COVANTA HOLDING CORPORATION

For the three months ended March 31, 2022

FINANCIAL STATEMENTS AND NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions)	Successor Three Months Ended March 31, 2022	Predecessor Three Months Ended March 31, 2021
OPERATING REVENUE:		
Waste revenue	$ 365	$ 343
Energy revenue	137	104
Materials sales revenue	38	36
Services revenue	11	15
Total operating revenue	551	498
OPERATING EXPENSE:		
Cost of operations	423	398
Other operating expense (income), net	6	(4)
General and administrative expense	33	33
Depreciation and amortization expense, net	134	57
Total operating expense	596	484
Operating (loss) income	(45)	14
OTHER EXPENSE:		
Interest expense, net	(38)	(31)
Loss on extinguishment of debt	(2)	—
Other expense	(1)	—
Total other expense	(41)	(31)
Loss before income tax benefit and equity in net income from unconsolidated investments	(86)	(17)
Income tax (expense) benefit	(5)	18
Equity in net income from unconsolidated investments	6	1
NET (LOSS) INCOME	$ (85)	$ 2

The accompanying notes are an integral part of the condensed consolidated financial statements.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

(In millions)	Successor Three Months Ended March 31, 2022	Predecessor Three Months Ended March 31, 2021
Net (loss) income	$ (85)	$ 2
Foreign currency translation	(8)	(10)
Net unrealized loss on derivative instruments, net of tax benefit of $63 and $3, respectively	(78)	(2)
Other comprehensive loss	(86)	(12)
Comprehensive loss	$ (171)	$ (10)

The accompanying notes are an integral part of the condensed consolidated financial statements.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions)	Successor March 31, 2022	Successor December 31, 2021
ASSETS		
Current:		
Cash and cash equivalents	$ 65	$ 42
Restricted funds held in trust	27	119
Receivables (less allowances of $7 and $7, respectively)	266	280
Prepaid expenses and other current assets	82	89
Total Current Assets	440	530
Property, plant and equipment, net	2,532	2,561
Restricted funds held in trust	110	116
Intangible assets, net	30	30
Goodwill	2,501	2,566
Other assets	794	705
Total Assets	$ 6,407	$ 6,508
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$ 108	$ 128
Current portion of project debt	9	9
Accounts payable	80	66
Accrued expenses and other current liabilities	385	341
Total Current Liabilities	582	544
Long-term debt	3,137	3,116
Project debt	105	106
Deferred income taxes	316	342
Other liabilities	212	174
Total Liabilities	4,352	4,282
Commitments and Contingencies (Note 12)		
Equity:		
Additional paid-in capital	2,277	2,277
Accumulated other comprehensive (loss) income	(72)	14
Accumulated deficit	(150)	(65)
Total Equity	2,055	2,226
Total Liabilities and Equity	$ 6,407	$ 6,508

The accompanying notes are an integral part of the condensed consolidated financial statements.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

(In millions)	Successor Three Months Ended March 31, 2022	Predecessor Three Months Ended March 31, 2021
OPERATING ACTIVITIES:		
Net (loss) income	$ (85)	$ 2
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	134	57
Amortization of deferred debt financing costs	2	1
Loss on extinguishment of debt	2	—
Stock-based compensation expense	—	9
Equity in net income from unconsolidated investments	(6)	(1)
Deferred income taxes	4	(20)
Other, net	(13)	(3)
Changes in working capital	8	7
Net cash provided by operating activities	46	52
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(38)	(43)
Investment in equity affiliates	(77)	(1)
Other, net	10	(1)
Net cash used in investing activities	(105)	(45)
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	470	—
Proceeds from borrowings on revolving credit facility	190	97
Payments on long-term debt	(424)	(5)
Payments on revolving credit facility	(236)	(69)
Payments on project debt	(2)	(1)
Payment of deferred financing costs	(5)	—
Cash dividends paid to stockholders	—	(11)
Payments of insurance premium financing	(10)	(9)
Other, net	2	(8)
Net cash used in financing activities	(15)	(6)
Effect of exchange rate changes on cash, cash equivalents and restricted funds	(1)	(1)
Net decrease in cash, cash equivalents and restricted funds	(75)	—
Cash, cash equivalents and restricted funds at beginning of period	277	72
Cash, cash equivalents and restricted funds at end of period	$ 202	$ 72
Reconciliation of cash, cash equivalents and restricted funds:		
Cash and cash equivalents	$ 65	$ 56
Restricted funds held in trust - short term	27	10
Restricted funds held in trust - long term	110	6
Total cash, cash equivalents and restricted funds	$ 202	$ 72

The accompanying notes are an integral part of the condensed consolidated financial statements.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit) Earnings	Treasury Stock Shares	Treasury Stock Amount	Total
				Successor				
Balance as of December 31, 2021 (Successor)	**—**	**$ —**	**$ 2,277**	**$ 14**	**$ (65)**	**—**	**$ —**	**$ 2,226**
Comprehensive loss, net of income taxes	—	—	—	(86)	(85)	—	—	(171)
Balance as of March 31, 2022 (Successor)	**—**	**$ —**	**$ 2,277**	**$ (72)**	**$ (150)**	**—**	**$ —**	**$ 2,055**
				Predecessor				
Balance as of December 31, 2020 (Predecessor)	**136**	**$ 14**	**$ 882**	**$ (32)**	**$ (554)**	**4**	**$ —**	**$ 310**
Stock-based compensation expense	—	—	9	—	—	—	—	9
Dividend declared	—	—	—	—	(11)	—	—	(11)
Shares issued in non-vested stock award	—	—	—	—	—	(1)	—	—
Shares repurchased for tax withholdings for vested stock awards	—	—	(8)	—	—	—	—	(8)
Comprehensive (loss) income, net of income taxes	—	—	—	(12)	2	—	—	(10)
Balance as of March 31, 2021 (Predecessor)	**136**	**$ 14**	**$ 883**	**$ (44)**	**$ (563)**	**3**	**$ —**	**$ 290**

The accompanying notes are an integral part of the condensed consolidated financial statements.

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

The terms “we,” “our,” “ours,” “us”, "Covanta" and “Company” refer to Covanta Holding Corporation and its subsidiaries.

Organization

Covanta is a leader in sustainable materials management providing environmental solutions to businesses and communities across North America. Through its network of facilities and state-of-the-art services, Covanta is a single-source partner in solving today's most complex environmental challenges.

On November 30, 2021, EQT acquired all of the shares of Covanta’s common stock for $20.25 per share (the "Merger"). For additional information, see *Notes to Consolidated Financial Statements — Note 3. Merger Agreement* in our 2021 Annual Report.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with United States ("U.S.") Generally Accepted Accounting Principles (“GAAP”). Accordingly, they do not include all information and notes thereto required by GAAP for complete condensed consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in our condensed consolidated financial statements. All intercompany accounts and transactions have been eliminated. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. The condensed consolidated balance sheet at December 31, 2021 was derived from annual consolidated financial statements, but does not contain all of the notes thereto from the annual consolidated financial statements. This report for three months ended March 31, 2022 should be read in conjunction with the Consolidated Financial Statements and accompanying notes in our 2021 Annual Report.

Predecessor

The period from January 1, 2021 through March 31, 2021 reflects the historical results of Covanta that existed prior to the Merger. For additional information, see *Notes to Consolidated Financial Statements — Note 3. Merger Agreement* in our 2021 Annual Report. These periods are referred to as the period from January 1, 2021 through March 31, 2021 and the three months ended March 31, 2021 (“Predecessor”).

Successor

The three months ended March 31, 2022 is referred to as (“Successor”). The Successor period reflects the financial statements of Covanta with the assets and liabilities adjusted to fair value on the closing date of the Merger.

Due to the application of acquisition accounting and the conforming of significant accounting policies, the results of operations, cash flows, and other financial information for the Successor period are not comparable to the Predecessor period.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

The following table summarizes recent Accounting Standards Update ("ASU") issued by the Financial Accounting Standards Board ("FASB") that could have a material impact on our condensed consolidated financial statements.

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2020-04 Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* as amended by ASU 2021-01	This standard provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting due to the cessation of the London Interbank Offered Rate ("LIBOR"). The amendments are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The amendment in ASU 2021-01 clarifies that all derivative instruments affected by changes to interest rates used for discounting, margining or contract price alignment are in the scope of Accounting Standards Codifications ("ASC") 848.	First quarter of 2020 through December 31, 2022	Generally, our debt agreements and interest rate derivatives contracts include a transition clause in the event LIBOR is discontinued, as such, we do not expect the transition of LIBOR to have a material impact on our consolidated financial statements. During the second quarter of 2020, we elected to adopt the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. In addition, we elected to adopt the expedient to not reassess the conclusions reached on embedded derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. We continue to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

NOTE 3. EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ("AOCI")

Equity

AOCI

The changes in AOCI are as follows (in millions):

	Foreign Currency Translation	Net Unrealized Gain (Loss) on Derivatives	Total
Balance at December 31, 2021	$ 1	$ 13	$ 14
Other comprehensive loss	(8)	(78)	(86)
Balance at March 31, 2022	$ (7)	$ (65)	$ (72)

NOTE 4. REVENUE

Contract Balances

The following table reflects the balance in our contract assets, which we classify as Accounts receivable - unbilled and present net in Receivables, and our contract liabilities, which we classify as Deferred revenue and present in Accrued expenses and other liabilities in our condensed consolidated balance sheets (in millions):

	March 31, 2022	December 31, 2021
Unbilled receivables	$ 41	$ 27
Deferred revenue	$ 21	$ 21

NOTE 5. SUPPLEMENTARY INFORMATION

Pass Through Costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the public sector client that sponsors a Waste-to-Energy ("WtE") project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal, and certain chemical costs. These costs are recorded net of public sector client reimbursements as a reduction to Cost of operations in our condensed consolidated statement of operations.

Pass through costs were as follows (in millions):

	Three Months Ended March 31,	
	2022	2021
Pass through costs	$ 14	$ 11

Equity Method Investments

Our ownership percentages and investment amounts included in Other assets on our condensed consolidated balance sheets in our equity method investments were as follows (in millions, except percentages):

	Ownership interest as of March 31, 2022	March 31, 2022	Ownership interest as of December 31, 2021	December 31, 2021
Dublin (Ireland)	50 %	$ 244	50 %	$ 245
Ambiente 2000 S.r.l. (Italy)	40 %	—	40 %	—
Earls Gate (United Kingdom ("UK"))	25 %	47	25 %	50
Rookery (UK)	40 %	237	40 %	181
Newhurst (UK)	25 %	23	25 %	23
Protos (UK)	37.5 %	42	37.5 %	34
Zhao County (China)	26 %	7	26 %	8
		$ 600		$ 541

For certain of our investment projects, a portion of the consideration received at financial close remained in the project and was utilized for subsequent equity contributions into the UK projects.

The consideration receivable balances included in Prepaid expenses and other assets on our condensed consolidated balance sheet as of December 31, 2021 from the sale of our interests in the Rookery and Newhurst projects, totaled $9 million and $4 million, respectively.

In connection with certain equity method investments we made contributions in the form of shareholder loans. Our shareholder loan balances included in Other assets - long term on our condensed consolidated balance sheets were as follows (in millions):

	March 31, 2022	December 31, 2021
Earls Gate (UK)	$ 16	$ 16
Newhurst (UK)	6	6
Protos (UK)	8	5
Rookery (UK)	31	—
Zhao County (China)	—	10
	$ 61	$ 37

For additional information on our shareholder loans in connection with our equity method investments, see *Note 7. Credit Losses.*

NOTE 6. ACCOUNTS RECEIVABLE SECURITIZATION

We regularly sell certain receivables on a revolving basis to third-party financial institutions (the "Purchasers") up to an aggregate purchase limit of $130 million. Transfers under the Receivables Purchase Agreement ("RPA") meet the requirements to be accounted for as sales in accordance with FASB ASC 860, *Transfers and Servicing.* We receive a discounted purchase price for each receivable sold under the RPA and will continue to service and administer the subject receivables. The weighted-average discount rate paid on accounts receivable sold was 1.02% for the three months ended March 31, 2022.

Amounts recognized in connection with the RPA were as follows (in millions):

	Three Months Ended March 31,	
	2022	2021
Accounts receivable sold and derecognized	$ 224	$ 211
Cash proceeds received (1)	$ 224	$ 211

	March 31, 2022	December 31, 2021
Pledged receivables (2)	$ 108	$ 122

(1) Represents proceeds from collections reinvested in revolving-period transfers. This amount was included in Net cash provided by operating activities on our condensed consolidated statements of cash flows.

(2) Secures our obligations under the RPA and provides a guarantee for the prompt payment, not collection, of all payment obligations relating to the sold receivables.

We are not required to offer to sell any receivables and the Purchasers are not committed to purchase any receivable offered. In March 2022, we entered into an amendment which extended the RPA termination date to March 31, 2023 and increased the aggregate purchase limit amount from $120 million to $130 million. Additionally, we may terminate the RPA at any time upon 30 days' prior written notice. The agreement governing the RPA contains certain covenants and termination events. An occurrence of an event of default or the occurrence of a termination event could lead to the termination of the RPA. As of March 31, 2022, we were in compliance with the covenants and no termination events had occurred. As of March 31, 2022, the maximum amount available under the RPA was utilized.

NOTE 7. CREDIT LOSSES

For our trade receivables, we assess each counterparty's ability to pay for service by conducting a credit review. The credit review considers the counterparty's established credit rating, as well as our assessment of their entire customer profile, including historical payment patterns, analysis of their financial statements and current market conditions.

We monitor our ongoing credit exposure through active review of counterparty balances against contract terms and due dates. Our activities include timely account reconciliation, dispute resolution, payment confirmation and monitoring current economic conditions and future forecast of economic conditions, to the extent that they impact the credit loss determination and can be reasonably estimated.

The allowance for credit losses on our trade receivables at March 31, 2022 and December 31, 2021 totaled $7 million at the end of each period.

We held the following receivables in connection with our equity method investments (in millions):

	March 31, 2022	December 31, 2021
Included in prepaid expenses and other assets	$ —	$ 13
Included in other assets — long term	61	37
	$ 61	$ 50

We assess the collectability of the shareholder loans each reporting period through the impairment analysis procedures of our equity method investments which considers the loss history of the investments and the viability of the associated development projects. As of March 31, 2022, there were no expected credit losses associated with our shareholder loans.

NOTE 8. FINANCIAL INSTRUMENTS

Fair Value Measurements

Authoritative guidance associated with fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), then significant other observable inputs (Level 2 inputs) and the lowest priority to significant unobservable inputs (Level 3 inputs). The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- For marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value.
- Fair values for long-term debt and project debt are determined using quoted market prices (Level 1).
- The fair value of our floating to fixed rate interest rate swaps is determined using discounted cash flow valuation methodologies that apply the appropriate forward floating rate curve observable in the market to the contractual terms of our swap agreements. The fair value of the interest rate swaps is adjusted to reflect counterparty risk of non-performance and is based on the counterparty's credit spread in the credit derivatives market.
- The fair values of our energy hedges were determined using the spread between our fixed price and the forward curve information available within the market.

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange and are based on pertinent information available to us as of March 31, 2022. Such amounts have not been comprehensively revalued for purposes of these financial statements and current estimates of fair value may differ significantly from the amounts presented herein.

The following financial instruments were recorded at their estimated fair value. The recurring fair value measurement of our assets and liabilities were as follows (in millions):

Financial Instruments Recorded at Fair Value on a Recurring Basis:	Fair Value Measurement Level	March 31, 2022	December 31, 2021
Assets:			
Investments — mutual and bond funds [1]	1	$ 1	$ 2
Derivative asset — interest rate swaps [2]	2	25	3
Total assets		$ 26	$ 5
Liabilities:			
Derivative liability — energy hedges [3]	2	$ 183	$ 76
Derivative liability — interest rate swaps [3]	2	—	4
Total liabilities		$ 183	$ 80

(1) Included in Other assets in the condensed consolidated balance sheets.

(2) The short-term balance was included in Prepaid expenses and other current assets and the long-term balance was included in Other assets in the condensed consolidated balance sheets.

(3) The short-term balance was included in Accrued expenses and other current liabilities and the long-term balance was included in Other liabilities in the condensed consolidated balance sheets.

NOTE 9. DERIVATIVE INSTRUMENTS

Energy Price Risk

We have entered into a variety of contractual hedging arrangements, designated as cash flow hedges, in order to mitigate our exposure to energy market risk, and will continue to do so in the future. Our efforts in this regard involve only mitigation of price volatility for the energy we produce and do not involve taking positions (either long or short) on energy prices in excess of our physical generation. The amount of energy generation which we have hedged on a forward basis under agreements with various counterparties as of March 31, 2022 is indicated in the following table (in millions):

Calendar Year	Hedged MWh
2022	2.8
2023	3.0
2024	3.1
2025	0.1
Total	9.0

For the three months ended March 31, 2022 and March 31, 2021, we recognized a loss of $138 million and $14 million, respectively, for the change in fair value of our energy derivatives as a component of AOCI.

During the three months ended March 31, 2022, cash provided by and used in energy derivative settlements of $2 million and $36 million, respectively, was included in net cash provided by operating activities on our condensed consolidated statements of cash flows.

During the three months ended March 31, 2021, cash provided by and used in energy derivative settlements of $8 million and $2 million, respectively, was included in net cash provided by operating activities on our condensed consolidated statements of cash flows.

Interest Rate Swaps

We utilize derivative instruments to reduce our exposure to fluctuations in cash flows due to changes in variable interest rates paid on our direct borrowings under the Senior Secured Credit Facilities.

In December 2021, we entered into pay-fixed, receive-variable swap agreements on $500 million notional amount of our variable rate debt under the Senior Secured Credit Facilities. For further information on our Senior Secured Credit Facilities, see *Note 10. Debt* and *Notes to Consolidated Financial Statements — Note 14. Debt* in our 2021 Annual Report.

The interest rate swaps were designated specifically to the Senior Secured Credit Facilities as a cash flow hedge and are recorded at fair value with changes in fair value recorded as a component of AOCI. For the three months ended March 31, 2022 and March 31, 2021, we recognized a gain of $26 million and $2 million, respectively, for the change in fair value of our interest rate swaps as a component of AOCI.

NOTE 10. DEBT

Debt consisted of the following (in millions, except percentages):

	Average Rate (1)	March 31, 2022	December 31, 2021
LONG-TERM DEBT:			
Revolving credit facility expiring 2026	2.67%	$ 100	$ 146
Term loan, net due 2028	3.00%	1,399	1,397
Credit facilities subtotal		$ 1,499	$ 1,543
Senior notes, net of deferred financing costs		1,157	1,101
Tax-exempt bonds, net of deferred financing costs		541	541
Equipment financing arrangements		42	43
Finance leases (2)		6	6
China venture loan		—	10
Total long-term debt		$ 3,245	$ 3,244
Less: current portion		(108)	(128)
Noncurrent long-term debt		$ 3,137	$ 3,116
PROJECT DEBT:			
Total project debt		$ 114	$ 115
Less: current portion		(9)	(9)
Noncurrent project debt		$ 105	$ 106
TOTAL DEBT		$ 3,359	$ 3,359
Less: current debt		(117)	(137)
TOTAL NONCURRENT DEBT		$ 3,242	$ 3,222

(1) Includes the effects of the interest rate swap agreement to swap to a fixed rate the variable portion of our interest rate expense under the Senior Secured Credit Facilities. See *Note 9. Derivative Instruments* for further information.

(2) Excludes Union County WtE facility finance lease which is presented within project debt in our condensed consolidated balance sheets.

Senior Secured Credit Facilities

On November 30, 2021, in connection with the Merger, we entered into a new senior secured credit agreement comprised of (i) a borrowing of $1.335 billion under a new term loan B due 2028 (the “Term Loan B Facility”); (ii) a borrowing of $100 million under a new term loan C due 2028 for purposes of cash collateralization of certain letters of credit (the “Term Loan C Facility”), (collectively, the “Term Loan Facilities”) and (iii) the entry into a $440 million multicurrency senior secured revolving credit facility expiring 2026 (the "Revolving Credit Facility", and together with the Term Loan Facilities, the "Senior Secured Credit Facilities").

The nature and terms of our Senior Secured Credit Facilities, Senior Notes, Tax-Exempt Bonds, project debt and other long-term debt are described in detail in the *Notes to Consolidated Financial Statements — Note 14. Debt* in our 2021 Annual Report.

Unutilized Capacity under Revolving Credit Facility

As of March 31, 2022, we had unutilized capacity under the Revolving Credit Facility as follows (dollars in millions):

	Total Facility Commitment	Expiring Year	Direct Borrowings	Outstanding Letters of Credit	Unutilized Capacity
Revolving Credit Facility	$ 440	2026	$ 100	$ 186	$ 154

Certain Covenants and Events of Default

The Revolving Credit Facility contains a first-lien leverage ratio maintenance covenant ("First-Lien Leverage Ratio") subject to a test condition. The test condition is applicable to the extent that on the last day of any quarter, the sum of (a) all direct revolver borrowings, (b) drawn but unreimbursed letters of credit and (c) undrawn letters of credit in excess of $100 million exceeds an amount equal to 35% of the total revolving credit commitment. If, on the last day of a test period ("Test Period"), the test condition is applicable, we shall not permit the First-Lien Leverage Ratio to exceed 5.00:1.00 as of the last day of any Test Period, starting with the Test Period ending on June 30, 2022. The Term Loan Facilities do not contain any maintenance covenants.

The Senior Secured Credit Facilities also contain a number of negative covenants that, among other things, restrict, subject to certain exceptions, our ability and the ability of our restricted subsidiaries to (i) incur additional indebtedness and guarantee indebtedness, (ii) create or incur liens, (iii) engage in mergers, consolidations, liquidations or dissolution, (iv) sell, transfer or otherwise dispose of assets, (v) make investments, acquisitions, loans or advances, (vi) pay dividends and distributions or repurchase capital stock, (vii) prepay, redeem, or repurchase certain indebtedness, (viii) enter into agreements that limit the ability of our restricted subsidiaries that are not guarantors to make distributions to us or our ability and the ability of our restricted subsidiaries to incur liens on assets and (ix) enter into certain transactions with affiliates.

The Senior Secured Credit Facilities also contain certain customary affirmative covenants and events of default (including a change of control) for facilities of this type.

Senior Notes Redemption

On January 19, 2022, we issued an incremental $465 million aggregate principal amount tack-on to our existing $300 million principal amount of 4.875% Senior Sustainability-Linked Notes due 2029 ("2029 Senior Notes"). Net proceeds from the sale were used to (i) redeem all of our outstanding $400 million of 5.875% Senior Notes due 2027 ("2027 Senior Notes") plus accrued and unpaid interest and (ii) pay fees and expenses related to the foregoing. In connection with this issuance, we recognized $5 million of premium on the 2029 Senior Notes and deferred financing costs of $4 million which will be amortized over the term of the 2029 Senior Notes. In connection with the redemption of the 2027 Senior Notes, we recorded a loss on extinguishment of debt of $2 million in our condensed consolidated statements of operations.

NOTE 11. LEASES

The components of lease expense were as follows (in millions):

	Three Months Ended March 31,	
	2022	2021
Finance leases:		
Amortization of assets, included in Depreciation and amortization expense	$ 3	$ 2
Interest on lease liabilities, included in Interest expense	1	1
Operating leases:		
Amortization of assets, included in Total operating expense	1	2
Interest on lease liabilities, included in Total operating expense	1	1
Total net lease cost	$ 6	$ 6

Supplemental balance sheet information related to leases was as follows (in millions, except lease term and discount rate):

	March 31, 2022	December 31, 2021
Operating leases:		
Operating lease right-of-use ("ROU") assets, included in Other assets	$ 43	$ 42
Current operating lease liabilities, included in Accrued expenses and other current liabilities	$ 6	$ 6
Noncurrent operating lease liabilities, included in Other liabilities	43	42
Total operating lease liabilities	$ 49	$ 48
Finance leases:		
Property and equipment, at cost	$ 167	$ 167
Accumulated amortization	(4)	(1)
Property and equipment, net	$ 163	$ 166
Current obligations of finance leases, included in Current portion of project debt	$ 6	$ 6
Finance leases, net of current obligations, included in Project debt	64	66
Current obligations of finance leases, included in Current portion of long-term debt	1	1
Finance leases, net of current obligations, included in Long-term debt	5	5
Total finance lease liabilities	$ 76	$ 78

Supplemental cash flow and other information related to leases was as follows (in millions, except lease term and discount rate):

	Three Months Ended March 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows related to operating leases	$ 2	$ 3
Financing cash flows related to finance leases	$ 3	$ 2
Weighted average remaining lease term (in years):		
Operating leases	12.8	11.2
Finance leases	30.0	30.8
Weighted average discount rate:		
Operating leases	4.57 %	4.54 %
Finance leases	5.07 %	5.06 %

Maturities of lease liabilities were as follows (in millions):

	March 31, 2022	
	Operating Leases	Finance Leases
Remainder of 2022	$ 6	$ 9
2023	8	11
2024	7	11
2025	6	10
2026	4	8
2027 and thereafter	35	85
Total lease payments	66	134
Less: Amounts representing interest	(17)	(58)
Total lease obligations	$ 49	$ 76

NOTE 12. COMMITMENTS AND CONTINGENCIES

We and/or our subsidiaries are party to a number of claims, lawsuits and pending actions, most of which are routine and all of which are incidental to our business. We assess the likelihood of potential losses on an ongoing basis to determine whether losses are considered probable and reasonably estimable prior to recording an estimate of the outcome. If we can only estimate the range of a possible loss, an amount representing the low end of the range of possible outcomes is recorded. The final consequences of these proceedings are not presently determinable with certainty. As of both March 31, 2022 and December 31, 2021, accruals for our loss contingencies recorded in Accrued expenses and other current liabilities in our condensed consolidated balance sheets totaled $3 million.

Environmental Matters

Our operations are subject to environmental regulatory laws and environmental remediation laws. Although our operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, we believe that we are in substantial compliance with existing environmental laws and regulations.

We may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to federal and/or analogous state laws. In certain instances, we may be exposed to joint and several liabilities for remedial action or damages. Our liability in connection with such environmental claims will depend on many factors, including our volumetric share of waste, the total cost of remediation, and the financial viability of other companies that also sent waste to a given site and, in the case of divested operations, the contractual arrangement with the purchaser of such operations.

The potential costs related to the matters described below and the possible impact on future operations are uncertain due in part to the complexity of governmental laws and regulations and their interpretations, the varying costs and effectiveness of cleanup technologies, the uncertain level of insurance or other types of recovery and the questionable level of our responsibility. Although the ultimate outcome and expense of any litigation, including environmental remediation, is uncertain, we believe that the following proceedings will not have a material adverse effect on our condensed consolidated results of operations, financial position or cash flows.

Lower Passaic River Matter. In August 2004, the U.S. Environmental Protection Agency (the “EPA”) notified our subsidiary, Covanta Essex Company (“Essex”) that it was a potentially responsible party (“PRP”) for Superfund response actions in the Lower Passaic River Study Area (“LPRSA”), a 17 mile stretch of river in northern New Jersey. Essex’s LPRSA costs to date are not material to its financial position and results of operations; however, to date the EPA has not sought any LPRSA remedial costs or natural resource damages against PRPs. In March 2016, the EPA released the Record of Decision (“ROD”) for its Focused Feasibility Study of the lower 8 miles of the LPRSA; the EPA’s selected remedy includes capping/dredging of sediment, institutional controls and long-term monitoring. In June 2018, PRP Occidental Chemical Corporation (“OCC”) filed a federal Superfund lawsuit against 120 PRPs including Essex with respect to past and future response costs expended by OCC with respect to the LPRSA. The Essex facility started operating in 1990 and Essex does not believe there have been any releases to the LPRSA, but in any event believes any releases would have been de minimis considering the history of the LPRSA; however, it is not possible at this time to predict that outcome or to estimate the range of possible loss relating to Essex's liability in the matter, including for LPRSA remedial costs and/or natural resource damages.

Energy Risk Management Contingencies

Our commodity risk management activities can require significant liquidity and capital resources. The derivative contracts, such as swaps and forwards, that we use to manage our energy commodity risk are traded in markets and contain provisions that typically entitle our counterparties to demand that we post collateral in the form of cash and/or letters of credit to the extent the respective trades are in a net liability position that exceeds a pre-agreed credit threshold. In addition, certain of our contracts contain provisions that typically entitle the counterparty to demand that we post additional collateral if the counterparty determines that there has been a deterioration in our credit quality or if there were a downgrade in our credit rating. Future liquidity requirements may change based on our commodity risk management activities and future market conditions, including forward prices for energy and market volatility.

Our collateral outstanding related to our energy derivative instruments were as follows (in millions):

	March 31, 2022	December 31, 2021
Cash collateral posted (included in Restricted funds held in trust on our condensed condensed balance sheets)	$ 22	$ 10
Letters of credit (1)	$ 114	$ 84

(1) For a full discussion on our Letters of credit, see Other Commitments below.

Other Commitments

Other commitments as of March 31, 2022 were as follows (in millions):

Letters of credit issued under the Revolving Credit Facility	$ 186
Letters of credit issued under the Term Loan C Facility	80
Letters of credit — other	44
Surety bonds	139
Total other commitments — net	$ 449

We issue letters of credit to secure our performance under various contractual undertakings related to our domestic and international projects as well as to secure obligations under our insurance programs. We believe that we will be able to fully perform under our contracts to which these existing letters of credit relate, and that it is unlikely that letters of credit would be drawn due to a default of our performance obligations. If any of these letters of credit were to be drawn by the beneficiary, the amount drawn would be immediately repayable by us to the issuing bank. If we do not immediately repay such amounts drawn under letters of credit issued under the Revolving Credit Facility, unreimbursed amounts would be treated under the Senior Secured Credit Facilities as either additional term loans or as revolving loans.

During the first quarter of 2022, we replaced the letters of credit backstopped by cash collateral with new letters of credit issued either under our Revolving Credit Facility or the Term Loan C Facility. As a result, the restricted funds backstopping these letters of credit was released back to us as unrestricted funds.

The surety bonds listed in the table above relate primarily to construction and performance obligations and support for other obligations, including closure requirements of various energy projects when such projects cease operating. Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company. The bonds do not have stated expiration dates. Rather, we are released from the bonds as the underlying performance is completed.

We have certain contingent obligations related to our Senior Notes and Tax-Exempt Bonds. Holders may require us to repurchase their Senior Notes and Tax-Exempt Bonds if a fundamental change occurs. Under the indentures for the 2029 Senior Notes and $400 million of 5.000% Senior Notes due 2030, a Change of Control ("CoC") offer to purchase the Senior Notes at a purchase price in cash equal to 101% of the principal amount of the Senior Notes would need to be made if (a) a CoC occurs and (b) the Senior Notes are downgraded by either rating agency on any date during the period commencing 60 days prior to the consummation of such CoC and ending 60 days following consummation of such CoC. Under the Tax-Exempt Bonds indentures, a CoC offer to purchase the Tax-Exempt Bonds at a purchase price in cash equal to 101% of the principal amount of the Tax-Exempt Bonds would need to be made.

We have issued or are party to guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate waste and energy facilities. For some projects, such performance guarantees include obligations to repay certain financial obligations if the project revenue is insufficient to do so, or to obtain or guarantee financing for a project. With respect to our businesses, we have issued guarantees to municipal clients and other parties that our subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Additionally, damages payable under such guarantees for our WtE facilities could expose us to recourse liability on project debt. If we must perform under one or more of such guarantees, our 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. Depending upon the circumstances giving rise to such damages, the contractual terms of the applicable contracts, and the contract counterparty's choice of remedy at the time a claim against a guarantee is made, the amounts owed pursuant to one or more of such guarantees could be greater than our then-available sources of funds. To date, we have not incurred material liabilities under such guarantees.

We have entered into certain guarantees of performance in connection with our recent divestiture activities. Under the terms of the arrangements, we guarantee performance should the guaranteed party fail to fulfill its obligations under the specified arrangements.

NOTE 13. SUBSEQUENT EVENTS

On April 22, 2022, we announced our intention to separate our European operations, creating a standalone WtE platform in Europe. EQT will retain its ownership of European operations and continue to support the business in its next phase of growth. We have designated the respective European operations as unrestricted subsidiaries under our Senior note indentures and Senior Secured Credit Agreement. We anticipate the separation to be completed in the second quarter of 2022.

Covanta entered into an amendment to its existing senior secured credit facility (the "First Amendment"). The First Amendment had an effective date of May 26, 2022 and amended certain provisions under the credit agreement to (i) increase the aggregate revolving commitment by $160 million to $600 million and (ii) replace LIBOR with Term SOFR as the primary reference interest rate with respect to borrowings under the revolving credit facility only. The aggregate $600 million revolving commitment is available for issuance of letters of credit.

We have evaluated all significant activities through May 27, 2022 (the date this report was available to be issued) and have concluded that no subsequent events, other than discussed above, have occurred that would require recognition in the balance sheet or disclosures in the notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The terms "we," "our," "ours," "us," "Covanta" and "Company" refer to Covanta Holding Corporation and its subsidiaries.

OVERVIEW

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto included within this report.

RESULTS OF OPERATIONS

The comparability of the information provided below with respect to our revenue, expense and certain other items for the periods presented was affected by several factors as outlined in *Notes to Condensed Consolidated Financial Statements — Note 1. Organization and Basis of Presentation* in this report for the three months ended March 31, 2022 and in *Notes to Consolidated Financial Statements — Note 1. Organization and Summary of Significant Accounting Policies* and *Note 3. Merger Agreement* in our 2021 Annual Report.

Excluding the impact of the Merger on certain financial statement line items, the business and financial results, of the Successor and Predecessor entities, are expected to be largely consistent. Accordingly, the tables below present the Non-Generally Accepted Accounting Principles ("Non-GAAP") combined results for the three months ended March 31, 2022 and the three months ended March 31, 2021.

The following terms used within the Results of Operations discussion are defined as follows:

- "Organic growth": reflects the performance of the business on a comparable period-over-period basis, excluding the impacts of transactions and contract transitions.
- "Transactions": includes the impacts of acquisitions, divestitures, and the addition or loss of operating contracts.
- "Contract transitions": includes the impact of the expiration of: (a) long-term major waste and service contracts, most typically representing the transition to a new contract structure, and (b) long-term energy contracts.

Certain amounts in our Condensed Consolidated Results of Operations may not total due to rounding.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS — OPERATING (LOSS) INCOME

(In millions)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Variance Increase (Decrease) 2022 vs 2021
OPERATING REVENUE:			
Waste revenue	$ 365	$ 343	$ 22
Energy revenue	137	104	33
Materials sales revenue	38	36	2
Services revenue	11	15	(4)
Total operating revenue	551	498	53
OPERATING EXPENSE:			
Cost of operations	423	398	25
Other operating expense (income), net	6	(4)	10
General and administrative expense	33	33	—
Depreciation and amortization expense, net	134	57	77
Total operating expense	596	484	112
Operating (loss) income	$ (45)	$ 14	$ (59)

Operating Revenue

<u>Waste Revenue</u>

(In millions)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Variance Increase (Decrease) 2022 vs 2021
Tip fees	$ 165	$ 159	$ 6
Service fees	132	123	9
Waste to energy processing	297	282	15
Materials processing and recycling	29	25	4
Waste handling and disposal	69	67	2
Intercompany	(30)	(30)	—
Total waste revenue	$ 365	$ 343	$ 22

Certain amounts may not total due to rounding.

WtE Tons (1)

(In millions)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Variance Increase (Decrease) 2022 vs 2021
Tip fees - contracted	2.0	2.0	—
Tip fees - uncontracted	0.6	0.6	—
Service fees	2.6	2.5	0.1
Total tons	5.1	5.1	—

(1) Excludes liquid waste.
Certain amounts may not total due to rounding.

For the three month comparative period, total waste revenue increased by $22 million, driven by a $15 million increase in WtE processing and a $4 million increase in materials processing and recycling. Within WtE processing, service fee revenue increased $9 million, driven by the start of Rookery facility operations in January 2022 and general service contract escalations. Also within waste to energy processing, tip fee revenue increased by $6 million, primarily driven by higher average revenue per ton.

Energy Revenue

(In millions)	Three Months Ended March 31, 2022 Revenue [3]	Volume [3][4]	2021 Revenue [3]	Volume [3][4]	Variance Increase (Decrease) 2022 vs 2021 Revenue	Volume
Energy sales	$ 93		$ 76		$ 17	
Capacity	11		10		1	
Wholesale load serving [1]	1		11		(10)	
Renewable energy credits [2]	12		7		5	
Hedge amortization and other	21		—		21	
Total energy revenue	$ 137	1.4	$ 104	1.6	$ 33	(0.1)

(1) Includes wholesale energy load serving revenue not included in Energy sales line, such as transmission and ancillaries.

(2) Primarily relates to all renewable energy credits in 2022 and renewable energy credits sold bundled with energy in 2021.

(3) Covanta share only. Represents the sale of electricity and steam based upon output delivered and capacity provided.

(4) Steam converted to MWh at an assumed average rate of 11 klbs of steam / MWh.

Certain amounts may not total due to rounding.

For the three month comparative period, total energy revenue increased by $33 million, primarily driven by a $21 million increase in the amortization of energy hedges related to purchase accounting adjustments due to the Merger. Also within energy revenue, energy sales increased by $17 million due to a $25 million increase in prices that was partially offset by a $8 million decrease in volume.

Materials Sales Revenue

	Three Months Ended March 31, Materials Sales Revenue (In millions) 2022	2021	Tons Recovered (In thousands) 2022	2021	Tons Sold (In thousands) [1] 2022	2021
Ferrous	$ 23	$ 22	112	114	97	104
Non-ferrous	14	13	11	11	7	8
Total materials sales revenue	$ 38	$ 36				

(1) Represents the portion of total volume from Covanta's share of revenue under applicable client revenue sharing arrangements.

Certain amounts may not total due to rounding.

For the three month comparative period, total materials sales revenue increased by $2 million, driven by a $5 million increase in prices for ferrous and non-ferrous materials offset by a $3 million decrease from lower tons sold.

Services Revenue

For the three month comparative period, services revenue decreased by $4 million primarily due to lower construction revenue.

Operating Expense

Cost of Operations

(In millions)	Three Months Ended March 31, 2022	2021	Variance Increase (Decrease) 2022 vs 2021
Wages & benefits	$ 132	$ 125	$ 7
Maintenance	115	105	10
Other operating costs	176	167	9
Cost of operations	$ 423	$ 398	$ 25

Certain amounts may not total due to rounding.

For the three month comparative period, cost of operations increased by $25 million, primarily driven by increased maintenance expense of $10 million. Wages and benefits expense increased by $7 million, consisting of $5 million on benefits experience and $2 million of contract and temporary labor. Additionally, other operating costs increased by $9 million, primarily due to the higher transportation and fuel costs.

Other Operating Expense (Income), net

For the three month comparative period, other operating expense (income), net, increased by $10 million, primarily driven by a $4 million unrealized loss in foreign exchange on our UK investments and a $3 million loss on disposal of fixed assets.

General and Administrative Expense

For the three month comparative period, general and administrative expense was unchanged.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS — NON-OPERATING INCOME ITEMS

Three Months Ended March 31, 2022 and 2021

Other Expense:

(In millions)	**Three Months Ended March 31,**		**Variance Increase (Decrease)**
	2022	**2021**	**2022 vs 2021**
Interest expense, net	$ (38)	$ (31)	$ (7)
Loss on extinguishment of debt	(2)	—	(2)
Other expense	(1)	—	(1)
Total other expense	$ (41)	$ (31)	$ (10)

During the three months ended March 31, 2022, interest expense increased due to higher notional debt levels as well as higher interest rates under our senior secured credit facilities. For additional information on the Term Loan Facilities, see *Note 10. Debt* in this report for the three months ended March 31, 2022 and *Notes to Consolidated Financial Statements — Note 14. Debt* in our 2021 Annual Report.

During the three months ended March 31, 2022, in connection with the redemption of the 2027 Senior Notes, we recorded a $2 million loss on extinguishment of debt. For additional information on the redemption of the 2027 Senior Notes, see *Note 10. Debt* in this report for the three months ended March 31, 2022.

Income Tax (Expense) Benefit:

(In millions, except percentages)	**Three Months Ended March 31,**		**Variance Increase (Decrease)**
	2022	**2021**	**2022 vs 2021**
Income tax (expense) benefit	$ (5)	$ 18	$ (23)
Effective income tax rate	(6)%	105 %	N/A

The difference between the effective tax rates for the three months ended March 31, 2022 and 2021, was primarily due to the effect of the overall increase in pre-tax loss and changes in mix of earnings in certain jurisdictions.