

| | Three Months Ended | |
|---|--|---------------------|
| | March 31, | |
| | 2007 | 2006 ^(A) |
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| Operating revenues | | |
| Waste and service revenues | \$ 198,911 | \$ 191,369 |
| Electricity and steam sales | 113,666 | 109,178 |
| Other operating revenues | 17,632 | 4,809 |
| Total operating revenues | <u>330,209</u> | <u>305,356</u> |
| Operating expenses | | |
| Plant operating expenses | 202,007 | 186,549 |
| Depreciation and amortization expense | 48,043 | 46,397 |
| Net interest expense on project debt | 14,605 | 15,998 |
| Write-down of assets ^(B) | 18,266 | - |
| Other operating expenses | 16,816 | 2,690 |
| General and administrative expenses | 22,192 | 18,204 |
| Total operating expenses | <u>321,929</u> | <u>269,838</u> |
| Operating income | <u>8,280</u> | <u>35,518</u> |
| Other income (expense) | | |
| Investment income | 5,184 | 2,403 |
| Interest expense | (21,260) | (28,483) |
| Loss on extinguishment of debt ^(C) | (32,006) | - |
| Total other expenses | <u>(48,082)</u> | <u>(26,080)</u> |
| (Loss) income before income tax benefit (expense), minority interests and equity in net income from unconsolidated investments | <u>(39,802)</u> | <u>9,438</u> |
| Income tax benefit (expense) | 18,176 | (4,263) |
| Minority interests | (1,398) | (600) |
| Equity in net income from unconsolidated investments | 5,106 | 6,843 |
| Net (Loss) Income | <u>\$ (17,918)</u> | <u>\$ 11,418</u> |
| (Loss) Earnings Per Share: | | |
| Basic | <u>\$ (0.12)</u> | <u>\$ 0.08</u> |
| Weighted Average Shares | <u>151,476</u> | <u>143,384</u> |
| Diluted | <u>\$ (0.12)</u> | <u>\$ 0.08</u> |
| Weighted Average Shares | <u>151,476</u> | <u>145,743</u> |

(A) Certain prior period amounts have been reclassified to conform to current period presentation.

(B) On March 31, 2007, the SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of the facility and operations at the facility were suspended completely for approximately 20 days. Partial operations have resumed, and full-scale operations are expected to resume during May 2007. As a result of this loss, Covanta Holding Corporation ("Covanta") recorded an asset impairment of \$18.3 million, pre-tax, in the first quarter of 2007, which represents a preliminary estimate of the net book value of the assets destroyed. Based upon additional investigation and analysis to be conducted, Covanta may increase the impairment recorded.

The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. Covanta cannot predict the timing of when proceeds under such policies will be received. As insurance proceeds are received, they will be recorded as a reduction to the loss related to the write-down of assets or a reduction to operating expenses. Covanta expects the cost of repair or replacement and business interruption losses not recovered, representing deductibles under such policies, will not be material.

(C) During January and February 2007, Covanta completed public offerings of common stock and 1.00% Senior Convertible Debentures, and Covanta Energy Corporation ("Covanta Energy") closed on new credit facilities. In addition, in February 2007, Covanta Energy completed tender offers for outstanding notes previously issued by its intermediate subsidiaries. As a result of the recapitalization plan in the first quarter of 2007, Covanta recognized a loss on extinguishment of debt charge of approximately \$32.0 million, pre-tax, which is comprised of the write-down of deferred financing costs, tender premiums paid for the intermediate subsidiary debt, and a call premium paid for a credit facility refinanced, which was in effect prior to Covanta Energy's new credit facilities. These amounts were partially offset by the write-down of unamortized premiums relating to the intermediate subsidiary debt and a gain associated with the settlement of interest rate swap agreements.

Covanta Holding Corporation
Reconciliation of Net (Loss) Income to Adjusted EBITDA

Exhibit 2

| | Three Months Ended | | Full Year |
|--|----------------------------------|-------------------|------------------------------|
| | March 31, | | |
| | 2007 | 2006 | Estimated 2007 |
| | (Unaudited, in thousands) | | |
| Net (Loss) Income - Covanta Holding Corporation | \$ (17,918) | \$ 11,418 | |
| Less: Net Income - All Other | 2,698 | 575 | |
| Net (Loss) Income - Covanta Energy Corporation | (20,616) | 10,843 | \$99,000 - \$114,000 |
| Depreciation and amortization expense | 48,032 | 46,380 | 193,000 |
| Debt service: | | | |
| Net interest expense on project debt | 14,605 | 15,998 | |
| Interest expense | 20,288 | 28,483 | |
| Investment income | (2,725) | (1,918) | |
| Subtotal debt service | 32,168 | 42,563 | 114,000 |
| Income tax expense | (16,825) | 3,922 | 61,000 - 69,000 |
| Other Adjustments: ^(A) | | | |
| Change in unbilled service receivables | 5,046 | 4,070 | |
| Non-cash compensation | 1,771 | 831 | |
| Other non-cash operating expenses | 1,832 | 1,868 | |
| Subtotal other adjustments | 8,649 | 6,769 | 38,000 - 35,000 |
| Write-down of assets ^(B) | 18,266 | - | |
| Loss on extinguishment of debt ^(C) | 32,006 | - | 32,000 |
| Minority interests | 1,716 | 830 | 8,000 |
| Total adjustments | 124,012 | 100,464 | |
| Adjusted EBITDA - Covanta Energy Corporation | \$ 103,396 | \$ 111,307 | \$545,000 - \$565,000 |

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

(B) On March 31, 2007, the SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of the facility and operations at the facility were suspended completely for approximately 20 days. Partial operations have resumed, and full-scale operations are expected to resume during May 2007. As a result of this loss, Covanta recorded an asset impairment of \$18.3 million, pre-tax, in the first quarter of 2007, which represents a preliminary estimate of the net book value of the assets destroyed. Based upon additional investigation and analysis to be conducted, Covanta may increase the impairment recorded.

The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. Covanta cannot predict the timing of when proceeds under such policies will be received. As insurance proceeds are received, they will be recorded as a reduction to the loss related to the write-down of assets or a reduction to operating expenses. Covanta expects the cost of repair or replacement and business interruption losses not recovered, representing deductibles under such policies, will not be material.

(C) During January and February 2007, Covanta completed public offerings of common stock and 1.00% Senior Convertible Debentures, and Covanta Energy closed on new credit facilities. In addition, in February 2007, Covanta Energy completed tender offers for outstanding notes previously issued by its intermediate subsidiaries. As a result of the recapitalization plan in the first quarter of 2007, Covanta recognized a loss on extinguishment of debt charge of approximately \$32.0 million, pre-tax, which is comprised of the write-down of deferred financing costs, tender premiums paid for the intermediate subsidiary debt, and a call premium paid for a credit facility refinanced, which was in effect prior to Covanta Energy's new credit facilities. These amounts were partially offset by the write-down of unamortized premiums relating to the intermediate subsidiary debt and a gain associated with the settlement of interest rate swap agreements.

Covanta Holding Corporation
Reconciliation of Cash Flow Provided by Operating Activities to Adjusted EBITDA

Exhibit 3

| | Three Months Ended | | Full Year Estimated 2007 |
|---|----------------------------------|--------------------------|-------------------------------------|
| | March 31, | | |
| | 2007 | 2006 | |
| | (Unaudited, in thousands) | | |
| Cash flow provided by operating activities - Covanta Energy Corporation | \$ 53,212 | \$ 40,444 | \$345,000 - \$375,000 |
| Debt Service | 32,168 | 42,563 | 114,000 |
| Amortization of debt premium and deferred financing costs | 3,253 | 5,258 | 14,000 |
| Other | <u>14,763</u> | <u>23,042</u> | <u>72,000 - 62,000</u> |
| Adjusted EBITDA - Covanta Energy Corporation | <u>\$ 103,396</u> | <u>\$ 111,307</u> | <u>\$545,000 - \$565,000</u> |

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

Exhibit 4

| | <u>Three Months Ended March 31,</u> | | <u>Full Year</u> |
|--|-------------------------------------|------------------|------------------------------|
| | <u>2007</u> | <u>2006</u> | <u>Estimated 2007</u> |
| | (Unaudited, in thousands) | | |
| Cash Flow Provided by Operating Activities | \$ 53,212 | \$ 40,444 | \$345,000 - \$375,000 |
| Less: Purchase of Property, Plant and Equipment ^(A) | <u>(18,871)</u> | <u>(18,021)</u> | <u>(55,000)</u> |
| Free Cash Flow ^(B) | <u>\$ 34,341</u> | <u>\$ 22,423</u> | <u>\$290,000 - \$320,000</u> |

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

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

Covanta Holding Corporation
Components of Diluted (Loss) Earnings Per Share

Exhibit 5

| | Three Months Ended March 31, | |
|---|-------------------------------------|----------------|
| | 2007 | 2006 |
| | (Unaudited) | |
| Write-down of assets, net of tax ^(A) | \$ (0.07) | \$ - |
| Loss on extinguishment of debt, net of tax ^(B) | (0.13) | - |
| All other | 0.08 | 0.08 |
| Diluted (Loss) Earnings Per Share | \$ (0.12) | \$ 0.08 |

(A) On March 31, 2007, the SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of the facility and operations at the facility were suspended completely for approximately 20 days. Partial operations have resumed, and full-scale operations are expected to resume during May 2007. As a result of this loss, Covanta recorded an asset impairment of \$18.3 million, pre-tax, in the first quarter of 2007, which represents a preliminary estimate of the net book value of the assets destroyed. Based upon additional investigation and analysis to be conducted, Covanta may increase the impairment recorded.

The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. Covanta cannot predict the timing of when proceeds under such policies will be received. As insurance proceeds are received, they will be recorded as a reduction to the loss related to the write-down of assets or a reduction to operating expenses. Covanta expects the cost of repair or replacement and business interruption losses not recovered, representing deductibles under such policies, will not be material.

(B) During January and February 2007, Covanta completed public offerings of common stock and 1.00% Senior Convertible Debentures, and Covanta Energy closed on new credit facilities. In addition, in February 2007, Covanta Energy completed tender offers for outstanding notes previously issued by its intermediate subsidiaries. As a result of the recapitalization plan in the first quarter of 2007, Covanta recognized a loss on extinguishment of debt charge of approximately \$32.0 million, pre-tax, which is comprised of the write-down of deferred financing costs, tender premiums paid for the intermediate subsidiary debt, and a call premium paid for a credit facility refinanced, which was in effect prior to Covanta Energy's new credit facilities. These amounts were partially offset by the write-down of unamortized premiums relating to the intermediate subsidiary debt and a gain associated with the settlement of interest rate swap agreements.

Discussion of Non-GAAP Financial Measures

To supplement Covanta's results prepared in accordance with United States generally accepted accounting principles ("GAAP"), Covanta uses the measures of Adjusted EBITDA and Free Cash Flow, which are non-GAAP measures as defined by the Securities and Exchange Commission. The presentation of such non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. In addition, these non-GAAP financial measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The non-GAAP financial measures described below, and used in the tables above, should not be considered in isolation from measures of financial performance or liquidity prepared in accordance with GAAP.

Covanta uses a number of different financial measures, both GAAP and non-GAAP, in assessing the overall performance of its business. Covanta uses the measures of Adjusted EBITDA and Free Cash Flow to provide further information that is useful to an understanding of Covanta Energy's financial covenants contained in credit facilities, and as additional ways of viewing aspects of its operations that, when viewed with the GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting Covanta's business. The presentation of Adjusted EBITDA and Free Cash Flow is intended to enhance the usefulness of Covanta's financial information by providing a measure which management internally uses to assess and evaluate the overall performance of its business and those of possible acquisition candidates, and highlight trends in the overall business. Covanta also uses each of these non-GAAP financial measures as a significant criterion of performance-based components of employee compensation. In addition, Covanta has historically reported these non-GAAP financial measures to the investment community and believes that continuing to provide these non-GAAP measures provides investors with a tool for comparing results over time.

Neither Adjusted EBITDA nor Free Cash Flow should be considered as an alternative to cash flow provided by operating activities or an alternative to net income as indicators of Covanta's performance or liquidity or any other measures of performance or liquidity derived in accordance with GAAP.

Adjusted EBITDA

The calculation of Adjusted EBITDA is based on the definitions in Covanta Energy's credit facilities. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income.

Under its credit facilities, Covanta Energy will be required to satisfy certain financial covenants, including certain ratios of which Adjusted EBITDA is an important component, commencing with the quarter ending June 30, 2007. Compliance with such financial covenants is expected to be the principal limiting factor which will affect Covanta Energy's ability to engage in a broad range of activities in furtherance of its business, including making certain investments, acquiring businesses and incurring additional debt. Failure to comply with such financial covenants could result in a default under Covanta Energy's credit facilities, which default would have a material adverse affect on Covanta's financial condition and liquidity. These financial covenants are measured on a trailing four quarter period basis and are as follows:

- maximum Covanta Energy leverage ratio of 4.50 to 1.00 (which declines in future periods), which measures Covanta Energy's principal amount of consolidated debt less certain restricted

funds dedicated to repayment of project debt principal and construction costs ("Consolidated Adjusted Debt") to its Adjusted EBITDA;

- maximum Covanta Energy capital expenditures of \$100 million; and
- minimum Covanta Energy interest coverage ratio of 3.00 to 1.00, which measures Covanta Energy's Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy.

In order to provide a meaningful basis for comparison, Covanta is providing information with respect to Covanta Energy's Adjusted EBITDA for the three months ended March 31, 2007 and 2006, reconciled for each such period to net income and cash flow provided by operating activities, which are believed to be the most directly comparable measures under GAAP. Covanta is providing similar reconciliations with respect to its guidance for full year 2007 Adjusted EBITDA.

Free Cash Flow

Free Cash Flow is defined as cash flow provided by operating activities, less purchases of property, plant and equipment.

Free Cash Flow is used by management as an alternative measure of cash flow available for the repayment of debt and for investments and strategic opportunities. Free Cash Flow is reconciled to cash provided by operating activities, the most directly comparable measure under GAAP. Covanta is providing similar reconciliations with respect to its guidance for full year 2007 Free Cash Flow.