

Covanta Holding Corporation
Condensed Consolidated Statements of Operations

Exhibit 1

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
(Unaudited, in thousands, except per share amounts)				
Operating revenues				
Waste and service revenues	\$ 213,501	\$ 131,108	\$ 404,870	\$ 242,448
Electricity and steam sales	116,413	63,437	225,591	122,225
Other operating revenues	4,222	4,547	9,031	9,238
Total operating revenues	<u>334,136</u>	<u>199,092</u>	<u>639,492</u>	<u>373,911</u>
Operating expenses				
Plant operating expenses	174,561	122,923	360,719	241,199
Depreciation and amortization expense	48,838	17,857	95,235	33,531
Net interest expense on project debt	15,293	10,079	31,291	19,712
Other operating expenses	1,520	1,696	4,210	5,358
General and administrative expenses	17,236	13,283	35,831	26,803
Restructuring charges	-	2,655	-	2,655
Acquisition-related charges	-	1,785	-	1,980
Total operating expenses	<u>257,448</u>	<u>170,278</u>	<u>527,286</u>	<u>331,238</u>
Operating income	<u>76,688</u>	<u>28,814</u>	<u>112,206</u>	<u>42,673</u>
Other income (expense)				
Investment income	2,915	994	5,318	1,873
Interest expense	(31,814)	(18,031)	(60,297)	(28,352)
Loss on extinguishment of debt	(2,342)	-	(2,342)	-
Unrealized gain on derivative instruments, unexercised ACL warrants	-	500	-	4,218
Total other expenses	<u>(31,241)</u>	<u>(16,537)</u>	<u>(57,321)</u>	<u>(22,261)</u>
Income before income tax expense, minority interests and equity in net income from unconsolidated investments				
	<u>45,447</u>	<u>12,277</u>	<u>54,885</u>	<u>20,412</u>
Income tax expense	(6,662)	(4,875)	(10,925)	(7,617)
Minority interests	(2,279)	(5,589)	(2,879)	(7,139)
Equity in net income from unconsolidated investments	<u>14,672</u>	<u>4,104</u>	<u>21,515</u>	<u>10,564</u>
Net Income	<u><u>\$ 51,178</u></u>	<u><u>\$ 5,917</u></u>	<u><u>\$ 62,596</u></u>	<u><u>\$ 16,220</u></u>
Earnings Per Share:				
Basic	<u>\$ 0.35</u>	<u>\$ 0.06</u>	<u>\$ 0.43</u>	<u>\$ 0.16</u>
Weighted Average Shares	<u>146,343</u>	<u>106,245</u>	<u>144,872</u>	<u>104,030</u>
Diluted	<u>\$ 0.35</u>	<u>\$ 0.05</u>	<u>\$ 0.43</u>	<u>\$ 0.15</u>
Weighted Average Shares	<u>147,087</u>	<u>111,911</u>	<u>146,423</u>	<u>109,753</u>

Covanta Holding Corporation
Condensed Consolidated Pro Forma Statements of Operations

Exhibit 2

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	As Reported	Pro Forma	As Reported	Pro Forma
(Unaudited, in thousands, except per share amounts)				
Operating revenues				
Waste and service revenues	\$ 213,501	\$ 208,354	\$ 404,870	\$ 393,100
Electricity and steam sales	116,413	102,813	225,591	201,885
Other operating revenues	4,222	4,547	9,031	9,238
Total operating revenues	<u>334,136</u>	<u>315,714</u>	<u>639,492</u>	<u>604,223</u>
Operating expenses				
Plant operating expenses	174,561	171,254	360,719	347,952
Depreciation and amortization expense	48,838	45,765	95,235	91,281
Net interest expense on project debt	15,293	17,314	31,291	34,902
Other operating expenses	1,520	829	4,210	5,877
General and administrative expenses	17,236	17,843	35,831	36,621
Total operating expenses	<u>257,448</u>	<u>253,005</u>	<u>527,286</u>	<u>516,633</u>
Operating income	<u>76,688</u>	<u>62,709</u>	<u>112,206</u>	<u>87,590</u>
Other income (expense)				
Investment income	2,915	1,558	5,318	3,098
Interest expense	(31,814)	(28,801)	(60,297)	(58,534)
Loss on extinguishment of debt	(2,342)	-	(2,342)	-
Unrealized gain on derivative instruments, unexercised ACL warrants	-	500	-	4,218
Total other expenses	<u>(31,241)</u>	<u>(26,743)</u>	<u>(57,321)</u>	<u>(51,218)</u>
Income before income tax expense, minority interests and equity in net income from unconsolidated investments	45,447	35,966	54,885	36,372
Income tax expense	(6,662)	(16,185)	(10,925)	(16,368)
Minority interests	(2,279)	(5,608)	(2,879)	(7,195)
Equity in net income from unconsolidated investments	14,672	4,104	21,515	10,564
Net Income	<u>\$ 51,178</u>	<u>\$ 18,277</u>	<u>\$ 62,596</u>	<u>\$ 23,373</u>
Earnings Per Share:				
Basic	\$ 0.35	\$ 0.13	\$ 0.43	\$ 0.17
Weighted Average Shares	<u>146,343</u>	<u>140,160</u>	<u>144,872</u>	<u>139,900</u>
Diluted	\$ 0.35	\$ 0.13	\$ 0.43	\$ 0.16
Weighted Average Shares	<u>147,087</u>	<u>145,825</u>	<u>146,423</u>	<u>145,622</u>

Covanta Holding Corporation
Reconciliation of Net Income and Pro Forma Net Income to Adjusted EBITDA

Exhibit 3

	Three Months Ended June 30,		Six Months Ended June 30,		Full Year Estimated 2006
	2006	2005	2006	2005	
	As Reported	Pro Forma	As Reported	Pro Forma	
	(Unaudited, in thousands)				
Net Income - Covanta Holding Corporation	\$ 51,178	\$ 18,277	\$ 62,596	\$ 23,373	
Less: Net Income - Other Services	474	660	1,049	2,846	
Net Income - Covanta Energy Corporation	50,704	17,617	61,547	20,527	\$104,000 - \$112,000
Depreciation and amortization expense	48,820	45,738	95,200	91,226	191,000
Debt service:					
Net interest expense on project debt	15,293	17,314	31,291	34,902	
Interest expense	31,814	28,801	60,297	58,534	
Loss on extinguishment of debt	2,342	-	2,342	-	
Investment income	(2,216)	(1,446)	(4,134)	(2,886)	
Subtotal debt service	47,233	44,669	89,796	90,550	170,000
Income tax expense	6,228	15,816	10,150	14,210	32,000 - 36,000
Other Adjustments:					
Change in unbilled service receivables ^(A)	4,192	2,382	8,261	5,094	
Energy contract levelization ^(A)	1,113	394	2,174	722	
Non-cash compensation ^(A)	2,537	259	3,368	1,056	
Other non-cash operating expenses ^(A)	2,081	2,069	3,258	4,415	
Subtotal other adjustments	9,923	5,104	17,061	11,287	31,000 - 29,000
Minority interests	2,406	5,817	3,236	7,404	7,000
Total adjustments	114,610	117,144	215,443	214,677	
Adjusted EBITDA - Covanta Energy Corporation ^(B)	\$ 165,314	\$ 134,761	\$ 276,990	\$ 235,204	\$535,000 - \$545,000

(A) These items represent amounts that are non-cash in nature.

(B) Adjusted EBITDA is provided for Covanta Energy Corporation ("Covanta Energy") as defined in Covanta Energy's financing arrangements. The corporate debt resides at Covanta Energy and, therefore, Covanta Holding Corporation ("Covanta") provides adjusted EBITDA at that level and not at the Covanta level which includes the insurance business.

Covanta uses adjusted EBITDA to assess its operating performance. Covanta believes this financial measure is helpful in assessing the overall performance of its business, and is helpful in highlighting trends in its overall business because the items excluded in calculating adjusted EBITDA have little or no bearing on its day-to-day operating performance. Adjusted EBITDA is also a significant criterion of performance-based components of employee compensation.

Adjusted EBITDA is an unaudited, non-GAAP financial measure, and is provided for information purposes only. Certain items are included in the table above that are not measured under GAAP and are not intended to supplant other information provided in accordance with GAAP. Furthermore, these measures may not be comparable to those used by other companies. The following information should be read in conjunction with the unaudited condensed consolidated financial statements of Covanta and the notes thereto as filed in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006.

Adjusted EBITDA, set forth above, is reconciled to net income, which is the most directly comparable GAAP performance measure.

Covanta has prepared adjusted EBITDA for the three and six months ended June 30, 2006 and June 30, 2005, on a Pro Forma basis, as if the acquisition of Ref-Fuel had been consummated on January 1, 2005.

Covanta Energy Corporation
Reconciliation of Free Cash Flow to Cash Flow Provided by Operating Activities

Exhibit 4

	<u>Three Months Ended June 30, 2006</u>	<u>Six Months Ended June 30, 2006</u>	<u>Full Year Estimated 2006</u>
	(Unaudited, in thousands)		
Cash Flow Provided by Operating Activities	\$ 75,661	\$ 116,105	\$ 285,000
Less: Purchase of Property, Plant and Equipment (A)	<u>(8,767)</u>	<u>(26,788)</u>	<u>(50,000)</u>
Free Cash Flow (B)	<u>\$ 66,894</u>	<u>\$ 89,317</u>	<u>\$ 235,000</u>

(A) Purchase of Property, Plant and Equipment is also referred to as capital expenditures.

(B) Free Cash Flow is provided for Covanta Energy Corporation ("Covanta Energy"). The corporate debt resides at Covanta Energy and, therefore, Covanta Holding Corporation ("Covanta") provides Free Cash Flow at that level and not at the Covanta level which includes the insurance business.

Covanta uses Free Cash Flow as a liquidity measure. It believes this financial measure is important in analyzing its liquidity to service its capital structure and for strategic opportunities.

Free Cash Flow is an unaudited, non-GAAP financial measure, and is provided for information purposes only. Certain items are included in the table above that are not measured under GAAP and are not intended to supplant other information provided in accordance with GAAP. Furthermore, these measures may not be comparable to those used by other companies. The following information should be read in conjunction with the unaudited condensed consolidated financial statements of Covanta and the notes thereto as filed in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006.

Free Cash Flow means, for any period, Cash Flow Provided by Operating Activities less Purchase of Property, Plant and Equipment. Free Cash Flow is not a measurement of financial performance under GAAP and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or any other measures of performance derived in accordance with GAAP. Free Cash Flow is reconciled to cash provided by operating activities, the most directly comparable GAAP operating measure.

Covanta Holding Corporation
Components of Diluted Earnings Per Share

Exhibit 5

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
	(Unaudited)	
Cumulative Effect of Philippine Tax Ruling (A)	\$ 0.05	\$ 0.05
APB 23 prior years cumulative adjustment (B)	0.07	0.07
All other	<u>0.23</u>	<u>0.31</u>
EPS - Diluted	<u>\$ 0.35</u>	<u>\$ 0.43</u>

(A) Covanta is a minority shareholder in the "Quezon Project Company" that owns the Quezon facility in the Philippines. In June 2006, the Philippine tax authorities issued a ruling clarifying the deductibility of unrealized foreign exchange losses to the Quezon Project Company. As a result, the Quezon Project Company recorded a deferred income tax benefit which increased Covanta's second quarter and year-to-date equity in net income from unconsolidated investments by \$7 million.

(B) During the quarter ended June 30, 2006, consistent with its strategy to pursue international investment opportunities, Covanta adopted the permanent reinvestment exception under APB 23 with respect to the earnings of its foreign subsidiaries. Pursuant to this election, Covanta now considers foreign earnings to be permanently reinvested and, as a result, Covanta recorded a catch-up, cumulative adjustment in the current quarter of \$10 million or 7 cents per diluted share to reflect the reversal of the deferred taxes that were accrued over the last two years prior to the election under APB 23.

Covanta Energy Corporation
Effect of Philippine Tax Ruling as Component of Adjusted EBITDA

Exhibit 6

	<u>Three Months Ended</u> <u>June 30, 2006</u>	<u>Six Months Ended</u> <u>June 30, 2006</u>
	(Unaudited, in thousands)	
Cumulative Effect of Philippine Tax Ruling (A)	\$ 7,037	\$ 7,037
All other	<u>158,277</u>	<u>269,953</u>
Adjusted EBITDA - Covanta Energy Corporation (B)	<u>\$ 165,314</u>	<u>\$ 276,990</u>

(A) Covanta is a minority shareholder in the "Quezon Project Company" that owns the Quezon facility in the Philippines. In June 2006, the Philippine tax authorities issued a ruling clarifying the deductibility of unrealized foreign exchange losses to the Quezon Project Company. As a result, the Quezon Project Company recorded a deferred income tax benefit which increased Covanta's second quarter and year-to-date equity in net income from unconsolidated investments by \$7 million.

(B) Adjusted EBITDA is provided for Covanta Energy Corporation ("Covanta Energy") as defined in Covanta Energy's financing arrangements. The corporate debt resides at Covanta Energy and, therefore, Covanta Holding Corporation ("Covanta") provides adjusted EBITDA at that level and not at the Covanta level which includes the insurance business.

Covanta uses adjusted EBITDA to assess its operating performance. Covanta believes this financial measure is helpful in assessing the overall performance of its business, and is helpful in highlighting trends in its overall business because the items excluded in calculating adjusted EBITDA have little or no bearing on its day-to-day operating performance. Adjusted EBITDA is also a significant criterion of performance-based components of employee compensation.

Adjusted EBITDA is an unaudited, non-GAAP financial measure, and is provided for information purposes only. Certain items are included in the table above that are not measured under GAAP and are not intended to supplant other information provided in accordance with GAAP. Furthermore, these measures may not be comparable to those used by other companies. The following information should be read in conjunction with the unaudited condensed consolidated financial statements of Covanta and the notes thereto as filed in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006.

Adjusted EBITDA, set forth above, is reconciled to net income, which is the most directly comparable GAAP performance measure.