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, 2022, 2021 and 2020

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

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

ASC 606 - ASC 606, "Revenue from Contracts with Customers"

ASC 820 - ASC 820, "Fair Value Measurement"

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

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 ended 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

Fiscal 2026 - The fiscal year ending September 30, 2026

Fiscal 2027 - The fiscal year ending September 30, 2027

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:

Opinion

We have audited the consolidated financial statements of UGI International, LLC and subsidiaries (the Company) (a wholly-owned subsidiary of UGI Corporation), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended September 30, 2022, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

November 22, 2022

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	September 30, 2022	September 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 298	$ 606
Restricted cash	2	1
Accounts receivable (less allowances for doubtful accounts of $20 and $16, respectively)	530	430
Inventories	188	145
Derivative instruments	751	500
Held for sale assets (Note 19)	295	—
Prepaid expenses and other current assets	48	81
Total current assets	2,112	1,763
Property, plant and equipment:		
Gross property, plant and equipment	1,771	2,004
Accumulated depreciation	(870)	(933)
Net property, plant and equipment	901	1,071
Goodwill	840	993
Intangible assets, net	119	156
Derivative instruments	497	277
Other assets	141	161
Total assets	$ 4,610	$ 4,421
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 1	$ 21
Short-term borrowings	1	—
Accounts payable	301	370
Employee compensation and benefits accrued	55	60
Derivative instruments	87	28
Held for sale liabilities (Note 19)	19	—
Other current liabilities	219	208
Total current liabilities	683	687
Long-term debt	681	749
Deferred income taxes	599	463
Derivative instruments	24	16
Customer tank and cylinder deposits	243	296
Other noncurrent liabilities	70	98
Total liabilities	2,300	2,309
Commitments and contingencies (Note 12)		
Equity:		
Member's equity	2,302	2,103
Noncontrolling interests	8	9
Total equity	2,310	2,112
Total liabilities and equity	$ 4,610	$ 4,421

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars)

	Year Ended September 30,		
	2022	2021	2020
Revenues	$ 3,695	$ 2,651	$ 2,127
Costs and expenses:			
Cost of sales	1,954	533	1,191
Operating and administrative expenses	614	664	582
Operating and administrative expenses - related parties	10	11	9
Depreciation and amortization	117	134	125
Other operating income, net	(31)	(17)	(4)
	2,664	1,325	1,903
Operating income	1,031	1,326	224
Loss from equity investees	(2)	—	—
Loss on extinguishments of debt	(11)	—	—
Other non-operating income (expense), net	69	11	(19)
Interest expense	(28)	(27)	(31)
Income before income taxes	1,059	1,310	174
Income tax expense	(250)	(331)	(37)
Net income including noncontrolling interests	809	979	137
Deduct net income attributable to noncontrolling interests	(1)	—	—
Net income attributable to UGI International, LLC	$ 808	$ 979	$ 137

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of dollars)

	Year Ended September 30,		
	2022	2021	2020
Net income including noncontrolling interests	$ 809	$ 979	$ 137
Other comprehensive income:			
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 $(55), $(4), and $12, respectively)	(193)	(11)	15
Foreign currency (losses) gains on long-term intra-company transactions	(148)	(12)	84
Benefit plans, principally actuarial gains (net of tax of $(4), $(1), and $(1), respectively)	11	1	1
Reclassifications of benefit plans net actuarial (gains) losses and prior service benefits (net of tax of $0, $0, and $0, respectively)	(1)	—	1
Other comprehensive (loss) income	(331)	(21)	102
Comprehensive income attributable to UGI International, LLC	$ 478	$ 958	$ 239

See accompanying notes to consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)

	Year Ended September 30,		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income including noncontrolling interests	$ 809	$ 979	$ 137
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	117	134	125
Deferred income tax expense (benefit), net	179	251	(8)
Changes in unrealized gains and losses on derivative instruments	(858)	(1,073)	36
Impairment of customer relationship intangible	—	20	—
Loss on extinguishments of debt	11	—	—
Other, net	—	10	12
Net change in:			
Accounts receivable	(225)	(126)	8
Inventories	(70)	(78)	1
Accounts payable	(8)	198	(24)
Derivative instruments collateral received	49	326	1
Other current assets	25	(3)	(34)
Other current liabilities	53	5	(1)
Net cash provided by operating activities	82	643	253
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(107)	(107)	(89)
Settlement of net investment hedge	26	—	—
Other, net	5	21	7
Net cash used by investing activities	(76)	(86)	(82)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in short-term borrowings	1	(1)	(210)
Distributions paid	(278)	(153)	(25)
Capital contribution received	—	5	—
Distribution related to common control transaction (see Note 17)	—	(9)	—
Issuances of long-term debt, net of issuance costs	444	—	—
Repayments of long-term debt and finance leases	(419)	—	(1)
Other	—	—	—
Net cash used by financing activities	(252)	(158)	(236)
Foreign exchange effect on cash, cash equivalents and restricted cash	(61)	(14)	28
Cash, cash equivalents and restricted cash (decrease) increase	$ (307)	$ 385	$ (37)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH			
Cash, cash equivalents and restricted cash at end of year	$ 300	$ 607	$ 222
Cash, cash equivalents and restricted cash at beginning of year	607	222	259
Cash, cash equivalents and restricted cash (decrease) increase	$ (307)	$ 385	$ (37)
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for:			
Interest	$ 28	$ 25	28
Income taxes	$ 50	$ 76	72

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, 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
Cash 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
Net income	808	1	809
Cash distributions	(278)	—	(278)
Changes in AOCI balance (Note 15)	(331)	—	(331)
Other	—	(2)	(2)
Balance at September 30, 2022	$ 2,302	$ 8	$ 2,310

See accompanying notes to consolidated financial statements.

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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. See Note 19 for additional information regarding the October 2022 sale of the United Kingdom energy marketing business and the November 2022 announcement related to the France energy marketing business.

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 generally initially valued at their cost less impairment (if any) and subsequently remeasured at fair value, as applicable, in accordance with the relevant provisions under GAAP. Our investments in such entities totaled $62 and $61 at September 30, 2022 and 2021, 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.

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.

(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.

	2022	2021	2020
Cash and cash equivalents	$ 298	$ 606	$ 209
Restricted cash	2	1	13
Cash, cash equivalents and restricted cash	$ 300	$ 607	$ 222

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. See Note 10 for additional information related to an intangible asset impairment recognized in Fiscal 2021.

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.

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, 2022 and 2021, 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 22, 2022, 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 2022

Income Taxes. Effective October 1, 2021, the Company adopted ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" prospectively and retrospectively where deemed applicable. 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. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

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.

(Currency in millions, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues during Fiscal 2022, Fiscal 2021 and Fiscal 2020:

	2022	2021	2020
Revenues from contracts with customers:			
LPG:			
Retail	$ 1,997	$ 1,754	$ 1,462
Wholesale	278	189	148
Energy Marketing	1,298	605	434
Other	79	69	60
Total revenues from contracts with customers	3,652	2,617	2,104
Other revenues (a)	43	34	23
Total revenues	$ 3,695	$ 2,651	$ 2,127

(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, 2022 and 2021. 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 $56 and $52 at September 30, 2022 and 2021, respectively, and are included in “Other current liabilities” on the Consolidated Balance Sheets. Revenue recognized during Fiscal 2022, Fiscal 2021 and Fiscal 2020 from the amount included in contract liabilities at September 30, 2021, September 30, 2020 and September 30, 2019 was $52, $64 and $49 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

UGI International. On December 7, 2021, UGI International, LLC issued, in an underwritten private placement, €400 principal amount of the 2.50% Senior Notes due December 1, 2029. The 2.50% Senior Notes rank equal in right of payment with indebtedness issued under the UGI International Credit Facilities Agreement.

The net proceeds from the 2.50% Senior Notes were used (1) to repay all of the 3.25% Senior Notes due November 1, 2025 and associated fees and expenses and (2) for general corporate purposes. We have designated the 2.50% Senior Notes as a net investment hedge. In connection with this early repayment of debt, UGI International recognized a pre-tax loss of $11, which is reflected in “Loss on extinguishment of debt” on the Consolidated Statements of Income, and primarily comprises the write-off of unamortized debt issuance costs and early redemption premiums.

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 USD. At September 30, 2022 and 2021, 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.

(Currency in millions, except where indicated otherwise)

Long-term Debt

Long-term debt comprises the following at September 30:

	2022	2021
3.25% Senior Notes due November 2025	$ —	$ 405
2.50% Senior Notes due December 2029	392	—
UGI International variable-rate term loan due October 2023 (a)	294	347
Other (b)	2	23
Unamortized debt issuance costs	(6)	(5)
Total long-term debt	682	770
Less current maturities	(1)	(21)
Total long-term debt due after one year	$ 681	$ 749

(a) The effective interest rate on the term loan was 1.89% at both September 30, 2022 and 2021. 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, 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:

	2023	2024	2025	2026	2027
Total	$ 1	$ 294	$ —	$ —	$ —

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, 2022.

Note 6 — Income Taxes

The provisions for income taxes consist of the following:

	2022	2021	2020
Current expense (benefit):			
Federal	$ 15	$ (2)	$ (22)
State	6	(2)	(6)
Foreign	50	84	73
Total current expense	71	80	45
Deferred expense (benefit):			
Federal	(11)	(11)	—
State	(4)	—	—
Foreign	194	262	(8)
Total deferred expense (benefit)	179	251	(8)
Total income tax expense	$ 250	$ 331	$ 37

(Currency in millions, except where indicated otherwise)

Federal income taxes for Fiscal 2022 are net of foreign tax credits of $5. 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:

	2022	2021	2020
Income tax expense at U.S. federal statutory tax rate	$ 222	$ 275	$ 37
Difference in income tax expense due to:			
State income tax benefit, net of federal expense	2	(2)	(5)
Valuation allowance adjustments	(6)	(10)	—
Notional interest deduction	(13)	(17)	(16)
French interest disallowance	—	(1)	3
French CVAE taxes	2	3	4
Deferred tax effects of International tax rate changes	(32)	(26)	2
French tax refund	—	—	(5)
Other effects of foreign operations (a)	71	106	24
Effects of U.S. tax legislation	—	(4)	(7)
Other, net	4	7	—
Total income tax expense	$ 250	$ 331	$ 37

(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. Timing of the recovery of the resulting incremental tax basis was changed with legislation in Fiscal 2022 extending the deductible period of recovery from eighteen to fifty years.

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 2022, 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 2022, Fiscal 2021 and Fiscal 2020 includes $3, $8, and $0, respectively, of GILTI taxes that are treated as current period costs and carry no related deferred taxes.

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 December 2021 the Netherlands increased their statutory rate to 25.8%. 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 2022 and Fiscal 2021 that will reverse in future periods in the lower tax rate environment resulted in a $33 and $31 benefit, respectively. The impact on deferred income tax liabilities and income tax expense related to the other changes were not material in any periods presented.

(Currency in millions, except where indicated otherwise)

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

	2022	2021
Excess book basis over tax basis of property, plant and equipment	$ 130	$ 169
Intangible assets and goodwill	13	16
Derivative instrument assets	452	274
Other	25	5
Gross deferred tax liabilities	620	464
Employee-related benefits	(5)	(9)
Operating loss carryforwards	(11)	(8)
Foreign tax credit carryforwards	(76)	(79)
Derivative instrument liabilities	—	—
Other	(55)	(35)
Gross deferred tax assets	(147)	(131)
Deferred tax assets valuation allowance	115	103
Net deferred tax liabilities	$ 588	$ 436

At September 30, 2022, we carried foreign net operating loss carryforwards of $5 relating to Flaga, $30 to certain subsidiaries of UGI France, and $10 in the Netherlands with no expiration dates.

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 2022 increased $18 on the notional interest deduction carryover offset by a $6 decrease against FTC’s that will become realizable in the future.

The valuation allowance for all deferred tax assets in Fiscal 2021 contained a release of $10 against FTC’s that became realizable in the future offset by a $10 increase in 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 2018 tax year, our French tax returns are settled through the 2018 tax year, our Austrian tax returns are settled through the 2017 tax year and our other European tax returns are effectively settled for various years from 2014 to 2019. 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, $2 and $4, respectively, at September 30, 2022, 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.

(Currency in millions, except where indicated otherwise)

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, 2022 and 2021. 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	
	2022	2021
Change in benefit obligations:		
Benefit obligations - beginning of year	$ 45	$ 45
Service cost	2	3
Actuarial gain	(15)	(3)
Plan amendments	1	2
Foreign currency gain	(6)	—
Benefits paid	(1)	(2)
Benefit obligations - end of year (a)	$ 26	$ 45
Change in plan assets:		
Fair value of plan assets - beginning of year	$ 19	$ 18
Foreign currency gain	(3)	—
Employer contributions	1	1
Benefits paid	(1)	—
Fair value of plan assets - end of year	$ 16	$ 19
Funded status of the plans - end of year (b)	$ (10)	$ (26)
Amounts recorded in UGI International member's equity (pre-tax):		
Prior service cost	$ 3	$ 3
Net actuarial (gain) loss	(13)	1
Total	$ (10)	$ 4

(a) The ABO for the pension plans was $26 and $45 as of September 30, 2022 and 2021, respectively.
(b) Amounts are reflected in "Other noncurrent liabilities" and "Other assets" on the Consolidated Balance Sheets. Amounts reflected in "Other assets" are not material.

In Fiscal 2022 and Fiscal 2021, the change in the pension plans' PBO due to actuarial gains and losses is principally the result of changes in discount rates.

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		
	2022	2021	2020
Weighted-average assumptions:			
Discount rate – benefit obligations	3.44% to 3.70%	0.76% to 0.85%	0.53% to 0.68%
Discount rate – benefit cost	0.76% to 0.85%	0.53% to 0.68%	0.48% to 0.56%
Expected return on plan assets	0.75% to 2.50%	2.00% to 2.98%	2.00% to 2.97%
Rate of increase in salary levels	2.50% to 4.20%	2.50% to 3.80%	2.50% to 4.00%

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 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.

(Currency in millions, except where indicated otherwise)

As of September 30, 2022, 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:

	2022	2021
LPG	$ 70	$ 65
Natural gas	37	16
Energy certificates	69	51
Materials, supplies and other	12	13
Total inventories	$ 188	$ 145

Note 9 — Property, Plant and Equipment

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

	2022	2021	Estimated Useful Life
Land	$ 27	$ 34	
Buildings and improvements	121	137	10 - 40 years
Transportation equipment	28	32	3 - 10 years
Equipment, primarily cylinders and tanks	1,528	1,732	5 - 30 years
Other	37	41	1 - 10 years
Work in process	30	28	
Property, plant and equipment	$ 1,771	$ 2,004	

Depreciation expense totaled $103, $116, and $108 for Fiscal 2022, Fiscal 2021, and Fiscal 2020, respectively.

Note 10 — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill are as follows:

Balance at September 30, 2020	$ 997
Acquisitions	6
Foreign currency translation	(10)
Balance at September 30, 2021	993
Foreign currency translation	(153)
Balance at September 30, 2022	$ 840

(Currency in millions, except where indicated otherwise)

Intangible assets comprise the following at September 30:

	2022	2021
Customer relationships and other	$ 261	$ 307
Trademarks and tradenames	3	4
Accumulated amortization	(186)	(204)
Intangible assets, net (subject to amortization)	78	107
Trademarks and tradenames (not subject to amortization)	41	49
Total intangible assets, net	$ 119	$ 156

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 $15, $22 and $27 for Fiscal 2022, Fiscal 2021 and Fiscal 2020, respectively. Estimated amortization of intangible assets during each of the next five fiscal years is as follows: Fiscal 2023 - $13; Fiscal 2024 - $12; Fiscal 2025 - $11; Fiscal 2026 - $11; and Fiscal 2027 - $10.

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.

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.

(Currency in millions, except where indicated otherwise)

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

	2022	2021	Location on the Balance Sheet
ROU assets:			
Operating lease ROU assets	$ 45	$ 57	Other assets
Finance lease ROU assets	1	2	Property, plant and equipment
Total ROU assets	$ 46	$ 59	
Lease liabilities:			
Operating lease liabilities — current	$ 10	$ 12	Other current liabilities
Operating lease liabilities — noncurrent	36	46	Other noncurrent liabilities
Finance lease liabilities — current	—	1	Current maturities of long-term debt
Finance lease liabilities — noncurrent	1	1	Long-term debt
Total lease liabilities	$ 47	$ 60	

The components of lease cost for Fiscal 2022, Fiscal 2021 and Fiscal 2020 are as follows:

	2022	2021	2020
Operating lease cost	$ 14	$ 14	$ 15
Finance lease cost:			
Amortization of ROU assets	1	1	1
Short-term lease expense	—	—	1
Total lease cost	$ 15	$ 15	$ 17

Lease costs associated with variable lease components were not material for Fiscal 2022, 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 2022, Fiscal 2021 and Fiscal 2020:

	2022	2021	2020
Cash paid related to lease liabilities:			
Operating cash flows — operating leases	$ 11	$ 12	$ 16
Financing cash flows — finance leases	$ 1	$ 1	$ 1
Non-cash lease liability activities:			
ROU assets obtained in exchange for operating lease liabilities (a)	$ 8	$ 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 – *Leases*.

(Currency in millions, except where indicated otherwise)

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

Weighted-average remaining lease term (in years)	2022	2021
Operating leases	7.1	7.5
Finance leases	4.2	3.0

Weighted-average discount rate (%)	2022	2021
Operating leases	1.4%	1.1%
Finance leases	1.6%	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, 2022, were as follows:

	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	After 2027	Total Lease Payments	Imputed Interest	Lease Liabilities
Operating leases	$ 10	$ 9	$ 6	$ 5	$ 5	$ 14	$ 49	$ (3)	$ 46
Finance leases	$ —	$ 1	$ —	$ —	$ —	$ —	$ 1	$ —	$ 1

At September 30, 2022, 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.

(Currency in millions, except where indicated otherwise)

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)			
	Level 1	Level 2	Level 3	Total
September 30, 2022				
Derivative instruments:				
Assets:				
Commodity contracts (a)	$ 540	$ 1,189	$ 27	$ 1,756
Foreign currency contracts	$ —	$ 119	$ —	$ 119
Liabilities:				
Commodity contracts (a)	$ (87)	$ (70)	$ —	$ (157)
Foreign currency contracts	$ —	$ (2)	$ —	$ (2)
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)

(a) Includes derivative assets and liabilities held-for-sale associated with the October 2022 sale of the United Kingdom energy marketing business (see Note 19).

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. Substantially all of the remaining 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. The fair values of the Level 3 natural gas commodity contracts have been determined using unobservable inputs in an illiquid market, and the fair values of such Level 3 measurements ranged from $7 to $27 given the available inputs considered. The actual realized value at which these contracts will settle could vary significantly compared to the fair values reflected at September 30, 2022.

(Currency in millions, except where indicated otherwise)

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, 2022	September 30, 2021
Carrying amount	$ 688	$ 775
Estimated fair value	$ 589	$ 782

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 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.

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.

Concurrent with the repayment of UGI International's 3.25% Senior Notes on December 7, 2021, we settled an associated net investment hedge having a notional value of €93. Additionally, in May 2022, we restructured certain net investment hedges associated with anticipated foreign currency denominated dividends. Cash flows from these transactions totaling $26 are included in cash flows from investing activities on the Fiscal 2022 Consolidated Statement of Cash Flows. We recognized pre-tax gains associated with net investment hedges in the foreign currency component of AOCI totaling $69 during Fiscal 2022.

Our euro-denominated long-term debt has 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 $123 and $9 during the years ended September 30, 2022 and 2021, 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, 2022 and 2021, and the final settlement dates of the Company's open derivative contracts as of September 30, 2022, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)	
			September 30,	
Type	Units	Settlements Extending Through	2022	2021
Commodity Price Risk:				
LPG swaps	Gallons	January 2025	484	378
Natural gas forward and futures contracts	Dekatherms	January 2026	28	45
Electricity long forward and futures contracts	Kilowatt hours	January 2025	1,630	3,277
Interest Rate Risk:				
Interest rate swaps	Euro	October 2022	€ 300	€ 300
Foreign Currency Exchange Rate Risk:				
Forward foreign exchange contracts	USD	August 2025	$ 465	$ 509
Net investment hedge forward foreign exchange contracts	Euro	December 2026	€ 411	€ 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 and ongoing basis. As of September 30, 2022, 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 $1,875. 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, 2022 the Company had received cash collateral from derivative instrument counterparties totaling $307. 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.

(Currency in millions, except where indicated otherwise)

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:

	2022	2021
Derivative assets:		
Derivatives designated as hedging instruments:		
Foreign currency contracts	$ 57	$ 20
Derivatives not designated as hedging instruments:		
Commodity contracts (a)	1,756	1,071
Foreign currency contracts	62	18
	1,818	1,089
Total derivative assets - gross	1,875	1,109
Gross amounts offset in balance sheet	(25)	(10)
Cash collateral received	(307)	(322)
Total derivative assets - net	$ 1,543	$ 777
Derivative liabilities:		
Derivatives designated as hedging instruments:		
Interest rate contracts	$ —	$ (1)
Derivatives not designated as hedging instruments:		
Commodity contracts (a)	(157)	(48)
Foreign currency contracts	(2)	(8)
	(159)	(56)
Total derivative liabilities - gross	(159)	(57)
Gross amounts offset in balance sheet	25	10
Cash collateral pledged	4	3
Total derivative liabilities - net	$ (130)	$ (44)

(a) Includes derivative assets and liabilities held-for-sale associated with the October 2022 sale of the United Kingdom energy marketing business (see Note 19).

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 2022, Fiscal 2021 and Fiscal 2020:

	Gain (Loss) Recognized in AOCI			Gain (Loss) Reclassified from AOCI into Income			Location of Gain (Loss) Reclassified from AOCI into Income
	2022	2021	2020	2022	2021	2020	
Cash Flow Hedges:							
Interest rate contracts	—	—	—	—	(1)	(1)	Interest expense
Total	$ —	$ —	$ —	$ —	$ (1)	$ (1)	
Net Investment Hedges:							
Foreign currency contracts	$ 69	$ 4					

(Currency in millions, except where indicated otherwise)

	Gain (Loss) Recognized in Income			Location of Gain (Loss) Recognized in Income
	2022	2021	2020	
Derivatives Not Designated as Hedging Instruments:				
Commodity contracts	$ 9	$ —	$ —	Revenues
Commodity contracts	980	1,111	(13)	Cost of sales
Commodity contracts	1	—	—	Other operating income, net
Foreign currency contracts	63	9	(20)	Other non-operating income (expense), net
Total	$ 1,053	$ 1,120	$ (33)	

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.

The tables below present changes in AOCI, net of tax, during Fiscal 2022, Fiscal 2021 and Fiscal 2020 are as follows:

	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
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	$ (1)	$ —	$ (91)	$ (92)
Other comprehensive income (loss) before reclassification adjustments	11	—	(341)	(330)
Amounts reclassified from AOCI	(1)	—	—	(1)
Other comprehensive income (loss)	10	—	(341)	(331)
AOCI - September 30, 2022	$ 9	$ —	$ (432)	$ (423)

(Currency in millions, except where indicated otherwise)

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

Other Operating Income, Net

Other operating income, net, comprises the following:

	2022	2021	2020
Cylinder deposit income	$ 18	$ 9	$ 5
Gain (loss) on sales of assets	10	5	(2)
Interest and dividend income	—	—	1
Other	3	3	—
Total other operating income, net	$ 31	$ 17	$ 4

Other Non-Operating Income (Expense), Net

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

	2022	2021	2020
Gains (losses) on foreign currency contracts, net	$ 63	$ 9	$ (20)
Amortization of excluded components of certain net investment hedges	6	2	—
Pension and other postretirement plans non-service income, net	—	—	1
Total other non-operating income (expense), net	$ 69	$ 11	$ (19)

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.

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 was substantially complete by the end of Fiscal 2021. During Fiscal 2021 and Fiscal 2020 we incurred related expenses of $33 and $18, respectively, and principally comprising consulting, advisory, employee-related costs as well as the effect of discontinuance of certain tradenames. These costs are primarily reflected in "Operating and administrative expenses" on the Consolidated Statements of Income. This previously announced business transformation initiative was substantially complete by the end of Fiscal 2021.

Note 19 — Subsequent Events

Dispositions

In October 2022, UGI International, through a wholly-owned subsidiary, sold its natural gas marketing business located in the United Kingdom resulting in a net cash payment to the buyer of $19 which includes working capital adjustments. The assets and liabilities associated with this business, primarily attributable to the value of unrealized gains and losses on derivative contracts, are classified as held-for-sale on the accompanying Consolidated Balance Sheet as of September 30, 2022. During the fourth quarter of Fiscal 2022, the Company recognized an impairment charge, which was limited to the disposal group's long-lived assets in accordance with its policy related to assets held for sale. Such impairment in Fiscal 2022 was not material. An incremental pretax loss of approximately $220 was recognized in the first quarter of Fiscal 2023 in connection with the completed sale, largely attributable to the difference between the net cash payment to the buyer and the fair value of net derivative assets sold along with customer contracts as of the transaction date. The change in the net assets held for sale as of September 30, 2022, and the loss recognized upon disposal in October 2022, was due to the change in the fair value of the net derivative assets subsequent to September 30, 2022.

In November 2022, the Company announced its intent to sell its energy marketing business located in France, with a definitive agreement expected to be signed in the first quarter of Fiscal 2023. The Company expects to recognize a significant loss on the sale largely attributable to the value of net derivative assets sold along with the related customer contracts. At September 30, 2022, the carrying value of the net assets of the Company's energy marketing business in France amounted to approximately $470 with primarily all of that value related to the fair value of the applicable derivative contracts.

Executive Overview

Net income attributable to UGI International was $808 million in Fiscal 2022 compared to $979 million in Fiscal 2021. These results reflect after-tax unrealized gains on commodity derivative instruments not associated with current-period transactions and certain foreign currency derivative instruments of $651 million and $769 million in Fiscal 2022 and Fiscal 2021, respectively. Fiscal 2022 results also reflect after-tax expenses totaling $18 million associated with debt extinguishments, restructuring costs, and impairment of assets. Fiscal 2021 results also include after-tax expenses related to business transformation initiatives of $23 million, an intangible asset impairment of $15 million, and a $23 million tax benefit related to an election made in connection with a tax law change in Italy.

Adjusted net income attributable to UGI International was $175 million in Fiscal 2022 compared to $225 million in Fiscal 2021. The $50 million decrease in Fiscal 2022 principally reflects lower total margin largely attributable to the effects of commodity price volatility on our energy marketing business and the net effect of weaker foreign currencies compared to the prior year. These factors were partially offset by higher gains on asset sales.

Average temperatures based upon heating degree days in Fiscal 2022 were 2.6% warmer than normal and 5.0% warmer compared to temperatures in the prior year. Total LPG retail gallons sold during Fiscal 2022 increased slightly compared to Fiscal 2021 largely attributable to favorable crop drying campaigns and the recovery of certain bulk and autogas volumes that were negatively impacted by COVID-19 in Fiscal 2021.

During Fiscal 2022 and Fiscal 2021, the average unweighted euro-to-dollar translation rates were approximately $1.08 and $1.20, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately $1.28 and $1.37, respectively.

Energy Marketing Business

In October 2022, UGI International, through a wholly-owned subsidiary, sold its natural gas marketing business located in the United Kingdom resulting in a net cash payment to the buyer of $19 million which includes working capital adjustments. The assets and liabilities associated with this business, primarily attributable to the value of unrealized gains and losses on derivative contracts, are classified as held-for-sale on the accompanying Consolidated Balance Sheet as of September 30, 2022. During the fourth quarter of Fiscal 2022, the Company recognized an impairment charge, which was limited to the disposal group's long-lived assets in accordance with its policy related to assets held for sale. Such impairment in Fiscal 2022 was not material. An incremental pretax loss of approximately $220 million was recognized in the first quarter of Fiscal 2023 in connection with the completed sale, largely attributable to the difference between the net cash payment to the buyer and the fair value of net derivative assets sold along with customer contracts as of the transaction date. The change in the net assets held for sale as of September 30, 2022, and the loss recognized upon disposal in October 2022, was due to the change in the fair value of the net derivative assets subsequent to September 30, 2022.

In November 2022, the Company announced its intent to sell its energy marketing business located in France, with a definitive agreement expected to be signed in the first quarter of Fiscal 2023. The Company expects to recognize a significant loss on the sale largely attributable to the value of net derivative assets sold along with the related customer contracts. At September 30, 2022, the carrying value of the net assets of the Company's energy marketing business in France amounted to approximately $470 million with primarily all of that value related to the fair value of the applicable derivative contracts.

Global Macroeconomic Conditions

During Fiscal 2021 and continuing into Fiscal 2022, global commodity and labor markets have experienced significant inflationary pressures attributable to various economic and political factors, including: the economic recovery and evolving consumer patterns associated with the COVID-19 pandemic; supply chain issues associated with labor shortages; significant inflationary pressures on commodity prices; and political and regulatory conditions resulting from the ongoing war between Russia and Ukraine, among others. These factors have led to significant volatility across various consumer price indices during Fiscal 2021 and Fiscal 2022. We have experienced substantial shifts in commodity prices, particularly in LPG, natural gas and electricity prices, which, in turn, have led to extensive mark-to-market impacts on commodity derivative instruments not associated with current-period activity. The ongoing strain on supply costs has resulted in increased inventory costs and certain distribution expenses across all of our businesses. It has also affected requirements around cash collateral and restricted cash associated with our outstanding derivatives. We cannot predict the duration or total magnitude of these factors and the total effects on our business, financial position, results of operations, liquidity or cash flows at this time. However, we continue to evaluate and react to these global economic and political conditions and remain focused on managing our financial condition and liquidity as these conditions continue to evolve.

Business Transformation Initiatives

By the end of Fiscal 2021, UGI International substantially completed the previously announced business transformation initiatives. Benefits provided under these initiatives were consistent with expectations during Fiscal 2022, and are expected to provide ongoing annual benefits of more than €30 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.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

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.

	Year Ended September 30,	
(Millions of dollars)	2022	2021
Adjusted total margin:		
Total revenues	$ 3,695	$ 2,651
Cost of sales	(1,954)	(533)
Total margin	1,741	2,118
Net gains on commodity derivative instruments not associated with current-period transactions	(806)	(1,065)
Adjusted total margin	$ 935	$ 1,053
Adjusted operating income:		
Operating income	$ 1,031	$ 1,326
Net gains on commodity derivative instruments not associated with current-period transactions	(808)	(1,065)
Business transformation expenses	—	33
Impairment of customer relationship intangible	—	20
Restructuring costs	9	—
Impairment of assets	5	—
Adjusted operating income	$ 237	$ 314
Adjusted income before income taxes:		
Income before income taxes	$ 1,059	$ 1,310
Net gains on commodity derivative instruments not associated with current-period transactions	(808)	(1,065)
Unrealized gains on foreign currency derivative instruments	(50)	(8)
Business transformation expenses	—	33
Impairment of customer relationship intangible	—	20
Loss on extinguishments of debt	11	—
Restructuring costs	9	—
Impairment of assets	5	—
Adjusted income before income taxes	$ 226	$ 290
Adjusted net income attributable to UGI International:		
Net income attributable to UGI International, LLC	$ 808	$ 979
Net gains on commodity derivative instruments not associated with current-period transactions	(615)	(763)
Unrealized gains on foreign currency derivative instruments	(36)	(6)
Business transformation expenses	—	23
Impairment of customer relationship intangible	—	15
Impact of change in tax law	—	(23)
Loss on extinguishments of debt	8	—
Restructuring costs	6	—
Impairment of assets	4	—
Adjusted net income attributable to UGI International	$ 175	$ 225

Analysis of Results of Operations

UGI International	2022	2021	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 3,695	$ 2,651	$ 1,044	39 %
Total margin (a)	$ 1,741	$ 2,118	$ (377)	(18)%
Operating and administrative expenses	$ 624	$ 675	$ (51)	(8)%
Operating income	$ 1,031	$ 1,326	$ (295)	(22)%
Income before income taxes	$ 1,059	$ 1,310	$ (251)	(19)%
Net income attributable to UGI International	$ 808	$ 979	$ (171)	(17)%
Non-GAAP financial measures (b):				
Adjusted total margin	$ 935	$ 1,053	$ (118)	(11)%
Adjusted operating income	$ 237	$ 314	$ (77)	(25)%
Adjusted income before income taxes	$ 226	$ 290	$ (64)	(22)%
Adjusted net income attributable to UGI International	$ 175	$ 225	$ (50)	(22)%
LPG retail gallons sold (millions)	799	792	7	1 %
Degree days – % (warmer) colder than normal (c)	(2.6)%	0.4 %	—	—

(a) Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2022 and Fiscal 2021 includes net pre-tax gains of $806 million and $1,065 million, respectively, 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) 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.

Average temperatures during Fiscal 2022 were 2.6% warmer than normal and 5.0% warmer than Fiscal 2021. Total LPG retail gallons sold during Fiscal 2022 increased slightly compared to Fiscal 2021 largely attributable to favorable crop drying campaigns and the recovery of certain bulk and autogas volumes that were negatively impacted by COVID-19 in Fiscal 2021.

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 2022 and Fiscal 2021, the average unweighted euro-to-dollar translation rates were approximately $1.08 and $1.20, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately $1.28 and $1.37, respectively. Fluctuations in these foreign currency exchange rates can have a significant impact on the individual financial statement components discussed below. The impact of such changes on earnings, however, is mitigated by the effects of forward foreign currency exchange contracts entered into over a multi-year period intended to reduce volatility in U.S. dollar amounts resulting from changes in exchange rates. These forward foreign currency exchange contracts resulted in realized net gains of $13 million and $1 million, respectively, in Fiscal 2022 and Fiscal 2021.

Revenues and cost of sales in Fiscal 2022 and Fiscal 2021 include net unrealized gains of $808 million and $1,065 million, respectively, on commodity derivative instruments not associated with current-period transactions. Excluding these effects, revenues and cost of sales increased $1,033 million and $1,153 million, respectively, during Fiscal 2022. Average wholesale prices for propane and butane during Fiscal 2022 in northwest Europe were approximately 53% and 70% higher, respectively, compared to Fiscal 2021. The increase in revenues and cost of sales principally reflects the impact on our energy marketing business from significant increases and volatility in natural gas and electricity prices and the effects of the previously mentioned higher average propane and butane selling prices and product costs on our LPG business compared to the prior year. These increases were partially offset by the translation effects of weaker foreign currencies as reflected in the previously mentioned average exchange rates.

Total margin (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions) decreased $377 million. Adjusted total margin decreased $118 million primarily reflecting lower total margin from our energy marketing business (approximately $53 million) and the translation effects of weaker foreign currencies. These factors were partially offset by higher total margin from our LPG business attributable to strong margin management efforts despite the effects of the previously mentioned higher product costs. The lower total margin from our energy marketing business is largely due to the impact of significant volatility in commodity costs and its effects on unit margins of certain customer contracts which were largely confined to the heating-season months of October through March during Fiscal 2022.

Operating income (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions, business transformation expenses, assets impairments and restructuring costs) decreased $295 million. Adjusted operating income decreased $77 million principally reflecting the decrease in total margin partially offset by lower depreciation and amortization ($17 million), lower operating and administrative expenses (excluding the effects of the previously mentioned business transformation expenses, asset impairments and restructuring costs), and higher gains associated with the sale of assets compared to Fiscal 2021. The decrease in depreciation and amortization principally reflects the effects of currency translation. The net decrease in operating and administrative expenses compared to the prior year was driven by the translation effects of the weaker foreign currencies largely offset by the effects of inflation on the underlying distribution, personnel and maintenance costs.

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; asset impairments; and restructuring costs) decreased $251 million. Adjusted income before income taxes decreased $64 million in Fiscal 2022 principally reflecting the decrease in adjusted operating income partially offset by higher realized gains on foreign currency exchange contracts ($12 million) entered into in order to reduce volatility in UGI International earnings resulting from the effects of changes in foreign currency exchange rates.

Interest Expense and Income Taxes

Interest expense was $28 million in Fiscal 2022 compared to $27 million in Fiscal 2021. The slight increase is attributable to higher average short-term borrowings outstanding compared to the prior year.

Our effective income tax rate increased between Fiscal 2021 and Fiscal 2022 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. The prior year also contained a benefit not in the current year from the election made under a tax law change in Italy that had allowed us to step up its tax basis on certain assets in exchange for paying a three percent substitute tax. 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 ongoing global macroeconomic conditions including, among others, changes in consumer behavior resulting from the COVID-19 pandemic, the inflationary cost environment and ongoing energy commodity price volatility. The Company does not have any near-term senior note or term loan maturities. The Company cannot predict the duration or total magnitude of the uncertain economic factors mentioned above and the total effects they 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, 2022.

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.

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 $298 million at September 30, 2022 and $606 million at September 30, 2021. A substantial portion of this cash is located outside of the United States. Our cash and cash equivalents at September 30, 2022 reflects in part $307 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, 2022 totaled $683 million (including current maturities of long-term debt of $1 million and short-term borrowings of $1 million). UGI International's debt outstanding at September 30, 2021 totaled $770 million (including current maturities of long-term debt of $21 million). Total long-term debt outstanding at September 30, 2022, including current maturities, comprises $392 million of 2.50% Senior Notes, a $294 million variable-rate term loan, and $2 million of other long-term debt, and is net of $6 million of unamortized debt issuance costs.

On December 7, 2021, UGI International, LLC issued, in an underwritten private placement, €400 million principal amount of the 2.50% Senior Notes due December 1, 2029. The 2.50% Senior Notes rank equal in right of payment with indebtedness issued under the UGI International Credit Facilities Agreement. The net proceeds from the 2.50% Senior Notes were used (1) to repay all of the 3.25% Senior Notes due November 1, 2025 and associated fees and expenses and (2) for general corporate purposes.

At September 30, 2022, there were no borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving facility. The average daily and peak short-term borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving facility in Fiscal 2022 were €77 million ($75 million) and €250 million ($245 million), respectively. At September 30, 2022, the Company's available borrowing capacity under the UGI International Credit Facilities Agreement multicurrency revolving facility was €300 million. At September 30, 2021 and throughout Fiscal 2021, there were no borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving credit 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 $82 million in Fiscal 2022 compared to $643 million in Fiscal 2021. The significant decrease in cash flow from operating activities principally reflects lower cash flow from changes in operating working capital. Cash flow from operating activities before changes in operating working capital were $258 million in Fiscal 2022 and $321 million in Fiscal 2021. Changes in operating working capital used operating cash flow of $176 million in Fiscal 2022 compared to operating cash flow provided of $322 million in Fiscal 2021. The significant decline in cash flow from changes in operating working capital during Fiscal 2022 reflects (1) net derivative collateral receipts of $49 million in Fiscal 2022 compared with net derivative collateral receipts of $326 million in Fiscal 2021 principally the result of volatile commodity prices on collateral requirements; (2) significantly lower cash from changes in accounts payable; and (3) greater cash required to fund changes in accounts receivable.

Investing Activities:

Cash flow used by investing activities was $76 million in Fiscal 2022 compared to $86 million in Fiscal 2021. Cash capital expenditures for property, plant and equipment totaled $107 million in Fiscal 2022 compared to $107 million in Fiscal 2021.

Cash inflows associated with investing activities during Fiscal 2022 includes cash received from the settlement of certain forward foreign currency contracts previously designated at a net investment hedges.

Financing Activities:

Cash flow used by financing activities was $252 million in Fiscal 2022 and $158 million in Fiscal 2021. Cash flow used by financing activities in Fiscal 2022 includes net proceeds from the issuance of €400 million principal amount of UGI International 2.50% Senior Notes the net proceeds of which were used to repay €350 million principal amount of 3.25% Senior Notes and for general corporate purposes. The Company paid cash distributions of $278 million and $153 million in Fiscal 2022 and Fiscal 2021, 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 2022 and Fiscal 2021, our capital expenditures totaled $107 million and $107 million, respectively. We expect capital expenditures of approximately $140 million in Fiscal 2023.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations existing as of September 30, 2022:

	Payments Due by Period				
(Millions of dollars)	Total	Fiscal 2022	Fiscal 2023 - 2024	Fiscal 2025 - 2026	Thereafter
Short-term borrowings (a)	$ 1	$ 1	$ —	$ —	$ —
Long-term debt (a)	688	1	294	—	393
Interest on long-term-fixed rate debt (a)(b)(c)	76	15	20	20	21
Operating leases	49	10	15	10	14
Supply contracts	238	238	—	—	—
Derivative instruments (d)	130	93	37	—	—
Total	$ 1,182	$ 358	$ 366	$ 30	$ 428

(a) Based upon stated maturity dates for debt outstanding at September 30, 2022.

(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, 2022.

(d) Represents the sum of amounts due if derivative instrument liabilities were settled at the September 30, 2022 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 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, 2022, our goodwill totaled $840 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, 2022, our net deferred tax liabilities totaled $588 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.

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, 2022, combined borrowings outstanding under variable-rate debt agreements were not material.

During Fiscal 2022, 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 $11 million at September 30, 2022. 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 $24 million at September 30, 2022.

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, 2022, by approximately $180 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, 2022, 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 $1,875 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, 2022 the Company had received cash collateral from derivative instrument counterparties totaling $307 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, 2022 and changes in fair values due to market risks.

	Asset (Liability)	
(Millions of dollars)	Fair Value	Change in Fair Value
September 30, 2022		
Commodity price risk (1)	$ 1,599	$ (236)
Foreign currency exchange rate risk (2)	$ 117	$ (48)

(1) Change in fair value represents a 10% adverse change in the market prices of certain commodities.
(2) 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.