

**UGI INTERNATIONAL, LLC
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
and
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS
for the years ended September 30, 2021, 2020 and 2019

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

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UGI INTERNATIONAL, LLC AND SUBSIDIARIES
GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI International and Related Entities

AmeriGas OLP - AmeriGas Propane, L.P., an indirect wholly owned subsidiary of UGI

AvantiGas - AvantiGas Limited, an indirect wholly owned subsidiary of UGI International

Company - UGI International and its consolidated subsidiaries collectively

DVEP - DVEP Investeringen B.V., an indirect wholly owned subsidiary of UGI International

Enterprises - UGI Enterprises, LLC, a Pennsylvania limited liability company and wholly owned subsidiary of UGI

Flaga - Flaga GmbH, an indirect wholly owned subsidiary of UGI International

UGI - UGI Corporation

UGI France - UGI France SAS (*a Société par actions simplifiée*), an indirect wholly owned subsidiary of UGI International

UGI International - UGI International, LLC, a wholly owned subsidiary of Enterprises

UniverGas - UniverGas Italia S.r.l, an indirect wholly owned subsidiary of UGI International

Other Terms and Abbreviations

3.25% Senior Notes - An underwritten private placement by UGI International of €350 million principal amount of senior unsecured notes due November 1, 2025

ABO - Accumulated Benefit Obligation

AOI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

ASC 606 - ASC 606, “Revenue from Contracts with Customers”

ASC 740 - ASC 740, “Income Taxes”

ASC 805 - ASC 805, “Business Combinations”

ASC 820 - ASC 820, “Fair Value Measurement”

ASC 842 - ASC 842, “Leases”

ASU - Accounting Standards Update

CARES Act - Coronavirus Aid, Relief, and Economic Security Act

CDC - Centers for Disease Control and Prevention

COVID-19 - A novel strain of coronavirus disease discovered in 2019

Euribor - Euro Interbank Offered Rate

FASB - Financial Accounting Standards Board

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

Fiscal 2019 - The fiscal year ended September 30, 2019

Fiscal 2020 - The fiscal year ended September 30, 2020

Fiscal 2021 - The fiscal year ended September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

Fiscal 2024 - The fiscal year ending September 30, 2024

Fiscal 2025 - The fiscal year ending September 30, 2025

GAAP - U.S. generally accepted accounting principles

GILTI - Global Intangible Low Taxed Income

IRC - Internal Revenue Code

IRS - Internal Revenue Service

IT - Information technology

LPG - Liquefied petroleum gas

NPNS - Normal purchase and normal sale

PBO - Projected benefit obligation

ROU - Right-of-use

TCJA - Tax Cuts and Jobs Act

UGI International Credit Facilities Agreement - A five-year unsecured senior facilities agreement entered into in October 2018 by UGI International comprising a €300 million term loan facility and a €300 million revolving credit facility, scheduled to expire in October 2023

U.S. - United States of America

USD - U.S. dollar

WHO - World Health Organization



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Report of Independent Auditors

To the Member and Management of UGI International, LLC:

We have audited the accompanying consolidated financial statements of UGI International, LLC and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended September 30, 2021, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI International, LLC and subsidiaries at September 30, 2021 and 2020, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2021, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

November 19, 2021

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	September 30,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 606	\$ 209
Restricted cash	1	13
Accounts receivable (less allowances for doubtful accounts of \$16 and \$14, respectively)	430	313
Inventories	145	69
Derivative instruments	500	16
Prepaid expenses and other current assets	81	64
Total current assets	<u>1,763</u>	<u>684</u>
Property, plant and equipment:		
Gross property, plant and equipment	2,004	1,978
Accumulated depreciation	(933)	(880)
Net property, plant and equipment	<u>1,071</u>	<u>1,098</u>
Goodwill	993	997
Intangible assets, net	156	197
Derivative instruments	277	21
Other assets	161	126
Total assets	<u>\$ 4,421</u>	<u>\$ 3,123</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 21	\$ 1
Short-term borrowings	—	1
Accounts payable	370	178
Employee compensation and benefits accrued	60	44
Derivative instruments	28	30
Other current liabilities	208	175
Total current liabilities	<u>687</u>	<u>429</u>
Long-term debt	749	777
Deferred income taxes	463	200
Derivative instruments	16	17
Customer tank and cylinder deposits	296	300
Other noncurrent liabilities	98	89
Total liabilities	<u>2,309</u>	<u>1,812</u>
Commitments and contingencies (Note 12)		
Equity:		
Member's equity	2,103	1,302
Noncontrolling interests	9	9
Total equity	<u>2,112</u>	<u>1,311</u>
Total liabilities and equity	<u>\$ 4,421</u>	<u>\$ 3,123</u>

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars)

	Year Ended September 30,		
	2021	2020	2019
Revenues	\$ 2,651	\$ 2,127	\$ 2,372
Costs and expenses:			
Cost of sales	533	1,191	1,559
Operating and administrative expenses	664	582	621
Operating and administrative expenses - related parties	11	9	9
Depreciation and amortization	134	125	124
Other operating income, net	(17)	(4)	(9)
	<u>1,325</u>	<u>1,903</u>	<u>2,304</u>
Operating income	1,326	224	68
Loss on extinguishments of debt	—	—	(6)
Other non-operating income (expense), net	11	(19)	38
Interest expense	(27)	(31)	(25)
Income before income taxes	1,310	174	75
Income tax expense	(331)	(37)	(23)
Net income attributable to UGI International, LLC	<u>\$ 979</u>	<u>\$ 137</u>	<u>\$ 52</u>

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Millions of dollars)

	Year Ended September 30,		
	2021	2020	2019
Net income including noncontrolling interests	\$ 979	\$ 137	\$ 52
Other comprehensive income (loss):			
Net losses on derivative instruments (net of tax of \$0, \$0, and \$1, respectively)	—	—	(1)
Reclassifications of net losses on derivative instruments (net of tax of \$0, \$0, and \$0, respectively)	1	1	—
Foreign currency translation adjustments (net of tax of \$(4), \$12, and \$(13), respectively)	(11)	15	(24)
Foreign currency (losses) gains on long-term intra-company transactions	(12)	84	(59)
Benefit plans, principally actuarial gains (losses) (net of tax of \$(1), \$(1), and \$1, respectively)	1	1	(2)
Reclassifications of benefit plans net actuarial losses and prior service benefits (net of tax of \$0, \$0, and \$0, respectively)	—	1	—
Other comprehensive (loss) income	(21)	102	(86)
Comprehensive income (loss) attributable to UGI International, LLC	<u>\$ 958</u>	<u>\$ 239</u>	<u>\$ (34)</u>

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of dollars)

	Year Ended September 30,		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income including noncontrolling interests	\$ 979	\$ 137	\$ 52
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	134	125	124
Deferred income tax expense (benefit), net	251	(8)	(54)
Changes in unrealized gains and losses on derivative instruments	(1,073)	36	110
Impairment of customer relationship intangible	20	—	—
Other, net	10	12	9
Net change in:			
Accounts receivable	(126)	8	62
Inventories	(78)	1	39
Accounts payable	198	(24)	(54)
Derivative instruments collateral received (paid)	326	1	(13)
Other current assets	(3)	(34)	16
Other current liabilities	5	(1)	(8)
Net cash provided by operating activities	<u>643</u>	<u>253</u>	<u>283</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(107)	(89)	(106)
Acquisitions of businesses, net of cash acquired	—	—	(43)
Other, net	21	7	6
Net cash used by investing activities	<u>(86)</u>	<u>(82)</u>	<u>(143)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) increase in short-term borrowings	(1)	(210)	210
Distributions paid	(153)	(25)	(386)
Capital contribution received	5	—	65
Distribution related to common control transaction (see Note 17)	(9)	—	—
Issuances of long-term debt, net of issuance costs	—	—	729
Repayments of long-term debt and capital leases	—	(1)	(717)
Other	—	—	(4)
Net cash used by financing activities	<u>(158)</u>	<u>(236)</u>	<u>(103)</u>
Foreign exchange effect on cash, cash equivalents and restricted cash	(14)	28	(16)
Cash, cash equivalents and restricted cash increase (decrease)	<u>\$ 385</u>	<u>\$ (37)</u>	<u>\$ 21</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH			
Cash, cash equivalents and restricted cash at end of year	\$ 607	\$ 222	\$ 259
Cash, cash equivalents and restricted cash at beginning of year	222	259	238
Cash, cash equivalents and restricted cash increase (decrease)	<u>\$ 385</u>	<u>\$ (37)</u>	<u>\$ 21</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for:			
Interest	\$ 25	\$ 28	17
Income taxes	\$ 76	\$ 72	58

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Millions of dollars)

	Member's Equity	Noncontrolling Interests	Total
Balance at September 30, 2018	\$ 1,436	\$ 10	\$ 1,446
Net income	52	—	52
Capital contribution - cash	65	—	65
Capital contribution - allocated expenses (Note 17)	7	—	7
Cash distributions	(386)	—	(386)
Changes in AOCI balance (Note 15)	(86)	—	(86)
Balance at September 30, 2019	\$ 1,088	\$ 10	\$ 1,098
Net income	137	—	137
Cash distributions	(25)	—	(25)
Changes in AOCI balance (Note 15)	102	—	102
Other	—	(1)	(1)
Balance at September 30, 2020	\$ 1,302	\$ 9	\$ 1,311
Net income	979	—	979
Capital contribution - cash	5	—	5
Cash distributions	(153)	—	(153)
Distribution related to common control transaction (Note 17)	(9)	—	(9)
Changes in AOCI balance (Note 15)	(21)	—	(21)
Balance at September 30, 2021	\$ 2,103	\$ 9	\$ 2,112

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Currency in millions, except where indicated otherwise)

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Note 1 — Nature of Operations

UGI International is a limited liability company domiciled in the Commonwealth of Pennsylvania in the U.S. UGI International is a wholly owned subsidiary of Enterprises, and is a second-tier wholly owned subsidiary of UGI. UGI is a U.S.-based holding company that, through subsidiaries and affiliates, distributes, stores, transports and markets energy products and related services principally in the U.S. and Europe.

UGI International, through its subsidiaries and affiliates, conducts (1) an LPG distribution business throughout much of Europe and (2) an energy marketing business in France, Belgium, the Netherlands and the United Kingdom. These businesses are conducted principally through our subsidiaries, UGI France, Flaga, AvantiGas, DVEP and UniverGas.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and costs. These estimates are based on management's knowledge of current events, historical experience and various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may be different from these estimates and assumptions.

For purposes of comparability, certain prior-year amounts have been reclassified to conform to the current-year presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of UGI International and its controlled subsidiary companies which are majority-owned. We report outside ownership interests in other consolidated but less than 100%-owned subsidiaries as noncontrolling interests. We eliminate intercompany accounts and transactions when we consolidate.

We account for privately held equity securities of entities without readily determinable fair values in which we do not have control, but have significant influence over operating and financial policies, under the equity method. Investments in equity securities related to entities in which we do not have significant influence over operating and financial policies are valued at their cost less impairment (if any). Our investments in such entities totaled \$61 and \$63 at September 30, 2021 and 2020, respectively, and are included in "Other assets" on the Consolidated Balance Sheets.

Fair Value Measurements

The Company applies fair value measurements on a recurring and, as otherwise required under ASC 820, on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements performed on a recurring basis principally relate to derivative instruments.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date.
- Level 2 — Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.
- Level 3 — Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability.

Fair value is based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. We evaluate the need for credit adjustments to our derivative instrument fair values. These credit adjustments were not material to the fair values of our derivative instruments.

Derivative Instruments

Derivative instruments are reported on the Consolidated Balance Sheets at their fair values, unless the NPNS exception is elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it qualifies and is designated as a hedge for accounting purposes.

Certain of our derivative instruments qualify and are designated as cash flow hedges. For cash flow hedges, changes in the fair values of the derivative instruments are recorded in AOCI, to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. We discontinue cash flow hedge accounting if occurrence of the forecasted transaction is determined to be no longer probable. Hedge accounting is also discontinued for derivatives that cease to be highly effective. We do not designate our commodity and certain foreign currency derivative instruments as hedges under GAAP. Changes in the fair values of these derivative instruments are reflected in net income. From time to time, we also enter into net investment hedges. Gains and losses on net investment hedges that relate to our foreign operations are included in the cumulative translation adjustment component in AOCI until such foreign net investment is substantially sold or liquidated.

Cash flows from derivative instruments, other than certain cross-currency swaps and net investment hedges, if any, are included in cash flows from operating activities on the Consolidated Statements of Cash Flows. Cash flows from the interest portion of our cross-currency hedges, if any, are included in cash flows from operating activities, while cash flows from the currency portion of such hedges, if any, are included in cash flows from financing activities. Cash flows from net investment hedges, if any, are included in cash flows from investing activities on the Consolidated Statements of Cash Flows.

For a more detailed description of the derivative instruments we use, our accounting for derivatives, our objectives for using them and other information, see Note 14.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Currency in millions, except where indicated otherwise)

Foreign Currency Translation

Balance sheets of international subsidiaries are translated into U.S. dollars using the exchange rate at the balance sheet date. Income statements and equity investee results are translated into U.S. dollars using an average exchange rate for each reporting period. Where the local currency is the functional currency, translation adjustments are recorded in other comprehensive income. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise with the impact of subsequent changes in such rates reflected in the income statement. The functional currency of a significant portion of our operations is the euro.

Revenue Recognition

In accordance with ASC 606, the Company recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Certain revenues such as revenue from leases, financial instruments and other revenues are not within the scope of ASC 606 because they are not from contracts with customers. Such revenues are accounted for in accordance with other GAAP. Revenue-related taxes collected on behalf of customers and remitted to taxing authorities are not included in revenues. The Company has elected to use the practical expedient to expense the costs to obtain contracts when incurred as such amounts are generally not material.

See Note 4 for additional disclosures regarding the Company's revenue from contracts with customers.

Accounts Receivable

Accounts receivable are reported on the Consolidated Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. Provisions for uncollectible accounts are established based upon our collection experience and the assessment of the collectability of specific amounts, and the Company's best estimate of current expected credit losses. Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

LPG Delivery Expenses

Expenses associated with the delivery of LPG to customers (including vehicle expenses, expenses of delivery personnel, vehicle repair and maintenance and general liability expenses) are classified as "Operating and administrative expenses" on the Consolidated Statements of Income. Depreciation expense associated with delivery vehicles is classified in "Depreciation and amortization" on the Consolidated Statements of Income.

Income Taxes

We file income tax returns in the United States and in 17 European countries, including France. We join with UGI and its subsidiaries in filing a consolidated U.S. federal income tax return and in filing state tax returns. Our U.S. subsidiaries are charged or credited for their share of current taxes resulting from the effects of transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. With respect to state income taxes, our U.S. subsidiaries are charged or credited for their share of current taxes resulting from the effects of transactions in the UGI state income tax return, including giving effect to intercompany transactions. The result of these allocations is consistent with income taxes calculated on a separate return basis. Accordingly, income tax-related payments and accrued income tax balances reflect both the impact of separate jurisdictional filings in European countries and transactions with UGI, resulting from the allocation from the U.S. consolidation. We record interest on tax deficiencies and income tax penalties, if any, in "Income tax expense" on the Consolidated Statements of Income. Interest income or expense recognized in "Income tax expense" on the Consolidated Statements of Income was not material for all periods presented.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand, cash in banks and highly liquid investments with maturities of three months or less when purchased. Restricted cash principally represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Currency in millions, except where indicated otherwise)

The following table provides a reconciliation of the total cash, cash equivalents and restricted cash reported on the Company's Consolidated Balance Sheets to the corresponding amounts reported on the Consolidated Statements of Cash Flows.

	2021	2020	2019
Cash and cash equivalents	\$ 606	\$ 209	\$ 235
Restricted cash	1	13	24
Cash, cash equivalents and restricted cash	<u>\$ 607</u>	<u>\$ 222</u>	<u>\$ 259</u>

Inventories

Our inventories are stated at the lower of cost or net realizable value. We determine cost primarily using an average cost method.

The Company accounts for renewable energy certificates as inventory, which generally represents costs incurred to generate a certificate for sale. The Company recognizes revenue from the sale of renewable energy certificates when control of the certificate is transferred to the buyer, and the cost of the certificate, if any, is then recorded within "Cost of sales" on the Consolidated Statements of Income.

Property, Plant and Equipment and Related Depreciation

We record property, plant and equipment at the lower of original cost or fair value, if impaired. Capitalized costs include labor, materials and other direct and indirect costs. We also include in property, plant and equipment costs associated with computer software we develop or obtain for use in our business. The amounts assigned to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition. When we retire or otherwise dispose of plant and equipment, we eliminate the associated cost and accumulated depreciation and recognize any resulting gain or loss in "Other operating income, net" on the Consolidated Statements of Income.

We record depreciation expense on property, plant and equipment on a straight-line basis over estimated economic useful lives. We classify amortization of computer software and related IT system installation costs included in property, plant and equipment as depreciation expense. No depreciation expense is included in "Cost of sales" on the Consolidated Statements of Income.

Segment Information

We have determined that we have a single reportable operating segment that primarily engages in the distribution of LPG and related equipment and supplies. Substantially all of our revenues are derived from sources in Europe and substantially all of our long-lived assets are located in Europe. Our revenues and long-lived assets associated with operations in France represent approximately 50% and 70% of the respective consolidated amounts. No single customer represents ten percent or more of consolidated revenues.

Goodwill and Intangible Assets

Intangible Assets. We amortize intangible assets over their estimated useful lives unless we determine their lives to be indefinite. Estimated useful lives of definite-lived intangible assets, primarily consisting of customer relationships and certain tradenames, do not exceed 15 years. We test definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the associated carrying amounts may be impaired. Determining whether an impairment loss occurred requires comparing the carrying amount to the estimated fair value of the asset in accordance with ASC 820. Intangible assets with indefinite lives, consisting of certain tradenames and trademarks, are not amortized but are tested for impairment annually (and more frequently if events or changes in circumstances between annual tests indicate that it is more likely than not that they are impaired) and written down to fair value, if impaired.

Goodwill. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a component) if it constitutes a business for which discrete financial information is available and regularly reviewed by segment management. Components are aggregated into a single reporting unit if they have similar economic characteristics. A reporting unit with goodwill is required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Currency in millions, except where indicated otherwise)

We are required to recognize an impairment charge under GAAP if the carrying amount of a reporting unit exceeds its fair value. From time to time, we assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. We bypass the qualitative assessment and perform the quantitative assessment by comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of our reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit.

There were no accumulated goodwill impairment losses at September 30, 2021 and 2020, and no provisions for goodwill impairment were recognized for all periods presented. For further information on our goodwill and intangible assets, see Note 10.

Impairment of Long-Lived Assets

Impairment testing for long-lived assets (or an asset group) is required when circumstances indicate that such assets may be impaired. If it is determined that a triggering event has occurred, we perform a recoverability test based upon estimated undiscounted cash flow projections expected to be realized over the remaining useful life of the long-lived asset. If the undiscounted cash flows used in the recoverability test are less than the long-lived asset's carrying amount, we determine its fair value. If the fair value is determined to be less than its carrying amount, the long-lived asset is reduced to its estimated fair value and an impairment loss is recognized in an amount equal to such short fall. When determining whether a long-lived asset has been impaired, management groups assets at the lowest level that has identifiable cash flows. No material provisions for impairments of long-lived assets were recorded during all periods presented.

Refundable Tank and Cylinder Deposits

Included in "Other current liabilities" and "Customer tank and cylinder deposits" on our Consolidated Balance Sheets are customer paid deposits on tanks and cylinders primarily owned by subsidiaries of UGI France. Deposits are refundable to customers when the tanks or cylinders are returned in accordance with contract terms. We record cylinder deposit income when our refund obligation is extinguished including by contract terms, government statute or cylinder abandonment. Refunds of deposits were not material during all periods presented.

Subsequent Events

Management has evaluated the impact of subsequent events through November 19, 2021, the date these consolidated financial statements were issued and the effects, if any, of such evaluation have been reflected in the consolidated financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standards Adopted in Fiscal 2021

Credit Losses. Effective October 1, 2020, the Company adopted ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," including subsequent amendments, using a modified retrospective transition approach. This ASU, as subsequently amended, requires entities to estimate lifetime expected credit losses for financial instruments not measured at fair value through net income, including trade and other receivables, net investments in leases, financial receivables, debt securities, and other financial instruments, which may result in earlier recognition of credit losses. Further, the new current expected credit loss model may affect how entities estimate their allowance for losses related to receivables that are current with respect to their payment terms. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

New Accounting Standard Adopted Effective October 1, 2020

Income Taxes. In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by eliminating certain exceptions within the existing guidance for recognizing deferred taxes for equity method investments, performing intraperiod allocations and calculating income taxes in interim periods. Further, this ASU clarifies existing guidance related to, among other things, recognizing deferred taxes for goodwill and allocated taxes to members of a consolidated group. Effective October 1, 2021, the Company adopted this ASU, as updated, using a prospective approach. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

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Note 4 — Revenue from Contracts with Customers

The Company recognizes revenue when control of promised goods or services is transferred to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The Company generally has the right to consideration from a customer in an amount that corresponds directly with the value to the customer for our performance completed to date. As such, we have elected to recognize revenue in the amount to which we have a right to invoice.

We do not have a significant financing component in our contracts because we receive payment shortly before, at, or shortly after the transfer of control of the good or service. Because the period between the time the performance obligation is satisfied and payment is received is one year or less, the Company has elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

The Company's revenues from contracts with customers are discussed below.

LPG. We record revenue principally from the sale of LPG to retail and wholesale customers. The primary performance obligation associated with the sale of LPG is the delivery of LPG to (1) the customer's point of delivery for retail customers and (2) the customer's specified location where LPG is picked up by wholesale customers, at which point control of the LPG is transferred to the customer, the performance obligation is satisfied, and the associated revenue is recognized. For contracts with retail customers that consume LPG from a metered tank, we recognize revenue as LPG is consumed, at which point we have the right to invoice, and generally invoice monthly based on consumption.

Contracts with customers comprise different types of contracts with varying length terms, fixed or variable prices, and fixed or variable quantities. Contracts with our residential customers, which comprise a substantial number of our customer contracts, are generally five years or less. Customer contracts for the sale of LPG include fixed-price, fixed-quantity contracts under which LPG is provided to a customer at a fixed price and a fixed volume, and contracts that provide for the sale of LPG at either fixed prices or market prices at date of delivery with no fixed volumes.

We also distribute LPG to customers in portable cylinders. Under certain contracts, filled cylinders are delivered, and control is transferred, to a reseller. In such instances, the reseller is our customer and we record revenue upon delivery to the reseller. Under other contracts, filled cylinders are delivered to a reseller, but the Company retains control of the cylinders. In such instances, we record revenue at the time the reseller transfers control of the cylinder to the end user.

Energy Marketing. The Company operates energy marketing businesses that sell energy commodities, principally natural gas and electricity, to residential, commercial, industrial and wholesale customers.

We market natural gas and electricity on full-requirements or agreed-upon volume bases under contracts with varying length terms and at fixed or floating prices that are based on market indices adjusted for differences in price between the market location and delivery locations. Performance obligations associated with these contracts primarily comprise the delivery of the natural gas and electricity over a contractual period of time. Performance obligations also include other energy-related ancillary services provided to customers such as capacity. For performance obligations that are satisfied at a point in time such as the delivery of natural gas, revenue is recorded when customers take control of the natural gas. Revenue is recorded for performance obligations that qualify as a series, when customers consume the natural gas or electricity is delivered, which corresponds to the amount invoiced to the customer. For transactions where the price or volume is not fixed, the transaction price is not determined until delivery occurs. The billed amount, and the revenue recorded, is based upon consumption by the customer.

Other. Other revenues from contracts with customers are generated primarily from certain fees we charge associated with the delivery of LPG. Revenues from fees are typically recorded when the LPG is delivered to the customer or the associated service is completed.

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Revenue Disaggregation

The following table presents our disaggregated revenues during Fiscal 2021, Fiscal 2020 and Fiscal 2019:

	2021	2020	2019
Revenues from contracts with customers:			
LPG:			
Retail	\$ 1,754	\$ 1,462	\$ 1,667
Wholesale	189	148	169
Energy Marketing	605	434	448
Other	69	60	55
Total revenues from contracts with customers	2,617	2,104	2,339
Other revenues (a)	34	23	33
Total revenues	\$ 2,651	\$ 2,127	\$ 2,372

(a) Primarily represents revenues from tank rentals that are not within the scope of ASC 606 and accounted for in accordance with other GAAP.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers or cash receipts. Contract assets represent our right to consideration after the performance obligations have been satisfied when such right is conditioned on something other than the passage of time. Contract assets were not material at September 30, 2021 and 2020. Substantially all of our receivables are unconditional rights to consideration and are included in “Accounts receivable” on the Consolidated Balance Sheets. Amounts billed are generally due within the following month.

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company’s obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were \$52 and \$64 at September 30, 2021 and 2020, respectively, and are included in “Other current liabilities” on the Consolidated Balance Sheets. Revenue recognized during Fiscal 2021, Fiscal 2020 and Fiscal 2019 from the amount included in contract liabilities at September 30, 2020, September 30, 2019 and October 1, 2018 was \$64, \$49 and \$41 respectively.

Remaining Performance Obligations

We exclude disclosures related to the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period because these contracts have an initial expected term of one year or less or we have a right to bill the customer in an amount that corresponds directly with the value of services provided to the customer to date.

Note 5 — Debt

Credit Facilities and Short-term Borrowings

The UGI International Credit Facilities Agreement contains a multicurrency revolving credit facility which permits UGI International to borrow in euros or dollars. At September 30, 2021 and 2020, there were no borrowings outstanding under this facility and the Company's available borrowing capacity under the facility was €300. The UGI International Credit Facilities Agreement expires in October 2023 and borrowings bear interest at a rate indexed to a short-term market rate. Borrowings outstanding under this agreement, if any, are classified as “Short-term borrowings” on the Consolidated Balance Sheets. There

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were no borrowings outstanding under this facility during Fiscal 2021. In November 2021, the Company borrowed \$45 under this facility. All borrowings outstanding on this facility during Fiscal 2020 were repaid in September 2020.

Long-term Debt

Long-term debt comprises the following at September 30:

	2021	2020
3.25% Senior Notes due November 2025	\$ 405	\$ 410
UGI International variable-rate term loan due October 2023 (a)	347	352
Other (b)	23	23
Unamortized debt issuance costs	(5)	(7)
Total long-term debt	770	778
Less current maturities	(21)	(1)
Total long-term debt due after one year	\$ 749	\$ 777

- (a) At September 30, 2021 and 2020 the effective interest rates on the term loan were 1.89% and 2.04%, respectively. We have entered into pay fixed, receive variable interest rate swaps to effectively fix the underlying variable rate on these borrowings.
- (b) Amounts include a note payable of €17 (\$20) at September 30, 2021 and 2020, due August 2022. The note payable bears interest at increasing rates from 0% to 5% through the date of maturity. The Company repaid the outstanding principal balance on this loan in October 2021.

Scheduled principal repayments of long-term debt for each of the next five fiscal years ending September 30 are as follows:

	2022	2023	2024	2025	2026
Total	\$ 21	\$ 2	\$ 347	\$ —	\$ 405

Restrictive Covenants. Our long-term debt and the UGI International Credit Facilities Agreement generally contain customary covenants and default provisions which may include, among other things, restrictions on the incurrence of additional indebtedness and also restrict liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions. The agreement contains standard provisions which require compliance with certain financial ratios. The Company was in compliance with its debt covenants as of September 30, 2021.

Note 6 — Income Taxes

The provisions for income taxes consist of the following:

	2021	2020	2019
Current expense (benefit):			
Federal	\$ (2)	\$ (22)	\$ 8
State	(2)	(6)	2
Foreign	84	73	67
Total current expense	80	45	77
Deferred (benefit) expense:			
Federal	(11)	—	(4)
State	—	—	(2)
Foreign	262	(8)	(48)
Total deferred (benefit) expense	251	(8)	(54)
Total income tax expense	\$ 331	\$ 37	\$ 23

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Federal income taxes for Fiscal 2019 are net of foreign tax credits of \$8. There were no foreign tax credits utilized in Fiscal 2021 or Fiscal 2020.

A reconciliation of income tax expense attributable to continuing operations to the amount of income tax expense that would result from applying the U.S. federal statutory tax rate to income from continuing operations is as follows:

	2021	2020	2019
Income tax expense at U.S. federal statutory tax rate	\$ 275	\$ 37	\$ 16
Difference in income tax expense due to:			
State income tax benefit, net of federal expense	(2)	(5)	—
Valuation allowance adjustments	(10)	—	—
Notional interest deduction	(17)	(16)	—
French interest disallowance	(1)	3	4
French CVAE taxes	3	4	4
Deferred tax effects of International tax rate changes	(26)	2	(2)
French tax refund	—	(5)	—
Other effects of foreign operations (a)	106	24	(1)
Effects of U.S. tax legislation	(4)	(7)	—
Other, net	7	—	2
Total income tax expense	\$ 331	\$ 37	\$ 23

(a) Comprises foreign tax rate differentials, U.S. tax on foreign earnings net of foreign tax credits, and other foreign tax effects not separately disclosed.

In February 2021, tax legislation was enacted in Italy which allowed the Company to align book basis with tax basis on certain assets in exchange for paying a three percent substitute tax payment payable in three annual installments. This election resulted in a \$23 net benefit in Fiscal 2021 which will result in incremental tax basis that will be deductible in future periods.

On March 27, 2020, the CARES Act was enacted into law. The primary impact of the legislation was the change in federal net operating loss carryback rules which allowed the Company's U.S. federal tax losses generated in Fiscal 2021 and Fiscal 2020 to be carried back to Fiscal 2016 and Fiscal 2015. The carryback of the Fiscal 2021 and Fiscal 2020 U.S. federal tax losses from a 21% rate environment to offset taxable income in Fiscal 2016 and Fiscal 2015 in a 35% rate environment generated incremental benefits of \$4 and \$7, respectively. On July 20, 2020 the Treasury Department issued final regulations under IRC Section 951A permitting a taxpayer to elect to exclude, from its inclusion of GILTI, income subject to a high effective rate of foreign tax. The impact of these final regulations reduced U.S. tax of foreign source income in Fiscal 2021 and Fiscal 2020.

For all periods presented, our effective tax rate was subject to the impact of changes to the taxation of foreign source income made by the TCJA and the high tax exception regulations issued in July 2020. Income tax expense for Fiscal 2021, Fiscal 2020 and Fiscal 2019 includes \$8, \$0, and \$2, respectively, of GILTI taxes that are treated as current period costs and carry no related deferred taxes.

In July 2019, the French Parliament enacted legislation retroactively increasing the corporate income tax rate for tax years beginning in 2019 that had previously been reduced by the December 2017 French Finance Bills. As a result, the Fiscal 2020 tax rate remained at 34.43% for Fiscal 2019. In December 2019, the French Parliament enacted additional legislation revising the rates enacted for Fiscal 2021 and Fiscal 2022, but retained the corporate income tax rate of 25.8%, effective for fiscal years starting after January 1, 2022 (Fiscal 2023).

In January 2021, the Netherlands cancelled their previously enacted tax rate decreases to 21.01% in Fiscal 2021 and 20.5% in Fiscal 2022 to maintain the corporate tax rate at 25%. In June 2021, the United Kingdom enacted legislation increasing the corporate tax rate to 25% beginning April 2023. The aforementioned future rate decrease in France on temporary differences arising in Fiscal 2021 that will reverse in future periods in the lower tax rate environment resulted in a \$31 benefit in Fiscal 2021. The impact on deferred income tax liabilities and income tax expense related to the other changes were not material in any periods presented.

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Deferred tax liabilities (assets) comprise the following at September 30:

	2021	2020
Excess book basis over tax basis of property, plant and equipment	\$ 169	\$ 167
Intangible assets and goodwill	16	51
Derivative instrument assets	274	—
Other	5	6
Gross deferred tax liabilities	<u>464</u>	<u>224</u>
Employee-related benefits	(9)	(10)
Operating loss carryforwards	(8)	(7)
Foreign tax credit carryforwards	(79)	(81)
Derivative instrument liabilities	—	(14)
Other	(35)	(23)
Gross deferred tax assets	<u>(131)</u>	<u>(135)</u>
Deferred tax assets valuation allowance	103	104
Net deferred tax liabilities	<u>\$ 436</u>	<u>\$ 193</u>

At September 30, 2021, we carried foreign net operating loss carryforwards of \$10 and \$19 principally relating to Flaga and certain subsidiaries of UGI France, with no expiration dates and \$5 in the Netherlands expiring in 2027.

Valuation allowances against deferred tax assets exist for foreign tax credit carryforwards, net operating loss carryforwards of foreign subsidiaries and a notional interest deduction. The valuation allowance for all deferred tax assets in Fiscal 2021 was consistent with the prior year as the release of \$10 against FTC's that will be realizable in the future was offset by a \$10 increase in notional interest deduction carryover.

The valuation allowance for all deferred tax assets increased by \$14 in Fiscal 2020 largely related to a \$16 increase in a notional interest deduction carryover.

We file tax returns in France and other European countries in which we conduct business and also in the U.S., including numerous state and local jurisdictions. Our U.S. federal income tax returns are settled through the 2017 tax year, our French tax returns are settled through the 2017 tax year, our Austrian tax returns are settled through 2017 tax year and our other European tax returns are effectively settled for various years from 2013 to 2018. State and other income tax returns in the U.S. are generally subject to examination for a period of three to five years after the filing of the respective returns.

The Company's unrecognized tax benefits including amounts related to accrued interest, which if subsequently recognized would be recorded as a benefit to income taxes, amounted to \$2 and \$4, respectively, at September 30, 2021 and 2020. Activity related to these unrecognized tax benefits was not material for all periods presented.

Note 7 — Employee Retirement Plans

Certain employees of the Company are covered by defined benefit pension and other postretirement benefit plans. Benefits under defined benefit pension plans are generally based upon years of service and final average pay. Benefit obligations and benefit costs associated with our other postretirement benefit plans are not material.

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The following table provides a reconciliation of the PBOs, the fair values of assets and the funded status associated with our pension plans as of September 30, 2021 and 2020. ABO is the present value of benefits earned to date with benefits based upon current compensation levels. PBO is ABO increased to reflect estimated future compensation.

	Pension Benefits	
	2021	2020
Change in benefit obligations:		
Benefit obligations - beginning of year	\$ 45	\$ 45
Service cost	3	2
Actuarial gain	(3)	(1)
Plan amendments	2	—
Curtailement	—	(2)
Foreign currency loss	—	3
Benefits paid	(2)	(2)
Benefit obligations - end of year	<u>\$ 45</u>	<u>\$ 45</u>
Change in plan assets:		
Fair value of plan assets - beginning of year	\$ 18	\$ 18
Foreign currency loss	—	1
Employer contributions	1	1
Benefits paid	—	(2)
Fair value of plan assets - end of year	<u>\$ 19</u>	<u>\$ 18</u>
Funded status of the plans - end of year (a)	<u>\$ (26)</u>	<u>\$ (27)</u>
Amounts recorded in UGI International member's equity (pre-tax):		
Prior service cost	\$ 3	\$ 1
Net actuarial loss	1	4
Total	<u>\$ 4</u>	<u>\$ 5</u>

(a) Amounts are reflected in "Other noncurrent liabilities" on the Consolidated Balance Sheets

In Fiscal 2021 and Fiscal 2020, the change in the pension plans' PBO due to actuarial gains and losses is principally the result of changes in discount rates. The estimated amount of actuarial losses, net of prior service benefits that we will amortize from member's equity into retiree benefit cost during Fiscal 2022 is not expected to be material.

Assumptions for the pension benefit plans are based upon market conditions in France and Belgium. The discount rates are determined principally by reference to the yields on high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The expected rate of return on assets assumption is based on current and future expected returns on plan assets (as further described below).

	Pension Plan		
	2021	2020	2019
Weighted-average assumptions:			
Discount rate – benefit obligations	0.76% to 0.85%	0.53% to 0.68%	0.48% to 0.56%
Discount rate – benefit cost	0.48% to 0.56%	0.48% to 0.56%	1.42% to 1.80%
Expected return on plan assets	2.00% to 2.98%	2.00% to 2.97%	1.90% to 2.98%
Rate of increase in salary levels	2.50% to 3.80%	2.50% to 4.00%	2.00% to 4.00%

The ABO for the pension plans was \$45 and \$43 as of September 30, 2021 and 2020, respectively.

The service cost component of our pension and other postretirement plans is reflected in "Operating and administrative expenses" on the Consolidated Statements of Income. The non-service cost component is reflected in "Other non-operating

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income (expense), net" on the Consolidated Statements of Income. Net periodic pension and other postretirement benefit cost and its components were not material for all periods presented.

As of September 30, 2021, pension plan benefits are funded through guaranteed or group insurance contracts. In these types of investment contracts, the Company is not entitled to the actual assets held by the insurance company but has a claim on the insurance company corresponding to the mathematical reserves generally equal to the compounded value of the paid contributions after deducting administrative fees and payments, at the contractual interest rate, or the surrender value. The fair values of the assets associated with the insured plans included in the tables above are generally the greater of the value of the discounted vested benefit or the policy surrender value. These investment balances are classified as Level 2 in the fair value hierarchy. Cash contributions, including estimated future payments, associated with our pension and other postretirement benefit plans are not material.

Certain employees of the Company may be eligible for long-service award lump-sum payments upon their departure from the Company. These awards are accounted for using the full expense method which requires that actuarial gains and losses be reflected in earnings immediately rather than being deferred and amortized over future periods of service. Benefits under these plans are unfunded. Benefit obligations and benefit expense associated with these plans were not material for all periods presented.

Note 8 — Inventories

Inventories comprise the following at September 30:

	2021	2020
LPG	\$ 65	\$ 43
Natural gas	16	8
Energy certificates	51	1
Materials, supplies and other	13	17
Total inventories	<u>\$ 145</u>	<u>\$ 69</u>

Note 9 — Property, Plant and Equipment

Property, plant and equipment comprise the following at September 30:

	2021	2020	Estimated Useful Life
Land	\$ 34	\$ 34	
Buildings and improvements	137	141	10 - 40 years
Transportation equipment	32	33	3 - 10 years
Equipment, primarily cylinders and tanks	1,732	1,707	5 - 30 years
Other	41	43	1 - 10 years
Work in process	28	20	
Property, plant and equipment	<u>\$ 2,004</u>	<u>\$ 1,978</u>	

Depreciation expense totaled \$116, \$108, and \$108 for Fiscal 2021, Fiscal 2020, and Fiscal 2019, respectively.

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Note 10 — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill are as follows:

Balance at September 30, 2019	\$ 930
Purchase accounting adjustments	(2)
Foreign currency translation	69
Balance at September 30, 2020	997
Acquisitions	6
Foreign currency translation	(10)
Balance at September 30, 2021	\$ 993

Intangible assets comprise the following at September 30:

	2021	2020
Customer relationships and other	\$ 307	\$ 338
Trademarks and tradenames	4	4
Accumulated amortization	(204)	(194)
Intangible assets, net (subject to amortization)	107	148
Trademarks and tradenames (not subject to amortization)	49	49
Total intangible assets, net	\$ 156	\$ 197

Changes in amounts above include the effects of currency translation. During the fourth quarter of Fiscal 2021, the Company recognized a \$20 non-cash, pre-tax impairment charge related to a customer relationship intangible at DVEP resulting from a decline in anticipated volumes attributable to a historical customer. The charge is reflected in "operating and administrative expenses" on the Consolidated Statements of Income.

Amortization expense of intangible assets was \$22, \$27 and \$16 for Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively. Estimated amortization of intangible assets during each of the next five fiscal years is as follows: Fiscal 2022 - \$16; Fiscal 2023 - \$15; Fiscal 2024 - \$14; Fiscal 2025 - \$13; and Fiscal 2026 - \$13.

Note 11 — Leases

Lessee

We lease various buildings and other facilities, real estate, vehicles, rail cars and other equipment, the majority of which are operating leases. We determine if a contract is or contains a lease by evaluating whether the contract explicitly or implicitly identifies an asset, whether we have the right to obtain substantially all of the economic benefits of the identified leased asset and to direct its use.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We recognize ROU assets at the lease commencement date at the value of the lease liability adjusted for any prepayments, lease incentives received, and initial direct costs incurred. Lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. These payments are discounted using the discount rate implicit in the lease, when available. We apply an incremental borrowing rate, which is developed utilizing a credit notching approach based on information available at the lease commencement date, to substantially all of our leases as the implicit rate is often not available.

Lease expense is recognized on a straight-line basis over the expected lease term. Renewal and termination options are not included in the lease term unless we are reasonably certain that such options will be exercised. Leases with an original lease term of one year or less, including consideration of any renewal options assumed to be exercised, are not included in the Consolidated Balance Sheets.

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Certain leasing arrangements require variable payments that are dependent on asset usage or are based on changes in index rates, such as the Consumer Price Index. The variable payments component of such leases cannot be determined at lease commencement and is not recognized in the measurement of ROU assets or lease liabilities, but is recognized in earnings in the period in which the obligation occurs.

ROU assets and lease liabilities recorded in the Consolidated Balance Sheets at September 30 are as follows:

	2021	2020	Location on the Balance Sheet
ROU assets:			
Operating lease ROU assets	\$ 57	\$ 45	Other assets
Finance lease ROU assets	2	2	Property, plant and equipment
Total ROU assets	\$ 59	\$ 47	
Lease liabilities:			
Operating lease liabilities — current	\$ 12	\$ 14	Other current liabilities
Operating lease liabilities — noncurrent	46	32	Other noncurrent liabilities
Finance lease liabilities — current	1	1	Current maturities of long-term debt
Finance lease liabilities — noncurrent	1	1	Long-term debt
Total lease liabilities	\$ 60	\$ 48	

The components of lease cost for Fiscal 2021 and Fiscal 2020 are as follows:

	2021	2020
Operating lease cost	\$ 14	\$ 15
Finance lease cost		
Amortization of ROU assets	1	1
Short-term lease expense	—	1
Total lease cost	\$ 15	\$ 17

Lease costs associated with variable lease components were not material for Fiscal 2021 and Fiscal 2020.

The following table presents the cash and non-cash activity related to lease liabilities included in the Consolidated Statements of Cash Flows occurring during Fiscal 2021 and Fiscal 2020:

	2021	2020
Cash paid related to lease liabilities:		
Operating cash flows — operating leases	\$ 12	\$ 16
Financing cash flows — finance leases	\$ 1	\$ 1
Non-cash lease liability activities:		
ROU assets obtained in exchange for operating lease liabilities (a)	\$ 38	\$ 60
ROU assets obtained in exchange for finance lease liabilities	\$ 1	\$ 3

(a) Fiscal 2020 includes the impact of the adoption of ASC 842.

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The following table presents the weighted-average remaining lease terms and weighted-average discount rates:

Weighted-average remaining lease term (in years)	2021	2020
Operating leases	7.5	6.2
Finance leases	3.0	3.3
Weighted-average discount rate (%)	2021	2020
Operating leases	1.1%	1.3%
Finance leases	0.8%	0.8%

Expected annual lease payments based on maturities of operating and finance leases, as well as a reconciliation to the lease liabilities on the Consolidated Balance Sheet, as of September 30, 2021, were as follows:

	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	After 2026	Total Lease Payments	Imputed Interest	Lease Liabilities
Operating leases	\$ 13	\$ 10	\$ 8	\$ 6	\$ 5	\$ 19	\$ 61	\$ (3)	\$ 58
Finance leases	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 2

At September 30, 2021, operating and finance leases that had not yet commenced were not material.

Lessor

We enter into lessor arrangements for the purposes of storing LPG that grant customers the right to use small, medium and large storage tanks, which we classify as operating leases. These agreements contain renewal options for periods up to nine years and certain agreements contain a purchase option. Lease income is generally recognized on a straight-line basis over the lease term and included in "Revenues" on the Consolidated Statements of Income (see Note 4).

Note 12 — Commitments and Contingencies

There are pending claims and legal actions arising in the normal course of our businesses. Although we cannot predict the final results of these pending claims and legal actions, we believe, after consultation with counsel, that the final outcome of these matters will not have a material effect on our financial position, results of operations or cash flows.

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Note 13 — Fair Value Measurements

Derivative Financial Instruments

The following table presents on a gross basis our financial assets and liabilities including both current and noncurrent portions, that are measured at fair value on a recurring basis within the fair value hierarchy as described in Note 2:

	Asset (Liability)			Total
	Level 1	Level 2	Level 3	
September 30, 2021				
Derivative instruments:				
Assets:				
Commodity contracts	\$ 269	\$ 802	\$ —	\$ 1,071
Foreign currency contracts	\$ —	\$ 38	\$ —	\$ 38
Liabilities:				
Commodity contracts	\$ (44)	\$ (4)	\$ —	\$ (48)
Foreign currency contracts	\$ —	\$ (8)	\$ —	\$ (8)
Interest rate contracts	\$ —	\$ (1)	\$ —	\$ (1)
September 30, 2020				
Derivative instruments:				
Assets:				
Commodity contracts	\$ 7	\$ 12	\$ —	\$ 19
Foreign currency contracts	\$ —	\$ 32	\$ —	\$ 32
Liabilities:				
Commodity contracts	\$ (7)	\$ (45)	\$ —	\$ (52)
Foreign currency contracts	\$ —	\$ (14)	\$ —	\$ (14)
Interest rate contracts	\$ —	\$ (2)	\$ —	\$ (2)

The fair values of our Level 1 non-exchange-traded commodity futures and forward contracts are based upon actively quoted market prices for identical assets and liabilities. The remainder of our derivative instruments are designated as Level 2. The fair values of commodity derivatives designated as Level 2 are based upon indicative price quotations available through brokers, industry price publications or recent market transactions and related market indicators. The fair values of our Level 2 interest rate contracts and foreign currency contracts are based upon third-party quotes or indicative values based on recent market transactions.

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Other Financial Instruments

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar type debt (Level 2). The carrying amounts and estimated fair values of our long-term debt (including current maturities but excluding unamortized debt issuance costs) were as follows:

	September 30, 2021	September 30, 2020
Carrying amount	\$ 775	\$ 785
Estimated fair value	\$ 782	\$ 792

Financial instruments other than derivative financial instruments, such as short-term investments and trade accounts receivable, could expose us to concentrations of credit risk. We limit our credit risk from short-term investments by investing only in major U.S. and international financial institutions. The credit risk from trade accounts receivable is limited because we have a large customer base, which extends across many different markets and several foreign countries. For information regarding concentrations of credit risk associated with our derivative financial instruments, see Note 14.

Note 14 — Derivative Instruments and Hedging Activities

We are exposed to certain market risks related to our ongoing business operations. Management uses derivative financial and commodity instruments, among other things, to manage: (1) commodity price risk, (2) interest rate risk and (3) foreign currency exchange rate risk. Although we use derivative financial and commodity instruments to reduce market risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes. The use of derivative instruments is controlled by our risk management and credit policies which govern, among other things, the derivative instruments we can use, counterparty credit limits and contract authorization limits. Although our commodity derivative instruments extend over a number of years, a significant portion of our commodity derivative instruments economically hedge commodity price risk during the next twelve months. For additional information on the accounting for our derivative instruments, see Note 2.

The following summarizes the types of derivative instruments used by the Company to manage certain market risks:

Commodity Price Risk

In order to manage market price risk associated changes in prices for LPG, we use over-the-counter commodity derivative instruments, primarily price swap contracts to reduce market risk associated with a portion of our forecasted LPG purchases. We also enter into natural gas and electricity futures and forward contracts, some of which qualify for NPNS under GAAP to manage market price risk associated with fixed-price sales contracts for natural gas and electricity and purchase contracts for electricity. To mitigate short-term market volatility associated with commodity instruments, the Company from time to time enters into diesel swap contracts for a portion of diesel volumes expected to be used in the operation of vehicles and equipment. Volumes associated with diesel swap contracts were not material for all periods presented.

Interest Rate Risk

Certain of our long-term debt agreements have interest rates that are generally indexed to short-term market interest rates. In order to fix the underlying short-term market interest rates, we may enter into pay-fixed, receive-variable interest rate swap agreements and designate such swaps as cash flow hedges. The remainder of our long-term debt is typically issued at fixed rates of interest. As this long-term debt matures, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions.

Foreign Currency Exchange Rate Risk

Forward Foreign Currency Exchange Contracts

In order to reduce the volatility in net income associated with our foreign operations, principally as a result of changes in the U.S. dollar exchange rate to the euro and British pound sterling, we enter into forward foreign currency exchange contracts. We layer in these foreign currency exchange contracts over a multi-year period to eventually equal approximately 90% of

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anticipated UGI International foreign currency earnings before income taxes. Because these contracts are not designated as hedging instruments, realized and unrealized gains and losses on these contracts are recorded in “Other non-operating income (expense), net” on the Consolidated Statements of Income.

In order to reduce exposure to foreign exchange rate volatility related to our foreign LPG operations, we previously entered into forward foreign currency exchange contracts to hedge a portion of anticipated U.S. dollar-denominated LPG product purchases primarily during the heating-season months of October through March. The last such contracts expired in September 2019. We accounted for these foreign currency exchange contracts as cash flow hedges.

Net Investment Hedges

From time to time, we also enter into certain forward foreign currency exchange contracts to reduce the volatility of the U.S. dollar value of a portion of our UGI International euro-denominated net investments. We account for these foreign currency exchange contracts as net investment hedges and all changes in the fair value of these contracts are reported in the cumulative translation adjustment component in AOCI. We use the spot rate method to measure ineffectiveness of our net investment hedges.

Our euro-denominated long-term debt has also been designated as net investment hedges of a portion of our UGI International euro-denominated net investment. We recognized pre-tax gains (losses) associated with these net investment hedges in the cumulative translation adjustment component in AOCI of \$9 and \$(53) during September 30, 2021 and 2020, respectively.

Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at September 30, 2021 and 2020, and the final settlement dates of the Company's open derivative contracts as of September 30, 2021, excluding those derivatives that qualified for the NPNS exception:

Type	Units	Settlements Extending Through	Notional Amounts (in millions)	
			September 30, 2021	2020
Commodity Price Risk:				
LPG swaps	Gallons	November 2023	378	358
Natural gas forward and futures contracts	Dekatherms	April 2026	45	37
Electricity long forward and futures contracts	Kilowatt hours	January 2026	3,277	3,435
Interest Rate Risk:				
Interest rate swaps	Euro	October 2022	€ 300	€ 300
Foreign Currency Exchange Rate Risk:				
Forward foreign exchange contracts	USD	September 2024	\$ 509	\$ 511
Net investment hedge forward foreign exchange contracts	Euro	October 2024	€ 173	€ 173

Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We maintain credit policies with regard to our counterparties that we believe reduce overall credit risk. These policies include evaluating and monitoring our counterparties' financial condition, including their credit ratings, and entering into agreements with counterparties that govern credit limits or entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate.

We have concentrations of credit risk associated with derivative instruments and we evaluate the creditworthiness of our derivative counterparties on an ongoing basis. As of September 30, 2021, the maximum amount of loss, based upon the gross

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fair values of the derivative instruments, we would incur if these counterparties failed to perform according to the terms of their contracts was \$1,109. In general, many of our over-the-counter derivative instruments and all exchange contracts call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. At September 30, 2021 the Company had received cash collateral from derivative instrument counterparties totaling \$322. In addition, we may have offsetting derivative liabilities and certain accounts payable balances with certain of these counterparties, which further mitigates the previously mentioned maximum amount of losses.

Offsetting Derivative Assets and Liabilities

Derivative assets and liabilities are presented net by counterparty on our Consolidated Balance Sheets if the right of offset exists. We offset amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against amounts recognized for derivative instruments executed with the same counterparty. Our derivative instruments principally comprise over-the-counter transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Certain over-the-counter contracts contain contractual rights of offset through master netting arrangements, derivative clearing agreements, and contract default provisions. In addition, the contracts are subject to conditional rights of offset through counterparty nonperformance, insolvency, or other conditions.

In general, many of our over-the-counter transactions are subject to collateral requirements. Types of collateral generally include cash or letters of credit. Cash collateral paid by us to our derivative counterparties, if any, is reflected in the table below to offset derivative liabilities. Cash collateral received by us from our derivative counterparties, if any, is reflected in the table below to offset derivative assets. Certain other accounts receivable and accounts payable balances recognized on our Consolidated Balance Sheets with our derivative counterparties are not included in the table below but could reduce our net exposure to such counterparties because such balances are subject to master netting or similar arrangements.

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Fair Value of Derivative Instruments

The following table presents the Company's derivative assets and liabilities by type, as well as the effects of offsetting, as of September 30:

	2021	2020
Derivative assets:		
Derivatives designated as hedging instruments:		
Foreign currency contracts	\$ 20	\$ 17
Derivatives not designated as hedging instruments:		
Commodity contracts	1,071	19
Foreign currency contracts	18	15
	<u>1,089</u>	<u>34</u>
Total derivative assets - gross	1,109	51
Gross amounts offset in balance sheet	(10)	(14)
Cash collateral received	(322)	—
Total derivative assets - net	<u>\$ 777</u>	<u>\$ 37</u>
Derivative liabilities:		
Derivatives designated as hedging instruments:		
Interest rate contracts	\$ (1)	\$ (2)
Derivatives not designated as hedging instruments:		
Commodity contracts	(48)	(52)
Foreign currency contracts	(8)	(14)
	<u>(56)</u>	<u>(66)</u>
Total derivative liabilities - gross	(57)	(68)
Gross amounts offset in balance sheet	10	14
Cash collateral pledged	3	7
Total derivative liabilities - net	<u>\$ (44)</u>	<u>\$ (47)</u>

Effects of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Consolidated Statements of Income and changes in AOCI for Fiscal 2021, Fiscal 2020 and Fiscal 2019:

	Gain (Loss) Recognized in AOCI			Gain (Loss) Reclassified from AOCI into Income			Location of Gain (Loss) Reclassified from AOCI into Income
	2021	2020	2019	2021	2020	2019	
Cash Flow Hedges:							
Foreign currency contracts	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ 2	Cost of sales
Interest rate contracts	—	—	(3)	(1)	(1)	(2)	Interest expense
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ —</u>	
Net Investment Hedges:							
Foreign currency contracts	<u>\$ 4</u>	<u>\$ (1)</u>					

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	Gain (Loss) Recognized in Income			Location of Gain (Loss) Recognized in Income
	2021	2020	2019	
Derivatives Not Designated as Hedging Instruments:				
Commodity contracts	\$ 1,111	\$ (13)	\$ (156)	Cost of sales
Foreign currency contracts	9	(20)	38	Other non-operating income (expense), net
Total	<u>\$ 1,120</u>	<u>\$ (33)</u>	<u>\$ (118)</u>	

We are also a party to a number of other contracts that have elements of a derivative instrument. However, these contracts qualify for NPNS exception accounting because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold. These contracts include, among others, binding purchase orders and contracts which provide for the purchase and delivery, or sale, of energy products.

Note 15 — Accumulated Other Comprehensive Income

Other comprehensive income (loss) principally comprises (1) gains and losses on derivative instruments qualifying as cash flow hedges, net of reclassifications to net income; (2) actuarial gains and losses on postretirement benefit plans, net of associated amortization; and (3) foreign currency translation and long-term intracompany transaction adjustments.

Changes in AOCI during Fiscal 2021, Fiscal 2020 and Fiscal 2019 are as follows:

	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI - September 30, 2018	\$ (2)	\$ (1)	\$ (84)	\$ (87)
Other comprehensive loss before reclassification adjustments	(2)	(1)	(83)	(86)
Other comprehensive loss	(2)	(1)	(83)	(86)
AOCI - September 30, 2019	\$ (4)	\$ (2)	\$ (167)	\$ (173)
Other comprehensive income before reclassification adjustments	1	—	99	100
Amounts reclassified from AOCI	1	1	—	2
Other comprehensive income	2	1	99	102
AOCI - September 30, 2020	\$ (2)	\$ (1)	\$ (68)	\$ (71)
Other comprehensive income (loss) before reclassification adjustments	1	—	(23)	(22)
Amounts reclassified from AOCI	—	1	—	1
Other comprehensive income (loss)	1	1	(23)	(21)
AOCI - September 30, 2021	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ (91)</u>	<u>\$ (92)</u>

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Note 16 — Other Operating Income, Net and Other Non-Operating Income (Expense), Net

Other Operating Income, Net

Other operating income, net, comprises the following:

	2021	2020	2019
Cylinder deposit income	\$ 9	\$ 5	\$ 4
Gain (loss) on sales of assets	5	(2)	—
Interest and dividend income	—	1	2
Customer contract settlement	—	—	4
Other	3	—	(1)
Total other operating income, net	<u>\$ 17</u>	<u>\$ 4</u>	<u>\$ 9</u>

Other Non-Operating Income (Expense), Net

Other non-operating income (expense), net comprises the following:

	2021	2020	2019
Gains (losses) on foreign currency contracts, net	\$ 9	\$ (20)	\$ 38
Amortization of excluded components of certain net investment hedges	2	—	—
Pension and other postretirement plans non-service income, net	—	1	—
Total other non-operating income (expense), net	<u>\$ 11</u>	<u>\$ (19)</u>	<u>\$ 38</u>

Note 17 — Related Party Transactions

UGI provides certain financial and administrative services to the Company. UGI bills the Company for all direct expenses incurred or paid on behalf of the Company and the Company reimburses UGI for such direct expenses. The Company is billed for its allocated share of UGI indirect corporate expenses. This allocated share is based upon a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers the Company's relative percentage of such items to the total of such items for all UGI Corporation operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable. The amounts of UGI allocated indirect corporate expenses billed to the Company, have been included in Operating and administrative expenses - related parties" on the Consolidated Statements of Income.

Pursuant to a Platform Contribution Agreement, on October 1, 2020, the Company purchased the right to use certain business strategies, models, technology and other similar proprietary information from AmeriGas OLP for \$9. Because these entities are under common control, the transaction was considered an equity transaction and the excess of the amount paid over the carrying value has been recorded as a distribution in the Consolidated Statements of Changes in Equity.

On July 31, 2019 and August 1, 2019, UGI International paid cash distributions to Enterprises totaling \$333. These distributions were funded by \$290 of borrowings under the UGI International Credit Facilities Agreement multicurrency revolving facility agreement (of which \$210 remained outstanding at September 30, 2019) and cash on hand. UGI International repaid all borrowings outstanding on this facility in September 2020.

Note 18 — Business Transformation Initiatives

Beginning in Fiscal 2019, we began executing a multi-year business transformation initiative. This initiative is designed to improve long-term operational performance by, among other things, reducing costs and improving efficiency in the areas of sales and marketing, supply and logistics, operations, purchasing, and administration. In addition, this business transformation initiative also focuses on enhancing the customer experience through, among other things, enhanced sales and marketing initiatives and an improved digital customer experience. This business transformation initiative is substantially complete, and during Fiscal 2021, Fiscal 2020 and Fiscal 2019 we incurred related expenses of \$33, \$18 and \$9, respectively. These expenses principally comprise consulting, advisory, employee-related costs and the discontinuance of certain tradenames (described

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below). These costs are primarily reflected in "Operating and administrative expenses" on the Consolidated Statements of Income.

In March 2020, UGI International management approved a plan to discontinue the use of certain definite and indefinite-lived tradenames in connection with initiatives to improve the long-term operational performance of the Company. As a result, in March 2020, the Company recorded a non-cash, pre-tax impairment charge in the amount of \$6, which is included in business transformation expenses for Fiscal 2020, described in the paragraph above. Also in March 2020, the Company decided to discontinue the use, over time, of an indefinite-lived tradename having a carrying value of \$4. The remaining carrying value is being amortized over a period of 10 years beginning in March 2020.

Note 19 — Impact of Global Pandemic

In March 2020, the WHO declared a global pandemic attributable to the outbreak and continued spread of COVID-19 that has had a significant impact throughout the global economy. In connection with the mitigation and containment procedures recommended by the WHO, the CDC, and as imposed by federal, state, and local governmental authorities, including shelter-in-place orders, quarantines and similar restrictions, the Company implemented a variety of procedures to protect our employees, third-party business partners, and customers. The Company continues to provide essential products and services to its customers in a safe and reliable manner, and will continue to do so in compliance with mandated restrictions presented by each of the markets it serves. The Company continues to evaluate and react to the potential effects of a prolonged disruption and the continued impact on its results of operations. These items may include, but are not limited to: the financial condition of its customers; decreased availability and demand for its products and services; realization of accounts receivable; impairment considerations related to certain current assets, long-lived assets and goodwill; delays related to current and future projects; and the effects of government stimulus efforts including tax legislation in response to COVID-19. While its operations and financial performance continue to be impacted by COVID-19, the Company cannot predict the duration or magnitude of the outbreak and the total effects on its business, financial position, results of operations, liquidity or cash flows at this time.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

Executive Overview

Net income attributable to UGI International was \$979 million in Fiscal 2021 compared to \$137 million in Fiscal 2020. These results reflect after-tax unrealized gains of \$763 million and after-tax unrealized losses of \$2 million on commodity derivative instruments not associated with current-period transactions in Fiscal 2021 and Fiscal 2020, respectively. This increase is primarily attributable to the significant rise in commodity prices during Fiscal 2021, and has contributed to the accumulation of substantial derivative assets related to the Company's commodity derivative instruments at September 30, 2021. These results also reflect after-tax unrealized gains of \$6 million and after-tax unrealized losses of \$26 million on certain foreign currency derivative instruments in Fiscal 2021 and Fiscal 2020, respectively. In addition, Fiscal 2021 and Fiscal 2020 results include after-tax expenses related to business transformation initiatives of \$23 million and \$12 million, respectively. Fiscal 2021 results also include the after-tax impact of a \$15 million impairment of a customer relationship intangible as well as a \$23 million tax benefit related to an election made in connection with a tax law change in Italy.

Our adjusted net income attributable to UGI International was \$225 million in Fiscal 2021 compared to \$177 million in Fiscal 2020. The \$48 million increase in Fiscal 2021 principally reflects increased LPG volumes which benefited from colder weather compared to Fiscal 2020, higher average LPG unit margins including effective margin management efforts, and the translation effects of stronger foreign currencies. These positive factors were partially offset by higher operating and administrative expenses reflecting increased maintenance and distribution costs attributable to the stronger LPG volumes compared to Fiscal 2020, as well as the previously mentioned effects of stronger foreign currencies.

Average temperatures based upon heating degree days in Fiscal 2021 were slightly colder than normal and 14.1% colder compared to temperatures in the prior year. Total LPG retail gallons sold during Fiscal 2021 increased 5% principally reflecting the effects of the colder weather on heating-related bulk sales, the recovery of certain volume decreases attributable to COVID-19 in the prior year, and were partially offset by the termination of a low-margin autogas contract in Italy during Fiscal 2020.

During Fiscal 2021 and Fiscal 2020, the average unweighted euro-to-dollar translation rates were approximately \$1.20 and \$1.12, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately \$1.37 and \$1.28, respectively.

Recent Developments

In March 2020, the WHO declared a global pandemic attributable to the outbreak and continued spread of COVID-19 that has had a significant impact throughout the global economy. In connection with the mitigation and containment procedures recommended by the WHO, the CDC, and as imposed by federal, state, and local governmental authorities, including shelter-in-place orders, quarantines and similar restrictions, we implemented a variety of procedures to protect our employees, third-party business partners, and customers worldwide. Although our results continue to be impacted by COVID-19 in Fiscal 2021, we continue to provide essential products and services to our global customers in a safe and reliable manner and will continue to do so in compliance with mandated restrictions presented by each of the markets we serve. We continue to evaluate and react to the potential effects of a prolonged disruption and the related impacts on our results of operations. These items may include, but are not limited to: the financial condition of our customers; decreased availability and demand for our products and services; realization of accounts receivable; impairment considerations related to certain current assets, long-lived assets and goodwill; delays related to current and future projects; and the effects of government stimulus efforts including tax legislation (see "Interest Expense and Income Taxes" below and Note 6 to the consolidated financial statements) in response to COVID-19.

We cannot predict the duration or magnitude of the pandemic and its total effects on our business, financial position, results of operations, liquidity or cash flows at this time, but we remain focused on managing our financial condition and liquidity throughout this global crisis.

Impact of Strategic Initiatives

We launched an initiative in Fiscal 2019 and embarked on a process of identifying operational synergies across all 17 countries in which we currently do business. The goal of this initiative (Project Alliance) was to focus attention on enhanced customer service and safe and efficient operations through the establishment of two centers of excellence. One center focuses on commercial excellence to identify and execute projects that improve the customer's experience. The second center focuses on operational excellence across our distribution network and our filling centers. These business activities are substantially complete, and are expected to generate over €30 million of annual benefits by the end of Fiscal 2022. The total cumulative cost

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of executing these Project Alliance initiatives, including approximately €10 million related to IT capital expenditures, will amount to approximately €55 million.

Non-GAAP Financial Measures

Our non-GAAP measures include adjusted total margin, adjusted operating income, adjusted income before income taxes and adjusted net income attributable to UGI International in order to assist in the evaluation of UGI International's overall performance. Management believes that these non-GAAP measures provide meaningful information to investors about UGI International's performance because they eliminate the impact of (1) gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions, principally comprising changes in unrealized gains and losses on such derivative instruments and (2) other significant discrete items that can affect the comparisons of period-over-period results. These financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measures.

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The following table includes reconciliations of adjusted total margin, adjusted operating income, adjusted income before income taxes and adjusted net income attributable to UGI International to the most directly comparable financial measures calculated and presented in accordance with GAAP for the periods presented.

(Millions of dollars)	Year Ended September 30,	
	2021	2020
Adjusted total margin:		
Total revenues	\$ 2,651	\$ 2,127
Cost of sales	(533)	(1,191)
LPG cylinder filling costs	—	(28)
Total margin	2,118	908
Net gains on commodity derivative instruments not associated with current-period transactions	(1,065)	—
Adjusted total margin	<u>\$ 1,053</u>	<u>\$ 908</u>
Adjusted operating income:		
Operating income	\$ 1,326	\$ 224
Net gains on commodity derivative instruments not associated with current-period transactions	(1,065)	—
Business transformation expenses	33	18
Impairment of customer relationship intangible	20	—
Adjusted operating income	<u>\$ 314</u>	<u>\$ 242</u>
Adjusted income before income taxes:		
Income before income taxes	\$ 1,310	\$ 174
Net gains on commodity derivative instruments not associated with current-period transactions	(1,065)	—
Unrealized (gains) losses on foreign currency derivative instruments	(8)	36
Business transformation expenses	33	18
Impairment of customer relationship intangible	20	—
Adjusted income before income taxes	<u>\$ 290</u>	<u>\$ 228</u>
Adjusted net income attributable to UGI International:		
Net income attributable to UGI International, LLC	\$ 979	\$ 137
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(763)	2
Unrealized (gains) losses on foreign currency derivative instruments	(6)	26
Business transformation expenses	23	12
Impairment of customer relationship intangible	15	—
Impact of change in Italian tax law	(23)	—
Adjusted net income attributable to UGI International	<u>\$ 225</u>	<u>\$ 177</u>

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Analysis of Results of Operations

UGI International	2021	2020	Increase (Decrease)	
(Dollars in millions)				
Revenues	\$ 2,651	\$ 2,127	\$ 524	25 %
Total margin (a)	\$ 2,118	\$ 908	\$ 1,210	133 %
Operating and administrative expenses	\$ 675	\$ 563	\$ 112	20 %
Operating income	\$ 1,326	\$ 224	\$ 1,102	492 %
Income before income taxes	\$ 1,310	\$ 174	\$ 1,136	653 %
Net income attributable to UGI International	\$ 979	\$ 137	\$ 842	615 %
Non-GAAP financial measures (b):				
Adjusted total margin	\$ 1,053	\$ 908	\$ 145	16 %
Adjusted operating income	\$ 314	\$ 242	\$ 72	30 %
Adjusted income before income taxes	\$ 290	\$ 228	\$ 62	27 %
Adjusted net income attributable to UGI International	\$ 225	\$ 177	\$ 48	27 %
LPG retail gallons sold (millions)	792	757	35	5 %
Degree days – % warmer than normal (c)	0.4 %	(12.7)%	—	—

- (a) Total margin represents total revenues less total cost of sales and, for Fiscal 2020, LPG cylinder filling costs of \$28 million. For financial statement purposes, LPG cylinder filling costs in Fiscal 2020 are included in "Operating and administrative expenses" on the 2020 Condensed Consolidated Statements of Income (but are excluded from operating and administrative expenses presented in the table above). LPG cylinder filling costs are included in "Cost of sales" on the 2021 Consolidated Statements of Income. Total margin for Fiscal 2021 includes net pre-tax gains of \$1,065 million on commodity derivative instruments not associated with current-period transactions.
- (b) These financial measures are non-GAAP financial measures and are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not a substitute for, the comparable GAAP measures. See "Non-GAAP Financial Measures" above.
- (c) Beginning in Fiscal 2021, deviation from average heating degree days is determined on a rolling 10-year period utilizing volume-weighted weather data at locations in our UGI International service territories. Prior-period amounts have been restated to conform to the current-period presentation.

Average temperatures during Fiscal 2021 were slightly colder than normal and 14.1% colder than Fiscal 2020. Total LPG retail gallons sold during Fiscal 2021 increased 5% compared to Fiscal 2020 largely attributable to higher bulk volumes reflecting the effects of the colder weather on heating-related bulk sales. These volume improvements also reflect small acquisitions in Switzerland and Finland and the recovery of certain volume decreases attributable to COVID-19 during Fiscal 2021, and were partially offset by the termination of a high-volume, low-margin autogas contract in Italy during Fiscal 2020. Average wholesale prices for propane and butane during Fiscal 2021 in northwest Europe were approximately 52% and 33% higher, respectively, compared to Fiscal 2020.

UGI International base-currency results are translated into U.S. dollars based upon exchange rates experienced during the reporting periods. The functional currency of a significant portion of our UGI International results is the euro and, to a much lesser extent, the British pound sterling. During Fiscal 2021 and Fiscal 2020, the average unweighted euro-to-dollar translation rates were approximately \$1.20 and \$1.12, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately \$1.37 and \$1.28, respectively. Fluctuations in these foreign currency exchange rates can have a significant impact on the individual financial statement components discussed below. The net effect of changes in foreign currency exchange rates on UGI International's earnings before interest expense and income taxes resulted in a net benefit of \$26 million in Fiscal 2021. However, the impact of these changes is mitigated by the effects of forward foreign currency exchange contracts entered into over a multi-year period intended to substantially offset this volatility. These forward foreign currency exchange contracts resulted in realized net gains of \$1 million and \$15 million, respectively, in Fiscal 2021 and Fiscal 2020.

Revenues increased \$524 million during Fiscal 2021 due to the translation effects of stronger foreign currencies (approximately \$174 million), the effects of higher average butane and propane selling prices compared to Fiscal 2020, and the previously mentioned increases in bulk volumes. Energy marketing activities also contributed to the increased revenues during Fiscal 2021 largely related to higher natural gas volumes and prices. Cost of sales in Fiscal 2021 includes net gains of \$1,065 million

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on commodity derivative instruments not associated with current-period transactions. Excluding the effects of these derivative instruments, cost of sales decreased \$379 million during Fiscal 2021 principally reflecting the translation effects of stronger foreign currencies (approximately \$102 million), the effects of higher average butane and propane product costs compared to Fiscal 2020, and the previously mentioned increase in bulk volumes. Energy marketing activities also contributed to the increased cost of sales during Fiscal 2021 largely related to higher natural gas volumes and prices.

Total margin (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions) increased \$1,210 million. Adjusted total margin increased \$145 million reflecting the translation effects of stronger foreign currencies (approximately \$72 million), the previously mentioned increase in total LPG volumes, lower costs associated with energy conservation certificates, and higher average LPG unit margins including the continued effects of margin management efforts. These margin improvements include the impact of LPG assets acquired in Fiscal 2021 and higher margin from energy marketing activities principally reflecting increased natural gas volumes.

Operating income (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions and business transformation expenses) increased \$1,102 million. Adjusted operating income increased \$72 million largely reflecting the increase in total margin partially offset by higher operating and administrative expense (\$77 million excluding the effects of business transformation expenses in Fiscal 2021 and Fiscal 2020 and an impairment of a customer relationship intangible in Fiscal 2021) which was largely attributable to the effects of stronger foreign currencies (\$38 million) compared to Fiscal 2020. The increase in operating and administrative expenses also reflects higher maintenance, distribution and employee compensation costs attributable to the increased volumes.

Income before income taxes (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions; certain foreign currency contracts; business transformation expenses; and an impairment of a customer relationship intangible in Fiscal 2021) increased \$1,136 million. Adjusted income before income taxes increased \$62 million in Fiscal 2021 principally reflecting the increase in adjusted operating income and lower interest expense partially offset by lower realized gains on foreign currency exchange contracts entered into in order to reduce volatility in UGI International earnings resulting from the effects of changes in foreign currency exchange rates (\$14 million).

Interest Expense and Income Taxes

Interest expense was \$27 million in Fiscal 2021 compared to \$31 million in Fiscal 2020. The decrease in interest expense principally reflects lower average outstanding credit facility borrowings during Fiscal 2021 as compared to the prior year.

Our effective income tax rate increased between Fiscal 2021 and Fiscal 2020 due primarily to an increase in the concentration of foreign earnings largely attributable to gains on commodity derivatives reflecting foreign statutory tax rates that exceed the U.S. statutory rate. These items were partially offset by an election made in the current year available under a tax law change in Italy which allowed the Company to step up its tax basis on certain assets in exchange for paying a three percent substitute tax in connection with such election. This election resulted in a \$23 million net benefit in the current period resulting in incremental tax basis that will be deductible in future periods. For additional information on our income taxes, including tax law changes, see Note 6 to Consolidated Financial Statements.

Liquidity and Capital Resources

The Company expects to have sufficient liquidity in the forms of cash and available credit facility borrowings to continue to support long-term commitments and ongoing operations despite uncertainties associated with the outbreak and continued spread of COVID-19. The Company does not have any near-term senior note or term loan maturities. While the Company's operations and financial performance has been impacted by COVID-19 during Fiscal 2021, it is a rapidly evolving situation and the Company cannot predict the ultimate impact that COVID-19 will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures. The Company was in compliance with its debt covenants as of September 30, 2021.

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash generated from operations can generally be satisfied with borrowings under our revolving credit facility. Long-term cash requirements are generally met through the issuance of long-term debt or capital contributions. We believe that we have sufficient liquidity in the forms of cash and cash equivalents on hand; cash expected to be generated from operations; credit facility borrowing capacity; and the ability to obtain long-term financing to meet anticipated contractual and projected cash commitments. Issuances of debt in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

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The primary sources of our cash and cash equivalents have been cash flows generated from operations and cash contributions made by UGI principally to fund acquisitions of businesses. However, there can be no assurance that UGI will make contributions to our capital or otherwise provide funding in the future. Our primary uses of cash have been to fund acquisitions of businesses, repay long-term debt and pay distributions to our parent company. Our ability to service debt has been, and will continue to be, dependent upon our ability to generate cash from our operations.

Our cash and cash equivalents totaled \$606 million at September 30, 2021 and \$209 million at September 30, 2020. A substantial portion of this cash is located outside of the United States. Our cash and cash equivalents at September 30, 2021 includes \$322 million of cash collateral deposits received from our derivative instrument counterparties. This is attributable to significant mark-to-market gains on our commodity derivative instruments resulting from the steep rise in commodity prices during Fiscal 2021. This cash could be returned to such counterparties as commodity prices and their impact to our commodity derivative instruments stabilizes or reverses.

Long-term debt and credit facility

UGI International's debt outstanding at September 30, 2021, totaled \$770 million (including current maturities of long-term debt of \$21 million). UGI International's debt outstanding at September 30, 2020, totaled \$779 million (including current maturities of long-term debt of \$1 million and short-term borrowings of \$1 million). Total long-term debt outstanding at September 30, 2021, including current maturities, comprises \$405 million of 3.25% Senior Notes, a \$347 million variable-rate term loan, and \$23 million of other long-term debt, and is net of \$5 million of unamortized debt issuance costs.

At September 30, 2021 and throughout Fiscal 2021, there were no borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving facility. At September 30, 2020, there were no borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving credit facility. The average daily and peak short-term borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving facility in Fiscal 2020 were €158 million (\$185 million) and €179 million (\$210 million), respectively. At September 30, 2021, the Company's available borrowing capacity under the UGI International Credit Facilities Agreement multicurrency revolving facility was €300 million. In November 2021, the Company borrowed \$45 million under this facility.

Cash Flows

Due to the seasonal nature of the Company's businesses, cash flows from operating activities are generally strongest during the second and third fiscal quarters when customers pay for LPG consumed during the peak heating season months. Conversely, operating cash flows are generally at their lowest levels during the fourth and first fiscal quarters when the Company's investment in working capital, principally inventories and accounts receivable, is generally greatest.

Cash flows from operating activities can be significantly affected by year-to-year variations in changes in operating working capital reflecting changes in LPG commodity prices. Cash flow from investing activity is principally affected by cash expenditures for property, plant and equipment; cash paid for acquisitions of businesses; and net cash proceeds from sales and retirements of property, plant and equipment. Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt, cash capital contributions from UGI usually in conjunction with material business acquisitions, revolving credit facility borrowings, and distributions paid to UGI International's parent company, Enterprises.

Operating Activities:

Cash flow from operating activities was \$643 million in Fiscal 2021 compared to \$253 million in Fiscal 2020. Cash flow from operating activities before changes in operating working capital were \$321 million in Fiscal 2021 compared to \$302 million in Fiscal 2020. Changes in operating working capital provided (used) operating cash flow of \$322 million in Fiscal 2021 compared to \$(49) million in Fiscal 2020. Changes in operating working capital during Fiscal 2021 reflect, among others, cash generated from changes in accounts payable and higher cash received for commodity derivative instrument collateral deposits in the Fiscal 2021 as compared to Fiscal 2020. These changes were partially offset by an increase in cash required to fund changes in accounts receivable and inventories due to rising commodity prices during Fiscal 2021.

Investing Activities:

Cash flow used by investing activities was \$86 million in Fiscal 2021 compared to \$82 million in Fiscal 2020. Cash capital expenditures for property, plant and equipment totaled \$107 million in Fiscal 2021 compared to \$89 million in Fiscal 2020.

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Financing Activities:

Cash flow used by financing activities was \$158 million in Fiscal 2021 and \$236 million in Fiscal 2020. UGI International repaid all borrowings outstanding on its revolving credit facility in September 2020. The Company paid cash distributions of \$153 million and \$25 million in Fiscal 2021 and Fiscal 2020, respectively. Cash flow used by financing activities in Fiscal 2021 includes \$9 million paid to AmeriGas OLP pursuant to a Platform Contribution Agreement, as further described in Note 17 to the Consolidated Financial Statements.

Capital Expenditures

Our capital expenditures include, among other things, amounts to replace and maintain our bulk tank and cylinder assets as well as amounts to enhance site safety to meet regulatory requirements. During Fiscal 2021 and Fiscal 2020, our capital expenditures totaled \$107 million and \$89 million, respectively. We expect capital expenditures of approximately \$140 million in Fiscal 2022.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations existing as of September 30, 2021:

(Millions of dollars)	Payments Due by Period				
	Total	Fiscal 2022	Fiscal 2023 - 2024	Fiscal 2025 - 2026	Thereafter
Long-term debt (a)	\$ 775	\$ 21	\$ 349	\$ 405	\$ —
Interest on long-term-fixed rate debt (a)(b)(c)	68	21	33	14	—
Operating leases	61	13	18	11	19
Supply contracts	254	254	—	—	—
Derivative instruments (d)	42	27	15	—	—
Total	\$ 1,200	\$ 336	\$ 415	\$ 430	\$ 19

- (a) Based upon stated maturity dates for debt outstanding at September 30, 2021.
- (b) Based upon stated interest rates adjusted for the effects of interest rate swaps.
- (c) Calculated using applicable interest rates or forward interest rate curves and Company leverage levels at September 30, 2021.
- (d) Represents the sum of amounts due if derivative instrument liabilities were settled at the September 30, 2021 amounts reflected in the Consolidated Balance Sheet (but excluding amounts associated with interest rate contracts).

Critical Accounting Policies and Estimates

The accounting policies and estimates discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. The application of these accounting policies and estimates necessarily requires management's most subjective or complex judgments regarding estimates and projected outcomes of future events. Changes in these policies and estimates could have a material effect on our financial statements. Also, see Note 2 to Consolidated Financial Statements which discusses our significant accounting policies.

Goodwill Impairment Evaluation

Our goodwill is the result of business acquisitions. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is an operating segment, or one level below an operating segment (a component), if it constitutes a business for which discrete financial information is available and regularly reviewed by segment management. Components are aggregated into a single reporting unit if they have similar economic characteristics. A reporting unit with goodwill is required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired.

From time to time, we assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We have an unconditional option to bypass the qualitative assessment and perform the quantitative assessment by comparing the fair value of the reporting unit with its carrying amount, including goodwill. We determine fair values generally based on a weighting of income and market approaches. For purposes of the income approach, fair values are determined based upon the present value of the reporting unit's estimated future cash flows, including an

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estimate of the reporting unit's terminal value based upon these cash flows, discounted at appropriate risk-adjusted rates. We use our internal forecasts to estimate future cash flows, which may include estimates of long-term future growth rates based upon our most recent reviews of the long-term outlook. Cash flow estimates used to establish fair values under our income approach involve management judgments based on a broad range of information and historical results. In addition, external economic and competitive conditions can influence future performance. For purposes of the market approach, we use valuation multiples for companies comparable to our reporting unit. The market approach requires judgment to determine the appropriate valuation multiples. If the carrying amount of our reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit. As of September 30, 2021, our goodwill totaled \$993 million. No impairments of goodwill were recorded during any of the periods presented.

Impairment of Long-Lived Assets

An impairment test for long-lived assets (or an asset group) is required when circumstances indicate that such assets may be impaired. If it is determined that a triggering event has occurred, we perform a recoverability test based upon estimated undiscounted cash flow projections expected to be realized over the remaining useful life of the long-lived asset. If the undiscounted cash flows used in the recoverability test are less than the long-lived asset's carrying amount, we determine its fair value. If the fair value is determined to be less than its carrying amount, the long-lived asset is reduced to its estimated fair value and an impairment loss is recognized in an amount equal to such shortfall. When determining whether a long-lived asset has been impaired, management groups assets at the lowest level that has identifiable cash flows. Performing an impairment test on long-lived assets involves judgment in areas such as identifying when a triggering event requiring evaluation occurs; identifying and grouping assets; and, if the undiscounted cash flows used in the recoverability test are less than the long-lived asset's carrying amount, determining the fair value of the long-lived asset. Although cash flow estimates are based upon relevant information at the time the estimates are made, estimates of future cash flows are by nature highly uncertain and contemplate factors that change over time such as the expected use of the asset including future production and sales volumes, expected fluctuations in prices of commodities and expected proceeds from disposition. No material provisions for impairments of long-lived assets were recorded during any of the periods presented.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Positions taken by an entity in its tax returns must satisfy a more-likely-than-not recognition threshold assuming the positions will be examined by tax authorities with full knowledge of relevant information. We use assumptions, judgments and estimates to determine our current provision for income taxes. We also use assumptions, judgments and estimates to determine our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. The interpretation of tax laws involves uncertainty since tax authorities may interpret the laws differently. Our assumptions, judgments and estimates relative to the current provision for income tax give consideration to current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation thereof and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the amount of deferred income taxes take into account estimates of the amount of future taxable income. Actual taxable income or future estimates of taxable income could render our current assumptions, judgments and estimates inaccurate. Changes in the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ significantly from our estimates. As of September 30, 2021, our net deferred tax liabilities totaled \$436 million.

Recently Issued Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements for a discussion of the effects of recently issued accounting guidance.

Off-Balance Sheet Arrangements

We do not have any off-balance-sheet arrangements that are expected to have a material effect on our financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Qualitative and Quantitative Disclosures About Market Risk

Our primary market risk exposures are (1) commodity price risk; (2) interest rate risk; and (3) foreign currency exchange rate risk. Although we use derivative financial and commodity instruments to reduce market price risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes.

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Commodity Price Risk

The risk associated with fluctuations in the prices we pay for LPG is principally a result of market forces reflecting changes in supply and demand for LPG and other energy commodities. Our profitability is sensitive to changes in LPG supply costs. Increases in supply costs are generally passed on to customers. We may not, however, always be able to pass through product cost increases fully or on a timely basis, particularly when product costs rise rapidly. In order to reduce the volatility of LPG market price risk, we use over-the-counter derivative commodity instruments and may from time to time enter into other derivative contracts to reduce market risk associated with a portion of our LPG purchases. Over-the-counter derivative commodity instruments used to economically hedge forecasted purchases of LPG are generally settled at expiration of the contract. Our natural gas and electricity marketing businesses also use natural gas and electricity futures and forward contracts to economically hedge market risk associated with fixed-price sales and purchase contracts.

In addition, the Company from time to time enters into diesel swap contracts for a portion of diesel volumes expected to be used in the operation of vehicles and equipment. Volumes associated with diesel swap contracts were not material for all periods presented.

Interest Rate Risk

We have both fixed-rate and variable-rate debt. Changes in interest rates impact the cash flows of variable-rate debt but generally do not impact their fair value. Conversely, changes in interest rates impact the fair value of fixed-rate debt but do not impact their cash flows. Our variable-rate debt agreements have interest rates that are generally indexed to short-term market interest rates. UGI International has entered into pay-fixed, receive-variable interest rate swaps that generally fix the underlying euribor interest rate on such borrowings for a significant portion of their tenor. We have designated such interest rate swaps as cash flow hedges. At September 30, 2021, combined borrowings outstanding under variable-rate debt agreements were not material.

During Fiscal 2021, borrowings on variable-rate debt agreements (excluding the effectively fixed-rate term loan debt) were not material. For the remainder of our debt outstanding that is subject to fixed rates of interest, a 100 basis point increase in market interest rates would result in a decrease in the fair value of this fixed-rate debt of approximately \$1 million at September 30, 2021. A 100 basis point decrease in market interest rates would result in an increase in the fair value of this fixed-rate debt of approximately \$2 million at September 30, 2021.

Foreign Currency Exchange Rate Risk

Our primary currency exchange rate risk is associated with the U.S. dollar versus the euro and, to a lesser extent, the U.S. dollar versus the British pound sterling. The U.S. dollar value of our foreign currency denominated assets and liabilities will fluctuate with changes in the associated foreign currency exchange rates. From time to time, we use derivative instruments to hedge portions of our net investments in foreign subsidiaries. Gains or losses on these net investment hedges remain in AOCI until such foreign operations are sold or liquidated. With respect to our substantial net investments in foreign (non U.S. based) operations, a 10% decline in the value of the foreign currencies versus the U.S. dollar would reduce their aggregate net book value at September 30, 2021, by approximately \$170 million, which amount would be reflected in other comprehensive income. We have designated our euro-denominated loan borrowings as net investment hedges.

In order to reduce the volatility in net income associated with our operations, principally as a result of changes in the U.S. dollar exchange rate between the euro and British pound sterling, we have entered into forward foreign currency exchange contracts. We layer in these foreign currency exchange contracts over a multi-year period to eventually equal approximately 90% of anticipated UGI International foreign currency earnings before income taxes.

Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We have concentrations of credit risk associated with derivative instruments and we evaluate the creditworthiness of our derivative counterparties on an ongoing basis. As of September 30, 2021, the maximum amount of loss, based upon the gross fair values of the derivative instruments, we would incur if these counterparties failed to perform according to the terms of their contracts was \$1,109 million. In general, many of our over-the-counter derivative instruments and all exchange contracts call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. At September 30, 2021 the Company had received cash collateral from derivative instrument counterparties totaling \$322

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million. In addition, we may have offsetting derivative liabilities and certain accounts payable balances with certain of these counterparties, which further mitigates the previously mentioned maximum amount of losses.

The following table summarizes the fair values of unsettled market risk sensitive derivative instrument assets (liabilities) held at September 30, 2021 and changes in fair values due to market risks.

(Millions of dollars)	Asset (Liability)	
	Fair Value	Change in Fair Value
September 30, 2021		
Commodity price risk (1)	\$ 1,023	\$ (170)
Interest rate risk (2)	\$ (1)	\$ —
Foreign currency exchange rate risk (3)	\$ 30	\$ (50)

(1) Change in fair value represents a 10% adverse change in the market prices of certain commodities.

(2) Change in fair value represents a 50 basis point adverse change in prevailing market interest rates.

(3) Change in fair value represents a 10% adverse change in the value of the Euro and the British pound sterling versus the U.S. dollar.