

Covanta Holding Corporation
2005 Fourth Quarter and Full Year Conference Call
Prepared Remarks
March 15, 2006

OPERATOR

Good afternoon, everyone, and welcome to the Covanta Holding Corporation fourth quarter and full-year 2005 financial results conference call and webcast. This call is being recorded.

At this time, for opening remarks and introductions, I'd like to turn the call over to the Treasurer, Liz O'Melia. Please go ahead.

LIZ O'MELIA

Thank you and good afternoon. Welcome to Covanta Holding Corporation's fourth quarter and full-year conference call. Presenting on the call today will be Covanta CEO and president, Tony Orlando; and our senior vice president and CFO, Craig Abolt. They will provide an operational update, review our financial results and then they will take your questions.

In order to provide everyone an opportunity to ask a question, please limit yourselves to one question and one follow-up.

Before turning it over to Tony, I would like to refer you to our forward-looking disclaimer:

This conference call includes forward-looking statements within the meaning of Section 27-A of the Securities Act of 1933, and Section 21-E of the Securities Exchange Act of 1934. Such statements include declarations regarding the intent, belief, or current expectations of the company and its management. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance, and involve a number of risks and uncertainties that can materially affect actual results as identified from time to time in the company's Reports and Registration Statements filed with the Securities and Exchange Commission. The information presented includes non-GAAP financial measures. A reconciliation to the most directly comparable GAAP measure and management's reasons for presenting such information is set forth in the exhibits to our press release that were issued last night.

For your reference, we have also provided supplemental information about our overall revenues on our website, which will assist you in following this discussion.

I will now turn the call over to Tony Orlando, our CEO and President.

TONY ORLANDO

Thanks, Liz. And thank you all for joining us today. It is our pleasure to report our 2005 full year and fourth quarter results. It was an excellent year for the company, as we significantly expanded our business, delivered on our financial targets, and positioned Covanta for future growth.

It was a year of many accomplishments but without question the most important achievement was completing the \$2 billion acquisition of American Ref-Fuel, which transformed our company. With this acquisition, we solidified our leadership position in domestic waste-to-energy and we expanded our presence in the attractive northeast waste market with additional disposal facilities and TransRiver expertise.

In addition, we improved our balance sheet by completing a \$400 million rights offering and refinancing our Corporate debt.

And most importantly we enhanced our abilities and opportunities to grow the business.

Let me quickly summarize a few of the other highlights from 2005.

We changed our name to Covanta Holding Corporation, underscoring our emphasis on the Covanta Energy franchise and our mission to be the world's leading waste-to-energy company. We also moved the company's listing to the New York Stock Exchange, further raising awareness with the investment community.

Sam Zell rejoined our Board of Directors and was appointed Chairman. Sam brings to the board a wealth of experience and insightful leadership which will guide us into the future.

We capped off the year in December by successfully reorganizing our waste-to-energy facility in Warren County, New Jersey. Under the new arrangements, Warren now has a typical “tip fee” contract structure under which we’ll receive market rates for the entire 150,000- tons per year waste disposal capacity. The electrical output for the 12 megawatt plant remains under long-term contract through 2013. We are pleased to include this facility in our network of northeast waste disposal assets.

Hopefully, you’ve all seen the press release we issued last night on our 2005 full-year earnings. The message from those results is one of steady performance and delivering on expectations.

Previously, we recommended that you judge our performance against four key financial metrics all of which are based on pro forma results for the prior two years assuming the Covanta Energy and American Ref-Fuel acquisitions both took place on January 1st 2004. I’m pleased to note that we delivered on our expectations in each of these four areas.

1. Adjusted EBITDA for Covanta Energy was \$501 million – right in line with our previous guidance of \$500 million.
2. Free cash flow from our Waste and Energy business was \$211 million.

3. In addition with our free cash flow, we reduced debt by \$220 million, including \$45 million of voluntary pre-payment on our Corporate term loan. This keeps us on track to pay down \$700 million of debt from 2005-2007; and finally
4. Diluted EPS for Covanta was also in line with expectations, coming in at 44 cents per share, after adjusting to remove two one-time events: the gain associated with the ACL warrants and the expense related to the settlement with the California Insurance Commissioner's Office or CLO.

These financial results demonstrate the predictable nature of our business that includes a high percentage of revenue under contract and a team of experienced operators who continue to perform to the highest standards. This year we again turned in very good production numbers as our 31 domestic waste-to-energy plants posted an average boiler availability of 90.7 percent and processed 15 million tons of waste. Our IPP plants also had a solid year generating over 5 million megawatt hours of electricity.

Craig will talk about the numbers in greater detail, but let me just comment on what we are seeing in some of our key markets. Waste pricing remains firm across the system with slight increases in most areas, and we continue to believe the fundamentals in the waste market will put upward pressure on pricing. Year over year tipping fee revenue on waste we handled grew by \$4.5 million as a result of the price increases we experienced.

Before we move to energy pricing, there is one other market factor affecting our waste and service revenue – that is scrap metal pricing. Demand remains strong, although pricing has come down 12 percent from the historic highs of 2004. Recognize, however, that scrap metal pricing only represents about three percent of our total waste and service fees, so overall, we continue to feel good about the waste market in the northeast.

With respect to Energy pricing, without a doubt market conditions remain extremely positive. Although most of our electricity is sold under long term contracts, the Union and Essex, New Jersey facilities do sell short-term into the PJM East grid where average prices during 2005 finished the year around \$67 per megawatt hour, a significant increase from the prior year. In addition, the contracted electricity rate at the Hempstead plant increased last year which also helped boost energy revenue.

Looking ahead, the higher fossil fuel prices bode well for us as does the renewed urgency in Washington DC to dramatically cut America's dependence on imported oil. We expect these dynamics to create a number of new opportunities for us over the coming years.

Therefore, we have increased our commitment to research and development to pursue long-term growth and to maintain our industry leadership position. Specifically, the growth opportunities we are pursuing include:

- More waste-to-energy facility expansions
- Additional domestic facility ownership and operating contracts
- Expansion of our network of waste disposal assets and
- New ventures in attractive International markets

Looking first at our plans to expand a number of our current waste-to-energy plants... Since we last spoke to you on the third quarter call, we signed a construction management agreement with Lee County, Florida to expand its facility near Fort Myers by 636 tons per day. In addition we contracted to operate and maintain the expanded facility through 2024. The groundbreaking celebration for this expansion project took place last month and it is now scheduled to begin operation in 2007. This new construction is indicative of the opportunities that exist for us to expand other facilities.

In Hillsborough County, Florida, where we signed a contract to add a 600 TPD unit, permit applications have been filed, and we hope to have all necessary approvals to begin construction by the end of the year. In addition we are discussing the possibility of plant expansions with several other clients, and we hope to be in a position to tell you about specific opportunities later this year.

Another area of growth opportunity for us relates to new long-term contracts, such as New York City's waste disposal procurement for transporting and disposing of containerized waste. We continue to work through the process in the hope of securing a 20-year contract to manage between 3,000 and 6,000 tons per day of residential waste. Along with other qualified applicants, we are currently responding to Requests for Clarification issued by the City. Related to the process - we have filed a permit application with the Virginia Department of Environmental Quality for a Marine unloading facility in Portsmouth, Virginia. If permitted and built, this would be one of the receiving facilities for containers delivered under the potential contract with New York City.

We are also seeking to capitalize on opportunities in Europe as well as other potentially attractive international markets where we can utilize our experience and expertise in developing, constructing and operating waste-to-energy facilities. In particular, we believe the UK and Italy offer favorable conditions. For example, a report issued a few weeks ago by a UK governmental agency proposes that about 27 percent of all the waste produced by households in England should be burned in waste-to-energy plants by 2020 compared with only 9 percent today. Depending on growth projections, that would mean over 10 million tons per year of new waste-to-energy capacity. And that doesn't take into consideration a roughly equal volume of commercial and industrial waste that will also need to be dealt with. So you can see why we are very excited about the potential this market holds.

Looking to the more immediate future, we remain comfortable with the 2006 guidance we provided to you on November 17th. Craig will reiterate those figures in a minute.

All told, our results this year validate the fact that Covanta enjoys:

- a stable business;
- strong cash flow; and
- an industry-leading team...

... and that we are executing our strategy to:

- deliver earnings;
- pay down debt; and
- pursue targeted growth opportunities...

... all in order to return value to our shareholders.

We are optimistic about our future and grateful for all those who helped Covanta accomplish so much in 2005. In that regard, special thanks go out to our dedicated and talented employees. In the midst of demanding circumstances, our team performed to the highest standards. We know our clients appreciate the dedication our employees show to world-class service, just as we appreciate our client's continued loyalty.

In addition, we are grateful for our shareholders' ongoing support. We look forward to another good year in 2006 with our continued commitment to build value for our shareholders by satisfying the global need for waste disposal and energy generation with safe, reliable and environmentally superior solutions.

Now, I'll turn it over to Craig.

CRAIG ABOLT

Thanks, Tony.

AS REPORTED RESULTS

I'll begin with our actual results as reported in accordance with GAAP. For the 2005 fourth quarter, total revenues as reported were \$303 million, and net income was \$6 million, or 4 cents per diluted share. For the full year 2005, total revenues as reported were \$979 million, and net income was \$59 million or 46 cents per diluted share.

Given the significance of the Ref-Fuel acquisition, the reported results for the 2005 and 2004 periods are not comparable. So, I'll be focusing most of my discussion on pro forma results to provide you with a clearer picture of the drivers of the business.

PRO FORMA RESULTS

The pro forma results highlight that 2005 was a great year for Covanta. As Tony stated, our business is solid and predictable, generating strong cash flow – which will support our ability to pursue strategic growth opportunities. Specifically, pro forma revenues for the full year 2005 were \$1.2 billion, \$5 million higher than last year. The increase in pro forma revenues compared with the year-ago period was due primarily to the following factors:

- Waste and Service revenues increased \$5.9 million to a total of \$789 million;
- Energy revenues increased \$3.6 million to a total of \$402 million; and
- Other revenues, essentially from our insurance business, decreased by \$4.9 million to \$17.5 million. The decrease was due to lower insurance revenues as a result of our shift in focus to more profitable policies rather than volume.

Looking at these components of the business in more detail...

The main factors driving the \$5.9 million increase in Waste and Service revenues were contractual escalations in service fees, as well as escalations and other price increases in tipping fees.

- Specifically, service fee revenues increased by \$7.4 million. This increase was primarily driven by contractual fee escalations of \$10.6 million and partially offset by a decrease in debt service pass-through revenues, a reduction in additional waste service fee incentives and some one-time items.
- Tip fee revenues increased by \$1.6 million. Higher market pricing drove a \$4.5 million increase in those revenues. The effect of the higher pricing was offset by low-margin brokered waste transactions that occurred in 2004, but were not repeated in 2005.

- The increases in service fees and tip fees were somewhat offset by a reduction of \$3 million in scrap metal revenues due to the lower scrap prices which Tony mentioned earlier.

Turning to our energy revenues... we experienced higher rates on electricity and steam sales both domestically and internationally, leading to a \$3.6 million revenue increase overall. Specifically,

- Domestic energy revenues increased by \$8.5 million. This increase was primarily driven by \$9.9 million related to higher energy rates, partially offset by the loss of revenues from an unprofitable biogas project that we shut down in the fourth quarter of 2004.
- We also experienced higher rates Internationally, however total International energy revenues decreased by \$4.9 million primarily due to the 2004 closure and reorganization of two unprofitable facilities in the Philippines which more than offset the increases in energy rates.

Now let's take a step back and look at the increase in total pro forma Waste & Energy revenues broken out geographically. When we look at total revenues on a domestic versus international basis, we see that International revenues decreased by the \$4.9 million I just mentioned, while Domestic revenues increased by \$15.6 million.

Expenses

Turning now to the expense side, our total pro forma operating expenses for 2005 were \$1 billion – essentially flat with last year's pro formas.

Plant operating costs typically increase in line with inflation due to normal escalation of costs such as wages and benefits. However, for 2005, plant operating costs increased at a rate well below inflation at roughly 1 percent, or \$6.6 million, as compared with 2004. This was primarily due to a reduction in disposal costs related to the brokered waste transactions and the impact of some one-time items. These cost reductions were partially offset by some additional scheduled maintenance and additional fuel costs at some of our international projects.

Pro forma general and administrative expenses increased \$3.5 million in 2005 compared with 2004. This increase was primarily due to additional professional and consulting fees and an increase in non-cash compensation.

Pro forma 2005 net income was \$67.3 million, or 46 cents per diluted share. 2005 net income increased by \$14.4 million, or 27 percent, as compared with \$52.9 million, or 37 cents per diluted share, for 2004. The increase in pro forma net income was driven largely by the higher waste and energy revenues, lower interest expense and higher equity in income from unconsolidated subsidiaries.

The pro forma results include the one-time expense of \$10.3 million relating to our settlement with the CLO of matters relating to Covanta's predecessor insurance entities. We view this agreement as a positive step toward a full resolution of matters involving our predecessor insurance business, which have been pending since 1989. While we cannot say with certainty, Covanta believes these arrangements will result in no material reduction in available net operating loss carryforwards. Also included in our pro forma results is a \$15.2 million gain associated with the ACL warrants.

If we exclude the one-time CLO expense and the one-time gain associated with ACL warrants, 2005 pro forma net income would have been 44 cents per diluted share.

Now let's turn briefly to our balance sheet. In 2005 we dramatically enhanced our liquidity as we ended the year with approximately \$129 million in unrestricted cash. In addition, we also have full capacity available under our \$100 million dollar revolver.

During the fourth quarter, we strengthened our balance sheet by paying down \$125 million in debt, including a voluntary payment of \$45 million on the first lien.

2006 Guidance

I'd like to move now to our discussion of guidance. As Tony mentioned earlier, we are reaffirming our guidance for 2006. You should note that, except for diluted earnings per share, all the performance metrics that I will now discuss relate to our principal subsidiary, Covanta Energy.

First, let's focus on adjusted EBITDA. We believe this is a very important measurement of the performance of our core waste and energy business. 2006 guidance for adjusted EBITDA is within the range of \$515 to \$525 million.

Our guidance for diluted EPS is approximately 50 cents per share for 2006.

We are projecting free cash flow of about \$225 million for 2006. This demonstrates the significant cash flow available to service the capital structure and make incremental investments in the business.

In 2006, we'll use about \$175 million of free cash flow to pay scheduled debt amortization. And we'll use our remaining free cash flow of approximately \$50 million to make additional payments on our first lien debt facility or to invest in our waste and energy business. We remain on track to pay down \$700 million in debt from 2005 through 2007. This substantial delevering of the business will have material benefits going forward as we drive strong EPS growth and build shareholder equity.

Closing

Throughout 2005, we worked to increase awareness of our company with the investment community. In 2006, we remain committed to enhancing our investor communications efforts. In that regard, we are adding a full-time senior investor relations professional, Bob Powers, who will be joining the company as Vice President of Investor Relations next week.

Bob most recently held the position of Vice President Investor Relations at Paxar Corporation where he established a very successful IR program starting in 2000. During his career, Bob moved through a series of increasingly responsible financial management positions with notable US and foreign based companies. I am sure you will find Bob a strong addition to our team.

Liz O'Melia, our Treasurer, who took on the added responsibility of investor relations as interest in our company grew, will continue to focus on treasury and capital markets activities.

In conclusion, 2005 was a great year for the Company. The Ref-Fuel acquisition was a tremendous milestone and a significant step toward achieving our mission to be the world's leading Waste to Energy Company. We continued to demonstrate our ability to generate strong, predictable operational and financial results. We look forward to building on our strong momentum while continuing to invest in the business and reduce debt on our balance sheet. We see great opportunities for the future as we actively seek to expand a number of plants, look for ways to grow our network of waste disposal assets and explore further international business opportunities. In summary, with all we've just discussed, you can understand why we're excited about the remainder of 2006 and beyond. With that, we look forward to answering your questions.

Operator, please open up the phone lines....

OPERATOR

Thank you. Ladies and gentlemen, in order to ask a question, simply press "star one" on your touch-tone telephone. Again, that's "star one" for questions. If you're using a speakerphone, please make sure that your mute function is turned off in order for your signal to reach our equipment. Once again, that was "star one" for any questions that you may have. We will pause for just a moment to assemble the question queue.

[After Q&A]

CRAIG ABOLT

Thank you all for joining us this afternoon. If you have further questions, please don't hesitate to call us. We look forward to speaking with you soon.