend payments.
- The effective tax rate in the quarter was 35.6%, which was higher than the previously projected rate of approximately 31%. This increase in the effective tax rate is due primarily to an estimated phase-out of approximately 61% of our Section 45K (formerly Section 29) tax credits due to higher actual and projected crude oil prices.

Steiner concluded, "We are off to a great start and have laid the foundation for a successful year. We are seeing the continuation of the benefits of our pricing and operational initiatives and our business fundamentals remain solid. While we are optimistic about the year, in the second quarter we will be watching the impact of higher crude oil costs on our Section 45K tax credits, and whether volumes in the first quarter were borrowed from the second quarter. Consequently, until we have more clarity on these factors, we believe it is premature to comment on our full year outlook."

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[a] This earnings release contains a discussion of free cash flow, a non-GAAP financial measure as defined in Regulation G of the Securities Exchange Act of 1934, as amended. The Company defines free cash flow as:

- Net cash provided by operating activities
- Less, capital expenditures
- Plus, proceeds from divestitures of businesses, net of cash divested, and other sales of assets.

The Company's definition of free cash flow may not be comparable to similarly titled measures presented by other companies.

The Company believes that providing investors with certain non-GAAP financial measures gives investors additional information to enable them to assess, in the way management assesses, the Company's current and continuing operations. The Company included the non-GAAP financial measure of free cash flow because it uses that measure in the management of its business and because it believes that investors are interested in the cash produced by the Company from non-financing activities that is available for uses such as the Company's acquisition program, its share repurchase program, its scheduled debt reduction and the payment of dividends. A reconciliation of free cash flow to the Company's GAAP reported cash flows from operating activities, which is the most comparable GAAP measure, is included in the accompanying schedules. This release also presents an adjusted ratio of selling, general and administrative expenses as a percentage of revenue. The Company excluded the $19 million before tax selling, general and administrative portion of the charge for unclaimed property obligations from selling, general and administrative expenses in its presentation of this adjusted ratio because it believes that it is helpful for investors to see the Company's performance without the effect of the adjustment for these obligations, which date back to 1980. Investors are urged to take into account GAAP measures as well as non-GAAP measures in evaluating the Company.

The Company has scheduled an investor and analyst conference call for later this morning to discuss the results of today's earnings announcement. The information in this press release should be read in conjunction with the information on the conference call. The call will begin at 10:00 a.m. Eastern time, 9:00 a.m. Central time, and is open to the public. To listen to the conference call, which will be broadcast live over the Internet, go to the Waste Management Website at http://www.wm.com, and select "1Q2006 Earnings Report Webcast." You may also listen to the analyst conference call by telephone by contacting the conference call operator 5 to 10 minutes prior to the scheduled start time and asking for the "Waste Management Conference Call – Call ID 7247347." US/Canada Dial-In Number: (877) 710-6139. Int'l/Local Dial-In Number: (706) 643-7398. For those unable to listen to the live call, a replay will be available 24 hours a day beginning at approximately 11:00 a.m. Central time on April 27 through 5:00 p.m. Central time on May 11. To hear a replay of the call over the Internet, access the Waste Management Website at http://www.wm.com. To hear a telephonic replay of the call, dial (800) 642-1687 or (706) 645-9291 and enter reservation code 7247347.

Waste Management, Inc., based in Houston, Texas, is the leading provider of comprehensive waste management services in North America. Through its subsidiaries, the Company provides collection, transfer, recycling and resource recovery, and disposal services. It is also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States. The Company's customers include residential, commercial, industrial, and municipal customers throughout North America.

Certain statements contained in this press release include statements that are "forward-looking statements." Outlined below are some of the risks that the Company faces and that could affect our financial statements for 2006 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. However, they are not the only risks that the Company faces. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also impair our business. We caution you not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, the Company, from time to time, provides estimates of financial and other data relating to future periods. Such estimates and other information are the Company's expectations at the point in time of issuance but may change at some future point in time. By issuing such estimates the Company has no obligation, and is not undertaking any obligation, to update such estimates or provide any other information relating to such estimates. The following are some of the risks we face:

- *competition may negatively affect our profitability or cash flows, our price increases may have negative effects on volumes and price roll-backs and lower than average pricing to retain and attract customers may negatively affect our yield on base business;*

- *we may be unable to maintain or expand margins as volumes increase if we are unable to control variable costs or fixed cost base increases;*

- *we may be unable to attract or retain qualified personnel, including licensed commercial drivers and truck maintenance professionals, due to any number of factors including qualified workforce shortages;*

- *we may not be able to successfully execute or continue our operational or other margin improvement plans and programs, including pricing increases, passing on increased costs to our customers, divesting of under-performing assets and purchasing accretive businesses, any of which could negatively affect our revenues and margins;*

- *fuel price increases or fuel supply shortages may increase our expenses, including our tax expense if Section 45K (formerly Section 29) credits are phased out due to continued high crude oil prices;*

- *fluctuating commodity prices may have negative effects on our operating revenues and expenses;*

- *inflation and resulting higher interest rates may have negative effects on the economy, which could result in decreases in volumes of waste generated and increases in our financing costs and expenses;*

- *the possible inability of our insurers to meet their obligations may cause our expenses to increase;*
- *weather conditions cause our quarter to quarter results to fluctuate, and extremely harsh weather or natural disasters may cause us to shut down operations;*
- *possible changes in our estimates of site remediation requirements, final capping, closure and post-closure obligations, compliance and regulatory developments may increase our expenses or reduce revenues;*
- *regulations may negatively impact our business by, among other things, increasing the cost to comply with regulatory requirements and the potential liabilities associated with disposal operations;*
- *if we are unable to obtain and maintain permits needed to operate our facilities our results of operations will be negatively impacted;*
- *limitations or bans on disposal or transportation of out-of-state or cross-border waste or certain categories of waste can increase our expenses;*
- *possible charges as a result of shut-down operations, uncompleted development or expansion projects or other events may negatively affect earnings;*
- *trends toward requiring recycling, waste reduction at the source and prohibiting the disposal of certain types of wastes could have negative effects on volumes of waste going to landfills and waste-to-energy facilities, which are higher margin businesses than recycling;*
- *efforts by labor unions to organize our employees may divert management's attention and increase operating expenses and we may be unable to negotiate acceptable collective bargaining agreements with those who have been chosen to be represented by unions, which could lead to union-initiated work stoppages, including strikes, which could adversely affect our results of operations and cash flows;*
- *negative outcomes of litigation or threatened litigation or governmental proceedings may increase our costs or limit our ability to conduct our operations;*
- *possible errors or problems in connection with the implementation and deployment of new information technology systems may decrease our efficiencies and increase our costs to operate;*
- *the adoption of new accounting standards or interpretations may cause fluctuations in quarterly results of operations or adversely impact our results of operations; and*
- *the reduction or elimination of our dividend or share repurchase program or the need for additional capital if cash flows are less than we expect or capital expenditures are more than we expect, and the possibility that we cannot obtain additional capital on acceptable terms if needed.*

Additional information regarding these and/or other factors that could materially affect results and the accuracy of the forward-looking statements contained herein may be found in Part I, Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Click here to see financial tables.

NOTE: The financial tables are in PDF format, and Adobe Acrobat Reader is required to view them. If you do not have Adobe Acrobat Reader, download it here.

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