UGI INTERNATIONAL, LLC
AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the three months ended December 31, 2022 and 2021
(Unaudited)

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

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

2.50% Senior Notes - An underwritten private placement of €400 million principal amount of senior unsecured notes due December 1, 2029, issued by UGI International, LLC

2022 Annual Report - UGI International's audited financial statements and related notes, along with Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended September 30, 2022

2021 three-month period - Three months ended December 31, 2021

2022 three-month period - Three months ended December 31, 2022

2023 UGI International Credit Facilities Agreement -A five-year unsecured senior facilities agreement entered into in March 2023 by UGI International and its indirect wholly-owned subsidiary, UGI International Holdings, B.V., comprising a €300 million term loan facility and a €500 million revolving credit facility, scheduled to expire in March 2028

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

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

ASU - Accounting Standards Update

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

Euribor - Euro Interbank Offered Rate

Fiscal 2021 - The fiscal year ended September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

GAAP - U.S. generally accepted accounting principles

LPG - Liquefied petroleum gas

NPNS - Normal purchase and normal sale

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. UGI International Credit Facilities Agreement was refinanced with 2023 UGI International Credit Facilities Agreement in March 2023

U.K. - United Kingdom

U.S. - United States of America

USD - U.S. dollar

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Millions of dollars)

	December 31, 2022	September 30, 2022	December 31, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 238	$ 298	$ 194
Restricted cash	157	2	2
Accounts receivable (less allowances for doubtful accounts of $22, $20 and $16, respectively)	686	530	713
Inventories	218	188	182
Derivative instruments	193	751	471
Held for sale assets (Note 10)	—	295	—
Prepaid expenses and other current assets	63	48	88
Total current assets	1,555	2,112	1,650
Property, plant and equipment, (less accumulated depreciation of $975, $870 and $958, respectively)	983	901	1,047
Goodwill	924	840	976
Intangible assets, net	117	119	150
Derivative instruments	146	497	211
Other assets	168	141	153
Total assets	$ 3,893	$ 4,610	$ 4,187
LIABILITIES AND EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 1	$ 1	$ 1
Short-term borrowings	327	1	55
Accounts payable	370	301	393
Employee compensation and benefits accrued	55	55	54
Derivative instruments	69	87	29
Held for sale liabilities (Note 10)	—	19	—
Other current liabilities	233	219	260
Total current liabilities	1,055	683	792
Long-term debt	745	681	790
Deferred income taxes	253	599	396
Derivative instruments	13	24	22
Customer tank and cylinder deposits	263	243	288
Other noncurrent liabilities	78	70	94
Total liabilities	2,407	2,300	2,382
Commitments and contingencies (Note 5)			
Equity:			
Member's equity	1,478	2,302	1,795
Noncontrolling interests	8	8	10
Total equity	1,486	2,310	1,805
Total liabilities and equity	$ 3,893	$ 4,610	$ 4,187

See accompanying notes to condensed consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(Millions of dollars)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
Revenues	$ 879	$ 1,052
Costs and expenses:		
Cost of sales	1,831	1,005
Operating and administrative expenses	153	158
Operating and administrative expenses - related parties	4	3
Depreciation and amortization	28	31
Loss on disposal of U.K. Energy Marketing Business	215	—
Other operating income, net	(10)	(14)
	2,221	1,183
Operating loss	(1,342)	(131)
Loss on extinguishment of debt	—	(11)
Other non-operating (expense) income, net	(29)	10
Interest expense	(7)	(7)
Loss before income taxes	(1,378)	(139)
Income tax benefit	363	2
Net loss including noncontrolling interests	$ (1,015)	$ (137)
Add net income attributable to noncontrolling interests	—	(1)
Net loss attributable to UGI International, LLC	$ (1,015)	$ (138)

See accompanying notes to condensed consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(Millions of dollars)

	Three Months Ended December 31,	
	2022	2021
Net loss including noncontrolling interests	$ (1,015)	$ (137)
Other comprehensive income (loss):		
Foreign currency adjustments (net of tax of $30 and $(4), respectively)	151	(32)
Other comprehensive income (loss)	151	(32)
Comprehensive loss including noncontrolling interests	(864)	(169)
Deduct comprehensive income attributable to noncontrolling interests	—	(1)
Comprehensive loss attributable to UGI International, LLC	$ (864)	$ (170)

See accompanying notes to condensed consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Millions of dollars)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss including noncontrolling interests	$ (1,015)	$ (137)
Adjustments to reconcile net loss including noncontrolling interests to net cash used by operating activities:		
Depreciation and amortization	28	31
Deferred income tax benefit, net	(356)	(60)
Changes in unrealized gains and losses on derivative instruments	1,209	203
Loss on extinguishment of debt	—	11
Loss on disposal of U.K. energy marketing business	215	—
Impairment of assets	14	—
Other, net	17	(12)
Net change in:		
Accounts receivable	(102)	(292)
Inventories	(10)	(40)
Accounts payable	38	31
Derivative instruments collateral paid	(246)	(132)
Other current assets	(13)	(7)
Other current liabilities	(10)	52
Net cash used by operating activities	(231)	(352)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(27)	(23)
Acquisitions of businesses and assets, net of cash acquired	(9)	—
Settlement of net investment hedge	—	13
Other, net	(26)	14
Net cash (used) provided by investing activities	(62)	4
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	310	55
Issuances of long-term debt, net of issuance costs	—	444
Repayments of long-term debt and finance leases, including redemption premiums	—	(419)
Distributions paid	—	(138)
Capital contribution received	40	—
Net cash provided (used) by financing activities	350	(58)
Foreign exchange effect on cash, cash equivalents and restricted cash	38	(5)
Cash, cash equivalents and restricted cash increase (decrease)	$ 95	$ (411)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash, cash equivalents and restricted cash at end of period	$ 395	$ 196
Cash, cash equivalents and restricted cash at beginning of period	300	607
Cash, cash equivalents and restricted cash increase (decrease)	$ 95	$ (411)

See accompanying notes to condensed consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

(Millions of dollars)

	Member's Equity	Noncontrolling Interests	Total
Balance at September 30, 2022	$ 2,302	$ 8	$ 2,310
Net loss	(1,015)	—	(1,015)
Cash contribution	40	—	40
Other comprehensive income	151	—	151
Balance at December 31, 2022	$ 1,478	$ 8	$ 1,486

	Member's Equity	Noncontrolling Interests	Total
Balance at September 30, 2021	$ 2,103	$ 9	$ 2,112
Net (loss) income	(138)	1	(137)
Cash distributions	(138)	—	(138)
Other comprehensive loss	(32)	—	(32)
Balance at December 31, 2021	$ 1,795	$ 10	$ 1,805

See accompanying notes to condensed consolidated financial statements.

(Currency in millions, except where indicated otherwise)

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, and the Netherlands. These businesses are conducted principally through our subsidiaries, UGI France, Flaga, AvantiGas, DVEP and UniverGas. See Note 10 for additional information regarding the energy marketing businesses.

Note 2 — Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2022, Condensed Consolidated Balance Sheet was derived from audited financial statements but does not include all footnote disclosures from the annual financial statements.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 2022 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Restricted Cash. Restricted cash principally represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal. The following table provides a reconciliation of the total cash, cash equivalents and restricted cash reported on the Condensed Consolidated Balance Sheets to the corresponding amounts reported on the Condensed Consolidated Statements of Cash Flows:

	December 31, 2022	December 31, 2021
Cash and cash equivalents	$ 238	$ 194
Restricted cash	157	2
Cash, cash equivalents and restricted cash	$ 395	$ 196

Derivative Instruments. Derivative instruments are reported on the Condensed 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 Condensed 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 Condensed 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 7.

(Currency in millions, except where indicated otherwise)

Use of Estimates. 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.

Subsequent Events. Management has evaluated the impact of subsequent events through March 8, 2023, the date these condensed consolidated financial statements were issued and the effects, if any, of such evaluation have been reflected in the condensed consolidated financial statements and related disclosures.

Note 3 — Revenue from Contracts with Customers

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. See Note 4 in the Company's 2022 Annual Report for additional information on our revenues from contracts with customers.

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended December 31,	
	2022	2021
Revenues from contracts with customers:		
LPG:		
Retail	$ 482	$ 604
Wholesale	51	84
Energy Marketing	318	333
Other	18	20
Total revenues from contracts with customers	869	1,041
Other revenues (a)	10	11
Total revenues	$ 879	$ 1,052

(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 for all periods presented. Substantially all of our receivables are unconditional rights to consideration and are included in "Accounts receivable" on the Condensed 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 $49, $56 and $36 at December 31, 2022, September 30, 2022 and December 31, 2021, respectively, and are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets. Revenues recognized for the three months ended December 31, 2022 and 2021, from the amounts included in contract liabilities at September 30, 2022 and 2021, were $39 and $33, respectively.

(Currency in millions, except where indicated otherwise)

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 4 — Inventories

Inventories comprise the following:

	December 31, 2022	September 30, 2022	December 31, 2021
LPG	$ 87	$ 70	$ 89
Natural gas	38	37	21
Energy certificates	77	69	59
Other, principally materials & supplies	16	12	13
Total inventories	$ 218	$ 188	$ 182

Note 5 — Commitments and Contingencies

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 statements.

(Currency in millions, except where indicated otherwise)

Note 6 — Fair Value Measurements

Derivative 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.

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
December 31, 2022				
Assets:				
Commodity contracts	$ 134	$ 293	$ —	$ 427
Foreign currency contracts	$ —	$ 35	$ —	$ 35
Liabilities:				
Commodity contracts	$ (38)	$ (91)	$ —	$ (129)
Foreign currency contracts	$ —	$ (4)	$ —	$ (4)
September 30, 2022				
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)
December 31, 2021				
Assets:				
Commodity contracts	$ 265	$ 584	$ —	$ 849
Foreign currency contracts	$ —	$ 29	$ —	$ 29
Liabilities:				
Commodity contracts	$ (45)	$ (7)	$ —	$ (52)
Foreign currency contracts	$ —	$ (7)	$ —	$ (7)
Interest rate contracts	$ —	$ (1)	$ —	$ (1)

(a) Includes derivative assets and liabilities held-for-sale associated with the October 2022 sale of the U.K. energy marketing business (see Note 10).

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 our Level 3 natural gas commodity contracts at September 30, 2022 have been determined using unobservable inputs in an illiquid market and 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:

	December 31, 2022	September 30, 2022	December 31, 2021
Carrying amount	$ 752	$ 688	$ 798
Estimated fair value	$ 652	$ 589	$ 793

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 7.

Note 7 — 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 a significant portion of anticipated volumes under 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 USD 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 (expense) income, net” on the Condensed 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 USD value of a portion of our UGI International euro-denominated net investments, including anticipated foreign currency denominated dividends. 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 settlements are included in cash flows from investing activities on the Condensed Consolidated Statements of Cash Flows.

Our euro-denominated long-term debt has also been designated as net investment hedges, representing a portion of our UGI International euro-denominated net investment. We recognized pre-tax (losses) gains associated with these net investment hedges in the cumulative translation adjustment component in AOCI of $(64) and $13 during the three months ended December 31, 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 December 31, 2022, September 30, 2022 and December 31, 2021 and the final settlement dates of the Company's open derivative contracts as of December 31, 2022, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	December 31, 2022	September 30, 2022	December 31, 2021
Commodity Price Risk:					
LPG swaps	Gallons	September 2025	470	484	408
Natural gas forward and futures contracts (a)	Dekatherms	January 2026	15	28	43
Electricity forward and futures contracts	Kilowatt hours	January 2026	1,407	1,630	3,265
Interest Rate Risk:					
Interest rate swaps	Euro	N/A	€ —	€ 300	€ 300
Foreign Currency Exchange Rate Risk:					
Forward foreign exchange contracts	USD	August 2025	$ 390	$ 465	$ 415
Net investment hedge forward foreign exchange contracts	Euro	December 2026	€ 331	€ 411	€ 486

(a) September 30, 2022 includes amounts held-for-sale associated with the October 2022 sale of the U.K. energy marketing business (see Note 10).

Derivative Instrument Credit Risk

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

We have concentrations of credit risk associated with derivative instruments and we evaluate the creditworthiness of our derivative counterparties on an ongoing basis. As of December 31, 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 $462. 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 December 31, 2022 the Company had received cash collateral from derivative instrument counterparties totaling $102. 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 Condensed 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.

(Currency in millions, except where indicated otherwise)

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 Condensed 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.

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:

	December 31, 2022	September 30, 2022	December 31, 2021
Derivative assets:			
Derivatives designated as hedging instruments:			
Foreign currency contracts	$ 11	$ 57	$ 10
Derivatives not designated as hedging instruments:			
Commodity contracts (a)	427	1,756	849
Foreign currency contracts	24	62	19
	451	1,818	868
Total derivative assets - gross	462	1,875	878
Gross amounts offset in balance sheet	(21)	(25)	(9)
Cash collateral received	(102)	(307)	(187)
Total derivative assets - net	$ 339	$ 1,543	$ 682
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ —	$ —	$ (1)
Foreign currency contracts	—	—	(3)
	—	—	(4)
Derivatives not designated as hedging instruments:			
Commodity contracts (a)	(129)	(157)	(52)
Foreign currency contracts	(4)	(2)	(4)
	(133)	(159)	(56)
Total derivative liabilities - gross	(133)	(159)	(60)
Gross amounts offset in balance sheet	21	25	9
Cash collateral pledged	30	4	—
Total derivative liabilities - net	$ (82)	$ (130)	$ (51)

(a) September 30, 2022 includes derivative assets and liabilities held-for-sale associated with the October 2022 sale of the U.K. energy marketing business (see Note 10).

(Currency in millions, except where indicated otherwise)

Effects of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Condensed Consolidated Statements of Income and changes in AOCI:

Three Months Ended December 31,

	Gain (Loss) Recognized in AOCI	
	2022	2021
Net Investment Hedges:		
Foreign currency contracts	$ (23)	$ —

Derivatives Not Designated as Hedging Instruments:	Gain (Loss) Recognized in Income 2022	2021	Location of Gain (Loss) Recognized in Income
Commodity contracts	$ 2	$ 3	Revenues
Commodity contracts	(1,161)	(165)	Cost of sales
Commodity contracts	3	—	Other operating income, net
Foreign currency contracts	(32)	8	Other non-operating (expense) income, net
Total	$ (1,188)	$ (154)	

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 8 — Accumulated Other Comprehensive Income (Loss)

The tables below present changes in AOCI, net of tax, which amounts are included in "Member's equity" on the Condensed Consolidated Balance Sheets:

Three Months Ended December 31, 2022	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI — September 30, 2022	$ 9	$ —	$ (432)	$ (423)
Other comprehensive income before reclassification adjustments	—	—	151	151
Other comprehensive income	—	—	151	151
AOCI — December 31, 2022	$ 9	$ —	$ (281)	$ (272)

Three Months Ended December 31, 2021	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI — September 30, 2021	$ (1)	$ —	$ (91)	$ (92)
Other comprehensive loss before reclassification adjustments	—	—	(32)	(32)
Other comprehensive loss	—	—	(32)	(32)
AOCI — December 31, 2021	$ (1)	$ —	$ (123)	$ (124)

Note 9 — 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 during the three months ended December 31, 2022 and 2021, have been included in "Operating and administrative expenses - related parties" on the Condensed Consolidated Statements of Income.

Note 10 — Energy Marketing Businesses

Sale of U.K. Energy Marketing Business. On October 21, 2022, UGI International, through a wholly-owned subsidiary, sold its natural gas marketing business located in the U.K. for a net cash payment of $19 which includes certain working capital adjustments. In conjunction with the sale, during the three months ended December 31, 2022, the Company recorded a pre-tax loss of $215 ($160 after-tax) substantially all of which loss was due to the non-cash transfer of commodity derivative instruments associated with the business. At the date of closing of the sale, these commodity derivative instruments had a net carrying value of $206 which is attributable to net unrealized gains on such instruments. At September 30, 2022, these derivative instruments were classified as held for sale assets on the Condensed Consolidated Balance Sheet and had a net carrying value of $276. The change in the carrying value of these derivative instruments between September 30, 2022 and October 21, 2022 resulted from changes in their fair values during that period.

Other Energy Marketing Businesses. In November 2022, the Company announced that it expected to sign a definitive agreement during the first quarter of Fiscal 2023 to sell its energy marketing business in France. In December 2022, the Company announced that it no longer expected to sign a definitive agreement during the first quarter of Fiscal 2023 as extended negotiations with the potential buyer had been discontinued. The Company continues to pursue the sale of its energy marketing business in France, as well as the wind-down of its energy marketing business located in Belgium and the Netherlands. At December 31, 2022, the sale of our energy marketing business in France was not considered probable of occurring within one year and, as such, assets and liabilities associated with this business were not classified as held for sale on the Condensed Consolidated Balance Sheet.

During the three months ended December 31, 2022, the Company recorded a $14 pre-tax ($10 after-tax) impairment charge to reduce the carrying values of certain assets associated with its energy marketing business in the Netherlands, comprising property, plant and equipment and intangible assets. The impairment charge is reflected in "Operating and administrative expenses" on the Condensed Consolidated Statement of Income.

Note 11 — Subsequent Events

On March 7, 2023, the Company and its indirect wholly-owned subsidiary, UGI International Holdings B.V., entered into a five-year unsecured senior facilities agreement with a consortium of banks, consisting of (1) a €300 variable-rate term loan facility ("Facility A") and (2) a €500 multicurrency revolving credit facility, including a €100 sublimit for swingline loans ("Facility B"). In connection with the entering into of the 2023 UGI International Credit Facilities Agreement, the Company has paid off in full and terminated the previous UGI International Credit Facilities Agreement, dated as of October 18, 2018. The net proceeds from the 2023 UGI International Credit Facilities Agreement were used to refinance UGI International Credit Facilities Agreement. Borrowings under the revolving credit facility may be used to finance the working capital needs of the Company and for general corporate purposes.

Borrowings under the 2023 UGI International Credit Facilities Agreement will bear interest at either (i) with respect to Facility A, the euro interbank offered rate and (ii) with respect to Facility B, the daily non-cumulative compounded Reference Rate Terms, as defined in the agreement, in each case, plus the applicable margin. The applicable margin for Facility A ranges from 1.70% to 3.35%, and for Facility B from 1.35% to 3.35%, depending on the total net leverage ratio of the Company.

Because the €300 ($321) variable-rate term loan due in October 2023 was refinanced on a long-term basis in March 2023, it was classified as "Long-term debt" on the Condensed Consolidated Balance Sheet at December 31, 2022.

Forward-Looking Statements

Information contained in this Quarterly Report contains forward-looking statements. Such statements use forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," or other similar words and terms of similar meaning, although not all forward-looking statements contain such words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future. Management believes that these are reasonable as of today's date only. Actual results may differ significantly because of risks and uncertainties that are difficult to predict and many of which are beyond management's control; accordingly, there is no assurance that results will be realized. We undertake no obligation (and expressly disclaim any obligation) to update publicly any forward-looking statement whether as a result of new information or future events

Because many of our customers use LPG and natural gas for heating purposes, our results are significantly influenced by temperatures particularly during the heating-season months of October through March. As a result, our operating results, excluding the effects of gains and losses on derivative instruments not associated with current-period transactions as further discussed below, are significantly higher in our first and second fiscal quarters.

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.

Because the Company does not designate its commodity and certain foreign currency derivative instruments as hedges under GAAP, volatility in net income attributable to UGI International can occur as a result of gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions. These gains and losses result principally from recording changes in unrealized gains and losses on unsettled commodity and certain foreign currency derivative instruments that economically hedge anticipated future purchases or sales of energy commodities, or in the case of certain foreign currency derivatives, reduce volatility in anticipated future earnings associated with our foreign operations. 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.

	Three Months Ended December 31,	
(Millions of dollars)	2022	2021
Adjusted total margin:		
Revenues	$ 879	$ 1,052
Cost of sales	(1,831)	(1,005)
Total margin	(952)	47
Net losses on commodity derivative instruments not associated with current-period transactions	1,167	209
Adjusted total margin	$ 215	$ 256
Adjusted operating income:		
Operating loss	$ (1,342)	$ (131)
Net losses on commodity derivative instruments not associated with current-period transactions	1,169	209
Loss on disposal of U.K. energy marketing business	215	—
Impairment of assets	14	—
Adjusted operating income	$ 56	$ 78
Adjusted income before income taxes:		
Loss before income taxes	$ (1,378)	$ (139)
Net losses on commodity derivative instruments not associated with current-period transactions	1,169	209
Unrealized losses (gains) on foreign currency derivative instruments	40	(6)
Loss on extinguishment of debt	—	11
Loss on disposal of U.K. energy marketing business	215	—
Impairment of assets	14	—
Adjusted income before income taxes	$ 60	$ 75
Adjusted net income attributable to UGI International:		
Net loss attributable to UGI International, LLC	$ (1,015)	$ (138)
Net losses on commodity derivative instruments not associated with current-period transactions	861	190
Unrealized losses (gains) on foreign currency derivative instruments	29	(6)
Loss on extinguishment of debt	—	11
Loss on disposal of U.K. energy marketing business	160	—
Impairment of assets	10	—
Adjusted net income attributable to UGI International	$ 45	$ 57

Executive Overview

Recent Developments

Energy Marketing Businesses.

Sale of U.K. Energy Marketing Business. On October 21, 2022, UGI International, through a wholly-owned subsidiary, sold its natural gas marketing business located in the U.K. for a net cash payment of $19 million which includes certain working capital adjustments. In conjunction with the sale, during the three months ended December 31, 2022, the Company recorded a pre-tax loss of $215 million ($160 million after-tax) substantially all of which loss was due to the non-cash transfer of commodity derivative instruments associated with the business. At the date of closing of the sale, these commodity derivative instruments had a net carrying value of $206 million which is attributable to net unrealized gains on such instruments. At September 30, 2022, these derivative instruments had a net carrying value of $276 million. The change in the carrying amount of these derivative instruments between September 30, 2022 and October 21, 2022 resulted from changes in their fair value during that period.

Other Energy Marketing Businesses. In November 2022, the Company announced that it expected to sign a definitive agreement during the first quarter of Fiscal 2023 to sell its energy marketing business in France. In December 2022, the Company announced that it no longer expected to sign a definitive agreement during the first quarter of Fiscal 2023 as extended negotiations with the potential buyer had been discontinued. The Company continues to pursue the sale of its energy marketing business in France, as well as the wind-down of its energy marketing business located in Belgium and the Netherlands. At December 31, 2022, the sale of our energy marketing business in France was not considered probable of occurring within one year and, as such, assets and liabilities associated with this business was not classified as held for sale on the Condensed Consolidated Balance Sheet.

During the three months ended December 31, 2022, the Company recorded a $14 million pre-tax ($10 million after-tax) impairment charge to reduce the carrying values of certain assets associated with its energy marketing business in the Netherlands, comprising property, plant and equipment and intangible assets.

Global Macroeconomic Conditions. Beginning in Fiscal 2021 and continuing into Fiscal 2023, global commodity and labor markets have experienced significant inflationary pressures attributable to various economic and political factors, including, among others: the economic recovery and evolving consumer patterns associated with the COVID-19 pandemic; supply chain issues including those associated with labor shortages; significant increases and volatility in energy commodity prices; and political and regulatory conditions resulting from the war between Russia and Ukraine. These factors have contributed to in inflationary pressures as evidenced by recent increases in various consumer price indices. In response to these inflationary pressures, central banks in the U.S. and Europe began increasing interest rates during Fiscal 2022. In addition, during the last several years, we have experienced significant volatility in energy commodity prices, particularly in LPG, natural gas and electricity prices, which have resulted in substantial fluctuations in the fair values of our commodity derivative instruments. These inflationary pressures and commodity price fluctuations have resulted in increases in inventory and certain operating and distribution expenses across all of our businesses. The commodity prices fluctuations have also significantly affected the cash collateral deposit requirements of our derivative instrument counterparties and the restricted cash required to be held in our derivative broker and clearing institution accounts. We cannot predict the duration or total magnitude of these conditions and the effects such conditions may have on our future business, financial results, financial position, and liquidity and cash flows. However, we continue to monitor and respond to these global economic and political conditions and remain focused on managing our financial condition and liquidity as these conditions continue to evolve.

2022 three-month period compared with the 2021 three-month period

Net loss attributable to UGI International was $1,015 million in the 2022 three-month period compared to net loss of $138 million in the prior-year period. These results reflect (1) unrealized losses on commodity derivative instruments not associated with current-period transactions and certain foreign currency derivative instruments of $890 million; (2) $160 million loss on the sale of our energy marketing business in the U.K., principally reflecting the transfer of derivative hedge contracts; and (3) an impairment charge of assets of $10 million in the 2022 three-month period. Results in the prior-year period reflect net unrealized losses on commodity derivative instruments not associated with current-period transactions and certain foreign currency derivative instruments of $184 million and a loss on extinguishment of debt of $11 million.

Adjusted net income attributable to UGI International was $45 million in the 2022 three-month period compared to $57 million in the prior-year period. Results were impacted by the weaker euro during the 2022 three-month period compared to the prior-year period. The lower results reflect lower adjusted total margin principally due to the weaker currency and lower LPG volumes attributable to the warmer weather partially offset by the benefits of lower commodity prices and strong margin management. The lower adjusted total margin was partially offset by lower operating and administrative expenses principally reflecting the translation effects of the weaker euro.

Analysis of Results of Operations

2022 Three-Month Period Compared with the 2021 Three-Month Period

Three Months Ended December 31,	2022	2021	(Decrease) Increase	
(Dollars in millions)				
Revenues	$ 879	$ 1,052	$ (173)	(16)%
Total margin (a)	$ (952)	$ 47	$ (999)	(2,126)%
Operating and administrative expenses	$ 157	$ 161	$ (4)	(2)%
Operating loss	$ (1,342)	$ (131)	$ (1,211)	924 %
Loss before income taxes	$ (1,378)	$ (139)	$ (1,239)	891 %
Net loss attributable to UGI International	$ (1,015)	$ (138)	$ (877)	636 %
Non-GAAP financial measures (b):				
Adjusted total margin	$ 215	$ 256	$ (41)	(16)%
Adjusted operating income	$ 56	$ 78	$ (22)	(28)%
Adjusted income before income taxes	$ 60	$ 75	$ (15)	(20)%
Adjusted net income attributable to UGI International	$ 45	$ 57	$ (12)	(21)%
LPG retail gallons sold (millions)	205	249	(44)	(18)%
Degree days – % (warmer) colder than normal (c)	(12.3)%	5.0 %	—	—

(a) Total margin represents revenues less cost of sales. Total margin for the 2022 and 2021 three-month periods includes the impact of net unrealized losses of $1,167 million and $209 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 the 2022 three-month period were 12.3% warmer than normal and 18.8% warmer than the prior-year period. Total LPG retail gallons sold during the 2022 three-month period were 18% lower than the prior-year period largely attributable to reduced crop drying campaigns, significantly warmer weather and lower consumption, principally from residential customers.

UGI International base-currency results are translated into USD 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 the 2022 and 2021 three-month periods, the average unweighted euro-to-USD translation rates were approximately $1.02 and $1.14, respectively, and the average unweighted British pound sterling-to-USD translation rates were approximately $1.17 and $1.35, respectively. Fluctuations in these foreign currency exchange rates can have a significant impact on the individual financial statement components discussed below. The Company uses forward foreign currency exchange contracts entered into over multi-year periods to reduce the volatility in earnings that may result from such changes in foreign currency exchange rates in earnings. These forward foreign currency exchange contracts resulted in realized net gains of $8 million and $4 million in the 2022 and 2021 three-month periods, respectively.

Revenues and cost of sales in the 2022 and 2021 three-month periods include net unrealized losses of $1,167 million and losses of $209 million, respectively, on commodity derivative instruments not associated with current-period transactions. Excluding these effects, revenues and cost of sales decreased $172 million and $131 million, respectively, during the 2022 three-month period compared to the prior-year period. Average wholesale prices for propane and butane during the 2022 three-month period in northwest Europe were approximately 16% and 6% lower, respectively, compared with the prior-year period. The decrease in revenues and cost of sales principally reflects the translation effects of the weaker foreign currencies (approximately $100 million and $73 million, respectively) and the impact of the lower average propane and butane selling prices and product costs compared to the prior-year period and lower retail volumes sold.

Total margin (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions) decreased $999 million. Adjusted total margin decreased $41 million during the 2022 three-month period primarily reflecting the translation effects of the weaker foreign currencies (approximately $27 million) and the effects of the lower retail volumes sold. These factors were partially offset by higher average unit margins from our LPG business attributable to strong margin management efforts and the benefit of lower product costs in the 2022 three-month period. Adjusted total margin from energy marketing activities were comparable to the prior-year period as higher margin from natural gas marketing activities was offset by a decline in margin from electricity marketing activities.

Operating loss (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions, loss on disposal of U.K. energy marketing business and impairment of assets) increased $1,211 million compared to the prior-year period. Adjusted operating income decreased $22 million principally reflects the previously mentioned $41 million decrease in adjusted total margin and lower gains associated with sales of assets ($10 million), partially offset by lower operating and administrative expenses ($18 million, excluding the impact from $14 million of impairment of assets), higher foreign currency transaction gains ($7 million) and lower depreciation and amortization expense ($3 million). The lower operating and administrative expenses in the 2022 three-month period primarily reflects the translation effects of the weaker foreign currencies.

Loss before income taxes (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions, loss on disposal of U.K. energy marketing business, impairment of assets, loss on extinguishment of debt) increased $1,239 million compared to the prior-year period. Adjusted income before income taxes was $15 million lower than the prior-year period principally reflecting the $22 million decrease in adjusted operating income partially offset by higher realized gains on foreign currency exchange contracts entered into in order to reduce volatility in UGI International earnings resulting from the effects of changes in foreign currency exchange rates ($4 million).

Interest Expense and Income Taxes

Interest expense in the 2022 three-month period was relatively consistent with the prior year. The increase in the Company's effective income tax rate for the 2022 three-month period was principally related to the impact on the estimated annual effective income tax rate of the significant unrealized losses on commodity derivative instruments compared to the prior-year period, an increase in the concentration of foreign losses reflecting foreign statutory income tax rates that exceed the U.S. statutory income tax rate and the expected requirement for a valuation allowance on the losses at DVEP. The Company continues to evaluate the elections available under current regulations and pending legislation. Impacts on the Company's income tax provisions and taxes payable or refundable related to these items are subject to change.

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 commodity price volatility. The Company paid off in full and terminated the UGI International Credit Facilities Agreement which was scheduled to mature in October 2023 in connection with the entering into of the 2023 UGI International Credit Facilities Agreement on March 7, 2023. The 2023 UGI International Credit Facilities Agreement is scheduled to expire March 2028 (see "Long-term debt and credit facility" below for further information). The Company does not have any scheduled near-term maturities of long-term debt at December 31, 2022. The Company cannot predict the duration or 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 December 31, 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 $238 million at December 31, 2022, compared with $298 million at September 30, 2022. A substantial portion of this cash is located outside of the U.S. The decrease in cash and cash equivalents since September 30, 2022 is primarily attributable to commodity price volatility experienced in the 2022 three-month period and the seasonality of our business as further described in “Cash Flows” below.

Long-term debt and credit facility

UGI International's debt outstanding at December 31, 2022 totaled $1,073 million (including current maturities of long-term debt of $1 million and short-term borrowings of $327 million). 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). Total long-term debt outstanding at December 31, 2022, including current maturities, comprises $429 million of 2.50% Senior Notes, a $321 million variable-rate term loan, and $2 million of other long-term debt, and is net of $6 million of unamortized debt issuance costs.

At December 31, 2022, there were €300 million ($321 million) of 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 for the three months ended December 31, 2022 were €168 million and €300 million, respectively. There were no such borrowings during the three months ended December 31, 2021. At December 31, 2022, the Company had no available borrowing capacity under the UGI International Credit Facilities Agreement multicurrency revolving facility.

On March 7, 2023, the Company and its indirect wholly-owned subsidiary, UGI International Holdings B.V., entered into a five-year unsecured senior facilities agreement with a consortium of banks, consisting of (1) a €300 million variable-rate term loan facility ("Facility A") and (2) a €500 million multicurrency revolving credit facility, including a €100 million sublimit for swingline loans ("Facility B"). In connection with the entering into of the 2023 UGI International Credit Facilities Agreement, the Company has paid off in full and terminated the previous UGI International Credit Facilities Agreement, dated as of October 18, 2018. The net proceeds from the 2023 UGI International Credit Facilities Agreement were used to refinance UGI International Credit Facilities Agreement. Borrowings under the revolving credit facility may be used to finance the working capital needs of the Company and for general corporate purposes.

Borrowings under the 2023 UGI International Credit Facilities Agreement will bear interest at either (i) with respect to Facility A, the euro interbank offered rate and (ii) with respect to Facility B, the daily non-cumulative compounded Reference Rate Terms, as defined in the agreement, in each case, plus the applicable margin. The applicable margin for Facility A ranges from 1.70% to 3.35%, and for Facility B from 1.35% to 3.35%, depending on the total net leverage ratio of the Company.

Because the €300 million ($321 million) variable-rate term loan due in October 2023 was refinanced on a long-term basis in March 2023, it was classified as “Long-term debt” on the Condensed Consolidated Balance Sheet at December 31, 2022.

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 used by operating activities was $231 million in the 2022 three-month period compared to $352 million in the prior-year period. Cash flow provided by operating activities before changes in operating working capital was $112 million in the 2022 three-month period compared to $36 million in the prior-year period. Cash used to fund changes in operating working capital totaled $343 million in the 2022 three-month period compared to cash used to fund changes in operating working capital of $388 million in the 2021 three-month period. The $45 million decrease in cash used to fund changes in operating working capital during the 2022 three-month period reflects, among other things, lower cash required to fund changes in accounts receivable partially offset by higher repayments of cash collateral to commodity derivative instrument counterparties. Both of these items reflect the effects of lower commodity prices during the 2022 three-month period.

Investing Activities. Cash flow used by investing activities was $62 million in the 2022 three-month period compared to cash flow provided by investing activities of $4 million in the prior-year period. Capital expenditures for property, plant and equipment totaled $27 million in the 2022 three-month period compared with $23 million in the prior-year period. Cash used for acquisitions of businesses and assets in the 2022 three-month period reflects the acquisition for cash of a small LPG retail businesses in Europe. Cash used by investing activities during the 2022 three-month period also includes cash flows associated with equity investment and business disposal activities while the 2021 three-month period includes cash received from the settlement of certain forward foreign currency contracts previously designated at a net investment hedges.

Financing Activities. Cash flow provided by financing activities was $350 million in the 2022 three-month period compared to cash used by financing activities of $58 million in the prior-year period. The 2022 three-month period includes $310 million borrowings under the UGI International multicurrency revolving credit facility and capital contributions of $40 million. Cash flows used by financing activities during the 2022 three-month period includes the issuance of the 2.50% Senior Notes and concurrent repayment of the 3.25% Senior Notes. UGI International also paid cash distributions of $162 million during the 2021 three-month period.

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 a substantial portion of anticipated volumes under 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. December 31, 2022, volumes associated with diesel swap contracts were not material.

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 December 31, 2022, combined borrowings outstanding under variable-rate debt agreements, excluding UGI International's effectively fixed-rate debt, were not material.

Foreign Currency Exchange Rate Risk

Our primary currency exchange rate risk is associated with the USD versus the euro and, to a lesser extent, the USD versus the British pound sterling. The USD 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 USD would reduce their aggregate net book value at December 31, 2022, by approximately $105 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 December 31, 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 $462 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 December 31, 2022 the Company had received cash collateral from derivative instrument counterparties totaling $102 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 December 31, 2022 and changes in fair values due to market risks.

	Asset (Liability)	
(Millions of dollars)	Fair Value	Change in Fair Value
Commodity price risk (1)	$ 298	$ (111)
Foreign currency exchange rate risk (2)	$ 31	$ (43)

(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.