

Covanta Holding Corporation
2006 First Quarter
Prepared Remarks
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OPERATOR

Good morning, everyone, and welcome to the Covanta Holding Corporation first quarter 2006 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 morning. Welcome to Covanta Holding Corporation's first quarter conference call. Presenting on the call today will be Covanta's 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 yourself 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 are 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. We're very pleased to start off the year on a high note with both strong financial and operational results in the first quarter. We are on track to safely convert 15 million tons of waste into clean energy and to achieve the 2006 guidance numbers that we previously provided.

We are nearing the end of our most active scheduled maintenance period with the overall level of work required to keep our plants running at peak performance consistent with our expectations. In addition we continue to garner impressive awards for our performance.

In fact, our Delaware Valley, Montgomery and Bristol facilities have received confirmation that they have been awarded the STAR status in OSHA's prestigious Voluntary Protection Program. This brings our total number of plants awarded the VPP STAR to 12 and all three new entrants will be conducting VPP flag-raising ceremonies within the next few months. In addition, our Quezon facility was formally recognized by the Philippine Department of Labor and Employment for working 3.6 million man hours without a lost time accident. That's over seven years.

On the environmental side, our Kent County Michigan facility received the clean corporate citizen award from the Michigan Department of Environmental Quality in recognition of our commitment to environmental excellence. In addition, our Haverhill facility in Massachusetts was just accepted into the elite EPA performance track program, making that our fifth facility to be honored by the EPA.

Last but not least, our Southeastern Connecticut facility received recognition as “Waste to Energy plant of the year” from the American Society of Mechanical Engineers for its overall performance.

Once again, these awards are a tribute to the many talented and highly skilled professionals that Covanta has at these facilities and throughout our organization. We’re extremely proud of all of our employees who continue to provide exemplary customer service while maintaining rigid compliance with the highest safety and environmental standards.

With our highly contracted business model, this outstanding operational performance is the primary reason we continue to turn in strong financial results. In addition we are seeing favorable market conditions. The waste disposal markets are firm, the scrap metal markets are good, and the energy markets are even better. And, we are seeing the benefit of the reorganization late last year of our Warren County, New Jersey facility. These factors combine to translate into solid top line and EBITDA growth, and they give us great confidence in our future.

In particular, the continuing trend of higher energy prices bolsters our enthusiasm about the growth opportunities we discussed during the last earnings call. Those opportunities 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

We provided a lot of detail about these opportunities just a short time ago, so I don't have any new information to report today. But I assure you we are making progress and we remain committed to realizing these development opportunities that play to our strength.

In summary, we are very pleased with the first quarter results, the market dynamics are working in our favor and we have a number of exciting growth opportunities we are actively pursuing to maintain our leadership position in satisfying the global need for safe waste disposal and clean energy solutions.

Now, I'll turn it over to Craig who will review the first quarter numbers.

CRAIG ABOLT

Thanks, Tony.

We're pleased to report total revenues for the first quarter of 2006 were \$305 million, and net income was \$11 million, or \$.08 cents per diluted share.

Please note that the actual results for the first quarter of 2005 do not include the Ref-Fuel acquisition which occurred in June of last year. So in order to provide useful comparative information, my discussion will focus on pro forma results.

Let's begin with a breakdown of our revenues. On a pro forma basis, revenues increased by \$16.8 million or 5.8%.

- Specifically, Waste and Service revenues increased \$6.6 million or 3.6% to a total of \$191 million;
- Energy revenues increased \$10.1 million or 10.2% to a total of \$109 million; and
- Other revenues, primarily from our insurance business, remained stable at approximately \$5 million.

Here are the main factors driving the \$6.6 million increase in Waste and Service revenues.

- First, service fee revenues increased by \$2.5 million. This increase was primarily due to contractual escalations and higher additional waste service fees of \$3.6 million offset by a \$1.1 million decrease in debt service pass-through revenues.
- Second, tip fee revenues increased by \$3.1 million including a \$1.2 million increase due to higher market pricing and a \$1.9 million increase related to the reorganization of our Warren, New Jersey facility in December 2005.
- And third, as Tony mentioned earlier, favorable scrap metal markets drove other waste revenues up approximately \$1 million.

Now turning to our energy revenues... we experienced higher energy rates both domestically and internationally, leading to a \$10.1 million revenue increase overall. Specifically,

- Domestic energy revenues increased by \$6.9 million. This increase was primarily driven by \$5.7 million related to higher energy rates and increased production, and \$1.2 million due to the reorganization of our Warren subsidiary.
- International energy revenues increased by \$3.2 million. This increase was primarily driven by higher tariff revenues offset by lower generation.

Now let's take a step back and look at the increase in total Waste & Energy revenues broken out geographically. When we look at total revenues on a domestic versus international basis, international revenues increased by \$2.8 million while domestic revenues increased by \$14 million.

So, whether we look at our revenues broken down by contract structure or geographically, we're pleased with the top line growth.

Expenses

Turning now to the expense side, again comparing pro forma 2005 to actual 2006, Covanta's total operating expenses for the first quarter of 2006 were \$270 million – an increase of \$5.9 million or 2.2%. Plant operating expenses increased \$8.5 million due to the reorganization of the Warren subsidiary in addition to normal escalations such as wages and timing of scheduled plant maintenance.

General and administrative expenses remained comparable to 2005. Wage escalations and higher development costs were mostly offset by synergies gained from the Ref-fuel acquisition.

Net income for the first quarter of 2006 was \$11.4 million, or \$0.08 per diluted share, which is more than double the pro forma 2005 first quarter. Excluding a one-time investment gain in the first quarter of 2005, net income rose \$7.8 million and pro forma diluted earnings per share increased from \$0.03 to \$0.08.

CLO Update

I'd like to also quickly update you on our previously reported settlement with the California Insurance Commissioner. Last week that settlement received its final court approval and is now effective. We're pleased to conclude our agreements with the California Commissioner. This settlement reinforces our belief that our net operating loss carryforwards will be largely unaffected by the final administration of these trusts.

2006 Guidance

I'd like to move now to our discussion of guidance. As Tony mentioned earlier, we are reaffirming our guidance for 2006, which I will quickly review for you. 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 Corporation.

Our 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 excluding any non-recurring items.

We are projecting free cash flow of about \$225 million. And we are on track to pay down approximately \$700 million in debt from 2005 to 2007.

Closing

We look forward to continuing to invest in the business, pursue growth opportunities and reduce debt to strengthen our balance sheet. We're in a strong position to do so, ending the quarter with approximately \$150 million of unrestricted cash.

As you can see, with a very good first quarter behind us, we're poised to build on this momentum to continue delivering solid financial results, grow our business and maintain our leadership position in the waste-to-energy market.

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]

TONY ORLANDO

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.