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COVANTA HOLDING CORP

Form 10-Q

July 27, 2018

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2018**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-06732**

**COVANTA HOLDING CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or Other Jurisdiction of Incorporation or Organization)*

**95-6021257**

*(I.R.S. Employer Identification Number)*

**445 South Street, Morristown, NJ**

*(Address of Principal Executive Office)*

**07960**

*(Zip Code)*

**(862) 345-5000**

*(Registrant's telephone number including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act."

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No

**Applicable Only to Corporate Issuers:**

Indicate the number of shares of the registrant's Common Stock outstanding as of the latest practicable date.

<u>Class</u>	<u>Outstanding at July 20, 2018</u>
Common Stock, \$0.10 par value	130,820,400

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**FOR THE QUARTER ENDED JUNE 30, 2018**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management’s assumptions and assessments in light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. They are not guarantees of future performance and actual results. Developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near and long-term. These forward-looking statements should be considered in light of the information included in this report and our other filings with the Securities and Exchange Commission, including, without limitation, the Risk Factors, as well as the description of trends and other factors in Management’s Discussion and Analysis of Financial Condition and Results of Operations, set forth in our 2017 Annual Report on Form 10-K (“10K”).

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****COVANTA HOLDING CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	(Unaudited)			
	(In millions, except per share amounts)			
<b>OPERATING REVENUE:</b>				
Waste and service revenue	\$333	\$310	\$645	\$596
Energy revenue	76	75	176	161
Recycled metals revenue	25	15	49	31
Other operating revenue	20	24	42	40
Total operating revenue	454	424	912	828
<b>OPERATING EXPENSE:</b>				
Plant operating expense	334	319	679	651
Other operating expense, net	19	2	27	17
General and administrative expense	27	30	58	58
Depreciation and amortization expense	55	52	109	104
Impairment charges	37	1	37	1
Total operating expense	472	404	910	831
<b>Operating (loss) income</b>	(18 )	20	2	(3 )
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(36 )	(35 )	(74 )	(71 )
(Loss) gain on sale of assets	—	(2 )	210	(6 )
Loss on extinguishment of debt	—	(13 )	—	(13 )
Other (expense) income, net	(1 )	—	(1 )	—
Total (expense) income	(37 )	(50 )	135	(90 )
<b>(Loss) income before income tax benefit (expense)</b>	(55 )	(30 )	137	(93 )
Income tax benefit (expense)	22	(8 )	31	3
Equity in net income from unconsolidated investments	2	1	2	1
<b>Net (loss) income</b>	\$(31 )	\$(37 )	\$170	\$(89 )
<b>Weighted Average Common Shares Outstanding:</b>				
Basic	130	130	130	129
Diluted	130	130	132	129
<b>(Loss) Earnings Per Share:</b>				
Basic	\$(0.24)	\$(0.28)	\$1.31	\$(0.69)
Diluted	\$(0.24)	\$(0.28)	\$1.29	\$(0.69)
<b>Cash Dividend Declared Per Share</b>	\$0.25	\$0.25	\$0.50	\$0.50



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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>(Unaudited, in millions)</i>			
Net (loss) income	\$ (31 )	\$ (37 )	\$ 170	\$ (89 )
Foreign currency translation, net of tax expense of \$0, \$0, \$1, \$0, respectively	(10 )	9	2	12
Net unrealized gain on derivative instruments, net of tax (benefit) expense of (\$2), \$1, (\$1), \$1, respectively	(5 )	3	27	3
Other comprehensive (loss) income	(15 )	12	29	15
Comprehensive (loss) income	\$ (46 )	\$ (25 )	\$ 199	\$ (74 )

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

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<b>(Unaudited)</b>	
	<b>(In millions, except per share amounts)</b>	
<b>ASSETS</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 39	\$ 46
Restricted funds held in trust	37	43
Receivables (less allowances of \$9 million and \$14 million, respectively)	324	341
Prepaid expenses and other current assets	62	73
Assets held for sale	3	653
<b>Total Current Assets</b>	<b>465</b>	<b>1,156</b>
Property, plant and equipment, net	2,556	2,606
Restricted funds held in trust	24	28
Intangible assets, net	276	287
Goodwill	312	313
Other assets	211	51
<b>Total Assets</b>	<b>\$ 3,844</b>	<b>\$ 4,441</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current:</b>		
Current portion of long-term debt	\$ 10	\$ 10
Current portion of project debt	24	23
Accounts payable	64	151
Accrued expenses and other current liabilities	290	313
Liabilities held for sale	—	540
<b>Total Current Liabilities</b>	<b>388</b>	<b>1,037</b>
Long-term debt	2,295	2,339
Project debt	137	151
Deferred income taxes	385	412
Other liabilities	68	75
<b>Total Liabilities</b>	<b>3,273</b>	<b>4,014</b>
<b>Commitments and Contingencies (Note 14)</b>		
<b>Equity:</b>		
Preferred stock (\$0.10 par value; authorized 10 shares; none issued and outstanding)	—	—
Common stock (\$0.10 par value; authorized 250 shares; issued 136 shares, outstanding 131 shares)	14	14
Additional paid-in capital	833	822
Accumulated other comprehensive loss	(26	) (55
Accumulated deficit	(249	) (353
Treasury stock, at par	(1	) (1
Total stockholders' equity	571	427
<b>Total Liabilities and Equity</b>	<b>\$ 3,844</b>	<b>\$ 4,441</b>

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



Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**

	<b>Six Months Ended June 30, 2018 2017</b>	
	<b>(Unaudited, in millions)</b>	
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$170	\$(89)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	109	104
Amortization of deferred debt financing costs	3	3
(Gain) loss on sale of assets	(210)	6
Impairment charges	37	1
Loss on extinguishment of debt	—	13
Stock-based compensation expense	14	11
Provision for doubtful accounts	—	3
Equity in net income from unconsolidated investments	(2)	(1)
Deferred income taxes	(28)	(6)
Dividends from unconsolidated investments	1	—
Other, net	(8)	(3)
Change in working capital, net of effects of acquisitions and dispositions	(21)	(20)
Changes in noncurrent assets and liabilities, net	(2)	5
Net cash provided by operating activities	63	27
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(130)	(152)
Acquisition of businesses, net of cash acquired	(4)	(16)
Proceeds from the sale of assets, net of restricted cash	112	—
Property insurance proceeds	7	5
Payment of indemnification claim from sale of asset	(7)	—
Other, net	(1)	(3)
Net cash used in investing activities	(23)	(166)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from borrowings on long-term debt	30	400
Proceeds from borrowings on revolving credit facility	317	633
Proceeds from borrowing on Dublin project financing	—	60
Payments on long-term debt	(3)	(412)
Payment on revolving credit facility	(387)	(501)
Payments on equipment financing capital leases	(3)	(2)
Payments on project debt	(13)	(12)
Payment of deferred financing costs	—	(9)
Cash dividends paid to stockholders	(66)	(65)
Financing of insurance premiums, net	(13)	—
Other, net	2	3
Net cash (used in) provided by financing activities	(136)	95
Effect of exchange rate changes on cash and cash equivalents	2	3
Net decrease in cash, cash equivalents and restricted cash	(94)	(41)

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Cash, cash equivalents and restricted cash at beginning of period	194	194
Cash, cash equivalents and restricted cash at end of period	\$100	\$153

**Reconciliation of cash, cash equivalents and restricted cash:**

Cash and cash equivalents	\$39	\$48
Restricted funds held in trust- short term	37	50
Restricted funds held in trust- long term	24	55
Total cash, cash equivalents and restricted cash	\$100	\$153

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

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION**

The terms “we,” “our,” “ours,” “us”, “Covanta” and “Company” refer to Covanta Holding Corporation and its subsidiaries; the term “Covanta Energy” refers to our subsidiary Covanta Energy, LLC and its subsidiaries.

**Organization**

Covanta is one of the world’s largest owners and operators of infrastructure for the conversion of waste to energy (known as “energy-from-waste” or “EfW”), and also owns and operates related waste transport, processing and disposal assets. EfW serves as both a sustainable waste management solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity and/or steam as well as from the sale of metal recovered during the EfW process. We process approximately 20 million tons of solid waste annually. We operate and/or have ownership positions in 42 energy-from-waste facilities, which are primarily located in North America and Ireland. In total, these assets produce approximately 10 million megawatt hours (“MWh”) of baseload electricity annually. We also operate a waste management infrastructure that is complementary to our core EfW business.

In addition, we offer a variety of sustainable waste management solutions in response to customer demand, including industrial, consumer products and healthcare waste handling, treatment and assured destruction, industrial wastewater treatment and disposal, product repackaging and recycling, on-site cleaning services, and transportation services. Together with our processing of non-hazardous "profiled waste" for purposes of assured destruction or sustainability goals in our EfW facilities, we offer these services under our Covanta Environmental Solutions brand.

We have one reportable segment which comprises our entire operating business. For additional information regarding our reportable segment, see *Note 5. Financial Information by Business Segments*.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes thereto required by GAAP for complete 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 fiscal year ending December 31, 2018. The condensed consolidated balance sheet at December 31, 2017, was derived from audited annual consolidated financial statements, but does not contain all of the notes thereto from the annual consolidated financial statements. This Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2017 (“Form 10-K”).

**Accounting Pronouncements Recently Adopted**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which supersedes nearly all existing revenue recognition guidance. Subsequent to the issuance of Topic 606, the FASB clarified the guidance through several ASUs; hereinafter the collection of revenue guidance is referred to as Accounting Standards Codification (“ASC”) 606. The core principle of ASC 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, we adopted ASC 606 using the modified retrospective method. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the historic accounting guidance under ASC Topic 605, Revenue Recognition.

We recorded a net decrease of \$1 million to beginning accumulated deficit as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning accumulated deficit resulted from recognizing revenue evenly over the contract year



Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

for certain of our service fee contracts that are based on a contract year that is different from our calendar year. Contract acquisition costs are not material. The adoption of ASC 606 did not have a material impact on our condensed consolidated financial statements as of and for the three and six months ended June 30, 2018. As a result, comparisons of revenue and operating income between periods are not materially affected by the adoption of ASC 606. Refer to *Note 6. Revenue* for additional disclosures required by ASC 606.

In March 2017, the FASB issued ASU 2017-07, Presentation of Net Periodic Pension and Postretirement Benefit Cost, to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments require that the service cost component of the net periodic benefit cost be presented in the same operating income line items as other compensation costs arising from services rendered by employees during the period. The non-service costs (e.g., interest cost, expected return on plan assets, amortization of actuarial gains/losses, settlements) should be presented in the income statement outside of operating income. The amendments also allow only the service cost component to be eligible for capitalization when applicable. We adopted this guidance on January 1, 2018. The amendments have been applied retrospectively for the income statement presentation requirements and prospectively for the limit on costs eligible for capitalization. The line item classification changes required by the new guidance did not have a material impact on our condensed consolidated statement of operations.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) — Restricted Cash,” which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. With this standard, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. We adopted this guidance on January 1, 2018, and the guidance has been retrospectively applied to all periods presented. The total of cash, cash equivalents and restricted cash is described in a supplemental table to the condensed consolidated statements of cash flows. The changes to the beginning of period balance presented in our condensed consolidated statement of cash flows are as follows (in millions):

	<b>December 31, 2017</b>	
	<b>As adjusted</b>	<b>As previously reported</b>
Cash and cash equivalents	\$46	\$ 46
Restricted funds classified as held for sale	77	—
Restricted funds held in trust- short term	43	—
Restricted funds held in trust- long term	28	—
Beginning of period balance presented in the statement of cash flows	\$194	\$ 46

The following table illustrates the effect of adoption of ASU 2016-18 on our condensed consolidated statements of cash flows (in millions):

	<b>Six Months Ended June 30, 2017</b>	
	<b>As adjusted</b>	<b>As previously reported</b>
Cash provided by operating activities	\$27	\$ 26
Cash used in investing activities	\$(166)	\$(166 )

Cash provided by financing activities \$95 \$ 101

Restricted funds held in trust are primarily amounts received and held by third party trustees relating to certain projects we own. We generally do not control these accounts and these funds may be used only for specified purposes. These funds include debt service reserves for payment of principal and interest on project debt. Our restricted funds also include escrowed debt proceeds, amounts held in trust for operations, maintenance, environmental obligations, operating lease reserves in accordance with agreements with our clients, and amounts held for future scheduled distributions. Such funds are invested principally in money market funds, bank deposits and certificates of deposit, United States treasury bills and notes, United States government agency securities, and high-quality municipal bonds.

In October 2016, the FASB issued ASU 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

transfer occurs. The new standard must be adopted using a modified retrospective transition method, with the cumulative effect recognized as of the date of initial adoption. Effective January 1, 2018, we adopted this standard. The adoption of this new guidance did not have a material impact on our condensed consolidated financial statements.

**Reclassifications**

As discussed above under *Accounting Pronouncements Recently Adopted*, certain amounts have been reclassified in our prior period condensed consolidated statements of cash flows to conform to current year presentation. Certain other amounts have been reclassified in our prior period condensed consolidated balance sheet to conform to current year presentation. As a result, \$251 million of intangible assets related to waste service and energy contracts, net are classified as Intangible assets, net on our condensed consolidated balance sheet as of December 31, 2017.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)****NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS**

The following table summarizes recent ASU's issued by the FASB that could have a material impact on our consolidated financial statements.

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The amendments in this Update allow a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for adjustments to the tax effect of items in AOCI, that were originally recognized in other comprehensive income, related to the new statutory rate prescribed in the Tax Cuts and Jobs Act enacted on December 22, 2017, which reduces the U.S. federal corporate tax rate from 35% to 21%.  The standard updated guidance to eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (referred to as Step 2). As a result, an impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis.	First quarter of 2019, early adoption is permitted, including adoption in any interim period.	We are currently evaluating the impact this guidance will have on our consolidated financial statements.
ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The standard amends guidance on the impairment of financial instruments. The ASU estimates credit losses based on expected losses and provides for a simplified accounting model for purchased financial assets with credit deterioration. The standard requires a modified retrospective basis adoption through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.	First quarter of 2020, early adoption is permitted.	The impact of this guidance for us will depend on the outcomes of future goodwill impairment tests.
ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard amends guidance on the impairment of financial instruments. The ASU estimates credit losses based on expected losses and provides for a simplified accounting model for purchased financial assets with credit deterioration. The standard requires a modified retrospective basis adoption through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.	First quarter of 2020, early adoption is permitted.	We are currently evaluating the impact this guidance will have on our consolidated financial statements.
ASU 2016-02 Leases (Topic 842) as amended by ASU 2018-01	These standards amended guidance for lease arrangements to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. The standard requires a modified retrospective basis adoption.  The amendment permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of Topic 842 and	First quarter of 2019, early adoption is permitted.	As part of our impact assessment, we have performed an initial scoping exercise and preliminarily determined our lease population. A framework for the lease identification process has been developed and we are currently evaluating the lease population to determine our transition adjustment. Additionally, we are in the process of assessing any potential impacts on our internal controls and processes related to both the implementation and ongoing compliance of the new guidance. We plan to adopt the new guidance using a modified retrospective approach and expect that upon adoption, there will be a significant increase to our long-term assets and liabilities as a result of the minimum lease obligations, which were previously disclosed in our December 31, 2017 10K.

that were not previously accounted for as leases  
under Topic 840.

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

**NOTE 3. ACQUISITIONS AND DISPOSITIONS**

The acquisition discussed below is not material to our condensed consolidated financial statements, therefore, disclosures of pro forma financial information have not been presented. The results of operations reflect the period of ownership of the acquired business, business development projects and dispositions.

Environmental Services Acquisitions

During the six months ended June 30, 2018, we acquired one environmental services business located in Toronto, Canada for approximately \$4 million. This acquisition further expands our Covanta Environmental Solutions capabilities and client service offerings, and allows us to direct additional non-hazardous profiled waste volumes into our EfW facilities, and therefore is synergistic with our existing business.

Green Investment Group Limited ("GIG") Joint Venture

In December 2017, we entered into a strategic partnership with GIG, a subsidiary of Macquarie Group Limited, to develop EfW projects in the U.K. and Ireland. Our first investment with GIG, Covanta Europe Assets Limited, is structured as a 50/50 joint venture ("JV") between Covanta and GIG. As an initial step, we contributed 100% of our Dublin EfW project ("Dublin EfW") into the JV, and GIG acquired a 50% ownership in the JV for €136 million (\$167 million). We retained a 50% equity interest in the JV and retained our role as operations and maintenance ("O&M") service provider to Dublin EfW. During the fourth quarter of 2017, we determined that the assets and liabilities associated with Dublin EfW met the criteria for classification as assets held for sale, but did not meet the criteria for classification as discontinued operations. As of December 31, 2017, the assets and liabilities associated with Dublin EfW were presented in our condensed consolidated balance sheets as current "Assets held for sale" and current "Liabilities held for sale."

In February 2018, GIG's investment in the JV closed and we received gross proceeds of \$167 million (\$98 million, net of existing restricted cash), which we used to repay borrowings under our Revolving Credit Facility. The sale resulted in our loss of a controlling interest in Dublin EfW, which required the entity to be deconsolidated from our financial statements as of the sale date. For the six months ended June 30, 2018, we recorded a gain on the loss of a controlling interest of the business of \$204 million which is included in "(Loss) gain on sale of assets" on our condensed consolidated statement of operations. The gain resulted from the excess of proceeds received plus the fair value of our non-controlling interest in Dublin EfW over our carrying value.

Our 50% equity interest in the JV is accounted for under the equity method of accounting. As of June 30, 2018, our equity investment in the JV of \$160 million is included in "Other assets" on our condensed consolidated balance sheet. The fair value of our investment in the JV was determined by the fair value of the consideration received for the 50% acquired by GIG. There were no basis differences between the fair value of the acquired investment in the JV and the carrying amounts of the underlying net assets in the JV as they were fair valued contemporaneously as of the sale date. For further information, see *Note 11. Equity Method Investments*.

China Investment

On February 9, 2018 we sold our cost method investment in Chongqing Sanfeng Covanta Environmental Industrial Group, Co., Ltd ("Sanfeng Environment") and received proceeds of \$13 million. For the six months ended June 30,

2018, we recorded a gain on the sale of \$6 million, which is included in "(Loss) gain on sale of assets" on our condensed consolidated statement of operations.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)****NOTE 4. EARNINGS PER SHARE ("EPS") AND EQUITY****Earnings Per Share**

We calculate basic EPS using net earnings for the period and the weighted average number of outstanding shares of our common stock, par value \$0.10 per share, during the period. Diluted earnings per share computations, as calculated under the treasury stock method, include the weighted average number of shares of additional outstanding common stock issuable for stock options, restricted stock awards and restricted stock units whether or not currently exercisable. Diluted earnings per share does not include securities if their effect was anti-dilutive. Basic and diluted weighted average shares outstanding were as follows (in millions):

	<b>Three Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2017</b>	<b>Three Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2017</b>
Basic weighted average common shares outstanding	130	130	130	129
Dilutive effect of stock options, restricted stock and restricted stock units	—	—	2	—
Diluted weighted average common shares outstanding	130	130	132	129
Anti-dilutive stock options, restricted stock and restricted stock units excluded from the calculation of EPS	2	1	—	3

**Equity*****Accumulated Other Comprehensive Income (Loss) ("AOCI")***

The changes in accumulated other comprehensive loss are as follows (in millions):

	<b>Foreign Currency Translation</b>	<b>Pension and Other Postretirement Plan Unrecognized Net Gain</b>	<b>Net Unrealized (Loss) Gain On Derivatives</b>	<b>Total</b>
Balance at December 31, 2016	\$ (41 )	\$ 2	\$ (23 )	\$(62)
Other comprehensive income before reclassifications	12	—	3	15
Balance at June 30, 2017	\$ (29 )	\$ 2	\$ (20 )	\$(47)
Balance at December 31, 2017	\$ (24 )	\$ 2	\$ (33 )	\$(55)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from accumulated other comprehensive income	2	—	27	29
Net current period comprehensive income	2	—	27	29
Balance at June 30, 2018	\$ (22 )	\$ 2	\$ (6 )	\$(26)

**Amount Reclassified from Accumulated Other Comprehensive Income**

<b>Accumulated Other Comprehensive Income Component</b>	<b>Six Months Ended June 30, 2018</b>	<b>Affected Line Item in the Condensed Consolidated Statement of Operations</b>
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Foreign currency translation	\$ 2	Gain (loss) on sale of assets <sup>(1)</sup>
Interest rate swap	27	Gain (loss) on sale of assets <sup>(1)</sup>
	29	Total before tax
	—	Tax benefit
Total reclassifications	\$ 29	Net of tax

<sup>(1)</sup> For additional information see, *Note 3. Acquisitions and Dispositions - Green Investment Group Limited (“GIG”) Joint Venture and China Investment.*

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

**NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENTS**

We have one reportable segment which comprises our entire operating business. Prior to the first quarter 2018, our reportable segment, North America, was comprised exclusively of waste and energy services located in North America. During the first quarter of 2018, we sold 50% of our Dublin EfW facility to Covanta Europe Assets Limited, our JV with GIG, which resulted in our loss of control, see *Note 3. Acquisitions and Dispositions* for further information. Subsequent to the sale, results from our equity method investment in the JV and our O&M contract to operate the Dublin EfW facility are now being reviewed by our Chief Operating Decision Maker on a consolidated basis with our North America results. Therefore, we now include the results of our international operations, which consist primarily of our interests in Dublin, in our one reportable segment. This new structure is consistent with how we establish our overall business strategy and assesses performance of our business. The results of our reportable segment are consistent with our consolidated results as presented on our condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017.

**NOTE 6. REVENUE**

***Revenue Recognition***

Our EfW projects generate revenue from three primary sources: 1) fees charged for operating facilities or for receiving waste for disposal (waste and service revenue); 2) the sale of electricity and/or steam (energy revenue); and 3) the sale of ferrous and non-ferrous metals that are recovered from the waste stream as part of the EfW process (recycled metals revenue). We may also generate other operating revenue from the construction, expansion or upgrade of a facility, when a public-sector client owns the facility. Our customers for waste services or facility operations are principally public-sector entities, though we also market disposal capacity at certain facilities to commercial customers.

We also operate and/or have ownership positions in environmental services businesses, transfer stations and landfills (primarily for ash disposal) that are ancillary and complementary to our EfW projects and generate additional revenue from disposal or service fees.

Revenue is allocated to the performance obligations in a contract on a relative standalone selling price basis. To the extent that we sell the good or service related to the performance obligation separately in the same market, the standalone selling price is the observable price that we sell the good or service separately in similar circumstances and to similar customers. The fees charged for our services are generally defined in our service agreements and vary based on contract-specific terms.

**Waste and Service Revenue**

**Service Fee**

Service fee revenue is generated from the operations and maintenance services that we provide to owned and operated EfW facilities. We provide multiple waste disposal services aimed at operating and maintaining the facilities. Service fee revenue is generally based on an expected annual operating fee in relation to annual guaranteed waste processing and excess tonnage fees. The fees charged represent one performance obligation to operate and maintain each facility. Excess tonnage above a minimum specified in the contract represents variable consideration. We act as the agent in contracts for the sale of energy and metals in service fee facilities that we operate and accordingly record revenues net

for those contracts.

**Tip Fee**

Tip fees are generated from the sale of waste disposal services at EfW facilities that we own. We earn a per ton “tipping fee”, generally under long term contractual obligations with our host community and contractual obligations with municipal and commercial waste customers. The tipping fee is generally subject to an annual escalation. The performance obligation in these agreements is to provide waste disposal services for tons of acceptable waste. Revenue is recognized when the waste is delivered to the facility.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)****Energy Sales**

Typical energy sales consist of: (a) electricity generation, (b) capacity and (c) steam. Our facilities primarily sell electricity either to utilities at contracted rates or at prevailing market rates in regional markets and in some cases, sell steam directly to industrial users. We sell a portion of electricity and other energy product outputs pursuant to contracts. As these contracts expire, we intend to sell an increasing portion of the energy output in competitive energy markets or pursuant to short-term contracts.

**Recycled Metals Revenue**

Recycled metals revenue represents the sale of recovered ferrous and non-ferrous metals to processors and end-users. The majority of our metals contracts are based on both an unspecified variable unit (i.e. tonnage) and variable forward market price index, while some contracts contain a fixed unit or fixed rate to form the basis of our overall transaction price. We recognize recycled metal revenue as it is delivered to the customer.

**Other Operating Revenue (Construction)**

We generate additional revenue from the construction, expansion or upgrade of a facility, when a municipal client owns the facility and we provide the construction services. We generally use the cost incurred measure of progress for our construction contracts because it best depicts the transfer of control to the customer. Under the cost incurred measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation.

**Disaggregation of revenue**

A disaggregation of revenue from contracts with customers is presented on our condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017. See *Note 5. Financial Information by Business Segments* for a discussion of our reportable segment.

**Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations**

The following summarizes our performance obligations, a description of how transaction price is allocated to future performance obligations and the practical expedients applied:

Revenue Type	Timing	Performance Obligations	Measure of Progress	Type	Practical Expedients
Service Fee	Over time	Operations/waste disposal	Time elapsed	Fixed & Variable	Constrained <sup>(1)</sup> & Series <sup>(2)</sup>
Tip Fee	Over time	Waste disposal	Units delivered	Fixed & Variable	Right to invoice
Energy	Over time	Energy	Units delivered	Fixed & Variable	Right to invoice & Series <sup>(2)</sup>
		Capacity	Time elapsed		
Metals	Point in time	Steam	Units delivered	Variable	Less than 1 year
		Sale of ferrous & non-ferrous metals	Units delivered		
Other (Construction)	Over time	Construction services	Costs incurred	Fixed & Variable	N/A

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- (1) The amount of variable consideration that is included in the transaction price may be constrained, and is included only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. We estimate our variable service fee using the expected value method.
- (2) Service Fee and Energy contracts have been determined to have an annual and monthly series, respectively.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

ASC 606 requires disclosure of the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of June 30, 2018. The guidance provides certain conditions (identified as "practical expedients") that limit this disclosure requirement. We have contracts that meet the following practical expedients provided by ASC 606:

1. The performance obligation is part of a contract that has an original expected duration of one year or less.  
Revenue is recognized from the satisfaction of the performance obligations in the amount billable to our customer
2. that corresponds directly with the value to the customer of our performance completed to date (i.e. "right-to-invoice" practical expedient).  
The variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly
3. unsatisfied promise to transfer a distinct service or a series of distinct services that are substantially the same and that have the same pattern of transfer to our customer (i.e. "series practical expedient").

The following table shows our remaining performance obligations which primarily consists of the fixed consideration contained in our contracts as of June 30, 2018 (dollars in millions):

	<b><u>Total</u></b>
Total Remaining performance obligation	\$5,315
Percentage expected to be recognized:	
Remainder of 2018	6 %
2019	10 %

***Contract Balances***

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

	<b>June 30, December 31,</b>	
	<b>2018</b>	<b>2017</b>
Unbilled receivables	\$ 15	\$ 13
Deferred revenue	\$ 16	\$ 14

For the six months ended June 30, 2018, revenue recognized that was included in deferred revenue on our condensed consolidated balance sheet at the beginning of the period totaled \$4 million.

Accounts receivable are recorded when the right to consideration becomes unconditional and we typically receive payments from customers monthly. The timing of our receipt of cash from construction projects is generally based upon our reaching completion milestones as set forth in the applicable contracts, and the timing and size of these milestone payments can result in material working capital variability between periods. We had no asset impairment charges related to contract assets in the period.

**NOTE 7. STOCK-BASED AWARD PLANS**

During the six months ended June 30, 2018, we awarded certain employees grants of 1,195,418 restricted stock units ("RSUs"). The RSUs will be expensed over the requisite service period. The terms of the RSUs include vesting provisions based solely on continued service. If the service criteria are satisfied, the RSUs will generally vest during March of 2019, 2020, and 2021.

During the six months ended June 30, 2018, we awarded certain employees 385,464 performance based RSUs of which 50% will vest based upon our cumulative Free Cash Flow per share target over a three year performance period and the other 50% will vest based on a total shareholder return ("TSR") against metrics consistent with market practices and our peers with vesting determined by our relative TSR percentile rank versus the companies in our peer group.

On May 3, 2018, we awarded 13,158 shares of restricted stock and 75,659 RSUs for annual director compensation. During the six months ended June 30, 2018, we awarded 15,981 RSUs, for quarterly director fees for certain of our directors who elected to receive RSUs in lieu of cash payments. We determined the service vesting condition of these restricted stock awards and RSU's to be non-substantive and, in accordance with accounting principles for stock compensation, recorded the entire fair value of the awards as compensation expense on the grant date.

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During the six months ended June 30, 2018, we withheld 249,471 shares of our common stock in connection with tax withholdings for vested stock awards.

Compensation expense related to our stock-based awards was as follows (in millions):

	<b>Three</b>		<b>Six</b>	
	<b>Months</b>		<b>Months</b>	
	<b>Ended</b>		<b>Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Share based compensation expense	\$ 5	\$ 6	\$ 14	\$ 11

Unrecognized stock-based compensation expense and weighted-average years to be recognized are as follows (in millions, except for weighted average years):

	<b>As of June 30, 2018</b>	
	<b>Unrecognized</b>	<b>Weighted average years</b>
	<b>stock-based compensation</b>	<b>to be recognized</b>
Restricted stock awards	\$4	1.2
Restricted stock units	\$18	1.9

**NOTE 8. SUPPLEMENTARY INFORMATION****Pass through costs**

Pass through costs are costs for which we receive a direct contractually committed reimbursement from municipal clients which sponsor an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal, and certain chemical costs. These costs are recorded net of municipal client reimbursements as a reduction to "Plant operating expense," in our condensed consolidated statement of operations.

Pass through costs were as follows (in millions):

	<b>Three</b>		<b>Six</b>	
	<b>Months</b>		<b>Months</b>	
	<b>Ended</b>		<b>Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Pass through costs	\$ 12	\$ 13	\$ 26	\$ 23

**Other operating expenses, net*****Insurance Recoveries***

*Fairfax County Energy-from-Waste Facility*



In February 2017, our Fairfax County energy-from-waste facility experienced a fire in the front-end receiving portion of the facility. During the first quarter of 2017, we completed our evaluation of the impact of this event and recorded an immaterial asset impairment, which we have since recovered from insurance proceeds. The facility resumed operations in December 2017. We expect receipt of remaining insurance recoveries for both property loss and business interruption in the remainder of 2018.

The cost of repair or replacement of assets and business interruption losses is insured under the terms of applicable insurance policies, subject to deductibles. We recorded insurance gains, as a reduction to "Other operating expense, net," in our condensed consolidated statement of operations as follows (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Insurance gains for property and clean-up costs, net of impairment charges	\$ —	\$ 2	\$ 7	\$ 3
Insurance gains for business interruption costs, net of costs incurred	\$ 1	\$ 17	\$ 8	\$ 18

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

**Impairment Charges**

During the three months ended June 30, 2018, we identified an indicator of impairment associated with certain of our EfW facilities where the current expectation is, more likely than not, that the assets will not be operated through their previously estimated economic useful life. We performed recoverability tests to determine if these facilities were impaired at June 30, 2018. As a result, based on expected cash flows utilizing Level 3 inputs, we recorded a non-cash impairment charge of \$37 million to reduce the carrying value of the facilities to their estimated fair value.

**NOTE 9. INCOME TAXES**

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted and instituted fundamental changes to the taxation of multinational corporations. As a result, we recorded a provisional tax charge at December 31, 2017 of \$21 million related to the mandatory transition tax and a provisional tax benefit of \$204 million related to the re-measurement of deferred tax assets and liabilities as of December 31, 2017. We recorded a provisional amount because the calculation of the total post-1986 earnings and profits ("E&P") for our foreign subsidiaries is not completed, and the amount of foreign E&P held in cash and other specified assets to which the transition tax applies, is not finalized. In accordance with current SEC guidance, we will report the final impact amounts in the reporting period in which the accounting is completed, which will not exceed one year from the date of enactment of the Act.

As of June 30, 2018, we have not completed the accounting for any of the tax effects of the tax reform described above and there have been no material changes to our estimated amounts. Accordingly, there has been no change to the provisional amounts previously recorded and no impact to the effective tax rate for the period.

Given the complexity of the global intangible low-taxed income ("GILTI") provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. Our accounting policy election with respect to the new GILTI Tax rules will depend, in part, on analyzing our global income to determine whether we can reasonably estimate the tax impact. While we have included an estimate of GILTI in our estimated effective tax rate for 2018, we have not completed our analysis and have not determined which method to elect. Adjustments related to the amount of GILTI tax recorded in our condensed consolidated financial statements may be required based on the outcome of this election.

We record our interim tax provision based upon our estimated annual effective tax rate ("EAETR") and account for tax effects of discrete events in the period in which they occur. We review the EAETR on a quarterly basis as projections are revised and laws are enacted. The effective tax rate ("ETR") was (23)% and 4% for the six months ended June 30, 2018 and 2017, respectively. The decrease in the ETR is primarily due to the combined effects of (i) the federal tax rate reduction as the result of the enactment of the Act; (ii) no income tax associated with the gain on the sale of 50% interest in the joint venture with GIG; (iii) the change in the mix of earnings and (iv) the discrete tax benefit attributable to a state audit settlement.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)****NOTE 10. 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 interest rate swaps are determined by applying the Euribor forward curve observable in the market to the contractual terms of our floating to fixed rate 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 June 30, 2018. 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 table presents information about the fair value measurement of our assets and liabilities as of June 30, 2018 and December 31, 2017 (in millions):

<b>Financial Instruments Recorded at Fair Value on a Recurring Basis:</b>	<b>Fair Value Measurement Level</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets:</b>			
Investments — mutual and bond funds	1	\$ 2	\$ 2
Total assets:		\$ 2	\$ 2
<b>Liabilities:</b>			
Derivative liability — energy hedge <sup>(2)</sup>	2	\$ 6	\$ 5
Derivative liability — interest rate swaps included in liabilities held for sale	2	—	7
Total liabilities:		\$ 6	\$ 12

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

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

The following financial instruments are recorded at their carrying amount (in millions):

<b>Financial Instruments Recorded at Carrying Amount:</b>	<b>As of June 30, 2018</b>	<b>As of December 31, 2017</b>
	<b>Carrying Amount</b>	<b>Carrying Amount</b>
	<b>Estimated Fair Value</b>	<b>Estimated Fair Value</b>

**Liabilities:**

Long-term debt	\$2,305	\$ 2,299	\$2,349	\$ 2,371
Project debt	\$161	\$ 165	\$174	\$ 179
Project debt included in liabilities held for sale	\$—	\$ —	\$510	\$ 510

We are required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair value of short-term financial instruments such as cash and cash equivalents, restricted cash, accounts receivables, prepaid expenses and other assets, accounts payable and accrued expenses approximates their carrying value on the condensed consolidated balance sheets due to their short-term nature.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

In addition to the recurring fair value measurements, certain assets are measured at fair value on a non-recurring basis when an indication of impairment is identified, and the asset's fair value is determined to be less than its carrying value.

**NOTE 11. EQUITY METHOD INVESTMENTS**

We hold a 50% equity interest in Covanta Europe Assets Limited, our JV with GIG, see *Note 3. Acquisitions and Dispositions*. The equity in net income from unconsolidated investments from the JV since the closing date was \$2 million for both the three and six months ended June 30, 2018.

We serve as the O&M service provider for the JV, a related party, under market competitive terms. For the period from February 12, 2018 through June 30, 2018 we recognized \$12 million in revenues related to this agreement and have a receivable of \$10 million as of June 30, 2018.

**NOTE 12. DERIVATIVE INSTRUMENTS****Energy Price Risk**

Following the expiration of certain long-term energy sales contracts, we may have exposure to market risk, and therefore revenue fluctuations, in energy markets. We have entered into contractual arrangements that will mitigate our exposure to short-term volatility through a variety of hedging techniques and will continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce and will not involve taking positions (either long or short) on energy prices in excess of our physical generation. The amount of energy generation for which we have hedged on a forward basis under agreements with various financial institutions as of June 30, 2018 is indicated in the following table (in millions):

<b>Calendar Year</b>	<b>Hedged MWh</b>
2018	1.4
2019	1.9
<b>Total</b>	<b>3.3</b>

As of June 30, 2018, the net fair value of the energy derivatives was \$6 million. The effective portion of the change in fair value was recorded as a component of AOCI. As of June 30, 2018, the amount of hedge ineffectiveness was not material.

During the six months ended June 30, 2018, cash provided by and used in energy derivative settlements of \$8 million and \$15 million, respectively, was included in net cash provided by operating activities on our condensed consolidated statement of cash flows.

During the six months ended June 30, 2017, cash provided by and used in energy derivative settlements of \$12 million and zero, respectively, was included in the change in net cash provided by operating activities on our condensed consolidated statement of cash flows.

**Interest Rate Swaps**

In order to hedge the risk of adverse variable interest rate fluctuations associated with the senior secured term loan previously held by Dublin EfW, we entered into floating to fixed rate swap agreements with various financial institutions to hedge the variable interest rate fluctuations associated with the floating rate portion of the loan, expiring in 2032. The interest rate swap was designated as a cash flow hedge which was recorded at fair value with changes in fair value recorded as a component of AOCI. The unrealized loss was included within "(Loss) gain on sale of assets" upon deconsolidation.

As of December 31, 2017, the fair value of the interest rate swap derivative of \$7 million, pre-tax, was recorded within "Liabilities held for sale" in our consolidated balance sheet and was subsequently sold as part of the transaction with GIG. See *Note 3. Acquisitions and Dispositions*.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)****NOTE 13. CONSOLIDATED DEBT**

Consolidated debt is as follows (in millions)

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>LONG-TERM DEBT:</b>		
Revolving credit facility (4.28% - 4.53%)	\$ 375	\$ 445
Term loan, net (3.82%)	189	191
Credit Facilities subtotal	564	636
Senior Notes, net of deferred financing costs	1,185	1,185
Tax-Exempt Bonds, net of deferred financing costs	489	459
Equipment financing capital leases	67	69
<b>Total long-term debt</b>	<b>2,305</b>	<b>2,349</b>
Less: Current portion	(10 )	(10 )
<b>Noncurrent long-term debt</b>	<b>\$ 2,295</b>	<b>\$ 2,339</b>
<b>PROJECT DEBT:</b>		
<b>Total project debt, net of deferred financing costs and unamortized debt premium</b>	<b>\$ 161</b>	<b>\$ 174</b>
Less: Current portion	(24 )	(23 )
<b>Noncurrent project debt</b>	<b>\$ 137</b>	<b>\$ 151</b>
<b>TOTAL CONSOLIDATED DEBT</b>	<b>\$ 2,466</b>	<b>\$ 2,523</b>
Less: Current debt	(34 )	(33 )
<b>TOTAL NONCURRENT CONSOLIDATED DEBT</b>	<b>\$ 2,432</b>	<b>\$ 2,490</b>

Our subsidiary, Covanta Energy, has a senior secured credit facility consisting of a revolving credit facility (the "Revolving Credit Facility") and a term loan (the "Term Loan") (collectively referred to as the "Credit Facilities"). The nature and terms of our Credit Facilities, other long-term and project debt are described in detail in *Note 10. Consolidated Debt* in our Annual Report on Form 10-K for the year ended December 31, 2017.

***Revolving Credit Facility***

As of June 30, 2018, we had unutilized capacity under the Revolving Credit Facility as follows (in millions):

	<b>Total Facility Commitment</b>	<b>Expiring <sup>(1)</sup></b>	<b>Direct Borrowings</b>	<b>Outstanding Letters of Credit</b>	<b>Unutilized Capacity</b>
Revolving Credit Facility	\$ 1,000	2020	\$ 375	\$ 183	\$ 442

<sup>(1)</sup> The Revolving Credit Facility consists of two tranches; Tranche A (\$950 million), which expires in 2020, and Tranche B (\$50 million), which expires in March 2019.

***Credit Agreement Covenants***

The loan documentation governing the Credit Facilities contains various affirmative and negative covenants, as well as financial maintenance covenants (financial ratios), that limit our ability to engage in certain types of transactions. We are in compliance with all of the affirmative and negative covenants under the Credit Facilities as of June 30, 2018.

***Virginia Tax-Exempt Bonds***

In June 2018, we entered into a loan agreement with the Virginia Small Business Financing Authority under which they agreed to issue up to \$50 million in aggregate principal amount of tax-exempt Solid Waste Disposal Bonds and loan the proceeds to us for the purpose of funding certain capital expenditures at our facilities in Virginia and to pay related costs of issuance (the “Virginia Bonds”). An initial \$30 million in principal amount of Virginia Bonds were issued (the “Series 2018 Virginia Bonds”) with \$20 million reserved for potential future issuance at our option. The Series 2018 Virginia Bonds bear interest at a fixed rate of 5.00%, payable semi-annually on January 1 and July 1, of each year, beginning January 1, 2019. The Series 2018 Virginia Bonds have a legal maturity of January 1, 2048 and are subject to a mandatory tender for purchase on July 1, 2038. The Virginia Bonds are senior unsecured obligations of Covanta Holding Corporation and are not guaranteed by any of our subsidiaries.



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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

**NOTE 14. 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 June 30, 2018 and December 31, 2017, accruals for our loss contingencies recorded in "Accrued expenses and other current liabilities" in our condensed consolidated balance sheets were \$11 million and \$18 million, respectively.

**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 United States 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.

*Tulsa Matter.* In January 2016, we were informed by the office of the United States Attorney for the Northern District of Oklahoma (“U.S. Attorney”) that our subsidiary, Covanta Tulsa Renewable Energy LLC, is the target of a criminal investigation being conducted by the EPA. We understand that the EPA planned to allege improprieties in the recording and reporting of emissions data during an October 2013 incident involving one of the three municipal waste combustion units at our Tulsa, Oklahoma facility. We believe that our operations in Tulsa were and are in compliance with existing laws and regulations in all material respects. While we can provide no assurance as to the outcome of this matter, we do not believe that the investigation or any issues arising therefrom will have a material adverse effect on our condensed consolidated results of operations, financial position or cash flows.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)****Other Matters***China Indemnification Claims*

Subsequent to completing the exchange of our project ownership interests in China for a 15% ownership interest in Sanfeng Environment, Sanfeng Environment made certain claims for indemnification under the agreement related to the condition of the facility in Taixing. In February 2018 we made a settlement payment of \$7 million related to this claim.

*Durham-York Contractor Arbitration*

We are seeking to resolve outstanding disputes with our primary contractor for the Durham-York construction project regarding (i) claims by the contractor for change orders and other expense reimbursement and (ii) claims by us for charges and liquidated damages for project completion delays. Our contract with this contractor contemplates binding arbitration to resolve these disputes, which we expect to conclude in 2018. While we do not expect resolution of these disputes to have a material adverse impact on our financial position, it could be material to our results of operations and/or cash flows in any given accounting period.

**Other Commitments**

Other commitments as of June 30, 2018 were as follows (in millions):

Letters of credit issued under the Revolving Credit Facility	\$183
Letters of credit - other	68
Surety bonds	198
Total other commitments — net	\$449

The letters of credit were issued to secure our performance under various contractual undertakings related to our domestic and international projects or to secure obligations under our insurance program. Each letter of credit relating to a project is required to be maintained in effect for the period specified in related project contracts, and generally may be drawn if it is not renewed prior to expiration of that period.

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 because of 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 Credit Facilities as either additional term loans or as revolving loans.

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.

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. For specific criteria related to the redemption features of the Senior Notes and Tax-Exempt Bonds, see *Item 8. Financial Statements And*

*Supplementary Data — Note 10. Consolidated Debt* of our Annual Report on Form 10-K.

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 energy-from-waste 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.

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

*New York City Waste Transport and Disposal Contract*

We received the notice to proceed from the New York City Department of Sanitation ("DSNY") to develop the infrastructure supporting the East 91st Street Marine Transfer Station ("MTS"). We expect to commence operations in March 2019. The MTS is the second in a pair of marine transfer stations under a 20-year waste transport and disposal agreement between Covanta and DSNY. We expect to incur approximately \$35 million of additional capital expenditures, primarily for transportation equipment.

**NOTE 15. SUBSEQUENT EVENT**

*Sale of Hydro Facility Investment*

In July 2018, we sold our equity interests in a hydroelectric facility located in the state of Washington for proceeds of approximately \$12 million. We expect to record a gain on this transaction in the third quarter of 2018. As of June 30, 2018, our equity interest in this facility was classified within "Prepaid expenses and other current assets" on our condensed consolidated balance sheet.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")**

The following MD&A is intended to help the reader understand the results of operations and financial condition of Covanta Holding Corporation and its subsidiaries; ("Covanta" or the "Company") for the three and six months ended June 30, 2018. The term "Covanta Energy" refers to our subsidiary Covanta Energy, LLC and its subsidiaries. The financial information as of June 30, 2018 should be read in conjunction with the financial statements for the year ended December 31, 2017 contained in our 2017 Annual Report on Form 10-K.

**Factors Affecting Business Conditions and Financial Results**

The following are various published pricing indices relating to the U.S. economic drivers that are relevant to those aspects of our business where we have market exposure; however, there is not an exact correlation between our results and changes in these metrics.

	June 30, 2018		June 30, 2017	
Consumer Price Index <sup>(1)</sup>	2.9	%	1.6	%
PJM Pricing (Electricity) <sup>(2)</sup>	\$28.34		\$27.73	
NE ISO Pricing (Electricity) <sup>(3)</sup>	\$31.95		\$27.34	
Henry Hub Pricing (Natural Gas) <sup>(4)</sup>	\$2.86		\$3.08	
#1 HMS Pricing (Ferrous Metals) <sup>(5)</sup>	\$345		\$263	
Scrap Metals - Old Sheet & Old Cast <sup>(6)</sup>	\$0.64		\$0.63	

<sup>(1)</sup> Represents the year-over-year percent change in the Headline CPI number. The Consumer Price Index (CPI-U) data is provided by the U.S. Department of Labor Bureau of Labor Statistics.

<sup>(2)</sup> Average price per MWh for Q2 2018 and Q2 2017. Pricing for the PJM PSEG Zone is provided by the PJM ISO.

<sup>(3)</sup> Average price per MWh for Q2 2018 and Q2 2017. Pricing for the Mass Hub Zone is provided by the NE ISO.

<sup>(4)</sup> Average price per MMBtu for Q2 2018 and Q2 2017. The Henry Hub Pricing data is provided by the Natural Gas Weekly Update, U.S. Energy Information Administration.

<sup>(5)</sup> Average price per gross ton for Q2 2018 and Q2 2017. The #1 Heavy Melt Steel ("HMS") composite index (\$/gross ton) price as published by American Metal Market.

<sup>(6)</sup> Average price per pound for Q2 2018 and Q2 2017. Calculated using the high price of Old Cast Aluminum Scrap (\$/lb) as published by American Metal Market.

**Seasonal** - Our quarterly Operating (loss) income within the same fiscal year typically differs substantially due to seasonal factors, primarily as a result of the timing of scheduled plant maintenance. We conduct scheduled maintenance periodically each year, which requires that individual boiler and/or turbine units temporarily cease operations. During these scheduled maintenance periods, we incur material repair and maintenance expense and receive less revenue until the boiler and/or turbine units resume operations. This scheduled maintenance usually occurs during periods of off-peak electric demand and/or lower waste volumes, which are our first, second and fourth fiscal quarters. The scheduled maintenance period in the first half of the year (primarily first quarter and early second quarter) is typically the most extensive, while the third quarter scheduled maintenance period is the least extensive. Given these factors, we normally experience our lowest operating income from our projects during the first half of each year.

Our Operating (loss) income may also be affected by seasonal weather extremes during summers and winters. Increased demand for electricity and natural gas during unusually hot or cold periods may affect certain operating expenses and may trigger material price increases for a portion of the electricity and steam we sell.

**Metals Markets** - Recycled metal prices for both ferrous and non-ferrous materials are impacted directly and indirectly by tariff and trade actions both by the US as well as foreign countries. Recent efforts by the US government

to place tariffs on imported steel and aluminum have increased domestic demand for our products. The ultimate impact of these tariffs is unclear as retaliation to these tariffs by foreign countries could reduce or eliminate any benefits to us.

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**Quarter Updates**

Capital Allocation

Our key capital allocation activities through the six months ended June 30, 2018, included the following: \$67 million declared in dividends to stockholders; and \$11 million for growth investments, including \$4 million to acquire an environmental service business, and \$7 million for various organic growth investments, which include metals recovery projects and investments related to our profiled waste and environmental services businesses.

New Business Development and Asset Management

During the six months ended June 30, 2018, we acquired an environmental services business located in Toronto, Canada for approximately \$4 million. This acquisition further expands our Covanta Environmental Solutions capabilities, including client service offerings and geographic reach.

In July 2018, we sold our equity interests in a hydroelectric facility located in the state of Washington for proceeds of approximately \$12 million.

Contract Extensions

We have extended our power purchase agreements with Marion for an additional 15 years beginning in late 2019 and with Fairfax for an additional year.

Other Significant Events

We received the notice to proceed from the DSNY to develop the infrastructure supporting the East 91st MTS. We expect to commence operations in March 2019. The MTS is the second in a pair of marine transfer stations under a 20-year waste transport and disposal agreement between Covanta and DSNY.

**CONSOLIDATED RESULTS OF OPERATIONS**

The following general discussions should be read in conjunction with the condensed consolidated financial statements, the notes to the condensed consolidated financial statements and other financial information appearing and referred to elsewhere in this report. We have one reportable segment which comprises our entire operating business.

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 *Item 1. Financial Statements — Note 1. Organization and Basis of Presentation* and *Note 3. Acquisitions and Dispositions* in this quarterly report on Form 10-Q and in *Item 8. Financial Statements And Supplementary Data — Note 1. Organization and Summary of Significant Accounting Policies* and *Note 3. New Business and Asset Management* of our annual report on Form 10-K, our business development initiatives, contract transitions, and acquisitions resulted in various transactions that are reflected in comparative revenue and expense. These factors must be taken into account in developing meaningful comparisons between the periods compared below.

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 Consolidated Results of Operations may not total due to rounding.

Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS — OPERATING INCOME**

	<b>Three Months Ended June 30, 2018</b>		<b>Variance Increase (Decrease) 2018 vs 2017</b>
	<b>2018</b>	<b>2017</b>	
	(In millions)		
<b>OPERATING REVENUE:</b>			
Waste and service revenue	\$333	\$310	\$ 23
Energy revenue	76	75	1
Recycled metals revenue	25	15	10
Other operating revenue	20	24	(4 )
Total operating revenue	454	424	30
<b>OPERATING EXPENSE:</b>			
Plant operating expense	334	319	15
Other operating expense, net	19	2	17
General and administrative expense	27	30	(3 )
Depreciation and amortization expense	55	52	3
Impairment charges	37	1	36
Total operating expense	472	404	68
Operating (loss) income	\$(18 )	\$20	\$ (38 )

	<b>Six Months Ended June 30, 2018</b>		<b>Variance Increase (Decrease) 2018 vs 2017</b>
	<b>2018</b>	<b>2017</b>	
	(In millions)		
<b>OPERATING REVENUE:</b>			
Waste and service revenue	\$645	\$596	\$ 49
Energy revenue	176	161	15
Recycled metals revenue	49	31	18
Other operating revenue	42	40	2
Total operating revenue	912	828	84
<b>OPERATING EXPENSE:</b>			
Plant operating expense	679	651	28
Other operating expense, net	27	17	10
General and administrative expense	58	58	—
Depreciation and amortization expense	109	104	5
Impairment charges	37	1	36
Total operating expense	910	831	79
Operating income (loss)	\$2	\$(3 )	\$ 5

Table of Contents**Operating Revenue**Waste and Service Revenue

<i>In millions:</i>	Three Months		Six Months		Variance	
	Ended June 30,		Ended June 30,		Increase (Decrease)	
	2018	2017	2018	2017	Three Months	Six Months
EfW tip fees	\$156	\$143	\$310	\$274	\$13	\$36
EfW service fees	100	97	199	195	3	4
Environmental services	37	32	69	61	5	8
Municipal services	54	52	99	96	2	3
Other revenue	12	10	20	18	2	2
Intercompany	(27)	(25)	(53)	(48)	(2)	(5)
Total waste and service revenue	\$333	\$310	\$645	\$596	\$23	\$49

Certain amounts may not total due to rounding.

<i>EfW facilities - Tons <sup>(1)</sup> (in millions):</i>	Three Months		Six Months		Variance	
	Ended June 30,		Ended June 30,		Increase (Decrease)	
	2018	2017	2018	2017	Three Months	Six Months
Tip fee - contracted	2.3	2.0	4.4	3.9	0.3	0.5
Tip fee - uncontracted	0.4	0.5	1.1	1.1	(0.1)	—
Service fee	2.3	2.3	4.4	4.4	—	—
Total tons	5.1	4.8	9.9	9.4	0.3	0.5

(1) Includes solid tons only.

Certain amounts may not total due to rounding.

For the three month comparative period, waste and service revenue increased by \$23 million, primarily driven by \$17 million of organic growth and the start-up of the Dublin EfW facility in the fourth quarter of 2017, partially offset by service contract transitions. Within organic growth, EfW tip fee revenue increased by \$8 million due to increased volume processed, primarily from a full quarter of operations at the Fairfax County EfW facility, which was down during the comparative period in 2017, higher average revenue per ton, and growth in environmental services revenue.

For the six month comparative period, waste and service revenue increased by \$49 million, primarily driven by \$28 million of organic growth and the start-up of the Dublin EfW facility in the fourth quarter of 2017, partially offset by service contract transitions. Within organic growth, EfW tip fee revenue increased by \$15 million due to increased volume processed, primarily from a full period of operations at the Fairfax County EfW facility, which was down for a majority of the comparative period in 2017, higher average revenue per ton, and growth in environmental services revenue.

Energy Revenue

<i>In millions: <sup>(1)</sup></i>	Three Months		Six Months		Variance	
	Ended June 30,		Ended June 30,		Increase (Decrease)	
	2018	2017	2018	2017	Three Months	Six Months
Energy Sales	\$64	\$64	\$151	\$141	\$—	\$10
Capacity	13	11	25	20	2	5
Total energy revenue	\$76	\$75	\$176	\$161	\$1	\$15

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

Certain amounts may not total due to rounding.

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	<b>Total EfW (in millions): Three Months Ended June 30,</b>						<b>Variance Increase (Decrease) 2018 vs 2017</b>	
	<b>2018</b>			<b>2017</b>				
	<b>Revenue</b>	<b>Volume</b>	<b>% of Total Volume</b>	<b>Revenue</b>	<b>Volume</b>	<b>% of Total Volume</b>	<b>Revenue</b>	<b>Volume</b>
At Market	\$9	0.3	18 %	\$5	0.2	12 %	\$4	0.1
Contracted	46	0.5	32 %	51	0.6	41 %	(5 )	(0.1 )
Hedged	21	0.8	50 %	19	0.7	47 %	2	0.1
Total EfW	\$76	1.6	100 %	\$75	1.4	100 %	\$1	0.2

	<b>Total EfW (in millions): Six Months Ended June 30,</b>						<b>Variance Increase (Decrease) 2018 vs 2017</b>	
	<b>2018</b>			<b>2017</b>				
	<b>Revenue</b>	<b>Volume</b>	<b>% of Total Volume</b>	<b>Revenue</b>	<b>Volume</b>	<b>% of Total Volume</b>	<b>Revenue</b>	<b>Volume</b>
At Market	\$24	0.6	20 %	\$10	0.4	14 %	\$14	0.2
Contracted	94	1.0	32 %	102	1.2	41 %	(8 )	(0.2 )
Hedged	58	1.6	48 %	49	1.3	45 %	9	0.3
Total EfW	\$176	3.2	100 %	\$161	2.9	100 %	\$15	0.3

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

(2) 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, energy revenue increased by \$1 million, with a \$9 million increase from higher production at EfW facilities largely offset by lower market prices and the expiration of a long-term energy contract.

For the six month comparative period, energy revenue increased by \$15 million, driven by a \$14 million increase from higher production at EfW facilities and a \$5 million increase from the start-up of the Dublin facility in the fourth quarter of 2017, offset by lower market prices and the expiration of long-term energy contracts.

Recycled Metals Revenue

	<b>Three Months Ended June 30,</b>					
	<b>Metal Revenue (in millions)</b>		<b>Tons Recovered (in thousands)</b>		<b>Tons Sold (in thousands)</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Ferrous Metal	\$15	\$10	107	98	81	68
Non-Ferrous Metal	10	4	12	9	7	5
Total	\$25	\$15				

(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.

	<b>Six Months Ended June 30,</b>					
	<b>Metal Revenue (in millions)</b>		<b>Tons Recovered (in thousands)</b>		<b>Tons Sold (in thousands)</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Ferrous Metal	\$30	\$21	208	193	158	128

Non-Ferrous Metal	19	10	23	18	15	14
Total		\$49	\$31			

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

For the three month comparative period, recycled metals revenue increased by \$10 million, driven by higher volumes of ferrous and non-ferrous metals recovered and higher prices for the material.

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For the six month comparative period, recycled metals revenue increased by \$18 million, driven by higher volumes of ferrous and non-ferrous metals recovered and higher prices for the material.

Other Operating Revenue

Other operating revenue decreased by \$4 million for the three month comparative period, primarily due to contractual energy sales in 2017 at facilities that did not produce power in 2018 and lower construction revenue.

Other operating revenue increased by \$2 million for the six month comparative period, primarily due to increased construction revenue, partially offset by contractual energy sales in 2017 related to facilities that did not produce power in 2018.

*Operating Expense*Plant Operating Expense

<i>In millions:</i>	Three Months		Six Months		Variance	
	Ended June	Ended June	Ended June	Ended June	Increase	(Decrease)
	30,	30,	30,	30,	Three	Six
	2018	2017	2018	2017	Month	Months
Plant maintenance <sup>(1)</sup>	\$79	\$79	\$169	\$177	\$—	\$(8 )
All other	255	240	510	475	15	35
Plant operating expense	\$334	\$319	\$679	\$651	\$15	\$28

(1) Plant maintenance costs include our internal maintenance team and non-facility employee costs for facility scheduled and unscheduled maintenance and repair expense.

Plant operating expenses increased by \$15 million for the three month comparable period, primarily due to costs related to growth in our Covanta Environmental Solutions business and our metals processing operations, and the start-up of the Dublin EfW facility in the fourth quarter of 2017.

Plant operating expenses increased by \$28 million for the six month comparable period, primarily due to costs related to growth in our Covanta Environmental Solutions business and our metals processing operations, and the start-up of the Dublin EfW facility in the fourth quarter of 2017, partially offset by lower plant maintenance expense year-over-year.

Other Operating Expense

Other operating expenses increased by \$17 million for the three month comparable period, primarily due to decreased insurance recoveries, which are recorded as a contra expense.

Other operating expenses increased by \$10 million for the six month comparable period, primarily due to decreased insurance recoveries, which are recorded as a contra expense, and increased construction expenses.

General and Administrative Expense

General and administrative expenses decreased for the three month comparative period by \$3 million driven by lower outside consulting costs for accounting services.

General and administrative expenses remained flat for the six month comparable period.

Impairment Charges

During the three months ended June 30, 2018, we identified an indicator of impairment associated with certain of our EfW facilities where the current expectation is, more likely than not, that the assets will not be operated through their previously estimated economic useful life. We performed recoverability tests to determine if these facilities were impaired at June 30, 2018. As a result, based on expected cash flows utilizing Level 3 inputs, we recorded a non-cash impairment charge of \$37 million to reduce the carrying value of the facilities to their estimated fair value.



Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS — NON-OPERATING INCOME ITEMS****Three and Six Months Ended June 30, 2018 and 2017*****Other Income (Expense):***

	Three Months Ended June 30,		Six Months Ended June 30,		Variance (Increase) Decrease Three Six MonthsMonths	
	2018	2017	2018	2017		
	(In millions)					
Interest expense	\$(36)	\$(35)	\$(74)	\$(71)	\$(1)	\$(3)
(Loss) gain on sale of assets	—	(2)	210	(6)	2	216
Loss on extinguishment of debt	—	(13)	—	(13)	13	13
Other (expense) income, net	(1)	—	(1)	—	(1)	(1)
Total (expense) income	\$(37)	\$(50)	\$135	\$(90)	\$13	\$225

During the six months ended June 30, 2018, we recorded a \$204 million gain on the sale of 50% of our Dublin EfW to our joint venture with GIG and \$6 million gain on the sale of our remaining interests in China. During the three and six months ended June 30, 2017, we recorded a \$2 million and \$6 million charge for indemnification claims related to the sale of our interests in China.

The loss on extinguishment of debt is attributable to the redemption of our 7.25% Senior Notes due 2020 on April 3, 2017. As a result of the redemption, during the three months ended June 30, 2017, we recorded a prepayment charge of approximately \$9 million and a write-off of the remaining deferred financing costs of approximately \$4 million.

***Income Tax Benefit:***

	Three Months Ended June 30,		Six Months Ended June 30,		Variance Increase (Decrease) Three Six MonthsMonths	
	2018	2017	2018	2017		
	(In millions, except percentages)					
Income tax benefit (expense)	\$22	\$(8)	\$31	\$3	\$30	\$28
Effective income tax rate	41 %	24 %	(23) %	4 %	N/A	N/A

The difference between the effective tax rate for the six months June 30, 2018 and 2017 is primarily attributable to the combined effects of (i) the federal tax rate reduction as the result of the enactment of the Act; (ii) no income tax associated with the gain on the sale of 50% interest in the joint venture with GIG; (iii) the change in the mix of earnings and (iv) the discrete tax benefit attributable to a state audit settlement. For additional information see *Item 1. Financial Statements - Note 9. Income Taxes.*

***Net (loss) income and (Loss) Earnings Per Share:***

	Three Months Ended June 30,		Six Months Ended June 30,		Variance Increase (Decrease) Three Six MonthsMonths	
	2018	2017	2018	2017		

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	(In millions, except per share amounts)					
Net (loss) income	\$ (31 )	\$ (37 )	\$ 170	\$ (89 )	\$ 6	\$ 259
Weighted average common shares outstanding:						
Basic	130	130	130	129	—	1
Diluted	130	130	132	129	—	3
(Loss) Earnings Per Share:						
Basic	\$(0.24)	\$(0.28)	\$ 1.31	\$(0.69)	\$ 0.04	\$ 2.00
Diluted	\$(0.24)	\$(0.28)	\$ 1.29	\$(0.69)	\$ 0.04	\$ 1.98
Cash dividend declared per share	\$ 0.25	\$ 0.25	\$ 0.50	\$ 0.50	\$ —	\$ —

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Table of Contents**Supplementary Financial Information — Adjusted EBITDA (Non-GAAP Discussion)**

To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EBITDA, which is a non-GAAP financial measure as defined by the SEC. This non-GAAP financial measure is described below, and is not intended as a substitute for and should not be considered in isolation from measures of financial performance prepared in accordance with GAAP. In addition, our use of non-GAAP financial measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. The presentation of Adjusted EBITDA is intended to enhance the usefulness of our financial information by providing a measure which management internally uses to assess and evaluate the overall performance of our business and those of possible acquisition and divestiture candidates, and highlight trends in the overall business.

We use Adjusted EBITDA to provide additional ways of viewing aspects of operations that, when viewed with the GAAP results provide a more complete understanding of our core business. As we define it, Adjusted EBITDA represents earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income including the effects of impairment losses, gains or losses on sales, dispositions or retirements of assets, adjustments to reflect the Adjusted EBITDA from our unconsolidated investments, adjustments to exclude significant unusual or non-recurring items that are not directly related to our operating performance, plus adjustments to capital type expenses for our service fee facilities in line with our credit agreements. We adjust for these items in our Adjusted EBITDA as our management believes that these items would distort their ability to efficiently view and assess our core operating trends. Going forward, as larger parts of our business will be conducted through unconsolidated entities that we do not control, we will begin to adjust for our proportionate share of the entities depreciation and amortization, interest expense and taxes in order to improve comparability to the Adjusted EBITDA of our wholly owned entities.

Adjusted EBITDA should not be considered as an alternative to net income or cash flow provided by operating activities as indicators of our performance or liquidity or any other measures of performance or liquidity derived in accordance with GAAP.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EBITDA for the three and six months ended June 30, 2018 and 2017, respectively, reconciled for each such period to net income (loss) and cash flow provided by operating activities, which are believed to be the most directly comparable measures under GAAP. The following is a reconciliation of Net (loss) income to Adjusted EBITDA (in millions):

	<b>Three Months Ended June 30, 2018</b>		<b>Six Months Ended June 30, 2017</b>	
	<b>(Unaudited)</b>			
<b>Net (loss) income</b>	<b>\$(31 )</b>	<b>\$(37)</b>	<b>\$170</b>	<b>\$(89 )</b>
Depreciation and amortization expense	55	52	109	104
Interest expense	36	35	74	71
Income tax (benefit) expense	(22 )	8	(31 )	(3 )
Impairment charges <sup>(a)</sup>	37	1	37	1
Loss (gain) on sale of assets <sup>(b)</sup>	—	2	(210 )	6
Loss on extinguishment of debt	—	13	—	13
Property insurance recoveries, net	—	(3 )	(7 )	(3 )
Capital type expenditures at client owned facilities <sup>(c)</sup>	11	12	23	26
Debt service billings in excess of revenue recognized	—	1	1	2

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Business development and transaction costs	1	1	3	1
Severance and reorganization costs	2	1	4	1
Stock-based compensation expense	5	6	14	11
Adjustments to reflect Adjusted EBITDA from unconsolidated investments	7	—	11	—
Other <sup>(d)</sup>	2	1	5	3
<b>Adjusted EBITDA</b>	<b>\$103</b>	<b>\$93</b>	<b>\$203</b>	<b>\$144</b>

(a) During the six months ended June 30, 2018, we identified an indicator of impairment associated with certain of our EfW facilities and recorded a non-cash impairment charge of \$37 million to reduce the carrying value of the facilities to their estimated fair value.

(b) During the six months ended June 30, 2018, we recorded a \$204 million gain on the sale of 50% of our Dublin project to our joint venture with GIG and a \$6 million gain on the sale of our remaining interests in China.

During the three and six months ended June 30, 2017, we recorded a \$2 million and \$6 million charge, respectively, for indemnification

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claims related to the sale of our interests in China, which was completed in 2016.

Adjustment for impact of adoption of FASB ASC 853 - *Service Concession Arrangements*. These types of capital equipment related (c) expenditures at our service fee operated facilities were historically capitalized prior to adoption of this accounting standard effective January 1, 2015 and our capitalized at facilities that we own.

(d) Includes certain other items that are added back under the definition of Adjusted EBITDA in Covanta Energy, LLC's credit agreement.

The following is a reconciliation of cash flow provided by operating activities to Adjusted EBITDA (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Net cash provided by operating activities</b>	<b>\$60</b>	<b>\$18</b>	<b>\$63</b>	<b>\$27</b>
Capital type expenditures at service fee operated facilities <sup>(a)</sup>	11	12	23	26
Cash paid for interest, net of capitalized interest	40	41	73	67
Cash paid for taxes, net	2	2	2	1
Equity in net income from unconsolidated investments	2	1	2	1
Adjustments to reflect Adjusted EBITDA from unconsolidated investments	7	—	11	—
Dividends from unconsolidated investments	(1 )	—	(1 )	—
Adjustment for working capital and other	(18 )	19	30	22
<b>Adjusted EBITDA</b>	<b>\$103</b>	<b>\$93</b>	<b>\$203</b>	<b>\$144</b>

(a) See *Adjusted EBITDA - Note (b)*.

For additional discussion related to management's use of non-GAAP measures, see *Liquidity and Capital Resources — Supplementary Financial Information — Free Cash Flow (Non-GAAP Discussion)* below.

Table of Contents**Supplementary Financial Information — Adjusted Earnings Per Share (“Adjusted EPS”) (Non-GAAP Discussion)**

We use a number of different financial measures, both GAAP and non-GAAP, in assessing the overall performance of our business. To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EPS, which is a non-GAAP financial measure as defined by the Securities and Exchange Commission (“SEC”). The non-GAAP financial measure of Adjusted EPS is not intended as a substitute or as an alternative to diluted earnings (loss) per share as an indicator of our performance or any other measure of performance derived in accordance with GAAP. In addition, our non-GAAP financial measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. We use the non-GAAP financial measure of Adjusted EPS to enhance the usefulness of our financial information by providing a measure which management internally uses to assess and evaluate the overall performance and highlight trends in the ongoing business.

Adjusted EPS excludes certain income and expense items that are not representative of our ongoing business and operations, which are included in the calculation of diluted earnings per share in accordance with GAAP. The following items are not all-inclusive, but are examples of reconciling items in prior comparative and future periods. They would include, impairment charges, the effect of derivative instruments not designated as hedging instruments, significant gains or losses from the disposition or restructuring of businesses, gains and losses on assets held for sale or sold, transaction-related costs, income and loss on the extinguishment of debt and other significant items that would not be representative of our ongoing business.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EPS for the three and six months ended June 30, 2018 and 2017, reconciled for each such period to diluted earnings (loss) per share, which is believed to be the most directly comparable measure under GAAP (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Diluted (Loss) Earnings Per Share:</b>	\$(0.24)	\$(0.28)	\$1.29	\$(0.69)
Reconciling items <sup>(a)</sup>	0.23	0.06	(1.39 )	0.10
<b>Adjusted EPS</b>	<b>\$(0.01)</b>	<b>\$(0.22)</b>	<b>\$(0.10)</b>	<b>\$(0.59)</b>

(a) Additional information is provided in the Reconciling Items table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b><u>Reconciling Items</u></b>				
Impairment charges <sup>(a)</sup>	\$37	\$1	\$37	\$1
Loss (gain) on sale of assets	—	2	(210 )	6
Property insurance recoveries, net	—	(3 )	(7 )	(3 )
Severance and reorganization costs	2	1	4	1
Loss on extinguishment of debt	—	13	—	13
Effect of foreign exchange gain on indebtedness	—	(1 )	1	(1 )
Other	—	—	(1 )	—
Total reconciling items, pre-tax	39	13	(176 )	17
Pro forma income tax impact <sup>(b)</sup>	(10 )	(5 )	(8 )	(5 )
Grantor trust activity	—	—	—	1
Total reconciling items, net of tax	\$29	\$8	\$(184 )	\$13
Diluted per share impact	\$0.23	\$0.06	\$(1.39)	\$0.10
Weighted average diluted shares outstanding	130	130	132	129

(a) For additional information, see Adjusted EBITDA above.

(b) We calculate the federal and state tax impact of each item using the statutory federal tax rate of 21% for 2018 and 35% for 2017 and applicable state rates.



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**LIQUIDITY AND CAPITAL RESOURCES**

Our principal sources of liquidity are our cash and cash equivalents, cash flow generated from our ongoing operations, and unutilized capacity under our Revolving Credit Facility, which we believe will allow us to meet our liquidity needs. Our business is capital intensive and our ability to successfully implement our strategy is, in part, dependent on the continued availability of capital on desirable terms. For additional information regarding our credit facilities and other debt, see *Item 1. Financial Statements - Note 13. Consolidated Debt*.

In 2018, we expect to generate net cash from operating activities which may not alone meet all of our cash requirements for both capital expenditures to maintain our existing assets and ongoing dividends to shareholders, in which case we would utilize our Revolving Credit Facility on an interim basis. For a full discussion of the factors impacting our 2018 business outlook, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Outlook of our Annual Report on Form 10-K for the year ended December 31, 2017*.

In February 2018, we applied the net proceeds from the sale of 50% of our Dublin EfW facility to repay borrowings under our Revolving Credit Facility. In June 2018, we issued 5.00% tax-exempt corporate bonds totaling \$30 million. Proceeds from the offerings will be used to finance certain capital expenditures at our Virginia facilities. For additional information see *Item 1. Financial Statements - Note 13. Consolidated Debt - Virginia Tax-Exempt Bonds*.

We expect to utilize a combination of cash flows from operations, borrowings under our Revolving Credit Facility, and other financing sources, as necessary, to fund growth investments in our business.

We generally intend to refinance our debt instruments prior to maturity with like-kind financing in the bank and/or debt capital markets in order to maintain a capital structure comprised primarily of long-term debt, which we believe appropriately matches the long-term nature of our assets and contracts.

The loan documentation governing the Credit Facilities contains various affirmative and negative covenants, as well as financial maintenance covenants (financial ratios), that limit our ability to engage in certain types of transactions. We do not anticipate our existing debt covenants to restrict our ability to meet future liquidity needs. For additional information regarding the covenants under our Credit Facilities, see *Item 8. Financial Statements and Supplementary Data - Note 10. Consolidated Debt of our Annual Report on Form 10-K for the year ended December 31, 2017*.

Our primary future cash requirements will be to fund capital expenditures to maintain our existing businesses, service our debt, invest in the growth of our business, and return capital to our shareholders. We believe that our liquidity position and ongoing cash flow from operations will be sufficient to finance these requirements.

**Other Factors Affecting Liquidity**

As of June 30, 2018, we held cash balances of \$39 million, of which \$30 million was held by international subsidiaries and not generally available for near-term liquidity in our domestic operations. In addition, as of June 30, 2018, we had restricted cash of \$61 million, of which \$13 million was designated for future payment of project debt principal. Restricted funds held in trust are primarily amounts received and held by third-party trustees relating to certain projects we own. We generally do not control these accounts and these funds may be used only for specified purposes.

As of June 30, 2018, we had unutilized capacity under our Revolving Credit Facility of \$442 million and are in compliance with all of the covenants under our Credit Facilities. For additional information regarding the Credit Facilities, see *Item 1. Financial Statements - Note 13. Consolidated Debt*.



During the three months ended June 30, 2018, dividends declared to stockholders were \$33 million or \$0.25 per share. Such amounts were paid on July 6, 2018. We may repurchase outstanding shares from time to time, the amount and timing of future repurchases may vary depending on market conditions and the level of operating, financing and other investing activities. As of June 30, 2018, the amount remaining under our currently authorized share repurchase program was \$66 million.

Except for the tax-exempt bond issuance discussed in *Item 1. Financial Statements - Note 13. Consolidated Debt*, our projected contractual obligations are consistent with amounts disclosed in our Form 10-K for the year ended December 31, 2017. For additional information on other commitments, see *Item 1. Financial Statements - Note 14. Commitments and Contingencies - Other Matters*.

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**Sources and Uses of Cash Flow for the Six Months Ended June 30, 2018 and 2017:**

Net cash provided by operating activities for the six months ended June 30, 2018 was \$63 million, an increase of \$36 million from the same prior year period. The increase was primarily attributable to improved operating performance as discussed above in *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Net cash used in investing activities for the six months ended June 30, 2018 was \$23 million, a net decrease of \$143 million of cash used in investing activities from the prior year period. The net decrease in cash used was principally attributable to proceeds received from the sale of 50% of our Dublin EfW facility and the sale of our remaining interest in our China investments and decreased purchases of property plant and equipment. For additional information regarding our dispositions, see *Item 1. Financial Statements - Note 3. Acquisitions and Dispositions*.

Net cash used in financing activities for the six months ended June 30, 2018 was \$136 million, as compared to net cash provided by financing activities of \$95 million in the prior period. The increase in cash used was primarily attributable to decreased net borrowings on our credit facility of \$202 million and decreased borrowings related to the construction of the Dublin EfW facility of \$60 million as compared to the prior year, offset by an increase in net borrowing in long term debt of \$39 million, primarily related to the proceeds from the Virginia Tax Exempt Bonds. For additional information regarding our Tax Exempt Bonds, see *Item 1. Financial Statements - Note 13. Consolidated Debt*.

**Supplementary Financial Information — Free Cash Flow (Non-GAAP Discussion)**

To supplement our results prepared in accordance with GAAP, we use the measures of Free Cash Flow and Free Cash Flow Before Working Capital, which are non-GAAP measures as defined by the SEC. These non-GAAP financial measures are not intended as a substitute and should not be considered in isolation from measures of liquidity prepared in accordance with GAAP. In addition, our use of Free Cash Flow and Free Cash Flow Before Working Capital may be different from similarly identified non-GAAP measures used by other companies, limiting its usefulness for comparison purposes. The presentation of Free Cash Flow and Free Cash Flow Before Working Capital is intended to enhance the usefulness of our financial information by providing measures 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.

We use the non-GAAP financial measures of Free Cash Flow and Free Cash Flow Before Working Capital as criteria of liquidity and performance-based components of employee compensation. Free Cash Flow is defined as cash flow provided by operating activities, plus changes in operating restricted funds, less maintenance capital expenditures, which are capital expenditures primarily to maintain our existing facilities. Free Cash Flow Before Working Capital is defined as Free Cash Flow excluding changes in working capital. We use Free Cash Flow and Free Cash Flow Before Working Capital as measures of liquidity to determine amounts we can reinvest in our core businesses, such as amounts available for acquisitions, invest in construction of new projects, make principal payments on debt, or return capital to our shareholders through dividends and/or stock repurchases.

For additional discussion related to management's use of non-GAAP measures, see *Consolidated Results of Operations — Supplementary Financial Information — Adjusted EBITDA and Adjusted EPS (Non-GAAP Discussion)* above.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Free Cash Flow and Free Cash Flow Before Working Capital for the three and six months ended June 30, 2018 and 2017, reconciled for each such period to cash flow provided by operating activities, which we believe to be the most directly comparable measure under GAAP.



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The following is a reconciliation of Free Cash Flow (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>			
<b>Net cash provided by operating activities</b>	<b>\$60</b>	<b>\$18</b>	<b>\$63</b>	<b>\$27</b>
Add: Changes in restricted funds - operating <sup>(a)</sup>	(1 )	(2 )	(11 )	(1 )
Less: Maintenance capital expenditures <sup>(b)</sup>	(33 )	(37 )	(78 )	(64 )
<b>Free Cash Flow</b>	<b>\$26</b>	<b>\$(21)</b>	<b>\$(26)</b>	<b>\$(38)</b>
Less: Changes in working capital	(23 )	25	21	20
<b>Free Cash Flow Before Working Capital</b>	<b>\$3</b>	<b>\$4</b>	<b>\$(5)</b>	<b>\$(18)</b>

(a) Adjustment for the impact of the adoption of ASU 2016-18 effective January 1, 2018. As a result of adoption, the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, changes in restricted funds are eliminated in arriving at net cash, cash equivalents and restricted funds provided by operating activities.

(b) Purchases of property, plant and equipment are also referred to as capital expenditures. Capital expenditures that primarily maintain existing facilities are classified as maintenance capital expenditures. The following table provides the components of total purchases of property, plant and equipment:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Maintenance capital expenditures	\$(33)	\$(37)	\$(78)	\$(64)
Maintenance capital expenditures paid but incurred in prior periods	(5 )	—	(12 )	—
Capital expenditures associated with construction of Dublin EfW facility	(4 )	(36 )	(21 )	(56 )
Capital expenditures associated with organic growth initiatives	(7 )	(9 )	(15 )	(23 )
Total capital expenditures associated with growth investments	(11 )	(45 )	(36 )	(79 )
Capital expenditures associated with property insurance events	—	(8 )	(4 )	(9 )
Total purchases of property, plant and equipment	\$(49)	\$(90)	\$(130)	\$(152)

**Recent Accounting Pronouncements**

See *Item 1. Financial Statements — Note 2. Recent Accounting Pronouncements* for information related to new accounting pronouncements.

**Discussion of Critical Accounting Policies and Estimates**

In preparing our condensed consolidated financial statements in accordance with GAAP, we are required to use judgment in making estimates and assumptions that affect the amounts reported in our financial statements and related

notes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Many of our critical accounting policies are subject to significant judgments and uncertainties, which could result in materially different results under different conditions and assumptions. Future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment. Except as discussed in *Note 1. Organization and Basis of Accounting - Accounting Pronouncements Recently Adopted*, management believes there have been no material changes during the six months ended June 30, 2018 to the items discussed in *Discussion of Critical Accounting Policies* in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the year ended December 31, 2017.

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**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the normal course of business, our subsidiaries are party to financial instruments that are subject to market risks arising from changes in commodity prices, interest rates, foreign currency exchange rates, and derivative instruments. Our use of derivative instruments is very limited and we do not enter into derivative instruments for trading purposes.

There were no material changes during the six months ended June 30, 2018 to the items discussed in *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* of our Annual Report on Form 10-K for the year ended December 31, 2017.

**Item 4. CONTROLS AND PROCEDURES**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Covanta's disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act") as of June 30, 2018. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our Chief Executive Officer and Chief Financial Officer have concluded that, based on their reviews, our disclosure controls and procedures are effective to provide such reasonable assurance.

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

**Changes in Internal Control over Financial Reporting**

There have not been any changes in our system of internal control over financial reporting during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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**PART II — OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

For information regarding legal proceedings, see *Item 1. Financial Statements Note 14. Commitments and Contingencies*, which information is incorporated herein by reference.

**Item 1A. RISK FACTORS**

There have been no material changes during the six months ended June 30, 2018 to the risk factors discussed in *Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2017.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

- (a) None.
- (b) Not applicable.

**Item 6. EXHIBITS**

Exhibit Number	Description
<u>31.1</u>	<u>Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.</u>
<u>31.2</u>	<u>Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.</u>
<u>32</u>	<u>Certification of periodic financial report pursuant to Section 906 of Sarbanes-Oxley Act of 2002 by the Chief Executive Officer and Chief Financial Officer.</u>
Exhibit 101.INS:	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH:	XBRL Taxonomy Extension Schema
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Linkbase
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase

\* Management contract or compensatory plan or arrangement.





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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COVANTA HOLDING CORPORATION  
(Registrant)

By: /s/ BRADFORD J. HELGESON  
Bradford J. Helgeson  
*Executive Vice President, Chief Financial Officer*

By: /s/ MANPREET S. GREWAL  
Manpreet S. Grewal  
*Vice President and Chief Accounting Officer*

Date: July 27, 2018