

Covanta Holding Corporation
2006 Third Quarter
Prepared Remarks
October 31, 2006

OPERATOR

Good morning, everyone, and welcome to the Covanta Holding Corporation third 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 Gavin Bell, Vice President, Investor Relations. Please go ahead.

GAVIN BELL

Thank you and good morning. Welcome to Covanta Holding Corporation's third quarter 2006 conference call. Presenting on the call today will be Covanta's CEO and president, Tony Orlando; and our senior vice president and CFO, Mark Pytosh. They will provide an operational update, review our financial results and then take your questions.

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 exhibits to our earnings release and 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, Gavin. And thank you all for joining us today. I'd like to begin this morning by welcoming two new members to the Covanta team.

Mark Pytosh has joined the company as Chief Financial Officer. On September 1st Mark came to Covanta from Waste Services, a publicly-traded regional solid waste company, where he was CFO. Prior to his tenure with Waste Services, Mark spent almost 18 years in Investment Banking and brings a wealth of industry and transactional experience which I believe will be extremely valuable to Covanta and our shareowners.

We are also pleased that Gavin Bell has joined Covanta as Vice President of Investor Relations, bringing more than 15 years of IR experience, most recently as Vice President of Investor Relations for Engelhard Corporation and before that with The Coca-Cola Company for 10 years.

Mark, Gavin and I look forward to a consistent and ongoing dialogue with the investment community as Covanta continues to pursue our long-term strategic objectives.

Now turning to our quarterly results, I am pleased to report continued solid operating performance.

We are on track to safely convert 15 million tons of waste into clean renewable energy by the end of the year. That makes Covanta a leader in both waste disposal and renewable electricity production. In fact the plants we operate generate almost 10% of the nation's renewable electricity – that is enough electricity to power all the homes in a city as large as Philadelphia. With this substantial operating platform as our base, we continue executing our plan and posting strong financial results. Mark will review these results so I'll just provide a brief overview with my perspective of the macro drivers affecting our business:

- Operationally we are executing on all fronts -
 - We continue to receive prestigious awards for safety and environmental performance; in fact tomorrow we'll be raising the OSHA VPP star flag at our Onondaga New York facility.
 - Excellent environmental and safety performance leads directly to excellent customer service. The entire Covanta team remains committed to delivering to all of our clients outstanding and reliable service. It's our people that make the difference with their skill, consistent hard work and dedication to the communities they serve. I recognize their value and so do our clients. I'm sure this was a big factor in the recent decision by our Lancaster County Pennsylvania client to extend our Service Agreement until 2016.

And, finally

- It is because of our talented employees that plant production remains consistent and is in fact up slightly from last year.

- In addition to solid operating performance, favorable market conditions have also helped our revenue as well as our confidence:
 - Contractual service fees have escalated at a higher rate due to higher growth in the Consumer Price Index.
 - Scrap metal pricing continues to be strong, with pricing higher year over year.
 - Electricity prices are also up year over year. As we look to next year most of our electricity output is under contract at prices slightly higher than 2006.
 - More important than near term electricity pricing, however, is the mounting desire by policy makers in the U.S. and around the world to increase clean renewable energy production and to address climate change. As a world leader in generating renewable Energy from Waste, Covanta can help solve both of these complex challenges.

And that bodes well for our strategic growth plans which are focused on three key areas:

First we're looking to expand existing WTE plants and we continue to be confident the market will support several expansions. We've noted in the past that our Hillsborough County, Florida client wants to expand their plant and we have already signed a contract to help them achieve that goal. We continue to support our client with all the preparation work and still expect to begin construction work near the end of the year. We are also making progress on opportunities to expand company-owned plants.

Also domestically, we are seeking to grow our Northeast waste disposal network which includes the exploration of opportunities to add transfer stations and waste disposal capacity, which we would most likely accomplish via acquisition. In addition, we are looking forward to submitting an attractive final bid to New York City under their ongoing procurement. For those of you unfamiliar with this situation, this is an opportunity for a 20-year contract where Covanta is one of the final bidders still in the running for up to 6,000 tons per day. The City has asked for final proposals to be submitted in November. All along, our proposal to the City has been multifaceted, although one portion has received a fair amount of attention because of the public planning process. That is the 2,000 TPD unloading facility we proposed in Virginia. Some of you may have seen that proposed facility was voted down by the local city council last week. We were disappointed with the vote, but again, we have a number of other options that will enable us to submit a comprehensive and competitive final proposal which we hope the city will find compelling.

And the third prong of our growth initiative is to penetrate international markets ripe for waste to energy growth. We continue to see opportunities in Italy, the UK, and China. We already have a presence in China and Italy with our existing operations which will help us succeed in these markets. In order to establish a presence in the UK we recently opened an office in Birmingham, England, where we are building our staff in preparation for the many waste to energy bid opportunities we foresee in the coming years.

We are enthusiastic about our future given the long term market dynamics that favor renewable energy generation from waste. And we are making good progress, positioning Covanta to successfully execute our strategic growth initiatives which will enable us to drive shareowner value by utilizing our core strength in waste to energy.

Now, I'll turn it over to Mark to review the financial results.

MARK PYTOSH

Thanks, Tony, and good morning to everyone on the call.

First I'd like to say how pleased I am with my decision to join Tony and the team at Covanta. The underlying fundamentals of the business are strong and earnings and cash flows are solid and predictable. The company has a high-quality management team with customer service ingrained in the culture. I joined the Covanta team with a focus on helping the company execute its strategic growth plan. An important part of this plan will be to simplify and make more flexible the company's capital structure and I look forward to accomplishing that.

Now let me talk about the third quarter results.

Total operating revenues for the third quarter of 2006 grew 3% to \$311 million, net income was \$31 million, or 21 cents per diluted share and adjusted EBITDA rose 4% to \$147 million at Covanta Energy.

First, I'd like to review the

Domestic Waste and Energy Operations

Total Domestic waste and energy revenues for Q3 increased by \$14 million, or 5%.

- Of this total, Waste and Service revenues increased \$8 million, or 4.1% to a total of \$202 million;

Of the \$8 million increase:

- Revenues from service fee plants increased by \$1.6 million, which consisted of \$2.7 million primarily due to contractual escalations offset by a \$1.1 million decrease in debt service pass-through revenues.
- Revenues from tip fee plants increased by \$3.9 million, \$1.6 million of which was due to volume increase and a slight increase in our average tip fee. The remaining \$2.3 million increase relates to the addition of tip fee revenues from our Warren facility which was restructured as a tip fee deal in December 2005.
- Finally, favorable scrap metal markets drove other waste revenues up \$2.4 million.

On the energy side of the domestic business, revenues increased by \$5.7 million. \$4.1 million of this increase primarily related to higher energy rates and a slight increase in our energy output. The remainder came from the inclusion of the Warren facility.

- Other waste and energy service revenues increased by \$0.4 million.

- Domestic plant operating expenses increased 8% or \$11 million from the third quarter 2005 primarily due to normal

cost escalations such as wages and the inclusion of the Warren facility in the 2006 results.

- We had a benefit of \$2.6 million in the quarter in the Other Operating Expense line resulting from the resolution of two items related to the reorganization.

Now turning to:

International Waste and Energy Operations

- Total international revenues decreased by \$4.1 million from the third quarter of 2005 primarily due to \$3.1 million of revenue in the prior year related to a small facility in China, which was sold during the second quarter of 2006. The remaining decrease in revenues was a result of lower electricity production in the quarter at both Indian facilities.
- International plant operating expenses decreased by \$2.5 million primarily as a result the sale of the aforementioned Chinese facility.

General and administrative expenses for the entire company decreased slightly to approximately \$18.3 million in the third quarter of 2006 from

\$18.6 million in 2005. Synergies gained from the Ref-fuel acquisition were partially offset by wage escalations and higher development costs.

Interest expense decreased by \$3.7 million to \$27 million in the third quarter of 2006 primarily due to lower interest rates in our credit agreements that were amended in May 2006 and lower debt balances outstanding as compared to the third quarter of 2005.

There was a \$4.5 million decline in equity income due primarily to two tax items related to the Quezon Power facility in the Philippines. As anticipated, a \$1.8 million increase in tax expense resulted from the conclusion of a six-year income tax holiday that expired in May 2006. A further \$1.4 million increase in tax expense was due to an adjustment to the deferred tax asset due to strengthening of the Philippine Peso versus the US\$.

The effective income tax rate for the third quarter was 39%.

Earnings per diluted share were 21 cents in the third quarter. Excluding the after-tax unrealized gain on the ACL warrants in the third quarter of 2005, diluted EPS would have been 21 cents.

As of September 30, 2006, we had unrestricted cash of \$228 million, up from \$166 million as of June 30, 2006. Total corporate and intermediate HoldCo debt was \$1.28 billion, essentially flat with the amount outstanding as of June 30 while project debt declined during the quarter by \$30 million to \$1.50 billion. We also had restricted cash, primarily at the project level, of \$465 million, up from \$433 million as of June 30.

Capital expenditures were \$8.9 million in the quarter and \$35.7 million for the first nine months. For 2006 we are still comfortable that CapEx will be approximately \$50 million.

We are pleased with our strong performance through the first nine months of 2006, especially the fact that our adjusted EBITDA grew 13% to \$424 million at Covanta Energy, resulting from higher revenues, strong operating performance and the successful execution of cost reduction initiatives.

Based on our strong performance through the third quarter and our view of what lies ahead, we are reaffirming our guidance on three key metrics.

- Our guidance for Covanta Energy 2006 adjusted EBITDA remains within the range of \$535 to \$545 million. This includes the \$7 million deferred tax benefit in equity income in the 2nd quarter relating to the Quezon facility.
- We are also reaffirming our Covanta Energy Free Cash Flow guidance for 2006 of approximately \$235 million.

- And lastly, our guidance for diluted EPS is approximately 75 cents for 2006 which includes 12 cents in cumulative tax benefits relating to our international business.

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.

Closing after Q&A

Thanks again for joining us. I look forward to speaking with you again soon.