

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability-Linked Instruments

Covanta
10 November 2021

VERIFICATION PARAMETERS

Types of instruments contemplated	Sustainability-Linked Instruments
Relevant standards	Sustainability-Linked Bond Principles ("SLBP"), as administered by the International Capital Market Association ("ICMA") and Sustainability-Linked Loan Principles ("SLLP"), as administered by the Loan Market Association ("LMA") and Loan Syndications and Trading Association ("LSTA")
Scope	Sustainability credentials of Covanta's KPI-linked instruments (as of November 8, 2021) Draft version of the instrument terms (as of November 5, 2021)
Lifecycle	Pre-issuance verification
Validity	As long as Covanta's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance targets do not substantially change

CONTENTS

SCOPE OF WORK	3
COVANTA'S BUSINESS OVERVIEW	3
ISS ESG SPO ASSESSMENT SUMMARY	5
ISS ESG SPO ASSESSMENT.....	8
PART 1.A: KPI SELECTION & SPT CALIBRATION	8
PART 1.B. KPI SELECTION & SPT CALIBRATION	16
PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND SUSTAINABILITY LINKED-LOAN PRINCIPLES	23
PART 3: LINK TO COVANTA'S SUSTAINABILITY STRATEGY	27
ANNEX 1: ISS ESG Corporate Rating.....	31
ANNEX 2: Methodology	33
ANNEX 3: Quality management processes	34
About ISS ESG SPO	35

SCOPE OF WORK

Covanta (“the Issuer” or “the Company”) commissioned ISS ESG to assist with its Sustainability-Linked Instruments by assessing three core elements to determine the sustainability quality of the instruments:

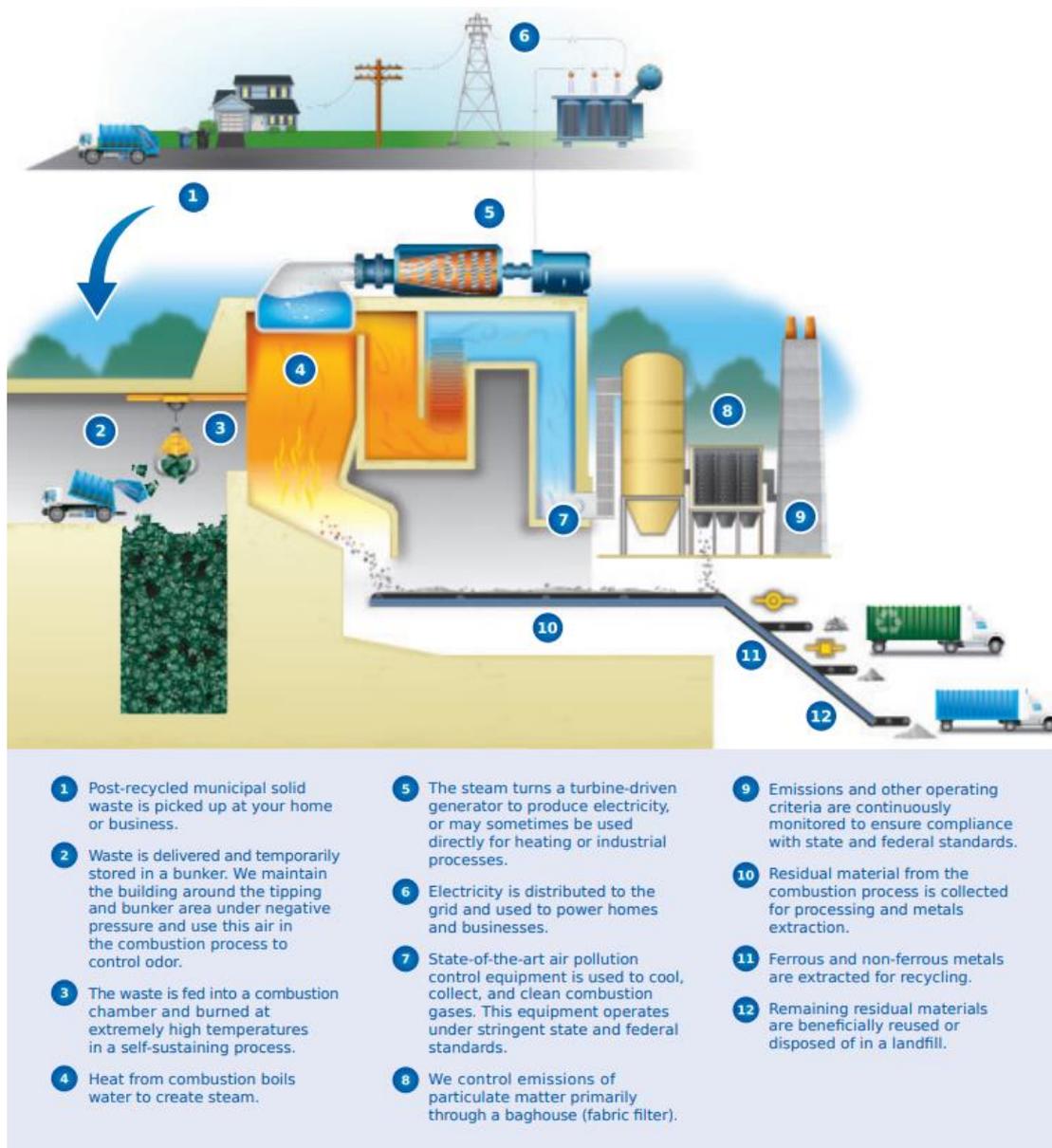
1. The sustainability credibility of the Key Performance Indicators (KPIs) selected and Sustainability Performance Target (SPTs) calibrated – whether the KPIs selected are core, relevant and material to the issuer’s business model and sector, and whether the associated targets are ambitious.
2. Covanta’s Sustainability-Linked Financing Framework (November 8, 2021 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (“SLBP”), as administered by the International Capital Market Association’s (“ICMA”) and Sustainability-Linked Loan Principles (“SLLP”), as administered by the Loan Market Association (“LMA”) and Loan Syndications and Trading Association (“LSTA”).
3. Sustainability-Linked Instruments link to Covanta’s sustainability strategy – drawing on Covanta’s overall sustainability profile and related objectives.

COVANTA’S BUSINESS OVERVIEW

Covanta is one of the world’s largest owners and operators of infrastructure for the conversion of waste to energy (“WtE”)¹, and owns and operates related waste transport, processing, and disposal assets. The Company’s facilities are critical infrastructure assets that allow its customers, which are principally municipal entities, to provide an essential public service.

The Company’s WtE facilities perform multiple functions, including the processing of waste, generally under long-term contracts, the generation of electricity, and the recovery and subsequent sale of metals recovered during the WtE process. The Company currently operates and/or has ownership positions in 41 WtE facilities in commercial operation, 39 of which are located in North America. In total, these facilities process approximately 21 million tons of solid waste annually, equivalent to 8% of the post-recycled municipal solid waste generated in the United States. The Company’s facilities produce approximately 10 million megawatt hours (“MWh”) of baseload electricity annually.

¹ According to the company, WtE 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.



Source: Covanta as of November 2021²

The Company also operates waste management infrastructure, including 13 waste transfer stations, 20 material processing facilities, four landfills (primarily for ash disposal), one metals processing facility, and one ash processing facility (currently in start-up and testing phase), all of which are complementary to its core WtE business.

The Company also has ownership positions in several projects currently in development and/or under construction in the United Kingdom. In addition, the Company, through its Covanta Environmental Solutions (“CES”) brand, and working in conjunction with its WtE facilities, offers a variety of sustainable waste management solutions, including industrial, consumer products and healthcare waste handling, treatment and assured destruction, industrial wastewater treatment and disposal, product depackaging and recycling, on-site cleaning services, and transportation services.

² KPI 1 relates to WtE and primary recycling, while KPI 2 relates to the back-end of the WtE plant and primary recycling at Covanta’s Environmental Solutions (“CES”) business

ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ³
<p>Part 1.A:</p> <p>KPI selection and SPT calibration</p> <p>KPI 1</p> <p>“Sustainably Processed Waste measured as thousand tons”</p> <p>SPT 1</p> <p>“Cumulative growth of 2.5% by year-end 2025, compared to a 2020 baseline”</p>	<p>KPI selection: Relevant, core, and material to issuer’s business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Moderately ambitious against past performance⁴ • Limited information available to assess ambition against peers • Limited information available to assess ambition against international targets <hr/> <p>ISS ESG finds that the KPI selected is relevant, core and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable with limitations mainly due to the lack of similar indicators calculated by peers. It covers over 98% of the total waste handled by the company with associated processes representing approximately 97% of the company’s revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues).</p> <hr/> <p>ISS ESG finds that the SPT calibrated by Covanta is moderately ambitious against the company’s past performance with limitations as the company’s actual and adjusted figures have not been externally verified at the issuance of this report. There is limited information available to assess the level of ambition against peers as comparable peers do not calculate similar metrics nor have set public targets. In the absence of a directly comparable international benchmark, there is limited information available to assess the target’s ambition against international targets. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan.</p>
<p>Part 1.B:</p> <p>KPI selection and SPT calibration</p> <p>KPI 2</p> <p>“Waste recycled / reused measured as thousand tons”</p>	<p>KPI selection: Relevant, core and material to issuer’s business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer’s past performance⁴ • Limited information available to assess ambition against peers • Limited information available to assess ambition against international targets <hr/> <p>ISS ESG finds that the KPI selected is relevant, core and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and externally verifiable. The KPI is benchmarkable with some limitations. It covers over 98% of the total waste managed by Covanta as of 2020 as it refers to the byproducts of the WtE process (metal and ash recovery) and primary recycling at the company’s CES business with associated processes</p>

³ ISS ESG’s evaluation is based on the engagement conducted from August to November 2021 and on Covanta’s Sustainability-Linked Financing Framework (November 8, 2021 version).

⁴ Based on limited evidence at the issuance of this report as the actual and adjusted figures have not yet been externally verified, however, the company plans to re-evaluate the baseline year shortly after the issuance.

SPT 2

“Cumulative growth of 25% by year-end 2025, compared to a 2020 baseline”

representing approximately 97% of the company’s revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues).

ISS ESG finds that the SPT calibrated by Covanta is ambitious against the company’s past performance with limitations as the company’s actual and adjusted figures have not been externally verified at the issuance of this report. Furthermore, there is limited information available to assess the level of ambition against peers or international targets. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan.

Part 2:

Alignment with the SLBP and SLLP

Aligned with ICMA Sustainability-Linked Bond Principles (SLBP) and Sustainability-Linked Loan Principles (SLLP), except the SPT ambition levels can only be evaluated on past performance

The issuer has defined a formal framework for its Sustainability-Linked Instruments regarding the selection of KPIs, calibration of Sustainability Performance Targets (SPTs), Sustainability-Linked Instrument’s characteristics, reporting and verification. The framework is aligned with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA and Sustainability-Linked Loan Principles (SLLP) administered by the LMA and LSTA. However, due to lack of available information, it is not possible to evaluate the ambition of the two SPTs against peers or international targets.

Consistent with issuer’s sustainability strategy

Part 3:

Link to issuer’s sustainability strategy

According to the ISS ESG Corporate Rating published 2021-04-20, Covanta currently shows a moderate sustainability performance against peers on key ESG issues faced by the Water and Waste Utilities sector and obtains a Decile Rank relative to industry group of 5, given that a decile rank of 1 indicates highest relative ESG performance out of 10. The issuer is rated 23rd out of 45 companies within its sector as of 2021-09-29.

Covanta is one of the world’s largest owners and operators of infrastructure for the conversion of waste to energy (“WtE”), and owns and operates related waste transport, processing, and disposal assets. The European Commission’s Waste Framework Directive and U.S. EPA waste management hierarchies recognize Waste-to-Energy (WtE) as preferable to the last resort of landfilling, although preventing waste is the most environmentally preferred strategy.⁵ It’s worth noting, WtE incineration is listed as a potential example⁶ of non-compliance with the EU’s ‘Do No Significant Harm’ principle by hampering the development and deployment of available low-impact alternatives with higher levels of environmental performance (e.g. reuse, recycling), thus undermining the transition to a circular economy, waste prevention and recycling if recyclable and non-recyclable wastes are processed.

The KPIs selected by the issuer are related to the amount of sustainable waste processed as well as reuse and recycling, including for the remaining wastes (ash and metals recovery). These topics have been defined as key priorities by the issuer

⁵ <https://www.epa.gov/smm/sustainable-materials-management-non-hazardous-materials-and-waste-management-hierarchy>

⁶ [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0218\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0218(01))

in terms of sustainability strategy and ISS ESG finds that they are material sustainability topics for the issuer. These two KPIs are synergistic and highlight the ongoing commitment to improve the sustainability of the waste industry and move up the waste hierarchy. Both KPIs are intended to be used in tandem in Sustainability-Linked Financings. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPIs' clear link to the key sustainability priorities of the issuer.

ISS ESG SPO ASSESSMENT

PART 1.A: KPI SELECTION & SPT CALIBRATION

KPI 1 ‘Sustainably Processed Waste as thousand tons’

1.1. KPI selection

KPI selected by the issuer

FROM ISSUER’S FRAMEWORK

- **KPI 1:** Sustainably Processed Waste measured as thousand tons
- **SPT 1 (2025):** Cumulative growth of 2.5% by year-end 2025, compared to a 2020 baseline
- **Long-term goal:** Covanta commits to continuing an upward trajectory and growth of total WtE processed
- **Rationale:** The challenge of managing waste and materials sustainably is a core element of its integrated strategy to minimize GHG emissions and address climate change both locally and globally. Against this backdrop, Covanta continues to work toward solving the complexities that waste poses for communities and the businesses it serves. The KPIs, sustainably processed waste and waste recycled or reused, have been chosen to reflect the company’s greatest net emissions reduction potential. Sustainably processing waste results in landfill avoidance that would otherwise create significant GHG emissions over a long period of time. Covanta estimates that one ton of GHG emissions is saved per ton of waste sustainably processed. In addition, Covanta’s utilization of Waste to Energy processes generates energy. Waste recycled or reused is an initiative to optimize waste output, reduce future energy requirements, and contribute to the circular economy. As a business today, Covanta has a material benefit to the environment at large and the more waste that Covanta can sustainably process and the more waste Covanta can recycle and reuse, the greater the environmental benefit. The absolute measure of volumes is directly correlated to the positive impact Covanta can generate. In addition, these KPIs are directly tied to actions and strategic decisions that Covanta can control, rather than metrics that may be impacted by broader macroeconomic conditions, non-controlled facility utilization decisions, composition of processed waste, etc.
- **Relevant methodology and benchmark reference:** Covanta publishes sustainability data annually in accordance with the Global Reporting Initiative (GRI) Standards: Core option that aligns with the Sustainability Accounting Standards Board’s (SASB) Waste Management sector standards.⁷ Covanta reports its GHG emissions to the U.S. EPA GHG Reporting Program and has responded to the CDP climate change questionnaire since 2007.
- **Baseline:** 21,588 thousand tons
- **Baseline period:** 2020
- **Scope:** The KPI applies to over 98% of the total waste managed by Covanta

Materiality and relevance

‘Energy Management and Resource Efficiency’ is considered key ESG issues faced by the Water and Waste Utilities sector according to key ESG standards⁸ for reporting and ISS ESG assessment.

⁷ https://www.sasb.org/wp-content/uploads/2018/11/Waste_Management_Standard_2018.pdf

⁸ Key ESG standards include SASB and TCFD, among others

Waste Management Hierarchy



Source: https://ec.europa.eu/environment/topics/waste-and-recycling/waste-framework-directive_en

The European Commission's Waste Framework Directive⁹ and U.S. EPA waste management¹⁰ hierarchies recognize Waste-to-Energy (WtE) as preferable to the last resort of landfilling, although preventing waste is the most environmentally preferred strategy. Waste-to-Energy facilities recycle metals, reduce the need for fossil-based energy and reduce methane generation from landfills. According to the U.S. EPA life-cycle emission analysis, WtE facilities reduce the amount of CO₂ equivalents (CO₂e) in the atmosphere by approximately one ton for every ton of municipal solid waste (MSW)

combusted. However, it is worth noting that conflicting reports exist on environmental performance of the WtE process, specifically in the EU, where Waste-to-Energy (WtE) incineration is listed as a potential example¹¹ of non-compliance with the 'Do No Significant Harm' principle as it's believed to hamper the development and deployment of available low-impact alternatives with higher levels of environmental performance (e.g. reuse, recycling), thus undermining the transition to a circular economy, waste prevention and recycling if recyclable and non-recyclable wastes are processed.

Through its KPI, Covanta focuses on moving the waste up the waste management hierarchy, both through the maintenance and expansion of WtE throughput and capacity, and in the expansion of recycling, both for its own operations, as well as for its customers and clients.

ISS ESG finds that the 'Sustainably Processed Waste' KPI selected by the issuer is:

- **Relevant** as companies in the Water and Waste Utilities sector are responsible for and exposed to risks and opportunities related to this KPI.
- **Core** to the company's operations as key processes will be affected by the actions implemented to reach the target associated with the KPI. To reach the SPT, the company will need to:
 - Construct new WtE capacity in markets with supportive economies, most notably in the United Kingdom. The company expects to spend \$140M between 2021 and 2024 funding these new facilities;
 - Grow its Covanta Environmental Solutions (CES) business by partnering and investing in relevant technologies which supports the company's advanced waste processing services such as waste and water reuse, water recycling through pre-treatment, composting and recycling for industrial, manufacturing and healthcare industries;
 - Maximize its output, at both owned and client facilities where Covanta does not source waste. In order to ensure the availability of the facilities, the Company currently invests \$400M in its fleet on maintenance and upgrades each year.

⁹ https://ec.europa.eu/environment/topics/waste-and-recycling/waste-framework-directive_en

¹⁰ <https://www.epa.gov/smm/sustainable-materials-management-non-hazardous-materials-and-waste-management-hierarchy>

¹¹ [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0218\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0218(01))

- **Material** to Covanta's business from an ESG perspective.
 - ISS considers this KPI as material from an energy management and resource efficiency perspective (one of the most important challenges faced by the Water and Waste Utilities sector). This ESG issues relates to the key challenge the company has decided to focus on, sustainable waste. This KPI covers all waste received at the front-end of Waste-to-Energy facilities and Covanta's Environmental Solutions (CES) division, which accounts for its primary recycling services. As of 2020, over 98% of the waste handled by the company was sustainably processed. In addition, the associated process represents approximately 97% of the company's revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues). As the company already uses BACT and operates close to a full cycle (less than 2% of the waste received is sent directly to landfills¹²), it's difficult for the company to further increase its circularity index.
 - However, it's important to note the elements that are not covered in this KPI, such as waste separation. Currently, Covanta does not have technologies in place to separate its waste (e.g., biodegradable waste) as there are several limitations such as the lack of available commercial technology, additional costs, existing residential source separation to served communities, and concerns regarding the quality of separated materials after they have comingled with other wastes. Furthermore, there are opportunities related to cogeneration. Cogeneration has economic and efficiency benefits, which includes significantly reducing carbon emissions and energy costs. Covanta currently owns or operates 41 facilities, 4 of which are combined heat and power facilities. Therefore, there are further opportunities for cogeneration at the company's existing and new facilities where feasible.

Consistency with overall company's sustainability strategy

Covanta's primary sustainability strategy focuses on ensuring that no waste is wasted by providing access to sustainable waste and materials management through its waste-to-energy facilities, wastewater treatment, and tailored commercial waste services. Covanta believes discarded materials should be utilized to their fullest potential and that Waste to Energy (WtE) is an important part of an overall sustainable waste management approach.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Material scope and perimeter:** This KPI covers over 98% of the total waste managed by Covanta as of 2020. This includes owning/operating WtE plants through both waste fees and

¹² The capacity at the Company's WtE facilities are fixed, but waste flows can be variable, so the it can sometimes contract for more volume than it can handle, thus the excess waste is sent to landfill. This applies to some waste at the CES facilities (e.g. depackaging) where if not within a practical distance, the waste may be landfilled.

the related revenue from energy and metals revenue and Covanta's secondary business (CES) which provides non-WtE sustainable waste services.

- **Quantifiable:** The KPI selected is measurable and quantifiable. Waste sustainably processed refers to all waste received (including the mineral fraction) on a per ton basis at the front-end of a WtE facility that Covanta owns or operates, as well as all primary recycling undertaken by CES. Covanta's accounting for WtE and primary recycling tons refers to the accounting metrics for Recycling & Resource Recovery as identified in the Waste Management Sustainability Accounting Standard of SASB.¹³ The WtE tons processed has been quantified and verified at two eligible facilities in carbon credit development through the Verified Carbon Standard (VCS) Program¹⁴, a widely used voluntary GHG program.
- **Externally verifiable:** The KPI selected by Covanta has not yet been verified, but the issuer plans to verify the 2020 baseline at the time of or shortly after the issuance of its Sustainability-Linked Financing Framework. The issuer commits to get a third-party verification of its KPI annually.
- **Benchmarkable:** The company follows a clear calculation methodology (as described above), which can be benchmarked against companies that disclose quantity of sustainably processed waste using similar treatments. However, it is benchmarkable with limitations such as the lack of similar indicators made publicly available by peers and the fact that the SPT is set in absolute numbers which makes benchmarking challenging when looking at companies that use intensity measures. Benchmarking of the SPT in relation with this KPI has been analyzed in section 1.2.

Opinion on KPI selection: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable with limitations mainly due to the lack of similar indicators calculated by peers. It covers over 98% of the total waste handled by the company with associated processes representing approximately 97% of the company's revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues).

¹³ https://www.sasb.org/wp-content/uploads/2018/11/Waste_Management_Standard_2018.pdf

¹⁴ <https://verra.org/project/vcs-program/>

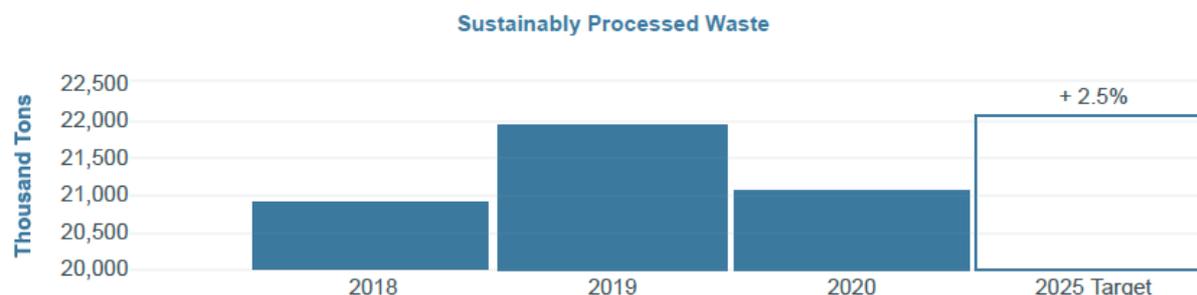
1.2. Calibration of SPT

SPT set by the issuer

FROM ISSUER'S FRAMEWORK¹⁵

- **Sustainability Performance Target:** Cumulative growth of Waste Sustainably Processed Waste (WtE) processed measured as thousand tons of 2.5% by year-end 2025, compared to a 2020 baseline
- **2025 Target:** 22,128 thousand tons
- **Sustainability Performance Target Trigger:** The SPT(s) have not been reached or verified at the target observation date
- **Sustainability Performance Target Observation Date:** December 31, 2025
- **2020 Baseline:** 21,588 thousand tons
- **Factors that support the achievement of the target:**
 - Development of four WtE facilities in the UK as well as one in China
 - Expansion of capabilities and increased progress in primary recycling activities at Covanta Environmental Solutions
 - Efficient operations of existing WtE facilities including ongoing maintenance to ensure continuity of current operations and the potential for increased throughput at some facilities.
- **Risks to achieving the target:**
 - Macroeconomic conditions may result in less waste processing opportunities, which could in turn impact the availability of waste at Covanta's facilities and in the ability to execute on CES expansion opportunities.
 - Covanta relies on third parties to construct its new facilities and failure by these third parties to meet their obligations could result in delays or reduced availability.
 - Facility maintenance could require greater capital outlays than currently forecasted or result in reduced availability and/or facility closures.
 - Inability to expand the capabilities of CES such that inbound volumes cannot be grown.
 - Inability to control waste flows at client owned facilities that could result in lower throughput.

¹⁵ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.



Baseline: 21,588 thousand tons in 2020

Source: Covanta as of November 2021

Ambition

Against company's past performance¹⁶

Sustainably Processed Waste ¹⁷						
Thousand Tons	2018	2019	2020	2025 Target	CAGR '18-'20	CAGR Baseline-'25
Actual	20,862	21,908	21,588	22,128	1.7%	0.5%
YoY change (%)		5.0%	-1.5%	2.5% (vs. 2020 baseline)		
Adjusted	20,094	20,038	19,795		-0.7%	
YoY change (%)		-0.3%	-1.2%			

Source: Covanta as of November 8, 2021

Covanta has provided three years of actual and adjusted performance regarding the sustainability processed waste. The company states the adjusted data takes into account facilities that were acquired, divested/contracts lost. For acquired facilities, they are only included to the extent that throughput increased subsequent to the first full year of ownership. For divested facilities or facilities where operating contracts were lost, they are removed from prior periods. In order to ensure this is an incremental target, going forward, if operating facilities are acquired, divested or their operation is adjusted by the client, the baseline will be revised. The target will be met by increased throughput at existing facilities, newly developed facilities (whether maintained or sold) and facility expansions net of facility closures. This methodology is being highlighted historically as it is intended to be used prospectively.

The company's past performance for its actual data has varied over the years with a 5% improvement in performance from 2018-2019 and 1.5% decrease from 2019-2020. On average, between 2018-2020, there was a trajectory of improvement with a 3.5% increase in sustainably processed waste with a compound annual growth rate of 1.7% which is inclusive of the acquisition of a sizable contract. To achieve its 2025 goal, Covanta's required compound annual growth rate will be 0.5%, 1.2% less than the compound annual growth rate from 2018-2020 of 1.7%. In absolute terms, this will be a 2.5%

¹⁶ The growth projected in the table is indicative and does not represent exact expected values for the company from 2021-2025

¹⁷ Historical results above are also shown as adjusted relative to a 2018 baseline for divestitures and acquisitions to give improved transparency on underlying growth in line with how measurement will occur in the future.

increase in sustainably processed waste, from 21,588 thousand tons in 2020 to 22,128 thousand tons in 2025.

Alternatively, for the company's adjusted data¹⁸, on average, between 2018-2020, there was a 1.5% decrease in the sustainably processed waste with a compound annual reduction rate of 0.7%. To achieve its 2025 objective, Covanta's required compound annual growth rate will be 0.5%, compared to the 2020 baseline, which is 1.2% higher than the 2018-2020 compound annual growth rate of the adjusted performance.

In this context and compared to the baseline year, ISS ESG deems the SPT to be moderately ambitious against past performance. Quantitatively, the target's future performance for its non-adjusted performance is slower than its past performance, but ISS ESG takes into consideration the potential shutdown of 3-4 domestic WtE plants¹⁹, which the company expects to partially offset with the benefits of the new plants. Furthermore, there are additional limitations to this assessment as the baseline and prior years have not been externally verified.

Against company's sectorial peers

Covanta has provided ISS with one peer²⁰ in the Water and Waste Utilities sector that calculates a similar metric of avoiding waste to landfill through recycling, reuse, and waste-to-energy alternatives. However, the company has not set a public target for this metric and there are additional limitations due to the differences in the business mix and operational approach.

Therefore, there is limited information available to assess the level of ambition of the SPT against sectorial peers as comparable peers do not calculate or set public targets for this metric.

Against international targets

As of today, there are no industry specific targets available as a reference point in terms of absolute tons of waste sustainably processed. However, Covanta has benchmarked its SPT to align with the international standard for reducing waste to landfill, which calls for a minimum of 65% biodegradable waste diversion from landfills to alternatives, including recycling, composting and anaerobic digestion. However, end-of-waste materials to be used as fuels or other means to generate energy, or to be incinerated, backfilled or landfilled, are not counted towards the attainment of the recycling targets.²¹

Therefore, ISS ESG concludes there is limited information available to assess the level of ambition against international objectives.

Measurability & comparability

- **Historical data:** The issuer has provided relevant historical data from 2018 to 2020 (baseline year). The issuer plans to externally verify its baseline year at the time of or shortly after the issuance of its Sustainability-Linked Financing Framework. The historical performance will not

¹⁹ The company notes that if it chooses not to shut down the plants, additional capital will be required to extend the life of the plants

²⁰ The company has provided one peer that calculates a similar metric, Stericycle

²¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02008L0098-20180705>

be externally verified, however, the approach utilized to verify the baseline will be consistent with the tracked historical measurements as published in its annual Sustainability Report²².

- **Benchmarkable:** The KPI selected and associated with this SPT is benchmarkable to a limited extent as there is no benchmark that currently exists for sustainably processed waste that would enable the company to be compared against peers. In addition, the SPT is set in absolute numbers, which also makes benchmarking challenging.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date and the frequency of SPTs measurement.

Supporting strategy and action plan

Covanta's key efforts to support the achievement of 2.5% cumulative growth of sustainably processed waste include:

- **New Project Development:** Develop and construct new WtE capacity in markets with supportive economies. The most notable in the United Kingdom where Covanta has four projects²³ in the construction phase with expected commercial operations between 2022 and 2024. These projects are intended to help the UK achieve its goal of reducing methane emissions by diverting biodegradable waste from landfills.
- **Growth in CES²⁴:** Partner and invest in relevant processing technologies (e.g., emerging innovations such as algorithms to help identify and optimize recovery rates of captured materials). Doing so promises to help the environment by shifting a larger share of refuse higher up the EPA's waste hierarchy. By reusing, recycling, and recovering more, disposal and incineration volumes can shrink.
- **Effective Maintenance of Existing Assets:** Maximize the economic throughput of its existing fleet and in some cases, the client owned facilities that Covanta operates where the level of waste volume fluctuates. Covanta currently invests over \$400mm in its fleet on maintenance and upgrades as it's critical for maintaining, expanding existing capacity and continuing to provide environmental benefits.

Opinion on SPT calibration: ISS ESG finds that the SPT calibrated by Covanta is moderately ambitious against the company's past performance with limitations as the company's actual and adjusted figures have not been externally verified at the issuance of this report. There is limited information available to assess the level of ambition against peers as comparable peers do not calculate similar metrics nor have set public targets. In the absence of a directly comparable international benchmark, there is limited information available to assess the target's ambition against international targets. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan.

²² <http://covanta-csr.com/protecting-tomorrow/progress-on-goals/>

²³ Some projects are partially owned or operated

²⁴ Covanta Environmental Solutions (CES) provides a variety of advanced waste processing services such as waste and water reuse, water recycling through pretreatment, composting and recycling for the industrial, manufacturing and healthcare industries.

PART 1.B. KPI SELECTION & SPT CALIBRATION

KPI 2 'Waste Recycled / Reused as thousand tons'

1.3. KPI selection

KPI selected by the issuer

FROM ISSUER'S FRAMEWORK

- **KPI 2:** Waste recycled / reused measured as thousand tons
- **SPT 2 (2025):** Cumulative growth of 25% by year-end 2025, compared to a 2020 baseline
- **Long-term goal:** Covanta commits to continuing growth of waste recycled to reused materials by 40% by 2030, compared to a 2020 baseline
- **Rationale:** The challenge of managing waste and materials sustainably is a core element of its integrated strategy to minimize GHG emissions and address climate change both locally and globally. Against this backdrop, Covanta continues to work toward solving the complexities that waste poses for communities and the businesses it serves. The KPIs, sustainably processed waste and waste recycled or reused, have been chosen to reflect the company's greatest net emissions reduction potential. Sustainably processing waste results in landfill avoidance that would otherwise create significant GHG emissions over a long period of time. In addition, Covanta's utilization of Waste to Energy processes generates energy. Waste recycled or reused is an initiative to optimize waste output, reduce future energy requirements, and contribute to the circular economy. As a business today, Covanta has a material benefit to the environment at large and the more waste that Covanta can sustainably process and the more waste Covanta can recycle and reuse, the greater the environmental benefit. The absolute measure of volumes is directly correlated to the positive impact Covanta can generate. In addition, these KPIs are directly tied to actions and strategic decisions that Covanta can control, rather than metrics that may be impacted by broader macroeconomic conditions, non-controlled facility utilization decisions, composition of processed waste, etc.
- **Relevant methodology and benchmark reference:** Covanta's accounting for primary and secondary (ash & metal) recycling tons refers to the accounting metrics for Recycling & Resource Recovery as identified in the Waste Management Sustainability Accounting Standard of SASB²⁵
- **Baseline:** 1,064 thousand tons
- **Baseline period:** 2020
- **Scope:** The KPI applies to over 98% of the total waste managed by Covanta

Materiality and relevance

'Energy Management and Resource Efficiency' are considered key ESG issues faced by the Water and Waste Utilities sector according to key ESG standards²⁶ for reporting and ISS ESG assessment.

According to U.S. EPA²⁷, MSW landfills are the third-largest source of human-related methane emissions in the U.S., accounting for approximately 15.1% of emissions in 2019. The diversion of

²⁵ https://www.sasb.org/wp-content/uploads/2018/11/Waste_Management_Standard_2018.pdf

²⁶ Key ESG standards include SASB and TCFD, among others

²⁷ <https://www.epa.gov/lmop/basic-information-about-landfill-gas>

wastes, particularly biodegradable wastes, from landfills is the key component to reducing GHG emissions from the waste sector.

Covanta's KPI focuses on recovering more value from waste resources will further help reduce lifecycle GHG emissions. The expansion of recycling for its commercial and industrial clients through Covanta Environmental Solutions and additional mining of ash for valuable resources, advance materials recycling, both for its customers and its own wastes and residues. Use of recycled materials for waste reduces GHG emissions relative to the production of materials from raw materials.

ISS ESG finds that the 'Waste Reused and Recycled' KPI selected by the issuer is:

- **Relevant** for the Water and Waste Utilities sector as its companies are responsible for and exposed to risks and opportunities related to this KPI.
- **Core** to the issuer's business as waste reuse and recycle refers to the ash and metals generated by the company's WtE plants. This KPI also covers the activities of CES including wastewater treatment, depackaging, recycling, composting and anaerobic digestion. To reach the target associated to the indicator, Covanta will need to:
 - Invest in new technology to reuse ash in the United States and once proven, expand the technology usage to other facilities. The company also sees opportunities for ash reuse by working with third parties in the United Kingdom.
 - Drive higher volumes in existing capacity and undertake capacity expansions. Review incremental technologies and opportunities to broaden its capabilities.
 - Increase the volume of metals recycled from existing operations and in the future from the company's new facilities in the United Kingdom.
- **Material** to the direct operations of the issuer as the KPI covers the ash and metals generated by the company's WtE plants and activities related to the company's CES business, which accounts for its primary recycling activities. Therefore, by increasing KPI 1, "Sustainably Processed Waste", the company can increase the total amount of waste reused and recycled and impact key ESG issues for the sector. This represents approximately 97% of the company's revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues). However, it's worth noting this KPI could have been more material if it also covered the efficiency of the process as no information is provided on the ratio of the total waste recycled and reused of the sustainably processed waste.

Consistency with overall company's sustainability strategy

Covanta's primary sustainability strategy focuses on reducing its environmental impact by offering a more sustainable waste management option for the wastes remaining after recycling.

In 2020, Covanta began operations of its very first stand-alone ash processing facility in Fairless Hills, Pennsylvania. This ash processing facility recovers additional metal through a combination of physical separation steps, allowing the Company to recover much finer pieces of metal than is possible at its WTE facilities. Furthermore, in 2020, Covanta also had its first shipment of aggregate material for the construction industry and expects to continue to refine and improve its process to maximize this reuse.

Thus, ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Material scope and perimeter:** This KPI covers over 98% of the total waste managed by Covanta as of 2020 as it refers to the byproducts of the WtE process (metal and ash recovery) and primary recycling at the company's CES business.
- **Quantifiable:** The KPI selected is measurable and quantifiable. Recycling tons are measured either directly through calibrated scales or converted to mass from other measurements. For example, wastewater pre-treatment is measured via flow meters and converted to mass using appropriate density factors. Recycling tons are directly related either to payment for services provided or revenue from the sale of recycled materials. Covanta's accounting for primary and secondary (ash & metal) recycling tons refers to the accounting metrics for Recycling & Resource Recovery as identified in the Waste Management Sustainability Accounting Standard of SASB.²⁸
- **Externally verifiable:** The KPI selected by Covanta has not yet been verified, but the issuer plans to verify the 2020 baseline at the time of or shortly after the issuance of its Sustainability-Linked Financing Framework. The issuer commits to get a third-party verification of its KPI annually.
- **Benchmarkable:** The KPI is benchmarkable to a limited extent, namely due to the lack of directly comparable metrics made publicly available by peers and the fact that the SPT is set in absolute numbers which makes benchmarking challenging when looking at companies that use intensity measures.

Opinion on KPI selection: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and externally verifiable. The KPI is benchmarkable with some limitations. It covers over 98% of the total waste managed by Covanta as of 2020 as it refers to the byproducts of the WtE process (metal and ash recovery) and primary recycling at the company's CES business which associated processes represent approximately 97% of the company's revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues).

²⁸ https://www.sasb.org/wp-content/uploads/2018/11/Waste_Management_Standard_2018.pdf

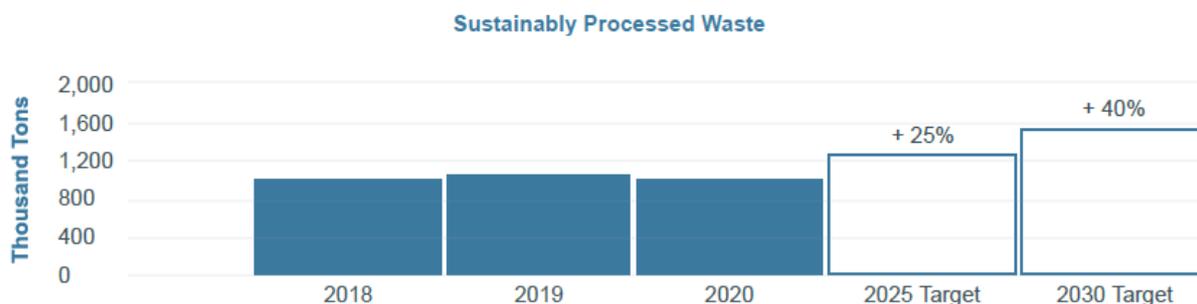
1.4. Calibration of SPT

SPT set by the issuer

FROM ISSUER'S FRAMEWORK²⁹

- **Sustainability Performance Target:** Cumulative growth of Waste recycled / reused materials measured as thousand tons of 25% by year-end 2025, compared to a 2020 baseline
- **2025 target:** 1,330 thousand tons in 2025
- **Sustainability Performance Target Observation Dates:** December 31, 2025
- **Baseline 2020:** 1,064 thousand tons
- **Strategic 2030 Goal and Selection of Methodology for Calculating the SPT:** Covanta commits to continuing growth of waste recycled to reused materials by 40% by 2030, compared to a 2020 baseline.
- **Factors that support the achievement of the target:**
 - Continued expansion of capabilities and technologies utilized by CES
 - Increased metal recovery at existing WtE facilities and at prospective new facilities in the UK
 - Utilization of ash for beneficial reuse at the US facilities based on technology investments in ash processing while also ensuring bottom ash beneficial reuse in prospective UK facilities.
- **Risks to achieving the target:**
 - Macroeconomic conditions may result in less waste processing opportunities, which could in turn impact the availability of waste at Covanta's facilities and in the ability to execute on CES expansion opportunities.
 - Covanta relies on third parties to construct its new facilities and failure by these third parties to meet their obligations could result in delays or reduced availability which could defer or delay ash and metal opportunities.
 - Covanta also expects to rely on third parties for ash recovery and metal reuse and inability by those parties to meet their goals could result in reduced reuse opportunities.
 - Technologies and facilities that increase recycling capacity may be delayed or may not prove to be as effective as originally expected.

²⁹ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.



Baseline: 1,064 thousand tons in 2020

Source: Covanta as of November 2021

Ambition

Against company's past performance³⁰

Waste Recycled / Reused ³¹						
Thousand Tons	2018	2019	2020	2025 Target	CAGR '18-'20	CAGR Baseline-'25
Actual	1,020	1,104	1,064	1,330	2.1%	4.6%
YoY change (%)		8.2%	-3.6%	25% (vs. 2020 baseline)		
Adjusted	1,011	1,102	1,064		2.6%	
YoY change (%)		9.0%	-3.4%			

Source: Covanta as of November 8, 2021

Covanta has provided three years of actual and adjusted performance regarding the waste recycled and reused. The company states the adjusted data takes into account facilities that were acquired, divested/contracts lost. For acquired facilities, they are only included to the extent that throughput increased subsequent to the first full year of ownership. For divested facilities or facilities where operating contracts were lost, they are removed from prior periods. In order to ensure this is an incremental target, going forward, if operating facilities are acquired, divested or their operation is adjusted by the client, the baseline will be revised. The target will be met by increased throughput at existing facilities, newly developed facilities (whether maintained or sold) and facility expansions net of facility closures. This methodology is being highlighted historically as it is intended to be used prospectively.

The company's actual past performance has varied during those years with an 8.2% improvement in performance from 2018-2019 mainly due to the impact of metal recovery and ash reuse at the new Dublin facilities as well as expanded activities at CES and -3.6% decrease from 2019-2020 mainly explained by the impact of reduced waste flows due to the impact of the COVID-19 pandemic. On average, between 2018-2020, there was a trajectory of improvement with a 4.3% increase with a compound annual growth rate of 2.1%. To achieve its 2025 goal, Covanta's required compound annual growth rate will be 4.6%, which is 2.4% higher than the compound annual growth rate from 2018-

³⁰ The growth projected in the table is indicative and does not represent exact expected values for the company from 2021-2025

³¹ Historical results are shown as adjusted relative to a 2018 baseline for divestitures and acquisitions to give improved transparency on underlying growth in line with how measurement will occur in the future.

2020. In absolute terms, this will be a 25% increase in the waste reused and recycled, from 1,063 thousand tons in 2020 to 1,330 thousand tons in 2025.

Alternatively, for the company's adjusted data, on average, between 2018-2020, there was a 5.2% increase in the waste recycled and reused with a compound annual growth rate of 2.6%. To achieve its 2025 objective, Covanta's required compound annual growth rate will be 4.6%, compared to the 2020 baseline, which is 2.0% higher than the 2018-2020 compound annual growth rate of the adjusted performance.

Thus, ISS ESG deems the SPT to be ambitious against past performance, however, there are limitations to this assessment as the baseline and prior years have not been externally verified.

Against company's sectorial peers

Covanta shared with ISS ESG a peer group³² composed of four Water and Waste Utilities companies (including Covanta) that use similar targets. Based on the information provided, Covanta has the greatest annual improvement of its peers with a ~5% annual increase (25% increase in waste recycled/reused by 2025) relative to peers with annual improvements of ~2.3% (25% increase in recovery of key materials on a combined basis (recycling) by 2030), ~2.9% (50% in resources recovered by 2035), and ~3.1% (40% increase in recovery of key materials on a combined basis by 2030).

However, as none of the company's peers have a directly comparable target in place, ISS has concluded there is limited information available to assess the ambition of the target against peers.

Against international targets

Covanta's target refers to the United States Environmental Protection Agency's non-hazardous materials and waste management hierarchy that places an emphasis on reducing, reusing, and recycling as key to sustainable materials management. However, there are no specific guidelines in place regarding target setting in the U.S. for the absolute amount of waste reused and recycled.

Thus, limited information is available to assess the level of ambition of the target against international/local targets.

However, it is worth noting that, according to the issuer, usually, in the US, typical WtE ash management is landfill. By looking at treatment techniques from Europe and technologies from other industries, like mining, Covanta is finding economic opportunities to reuse residual that could have environmental benefits.

Measurability & comparability

- **Historical data:** The issuer has provided relevant historical data from 2018 to 2020 (baseline year). The issuer plans to externally verify its baseline year at the time of or shortly after the issuance of its Sustainability-Linked Financing Framework. The historical performance will not

³² The peer group includes: Waste Connections, Republic Services, and Clean Harbors

be externally verified, however, the approach utilized to verify the baseline will be consistent with the tracked historical measurements as published in its annual Sustainability Report³³.

- **Benchmarkable:** The SPT is easily benchmarked against targets set by other companies in the Water and Waste Utilities sector, but with limitations including:
 - The SPT is set in absolute numbers, which makes benchmarking challenging when looking at companies with intensity targets.
 - Difficulty comparing recycling metrics as Covanta's efforts are done in-house, vs. relying on consumers.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date and the frequency of SPTs measurement.

Supporting strategy and action plan

Covanta's key efforts to support the achievement of the SPT include:

- **Recovering Metals:** After combustion takes place in its WtE facilities, a variety of metals are recovered from the ash for recycling. To increase the value of materials recovered and diverted from landfills, the Company has several projects in development, including its new UK facilities as they come online, to further increase the volume of metals captured for recycling.
- **Ash Processing:** As the ash processing technology is proven out, the Company sees opportunities to proliferate it in other locations. In the United Kingdom, there is an established pathway for ash reuse, and the Company expects to utilize third parties to capture this opportunity.
- **Primary Recycling at CES:** Covanta has growth plans in place to both drive incremental volumes through existing capacity at CES as well as to undertake capacity expansions. Further, the Company expects to review incremental technologies and opportunities to broaden its capabilities.

Opinion on SPT calibration: ISS ESG finds that the SPT calibrated by Covanta is ambitious against the company's past performance *with limitations as the company's actual and adjusted figures have not been externally verified at the issuance of this report*. Furthermore, there is limited information available to assess the level of ambition against peers or international targets. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan.

³³ <http://covanta-csr.com/protecting-tomorrow/progress-on-goals/>

PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND SUSTAINABILITY LINKED-LOAN PRINCIPLES

Rationale for Framework

FROM ISSUER'S FRAMEWORK

The Issuer has stated that its Sustainability-Linked Financing Framework demonstrates its mission to ensure that no waste is ever wasted. It is the company's business, purpose and value proposition to recover, recycle and reimagine waste, extracting the highest value from the byproducts of our daily lives. Sustainability is core to Covanta's DNA and drives its business forward. This framework links the Company's sustainability strategy with its corporate financial strategy and invites investors to join on this journey.

Opinion: ISS ESG considers the Rationale for Issuance description provided by Covanta as aligned with the SLBP and SLLP.

2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPI selection available in section 1 of this report.

Opinion:

KPI 1: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable with limitations mainly due to the lack of similar indicators calculated by peers. It covers over 98% of the total waste handled by the company with associated processes representing approximately 97% of the company's revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues) (detailed analysis has been conducted in the [section 1 of this report](#)).

KPI 2: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and externally verifiable. The KPI is benchmarkable with some limitations. It covers over 98% of the total waste managed by Covanta as of 2020 as it refers to the byproducts of the WtE process (metal and ash recovery) and primary recycling at the company's CES business with associated processes representing approximately 97% of the company's revenue as it applies to waste (74% of the FY20 revenues) and energy and metals (respectively 18% and 5% of the FY20 revenues) (detailed analysis has been conducted in the [section 1 of this report](#)).

2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPT is available in section 1 of this report.

Opinion:

SPT 1: ISS ESG finds that the SPT calibrated by Covanta is moderately ambitious against the company's past performance with limitations as the company's actual and adjusted figures have not been externally verified at the issuance of this report. There is limited information available to assess the

level of ambition against peers as comparable peers do not calculate similar metrics nor have set public targets. In the absence of a directly comparable international benchmark, there is limited information available to assess the target's ambition against international targets. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan (detailed analysis has been conducted in the [section 1 of this report](#)).

SPT 2: ISS ESG finds that the SPT calibrated by Covanta is ambitious against the company's past performance with limitations as the company's actual and adjusted figures have not been externally verified at the issuance of this report. Furthermore, there is limited information available to assess the level of ambition against peers or international targets. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan (detailed analysis has been conducted in the [section 1 of this report](#)).

2.3. Sustainability-Linked Instrument Characteristics

FROM ISSUER'S FRAMEWORK

Covanta views the selected KPIs as being complementary to each other and intends to use both KPIs in tandem in Sustainability Linked Financings.

Covanta will assign structural and / or financial implications to the non-achievement of the applicable SPT, as described in the Sustainability-Linked Financing Instrument's offering documentation. These implications could include, but are not limited to, a coupon step-up and / or a step-down, margin adjustment, or premium payment at maturity. Any financial and/or structural characteristics will be commensurate and meaningful relative to the original financing's financial characteristics.

If the SPT(s) have not been reached or verified at the target observation date, as per the annual reporting published following the target observation date, a premium will be payable by Covanta.

The mechanism for payment of premium will be specified in the final terms of the notes and may include the following:

- An increase in the coupon margin by an amount specified in the documentation of the Sustainability Linked Financing Instrument payable from the first coupon payment date following the specified step-up date until maturity
- Where the instrument allows two or more observation and coupon step dates, then these coupon steps would be cumulative

The exact mechanism and impacts of the achievement or failure to reach the pre-defined SPT(s) will be detailed for each financing in the pre-issuance template. Such documents will detail the KPI definition, calculation methodologies, SPT(s) and trigger events, financial/structural characteristic variation mechanisms, as well as where needed any fallback mechanisms in case the SPT(s) cannot be calculated or observed in a satisfactory manner, and language to take into consideration potential exceptional events or extreme events, including drastic changes in the regulatory environment that could substantially impact the calculation of the KPI or the restatement of the SPT(s). Where relevant, Covanta may include potential exceptional events that could substantially impact the calculation of the KPI and SPT(s) in the legal documentation for the Sustainability-Linked Financing Instrument.

Any future Sustainability-Linked Financing Instruments with the same KPI(s) and SPT Observation Date must utilize an SPT of equal or greater climate ambition. In addition, at the issuance of such a Sustainability-Linked

Financing Instrument, any outstanding Sustainability-Linked Financing Instruments would have their equivalent SPT adjusted to reflect the greater ambition – clause of "the most ambitious target" – for three key reasons:

- To enable the increase of ambition over time, and allow Covanta to adapt to new circumstances
- To avoid the coexistence of Sustainability-Linked Financing Instruments with different SPTs at the same dates for the same KPIs; and
- To facilitate the reporting exercise – avoiding the need to validate the KPI against multiple targets

Opinion: ISS ESG considers the Sustainability-Linked Bond and Loan Characteristics description provided by Covanta as aligned with the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles.

2.4. Reporting

FROM ISSUER'S FRAMEWORK

Annually, and for any period relevant for assessing the trigger of the SPT(s) performance, Covanta will publish and keep readily available and easily accessible on our website up to date information on:

- Performance of the selected KPIs, including the baseline where relevant,
- A verification assurance report ("Limited Assurance") outlining the performance of the KPIs against the SPTs and the related impact on the instrument's characteristics,
- Any relevant information enabling investors to monitor Covanta's progress towards the selected SPTs.

Opinion: ISS ESG considers the Reporting description provided by Covanta as aligned with the SLBP and SLLP. This will be made publicly available annually and include valuable information, as described above.

2.5. Verification

FROM ISSUER'S FRAMEWORK

Pre-Issuance: Covanta has obtained and made publicly available a Second Party Opinion ("SPO"), confirming the alignment of the Framework with ICMA's Sustainability Linked Bond Principles 2020 and Sustainability Linked Loan Principles 2021, as administered by the LMA and LSTA. The SPO will be available on Covanta's investor website.

Post-Issuance: Covanta's KPI performance will be verified by an external auditor annually. A "Limited Assurance" report will be made publicly available on Covanta's investor website.

Covanta will review this Framework from time to time, including its alignment to updated versions of the relevant principles as and when they are released, with the aim of adhering to best practices in the market.

The Company will also review this Framework in case of material changes in the perimeter, methodology, and in particular KPIs and/or the SPT's calibration. Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to the prior approval of ISS or any such other qualified provider of second party opinion.

Any future updated version of this Framework that may exist will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by an External Verifier. The updated Framework, if any, will be published on Covanta's investor website and will replace this Framework.

Opinion: *ISS ESG considers the Verification description provided by Covanta as aligned with the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles. The issuer plans on having all annual values of the SPT published and verified.*

PART 3: LINK TO COVANTA'S SUSTAINABILITY STRATEGY

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
COVANTA	WATER AND WASTE UTILITIES	5	Very High

This means that the company currently shows a moderate sustainability performance against peers on key ESG issues faced by Water and Waste Utilities sector and obtains a Decile Rank relative to industry group of 5, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG Performance

As of 2021-09-29, this rating places Covanta 23rd out of 45 companies rated by ISS ESG in the Water and Waste Utilities sector.

Key Challenges faced by companies in term of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

Covanta Holding conducts all of its operations through subsidiaries that are engaged predominantly in waste (74% of revenues in 2020) and energy (18.8%) services in the United States and Canada, and also invests in waste-to-energy facilities in Ireland and Italy. Covanta Holding mainly operates waste-to-energy plants, and also engages in recycling of ferrous and non-ferrous metals from the ash that is left from waste incineration (4.3% of revenues in 2020). Collection of waste for residential customers as well as waste recycling services are regarded as beneficial social and environmental services – they provide access to a basic service, reduce pollution from improperly disposed waste, and enable the recovery of valuable resources. The company also contributes to the global climate and sustainable energy goals by generating energy based on biogenic waste.

Sustainability Risks

Given its business model, Covanta Holding is mainly exposed to environmental risks in the context of emissions and residues from waste treatment and disposal sites. The company refers to some relevant measures to address these risks, including monitoring and reducing air emissions of waste incineration plants. Covanta also provides comprehensive information on the management and disposal of bottom ash. However, there is limited information on how environmental safety is ensured at landfill sites. Covanta Holding has implemented a group-wide environmental management system, clearly acknowledges climate change and is committed to reducing greenhouse gas emissions. Thus, the company has set itself a target to improve the energy efficiency of its energy recovery facilities, as

well as a greenhouse gas emission reduction target to reduce its scope 3 emissions by 10% until 2022 (compared to 2016). Furthermore, the company is committed to avoid greenhouse gas emissions by increasing the amount of waste recycled and diverted from landfill. However, as the climate target only covers scope 3 emissions, it does not seem to be in line with emission reductions required to limit the global temperature increase to well below 2°C. While the energy intensity of its operations has remained stable in recent years, the carbon intensity has decreased. As the utilities sector is generally prone to safety risks, sound management of health and safety of employees and contractors is of utmost importance. Covanta Holding has established certified health and safety management systems at the majority of its operations and reports a decreasing work-related accident rate which is at a common industry level. The company's policy of business conduct addresses almost all relevant issues in varying degrees of detail and some corresponding compliance procedures are documented, such as confidential reporting channels and whistleblower protection.

Governance opinion

Covanta Holding's board chair, Samuel Zell, is not independent, though a lead independent director has been nominated (as of April 16, 2021). The majority of the board is independent, and the company has set up fully independent committees in charge of audit, remuneration, and nomination. Covanta Holding discloses its remuneration policy for executives including long-term incentive components, which could incentivize sustainable value creation.

Covanta Holding's Nominating and Governance board committee is responsible for the oversight of sustainability/ESG, including goals, strategy, performance, and reporting matters. There is no evidence that sustainability performance targets are considered in executive remuneration plans (e.g. accident rate, GHG emissions intensity, etc.). The company's policy of business conduct addresses almost all relevant issues in varying degrees of detail and some corresponding compliance procedures are documented, such as confidential reporting channels and whistleblower protection.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Covanta's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to evaluation of final product characteristics and does not include practices along the Covanta's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Waste services for residential customers	22.3%	CONTRIBUTION	
Energy generation based on second generation biomass (other than wood-based biomass)	9.4%	CONTRIBUTION	 

Recycling services	4.3%	CONTRIBUTION	
Others	N/A	NO NET IMPACT	N/A

Breaches of international norms and ESG controversies

The company is not facing any controversy

Contribution of KPIs to sustainability objectives and key ESG industry challenges

ISS ESG mapped the KPIs selected by the issuer for its Sustainability-Linked Instruments with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Water and Waste Utilities sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g., climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each KPIs selected.

KPIs SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Sustainably Processed Waste	✓	✓	Contribution to a material objective
Waste Recycled/Reused	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the KPIs are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing sustainability-linked instruments is clearly described by the issuer.*

DISCLAIMER

1. Validity of the SPO: For Covanta's Sustainability-Linked Instrument issuances as long as the Sustainability-Linked Financing Framework (November 8, 2021 version), SPTs benchmarks and structural securities characteristics described in this document do not change.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, certain images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are the property of ISS and are protected under copyright and trademark law. Any use of such ISS property shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

The issuer that is the subject of this report may have purchased self-assessment tools and publications from ISS Corporate Solutions, Inc. ("ICS"), a wholly-owned subsidiary of ISS, or ICS may have provided advisory or analytical services to the issuer. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing disclosure@issgovernance.com.

This report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this report, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and scores provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

Deutsche Börse AG ("DB") owns an approximate 80% stake in ISS HoldCo Inc., the holding company which wholly owns ISS. The remainder of ISS HoldCo Inc. is held by a combination of Genstar Capital ("Genstar") and ISS management. ISS has formally adopted policies on non-interference and potential conflicts of interest related to DB, Genstar, and the board of directors of ISS HoldCo Inc. These policies are intended to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings produced by ISS and to safeguard the reputations of ISS and its owners. Further information regarding these policies are available at <https://www.issgovernance.com/compliance/due-diligence-materials>.

© 2021 | Institutional Shareholder Services and/or its affiliates

ANNEX 1: ISS ESG Corporate Rating

The following pages contain the methodology description of the ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

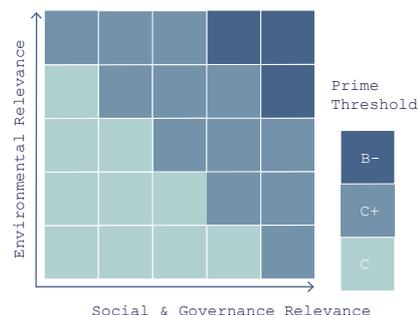
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 2: Methodology

ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles, as administered by ICMA, LMA and LSTA

ISS ESG reviewed the Sustainability-Linked Financing Framework of Covanta, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and Sustainability-Linked Loan Principles administered by the LMA and LSTA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond and Loan market by clarifying the approach for issuance. ISS ESG reviewed the alignment of the concept of the Covanta's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond and Loan Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPT against Covanta's own past performance (according to Covanta's reported data), against Covanta's Water and Waste Utilities peers (as per ISS ESG Peer Universe and data), and against international benchmarks. Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of Covanta.

ANNEX 3: Quality management processes

SCOPE

Covanta commissioned ISS ESG to compile a Sustainability-Linked Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the ICMA Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-Linked Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Sustainability-Linked Bond Principles, as administered by International Capital Market Association ("ICMA")
- Sustainability-Linked Loan Principles, as administered by the Loan Market Association ("LMA") and Loan Syndications and Trading Association ("LSTA")

ISSUER'S RESPONSIBILITY

Covanta's responsibility was to provide information and documentation on:

- Sustainability-Linked Financing Framework (November 8, 2021 version)

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked Instruments to be issued by Covanta based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and LMA and LSTA's Sustainability-Linked Loan Principles.

The engagement with Covanta took place from August to November 2021.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact:

Federico Pezzolato

SPO Business Manager EMEA/APAC

Federico.Pezzolato@isscorporatesolutions.com

+44.20.3192.5760

Miguel Cunha

SPO Business Manager Americas

Miguel.Cunha@isscorporatesolutions.com

+1.917.689.8272

For Information about this Sustainability-Linked Instruments SPO, contact: SPOOperations@iss-esg.com

Project team

Project lead

Karsen Bell
Analyst
ESG Consultant

Project support

Armand Satchian
Associate
ESG Consultant

Project supervision

Viola Lutz
Associate Director
Deputy Head of Climate Services