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 and nine months ended June 30, 2021 and 2020
(Unaudited)

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

TABLE OF CONTENTS

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

2020 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, 2020

2020 nine-month period - Nine months ended June 30, 2020

2020 three-month period - Three months ended June 30, 2020

2021 nine-month period - Nine months ended June 30, 2021

2021 three-month period - Three months ended June 30, 2021

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

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

ASU - Accounting Standards Update

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

CDC - Centers for Disease Control and Prevention

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

Euribor - Euro Interbank Offered Rate

FASB - Financial Accounting Standards Board

Fiscal 2019 - The fiscal year ended September 30, 2019

Fiscal 2020 - The fiscal year ended September 30, 2020

Fiscal 2021 - The fiscal year ending September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

GAAP - U.S. generally accepted accounting principles

IT - Information technology

LPG - Liquefied petroleum gas

NOL - Net operating loss

NPNS - Normal purchase and normal sale

ROU - Right-of-use

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

U.S. - United States of America

USD - U.S. dollar

WHO - World Health Organization

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Millions of dollars)

	June 30, 2021	September 30, 2020	June 30, 2020
ASSETS			
Current assets:			
Cash and cash equivalents	$ 367	$ 209	$ 388
Restricted cash	1	13	19
Accounts receivable (less allowances for doubtful accounts of $14, $14 and $12, respectively)	425	313	320
Inventories	113	69	54
Derivative instruments	199	16	24
Prepaid expenses and other current assets	99	64	37
Total current assets	1,204	684	842
Property, plant and equipment, (less accumulated depreciation of $936, $880 and $838, respectively)	1,098	1,098	1,064
Goodwill	1,021	997	955
Intangible assets, net	185	197	196
Derivative instruments	83	21	30
Other assets	158	126	120
Total assets	$ 3,749	$ 3,123	$ 3,207
LIABILITIES AND EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 1	$ 1	$ 1
Short-term borrowings	—	1	181
Accounts payable	269	178	157
Employee compensation and benefits accrued	43	44	39
Derivative instruments	14	30	56
Other current liabilities	238	175	227
Total current liabilities	565	429	661
Long-term debt	787	777	744
Deferred income taxes	294	200	191
Derivative instruments	11	17	19
Customer tank and cylinder deposits	304	300	289
Other noncurrent liabilities	101	89	88
Total liabilities	2,062	1,812	1,992
Commitments and contingencies (Note 6)			
Equity:			
Member's equity	1,678	1,302	1,206
Noncontrolling interests	9	9	9
Total equity	1,687	1,311	1,215
Total liabilities and equity	$ 3,749	$ 3,123	$ 3,207

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 June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Revenues	$ 572	$ 371	$ 2,106	$ 1,726
Costs and expenses:				
Cost of sales	129	121	849	1,022
Operating and administrative expenses	146	129	469	449
Operating and administrative expenses - related parties	3	3	8	7
Depreciation and amortization	33	30	100	92
Other operating expense (income), net	1	(3)	(10)	(4)
	312	280	1,416	1,566
Operating income	260	91	690	160
Other non-operating expense, net	—	(3)	(2)	(3)
Interest expense	(8)	(8)	(21)	(23)
Income before income taxes	252	80	667	134
Income tax expense	(65)	(43)	(158)	(60)
Net income attributable to UGI International, LLC	$ 187	$ 37	$ 509	$ 74

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 June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Net income attributable to UGI International, LLC	$ 187	$ 37	$ 509	$ 74
Other comprehensive income (loss):				
Net losses on derivative instruments (net of tax of $0, $2, $0 and $1, respectively)	—	(5)	—	(3)
Reclassifications of net losses on derivative instruments (net of tax of $0, $(2), $0 and $(1), respectively)	1	5	1	3
Foreign currency adjustments (net of tax of $3, $4, $5 and $4, respectively)	16	28	23	42
Benefit plans (net of tax of $0, $0, $0 and $0, respectively)	—	—	—	1
Other comprehensive income	17	28	24	43
Comprehensive income attributable to UGI International, LLC	$ 204	$ 65	$ 533	$ 117

See accompanying notes to condensed consolidated financial statements.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Millions of dollars)

	Nine Months Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to UGI International, LLC	$ 509	$ 74
Adjustments to reconcile net income attributable to UGI International, LLC to net cash provided by operating activities:		
Depreciation and amortization	100	92
Deferred income tax expense (benefit), net	78	(18)
Changes in unrealized gains and losses on derivative instruments	(374)	74
Other, net	19	8
Net change in:		
Accounts receivable	(107)	(14)
Inventories	(44)	13
Accounts payable	88	(35)
Derivative instruments collateral received (paid)	99	(12)
Other current assets	(27)	(12)
Other current liabilities	30	57
Net cash provided by operating activities	371	227
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(68)	(62)
Acquisitions of businesses and assets, net of cash acquired	(8)	—
Other, net	10	4
Net cash used by investing activities	(66)	(58)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	—	(30)
Distributions paid	(153)	—
Distribution related to common control transaction (see Note 10)	(9)	—
Capital contribution received	5	—
Repayments of long-term debt and finance leases	—	(1)
Net cash used by financing activities	(157)	(31)
Foreign exchange effect on cash, cash equivalents and restricted cash	(2)	10
Cash, cash equivalents and restricted cash increase	$ 146	$ 148
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash, cash equivalents and restricted cash at end of period	$ 368	$ 407
Cash, cash equivalents and restricted cash at beginning of period	222	259
Cash, cash equivalents and restricted cash increase	$ 146	$ 148

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, 2020	$ 1,302	$ 9	$ 1,311
Net income	509	—	509
Cash contribution	5	—	5
Cash distributions	(153)	—	(153)
Distribution related to common control transaction (Note 10)	(9)	—	(9)
Changes in AOCI balance	24	—	24
Balance at June 30, 2021	$ 1,678	$ 9	$ 1,687

	Member's Equity	Noncontrolling Interests	Total
Balance at September 30, 2019	$ 1,088	$ 10	$ 1,098
Net income	74	—	74
Changes in AOCI balance	43	—	43
Other	1	(1)	—
Balance at June 30, 2020	$ 1,206	$ 9	$ 1,215

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, the Netherlands and the United Kingdom. These businesses are conducted principally through our subsidiaries, UGI France, Flaga, AvantiGas, DVEP and UniverGas.

Note 2 — Summary of Significant Accounting Policies

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, 2020, 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 2020 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:

	June 30, 2021	June 30, 2020	September 30, 2020	September 30, 2019
Cash and cash equivalents	$ 367	$ 388	$ 209	$ 235
Restricted cash	1	19	13	24
Cash, cash equivalents and restricted cash	$ 368	$ 407	$ 222	$ 259

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 8.

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.

Reclassifications. Certain prior-period amounts have been reclassified to conform to the current-period presentation.

Subsequent Events. Management has evaluated the impact of subsequent events through August 5, 2021, 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 — Accounting Changes

New Accounting Standard Adopted in Fiscal 2021

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

Accounting Standard Not Yet Adopted

Income Taxes. In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by eliminating certain exceptions within the existing guidance for recognizing deferred taxes for equity method investments, performing intraperiod allocations and calculating income taxes in interim periods. Further, this ASU clarifies existing guidance related to, among other things, recognizing deferred taxes for goodwill and allocated taxes to members of a consolidated group. This new guidance is effective for the Company for interim and annual periods beginning October 1, 2021 (Fiscal 2022). Early adoption is permitted; however, the Company will adopt the new guidance effective October 1, 2021. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

Note 4 — 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 2020 Annual Report for additional information on our revenues from contracts with customers.

(Currency in millions, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Revenues from contracts with customers:				
LPG:				
Retail	$ 376	$ 250	$ 1,421	$ 1,196
Wholesale	42	22	143	121
Energy Marketing	129	81	470	349
Other	18	13	50	43
Total revenues from contracts with customers	565	366	2,084	1,709
Other revenues (a)	7	5	22	17
Total revenues	$ 572	$ 371	$ 2,106	$ 1,726

(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 $37, $64 and $35 at June 30, 2021, September 30, 2020 and June 30, 2020, respectively, and are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets. Revenues recognized for the nine months ended June 30, 2021 and 2020, from the amounts included in contract liabilities at September 30, 2020 and 2019, were $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 — Inventories

Inventories comprise the following:

	June 30, 2021	September 30, 2020	June 30, 2020
LPG	$ 53	$ 43	$ 36
Natural gas	9	8	5
Other, principally materials & supplies	51	18	13
Total inventories	$ 113	$ 69	$ 54

(Currency in millions, except where indicated otherwise)

Note 6 — 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 position, results of operations or cash flows.

Note 7 — 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.

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
June 30, 2021				
Assets:				
Commodity contracts	$ 102	$ 256	$ —	$ 358
Foreign currency contracts	$ —	$ 24	$ —	$ 24
Liabilities:				
Commodity contracts	$ (17)	$ (1)	$ —	$ (18)
Foreign currency contracts	$ —	$ (13)	$ —	$ (13)
Interest rate contracts	$ —	$ (2)	$ —	$ (2)
September 30, 2020				
Assets:				
Commodity contracts	$ 7	$ 12	$ —	$ 19
Foreign currency contracts	$ —	$ 32	$ —	$ 32
Liabilities:				
Commodity contracts	$ (7)	$ (45)	$ —	$ (52)
Foreign currency contracts	$ —	$ (14)	$ —	$ (14)
Interest rate contracts	$ —	$ (2)	$ —	$ (2)
June 30, 2020				
Assets:				
Commodity contracts	$ 12	$ 6	$ —	$ 18
Foreign currency contracts	$ —	$ 48	$ —	$ 48
Liabilities:				
Commodity contracts	$ (15)	$ (83)	$ —	$ (98)
Foreign currency contracts	$ —	$ (7)	$ —	$ (7)
Interest rate contracts	$ —	$ (3)	$ —	$ (3)

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

(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:

	June 30, 2021	September 30, 2020	June 30, 2020
Carrying amount	$ 794	$ 785	$ 752
Estimated fair value	$ 805	$ 792	$ 747

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 8.

Note 8 — 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 expense, 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 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.

Our euro-denominated long-term debt has also been designated as net investment hedges of a portion of our UGI International euro-denominated net investment. We recognized pre-tax losses associated with these net investment hedges in the cumulative translation adjustment component in AOCI of $8 and $13 during the three months ended June 30, 2021 and 2020, respectively, $9 and $22 during the nine months ended June 30, 2021 and 2020, respectively.

Quantitative Disclosures Related to Derivative Instruments

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

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	June 30, 2021	September 30, 2020	June 30, 2020
Commodity Price Risk:					
LPG swaps	Gallons	November 2023	338	358	371
Natural gas forward and futures contracts	Dekatherms	September 2025	41	37	34
Electricity forward and futures contracts	Kilowatt hours	January 2026	3,581	3,435	3,466
Interest Rate Risk:					
Interest rate swaps	Euro	October 2022	€ 300	€ 300	€ 300
Foreign Currency Exchange Rate Risk:					
Forward foreign exchange contracts	USD	September 2024	$ 504	$ 511	$ 440
Net investment hedge forward foreign exchange contracts	Euro	October 2024	€ 173	€ 173	€ 173

Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We maintain credit policies with regard to our counterparties that we believe reduce overall credit risk. These policies include evaluating and monitoring our counterparties' financial condition, including their credit ratings, and entering into agreements with counterparties that govern credit limits or entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. Certain of these agreements call for the posting of collateral by the counterparty or by the Company in the form of letters of credit, parental guarantees or cash. Additionally, our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. Restricted cash in brokerage accounts is reporting in "Restricted cash" on the Condensed Consolidated Balance Sheets. Although we have concentrations of credit risk associated with derivative instruments, the maximum amount of loss we would incur if these counterparties failed to perform according to the terms of their contracts, based upon the gross fair values of the derivative instruments, was not material at June 30, 2021.

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.

In general, most 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.

(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:

	June 30, 2021	September 30, 2020	June 30, 2020
Derivative assets:			
Derivatives designated as hedging instruments:			
Foreign currency contracts	$ 15	$ 17	$ 24
Derivatives not designated as hedging instruments:			
Commodity contracts	358	19	18
Foreign currency contracts	9	15	24
	367	34	42
Total derivative assets - gross	382	51	66
Gross amounts offset in balance sheet	(8)	(14)	(12)
Cash collateral received	(92)	—	—
Total derivative assets - net	$ 282	$ 37	$ 54
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ (2)	$ (2)	$ (3)
Derivatives not designated as hedging instruments:			
Commodity contracts	(18)	(52)	(98)
Foreign currency contracts	(13)	(14)	(7)
	(31)	(66)	(105)
Total derivative liabilities - gross	(33)	(68)	(108)
Gross amounts offset in balance sheet	8	14	12
Cash collateral pledged	—	7	21
Total derivative liabilities - net	$ (25)	$ (47)	$ (75)

(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 June 30,

	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
Cash Flow Hedges:	2021	2020	2021	2020	
Interest rate contracts	$ —	$ (7)	$ (1)	$ (7)	Interest expense
Net Investment Hedges:					
Foreign currency contracts	$ (1)	$ (3)			

Derivatives Not Designated as Hedging Instruments:	Gain (Loss) Recognized in Income 2021	2020	Location of Gain (Loss) Recognized in Income
Commodity contracts	$ 227	$ 71	Cost of sales
Foreign currency contracts	(1)	(5)	Other non-operating expense, net
Total	$ 226	$ 66	

Nine Months Ended June 30,

	Gain (Loss) Recognized in AOCI		Gain Reclassified from AOCI into Income		Location of Gain Reclassified from AOCI into Income
Cash Flow Hedges:	2021	2020	2021	2020	
Interest rate contracts	$ —	$ (4)	$ (1)	$ (4)	Interest expense
Net Investment Hedges:					
Foreign currency contracts	$ (2)	$ 7			

Derivatives Not Designated as Hedging Instruments:	Gain (Loss) Recognized in Income 2021	2020	Location of Gain (Loss) Recognized in Income
Commodity contracts	$ 403	$ (63)	Cost of sales
Foreign currency contracts	(4)	(5)	Other non-operating expense, net
Total	$ 399	$ (68)	

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.

(Currency in millions, except where indicated otherwise)

Note 9 — 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:

For three months ended June 30, 2021:	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI — March 31, 2021	$ (2)	$ (1)	$ (61)	$ (64)
Other comprehensive income before reclassification adjustments	—	—	16	16
Amounts reclassified from AOCI	—	1	—	1
Other comprehensive income	—	1	16	17
AOCI — June 30, 2021	$ (2)	$ —	$ (45)	$ (47)

For three months ended June 30, 2020:	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI — March 31, 2020	$ (3)	$ (2)	$ (153)	$ (158)
Other comprehensive (loss) income before reclassification adjustments	—	(5)	28	23
Amounts reclassified from AOCI	—	5	—	5
Other comprehensive income	—	—	28	28
AOCI — June 30, 2020	$ (3)	$ (2)	$ (125)	$ (130)

For nine months ended June 30, 2021:	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI — September 30, 2020	$ (2)	$ (1)	$ (68)	$ (71)
Other comprehensive income before reclassification adjustments	—	—	23	23
Amounts reclassified from AOCI	—	1	—	1
Other comprehensive income	—	1	23	24
AOCI — June 30, 2021	$ (2)	$ —	$ (45)	$ (47)

For nine months ended June 30, 2020:	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI — September 30, 2019	$ (4)	$ (2)	$ (167)	$ (173)
Other comprehensive (loss) income before reclassification adjustments	—	(3)	42	39
Amounts reclassified from AOCI	1	3	—	4
Other comprehensive income	1	—	42	43
AOCI — June 30, 2020	$ (3)	$ (2)	$ (125)	$ (130)

Note 10 — 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 and nine months ended June 30, 2021 and 2020, have been included in "Operating and administrative expenses - related parties" on the Condensed 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 Condensed Consolidated Statements of Changes in Equity.

Note 11 — 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. In connection with these initiatives, we recognized expenses of $6 and $4 during the three months ended June 30, 2021 and 2020, respectively, and $12 and $16 during the nine months ended June 30, 2021 and 2020, respectively. These expenses principally comprise consulting, advisory and employee-related costs and are primarily reflected in "Operating and administrative expenses" on the Condensed Consolidated Statements of Income.

In March 2020, UGI International management approved a plan to discontinue the use of certain definite and indefinite-lived tradenames in connection with initiatives to improve the long-term operational performance of the Company. As a result, in March 2020, the Company recorded a non-cash, pre-tax impairment charge in the amount of $6, which is included in business transformation expenses for the nine months ended June 30, 2020, described in the paragraph above. Also in March 2020, the Company decided to discontinue the use, over time, of an indefinite-lived tradename having a carrying value of $4. This remaining carrying value is being amortized over a period of 10 years.

Note 12 — Impact of Global Pandemic

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

Recent Developments

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

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

Impact of Strategic Initiatives

We began executing on Business Transformation Initiatives during Fiscal 2019 designed to drive operational efficiencies, increase profitability and provide for an enhanced customer experience.

We embarked on a process of identifying operational synergies across all 17 countries in which we currently do business. We call this initiative Project Alliance, the goal of which is to focus attention on enhanced customer service and safe and efficient operations through the establishment of two centers of excellence. One such center will be focused on commercial excellence to identify and execute projects that improve the customer's experience. The second center will be focused on operational excellence across our distribution network and our filling centers. The business activities are in process and will continue to be executed primarily during Fiscal 2021. Once completed, these activities are expected to generate over €30 million of annual savings. We estimate the total cumulative cost of executing on these Project Alliance initiatives, including approximately €10 million related to IT capital expenditures, to be approximately €55 million.

Non-GAAP Financial Measures

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

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 June 30,		Nine Months Ended June 30,	
(Millions of dollars)	2021	2020	2021	2020
Adjusted total margin:				
Revenues	$ 572	$ 371	$ 2,106	$ 1,726
Cost of sales (a)	(129)	(121)	(849)	(1,022)
LPG cylinder filling costs (a)	—	(7)	—	(21)
Total margin	443	243	1,257	683
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(226)	(78)	(380)	54
Adjusted total margin	$ 217	$ 165	$ 877	$ 737
Adjusted operating income:				
Operating income	$ 260	$ 91	$ 690	$ 160
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(226)	(78)	(380)	54
Business transformation expenses	6	4	12	16
Adjusted operating income	$ 40	$ 17	$ 322	$ 230
Adjusted income before income taxes:				
Income before income taxes	$ 252	$ 80	$ 667	$ 134
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(226)	(78)	(380)	54
Unrealized losses on foreign currency derivative instruments	1	7	6	20
Business transformation expenses	6	4	12	16
Adjusted income before income taxes	$ 33	$ 13	$ 305	$ 224
Adjusted net income attributable to UGI International:				
Net income attributable to UGI International, LLC	$ 187	$ 37	$ 509	$ 74
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(158)	(53)	(267)	40
Unrealized losses on foreign currency derivative instruments	—	4	4	14
Business transformation expenses	4	3	8	11
Impact of change in Italian tax law (b)	—	—	(23)	—
Adjusted net income (loss) attributable to UGI International	$ 33	$ (9)	$ 231	$ 139

(a) For financial statement purposes, LPG cylinder filling costs in the 2020 three- and nine-month periods are included in "Operating and administrative expenses" on the 2020 Condensed Consolidated Statements of Income. LPG cylinder filling costs are included in "Cost of Sales" on the 2021 Condensed Consolidated Statement of Income.
(b) See “Interest Expense and Income Taxes” below for additional information related to this adjustment.

Executive Overview

The following analyses compare our results of operations for the 2021 three-month period with the 2020 three-month period and the 2021 nine-month period with the 2020 nine-month period.

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 commodity derivative instruments not associated with current-period transactions as further discussed below, are significantly higher in our first and second fiscal quarters.

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. In order to adjust for the impacts of these changes in unrealized gains and losses and other significant discrete items that can affect the comparison of period-over-period results, we present the non-GAAP measures, 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. For further information on these non-GAAP measures and reconciliations to the most closely associated GAAP measures, see "Non-GAAP Financial Measures" below.

2021 three-month period compared with the 2020 three-month period

Net income attributable to UGI International was $187 million in the 2021 three-month period compared to $37 million in the prior-year period. These results reflect net unrealized gains on commodity derivative instruments not associated with current-period transactions and certain foreign currency derivative instruments of $158 million and $49, respectively, in the 2021 and 2020 three-month periods. Net income attributable to UGI International also reflects expenses related to business transformation initiatives of $4 million and $3 million, respectively, in the 2021 and 2020 three-month periods.

Adjusted net income attributable to UGI International was $33 million in the 2021 three-month period compared to an adjusted net loss attributable to UGI International of $9 million in the prior-year period. This increase in results principally reflects higher total margin which benefited from improved retail LPG volumes and the translation effects of stronger foreign currencies in the 2021 three-month period. These positive factors were partially offset by higher operating and administrative expenses compared to the prior-year period and lower realized gains on foreign currency exchange contracts.

2021 nine-month period compared with the 2020 nine-month period

Net income attributable to UGI International was $509 million in the 2021 nine-month period compared to $74 million in the prior-year period. These results reflect net unrealized gains on commodity derivative instruments not associated with current-period transactions and certain foreign currency derivative instruments of $263 million in the 2021 nine-month period compared to net unrealized losses of $54 million in the prior-year period. Net income attributable to UGI International also reflects expenses related to business transformation initiatives of $8 million and $11 million, respectively, in the 2021 and 2020 nine-month periods, as well as a $23 million tax benefit in the 2021 nine-month period related to an election made in connection with a tax law change in Italy.

Adjusted net income attributable to UGI International was $231 million in the 2021 nine-month period compared to $139 million in the prior-year period. The increase in the 2021 nine-month period principally reflects higher retail volumes on colder weather compared to the prior-year period, higher average LPG unit margins including effective margin management efforts, and the translation effects of stronger foreign currencies in the 2021 nine-month period. These positive factors were partially offset by higher operating and administrative expenses and lower realized gains on foreign currency exchange contracts compared to the prior-year period.

Analysis of Results of Operations

The following analyses compare UGI International's results of operations for the 2021 three-month period with the 2020 three-month period and the 2021 nine-month period with the 2020 nine-month period.

For three months ended June 30,:	2021	2020	Increase	
(Dollars in millions)				
Revenues	$ 572	$ 371	$ 201	54 %
Total margin (a)	$ 443	$ 243	$ 200	82 %
Operating and administrative expenses (a)	$ 149	$ 125	$ 24	19 %
Operating income	$ 260	$ 91	$ 169	186 %
Income before income taxes	$ 252	$ 80	$ 172	215 %
Net income attributable to UGI International	$ 187	$ 37	$ 150	405 %
Non-GAAP financial measures (b):				
Adjusted total margin	$ 217	$ 165	$ 52	32 %
Adjusted operating income	$ 40	$ 17	$ 23	135 %
Adjusted income before income taxes	$ 33	$ 13	$ 20	154 %
Adjusted net income (loss) attributable to UGI International	$ 33	$ (9)	$ 42	467 %
LPG retail gallons sold (millions)	166	137	29	21 %
Degree days – % colder (warmer) than normal (c)	24.4 %	(17.3)%	—	—

(a) Total margin represents revenues less cost of sales and, for the 2020 three-month period, LPG cylinder filling costs of $7 million. For financial statement purposes, LPG cylinder filling costs in the 2020 three-month period are included in "Operating and administrative expenses" on the 2020 Condensed Consolidated Statements of Income (but are excluded from operating and administrative expenses presented in the table above). LPG cylinder filling costs are included in "Cost of sales" on the 2021 Condensed Consolidated Statements of Income. Total margin for the 2021 and 2020 three-month periods includes net unrealized gains of $226 million and $78 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) Beginning in Fiscal 2021, deviation from average heating degree days is determined on a rolling 10-year period utilizing volume-weighted weather data at locations in our UGI International service territories. Prior-period amounts have been restated to conform to the current-period presentation.

Average temperatures during the 2021 three-month period were 24.4% colder than normal and 54.7% colder than the prior-year period. Total LPG retail gallons sold during the 2021 three-month period increased 21% reflecting higher bulk volumes attributable to the colder weather and higher cylinder volumes compared to the prior-year period. These volume improvements also reflect the recovery of certain volume decreases attributable to COVID-19 during the prior-year period. Average wholesale prices for propane and butane during the 2021 three-month period in northwest Europe were approximately 81% and 76% higher, respectively, compared with the prior-year period.

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 the 2021 and 2020 three-month periods, the average unweighted euro-to-dollar translation rates were approximately $1.21 and $1.10, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately $1.40 and $1.24, respectively. Fluctuations in these foreign currency exchange rates can have a significant impact on the individual financial statement components discussed below. The net effect of changes in foreign currency exchange rates on UGI International's earnings before interest expense and income taxes resulted in a net benefit of $4 million in the 2021 three-month period. However, the impact of these changes is mitigated by the effects of forward foreign currency exchange contracts entered into over a multi-year period intended to substantially offset this volatility. These forward foreign currency exchange contracts resulted in a slight realized net loss in the 2021 three-month period compared to realized net gains of $2 million in the 2020 three-month period.

Revenues increased $201 million during the 2021 three-month period principally reflecting the translation effects of stronger foreign currencies (approximately $53 million), the effects of higher average LPG selling prices compared to the prior-year period, and the increase in both retail and wholesale LPG volumes. Energy marketing activities during the 2021 three-month period also contributed to the revenues increase largely related to higher natural gas volumes resulting from the colder weather and the recovery of certain volumes decreases attributable to COVID-19 during the prior-year period. Cost of sales in the 2021 and 2020 three-month periods include net unrealized gains of $226 million and $78 million, respectively, on commodity derivative instruments not associated with current-period transactions. Excluding the effects of these commodity instruments, cost of sales increased $149 million during the 2021 three-month period largely attributable to the translation effects of stronger foreign currencies (approximately $33 million), the effects of higher average LPG product costs compared to the prior-year period, and the previously mentioned increase in both retail and wholesale LPG volumes. Energy marketing activities during the 2021 three-month period also contributed to the increased cost of sales largely related to the previously mentioned increase in natural gas volumes compared to the prior-year period.

Total margin (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions) increased $200 million compared to the prior-year period. Adjusted total margin increased $52 million largely attributable to the translation effects of stronger foreign currencies (approximately $20 million) and the increase in bulk and cylinder volumes compared to the prior-year period. These positive impacts were partially offset by a slight decrease in average LPG unit margins.

Operating income (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions and business transformation expenses) increased $169 million compared to the prior-year period. Adjusted operating income increased $23 million largely reflecting the increase in adjusted total margin partially offset by higher operating and administrative expenses (excluding the effects of business transformation initiatives) which reflects, among other things, the effects of stronger foreign currencies (approximately $13 million) compared to the prior-year period, higher maintenance and distribution costs related to the increased volumes, and increased employee 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 and business transformation expenses) increased $172 million compared with the prior-year period. Adjusted income before income taxes increased $20 million principally reflecting the increase in adjusted operating income partially offset by lower realized gains on foreign currency exchange contracts entered into in order to reduce volatility in UGI International earnings resulting from the effects of changes in foreign currency exchange rates ($2 million).

Interest Expense and Income Taxes

Interest expense in the 2021 three-month was largely consistent with the period-year period.

The lower effective income tax rate for the 2021 three-month period is primarily due to lower U.S. tax on foreign source income attributable to regulations issued in July 2020 related to the high-tax exception on GILTI income not available in the prior-year period. The decrease in the effective income tax rate also reflects the effects of lower pre-tax income during the prior-year period.

The Company continues to evaluate the elections available under current regulations, recent government stimulus efforts including the anticipated benefits mentioned above related to the election made in connection with the tax law change in Italy, the modified GILTI provisions, and the CARES Act. Accordingly, the impacts on the Company’s income tax provisions and taxes payable or refundable related to these items are subject to change.

UGI INTERNATIONAL, LLC AND SUBSIDIARIES

For the nine months ended June 30,	2021		2020		Increase		
(Dollars in millions)							
Revenues	$	2,106	$	1,726	$	380	22 %
Total margin (a)	$	1,257	$	683	$	574	84 %
Operating and administrative expenses (a)	$	477	$	435	$	42	10 %
Operating income	$	690	$	160	$	530	331 %
Income before income taxes	$	667	$	134	$	533	398 %
Net income attributable to UGI International	$	509	$	74	$	435	588 %
Non-GAAP financial measures (b):							
Adjusted total margin	$	877	$	737	$	140	19 %
Adjusted operating income	$	322	$	230	$	92	40 %
Adjusted income before income taxes	$	305	$	224	$	81	36 %
Adjusted net income attributable to UGI International	$	231	$	139	$	92	66 %
LPG retail gallons sold (millions)		644		614		30	5 %
Degree days – % colder (warmer) than normal (c)		1.4 %		(12.7)%		—	—

(a) Total margin represents revenues less cost of sales and, for the 2020 nine-month period, LPG cylinder filling costs of $21 million. For financial statement purposes, LPG cylinder filling costs in the 2020 nine-month period are included in "Operating and administrative expenses" on the 2020 Condensed Consolidated Statement of Income (but are excluded from operating and administrative expenses presented in the table above). LPG cylinder filling costs are included in "Cost of sales" on the 2021 Condensed Consolidated Statement of Income. Total margin for the 2021 and 2020 nine-month periods includes net unrealized gains of $380 million and net unrealized losses of $54 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) Beginning in Fiscal 2021, deviation from average heating degree days is determined on a rolling 10-year period utilizing volume-weighted weather data at locations in our UGI International service territories. Prior-period amounts have been restated to conform to the current-period presentation.

Average temperatures during the 2021 nine-month period were 1.4% colder than normal and 15.2% colder than the prior-year period. Total LPG retail gallons sold during the 2021 nine-month period increased 5% compared to the prior-year period largely attributable to higher bulk volumes reflecting the effects of the colder weather on heating-related bulk sales, crop drying volumes, and cylinder volumes compared to the prior-year period. These volume improvements also reflect the recovery of certain volume decreases attributable to COVID-19 during the prior-year period, and were partially offset by the termination of a high-volume, low-margin autogas contract in Italy during the prior year. Average wholesale prices for propane and butane during the 2021 nine-month period in northwest Europe were approximately 34% and 17% higher, respectively, compared with the prior-year period.

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 the 2021 and 2020 nine-month periods, the average unweighted euro-to-dollar translation rates were approximately $1.20 and $1.10, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately $1.37 and $1.27, respectively. Fluctuations in these foreign currency exchange rates can have a significant impact on the individual financial statement components discussed below. The net effect of changes in foreign currency exchange rates on UGI International’s earnings before interest expense and income taxes resulted in a net benefit of $26 million in the 2021 nine-month period. However, the impact of these changes is mitigated by the effects of forward foreign currency exchange contracts entered into over a multi-year period intended to substantially offset this volatility. These forward foreign currency exchange contracts resulted in realized net gains of $2 million and $15 million, respectively, in the 2021 and 2020 nine-month periods.

Revenues increased $380 million during the 2021 nine-month period principally reflecting the translation effects of stronger foreign currencies (approximately $166 million), the effects of higher average propane and butane selling prices compared to the prior-year period, and the previously mentioned increases in bulk, crop drying and cylinder volumes. Energy marketing activities also contributed to the increased revenues and cost of sales during the 2021 nine-month period largely related to higher natural gas volumes and prices. Cost of sales in the 2021 and 2020 nine-month periods include net unrealized gains of $380 million and net unrealized losses of $54 million, respectively, on commodity derivative instruments not associated with current-period transactions. Excluding the effects of these commodity instruments, cost of sales increased $240 million during the 2021 nine-month period largely attributable to the translation effects of stronger foreign currencies (approximately $96 million), the effects of higher average propane and butane product costs compared to the prior-year period, and the previously mentioned volume increases. Energy marketing activities during the 2021 nine-month period also contributed to the cost of sales increase reflecting the higher natural gas volumes and product costs.

Total margin (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions) increased $574 million. Adjusted total margin increased $140 million largely attributable to the translation effects of stronger foreign currencies (approximately $70 million), the previously mentioned increase in total LPG volumes, lower costs associated with energy conservation certificates including adjustments related to the current compliance period, and higher average LPG unit margins including the continued effects of margin management efforts. These margin improvements include the impact of LPG assets acquired in the current-year period and higher margin from energy marketing activities principally reflecting increased natural gas volumes. These margin improvements were partially offset by lower autogas and other low-margin volumes compared with the prior-year period.

Operating income (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions and business transformation expenses) increased $530 million compared to the prior-year period. Adjusted operating income increased $92 million largely reflecting the increase in adjusted total margin partially offset by higher operating and administrative expenses (excluding the effects of business transformation initiatives) which was largely attributable to the effects of stronger foreign currencies ($36 million) compared to the prior-year period. The increase in operating and administrative expenses also reflects higher maintenance and distribution costs attributable to the increased volumes.

Income before income taxes (which includes the effects of the previously mentioned commodity derivative instruments not associated with current-period transactions, certain foreign currency contracts and business transformation expenses) increased $533 million compared with the prior-year period. Adjusted income before income taxes was $81 million higher than the prior-year period principally reflecting the $92 million increase in adjusted operating income partially offset by lower pre-tax 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 ($13 million).

Interest Expense and Income Taxes

Interest expense in the 2021 nine-month period was $21 million compared to $23 million in the prior year. This decrease reflects the effects of lower average short-term borrowings outstanding during the 2021 nine-month period.

The lower effective income tax rate for the 2021 nine-month period is largely related to lower U.S. tax on foreign source income attributable to regulations issued in July 2020 related to the high-tax exception on GILTI income not available in the prior-year period. The 2021 nine-month period also reflects an increase in favorable discrete tax items compared to the prior-year period driven by the impact of an election made available under a tax law change in Italy which allowed the Company to step up its tax basis on certain assets in exchange for paying a three percent substitute tax in connection with such election. This resulted in a $23 million net benefit in the 2021 nine-month period resulting in incremental tax basis that will be deductible in future periods. The decrease in the effective income tax rate also reflects the effects of lower pre-tax income during the prior-year period.

The Company continues to evaluate the elections available under current regulations, recent government stimulus efforts, including the anticipated benefits mentioned above related to the election made in connection with the tax law change in Italy, the modified GILTI provisions, and the CARES Act. Accordingly, the 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 the outbreak and continued spread of COVID-19. The Company does not have any near-term senior note or term loan maturities. While the Company's operations and financial performance has been impacted by COVID-19 in the 2021 three-month and nine-month periods, it is a rapidly evolving situation and the Company cannot predict the ultimate impact that COVID-19 will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures. The Company was in compliance with its debt covenants as of June 30, 2021.

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

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 $367 million at June 30, 2021, compared with $209 million at September 30, 2020.

Long-term debt and credit facility

UGI International's debt outstanding at June 30, 2021 totaled $788 million (including current maturities of long-term debt of $1 million). UGI International's debt outstanding at September 30, 2020, totaled $779 million (including current maturities of long-term debt of $1 million and short-term borrowings of $1 million). Total long-term debt outstanding at June 30, 2021, including current maturities, comprises $415 million of 3.25% Senior Notes, a $356 million variable-rate term loan, and $23 million of other long-term debt, and is net of $6 million of unamortized debt issuance costs.

At June 30, 2021 and throughout the 2021 nine-month period, there were no borrowings outstanding under the UGI International Credit Facilities Agreement multicurrency revolving facility. At June 30, 2020, there were $180 million (€160 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 during the nine months ended June 30, 2020 was €169 million ($190 million) and €187 million ($210 million). At June 30, 2021, the Company's available borrowing capacity under the UGI International Credit Facilities Agreement multicurrency revolving facility was €300 million.

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 Enterprises.

Operating Activities:

Cash flow provided by operating activities was $371 million in the 2021 nine-month period compared to $227 million in the 2020 nine-month period. Cash flow from operating activities before changes in operating working capital was $332 million in the 2021 nine-month period compared to $230 million in the prior-year nine-month period. Cash provided by changes in operating working capital totaled $39 million in the 2021 nine-month period compared to cash used to fund changes in operating working capital of $3 million in the 2020 nine-month period. The increase in cash provided by changes in operating working capital during the 2021 nine-month period largely reflects greater cash provided by changes in accounts payable and cash received for commodity derivative instrument collateral deposits in the 2021 nine-month period as compared to cash collateral paid in the 2020 nine-month period. These increases were partially offset by greater cash required to fund changes in accounts receivable, inventories, other current assets and other current liabilities.

Investing Activities:

Cash flow used by investing activities was $66 million in the 2021 nine-month period compared to $58 million in the 2020 nine-month period. Cash capital expenditures for property, plant and equipment totaled $68 million in the 2021 nine-month period compared with $62 million in the 2020 nine-month period. The 2021 nine-month period also includes cash paid for acquisitions totaling $8 million.

Financing Activities:

Cash flow used to fund financing activities was $157 million in the 2021 nine-month period compared to $31 million in the 2020 nine-month period. The 2021 nine-month period includes $153 million of distributions paid and $9 million paid to AmeriGas OLP pursuant to a Platform Contribution Agreement, as further described in Note 10 to the condensed consolidated financial statements. This use of cash was partially offset by $30 million of repayments of short-term borrowings in the 2020 nine-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 fixed-price sales and purchase contracts.

To 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. June 30, 2021, 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 June 30, 2021, there were no borrowings outstanding under variable-rate debt agreements, excluding UGI International's effectively fixed-rate debt.

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 June 30, 2021, by approximately $140 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 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.

Certain of these derivative instrument agreements 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 June 30, 2021, the Company had received net cash collateral of $92 million. Additionally, our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At June 30, 2021, restricted cash in brokerage accounts was $1 million. Although we have concentrations of credit risk associated with derivative instruments, 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 not material at June 30, 2021.

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

	Asset (Liability)	
(Millions of dollars)	Fair Value	Change in Fair Value
June 30, 2021		
Commodity price risk (1)	$ 340	$ (99)
Interest rate risk (2)	$ (2)	$ —
Foreign currency exchange rate risk (3)	$ 11	$ (51)

(1) Change in fair value represents a 10% adverse change in the market prices of certain commodities.
(2) Change in fair value represents a 50 basis point adverse change in prevailing market interest rates.
(3) Change in fair value represents a 10% adverse change in the value of the Euro and the British pound sterling versus the U.S. dollar.