

**COVANTA HOLDING CORPORATION**  
**CORPORATE GOVERNANCE GUIDELINES**  
(As of February 2007)

**1. Director Qualifications**

The Board of Directors will, to the extent required by the listing requirements of the New York Stock Exchange, have a majority of Directors who meet the criteria for independence established by the New York Stock Exchange (“Independent Directors”). To be considered independent under the New York Stock Exchange standards, the Board of Directors must determine that a Director has no material relationship with the Company. The standards of the Board of Directors for this determination are set forth in Attachment A to these Corporate Governance Guidelines.

The Nominating and Governance Committee is responsible for reviewing with the Board of Directors, on an annual basis, the requisite skills and characteristics of new Board of Director members as well as the composition of the Board of Directors as a whole. This assessment will include members’ qualification as independent, as well as consideration of diversity, age, skills, experience in the context of the needs of the Board of Directors and ability to devote adequate time to Board of Directors duties in light of other current and planned commitments. Nominees for directorship will be recommended to the full Board of Directors by the Nominating and Governance Committee after selection by the Nominating and Governance Committee in accordance with the policies and principles in its charter, except as otherwise provided in such charter. After the Board of Directors has approved such a nomination, the invitation to join the Board of Directors should be extended on behalf of the Board of Directors by the Chairman of the Nominating and Governance Committee and the Chairman of the Board of Directors.

It is the sense of the Board of Directors that a size of between nine and eleven is appropriate. However, the Board of Directors would be willing to expand to a somewhat larger size under appropriate circumstances, including to accommodate the availability of an outstanding candidate.

It is the sense of the Board of Directors that individual Directors who change the responsibility they held when they were elected to the Board of Directors should volunteer to resign from the Board of Directors. It is not the sense of the Board of Directors that in every instance the Directors who retire or change from the position they held when they came on the Board of Directors should necessarily leave the Board of Directors. There should, however, be an opportunity for the Board of Directors through the Nominating and Governance Committee to review the continued appropriateness of Board of Directors membership under the circumstances.

It is the sense of the Board of Directors that in an uncontested election for the Board of Directors (i.e., an election where the only nominees are those recommended by the Board of Directors), any nominee for Director who receives a greater number of votes “withheld” from his or her election than votes “for” such election shall promptly tender his or her resignation to the

Board of Directors for consideration in accordance with the procedures described in the Majority Voting Policy as set forth in Attachment B to these Corporate Governance Guidelines.

Directors may serve on other public company boards unless the Board of Directors determines that such simultaneous service would impair the relevant individual's ability to effectively serve on the Board of Directors. Directors should advise the Chairman of the Board of Directors and the Chairman of the Nominating and Governance Committee in advance of accepting an invitation to serve on another public company board or any assignment to the audit committee or compensation committee of the board of any public company of which such Director is a member.

The Board of Directors does not believe it should establish term limits. While term limits could help insure that there are fresh ideas and viewpoints available to the Board of Directors, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Corporation and its operations and, therefore, provide an increasing contribution to the Board of Directors as a whole. As an alternative to term limits, the Nominating and Governance Committee will review each Director's continuation on the Board of Directors every three years. This will allow each Director the opportunity to conveniently confirm his or her desire to continue as a member of the Board of Directors.

## **2. Director Responsibilities**

The basic responsibility of the Directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Corporation. In determining what is in the best interests of the Corporation, a Director of the Corporation shall consider the interests of the shareholders of the Corporation and, in his or her discretion, may consider (i) the interests of the Corporation's employees, suppliers, creditors and customers, (ii) the economy of the nation, (iii) community and societal interests, and (iv) the long-term as well as short-term interests of the Corporation and its shareholders, including the possibility that these interests may be best served by the continued independence of the Corporation.

In discharging their responsibilities, Directors should be entitled to rely on the honesty and integrity of the Corporation's senior executives and the Corporation's outside advisors and auditors. The Directors shall also be entitled to (i) have the Corporation purchase reasonable directors' and officers' liability insurance on their behalf, (ii) the benefits of indemnification to the fullest extent permitted by law and the Corporation's charter, by-laws and any indemnification agreements and (iii) exculpation as provided by state law and the Corporation's charter.

Directors are expected to attend meetings of stockholders, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board of Directors' understanding of the business to be conducted at a Board of Directors or committee meeting should generally be distributed in writing to the Directors before the meeting, and Directors should review these materials in advance of the meeting.

The Board of Directors believes that the issue of whether or not there should be a separation of the offices of Chairman and the Chief Executive Officer is part of the succession planning process and that it is in the best interests of the Corporation for the Board of Directors to make a determination when it elects a new chief executive officer and consistent with its organizational documents.

The Chairman, in consultation with the Chief Executive Officer, will establish the agenda for each Board of Directors meeting. At the beginning of the year the Chairman will establish a schedule of agenda subjects to be discussed during the year (to the degree this can be foreseen). Each Board of Directors member is free to suggest the inclusion of items on the agenda. Each Board of Directors member is free to raise at any Board of Directors meeting subjects that are not on the agenda for that meeting. The Board of Directors will review the Corporation's long-term strategic plans and the principal issues that the Corporation will face in the future during at least one Board of Directors meeting each year.

The non-management Directors will meet in executive session at least quarterly, and, if any non-management Directors are not Independent Directors, at least one of those sessions shall include only Independent Directors. An Independent Director, to be chosen by the non-management Directors, must preside at these meetings, and his or her name or the procedure by which a presiding Director will be selected for each executive session will be disclosed in the annual proxy statement. The Board of Directors or the Corporation will establish methods by which interested parties may communicate directly and confidentially with the presiding Director or with the non-management Directors as a group and cause such methods to be disclosed.

The Board of Directors believes that management provides the public voice of the Corporation. Individual Board of Director members may, from time to time, meet or otherwise communicate with various outside constituencies that are involved with the Corporation. But it is expected that Board of Director members would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management.

Directors shall preserve the confidentiality of confidential material given or presented to the Board of Directors.

### **3. Board of Directors Committees**

The Board of Directors will have at all times an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. All of the members of these committees will, to the extent required by the listing requirements of the New York Stock Exchange, be Independent Directors under the criteria established by the New York Stock Exchange. Committee members will be appointed by the Board of Directors upon recommendation of the Nominating and Governance Committee with consideration of the desires of individual Directors. It is the sense of the Board of Directors that consideration should be given to rotating committee members periodically, but the Board of Directors does not feel that rotation should be mandated as a policy.

Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board of Directors. The charters will also provide that each committee will annually evaluate its performance.

The Chairman of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year (to the degree these can be foreseen). The schedule for each committee will be furnished to all Directors.

The Board of Directors and each committee have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Corporation in advance.

The Board of Directors may, from time to time, establish or maintain additional committees as necessary or appropriate.

#### **4. Director Access to Officers and Employees**

Directors have full and free access to officers and employees of the Corporation for purposes of discharging their responsibilities as Directors. Any meetings or contacts that a Director wishes to initiate may be arranged through the CEO or directly by the Director. The Directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Corporation and will, to the extent not inappropriate, copy the CEO on any written communications between a Director and an officer or employee of the Corporation.

The Board of Directors, when appropriate, welcomes regular attendance at each Board of Directors meeting of senior officers of the Corporation. If the CEO wishes to have additional Corporation personnel attendees on a regular basis, this suggestion should be brought to the Board of Directors for approval.

#### **5. Director Compensation**

The form and amount of Director compensation will be determined by the Compensation Committee in accordance with the policies and principles set forth in its charter, and the Compensation Committee will conduct an annual review of Director compensation. The Compensation Committee will consider that Directors' independence may be jeopardized if Director compensation and perquisites exceed customary levels, if the Corporation makes substantial charitable contributions to organizations with which a Director is affiliated, or if the Corporation enters into consulting contracts with (or provides other indirect forms of compensation to) a Director or an organization with which the Director is affiliated.

## **6. Director Orientation and Continuing Education**

The Board of Directors or the Corporation will establish appropriate orientation programs, sessions or materials for newly elected Directors of the Corporation for their benefit either prior to or within a reasonable period of time after their nomination or election as a Director, which programs, sessions or materials are intended to familiarize new Directors with the Corporation's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Policy of Business Conduct, its principal officers, and its internal and independent auditors. The Board of Directors or the Corporation will encourage, but not require, Directors to periodically pursue or obtain appropriate programs, sessions or materials as to the responsibilities of Directors of publicly-traded companies.

## **7. CEO Evaluation, Compensation, and Management Succession**

The Compensation Committee will conduct an annual review of the CEO's performance, as set forth in its charter. The Board of Directors will review the Compensation Committee's report in order to ensure that the CEO is providing the best leadership for the Corporation in the long-term and short-term.

The Nominating and Governance Committee should make an annual report to the Board of Directors on succession planning. The entire Board of Directors will work with the Nominating and Governance Committee to nominate and evaluate potential successors to the CEO. The CEO should at all times make available his or her recommendations and evaluations of potential successors, including in the event of an unexpected emergency, along with a review of any development plans recommended for such individuals.

## **8. CEO and Officer Compensation**

In accordance with the policies and principles set forth in the Compensation Committee's charter, the form and amount of the CEO's compensation will be determined by the Compensation Committee and the other officers' compensation will be recommended to the Board of Directors by the Compensation Committee. The Compensation Committee will conduct an annual review of such compensation.

## **9. Annual Performance Evaluation**

The Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Governance Committee will receive comments from all Directors and report annually to the Board of Directors with an assessment of the Board of Directors' performance. This will be discussed with the full Board of Directors following the end of each fiscal year. The assessment will focus on the Board of Directors' contribution to the Corporation and specifically focus on areas in which the Board of Directors or management believes that the Board of Directors could improve.

**10. Amendment, Modification and Waiver**

These Key Practices may be amended, modified or waived by the Board of Directors, subject to the applicable disclosure and other provisions of the Securities Exchange Act of 1934, the rules promulgated thereunder and the applicable rules of the New York Stock Exchange.

**11. Disclosure of Corporate Governance Key Practices**

These Key Practices will be made available on the Corporation's website at [www.covantaholding.com](http://www.covantaholding.com).

**ATTACHMENT A  
TO CORPORATE GOVERNANCE GUIDELINES**

**INDEPENDENCE STANDARDS**

**1. *New York Stock Exchange Standards of Independence***

A Director is considered independent under the New York Stock Exchange criteria if the Board of Directors finds that the Director has no material relationship with the Company. Under the New York Stock Exchange rules, a Director will not be considered independent if, within the past three years:

- the Director has been employed by the Company, either directly or through a personal or professional services agreement;
- an immediate family member of the Director was employed by the Company as an executive officer;
- the Director receives more than \$100,000 per year in direct compensation from the Company, other than for service as an interim chairman or CEO and other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- an immediate family member of the Director receives more than \$100,000 per year in direct compensation from the Company, other than for service as a non-executive employee and other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- the Director was affiliated with or employed by the Company's independent auditor;
- an immediate family member of the Director was affiliated with or employed in a professional capacity by the Company's independent auditor;
- a Company executive officer has served on the compensation committee of a company that, at the same time, employed the Director or an immediate family member of the Director as an executive officer; or
- the Director is employed, or the immediate family member of a Director is employed as an executive officer of another company and the annual payments to, or received from the Company exceed in any single fiscal year the greater of \$1 million or 2% of such other company's consolidated gross annual revenues.

## ***2. Categorical Standards of Independence***

The Board of Directors has established the following additional categorical standards of independence to assist it in making independence determinations:

*Business Relationships.* Any payments by the Company to a business employing, or 10% or more owned by, a Director or an immediate family member of a Director for goods or services, or other contractual arrangements, must be made in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons. The following relationships are not considered material relationships that would impair a Director's independence:

- if a Director (or an immediate family member of the Director) is an officer of another company that does business with the Company and the annual sales to, or purchases from the Company during such company's preceding fiscal year are less than 1% of the gross annual revenues of such company;
- if the Director (or an immediate family member of the Director) is an officer of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other is less than 1% of the total consolidated assets of such other company;
- if a Director is a partner of or of counsel to a law firm, the Director (or an immediate family member of the Director) does not personally perform any legal services for the Company, and the annual fees paid to the firm by the Company during such firm's preceding fiscal year do not exceed 2% of the firm's gross revenues for that firm's last full fiscal year;
- if a Director is a partner, officer or employee of an investment bank or consulting firm, the Director (or an immediate family member of the Director) does not personally perform any investment banking or consulting services for the Company, and the annual fees paid to the firm by the Company during such firm's preceding fiscal year do not exceed 2% of the investment banking or consulting firm's consolidated gross revenues for that firm's last full fiscal year.

*Charitable Relationships.* If a Director or immediate family member is a director or trustee of a charitable organization and the Company's discretionary charitable contributions to the organization are one percent or less of that organization's total charitable receipts during such organization's preceding fiscal year.

For relationships that exceed the thresholds set forth above, the determination of whether the relationship is material or not, and therefore whether the Director would be an Independent Director, shall be made by the Independent Directors. For example, if a Director is the CEO of a company that is indebted to the Company in excess of 1% of that company's total consolidated assets, the Independent Directors could determine, after considering all of the relevant circumstances, that such a relationship was immaterial, and that therefore the director would be an Independent Director.

For purposes of these standards, "the Company" shall mean Covanta Holding Corporation and its direct and indirect subsidiaries, and "immediate family member" shall have the meaning set forth in the New York Stock Exchange independence rules.

**ATTACHMENT B**  
**TO CORPORATE GOVERNANCE GUIDELINES**

**MAJORITY VOTING POLICY**

In an uncontested election (i.e., an election where the only nominees are those recommended by the Board of Directors), any nominee for Director who receives a greater number of votes “withheld” from his or her election than votes “for” such election (a “Majority Withheld Vote”) shall promptly tender his or her resignation to the Board of Directors for consideration in accordance with the procedures described below, following certification of the shareholder vote.

The Nominating and Governance Committee shall promptly consider the resignation offer and recommend to the Board of Directors action with respect to the tendered resignation, which may include accepting the resignation, maintaining the Director but addressing the underlying cause of the “withheld” votes, determining not to renominate the Director in the future, rejecting the resignation, or any other action such Committee deems to be appropriate and in the best interests of the Corporation. In considering what action to recommend with respect to the tendered resignation, the Nominating and Governance Committee will take into account all factors deemed relevant by the members of the Nominating and Governance Committee including, without limitation, any stated reasons why stockholders “withheld” votes for election from such Director, the length of service and qualifications of the Director whose resignation has been tendered, the overall composition of the Board of Directors, the Director’s contributions to the Corporation, the mix of skills and backgrounds on the Board of Directors, whether accepting the tendered resignation would cause the Corporation to fail to meet any applicable requirements of the Securities and Exchange Commission or the New York Stock Exchange, and these Corporate Governance Guidelines.

The Board of Directors will act on the Nominating and Governance Committee's recommendation no later than 90 days following certification of the stockholder vote. In considering the Nominating and Governance Committee’s recommendation, the Board of Directors will consider the factors and possible actions considered by the Nominating and Governance Committee and such additional information, factors and possible actions as the Board of Directors believes to be relevant or appropriate.

Following the Board of Director’s decision on the Nominating and Governance Committee’s recommendation, the Corporation will promptly disclose the Board’s decision with respect to the tendered resignation (providing a description of the process by which the decision was reached) in a Form 8-K filed with the Securities and Exchange Commission.

Except as indicated below, any Director who tenders his or her resignation pursuant to this provision shall not participate in the Nominating and Governance Committee recommendation or Board of Directors consideration regarding the action to be taken with respect to the tendered resignation. If any Director receiving a Majority Withheld Vote is a member of the Nominating and Governance Committee, at the same election, then if there are at least three independent Directors who are on the Board of Directors and who did not receive a

Majority Withheld Vote, such independent Directors, will appoint a Board committee amongst themselves solely for the purpose of considering the tendered resignation and will recommend to the Board of Directors action to be taken with respect to the tendered resignation. This Board committee may, but need not, consist of all of the independent Directors who did not receive a Majority Withheld Vote. If there are less than three independent Directors who did not receive a Majority Withheld Vote, then all Directors, whether or not independent, who did not receive a Majority Withheld Vote, will consider the tendered resignations and determine the action to be taken with respect to the tendered resignations.

To the extent that one or more Directors' resignations are accepted by the Board of Directors, the Nominating and Governance Committee will recommend to the Board of Directors whether to fill such vacancy or vacancies or to reduce the size of the Board of Directors.

This policy will be summarized or included in the Corporation's annual proxy statement relating to the election of Directors.