



COVANTA HOLDING CORPORATION
AUDIT COMMITTEE KEY PRACTICES
(As of October 2005)

The Audit Committee has adopted the following key practices to assist it in undertaking the functions and responsibilities set forth in its charter:

1. **Meetings.** The Audit Committee will meet at least 4 times a year, generally on a day different than the regularly scheduled Board of Directors meeting to allow time for in-depth discussion.

2. **Review of Financial Statements.** The Audit Committee will review the Corporation's 10-K in detail with the CEO, the CFO and the full Board of Directors. The Audit Committee will meet to review the Corporation's 10-Q's with the CFO. These reviews will include the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the periodic reports. The independent auditor will be present at these meetings. The Audit Committee will prepare any report required to be included in public filings by an audit committee pursuant to SEC rules or New York Stock Exchange Requirements.

3. **Quarterly Review of CEO and CFO Certification Process.** In conjunction with its reviews of the 10-K's and 10-Q's, the Audit Committee will also review the process for the CEO and CFO quarterly certifications required by the SEC with respect to the financial statements and the Corporation's disclosure and internal controls, including any material changes or deficiencies in such controls.

4. **Review of Earnings Releases and Information Provided to Analysts and Rating Agencies.** The CFO shall review earnings releases with the Chairman of the Audit Committee prior to their release to the public. Prior to the event, the CEO or the CFO shall review with the Audit Committee, or the full Board of Directors, the substance of any presentations to analysts or rating agencies which constitute a shift in Corporation strategy or outlook. In addition, the CEO or CFO shall review subsequently with the Audit Committee, or the full Board of Directors, a summary of major presentations that have been given to analysts or rating agencies that do not constitute a shift in strategy or outlook.

5. **Approval of Audit and Non-audit Services.** In addition to approving the engagement of the independent auditor to audit the Corporation's consolidated financial statements, the Audit Committee will approve all use of the Corporation's independent auditor for non-audit services prior to any such engagement. To minimize relationships which could appear to impair the objectivity of the independent auditor, it is the Audit Committee's practice to restrict the non-audit services that may be provided to the Corporation by the Corporation's independent auditor primarily to tax services and merger and acquisition due diligence and integration services. The Corporation will obtain such limited non-audit services from the Corporation's auditor as permitted by New York Stock Exchange rules and SEC rules and

regulations and only when the services offered by the auditor's firm are more effective or economical than services available from other providers, and, to the extent possible, only following competitive bidding for such services. The Audit Committee has also adopted policies and procedures for pre-approving all non-audit performed by the Corporation's independent auditor.

6. **Hiring Guidelines for Independent Auditor Employees.** The Audit Committee has adopted the following practices regarding the hiring by the Corporation of any new partner, director, manager, staff, advising member of the department of professional practice, reviewing actuary, reviewing tax professional and any other persons having responsibility for providing audit assurance to the Corporation's independent auditor on any aspect of their certification of the Corporation's financial statements. "Audit assurance" includes all work that results in the expression of an opinion on financial statements, including audits of statutory accounts.

(a) No member of the audit team that is auditing the Corporation or a Corporation business can be hired into either entity or into a position to which that business reports for a period of 2 years following association with that audit.

(b) No former employee of the independent auditor may sign the Corporation's or an affiliate's SEC filing for 5 years following employment with the independent auditor.

(c) No former employee of the independent auditor may be named a Corporation or major affiliate officer for 3 years following employment by the independent auditor.

(d) The Corporation's CFO must approve all executive-level and higher hires from the independent auditor.

(e) The Corporation's CFO shall report annually to the Audit Committee the profile of the preceding year's hires from the independent auditor.

7. **Process for Handling Complaints About Accounting Matters.** As part of the Board of Director's procedure for receiving and handling complaints or concerns about the Corporation's conduct, the Audit Committee has established the following procedures for: (i) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by Corporation employees of concerns regarding questionable accounting or auditing matters.

(a) To facilitate the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing standards, the Corporation may engage a consultant for security matters to establish (i) a post office box to which such complaints may be addressed. Such post office box shall not be used for any other purpose, and/or (ii) a toll-free confidential telephone hot-line for employees to call.

(b) Immediately upon management's receipt of complaints regarding accounting, internal accounting controls or auditing matters, shall forward a copy thereof (or if

received orally, a memorandum describing such communication) to the Corporation's general counsel, who shall maintain a copy of all such communications in his or her records for a period of three years.

(c) Upon receipt of such complaints, the general counsel shall immediately forward a copy of the complaint to the Chairman of the Audit Committee and as soon thereafter as practical, management's response to the communication.

(d) The Chairman of the Audit Committee may take such further action as he or she deems necessary to obtain further information in regard to such complaint from the person making the complaint, from management or from the Corporation's independent auditors as he or she deems appropriate.

(e) Unless the Chairman of the Audit Committee determines that such complaint is without merit, he or she will refer such complaint to the Audit Committee at its next scheduled meeting, or sooner if he or she determines a special meeting for consideration of the complaint is appropriate.

(f) The Audit Committee shall review the complaint and in such review may discuss the complaint with management and the independent auditors and take such actions as it deems necessary, which may include: (i) determining that such complaint is without merit, (ii) asking the complainant, management or the independent auditors for additional information, (iii) responding to the complaint, (iv) directing management or the independent auditors to make changes to the Corporation's financial statements or accounting or auditing procedures, and (v) taking such other actions as they deem necessary or appropriate.

(g) The availability of the post office box and its address, as well as the telephone number of the confidential hot-line, will be published in the Corporation's Code of Business Conduct and Ethics.

(h) Access to such post office box shall only be by such consultant for securities matters, if any, and the Corporation's general counsel.

(i) Anything received in such post office box shall not be opened by such consultant and shall promptly be forwarded to the Chairman of the Audit Committee.

(j) The Chairman of the Audit Committee shall inform management of the substance of such employee communication in a manner which will not reveal the identity of the employee. Thereafter, the communication will be processed as described in paragraphs above.

(k) In effecting these procedures, the Audit Committee may obtain advice from the Corporation's legal counsel or from counsel retained by the Audit Committee.

8. **Audit Committee Memberships.** The Audit Committee has determined that in view of the increasing demands and responsibilities of the Audit Committee, members of the Audit Committee should not serve on more than two additional Audit Committees of other public companies, and the Chairman of the Audit Committee should not serve on more than two other audit committees of a public company, unless the Board of Directors determines that such

simultaneous service would not impair the relevant individual's ability to effectively serve on the Audit Committee. Existing relationships exceeding these limits may continue in place provided that the full Board of Directors determines that such relationships do not impair the member's ability to serve effectively on the Audit Committee.

9. **Code of Ethics for CEO and Senior Financial Officers.** Corporation's Audit Committee shall annually acknowledge that they shall abide by the Corporation's Code of Business Conduct and Ethics then in place, and to resolve ethically any actual or apparent conflicts of interest, and to comply with all generally accepted accounting principles, laws and regulations designed to produce full, fair accurate, timely and understandable disclosure in the Corporation's periodic reports filed with the SEC.

10. **Conflict of Interest Review.** The Audit Committee will review at least once a year the independence of the Corporation's auditors as defined by the rules, regulations and standards of the SEC and the New York Stock Exchange.

11. **Related Party Transactions.** The Audit Committee shall be responsible for reviewing and approving all related party transactions involving the Corporation and the Corporation's subsidiaries.

12. **General Power to Investigate.** The Audit Committee shall investigate any matter brought to its attention, within the scope of its duties, with the power to retain expert advice and legal counsel for this purpose if, in its judgment, that is appropriate.

13. **Audit Partner Rotation.** The Audit Committee shall ensure that the lead audit partners assigned by the Corporation's independent auditor to the Corporation, and to each of its subsidiaries that have securities registered with the SEC, as well as the audit partner responsible for reviewing the Corporation's audit shall be changed at least every five years.

14. **Share Owner Ratification of Independent Auditor.** Although the Audit Committee has the sole authority to appoint, direct and monitor the independent auditor, the Audit Committee will continue its longstanding practice of recommending that the Board of Directors ask the shareholders, at their annual meeting, to approve the Audit Committee's selection of the independent auditor.

15. **Reports and Procedures.** The Audit Committee shall keep a written record of its proceedings. In advance of every regular meeting, the Chairman of the Audit Committee, with the assistance of the Secretary of the Corporation, shall prepare and distribute to the Audit Committee members and others as deemed appropriate by the Chairman, an agenda of matters to be addressed at the meeting. The Audit Committee may require officers and employees of the Corporation to produce such information and reports, including reports to be provided annually or on other regular bases, as the Audit Committee may deem appropriate. The Chairman of the Audit Committee shall report to the Board of Directors at each meeting of the Board of Directors on the Audit Committee's activities since the last Board of Directors meeting.

16. **Disclosure of Corporate Governance Key Practices.** These Key Practices will be made available on the Corporation's website at www.covantaholding.com.