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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

|  |  |
| --- | --- |
|  | |
|  |  |
| ☒ | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |

**For the quarterly period ended March 31, 2020**

**OR**

|  |  |
| --- | --- |
|  | |
|  |  |
| ☐ | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |

**For the transition period from  \_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_**

**Commission file number 1-11071**

**UGI CORPORATION**

**(Exact name of registrant as specified in its charter)**

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Pennsylvania** |  | **23-2668356** |
| **(State or other jurisdiction of**  **incorporation or organization)** |  | **(I.R.S. Employer**  **Identification No.)** |

**460 North Gulph Road, King of Prussia, PA 19406**

**(Address of Principal Executive Offices) (Zip Code)**

**(610) 337-1000**

**(Registrant’s telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| Title of each class: | Trading Symbol(s): | Name of each exchange on which registered: |
| Common Stock, without par value | UGI | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    Yes  ý    No  ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý    No  ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| Large accelerated filer | ý |  | Accelerated filer | ☐ |  | Non-accelerated filer | ☐ |
| Smaller reporting company | ☐ |  | Emerging growth company | ☐ |  |  |  |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    Yes  ☐    No  ý

At April 30, 2020, there were 208,267,174 shares of UGI Corporation Common Stock, without par value, outstanding.

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**UGI CORPORATION AND SUBSIDIARIES**

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**GLOSSARY OF TERMS AND ABBREVIATIONS**

Terms and abbreviations used in this Form 10-Q are defined below:

***UGI Corporation and Related Entities***

***AmeriGas OLP -*** AmeriGas Propane, L.P., the principal operating subsidiary of AmeriGas Partners

***AmeriGas Partners -*** AmeriGas Partners, L.P., a Delaware limited partnership and an indirect wholly-owned subsidiary of UGI; also referred to as the “Partnership”

***AmeriGas Propane -*** Reportable segment comprising AmeriGas Propane, Inc. and its subsidiaries, including AmeriGas Partners and AmeriGas OLP

***AmeriGas Propane, Inc. -*** A wholly owned second-tier subsidiary of UGI and the general partner of AmeriGas Partners; also referred to as the “General Partner”

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

***Company -*** UGI and its consolidated subsidiaries collectively

***CMG* -** Columbia Midstream Group, LLC

***CPG -*** UGI Central Penn Gas, Inc., a wholly owned subsidiary of UGI Utilities prior to the Utility Merger

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

***Electric Utility -*** UGI Utilities’ regulated electric distribution utility

***Energy Services -*** UGI Energy Services, LLC, a wholly owned second-tier subsidiary of UGI

***ESFC -*** Energy Services Funding Corporation, a wholly owned subsidiary of Energy Services

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

***Gas Utility -*** UGI Utilities’ regulated natural gas distribution business, comprising the natural gas utility businesses owned and operated by UGI Utilities and, prior to the Utility Merger, PNG and CPG

***General Partner*** ***-*** AmeriGas Propane, Inc., the general partner of AmeriGas Partners

***Midstream & Marketing -*** Reportable segment principally comprising Energy Services and its subsidiaries, including UGID

***Partnership -*** AmeriGas Partners and its consolidated subsidiaries, including AmeriGas OLP

***Pennant -*** Pennant Midstream, LLC

***PennEast -*** PennEast Pipeline Company, LLC

***PNG -*** UGI Penn Natural Gas, Inc., a wholly owned subsidiary of UGI Utilities prior to the Utility Merger

***UGI*** ***-*** UGI Corporation

***UGI Appalachia -*** UGI Appalachia, LLC, a wholly owned subsidiary of Energy Services, comprising the natural gas gathering and processing business of CMG and its equity interest in Pennant

***UGI Central*** ***-*** The natural gas rate district of CPG subsequent to the Utility Merger

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

***UGI International*** ***-*** Reportable segment principally comprising UGI’s foreign operations

***UGI International, LLC*** ***-*** UGI International, LLC, a wholly owned second-tier subsidiary of UGI

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***UGI PennEast, LLC -*** A wholly owned subsidiary of Energy Services that holds a 20% membership interest in PennEast

***UGI Utilities -*** UGI Utilities, Inc., a wholly owned subsidiary of UGI. Also a reportable segment of UGI comprising UGI Utilities, Inc. and its subsidiaries

***UGID -*** UGI Development Company, a wholly owned subsidiary of Energy Services

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

***Other Terms and Abbreviations***

***2018 UGI International Credit Facilities Agreement -*** A five-year unsecured Senior Facilities Agreement entered into in October 2018, by UGI International, LLC comprising a €300 million term loan facility and a €300 million revolving credit facility maturing October 2023

***2019 Annual Report -*** UGI Annual Report on Form 10-K for the fiscal year ended September 30, 2019

***2019 six-month period -*** Six months ended March 31, 2019

***2019 three-month period -*** Three months ended March 31, 2019

***2020 six-month period -*** Six months ended March 31, 2020

***2020 three-month period -*** Three months ended March 31, 2020

***Adjusted LIBOR*** - A rate derived from LIBOR

***AFUDC -*** Allowance for Funds Used During Construction

***AmeriGas Merger*** - The transaction contemplated by the Merger Agreement pursuant to which AmeriGas Propane Holdings, LLC merged with and into the Partnership on August 21, 2019, with the Partnership surviving as an indirect wholly owned subsidiary of UGI

***AOCI -*** Accumulated Other Comprehensive Income (Loss)

***ASC -*** Accounting Standards Codification

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

***ASC 805*** - ASC 805, “Business Combinations”

***ASC 840*** - ASC 840, “Leases”

***ASC 842*** - ASC 842, “Leases” (effective October 1, 2019)

***ASU -*** Accounting Standards Update

***Bcf -*** Billions of cubic feet

***BIE*** - Pennsylvania Public Utility Commission Bureau of Investigation and Enforcement

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

***CMG Acquisition* -** Acquisition of CMG and Columbia Pennant, LLC on August 1, 2019 pursuant to the CMG Acquisition Agreements

***CMG Acquisition Agreements*** - Agreements related to the CMG Acquisition comprising (1) a purchase and sale agreement related to the CMG acquisition, dated July 2, 2019, by and among Columbia Midstream & Minerals Group, LLC, Energy Services, UGI and TransCanada PipeLine USA Ltd., and (2) a purchase and sale agreement related to the Columbia Pennant, LLC acquisition, dated July 2, 2019, by and among Columbia Midstream & Minerals Group, LLC, Energy Services, and TransCanada PipeLine USA Ltd.

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***COA -*** Consent Order and Agreement

***CODM -*** Chief Operating Decision Maker as defined in ASC 280, “Segment Reporting”

***Common Stock -*** shares of UGI common stock

***Common Units -*** Limited partnership ownership interests in AmeriGas Partners

***Core market -*** Comprises (1) firm residential, commercial and industrial customers to whom UGI Utilities has a statutory obligation to provide service who purchase their natural gas or electricity from UGI Utilities; and (2) residential, commercial and industrial customers to whom UGI Utilities has a statutory obligation to provide service who purchase their natural gas or electricity from others

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

***DS -*** Default service

***EBITDA*** - Earnings before interest expense, income taxes, depreciation, and amortization

***Eighth Circuit -*** United States Court of Appeals for the Eighth Circuit

***Energy Services Term Loan -*** A seven-year $700 million senior secured term loan agreement entered into on August 13, 2019, with a group of lenders

***Energy Services 2020 Credit Agreement*** - Third Amended and Restated Credit Agreement entered into on March 6, 2020 by Energy Services, as borrower, providing for borrowings up to $260 million, including a letter of credit subfacility of up to $50 million, scheduled to expire in March 2025

***Energy Services Credit Agreement*** - Second Amended and Restated Credit Agreement entered into by Energy Services, as borrower, providing for borrowings up to $200 million, including a letter of credit subfacility of up to $50 million prior to its replacement by the Energy Services 2020 Credit Agreement

***Exchange Act -*** Securities Exchange Act of 1934, as amended

***FASB -*** Financial Accounting Standards Board

***FDIC -*** Federal Deposit Insurance Corporation

***FERC -*** Federal Energy Regulatory Commission

***Fiscal 2019*** - The fiscal year ended September 30, 2019

***Fiscal 2020*** - The fiscal year ending September 30, 2020

***Fiscal 2021*** - The fiscal year ending September 30, 2021

***Fiscal 2022*** - The fiscal year ending September 30, 2022

***Fiscal 2023*** - The fiscal year ending September 30, 2023

***Fiscal 2024*** - The fiscal year ending September 30, 2024

***GAAP -*** U.S. generally accepted accounting principles

***Gwh -*** Millions of kilowatt hours

***Hunlock -*** Hunlock Station, a 130-megawatt natural gas-fueled electricity generating station located near Wilkes-Barre, Pennsylvania

***ICE -*** Intercontinental Exchange

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***IDR*** - Incentive distribution right

***IRPA -*** Interest rate protection agreement

***IT -*** Information technology

***LIBOR*** - London Inter-bank Offered Rate

***LNG -*** Liquefied natural gas

***LPG -*** Liquefied petroleum gas

***MDPSC -*** Maryland Public Service Commission

***Merger Agreement*** - Agreement and Plan of Merger, dated as of April 1, 2019, among UGI, AmeriGas Propane Holdings, Inc., AmeriGas Propane Holdings, LLC, AmeriGas Partners and AmeriGas Propane

***MGP -*** Manufactured gas plant

***NOAA -*** National Oceanic and Atmospheric Administration

***NOL*** - Net operating loss

***NPNS -*** Normal purchase and normal sale

***NYDEC -*** New York State Department of Environmental Conservation

***NYMEX -*** New York Mercantile Exchange

***PADEP -*** Pennsylvania Department of Environmental Protection

***PAPUC -*** Pennsylvania Public Utility Commission

***PGC -*** Purchased gas costs

***PRP -*** Potentially Responsible Party

***Receivables Facility -*** A receivables purchase facility of Energy Services with an issuer of receivables-backed commercial paper

***Retail core-market -*** Comprises firm residential, commercial and industrial customers to whom UGI Utilities has a statutory obligation to provide service that purchase their natural gas from Gas Utility

***ROU*** - Right-of-use

***ROD -*** Record of Decision

***SCAA -*** Storage Contract Administrative Agreements

***SEC -*** U.S. Securities and Exchange Commission

***TCJA -*** Tax Cuts and Jobs Act

***Temporary Rates Order -*** Order issued by the PAPUC on March 15, 2018, that converted PAPUC approved rates of a defined group of large Pennsylvania public utilities into temporary rates for a period of not more than 12 months while the PAPUC reviewed effects of the TCJA

***UGI Corporation Senior Credit Facility*** - An unsecured senior facilities agreement entered into on August 1, 2019, by UGI comprising (1) a five-year $250 million term loan facility; (2) a three-year $300 million term loan facility; and (3) a five-year $300 million revolving credit facility (including a $10 million sublimit for letters of credit)

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

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***UGI Utilities 3.12% Senior Notes*** - A private placement of $150 million principal amount of senior unsecured notes due April 2050, issued by UGI Utilities

***USD*** - U.S. dollar

***U.S. Pension Plan -*** Defined benefit pension plan for employees hired prior to January 1, 2009 of UGI, UGI Utilities and certain of UGI’s other domestic wholly owned subsidiaries

***Utility Merger*** ***-*** The merger, effective October 1, 2018, of CPG and PNG with and into UGI Utilities

***VEBA -*** Voluntary Employees’ Beneficiary Association

***Western Missouri District Court -*** The United States District Court for the Western District of Missouri

***WHO*** - World Health Organization

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**UGI CORPORATION AND SUBSIDIARIES**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(unaudited)

(Millions of dollars)

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|  |  | March 31,  2020 | | |  | September 30,  2019 | | |  | March 31,  2019 | | |
| **ASSETS** |  |  | | |  |  | | |  |  | | |
| Current assets: |  |  | | |  |  | | |  |  | | |
| Cash and cash equivalents |  | $ | 297.3 |  |  | $ | 447.1 |  |  | $ | 492.1 |  |
| Restricted cash |  | 104.4 | |  |  | 63.7 | |  |  | 26.3 | |  |
| Accounts receivable (less allowances for doubtful accounts of $39.4, $31.6 and $43.6, respectively) |  | 1,016.3 | |  |  | 640.7 | |  |  | 1,231.4 | |  |
| Accrued utility revenues |  | 39.4 | |  |  | 14.6 | |  |  | 52.1 | |  |
| Inventories |  | 179.7 | |  |  | 229.9 | |  |  | 222.0 | |  |
| Utility regulatory assets |  | 4.0 | |  |  | 9.1 | |  |  | 1.3 | |  |
| Derivative instruments |  | 37.7 | |  |  | 28.9 | |  |  | 32.2 | |  |
| Prepaid expenses and other current assets |  | 200.0 | |  |  | 132.2 | |  |  | 122.6 | |  |
| Total current assets |  | 1,878.8 | |  |  | 1,566.2 | |  |  | 2,180.0 | |  |
| Property, plant and equipment, at cost (less accumulated depreciation of $3,555.2, $3,385.2 and $3,274.6, respectively) |  | 6,804.6 | |  |  | 6,687.8 | |  |  | 5,917.0 | |  |
| Goodwill |  | 3,465.5 | |  |  | 3,456.4 | |  |  | 3,147.8 | |  |
| Intangible assets, net |  | 687.8 | |  |  | 708.6 | |  |  | 488.3 | |  |
| Utility regulatory assets |  | 386.9 | |  |  | 386.5 | |  |  | 298.0 | |  |
| Derivative instruments |  | 42.9 | |  |  | 43.2 | |  |  | 22.8 | |  |
| Other assets |  | 869.0 | |  |  | 497.9 | |  |  | 297.0 | |  |
| Total assets |  | $ | 14,135.5 |  |  | $ | 13,346.6 |  |  | $ | 12,350.9 |  |
| **LIABILITIES AND EQUITY** |  |  | | |  |  | | |  |  | | |
| Current liabilities: |  |  | | |  |  | | |  |  | | |
| Current maturities of long-term debt |  | $ | 27.1 |  |  | $ | 24.1 |  |  | $ | 18.0 |  |
| Short-term borrowings |  | 653.5 | |  |  | 796.3 | |  |  | 341.0 | |  |
| Accounts payable |  | 464.7 | |  |  | 438.8 | |  |  | 652.1 | |  |
| Derivative instruments |  | 185.2 | |  |  | 84.9 | |  |  | 31.0 | |  |
| Other current liabilities |  | 785.6 | |  |  | 682.8 | |  |  | 735.2 | |  |
| Total current liabilities |  | 2,116.1 | |  |  | 2,026.9 | |  |  | 1,777.3 | |  |
| Long-term debt |  | 5,800.2 | |  |  | 5,779.9 | |  |  | 4,283.8 | |  |
| Deferred income taxes |  | 580.0 | |  |  | 541.4 | |  |  | 970.8 | |  |
| Derivative instruments |  | 105.8 | |  |  | 48.4 | |  |  | 16.5 | |  |
| Other noncurrent liabilities |  | 1,443.8 | |  |  | 1,122.8 | |  |  | 986.5 | |  |
| Total liabilities |  | 10,045.9 | |  |  | 9,519.4 | |  |  | 8,034.9 | |  |
| Commitments and contingencies (Note 11) |  |  | | |  |  | | |  |  | | |
| Equity: |  |  | | |  |  | | |  |  | | |
| UGI Corporation stockholders’ equity: |  |  | | |  |  | | |  |  | | |
| UGI Common Stock, without par value (authorized — 450,000,000 shares; issued — 209,439,475, 209,304,129 and 174,596,873 shares, respectively) |  | 1,408.6 | |  |  | 1,396.9 | |  |  | 1,219.0 | |  |
| Retained earnings |  | 2,953.3 | |  |  | 2,653.1 | |  |  | 2,818.2 | |  |
| Accumulated other comprehensive loss |  | (229.7 | | ) |  | (216.6 | | ) |  | (160.8 | | ) |
| Treasury stock, at cost |  | (51.7 | | ) |  | (15.9 | | ) |  | (23.4 | | ) |
| Total UGI Corporation stockholders’ equity |  | 4,080.5 | |  |  | 3,817.5 | |  |  | 3,853.0 | |  |
| Noncontrolling interests |  | 9.1 | |  |  | 9.7 | |  |  | 463.0 | |  |
| Total equity |  | 4,089.6 | |  |  | 3,827.2 | |  |  | 4,316.0 | |  |
| Total liabilities and equity |  | $ | 14,135.5 |  |  | $ | 13,346.6 |  |  | $ | 12,350.9 |  |

See accompanying notes to condensed consolidated financial statements.

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**UGI CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(Millions of dollars, except per share amounts)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Three Months Ended March 31, | | | | | | |  | Six Months Ended March 31, | | | | | | |
|  |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| Revenues |  | $ | 2,228.9 |  |  | $ | 2,606.1 |  |  | $ | 4,235.5 |  |  | $ | 4,806.3 |  |
| Costs and expenses: |  |  | | |  |  | | |  |  | | |  |  | | |
| Cost of sales (excluding depreciation and amortization shown below) |  | 1,248.2 | |  |  | 1,426.9 | |  |  | 2,256.2 | |  |  | 2,851.9 | |  |
| Operating and administrative expenses |  | 503.4 | |  |  | 536.7 | |  |  | 1,014.6 | |  |  | 1,039.9 | |  |
| Depreciation and amortization |  | 120.2 | |  |  | 108.9 | |  |  | 239.6 | |  |  | 220.1 | |  |
| Other operating income, net |  | (4.8 | | ) |  | (5.2 | | ) |  | (14.0 | | ) |  | (12.1 | | ) |
|  |  | 1,867.0 | |  |  | 2,067.3 | |  |  | 3,496.4 | |  |  | 4,099.8 | |  |
| Operating income |  | 361.9 | |  |  | 538.8 | |  |  | 739.1 | |  |  | 706.5 | |  |
| Income from equity investees |  | 8.0 | |  |  | 1.6 | |  |  | 14.5 | |  |  | 3.1 | |  |
| Loss on extinguishments of debt |  | — | |  |  | — | |  |  | — | |  |  | (6.1 | | ) |
| Other non-operating income, net |  | 11.7 | |  |  | 7.9 | |  |  | 0.2 | |  |  | 16.9 | |  |
| Interest expense |  | (82.4 | | ) |  | (61.0 | | ) |  | (166.5 | | ) |  | (121.2 | | ) |
| Income before income taxes |  | 299.2 | |  |  | 487.3 | |  |  | 587.3 | |  |  | 599.2 | |  |
| Income tax expense |  | (73.6 | | ) |  | (90.6 | | ) |  | (149.7 | | ) |  | (114.0 | | ) |
| Net income including noncontrolling interests |  | 225.6 | |  |  | 396.7 | |  |  | 437.6 | |  |  | 485.2 | |  |
| Deduct net income attributable to noncontrolling interests, principally in AmeriGas Partners prior to the AmeriGas Merger |  | (0.1 | | ) |  | (151.3 | | ) |  | (0.1 | | ) |  | (175.6 | | ) |
| Net income attributable to UGI Corporation |  | $ | 225.5 |  |  | $ | 245.4 |  |  | $ | 437.5 |  |  | $ | 309.6 |  |
| Earnings per common share attributable to UGI Corporation stockholders: |  |  | | |  |  | | |  |  | | |  |  | | |
| Basic |  | $ | 1.08 |  |  | $ | 1.41 |  |  | $ | 2.09 |  |  | $ | 1.77 |  |
| Diluted |  | $ | 1.07 |  |  | $ | 1.38 |  |  | $ | 2.08 |  |  | $ | 1.74 |  |
| Weighted-average common shares outstanding (thousands): |  |  | | |  |  | | |  |  | | |  |  | | |
| Basic |  | 208,941 | |  |  | 174,501 | |  |  | 209,151 | |  |  | 174,461 | |  |
| Diluted |  | 209,808 | |  |  | 177,318 | |  |  | 210,494 | |  |  | 177,446 | |  |

See accompanying notes to condensed consolidated financial statements.

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**UGI CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

(Millions of dollars)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Three Months Ended March 31, | | | | | | |  | Six Months Ended March 31, | | | | | | |
|  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| Net income including noncontrolling interests | $ | 225.6 |  |  | $ | 396.7 |  |  | $ | 437.6 |  |  | $ | 485.2 |  |
| Other comprehensive income (loss): |  | | |  |  | | |  |  | | |  |  | | |
| Net losses on derivative instruments (net of tax of $14.1, $1.0, $11.9, and $1.4, respectively) | (35.6 | | ) |  | (1.2 | | ) |  | (30.0 | | ) |  | (2.7 | | ) |
| Reclassifications of net losses on derivative instruments (net of tax of $(0.2), $0.0, $(0.5), and $(0.3), respectively) | 0.6 | |  |  | — | |  |  | 1.3 | |  |  | 0.7 | |  |
| Foreign currency adjustments (net of tax of $(7.1), $(7.7), $0.1, and $(4.9), respectively) | (32.7 | | ) |  | (26.8 | | ) |  | 14.3 | |  |  | (42.4 | | ) |
| Benefit plans (net of tax of $(0.4), $(0.1), $(0.5), and $(0.2), respectively) | 1.1 | |  |  | 0.3 | |  |  | 1.3 | |  |  | 0.6 | |  |
| Other comprehensive loss | (66.6 | | ) |  | (27.7 | | ) |  | (13.1 | | ) |  | (43.8 | | ) |
| Comprehensive income including noncontrolling interests | 159.0 | |  |  | 369.0 | |  |  | 424.5 | |  |  | 441.4 | |  |
| Deduct comprehensive income attributable to noncontrolling interests, principally in AmeriGas Partners prior to the AmeriGas Merger | (0.1 | | ) |  | (151.3 | | ) |  | (0.1 | | ) |  | (175.6 | | ) |
| Comprehensive income attributable to UGI Corporation | $ | 158.9 |  |  | $ | 217.7 |  |  | $ | 424.4 |  |  | $ | 265.8 |  |

See accompanying notes to condensed consolidated financial statements.

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**UGI CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(Millions of dollars)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  |  | Six Months Ended March 31, | | | | | | |
|  |  | 2020 | | |  | 2019 | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** |  |  | | |  |  | | |
| Net income including noncontrolling interests |  | $ | 437.6 |  |  | $ | 485.2 |  |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities: |  |  | | |  |  | | |
| Depreciation and amortization |  | 239.6 | |  |  | 220.1 | |  |
| Deferred income tax benefit, net |  | (24.8 | | ) |  | (28.9 | | ) |
| Provision for uncollectible accounts |  | 19.8 | |  |  | 22.2 | |  |
| Changes in unrealized gains and losses on derivative instruments |  | 154.6 | |  |  | 161.2 | |  |
| Loss on extinguishments of debt |  | — | |  |  | 6.1 | |  |
| Income from equity investees |  | (14.5 | | ) |  | (3.1 | | ) |
| Other, net |  | (8.7 | | ) |  | 6.0 | |  |
| Net change in: |  |  | | |  |  | | |
| Accounts receivable and accrued utility revenues |  | (435.6 | | ) |  | (538.6 | | ) |
| Inventories |  | 48.8 | |  |  | 93.5 | |  |
| Utility deferred fuel and power costs, net of changes in unsettled derivatives |  | 7.4 | |  |  | (17.0 | | ) |
| Accounts payable |  | 60.7 | |  |  | 121.1 | |  |
| Derivative instruments collateral deposits paid |  | (28.7 | | ) |  | (12.2 | | ) |
| Other current assets |  | (3.3 | | ) |  | 65.0 | |  |
| Other current liabilities |  | 109.5 | |  |  | 37.0 | |  |
| Net cash provided by operating activities |  | 562.4 | |  |  | 617.6 | |  |
| **CASH FLOWS FROM INVESTING ACTIVITIES** |  |  | | |  |  | | |
| Expenditures for property, plant and equipment |  | (342.0 | | ) |  | (340.6 | | ) |
| Acquisitions of businesses and assets, net of cash and restricted cash acquired |  | (0.4 | | ) |  | (58.5 | | ) |
| Other, net |  | 15.5 | |  |  | 5.8 | |  |
| Net cash used by investing activities |  | (326.9 | | ) |  | (393.3 | | ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** |  |  | | |  |  | | |
| Dividends on UGI Common Stock |  | (135.6 | | ) |  | (90.5 | | ) |
| Distributions on AmeriGas Partners publicly held Common Units |  | — | |  |  | (131.5 | | ) |
| Issuances of long-term debt, net of issuance costs |  | 30.0 | |  |  | 878.1 | |  |
| Repayments of long-term debt |  | (60.0 | | ) |  | (724.3 | | ) |
| Decrease in short-term borrowings |  | (139.4 | | ) |  | (81.9 | | ) |
| Receivables Facility net repayments |  | (4.4 | | ) |  | (2.0 | | ) |
| Issuances of UGI Common Stock |  | 0.7 | |  |  | 11.8 | |  |
| Repurchases of UGI Common Stock |  | (38.3 | | ) |  | (16.9 | | ) |
| Other, net |  | (0.8 | | ) |  | (3.4 | | ) |
| Net cash used by financing activities |  | (347.8 | | ) |  | (160.6 | | ) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash |  | 3.2 | |  |  | (7.5 | | ) |
| Cash, cash equivalents and restricted cash (decrease) increase |  | $ | (109.1 | ) |  | $ | 56.2 |  |
| **CASH, CASH EQUIVALENTS AND RESTRICTED CASH** |  |  | | |  |  | | |
| Cash, cash equivalents and restricted cash at end of period |  | $ | 401.7 |  |  | $ | 518.4 |  |
| Cash, cash equivalents and restricted cash at beginning of period |  | 510.8 | |  |  | 462.2 | |  |
| Cash, cash equivalents and restricted cash (decrease) increase |  | $ | (109.1 | ) |  | $ | 56.2 |  |

See accompanying notes to condensed consolidated financial statements.

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**UGI CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(unaudited)

(Millions of dollars, except per share amounts)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Three Months Ended March 31, | | | | | | |  | Six Months Ended March 31, | | | | | | |
|  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| **Common stock, without par value** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 1,398.4 |  |  | $ | 1,206.5 |  |  | $ | 1,396.9 |  |  | $ | 1,200.8 |  |
| Common Stock issued in connection with employee and director plans, net of tax withheld | 1.4 | |  |  | 5.7 | |  |  | 1.7 | |  |  | 9.4 | |  |
| Equity-based compensation expense | 8.8 | |  |  | 6.8 | |  |  | 10.7 | |  |  | 8.8 | |  |
| Other | — | |  |  | — | |  |  | (0.7 | | ) |  | — | |  |
| Balance, end of period | $ | 1,408.6 |  |  | $ | 1,219.0 |  |  | $ | 1,408.6 |  |  | $ | 1,219.0 |  |
| **Retained earnings** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 2,797.5 |  |  | $ | 2,620.8 |  |  | $ | 2,653.1 |  |  | $ | 2,610.7 |  |
| Cumulative effect of change in accounting principle - ASC 606 | — | |  |  | — | |  |  | — | |  |  | (7.1 | | ) |
| Reclassification of stranded income tax effects related to TCJA | — | |  |  | — | |  |  | — | |  |  | 6.6 | |  |
| Losses on common stock transactions in connection with employee and director plans | (2.0 | | ) |  | (2.8 | | ) |  | (2.7 | | ) |  | (11.1 | | ) |
| Net income attributable to UGI | 225.5 | |  |  | 245.4 | |  |  | 437.5 | |  |  | 309.6 | |  |
| Cash dividends on UGI Common Stock ($0.325, $0.260, $0.650, and $0.520, respectively) | (67.7 | | ) |  | (45.2 | | ) |  | (135.6 | | ) |  | (90.5 | | ) |
| Other | — | |  |  | — | |  |  | 1.0 | |  |  | — | |  |
| Balance, end of period | $ | 2,953.3 |  |  | $ | 2,818.2 |  |  | $ | 2,953.3 |  |  | $ | 2,818.2 |  |
| **Accumulated other comprehensive income (loss)** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | (163.1 | ) |  | $ | (133.1 | ) |  | $ | (216.6 | ) |  | $ | (110.4 | ) |
| Reclassification of stranded income tax effects related to TCJA | — | |  |  | — | |  |  | — | |  |  | (6.6 | | ) |
| Net losses on derivative instruments | (35.6 | | ) |  | (1.2 | | ) |  | (30.0 | | ) |  | (2.7 | | ) |
| Reclassification of net losses on derivative instruments | 0.6 | |  |  | — | |  |  | 1.3 | |  |  | 0.7 | |  |
| Benefit plans | 1.1 | |  |  | 0.3 | |  |  | 1.3 | |  |  | 0.6 | |  |
| Foreign currency adjustments | (32.7 | | ) |  | (26.8 | | ) |  | 14.3 | |  |  | (42.4 | | ) |
| Balance, end of period | $ | (229.7 | ) |  | $ | (160.8 | ) |  | $ | (229.7 | ) |  | $ | (160.8 | ) |
| **Treasury stock** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | (37.4 | ) |  | $ | (24.8 | ) |  | $ | (15.9 | ) |  | $ | (19.7 | ) |
| Common Stock issued in connection with employee and director plans, net of tax withheld | 3.3 | |  |  | 3.8 | |  |  | 4.4 | |  |  | 16.0 | |  |
| Repurchases of UGI Common Stock | (15.7 | | ) |  | — | |  |  | (38.3 | | ) |  | (16.9 | | ) |
| Reacquired UGI Common Stock - employee and director plans | (1.9 | | ) |  | (2.4 | | ) |  | (1.9 | | ) |  | (2.8 | | ) |
| Balance, end of period | $ | (51.7 | ) |  | $ | (23.4 | ) |  | $ | (51.7 | ) |  | $ | (23.4 | ) |
| **Total UGI stockholders’ equity** | $ | 4,080.5 |  |  | $ | 3,853.0 |  |  | $ | 4,080.5 |  |  | $ | 3,853.0 |  |
| **Noncontrolling interests** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 9.2 |  |  | $ | 377.2 |  |  | $ | 9.7 |  |  | $ | 418.6 |  |
| Net income attributable to noncontrolling interests, principally in AmeriGas Partners prior to the AmeriGas Merger | 0.1 | |  |  | 151.3 | |  |  | 0.1 | |  |  | 175.6 | |  |
| Dividends and distributions | — | |  |  | (65.8 | | ) |  | — | |  |  | (131.5 | | ) |
| Other | (0.2 | | ) |  | 0.3 | |  |  | (0.7 | | ) |  | 0.3 | |  |
| Balance, end of period | $ | 9.1 |  |  | $ | 463.0 |  |  | $ | 9.1 |  |  | $ | 463.0 |  |
| **Total equity** | $ | 4,089.6 |  |  | $ | 4,316.0 |  |  | $ | 4,089.6 |  |  | $ | 4,316.0 |  |

See accompanying notes to condensed consolidated financial statements.

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

**Note 1 — Nature of Operations**

UGI is a holding company that, through subsidiaries and affiliates, distributes, stores, transports and markets energy products and related services. In the United States, we own and operate (1) a retail propane marketing and distribution business; (2) natural gas and electric distribution utilities; and (3) an energy marketing, midstream infrastructure, storage, natural gas gathering, natural gas production, electricity generation and energy services business. In Europe, we market and distribute propane and other LPG and market energy products and services.

We conduct a domestic propane marketing and distribution business through AmeriGas Partners. AmeriGas Partners conducts a national propane distribution business through its principal operating subsidiary, AmeriGas OLP. AmeriGas Partners and AmeriGas OLP are Delaware limited partnerships. UGI’s wholly owned second-tier subsidiary, AmeriGas Propane, Inc., serves as the General Partner of AmeriGas Partners. On August 21, 2019, we completed the AmeriGas Merger pursuant to which we issued 34,612,847 shares of UGI Common Stock and paid $528.9 in cash to acquire all of the outstanding Common Units in AmeriGas Partners not already held by UGI or its subsidiaries, with the Partnership surviving as a wholly owned subsidiary of UGI. Prior to the AmeriGas Merger, UGI controlled the Partnership through its ownership of the General Partner, which held a 1% general partner interest (which included IDRs) and approximately 25.5% of the outstanding Common Units in AmeriGas Partners, and held an effective 27.0% ownership interest in AmeriGas OLP. The IDRs held by the General Partner prior to the AmeriGas Merger entitled it to receive distributions from AmeriGas Partners in excess of its general partner interest under certain circumstances. Incentive distributions received by the General Partner during the six months ended March 31, 2019 were $22.9.

UGI International, through 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.

Energy Services conducts, directly and through subsidiaries, energy marketing, midstream transmission, LNG storage, natural gas gathering and processing, natural gas production, electricity generation and energy services businesses primarily in the Mid-Atlantic region of the U.S., eastern Ohio and the panhandle of West Virginia. UGID owns all or a portion of electricity generation facilities principally located in Pennsylvania. Energy Services and its subsidiaries’ storage and portions of its LNG and midstream transmission operations are subject to regulation by the FERC.

UGI Utilities directly owns and operates Gas Utility, a natural gas distribution utility business in eastern and central Pennsylvania and in a portion of one Maryland county. Gas Utility is subject to regulation by the PAPUC and the FERC and, with respect to a small service territory in one Maryland county, the MDPSC. UGI Utilities also owns and operates Electric Utility, an electric distribution utility located in northeastern Pennsylvania. Electric Utility is subject to regulation by the PAPUC and the FERC.

**Note 2 — Summary of Significant Accounting Policies**

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the SEC. 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, 2019, 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 2019 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.

***Leases.*** Effective October 1, 2019, the Company adopted ASU No. 2016-02, "Leases," which, as amended, is included in ASC 842. This new accounting guidance supersedes previous lease accounting guidance in ASC 840 and requires entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on its balance sheet. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows from leases.

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

We adopted this new guidance using the modified retrospective transition method. Amounts and disclosures related to periods prior to October 1, 2019 have not been restated and continue to be reported in accordance with ASC 840. We elected to apply the following practical expedients in accordance with the guidance upon adoption:

|  |  |
| --- | --- |
|  |  |
| • | Short-term leases: We did not recognize short-term leases (term of 12 months or less) on the balance sheet; |

|  |  |
| --- | --- |
|  |  |
| • | Easements: We did not re-evaluate existing land easements that were not previously accounted for as leases; and |

|  |  |
| --- | --- |
|  |  |
| • | Other: We did not reassess the classification of expired or existing contracts or determine whether they are or contain a lease. We also did not reassess whether initial direct costs qualify for capitalization under ASC 842. |

Upon adoption, we recorded ROU assets and lease liabilities of $451.9 related to our operating leases. Our accounting for finance leases remained substantially unchanged. There were no cumulative effect adjustments made to opening retained earnings as of October 1, 2019. The adoption did not, and is not expected to, have a significant impact on our condensed consolidated statements of income or cash flows. See Note 9 for additional disclosures regarding our leases.

***Equity Method Investments.*** We account for privately held equity securities of entities without readily determinable fair values in which we do not have control, but have significant influence over operating and financial policies, under the equity method. Our equity method investments are primarily comprised of PennEast and Pennant.

UGI PennEast, LLC and four other members comprising wholly owned subsidiaries of Southern Company, New Jersey Resources, South Jersey Industries, and Enbridge, Inc., each hold a 20% membership interest in PennEast. In September 2019, a panel of the U.S. Court of Appeals for the Third Circuit ruled that New Jersey’s Eleventh Amendment immunity barred PennEast from bringing an eminent domain lawsuit in federal court, under the Natural Gas Act, against New Jersey or its agencies. The Third Circuit subsequently denied PennEast’s petition for rehearing en banc. Following the Third Circuit denial of petition for rehearing, PennEast filed a petition for declaratory order with the FERC regarding interpretation of the Natural Gas Act; the FERC issued an order favorable to PennEast’s position on January 30, 2020. PennEast filed a petition for a writ of certiorari to seek U.S. Supreme Court review of the Third Circuit decision on February 18, 2020.  The ultimate outcome of these matters cannot be determined at this time, and could result in delays, additional costs, or the inability to move forward with the project, resulting in an impairment of all or a portion of our investment in PennEast.

***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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Cash, Cash Equivalents and Restricted Cash | | | | | | | | | | | | | | |
|  |  | March 31, 2020 | | |  | March 31, 2019 | | |  | September 30, 2019 | | |  | September 30, 2018 | | |
| Cash and cash equivalents |  | $ | 297.3 |  |  | $ | 492.1 |  |  | $ | 447.1 |  |  | $ | 452.6 |  |
| Restricted cash |  | 104.4 | |  |  | 26.3 | |  |  | 63.7 | |  |  | 9.6 | |  |
| Cash, cash equivalents and restricted cash |  | $ | 401.7 |  |  | $ | 518.4 |  |  | $ | 510.8 |  |  | $ | 462.2 |  |

***Earnings Per Common Share.***Basic earnings per share attributable to UGI stockholders reflect the weighted-average number of common shares outstanding. Diluted earnings per share attributable to UGI stockholders include the effects of dilutive stock options and common stock awards.

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

Shares used in computing basic and diluted earnings per share are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Three Months Ended March 31, | | | | |  | Six Months Ended March 31, | | | | |
|  |  | 2020 | |  | 2019 | |  | 2020 | |  | 2019 | |
| Denominator (thousands of shares): |  |  | |  |  | |  |  | |  |  | |
| Weighted-average common shares outstanding — basic (a) |  | 208,941 |  |  | 174,501 |  |  | 209,151 |  |  | 174,461 |  |
| Incremental shares issuable for stock options and awards (b) |  | 867 |  |  | 2,817 |  |  | 1,343 |  |  | 2,985 |  |
| Weighted-average common shares outstanding — diluted |  | 209,808 |  |  | 177,318 |  |  | 210,494 |  |  | 177,446 |  |

|  |  |
| --- | --- |
|  |  |
| (a) | The three and six months ended March 31, 2020, reflects the August 2019 issuance of 34,613 shares of UGI Common Stock in connection with the AmeriGas Merger. |

|  |  |
| --- | --- |
|  |  |
| (b) | For the three and six months ended March 31, 2020 and 2019, there were 8,020 and 208 shares, respectively, associated with outstanding stock option awards that were excluded from the computation of diluted earnings per share above because their effect was antidilutive. |

***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, whether it is subject to regulatory ratemaking mechanisms or if 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. Gains and losses on substantially all of the commodity derivative instruments used by UGI Utilities are included in regulatory assets or liabilities because it is probable such gains or losses will be recoverable from, or refundable to, customers. 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 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 14.

***Business Combination Purchase Price Allocations.*** From time to time, the Company enters into business combinations. In accordance with ASC 805, the purchase price is allocated to the various assets acquired and liabilities assumed at their estimated fair value as of the acquisition date. Fair values of assets acquired and liabilities assumed are based upon available information. Estimating fair values is generally subject to significant judgment and assumptions and most commonly impacts property, plant and equipment and intangible assets, including those with indefinite lives. Generally, we have, under certain circumstances, up to one year from the acquisition date to finalize the purchase price allocation.

***Other Non-Operating Income, Net.*** Included in “Other non-operating income, net,” on the Condensed Consolidated Statements of Income are net gains and losses on forward foreign currency contracts used to reduce volatility in net income associated with our foreign operations, and non-service income (expense) associated with our pension and other postretirement plans.

***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

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

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.

**Note 3 — Accounting Changes**

**New Accounting Standards Adopted in Fiscal 2020**

***Derivatives and Hedging.*** Effective October 1, 2019, the Company adopted ASU No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities.” This ASU amends and simplifies existing guidance to allow companies to more accurately present the economic effects of risk management activities in the financial statements. For cash flow and net investment hedges as of the adoption date, the guidance required a modified retrospective approach. The amended presentation and disclosure guidance was required prospectively. The adoption did not have a material impact on our consolidated financial statements.

***Leases.*** Effective October 1, 2019, the Company adopted new accounting guidance for leases in accordance with ASC 842. See Notes 2 and 9 for a detailed description of the impact of the new guidance and related disclosures.

**Accounting Standards Not Yet Adopted**

***Credit Losses.*** In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.*”* 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. ASU 2016-13 is effective for the Company for interim and annual periods beginning October 1, 2020 (Fiscal 2021). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

***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. ASU 2019-12 is effective for the Company for interim and annual periods beginning October 1, 2021 (Fiscal 2022). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the new guidance will be adopted.

***Reference Rate Reform.*** In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” This ASU provides entities temporary optional guidance to ease potential accounting burdens to transition away from LIBOR or other reference rates that are expected to be discontinued and replaced with alternative reference rates. This ASU applies to all entities that have contracts, hedging relationships and other transactions affected by reference rate reform. The provisions in this ASU, among other things, simplify contract modification accounting and allow hedging relationships affected by reference rate reform to continue. ASU 2020-04 is effective upon issuance and entities may elect to apply the amendments prospectively through December 31, 2022. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the optional expedients will be elected.

**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 2019 Annual Report for information on our revenues from contracts with customers.

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

**Revenue Disaggregation**

The following tables present our disaggregated revenues by reportable segment for the three and six months ended March 31, 2020 and 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Three Months Ended March 31, 2020** |  | Total | | |  | Eliminations  (a) | | |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate & Other | | |
| **Revenues from contracts with customers:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Core Market: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Residential |  | $ | 211.5 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 211.5 |  |  | $ | — |  |
| Commercial & Industrial |  | 95.1 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 95.1 | |  |  | — | |  |
| Large delivery service |  | 41.4 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 41.4 | |  |  | — | |  |
| Off-system sales and capacity releases |  | 22.8 | |  |  | (15.9 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 38.7 | |  |  | — | |  |
| Other |  | 4.5 | |  |  | (0.6 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 5.1 | |  |  | — | |  |
| Total Utility |  | 375.3 | |  |  | (16.5 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 391.8 | |  |  | — | |  |
| Non-Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| LPG: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Retail |  | 1,194.3 | |  |  | — | |  |  | 712.2 | |  |  | 482.1 | |  |  | — | |  |  | — | |  |  | — | |  |
| Wholesale |  | 74.0 | |  |  | — | |  |  | 18.8 | |  |  | 55.2 | |  |  | — | |  |  | — | |  |  | — | |  |
| Energy Marketing |  | 419.1 | |  |  | (22.3 | | ) |  | — | |  |  | 144.5 | |  |  | 296.9 | |  |  | — | |  |  | — | |  |
| Midstream: |  |  | |  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Pipeline |  | 45.1 | |  |  | — | |  |  | — | |  |  | — | |  |  | 45.1 | |  |  | — | |  |  | — | |  |
| Peaking |  | 2.8 | |  |  | (54.3 | | ) |  | — | |  |  | — | |  |  | 57.1 | |  |  | — | |  |  | — | |  |
| Other |  | 1.7 | |  |  | — | |  |  | — | |  |  | — | |  |  | 1.7 | |  |  | — | |  |  | — | |  |
| Electricity Generation |  | 7.8 | |  |  | — | |  |  | — | |  |  | — | |  |  | 7.8 | |  |  | — | |  |  | — | |  |
| Other |  | 81.8 | |  |  | (0.7 | | ) |  | 55.9 | |  |  | 17.4 | |  |  | 9.2 | |  |  | — | |  |  | — | |  |
| Total Non-Utility |  | 1,826.6 | |  |  | (77.3 | | ) |  | 786.9 | |  |  | 699.2 | |  |  | 417.8 | |  |  | — | |  |  | — | |  |
| **Total revenues from contracts with customers** |  | 2,201.9 | |  |  | (93.8 | | ) |  | 786.9 | |  |  | 699.2 | |  |  | 417.8 | |  |  | 391.8 | |  |  | — | |  |
| Other revenues (b) |  | 27.0 | |  |  | (0.7 | | ) |  | 15.1 | |  |  | 4.2 | |  |  | 4.4 | |  |  | 0.8 | |  |  | 3.2 | |  |
| **Total revenues** |  | $ | 2,228.9 |  |  | $ | (94.5 | ) |  | $ | 802.0 |  |  | $ | 703.4 |  |  | $ | 422.2 |  |  | $ | 392.6 |  |  | $ | 3.2 |  |

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Three Months Ended March 31, 2019** |  | Total | | |  | Eliminations  (a) | | |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate & Other | | |
| **Revenues from contracts with customers:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Core Market: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Residential |  | $ | 240.3 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 240.3 |  |  | $ | — |  |
| Commercial & Industrial |  | 100.7 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 100.7 | |  |  | — | |  |
| Large delivery service |  | 44.1 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 44.1 | |  |  | — | |  |
| Off-system sales and capacity releases |  | 21.9 | |  |  | (24.5 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 46.4 | |  |  | — | |  |
| Other (c) |  | (3.3 | | ) |  | (0.8 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (2.5 | | ) |  | — | |  |
| Total Utility |  | 403.7 | |  |  | (25.3 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 429.0 | |  |  | — | |  |
| Non-Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| LPG: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Retail |  | 1,405.6 | |  |  | — | |  |  | 874.6 | |  |  | 531.0 | |  |  | — | |  |  | — | |  |  | — | |  |
| Wholesale |  | 93.8 | |  |  | — | |  |  | 25.2 | |  |  | 68.6 | |  |  | — | |  |  | — | |  |  | — | |  |
| Energy Marketing |  | 552.1 | |  |  | (46.4 | | ) |  | — | |  |  | 162.7 | |  |  | 435.8 | |  |  | — | |  |  | — | |  |
| Midstream: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Pipeline |  | 22.4 | |  |  | — | |  |  | — | |  |  | — | |  |  | 22.4 | |  |  | — | |  |  | — | |  |
| Peaking |  | 8.1 | |  |  | (51.7 | | ) |  | — | |  |  | — | |  |  | 59.8 | |  |  | — | |  |  | — | |  |
| Other |  | 0.7 | |  |  | — | |  |  | — | |  |  | — | |  |  | 0.7 | |  |  | — | |  |  | — | |  |
| Electricity Generation |  | 11.6 | |  |  | — | |  |  | — | |  |  | — | |  |  | 11.6 | |  |  | — | |  |  | — | |  |
| Other |  | 79.5 | |  |  | (0.7 | | ) |  | 57.1 | |  |  | 12.7 | |  |  | 10.4 | |  |  | — | |  |  | — | |  |
| Total Non-Utility |  | 2,173.8 | |  |  | (98.8 | | ) |  | 956.9 | |  |  | 775.0 | |  |  | 540.7 | |  |  | — | |  |  | — | |  |
| **Total revenues from contracts with customers** |  | 2,577.5 | |  |  | (124.1 | | ) |  | 956.9 | |  |  | 775.0 | |  |  | 540.7 | |  |  | 429.0 | |  |  | — | |  |
| Other revenues (b) |  | 28.6 | |  |  | (0.7 | | ) |  | 14.7 | |  |  | 8.2 | |  |  | 1.7 | |  |  | 0.6 | |  |  | 4.1 | |  |
| **Total revenues** |  | $ | 2,606.1 |  |  | $ | (124.8 | ) |  | $ | 971.6 |  |  | $ | 783.2 |  |  | $ | 542.4 |  |  | $ | 429.6 |  |  | $ | 4.1 |  |

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Six Months Ended March 31, 2020** |  | Total | | |  | Eliminations  (a) | | |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate & Other | | |
| **Revenues from contracts with customers:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Core Market: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Residential |  | $ | 395.6 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 395.6 |  |  | $ | — |  |
| Commercial & Industrial |  | 163.0 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 163.0 | |  |  | — | |  |
| Large delivery service |  | 82.7 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 82.7 | |  |  | — | |  |
| Off-system sales and capacity releases |  | 39.2 | |  |  | (30.0 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 69.2 | |  |  | — | |  |
| Other |  | 8.9 | |  |  | (1.2 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 10.1 | |  |  | — | |  |
| Total Utility |  | 689.4 | |  |  | (31.2 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 720.6 | |  |  | — | |  |
| Non-Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| LPG: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Retail |  | 2,288.7 | |  |  | — | |  |  | 1,343.4 | |  |  | 945.3 | |  |  | — | |  |  | — | |  |  | — | |  |
| Wholesale |  | 139.8 | |  |  | — | |  |  | 40.8 | |  |  | 99.0 | |  |  | — | |  |  | — | |  |  | — | |  |
| Energy Marketing |  | 782.0 | |  |  | (47.9 | | ) |  | — | |  |  | 268.4 | |  |  | 561.5 | |  |  | — | |  |  | — | |  |
| Midstream: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Pipeline |  | 88.3 | |  |  | — | |  |  | — | |  |  | — | |  |  | 88.3 | |  |  | — | |  |  | — | |  |
| Peaking |  | 6.7 | |  |  | (92.0 | | ) |  | — | |  |  | — | |  |  | 98.7 | |  |  | — | |  |  | — | |  |
| Other |  | 3.5 | |  |  | — | |  |  | — | |  |  | — | |  |  | 3.5 | |  |  | — | |  |  | — | |  |
| Electricity Generation |  | 16.6 | |  |  | — | |  |  | — | |  |  | — | |  |  | 16.6 | |  |  | — | |  |  | — | |  |
| Other |  | 162.7 | |  |  | (1.6 | | ) |  | 115.1 | |  |  | 29.7 | |  |  | 19.5 | |  |  | — | |  |  | — | |  |
| Total Non-Utility |  | 3,488.3 | |  |  | (141.5 | | ) |  | 1,499.3 | |  |  | 1,342.4 | |  |  | 788.1 | |  |  | — | |  |  | — | |  |
| **Total revenues from contracts with customers** |  | 4,177.7 | |  |  | (172.7 | | ) |  | 1,499.3 | |  |  | 1,342.4 | |  |  | 788.1 | |  |  | 720.6 | |  |  | — | |  |
| Other revenues (b) |  | 57.8 | |  |  | (1.5 | | ) |  | 33.1 | |  |  | 12.4 | |  |  | 6.6 | |  |  | 1.3 | |  |  | 5.9 | |  |
| **Total revenues** |  | $ | 4,235.5 |  |  | $ | (174.2 | ) |  | $ | 1,532.4 |  |  | $ | 1,354.8 |  |  | $ | 794.7 |  |  | $ | 721.9 |  |  | $ | 5.9 |  |

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Six Months Ended March 31, 2019** |  | Total | | |  | Eliminations  (a) | | |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate & Other | | |
| **Revenues from contracts with customers:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Core Market: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Residential |  | $ | 416.0 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 416.0 |  |  | $ | — |  |
| Commercial & Industrial |  | 168.3 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 168.3 | |  |  | — | |  |
| Large delivery service |  | 83.6 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 83.6 | |  |  | — | |  |
| Off-system sales and capacity releases |  | 37.1 | |  |  | (47.4 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 84.5 | |  |  | — | |  |
| Other (c) |  | (2.8 | | ) |  | (1.5 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (1.3 | | ) |  | — | |  |
| Total Utility |  | 702.2 | |  |  | (48.9 | | ) |  | — | |  |  | — | |  |  | — | |  |  | 751.1 | |  |  | — | |  |
| Non-Utility: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| LPG: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Retail |  | 2,635.3 | |  |  | — | |  |  | 1,596.5 | |  |  | 1,038.8 | |  |  | — | |  |  | — | |  |  | — | |  |
| Wholesale |  | 153.8 | |  |  | — | |  |  | 46.2 | |  |  | 107.6 | |  |  | — | |  |  | — | |  |  | — | |  |
| Energy Marketing |  | 1,021.0 | |  |  | (93.9 | | ) |  | — | |  |  | 305.8 | |  |  | 809.1 | |  |  | — | |  |  | — | |  |
| Midstream: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Pipeline |  | 41.8 | |  |  | — | |  |  | — | |  |  | — | |  |  | 41.8 | |  |  | — | |  |  | — | |  |
| Peaking |  | 10.1 | |  |  | (90.4 | | ) |  | — | |  |  | — | |  |  | 100.5 | |  |  | — | |  |  | — | |  |
| Other |  | 1.7 | |  |  | — | |  |  | — | |  |  | — | |  |  | 1.7 | |  |  | — | |  |  | — | |  |
| Electricity Generation |  | 23.3 | |  |  | — | |  |  | — | |  |  | — | |  |  | 23.3 | |  |  | — | |  |  | — | |  |
| Other |  | 163.5 | |  |  | (1.4 | | ) |  | 117.7 | |  |  | 25.1 | |  |  | 22.1 | |  |  | — | |  |  | — | |  |
| Total Non-Utility |  | 4,050.5 | |  |  | (185.7 | | ) |  | 1,760.4 | |  |  | 1,477.3 | |  |  | 998.5 | |  |  | — | |  |  | — | |  |
| **Total revenues from contracts with customers** |  | 4,752.7 | |  |  | (234.6 | | ) |  | 1,760.4 | |  |  | 1,477.3 | |  |  | 998.5 | |  |  | 751.1 | |  |  | — | |  |
| Other revenues (b) |  | 53.6 | |  |  | (1.8 | | ) |  | 31.4 | |  |  | 16.6 | |  |  | 3.3 | |  |  | 1.2 | |  |  | 2.9 | |  |
| **Total revenues** |  | $ | 4,806.3 |  |  | $ | (236.4 | ) |  | $ | 1,791.8 |  |  | $ | 1,493.9 |  |  | $ | 1,001.8 |  |  | $ | 752.3 |  |  | $ | 2.9 |  |

|  |  |
| --- | --- |
|  |  |
| (a) | Includes intersegment revenues principally among Midstream & Marketing, UGI Utilities and AmeriGas Propane. |

|  |  |
| --- | --- |
|  |  |
| (b) | Primarily represents revenues from tank rentals at AmeriGas Propane and UGI International, revenues from certain gathering assets at Midstream & Marketing, and gains and losses on commodity derivative instruments not associated with current-period transactions reflected in Corporate & Other, none of which are within the scope of ASC 606 and are accounted for in accordance with other GAAP. |

|  |  |
| --- | --- |
|  |  |
| (c) | UGI Utilities includes an unallocated negative surcharge revenue reduction of $(10.5) and $(14.6) for the three and six months ended March 31, 2019 as a result of a PAPUC Order issued May 17, 2018, related to the TCJA. |

**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” and, in the case of UGI Utilities, “Accrued utility revenues” 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 $62.2, $114.1 and $60.4 at March 31, 2020, September 30, 2019 and March 31, 2019, respectively, and are included in “Other current liabilities” and “Other noncurrent liabilities” on the Condensed Consolidated Balance Sheets. Revenues recognized for the six months ended March 31, 2020 and 2019, from the amounts included in contract liabilities at September 30, 2019 and October 1, 2018, were $82.2 and $82.8, respectively.

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**Remaining Performance Obligations**

The Company has elected to use practical expedients as allowed in ASC 606 to exclude disclosures related to the aggregate amount of the transaction price allocated to certain 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. Certain contracts with customers at Midstream & Marketing and UGI Utilities contain minimum future performance obligations through 2047 and 2053, respectively. At March 31, 2020, Midstream & Marketing and UGI Utilities expect to record approximately $2.0 billion and $0.2 billion of revenues, respectively, related to the minimum future performance obligations over the remaining terms of the related contracts.

**Note 5 — CMG Acquisition**

On August 1, 2019, UGI through its wholly owned indirect subsidiary, Energy Services, completed the CMG Acquisition in which Energy Services acquired all of the equity interests in CMG and CMG’s approximately 47% interest in Pennant, for total cash consideration of $1,284.4. The CMG Acquisition was consummated pursuant to the CMG Acquisition Agreements. CMG and Pennant provide natural gas gathering and processing services through five discrete systems located in western Pennsylvania, eastern Ohio and the panhandle of West Virginia. The CMG Acquisition is consistent with our growth strategies, including expanding our midstream natural gas gathering and processing assets within the Marcellus and Utica Shale production regions. The CMG Acquisition was funded with cash from borrowings under the Energy Services Term Loan and the UGI Corporation Senior Credit Facility and cash on hand. We refer to CMG and its equity interest in Pennant as "UGI Appalachia".

The Company has accounted for the CMG Acquisition using the acquisition method. The components of the final CMG purchase price allocations are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| Assets acquired: |  | | |
| Cash | $ | 0.3 |  |
| Accounts receivable | 10.2 | |  |
| Prepaid expenses and other current assets | 1.1 | |  |
| Property, plant and equipment | 613.6 | |  |
| Investment in Pennant | 88.0 | |  |
| Intangible assets (a) | 250.0 | |  |
| Total assets acquired | $ | 963.2 |  |
|  |  | | |
| Liabilities assumed: |  | | |
| Accounts payable | $ | 3.3 |  |
| Other noncurrent liabilities | 0.1 | |  |
| Total liabilities assumed | $ | 3.4 |  |
| Goodwill | 324.6 | |  |
| Net consideration transferred (including working capital adjustments) | $ | 1,284.4 |  |

|  |  |
| --- | --- |
|  |  |
| (a) | Represents customer relationships having an average amortization period of 35 years. |

We allocated the purchase price of the acquisition to identifiable intangible assets and property, plant and equipment based on estimated fair values as follows:

|  |  |
| --- | --- |
|  |  |
| • | Customer relationships were valued using a multi-period, excess earnings method. Key assumptions used in this method include discount rates, growth rates and cash flow projections. These assumptions are most sensitive and susceptible to change as they require significant management judgment; and |

|  |  |
| --- | --- |
|  |  |
| • | Property, plant and equipment were valued based on estimated fair values primarily using depreciated replacement cost and market value methods. |

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The excess of the purchase price for the CMG Acquisition over the fair values of the assets acquired and liabilities assumed has been reflected as goodwill, assigned to the Midstream & Marketing reportable segment, and results principally from anticipated future capital investment opportunities and value creation resulting from new natural gas processing assets in the Marcellus and Utica Shale production regions. The goodwill recognized from the CMG Acquisition is deductible for income tax purposes.

The impact of the CMG Acquisition on a pro forma basis as if the CMG Acquisition had occurred on October 1, 2018 was not material to the Company’s consolidated results for the three and six months ended March 31, 2019.

**Note 6 — Inventories**

Inventories comprise the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | March 31,  2020 | | |  | September 30,  2019 | | |  | March 31,  2019 | | |
| Non-utility LPG and natural gas |  | $ | 110.1 |  |  | $ | 150.2 |  |  | $ | 159.7 |  |
| Gas Utility natural gas |  | 3.3 | |  |  | 26.6 | |  |  | 3.4 | |  |
| Materials, supplies and other |  | 66.3 | |  |  | 53.1 | |  |  | 58.9 | |  |
| Total inventories |  | $ | 179.7 |  |  | $ | 229.9 |  |  | $ | 222.0 |  |

At March 31, 2020, UGI Utilities was party to three principal SCAAs with terms of up to three years. Pursuant to the SCAAs, UGI Utilities has, among other things, released certain natural gas storage and transportation contracts for the terms of the SCAAs. UGI Utilities also transferred certain associated natural gas storage inventories upon commencement of the SCAAs, will receive a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the terms of the SCAAs. The historical cost of natural gas storage inventories released under the SCAAs, which represents a portion of Gas Utility’s total natural gas storage inventories, and any exchange receivable (representing amounts of natural gas inventories used by the other parties to the agreement but not yet replenished for which UGI Utilities has the rights), are included in the caption “Gas Utility natural gas” in the table above. For all periods presented, UGI Utilities had SCAAs with Energy Services, the effects of which are eliminated in consolidation. At March 31, 2019, UGI Utilities had SCAAs with a non-affiliate, for which no gas storage inventories were released.

**Note 7 — Goodwill and Intangible Assets**

Goodwill and intangible assets comprise the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | March 31,  2020 | | |  | September 30,  2019 | | |  | March 31,  2019 | | |
| Goodwill |  | $ | 3,465.5 |  |  | $ | 3,456.4 |  |  | $ | 3,147.8 |  |
| Intangible assets: |  |  | | |  |  | | |  |  | | |
| Customer relationships |  | $ | 1,040.4 |  |  | $ | 1,038.4 |  |  | $ | 782.1 |  |
| Trademarks and tradenames |  | 11.8 | |  |  | 16.2 | |  |  | 16.5 | |  |
| Noncompete agreements and other |  | 68.1 | |  |  | 46.4 | |  |  | 55.2 | |  |
| Accumulated amortization |  | (478.7 | | ) |  | (441.8 | | ) |  | (416.3 | | ) |
| Intangible assets, net (definite-lived) |  | 641.6 | |  |  | 659.2 | |  |  | 437.5 | |  |
| Trademarks and tradenames (indefinite-lived) |  | 46.2 | |  |  | 49.4 | |  |  | 50.8 | |  |
| Total intangible assets, net |  | $ | 687.8 |  |  | $ | 708.6 |  |  | $ | 488.3 |  |

Amortization expense of intangible assets was $22.6 and $14.5 for the three months ended March 31, 2020 and 2019, respectively, and $39.4 and $29.1 for the six months ended March 31, 2020 and 2019, respectively. The estimated aggregate amortization expense of intangible assets for the remainder of Fiscal 2020 and for the next four fiscal years is as follows: remainder of Fiscal 2020 — $40.8; Fiscal 2021 — $67.2; Fiscal 2022 — $59.3; Fiscal 2023 — $56.9; Fiscal 2024 — $55.5.

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**Note 8 — Utility Regulatory Assets and Liabilities and Regulatory Matters**

For a description of the Company’s regulatory assets and liabilities other than those described below, see Note 9 in the Company’s 2019 Annual Report. Other than removal costs, UGI Utilities currently does not recover a rate of return on its regulatory assets listed below. The following regulatory assets and liabilities associated with UGI Utilities are included on the Condensed Consolidated Balance Sheets:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | March 31,  2020 | | |  | September 30,  2019 | | |  | March 31,  2019 | | |
| **Regulatory assets:** |  |  | | |  |  | | |  |  | | |
| Income taxes recoverable |  | $ | 127.3 |  |  | $ | 115.2 |  |  | $ | 120.3 |  |
| Underfunded pension and postretirement plans |  | 171.8 | |  |  | 178.6 | |  |  | 83.6 | |  |
| Environmental costs |  | 56.8 | |  |  | 59.5 | |  |  | 58.8 | |  |
| Removal costs, net |  | 24.5 | |  |  | 28.3 | |  |  | 30.1 | |  |
| Other |  | 10.5 | |  |  | 14.0 | |  |  | 6.5 | |  |
| Total regulatory assets |  | $ | 390.9 |  |  | $ | 395.6 |  |  | $ | 299.3 |  |
| **Regulatory liabilities (a):** |  |  | | |  |  | | |  |  | | |
| Postretirement benefit overcollections |  | $ | 13.7 |  |  | $ | 14.5 |  |  | $ | 16.9 |  |
| Deferred fuel and power refunds |  | 11.3 | |  |  | 6.1 | |  |  | 17.7 | |  |
| State tax benefits — distribution system repairs |  | 27.7 | |  |  | 25.0 | |  |  | 24.3 | |  |
| PAPUC Temporary Rates Order |  | 15.4 | |  |  | 31.3 | |  |  | 25.1 | |  |
| Excess federal deferred income taxes |  | 276.7 | |  |  | 279.5 | |  |  | 276.7 | |  |
| Other |  | 1.1 | |  |  | 2.4 | |  |  | 18.8 | |  |
| Total regulatory liabilities |  | $ | 345.9 |  |  | $ | 358.8 |  |  | $ | 379.5 |  |

|  |  |
| --- | --- |
|  |  |
| (a) | Regulatory liabilities are included in “Other current liabilities” and “Other noncurrent liabilities” on the Condensed Consolidated Balance Sheets. |

***Deferred Fuel and Power Refunds.*** Gas Utility’s and Electric Utility’s tariffs contain clauses that permit recovery of all prudently incurred purchased gas and power costs through the application of PGC rates in the case of Gas Utility and DS tariffs in the case of Electric Utility. These clauses provide for periodic adjustments to PGC and DS rates for differences between the total amount of purchased gas and electric generation supply costs collected from customers and recoverable costs incurred. Net undercollected costs are classified as a regulatory asset and net overcollections are classified as a regulatory liability.

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for retail core-market customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel and power costs or refunds. Net unrealized (losses) gains on such contracts at March 31, 2020, September 30, 2019 and March 31, 2019 were $(0.5), $(2.2) and $1.0, respectively.

**Other Regulatory Matters**

***Base Rate Filings.*** On January 28, 2020, Gas Utility filed a request with the PAPUC to increase its base operating revenues for residential, commercial and industrial customers by $74.6 annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service and to continue funding programs designed to promote and reward customers’ efforts to increase efficient use of natural gas. Gas Utility requested that the new gas rates become effective March 28, 2020. The PAPUC entered an Order dated February 27, 2020, suspending the effective date for the rate increase to allow for investigation and public hearings for up to nine months from the date of filing. Thereafter, in response to a COVID-19 related motion to extend the suspension period indefinitely filed by the BIE, the Company voluntarily extended the end of the suspension period an additional twenty-one days, to November 19, 2020. Unless a settlement is reached sooner, this review process is expected to last until that date. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

On January 28, 2019, Gas Utility filed a rate request with the PAPUC to increase the base operating revenues for residential, commercial, and industrial customers throughout its Pennsylvania service territory by an aggregate $71.1. On October 4, 2019,

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the PAPUC issued a final Order approving a settlement that permits Gas Utility, effective October 11, 2019, to increase its base distribution revenues by $30.0 under a single consolidated tariff, approved a plan for uniform class rates, and permits Gas Utility to extend its Energy Efficiency and Conservation and Growth Extension Tariff programs by an additional term of five years. The PAPUC’s final Order approved a negative surcharge, to return to customers $24.0 of tax benefits experienced by Gas Utility over the period January 1, 2018 to June 30, 2018, plus applicable interest, in accordance with the May 17, 2018 PAPUC Order, which became effective for a twelve-month period beginning on October 11, 2019, the effective date of Gas Utility’s new base rates.

On October 25, 2018, the PAPUC approved a final order providing for a $3.2 annual base distribution rate increase for Electric Utility, effective October 27, 2018. As part of the final PAPUC Order, Electric Utility provided customers with a one-time $0.2 billing credit associated with 2018 TCJA tax benefits. On November 26, 2018, the Pennsylvania Office of Consumer Advocate filed an appeal to the Pennsylvania Commonwealth Court challenging the PAPUC’s acceptance of UGI Utilities’ use of a fully projected future test year and handling of consolidated federal income tax benefits. On January 15, 2020, the Pennsylvania Commonwealth Court issued a decision affirming the PAPUC Order adopting UGI Utilities’ position on both issues. No party exercised their right to seek an appeal of the Commonwealth Court decision.

**Note 9 — Leases**

**Lessee**

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

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

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

Certain lease arrangements, primarily fleet vehicle leases with lease terms of one to ten years, contain purchase options. The Company generally excludes purchase options in evaluating its leases unless it is reasonably certain that such options will be exercised. Additionally, leases of fleet vehicles often contain residual value guarantees that are due at the end of the lease. Such amounts are included in the determination of lease liabilities when we are reasonably certain that they will be owed.

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

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ROU assets and lease liabilities recorded in the Condensed Consolidated Balance Sheet are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
|  |  |  |  |  |  |
|  | March 31, 2020 | | |  | Location on the Balance Sheet |
| ROU assets: |  | | |  |  |
| Operating lease ROU assets | $ | 431.8 |  |  | Other assets |
| Finance lease ROU assets | 54.0 | |  |  | Property, plant and equipment |
| Total ROU assets | $ | 485.8 |  |  |  |
|  |  | | |  |  |
| Lease liabilities: |  | | |  |  |
| Operating lease liabilities - current | $ | 86.5 |  |  | Other current liabilities |
| Operating lease liabilities - noncurrent | 351.8 | |  |  | Other noncurrent liabilities |
| Finance lease liabilities - current | 6.2 | |  |  | Current maturities of long-term debt |
| Finance lease liabilities - noncurrent | 41.4 | |  |  | Long-term debt |
| Total lease liabilities | $ | 485.9 |  |  |  |

The components of lease cost are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | Three Months Ended March 31, 2020 | | |  | Six Months Ended March 31, 2020 | | |
| Operating lease cost | $ | 28.1 |  |  | $ | 53.7 |  |
| Finance lease cost: |  | | |  |  | |  |
| Amortization of ROU assets | 1.6 | |  |  | 3.2 | |  |
| Interest on lease liabilities | 0.7 | |  |  | 1.2 | |  |
| Variable lease cost | 1.4 | |  |  | 2.8 | |  |
| Short-term lease cost | 0.6 | |  |  | 1.6 | |  |
| Total lease cost | $ | 32.4 |  |  | $ | 62.5 |  |

The following table presents the cash and non-cash activity related to lease liabilities included in the Condensed Consolidated Statement of Cash Flows occurring during the period:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | Six Months Ended March 31, 2020 | | |
| Cash paid related to lease liabilities: |  | | |
| Operating cash flows from operating leases | $ | 53.3 |  |
| Operating cash flows from finance leases | $ | 1.2 |  |
| Financing cash flows from finance leases | $ | 1.9 |  |
|  |  | | |
| Non-cash lease liability activities: |  | | |
| ROU assets obtained in exchange for operating lease liabilities (including the impact upon adoption) | $ | 475.6 |  |
| ROU assets obtained in exchange for finance lease liabilities | $ | 21.5 |  |

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The following table presents the weighted-average remaining lease term and weighted-average discount rate as of March 31, 2020:

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| Weighted-average remaining lease term |  | In years |
| Operating leases |  | 6.3 |
| Finance leases |  | 2.4 |
|  |  |  |
| Weighted-average discount rate |  | % |
| Operating leases |  | 3.9% |
| Finance leases |  | 2.0% |

Expected annual lease payments based on maturities of operating and finance leases, as well as a reconciliation to the lease liabilities on the Condensed Consolidated Balance Sheet, as of March 31, 2020, were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Remainder of Fiscal 2020 | | |  | Fiscal 2021 | | |  | Fiscal 2022 | | |  | Fiscal 2023 | | |  | Fiscal 2024 | | |  | After Fiscal 2024 | | |  | Total Lease Payments | | |  | Imputed Interest | | |  | Lease Liabilities | | |
| Operating leases: | $ | 50.8 |  |  | $ | 93.3 |  |  | $ | 77.8 |  |  | $ | 68.6 |  |  | $ | 59.1 |  |  | $ | 146.8 |  |  | $ | 496.4 |  |  | $ | (58.1 | ) |  | $ | 438.3 |  |
| Finance leases: | $ | 3.1 |  |  | $ | 5.1 |  |  | $ | 4.0 |  |  | $ | 3.4 |  |  | $ | 3.1 |  |  | $ | 85.9 |  |  | $ | 104.6 |  |  | $ | (57.0 | ) |  | $ | 47.6 |  |

Approximately 85% of the operating lease liabilities presented above relates to AmeriGas Propane.

At March 31, 2020, operating and finance leases that had not yet commenced were not material.

***Disclosures related to periods prior to adoption of ASC 842***

As discussed above, the Company adopted ASC 842 effective October 1, 2019, using a modified retrospective approach. As required, the following disclosure is provided for periods prior to adoption. The Company’s future minimum payments under non-cancelable operating leases at September 30, 2019, which were accounted for under ASC 840, were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal 2020 | | |  | Fiscal 2021 | | |  | Fiscal 2022 | | |  | Fiscal 2023 | | |  | Fiscal 2024 | | |  | After  Fiscal  2024 | | |
| Total |  | $ | 100.4 |  |  | $ | 85.9 |  |  | $ | 71.0 |  |  | $ | 61.7 |  |  | $ | 53.6 |  |  | $ | 139.2 |  |

**Lessor**

We enter into lessor arrangements for the purposes of storing, gathering or distributing natural gas and propane. AmeriGas Propane and UGI International have lessor arrangements that grant customers the right to use small, medium and large storage tanks, which we classify as operating leases. These agreements contain renewal options for periods up to nine years and certain agreements at UGI International contain a purchase option. Energy Services leases certain natural gas gathering assets to customers, which we classify as operating leases. Lease income is generally recognized on a straight-line basis over the lease term and included in “Revenues” on the Condensed Consolidated Statements of Income (see Note 4).

**Note 10 — Debt**

***Energy Services.*** On March 6, 2020, Energy Services entered into the Energy Services 2020 Credit Agreement, as borrower, with a group of lenders. The Energy Services 2020 Credit Agreement amends and restates the Energy Services Credit Agreement. The Energy Services 2020 Credit Agreement provides for borrowings up to $260, including a $50 sublimit for letters of credit. Energy Services may request an increase in the amount of loan commitments under the Energy Services 2020 Credit Agreement to a maximum aggregate amount of $325, subject to certain terms and conditions. Borrowings under the Energy Services 2020 Credit Agreement can be used to fund acquisitions and investments and for general corporate purposes. The Energy Services 2020 Credit Agreement is scheduled to expire in March 2025.

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Borrowings under the Energy Services 2020 Credit Agreement bear interest at either (i) the Alternate Base Rate plus a margin or (ii) the Adjusted LIBOR plus a margin. The Alternate Base Rate, as defined, is the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) the Adjusted LIBOR for a one-month interest period plus 1% but in no event shall the Alternative Base Rate be less than 1%. The margins on borrowings ranges from 0.75% to 2.75% and are dependent upon Energy Services’ ratio of Consolidated Total Indebtedness to Consolidated EBITDA, as defined. The initial margin on the Alternate Base Rate and Adjusted LIBOR on borrowings under the Energy Services 2020 Credit Agreement were 1.50% and 2.50%, respectively. The Energy Services 2020 Credit Agreement includes customary provisions with respect to the replacement of LIBOR.

The Energy Services 2020 Credit Agreement requires that Energy Services not exceed ratios of Consolidated Total Indebtedness to Consolidated EBITDA, as defined, of 4.00 to 1.00, and maintain a minimum ratio of Consolidated EBITDA to Consolidated Interest Expense, as defined, of 3.50 to 1.00. The Energy Services 2020 Credit Agreement is guaranteed by certain subsidiaries of Energy Services and is collateralized by substantially all of the assets of Energy Services, subject to certain exceptions and carveouts including, but not limited to, accounts receivables and certain real property. The Energy Services 2020 Credit Agreement is subject to customary covenants and default provisions including restrictions on the incurrence of additional indebtedness and also restricts liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions.

**Subsequent Event**

***UGI Utilities.*** On April 16, 2020, UGI Utilities issued in a private placement $150 of UGI Utilities 3.12% Senior Notes due April 16, 2050 pursuant to a Note Purchase Agreement dated March 19, 2020, between UGI Utilities and certain note purchasers. The UGI Utilities 3.12% Senior Notes are unsecured and rank equally with UGI Utilities’ existing outstanding senior debt. The net proceeds from the issuance of the UGI Utilities 3.12% Senior Notes were used to reduce short-term borrowings and for general corporate purposes. The UGI Utilities 3.12% Senior Notes include the usual and customary covenants for similar type notes including, among others, maintenance of existence, payment of taxes when due, compliance with laws and maintenance of insurance. The UGI Utilities 3.12% Senior Notes require UGI Utilities not to exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00.

**Note 11 — Commitments and Contingencies**

**Environmental Matters**

***UGI Utilities***

From the late 1800s through the mid-1900s, UGI Utilities and its former subsidiaries owned and operated a number of MGPs prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the businesses of some gas companies under agreement. By the early 1950s, UGI Utilities divested all of its utility operations other than certain gas and electric operations. Beginning in 2006 and 2008, UGI Utilities also owned and operated two acquired subsidiaries (CPG and PNG), with similar histories of owning, and in some cases operating, MGPs in Pennsylvania. CPG and PNG merged into UGI Utilities effective October 1, 2018.

Prior to the Utility Merger, each of UGI Utilities and its subsidiaries, CPG and PNG, were subject to COAs with the PADEP to address the remediation of specified former MGP sites in Pennsylvania. In accordance with the COAs, as amended to recognize the Utility Merger, UGI Utilities, as the successor to CPG and PNG, is required to either obtain a certain number of points per calendar year based on defined eligible environmental investigatory and/or remedial activities at the MGPs and in the case of one COA, an additional obligation to plug specific natural gas wells, or make expenditures for such activities in an amount equal to an annual environmental cost cap (i.e. minimum expenditure threshold). The cost cap of the three COAs, in the aggregate, is $5.4. The three COAs are currently scheduled to terminate at the end of 2031, 2020 and 2020. UGI Utilities has initiated discussions with the PADEP to consolidate the three COAs into one agreement that, when finalized, would supersede the existing agreements as of the effective date and have a termination date of 2031. At March 31, 2020, September 30, 2019 and March 31, 2019, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the COAs totaled $49.3, $50.4 and $50.8, respectively.

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We do not expect the costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to UGI Utilities’ results of operations because UGI Utilities receives ratemaking recovery of actual environmental investigation and remediation costs associated with the sites covered by the COAs. This ratemaking recognition reconciles the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. As such, UGI Utilities has recorded an associated regulatory asset for these costs because recovery of these costs from customers is probable (see Note 8).

From time to time, UGI Utilities is notified of sites outside Pennsylvania on which private parties allege MGPs were formerly owned or operated by UGI Utilities or owned or operated by a former subsidiary. Such parties generally investigate the extent of environmental contamination or perform environmental remediation. Management believes that under applicable law UGI Utilities should not be liable in those instances in which a former subsidiary owned or operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that UGI Utilities directly operated, or that were owned or operated by a former subsidiary of UGI Utilities if a court were to conclude that (1) the subsidiary’s separate corporate form should be disregarded, or (2) UGI Utilities should be considered to have been an operator because of its conduct with respect to its subsidiary’s MGP. Neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities’ MGP sites outside Pennsylvania was material for all periods presented.

***AmeriGas Propane***

***AmeriGas OLP Saranac Lake.*** In 2008, the NYDEC notified AmeriGas OLP that the NYDEC had placed property purportedly owned by AmeriGas OLP in Saranac Lake, New York on the New York State Registry of Inactive Hazardous Waste Disposal Sites. A site characterization study performed by the NYDEC disclosed contamination related to a former MGP. AmeriGas OLP responded to the NYDEC in 2009 to dispute the contention it was a PRP as it did not operate the MGP and appeared to only own a portion of the site. In 2017, the NYDEC communicated to AmeriGas OLP that the NYDEC had previously issued three RODs related to remediation of the site totaling approximately $27.7 and requested additional information regarding AmeriGas OLP’s purported ownership. AmeriGas OLP renewed its challenge to designation as a PRP and identified potential defenses. The NYDEC subsequently identified a third party PRP with respect to the site.

The NYDEC commenced implementation of the remediation plan in the spring of 2018. Based on our evaluation of the available information as of March 31, 2020, the Partnership has an undiscounted environmental remediation liability of $7.5 related to the site. Our share of the actual remediation costs could be significantly more or less than the accrued amount.

**Other Matters**

***Purported Class Action Lawsuits.*** Between May and October of 2014, purported class action lawsuits were filed in multiple jurisdictions against the Partnership/UGI and a competitor by certain of their direct and indirect customers.  The class action lawsuits allege, among other things, that the Partnership and its competitor colluded, beginning in 2008, to reduce the fill level of portable propane cylinders from 17 pounds to 15 pounds and combined to persuade their common customer, Walmart Stores, Inc., to accept that fill reduction, resulting in increased cylinder costs to retailers and end-user customers in violation of federal and certain state antitrust laws.  The claims seek treble damages, injunctive relief, attorneys’ fees and costs on behalf of the putative classes.

On October 16, 2014, the United States Judicial Panel on Multidistrict Litigation transferred all of these purported class action cases to the Western Missouri District Court.  As the result of rulings on a series of procedural filings, including petitions filed with the Eighth Circuit and the U.S. Supreme Court, both the federal and state law claims of the direct customer plaintiffs and the state law claims of the indirect customer plaintiffs were remanded to the Western Missouri District Court. The decision of the Western Missouri District Court to dismiss the federal antitrust claims of the indirect customer plaintiffs was upheld by the Eighth Circuit. On April 15, 2019, the Western Missouri District Court ruled that it has jurisdiction over the indirect purchasers’ state law claims and that the indirect customer plaintiffs have standing to pursue those claims. On August 21, 2019, the District Court partially granted the Company’s motion for judgment on the pleadings and dismissed the claims of indirect customer plaintiffs from ten states and the District of Columbia.

On October 2, 2019, the Partnership reached an agreement to resolve the claims of the direct purchaser class of plaintiffs, subject to court approval.

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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.

In addition to the matters described above, there are other 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.

**Note 12 — Defined Benefit Pension and Other Postretirement Plans**

The U.S. Pension Plan is a defined benefit pension plan for employees hired prior to January 1, 2009, of UGI, UGI Utilities, and certain of UGI’s other domestic wholly owned subsidiaries. U.S. Pension Plan benefits are based on years of service, age and employee compensation. We also provide postretirement health care benefits to certain retirees and postretirement life insurance benefits to certain U.S. active and retired employees. In addition, certain UGI International employees in France, Belgium and the Netherlands are covered by defined benefit pension and postretirement plans. Although the disclosures in the tables below include amounts related to the UGI International plans, such amounts are not material.

The service cost component of our pension and other postretirement plans, net of amounts capitalized, is reflected in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income. The non-service cost component, net of amounts capitalized by UGI Utilities as a regulatory asset, are reflected in “Other non-operating income, net” on the Condensed Consolidated Statements of Income. Net periodic pension cost and other postretirement benefit cost include the following components:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Pension Benefits | | | | | | |  | Other Postretirement Benefits | | | | | | |
| Three Months Ended March 31, |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| Service cost |  | $ | 2.8 |  |  | $ | 2.6 |  |  | $ | — |  |  | $ | 0.1 |  |
| Interest cost |  | 5.8 | |  |  | 6.8 | |  |  | 0.1 | |  |  | 0.2 | |  |
| Expected return on assets |  | (9.4 | | ) |  | (9.1 | | ) |  | (0.2 | | ) |  | (0.2 | | ) |
| Curtailment gain |  | (1.1 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Amortization of: |  |  | | |  |  | | |  |  | | |  |  | | |
| Prior service benefit |  | — | |  |  | — | |  |  | (0.1 | | ) |  | (0.2 | | ) |
| Actuarial loss |  | 3.8 | |  |  | 2.0 | |  |  | 0.1 | |  |  | — | |  |
| Net cost (benefit) |  | 1.9 | |  |  | 2.3 | |  |  | (0.1 | | ) |  | (0.1 | | ) |
| Change in associated regulatory liabilities |  | — | |  |  | — | |  |  | (0.4 | | ) |  | (0.4 | | ) |
| Net cost (benefit) after change in regulatory liabilities |  | $ | 1.9 |  |  | $ | 2.3 |  |  | $ | (0.5 | ) |  | $ | (0.5 | ) |
|  |  |  | | |  |  | | |  |  | | |  |  | | |
|  |  | Pension Benefits | | | | | | |  | Other Postretirement Benefits | | | | | | |
| Six Months Ended March 31, |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| Service cost |  | $ | 5.6 |  |  | $ | 5.1 |  |  | $ | 0.1 |  |  | $ | 0.1 |  |
| Interest cost |  | 11.6 | |  |  | 13.6 | |  |  | 0.3 | |  |  | 0.4 | |  |
| Expected return on assets |  | (18.8 | | ) |  | (18.1 | | ) |  | (0.4 | | ) |  | (0.4 | | ) |
| Curtailment gain |  | (1.1 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Amortization of: |  |  | | |  |  | | |  |  | | |  |  | | |
| Prior service cost (benefit) |  | 0.1 | |  |  | 0.1 | |  |  | (0.2 | | ) |  | (0.3 | | ) |
| Actuarial loss |  | 7.5 | |  |  | 3.9 | |  |  | 0.1 | |  |  | — | |  |
| Net cost (benefit) |  | 4.9 | |  |  | 4.6 | |  |  | (0.1 | | ) |  | (0.2 | | ) |
| Change in associated regulatory liabilities |  | — | |  |  | — | |  |  | (0.7 | | ) |  | (0.7 | | ) |
| Net cost (benefit) after change in regulatory liabilities |  | $ | 4.9 |  |  | $ | 4.6 |  |  | $ | (0.8 | ) |  | $ | (0.9 | ) |

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The U.S. Pension Plan’s assets are held in trust and consist principally of publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, UGI Common Stock. It is our general policy to fund amounts for U.S. Pension Plan benefits equal to at least the minimum required contribution set forth in applicable employee benefit laws. During the six months ended March 31, 2020 and 2019, the Company made cash contributions to the U.S. Pension Plan of $6.3 and $5.0, respectively. The Company expects to make additional cash contributions of approximately $6.0 to the U.S. Pension Plan during the remainder of Fiscal 2020.

UGI Utilities has established a VEBA trust to pay retiree health care and life insurance benefits by depositing into the VEBA the annual amount of postretirement benefits costs, if any, determined under GAAP. There were no required contributions to the VEBA during the six months ended March 31, 2020 and 2019.

We also sponsor unfunded and non-qualified supplemental executive defined benefit retirement plans. Net costs associated with these plans for the three and six months ended March 31, 2020 and 2019, were not material.

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**Note 13 — Fair Value Measurements**

**Recurring Fair Value Measurements**

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 | | |
| **March 31, 2020:** |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative instruments: |  |  | | |  |  | | |  |  | | |  |  | | |
| Assets: |  |  | | |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | $ | 36.4 |  |  | $ | 11.9 |  |  | $ | — |  |  | $ | 48.3 |  |
| Foreign currency contracts |  | $ | — |  |  | $ | 58.0 |  |  | $ | — |  |  | $ | 58.0 |  |
| Liabilities: |  |  | | |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | $ | (92.2 | ) |  | $ | (221.6 | ) |  | $ | — |  |  | $ | (313.8 | ) |
| Foreign currency contracts |  | $ | — |  |  | $ | (6.8 | ) |  | $ | — |  |  | $ | (6.8 | ) |
| Interest rate contracts |  | $ | — |  |  | $ | (54.1 | ) |  | $ | — |  |  | $ | (54.1 | ) |
| Non-qualified supplemental postretirement grantor trust investments (a) |  | $ | 38.6 |  |  | $ | — |  |  | $ | — |  |  | $ | 38.6 |  |
| **September 30, 2019:** |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative instruments: |  |  | | |  |  | | |  |  | | |  |  | | |
| Assets: |  |  | | |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | $ | 32.0 |  |  | $ | 10.1 |  |  | $ | — |  |  | $ | 42.1 |  |
| Foreign currency contracts |  | $ | — |  |  | $ | 59.0 |  |  | $ | — |  |  | $ | 59.0 |  |
| Liabilities: |  |  | | |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | $ | (62.3 | ) |  | $ | (112.7 | ) |  | $ | — |  |  | $ | (175.0 | ) |
| Foreign currency contracts |  | $ | — |  |  | $ | (4.3 | ) |  | $ | — |  |  | $ | (4.3 | ) |
| Interest rate contracts |  | $ | — |  |  | $ | (12.3 | ) |  | $ | — |  |  | $ | (12.3 | ) |
| Non-qualified supplemental postretirement grantor trust investments (a) |  | $ | 39.7 |  |  | $ | — |  |  | $ | — |  |  | $ | 39.7 |  |
| **March 31, 2019:** |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative instruments: |  |  | | |  |  | | |  |  | | |  |  | | |
| Assets: |  |  | | |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | $ | 33.3 |  |  | $ | 27.7 |  |  | $ | — |  |  | $ | 61.0 |  |
| Foreign currency contracts |  | $ | — |  |  | $ | 29.8 |  |  | $ | — |  |  | $ | 29.8 |  |
| Liabilities: |  |  | | |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | $ | (17.0 | ) |  | $ | (55.7 | ) |  | $ | — |  |  | $ | (72.7 | ) |
| Foreign currency contracts |  | $ | — |  |  | $ | (4.9 | ) |  | $ | — |  |  | $ | (4.9 | ) |
| Interest rate contracts |  | $ | — |  |  | $ | (5.7 | ) |  | $ | — |  |  | $ | (5.7 | ) |
| Non-qualified supplemental postretirement grantor trust investments (a) |  | $ | 40.2 |  |  | $ | — |  |  | $ | — |  |  | $ | 40.2 |  |

|  |  |
| --- | --- |
|  |  |
| (a) | Consists primarily of mutual fund investments held in grantor trusts associated with non-qualified supplemental retirement plans (see Note 12). |

The fair values of our Level 1 exchange-traded commodity futures and option contracts and 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 certain non-exchange-traded 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 investments

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held in grantor trusts are derived from quoted market prices as substantially all of the investments in these trusts have active markets.

**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:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | March 31, 2020 | | |  | September 30, 2019 | | |  | March 31, 2019 | | |
| Carrying amount | $ | 5,878.6 |  |  | $ | 5,856.6 |  |  | $ | 4,341.2 |  |
| Estimated fair value | $ | 5,735.7 |  |  | $ | 6,189.3 |  |  | $ | 4,380.4 |  |

Financial instruments other than derivative instruments, such as short-term investments and trade accounts receivable, could expose us to concentrations of credit risk. We limit credit risk from short-term investments by investing only in investment-grade commercial paper, money market mutual funds, securities guaranteed by the U.S. Government or its agencies and FDIC insured bank deposits. The credit risk arising from concentrations of trade accounts receivable is limited because we have a large customer base that extends across many different U.S. markets and a number of foreign countries. For information regarding concentrations of credit risk associated with our derivative instruments, see Note 14.

**Note 14 — Derivative Instruments and Hedging Activities**

We are exposed to certain market risks related to our ongoing business operations. Management uses derivative financial and commodity instruments, among other things, to manage these risks. The primary risks managed by derivative instruments 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 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.

**Commodity Price Risk**

Regulated Utility Operations

*Natural Gas*

Gas Utility’s tariffs contain clauses that permit recovery of all prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PAPUC pursuant to Gas Utility’s annual PGC filings, Gas Utility currently uses NYMEX natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. Gains and losses on Gas Utility’s natural gas futures contracts and natural gas option contracts are recorded in regulatory assets or liabilities on the Condensed Consolidated Balance Sheets because it is probable such gains or losses will be recoverable from, or refundable to, customers through the PGC recovery mechanism (see Note 8).

Non-utility Operations

*LPG*

In order to manage market price risk associated with the Partnership’s fixed-price programs, the Partnership uses over-the-counter derivative commodity instruments, principally price swap contracts. In addition, the Partnership, certain other domestic businesses

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and our UGI International operations also use over-the-counter price swap contracts to reduce commodity price volatility associated with a portion of their forecasted LPG purchases. The Partnership, from time to time, enters into price swap agreements to reduce the effects of short-term commodity price volatility. Also, Midstream & Marketing, from time to time, uses NYMEX futures contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of propane.

*Natural Gas*

In order to manage market price risk relating to fixed-price sales contracts for physical natural gas, Midstream & Marketing enters into NYMEX and over-the-counter natural gas futures and over-the-counter and ICE natural gas basis swap contracts. In addition, Midstream & Marketing uses NYMEX and over-the-counter futures and options contracts to economically hedge price volatility associated with the gross margin derived from the purchase and anticipated later near-term sale of natural gas storage inventories. Outside of the financial market, Midstream & Marketing also uses ICE and over-the-counter forward physical contracts. UGI International also uses natural gas futures and forward contracts to economically hedge market price risk associated with fixed-price sales contracts with its customers.

*Electricity*

In order to manage market price risk relating to fixed-price sales contracts for electricity, Midstream & Marketing enters into electricity futures and forward contracts. Midstream & Marketing also uses NYMEX and over-the-counter electricity futures contracts to economically hedge the price of a portion of its anticipated future sales of electricity from its electric generation facilities. UGI International also uses electricity futures and forward contracts to economically hedge market price risk associated with fixed-price sales and purchase contracts for electricity.

**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 these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time, we enter into IRPAs. We account for IRPAs as cash flow hedges. There were no unsettled IRPAs during any of the periods presented. At March 31, 2020, the amount of pre-tax net losses associated with interest rate hedges (excluding pay-fixed, receive-variable interest rate swaps) expected to be reclassified into earnings during the next twelve months is $3.5.

**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 local currency earnings before income taxes. Because these contracts are not designated as hedging instruments, realized and unrealized gains and losses on these contracts are recorded in “Other non-operating income, net,” on the Condensed Consolidated Statements of Income.

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

From time to time, we also enter into 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

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as net investment hedges. We use the forward rate method for measuring ineffectiveness for these net investment hedges and all changes in the fair value of the forward foreign currency contracts are reported in the cumulative translation adjustment component in AOCI.

Certain euro-denominated long-term debt issued under the 2018 UGI International Credit Facilities Agreement and the UGI International 3.25% Senior Notes in October 2018 have been designated as net investment hedges of a portion of our UGI International euro-denominated net investment. We recognized pre-tax gains (losses) associated with these net investment hedges in the cumulative translation adjustment component in AOCI of $11.9 and $16.4 during the three months ended March 31, 2020 and 2019, respectively, and $(8.5) and $10.3 during the six months ended March 31, 2020 and 2019, respectively.

**Quantitative Disclosures Related to Derivative Instruments**

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at March 31, 2020, September 30, 2019 and March 31, 2019, and the final settlement date of the Company's open derivative transactions as of March 31, 2020, excluding those derivatives that qualified for the NPNS exception:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | Notional Amounts  (in millions) | | | | | | | | | | |
| Type |  | Units |  | Settlements Extending Through |  | March 31, 2020 | | |  | September 30, 2019 | | |  | March 31, 2019 | | |
| **Commodity Price Risk:** |  |  |  |  |  |  | | |  |  | | |  |  | | |
| *Regulated Utility Operations* |  |  |  |  |  |  | | |  |  | | |  |  | | |
| Gas Utility NYMEX natural gas futures and option contracts |  | Dekatherms |  | March 2021 |  | 11.3 | |  |  | 23.3 | |  |  | 11.6 | |  |
| *Non-utility Operations* |  |  |  |  |  |  | | |  |  | | |  |  | | |
| LPG swaps |  | Gallons |  | September 2022 |  | 816.4 | |  |  | 800.4 | |  |  | 369.2 | |  |
| Natural gas futures, forward and pipeline contracts |  | Dekatherms |  | December 2024 |  | 185.5 | |  |  | 196.1 | |  |  | 213.7 | |  |
| Natural gas basis swap contracts |  | Dekatherms |  | December 2024 |  | 155.4 | |  |  | 131.1 | |  |  | 84.0 | |  |
| NYMEX natural gas storage futures contracts |  | Dekatherms |  | March 2021 |  | 2.2 | |  |  | 0.3 | |  |  | 0.3 | |  |
| NYMEX natural gas option contracts |  | Dekatherms |  | N/A |  | — | |  |  | 2.4 | |  |  | — | |  |
| NYMEX propane storage futures contracts |  | Gallons |  | April 2020 |  | 0.1 | |  |  | 0.5 | |  |  | 0.1 | |  |
| Electricity long forward and futures contracts |  | Kilowatt hours |  | January 2024 |  | 4,165.5 | |  |  | 3,098.1 | |  |  | 3,685.0 | |  |
| Electricity short forward and futures contracts |  | Kilowatt hours |  | April 2024 |  | 502.5 | |  |  | 366.7 | |  |  | 265.0 | |  |
| **Interest Rate Risk:** |  |  |  |  |  |  | | |  |  | | |  |  | | |
| Interest rate swaps |  | Euro |  | October 2022 |  | € | 300.0 |  |  | € | 300.0 |  |  | € | 300.0 |  |
| Interest rate swaps |  | USD |  | July 2024 |  | $ | 1,350.7 |  |  | $ | 1,357.3 |  |  | $ | 114.1 |  |
| **Foreign Currency Exchange Rate Risk:** |  |  |  |  |  |  | | |  |  | | |  |  | | |
| Forward foreign currency exchange contracts |  | USD |  | September 2023 |  | $ | 460.1 |  |  | $ | 516.0 |  |  | $ | 299.1 |  |
| Net investment hedge forward foreign exchange contracts |  | Euro |  | October 2024 |  | € | 172.8 |  |  | € | 172.8 |  |  | € | 172.8 |  |

**Derivative Instrument Credit Risk**

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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 forms 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 reported 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 March 31, 2020. Certain of the Partnership’s derivative contracts have credit-risk-related contingent features that may require the posting of additional collateral in the event of a downgrade of the Partnership’s debt rating. At March 31, 2020, if the credit-risk-related contingent features were triggered, the amount of collateral required to be posted would not be material.

**Offsetting Derivative Assets and Liabilities**

Derivative assets and liabilities are presented net by counterparty on the 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 include both those that are executed on an exchange through brokers and centrally cleared and over-the-counter transactions. Exchange contracts utilize a financial intermediary, exchange or clearinghouse to enter, execute or clear the transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Certain over-the-counter and exchange 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 and all exchange contracts are subject to collateral requirements. Types of collateral generally include cash or letters of credit. Cash collateral paid by us to our over-the-counter derivative counterparties, if any, is reflected in the table below to offset derivative liabilities. Cash collateral received by us from our over-the-counter derivative counterparties, if any, is reflected in the table below to offset derivative assets. Certain other accounts receivable and accounts payable balances recognized on the 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.

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**Fair Value of Derivative Instruments**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | March 31,  2020 | | |  | September 30,  2019 | | |  | March 31,  2019 | | |
| **Derivative assets:** |  |  | | |  |  | | |  |  | | |
| **Derivatives designated as hedging instruments:** |  |  | | |  |  | | |  |  | | |
| Foreign currency contracts |  | $ | 27.2 |  |  | $ | 17.4 |  |  | $ | 7.1 |  |
| **Derivatives subject to PGC and DS mechanisms:** |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | 1.4 | |  |  | 1.4 | |  |  | 1.3 | |  |
| **Derivatives not designated as hedging instruments:** |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | 46.9 | |  |  | 40.7 | |  |  | 59.7 | |  |
| Foreign currency contracts |  | 30.8 | |  |  | 41.6 | |  |  | 22.7 | |  |
|  |  | 77.7 | |  |  | 82.3 | |  |  | 82.4 | |  |
| Total derivative assets — gross |  | 106.3 | |  |  | 101.1 | |  |  | 90.8 | |  |
| Gross amounts offset in the balance sheet |  | (25.7 | | ) |  | (29.0 | | ) |  | (35.8 | | ) |
| Total derivative assets — net |  | $ | 80.6 |  |  | $ | 72.1 |  |  | $ | 55.0 |  |
| **Derivative liabilities:** |  |  | | |  |  | | |  |  | | |
| **Derivatives designated as hedging instruments:** |  |  | | |  |  | | |  |  | | |
| Interest rate contracts |  | $ | (54.1 | ) |  | $ | (12.3 | ) |  | $ | (5.7 | ) |
| **Derivatives subject to PGC and DS mechanisms:** |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | (1.9 | | ) |  | (3.7 | | ) |  | (0.2 | | ) |
| **Derivatives not designated as hedging instruments:** |  |  | | |  |  | | |  |  | | |
| Commodity contracts |  | (311.9 | | ) |  | (171.3 | | ) |  | (72.5 | | ) |
| Foreign currency contracts |  | (6.8 | | ) |  | (4.3 | | ) |  | (4.9 | | ) |
|  |  | (318.7 | | ) |  | (175.6 | | ) |  | (77.4 | | ) |
| Total derivative liabilities — gross |  | (374.7 | | ) |  | (191.6 | | ) |  | (83.3 | | ) |
| Gross amounts offset in the balance sheet |  | 25.7 | |  |  | 29.0 | |  |  | 35.8 | |  |
| Cash collateral pledged |  | 58.0 | |  |  | 29.3 | |  |  | — | |  |
| Total derivative liabilities — net |  | $ | (291.0 | ) |  | $ | (133.3 | ) |  | $ | (47.5 | ) |

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**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 for the three and six months ended March 31, 2020 and 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Three Months Ended March 31,:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
|  |  | Gain (Loss)  Recognized in AOCI | | | | | | |  | Gain (Loss) Reclassified from AOCI into Income | | | | | | |  | Location of Gain (Loss) Reclassified from AOCI into Income |
| **Cash Flow Hedges:** |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |  |
| Foreign currency contracts |  | $ | — |  |  | $ | 0.2 |  |  | $ | — |  |  | $ | 1.3 |  |  | Cost of sales |
| Interest rate contracts |  | (49.7 | | ) |  | (2.4 | | ) |  | (0.8 | | ) |  | (1.3 | | ) |  | Interest expense |
| Total |  | $ | (49.7 | ) |  | $ | (2.2 | ) |  | $ | (0.8 | ) |  | $ | — |  |  |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
| **Net Investment Hedges:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
| Foreign currency contracts |  | $ | 13.3 |  |  | $ | 5.9 |  |  |  | | |  |  | | |  |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
|  |  | Gain (Loss) Recognized in Income | | | | | | |  |  | | |  |  | | |  |  |
| **Derivatives Not Designated as Hedging Instruments:** |  | 2020 | | |  | 2019 | | |  | Location of Gain (Loss) Recognized in Income | | | | | | | | |
| Commodity contracts |  | $ | (205.5 | ) |  | $ | (26.2 | ) |  | Cost of sales | | | | | | | | |
| Commodity contracts |  | 5.6 | |  |  | 4.6 | |  |  | Revenues | | | | | | | | |
| Commodity contracts |  | (0.4 | | ) |  | 0.1 | |  |  | Operating and administrative expenses | | | | | | | | |
| Foreign currency contracts |  | 11.7 | |  |  | 7.8 | |  |  | Other non-operating income, net | | | | | | | | |
| Total |  | $ | (188.6 | ) |  | $ | (13.7 | ) |  |  | | |  |  | | |  |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
| **Six Months Ended March 31,:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
|  |  | Gain (Loss) Recognized in AOCI | | | | | | |  | Gain (Loss) Reclassified from AOCI into Income | | | | | | |  | Location of Gain (Loss) Reclassified from AOCI into Income |
| **Cash Flow Hedges:** |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |  |
| Foreign currency contracts |  | $ | — |  |  | $ | 1.2 |  |  | $ | — |  |  | $ | 2.1 |  |  | Cost of sales |
| Cross-currency contracts |  | — | |  |  | (0.1 | | ) |  | — | |  |  | (0.3 | | ) |  | Interest expense/other operating income, net |
| Interest rate contracts |  | (41.9 | | ) |  | (5.2 | | ) |  | (1.8 | | ) |  | (2.8 | | ) |  | Interest expense |
| Total |  | $ | (41.9 | ) |  | $ | (4.1 | ) |  | $ | (1.8 | ) |  | $ | (1.0 | ) |  |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
| **Net Investment Hedges:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
| Foreign currency contracts |  | $ | 9.8 |  |  | $ | 6.8 |  |  |  | | |  |  | | |  |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  |
|  |  | Gain (Loss) Recognized in Income | | | | | | |  |  | | |  |  | | |  |  |
| **Derivatives Not Designated as Hedging Instruments:** |  | 2020 | | |  | 2019 | | |  | Location of Gain (Loss) Recognized in Income | | | | | | | | |
| Commodity contracts |  | $ | (238.6 | ) |  | $ | (185.9 | ) |  | Cost of sales | | | | | | | | |
| Commodity contracts |  | 8.1 | |  |  | 1.8 | |  |  | Revenues | | | | | | | | |
| Commodity contracts |  | (0.3 | | ) |  | (0.3 | | ) |  | Operating and administrative expenses | | | | | | | | |
| Foreign currency contracts |  | 0.4 | |  |  | 16.7 | |  |  | Other non-operating income, net | | | | | | | | |
| Total |  | $ | (230.4 | ) |  | $ | (167.7 | ) |  |  | | |  |  | | |  |  |

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

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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, contracts that provide for the purchase and delivery, or sale, of energy products, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments.

**Note 15 — Accumulated Other Comprehensive Income (Loss)**

The tables below present changes in AOCI, net of tax, during the three and six months ended March 31, 2020 and 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Three Months Ended March 31, 2020** |  | Postretirement Benefit Plans | | |  | Derivative Instruments | | |  | Foreign Currency | | |  | Total | | |
| AOCI — December 31, 2019 |  | $ | (25.5 | ) |  | $ | (19.1 | ) |  | $ | (118.5 | ) |  | $ | (163.1 | ) |
| Other comprehensive loss before reclassification adjustments (after-tax) |  | — | |  |  | (35.6 | | ) |  | (32.7 | | ) |  | (68.3 | | ) |
| Amounts reclassified from AOCI: |  |  | | |  |  | | |  |  | | |  |  | | |
| Reclassification adjustments (pre-tax) |  | 1.5 | |  |  | 0.8 | |  |  | — | |  |  | 2.3 | |  |
| Reclassification adjustments tax benefit |  | (0.4 | | ) |  | (0.2 | | ) |  | — | |  |  | (0.6 | | ) |
| Reclassification adjustments (after-tax) |  | 1.1 | |  |  | 0.6 | |  |  | — | |  |  | 1.7 | |  |
| Other comprehensive income (loss) attributable to UGI |  | 1.1 | |  |  | (35.0 | | ) |  | (32.7 | | ) |  | (66.6 | | ) |
| AOCI — March 31, 2020 |  | $ | (24.4 | ) |  | $ | (54.1 | ) |  | $ | (151.2 | ) |  | $ | (229.7 | ) |
|  |  |  | | |  |  | | |  |  | | |  |  | | |
| **Three Months Ended March 31, 2019** |  | Postretirement Benefit Plans | | |  | Derivative Instruments | | |  | Foreign Currency | | |  | Total | | |
| AOCI — December 31, 2018 |  | $ | (13.6 | ) |  | $ | (20.6 | ) |  | $ | (98.9 | ) |  | $ | (133.1 | ) |
| Other comprehensive loss before reclassification adjustments (after-tax) |  | — | |  |  | (1.2 | | ) |  | (26.8 | | ) |  | (28.0 | | ) |
| Amounts reclassified from AOCI: |  |  | | |  |  | | |  |  | | |  |  | | |
| Reclassification adjustments (pre-tax) |  | 0.4 | |  |  | — | |  |  | — | |  |  | 0.4 | |  |
| Reclassification adjustments tax benefit |  | (0.1 | | ) |  | — | |  |  | — | |  |  | (0.1 | | ) |
| Reclassification adjustments (after-tax) |  | 0.3 | |  |  | — | |  |  | — | |  |  | 0.3 | |  |
| Other comprehensive income (loss) attributable to UGI |  | 0.3 | |  |  | (1.2 | | ) |  | (26.8 | | ) |  | (27.7 | | ) |
| AOCI — March 31, 2019 |  | $ | (13.3 | ) |  | $ | (21.8 | ) |  | $ | (125.7 | ) |  | $ | (160.8 | ) |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Six Months Ended March 31, 2020** |  | Postretirement Benefit Plans | | |  | Derivative Instruments | | |  | Foreign Currency | | |  | Total | | |
| AOCI — September 30, 2019 |  | $ | (25.7 | ) |  | $ | (25.4 | ) |  | $ | (165.5 | ) |  | $ | (216.6 | ) |
| Other comprehensive (loss) income before reclassification adjustments (after-tax) |  | — | |  |  | (30.0 | | ) |  | 14.3 | |  |  | (15.7 | | ) |
| Amounts reclassified from AOCI: |  |  | | |  |  | | |  |  | | |  |  | | |
| Reclassification adjustments (pre-tax) |  | 1.8 | |  |  | 1.8 | |  |  | — | |  |  | 3.6 | |  |
| Reclassification adjustments tax benefit |  | (0.5 | | ) |  | (0.5 | | ) |  | — | |  |  | (1.0 | | ) |
| Reclassification adjustments (after-tax) |  | 1.3 | |  |  | 1.3 | |  |  | — | |  |  | 2.6 | |  |
| Other comprehensive income (loss) attributable to UGI |  | 1.3 | |  |  | (28.7 | | ) |  | 14.3 | |  |  | (13.1 | | ) |
| AOCI — March 31, 2020 |  | $ | (24.4 | ) |  | $ | (54.1 | ) |  | $ | (151.2 | ) |  | $ | (229.7 | ) |
|  |  |  | | |  |  | | |  |  | | |  |  | | |
| **Six Months Ended March 31, 2019** |  | Postretirement Benefit Plans | | |  | Derivative Instruments | | |  | Foreign Currency | | |  | Total | | |
| AOCI — September 30, 2018 |  | $ | (11.0 | ) |  | $ | (16.1 | ) |  | $ | (83.3 | ) |  | $ | (110.4 | ) |
| Other comprehensive loss before reclassification adjustments (after-tax) |  | — | |  |  | (2.7 | | ) |  | (42.4 | | ) |  | (45.1 | | ) |
| Amounts reclassified from AOCI: |  |  | | |  |  | | |  |  | | |  |  | | |
| Reclassification adjustments (pre-tax) |  | 0.8 | |  |  | 1.0 | |  |  | — | |  |  | 1.8 | |  |
| Reclassification adjustments tax benefit |  | (0.2 | | ) |  | (0.3 | | ) |  | — | |  |  | (0.5 | | ) |
| Reclassification adjustments (after-tax) |  | 0.6 | |  |  | 0.7 | |  |  | — | |  |  | 1.3 | |  |
| Other comprehensive income (loss) attributable to UGI |  | 0.6 | |  |  | (2.0 | | ) |  | (42.4 | | ) |  | (43.8 | | ) |
| Reclassification of stranded income tax effects related to TCJA |  | (2.9 | | ) |  | (3.7 | | ) |  | — | |  |  | (6.6 | | ) |
| AOCI — March 31, 2019 |  | $ | (13.3 | ) |  | $ | (21.8 | ) |  | $ | (125.7 | ) |  | $ | (160.8 | ) |

For additional information on amounts reclassified from AOCI relating to derivative instruments, see Note 14.

**Note 16 — Segment Information**

Our operations comprise four reportable segments generally based upon products or services sold, geographic location and regulatory environment: (1) AmeriGas Propane; (2) UGI International; (3) Midstream & Marketing; and (4) UGI Utilities.

During the fourth quarter of Fiscal 2019, the measurement of segment profit used by our CODM was revised to exclude certain items that are now included in Corporate & Other (in addition to net gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions, which had previously been excluded). The revision to our segment profit measures aligns with the financial information used by our CODM in evaluating our reportable segments’ performance and allocating resources. Prior period amounts have been recast to reflect the change in segment measure of profit. Also during the fourth quarter of Fiscal 2019, principally as a result of the AmeriGas Merger and the CMG Acquisition and related transactions, our CODM began evaluating the performance of all of our reportable segments based upon earnings before interest expense and income taxes, excluding the items noted above.

In addition to the items described above, Corporate & Other includes the net expenses of UGI’s captive general liability insurance company, UGI’s corporate headquarters facility and UGI’s unallocated corporate and general expenses as well as interest expense on UGI debt that is not allocated. Corporate & Other assets principally comprise cash and cash equivalents of UGI and its captive insurance company, and UGI corporate headquarters’ assets. The accounting policies of our reportable segments are the same as those described in Note 2, “Summary of Significant Accounting Policies,” in the Company’s 2019 Annual Report.

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(Currency in millions, except per share amounts and where indicated otherwise)

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| **Three Months Ended March 31, 2020** |  | Total | | |  | Eliminations | | |  | AmeriGas  Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate  & Other (a) | | |
| Revenues from external customers |  | $ | 2,228.9 |  |  | $ | — |  |  | $ | 802.0 |  |  | $ | 703.4 |  |  | $ | 344.8 |  |  | $ | 376.1 |  |  | $ | 2.6 |  |
| Intersegment revenues |  | $ | — |  |  | $ | (94.5 | ) | (b) | $ | — |  |  | $ | — |  |  | $ | 77.4 |  |  | $ | 16.5 |  |  | $ | 0.6 |  |
| Cost of sales |  | $ | 1,248.2 |  |  | $ | (93.4 | ) | (b) | $ | 325.6 |  |  | $ | 401.6 |  |  | $ | 298.3 |  |  | $ | 184.0 |  |  | $ | 132.1 |  |
| Operating income (loss) |  | $ | 361.9 |  |  | $ | (0.3 | ) |  | $ | 206.0 |  |  | $ | 116.8 |  | (c) | $ | 71.3 |  |  | $ | 116.0 |  |  | $ | (147.9 | ) |
| Income from equity investees |  | 8.0 | |  |  | — | |  |  | — | |  |  | 0.1 | |  |  | 7.9 | |  | (d) | — | |  |  | — | |  |
| Other non-operating income, net |  | 11.7 | |  |  | — | |  |  | — | |  |  | 9.3 | |  |  | — | |  |  | — | |  |  | 2.4 | |  |
| Earnings (loss) before interest expense and income taxes |  | 381.6 | |  |  | (0.3 | | ) |  | 206.0 | |  |  | 126.2 | |  |  | 79.2 | |  |  | 116.0 | |  |  | (145.5 | | ) |
| Interest expense |  | (82.4 | | ) |  | — | |  |  | (41.2 | | ) |  | (7.7 | | ) |  | (11.4 | | ) |  | (13.5 | | ) |  | (8.6 | | ) |
| Income (loss) before income taxes |  | $ | 299.2 |  |  | $ | (0.3 | ) |  | $ | 164.8 |  |  | $ | 118.5 |  |  | $ | 67.8 |  |  | $ | 102.5 |  |  | $ | (154.1 | ) |
| Noncontrolling interests’ net income |  | $ | 0.1 |  |  | $ | — |  |  | $ | — |  |  | $ | 0.1 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |
| Depreciation and amortization |  | $ | 120.2 |  |  | $ | (0.2 | ) |  | $ | 44.9 |  |  | $ | 30.4 |  |  | $ | 19.0 |  |  | $ | 25.8 |  |  | $ | 0.3 |  |
| Capital expenditures (including the effects of accruals) |  | $ | 159.0 |  |  | $ | — |  |  | $ | 35.9 |  |  | $ | 21.6 |  |  | $ | 23.5 |  |  | $ | 78.0 |  |  | $ | — |  |

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| **Three Months Ended March 31, 2019 (e)** |  | Total | | |  | Eliminations | | |  | AmeriGas  Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate  & Other (a) | | |
| Revenues from external customers |  | $ | 2,606.1 |  |  | $ | — |  |  | $ | 971.6 |  |  | $ | 783.2 |  |  | $ | 443.6 |  |  | $ | 404.3 |  |  | $ | 3.4 |  |
| Intersegment revenues |  | $ | — |  |  | $ | (124.8 | ) | (b) | $ | — |  |  | $ | — |  |  | $ | 98.8 |  |  | $ | 25.3 |  |  | $ | 0.7 |  |
| Cost of sales |  | $ | 1,426.9 |  |  | $ | (123.6 | ) | (b) | $ | 435.2 |  |  | $ | 444.7 |  |  | $ | 449.3 |  |  | $ | 218.0 |  |  | $ | 3.3 |  |
| Operating income (loss) |  | $ | 538.8 |  |  | $ | (0.4 | ) |  | $ | 247.3 |  |  | $ | 126.9 |  |  | $ | 51.3 |  |  | $ | 119.9 |  |  | $ | (6.2 | ) |
| Income from equity investees |  | 1.6 | |  |  | — | |  |  | — | |  |  | 0.1 | |  |  | 1.5 | |  | (d) | — | |  |  | — | |  |
| Other non-operating income, net |  | 7.9 | |  |  | — | |  |  | — | |  |  | 3.1 | |  |  | — | |  |  | 0.4 | |  |  | 4.4 | |  |
| Earnings (loss) before interest expense and income taxes |  | 548.3 | |  |  | (0.4 | | ) |  | 247.3 | |  |  | 130.1 | |  |  | 52.8 | |  |  | 120.3 | |  |  | (1.8 | | ) |
| Interest expense |  | (61.0 | | ) |  | — | |  |  | (42.2 | | ) |  | (6.1 | | ) |  | (0.5 | | ) |  | (12.2 | | ) |  | — | |  |
| Income (loss) before income taxes |  | $ | 487.3 |  |  | $ | (0.4 | ) |  | $ | 205.1 |  |  | $ | 124.0 |  |  | $ | 52.3 |  |  | $ | 108.1 |  |  | $ | (1.8 | ) |
| Noncontrolling interests’ net income |  | $ | 151.3 |  |  | $ | — |  |  | $ | 139.3 |  |  | $ | 0.2 |  |  | $ | — |  |  | $ | — |  |  | $ | 11.8 |  |
| Depreciation and amortization |  | $ | 108.9 |  |  | $ | (0.1 | ) |  | $ | 44.3 |  |  | $ | 30.6 |  |  | $ | 11.5 |  |  | $ | 22.3 |  |  | $ | 0.3 |  |
| Capital expenditures (including the effects of accruals) |  | $ | 151.2 |  |  | $ | — |  |  | $ | 25.8 |  |  | $ | 22.1 |  |  | $ | 32.3 |  |  | $ | 70.8 |  |  | $ | 0.2 |  |

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

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| **Six Months Ended March 31, 2020** |  | Total | | |  | Eliminations | | |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate & Other (a) | | |
| Revenues from external customers |  | $ | 4,235.5 |  |  | $ | — |  |  | $ | 1,532.4 |  |  | $ | 1,354.8 |  |  | $ | 653.1 |  |  | $ | 690.7 |  |  | $ | 4.5 |  |
| Intersegment revenues |  | $ | — |  |  | $ | (174.2 | ) | (b) | $ | — |  |  | $ | — |  |  | $ | 141.6 |  |  | $ | 31.2 |  |  | $ | 1.4 |  |
| Cost of sales |  | $ | 2,256.2 |  |  | $ | (172.5 | ) | (b) | $ | 614.8 |  |  | $ | 770.0 |  |  | $ | 562.5 |  |  | $ | 335.6 |  |  | $ | 145.8 |  |
| Operating income (loss) |  | $ | 739.1 |  |  | $ | — |  |  | $ | 371.3 |  |  | $ | 212.6 |  | (c) | $ | 126.4 |  |  | $ | 207.8 |  |  | $ | (179.0 | ) |
| Income from equity investees |  | 14.5 | |  |  | — | |  |  | — | |  |  | 0.1 | |  |  | 14.4 | |  | (d) | — | |  |  | — | |  |
| Other non-operating income (expense), net |  | 0.2 | |  |  | — | |  |  | — | |  |  | 13.7 | |  |  | — | |  |  | (0.2 | | ) |  | (13.3 | | ) |
| Earnings (loss) before interest expense and income taxes |  | 753.8 | |  |  | — | |  |  | 371.3 | |  |  | 226.4 | |  |  | 140.8 | |  |  | 207.6 | |  |  | (192.3 | | ) |
| Interest expense |  | (166.5 | | ) |  | — | |  |  | (83.7 | | ) |  | (15.3 | | ) |  | (22.9 | | ) |  | (27.1 | | ) |  | (17.5 | | ) |
| Income (loss) before income taxes |  | $ | 587.3 |  |  | $ | — |  |  | $ | 287.6 |  |  | $ | 211.1 |  |  | $ | 117.9 |  |  | $ | 180.5 |  |  | $ | (209.8 | ) |
| Noncontrolling interests’ net income |  | $ | 0.1 |  |  | $ | — |  |  | $ | — |  |  | $ | 0.1 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |
| Depreciation and amortization |  | $ | 239.6 |  |  | $ | (0.2 | ) |  | $ | 88.8 |  |  | $ | 61.6 |  |  | $ | 37.4 |  |  | $ | 51.5 |  |  | $ | 0.5 |  |
| Capital expenditures (including the effects of accruals) |  | $ | 310.8 |  |  | $ | — |  |  | $ | 74.4 |  |  | $ | 41.9 |  |  | $ | 46.0 |  |  | $ | 148.5 |  |  | $ | — |  |
| **As of March 31, 2020** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total assets |  | $ | 14,135.5 |  |  | $ | (370.3 | ) |  | $ | 4,508.5 |  |  | $ | 3,226.6 |  |  | $ | 2,823.9 |  |  | $ | 3,730.2 |  |  | $ | 216.6 |  |
| Short-term borrowings |  | $ | 653.5 |  |  | $ | — |  |  | $ | 201.0 |  |  | $ | 185.5 |  |  | $ | 43.0 |  |  | $ | 224.0 |  |  | $ | — |  |
| Goodwill |  | $ | 3,465.5 |  |  | $ | — |  |  | $ | 2,003.0 |  |  | $ | 938.2 |  |  | $ | 342.2 |  |  | $ | 182.1 |  |  | $ | — |  |

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| **Six Months Ended March 31, 2019 (e)** |  | Total | | |  | Eliminations | | |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corporate & Other (a) | | |
| Revenues from external customers |  | $ | 4,806.3 |  |  | $ | — |  |  | $ | 1,791.8 |  |  | $ | 1,493.9 |  |  | $ | 816.1 |  |  | $ | 703.4 |  |  | $ | 1.1 |  |
| Intersegment revenues |  | $ | — |  |  | $ | (236.4 | ) | (b) | $ | — |  |  | $ | — |  |  | $ | 185.7 |  |  | $ | 48.9 |  |  | $ | 1.8 |  |
| Cost of sales |  | $ | 2,851.9 |  |  | $ | (234.4 | ) | (b) | $ | 813.7 |  |  | $ | 893.3 |  |  | $ | 826.8 |  |  | $ | 377.5 |  |  | $ | 175.0 |  |
| Operating income (loss) |  | $ | 706.5 |  |  | $ | — |  |  | $ | 413.9 |  |  | $ | 185.2 |  |  | $ | 92.4 |  |  | $ | 196.9 |  |  | $ | (181.9 | ) |
| Income from equity investees |  | 3.1 | |  |  | — | |  |  | — | |  |  | 0.1 | |  |  | 3.0 | |  | (d) | — | |  |  | — | |  |
| Loss on extinguishments of debt |  | (6.1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (6.1 | | ) |
| Other non-operating income, net |  | 16.9 | |  |  | — | |  |  | — | |  |  | 3.8 | |  |  | — | |  |  | 0.8 | |  |  | 12.3 | |  |
| Earnings (loss) before interest expense and income taxes |  | 720.4 | |  |  | — | |  |  | 413.9 | |  |  | 189.1 | |  |  | 95.4 | |  |  | 197.7 | |  |  | (175.7 | | ) |
| Interest expense |  | (121.2 | | ) |  | — | |  |  | (84.6 | | ) |  | (11.5 | | ) |  | (1.0 | | ) |  | (23.9 | | ) |  | (0.2 | | ) |
| Income (loss) before income taxes |  | $ | 599.2 |  |  | $ | — |  |  | $ | 329.3 |  |  | $ | 177.6 |  |  | $ | 94.4 |  |  | $ | 173.8 |  |  | $ | (175.9 | ) |
| Noncontrolling interests’ net income (loss) |  | $ | 175.6 |  |  | $ | — |  |  | $ | 220.8 |  |  | $ | 0.3 |  |  | $ | — |  |  | $ | — |  |  | $ | (45.5 | ) |
| Depreciation and amortization |  | $ | 220.1 |  |  | $ | (0.1 | ) |  | $ | 90.0 |  |  | $ | 62.0 |  |  | $ | 23.0 |  |  | $ | 44.8 |  |  | $ | 0.4 |  |
| Capital expenditures (including the effects of accruals) |  | $ | 313.0 |  |  | $ | — |  |  | $ | 56.8 |  |  | $ | 49.9 |  |  | $ | 57.4 |  |  | $ | 148.1 |  |  | $ | 0.8 |  |
| **As of March 31, 2019** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total assets |  | $ | 12,350.9 |  |  | $ | (121.5 | ) |  | $ | 3,978.1 |  |  | $ | 3,229.6 |  |  | $ | 1,500.9 |  |  | $ | 3,438.4 |  |  | $ | 325.4 |  |
| Short-term borrowings |  | $ | 341.0 |  |  | $ | — |  |  | $ | 236.0 |  |  | $ | — |  |  | $ | — |  |  | $ | 105.0 |  |  | $ | — |  |
| Goodwill |  | $ | 3,147.8 |  |  | $ | — |  |  | $ | 2,003.1 |  |  | $ | 944.8 |  |  | $ | 17.8 |  |  | $ | 182.1 |  |  | $ | — |  |

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**UGI CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

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| (a) | Corporate & Other includes specific items attributable to our reportable segments that are not included in the segment profit measures used by our CODM in assessing our reportable segments’ performance or allocating resources. The following table presents such pre-tax gains (losses) which have been included in Corporate & Other, and the reportable segments to which they relate, for the three and six months ended March 31, 2020 and 2019: |

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| **Three Months Ended March 31, 2020** |  | Location on Income Statement |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |
| Net (losses) gains on commodity derivative instruments not associated with current-period transactions |  | Revenues / Cost of sales |  | $ | (21.1 | ) |  | $ | (118.1 | ) |  | $ | 9.5 |  |
| Unrealized gains on foreign currency derivative instruments |  | Other non-operating income, net |  | $ | — |  |  | $ | 2.4 |  |  | $ | — |  |
| Acquisition and integration expenses associated with the CMG Acquisition |  | Operating and administrative expenses |  | $ | — |  |  | $ | — |  |  | $ | (1.0 | ) |
| LPG business transformation expenses |  | Operating and administrative expenses |  | $ | (12.8 | ) |  | $ | (6.7 | ) |  | $ | — |  |

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| **Three Months Ended March 31, 2019** |  | Location on Income Statement |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |
| Net gains (losses) on commodity derivative instruments not associated with current-period transactions |  | Revenues / Cost of sales |  | $ | 17.1 |  |  | $ | (28.6 | ) |  | $ | 11.6 |  |
| Unrealized gains on foreign currency derivative instruments |  | Other non-operating income, net |  | $ | — |  |  | $ | 4.6 |  |  | $ | — |  |
| AmeriGas Merger expenses |  | Operating and other administrative expenses |  | $ | (0.9 | ) |  | $ | — |  |  | $ | — |  |

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| **Six Months Ended March 31, 2020** |  | Location on Income Statement |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |
| Net (losses) gains on commodity derivative instruments not associated with current-period transactions |  | Revenues / Cost of sales |  | $ | (11.7 | ) |  | $ | (131.6 | ) |  | $ | 2.0 |  |
| Unrealized losses on foreign currency derivative instruments |  | Other non-operating income, net |  | $ | — |  |  | $ | (13.3 | ) |  | $ | — |  |
| Acquisition and integration expenses associated with the CMG Acquisition |  | Operating and administrative expenses |  | $ | — |  |  | $ | — |  |  | $ | (1.7 | ) |
| LPG business transformation expenses |  | Operating and administrative expenses |  | $ | (24.0 | ) |  | $ | (12.2 | ) |  | $ | — |  |

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| **Six Months Ended March 31, 2019** |  | Location on Income Statement |  | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |
| Net (losses) gains on commodity derivative instruments not associated with current-period transactions |  | Revenues / Cost of sales |  | $ | (61.4 | ) |  | $ | (125.9 | ) |  | $ | 13.4 |  |
| Unrealized gains on foreign currency derivative instruments |  | Other non-operating income, net |  | $ | — |  |  | $ | 12.7 |  |  | $ | — |  |
| Loss on extinguishments of debt |  | Loss on extinguishments of debt |  | $ | — |  |  | $ | (6.1 | ) |  | $ | — |  |
| AmeriGas Merger expenses |  | Operating and other administrative expenses |  | $ | (0.9 | ) |  | $ | — |  |  | $ | — |  |

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| (b) | Represents the elimination of intersegment transactions principally among Midstream & Marketing, UGI Utilities and AmeriGas Propane. |

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| (c) | Beginning October 1, 2019, UGI International is allocated a portion of indirect corporate expenses. Prior to October 1, 2019, these expenses were billed to its parent company, which is included in Corporate & Other. |

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(unaudited)

(Currency in millions, except per share amounts and where indicated otherwise)

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| (d) | Includes AFUDC associated with PennEast. The three and six months ended March 31, 2020 also includes equity income from Pennant (see Note 5). |

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| (e) | Segment information recast to reflect the changes adopted during the fourth quarter of Fiscal 2019 in the segment measure of profit used by our CODM to evaluate the performance of our reportable segments. |

**Note 17 — Global LPG Business Transformation Initiatives**

During the fourth quarter of Fiscal 2019, we began executing on multi-year business transformation initiatives at our AmeriGas Propane and UGI International business segments. These initiatives are 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, these business transformation initiatives focus on enhancing the customer experience through, among other things, enhanced customer relationship management and an improved digital customer experience. In connection with these initiatives, during the three and six months ended March 31, 2020, we recognized $19.5 and $36.2, respectively, of expenses principally comprising consulting, advisory, marketing and employee-related costs. These expenses are reflected in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income.

**Note 18 — 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 and 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 worldwide. The Company continues to provide essential products and services to its 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 it serves. However, the Company continues to evaluate and react to the potential effects of a prolonged disruption and the related impacts 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; and delays related to current and future projects. While its operational and financial performance may be significantly impacted by COVID-19, the Company cannot predict the duration or magnitude of the outbreak and the effects on its business, financial position, results of operations, liquidity or cash flows at this time.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. Among other things, the CARES Act includes provisions which modify the NOL limitation and carryback rules including a five-year carryback for NOLs arising in taxable years beginning in 2018, 2019, and 2020, and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021. The Company’s annual effective income tax rate for Fiscal 2020 reflects anticipated tax benefits resulting from the carryback of an NOL for Fiscal 2020 pursuant to the provisions of the CARES Act.

The Company has not yet filed its income tax returns for Fiscal 2019 or 2020, and continues to evaluate other tax positions or strategies that could affect current-year or prior-year taxable income or loss.  Accordingly, the impacts from the CARES Act on the Company’s income tax provisions and taxes payable or refundable are subject to change.

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**UGI CORPORATION AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

Information contained in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Such statements use forward-looking words such as “believe,” “plan,” “anticipate,” “continue,” “estimate,” “expect,” “may,” or other similar words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors that could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) weather conditions resulting in reduced demand and the seasonal nature of our business; (2) cost volatility and availability of propane and other LPG, electricity, and natural gas and the capacity to transport product to our customers; (3) changes in domestic and foreign laws and regulations, including safety, tax, consumer protection, data privacy, accounting matters, and environmental, including regulatory responses to climate change; (4) inability to timely recover costs through utility rate proceedings; (5) the impact of pending and future legal proceedings; (6) competitive pressures from the same and alternative energy sources; (7) failure to acquire new customers or retain current customers thereby reducing or limiting any increase in revenues; (8) liability for environmental claims; (9) increased customer conservation measures due to high energy prices and improvements in energy efficiency and technology resulting in reduced demand; (10) adverse labor relations; (11) customer, counterparty, supplier, or vendor defaults; (12) liability for uninsured claims and for claims in excess of insurance coverage, including those for personal injury and property damage arising from explosions, terrorism, natural disasters, pandemics and other catastrophic events that may result from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas and LPG; (13) transmission or distribution system service interruptions; (14) political, regulatory and economic conditions in the United States, Europe and other foreign countries, including the current conflicts in the Middle East and the withdrawal of the United Kingdom from the European Union, and foreign currency exchange rate fluctuations, particularly the euro; (15) capital market conditions, including reduced access to capital markets and interest rate fluctuations; (16) changes in commodity market prices resulting in significantly higher cash collateral requirements; (17) reduced distributions from subsidiaries impacting the ability to pay dividends; (18) changes in Marcellus and Utica Shale gas production; (19) the availability, timing and success of our acquisitions, commercial initiatives and investments to grow our businesses; (20) our ability to successfully integrate acquired businesses and achieve anticipated synergies; (21) the interruption, disruption, failure or malfunction of our information technology systems, including due to cyber attack; (22) the inability to complete pending or future energy infrastructure projects; (23) our ability to achieve the operational benefits and cost efficiencies expected from the completion of pending and future transformation initiatives at our business units; and (24) uncertainties related to a global pandemic, including the duration and/or impact of the COVID-19 pandemic.

These factors, and those factors set forth in Item 1A. Risk Factors in this report and in the Company’s 2019 Annual Report, are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events except as required by the federal securities laws.

**ANALYSIS OF RESULTS OF OPERATIONS**

The following analyses compare the Company’s results of operations for the 2020 three-month period with the 2019 three-month period and the 2020 six-month period with the 2019 six-month period. Our analyses of results of operations should be read in conjunction with the segment information included in Note 16 to Condensed Consolidated Financial Statements.

Because most of our businesses sell or distribute energy products used in large part for heating purposes, our results are significantly influenced by temperatures in our service territories, 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.

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**UGI CORPORATION AND SUBSIDIARIES**

**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 and 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 for Fiscal 2020 began to reflect the impacts of COVID-19, 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. However, 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; and delays related to current and future projects. We also remain focused on managing our financial condition and liquidity throughout this global crisis.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. Among other things, the CARES Act includes provisions which modify the NOL limitation and carryback rules including a five-year carryback for NOLs arising in taxable years beginning in 2018, 2019, and 2020, and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021. For additional information related to the CARES Act and its impact on our results of operations, see “Interest Expense and Income Taxes” below.

While our operational and financial performance may be significantly impacted by COVID-19, we cannot predict the duration or magnitude of the pandemic and its effects on our business, financial position, results of operations, liquidity or cash flows at this time.

**Impact of Strategic Initiatives**

Our Fiscal 2020 results reflect the impacts of two strategic transactions completed in late Fiscal 2019. The larger of these transactions was the purchase of all of the public’s ownership interest in AmeriGas Partners for 34.6 million shares of UGI Common Stock and $529 million in cash, resulting in UGI owning 100% of the Partnership effective August 21, 2019. The second significant strategic transaction was the acquisition of CMG from TC Energy on August 1, 2019, resulting in a substantial increase in our natural gas gathering assets as well as the acquisition of important gas processing assets in the Marcellus and Utica Shale formations. We anticipate executing on a number of future system expansion projects associated with the CMG assets. We refer to CMG and its equity interest in Pennant as “UGI Appalachia.”

Also in Fiscal 2019, we began executing on our Global LPG Business Transformation Initiatives at AmeriGas Propane and UGI International. These initiatives are designed to drive operational efficiencies, increase profitability and provide for an enhanced customer experience at both of our global LPG businesses. We have engaged strategic partners to assist us in the identification and execution of these initiatives.

At AmeriGas Propane, we are focused on efficiency and effectiveness initiatives in the following key areas: customer digital experience; customer relationship management; operating process redesign and specialization; distribution and routing optimization; sales and marketing effectiveness; purchasing and general and administrative efficiencies; and supply and logistics. The business activities will be carried out over the next two years and, once completed, will provide more than $120 million of annual savings that will allow us to improve profitability through operational efficiencies and expense reductions and enable increased investment into base business customer retention and growth initiatives, including the reduction of margins in select segments of our base business. We estimate the total cost of executing on these initiatives, including approximately $100 million of related capital expenditures, to be approximately $175 million.

At our UGI International LPG business, we launched an initiative in Fiscal 2019 and embarked on a process of identifying operational synergies across all 17 countries in which we currently do business. 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. These efforts will be executed primarily over the next two years and, once completed, will generate over €30 million of annual savings. We estimate the total cumulative cost of executing on these Project Alliance initiatives, including approximately €20 million related to IT capital expenditures, to be approximately €55 million.

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**UGI CORPORATION AND SUBSIDIARIES**

**Non-GAAP Financial Measures**

UGI management uses “adjusted net income attributable to UGI Corporation” and “adjusted diluted earnings per share,” both of which are non-GAAP financial measures, when evaluating UGI’s overall performance. Management believes that these non-GAAP measures provide meaningful information to investors about UGI’s performance because they eliminate gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions and other significant discrete items that can affect the comparison of period-over-period results.

UGI does not designate its commodity and certain foreign currency derivative instruments as hedges under GAAP. Volatility in net income attributable to UGI Corporation as determined in accordance with GAAP 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 and, to a much lesser extent, certain realized gains and losses on settled commodity derivative instruments that are not associated with current-period transactions. However, because these derivative instruments 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, we expect that such gains or losses will be largely offset by gains or losses on anticipated future energy commodity transactions or mitigate volatility in anticipated future earnings. Non-GAAP 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 tables reconcile net income attributable to UGI Corporation, the most directly comparable GAAP measure, to adjusted net income attributable to UGI Corporation, and reconcile diluted earnings per share, the most comparable GAAP measure, to adjusted diluted earnings per share, to reflect the adjustments referred to above:

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**UGI CORPORATION AND SUBSIDIARIES**

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| **Adjusted net income attributable to UGI Corporation** |  | Three Months Ended March 31, | | | | | | |  | Six Months Ended March 31, | | | | | | |
| (Dollars in millions) |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| AmeriGas Propane |  | $ | 121.5 |  |  | $ | 47.7 |  |  | $ | 212.6 |  |  | $ | 78.3 |  |
| UGI International |  | 75.6 | |  |  | 89.7 | |  |  | 148.3 | |  |  | 126.4 | |  |
| Midstream & Marketing |  | 50.0 | |  |  | 38.1 | |  |  | 86.0 | |  |  | 69.1 | |  |
| UGI Utilities |  | 82.4 | |  |  | 82.8 | |  |  | 143.2 | |  |  | 132.7 | |  |
| Corporate & Other (a) |  | (104.0 | | ) |  | (12.9 | | ) |  | (152.6 | | ) |  | (96.9 | | ) |
| **Net income attributable to UGI Corporation** |  | 225.5 | |  |  | 245.4 | |  |  | 437.5 | |  |  | 309.6 | |  |
| Net losses on commodity derivative instruments not associated with current-period transactions (net of tax of $(40.2), $(0.9), $(41.6) and $(36.4), respectively) |  | 89.5 | |  |  | 11.5 | |  |  | 99.7 | |  |  | 92.7 | |  |
| Unrealized (gains) losses on foreign currency derivative instruments (net of tax of $0.6, $1.4, $(3.8) and $3.7, respectively) |  | (1.8 | | ) |  | (3.2 | | ) |  | 9.5 | |  |  | (9.0 | | ) |
| Loss on extinguishments of debt (net of tax of $0, $0, $0 and $(1.9), respectively) |  | — | |  |  | — | |  |  | — | |  |  | 4.2 | |  |
| AmeriGas Merger expenses (net of tax of $0, $(0.1), $0 and $(0.1), respectively) |  | — | |  |  | 0.2 | |  |  | — | |  |  | 0.2 | |  |
| Acquisition and integration expenses associated with the CMG Acquisition (net of tax of $(0.3), $0, $(0.5) and $0, respectively) |  | 0.7 | |  |  | — | |  |  | 1.2 | |  |  | — | |  |
| LPG business transformation expenses (net of tax of $(5.8), $0, $(10.3) and $0, respectively) |  | 13.7 | |  |  | — | |  |  | 25.9 | |  |  | — | |  |
| Total adjustments (a) (b) |  | 102.1 | |  |  | 8.5 | |  |  | 136.3 | |  |  | 88.1 | |  |
| **Adjusted net income attributable to UGI Corporation** |  | $ | 327.6 |  |  | $ | 253.9 |  |  | $ | 573.8 |  |  | $ | 397.7 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |
|  |  | Three Months Ended March 31, | | | | | | |  | Six Months Ended March 31, | | | | | | |
| **Adjusted diluted earnings per share** |  | 2020 | | |  | 2019 | | |  | 2020 | | |  | 2019 | | |
| AmeriGas Propane |  | $ | 0.58 |  |  | $ | 0.27 |  |  | $ | 1.01 |  |  | $ | 0.44 |  |
| UGI International |  | 0.36 | |  |  | 0.51 | |  |  | 0.70 | |  |  | 0.71 | |  |
| Midstream & Marketing |  | 0.24 | |  |  | 0.21 | |  |  | 0.41 | |  |  | 0.39 | |  |
| UGI Utilities |  | 0.39 | |  |  | 0.47 | |  |  | 0.68 | |  |  | 0.75 | |  |
| Corporate & Other (a) |  | (0.50 | | ) |  | (0.08 | | ) |  | (0.72 | | ) |  | (0.55 | | ) |
| **Earnings per share - diluted (c)** |  | 1.07 | |  |  | 1.38 | |  |  | 2.08 | |  |  | 1.74 | |  |
| Net losses on commodity derivative instruments not associated with current-period transactions (d) |  | 0.43 | |  |  | 0.07 | |  |  | 0.47 | |  |  | 0.53 | |  |
| Unrealized (gains) losses on foreign currency derivative instruments |  | (0.01 | | ) |  | (0.02 | | ) |  | 0.05 | |  |  | (0.05 | | ) |
| Loss on extinguishments of debt |  | — | |  |  | — | |  |  | — | |  |  | 0.02 | |  |
| AmeriGas Merger expenses |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Acquisition and integration expenses associated with the CMG Acquisition |  | — | |  |  | — | |  |  | 0.01 | |  |  | — | |  |
| LPG business transformation expenses |  | 0.07 | |  |  | — | |  |  | 0.12 | |  |  | — | |  |
| Total adjustments (a) (c) |  | 0.49 | |  |  | 0.05 | |  |  | 0.65 | |  |  | 0.50 | |  |
| **Adjusted earnings per share - diluted** (c) |  | $ | 1.56 |  |  | $ | 1.43 |  |  | $ | 2.73 |  |  | $ | 2.24 |  |

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| (a) | Corporate & Other includes certain adjustments made to our reporting segments in arriving at net income attributable to UGI Corporation, including the impact of the anticipated tax benefits resulting from the carryback of an NOL for Fiscal 2020 pursuant to the provisions of the CARES Act.  These adjustments have been excluded from the segment results to align with the measure used by our CODM in assessing segment performance and allocating resources.  See “Interest Expense and |

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**UGI CORPORATION AND SUBSIDIARIES**

Income Taxes” below and Note 16 to Condensed Consolidated Financial Statements for additional information related to these adjustments, as well as other items included within Corporate & Other.

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| (b) | Income taxes associated with pre-tax adjustments determined using statutory business unit tax rates. |

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| (c) | Earnings per share for the 2020 three- and six-month periods reflect 34.6 million incremental shares of UGI Common Stock issued in conjunction with the AmeriGas Merger. |

|  |  |
| --- | --- |
|  |  |
| (d) | Includes the effects of rounding. |

**EXECUTIVE OVERVIEW**

**Three months ended March 31, 2020 and 2019**

**Discussion.** Net income attributable to UGI Corporation in accordance with GAAP for the 2020 three-month period was $225.5 million (equal to $1.07 per diluted share) compared to net income attributable to UGI Corporation for the 2019 three-month period of $245.4 million (equal to $1.38 per diluted share). The lower GAAP net income in the 2020 three-month period reflects higher net losses from changes in unrealized gains and losses on commodity derivative instruments and certain foreign currency derivative instruments and the effects of LPG business transformation and CMG Acquisition expenses. Fiscal 2020 results reflect the full ownership of AmeriGas Partners as a result of the AmeriGas Merger completed in August 2019. Earnings per share in the 2020 three-month period reflects the impact of 34.6 million shares of UGI Common Stock issued as a result of the AmeriGas Merger.

Adjusted net income attributable to UGI Corporation for the 2020 three-month period was $327.6 million (equal to $1.56 per diluted share) compared to adjusted net income attributable to UGI Corporation for the 2019 three-month period of $253.9 million (equal to $1.43 per diluted share). The increase in adjusted net income attributable to UGI Corporation during the 2020 three-month period principally reflects the full ownership of AmeriGas Partners, incremental income related to UGI Appalachia, and a lower effective income tax rate compared to the prior-year period. The lower effective income tax rate includes a current-year NOL benefit resulting from the CARES Act partially offset by higher taxes on foreign source income related to lower anticipated utilization of foreign tax attributes.

Our results for the three months ended March 31, 2020, reflect average temperatures that were significantly warmer than normal and the prior-year period at each of our reportable segments.

The significant increase in adjusted net income attributable to UGI from AmeriGas Propane in the 2020 three-month period reflects the inclusion of 100% of AmeriGas Propane’s results in the current year and lower operating and administrative expenses. These positive factors were partially offset by lower total margin.

UGI International adjusted net income was $14.1 million lower in the 2020 three-month period reflecting a decrease in total margin and higher income taxes, partially offset by lower operating and administrative expenses. Although UGI International 2020 three-month period adjusted net income was impacted by a weaker euro compared to the prior-year period, adjusted net income benefited from higher realized gains on foreign currency exchange contracts.

Midstream & Marketing adjusted net income in the 2020 three-month period was $11.9 million higher than the prior-year period. This increase principally reflects incremental net income from UGI Appalachia, which includes the effects of increased interest expense related to debt issued to finance a portion of its acquisition.

UGI Utilities 2020 three-month period adjusted net income was comparable to the prior-year period. The increase in depreciation expense and lower total margin reflected in the 2020 three-month period was largely offset by decreases in income taxes and operating and administrative expenses.

**Six months ended March 31, 2020 and 2019**

**Discussion.** Net income attributable to UGI Corporation in accordance with GAAP for the 2020 six-month period was $437.5 million (equal to $2.08 per diluted share) compared to net income attributable to UGI Corporation for the 2019 six-month period of $309.6 million (equal to $1.74 per diluted share). GAAP net income in the 2020 six-month period reflects higher net losses on commodity and certain foreign currency derivative instruments and the effects of LPG business transformation and CMG acquisition expenses while the prior-year period includes a loss on extinguishments of debt. Fiscal 2020 results reflect the full ownership of AmeriGas Partners as a result of the AmeriGas Merger completed in August 2019. Earnings per share in the 2020 six-month period reflects the impact of 34.6 million shares of UGI Common Stock issued as a result of the AmeriGas Merger.

Adjusted net income attributable to UGI Corporation for the 2020 six-month period was $573.8 million (equal to $2.73 per diluted share) compared to adjusted net income attributable to UGI Corporation for the 2019 six-month period of $397.7 million (equal to $2.24 per diluted share). The increase in adjusted net income attributable to UGI Corporation during the 2020 six-month period

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**UGI CORPORATION AND SUBSIDIARIES**

reflects higher earnings contributions from each of our business segments including the effects of the previously mentioned AmeriGas Merger and incremental earnings from UGI Appalachia. These positive factors were partially offset by increased interest expense from debt issued in conjunction with the AmeriGas Merger and the CMG Acquisition. Operating results in the 2020 six-month period were negatively affected by heating-season weather that was significantly warmer than last year at each of our business segments.

The significant increase in adjusted net income attributable to UGI from AmeriGas Propane in the 2020 six-month period reflects the inclusion of 100% of AmeriGas Propane’s results in the current-year period and lower operating and administrative expenses. These positive factors were partially offset by lower total margin.

UGI International adjusted net income was $21.9 million higher in the 2020 six-month period reflecting lower operating and administrative expenses and an increase in total margin notwithstanding the lower LPG retail volumes sold. Although UGI International 2020 six-month period adjusted net income was impacted by a weaker euro compared to the prior-year period, adjusted net income benefited from higher realized gains on foreign currency exchange contracts.

Midstream & Marketing adjusted net income in the 2020 six-month period was $16.9 million higher than the prior-year period. This increase principally reflects incremental net income from UGI Appalachia, which includes the effects of increased interest expense related to debt issued to finance a portion of its acquisition.

UGI Utilities 2020 six-month period adjusted net income increased $10.5 million compared to the prior-year period principally attributable to an increase in total margin, reflecting incremental margin from an increase in Gas Utility base rates effective October 11, 2019, and lower operating and administrative expenses. The increase in total margin resulting from the increase in Gas Utility base rates was partially offset by the effects of significantly warmer weather on core market volumes, and higher depreciation and interest expense during the current-year period.

**SEGMENT RESULTS OF OPERATIONS**

**2020 Three-Month Period Compared to the 2019 Three-Month Period**

***AmeriGas Propane***

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| For the three months ended March 31, |  | 2020 | | |  | 2019 | | |  | Decrease | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 802.0 |  |  | $ | 971.6 |  |  | $ | (169.6 | ) |  | (17.5 | )% |
| Total margin (a) |  | $ | 476.4 |  |  | $ | 536.4 |  |  | $ | (60.0 | ) |  | (11.2 | )% |
| Operating and administrative expenses |  | $ | 230.2 |  |  | $ | 250.2 |  |  | $ | (20.0 | ) |  | (8.0 | )% |
| Operating income/earnings before interest expense and income taxes |  | $ | 206.0 |  |  | $ | 247.3 |  |  | $ | (41.3 | ) |  | (16.7 | )% |
| Retail gallons sold (millions) |  | 340.0 | |  |  | 383.6 | |  |  | (43.6 | | ) |  | (11.4 | )% |
| Heating degree days—% (warmer) colder than normal (b) |  | (9.1 | | )% |  | 4.4 | | % |  | — | |  |  | — |  |

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| (a) | Total margin represents total revenues less total cost of sales. |

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|  |  |
| (b) | Deviation from average heating degree days for the 15-year period 2002-2016 based upon national weather statistics provided by NOAA for 344 Geo Regions in the United States, excluding Alaska and Hawaii. |

Average temperatures during the 2020 three-month period were 9.1% warmer than normal and 12.9% warmer than the prior-year period. Total retail gallons sold during the 2020 three-month period were 11.4% lower than the prior-year period reflecting the effects of the significantly warmer weather on heating-related sales, structural conservation and other residential volume loss.

Retail propane revenues decreased $162.5 million during the 2020 three-month period reflecting the effects of the lower retail volumes sold ($99.4 million) and lower average retail selling prices ($63.1 million) compared to the prior-year period. Wholesale propane revenues decreased $6.5 million attributable to lower average wholesale selling prices. Average daily wholesale propane commodity prices during the 2020 three-month period at Mont Belvieu, Texas, one of the major supply points in the U.S., were approximately 44% lower than such prices during the 2019 three-month period. Total cost of sales decreased $109.6 million during the 2020 three-month period principally reflecting the effects of the lower average propane product costs ($66.4 million) and lower retail propane volumes sold ($44.6 million).

AmeriGas Propane total margin decreased $60.0 million in the 2020 three-month period primarily attributable to the decrease in retail volumes sold ($54.8 million) and slightly lower average retail unit margins ($4.1 million).

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**UGI CORPORATION AND SUBSIDIARIES**

Operating income and earnings before interest expense and income taxes each decreased $41.3 million in the 2020 three-month period reflecting the previously mentioned lower total margin partially offset by decreased operating and administrative expenses ($20.0 million). The decrease in operating and administrative expenses in the 2020 three-month period reflects, among other things, lower compensation and benefits costs ($12.1 million), decreased vehicle and equipment operating and maintenance expenses ($5.1 million), and lower business travel expenses ($1.2 million). The improvements in operating and administrative expenses are largely attributable to the warmer weather and efforts related to the previously mentioned LPG transformation initiatives.

***UGI International***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| For the three months ended March 31, |  | 2020 | | |  | 2019 | | |  | Decrease | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 703.4 |  |  | $ | 783.2 |  |  | $ | (79.8 | ) |  | (10.2 | )% |
| Total margin (a) |  | $ | 301.8 |  |  | $ | 322.3 |  |  | $ | (20.5 | ) |  | (6.4 | )% |
| Operating and administrative expenses |  | $ | 154.9 |  |  | $ | 165.1 |  |  | $ | (10.2 | ) |  | (6.2 | )% |
| Operating income |  | $ | 116.8 |  |  | $ | 126.9 |  |  | $ | (10.1 | ) |  | (8.0 | )% |
| Earnings before interest expense and income taxes |  | $ | 126.2 |  |  | $ | 130.1 |  |  | $ | (3.9 | ) |  | (3.0 | )% |
| LPG retail gallons sold (millions) |  | 230.4 | |  |  | 258.7 | |  |  | (28.3 | | ) |  | (10.9 | )% |
| Heating degree days—% (warmer) than normal (b) |  | (12.9 | | )% |  | (7.5 | | )% |  | — | |  |  | — |  |

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| (a) | Total margin represents revenues less cost of sales and, in the 2019 three-month period, French energy certificate costs of $16.2 million. For financial statement purposes, French energy certificate costs in the 2019 three-month period are included in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income (but are excluded from operating and administrative expenses presented above). In the 2020 three-month period, French energy certificate costs are included in cost of sales on the Condensed Consolidated Statements of Income. |

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| (b) | Deviation from average heating degree days for the 15-year period 2002-2016 at locations in our UGI International service territories. |

Average temperatures during the 2020 three-month period were 12.9% warmer than normal and 5.8% warmer than the prior-year period. Total LPG retail gallons sold during the 2020 three-month period were 10.9% lower principally reflecting the effects of the warmer weather on heating-related bulk sales and cylinder volumes, and the termination of a low-margin autogas contract in Italy. During the 2020 three-month period, average wholesale prices for propane and butane in northwest Europe were approximately 21% and 3% lower, 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. Differences in these translation rates affect the comparison of line item amounts presented in the table above. 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 2020 and 2019 three-month periods, the average unweighted euro-to-dollar translation rates were approximately $1.10 and $1.14, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately $1.28 and $1.30, respectively.

UGI International revenues and cost of sales decreased by $79.8 million and $59.3 million, respectively, during the 2020 three-month period compared to the prior year. These decreases to both revenues and cost of sales principally reflect the effects of the lower total retail and wholesale volumes, lower average LPG selling prices and product costs, and the translation effects of the weaker euro (approximately $22 million and $13 million, respectively). Energy marketing activities also contributed to the decreased revenues and cost of sales during the current year-period.

UGI International total margin decreased $20.5 million during the three months ended March 31, 2020. This decrease reflects the previously mentioned decrease in total retail volumes and the translation effects of the weaker euro (approximately $9 million) compared to the prior-year period. The effects of these factors were partially offset by higher average LPG unit margins including margin management efforts and, to a much lesser extent, higher margins from energy marketing.

UGI International operating income and earnings before interest expense and income taxes decreased $10.1 million and $3.9 million, respectively, during the 2020 three-month period. The decrease in operating income largely reflects the decrease in total margin partially offset by lower operating and administrative expenses ($10.2 million) compared to the prior-year period. The decrease in operating and administrative expenses is largely attributable to the translation effects of the weaker euro (approximately

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$5 million), decreased distribution costs attributable to the reduced LPG volumes, and lower outside services costs. The decrease in UGI International earnings before interest expense and income taxes in the 2020 three-month period reflects the lower operating income partially offset by higher pre-tax realized gains on foreign currency exchange contracts entered into in order to reduce volatility in UGI International net income resulting from the translation effects of changes in foreign currency exchange rates ($6.0 million).

***Midstream & Marketing***

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| For the three months ended March 31, |  | 2020 | | |  | 2019 | | |  | Increase (Decrease) | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 422.2 |  |  | $ | 542.4 |  |  | $ | (120.2 | ) |  | (22.2 | )% |
| Total margin (a) |  | $ | 123.9 |  |  | $ | 93.1 |  |  | $ | 30.8 |  |  | 33.1 | % |
| Operating and administrative expenses |  | $ | 33.8 |  |  | $ | 31.5 |  |  | $ | 2.3 |  |  | 7.3 | % |
| Operating income |  | $ | 71.3 |  |  | $ | 51.3 |  |  | $ | 20.0 |  |  | 39.0 | % |
| Earnings before interest expense and income taxes |  | $ | 79.2 |  |  | $ | 52.8 |  |  | $ | 26.4 |  |  | 50.0 | % |

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| (a) | Total margin represents revenues less cost of sales. |

Average temperatures across Midstream & Marketing’s energy marketing territory during the three months ended March 31, 2020 were 19.2% warmer than normal and 18.6% warmer than the prior-year period.

Midstream & Marketing’s 2020 three-month period revenues were $120.2 million lower than the prior-year period principally reflecting decreased natural gas revenues ($138.8 million) and, to a much lesser extent, lower electric generation ($3.5 million) and peaking ($2.8 million) revenues. The significant decrease in natural gas revenues is primarily attributable to lower average natural gas prices during the 2020 three-month period and, to a much lesser extent, lower natural gas volumes. The effect of these factors was partially offset by higher natural gas gathering revenues ($25.6 million) largely attributable to incremental revenues from UGI Appalachia, and higher capacity revenues ($3.5 million). Midstream & Marketing cost of sales were $298.3 million in the 2020 three-month period compared to $449.3 million in the prior-year period. The $151.0 million decrease in cost of sales principally reflects decreased natural gas costs ($137.5 million) largely attributable to lower average natural gas commodity prices and, to a much lesser extent, lower peaking costs ($7.3 million).

Midstream & Marketing total margin increased $30.8 million in the 2020 three-month period principally reflecting higher natural gas gathering total margin ($25.7 million) largely attributable to incremental margin from UGI Appalachia. Higher peaking margin ($4.5 million) and a refund received in connection with pipeline contract rates ($3.0 million) also contributed to the improvement in total margin. The effect of these increases was partially offset by lower electric generation margin ($1.6 million) largely attributable to lower margin from the Hunlock generating facility driven by decreased volumes.

Midstream & Marketing operating income and earnings before interest expense and income taxes increased $20.0 million and $26.4 million, respectively, during the 2020 three-month period. The increase in operating income principally reflects the previously mentioned increase in total margin partially offset by higher depreciation and amortization expense ($7.5 million) and increased operating and administrative expenses ($2.3 million). The higher depreciation and amortization expense and operating and administrative expenses are largely attributable to UGI Appalachia. The increase in earnings before interest expense and income taxes includes the previously mentioned increase in operating income ($20.0 million) and equity income from Pennant, a natural gas gathering and processing equity interest that was acquired as part of UGI Appalachia.

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***UGI Utilities***

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| For the three months ended March 31, |  | 2020 | | |  | 2019 | | |  | Increase (Decrease) | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 392.6 |  |  | $ | 429.6 |  |  | $ | (37.0 | ) |  | (8.6 | )% |
| Total margin (a) |  | $ | 207.3 |  |  | $ | 210.2 |  |  | $ | (2.9 | ) |  | (1.4 | )% |
| Operating and administrative expenses (a) |  | $ | 65.3 |  |  | $ | 67.7 |  |  | $ | (2.4 | ) |  | (3.5 | )% |
| Operating income |  | $ | 116.0 |  |  | $ | 119.9 |  |  | $ | (3.9 | ) |  | (3.3 | )% |
| Earnings before interest expense and income taxes |  | $ | 116.0 |  |  | $ | 120.3 |  |  | $ | (4.3 | ) |  | (3.6 | )% |
| Gas Utility system throughput—bcf |  |  | | |  |  | | |  |  | | |  |  | |
| Core market |  | 33.2 | |  |  | 40.2 | |  |  | (7.0 | | ) |  | (17.4 | )% |
| Total |  | 97.9 | |  |  | 96.6 | |  |  | 1.3 | |  |  | 1.3 | % |
| Electric Utility distribution sales - gwh |  | 259.0 | |  |  | 279.2 | |  |  | (20.2 | | ) |  | (7.2 | )% |
| Gas Utility heating degree days—% (warmer) than normal (b) |  | (20.5 | | )% |  | (0.8 | | )% |  | — | |  |  | — |  |

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| (a) | Total margin represents revenues less cost of sales and revenue-related taxes (i.e., Electric Utility gross receipts taxes) of $1.3 million and $1.4 million during the three months ended March 31, 2020 and 2019, respectively. For financial statement purposes, revenue-related taxes are included in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income (but are excluded from operating and administrative expenses presented above). |

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| (b) | Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by NOAA for airports located within Gas Utility’s service territory. |

Temperatures in Gas Utility’s service territory during the three months ended March 31, 2020, were 20.5% warmer than normal and 18.9% warmer than the prior-year period. Gas Utility core market volumes decreased during the 2020 three-month period (7.0 bcf) reflecting the effects of the warmer weather partially offset by growth in the number of core market customers and higher average use per customer. Total Gas Utility distribution system throughput increased 1.3 bcf during the 2020 three-month period reflecting higher interruptible delivery service volumes (5.9 bcf) and higher large firm delivery service volumes (2.4 bcf) partially offset by the lower core market volumes. Electric Utility kilowatt-hour sales were lower than the prior-year period principally reflecting the impact of warmer weather.

UGI Utilities revenues decreased $37.0 million in the three months ended March 31, 2020 compared to the prior-year period. Gas Utility revenues decreased $33.2 million during the 2020 three-month period largely attributable to lower core market revenues ($30.8 million) which reflect the lower core market throughput partially offset by the increase in base rates which became effective October 11, 2019. Lower revenues associated with off-system sales in the 2020 three-month period also contributed to the decrease in Gas Utility total revenues, partially offset by the effects of an unallocated negative surcharge revenue reduction ($10.5 million) in the 2019 three-month period as a result of a PAPUC Order related to the TCJA. Electric Utility revenues decreased $3.8 million during the 2020 three-month period largely attributable to the lower kilowatt-hour sales and lower average DS rates.

UGI Utilities cost of sales was $184.0 million in the three months ended March 31, 2020 compared with $218.0 million in the three months ended March 31, 2019, reflecting lower Gas Utility cost of sales ($30.8 million) and lower Electric Utility cost of sales ($3.2 million). The lower Gas Utility cost of sales principally reflects the effects of the lower core market volumes ($25.8 million) and costs of sales associated with off-system sales ($8.1 million) partially offset by higher PGC rates. The decrease in Electric Utility cost of sales is largely attributable to the lower kilowatt-hour sales and lower average DS rates.

UGI Utilities total margin decreased $2.9 million during the 2020 three-month period principally reflecting lower total margin from Gas Utility core market customers ($9.7 million) and large firm delivery services ($2.2 million). The lower margin attributable to core market customers was largely attributable to the previously mentioned decrease in volumes partially offset by the effects of the increase in base rates which became effective October 11, 2019. These margin decreases were partially offset by the previously mentioned unallocated negative surcharge revenue reduction ($10.5 million) in the 2019 three-month period.

UGI Utilities operating income and earnings before interest expense and income taxes decreased $3.9 million and $4.3 million, respectively, during the 2020 three-month period. The decrease in operating income largely reflects the previously mentioned decrease in total margin and higher depreciation expense ($3.5 million), partially offset by lower operating and administrative expenses ($2.4 million). The increased depreciation expense is attributable to continued IT and distribution system capital expenditure activity. The lower operating and administrative expenses reflect, among other things, decreases in contractor expenses

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and allocated corporate expenses compared to the prior-year period. The decrease in earnings before interest expense and income taxes reflects the lower operating income and the absence of a non-service pension benefit compared to the prior-year period.

***Interest Expense and Income Taxes***

Our consolidated interest expense during the 2020 three-month period was $82.4 million, compared to $61.0 million during the 2019 three-month period. The significant increase in interest expense principally reflects higher interest expense on long-term debt outstanding including debt incurred by UGI Corporation and Energy Services to fund a portion of the CMG Acquisition and the cash portion of the AmeriGas Merger, and higher interest on short-term borrowings.

The lower effective income tax rate for the three months ended March 31, 2020 compared to the prior-year period reflects a tax benefit resulting from the carryback of an NOL under the CARES Act ($19.2 million) and the release of a reserve related to the closure of prior-period tax audits ($6.1 million). The positive effects of these items were partially offset by higher U.S. taxes on foreign source income ($20.0 million) including lower anticipated utilization of foreign tax attributes, and the impact on income taxes of our 100% ownership of the Partnership in the current-year period compared to our approximately 26% ownership interest in the 2019 three-month period.

The Company has not yet filed its income tax returns for Fiscal 2019 or 2020, and continues to evaluate other tax positions or strategies that could affect current-year or prior-year taxable income or loss.  Accordingly, the impacts from the CARES Act on the Company’s income tax provisions and taxes payable or refundable are subject to change.

**2020 Six-Month Period Compared to the 2019 Six-Month Period**

***AmeriGas Propane***

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| For the six months ended March 31, |  | 2020 | | |  | 2019 | | |  | Decrease | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 1,532.4 |  |  | $ | 1,791.8 |  |  | $ | (259.4 | ) |  | (14.5 | )% |
| Total margin (a) |  | $ | 917.6 |  |  | $ | 978.1 |  |  | $ | (60.5 | ) |  | (6.2 | )% |
| Operating and administrative expenses |  | $ | 470.2 |  |  | $ | 485.3 |  |  | $ | (15.1 | ) |  | (3.1 | )% |
| Operating income/earnings before interest expense and income taxes |  | $ | 371.3 |  |  | $ | 413.9 |  |  | $ | (42.6 | ) |  | (10.3 | )% |
| Retail gallons sold (millions) |  | 644.4 | |  |  | 693.9 | |  |  | (49.5 | | ) |  | (7.1 | )% |
| Heating degree days—% (warmer) colder than normal (b) |  | (3.7 | | )% |  | 4.6 | | % |  | — | |  |  | — |  |

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| (a) | Total margin represents total revenues less total cost of sales. |

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| (b) | Deviation from average heating degree days for the 15-year period 2002-2016 based upon national weather statistics provided by NOAA for 344 Geo Regions in the United States, excluding Alaska and Hawaii. |

Average temperatures during the 2020 six-month period were 3.7% warmer than normal and 7.9% warmer than the prior-year period. Total retail gallons sold during the 2020 six-month period were 7.1% lower than the prior-year period reflecting the effects of the warmer weather on heating-related sales, structural conservation and other residential volume loss.

Retail propane revenues decreased $253.1 million during the 2020 six-month period reflecting the effects of lower average retail selling prices ($139.2 million) and the lower retail volumes sold ($113.9 million). Wholesale propane revenues decreased $5.5 million during the six months ended March 31, 2020 reflecting lower average wholesale selling prices ($11.1 million) partially offset by increased wholesale volumes ($5.6 million). Average daily wholesale propane commodity prices during the 2020 six-month period at Mont Belvieu, Texas, one of the major supply points in the U.S., were approximately 41% lower than such prices during the prior-year period. Total cost of sales decreased $198.9 million during the 2020 six-month period principally reflecting the effects of the lower average propane product costs ($153.8 million) and lower retail propane volumes sold ($52.0 million). The effects of these factors were partially offset by the higher wholesale propane volumes sold ($5.5 million).

AmeriGas Propane total margin decreased $60.5 million in the 2020 six-month period largely attributable to the lower retail volumes sold ($61.9 million). The effect of this decrease was partially offset by slightly higher average retail and wholesale unit margins ($3.4 million) compared to the prior-year period.

Operating income and earnings before interest expense and income taxes decreased $42.6 million during the 2020 six-month period principally reflecting the previously mentioned lower total margin partially offset by a decrease in operating and administrative

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expenses ($15.1 million), an increase in other operating income ($1.6 million), and lower depreciation and amortization expense ($1.2 million). The decrease in operating and administrative expenses in the 2020 six-month period reflects, among other things, lower compensation and benefits costs ($9.8 million) and decreased vehicle and equipment operating and maintenance expenses ($4.8 million). The improvements in operating and administrative expenses are largely attributable to the warmer weather and efforts related to the previously mentioned LPG transformation initiatives.

***UGI International***

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| For the six months ended March 31, |  | 2020 | | |  | 2019 | | |  | Increase (Decrease) | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 1,354.8 |  |  | $ | 1,493.9 |  |  | $ | (139.1 | ) |  | (9.3 | )% |
| Total margin (a) |  | $ | 584.8 |  |  | $ | 574.4 |  |  | $ | 10.4 |  |  | 1.8 | % |
| Operating and administrative expenses |  | $ | 312.4 |  |  | $ | 329.5 |  |  | $ | (17.1 | ) |  | (5.2 | )% |
| Operating income |  | $ | 212.6 |  |  | $ | 185.2 |  |  | $ | 27.4 |  |  | 14.8 | % |
| Earnings before interest expense and income taxes |  | $ | 226.4 |  |  | $ | 189.1 |  |  | $ | 37.3 |  |  | 19.7 | % |
| LPG retail gallons sold (millions) |  | 476.9 | |  |  | 496.3 | |  |  | (19.4 | | ) |  | (3.9 | )% |
| Heating degree days—% (warmer) than normal (b) |  | (11.8 | | )% |  | (7.6 | | )% |  | — | |  |  | — |  |

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| (a) | Total margin represents revenues less cost of sales and, in the 2019 six-month period, French energy certificate costs of $26.2 million. For financial statement purposes, French energy certificate costs in the 2019 six-month period are included in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income (but are excluded from operating and administrative expenses presented above). In the 2020 six-month period, French energy certificate costs are included in cost of sales on the Condensed Consolidated Statements of Income. |

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| (b) | Deviation from average heating degree days for the 15-year period 2002-2016 at locations in our UGI International service territories. |

Average temperatures during the 2020 six-month period were 11.8% warmer than normal and 4.5% warmer than the prior-year period. Total LPG retail gallons sold during the 2020 six-month period were 3.9% lower principally reflecting the termination of a low-margin autogas contract in Italy and the effects of the warmer weather on heating-related bulk sales and cylinder volumes partially offset by strong bulk volumes associated with crop drying. During the 2020 six-month period, average wholesale prices for propane in northwest Europe were approximately 18% lower than the prior-year period while average wholesale butane prices in northwest Europe were slightly lower compared to the prior year.

UGI International base-currency results are translated into U.S. dollars based upon exchange rates experienced during the reporting periods. Differences in these translation rates affect the comparison of line item amounts presented in the table above. 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 2020 and 2019 six-month periods, the average unweighted euro-to-dollar translation rates were approximately $1.10 and $1.14, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately $1.28 and $1.29, respectively.

UGI International revenues and cost of sales decreased $139.1 million and $149.5 million, respectively, during the 2020 six-month period compared to the prior year. These decreases to both revenues and cost of sales principally reflect the effects of lower average LPG selling prices and product costs, lower total LPG retail and wholesale volumes, and the translation effects of the weaker euro (approximately $40 million and $23 million, respectively). Energy marketing activities also contributed to the decreased revenues and cost of sales during the current year-period.

UGI International total margin increased $10.4 million during the 2020 six-month period largely attributable to higher average LPG unit margins, including the effects of margin management efforts and lower LPG product costs, and higher margins from energy marketing. The effects of these increases were partially offset by the translation effects of the weaker euro (approximately $17 million) compared to the prior-year period and the previously mentioned effects of the warmer weather on heating-related bulk sales and cylinder volumes.

UGI International operating income and earnings before interest expense and income taxes increased $27.4 million and $37.3 million, respectively, during the 2020 six-month period compared to the prior year. The increase in operating income principally reflects the increase in total margin and lower operating and administrative expenses ($17.1 million). The decrease in operating and administrative expenses is largely attributable to the translation effects of the weaker euro (approximately $9 million) compared to the prior-year period and lower maintenance and outside services costs, partially offset by higher uncollectible accounts expense.

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The increase in earnings before interest expense and income taxes in the 2020 six-month period largely reflects the higher operating income and increased pre-tax realized gains on foreign currency exchange contracts entered into in order to reduce volatility in UGI International net income resulting from the translation effects of changes in foreign currency exchange rates ($9.7 million).

***Midstream & Marketing***

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| For the six months ended March 31, |  | 2020 | | |  | 2019 | | |  | Increase (Decrease) | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 794.7 |  |  | $ | 1,001.8 |  |  | $ | (207.1 | ) |  | (20.7 | )% |
| Total margin (a) |  | $ | 232.2 |  |  | $ | 175.0 |  |  | $ | 57.2 |  |  | 32.7 | % |
| Operating and administrative expenses |  | $ | 68.7 |  |  | $ | 60.7 |  |  | $ | 8.0 |  |  | 13.2 | % |
| Operating income |  | $ | 126.4 |  |  | $ | 92.4 |  |  | $ | 34.0 |  |  | 36.8 | % |
| Earnings before interest expense and income taxes |  | $ | 140.8 |  |  | $ | 95.4 |  |  | $ | 45.4 |  |  | 47.6 | % |

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| (a) | Total margin represents revenues less cost of sales. |

Average temperatures across Midstream & Marketing’s energy marketing territory during the six months ended March 31, 2020 were 11.8% warmer than normal and 12.8% warmer than the prior-year period.

Midstream & Marketing’s 2020 six-month period revenues were $207.1 million lower than the prior-year period principally reflecting decreased natural gas revenues ($246.9 million) and, to a much lesser extent, lower electric generation and peaking revenues ($8.3 million). The significant decrease in natural gas revenues is primarily attributable to lower average natural gas prices during the 2020 six-month period and, to a much lesser extent, lower natural gas volumes. The effects of these revenue decreases were partially offset by higher natural gas gathering revenues ($52.0 million) largely attributable to incremental revenues from UGI Appalachia. Midstream & Marketing cost of sales were $562.5 million in the 2020 six-month period compared to $826.8 million in the prior-year period. The $264.3 million decrease in cost of sales principally reflects decreased natural gas costs ($245.8 million) largely attributable to lower average natural gas commodity prices and, to a much lesser extent, lower electric generation and peaking costs ($13.1 million).

Midstream & Marketing total margin increased $57.2 million in the 2020 six-month period reflecting higher natural gas gathering total margin ($52.0 million) largely attributable to incremental margin from UGI Appalachia and, to a much lesser extent, increased peaking margin ($7.7 million). The effects of these increases were partially offset by lower electric generation margin ($2.9 million) largely related to lower volumes at the Hunlock generating facility compared to the prior-year period.

Midstream & Marketing operating income and earnings before interest expense and income taxes during the 2020 six-month period increased $34.0 million and $45.4 million, respectively, compared to the prior-year period. The increase in operating income principally reflects the increase in total margin partially offset by higher depreciation and amortization expense ($14.4 million) and increased operating and administrative expenses ($8.0 million). The higher depreciation and amortization expense and operating and administrative expenses are largely attributable to UGI Appalachia. The increase in earnings before interest expense and income taxes largely reflects the previously mentioned increase in operating income ($34.0 million) and equity income from Pennant, a natural gas gathering and processing equity interest that was acquired as part of UGI Appalachia.

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***UGI Utilities***

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| For the six months ended March 31, |  | 2020 | | |  | 2019 | | |  | Increase (Decrease) | | | | | |
| (Dollars in millions) |  |  | | |  |  | | |  |  | | |  |  | |
| Revenues |  | $ | 721.9 |  |  | $ | 752.3 |  |  | $ | (30.4 | ) |  | (4.0 | )% |
| Total margin (a) |  | $ | 383.9 |  |  | $ | 372.1 |  |  | $ | 11.8 |  |  | 3.2 | % |
| Operating and administrative expenses (a) |  | $ | 123.4 |  |  | $ | 128.9 |  |  | $ | (5.5 | ) |  | (4.3 | )% |
| Operating income |  | $ | 207.8 |  |  | $ | 196.9 |  |  | $ | 10.9 |  |  | 5.5 | % |
| Earnings before interest expense and income taxes |  | $ | 207.6 |  |  | $ | 197.7 |  |  | $ | 9.9 |  |  | 5.0 | % |
| Gas Utility system throughput—bcf |  |  | | |  |  | | |  |  | | |  |  | |
| Core market |  | 59.3 | |  |  | 66.7 | |  |  | (7.4 | | ) |  | (11.1 | )% |
| Total |  | 182.4 | |  |  | 172.3 | |  |  | 10.1 | |  |  | 5.9 | % |
| Electric Utility distribution sales - gwh |  | 504.6 | |  |  | 528.9 | |  |  | (24.3 | | ) |  | (4.6 | )% |
| Gas Utility heating degree days—% (warmer) than normal (b) |  | (13.8 | | )% |  | (0.7 | | )% |  | — | |  |  | — |  |

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| (a) | Total margin represents revenues less cost of sales and revenue-related taxes (i.e., Electric Utility gross receipts taxes) of $2.4 million and $2.7 million during the six months ended March 31, 2020 and 2019, respectively. For financial statement purposes, revenue-related taxes are included in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income (but are excluded from operating and administrative expenses presented above). |

|  |  |
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|  |  |
| (b) | Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by NOAA for airports located within Gas Utility’s service territory. |

Temperatures in Gas Utility’s service territory during the six months ended March 31, 2020, were 13.8% warmer than normal and 12.6% warmer than the prior-year period. Gas Utility core market volumes decreased during the 2020 six-month period (7.4 bcf) reflecting the effects of the warmer weather partially offset by growth in the number of core market customers and higher average use per customer. Total Gas Utility distribution system throughput increased 10.1 bcf during the 2020 six-month period reflecting higher interruptible delivery service volumes (11.1 bcf) and higher large firm delivery service volumes (6.5 bcf) partially offset by the lower core market volumes. Electric Utility kilowatt-hour sales were lower than the prior-year period principally reflecting the impact of warmer weather.

UGI Utilities revenues decreased $30.4 million in the six months ended March 31, 2020, reflecting a $24.0 million decrease in Gas Utility revenues and $6.4 million decrease in Electric Utility revenues. The decrease in Gas Utility revenues principally reflects lower core market revenues ($19.7 million) and lower off-system sales and capacity release revenues ($16.4 million) partially offset by the effects of an unallocated negative surcharge revenue reduction ($14.6 million) in the 2019 six-month period as a result of a PAPUC Order related to the TCJA. The decrease in Gas Utility core market revenues reflects the effects of the previously mentioned lower volumes, partially offset by the increase in base rates effective October 11, 2019. The decrease in Electric Utility revenues during the 2020 six-month period is largely attributable to the lower kilowatt-hour sales and lower DS rates.

UGI Utilities cost of sales was $335.6 million in the six months ended March 31, 2020 compared with $377.5 million in the prior-year period reflecting lower Gas Utility cost of sales ($36.1 million) and lower Electric Utility cost of sales ($5.8 million). The lower Gas Utility cost of sales principally reflects lower costs of sales related to core market customers ($19.2 million) reflecting the decreased volumes partially offset by higher PGC rates, and lower cost of sales associated with off-system sales ($16.0 million). The decrease in Electric Utility cost of sales is largely attributable to the lower kilowatt-hour sales and lower average DS rates.

UGI Utilities total margin increased $11.8 million during the 2020 six-month period primarily reflecting higher margin from Gas Utility. The increase in total Gas Utility margin largely reflects the effects of the previously mentioned unallocated negative surcharge revenue reduction ($14.6 million) in the 2019 six-month period. Core market margin was comparable to the prior-year period as the effects of the increase in base rates which became effective October 11, 2019 largely offset the impact of significantly warmer weather on core market volumes.

UGI Utilities operating income and earnings before interest expense and income taxes increased $10.9 million and $9.9 million, respectively, during the 2020 six-month period. The increase in operating income reflects the previously mentioned increase in total margin and lower operating and administrative expenses ($5.5 million), partially offset by higher depreciation expense ($6.7 million). The lower operating and administrative expenses reflect, among other things, decreases in allocated corporate expenses, contractor costs, and employee compensation and benefits-related expenses. The increase in depreciation expense relates to

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**UGI CORPORATION AND SUBSIDIARIES**

continued IT and distribution system capital expenditure activity. The increase in earnings before interest expense and income taxes reflects the increase in operating income partially offset by the absence of a non-service pension benefit reflected in the prior-year period.

***Interest Expense and Income Taxes***

Our consolidated interest expense during the 2020 six-month period was $166.5 million, compared to $121.2 million during the 2019 six-month period. The significant increase in interest expense principally reflects higher interest expense on long-term debt outstanding including debt incurred by UGI Corporation and Energy Services to fund a portion of the CMG Acquisition and the cash portion of the AmeriGas Merger, and higher interest on short-term borrowings.

The lower effective income tax rate for the 2020 six-month period reflects a tax benefit resulting from the carryback of an NOL under the CARES Act ($19.2 million) and incremental discrete tax benefits ($9.3 million) compared to the prior-year period largely related to the release of reserves related to the closure of prior-period tax audits and the lapse of statutes of limitation. The positive effects of these items were largely offset by higher U.S. taxes on foreign source income ($24.5 million) including lower anticipated utilization of foreign tax attributes, and the impact on income taxes of our 100% ownership of the Partnership in the current-year period compared to our approximately 26% ownership interest in the 2019 six-month period.

The Company has not yet filed its income tax returns for Fiscal 2019 or 2020, and continues to evaluate other tax positions or strategies that could affect current-year or prior-year taxable income or loss.  Accordingly, the impacts from the CARES Act on the Company’s income tax provisions and taxes payable or refundable are subject to change.

**FINANCIAL CONDITION AND LIQUIDITY**

The Company expects to have sufficient liquidity to continue to support long-term commitments and ongoing operations despite potential uncertainties associated with the global pandemic attributable to the outbreak and continued spread of COVID-19. Our total available liquidity balance as of March 31, 2020 totaled approximately $1.2 billion and comprised cash and cash equivalents and available borrowing capacity on our revolving credit facilities. Additionally, UGI and its subsidiaries were in compliance with all debt covenants as of March 31, 2020. The Company's liquidity has also been positively influenced by continued low commodity prices experienced during the six months ended March 31, 2020, partially offset by increased margin calls associated with derivative instruments, and anticipates lower working capital requirements that typically occurs in the second half of the Company's fiscal year. In addition, the Company does not have any near-term senior note or term loan maturities. The COVID‑19 global pandemic is a rapidly evolving situation and the Company cannot predict the ultimate impact it will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures.

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 from operations are generally satisfied with borrowings under credit facilities and, in the case of Midstream & Marketing, also from a Receivables Facility. Long-term cash requirements are generally met through the issuance of long-term debt or equity securities. We believe that each of our business units has sufficient liquidity in the forms of cash and cash equivalents on hand; cash expected to be generated from operations; credit facility and Receivables Facility borrowing capacity; and the ability to obtain long-term financing to meet anticipated contractual and projected cash commitments. Issuances of debt and equity securities in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

The primary sources of UGI’s cash and cash equivalents are the dividends and other cash payments made to UGI or its corporate subsidiaries by its principal business units. Our cash and cash equivalents totaled $297.3 million at March 31, 2020, compared with $447.1 million at September 30, 2019. Excluding cash and cash equivalents that reside at UGI’s operating subsidiaries, at March 31, 2020 and September 30, 2019, UGI had $75.2 million and $224.9 million of cash and cash equivalents, respectively. Such cash is available to pay dividends on UGI Common Stock and for investment purposes.

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**UGI CORPORATION AND SUBSIDIARIES**

**Long-term Debt and Credit Facilities**

***Long-term Debt***

The Company’s debt outstanding at March 31, 2020 and September 30, 2019, comprises the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | March 31, 2020 | | | | | | | | | | | | | | | | | | | | | | |  | September 30, 2019 | | |
| (Millions of dollars) | AmeriGas Propane | | |  | UGI International | | |  | Midstream & Marketing | | |  | UGI Utilities | | |  | Corp & Other | | |  | Total | | |  | Total | | |
| Short-term borrowings | $ | 201.0 |  |  | $ | 185.5 |  |  | $ | 43.0 |  |  | $ | 224.0 |  |  | $ | — |  |  | $ | 653.5 |  |  | $ | 796.3 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Long-term debt (including current maturities): |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Senior notes | $ | 2,575.0 |  |  | $ | 386.1 |  |  | $ | — |  |  | $ | 825.0 |  |  | $ | — |  |  | $ | 3,786.1 |  |  | $ | 3,781.5 |  |
| Term loans | — | |  |  | 330.9 | |  |  | 694.7 | |  |  | 150.9 | |  |  | 550.0 | |  |  | 1,726.5 | |  |  | 1,729.4 | |  |
| Other long-term debt | 11.5 | |  |  | 21.7 | |  |  | 41.4 | |  | (a) | 3.6 | |  |  | 287.8 | |  |  | 366.0 | |  |  | 345.7 | |  |
| Unamortized debt issuance costs | (21.7 | | ) |  | (7.5 | | ) |  | (13.3 | | ) |  | (5.2 | | ) |  | (3.6 | | ) |  | (51.3 | | ) |  | (52.6 | | ) |
| Total long-term debt | $ | 2,564.8 |  |  | $ | 731.2 |  |  | $ | 722.8 |  |  | $ | 974.3 |  |  | $ | 834.2 |  |  | $ | 5,827.3 |  |  | $ | 5,804.0 |  |
| Total debt | $ | 2,765.8 |  |  | $ | 916.7 |  |  | $ | 765.8 |  |  | $ | 1,198.3 |  |  | $ | 834.2 |  |  | $ | 6,480.8 |  |  | $ | 6,600.3 |  |

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| (a) | Amount includes finance lease liabilities recognized as a result of the adoption of ASU 2016-02. For additional information, see Notes 2 and 9 to Condensed Consolidated Financial Statements. |

***Credit Facilities***

***Energy Services.*** On March 6, 2020, Energy Services entered into the Energy Services 2020 Credit Agreement, as borrower, with a group of lenders. The Energy Services 2020 Credit Agreement amends and restates the Energy Services Credit Agreement. The Energy Services 2020 Credit Agreement provides for borrowings up to $260 million, including a $50 million sublimit for letters of credit. Energy Services may request an increase in the amount of loan commitments under the Energy Services 2020 Credit Agreement to a maximum aggregate amount of $325 million, subject to certain terms and conditions. Borrowings under the Energy Services 2020 Credit Agreement can be used to fund acquisitions and investments and for general corporate purposes. The Energy Services 2020 Credit Agreement is scheduled to expire in March 2025.

Additional information related to the Company’s credit agreements can be found in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 6 to Consolidated Financial Statements in the Company’s 2019 Annual Report.

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**UGI CORPORATION AND SUBSIDIARIES**

Information about the Company’s principal credit agreements (excluding the Energy Services Receivables Facility discussed below) as of March 31, 2020 and 2019, is presented in the table below.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (Currency in millions) |  | Total Capacity | | |  | Borrowings Outstanding | | |  | Letters of Credit and Guarantees Outstanding | | |  | Available Borrowing Capacity | | |
| **As of March 31, 2020** |  |  | | |  |  | | |  |  | | |  |  | | |
| AmeriGas OLP |  | $ | 600.0 |  |  | $ | 201.0 |  |  | $ | 62.7 |  |  | $ | 336.3 |  |
| UGI International, LLC (a) |  | € | 300.0 |  |  | € | 163.2 |  |  | € | — |  |  | € | 136.8 |  |
| Energy Services |  | $ | 260.0 |  |  | $ | — |  |  | $ | — |  |  | $ | 260.0 |  |
| UGI Utilities |  | $ | 350.0 |  |  | $ | 224.0 |  |  | $ | — |  |  | $ | 126.0 |  |
| UGI Corporation (b) |  | $ | 300.0 |  |  | $ | 280.0 |  |  | $ | — |  |  | $ | 20.0 |  |
| **As of March 31, 2019** |  |  | | |  |  | | |  |  | | |  |  | | |
| AmeriGas OLP |  | $ | 600.0 |  |  | $ | 236.0 |  |  | $ | 63.4 |  |  | $ | 300.6 |  |
| UGI International, LLC |  | € | 300.0 |  |  | € | — |  |  | € | — |  |  | € | 300.0 |  |
| Energy Services |  | $ | 240.0 |  |  | $ | — |  |  | $ | — |  |  | $ | 240.0 |  |
| UGI Utilities |  | $ | 450.0 |  |  | $ | 105.0 |  |  | $ | 2.0 |  |  | $ | 343.0 |  |

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| (a) | The 2018 UGI International Credit Facilities Agreement permits UGI International, LLC to borrow in euros or dollars. At March 31, 2020, the amount borrowed comprised USD-denominated borrowings of $180 million, equal to €163.2 million. |

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| (b) | Borrowings outstanding have been classified as “Long-term debt” on the Condensed Consolidated Balance Sheets. |

The average daily and peak short-term borrowings under the Company’s principal credit agreements during the six months ended March 31, 2020 and 2019 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | For the six months ended | | | | | | |  | For the six months ended | | | | | | |
|  |  | March 31, 2020 | | | | | | |  | March 31, 2019 | | | | | | |
| (Millions of dollars or euros) |  | Average | | |  | Peak | | |  | Average | | |  | Peak | | |
| AmeriGas OLP |  | $ | 293.9 |  |  | $ | 359.0 |  |  | $ | 303.2 |  |  | $ | 422.0 |  |
| UGI International, LLC |  | € | 176.7 |  |  | € | 190.4 |  |  | € | — |  |  | € | — |  |
| Energy Services |  | $ | 23.3 |  |  | $ | 76.5 |  |  | $ | — |  |  | $ | — |  |
| UGI Utilities |  | $ | 240.0 |  |  | $ | 290.0 |  |  | $ | 223.8 |  |  | $ | 311.0 |  |
| UGI Corporation |  | $ | 289.9 |  |  | $ | 300.0 |  |  | $ | — |  |  | $ | — |  |

***Receivables Facility.*** Energy Services has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire on October 23, 2020. At March 31, 2020, the outstanding balance of ESFC trade receivables was $86.4 million, of which $43.0 million was sold to the bank. At March 31, 2019, the outstanding balance of ESFC trade receivables was $117.0 million, none of which was sold to the bank. Amounts sold to the bank are reflected as “Short-term borrowings” on the Condensed Consolidated Balance Sheets. During the six months ended March 31, 2020 and 2019, peak sales of receivables were $97.0 million and $16.0 million, respectively, and average daily amounts sold were $54.6 million and $1.3 million, respectively.

**Subsequent Event**

***UGI Utilities.*** On April 16, 2020, UGI Utilities issued in a private placement $150 million of UGI Utilities 3.12% Senior Notes due April 16, 2050 pursuant to a Note Purchase Agreement dated March 19, 2020, between UGI Utilities and certain note purchasers. The UGI Utilities 3.12% Senior Notes are unsecured and rank equally with UGI Utilities’ existing outstanding senior debt. The net proceeds from the issuance of the UGI Utilities 3.12% Senior Notes were used to reduce short-term borrowings and for general corporate purposes.

**Dividends**

On April 21, 2020, UGI’s Board of Directors approved an increase in the quarterly dividend rate on UGI Common Stock to $0.33 per Common Share, or $1.32 on an annual basis. The new dividend rate reflects an approximate 1.5% increase from the previous quarterly rate of $0.325. The new quarterly dividend rate is effective with the dividend payable on July 1, 2020, to shareholders of record on June 15, 2020.

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**UGI CORPORATION AND SUBSIDIARIES**

**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 natural gas, LPG, electricity and other energy products and services 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.

***Operating Activities.***Year-to-year variations in our cash flows from operating activities can be significantly affected by changes in operating working capital especially during periods with significant changes in energy commodity prices. Cash flow from operating activities was $562.4 million in the 2020 six-month period compared to $617.6 million in the 2019 six-month period. Cash flow from operating activities before changes in operating working capital was $803.6 million in the 2020 six-month period compared to $868.8 million in the prior-year period. The lower cash flow from operating activities before changes in operating working capital reflects, in large part, lower cash flow before changes in operating working capital from AmeriGas Propane. Cash used to fund changes in operating working capital totaled $241.2 million in the 2020 six-month period, slightly lower than the $251.2 million of cash used to fund changes in operating working capital in the prior-year period. Net cash used to fund changes in accounts receivable, inventories and accounts payable during the 2020 six-month period was approximately equal to such net cash used in the prior-year period. Changes in operating working capital during the 2020 six-month period reflects net recoveries of deferred fuel and power costs compared to net refunds of such costs during the prior-year period. Cash collateral deposits paid to commodity derivative instrument counterparties were higher in the 2020 six-month period principally the result of declining LPG commodity prices.

***Investing Activities.***Cash flow used by investing activities was $326.9 million in the 2020 six-month period compared with $393.3 million in the prior-year period. Investing activity cash flow is principally affected by cash expenditures for property, plant and equipment; cash paid for acquisitions of businesses and assets; investments in investees; and proceeds from sales of assets and businesses. Cash expenditures for property, plant and equipment were $342.0 million in the 2020 six-month period compared to $340.6 million in the prior-year period. Cash used for acquisitions of businesses and assets in the 2019 six-month period reflects Energy Services’ acquisition of South Jersey Energy Company’s natural gas marketing business and natural gas gathering assets in Pennsylvania, and UGI International’s acquisitions of several smaller LPG retail businesses in Europe.

***Financing Activities.*** Cash flow used by financing activities was $347.8 million in the 2020 six-month period compared with $160.6 million in the prior-year period. Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt; net short-term borrowings/repayments; dividends and distributions on UGI Common Stock and, in the 2019 six-month period, AmeriGas Partners publicly held Common Units; and issuances and repurchases of UGI Common Stock. Cash flows used by financing activities in the 2020 six-month period include $139.4 million of net repayments of short-term borrowings as compared to $81.9 million in the 2019 six-month period. Cash flow from financing activities in the 2020 six-month period also reflects dividends on UGI Common Stock of $135.6 million compared to combined dividends and distributions on UGI Common Stock and AmeriGas Common Units of $222.0 million in the prior-year period.

Cash flows from financing activities in the 2019 six-month period reflect significant UGI International refinancing transactions during the month of October 2018. On October 25, 2018, UGI International, LLC borrowed €300 million under a variable-rate term loan facility. Also on October 25, 2018, UGI International, LLC issued in an underwritten private placement €350 million principal amount of 3.25% senior unsecured notes. The net proceeds from these borrowings plus cash on hand were used principally to repay €540 million outstanding principal of UGI France’s variable-rate term loan; €45.8 million of outstanding principal of Flaga’s variable-rate term loan; and $49.9 million of outstanding principal of Flaga’s U.S. Dollar Term loan, plus accrued and unpaid interest. In addition, on February 1, 2019, UGI Utilities issued in a private placement $150 million of senior notes due in February 2049.

**Capital Expenditures**

The global pandemic attributable to the outbreak and continued spread of COVID-19 has resulted in the curtailment of certain non-essential business operations across the U.S. and Europe. As a result, certain of the Company’s capital expenditure programs have experienced delays and we have revised the amounts we expect to spend during all of Fiscal 2020. In total, the Company anticipates making capital expenditures of approximately $730 million for the full fiscal year, inclusive of capital expenditures during the six months ended March 31, 2020.

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**UGI CORPORATION AND SUBSIDIARIES**

**UTILITY REGULATORY MATTERS**

***Base Rate Filings.*** On January 28, 2020, Gas Utility filed a request with the PAPUC to increase its base operating revenues for residential, commercial and industrial customers by $74.6 million annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service and to continue funding programs designed to promote and reward customers’ efforts to increase efficient use of natural gas. Gas Utility requested that the new gas rates become effective March 28, 2020. The PAPUC entered an Order dated February 27, 2020, suspending the effective date for the rate increase to allow for investigation and public hearings for up to nine months from the date of filing. Thereafter, in response to a COVID-19 related motion to extend the suspension period indefinitely filed by the BIE, the Company voluntarily extended the end of the suspension period an additional twenty-one days, to November 19, 2020. Unless a settlement is reached sooner, this review process is expected to last until that date. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

On January 28, 2019, Gas Utility filed a rate request with the PAPUC to increase the base operating revenues for residential, commercial, and industrial customers throughout its Pennsylvania service territory by an aggregate $71.1 million. On October 4, 2019, the PAPUC issued a final Order approving a settlement that permits Gas Utility, effective October 11, 2019, to increase its base distribution revenues by $30.0 million under a single consolidated tariff, approved a plan for uniform class rates, and permits the Gas Utility to extend its Energy Efficiency and Conservation and Growth Extension Tariff programs by an additional term of five years. The PAPUC’s final Order approved a negative surcharge, to return to customers $24.0 million of tax benefits experienced by Gas Utility over the period January 1, 2018 to June 30, 2018, plus applicable interest, in accordance with the May 17, 2018 PAPUC Order, which became effective for a twelve-month period beginning on October 11, 2019, the effective date of Gas Utility’s new base rate.

On October 25, 2018, the PAPUC approved a final order providing for a $3.2 million annual base distribution rate increase for Electric Utility, effective October 27, 2018. As part of the final PAPUC Order, Electric Utility provided customers with a one-time $0.2 million billing credit associated with 2018 TCJA tax benefits. On November 26, 2018, the Pennsylvania Office of Consumer Advocate filed an appeal to the Pennsylvania Commonwealth Court challenging the PAPUC’s acceptance of UGI Utilities’ use of a fully projected future test year and handling of consolidated federal income tax benefits. On January 15, 2020, the Pennsylvania Commonwealth Court issued a decision affirming the PAPUC Order adopting UGI Utilities’ position on both issues. No party exercised their right to seek an appeal of the Commonwealth Court decision.

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**UGI CORPORATION AND SUBSIDIARIES**

**ITEM 3. QUANTITATIVE AND QUALITATIVE 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 the Partnership and our UGI International operations pay for LPG is principally a result of market forces reflecting changes in supply and demand for LPG and other energy commodities. Their profitability is sensitive to changes in LPG supply costs. Increases in supply costs are generally passed on to customers. The Partnership and UGI International 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, the Partnership uses contracts for the forward purchase or sale of propane, propane fixed-price supply agreements and over-the-counter derivative commodity instruments including price swap contracts. Our UGI International operations use over-the-counter derivative commodity instruments and may from time to time enter into other derivative contracts, similar to those used by the Partnership, to reduce market risk associated with a portion of their LPG purchases. Over-the-counter derivative commodity instruments used to economically hedge forecasted purchases of LPG are generally settled at expiration of the contract.

Gas Utility's tariffs contain clauses that permit recovery of all prudently incurred costs of natural gas it sells to its retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. The recovery clauses provide for periodic adjustments for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses derivative financial instruments, including natural gas futures and option contracts traded on the NYMEX, to reduce volatility in the cost of gas it purchases for its retail core-market customers. The cost of these derivative financial instruments, net of any associated gains or losses, is included in Gas Utility's PGC recovery mechanism.

In addition, Gas Utility and Electric Utility from time to time enter into exchange-traded gasoline futures contracts for a portion of gasoline volumes expected to be used in their operations. These gasoline futures contracts are recorded at fair value with changes in fair value reflected in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income.

In order to manage market price risk relating to substantially all of Midstream & Marketing’s fixed-price sale contracts for physical natural gas and electricity, Midstream & Marketing enters into NYMEX, ICE and over-the-counter natural gas and electricity futures and option contracts, and natural gas basis swap contracts or enters into fixed-price supply arrangements. Midstream & Marketing also uses NYMEX and over-the-counter electricity futures contracts to economically hedge a portion of its anticipated sales of electricity from its electricity generation facilities. Although Midstream & Marketing’s fixed-price supply arrangements mitigate most risks associated with its fixed-price sales contracts, should any of the suppliers under these arrangements fail to perform, increases, if any, in the cost of replacement natural gas or electricity would adversely impact Midstream & Marketing’s results. In order to reduce this risk of supplier nonperformance, Midstream & Marketing has diversified its purchases across a number of suppliers. UGI International’s 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.

Midstream & Marketing also uses NYMEX and over-the-counter futures and options contracts to economically hedge price volatility associated with the gross margin derived from the purchase and anticipated later near-term sale of natural gas storage inventories.

Midstream & Marketing has entered into fixed-price sales agreements for a portion of the electricity expected to be generated by its electric generation assets. In the event that these generation assets would not be able to produce all of the electricity needed to supply electricity under these agreements, Midstream & Marketing would be required to purchase electricity on the spot market or under contract with other electricity suppliers. Accordingly, increases in the cost of replacement power could negatively impact Midstream & Marketing’s results.

**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.

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**UGI CORPORATION AND SUBSIDIARIES**

Our variable-rate debt at March 31, 2020, includes revolving credit facility borrowings and variable-rate term loans at UGI International, LLC, UGI Utilities, Energy Services and UGI Corporation. These debt agreements have interest rates that are generally indexed to short-term market interest rates. We have entered into pay-fixed, receive-variable interest rate swap agreements on all or a significant portion of the term loans’ principal balances and all or a significant portion of the term loans’ tenor. We have designated these interest rate swaps as cash flow hedges. At March 31, 2020, combined borrowings outstanding under variable-rate debt agreements, excluding the previously mentioned effectively fixed-rate debt, totaled $883.5 million.

Long-term debt associated with our domestic businesses is typically issued at fixed rates of interest based upon market rates for debt with similar terms and credit ratings. As these long-term debt issues mature, we may refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce interest rate risk associated with near- to medium-term forecasted issuances of fixed rate debt, from time to time we enter into IRPAs.

**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 net investments in our UGI International operations, a 10% decline in the value of the associated foreign currencies versus the U.S. dollar would reduce their aggregate net book value at March 31, 2020, by approximately $105 million, which amount would be reflected in other comprehensive income. We have designated euro-denominated borrowings under the 2018 UGI International Credit Facilities Agreement and the UGI International 3.25% Senior Notes as net investment hedges.

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 between 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 local 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 March 31, 2020, we had pledged net cash collateral with derivative instrument counterparties totaling $58.0 million. Additionally, our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At March 31, 2020, restricted cash in brokerage accounts totaled $104.4 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 March 31, 2020. Certain of the Partnership’s derivative contracts have credit-risk-related contingent features that may require the posting of additional collateral in the event of a downgrade of the Partnership’s debt rating. At March 31, 2020, if the credit-risk-related contingent features were triggered, the amount of collateral required to be posted would not be material.

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**UGI CORPORATION AND SUBSIDIARIES**

The following table summarizes the fair values of unsettled market risk sensitive derivative instrument assets (liabilities) held at March 31, 2020. The table also includes the changes in fair values of derivative instruments that would result if there were (1) a 10% adverse change in the market prices of LPG, gasoline, natural gas, electricity and electricity transmission congestion charges; (2) a 50 basis point adverse change in prevailing market interest rates; and (3) a 10% adverse change in the value of the euro and the British pound sterling versus the U.S. dollar. Gas Utility’s and Electric Utility’s commodity derivative instruments other than gasoline futures contracts are excluded from the table below because any associated net gains or losses are refundable to or recoverable from customers in accordance with Gas Utility and Electric Utility ratemaking.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  |  | Asset (Liability) | | | | | | |
| (Millions of dollars) |  | Fair Value | | |  | Change in  Fair Value | | |
| **March 31, 2020** |  |  | | |  |  | | |
| Commodity price risk |  | $ | (265.0 | ) |  | $ | (90.6 | ) |
| Interest rate risk |  | $ | (54.1 | ) |  | $ | (14.8 | ) |
| Foreign currency exchange rate risk |  | $ | 51.2 |  |  | $ | (43.6 | ) |

**ITEM 4. CONTROLS AND PROCEDURES**

|  |  |
| --- | --- |
|  |  |
| (a) | Evaluation of Disclosure Controls and Procedures |

The Company's disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this Report, were effective at the reasonable assurance level.

|  |  |
| --- | --- |
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| (b) | Change in Internal Control over Financial Reporting |

No change in the Company’s internal control over financial reporting occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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**UGI CORPORATION AND SUBSIDIARIES**

**PART II OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2019 Annual Report, which could materially affect our business, financial condition or future results. The risks described below and in our 2019 Annual Report are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

***The recent COVID-19 outbreak could adversely impact our business, financial condition and results of operations.***

The recent COVID-19 outbreak has resulted in widespread impacts on the global economy and on our employees, customers, third-party business partners and other stakeholders. There is considerable uncertainty regarding the extent to which COVID-19 will spread and the extent and duration of domestic and global measures designed to contain the spread, including travel bans and restrictions, quarantines, shelter-in-place orders (including those in effect in our service areas), and business and government shutdowns. These restrictions may, among other things:

|  |  |
| --- | --- |
|  |  |
| • | negatively impact the financial condition of our customers and their ability to pay for our products and services; |

|  |  |
| --- | --- |
|  |  |
| • | reduce energy consumption by certain of our customers, which would affect demand for our products; |

|  |  |
| --- | --- |
|  |  |
| • | disrupt or delay progress in the development and completion of our energy infrastructure projects; |

|  |  |
| --- | --- |
|  |  |
| • | prolong the time period necessary to perform maintenance of our infrastructure; |

|  |  |
| --- | --- |
|  |  |
| • | result in operational delays, including delay in the delivery of our products to customers; |

|  |  |
| --- | --- |
|  |  |
| • | result in impairment relating to certain current and long-lived assets; and |

|  |  |
| --- | --- |
|  |  |
| • | limit or curtail significantly or entirely the ability of public utility commissions to approve or authorize applications and other requests we may make with respect to our regulated businesses. |

Additionally, while we have modified or restricted certain business and workforce practices (including employee travel, presence at employee work locations, and physical participation in meetings, events, and conferences) to protect the health and safety of our workforce, and to conform to government orders and best practices encouraged by governmental and regulatory authorities, we depend on our workforce to operate our facilities and deliver our products and provide services to customers. If a large portion of our operational workforce were to contract COVID-19 simultaneously, we would rely upon our business continuity plans in an effort to continue operations, but there is no certainty that such measures would be sufficient to mitigate the adverse impact to our operations.

Furthermore, if we seek to raise additional capital, our access to and cost of financing will depend on, among other things, global economic conditions, conditions in the financing and equity markets, the availability of sufficient amounts of financing, our prospects and our credit ratings. Our total available liquidity balance as of March 31, 2020 totaled approximately $1.2 billion, which includes commitments under recent financing transactions completed by our Energy Services and UGI Utilities subsidiaries. Nonetheless, if our credit ratings were to be downgraded, or general market conditions were to ascribe higher risk to our rating levels, our industry, or us, our access to capital and the cost of any future debt financing could be further negatively impacted. In addition, the terms of future debt agreements could include more restrictive covenants, or require incremental collateral, which may further restrict our business operations or conflict with covenant restrictions then in effect. As a result, there is no guarantee that financings will be available in the future to fund our obligations, or that they will be available on terms consistent with our expectations.

The degree to which COVID-19 may impact our business operations, financial condition, liquidity and results of operations is unknown at this time and will depend on future developments, including the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, actions prescribed or ordered by governmental authorities, and when and to what extent normal economic and operating conditions can resume.

***The risk of natural disasters, pandemics and catastrophic events, including terrorism, may adversely affect the economy and the price and availability of LPG, other refined fuels and natural gas.***

Natural disasters, pandemics and catastrophic events, such as fires, earthquakes, explosions, floods, tornadoes, hurricanes, terrorist attacks, political unrest and other similar occurrences, may adversely impact the price and availability of LPG (including propane), other refined fuels and natural gas, which could adversely impact our financial condition and results of operations, our ability to raise capital and our future growth. The impact that the foregoing may have on our industries in general, and on us in particular, is not known at this time. A natural disaster, pandemic or an act of terror could result in disruptions of crude oil or natural gas supplies and markets (the sources of LPG), cause price volatility in the cost of LPG, fuel oil and natural gas, and our infrastructure

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**UGI CORPORATION AND SUBSIDIARIES**

facilities could be directly or indirectly impacted. Additionally, if our means of supply transportation, such as rail or pipeline, are delayed or temporarily unavailable due to a natural disaster, pandemic or terrorist activity, we may be unable to transport LPG and other refined fuels in a timely manner or at all. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of a natural disaster, pandemic or terrorism could also affect our ability to raise capital. We have opted to purchase insurance coverage for natural disasters and terrorist acts within our property and casualty insurance programs, but we can give no assurance that our insurance coverage would be adequate to fully compensate us for any losses to our business or property resulting from natural disasters or terrorist acts.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information with respect to the Company’s repurchases of its common stock during the quarter ended March 31, 2020.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| Period |  | (a) Total Number of Shares Purchased |  | (b) Average Price Paid per Share (or Unit) |  | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) |  | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1) |
| January 1, 2020 to January 31, 2020 |  | — |  | $0.00 |  | — |  | 6.30 million |
| February 1, 2020 to February 29, 2020 |  | — |  | $0.00 |  | — |  | 6.30 million |
| March 1, 2020 to March 31, 2020 |  | 450,000 |  | $34.95 |  | 450,000 |  | 5.85 million |
| Total |  | 450,000 |  |  |  | 450,000 |  |  |

|  |  |
| --- | --- |
|  |  |
| (1) | Shares of UGI Corporation Common Stock are repurchased through an extension of a previous share repurchase program announced by the Company on January 25, 2018. The UGI Board of Directors authorized the repurchase of up to 8 million shares of UGI Corporation Common Stock over a four-year period expiring in January 2022. |

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**UGI CORPORATION AND SUBSIDIARIES**

**ITEM 6. EXHIBITS**

The exhibits filed as part of this report are as follows (exhibits incorporated by reference are set forth with the name of the registrant, the type of report and last date of the period for which it was filed, and the exhibit number in such filing):

**Incorporation by Reference**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| **Exhibit**  **No.** |  | **Exhibit** |  | **Registrant** |  | **Filing** |  | **Exhibit** |
|  |  |  |  |  |  |  |  |  |
| 4.1 |  | [Note Purchase Agreement dated March 19, 2020 between UGI Utilities, Inc. and the purchasers listed as signatories thereto.](http://www.sec.gov/Archives/edgar/data/884614/000088461420000018/ex41npa.htm) |  | UGI |  | Form 8-K (3/19/20) |  | 4.1 |
|  |  |  |  |  |  |  |  |  |
| 10.1 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for all US Employees.](ex101formofnqso.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 10.2 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for all US Employees.](ex102formofperformance.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 10.3 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for Non-Employee Directors.](ex103formofnqsonon-emp.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 10.4 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Stock Unit Grant Letter for Non-Employee Directors.](ex104formofstockunitgr.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 10.5 |  | [Third Amended and Restated Credit Agreement, dated as of March 6, 2020, by and among UGI Energy Services, LLC, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, National Association, as syndication agent, and Wells Fargo Bank, National Association, as documentation agent.](http://www.sec.gov/Archives/edgar/data/884614/000088461420000015/ex101ugiescreditagree.htm) |  | UGI |  | Form 8-K (3/6/20) |  | 10.1 |
|  |  |  |  |  |  |  |  |  |
| 31.1 |  | [Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2020, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](ugicorpq23312020ex311.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 31.2 |  | [Certification by the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2020, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](ugicorpq23312020ex312.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 32 |  | [Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2020, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](ugicorpq23312020ex32.htm) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 101.INS |  | XBRL Instance - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 101.SCH |  | XBRL Taxonomy Extension Schema |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 101.CAL |  | XBRL Taxonomy Extension Calculation Linkbase |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 101.DEF |  | XBRL Taxonomy Extension Definition Linkbase |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 101.LAB |  | XBRL Taxonomy Extension Labels Linkbase |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 101.PRE |  | XBRL Taxonomy Extension Presentation Linkbase |  |  |  |  |  |  |
| 104 |  | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

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**UGI CORPORATION AND SUBSIDIARIES**

**EXHIBIT INDEX**

|  |  |  |
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|  | | |
|  |  |  |
|  |  |  |
| 10.1 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for all US Employees.](ex101formofnqso.htm) |
|  |  |  |
| 10.2 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for all US Employees.](ex102formofperformance.htm) |
|  |  |  |
| 10.3 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for Non-Employee Directors.](ex103formofnqsonon-emp.htm) |
|  |  |  |
| 10.4 |  | [Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Stock Unit Grant Letter for Non-Employee Directors.](ex104formofstockunitgr.htm) |
|  |  |  |
| 31.1 |  | [Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2020, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](ugicorpq23312020ex311.htm) |
|  |  | |
| 31.2 |  | [Certification by the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2020, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](ugicorpq23312020ex312.htm) |
|  |  | |
| 32 |  | [Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2020, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](ugicorpq23312020ex32.htm) |
|  |  | |
| 101.INS |  | XBRL Instance - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
|  |  | |
| 101.SCH |  | XBRL Taxonomy Extension Schema |
|  |  | |
| 101.CAL |  | XBRL Taxonomy Extension Calculation Linkbase |
|  |  | |
| 101.DEF |  | XBRL Taxonomy Extension Definition Linkbase |
|  |  | |
| 101.LAB |  | XBRL Taxonomy Extension Labels Linkbase |
|  |  | |
| 101.PRE |  | XBRL Taxonomy Extension Presentation Linkbase |
| 104 |  | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

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**UGI CORPORATION AND SUBSIDIARIES**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  |  | UGI Corporation | |
|  |  | (Registrant) | |
|  |  |  |  |
| Date: | May 7, 2020 | By: | /s/ Ted J. Jastrzebski |
|  |  |  | Ted J. Jastrzebski |
|  |  |  | Chief Financial Officer |
|  |  |  |  |
|  |  |  |  |
| Date: | May 7, 2020 | By: | /s/ Laurie A. Bergman |
|  |  |  | Laurie A. Bergman |
|  |  |  | Vice President, Chief Accounting Officer |
|  |  |  | and Corporate Controller |

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