WASTE AND ENERGY SERVICES BUSINESS

Our strategic acquisitions of Covanta Energy and ARC Holdings have made us a leader in the waste and energy services markets.

We acquired Covanta Energy in connection with Covanta Energy's emergence from Chapter 11 proceedings. On March 5, 2004, the Bankruptcy Court confirmed Covanta Energy's proposed plans of reorganization and on March 10, 2004, we acquired 100% of Covanta Energy's equity for approximately $30 million. We acquired ARC Holdings on June 24, 2005 by purchasing 100% of the issued and outstanding shares of ARC Holdings' capital stock. We paid approximately $747 million in cash and transaction costs and assumed ARC Holdings' consolidated net debt of $1.3 billion at June 24, 2005 ($1.5 billion of consolidated indebtedness net of $0.2 billion of cash and restricted funds held in trust). We financed both acquisitions through a combination of debt and equity financings. The equity component of each financing was effected through rights offerings to our shareholders.

See Note 3. Acquisitions and Dispositions of the Notes for a detailed description of the financings associated with these acquisitions.

Energy-From-Waste Projects

The fundamental purpose of our energy-from-waste projects is to provide waste disposal services, typically to municipal clients who sponsor the projects. The electricity or steam generated is generally sold to local utilities or industrial customers, and most of the resulting revenues reduce the overall cost of waste disposal services to the municipal clients. These projects are capable of providing waste disposal services and generating electricity or steam, if properly operated and maintained, for several decades. Generally, we provide these waste disposal services and sell the electricity and steam generated under long-term contracts, which expire on various dates between 2008 and 2028. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

We receive revenue in the form of fees pursuant to the service or waste contracts, and in some cases, energy purchase agreements, at facilities we own or operate. TransRiver, one of our subsidiaries, markets waste disposal services to third parties predominantly to efficiently utilize that portion of the waste disposal capacity of our energy-from-waste projects which is not dedicated to municipal clients.

We currently operate energy-from-waste projects in 15 states, identified below under *"Domestic Project Summaries."* Most of our operating energy-from-waste projects were developed and structured contractually as part of competitive procurement processes conducted by municipal entities. As a result, many of these projects have common features. However, each service agreement is different to reflect the specific needs and concerns of a client community, applicable regulatory requirements and other factors. The following describes features generally common to these agreements, as well as important distinctions among them:

- We design the facility, help to arrange for financing and then we either construct and equip the facility on a fixed price and schedule basis, or we undertake an alternative role, such as construction management, if that better meets the goals of our municipal client.
- Financing for the domestic energy-from-waste projects we own is generally accomplished through tax-exempt and taxable revenue bonds issued by or on behalf of the client community. For these facilities, the bond issuer loans the bond proceeds to us to pay for facility construction and to fund a debt service reserve for the project, which is generally sufficient to pay principal and interest for one year. Project-related debt is included as "project debt" and the debt service reserves are included as "restricted funds held in trust" in our consolidated financial statements. Generally, project debt is secured by the revenues pledged under the respective indentures and is collateralized by the facility and the contracts and other assets of our project subsidiary.

OH Sub No. 51A

Recd From: Mr Maurice Bryan

- Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating projects or for processing waste received, and payments we receive for electricity and/or steam we sell. We have 23 energy-from-waste projects at which we receive a fixed fee (which escalates over time pursuant to contractual indices) which we refer to as having a "Service Fee" structure. We also have 8 energy-from-waste projects at which we receive a per-ton fee under contracts for processing waste, which we refer to as having a "Tip Fee" structure. At our Tip Fee projects, we contract on both a long-term and short-term basis to utilize project disposal capacity, and as such we have a greater exposure to waste market price fluctuation, as well as a greater exposure to project operating disruptions that may cause us to reduce waste acceptance.
- At projects we own where a Service Fee structure exists, a portion of the revenue we receive represents payments by the client community of debt service on project debt, which we pass along to a bond trustee for payment to bondholders of principal and interest when due. We record, as income on our consolidated financial statements, the portion of these payments representing principal on our project debt. These payments will continue until cash in project debt service reserves is sufficient to pay all remaining debt service payments.
- We generally sell the output from our projects pursuant to long-term contracts to local utilities. Where a Service Fee structure exists, our client community usually retains a portion (generally 90%) of the energy revenues generated and pays the balance to us. Where Tip Fee structures exist, we retain 100% of the energy revenues. At three of our projects, we sell energy output under short-term contracts or on a spot-basis into the regional electricity grid. At our Tip Fee projects, we generally have a greater exposure to energy market price fluctuation, as well as a greater exposure to project operating performance.
- We agree to operate the facility and meet minimum waste processing capacity and efficiency standards, energy production levels and environmental standards. Failure to meet these requirements or satisfy the other material terms of our agreement (unless the failure is caused by our client community or by events beyond our control), may result in liquidated damages charged to us or, if the breach is substantial, continuing and unremedied, termination of the applicable agreement. In the case of such a termination, we may owe material damages, including amounts necessary to discharge project indebtedness. At three publicly-owned facilities we operate, our client community may terminate the operating contract under limited circumstances but without cause.
- The client community generally must deliver minimum quantities of municipal solid waste to the facility on a put-or-pay basis and is obligated to pay a fee for its disposal. A put-or-pay commitment means that the client community promises to deliver a stated quantity of waste and pay an agreed amount for its disposal. Even if the client community delivers less than the full amount of waste promised, it must pay the contractual fee. Where a Service Fee structure exists, portions of the service fee escalate to reflect indices for inflation. In many cases the client community must also pay for other costs, such as insurance, taxes, and transportation and disposal of the ash residue to the disposal site. Generally, expenses resulting from the delivery of unacceptable and hazardous waste on the site are also borne by the client community. In addition, the contracts generally require the client community to pay increased expenses and capital costs resulting from unforeseen circumstances, subject to specified limits.
- Covanta Energy and certain of its subsidiaries have issued performance guarantees to our client communities and, in some cases other parties, which guarantee that our operating subsidiaries will perform in accordance with contractual terms including, where required, the payment of damages. Such contractual damages could be material, and in circumstances where one or more subsidiary's contract has been terminated for its default, such damages could include amounts sufficient to repay project debt. For facilities owned by client communities and operated by our subsidiaries, Covanta Energy's potential maximum liability as of December 31, 2006 associated with the repayment of project debt on such facilities was approximately $1 billion in aggregate. If Covanta Energy must perform under one or more of such guarantees, its liability for damages upon contract termination would be reduced by funds held in trust and proceeds from sales of the facilities securing the project debt and is presently not estimable. To date, Covanta Energy has not incurred material liabilities under such performance guarantees.

Our service and waste disposal agreements, as well as our energy contracts, expire at various times. The extent to which any such expiration will affect us will depend upon a variety of factors, including whether we own the project, market conditions then prevailing, and whether the municipal client exercises options it may have to extend the contract term. As our contracts expire we will become subject to greater market risk in maintaining and enhancing our revenues. As service agreements at municipally-owned facilities expire, we intend to seek to enter into renewal or replacement contracts to operate such facilities. We also will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. As our service and waste disposal agreements at facilities we own or lease begin to expire, we intend to seek replacement or additional contracts, and because project debt on these facilities will be paid off at such time, we expect to be able to offer rates that will attract sufficient quantities of waste while providing acceptable revenues to us. At facilities we own, the expiration of existing energy contracts will require us to sell our output either into the local electricity grid at prevailing rates or pursuant to new contracts. We cannot provide assurance that we will be able to enter into such renewals, replacement or additional contracts, or that the terms available in the market at the time will be favorable.

To date, we have been successful in extending our existing contracts to operate energy-from-waste facilities owned by municipal clients where market conditions and other factors make it attractive for both us and our municipal clients to do so. We have entered into extensions both in the context of expansions of facilities (see discussion below regarding our Lee County, Florida and Hillsborough County, Florida projects), or other negotiated extensions such as at our Lancaster County, Pennsylvania and Hennepin County, Minnesota projects. The extent to which additional extensions will be attractive to us and to our municipal clients who own their projects will depend upon the market and other factors noted above. However, we do not believe that either our success or lack of success in entering into additional negotiated extensions to operate such facilities will have a material impact on our cash flow and profitability. See *Item 1A. Risk Factors — Covanta Energy may face increased risk of market influences on its domestic revenues after its contracts expire.*

Other Waste-Related Businesses

TransRiver provides waste procurement services to our waste disposal and transfer facilities which have available capacity to receive waste. In doing so, TransRiver seeks to maximize our revenue, and ensures that our facilities are being utilized most efficiently, taking into account maintenance schedules and operating restrictions that may exist from time to time at each facility. TransRiver also provides management and marketing of ferrous and non-ferrous metals recovered from energy-from-waste operations, as well as services related to non-hazardous special waste destruction and residue management for our energy-from-waste projects.

Our waste-related business also includes the operations of five transfer stations and two landfills in the northeast United States, which we utilize to supplement and manage more efficiently the fuel and ash disposal requirements at our energy-from-waste operations.

Renewable Energy Projects

We also engage domestically in developing, owning and/or operating renewable energy production facilities utilizing a variety of energy sources including water (hydroelectric), waste wood (biomass) and landfill gas. We sell the electrical output from each facility, with one exception, to local utilities. We derive our revenues from the renewable energy production facilities primarily from the sale of energy and capacity under energy contracts. The facilities and locations are identified below under *"Domestic Project Summaries."*

Hydroelectric

We own a 50% equity interest in two run-of-river hydroelectric facilities which have a combined gross generating capacity of 17 megawatts ("MW"). Both facilities are located in the State of Washington and both sell energy and capacity to Puget Sound Energy under long-term energy contracts. We provide operation and maintenance services at one of the facilities under a cost plus fixed-fee agreement.

Waste Wood

We own three wood-fired generation facilities and a 50% interest in a partnership which owns a fourth wood-fired generation facility, all of which are located in northern California. Fuel for the facilities is procured from local sources, primarily through short-term supply agreements. The price of the fuel varies depending on the time of the year, supply and price of energy. These projects have a combined gross generating capacity of 67.1 MW and sell energy and capacity to Pacific Gas & Electric Company under energy contracts that expire between 2015 and 2017.

Landfill Gas

We own and operate four landfill gas projects located in California which produce electricity by burning methane gas produced in landfills. One of these projects, located in San Diego, was expanded in 2006, doubling its capacity. A fifth landfill gas project located in California and a sixth landfill gas project located in Maryland were closed in 2006. The four remaining projects have a total gross generating capacity of 15.3 MW and sell energy to various California utilities. Upon the expiration of the energy contracts, we expect that these projects will enter into new power off-take arrangements or will be shut down.

Water Project

We designed, built and now operate and maintain a 24 million gallon per day ("mgd") potable water treatment facility and associated transmission and pumping equipment in Alabama. Under a long-term contract with a public utility authority, we receive a fixed-fee plus pass-through costs for delivering processed water to a municipal water distribution system.

Domestic Project Summaries

Summary information with respect to our domestic projects that are currently operating is provided in the following table:

			Design Capacity			Contract Expiration Dates	
		Location	Waste Disposal (TPD)	Gross Electric (MW)	Nature of Interest	Service/ Waste Disposal	Energy
A.	**ENERGY-FROM-WASTE**						
	TIP FEE STRUCTURES						
1.	Alexandria/Arlington	Virginia	975	22.0	Owner/Operator	2013	2023
2.	Delaware Valley	Pennsylvania	2,688	87.0	Lessee/Operator	2017	2016
3.	Haverhill	Massachusetts	1,650	44.6	Owner/Operator	N/A	2019
4.	Hempstead	New York	2,671	75.0	Owner/Operator	2009	2009
5.	Niagara(1)	New York	2,250	50.0	Owner/Operator	N/A	2014
6.	Southeast Massachusetts(2)	Massachusetts	2,700	78.0	Owner/Operator	N/A	2015
7.	Union County	New Jersey	1,440	42.1	Lessee/Operator	2023	N/A
8.	Warren County	New Jersey	400	11.8	Owner/Operator	N/A	2013
	SERVICE FEE STRUCTURES						
9.	Babylon	New York	750	16.8	Owner/Operator	2019	2019
10.	Bristol	Connecticut	650	16.3	Owner/Operator	2014	2014
11.	Detroit(1)(2)(3)	Michigan	2,832	68.0	Lessee/Operator	2009	2008
12.	Essex County	New Jersey	2,700	64.0	Owner/Operator	2020	2021
13.	Fairfax County	Virginia	3,000	93.0	Owner/Operator	2011	2015
14.	Hartford(2)(4)	Connecticut	2,000	68.5	Operator	2012	2012
15.	Hennepin County	Minnesota	1,212	38.7	Operator	2018	2018
16.	Hillsborough County(5)	Florida	1,800	46.5	Operator	2027	2010

international projects, particularly energy-from-waste projects where the regulatory or market environment is attractive. For information related to the revenues and identifiable assets of the international business, see Note 27. Business Segments of the Notes.

The ownership and operation of facilities in foreign countries entails significant political and financial uncertainties that typically are not encountered in such activities in the United States as described in *Item 1A. Risk Factors — Exposure to international economic and political factors may materially and adversely affect our international businesses.* 9

Many of the countries in which we currently operate are lesser developed countries or developing countries where the political, social and economic conditions are typically less stable than in the United States. The financial condition and creditworthiness of the potential purchasers of power and services we provide or of the suppliers of fuel for projects in these countries may not be as strong as those of similar entities in developed countries. The obligations of the purchasers under our energy contracts, the service recipients under our related service agreements and the suppliers under our fuel supply agreements generally are not guaranteed by any host country or other creditworthy governmental agency. When a project is developed, we undertake a credit analysis of the proposed power purchaser or fuel supplier and to the extent appropriate and achievable within the commercial parameters of a project, require such entities to provide financial instruments, such as letters of credit or arrangements regarding the escrowing of receivables.

We have typically sought to negotiate long-term contracts for the supply of fuel with creditworthy and reliable suppliers. However, the reliability of fuel deliveries may be compromised by one or more of several factors that may be more acute or may occur more frequently in developing countries than in developed countries, including a lack of sufficient infrastructure to support deliveries under all circumstances; bureaucratic delays in the import, transportation and storage of fuel in the host country; customs and tariff disputes; and local or regional unrest or political instability. In most of the foreign projects in which we participate, we have sought, to the extent practicable, to shift the consequences of interruptions in the delivery of fuel (whether due to the fault of the fuel supplier or due to reasons beyond the fuel supplier's control) to the electricity purchaser or service recipient by securing a suspension of the project's operating responsibilities under the applicable agreements and an extension of our operating concession under such agreements. In some instances, we require the energy purchaser or service recipient to continue to make payments of fixed costs if such interruptions occur. In order to mitigate the effect of short-term interruptions in the supply of fuel, we have also endeavored to provide on-site storage of fuel in sufficient quantities to address such interruptions. 10

Payment for services that we provide will often be made in whole or in part in the domestic currencies of the host countries. Local governments generally do not assure conversion of such currencies into U.S. dollars, which may be subject to limitations in the currency markets, as well as restrictions of the host country. In addition, fluctuations in the value of such currencies against the value of the U.S. dollar may cause our participation in such projects to yield less return than expected. Transfer of earnings, capital and profits in any form beyond the borders of the host country may be subject to special taxes or limitations imposed by host country laws. We have sought to participate in projects where the host country has allowed the convertibility of its currency into U.S. dollars and repatriation of earnings, capital and profits subject to compliance with local regulatory requirements. In most cases, components of project costs incurred or funded in U.S. dollars are recovered without risk of currency fluctuation through negotiated contractual adjustments to the price charged for electricity or service provided. This contractual structure may cause the cost in local currency to the project's power purchaser or service recipient to rise from time to time in excess of local inflation, and consequently there is risk in such situations that such power purchaser or service recipient will, at least in the near-term, be less able or willing to pay for the project's power or service.

We have sought to manage and mitigate these risks through all appropriate means, including: political and financial analysis of the host countries and the key participants in each project; guarantees of relevant agreements with creditworthy entities; political risk and other forms of insurance; participation by United States and/or international development finance institutions in the financing of projects; and joint ventures with other companies to pursue the development, financing and construction of these projects. We determine which mitigation measures to apply based on our ability to balance the risks presented, the availability of such measures and their cost. 11

31/8/2007

"**Project Agreement Event of Default**" means either an Authority Default or a PPP Co Default pursuant to schedule 25 of the Project Agreement;

"**Receivables**" means all book and other debts of any nature ongoing or payable to the Borrower and all other rights to receive money, at the time of the Debenture or in the future due, owing or payable to it and the benefit of all related negotiable rights, security, guarantees and indemnities of any kind;

"**Receiver**" shall mean any one or more receivers, administrative receivers and/or managers appointed in respect of the Borrower (whether appointed pursuant to this Deed, pursuant to any statute, by a court or otherwise);

"**Related Company**" means a company which is related within the meaning of Section 4(5) of the CA;

"**Relevant Facility Agreement**" means (a) (during the Development Period), the Development Funding Facility Agreements, (b) (prior to the Construction Funding Facility Discharge Date), the Construction Funding Facility Agreement and (c) (prior to the Long Term Funding Facility Discharge Date), the Long Term Funding Facility Agreement;

"**Retention Bonds**" means all bonds from time to time issued to the Borrower by the Contractor to secure the release of amounts retained from payments under the Construction Contract;

"**Secured Obligations**" means all moneys, obligations and liabilities covenanted in the Debenture to be paid or discharged by the Borrower;

"**Secured Parties**" means the Facility Agent, the Security Trustee and the Lenders, and the expression and "Secured Party" means any one or more of them;

"**Security Interest**" includes, without limitation, any mortgage, trust, pledge, charge, lien, hypothecation, encumbrance or other security interest;

"**Shares**" means the shares of any class held, either directly or indirectly, by the Borrower from time to time in any Subsidiary or in any other company;

"**this Deed**" means this Debenture; and

SCHEDULE 1

Part A - Property

The Site;
The Shellybanks Site; and
The Ancillary Site
as defined in parts 1 and 2 of the Project Agreement

3

Part B - Assigned Contracts

1. The Project Agreement
2. Engineering, Procurement and Construction Contract made between the Borrower and Covanta Europe Engineering Limited ("EPC Contractor")
3. Any guarantee issued in support of the contract described in paragraph 2 above
4. Operation and Maintenance Agreement made between the Borrower and Covanta Europe Engineering Limited and Covanta Europe Operations Limited ("O&M Contractor")

4

5. Any guarantee issued in support of the contract described in paragraph 4 above

6. Subscription Agreement made between the Borrower, Dublin Waste to Energy (Holdings) Limited, DONG Energy Generation A/S and Covanta Energy (Ireland) Limited;

7. Interface Agreement between EPC Contractor, O&M Contractor and the Borrower;

8. Exterior Architectural Sub-Contract between PPP Co and Architect

9. Custody Agreement between PPP Co, the Custody Holder (named therein) and the Authority

10. Covanta Development Loan Agreement between PPP Co and Covanta Europe Holdings S.à.r.l.

11. DONG Development Loan Agreement between PPP Co and DONG Energy Generation A/S

12. Construction Funding Facility Agreement between PPP Co as borrower, DONG Generation and Covanta Europe Holdings S.à.r.l. as lenders, Covanta Ireland as Facility Agent and Covanta Energy (Ireland) Limited as Security Trustee

13. Long Term Funding Facility Agreement between PPP Co as borrower, DONG Energy DONG Generation and Covanta Europe Holdings S.à.r.l. as lenders, Covanta Energy (Ireland) Limited as Facility Agent and Security Trustee.

14. Long Term Funding Facility Agreement between the Borrower, DONG Energy DONG Generation A/S and Covanta Europe Holdings S.à.r.l. as lenders, Covanta Energy (Ireland) Limited as Facility Agent Security Trustee.

15. Project Supervisor for Design Process Appointment between EPC Contractor and PPP Co.